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 OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR HIGH TECH INVENTORS ALLIANCE, COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, ALLIANCE FOR AUTOMOTIVE INNOVATION, GOOGLE LLC, AND HTC CORPORATION AS AMICI CURIAE IN SUPPORT OF PETITIONER

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INTEREST OF AMICI CURIAE[1]

Amici curiae are the High Tech Inventors Alliance ("HTIA"), the Computer & Communications Industry Association ("CCIA"), the Alliance for Automotive Innovation, Google LLC, and HTC Corporation.

HTIA is a coalition created by leading technology companies to advocate on patent law and policy issues in

[1] Amici affirm that counsel of record for all parties received notice in accordance with Rule 37.2. Petitioners' consent is on file with the Clerk of Court, and counsel for Respondents have consented in writing to the filing of this brief. Amici affirm that no counsel for any party authored this brief in whole or in part and that no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than amici, their members, or their counsel made a monetary contribution to its preparation or submission.

favor of a system that promotes and protects real investments in technological development.[2] HTIA's members create computer, software, semiconductor, and communications products and services that support growth in every sector of the economy. To support such ongoing innovation, HTIA's members invest over $100 billion in research and development each year, and they collectively hold more than 300,000 patents.

CCIA is an international nonprofit association representing a broad cross-section of computer, communications, and Internet industry firms that collectively employ nearly a million workers and generate annual revenues in excess of $540 billion. CCIA's members are leaders in research and development in a wide range of technologies, holding approximately 5% of all currently active U.S. patents, and actively participate as both licensors and licensees of standard essential patents ("SEPs").[3]

The Alliance for Automotive Innovation is the leading advocacy group for the auto industry, representing 35 automobile manufacturers and value chain partners who together produce nearly 99 percent of all light-duty vehicles sold in the United States.[4]

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[2] The members of HTIA are Adobe, Amazon, Cisco, Dell, Google, Intel, Microsoft, Oracle, Salesforce, and Samsung.

[3] A list of CCIA's members is available on the association's website, https://www.ccianet.org/about/members/ (last visited June 3, 2020).

[4] The members of the Alliance for Automotive Innovation include (alphabetically) Aptiv PLC, Aston Martin, Robert Bosch LLC, BMW Group, Byton, Cruise LLC, DENSO, Fiat Chrysler Automobiles, Ferrari S.p.A., Ford Motor Company, General Motors Company, Honda Motor Company, Hyundai Motor America, Isuzu Motors Ltd., Jaguar Land Rover, Karma Automotive, Kia Motors, Local Motors,

Google LLC and HTC Corporation are companies that develop, manufacture, and sell modern technologies, including smartphones, laptops, operating systems, online platforms, and internet-connected devices, as well as the software and services that support them.

Multiple amici (or their members) participate in standard setting organizations and are both licensors and licensees of SEPs. The Federal Circuit's conclusion in the case below requiring that a jury, rather than a judge, set backward-looking release payments for patent portfolio licenses will have significant ramifications for amici and the technology industry more generally.

SUMMARY OF THE ARGUMENT

The billions of mobile phones that connect our global economy, the millions of Internet-based video chats that connect schools and offices every day, the fleets of safe and efficient "smart" cars that will traverse our country in the years to come, and myriad other major drivers of progress in the modern world depend on standardized technology. Over the past decades, industry standards that enable high tech devices to communicate and interoperate have spurred tremendous growth in the digital economy. A nuanced contractual regime facilitates the rapid adoption of these standards, allowing thousands of companies that claim rights to tens of thousands of patents covering these standards to reach broad portfolio licenses with the vast array of innovators who implement these standards. A key part of that contractual regime is

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Maserati, Mazda Motor Corporation, McLaren Automotive, Mercedes-Benz USA, Mitsubishi Motors, Nissan Motor Company, NXP Semiconductors, Panasonic Corporation, Porsche, PSA North America, SiriusXM, Subaru, Suzuki, Texas Instruments, Toyota Motor Company, Volkswagen Group of America, and Volvo Car USA.

a promise by contributors to many of these standards to make their patents available for license at "fair, reasonable, and non-discriminatory" or "FRAND" rates.

Amici stand on both sides of these licenses. They own thousands of SEPs, and they themselves are major producers of technology that depends on these standards. They and the rest of the digital economy depend on a lucid, well-functioning FRAND licensing system. With it, standards proliferate and innovation progresses; without it, standards become legal minefields and innovation bogs down in inefficient negotiation and litigation.

How the United States judicial system conceives of and adjudicates FRAND license rates is critical to the success of technical standards. Judicial interpretation of the FRAND contractual obligation shapes license negotiations and outcomes for the economy's largest and most important technology innovators. Although most licenses are negotiated, not set by courts, the rates set and methodologies used in litigation influence the negotiations of private parties who hope to reach mutual agreement. Well-reasoned judicial opinions evaluating and setting rates for patent portfolios help parties reach those agreements.

Amici and other licensors and implementers of patented technology watched this case closely in the courts below with the expectation that the resulting judicial decision would provide guidance on the appropriate use of valuation methodologies when assessing portfolio-wide license payments on FRAND terms. The district court's decision did just that. It provided a thoughtful, well-reasoned overview of various licensing-rate calculation methodologies and a nuanced explanation of how the court selected a methodology consistent with the parties' FRAND obligations. Had that decision been upheld, modified, or even reversed on the merits, it would have

provided vital clarity and guidance to industry participants, like amici and their members, who are engaged in numerous negotiations over FRAND rates.

The Federal Circuit, however, did not reach the substantive question at all. Brushing aside the contractual basis for the FRAND obligation and the remedy of specific performance that Petitioners sought, the opinion below instead equated consideration for a portfolio license with patent infringement damages and concluded that such questions are for juries to decide. This holding misapprehends both the role of lawsuits to enforce licensing commitments and the scope of the resulting licenses. If the opinion stands, it will remove the opportunity for courts to play a key role guiding the FRAND licensing negotiations that happen every day.

Fair and reasonable licensing arrangements benefit patent holders, implementers, and ultimately the consumers of the innovative products that licensed technology makes possible. Amici respectfully urge this Court to issue a writ of certiorari and review the Federal Circuit's conclusion that licensors have a right to trial by jury for these decisions.

ARGUMENT

I. Standards, Standard Setting Organizations, And The FRAND Commitment Shape Technological Innovation.

A. The Proliferation Of Technical Standards Necessitates Widespread Licensing Of Patented Technology.

Modern electronics depend on the compatibility and interoperability of devices, components, and infrastructure manufactured by multiple companies. A single cellular telephone call, for example, may require seamless

operations between devices made by different manufacturers operating on different wireless carriers using infrastructure built and stationed around the globe. Manufacturers seeking to participate in this dynamic and interconnected environment adhere to technical standards specifying common design features to ensure their devices can "talk" to others.

These standards are everywhere that systems interoperate. For example, cellular networks (like 3G and 4G) are standardized, as are Wi-Fi home and office networks. Audio- and visual-coding standards enable users to transmit and consume digital media, USB standards allow users to connect physically any of a wide range of computer accessories, and standards-dependent features like encryption and digital signatures allow people to conduct remote business securely. The prevalence of standards-implementing devices is growing, as more and more everyday consumer and business products incorporate wireless communication capabilities. These "Internet of Things" ("IoT") devices range from doorbells to refrigerators to inventory management systems. Automobiles are another prominent example of the proliferation of standards in what traditionally was not a "tech" industry, with new vehicle models incorporating standardized communication, electrical, and sensor technologies, among others.

The arrival of faster 5G cellular networks and the spread of low-power wide-area connections will boost this growth of connected devices even further. *See 5G FAQs*, FCC (Dec. 16, 2019), https://www.fcc.gov/5g-faqs; Kais Mekki et al., *A Comparative Study of LPWAN Technologies for Large-Scale IoT Deployment*, 5 ICT Express 1, 1, 5-6 (2019). At the end of 2019, over nine billion IoT devices were connected worldwide; that number is expected to increase approximately three-fold by 2025. Knud Lasse

Leuth, *IoT 2019 in Review: The 10 Most Relevant IoT Developments of the Year*, IoT Analytics (Jan. 7, 2020), https://iot-analytics.com/iot-2019-in-review/. Future technological advancements to enhance safety and productivity, such as self-driving vehicles, depend on the continued development, adoption, and incorporation of standards.

Voluntary membership organizations known as standard setting organizations ("SSOs") drive the development of these standards. Typically, many companies collaborate in the process, contributing and selecting technology for inclusion in a standard. U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Enforcement & Intellectual Property Rights: Promoting Innovation & Competition 33 (2007) ("2007 FTC Report"). Members of the major telecommunications SSOs, like the European Telecommunications Standards Institute ("ETSI") (which developed the cellular standards at issue in the case below) and the IEEE (which developed the commonly-deployed 802.11 Wi-Fi standard), read as a who's-who of worldwide market participants. They include firms like Google, Apple, Amazon, Ford, Samsung, Nokia, General Electric, AT&T, and Intel, as well as smaller companies, universities, governmental institutions, and research bodies. *See* Membership of ETSI, Eur. Telecomms. Standards Inst., https://www.etsi.org/membership (last visited May 29, 2020); Corporate Member Index, IEEE Standards Ass'n, https://standards.ieee.org/about/corpchan/full-member-listing.html (last visited May 29, 2020).

All of the billions of interconnected devices that implement technical standards must, of necessity, also practice the patented technology incorporated within those standards. When it is impossible to comply with a

standard without practicing the claims of a particular patent, that patent is considered "essential" to the standard and referred to as a "standard essential patent," or "SEP." During the standard-development process, SSOs like ETSI request or require their participants to disclose patents and patent applications that may be or may become essential to a particular standard. *See, e.g.*, ETSI Intellectual Property Rights Policy ¶ 6.1 ("ETSI IPR Policy"), https://bit.ly/2MmtoPD. SEPs covering a single standard may number in the thousands, and be held by numerous companies. In this case, for example, Ericsson asserted that it alone owns over 190 patent families essential to the 2G, 3G, and/or 4G wireless standards used by all modern mobile phones, with each family containing multiple patents and each patent, multiple claims. C.A.J.A. 59. Other companies account for scores of other patents declared essential to those same standards.

Once an industry segment adopts a particular standard, commercially viable devices have little choice but to adhere to the standard. All parties who manufacture devices complying with that standard are therefore "locked in" to practicing the patented technology of multiple patent holders. This lock-in effect is magnified because many modern devices incorporate a broad range of technology and therefore implement numerous royalty-bearing standards. A smartphone, for example, likely implements multiple telecommunications standards, as well as Wi-Fi, NFC, and audio- and video-coding standards. As a result, thousands of manufacturers implement the technology embodied in tens of thousands of patents every day.

Although all parties acknowledge that standards incorporate patented technology, often it is not clear—to manufacturers or to patent owners—precisely which patents are practiced when implementing a standard. SSOs

generally do not make a determination of which patents *declared* essential to a standard actually *are* essential to that standard, leaving market participants to operate with the attendant uncertainty.

B. Continued Innovation And Adoption Of Standards Depend On Enforceable Contractual FRAND Commitments.

In an effort to mitigate potential anti-competitive effects that may arise when parties are locked in to certain technologies, many SSOs request (or require) that patent holders commit to licensing SEPs on fair, reasonable, and non-discriminatory terms.[5] *See, e.g.*, ETSI IPR Policy ¶ 4. Otherwise, SEP holders could seek to extract rates from prospective licensees not warranted by the patent holders' technical contributions, simply because the implementers have no realistic alternatives. *See* 2007 FTC Report at 38–39. SSOs generally do not further define, let alone set, FRAND terms for their members, leaving it to the parties and courts to determine what terms are or are not FRAND in a particular context.

FRAND terms aim to compensate patent owners appropriately for their inventions, thereby encouraging continuing innovation, while ensuring that rates reflect actual technological contributions and allow for widespread adoption of the standard. *See, e.g.*, *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11 C 9308, 2013 WL 5593609, at *10–11 (N.D. Ill. Oct. 3, 2013); *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2013 WL 2111217, at

[5] Some SSOs refer only to "reasonable and non-discriminatory" terms ("RAND"), but U.S. courts have interpreted the two commitments as essentially synonymous. *See Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2013 WL 2111217, at *12 n.7 (W.D. Wash. Apr. 25, 2013).

*12 (W.D. Wash. Apr. 25, 2013). FRAND rates, like all reasonable royalty rates, "must be apportioned to the value of the patented invention." *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1232 (Fed. Cir. 2014). Accordingly, they may not capture the value of any "unpatented features reflected in the standard," or any "value added by the standard's adoption of the patented technology." *Id.*; *see also Commonwealth Sci. & Indus. Research Org. v. Cisco Sys., Inc.*, 809 F.3d 1295, 1305 (Fed. Cir. 2015).

Continued innovation and adoption of new technologies require that prospective licensors comply with their FRAND commitments. Given the number of SEPs that may be practiced in a single device, the aggregate royalty burden can be crippling if patent holders are able to obtain royalties that exceed FRAND terms. This concern, known as "royalty stacking," ultimately threatens the ability of manufacturers to bring innovative, commercially viable devices to market, even if the "excess" may appear at first blush to be insubstantial for a particular individual patent and rate. *See, e.g.*, Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 1993, 2010–17 (2007); Gregory K. Leonard & Mario A. Lopez, *Determining RAND Royalty Rates for Standard-Essential Patents*, 29 Antitrust 86, 87 (2014). This makes it important to take into account all SEPs covering a given standard when evaluating FRAND terms.

Ultimately, for FRAND commitments to restrain anti-competitive business practices effectively, they must be enforceable. Even well-intentioned parties (on either side of the negotiating table) may misperceive the value of the patents they seek to license; unscrupulous parties can do far worse and seek to extract excessive royalties through hold up, as described above. When this happens, prospective licensees look to the legal system for recourse. Courts recognize that FRAND promises like the

ones made by Ericsson to ETSI are contractual commitments that third-party beneficiaries may sue to enforce. *See, e.g.*, *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012); *Innovatio*, 2013 WL 5593609, at *4. Exactly *how* those obligations are enforced—including whether by a judge or by a jury, the question on which Petitioners seek review—influences to what degree standards are effective at encouraging innovation and adoption of new technologies.

II. Real-World SEP Licensing Is A Complex Process That Benefits Enormously From Judicial Clarity.

Given the proliferation of standards and standards-incorporating technology, licensing decisions are a crucial component of both SEP patent-holders' and implementers' businesses. The fundamental nature of technical standards—facilitating widespread adoption of compatible and interoperable technologies in devices created by a host of different manufacturers—breeds a global ecosystem of repeat players dealing with myriad patents and no commercially-realistic alternatives. Accordingly, licensing practices for SEPs covering major industry-wide standards differ in several material respects from garden-variety patent licensing.

A. Multiple, Portfolio-Wide Licenses Are Common.

SEP licensees and licensors often negotiate portfolio-wide agreements, as opposed to successive licenses for each patent allegedly essential to a given standard. This is because product manufacturers practice the standardized technology as a whole, rather than picking and choosing between different technologies within the standard (let alone electing to implement individual patents).

By choosing to follow the industry standard, the implementer automatically finds itself practicing an undifferentiated group of what could be thousands of patents. For companies that manufacture or sell products around the globe, this can include scores of patents registered in multiple jurisdictions. Parties therefore often agree to negotiate a license to all of a particular patent holder's SEPs for a given standard rather than to enter into licenses on a patent-by-patent basis.[6]

Although a particular bilateral portfolio license may be the only license between any two specific parties, it does not stand independently. Because multiple patent holders generally hold the SEPs for a single standard, and multiple standards may be practiced in a single device, standards implementers are likely to enter into multiple portfolio-wide SEP licenses. Licensors, too, are likely to enter into multiple portfolio-wide licenses with different implementers.

Thus, any agreement the parties reach will be made against the backdrop of other rates that must be paid or that may be demanded in the future. If the potential cumulative rate, or royalty stack, becomes excessive, product manufacturers will have fewer incentives to incorporate the standard, innovate themselves, or even produce the device in the first place. *See, e.g.*, Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28

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[6] To be sure, parties often discuss the technical merits of specific patents, including evaluating whether the patents claimed by the patent holder to be SEPs actually *are* essential to the standard. However, in such circumstances, the parties are still generally looking to reach a license for all relevant and valid SEPs, not a piecemeal license for only some of them.

Berkeley Tech. L.J. 1135, 1149–50 (2013). And although individual licensors often seek to maximize the royalties they can obtain in specific one-on-one negotiations, licensors as a class benefit from a reasonable distribution of the total royalty burden for a product, which would encourage widespread adoption of the standard.[7]

B. Incomplete Information Is The Norm.

Parties in the real world often conduct negotiations for SEP licenses with imperfect information. Because negotiations generally occur on the portfolio level, SEP licensing in practice does not, and cannot, focus narrowly on each patent individually. Parties, however, frequently lack detailed information about the quality of their counter-parties' full patent portfolios or their counter-parties' relevant licensing history.

Given the large numbers of potential SEPs often at issue, it would be too costly and time-intensive to expect all licensees—including new entrants with little or no prior experience with the technology at issue—to conduct a thorough patent-by-patent analysis. Although negotiations may at times involve some level of analysis of individual patents selected by the licensor, the patents may not be representative of the strength of the portfolio.

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[7] Ericsson has expressly noted this fact, stating to the Federal Trade Commission that "if the royalty levels for a standard are cumulatively too high, they will adversely impact and may negate the economic benefits of standardization. It is, therefore, important when negotiating royalty rates that individual licensors take into account the cumulative royalty levels payable by licensees." *See* Ericsson's Response to FTC Request for Comments, Standard Setting Workshop at 6, https://bit.ly/2BjXeBY.

To assess portfolio royalty rates in the same way as litigating parties approach patent infringement damages, a party would need to evaluate the validity, infringement, enforceability, technical importance, and value over possible alternatives for each and every patent in every portfolio that might be asserted against the standard.[8] This kind of patent-by-patent rate analysis is not commercially reasonable for a single large portfolio, let alone the portfolios of multiple patent holders, and is not typically done by parties in the real world.

Real-world negotiations also generally are devoid of clear information regarding the licensor's or licensee's agreements with other companies, which tend to be governed by strict confidentiality obligations. *See Innovatio*, 2013 WL 5593609, at *39 (observing that "RAND licenses are relatively rare in the marketplace"). It is not unusual in a licensing negotiation for a licensor to have an extensive licensing history that the licensee has no ability to access, let alone evaluate. Even where licenses, or information about licenses, are available, those licenses may not be easily applicable to the negotiation at hand, because licenses vary across many dimensions, such as geographic scope, cross-licensing provisions, and the structure of payment terms.[9] This can make it difficult to rely on other licenses as the touchstone for determining FRAND terms.

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[8] Parties litigating patent infringement cases in U.S. courts often devote significant time and resources to acquire through discovery information important for the detailed analysis of these issues. Negotiating parties do not have access to the same information.

[9] The district court's analysis here demonstrates the complexities of attempting to "unpack" the various elements of pre-existing licenses for purposes of comparison. *See* C.A.J.A. 79-114.

C. Judicial Decisions Provide Important Information.

In this context, written judicial decisions greatly assist negotiating parties in reaching agreement. Although opinions generally do not publicly disclose all of the commercial terms at issue in a dispute, they set forth the reasoning and ultimate conclusions. With this, prospective licensors and licensees can ground their discussions in methodologies that courts actually use. Understanding the general arc that a dispute likely would take in court can help parties predict ranges of judicial outcomes and negotiate within those parameters.

Written decisions also make public factual information that can influence negotiations. For example, a court's evaluation of the number of patents essential to a standard or the relative strength of a portfolio can have an impact on other negotiations involving the same standard. The whole ecosystem benefits from a court's insight into a particular portfolio, particularly when parties to a specific litigation are significant repeat players, like Ericsson is here. Market participants also learn about license terms that otherwise would remain confidential. Even when sensitive financial terms are redacted, as they were below, a court's analysis of structural terms and relative rates narrows the information gap between licensors and licensees. In the interconnected ecosystem of SEP licensing, where the success of a standard depends on agreements between multiple licensor-licensee pairs, every piece of information that contributes to common understanding can help facilitate future agreements.

III. The Critical Issue In The Litigation Below Was Specific Performance Of A FRAND Contract, Not Patent Damages.

A. Potential Licensees Turn To The Judicial System To Enforce Specific Performance Of FRAND Commitments.

When negotiating parties cannot reach agreement on FRAND terms, they turn to the courts. Patent holders, on the one hand, may bring typical patent-specific infringement claims, but those actions do not result in portfolio-wide licenses and are not at issue here. Implementers who desire a license, in contrast, may assert claims arising out of the overarching FRAND contractual obligation, not the practicing of any particular patent. In such cases, the implementer is not asking the court to quantify harm caused by a wrongful act (infringement), but rather to require—at a price—the patent holder to provide the implementer something it already was entitled to receive: a license on FRAND terms. This is specific performance of a contract promise, Restatement (Second) of Contracts § 357 (Am. Law Inst. 1981), to which no jury trial right attaches, *see, e.g.*, *Adams v. Johns-Manville Corp.*, 876 F.2d 702, 709 (9th Cir. 1989); *see generally* Pet. 21–23.

B. Portfolio-Wide FRAND Rates Differ From Patent Damages In Fundamental Ways.

The Federal Circuit's determination that a jury trial was required is based on its conclusion that TCL's release payment was "*in substance* compensatory relief for TCL's past patent infringing activity," Pet'rs' App. 3a—i.e., damages for patent infringement. But portfolio-

wide FRAND rates are not, and do not seek to approximate, court-awarded patent damages, whether those rates are negotiated by the parties or set through a court proceeding.

As an initial matter, portfolio-wide FRAND rates do not depend on an assessment of the precise scope of the essentiality, infringement, or validity of the licensor's patents. As described above, parties dealing at the portfolio level generally do not engage in a thorough patent-by-patent evaluation for each prospective bilateral agreement. *See supra*, Section II. Both parties accept a level of uncertainty inherent in portfolio licensing in exchange for a more efficient and definitive outcome.

The case below is one such example. TCL and Ericsson agreed to adjudicate a portfolio-wide license and put patent-specific infringement and validity issues to the side. The record makes clear, however, that the parties did not agree on the extent to which TCL practices valid Ericsson patents. Although TCL conceded that some of Ericsson's patents are essential to standards it practices, it did not concede as to all of the patents Ericsson claimed to be essential, nor did it concede that all of Ericsson's actually-essential patents are valid. *See, e.g.*, C.A.J.A. 59–60. The district court took both parties' positions into account when setting its rates, but made no determination that any specific patents were or were not valid and infringed.

Moreover, portfolio-wide FRAND rates are not constrained by limitations the U.S. court system places on patent damages awards. License terms often cover foreign patents, as well as products manufactured, sold, and otherwise used only outside the country. U.S. courts, in contrast, can award patent damages only for patents issued and infringed within the United States. License

terms also may cover any time period, while patent damages generally are limited to the six years preceding the initiation of a claim. *See* 35 U.S.C § 286.

In practice, these manifest as meaningful, not marginal, differences in scope. Again, the case below is an example. Given Ericsson's global patent portfolio and TCL's substantial worldwide sales, the district court determined separate regional FRAND rates for sales in the United States, Europe and the "Rest of the World." *See, e.g.*, C.A.J.A. 140. Moreover, the district court's release payment dated back to 2007. C.A.J.A. 131. Even if Ericsson had accused TCL of infringing all of its U.S. SEPs at the time it brought suit (which it did not), it would have been limited to damages incurred on infringement within the United States after June 2008, a notably smaller universe than what was covered by the release payment.

These differences underscore the equitable nature of the relief TCL sought, and Ericsson agreed to abide by, here: specific performance in the form of a worldwide portfolio license on FRAND terms. And this difference is not a mere formality. As amici explain in the next section, the Federal Circuit's misconception of FRAND licensing as merely a sub-species of patent damages threatens to disrupt negotiations across the industry and deprive parties of critical judicial clarity on these important issues.

IV. The Federal Circuit's Misconception of FRAND Rate-Setting Procedures As Embodying Patent Damages Will Have Negative Practical Impacts On SEP Licensing.

The nature of portfolio-wide FRAND licensing and its fundamental differences from patent damages call for this Court to correct the Federal Circuit's misconception of FRAND rate-setting procedures as reverse patent damages cases requiring jury trials. The vast majority of

payments for SEPs result from negotiated licenses, not litigation, but the judicial system provides the backdrop against which those negotiations are conducted. Parties pay very close attention to the few cases that proceed all the way through litigation to judgment, with the applicable legal principles and factual determinations guiding and constraining the private actions of parties hoping to avoid litigation.

This case, for example, was closely watched in the Federal Circuit, as industry participants sought broadly applicable guidance regarding the district court's use of methodologies like "top-down" apportionment and evaluation of comparable licenses to determine portfolio-wide FRAND rates. Over two dozen companies, industry alliances, and individuals joined amicus briefs in recognition of the Federal Circuit's ability to clarify how portfolio FRAND rates are determined. Should it stand, the decision below will reshape that legal backdrop, introducing opacity and inefficiencies that may hamper parties' abilities to reach mutually-beneficial portfolio license terms and that may impede the growth of new technologies.

A. Jury Verdicts In FRAND Rate-Setting Actions Fail To Set Forth The Useful Guidance For Negotiating Parties That Well-Reasoned Judicial Opinions Provide.

Negotiating parties crave certainty. The clearer the parameters for portfolio-wide FRAND terms are to parties on both sides of the table, the more likely it is they will be able to reach an agreement without having to resort to legal action. Well-reasoned judicial decisions in the cases that *do* reach litigation play a vital role in establishing those parameters and providing guidance to future negotiators, parties and non-parties alike. *See supra*, Section II.C.

Here, the district court reached a nuanced outcome that consisted of eight different rates—none of which was wholly adopted from either party's position. C.A.J.A. 140. The district court's elaborate opinion described and applied complex methodologies, and explained why it adopted, rejected, or made adjustments to the parties' positions. The court's analysis of the strength of Ericsson's portfolio across varying geographic regions, *see, e.g.*, C.A.J.A. 69–72, informs how other parties will negotiate with Ericsson, and provides a common data point for other parties negotiating over different patents essential to the same cellular standards.

Jury verdicts in FRAND rate-setting actions are not structured to provide the same type of useful guidance. A final rate, or array of rates, does not tell anyone how the rate was derived. Even if the members of a jury applied a consistent approach, no verdict form can ever hope to pose the appropriate questions, which depend on the circumstances. Each question only breeds more. Did the jury apply a top-down analysis, by dividing potentially available royalties among a pool of essential patents? If so, does the rate say more about the portfolio's relative strength vis-à-vis other portfolios, or the overall level of available royalties? Is a portfolio strong (or weak) because of the number of actually essential patents versus mis-declared patents, or because the portfolio's technical contributions to the standard was more (or less) valuable than other patents' contributions? Did the jury compare licenses? If so, which licenses did it deem comparable? How did it account for varying license terms to draw informative comparisons? How did the jury handle cross-licenses, particularly if those licenses contained an aggregate "lump-sum" payment rather than explicit, per-standard, licensing rates? Placing portfolio-wide rate determinations in the hands of juries deprives parties and

market participants of these useful guideposts that can bring more structure and certainty to future negotiations.

In addition to fostering lengthy, contentious, and inefficient negotiations, the lack of written guidance will spur more litigation. In FRAND rate-setting actions, written decisions, more so than jury verdicts, may build to a consensus over time, eventually establishing the type of framework that allows parties to anticipate how their claims will fare in court. Without insight into how litigated rates are set—and the very real possibility that juries take widely divergent approaches—parties across a spectrum of licensing positions will always be enticed by the possibility that they may prevail. Parties will repeat the same types of arguments about appropriate methodologies, each time with a new audience to educate and convince regarding the complex issues inherent in setting FRAND royalties. This costly and inefficient use of the parties' and courts' resources would be mitigated by the transparency and consensus written judicial decisions can provide.

B. The Federal Circuit's Decision Will Encourage Litigation Focused On Patent-Specific, Rather Than Portfolio-Wide, Analysis.

Much of the increased litigation stemming from opaque jury decisions in FRAND rate-setting actions will look fundamentally different than the dispute TCL and Ericsson tried to the district court, which evaluated the license terms at issue on a portfolio-wide basis reflective of the approach parties take in the real world. This is because, if the Federal Circuit's decision stands, the cases parties try going forward likely will reflect the judicial system's mis-categorization of FRAND rate-setting as the equivalent of patent damages. In particular, it is amici's view that if the Court treats FRAND rate-setting

as merely "inverted" patent damages, the result will be less portfolio-wide litigation and more generic patent litigation. Litigation over a full portfolio of thousands of patents is risky; a rate that is too high can cripple an implementer and a rate that is too low can devalue the fruits of innovation. That risk, until now, was balanced by the fact that judges would evaluate and reason about these portfolios drawing from the unique nature of the FRAND *contractual* obligations and the complex economics that attend those obligations. But if these disputes are simply to be viewed as patent damages, it is unlikely that either side will risk an evaluation of an entire portfolio. Instead, patent holders will likely sue on a few "prize" patents, and implementers may counter-sue via declaratory judgment to invalidate what they perceive as "vulnerable" patents.

A move away from the portfolio-wide view and towards more patent-by-patent adjudication is inefficient and undesirable. Parties and courts will spend more resources to litigate actions that may not reach a global resolution of all disputed issues. Moreover, focusing on specific patents in isolation conflicts with the principles governing patent royalties. "Reasonable royalty" determinations, for SEPs as for all patents, are grounded in a hypothetical negotiation framework that reflects what a willing licensee and a willing licensor would have agreed to for the patents at issue if they had succeeded in negotiating a rate. *See Minks v. Polaris Indus., Inc.*, 546 F.3d 1364, 1372, (Fed. Cir. 2008); *see also, e.g.*, *Microsoft*, 2013 WL 2111217, at *3, *14–15 (applying hypothetical negotiation framework in FRAND context); *Innovatio*, 2013 WL 5593609, at *6 (same). As described above, real-world SEP negotiations take place on the portfolio, not individual patent, level. *See supra*, Section II.A. The district court's "top-down" approach was a reasonable approximation of the way parties think about these licensing

negotiations, with an eye toward the potential "royalty stack" of all SEPs incorporated in a standard, in contrast to an approach that attempts to value individual patents one at a time.

Patent-by-patent adjudication fails to incorporate this type of holistic analysis, which, over the long term, benefits both inventors and implementers, and ultimately consumers. *See supra*, Section II.A. For example, patent-by-patent litigation over certain Wi-Fi SEPs underscores the risk of a grossly excessive royalty stack. Five district court judgments that addressed 35 Wi-Fi SEPs would, if implemented, account for a 4.5% royalty on a hypothetical fifty-dollar router. Jason R. Bartlett & Jorge L. Contreras, *Rationalizing FRAND Royalties: Can Interpleader Save the Internet of Things*, 36 Rev. Litig. 285, 295–96 (2017). But there are over three thousand patents declared essential to the standard at issue in those cases, suggesting the possibility of an aggregate royalty rate orders of magnitude larger. *Id.* Royalty stacks like this would severely hamper the manufacture and distribution of standards-implementing devices, and are far more likely to result from patent-by-patent analysis than portfolio-wide evaluation.

By reviewing and correcting the Federal Circuit's decision, this Court can ensure that party and non-party negotiators alike continue to benefit from the guidance of well-reasoned FRAND opinions, and encourage parties to focus on portfolio rates inside the courtroom just as they do in real-world negotiations. The alternative approach, following from the Federal Circuit's decision, will introduce unnecessary friction into the licensing negotiations and adjudications that are essential to a well-functioning system of innovative and widely adopted standards.

CONCLUSION

For the reasons described herein, amici respectfully urge this Court to issue a writ of certiorari and review the Federal Circuit's decision below.

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