

No. 19-1269

IN THE
Supreme Court of the United States

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED;
TCT MOBILE LIMITED; TCT MOBILE (US) INC.,
Petitioners,

v.

ERICSSON, INC.; TELEFONAKTIEBOLAGET LM
ERICSSON,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

REPLY BRIEF FOR PETITIONERS

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INTRODUCTION

Ericsson’s brief is an exercise in distraction. Ericsson understandably would prefer not to discuss the merits of the Federal Circuit’s deeply flawed Seventh Amendment decision. That ruling broke with longstanding precedent to create a jury-trial right in a case seeking the equitable relief of specific performance. The Federal Circuit applied this erroneous rule, moreover, to a critical part of the modern economy—the obligation to license standard-essential patents (SEPs) on fair, reasonable, and nondiscriminatory (FRAND) terms. As underscored by the outpouring of amicus support from leading companies, organizations, and scholars, it is extremely important that this Court review and reverse the Federal Circuit’s erroneous constitutional ruling and restore the traditional division of responsibility between judge and jury. None of Ericsson’s arguments offers a sound reason to decline review.

ARGUMENT

I. THIS CASE IS AN IDEAL VEHICLE TO ADDRESS THE QUESTION PRESENTED

A. TCL Did Not Forfeit Its Argument

In its first attempt to manufacture a vehicle problem, Ericsson argues (at 15) that TCL never referred to the release payment as “equitable consideration” in the Federal Circuit. But the notion that TCL forfeited review of the question presented is absurd.

TCL explained even before trial that “a release payment is one of the contract terms Ericsson wants the Court to impose as part of its [proposed licenses].

In other words, the making of the release payment is part of the performance which Ericsson wants the Court to require as part of its mandatory injunction.” C.A.J.A. 38849 (internal citations omitted). On appeal, TCL continued to argue that the release payment was simply “a term of the injunction which completed the parties’ new license.” C.A. Resp. Br. 27. TCL explained that the relief it sought for its FRAND claims was “the remedy of specific performance,” which “is equitable in nature.” *Id.* at 19. “Such specific performance,” TCL continued, would involve “a setting of the FRAND terms and conditions in order to complete the parties’ license.” *Id.* at 21. The release payment did not change the equitable nature of the relief because it was just “a term in Ericsson’s ... proposals,” *id.* at 25, and thus an obligation established by the court when “creating a new contractual relationship (a license),” *id.* at 26. The release payment thus “retroactively restore[d] to Ericsson that which it would have already received if the FRAND terms and conditions have previously been set, and a license not delayed.” *Id.* at 27.

This is the same argument TCL made in its petition. The release payment for worldwide sales without any adjudication of infringement or invalidity arose—and only could have arisen—as a term of the proposed FRAND license being newly created in equity to remedy Ericsson’s failure to offer a proper license from the outset. It was thus part of the specific performance ordered by the court and quintessentially equitable. Slight variations in the articulation of this basic position, if any, are irrelevant, because “[o]nce a federal claim is properly presented, a party can make any argument in support of that claim.” *Yee v. City of Escondido*, 503 U.S. 519, 534 (1992).

Moreover, contrary to Ericsson's position (at 18), the Federal Circuit's failure squarely to address TCL's argument is a reason to grant review, not deny it. The Federal Circuit dismissed TCL's argument as elevating form over substance. App. 20a-21a. It thus passed on the argument, which was pressed below, without grappling with the fact that the release payment was, in substance, uniquely equitable. This does not counsel against review, but rather reinforces that the Federal Circuit engaged in a flawed analysis while setting a nationwide rule for all cases within its exclusive jurisdiction.

B. There Is No Jurisdictional Barrier To Review

Ericsson's jurisdictional argument is equally meritless. Ericsson confuses the original basis for federal question jurisdiction with the issues that were tried after Ericsson chose to stay all patent claims in the case. The district court held that it had jurisdiction over all claims in the original complaint, including TCL's request to impose a FRAND license, because TCL's declaratory judgment claim anticipated an infringement suit by Ericsson. C.A.J.A. 742-743. In fact, shortly after TCL's complaint was filed, Ericsson sued TCL for infringement in Texas. C.A.J.A. 60779-60797. The Texas case was later transferred and consolidated with TCL's action in California. App. 6a; C.A.J.A. 6640, 6650.

Before trial, however, the parties agreed to stay all of the patent claims in the consolidated cases. The district court explained that "the only claims tried were the parties' respective claims for breach of contract and declaratory relief regarding Ericsson's compliance with its FRAND obligation and declaratory relief for determination of FRAND rates. The parties' respective

claims regarding infringement, invalidity, and other substantive patent defenses were previously stayed.” C.A.J.A. 29 n.3.¹

Contrary to Ericsson’s argument (at 26-27), there is no contradiction between the district court having federal question and supplemental jurisdiction over the original California complaint because a portion of that complaint anticipated a patent infringement suit, and the district court later concluding that, *after all patent claims were stayed*, the remaining claims actually tried were equitable issues on which Ericsson was not entitled to a jury trial.

The only question regarding the district court’s authority arises from the Federal Circuit’s ruling. Neither Ericsson nor the Federal Circuit ever explains how, if the district court was not acting in equity, it had authority to order a *worldwide* payment that included backward-looking royalties for sales *outside of the United States* without any determination of infringement or patent validity. That relief never could have been awarded in a U.S. infringement action. It was a creation of equity, not an action “at common law.” U.S. Const. amend. VII.

II. THE QUESTION PRESENTED IS EXTREMELY IMPORTANT

Ericsson’s attempt to downplay the importance of the question presented fails. As TCL explained (Pet. 27-30), and five amicus briefs have reinforced, a right to have juries set the terms of worldwide FRAND licens-

¹ The claims that were tried (breach of contract and declaratory judgment) were asserted in both the original California action and as counterclaims in the transferred Texas action, for which Ericsson has never disputed federal jurisdiction.

es would profoundly upset the division of responsibility between judge and jury, to the detriment of numerous industries and the public.

The Federal Circuit was not interpreting an obscure provision of law that Congress or an agency could change. It rendered a constitutional decision that now binds all courts within its exclusive jurisdiction. Short of a constitutional amendment, only this Court can remedy the Federal Circuit's erroneous interpretation of the Seventh Amendment.

The outpouring of amicus support from major companies, organizations across multiple industries, and 20 leading scholars underscores the stakes here. Standards allow products created by different companies to function together and are ubiquitous in the modern economy. From payment systems, to communications networks, to automobiles, substantial portions of the economy depend on standards. Incorporation of a patented technology into a standard gives patent owners significant leverage to "hold up" implementers' use of a standard until the implementer agrees to pay excessive royalties. Pet. 28. These excessive royalties increase the price of end products, reduce the incentive to use standards, and cause firms to allocate resources towards getting their patents deemed essential to a standard, even if those particular patents are not the most technically optimal. Pet. 28-29. FRAND commitments blunt this risk of excessive royalties. Pet. 29-30; App. Ass'n Amicus Br. 19-20.

The right to seek specific performance in equity provides an important tool to enforce FRAND commitments. Improperly injecting the jury into that process threatens to increase the cost and uncertainty of resolving FRAND disputes. The "tremendous unre-

dictability of allowing juries to set complex contractual terms[] will grant SEP holders more leverage than they already hold to extract excessive royalties.” FSA Amicus Br. 20-21; *see also* Pet. 29-30 (larger awards at jury trials than bench trials). Indeed, Ericsson’s own internal IP strategy document notes “[t]he possibility of large awards, and the unpredictability of jury trials” in the United States. C.A.J.A. 62735.

Black box jury verdicts also stunt the development of the law. HTIA Amicus Br. 15; FSA Amicus Br. 20-21; u-blox Amicus Br. 7-8. “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.” HTIA Amicus Br. 18-19. “[E]liminating judicial guidance as to acceptable FRAND methodologies will make it more difficult for parties to engage in good-faith negotiations.” u-blox Amicus Br. 7.

Ericsson misses the point when it argues (at 14) that the Framers decided to “trust[]” juries. TCL is not arguing that there is no Seventh Amendment right because juries produce larger verdicts. There is no Seventh Amendment right because the right to a jury trial in actions “at law” does not extend to an award of specific performance in equity. Indeed, the idea of a jury creating a worldwide license imposed on the parties by injunction would have seemed bizarre to the Framers. The relative differences between judge and jury merely underscore the practical *importance* of correctly interpreting the Seventh Amendment, and thus the acute need for this Court’s review.

Ericsson’s suggestion (at 17) to wait for a circuit split should be rejected. The Federal Circuit is not like other courts of appeals. While FRAND disputes some-

times arise in the regional circuits, the Federal Circuit has nationwide jurisdiction over any suit in which the action or a compulsory counterclaim arises under the Patent Act. 28 U.S.C. § 1295(a)(1). Any patent owner can therefore put itself under the Federal Circuit’s jurisdiction merely by asserting an infringement claim—even where, as here, it stays that claim. For the same reason, Ericsson’s contention (at 17-18) that “the issue is [not] recurring” because no other circuit has “address[ed] the question” misses the key point. The Federal Circuit’s decision has immediate, nationwide consequences by virtue of the court’s broad jurisdiction. Even without a split, this Court should grant review and reverse the Federal Circuit, as it regularly does. Moreover, far from diminishing the importance of the question presented, the fact that courts resolving FRAND disputes through bench trials “have not generally confronted a Seventh Amendment challenge to their conduct” is “evidence of just how far the Federal Circuit’s decision here departs from the norm.” Legal Scholars Amicus Br. 13; see also App. Ass’n Amicus Br. 22-23.

Finally, Ericsson argues (at 22 n.7) that the question presented does not matter because a party can simply get a jury trial by asserting a patent claim. But the litigation of a patent claim in an action at law cannot produce the type of worldwide resolution achieved in this case. Equitable relief provides an important tool that allows FRAND disputes to be resolved much more efficiently and comprehensively. The Federal Circuit’s decision threatens the viability of that tool because prospective licensees will be reluctant to file lawsuits to enforce the FRAND commitment if the patent owner can have a jury set the license terms, without even having to litigate infringement or invalidity. If Ericsson’s

prediction that the constitutional issue will not arise with any frequency comes to pass, it will be precisely because the Federal Circuit's decision has vitiated an important mechanism for achieving resolution of FRAND disputes.

III. THE DECISION BELOW IS INCORRECT

Ericsson's argument on the merits merely repeats the Federal Circuit's errors. Ericsson contends (at 30-31) the release payment was compensation for past patent infringement. But as noted, a U.S. court in an action at law never could have awarded such relief. As Ericsson acknowledged in the district court, "[a] jury does not determine damages for patent infringement unless it has already determined that the plaintiff has proven its claim for infringement of a valid and enforceable patent." C.A.J.A. 36678; *see also* Legal Scholars Amicus Br. 5. Here, those prerequisites to an award of patent damages were never adjudicated.² Nor were other defenses such as the statute of limitations or marking requirements. Pet. 20.

Moreover, an action at law in the United States never could have awarded damages for worldwide sales and infringement of foreign patents. Ericsson argues (at 32) that "re-labelling" the "same relief" as "specific performance" would not cure that problem. But the

² Like the Federal Circuit, Ericsson erroneously assumes (at 30-31) that TCL's use of the 2G, 3G, and 4G standards would dispense with the necessary inquiries in a traditional patent case. But TCL would have been entitled to challenge the validity of Ericsson's patents if the case had proceeded as a patent suit. Also, the extent to which Ericsson's patents were actually essential was contested, C.A.J.A. 45049, 56950, and the court made no finding that any specific patents were infringed, C.A.J.A. 56433.

point is that it was not the “same relief.” The district court was able to achieve a worldwide resolution of the dispute between Ericsson and TCL involving the licensing of hundreds of U.S. and foreign patents precisely because it was *not* awarding patent damages, but rather creating a *new license* as a matter of equity to put TCL in the position it would have been if Ericsson had honored its FRAND commitments from the outset. That equitable agreement, like a contract, reached worldwide in a way that a patent infringement action never could. Indeed, the release payment originated as a contractual term Ericsson proposed to TCL in the parties’ license negotiations. App 7a.

Ericsson’s reliance on *Great-West Life & Annuity Insurance Co. v. Knudson*, 534 U.S. 204 (2002), is misplaced. There, an insurance company that had paid an accident victim’s medical expenses was seeking to enforce its right under an ERISA plan to receive a portion of the settlement paid by a third party. *Id.* at 207-208. The party alleging breach was thus seeking to be paid money owed under an existing agreement. This Court held that such a request for payment of funds for breach of an existing agreement was not “equitable relief” within the meaning of ERISA, 29 U.S.C. § 1132(a)(3) (1994 ed.). *See* 534 U.S. at 210-218.³

This case is the opposite of *Great-West*. TCL’s request for damages dropped out before trial, and with it went the last remaining basis for a jury trial. At trial, TCL was not asking that Ericsson pay *TCL* money for

³ *Montanile v. Board of Trustees of National Elevator Industry Health Benefit Plan*, 136 S. Ct. 651 (2016), on which Ericsson also relies (at 29), merely applied *Great-West* to another insurance company seeking to recover from an accident victim, 136 S. Ct. at 655.

Ericsson's breach of its obligations; it was asking the court to impose in equity the license that Ericsson was obligated to have offered from the outset. The only payments to be made were thus payments *from* TCL to Ericsson as equitable consideration for the creation of that *new* license in equity. And the only claims that would have enabled Ericsson to get legal relief from TCL—the two patent infringement claims—had previously been stayed at Ericsson's election, and thus were not tried.

Ericsson tries to muddy the waters by arguing (at 31) that TCL referred to the release payment as “damages” for past unlicensed sales. But that imprecise statement was made more than a year before the dismissal of TCL's own damages claims gave rise to the Seventh Amendment question now presented. It does not detract from the district court's own explanation, upon entering the amended judgment, that (1) it “never decided the infringement claims”; (2) “there was never a predicate for payment ... under ... Ericsson's claims for infringement”; (3) Ericsson “inaccurately suggests that the payment constitutes damages”; and (4) “the Court did not intend to characterize the release payment as damages.” C.A.J.A. 56433 (internal quotation marks omitted). Indeed, even after the Federal Circuit's decision, Ericsson told the district court that “a release payment is not the same as patent infringement damages but, rather, is an estimation of the benefit conferred to TCL that would be paid to Ericsson under a FRAND license.” Dkt. 1983-1 at 9, *TCL Commc'n Tech. Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson, et al.*, No. 8:14-cv-00341 (C.D. Cal. Jan. 31, 2020).

Ericsson's attempt (at 33-34) to draw a sharp distinction between future and past benefits is also una-

vailing. The license created in equity was fully integrated, and reflected Ericsson’s decision to condition the conferral of *future* benefits under a FRAND license on the payment of a backward-looking royalty. Just as the purchaser in *Willard v. Tayloe*, 75 U.S. (8 Wall.) 557 (1870), was required in equity to tender all payments “past due” to receive the benefit it sought, *id.* at 574, the district court was merely requiring TCL to tender all royalty payments, past and future, that it would have owed under the license to receive the *ongoing* benefit of Ericsson’s specific performance.

Finally, unable to defend the Federal Circuit’s decision on its own terms, Ericsson argues (at 20-21, 32) that even if the relief awarded was equitable, it was still entitled to a jury trial due to overlap with its infringement claims. The Federal Circuit did “not address” this alternative argument, App. 17a n.6, but it is easily rebutted. Ericsson chose to stay its infringement claims and instead proceed to trial on the FRAND claims that sought equitable relief. Having agreed to litigate in that order, Ericsson cannot now complain about the order in which the claims were adjudicated. Ericsson’s argument (at 25) that the Federal Circuit “rejected TCL’s implication of waiver” is puzzling. The Federal Circuit merely said Ericsson continued asking for a jury trial, and thus an earlier *statement* did not waive its right. App. 25a-26a. But since the Federal Circuit did not address Ericsson’s alternative argument, it necessarily did not say that Ericsson could insist it has a Seventh Amendment right to litigate its legal claims first while simultaneously deciding that only the equitable issues would proceed to trial.

Ericsson's merits arguments should be addressed at the merits stage and do not detract from the urgent need for review.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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