18-1363, 18-1380, 18-1382, 18-1732

United States Court of Appeals for the Federal Circuit

TCL Communication Technology Holdings Limited,
TCT Mobile Limited, TCT Mobile (US) Inc.,

Plaintiffs–Appellees

v.

Telefonaktiebolaget LM Ericsson, Ericsson Inc.,

Defendants–Appellants.

Appeal from the United States District Court for the Central District of California
in case no. 8:14–cv–00341-JVS-DFM, Judge James V. Selna

Ericsson Inc., Telefonaktiebolaget LM Ericsson,

Plaintiffs–Appellants

v.

TCL Communication Technology Holdings Limited,
TCT Mobile Limited, TCT Mobile (US) Inc.,

Defendants–Appellees.

Appeal from the United States District Court for the Central District of California
in case no. 2:15–cv–02370-JVS-DFM, Judge James V. Selna

BRIEF OF *AMICI CURIAE* HTC CORPORATION AND HTC AMERICA, INC. IN SUPPORT OF THE TCL APPELLEES

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November 8, 2018

CERTIFICATE OF INTEREST

Counsel for *amici curiae* HTC Corporation and HTC America, Inc. certifies the following:

1. The full names of every party represented by me are:

   HTC Corporation and HTC America, Inc.

2. The name of the real parties in interest represented by me are:

   HTC Corporation and HTC America, Inc.

3. The parent corporations and publicly held companies that own 10% or more of stock in the parties represented by me are:

   HTC America, Inc. is a wholly owned subsidiary of HTC Corporation. No other entity owns 10% or more of the stock of either party.

4. The names of all law firms and the partners and associates that have appeared for the party in the trial court or are expected to appear for the party in this Court and who are not already listed on the docket for this case are:

   None.

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal are:

   HTC Corp. v. Telefonaktiebolaget LM Ericsson, No. 6:18-cv-00243-JRG (E.D. Tex.)

Dated: November 8, 2018

/s/Jennifer H. Doan
Jennifer H. Doan

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TABLE OF ABBREVIATIONS

Ericsson	appellants Ericsson Inc. and Telefonaktiebolaget LM Ericsson
FRAND	fair, reasonable, and non-discriminatory
HTC	amici curiae HTC Corporation and HTC America, Inc., collectively
SEP	standard-essential patent
SSO	standard setting organization
TCL	appellees TCL Communication Technology Holdings Ltd., TCT Mobile Ltd., and TCT Mobile (US) Inc.

STATEMENT OF INTEREST

HTC Corporation and HTC America, Inc. ("HTC") are innovative producers of smart mobile devices sold worldwide. In accordance with its role in the global smartphone market, HTC has participated in standard-setting organizations, and its products implement use industry standards that incorporate patented technologies developed by HTC and others.

HTC has no financial interest in this appeal. HTC does, however, have a strong interest in the proper interpretation and application of FRAND agreements. HTC has participated in standard setting and in FRAND licensing negotiations as both licensor and licensee. Accordingly, HTC has developed a comprehensive understanding of FRAND principles and the crucial role FRAND agreements play to preserve competition and promote innovation in the market. As set forth in the accompanying brief, the district court's narrow non-discrimination analysis risks undermining the pro-competitive foundation of FRAND licensing and stifling the innovation that defines the smartphone industry.

Under Federal Rule of Appellate Procedure 29(a)(2), HTC contacted counsel for the parties to request their consent for HTC to participate as *amicus curiae*, and all parties have consented to the filing of this brief. No party or party's counsel has authored any portion of this brief, and no one other than HTC and its counsel have funded it.

INTRODUCTION

FRAND requirements, with their twin obligations to license standard-essential patents (SEPs) under reasonable *and* non-discriminatory terms, exist to counteract the obvious potential for anticompetitive behavior in the coordinated design and wide adoption of commercial technology standards.

FRAND licensing principles advance several pro-competitive ends. In particular, the non-discrimination prong of FRAND serves to level the playing field among competitors and to foster entry and innovation from new market participants by prohibiting preferential treatment that imposes disparate costs among competitors for basic access to standard-essential technologies. For example, allowing SEP licensors to divide the market and offer a lower royalty rate to firms with substantial sales and market share while demanding higher royalties from lesser-known or fledgling enterprises would impose an asymmetric barrier to entry and run counter to the pro-competitive principles underlying FRAND.

In this case, the district court reached the right result—Ericsson's licensing offers to TCL were discriminatory. Nevertheless, the court erred in its underlying analysis by taking too narrow a view of which parties are "similarly situated" for purposes of evaluating whether a FRAND licensor has unlawfully discriminated within the relevant market. The district court limited its analysis to comparing licenses only among "well-established global firms" with "reasonable sales volume." Appx83-84. In practice, such an approach would authorize a two-tiered FRAND licensing regime: one price for larger, entrenched firms with the resources to extract better rates, and another for their newer and smaller competitors with less strength at the bargaining table. That is the antithesis of FRAND, and this Court should not adopt or approve of that discriminatory approach to evaluating non-discrimination.

ARGUMENT

I. SEP licensing is unique due to the integral pro-competitive role of FRAND agreements in the standard-setting process.

A. FRAND licensing obligations address the well-recognized competition risks posed by industry standards.

FRAND requirements emerged from longstanding concern over anticompetitive conduct associated with the standard-setting process. Standards set by private associations can provide substantial economic value, but as the Supreme Court has observed, they also "have a serious potential for anticompetitive harm." *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 (1988).

One well-recognized risk is the potential for collusive behavior inherent in the operation of standard-setting organizations ("SSOs"). SSOs generally have broad, industry-wide membership. Private competitors with horizontal and vertical business interactions all collaborate in the creation and adoption of an industry standard. And once implemented, industry standards effectively operate as agreements among competitors to forgo trade in alternative technologies. In short, "[w]hen competitors in an industry get together to discuss the products they will produce, for example in an SSO, antitrust concerns naturally arise." Mark A. Lemley and Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 2043 (2007); *see also Allied Tube*, 486 U.S. at 500 ("Agreement on a product standard is, after all, implicitly an agreement not to manufacture, distribute, or purchase certain types of products."). For example, a group of firms in an SSO could agree to support one patentee's proprietary technology for inclusion in a standard, on the understanding that the patentee would in return insulate those firms from competition by charging rivals outside their coalition, or new entrants, a higher royalty rate for to the right to use the standard. Dennis W. Carlton and Allan L. Shampine, *An Economic Interpretation of FRAND*, 9 J. Competition L. & Econ. 531, 543 (2013).

A second major risk of competitive harm from industry standards flows from the distorted leverage that SEP owners obtain after a standard becomes widely implemented. Before a patented technology becomes part of a standard, competing alternatives constrain the maximum royalty the owner can charge for its use. Implementing the patent into a standard, however, elevates the patentee's bargaining position considerably because it excludes viable alternatives and spurs sunk-cost investments based on the standard. The patent owner may target rivals with supracompetitive royalty demands after the standard is in place based not on the intrinsic value of the patented technology, but on the threat of blocking access to the standard. This is often called "patent hold-up." *See Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1030-31 (9th Cir. 2015); *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 310 (3d Cir. 2007); Carlton, 9 J. Competition L. & Econ. at 542-43.

To mitigate those concerns and preserve competition, SSOs began imposing FRAND obligations as a precondition for including patented technologies in a standard. *See Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014); *Broadcom*, 501 F.3d at 313; A. Douglas Melamed and Carl Shapiro, *How Antitrust Law Can Make FRAND Commitments More Effective*, 127 Yale L.J. 2110, 2111 (2018). FRAND's prohibition on discriminatory licensing practices is particularly important to preventing collective abuses and hold-up because requiring SEP owners to fulfill all license requests on consistent terms prevents individual patentees or groups of SSO members from distorting competition by imposing disparate royalty burdens among competitors. *See* Carlton, 9 J. Comp. L. & Econ. at 541-547.

Standards benefit producers and consumers of technology alike by facilitating product acceptance and broad compatibility. *Broadcom*, 501 F.3d at 308-09. But standards, and their attendant benefits, depend on providing adequate safeguards against anticompetitive practices in their implementation. Private standard setting "is permitted at all under the antitrust laws only on the understanding that it will be conducted in a nonpartisan manner offering procompetitive benefits." *Allied Tube*, 486 U.S. at 506-07.

The Supreme Court's emphasis on non-partisan implementation highlights the importance of non-discrimination and competitive practices in legitimizing SSO activities. A rigorous requirement for non-discriminatory terms under FRAND is crucial to mitigating the competition-law concerns around standards and SEP licensing. Carlton, 9 J. Competition L. & Econ. at 546-47; Richard J. Gilbert, *Deal or No Deal? Licensing Negotiations in Standard-Setting Organizations*, 77 Antitrust L. J. 855, 859 (2011).

B. Licensing of FRAND-encumbered patents fundamentally differs from licensing of ordinary patent rights.

Once incorporated into a standard, SEPs take on elevated importance in the market because a successful standard results in *de facto* elimination of competing technologies. As discussed above, that is why SSOs generally require a promise from prospective SEP owners to grant access on FRAND terms for anyone requesting a license. That commitment benefits the patentee by affording access to an expanded royalty base, but it creates a binding contractual obligation that is enforceable by prospective licensees as intended beneficiaries and limits patentees' freedom in subsequent licensing and enforcement activities. *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884-85 (9th Cir. 2012); *see also* Melamed, 127 Yale

L.J. at 2118 ("When patent holders do make such commitments, they are voluntarily choosing to gain market volume (by including their technologies in the standard) in exchange for unit price (by agreeing to charge only FRAND royalties)."). Some standard patent-law principles therefore do not apply, and SEPs subject to FRAND obligations have unique traits that distinguish FRAND disputes from ordinary patent cases. *See, e.g., Ericsson*, 773 F.3d at 1230-31 (explaining that many of the standard *Georgia-Pacific* factors "simply are not relevant" in an analysis of FRAND-encumbered patents).

For example, most patents confer an essentially unfettered right to exclude others from practicing the claimed invention, including the right to set royalty rates in each case "as high as the patentee can negotiate with the leverage of that monopoly," *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964), and the right not to grant licenses at all, 35 U.S.C. § 154(a)(1); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325-28 (Fed. Cir. 2000). Because alternative technologies remain available, ordinary patents do not necessarily (and usually do not) confer market power. And even where market power exists, "such market power does not impose on the intellectual property owner an obligation to license the use of that property to others." *Indep. Serv. Orgs.*, 203 F.3d at 1325-26; *see also Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 44-45 (2006) (recognizing that "a patent does not necessarily confer market power"). Thus, ordinary patents in the main derive value based on the merits of the claimed invention and the control afforded by exclusivity.

SEPs turn those conventions upside down. In the case of a FRAND-encumbered SEP, the patent owner will have voluntarily assumed binding obligations (i) *not to exclude* others from practicing the invention, and (ii) to issue all requested licenses on reasonable and non-discriminatory terms. *See Ericsson*, 773 F.3d at 1230 (holding that a SEP holder's FRAND obligations precluded a policy of maintaining exclusivity by not licensing others); *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014) (rejecting requested injunctive relief and explaining that "a patentee subject to FRAND commitments may have difficulty establishing irreparable harm"), *overruled on other grounds by Williamson v. Citrix Online, LLC*, 792 F.3d 1339, 1349 (Fed. Cir. 2015) (en banc in relevant part). Furthermore, incorporating patented technology into a standard reduces competition from otherwise viable alternatives, resulting in "SEP owners' command of substantial market power once the standard in question becomes widely adopted." Melamed, 127 Yale L.J. at 2111; Daniel G. Swanson and William J. Baumol, *Reasonable and Nondiscriminatory (RAND) Royalties, Standards Selection, and Control of Market Power*, 73 Antitrust L.J. 1, 9-10 (2005) (incorporating a SEP into a standard can "convert a previously competitive technology market into one that is subject *ex post* to market or monopoly power"); *see also Broadcom*, 501 F.3d at

317 ("[T]he UMTS standard … significantly expanded Qualcomm's market power by eliminating alternatives to its patented technology."). Unlike ordinary patents, SEPs derive value not just from the claimed invention, but also from extrinsic value "added by the standardization of that technology" that should not be allocated to the patentee. *Ericsson*, 773 F.3d at 1232.

In short, FRAND-encumbered SEPs confer unique benefits and restrictions on their owners and pose unique competitive risks in the market. Under the FRAND bargain, restrictions on patentee conduct that might conflict with ordinary principles of patent remuneration and exclusivity must be enforced to ensure that public benefits from the standard outweigh any harm to competition from the standard-setting process.

II. SEP royalties that discriminate in favor of entrenched market leaders distort competition and violate FRAND principles.

In this case, the district court analyzed the FRAND licensing practices at issue and correctly concluded that Ericsson's offers discriminated among similarly situated licensees, thus violating Ericsson's FRAND obligations. Appx120. But in so doing, the district court misconstrued the non-discrimination analysis by restricting its review of similarly situated licensees to include only "well-established global firms" with "reasonable sales volume."[1] Appx83-84. If approved, that narrow view of non-discrimination would draw an unwarranted distinction between entrenched and emerging firms that compete in the same markets, and it would impose artificially increased costs on competition from small and emerging firms. Ultimately, the district court's approach would compound the already considerable disadvantages faced by newcomers aiming to compete against "well-established global firms" and thereby reduce—rather than promote—competition, contrary to the core principles underlying FRAND obligations. In addition, in this market and many others for high-tech products, sales volumes and market share can vary dramatically in a short period of time—a firm may have "reasonable sales volume" one year and fall well short of the same benchmark the next. *See* Appx83 (noting that "the mobile phone market has been extremely dynamic over the last decade"). Segregating firms by sales volume at any given time therefore cannot provide a

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[1] Ericsson contends that the district court's FRAND analysis involved legal and equitable claims that should have been submitted to a jury. Blue Br. 28-37. *Amici* take no position on Ericsson's Seventh Amendment arguments but agree that *de novo* review applies to the district court's methodology for interpreting Ericsson's obligations under the controlling FRAND agreement. *See* Blue Br. 39-40. Accordingly, it was a legal question for the court to define the methodology for evaluating non-discrimination, such as the rules for determining which firms were similarly situated. The district court's selection of "well-established global firms" with "reasonable sales volume" as the governing criteria should be reviewed without deference. *See* Appx83-84.

reliable foundation for evaluating non-discrimination in this rapidly changing market.

A better approach to non-discriminatory licensing would compensate an SEP owner based solely on the value of its patented technology, apart from external factors like the bargaining strength of a particular licensee, the value conferred by standardization, or the licensee's position in the production chain. *See Ericsson*, 773 F.3d at 1232 ("[T]he royalty rate for SEPs must be apportioned to the value of the patented invention."). In other words, licensees are "similarly situated" under FRAND when they license the same technology.

The district court therefore erred by limiting its non-discrimination analysis to "reasonably well-established global firms" with "reasonable sales volume" at a similar level in the value chain. Appx83-84. Those restrictive criteria led the district court to consider royalties only in the handset market and to segregate royalties charged to "niche and small firms" in that market such as Karbonn and Coolpad from those enjoyed by their larger competitors.[2] Appx84-87.

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[2] The district court also looked to geographic distinctions in concluding that Karbonn and Coolpad were not "similarly situated" to TCL. Appx84-85 (reasoning that a firm with sales focused primarily in one jurisdiction "only needs to license Ericsson's SEPs in one jurisdiction"). But that view is inconsistent with *Impression Products, Inc. v. Lexmark Int'l Inc.*, 137 S. Ct. 1523, 1535-38 (2017), where the Supreme Court took a uniform view of patent exhaustion as applied to international sales of patented products. Under *Impression Products*, a licensed

(footnote continued on next page)

Drawing such a distinction between large and small producers of the same products would legitimize discriminatory licensing under FRAND and lead to divergent royalty burdens between the two groups as the vast resources, higher sales, and stronger bargaining positions of established firms drive more favorable license terms. Ericsson strained to exclude Apple and Samsung from the district court's non-discrimination analysis, presumably because those market leaders pay materially lower royalties than their competitors. *See* Appx85, Appx87. Similarly, limiting the inquiry to handset manufacturers would permit different royalties for different products using the technology, such as an inexpensive computer chip and a more expensive handset incorporating the same chip. Discrimination on that basis would allow SEP owners to burden competition and innovation by extracting additional value from downstream innovations or combinations created apart from the patented technology itself. *See LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012) (in the damages context, recognizing the risk posed by multi-component products "that the patentee will be improperly compensated for non-infringing components of that product").

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product sold in one jurisdiction would exhaust patent rights elsewhere: "restrictions and location are irrelevant, what matters is the patentee's decision to make a sale." *Id.* at 1538.

A patentee like Ericsson would have been free to pursue various forms of rate discrimination but for its FRAND obligation. As noted, ordinary patentees are free to seek maximum revenue from each licensing transaction, which may well result substantial variation in royalty rates among licensees for any number of reasons. Outside of the standards context, that practice would be lawful up to the limits imposed by general competition law. But FRAND obligations impose additional restrictions that exist on top of ordinary licensing rules to counteract the heightened risks to competition inherent in standard setting. Thus, what might be permissible in ordinary patent licensing does not meet the more rigorous restrictions on discriminatory licensing that patentees voluntarily assume in return for including their proprietary technologies in a standard.

A non-discrimination analysis that considers and requires equal licensing for all uses and for all competitors, large and small, would promote market access, foster competition, and encourage innovation in a manner consistent with the pro-competitive and public-interest foundations of FRAND. The district court's systematic market stratification undermines those precepts and should be corrected on appeal.

CONCLUSION

The Court should reject the district court's constrained view of what firms qualify as "similarly situated" for purposes of evaluating non-discrimination in FRAND licensing.

Respectfully submitted,

HALTOM & DOAN

by /s/*Jennifer H. Doan*
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Counsel for *amici curiae* HTC Corporation and HTC America, Inc.

CERTIFICATE OF COMPLIANCE

This brief complies with the word limitation of Federal Rule of Appellate Procedure 29(a)(5) and Federal Circuit Rule 32(a). The brief contains 2,859 words, excluding the portions exempted by Federal Rule of Appellate Procedure 32(f) and Federal Circuit Rule 32(b).

This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in proportionally spaced typeface using Microsoft® Word 2016 and 14-point Times New Roman font.

Dated: November 8, 2018. *<u>/s/Jennifer H. Doan</u>*
Jennifer H. Doan

PROOF OF SERVICE

In accordance with Federal Rule of Appellate Procedure 25 and Federal Circuit Rule 25, I certify that I caused this document to be served via the Court's CM/ECF system on counsel of record for all parties.

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

Dated: November 8, 2018.

/s/Jennifer H. Doan
Jennifer H. Doan