No. 2021-2106

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

KONINKLIJKE PHILIPS N.V.,
Plaintiff - Counter Defendant - Appellee,
PHILIPS RS NORTH AMERICA LLC,
Counter Defendant - Appellee,

v.

THALES DIS AIS USA LLC, fka Gemalto IOT LLC, fka Cinterion Wireless Modules NAFTA LLC,
Defendant - Counter Claimant,
THALES USA, INC., THALES S.A., CALAMP CORP., XIRGO TECHNOLOGIES, LLC, LAIRD CONNECTIVITY, INC.,
Defendants,
THALES DIS AIS DEUTSCHLAND GMBH, fka Gemalto M2M GmbH,
Defendant - Counter Claimant - Appellant.

On Appeal from the United States District Court for the District of Delaware in Case No. 1:20-cv-01713-CFC, Judge Colm F. Connolly

BRIEF FOR *AMICUS CURIAE* ACT | THE APP ASSOCIATION IN SUPPORT OF APPELLANT

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September 7, 2021

CERTIFICATE OF INTEREST

Counsel for *Amicus Curiae* ACT | The App Association certifies the following:

1. Represented Entities. Fed. Cir. R. 47.4(a)(1). Provide the full names of all entities represented by undersigned counsel in this case.

ACT | The App Association

2. Real Party in Interest. Fed. Cir. R. 47.4(a)(2). Provide the full names of all real parties in interest for the entities. Do not list the real parties if they are the same as the entities.

Not Applicable.

3. Parent Corporations and Stockholders. Fed. Cir. R. 47.4(a)(3). Provide the full names of all parent corporations for the entities and all publicly held companies that own 10% or more stock in the entities.

None.

4. Legal Representatives. List all law firms, partners, and associates that (a) appeared for the entities in the originating court or agency or (b) are expected to appear in this court for the entities. Do not include those who have already entered an appearance in this court. Fed. Cir. R. 47.4(a)(4).

None.

5. Related Cases. Provide the case titles and numbers of any case known to be pending in this court or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal. Do not include the originating case number(s) for this case. Fed. Cir. R. 47.4(a)(5). See also Fed. Cir. R. 47.5(b).

In the Matter of Certain UMTS and LTE Cellular Communication Modules and Products Containing the Same, Inv. No. 337-TA-1240 (U.S.I.T.C.)

6. Organizational Victims and Bankruptcy Cases. Provide any information required under Fed. R. App. P. 26.1(b) (organizational victims in criminal cases) and 26.1(c) (bankruptcy case debtors and trustees). Fed. Cir. R. 47.4(a)(6).

None.

Dated: September 7, 2021

/s/ Mark D. Selwyn

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INTEREST OF AMICUS CURIAE[1]

ACT | The App Association ("the App Association") is an international advocacy and education non-profit organization.[1] The App Association represents more than 5,000 small business technology firms that develop software applications used on mobile devices and in enterprise systems. The App Association's members are located around the globe, in all 27 Member States of the European Union and in all 435 congressional districts of the United States. The App Association's members lead a $1.7 trillion industry that supports 5.9 million American jobs.

That industry depends on access to standardized technologies. Application development uses standardized technologies, including wireless communications technologies, to provide baseline functionalities around which our members develop and produce interoperable products. The App Association is the principal global representative for small business innovators on law and policy related to standard-essential patents ("SEPs")—*i.e.*, patents whose owners claim must be practiced to use an industry standard. The App Association represents the interests of innovators that develop and use standardized technologies while respecting the rights of SEP

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[1] No counsel for any party authored this brief in whole or in part, and no person or entity other than ACT | The App Association and its counsel made a monetary contribution intended to fund the preparation or submission of this brief. Pursuant to Fed. R. App. P. 29(a)(2), this brief is accompanied by a motion for leave to file. Appellant Thales DIS AIS Deutschland GmbH ("Thales") has consented to this brief's filing. Plaintiffs-Appellees Koninklijke Philips N.V. and Philips RS North America LLC ("Philips") oppose it.

owners to seek fair, reasonable, and nondiscriminatory ("FRAND") royalties for use of their SEPs.

In line with its members' core interests in this area, the App Association has established the "All Things FRAND" initiative. The App Association maintains a comprehensive website and blog, accessible at http://www.allthingsfrand.com, that serves as a repository for academic articles, legal cases, agency guidance, and other authoritative and credible writings about FRAND licensing.

SUMMARY OF ARGUMENT

Industry standards—like the cellular connectivity standards at issue in this case—can play an important role by facilitating interoperability among products from different manufacturers and software developers. With the assurance that devices can communicate with other devices that use the same standard, a company is incentivized to develop devices or applications that employ the standard—and alternative technologies are cast aside. But standards present a risk that owners of SEPs can leverage their increased market power to foreclose use of the standard or extract unreasonable royalties. The potential for exploitation of the value of the standard—often referred to as "patent hold-up"—is especially acute in the context of complex communication standards, where many SEPs may cover just a small portion of the functionality needed to support a standard.

To minimize these hold-up risks, many standard-setting organizations ("SSOs") require SEP holders to agree to license their patents on FRAND terms. These agreements require the SEP holder to license its patents to anyone willing to pay FRAND rates to license the SEPs. Patentees are not obligated to agree to accept FRAND terms; instead, they do so voluntarily to have their technology considered for inclusion in industry standards and to reap the potential benefits of widespread adoption.

This case concerns SEPs for standards set by the European Telecommunications Standards Institute ("ETSI") for cellular connectivity. As a SEP holder, Philips committed to license its worldwide portfolio of SEPs on FRAND terms. Thales, meanwhile, has committed to paying a FRAND rate for that portfolio. The parties have also agreed that the district court is the appropriate jurisdiction to set the FRAND rate, and Thales has committed to pay whatever rate the court sets. Thus, the undisputed facts demonstrate that Philips is required to license, and Thales has committed to license, Philips's SEPs on FRAND terms. Notwithstanding the fact that Thales will undoubtably obtain a license for Philips's SEPs at the conclusion of this litigation, Philips continues to pursue an exclusion order against Thales at the U.S. International Trade Commission ("ITC").

Philips's efforts to exclude Thales's standard-compliant products from the U.S. market contravene its FRAND commitments. ETSI's policies mandate that

SEPs be made available to all entities seeking to license those SEPs at FRAND rates. But Philips, despite having invoked the district court's jurisdiction to set a FRAND royalty rate for a license, nonetheless insists on excluding the accused products—which will be licensed once the district court sets the FRAND rate—from the U.S. market. Those efforts ignore that the ITC cannot exclude products that are licensed under the asserted patents. Given the circumstances, the only plausible explanation for Philips's actions is that it wishes to use an exclusion order's *in terrorem* effect to pressure Thales to quickly settle by paying a royalty above the FRAND rate the district court will set. The district court erred in determining that Philips's conduct was permitted under its FRAND obligations and that, as a result, Thales was unlikely to succeed on the merits of its claims. On the contrary, as an entity that has committed to license Philips's patents on FRAND terms, Thales is *certain* to succeed in obtaining a license for those patents, which is certain to make an ITC exclusion order improper.

An injunction in this context is appropriate for two reasons: to prevent the harm caused by Philips's pursuit of an ITC exclusion order and to protect the district court's jurisdiction, which Philips itself invoked. Courts have the authority to grant preliminary injunctions to prevent avoidable harm and to enjoin parallel proceedings that threaten the court's ability to provide full relief. Under either of those legal theories, an injunction is appropriate because seeking and enforcing an ITC exclusion order would be improper here. Thales has established that it is likely that Philips violated its FRAND obligations by seeking an exclusion order, and that it will receive a license to Philips's SEPs at FRAND rates. An injunction would prevent Thales from being harmed by Philips's improper behavior and protect the court's ability to provide the relief of a FRAND agreement that Philips has sought and to which Thales has agreed.

The Court should vacate and remand the district court's order denying a preliminary injunction because the court committed legal error in ruling that Thales did not satisfy the "likelihood of success" requirement for seeking a preliminary injunction against Philips's pursuit of an ITC exclusion order.

ARGUMENT

I. STANDARDIZATION CREATES DANGERS FOR PATENTEES TO EXPLOIT UNEARNED MARKET POWER.

Standards are technical requirements that allow a technology to be widely adopted and ensure interoperability between devices. *See Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1208-1209 (Fed. Cir. 2014). A cellular connectivity standard, for instance, ensures that a cell phone made by one manufacturer can call someone using a cell phone made by a second manufacturer and that the call can successfully be routed through network equipment from yet other manufacturers, because all the equipment speaks the same language as set by the standard.

Often, there are countless choices about how to accomplish a desired function. When establishing a standard, SSO participants ordinarily propose that competing technologies be included in the standard. The SSO then determines, as part of its responsibilities, where uniformity is necessary for interoperability and then selects among the proposed alternatives, which "by definition, eliminates alternative technologies." *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007).

Uniform standards provide significant pro-competitive advantages, including promoting innovation, increasing competition, and decreasing prices. In other words, "[s]tandardization provides enormous value to both consumers and manufacturers. It increases competition by lowering barriers to entry and adds value to manufacturers' products by encouraging production by other manufacturers of devices compatible with them." *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1030 (9th Cir. 2015). Technological interoperability also facilitates "economies of scale in the market for complementary goods, reduc[es] consumer search costs, and increas[es] economic efficiency." *Golden Bridge Tech., Inc. v. Motorola, Inc.*, 547 F.3d 266, 273 (5th Cir. 2008).

For all their benefits, however, standards pose significant competitive risks. SSOs often include competitors as stakeholders. Coordinated industry-wide action among competitors to adopt certain technologies, while excluding others, is "rife with opportunities for anticompetitive activit[ies]." *American Soc'y of Mech. Eng'rs, Inc. v. Hydrolevel Corp.*, 456 U.S. 556, 571 (1982); *see also Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 (1988) ("There is no doubt that the members of such associations often have economic incentives to restrain competition and that the product standards set by such associations have a serious potential for anticompetitive harm").

A critical risk when establishing uniform standards is giving unearned market power to holders of patents covering technology that is adopted into, or becomes "essential" to, the standard. After an SSO settles on a standard, switching to a different technology can become "prohibitively expensive." *Broadcom*, 501 F.3d at 310; *see also American Soc'y of Mech. Eng'rs*, 456 U.S. at 559 ("Obviously, if a manufacturer's product cannot satisfy the [standard], it is at a great disadvantage in the marketplace.").

A simple example of how a standard can give rise to unearned market power is the electric plug. Many equally effective plug configurations exist in terms of number, shape, size, and orientation of the prongs. But once a standard is adopted—like the American three-prong plug—alternatives that would have just as effectively accomplished the desired function are eliminated, and the market for any patents incorporated into the standard will become "congruent" with that of the standard. *Broadcom*, 501 F.3d at 315. Thus, any company that owns a patent to an element necessary for the chosen plug configuration will possess outsized market power. Manufacturers, after investing in producing the now-standard plugs or having no viable alternative to enter the market, will need to obtain licenses from a monopolist for that functionality within the standard. With monopoly power, a plug patentee could demand royalties far greater than the value actually added by a particular patent.

Standardization thus creates opportunities for companies to engage in anti-competitive patent "hold-up" by demanding excessive patent royalties "after companies are locked into using a standard." *See Ericsson,* 773 F.3d at 1209.[2] Product developers that, as a practical matter, are effectively required to conform to widely adopted standards (such as cellular standards) will have no alternative but to use essential patented technology. It is often prohibitively expensive for companies, and the SSOs to which they belong, to abandon established standards and try to switch to something else after the standards are locked in. *Broadcom*, 501 F.3d at 310. As a result, SEP holders will be "in a position to demand more for a license than the patented technology, had it not been adopted by the [standard], would be

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[2] *See also* Farrell, et al., *Standard Setting, Patents, and Hold-Up*, 74 Antitrust L.J. 603 (2007); Lemley & Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991 (2007); U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 35-36 (2007), https://www.justice.gov/sites/default/files/atr/legacy/2007/07/11/222655.pdf ("DOJ & FTC, *Antitrust Enforcement*").

worth." *Microsoft*, 795 F.3d at 1031. This concern is particularly heightened in the context of complex communication standards, where there may be thousands of purported SEPs, each of which may only cover at most minimal functionality within the standard. *See*, *e.g.*, *Ericsson*, 773 F.3d at 1232 (explaining that the 802.11 standard "encompasses numerous technologies to enable devices to communicate with each other via wireless network connection," including one of the asserted patents that "at best, only covers the ability of the system to prioritize time-sensitive payloads by informing the system what type of data is in each transmission. This is only a small aspect of the 802.11(n) standard.").[3]

"To mitigate the risk that a SEP holder will extract more than the fair value of its patented technology, many SSOs require SEP holders to agree to license their patents on '[fair,] reasonable and nondiscriminatory' or '[F]RAND' terms." *Microsoft*, 795 F.3d at 1031. These agreements require the SEP holder to license its patents to any manufacturer that is willing to take a license and pay FRAND rates. *Id.* FRAND commitments are important incentives to encourage product manufacturers into adopting the standard. They offer assurance that licenses will be

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[3] For example, by one estimate, the number of patent families, including families with only pending applications, declared essential for 5G standards grew from under 2,000 in 2017 to over 35,000 by the end of 2020. *See* Nakane & Orita, *Landscape Analysis of 5G Patent Families*, Managing IP (Dec. 11, 2020), https://www.managingip.com/article/b1plrrv4knsgnm/landscape-analysis-of-5g-patent-families.

available at all times at FRAND rates—and therefore that a manufacturer should not face the prospect of an injunction based on the patent. Absent enforceable FRAND commitments, manufacturers would be less likely to adopt the standard. *Id.* at 1051.

Conversely, patentees are not forced to propose that their patented technology be included in standards and, if accepted, agree to accept FRAND terms. They do so voluntarily because inclusion in a standard creates an opportunity to generate licensing revenue. *See Microsoft*, 795 F.3d at 1031. "Once incorporated and widely adopted, that technology is not always used because it is the best or the only option; it is used because its use is necessary to comply with the standard." *Ericsson*, 773 F.3d at 1233. "A firm's FRAND commitment, therefore, is a factor—and an important factor—that the [SSO] will consider in evaluating the suitability of a given proprietary technology vis-a-vis competing technologies." *Broadcom*, 501 F.3d at 313.

The threat of patent hold-up can be especially harmful to application developers, many of which are small businesses. These app developers—which contribute to a $1.7 trillion app economy led by U.S. companies[4]—depend on wireless communication standards, not only to create innovative applications for cell phones and other devices, but also to innovate in the evolving internet of things

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[4] *See* ACT | The App Association, *State of the U.S. App Economy: 2020* at 4 (7th Ed.), https://actonline.org/wp-content/uploads/2020-App-economy-Report.pdf.

("IoT") ecosystem. App developers innovate on top of these standards, for example, to bring novel IoT applications to the medical, automotive, health, manufacturing, and finance industries. Indeed, more than 28.4 billion IoT devices already depend on wireless internet connectivity.[5] IoT's seamless interconnectivity utilizes known (and will utilize yet-to-be-developed) industry standards, such as 5G, Wi-Fi, LTE, Bluetooth, and countless others. Thus, reasonable licensing for SEPs is a necessity for not only well-known, large companies, but also small companies, their customers, and suppliers that want to have a legitimate chance to compete in the IoT market.

Moreover, it may be difficult or prohibitively expensive for some app developers to seek legal redress to obtain the FRAND rates to which they are entitled. As a result, innovators faced with unreasonable SEP demands may be forced to (1) abandon their business plans involving standards altogether, (2) accede to non-FRAND royalty demands made by SEP holders, or (3) change their products' design to avoid the standard, which is often impossible for markets requiring interoperability. Rather than making technology available for wide adoption, which is the FRAND commitment's purpose, the effect of demands for non-FRAND rates, if left unchecked, would be the exclusion of tens of thousands of American

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5 *See id.* at 6.

businesses from established and emerging markets for IoT technologies, and reduced innovation and competition.

II. Thales Is Likely To Succeed On The Merits Because Pursuing An ITC Exclusion Order Against An Entity Seeking A SEP License At FRAND Rates Is Improper Patent Hold-Up.

A. Philips's Conduct Is An Evasion Of Its FRAND Commitments.

The relevant facts in this case are undisputed: (1) Philips committed to license a worldwide portfolio of SEPs on FRAND terms and conditions,[6] (2) Thales has committed to pay a FRAND rate for that portfolio,[7] (3) the parties consented to the district court setting the FRAND rate,[8] (4) the rate that the district court establishes will cover Philips's worldwide SEP portfolio,[9] and (5) Thales is willing and able to pay whatever FRAND rate the court sets.[10] In other words, the undisputed facts

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6 *See* Appx336 (Compl. ¶ 211) ("Philips is entitled to a declaratory judgment determining the appropriate worldwide FRAND licensing terms for Philips' world-wide portfolio of patents under ETSI policies.").

7 *See* Appx466 (Answer, Ex. 1 ¶ 6) ("[C]omit[ting] for the benefit of Thales and its parent and sister corporations that Thales will execute and abide by a worldwide license to Philips' SEPs to make and sell the Thales Modules, whether sold separately or incorporated into the products of Thales' customers, on such final FRAND terms and conditions as are determined by this Court.").

8 *See* Appx337-338 (Compl. Prayer For Relief (g)) ("[I]f Thales … do[es] commit to accepting ETSI FRAND licenses as determined by this Court, then such licenses should be determined by this Court and no other foreign court for a license under Philips' world-wide portfolio of standard essential patents[.]"); *supra* n.7.

9 *See supra* nn. 6-7.

10 *See supra* n.7; Opening Br. 27-28 (explaining that "Thales has already set aside" [money] toward satisfying the court's determination," and that "Thales is a

demonstrate that Philips is required to license, and Thales has committed to license, Philips's SEPs on FRAND terms.[11] Thales will thus have a license for Philips's SEPs at the close of this case. It is also undisputed that, notwithstanding the impending FRAND license, Philips continues to pursue an exclusion order against Thales at the ITC for its allegedly infringing products. Thales, in turn, sought an injunction before the district court to prevent Philips from pursuing an ITC exclusion action that would inflict gratuitous harm and would frustrate the court's ability to conduct the agreed-upon FRAND adjudication. The only question before the district court was the legal significance of these facts. The district court legally erred in deciding that Philips had not violated its FRAND commitments, and that Thales was not likely to succeed on the merits of its claims.

The ETSI Intellectual Property Rights ("IPR") Policy describes as a core aspect of its Policy Objectives ensuring that "ESSENTIAL IPR" is not made "unavailable":

> It is ETSI's objective to create STANDARDS and TECHNICAL SPECIFICATIONS that are based on solutions which best meet the

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large and solvent company with substantial assets sufficient to satisfy any FRAND adjudication in excess of that reserve").

[11] As discussed below, a potential licensee can show that it is seeking to license SEPs on FRAND terms in ways other than committing to have a court determine those terms. *See infra* pp. 17-18 & n.12. Stating that it is willing to license on FRAND terms, or participating in negotiations over SEP licensing royalties, for example, can demonstrate that an entity is seeking to license those SEPs at FRAND rates.

> technical objectives of the European telecommunications sector, as defined by the General Assembly. In order to further this objective ***the ETSI IPR POLICY seeks to reduce the risk to ETSI, MEMBERS, and others applying ETSI STANDARDS and TECHNICAL SPECIFICATIONS, that investment in the preparation, adoption and application of STANDARDS could be wasted as a result of an ESSENTIAL IPR for a STANDARD or TECHNICAL SPECIFICATION being unavailable***. In achieving this objective, the ETSI IPR POLICY seeks a balance between the needs of standardization for public use in the field of telecommunications and the rights of the owners of IPRs.

ETSI Intellectual Property Rights Policy ¶ 3.1, Sept. 3, 2020, https://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf (emphasis added).

A key means of ensuring the availability of licenses for essential patents is requesting IPR owners to make an "irrevocable" commitment to grant licenses on FRAND terms:

> When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory ("FRAND") terms and conditions under such IPR to at least the following extent:
>
> - MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensee's own design for use in MANUFACTURE;
>
> - sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;
>
> - repair, use, or operate EQUIPMENT; and
>
> - use METHODS.

> The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate.

Id. ¶ 6.1 (emphasis added).

The European Commission, which was closely involved in ETSI's creation because it is an SSO charged with developing standards for Europe, has stated that "[t]he ETSI IPR Policy seeks to prevent patent 'hold-up.'" European Commission, *Case AT.39985 - Motorola - Enforcement of GPRS Standard Essential Patents*, ¶ 57 (Apr. 29, 2014), https://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf. In 1992, preceding the adoption of ETSI's interim IPR Policy in 1994, the Commission also directed in a *Communication on IPR and Standardization* that "[a]n important consideration in the successful management of standardization involving intellectual property rights must also be the application of the competition rules" of Europe. Commission of the European Communities, *Communication on IPR and Standardization* § 5.1.1, COM(92)445 (Oct. 27, 1992), https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:1992:0445:FIN:EN:PDF. In particular, the Commission elaborated that a "refusal to grant licenses to use an IPR" could constitute anticompetitive conduct. *Id*.

Philips's conduct is contrary to its "irrevocable" commitment to ETSI that it would be "prepared to grant irrevocable licenses" on FRAND terms. Despite itself having invoked the district court's jurisdiction to set a FRAND rate for a license, it is nonetheless refusing to license to Thales on FRAND terms by seeking to exclude the accused products from the U.S. market before the district court has a chance to decree FRAND terms in the action that Philips itself began. Philips's behavior is contrary to its contractual commitment to grant a license on FRAND terms and conditions.

Nonetheless, the district court held that Thales was unlikely to succeed in showing that Philips violated its FRAND commitments by seeking an ITC exclusion order against a licensee that had committed to taking a license. *See* Appx212. That was legal error. Under the undisputed facts of this case, Thales's products that use the relevant cellular standards will be licensed on FRAND rates after the district court determines those rates. Thales thus is not only likely, but ***certain*** to succeed in showing that seeking an ITC exclusion order is inappropriate in this context, as explained below.

Philips's pursuit of an exclusion order against a company committed to take a FRAND license raises substantial concerns of exploiting the potential anticompetitive harms of standard setting. Philips sought to license its portfolio of FRAND-committed patents to Thales and, after negotiation failed to yield agreement, Philips filed this action in the district court to determine a FRAND royalty for those patents. Since Thales has agreed to that procedure, there is a 100 percent chance that Thales will "succeed on the merits" by obtaining and paying for a FRAND license through the district court proceeding. Similarly, the license Thales obtains through the district court's FRAND rate-setting procedure is 100 percent likely to render an ITC exclusion order improper, since the ITC cannot exclude products that are licensed under the asserted patents. *See Carborundum Co. v. Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 878 (Fed. Cir. 1995) (recognizing a license is "a defense to patent infringement").

Of course, a potential licensee can demonstrate that it wants to license SEPs in ways other than committing to have a court determine a FRAND license. *E.g.*, *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014) ("Motorola argues that Apple has refused to accept its initial licensing offer and stalled negotiations. However, the record reflects that negotiations have been ongoing, and there is no evidence that Apple has been, for example, unilaterally refusing to agree to a deal."), *overruled on other grounds by Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015); Written Submission on the Public Interest of Federal Trade Commission Chairwoman Edith Ramirez at 8, *Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613 (I.T.C. July 10, 2015) (describing that a "standards implementer would be a willing licensee," where among other circumstances it "commits to be bound by terms that … the parties themselves will determine are FRAND").[12] While Thales's approach is not the only way to

[12] Thus, a potential licensee can demonstrate that it is interested in licensing an asserted SEP on FRAND terms without committing to have a district court determine those terms. For example, it is not inconsistent for such an entity to first test the

demonstrate willingness to license—and the Court should not suggest otherwise—it is at the very least one such way.

Given Thales's demonstrated willingness to license and its clear path to obtaining such a license (and Philips's clear path to obtain FRAND royalties, which is all it can reasonably demand), the only plausible explanation for Philips pursuing an ITC exclusion order is that it actually wants more than FRAND royalties. Allowing the SEP holder to pursue exclusionary relief in the ITC in such a situation serves no purpose other than allowing the SEP holder the opportunity to extract greater than FRAND royalties through the crippling threat of forbidding use of the

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merits of the claimed SEPs, including whether they are in fact essential as the patent owner claims. Accordingly, a would-be licensee finding itself as a defendant in an infringement lawsuit involving a patent declared essential to a standard can litigate the patent's validity, whether the defendant actually infringed the patent, and other available defenses. Indeed, when tested in court, most SEPs have been declared invalid or found not to have been infringed. *See* Jurata & Luken, *Glory Days: Do the Anticompetitive Risks of Standards-Essential Patent Pools Outweigh Their Procompetitive Benefits?*, 58 San Diego L. Rev. 417, 443-444 (2021). And even where SEPs have been infringed, injunctive or exclusionary relief is not always appropriate. A plaintiff still must prove that the *eBay* factors justify an injunction, *see eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-392 (2006), and Section 337's requirements must support an ITC exclusion order, s*ee* 19 U.S.C. § 1337(d)(1). Similarly, a potential licensee does not need to commit to have a district court determine FRAND rates for a U.S. SEP portfolio that includes unasserted SEPs in order for that licensee to demonstrate that it is willing and able to license any asserted SEPs. And a potential licensee likewise does not need to commit to have a district court determine FRAND terms for a SEP holder's worldwide SEP portfolio in order to be willing to license U.S. patents that qualify as SEPs.

standard. *See*, *e.g.*, *Microsoft*, 795 F.3d at 1046 ("Here, had Motorola accepted the RAND rates, it would then be fully compensated for Microsoft's infringing use … . In the absence of a fear of irreparable harm as a motive for seeking an injunction, the jury could have inferred that the real motivation was to induce Microsoft to agree to a license at a higher-than-RAND rate."); Br. of Amicus Curiae Federal Trade Comm'n at 6, *Apple Inc. v. Motorola, Inc.*, Nos. 2012-1548, -1549 (Fed. Cir. Dec. 14, 2012) ("a royalty negotiation that occurs under the threat of an injunction may be heavily weighted in favor of the patentee in a way that is in tension with the RAND commitment"); *see also eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396-397 (2006) (Kennedy, J., concurring) (noting concerns where "the threat of an injunction is employed simply for undue leverage in negotiations").

Indeed, the FTC has determined that SEP licensors engage in methods of unfair competition when they renege on their FRAND commitments by seeking injunctive relief. *See* Complaint, *In the Matter of Robert Bosch GmbH*, FTC File No. 121-0081 (F.T.C. Nov. 21, 2012), https://www.ftc.gov/sites/default/files/documents/cases/2012/11/121126boschcmpt.pdf; Commission Statement, *In the Matter of Robert Bosch GmbH*, FTC File No. 121-0081 (F.T.C. Apr. 24, 2013), https://www.ftc.gov/sites/default/files/documents/cases/2013/04/121126bosch commissionstatement.pdf.[13] The FTC has advised the ITC to undertake a similar analysis when considering whether to issue an exclusion order based on an infringement of FRAND-encumbered SEPs. *E.g.*, Third Party U.S. FTC's Statement on the Public Interest at 5, Inv. No. 337-TA-745 (I.T.C. June 6, 2012).[14]

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13 *See also* Decision & Order, *In the Matter of Motorola Mobility LLC & Google Inc.*, FTC File No. 121-0120 (F.T.C. July 24, 2013), https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf.

14 *See also* U.S. Dep't of Justice & U.S. Patent & Trademark Office, *Policy Statement on Remedies for Standards-Essential Patent Subject to Voluntary F/Rand Commitments* 4, 6 (Jan. 8, 2013) (recognizing that SEP holders may take advantage of market power "by engaging in patent hold-up" to exclude competitors from the market to "obtain a higher price for its use than would have been possible before the standard was set," while "harm[ing] competition and consumers"), http://www.justice.gov/atr/public/guidelines/290994.pdf. The DOJ's, FTC's, and PTO's position reflected a long-held, bipartisan view on the dangers of patent hold-up from SEP holders. *E.g.*, DOJ & FTC, *Antitrust Enforcement*, *supra* n.2, at 35 (describing the "potential for 'hold up' by the owner of patented technology after its technology has been chosen by the SSO as a standard and others have incurred sunk costs which effectively increase the relative cost of switching to an alternative standard"). Although during the Trump Administration Assistant Attorney General Makan Delrahim departed from this consensus view and replaced it with a statement incorrectly suggesting that standardization raised no unique competitive concerns, *see* U.S. Dep't of Justice & U.S. Patent & Trademark Office, Nat'l Inst. Standards and Tech., *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* 4-5 (Dec. 19, 2019), https://www.justice.gov/atr/page/file/1228016/download, the current Administration is reconsidering the Trump Administration's position on these issues generally and the 2019 *Policy Statement* specifically, *see Executive Order on Promoting Competition in the American Economy* (July 9, 2021), https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/.

The district court improperly concluded otherwise, relying on a flawed interpretation of the ETSI IPR Policy. Appx212. But there was no need for the district court—or for this Court—to address whether the ETSI IPR Policy "precluded a member from seeking a parallel injunction." *Id*. To the contrary, the relevant inquiry is, as set forth above, what Philips's FRAND commitments bound it to do. Having made an "irrevocable" commitment to license the patents on FRAND terms, and having invoked the district court's jurisdiction to determine those terms, Philips was not free to evade its obligation by seeking an exclusion order. And concomitantly, by committing to take a license on FRAND terms set by the court, Thales necessarily showed a likelihood of success—indeed, ***certainty*** of success—in showing that an ITC exclusion order would be improper. It does not matter that "Congress … contemplated parallel proceedings" (Appx213); Congress nowhere intended that the ITC could exclude importation of products for supposed infringement of patents when those patents are in fact ***certain*** to be licensed once the district court's FRAND rate-setting proceeding is complete.

As a result, the district court committed legal error in ruling that Thales did not satisfy the "likelihood of success" requirement for seeking a preliminary injunction against Philips's pursuit of an ITC exclusion order.[15] To permit Philips

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[15] Although much of the record regarding harm to Thales from the requested exclusion order is confidential, and the App Association takes no position on whether Thales has established irreparable harm, it is quite likely that a company's

to continue to prosecute its ITC proceeding would wrongly suggest that the courts approved of anticompetitive behavior that has no evident purpose other than to extract monopoly rents from the value of the standard.

B. An Injunction Is Appropriate Here Either To Prevent Avoidable Harm Or To Protect The District Court's Jurisdiction.

1. A Preliminary Injunction Is Appropriate To Prevent The Harm Caused By Philips's Pursuit Of An ITC Exclusion Order.

Courts indisputably have the authority to enter a preliminary injunction to prohibit improper or unlawful conduct. That authority extends to enjoining a party from violating its contractual obligations and otherwise preventing harm that would be avoided if the movant were to succeed on its claims. *See General Protecht Grp., Inc. v. Leviton Mfg. Co.*, 651 F.3d 1355, 1359 (Fed. Cir. 2011); *see also Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) ("The Court has repeatedly held that the basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies."). Thus, in *General Protecht Group*, this Court held that it was proper to enjoin a patent holder from pursuing claims at the ITC when doing so violated a license agreement's forum selection clause. *See* 651 F.3d at 1359; *see also Texas Instruments Inc. v. Tessera, Inc.*, 231 F.3d 1325, 1331-

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business and customer goodwill would suffer such harm during the pendency of an ITC exclusion proceeding that puts at risk a company's entire product line based on the use of a single allegedly essential patent for an industry standard.

1332 (Fed. Cir. 2000) (holding that a preliminary injunction may be warranted to prevent a patent holder from pursuing ITC claims against an alleged infringer when such claims would violate the license agreement's governing law clause).

Here, a preliminary injunction is appropriate to prevent the harm that Thales would suffer because of Philips's pursuit of an ITC exclusion order. As explained above, Thales is certain to succeed on its claim to have the district court establish FRAND rates for Philips's SEP portfolio. As a result, this litigation will end with Thales having a license for those patents. That license would provide a complete defense to any alleged infringement claims, rendering an exclusion order by the ITC inappropriate. The likelihood of success on that claim thus supports a preliminary injunction barring Philips from seeking and enforcing an exclusion order against the Thales products that will be licensed once the district court completes its work.

Moreover, a preliminary injunction is appropriate because Philips violated its FRAND commitments to grant a license by pursuing an ITC exclusion order against Thales. *See Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998, 1008-1009 (N.D. Cal. 2013). In *Realtek*, the court recognized that the plaintiff was likely to succeed on the merits of similar claims, and granted preliminary injunctive relief, because the "defendant's act of seeking an exclusion order or injunctive relief by the ITC is inconsistent with defendants' [F]RAND obligations" "[u]nless and until Realtek were to refuse a license under the court's-determined [F]RAND terms (which Realtek indicate[d] it w[ould] not do)." *Id.* Here too, Philips's decision to seek an exclusion order from the ITC is inconsistent with its FRAND obligations to grant a license to all interested licensees. Because Thales is likely to succeed on that claim, a preliminary injunction is appropriate to prevent Philips from continuing to violate its contractual obligation to license the patents on FRAND terms.

2. An Injunction Is Appropriate To Protect The Court's Jurisdiction And Provide The Relief Sought.

Courts also possess inherent equitable powers and the authority to "issue all writs necessary or appropriate in aid of their respective jurisdictions and agreeable to the usages and principles of law." 28 U.S.C. § 1651; *see also Porter v. Warner Holding Co*., 328 U.S. 395, 398 (1946) (holding that a court's "inherent equitable powers" enable the court to "go beyond the matters immediately underlying its equitable jurisdiction and decide whatever other issues and give whatever other relief may be necessary under the circumstances" because "[o]nly in that way can equity do complete rather than truncated justice"). Pursuant to that authority, courts have enjoined parties from pursuing legal claims in other fora that would interfere with the court's ability to effectively grant relief—including "from proceeding with a concurrent [federal court] action involving the same or related issues," *In re Van Geuns*, 946 F.2d 845, 849 (Fed. Cir. 1991), litigating the same issues in state court, *see In re Prudential Ins. Co. of Am. Sales Practices Litig.*, 314 F.3d 99, 104 (3d Cir.

2002), and litigating related claims in foreign courts (a so-called foreign anti-suit injunction), *see Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 883 (9th Cir. 2012).

The standard for obtaining a foreign anti-suit injunction is instructive here. "It is well-settled that U.S. courts have the power to enjoin parties from pursuing litigation before foreign tribunals." *Sanofi-Aventis Deutschland GmbH v. Genentech, Inc.*, 716 F.3d 586, 591 (Fed. Cir. 2013) (citing *E. & J. Gallo Winery v. Andina Licores S.A.*, 446 F.3d 984, 989 (9th Cir. 2006)). As the D.C. Circuit has explained, the authority to issue an anti-suit injunction stems from courts' "duty to protect their legitimately conferred jurisdiction to the extent necessary to provide full justice to litigants." *Laker Airways Ltd. v. Sabena, Belgian World Airlines*, 731 F.2d 909, 927 (D.C. Cir. 1984); *see also Gallo*, 446 F.3d at 889 ("Courts derive the ability to enter an anti-suit injunction from their equitable powers.").

Under that doctrine, a court will enjoin a party from pursuing foreign litigation if (1) the issues are functionally the same, "such that the result in one action is dispositive of the other," (2) "the foreign litigation would 'frustrate a policy of the forum issuing the injunction,'" and (3) "the impact on comity would be tolerable." *Genentech*, 716 F.3d at 591; *see also Stonington Partners, Inc. v. Lernout & Hauspie Speech Prods. N.V.*, 310 F.3d 118, 127 (3d Cir. 2002) (recognizing "that courts may enter an anti-suit injunction on the rare occasions when needed 'to protect jurisdiction or an important public policy'").[16] An injunction is appropriate, for example, "when the action of a litigant in another forum threatens to paralyze the jurisdiction of the court," *Laker Airways*, 731 F.2d at 927, and when restraining a party is necessary to prevent it "from proceeding in a foreign court in circumstances that are unjust," *Gallo*, 446 F.3d at 889.

Of particular relevance here, courts have recognized that foreign anti-suit injunctions are appropriate to prevent SEP holders from obtaining injunctions against entities interested in obtaining SEP licenses. *See Microsoft*, 696 F.3d at 883. In *Microsoft*, the Ninth Circuit recognized that "injunctive relief against infringement is arguably a remedy inconsistent with the [FRAND] licensing commitment." *Id.* at 885. Accordingly, the Ninth Circuit upheld the district court's injunction, recognizing "that Microsoft's contract-based claims, including its claim that the [F]RAND commitment precludes injunctive relief, would, if decided in favor of Microsoft, determine the propriety of the enforcement by Motorola of the injunctive relief obtained in Germany." *Id.* at 885. The court further held that the foreign anti-suit injunction was appropriate because the district court determined that the German proceedings were "a procedural maneuver designed to harass Microsoft

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16 Although the Third Circuit has adopted a "restrictive approach" to foreign anti-suit injunctions "[b]ased on a 'serious concern for [international] comity,'" *Stonington*, 310 F.3d at 126, those comity concerns are not present where, as here, both proceedings are domestic.

with the threat of an injunction removing its products from a significant European market and so to interfere with the court's ability to decide the contractual questions already properly before it." *Id.* at 886; *see also* Order 10-11, *TCL Commc'n Tech. Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson*, No. 8:14-cv-00341-JVS-DFM (C.D. Cal. June 29, 2015) (granting foreign anti-suit injunction because the district court action would "result in a 'global resolution' of the SEP patent licensing and damages claims," meaning that "the FRAND litigation will be dispositive of the Foreign Actions").

Applying those principles, an injunction is appropriate here to protect the district court's jurisdiction and because this action will dispose of the ITC proceeding by resulting in Thales paying FRAND rates for a patent license. As in *Microsoft*, the ITC proceeding threatens to interfere with the district court's ability to provide effective relief by preventing Thales's products from entering the United States. If that were to occur, the court would be unable to provide the relief sought—a determination of the FRAND rates that govern Thales's products (including in the United States), and enforcement of Philips's FRAND obligation not to seek to exclude Thales's products. Moreover, success on either claim would dispose of the ITC proceeding. Philips will either be deemed to have violated its FRAND obligations by pursuing an exclusion order—and prevented from continuing to violate those obligations—or the court will have set FRAND rates for Thales's license. In either scenario, an exclusion order would be inappropriate.

CONCLUSION

The district court's order denying a preliminary injunction should be vacated and remanded.

Respectfully submitted,

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