

IN THE
United States Court of Appeals for the Federal Circuit

Nos. 18-1363, -1732

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED;
TCT MOBILE LIMITED; TCT MOBILE (US) INC.,
Plaintiffs-Appellees,

v.

TELEFONAKTIEBOLAGET LM ERICSSON; ERICSSON, INC.,
Defendants-Appellants.

On Appeal from the United States District Court
for the Central District of California
Nos. 8:14-CV-00341-JVS-DFM, 2:15-CV-02370-JVS-DFM
Hon. James V. Selna

Nos. 18-1380, -1382

ERICSSON, INC.; TELEFONAKTIEBOLAGET LM ERICSSON,
Plaintiffs-Appellants,

v.

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED;
TCT MOBILE LIMITED; TCT MOBILE (US) INC.,
Defendants-Appellees.

On Appeal from the United States District Court
for the Central District of California
No. 2:15-CV-02370-JVS-DFM
Hon. James V. Selna

**CORRECTED BRIEF OF PANASONIC CORPORATION
AS *AMICUS CURIAE* IN SUPPORT OF NEITHER PARTY**

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FORM 9. Certificate of Interest

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Rev. 10/17

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

TCL Communication Technology Holdings Limited, et al. v. Telefonaktiebolaget LM Ericsson, et al.

Case No. ^{18-1363, -1732, -1380, -1382}

CERTIFICATE OF INTEREST

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Panasonic Corporation

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1. Full Name of Party Represented by me	2. Name of Real Party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:	3. Parent corporations and publicly held companies that own 10% or more of stock in the party
Panasonic Corporation	None	None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court **(and who have not or will not enter an appearance in this case)** are:

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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. *See* Fed. Cir. R. 47. 4(a)(5) and 47.5(b). (The parties should attach continuation pages as necessary).

None

6/18/2018

Date

/s/ Steven J. Routh

Signature of counsel

Steven J. Routh

Printed name of counsel

Please Note: All questions must be answered

cc: Counsel of Record

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TABLE OF CONTENTS

	Page
CERTIFICATE OF INTEREST	i
TABLE OF AUTHORITIES	iv
STATEMENT OF INTEREST	1
INTRODUCTION	2
ARGUMENT	5
I. Valuing Standard-Essential Patents Requires A Principled And Rigorous Analysis.....	5
A. Fair and reasonable royalty rates facilitate technological standardization that benefits society as a whole.....	5
B. Rigorous analysis of the value of patentees’ innovations is necessary to achieve fair and reasonable royalty rates.	9
II. FRAND Nondiscrimination Analysis Should Account For The Context Of Licensing Negotiations.	17
CONCLUSION	22
CERTIFICATE OF SERVICE	
CERTIFICATE OF COMPLIANCE	

TABLE OF AUTHORITIES

	Page(s)
Cases	
<i>Commonwealth Sci. & Indus. Research Org. v. Cisco Sys., Inc.</i> , 809 F.3d 1295 (Fed. Cir. 2015)	9, 10
<i>Ericsson, Inc. v. D-link Sys., Inc.</i> , 773 F.3d 1201 (Fed. Cir. 2014)	<i>passim</i>
<i>Garretson v. Clark</i> , 111 U.S. 120 (1884)	7
<i>Lucent Techs., Inc. v. Gateway, Inc.</i> , 580 F.3d 1301 (Fed. Cir. 2009)	19
<i>Microsoft Corp. v. Motorola, Inc.</i> , 795 F.3d 1024 (9th Cir. 2015)	17
<i>Monsanto Co. v. McFarling</i> , 488 F.3d 973 (Fed. Cir. 2007)	10
<i>Riley v. California</i> , 134 S. Ct. 2473 (2014)	6
<i>Studiengesellschaft Kohle, M.B.H. v. Hercules, Inc.</i> , 105 F.3d 629 (Fed. Cir. 1997)	21
<i>United States v. Quality Stores, Inc.</i> , 134 S. Ct. 1395 (2014)	21
Other Authorities	
Colleen V. Chien, <i>Holding Up and Holding Out</i> , 21 Mich. Tel. & Tech. L. Rev. 1 (2014)	8
Richard J. Gilbert, <i>Deal or No Deal? Licensing Negotiations in Standard-Setting Organizations</i> , 77 Antitrust L.J. 855 (2011)	17

Mark A. Lemley, <i>Intellectual Property Rights and Standard-Setting Organizations</i> , 90 Cal. L. Rev. 1889 (2002)	19
Mark A. Lemley, <i>Ten Things to Do About Patent Holdup of Standards (and One Not to)</i> , 48 B.C. L. Rev. 149 (2007)	8
Daniel S. Sternberg, <i>A Brief History of RAND</i> , 20 B.U. J. Sci. & Tech. L. 211 (2014)	18
Richard B. Troxel & William O. Kerr, <i>Calculating Intellectual Property Damages</i> § 5:50 (2017 ed.)	10

STATEMENT OF INTEREST¹

Amicus Panasonic Corporation (“Panasonic”) submits this brief to assist the Court’s resolution of important questions about the proper valuation of patent licenses in the context of standardized technologies. Panasonic is an active contributor to various standardized technologies and a leading provider of consumer products, services, and business solutions that incorporate such technologies. Panasonic is thus uniquely situated to provide its perspectives as both a major holder of standard-essential patents (“SEP”) and an implementer of the technologies that involve them.

As a technical contributor, Panasonic has played a central role in establishing standardized technologies that enable interoperability among devices, including TVs, smartphones, and digital cameras. Such standardized functionality benefits consumers and society as a whole. In particular, Panasonic has made significant contributions to the development of standards relating to audio codecs, video codecs, and

¹ No party’s counsel authored this brief in whole or in part. No party, party’s counsel, or any person other than amicus or its counsel contributed money intended to fund preparing or submitting this brief. All parties have consented to the filing of this brief.

communications, including the 2G, 3G, and LTE standards at issue in this appeal. And, as a leading provider of consumer products, services and business solutions, Panasonic also deploys standardized technologies to serve these same ends.² Panasonic’s dual role as a contributor and implementer of standardized technologies means that it has a deep—and balanced—interest in the issues central to this appeal.

INTRODUCTION

Standardization provides many benefits to consumers. After all, “[i]nteroperability is an essential requirement for many electronic devices.” *Ericsson, Inc. v. D-link Sys., Inc.*, 773 F.3d 1201, 1208 (Fed. Cir. 2014). In order for our cell phones to communicate with one another, notwithstanding “the multitude of devices, device designers, and manufacturers,” it is necessary for “a critical mass of device developers [to] adopt ... standard [technology] in order to ensure mass interoperability.” *Id.* Because standards are integral to modern

² Panasonic was not a party to the decision below. But because TCL Communication Technology Holdings, Ltd., TCT Mobile Limited, and TCT Mobile (US) Inc. (collectively “TCL”) advocated a method of SEP valuation that considers the industry as a whole, the outcome of this case may have some bearing on the valuation of Panasonic’s intellectual property.

technology, it is critical that the patent and legal system as a whole promote their creation and implementation.

Standard-setting organizations (“SSOs”) seek to strike a delicate balance between competing considerations. They both facilitate proper compensation for those who contribute to the relevant standard and adopt safeguards to prevent compliance with the standard from becoming overly burdensome in the marketplace. In particular, many SSOs require companies participating in the standard to agree in advance to license their SEPs on terms that are fair, reasonable, and nondiscriminatory (“FRAND”). Such terms are designed to encourage innovation by compensating the patent holder for its contributions, while also making sure that such entities do not capture for themselves value added by standardization that should flow to society at large. This ordered approach to determining royalty rates promotes clarity for contributors to standards and implementers alike—thus fostering a healthy environment that enables the establishment and implementation of standard technologies that benefit society as a whole.

Should this process break down because the parties cannot agree on a license, courts may be called upon to establish FRAND-compliant

licensing terms. To both ensure fair compensation and provide clarity for the marketplace, courts must employ a balanced approach to assessing whether royalties comply with FRAND commitments.

Here, the district court tried to get it right, deploying complementary approaches (both a top-down and a comparable-license analysis) to assess the value of SEPs. But its application of those methodologies was insufficiently rigorous to accurately capture the value of each SEP holder's respective innovative contributions to cellular communication standards. In the face of complexity, it took the kinds of shortcuts to assessing "fair and reasonable" royalty rates that are likely to lead to inaccurate valuations that could undercut an industry's incentives to develop and adopt innovative standardized technology.

Moreover, "fair and reasonable" requirements do not tell the whole story. SSOs also adopt nondiscrimination requirements so that all members of an industry have the opportunity to utilize a standard. And just as SEP-valuation methods must be applied with care, so too FRAND nondiscrimination requirements should not be interpreted in an overly rigid, formalistic manner. The nondiscrimination

requirement prohibits an SEP holder from licensing the patent on substantially different terms to similarly situated licensees. It does not, however, require exact congruence between licenses. Amicus takes no position on whether the district court heeded that principle here but urges this Court to make clear that the nondiscrimination requirement—like FRAND obligations more generally—is a flexible command that requires careful, qualitative, context-sensitive analysis whenever applied. Importantly, an SEP holder’s commitment to FRAND royalty rates should not be construed in a way that hinders the holder’s ability to address legitimate business considerations in real-world licensing discussions.

ARGUMENT

I. Valuing Standard-Essential Patents Requires A Principled And Rigorous Analysis.

A. Fair and reasonable royalty rates facilitate technological standardization that benefits society as a whole.

Consumers interact with standardized technology thousands of times each day. “For example, if a user brings her laptop to a local coffee shop, she expects that her laptop will charge when she plugs it in and that she will be able to access the Internet when she connects to the

coffee shop's wireless network.” *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1208 (Fed. Cir. 2014). And “[f]or the user to be able to connect to the Internet, her laptop must know, *inter alia*, what frequency to search for the wireless signal, what messages to send to the network to set up a connection, and how to interpret the messages sent from the network.” *Id.* at 1208. Of course, the same is true of the cell phones that have become “a pervasive and insistent part of daily life.” *Riley v. California*, 134 S. Ct. 2473, 2484 (2014). For society to reap the benefits of these technological advancements, innovators must adopt shared standards for interoperable technology.

To promote the creation of standardized technology, it is necessary to appropriately compensate innovators for their contributions. If SEP holders do not receive royalties commensurate with their contributions to a standard, they will not continue to invest in developing standardized technology. To that end, when valuing SEPs, courts look to principles underlying patent damages law. *See Ericsson*, 773 F.3d at 1232. Among those is the fundamental tenet that patentees are entitled to the full value of their inventive contributions. In other words, they should be compensated for what the particular patented invention “has

added to the usefulness of [a] machine or contrivance.” *Garretson v. Clark*, 111 U.S. 120, 121 (1884). “Fair and reasonable” royalty rates must adhere to this principle so that innovators will invest in developing the best technology for incorporation into standards without concern that their efforts will be undervalued.

But standardization could also pose risks of overcompensating innovators in ways that are counterproductive to the goal of achieving standardization. Once an industry standard is adopted, it becomes difficult—if not impossible—to compete in that field without using patents that underlie the standardized technology. So there is potential for companies to leverage their SEPs to capture more than the benefits of their own inventive contributions. *See Ericsson*, 773 F.3d at 1209. And because many patents may be essential to a single standard, there is also the risk that, in the aggregate, the licensing fees needed to practice the standard become cost prohibitive.

Many SSOs, including the one promulgating the technical standards at issue in this appeal, seek to balance these competing concerns by requiring participants in a standard to commit to “fair and reasonable” royalty rates up front. That requirement ensures that the

level of compensation will be reasonable for all involved, and perhaps more fundamentally, provides clarity about what the ultimate royalty rates will be. This in turn assures the industry (and the public) that when innovators devote their resources to pursuing shared technology—often an “irreversible investment,” Mark A. Lemley, *Ten Things to Do About Patent Holdup of Standards (and One Not to)*, 48 B.C. L. Rev. 149, 154, 158-59 (2007)—the end product will be commercially viable. And it assures would-be implementers that investing in products that incorporate the standard will not be cost prohibitive. But if SEP owners demand royalties that would exploit the value of standardization instead of the value of their patented technology, or if royalty rates are otherwise unclear, would-be licensees may simply refuse to negotiate with SEP holders absent litigation. See Colleen V. Chien, *Holding Up and Holding Out*, 21 Mich. Tel. & Tech. L. Rev. 1, 20 (2014). That can cause innovators to be under-compensated—and ultimately under-incentivized—for their efforts to contribute to a given standard.

In short, for society to reap the benefits of technological standardization, it is critical that courts accurately value SEPs. Otherwise, over- or under-compensation would distort the incentives to

make technical contributions to the standard and undermine the economic viability of the ultimate standardized product. Accordingly, when courts assess whether an SEP royalty rate is “fair and reasonable,” they must apply principled, comprehensive, and rigorous methodologies.

B. Rigorous analysis of the value of patentees’ innovations is necessary to achieve fair and reasonable royalty rates.

As this Court has recognized, when apportioning incremental value among multiple patentees’ respective patents, “there may be more than one reliable method for estimating a reasonable royalty.”

Commonwealth Sci. & Indus. Research Org. v. Cisco Sys., Inc.

(“*CSIRO*”), 809 F.3d 1295, 1301 (Fed. Cir. 2015) (internal quotation marks omitted). Indeed, employing multiple valuation methods is often appropriate because it enables a balanced and comprehensive consideration of the appropriate FRAND rate for a particular set of SEPs. And it provides a useful cross-check against errors and biases present in any one single methodology, ensuring that an SEP-valuation analysis comports with fair valuation principles. In other words, it increases the likelihood that the court arrives at a reliable estimate of

the “incremental value that the patented invention adds to the end product.” *Ericsson*, 773 F.3d at 1226.

At a high level, the district court heeded that advice. It recited FRAND principles and employed two tandem methodologies: a comparable-licensing analysis and the top-down approach. *See* Appx40-75, Appx79-120; *see also* Appx124. Both methodologies, when properly applied, can yield a royalty rate that is consistent with FRAND commitments.³

But, as this case illustrates, SEP-valuation approaches are only as good as the analysis applying them. Here, the district court took several shortcuts that elided key considerations about the value of particular SEPs’ inventive contributions to a standard. In particular, when calculating Ericsson’s proportionate share of the total royalty pie in its top-down analysis, the court relied on expert evidence that was

³ A comparable-license approach is useful because it reflects what similarly situated companies have agreed to in real-world negotiations over SEPs. *Monsanto Co. v. McFarling*, 488 F.3d 973, 979 (Fed. Cir. 2007); *see CSIRO*, 809 F.3d at 1303. A top-down approach supplies complementary benefits. It considers the total size of the royalty “pie” and then evaluates an SEP holder’s slice of that pie—providing a clear picture of the overall costs of implementing a given standard. *See* Appx29; Richard B. Troxel & William O. Kerr, *Calculating Intellectual Property Damages* § 5:50 (2017 ed.).

flawed in three respects. These three shortcomings illustrate the dangers of using such an approach without employing sufficiently rigorous analysis of SEPs' respective inventive contributions to a standard.

First, the expert analysis relied upon by the district court got off on the wrong foot. In calculating the total number of SEPs in the standard—the denominator in Ericsson's proportionate share—it employed a flawed method to select “representative” claims for essentiality analysis. The analysis was based on only a sample of the total SEPs, and then only a sample of that sample. *See* Appx53-54. The expert may have been correct that it was necessary to rely on analysis of a sample of representative claims because of the large number of patents at issue, but the method for selecting that sample was inherently flawed.

In searching for a representative “Pure User Equipment Claim” for each patent family (i.e., an independent claim that has all of the limitations performed by mobile phones and other similar devices), the expert selected the *first* such claim encountered instead of the claim that *best* captures the technical aspect of the standards. Appx44387-

44388. That introduces bias against SEP holders with a large number of patents in a patent family because it would be less likely that the *first* claim would be the *best* one. It is thus no surprise that the expert's analysis had a substantial error rate. Contrary to the district court's assertion, an overall error rate of 9.5%—with 11.8% of essential patents marked nonessential and 4.4% of nonessential patents marked essential—is hardly a “small number of errors.” Appx54-55. An essentiality analysis based on unsound fundamentals cannot be saved just because there are errors “in both directions.” *Id.* With such distortion in the denominator of the top-down approach, an otherwise valid methodology is rendered unreliable.

Second, the essentiality analysis of the selected claims itself was fundamentally flawed. The expert provided a drive-by analysis in which a mere “20 minutes per patent” review was conducted to assess whether self-designated SEPs were properly deemed essential. Appx56. That was far too cursory to accurately assess whether the analyzed SEPs are indeed essential to the standard.

An adequate essentiality analysis is not a twenty-minute-per-patent affair. It requires examining each sampled patent (or patent

family) to determine whether the standard requires all elements of any particular patent claim. In a case like this, that process must be repeated for *each* of the three standards at issue: 2G, 3G, and LTE. And, in Panasonic's experience, it takes substantially more than twenty minutes to understand any patent and its claims, much less a given claim's essentiality to a given standard. In fact, such standards are often quite complex and frequently involve consulting cross-references between different published components of the standard.

An overly cursory analysis of essentiality may fail to accurately assess whether patents indeed contribute to a standard. That flaw, in turn, distorts both the compensation individual SEP holders receive and the picture of the aggregate royalties involved in a standard. This Court accordingly should hold that a more thorough analysis of essentiality is required than what was conducted in this case, while making clear that the onus of presenting such evidence falls on the parties.⁴

⁴ At minimum, this Court should make clear that any finding as to the total number of 2G, 3G, and LTE SEPs does not establish FRAND rates for SEP holders and licensees who were non-parties to the decision below. While a top-down approach necessarily involves giving some

Third, the district court’s mode of analysis left out any tailored consideration of SEP holders’ inventive contributions in determining the numerator of the top-down calculation. When it considered the total number of SEPs (i.e., the size of the pie) and Ericsson’s share of them (i.e., its fraction of the pie), the district court simply totaled the overall number of SEPs and the number of SEPs owned by Ericsson, “adopting a simple patent counting system which treats every patent as possessing identical value.” Appx42-43.⁵ But merely counting the *quantity* of an SEP holders’ patents and comparing it to the overall number of SEPs involved in the standard will often be inadequate to achieve a proper apportionment. Instead, an assessment of the *quality* of the patents may also be required.

consideration to *all* designated SEPs in the industry, other companies lack a meaningful opportunity to contest such evidentiary findings. And deciding for all time the number of SEPs in a standard in the course of a top-down analysis would create perverse incentives for companies to race to the courthouse to litigate industrywide FRAND rates.

⁵ Although the district court made some adjustments for variances in Ericsson’s SEP portfolio based on geographic considerations, it rejected evidence regarding the importance and contribution of Ericsson’s SEPs relative to other SEP owners. *See* Appx42; Appx67-69.

This Court should not endorse this “simple patent counting system.” It is, well, far too simple. After all, not all SEPs contribute equally to a standard. Some may be minor or ancillary, while others supply the backbone of the standard’s core functionality. Failing to account for differences in quality or importance of SEPs may overcompensate some SEP owners (those with ancillary inventions) while under-compensating others (those with major contributions). That violates fair valuation principles by treating all patents alike—no matter their inventive contribution.

It also distorts innovation incentives. If technical contributors to a standard cannot be confident that their research and development efforts will be justly rewarded post-standardization, they will be discouraged from making investments in the development of standard-essential technologies that would otherwise benefit society as a whole. Accordingly, when presented with reliable evidence of qualitative differences in SEPs, courts should adjust the top-down calculated royalty upwards (or downwards) to account for them. For example, the court could look to the relative number of accepted contributions made by a company in considering the technical contributions made by that

company with respect to the particular standard. The court might also consider the timing of the contribution in relation to establishment of the standard to distinguish fundamental core patented technologies that require significantly greater investment from improvements made at a later time that merely build upon or are logical extensions of those established fundamental technologies.

In explaining its decision not to make an assessment as to the relative quality of SEPs at issue, the district court referred to perceived deficiencies specific to the evidentiary presentation in this case. *See* Appx67. This Court should, however, take care not to suggest that the “simple patent counting” method is broadly applicable or desirable.

* * *

In sum, a top-down approach can provide useful confirmation of FRAND rates, particularly when paired with a cross-check like comparable licenses. This Court should, however, reject shortcuts in the application of that approach: unrepresentative sampling, back-of-the-napkin assessments of essentiality, and “simple patent counting” that completely ignores variances in SEPs’ inventive contributions.

II. FRAND Nondiscrimination Analysis Should Account For The Context Of Licensing Negotiations.

FRAND-compliant royalty rates must be not only fair and reasonable but also nondiscriminatory. And while the nondiscrimination requirement is critical to the FRAND commitment, it must not be applied in a way that ignores the reality of the licensing context. Like the “fair and reasonable” requirement (discussed above, § I), the nondiscrimination standard must remain accommodating. It does not “require[] identical licensing terms for every licensee.” Richard J. Gilbert, *Deal or No Deal? Licensing Negotiations in Standard-Setting Organizations*, 77 Antitrust L.J. 855, 872 (2011); see *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1042 (9th Cir. 2015) (discussing the “need for flexibility in determining a royalty rate for a RAND-encumbered patent”). “[I]f defined literally to mean that every licensee pays the same amount, [the nondiscrimination requirement] would sacrifice economic efficiency.” Gilbert, *supra*, at 872. Thus, “economic commentators and legal commentators appear to be in general agreement” that “nondiscrimination means that a patent owner should not charge similarly situated licensees *substantially different* royalty

rates.” Daniel S. Sternberg, *A Brief History of RAND*, 20 B.U. J. Sci. & Tech. L. 211, 233-34 (2014) (emphasis added).

The district court here acknowledged this fundamental point in the abstract. *See* Appx135 (“The Court concludes there is no single rate that is necessarily FRAND, and different rates offered to different licensees may well be FRAND given the economics of the specific license.” (citing “the drafting history of ETSI’s [intellectual property rights (‘IPR’)] policy”)). This principle appears to be supported by the court’s willingness to consider the experts’ analyses of various comparable licenses. Whether the district court reasonably applied that principle to the facts of the case is a question Panasonic leaves to the parties to contest. *See* Appx117-120 (district court’s analysis finding that Ericsson’s offers were discriminatory). But however this Court resolves that dispute, Panasonic urges it to underscore that flexibility is important to proper application of the nondiscrimination component of the FRAND commitment. In Panasonic’s view, this is so for at least three reasons.

1. Diverse risk valuations and economic circumstances.

Courts addressing FRAND nondiscrimination must have flexibility,

within reason, to account for differences in licensing terms that arise due to different economic circumstances. While the requirement that licenses be “sufficiently comparable” before licenses can be compared will often address this issue, *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1325 (Fed. Cir. 2009), economic differences may be subtle enough to allow for meaningful comparison, yet still yield differences in rates that do not transgress the nondiscrimination rule. For instance, a company’s current economic condition and, relatedly, its tolerance for risk may affect the licensing rate. *See* Appx95 (acknowledging that, “in the course of private negotiations, parties may enter into a variety of licensing schemes that reflect each party’s unique assessment of the risk”); *see also* Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889, 1965 n.325 (2002) (noting “likely circumstances in which licensees might be treated differently”). FRAND’s nondiscrimination commitment should not be turned into a straightjacket, preventing future negotiations from accounting for such economic concerns.

2. Encouraging adoption of the standard. Flexibility to adapt licenses to party-specific economic circumstances and preferences

also encourages parties to adopt standards. One overarching purpose of FRAND is to promote “widespread adoption of the standard.” *Ericsson*, 773 F.3d at 1209. If a FRAND nondiscrimination requirement were applied too rigidly, then it could lock a party into the first licensing terms to which it agrees. To avoid that result, parties may decide not to adopt the standard or not to make a FRAND pledge in the first place.

3. History of the nondiscrimination requirement. Finally, the history of the particular nondiscrimination requirement at issue in this case demonstrates that it was designed with some flexibility in mind. The drafters of ETSI’s current IPR policy rejected a rigid nondiscrimination requirement. In particular, they excised an earlier ETSI provision (contained in the 1993 ETSI IPR Policy and Understanding) called the “most favored licensee” clause. *See* Appx44581; *see also* Appx39-40. Dr. Bertram Huber, a member of ETSI’s IPR committee and participant in adoption of the IPR policy, summarized the “most favored licensee” standard in his expert report before the district court: “The clause required ... the licensor to promptly notify a licensee of any license granted to a third party for the same IPRs, under comparable circumstances giving rise to terms and

conditions that were clearly more favorable, in their entirety, than those granted to the licensee, and allowing the licensee to require replacement of the terms and conditions of its license ... with those granted to the third party licensee.” Appx44581; *see also* Appx44580-44582; *Studiengesellschaft Kohle, M.B.H. v. Hercules, Inc.*, 105 F.3d 629, 631 (Fed. Cir. 1997) (describing a contractual “most favored licensee” agreement). Where drafters make a deliberate choice to “repeal[]” or “amend,” a document, courts “presume [the drafters] intend[] [the] amendment to have real and substantial effect.” *United States v. Quality Stores, Inc.*, 134 S. Ct. 1395, 1401 (2014) (internal quotation marks omitted).

Accordingly, especially in a case like this one, FRAND’s nondiscrimination requirement should not be construed to be excessively rigid, akin to the repealed “most favored licensee” standard.

CONCLUSION

This Court should endorse the above guidelines for use in cases concerning the FRAND commitment.

June 18, 2018

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system on June 27, 2018.

I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

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CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitation of Fed. R. App. P. 32(a) and Fed. R. App. P. 29(a)(5), because this brief contains 3,928 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(f) and Fed. Cir. R. 32(b).

This brief complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Microsoft Word 2013 in Century Schoolbook 14-point font.

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