

No. 14-35393

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

MICROSOFT CORPORATION, a Washington corporation,

Plaintiff-Appellee,

v.

MOTOROLA, INC., MOTOROLA MOBILITY, INC., AND
GENERAL INSTRUMENT CORPORATION,

Defendants-Appellants.

On Appeal from the United States District Court for the Western District of
Washington, Civil Case No. 2:10-cv-01823 (Hon. James L. Robart)

**BRIEF OF AMICI CURIAE INTEL CORPORATION,
ARUBA NETWORKS INC., DELL INC., HEWLETT-PACKARD
COMPANY, NEWEGG INC., SAS INSTITUTE INC., SIERRA WIRELESS,
INC., VIZIO, INC., AND XILINX, INC. IN SUPPORT OF APPELLEE AND
AFFIRMANCE**

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CORPORATE DISCLOSURE STATEMENT

Intel Corporation does not have a parent company, nor does any publicly held company own 10% or more of Intel's stock.

Aruba Networks, Inc. does not have a parent company, nor does any publicly held company own 10% or more of Aruba Networks' stock.

Dell Inc.'s direct parent company is Denali Intermediate Inc. There is no publicly held company owning 10% or more of Denali Intermediate Inc.'s stock.

Hewlett-Packard Company does not have a parent company, nor does any publicly held company own 10% or more of Hewlett-Packard's stock.

Newegg Inc. does not have a parent company, nor does any publicly held company own 10% or more of Newegg's stock.

SAS Institute Inc. does not have a parent company, nor does any publicly held company own 10% or more of SAS's stock.

Sierra Wireless Inc. does not have a parent company, nor does any publicly held company own 10% or more of Sierra Wireless's stock.

VIZIO, Inc. does not have a parent corporation. The only publicly held company that owns 10% or more of VIZIO, Inc.'s stock is AmTRAN Technology Co., Ltd.

Xilinx, Inc. does not have a parent company, nor does any publicly held company own 10% or more of Xilinx's stock.

STATEMENT OF *AMICI*'S IDENTITY AND INTEREST

Amici are a collection of leading component and end-product suppliers that develop technology for computing and communications. *Amici* hold thousands of patents, are members of numerous standard-setting organizations (“SSOs”), and have contributed technology to many industry standards. Many of *amici*'s products also operate in accordance with industry standards that may incorporate patents held by other companies. Accordingly, *amici* have a strong interest in the proper interpretation and reliable enforcement of contractual commitments that patentees make to SSOs, including the commitment to license patents on reasonable and non-discriminatory (“RAND”) terms.

Intel Corporation develops, manufactures, and sells integrated digital technology products, primarily integrated circuits. Its products include computing and communications components for server and personal computers, such as microprocessors, chipsets, motherboards, wireless and wired connectivity products, platforms incorporating these components, and software products, among many other offerings. Intel invests billions of dollars in research and development each year, and holds thousands of its own patents.

Aruba Networks, Inc. is a leading global provider of enterprise mobility solutions. It develops, markets, and sells products and services that help solve its customers' secure mobility requirements through its Mobility-Defined Networks, a

network architecture designed to automatically optimize infrastructure-wide performance and trigger security actions that previously required manual intervention by information technology (“IT”) departments. Aruba Networks’ Mobility-Defined Networks are designed for the all-wireless workplace and an increasingly mobile universe of end-users, who rely on mobile devices for nearly every aspect of their work life and personal communication.

Dell Inc. is a leading global information technology company that offers its customers a broad range of products and services. Dell’s business includes four major segments: The Client Solutions Group provides notebooks, desktop PCs, thin client products, tablets, third-party software, and client-related peripherals. The Enterprise Solutions Group provides servers, networking, storage, converged infrastructure offerings, and ESG-related peripherals. Dell Services provides a broad range of IT and business services. The Dell Software Group provides systems management, security, and information management. Dell invests more than one billion dollars in research, development, and engineering of computer system products annually and holds thousands of its own patents.

Hewlett-Packard Company (“HP”), a leading technology company with headquarters in Palo Alto, California, creates new opportunities for technology to provide a vast array of benefits to people, businesses, governments, and society. With a broad technology portfolio spanning printing, personal systems, software,

services and IT infrastructure, HP delivers solutions for customers' most complex challenges in every region of the world. HP is global leader in the development and implementation of IT standards. HP actively participates in over 750 standards committees in more than 200 industry standards organizations worldwide, such as the IEEE and ITU Standards Associations, and HP implements hundreds of standards across its products.

Newegg Inc. is a leading online-only retailer that offers a wide selection of computers, computer components and peripherals, and consumer electronics, primarily through its websites at www.newegg.com and www.neweggbusiness.com. Many of the products Newegg sells implement IEEE standards like Ethernet and Wi-Fi. Accordingly, Newegg has a strong interest in the reliable availability of those products for its customers, at prices they can afford.

SAS Institute Inc. is the leader in business analytics software and services, and the largest independent vendor in the business intelligence market. SAS solves real-world problems like combatting fraud in financial services, expediting drugs to market in life sciences, and identifying cross-sell opportunities in retail. Through innovative solutions, SAS helps customers at more than 70,000 sites improve performance and deliver value by making better decisions faster.

Sierra Wireless, Inc. develops and sells a comprehensive portfolio of wireless communication modules and gateways, and provides cloud services integrated with such devices. Sierra Wireless devices are used in a wide variety of mobile computing, industrial and automotive applications, such as laptops, positioning devices, utility smart meters, point of sale terminals, charging stations, and connected health devices. Sierra Wireless embedded modules and gateways communicate using a variety of industry communication standards, including 2G, 3G, 4G (LTE), and Wi-Fi. Sierra Wireless integrates chipsets purchased from various suppliers into its wireless devices that interoperate based on the applicable standards. In addition to purchasing chipsets, Sierra Wireless licenses the applicable SEPs from various SEP holders, including chipset suppliers.

VIZIO, Inc. is a leading U.S. consumer electronics company whose mission is to deliver the latest technologies at the best value for consumers. VIZIO offers a broad range of award-winning consumer electronics including televisions, PCs, and audio products. By utilizing an efficient manufacturing supply chain to produce high performance products and passing those savings to the consumer, VIZIO has developed a loyal following and industry-wide praise along the way. Headquartered in Irvine, California, VIZIO has remained committed for over a decade to what it does best—focusing on the consumer experience to deliver innovative products that are also beautifully simple and easy to use.

Xilinx, Inc. is the world's leading provider of All Programmable FPGAs, SoCs, and 3D ICs. These industry-leading devices are coupled with a next-generation design environment and IP to serve a broad range of customer needs, from programmable logic to programmable systems integration. With over 3500 patents, Xilinx is known for its historic achievements including the introduction of the first FPGA and the inception of the fabless semiconductor model. Xilinx also works with its customers to help them support standards in industries, which include wired and wireless communications, automotive, aerospace and defense, and consumer electronics.¹

¹ All parties to this appeal have consented to the filing of this brief.

**STATEMENT REQUIRED BY RULE 29(C)(5)
OF THE FEDERAL RULES OF APPELLATE PROCEDURE**

No person other than *amici* and their counsel authored this brief in whole or in part or contributed money that was intended to fund the preparation or submission of this brief.

INTRODUCTION

Industry standard-setting plays a critical role in high-technology fields by enabling interoperability among products made by different companies. These include Wi-Fi standards (such as 802.11) to provide Internet access, video compression standards (such as H.264) to allow recording and playback of videos, and a host of others. Standard-setting participants often commit to licensing patents that are incorporated into the standard on “reasonable and non-discriminatory,” or RAND, terms. The RAND commitment ensures that products compliant with standards can actually be purchased on commercially reasonable terms—without patents blocking or imposing undue costs on use of the standard.²

Amici have invested substantial time and resources in developing successful industry standards and implementing industry standards in their products. Those investments—and the incentives to make similar investments in the future—are threatened if the binding RAND commitments made during standard-setting can be evaded by patentees. The district court’s decisions here furthered the important goal of affirming the RAND commitment in two ways.

First, the district court properly recognized that RAND licenses must be available to *all* implementers of an industry standard. Holders of declared

² A RAND commitment is treated essentially the same as the commitment to license on “fair, reasonable and non-discriminatory,” or FRAND, terms required by some SSOs. *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at *12 n.7 (W.D. Wash. Apr. 25, 2013).

standard-essential patents (“SEPs”) cannot avoid licensing suppliers of components that provide standardized functionality in favor of licensing suppliers of higher-priced end products in an attempt to capture more than the value of the patented technology or to avoid the doctrine of patent exhaustion. Likewise, the district court correctly recognized that seeking injunctive relief is incompatible with the RAND commitment to license. The crippling threat of an injunction would allow SEP holders to extract unreasonable royalties from implementers of the standard.

Second, the district court properly considered the appropriate factors in setting a RAND royalty rate, including computing a royalty based on the value of the patented invention by: (1) starting the analysis with the smallest saleable component that supplies the standardized functionality rather than the entire end product; (2) accounting for only the contribution of the patent to the component at the time of standardization and not any additional “hold-up” or other value conferred on the patent by virtue of standardization; and (3) considering the aggregate royalty demands that implementers of a standard face from others claiming to own patents essential to the same standard (*i.e.*, the “royalty stack”). Further, the district court correctly excluded evidence of Motorola’s proffered licenses for its RAND-committed patents, as Motorola failed to demonstrate that those licenses reflected the actual value of its patents.

The Court should affirm the district court's decisions on these important issues relating to standard-setting and determining a RAND royalty.

ARGUMENT

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

A. Standardization Can Promote Pro-Competitive Benefits, Innovation, And Consumer Choice.

Standardization enables industry participants to agree on specific technological protocols that allow products made by different companies to work together. *See Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 875 (9th Cir. 2012); *In re Innovatio IP Ventures, LLC, Patent Litig.*, 956 F. Supp. 2d 925, 932 (N.D. Ill. 2013). For example, the 802.11 Wi-Fi standard ensures that a consumer using a Dell laptop containing an Intel Wi-Fi chip can access the Internet through an Aruba Networks wireless access point. In addition to Wi-Fi, that same laptop may implement as many as 250 other interoperability standards. *See Brad Biddle, et al., How Many Standards in a Laptop? (And Other Empirical Questions)* at 1 (Sept. 10, 2010), available at <http://ssrn.com/abstract=1619440>.

Standards can “lower the cost to consumers of switching between competing products and services, thereby enhancing competition among suppliers.” *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 309 (3d Cir. 2007); *see also Innovatio*, 956 F. Supp. 2d at 932. Because of these benefits, “[i]ndustry standards are widely acknowledged to be one of the engines [driving] the modern economy.

Standards can make products less costly for firms to produce and more valuable to consumers. They can increase innovation, efficiency, and consumer choice[.]”

U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* at 6 (2007), available at <http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf> (“*Promoting Innovation and Competition*”).

B. Without Proper Safeguards, Standardization Poses Risks Of Patent Hold-Up By SEP Holders.

For all their benefits, however, standards can pose a problem with respect to patents: the standardization process—in which certain technologies are selected over available alternatives—can artificially increase the market power of parties holding patents on technology that has been chosen for use in the standard. Before standardization, patented technologies compete with other technologies on the merits; after standardization, manufacturers wanting to implement a standard have only a single choice—the technologies in the standard—even if alternative technologies would be equally as good or even better. For example, electrical plugs and outlets in the United States use a standard shape and configuration. There are a variety of other shapes and configurations used across the world that may work equally well from a technical perspective. But a manufacturer who

makes devices needing to be plugged into an electrical outlet in the United States cannot use those alternatives no matter how good they otherwise would be.³

After a standard becomes widely adopted, companies cannot compete effectively without offering products supporting the standard. *See American Soc’y of Mech. Eng’rs, Inc. v. Hydrolevel Corp.*, 456 U.S. 556, 559 (1982) (“Obviously, if a manufacturer’s product cannot satisfy the [standard], it is at a great disadvantage in the marketplace.”); *Microsoft*, 696 F.3d at 876 (“[O]nce a standard has gained such widespread acceptance that compliance is effectively required to compete in a particular market, anyone holding a standard-essential patent could extract unreasonably high royalties from suppliers of standard-compliant products and services.”). After implementation has become widespread, the costs of

³ Although a patent holder may declare its patents “essential” to a given standard, those patents are not necessarily *actually* essential to the standard or infringed by a product that complies with the standard because SSOs generally do not provide any determination of the essentiality of patents that have been declared essential. *See Microsoft*, 2013 WL 2111217, at *52 (“There is no formal process for determining whether a patent is essential to the 802.11 Standard.”).

Accordingly, a declared SEP asserted in litigation will not inevitably lead to an infringement finding. In fact, a recent study found that only 16% of the 380 declared SEPs asserted since 2005 were ultimately found valid and infringed in cases reaching verdict. RPX Corporation, *Standard Essential Patents: How Do They Fare?* at 9, available at <http://www.rpxcorp.com/wp-content/uploads/2014/01/Standard-Essential-Patents-How-Do-They-Fare.pdf>; *see, e.g., Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004, 1018 (Fed. Cir. 2008) (jury found two declared SEPs not infringed where “Qualcomm accused Broadcom’s products of infringement solely because they practiced the H.264 standard”); *Ericsson Inc. v. D-Link Sys., Inc.*, 2013 WL 4046225, at *1-2 n.2 (E.D. Tex. Aug. 6, 2013) (jury found two alleged SEPs not infringed by practicing the 802.11n standard).

stopping implementation or developing a different standard are “prohibitively expensive” because that would require abandoning investments made to develop and purchase products that conform to the existing standard. *Broadcom*, 501 F.3d at 310. By seeking royalties based on avoiding these switching costs, a SEP owner can “hold[] hostage the entire industry,” *Qualcomm Inc. v. Broadcom Corp.*, 539 F. Supp. 2d 1214, 1248 (S.D. Cal. 2007), and “extract supracompetitive royalties” based not on the value of its invention, but rather on the commercial success of the standard, *Broadcom*, 501 F.3d at 310; *see Innovatio*, 956 F. Supp. 2d at 932.

Courts, SSOs, and antitrust enforcers have recognized that “**hold-up**” is a reality. The Institute of Electrical and Electronics Engineers (“IEEE”), the SSO that defined the 802.11 standard, explains that “avoiding ‘hold-up’ is critical to ensuring that a standard will be genuinely ‘open’ to implementation by all interested parties, thereby enabling the growth of robustly competitive markets around the new technology that the standard encompasses.” Br. of Amicus Curiae IEEE at 22, *Ericsson, Inc. v. D-Link Sys., Inc.*, No. 2013-1625 (Fed. Cir. Dec. 20, 2013); *see also SK Hynix Inc. v. Rambus Inc.*, 2013 WL 1915865, at *19 (N.D. Cal. May 8, 2013) (“Once compliance with a particular standard is effectively required to compete in a particular market, the patentee gains disproportionate bargaining power Requiring that the patent be licensed to all on FRAND terms prevents this type of patent ‘hold-up.’”); Br. of Amicus Curiae Federal Trade

Comm’n at 5, *Apple Inc. v. Motorola, Inc.*, Nos. 2012-1548, -1549 (Fed. Cir. Dec. 14, 2012) (hold-up demands “break[] the connection between the value of an invention and its reward—a connection that is the cornerstone of the patent system”).

C. RAND Commitments Are Intended To Protect Standard-Setting From Hold-Up.

Most SSOs “try to mitigate the threat of patent hold-up by requiring members who hold IP rights in standard-essential patents to agree to license those patents to all comers on terms that are ‘reasonable and nondiscriminatory,’ or ‘RAND.’” *Microsoft*, 696 F.3d at 876; *see also Broadcom*, 501 F.3d at 313.

RAND licensing is intended to limit patentees to seeking “the value conferred by the patent itself, as distinct from the additional value—the hold-up value—conferred by the patent’s being designated as standard essential.” *SK Hynix*, 2013 WL 1915865, at *19 (internal quotation marks omitted); *see Microsoft*, 2013 WL 2111217, at *18 (“[T]he RAND commitment exists so that [SEP] holders cannot demand more than they contribute.”); Br. of Amicus Curiae IEEE at 15, *Apple Inc. v. Motorola, Inc.*, Nos. 2012-1548, -1549 (Fed. Cir. Dec. 19, 2012) (“Patent commitments like the IEEE [Letter of Assurance] protect implementers of a standard against hold-up.”).

II. SEP HOLDERS ARE OBLIGATED TO LICENSE ALL IMPLEMENTERS OF THE STANDARD AND ARE NOT ENTITLED TO INJUNCTIVE RELIEF EXCEPT IN EXCEPTIONAL CIRCUMSTANCES.

A. A RAND Commitment Requires A SEP Holder To License All Implementers, Including Component Suppliers.

A RAND obligation requires a SEP holder to grant a reasonable license to all implementers of the standard—including both sellers of end products and manufacturers of components that provide the allegedly patented functionality within those products. Like most SSOs’ policies, the intellectual property rights policies for the SSOs at issue here require that licenses be granted to all implementers without discrimination. For instance, the International Telecommunication Union (“ITU”) Policy states that a SEP holder must be “willing to negotiate licenses with other parties on a non-discriminatory basis on reasonable terms and conditions” and that the express purpose of this requirement is to ensure that the standard is available “to *everybody* without undue constraints.” ER1182 (emphasis added). As this Court previously recognized, “[t]his language admits of no limitations as to who or how many applicants could receive a license.” *Microsoft*, 696 F.3d at 884.

Nonetheless, *amici*’s experience is that some SEP holders license only at the end-product level and refuse to license component suppliers, even though the functionality described in the SEPs is supplied by the component (often a processor). In a recent case, for example, Ericsson asserted declared Wi-Fi SEPs

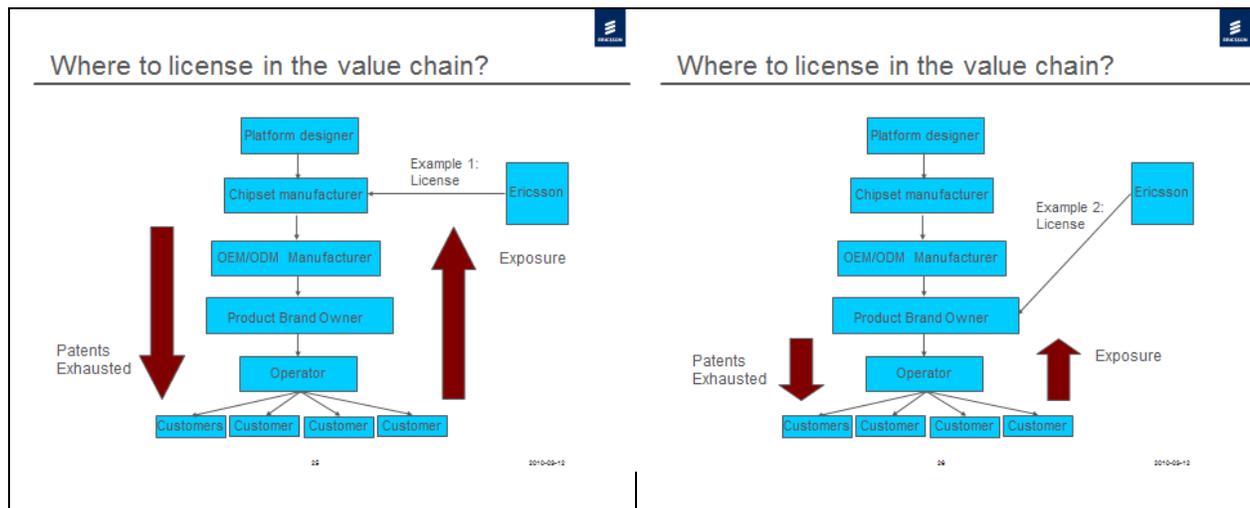
against end-device manufacturers, including Dell, but not chip suppliers like Intel. After Intel intervened in the case, Ericsson still “elected not to pursue damages from Intel.” *Ericsson*, 2013 WL 4046225, at *16. SEP holders’ motivation for these selective licensing practices appears to be twofold.

First, SEP holders are likely motivated to license at the end-product level in the hope that they can tax a much larger royalty base than just the price of the component supplying the allegedly infringing functionality. Indeed, here, Motorola contended that it was entitled to far more in licensing revenue by seeking a royalty on the full cost of the \$200-\$400 Xbox video game console rather than confining its demand to the \$3 Wi-Fi chip that performed the accused functionality within the Xbox.⁴

Second, SEP holders may seek to avoid exhausting their patent rights as to the component suppliers’ customers, which would eliminate the customers as a source of potential royalties. *See Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008) (“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”). This intent is reflected in the following slides from Ericsson,

⁴ Although some SEP holders pursue this strategy, it conflicts with the patent damages law requirement that a reasonable royalty must be based on the value of the patented invention, as determined by proper apportionment starting from the smallest saleable unit that practices the patent. *See infra* pp. 12-16.

which show that there are fewer products for which patents are “Exhausted” when licensing a “Product Brand Owner” (on the right) rather than a “Chipset Manufacturer” (on the left)⁵:



B. Injunctions Should Not Be Available To Enforce SEPs As A Matter Of Contract Law Or Under Equitable Principles.

A RAND commitment is a contractual obligation to grant licenses. A SEP holder that seeks an injunction against implementers of the standard for patent infringement is refusing to license the SEP. *See Microsoft*, 696 F.3d at 884 (“Implicit in such a sweeping promise is, at least arguably, a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made.”); *see also Realtek Semiconductor Corp. v. LSI Corp.*,

⁵ Thomas Dannelind, Director Technology Licensing, Ericsson AB, Licensing at 25-26, available at <http://www.docstoc.com/docs/92606706/Ericssons-patent-activities>.

946 F. Supp. 2d 998, 1006 (N.D. Cal. 2013) (“[T]he act of seeking injunctive relief (... *before* proposing a RAND license to Realtek) is inherently inconsistent and a breach of defendants’ promise to license the patents on RAND terms.”).

Here, Motorola pledged to the ITU to make its SEPs available to “an *unrestricted* number of applicants.” *Microsoft Corp. v. Motorola, Inc.*, 871 F. Supp. 2d 1089, 1093 (W.D. Wash. 2012), *aff’d*, 696 F.3d 872 (9th Cir. 2012) (emphasis added; internal quotation marks omitted). Motorola made that promise pursuant to a patent policy whose “sole objective” is ensuring that the standard is “accessible to everybody without undue constraints.” *Microsoft*, 2013 WL 2111217, at *7 (internal quotation marks omitted).

Yet in its opening brief (at 39-40), Motorola argues that it was free to seek an injunction for infringement of its SEPs because it never specifically promised the relevant SSOs that it would not do so. But having made a commitment to license its SEPs, Motorola was contractually foreclosed from doing the opposite by seeking an injunction unless it proved that it could not obtain the RAND royalties it agreed to accept. *See Microsoft*, 696 F.3d at 884.

Moreover, absent exceptional circumstances, SEP holders cannot obtain injunctive relief under the traditional equitable principles articulated in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). A SEP holder cannot be irreparably harmed where it has already agreed that monetary damages—RAND

royalties—are sufficient compensation for infringement. *See Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014) (“A patentee subject to FRAND commitments may have difficulty establishing irreparable harm.”).

III. THE DISTRICT COURT TOOK INTO ACCOUNT THE PROPER FACTORS IN DETERMINING A RAND ROYALTY RANGE AND RATE.

The district court’s RAND rate-setting analysis took into account the appropriate factors for determining RAND royalties, both by avoiding a damages award that reflected the “hold-up” value of SEPs and by considering royalty stacking. The court also properly recognized that setting a RAND rate requires modifying or disregarding some of the factors often considered in determining a reasonable royalty under *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970). This is because, unlike the typical patent holder, the SEP holder has accepted as part of the *quid pro quo* of standardization that the royalties it is awarded will be constrained by the RAND commitment. In exchange for agreeing to this limitation, the patent holder gains significant benefits from inclusion of its patented technology in the standard, including the expanded licensing opportunities that widespread adoption of the standard can create.

A. For A Multi-Component Product, A Royalty Must Be Assessed At The Component Level.

The Federal Circuit requires “patentees to apportion the royalty down to a reasonable estimate of the value of its claimed technology, or else establish that its

patented technology drove demand for the entire product.” *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1329 (Fed. Cir. 2014). Thus, “rather than pursuing a ‘royalty base claim encompassing a product with significant non-infringing components,’” a patentee must calculate a reasonable royalty using “a patent-practicing feature with a sufficiently close relation to the claimed functionality.” *Id.* at 1327, 1329. Determining royalties at the component level enables the patent holder to be compensated for whatever value its patent contributes to the end product—that value is included in the price of the component—but ensures that the patent holder does not obtain value to which it is not entitled.

The patentee’s obligation to “identify a patent-practicing unit, tangible or intangible, with a *close relation* to the patented feature” for the purpose of setting a reasonable royalty applies to all patents—including SEPs. *See id.* at 1329 (emphasis added); *see also Garretson v. Clark*, 111 U.S. 120, 121 (1884) (“The patentee ... must *in every case* give evidence tending to separate or apportion the defendant’s profits and the patentee’s damages between the patented feature and the unpatented features.” (emphasis added)). Thus, a RAND royalty—like all patent royalties—must be assessed starting from the component that contains the patented feature rather than the price of the end product. *See LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012) (“[I]t is generally required that royalties be based not on the entire product, but instead on the

‘smallest salable patent-practicing unit.’”); *In re Innovatio IP Ventures, LLC Patent Litig.*, 2013 WL 5593609, at *13 (N.D. Ill. Oct. 3, 2013) (“The argument over the appropriate royalty base to calculate patent damages is not unique to the RAND context, but is instead common to non-RAND patent cases.”).

Assessing royalties by apportioning from the component level is particularly important for patents alleged to be essential to an industry standard. Because SEP holders must grant licenses to all interested licensees—including component suppliers—determining a RAND royalty starting from the component level ensures that SEP holders comply with their commitment to license SEPs to all implementers on reasonable and *non-discriminatory* terms. Were SEP holders permitted to license SEPs to device vendors based on the higher price of multi-component end products (such as smartphones, wireless access points, and laptop computers), end-product suppliers, whose products encompass various features “hav[ing] no demonstrated correlation to the value of the patented feature alone,” would be taxed far more than component suppliers for use of the *same patented technology*. *LaserDynamics*, 694 F.3d at 68.⁶

⁶ Although Motorola purports to offer “non-discriminatory” licenses by requiring chip manufacturers to pay royalties based on the net selling price of the *end product* (ER0312), such royalties are inherently unreasonable, because the chip manufacturer would be forced to pay royalties several orders of magnitude higher than the net sales price of the chip, and because chip manufacturers often do not know which end products will ultimately incorporate their chips. ER0312-313.

Motorola's royalty demands here show the concern with SEP holders seeking royalties based on end devices rather than at the component level. Shown below on the left is a disassembled Microsoft Xbox 360 E. On the right is a magnified view of the Wi-Fi board from the Xbox (indicated by the red arrow), which contains a Marvell chip (shown by the red box) that provides the Wi-Fi functionality⁷:



Xbox: \$200-\$400

Wi-Fi chip: \$3

Motorola sought a royalty of 2.25% on the price of Microsoft's Xbox video game consoles, which sell for between \$200 and \$400 each—*i.e.*, a royalty of \$4.50 to \$9.00 per device. *Microsoft*, 2013 WL 2111217, at *2, *98 (¶608); ER0256, ER0263, ER0320-321. But Microsoft purchases the component that supplies the accused Wi-Fi functionality in the Xbox—the Wi-Fi chip—from Marvell for just under \$3. *Microsoft*, 2013 WL 2111217, at *93 (¶581).

⁷ iFixit, *Xbox 360 E Teardown* (June 2013), available at <https://www.ifixit.com/Teardown/Xbox+360+E+Teardown/15062>.

Royalties based on end-product prices in this way are inherently discriminatory. They impose a disproportionate tax on standards implementers who have invested significant resources to develop products encompassing technology that far exceeds the value of the patented feature, particularly where the smallest saleable unit is a chip contained in a device. *See Innovatio*, 2013 WL 5593609, at *38 (“Considering the profit of the chip manufacturer on the chip, rather than the profit margins of the [m]anufacturers on the accused products, is appropriate because a RAND licensor ... cannot discriminate between licensees on the basis of their position in the market.”).

B. A RAND Royalty Must Take Into Account The Contribution Of The Patent To The Component Apart From Any Hold-Up Value Gained From Standardization.

A reasonable royalty must be “carefully tie[d]” to the “claimed invention’s footprint in the market place.” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010); *see also Apple*, 757 F.3d at 1324 (“We have consistently explained that proof of damages must be carefully tied to the claimed invention itself.” (citing *ResQNet* and collecting cases)).

The value of the technology covered by a SEP may be quite low apart from the fact that it was adopted by an SSO. Motorola, for example, was unable to provide evidence to the district court about the purported importance of Motorola’s declared SEPs. Even with the benefit of extensive expert testimony, the court

repeatedly found that there was “absolutely no evidence in the record explaining the relative importance in relation to other technological contributions” of Motorola’s declared SEPs. *Microsoft*, 2013 WL 2111217, at *56, *58-59, *61, *63 (¶¶357, 372, 378, 389, 399).

That outcome is not surprising: the technical specifications that standards developers draft often address a series of small details regarding how to implement standardized functionality—details that do not present significant technical challenges but that necessarily must be solved by choosing one solution, even if others could serve equally well. Thousands of these details are aggregated to create voluminous standards for which there may be thousands of patents claimed to be essential. The 802.11 standard, for example, is 2,793 pages long, and there may be thousands of SEPs that are necessarily infringed by products implementing the standard. *Microsoft*, 2013 WL 2111217, at *92 (¶576); *Innovatio*, 2013 WL 5593609, at *42 (citing a research report finding 3,106 patents potentially essential to 802.11).⁸

⁸ These small details in standards also create opportunities for standard-setting participants to engage in strategic behavior to increase their share of SEPs. Indeed, one study found a spike in patent filings just prior to standardization meetings as participants engaged in “just-in-time patenting” in attempts to anticipate and patent the direction of the standard. See Byeongwoo Kang & Rudi Bekkers, *Just-in-time inventions and the development of standards: How firms use opportunistic strategies to obtain standard-essential patents (SEPs)* at 16-17 (Feb. 21, 2013), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2284024.

SSO decision-making can be a process in which many factors affect the solution that is chosen. *See, e.g., Innovatio*, 2013 WL 5593609, at *20 n.12 (“Because of the requirement of 75% consensus [in the IEEE subcommittee that created the 802.11 standard], often the subcommittee had to merge or alter different proposals to make them acceptable to a larger group of people.”). Referring to a SEP as “essential” thus reflects not that the patent was necessarily superior to technical alternatives available at the time, but that by virtue of its inclusion in the standard it was transformed into technology that is now essential to implement the standard.

Based on these considerations, which are unique to standardization, the most significant challenge in determining the “invention’s footprint” for a SEP is, as the district court recognized, segregating the value of the SEP “from the value associated with incorporation of the patented technology into the standard.” *Microsoft*, 2013 WL 2111217, at *18 (¶103). Another district court has likewise held that because “patent hold-up is a substantial problem that RAND is designed to prevent,” a “RAND rate ... must, to the extent possible, reflect only the value of the underlying technology and not the hold-up value of standardization.” *Innovatio*, 2013 WL 5593609, at *9. But even when a SEP’s value is properly confined to its pre-standardization worth, SEP ownership can still be lucrative. Having a SEP (and assuming that the patent is necessarily infringed by

implementing the standard) creates huge value for the patent holder by providing access to a market of licensees of everyone who implements the standard. That is the trade-off of the RAND commitment—the SEP holder agrees to accept RAND royalties but benefits by the value created through the collective action of standard-setting.

In attempting to determine the true value of Motorola’s SEPs, the district court was correct to modify the *Georgia-Pacific* factors to focus on the value of Motorola’s SEPs *before* they may have been standardized. *See Microsoft*, 2013 WL 2111217, at *19 (¶¶106-107). The *ex ante* value of a SEP provides a measure of the patent’s intrinsic worth free from the hold-up value that standardization creates. In particular, consideration should be given to whether there were competing alternative solutions available at the time of standardization or whether the SSO simply could have foregone including the technology in the standard altogether. *See Innovatio*, 2013 WL 5593609, at *37 (adopting methodology that “best approximates the RAND rate that the parties to a hypothetical ex ante negotiation most likely would have agreed upon ... before Innovatio’s patents were adopted into the standard”); Federal Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* at 23 (2011) (“Courts should cap the royalty at the incremental value of the patented technology over alternatives available at the time the standard was chosen.”); Joseph Farrell, et al.,

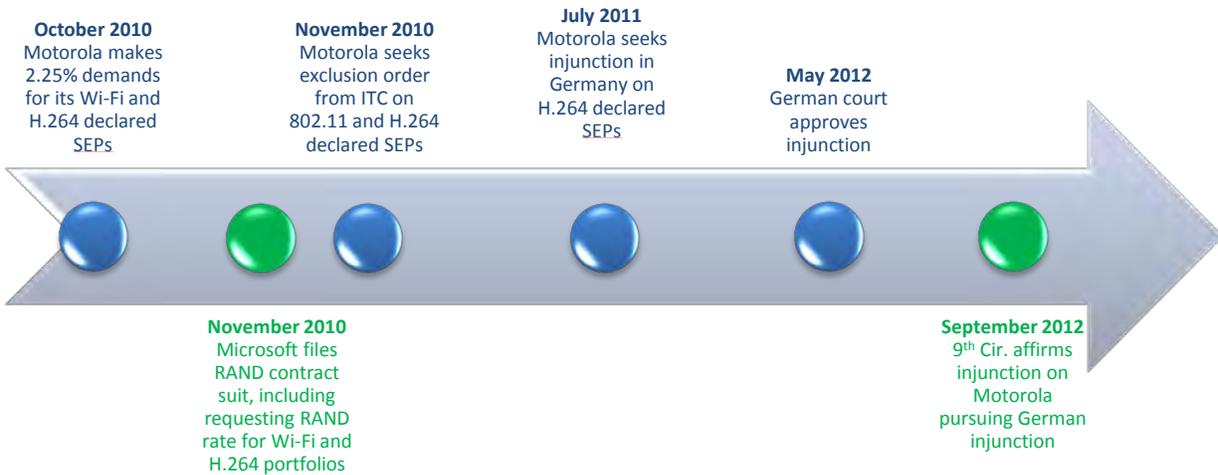
Standard Setting, Patents, and Hold-Up, 74 Antitrust L.J. 603, 659 (2007) (“[T]he consensus view among economists [is] that FRAND should be based on *ex ante* technology competition.”). Analyzing the availability of such alternatives prior to standardization—and the price competition they would have created—allows an appropriate assessment of the SEP’s incremental worth and reduces the risk of hold-up skewing the patent’s valuation.

Another tool to assess the value of SEPs free from hold-up is to look to rates set by patent pools, as the district court did.⁹ As participants in patent pool formation, *amici* know that pool participants often view themselves as both SEP owners (a threshold requirement for participation) and implementers of the standard for which they own at least one essential patent. *See Promoting Innovation and Competition* at 64 (“Patent pools generally are created when a group of patent holders each decides to license its respective patents to each other and to third parties collectively.”). Thus, the rates set by such pool participants often strike a balance between fairly rewarding patent holders and remaining attractive to licensees who will implement a standard. *See, e.g., Microsoft*, 2013 WL 2111217, at *79, *82-83 (¶¶496, 508-513).

⁹ A “patent pool” is a collection of patents owned by more than one patent holder that are grouped together for the purpose of licensing in a single package, which can create efficiencies for the patent holders and potential licensees. *See Microsoft*, 2013 WL 2111217, at *74 (¶462).

As the district court noted, one potential drawback of patent pools is that they may not account for variation in patent values and generally treat all patents similarly. *Id.* at *80 (¶¶500-501). To address this potential concern, both the district court here and the *Innovatio* court permitted the patentee to prove that any of its patents were worth more than the per-patent rate charged by the relevant patent pools. In this case, the district court found that Motorola had not sustained its burden of proof. *Id.* at *85 (¶¶528-530). In *Innovatio*, by contrast, the district court increased the royalty above the per-patent pool rate based on its determination that the patents-in-suit were “of moderate to moderate-high importance to the 802.11 standard.” *Innovatio*, 2013 WL 5593609, at *36.

A common argument of SEP licensors is that hold-up is merely a “theoretical” concern. *E.g.*, Nokia Amicus Br. 6; Qualcomm Amicus Br. 6. But this case provides an example of attempted hold-up that was thwarted only by Microsoft’s resort to litigation. As demonstrated by the following timeline, Motorola attempted to coerce Microsoft into accepting its 2.25% demand through the threat of an exclusion order at the International Trade Commission and an injunction in Germany *even after* Microsoft initiated this action and requested a court-determined RAND rate for the portfolios Motorola was attempting to license:



See Microsoft, 696 F.3d at 877-880; ER0269; ER1114-1115.

Thus, despite Microsoft’s initiation of a process to determine the RAND royalties that Motorola had committed to accept for its declared SEPs, Motorola repeatedly pursued injunctive relief. In the end, Motorola’s unreasonable demands were based on technology that the district court found to be of minimal value to the products at issue. *E.g.*, *Microsoft*, 2013 WL 2111217, at *19 (¶¶106-107). If not for the district court stopping Motorola’s injunction attempt in Germany and its determination of a RAND rate, Motorola may have succeeded.

C. A RAND Royalty Must Also Take Into Account The Aggregate “Royalty Stack” On The Component.

In addition to considering the intrinsic value of SEPs free from any hold-up value, a RAND rate must also account for the aggregate royalties for all patents

required to implement the standard. The economics of electronics components that implement standards—and the many competing royalty demands that suppliers of those components and their customers face—necessitate setting royalties with those concerns in mind. Moreover, the *Georgia-Pacific* factors have long directed consideration of the economics of the product accused of infringement when determining a reasonable royalty. *See Georgia-Pacific*, 318 F. Supp. at 1120 (e.g., factor 13: “[t]he portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer,” and factor 2: “[t]he rates paid by the licensee for the use of other patents comparable to the patent in suit”).

Although the RAND rates determined by the district court—fractions of pennies on a per-patent basis—may seem low, they actually represent a considerable sum in light of the potential aggregate industry demands and the actual cost of the components at issue.¹⁰ The district court set a RAND rate of

¹⁰ The magnitude of these rates is also consistent with RAND rates set in other recent cases. *See, e.g., Innovatio*, 2013 WL 5593609 at *3, *43 (setting RAND rate of 9.56 cents per unit for a portfolio of 19 declared 802.11 SEPs—or \$0.00503 per patent); *Realtek Semiconductor Corp. v. LSI Corp.*, No. CV-12-3451-RMW, Verdict Form, Dkt. 324 (N.D. Cal. Feb. 26, 2014) (awarding royalties of 0.12% and 0.07% of Realtek’s chip price, or \$0.00165 per declared 802.11 SEP).

\$0.03471 per unit for Motorola's eleven 802.11 SEPs that applied to the Xbox.¹¹

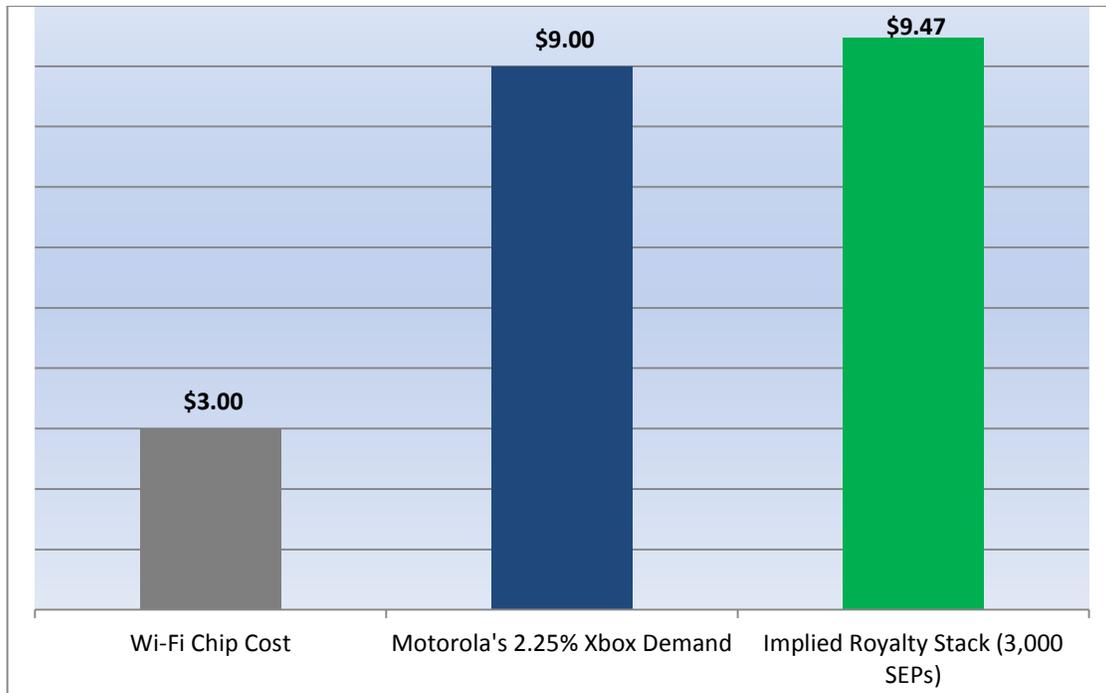
That portfolio rate translates to \$0.00316 per patent, and it has been estimated that there may be over 3,000 SEPs for the 802.11 standard. *Innovatio*, 2013 WL 5593609, at *42. If each SEP were valued using the per-patent rate set by the district court, the cumulative royalty stack for the 802.11 standard would be \$9.47 per unit (below, the "Implied Royalty Stack (3,000 SEPs)").¹²

By contrast, the chips that Microsoft uses to provide Wi-Fi functionality in the Xbox are "commodity products" that sell for less than \$3 per chip. *Microsoft*, 2013 WL 2111217, at *93-94 (¶¶579, 581, 586).¹³ Thus, the aggregate royalty demand for an 802.11 product applying the district court's RAND rate (\$9.47) far exceeds the *entire* cost of the chip (\$3.00), as show in the chart below:

¹¹ Motorola asserted that it had twenty-four 802.11 SEPs but that only eleven were relevant to the Xbox. *Microsoft*, 2013 WL 2111217, at *55 (¶351).

¹² Notably, the district court determined that Motorola's 802.11 portfolio "provides only minimal contribution to the 802.11 standard," which "heightened" the stacking concerns because more significant contributors would presumably be entitled to commensurately higher rates. *See Microsoft*, 2013 WL 2111217, at *12 (¶73).

¹³ As is true of technology products generally, the performance-adjusted price of Wi-Fi chips continues to fall; some may now sell for as little as \$1.



Of course, the price of a Wi-Fi chip encompasses more than just the cost of patent royalties to third parties. The price also must account for the costs of research and development for the chip supplier, production costs, materials, shipment, sales and marketing, and a host of other costs of the design, manufacturing, and distribution processes.

This case thus underscores the dangers of royalty stacking for standards implementers. Even though the district court made significant efforts to account for royalty stacking, it nonetheless arrived at a royalty rate that component vendors will struggle to pay if applied to a significant portion of the thousands of patents claimed to be essential to implement Wi-Fi. Given the narrow margins that

component suppliers face, there is little room for them to absorb the costs associated with licensing a greater portion of the patent stack.

As with hold-up, SEP licensors often try to paint royalty stacking as merely theoretical. *E.g.*, Nokia Amicus Br. 10; Qualcomm Amicus Br. 19-20. But the focus of the *Georgia-Pacific* analysis is on what the parties would be willing to agree to, including what the willing licensee would pay. No rational SEP licensee would view a single SEP licensing negotiation in isolation; rather, the licensee will necessarily view the current negotiation in the context of past and future negotiations for all SEPs needed to practice the standard (or at least those for which it is reasonably foreseeable that will be demanded). Accordingly, the rational willing licensee will not agree to pay royalties for a single license that would make it uneconomical to license the remaining SEPs it may need, and so the licensee necessarily will take into account the potential royalty stack, even in its first negotiation. Such commonsense economic concerns are regularly considered in the *Georgia-Pacific* analysis. *See, e.g., Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1408 (Fed. Cir. 1990) (finding “absurd” expert’s opinion that accused infringer “would agree to pay a royalty in excess of what it expected to make in profit”); *Viasat, Inc. v. Space Sys./Loral, Inc.*, 2014 WL 3896073, at *9 (S.D. Cal. Aug. 8, 2014) (finding reasonable royalty award “many times more” than the accused infringer’s expected profits “strains belief”).

Moreover, acting on royalty stacking only *after* a prohibitively expensive royalty stack has been created has it backwards. If the first royalty is not set in light of the potential aggregate demands to come, a disproportionate share of royalties would go to those SEP holders first in line, without regard to the relative value of their SEPs. From there, subsequent SEP holders seeking royalties would have available to them dwindling amounts of royalties simply because they sought royalties later than other SEP holders.

D. The District Court Properly Excluded Evidence Of Motorola’s Proffered Licenses Because They Did Not Reflect The Economic Value Of The Patented Technology.

Motorola criticizes the district court for “setting aside as irrelevant actual licenses that Motorola had historically entered into for its SEPs.” Motorola Br. 32. But Motorola “had the burden to prove that the licenses were sufficiently comparable to support” its proffered RAND royalty, and the district court did not abuse its discretion in finding that Motorola failed to meet its burden. *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1329 (Fed. Cir. 2009); *see also ResQNet.com*, 594 F.3d at 872 (“[I]t was [the patentee’s] burden ... to persuade the court with legally sufficient evidence regarding an appropriate reasonable royalty.”).

Motorola failed to satisfy its burden by relying on past licenses that were inconsistent with Motorola’s RAND obligations because they reflected hold-up

value or were based on the prices of multi-component end products. The district court did not abuse its discretion by discounting these licenses, as “use of past patent licenses ... must account for differences in the ... economic circumstances of the contracting parties,” including the patentee’s agreement to license its SEPs on RAND terms. *See Finjan, Inc. v. Secure Computing Corp.*, 626 F.3d 1197, 1211 (Fed. Cir. 2010); *see also Microsoft*, 2013 WL 2111217, at *18 (¶99) (“The *Georgia-Pacific* factors must be adjusted to account for the purpose of the RAND commitment.”).

Motorola presented no evidence showing that its past license rates were consistent with its RAND obligations. To the contrary, as described above (at 15), the 2.25% end-product royalty rate would result in royalties bearing no relation to the technology at issue. Motorola’s prior licenses are therefore impossible to comprehend except as the products of hold-up. Such high royalties would result in an “overall royalty of all standard-essential patents [that] would prohibit widespread adoption of the standard.” *Innovatio*, 2013 WL 5593609, at *10. As the district court aptly explained, licenses not “clearly” negotiated in accordance with the patentee’s RAND obligations are irrelevant to the reasonable royalty analysis. *See Microsoft*, 2013 WL 2111217, at *18. A contrary rule would perpetuate and expand the effect of past improper extractions of hold-up value, rendering it cost prohibitive for companies such as *amici* to offer 802.11-compliant

products. A witness from the chipmaker Marvell succinctly described the problem: “That’s a going-out-of-business model to pay such rates.” ER0312-313.

Nor did Motorola demonstrate that its licenses were consistent with governing Federal Circuit precedent. A patentee must demonstrate that prior licenses are “clearly linked to the economic demand for the claimed technology.” *ResQNet.com*, 594 F.3d at 873. But as Motorola concedes (at 11), all of its proffered licenses involved royalties of “up to 2.25% of the net selling price of products incorporating the applicable WiFi and video coding standards,” which would result in royalties far exceeding the economic value of the patented technology. *See* ER0312 (describing how the royalty would vary based on the end-product sales price). Thus, each license on which Motorola relied contravened the Federal Circuit’s mandate that “royalties be based not on the entire product, but instead on the ‘smallest salable patent-practicing unit.’” *LaserDynamics*, 694 F.3d at 67; *see also VirnetX*, 767 F.3d at 1326-1328. Patentees cannot evade this requirement by simply relying on prior licenses based on end-product prices. *See Innovatio*, 2013 WL 5593609, at *31 (rejecting prior 802.11-related licenses as comparable and finding “no credible basis in the record for calculating a RAND royalty on the basis of end-product prices”). Were that the case, the Federal Circuit’s precedents could be circumvented whenever a patentee produced a license that included end-product royalties, without any proof that the patented

features were the basis for consumer demand. *Cf. Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318-1320 (Fed. Cir. 2011).

Finally, contrary to Motorola's assertion (at 32) that "litigation settlements ... should be considered as part of any damages analysis," the Federal Circuit has consistently cautioned against using licenses entered into as a result of actual or threatened litigation to determine a reasonable royalty. *See LaserDynamics*, 694 F.3d at 77 ("The notion that license fees that are tainted by the coercive environment of patent litigation are unsuitable to prove a reasonable royalty is a logical extension of *Georgia-Pacific*, the premise of which assumes a voluntary agreement will be reached between a willing licensor and a willing licensee, with validity and infringement of the patent not being disputed."); *see also Innovatio*, 2013 WL 5593609, at *31-35 (rejecting consideration of licenses where they were, among other things, "adopted under the duress of litigation"). Indeed, the fact of "litigation itself can skew the results of the hypothetical negotiation." *Wordtech Sys., Inc v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1321 (Fed. Cir. 2010). Although licenses arising from litigation may be relevant to the reasonable royalty analysis in "certain limited circumstances," the reasonable royalty evidenced by such licenses must nonetheless "reflect[] 'the economic demand for the claimed technology.'" *LaserDynamics*, 694 F.3d at 77 (quoting *ResQNet.com*, 594 F.3d at 872).

SEP licenses present a unique risk of being subject to the distorting effect of the threat of litigation. SEP holders, such as Motorola, often have large portfolios of declared-SEPs that they seek to license as a block, claiming that each and every patent is necessary to practice the standard. When the portfolio is large, it becomes impractical for a potential licensee to make a patent-by-patent assessment. This may present the licensee with the Hobson's choice between endless and costly litigation (often across multiple countries) or acquiescing to the SEP holder's demand. The resulting license would reflect not only the threat of litigation but also the coercive pressure that a large cache of SEPs creates, especially given the continued availability of injunctions in some foreign jurisdictions.¹⁴

For all these reasons, the district court correctly concluded that Motorola's proffered licenses were inconsistent with its RAND obligations, and thus irrelevant to the reasonable royalty analysis. *See Microsoft*, 2013 WL 2111217, at *66-72 (¶¶407-454).

CONCLUSION

Innovation and consumer choice are put at risk if parties that have made binding RAND commitments are permitted to ignore them through litigation

¹⁴ For example, one of Motorola's proffered comparable licenses "provides for a comprehensive settlement of a wide range of litigation between the parties, including litigation in which Motorola was seeking an exclusion order in the ITC to prevent the importation of RIM's flagship BlackBerry products." *Microsoft*, 2013 WL 2111217, at *69 (¶431).

tactics and unreasonable licensing demands. This Court should affirm the district court's decisions with respect to the obligations imposed on a party that has made a RAND commitment and the principles that apply in setting a RAND royalty.

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CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), the undersigned hereby certifies that this brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B)(i).

1. Exclusive of the exempted portions of the brief, as provided in Federal Rule of Appellate Procedure 32(a)(7)(B), the brief contains 6,966 words.

2. The brief has been prepared in proportionally spaced typeface using Microsoft Word 2010 in 14 point Times New Roman font. As permitted by Federal Rule of Appellate Procedure 32(a)(7)(B), the undersigned has relied upon the word count feature of this word processing system in preparing this certificate.

/s/ Lauren B. Fletcher

LAUREN B. FLETCHER

November 21, 2014

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of November, 2014, I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit using the appellate CM/ECF system. Counsel for all parties to the case are registered CM/ECF users and will be served by the appellate CM/ECF system.

/s/ Lauren B. Fletcher

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