

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,

(For Continuation of Caption See Inside Cover)

*On Appeal from the United States District Court for the
District of Delaware in No. 1:20-cv-01713-CFC*

**NON-CONFIDENTIAL REPLY BRIEF FOR
DEFENDANT-COUNTER CLAIMANT-APPELLANT**

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— 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.

FORM 9. Certificate of Interest

Form 9 (p. 1)
July 2020

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

CERTIFICATE OF INTEREST

Case Number 2021-2106

Short Case Caption Koninklijke Philips N.V. v. Thales DIS AIS USA LLC

Filing Party/Entity Thales DIS AIS Deutschland GmbH

Instructions: Complete each section of the form. In answering items 2 and 3, be specific as to which represented entities the answers apply; lack of specificity may result in non-compliance. **Please enter only one item per box; attach additional pages as needed and check the relevant box.** Counsel must immediately file an amended Certificate of Interest if information changes. Fed. Cir. R. 47.4(b).

I certify the following information and any attached sheets are accurate and complete to the best of my knowledge.

Date: 12/23/2021

Signature: /s/ R. Paul Zeineddin

Name: R. Paul Zeineddin

FORM 9. Certificate of Interest

Form 9 (p. 2)
July 2020

1. Represented Entities. Fed. Cir. R. 47.4(a)(1).	2. Real Party in Interest. Fed. Cir. R. 47.4(a)(2).	3. Parent Corporations and Stockholders. Fed. Cir. R. 47.4(a)(3).
Provide the full names of all entities represented by undersigned counsel in this case.	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. <input checked="checked" type="checkbox"/> None/Not Applicable	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. <input type="checkbox"/> None/Not Applicable
Thales DIS AIS Deutschland GmbH		Gemalto B.V.
		Thales S.A.

☐ Additional pages attached

FORM 9. Certificate of Interest

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July 2020

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).

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☐ None/Not Applicable

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USITC Inv. No. 337-TA-1240		

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/Not Applicable

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CONFIDENTIAL MATERIAL OMITTED

The material redacted from this brief is designated confidential pursuant to District of Delaware Local Rule 26.2. The confidential information on pages 17 and 18 includes information about Thales’ and Philips’ licensing negotiations, and the information on page 21 discloses information concerning the harm to Thales by Philips’ continued pursuit of an ITC exclusion order.

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INTRODUCTION

The central question here is whether Philips can pursue an ITC exclusion order on FRAND-encumbered patents (“SEPs”) against Thales—a willing licensee that pledged to take a global license to Philips’ entire SEP portfolio on terms determined by Philips’ court of choice. The District Court held that Philips may seek to exclude Thales from the market based on its erroneous conclusion that Philips’ contractual FRAND commitment does not in any way limit an SEP holder’s right to seek to enjoin or otherwise exclude from the market willing licensees.

The District Court’s legal error is contrary to the opinions of this Court and other courts and agencies around the world. It is also contrary to the testimony that Philips’ own French law expert, Dr. Borghetti, subsequently provided to the ITC. Under oath, Dr. Borghetti testified that the ETSI FRAND commitment does in fact “limit the ability of the SEP owner . . . to seek or enforce an injunction. . . .” Appx2201 (629:5–14). Philips ensured the District Court never heard this opinion from Dr. Borghetti, but it should not be permitted to perpetuate the same omission before this Court.

The FRAND commitment places limitations on injunctions to ensure SEP owners cannot abuse their position and collect supra-FRAND royalties, far in excess of their just compensation, to the detriment of all users and implementers of

the underlying standard technologies. If the District Court's error is left undisturbed, its decision will empower SEP owners to use the threat of ITC market exclusion to extract supra-FRAND royalties even when they are guaranteed to receive the full compensation they are due. This Court should make clear that the FRAND commitments SEP holders undertake in exchange for having their patented technology included in technological standards bar such predatory conduct.

Because Philips continues to seek the ITC exclusion order, and because Philips has not avowed not to appeal a ruling against it at the ITC, the weight and shadow of a potential exclusion order remains large on Thales and its business.

ARGUMENT

I. THE DISTRICT COURT ABUSED ITS DISCRETION IN FINDING THAT THALES FAILED TO DEMONSTRATE A LIKELIHOOD OF SUCCESS ON THE MERITS

Thales has demonstrated a likelihood of success on two distinct claims: (1) a claim for setting the FRAND terms for Philips' world-wide SEP portfolio, through which Thales and Philips will enter into a global license; and (2) a claim that Philips breached its contractual FRAND commitment by seeking an ITC exclusion order against Thales. The District Court first failed to consider the merits of Thales' declaratory judgment claim. *See* Appellant Br. at 22-24. It then further erred in connection with Thales' breach of contract claim when it held that Philips' FRAND commitment places no limitations whatsoever on Philips' ability to seek to enjoin or exclude any implementer, even if they are a willing licensee.

A. Thales Has Demonstrated a Reasonable Likelihood of Success on Its Declaratory Judgment Claim Seeking a FRAND Determination

Had the District Court even considered Thales' declaratory judgment claim, it would have readily concluded that Thales is likely to succeed on the merits for the simple reason that Philips has pleaded the exact same declaratory judgment claim. Appx334-336 (¶ 205-213), Appx337-338 (g); Appx466 (¶ 6).

On appeal, Philips suggests that the District Court was correct to not consider the declaratory judgment claim because Thales' counsel somehow conceded that it is based on the same "legal right" as the breach of contract claim

or, alternatively, that it is a claim for an anti-suit injunction. *See* Appellee's Br. at 47–48. Yet when addressing Thales' declaratory judgment claim, Thales' counsel explained that the District Court's declaration of FRAND terms, in combination with Thales' pledge to take a license on those FRAND terms, *disposes* of Philips' ITC complaint against Thales because a license is an absolute defense to an ITC infringement claim. Appx30–31 (30:22–31:18). By contrast, the basis of the breach of contract claim is that Philips contractually gave up its ability to pursue exclusionary relief against willing licensees when it declared its patents essential to the ETSI standards. Furthermore, it was Telit—not Thales—that invoked the anti-suit injunction precedent typically applicable to foreign proceedings. As Thales explained, such “anti-suit injunction considerations, including comity, are irrelevant here because the ITC is not a foreign forum.” D.I. 62 at 4.¹ Thus, Thales' counsel merely agreed with the District Court's description of Telit's anti-suit injunction theory but did not condone any conflation of that theory with Thales' declaratory judgment claim, which is grounded in Federal Circuit precedent. *Id.*; Appx20 (20:23–21:13).

Philips is also wrong when it suggests that Thales would not succeed on its declaratory judgment claim if the District Court were to find that a FRAND rate

¹ All references to the docket index (“D.I.”) are to the District of Delaware proceeding (C.A. No. 20-1713 (CFC)), unless otherwise noted.

approximates one of Philips' offers. Appellee's Br. at 47. Thales succeeds on its claim no matter the specific rate set by the District Court. The District Court's determination will be objective because it will be based on all the relevant evidence, including the necessary evidence concerning the terms in Philips' existing license agreements that Philips refused to share with Thales, and including the evidence Thales will present relating to the strength of Philips' SEP portfolio. Thales will thus know that the terms the District Court sets are truly FRAND and therefore relevant across the industry and applicable to Thales' competitors. This is exactly the relief for which Thales prayed, and nothing more is required for Thales to succeed on the merits.

Finally, Philips speculates that the District Court might not adjudicate the joint requests for a declaration of FRAND terms. Appellee Br. at 47. Philips cannot, however, point to any action or statement by the court suggesting that it is likely to exercise its discretion and refuse to set the FRAND terms. And the *InterDigital* and *Apple, Inc. v. Motorola Mobility, Inc.* opinions that Philips relies on are easily distinguishable. Appellee Br. at 43. In both cases, the courts declined to declare FRAND terms because the parties did not commit to enter into licenses on those terms. *See InterDigital Commc'ns, Inc. v. ZTE Corp.*, 2014 WL 2206218, at *3 (D. Del. May 28, 2014) (declining to set a FRAND rate when "there has been no sworn affidavit by either company that they would sign a

license”); *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-CV-178-BBC, 2012 WL 5416931, at *1 (W.D. Wis. Nov. 2, 2012) (declining to set a FRAND rate because Apple would not accept any license “unless the court set[] a rate of \$1 or less for each Apple phone.”). Here, Thales followed the map Philips outlined in its own complaint to guarantee that the rate-setting action is not similarly dismissed. Appx334–336 (¶¶ 205–213). Thales also provided the sworn affidavit that Philips deemed necessary for the District Court to make a determination. Appx335 (¶ 209); Appx465 (¶ 6). Because Thales has unequivocally pledged to license Philips’ patents on the FRAND terms set by the District Court, the District Court will not reject the declaratory judgment claims as merely requesting an advisory opinion.

Thales has demonstrated that it is likely to succeed on this claim and has thus met the first preliminary injunction prong.

B. Thales Has Demonstrated a Reasonable Likelihood of Success on its Breach of Contract Counterclaim

1. The FRAND Commitment Limits the Right to Seek to Exclude or Enjoin Willing Licensees

Thales has demonstrated that seeking to exclude Thales from the market is inconsistent with Philips’ obligation under the ETSI IPR Policy to grant a license.²

² Under the plain language of the ETSI IPR Policy, Philips must license its SEPs to anyone willing to take such a license on FRAND terms and conditions. Appx448 (¶ 33) (citing ETSI IPR Policy, § 6.1); Appx1818 (¶ 40). Indeed, this Court

Appellant Br. at 32. Ruling from the bench, the District Court nevertheless concluded “there has [not] been any evidence,” and it was “not persuaded that Philips would ever have agreed or that ETSI would ever have adopted a contract that would have precluded a member from seeking a parallel injunction.” Appx212 (212:12–16).

The District Court’s error is conclusively demonstrated by the subsequent testimony that Philips’ own French law expert, Dr. Borghetti, gave before the ITC. There, he testified that the ETSI FRAND commitment does in fact “limit the ability of the SEP owner who has issued such a declaration, who has taken that commitment . . . to seek or enforce an injunction if the potential licensee is negotiating in good faith and not unreasonably delaying.” Appx2201 (629:5–14). Because there is no dispute that the ETSI FRAND commitment is governed by French law (Appellant’s Br. at 28; Appellee’s Br. at 21), this testimony would have been most relevant for the District Court. Yet Philips never informed the District Court of this part of Dr. Borghetti’s opinion. *See* Appx1503–1542. Furthermore,

affirmed that “the FRAND obligation under § 6.1 “imposes an obligation to license . . . on ETSI members.” *TCL Commc’ns Tech. Holdings Ltd. v. Telefonaktiebolaget LM Ericsson*, 943 F.3d 1360, 1364 (Fed. Cir. 2019), *cert denied*, 141 S. Ct. 239 (2020). Even Philips recognized that “ETSI members are required to sign an Undertaking under which they are obliged to grant licenses under all essential IPRs for all standards” Appx1466; *see also* Appx1514–1515 (¶ 36). It is self-evident that the obligation to grant a license is directly inconsistent with seeking to enjoin or exclude.

and contrary to Philips’ assertions before this Court (Appellee’s Br. at 22–24), Dr. Borghetti also testified before the ITC that the ETSI FRAND commitment’s limitation on injunctions “appears to be in accordance with the objective of the policy and *with the intention of ETSI members* when adopting the policy that the ability for an SEP owner to get an injunction should be limited in *certain circumstances*.” Appx2202 (630:1–12) (emphasis added). Thus, Philips is aware that its contention that the ETSI commitment does not “place limits on the ability of ETSI members to seek injunctions” (Appellee’s Br. at 24) is contradicted by the very expert it retained to testify about the meaning of the ETSI FRAND commitment under the governing French law. And, here too, Philips’ omissions left the District Court in the dark.

Disregarding the opinions and sworn testimony of its own expert, Philips points to a limitation on injunctions that was present in the Undertaking of the never-effectuated 1993 ETSI IPR Policy and removed in the 1994 policy along with virtually every other clause of the 1993 Undertaking. Contrary to Philips’ contention, this development did not signal “a clear choice not to restrict an SEP owner’s right to seek injunctions.” *See* Appellee’s Br. at 23. The Draft Minutes of the 15th General Assembly of ETSI demonstrate that the ETSI members overhauled the 1993 Policy without any debate about the injunction provision. Appx1424–1447. Indeed, the policy revisions had nothing to do with the injunctions clause

but concerned four other issues: “IPR identification/180-days-period, arbitration, monetary compensation only, standards application area.” Appx1307–1308 (¶ 69 and n. 50). Ironically, even Philips, an ETSI member, did not include removing the injunction provision in its proposed changes to the 1993 policy. Appx1465–1477. In short, ETSI’s wholesale rejection of the Undertaking in the 1993 IPR Policy had nothing to do with injunctions and cannot be interpreted as an intention to permit members who make a FRAND commitment to use the threat of market exclusion against willing licensees.³ On the contrary, and as noted above, Philips’ own French law expert testified that the limitation on injunctions is in accord “with the objective of the [ETSI IPR] policy and *with the intention of ETSI’s members* when adopting the policy. . . .” Appx2202 (630:1–12) (emphasis added).

When it comes to U.S. law, Philips’ *per se* argument that exclusionary remedies are *always* permitted by the ETSI policy is also inconsistent with Federal Circuit precedent. This Court explained that in the SEP context, injunctions are limited to circumstances where “an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations *to the same effect*.” *Apple Inc. v. Motorola*,

³ *Amicus* Individual Professionals with ETSI Experience purports to support Philips’ contentions regarding the 1993 policy. Individual Pros. With ETSI Experience Amicus at 18–19. However, they do not speak on behalf of ETSI in any capacity. They are not French law experts; and they do not advance any argument contradicting Philips’ own French law expert that the ETSI commitment limits seeking injunctions in certain circumstances, *i.e.*, against willing licensees.

Inc., 757 F.3d 1286, 1332 (Fed. Cir. 2014), *overruled on other grounds by Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015) (emphasis added). In other words, when stating that there is no *per se* prohibition on injunctions, this Court did not intend that injunctions on SEPs are always available. *Id.* at 1333 (Rader, J., dissenting) (“Those principles supply no *per se* rule either favoring *or proscribing* injunctions for patents in any setting, let alone the heightened complexity of standardized technology”) (emphasis added).

Philips’ attempt to undermine Thales’ supporting precedent fails. *See* Appellee’s Br. at 29–34. In *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024 (9th Cir. 2015), for example, the court’s hypothetical example of when injunctive relief might be appropriate involves an *unwilling* licensee. *Id.* at 1048 n.19. Similarly, although *Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998 (N.D. Cal. 2013) differs procedurally from this case (*see* Appellee’s Br. at 30–31), these differences do not undermine the court’s conclusion that “seeking an exclusion order or injunctive relief by the ITC is inconsistent with . . . [the SEP owner’s] RAND obligations at this time.” *Id.* at 1008.

The District Court thus erred in concluding that Philips’ FRAND obligations do not limit its ability to seek injunctive or exclusionary relief, especially in connection with a willing licensee. Appx212 (212:12–16). As evidenced by the testimony of Philips’ own French law expert before the ITC, which Philips failed

to share with the District Court, the ETSI FRAND licensing declaration that Philips submitted limits Philips' right to enjoin or exclude a licensee who "is negotiating in good faith and not unreasonably delaying." Appx2201 (629:5–14). In other words, Philips cannot seek to enjoin or exclude willing licensees.

As discussed below, Thales is objectively a willing licensee because it has pledged to abide by the District Court's FRAND determination and fully compensate Philips precisely as Philips has requested in that very action. This Court should correct the District Court's error and affirm that the ETSI policy and the duty of good faith and fair dealing do not permit an SEP owner to seek such relief against a party *that has pledged to take a license at an adjudicated FRAND rate in the manner and jurisdiction selected by the SEP owner*. Appellant's Br. at 24–25.

2. Thales Is a Willing Licensee

i. An Implementer that Pledges to Abide by a Court-Determined FRAND Rate Is Necessarily a Willing Licensee

The District Court did not reach a conclusion as to whether Thales is a "willing licensee" because it found, incorrectly, that SEP holders can seek to exclude or enjoin even willing licensees. It should be beyond dispute, however, that Thales, a company that has "irrevocably agreed" to license Philips' worldwide

SEP portfolio on the FRAND terms determined by Philips’ chosen adjudicator and forum, is objectively a willing licensee. *See* Appx1738–1739 (¶ 38).

This Court has confirmed that an implementer is unwilling only if it “unilaterally refuses a FRAND royalty or unreasonably delays negotiations *to the same effect.*” *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014) (emphasis added). Thus, and as the Department of Justice recently affirmed, “a potential licensee should not be deemed unwilling to take a F/RAND license if it agrees to be bound by an adjudicated rate determined by a neutral decision maker.” U.S. Dep’t of J., U.S. Patent & Trademark Office, & Nat’l Inst. of Standards and Tech., Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, at 9 (December 6, 2021), <https://www.justice.gov/atr/page/file/1453471/download> (hereinafter, “DOJ, USPTO, *et al.*, Draft Policy Statement on Licensing Negotiations”); *see also* Appx750 (*Unwired Planet Int’l Ltd. v. Huawei Techs. Co.*, [2017] EWHC (Pat) 711, HP-2014-5, ¶ 708 (May 4, 2017)) (a willing licensee “must be one willing to take a FRAND license on whatever terms are in fact FRAND,” and “[t]hose terms might be settled . . . by a court . . .”).

This is common sense. A patent holder that, like Philips, has self-declared its patents to be essential to an ETSI standard, limits itself to FRAND royalties for the use of its patents. *See* Appellee’s Br. at 45. And when an implementer, like

Thales, has pledged to license the patents on adjudicated FRAND term, it has guaranteed that the patent holder will receive complete compensation. In other words, the implementer will take a license on the precise terms the patent holder has requested. Nothing more can be required to be a willing licensee.

ii. Thales' Pledge Is Not Conditional

The plain words of the sworn declaration Thales filed in the Delaware District Court refutes Philips' contention that it is somehow conditional:

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 the Court.

Appx466 (¶ 6). The words "will execute and abide by" are categorical and unconditional.

Philips contends that Thales' reservation of rights means that it has only agreed to license patents that have first been held valid and infringed. Appellee's Br. at 42–44. This too is refuted by the plain language:

Nothing herein should be interpreted as a waiver by Thales regarding any defenses, claims, arguments, or rights that are available to Thales in this jurisdiction and in the relevant appellate courts. Thales further reserves and does not waive its right to challenge the infringement, validity, and enforceability of any of Philips' SEPs at any time and in any jurisdiction.

Appx466 (¶ 6). The reservation simply does not say that Thales will only license patents that have first been held valid and infringed. Indeed, Thales confirmed to

the District Court that it would enter into a license “based on whatever decision [the Court] make[s],” (Appx27 (27:7–21); Appx103 (103:10–16)), including terms and conditions and scope, (Appx92–93 (92:20–93:3)), and “forego a definitive ruling” about validity, essentiality or infringement (Appx93–94 (93:21–94:17); Appx95–96 (95:22–96:22)).

Instead, Thales’ reservation preserves its ability to present evidence to the District Court regarding the strength of Philips’ SEP portfolio during the adjudication of the FRAND terms. *See Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998, 1007 (N.D. Cal. 2013). As the DOJ recently articulated, “a potential licensee should not be deemed unwilling to take a F/RAND license if it . . . reserves the right to challenge the validity, enforceability, or essentiality of the standards-essential patent in the context of an arbitration or F/RAND determination.” DOJ, USPTO, *et al.*, Draft Policy Statement on Licensing Negotiations, at 9; *see also* Appellant’s Br. at 43; Appx1838–1842 (¶¶ 75–80); Appx1739–1743 (¶¶ 39–45).

There is no basis for Philips’ unfounded speculation that Thales might “remove its consent if Thales does not like the terms to be decided, like the scope of the portfolio, the period of past infringement, the period of future licenses, the bifurcation of infringement, validity, etc.” Appellee Br. at 42–43. First, there is no dispute about the scope of the portfolio to be licensed. Thales has pledged to take

a “world-wide” license to Philips’ entire SEP portfolio. *See supra* I.B.2.ii. With respect to past infringement, Thales represented in District Court that it will pay for its past use of Philips’ entire portfolio in addition to taking a forward-looking license. Appx31–32 (31:19–32:3), Appx92–93 (92:23–93:3). And Philips’ new-found contention that representations by counsel are insufficient is incorrect.

Appellee’s Br. at 44. It is well-accepted that “an attorney has wide authority in the conduct of litigation. He is chosen to speak for the client in court. When he speaks in court, whether it be on a formal trial or in an informal pretrial, he speaks for and as the client.” *Laird v. Air Carrier Engine Serv. Inc.*, 263 F.2d 948, 953 (5th Cir. 1959); *see also Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054 (Fed. Cir. 1995) (*overruled on other grounds by MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127, (2007)) (explaining an attorney can make commitments that bind her client without an explicit endorsement by the client). Finally, there are no issues regarding “bifurcation” of infringement or validity in a patent license.⁴ In sum, Thales has formally pledged to the District Court that it will license Philips’ SEP portfolio on the FRAND terms set by the court, and Philips’ speculation that Thales might somehow renege on that pledge is baseless.

⁴ Philips also faults Thales for not agreeing to take a license that “cover[s] 2G products covered by the SEPs,” (Appellee’s Br. at 44) but Philips did not assert any 2G patents in the Delaware action or ITC investigation. Moreover, 2G is an older standard that has largely been phased out, and Philips’ 2G SEP portfolio is a minor part of an overall license.

iii. The Parties' Prior Negotiations Are Irrelevant But Only Further Demonstrate Thales' Willingness

Philips asserts that Thales' unequivocal declaration to the District Court to take a license on adjudicated FRAND terms does not sufficiently show willingness and that any preceding negotiations must also be considered. Appellee's Br. at 38–42. As Philips would have it, therefore, a potential licensee that was once “unwilling” can never become willing. Philips offers no legal or other support for this proposition, and it is contrary to the goals of ETSI's IPR Policy as well the SEP/FRAND system generally. There is no dispute that ETSI's objectives include the broad adoption of its technical standards and fair compensation to the owners of SEPs. These objectives are met when an implementer promises to license SEPs on adjudicated FRAND terms, regardless of the prior negotiation conduct of the parties. Conversely, no FRAND objective is served by permitting SEP holders to “punish” willing licensees for perceived prior bad faith negotiation conduct.

Philips similarly offers no support for the notion that Thales is required to prove that Philips' offers were not FRAND before seeking a judicial determination of the FRAND terms and conditions and avoiding market exclusion. *See* Appellee's Br. at 40. On the contrary, Philips' own ETSI expert admits that it is ETSI's intent that parties seek judicial assistance from national courts when they cannot agree on FRAND terms. Appx1363–1364 (¶ 170). [REDACTED]

[Negotiation History]

[Negotiation History]

[REDACTED]. *See* D.I. 62 at 8. Philips cannot reasonably demand that Thales must demonstrate the FRAND rate at the same time as it refuses to disclose the information required to do so. If Philips' contention were accepted, implementers would be required to accept the word of the SEP owner that whatever rate it offers is FRAND or else face an exclusion proceeding. That is tantamount to patent hold-up and cannot be accepted.

Finally, even if the parties' negotiation history had been relevant, the record evidence demonstrates that Thales acted in good faith and was always a willing licensee while Philips obfuscated and refused to share necessary information. *See* D.I. 62 at 7–8.

3. Philips Breached Its Duty to Perform Its FRAND Obligation in Good Faith

As already discussed, the District Court erred in holding that Philips' contractual ETSI obligations do not bar it from seeking to exclude or enjoin willing licensees. *See supra* I.B.1. Furthermore, Thales is unquestionably a willing licensee. *See supra* I.B.2. On these facts, Philips breached its contractual FRAND obligations by continuing to pursue an exclusion order against Thales.

The parties agree that Philips must *perform* its obligations under the ETSI FRAND contract in good faith. Appellant's Br. at 28; Appellee's Br. at 21. Philips' continued pursuit of an exclusion order against Thales, a willing licensee,

is (1) contrary to Thales’ reasonable expectation that it will be granted a FRAND license, and (2) frustrates ETSI’s objective to achieve broad adoption of the standard through the FRAND commitment. Appx1733–1734 (¶ 29); *see also* Appx1284 (¶ 24); Appx1286–1287 (¶ 29); Appx1607 (¶ 48); Appx1738–1739 (¶ 38); Appx1832 (¶ 63). In pursuing the exclusion order and disregarding the District of Delaware FRAND determination, Philips’ only aim is to collect more than FRAND compensation. Philips’ pursuit of an ITC exclusion order against Thales, a willing licensee, is therefore a breach of its obligation of good faith and fair dealing under the ETSI agreement to grant an SEP license to anyone willing to take a license. *See* Appellant’s Br. at 28–31.

i. Philips Is Using the ITC Investigation to Secure Supra-FRAND Royalties

Philips’ bad faith motive to seek supra-FRAND royalties further supports Thales’ breach of contract claim. Philips does not dispute that it is guaranteed to receive 100% of the compensation that it is due for its FRAND encumbered patents when Thales takes a license on the FRAND terms and conditions set by the District Court. *See* Appellee’s Br. at 55; *see also* Appx334–336 (¶¶ 205–213); Appx337–338 (g); Appx456–457 (¶¶ 60–62); Appx466 (¶¶ 5, 6). The only conceivable purpose for Philips’ action is therefore to use the threat of exclusion to force Thales to settle on supra-FRAND terms before the District Court can determine the FRAND terms. Appellant’s Br. at 37–38. This is antithetical to the

ETSI IPR Policy and FRAND obligations and contrary to Justice Kennedy’s warning against using injunctions “as a bargaining tool to charge exorbitant fees” or “simply for undue leverage in negotiations.” *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring).

II. THE DISTRICT COURT ABUSED ITS DISCRETION IN DISMISSING THALES’ UNDISPUTED EVIDENCE OF IRREPARABLE HARM

Thales submitted un rebutted sworn declarations establishing irreparable harm from Philips’ continued pursuit of an exclusion order against Thales. The District Court abused its discretion in rejecting this evidence as conclusory.

As an initial matter, and as Philips does not contest, it is well-established that sworn statements can support a showing of irreparable harm. *See, e.g., San Francisco-Oakland Newspaper Guild v. Kennedy for & on Behalf of N.L.R.B.*, 412 F.2d 541, 546 (9th Cir. 1969) (“the injunction may, in the discretion of the trial court, be granted or denied upon the affidavits”); *Scott v. Davis*, 404 F.2d 1373, 1375 (5th Cir. 1968) (“There can be no doubt that where the facts are clear that a court, in the exercise of its discretion, may grant or deny an injunction on the basis of ex parte affidavits”); *Adams v. Freedom Forge Corp.*, 204 F.3d 475, 488–89 (3d Cir. 2000); *cf. Gen. Elec. Co. v. Am. Wholesale Co.*, 235 F.2d 606, 609 (7th Cir. 1956) (injunctions should not be granted on the basis of affidavits when there are *conflicting* affidavits). Indeed, a Federal Circuit case cited by Philips itself states

that, “a preliminary injunction can issue on the basis of affidavits alone.” *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1577 n.6 (Fed. Cir. 1990) (citing *International Molders' & Allied Workers' Local Union No. 164 v. Nelson*, 799 F.2d 547 (9th Cir. 1986)).

Contrary to Philips’ allegation, Thales’ declarations explain precisely how “the mere existence of the ITC investigation” is harming Thales. Appellees’ Br. at 51. Mr. Moorhead’s declaration plainly explains that Philips’ pursuit of an ITC exclusion order has caused at least [Number] customers to question Thales’ ability to supply modules. Appx863–864 (¶¶ 10–11). With respect to Thales’ largest customer, it states that the ITC action “ [REDACTED]

[Comment From A Thales Customer Regarding Its Relationship With Thales]

[REDACTED].” Appx864 (¶¶ 11–12). This concern is directly evidenced by the declaration submitted by Xirgo, another of Thales’ customers. Appx857–860. Mr. Moorhead’s declaration provides how this reputational loss is likely to lead to lost market share, likening it to the apprehension that a lien on a house would cause for prospective home buyers. Appx865 (¶ 15). Losing a new customer is especially harmful in Thales’ industry because the design cycle for a typical Thales customer takes around 18 months and the products can remain on the market for upwards of four years. Appx864–865 (¶ 13). Thus, the loss of new customers has lasting consequences

for Thales, and it is well-established that harms to reputation, goodwill, and market share are not redressable through monetary damages. *See* Appellant’s Br. at 38.

Philips’ contention that these harms are merely speculative is without basis. Appellee’s Br. at 52. The damage to Thales’ customer relationships, its reputation as a reliable supplier, and its ability to win new business, is evidenced by sworn declarations. Nor is there any merit to Philips’ argument that if the “mere possibility” of an exclusion order were sufficient to show irreparable harm, a respondent in an ITC investigation could always show irreparable harm. *Id.* The ITC proceeding causes irreparable harm to Thales because Thales’ customers must depend on Thales to supply modules that they in turn incorporate into devices such as CPAP machines and sell to end consumers. And as Mr. Moorhead’s declaration explains, customer products utilizing Thales’ modules have a substantial development and life cycle and cannot simply be switched out for other modules. Appx864–865 (¶13). In industries with shorter development cycles, for example, a potential supply disruption may have less severe consequences.

The suggestions from Philips and *amicus* Qualcomm that Thales could avoid irreparable harm by either participating fully in the ITC proceeding or agreeing to a license on the supra-FRAND terms offered by Philips fall short. Appellee’s Br. at 54–55; Qualcomm Amicus at 19–20. As discussed in Thales’ opening brief and above, Thales’ participation in the ITC proceeding does not extinguish the harm to

Thales' reputation and its reduced ability to win customers. Appellant's Br. at 39–41. The argument that Thales could just accept Philips' license terms—even if they are not FRAND—amounts to patent hold-up, *i.e.*, Thales can either accept a non-FRAND licensing agreement or face the irreparable harm the ITC action brings. Appellant's Br. at 7–8, 43–45. Finally, *amicus* Qualcomm fails to offer any legal support for its fanciful suggestion that Thales could enter into a license with supra-FRAND rates and immediately sue Philips for breach of contract. Qualcomm Amicus at 22–23. A reviewing court is likely to view such a claim with skepticism.

III. THE DISTRICT COURT FAILED TO WEIGH THE PUBLIC INTEREST AND BALANCE OF EQUITIES

The District Court did not reach the remaining preliminary injunction factors: balance of equities and public interest. Appx215–216 (215:10–216:3). If it had, it would have held that these factors weigh decisively in Thales' favor and further demonstrate that a preliminary injunction is required in this case. *See* Appellant's Br. at 41–45.

A. The Balance of Hardships Favors the Injunction

Through sworn and factually uncontested declarations, Thales has demonstrated the continuing harm it is suffering as a consequence of Philips' actions. Appellant's Br. at 42–43. The only hardship Philips claims is “hav[ing] to endure a lengthy district court litigation before receiving royalties for Thales’

continued infringement.” Appellee’s Br. at 55. But as Philips knows, both parties have asked the Delaware court to adjudicate the FRAND royalties because the parties have been unable to reach agreement. Thus, the only way Philips will receive royalties before district court litigation is if its patent hold-up strategy succeeds and Thales is forced to settle on whatever terms Philips demands. Philips cannot point to any legitimate harm, and the balance of hardships favors Thales.

B. Public Interest Favors the Injunction

This Court should reject Philips’ fantastical argument that granting Thales’ request for a preliminary injunction “would establish dangerous precedent closing the ITC to SEP holders.” Appellee’s Br. at 56. Granting Thales’ motion will make clear that SEP holders cannot seek exclusionary relief against willing licensees *that have pledged to take a license on court adjudicated FRAND terms*. This is consistent with the overarching purpose of the FRAND commitment, which is to prevent patent hold-up, ensure the quick and wide adoption of standards, and protect consumers. Appellant’s Br. at 43–44. As is obvious, granting Thales’ motion will not remove the ability of SEP owners to seek to exclude or enjoin *unwilling* licensees.

Amicus Qualcomm asserts that patent hold-up is merely a theoretical danger. *See* Qualcomm *Amicus* at 12. But as Philips’ conduct here proves, the danger is very real. Patent hold-up is a particular problem in the SEP context because the

bargaining position of a patent-holder increases considerably after a patent is included in the standard. Carl Shapiro & Mark A. Lemley, *The Role of Antitrust in Preventing Patent Holdup*, 168 U. Pa. L. Rev. 2019, 2045 (2020). Once manufacturers of standardized products are locked-in, SEP owners can use their market power to obtain exorbitant licensing fees knowing it is too late for the manufacturers to change course. Appx446–447 (¶ 29); Appx447 (¶ 31); *see also* *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014). The FTC has filed a number of enforcement actions challenging this very behavior.⁵ Consistent with patent hold-up, courts have also frequently found that SEP holders’ royalty demands substantially exceed FRAND rates. *See* Jorge L. Contreras, *Much Ado About Hold-Up*, 2019 U. Ill. L. Rev. 875, 890 (2019) (listing examples of cases where “SEP holder royalty demands exceeded judicially determined FRAND rates by orders of magnitude”). For example, in *Microsoft Corp. v. Motorola, Inc.*, 963 F. Supp. 2d 1176 (W.D. Wash. 2013), patent-owner Motorola offered a royalty rate that was ultimately over 2,000 times the judicially-determined FRAND rate. Contreras, *Much Ado About Hold-Up*, *supra*, at 889.

⁵ *See, e.g., In re Negotiated Data Solutions LLC*, No. 051-0094 (Fed. Trade Comm’n 2008); *In re Robert Bosch GmbH*, No. 121-0081 (Fed. Trade Comm’n 2012); *In re Motorola Mobility*, No. 121-0120 (2013); *FTC v. Qualcomm, Inc.*, No. 517-00220 (N.D. Cal. filed Jan. 17, 2017).

This Court should step in to assure that Philips does not succeed in its efforts to engage in the same opportunistic conduct.

IV. THALES' MOTION DOES NOT SEEK TO ENJOIN THE ITC

As discussed in Thales' opening brief, the District Court limited its own authority to grant Thales' motion by incorrectly framing it as effectively enjoining an ITC proceeding. Appellant's Br. at 46. Philips' attempt to support the District Court's recasting of Thales' motion is unavailing. Appellee's Br. at 59–60.

First, the plain language of Thales' motion demonstrates that the relief Thales requests is directed at Philips, not the ITC. Appx469. Second, if Thales' motion is granted, Philips may continue to pursue its ITC action against the five other respondents. Just as this Court made clear in *Texas Instruments*, therefore Thales' "preliminary injunction motion will not and cannot enjoin the ITC action" because that action can continue even without Philips' participation with respect to Thales. 231 F.3d 1325, 1332 (Fed. Cir. 2000). The District Court thus erred in failing to recognize its authority to grant Thales' motion.

CONCLUSION

For the foregoing reasons, Defendant-Appellant Thales DIS AIS Deutschland GmbH respectfully requests that the Court reverse the District Court's denial of preliminary injunction, or vacate and remand it with instructions to make

findings on all factors and re-entertain the motion consistent with this Court's guidance and precedent.

Respectfully submitted,

Dated: December 23, 2021

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FORM 30. Certificate of Service

Form 30
July 2020

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

CERTIFICATE OF SERVICE

Case Number 2021-2106

Short Case Caption Koninklijke Philips N.V. v. Thales DIS AIS USA LLC

NOTE: Proof of service is only required when the rules specify that service must be accomplished outside the court's electronic filing system. See Fed. R. App. P. 25(d); Fed. Cir. R. 25(e). Attach additional pages as needed.

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☐ Additional pages attached.

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FORM 19. Certificate of Compliance with Type-Volume Limitations

Form 19
July 2020

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

CERTIFICATE OF COMPLIANCE WITH TYPE-VOLUME LIMITATIONS

Case Number: 2021-2106

Short Case Caption: Koninklijke Philips N.V. v. Thales DIS AIS USA LLC

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Name: R. Paul Zeineddin

FORM 31. Certificate of Confidential Material

Form 31
July 2020

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

CERTIFICATE OF CONFIDENTIAL MATERIAL

Case Number: 2021-2106

Short Case Caption: Koninklijke Philips N.V. v. Thales DIS AIS USA LLC

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Signature: /s/ R. Paul Zeineddin

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