

No. 14-35393

IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT

MICROSOFT CORP.,

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 IN CASE NO. 2:10-cv-01823,
HON. JAMES L. ROBERT

**BRIEF OF AMICUS CURIAE T-MOBILE USA, INC.
IN SUPPORT OF PLAINTIFF-APPELLEE MICROSOFT CORP.**

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November 21, 2014

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All parties consented to the filing of this brief.

RULE 29(c)(5) STATEMENT

No counsel for any party authored this brief in whole or in part, and no person or entity, other than amicus or its counsel, made a monetary contribution intended to fund its preparation or submission.

Dated: November 21, 2014

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IDENTITY AND INTEREST OF AMICUS CURIAE

T-Mobile is the nation's fourth largest wireless service provider, with a customer base of approximately 53 million subscribers and annual revenues of \$24.42 billion.¹ T-Mobile operates a network that is built with the equipment of many suppliers. T-Mobile sells mobile devices and tablets manufactured by a number of companies, including both parties to this appeal. T-Mobile's network, mobile devices, and tablets operate under the umbrella of thousands of interoperability standards. These interoperability standards make wireless communications possible across the globe. Indeed, wireless networks in the United States exist because of the tireless work and dedication of the standards bodies that created the wireless industry.

T-Mobile is continuously subjected to lawsuits and licensing inquiries seeking compensation for licenses to standard-essential patents ("SEPs"). Many of these litigation and licensing inquiries come from patent holders that have never actively participated in the various standards bodies and have never offered products in the wireless mobile industry, yet they claim to hold patents that are essential to practicing industry standards. They assert these patents with no interest in advancing the policies or work of any standards organization. Their sole

¹T-Mobile US Reports Third Quarter 2014 Results.

purpose is revenue generation. To this end, they often try to exploit the widespread adoption of the standards by seeking compensation that far outpaces the reasonable and nondiscriminatory (“RAND”) rate that binds their patents.

T-Mobile’s interest lies in making sure courts properly determine the RAND rate for patents subject to a RAND licensing obligation. A proper RAND rate analysis will ensure that companies like T-Mobile continue the widespread adoption of interoperability standards, thereby benefiting consumers, manufacturers, service providers, and patent holders alike. T-Mobile takes no interest in the ultimate result on the facts of this specific case.

I. INTRODUCTION

Standardization plays an ever increasing role in the development of technology, bringing with it significant benefits. Among its primary benefits is interoperability, which can be achieved only if a standard is widely adopted. To give just one example, standardization and interoperability enable consumers to use their smartphones and laptops to connect to virtually any WiFi network in the world. Consumers need not worry whether a device will be “compatible” with any specific network equipment, because WiFi has achieved such widespread adoption and all network compliant devices are interoperable.

However, potentially dangerous liabilities accompany standardization. When a standard is adopted, competitive alternatives largely disappear. The market power of standard-essential patent owners thereby magnifies, creating the potential for those patent owners to extract royalties from competitors based not on the technological merit of their inventions, but instead on the value attributable to standardization (holdup). Compounding this danger, many standards implicate hundreds or even thousands of patents (most of which are relevant only to a small element of the standard), creating the dual threat that companies interested in implementing the standard may have to pay numerous royalties (royalty stacking) at supracompetitive rates.

Standard-setting organizations (“SSOs”) have attempted to account for those potential drawbacks by requesting that participants commit to license SEPs at RAND rates. However, the SSOs have specifically chosen not to define or suggest how such RAND rates are to be determined. Despite making the commitment to license at RAND rates, some SEP holders exploit the ambiguity of RAND obligations. They claim that a given rate is RAND compliant simply because they offer the same rate to all potential licensees, regardless of whether the rate is reasonable based on the technological merit of their patents. Such an approach, however, results in RAND rates inappropriately reflecting additional value arising from holdup and directly leads to royalty stacking.

In this case, the district court appropriately recognized and accounted for the unique challenges presented by determining reasonable royalties on RAND-encumbered SEPs. In so doing, it provided adequate compensation to the patentee while balancing considerations of stacking and holdup. T-Mobile respectfully requests that this Court endorse the district court’s approach of acknowledging and accounting for those considerations in assessing a reasonable royalty.

II. ARGUMENT

A. The Primary Purpose Of RAND Obligations Is Widespread Adoption Of The Standard To Ensure Interoperability

The District Court correctly found that the primary purpose of RAND commitments is to encourage widespread adoption of the standard. *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2013 WL 2111217, at *10 (W.D. Wash. Apr. 25, 2013). Widespread adoption is necessary to achieve the standard’s overarching purpose of interoperability.² Interoperability is the ability to make systems work together. In the case of the IEEE 802.11 standard (commonly referred to as the WiFi standard), interoperability allows one manufacturer’s device, such as a wireless router, laptop, smartphone, or X-box, to communicate effectively with devices from other manufacturers on any wireless local area network (WiFi).³ Such WiFi interoperability is achieved by adhering to the 802.11 standard.

² Russell Hitchcock Post, *The Evolution and Future of Wi-Fi (Part 1)* (Sept. 10, 2009) (“Hitchcock”), available at www.windowsnetworking.com/articles-tutorials/network-protocols/Evolution-future-Wi-Fi-Part1.html.

³ Cf. *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11 C 9308, 2013 WL 5593609, at *44-*45 (N.D. Ill. Oct. 3, 2013); see also *Open Innovation: The Evolution of the Microsoft Approach to Intellectual Property* (August 2008) at 7 (“As computing becomes more portable and more ubiquitous, interoperability is becoming a primary concern.”), available at <http://download.microsoft.com/download/9/2/9/929b39ba-87fe-46c3-9906->

Interoperability benefits consumers by ensuring their wireless devices will work in any given WiFi network and by enabling them to choose among manufacturers of different wireless devices. But for the 802.11 standard, a user would have to use a different manufacturer's device (or a single device incorporating many different proprietary technologies) whenever he or she traveled to an area having a different WiFi network. Moreover, as a result of interoperability, consumers may replace one wireless device with another, which leads to greater price competition.⁴

Interoperability benefits manufacturers by guaranteeing a marketplace for continued product development. In markets for complimentary products, manufacturers will develop products that work with a product that is an industry standard.⁵ For example, computer storage vendors have a marketplace for developing storage solutions (*e.g.*, external hard drives, “thumb” drives, etc.) that are USB compatible, because virtually every computer—whether Apple or Windows, desktop or laptop, old or new—includes USB ports. In effect, the

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The_Evolution_of_the_Microsoft_Approach_to_Intellectual_Property.docx.

⁴ *Cf. In re Innovatio*, 2013 WL 5593609, at *45.

⁵ Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889, 1896-97 (2002) (“Lemley 2002”).

standard grows the market and gives vendors certainty that an adequate market will exist for the standard-compliant products that they develop.⁶

Interoperability and standards benefit patent holders by increasing the number of products embodying the patented invention. The Institute of Electrical and Electronics Engineers (“IEEE”), the SSO that promulgated the 802.11 standard at issue in this appeal, has itself represented that it “seeks to produce standards that any willing implementer can use and that will become *widely adopted*.”⁷ Such widespread adoption increases the royalty base for any company owning patents that are essential to the standard.

None of the benefits for consumers, manufacturers, and patent holders can be achieved without widespread adoption. Indeed, “a standard is only valuable if it has widespread adoption; this goal trumps all others during the design of the standard.”⁸

⁶ Karen Bartleson Post, *Standard-Essential Patents: Innovation’s Boon or Bane?* (Sept. 17, 2013) (“Bartleson”), available at <http://electronicdesign.com/digital-ics/standard-essential-patents-innovation-s-boon-or-bane>.

⁷ Amicus Br. of IEEE-SA (Doc. 67) at 12, *Ericsson, Inc. v. D-Link Sys., Inc.*, Appeal. Nos. 2013-1625, -1631, -1632, -1633 (currently pending in the Federal Circuit) (“IEEE-SA Amicus Br.”) (emphasis added).

⁸ Hitchcock, *supra* note 2; Bartleson, *supra* note 6 (“the goal of every good standard is to be widely implemented”).

B. Achieving Widespread Adoption Depends On Commitments To License At RAND Rates With No Threat Of Holdup

Patent commitments play a critical role in the standard development process.⁹ Once a standard achieves widespread adoption, using or switching to a different technology can be prohibitively expensive. Patent holders have the potential to block others from selling products compliant with the standard after widespread adoption occurs. This phenomenon is referred to as “patent hold-up.”¹⁰ For this reason, SSOs require that participating companies declare their patents that are essential to the standard and license them on terms that are “reasonable and non-discriminatory” (RAND).¹¹

The engineers who develop standards are not employees of the SSOs, but of the companies who plan to sell products that implement those standards. Those engineers actively participate in the standardization process through submission of technical proposals and drafting of technical standards. They rarely, however,

⁹ *See, e.g.*, IEEE-SA Amicus Br. at 16.

¹⁰ *See, e.g., id.*

¹¹ Renata Hesse, Deputy Assistant Attorney Gen., Antitrust Div., U.S. Dep’t of Justice, *The Art of Persuasion: Competition Advocacy at the Intersection of Antitrust & Intellectual Property* 4 (Nov. 8, 2013), available at <http://www.justice.gov/atr/public/speeches/301596.pdf> (RAND commitments “make standards more attractive by reducing the possibility that SEP holders will try to block from the market a product compliant with the standard or extract exorbitant licensing fees.”).

consider patent issues.¹² But for RAND commitments, participating companies who are SEP owners could potentially holdup their competitors from implementing the standard.

Moreover, some companies that benefit from standards do not actively participate in the standards-setting process. Rather, some companies maintain a more passive role in the process, maintaining knowledge of technical proposals and allowing engineers to monitor and edit the technical standards. And still other companies do not participate at all in the standards-setting process, offering no expertise or resources. These passive participants and non-participants may obtain patents that cover the implementation of the standard or may hold patents that they do not declare until after the standard is implemented.¹³ When that happens, the potential for holdup is especially magnified.

¹² See Doug Lichtman, *Understanding the RAND Commitment*, 47 Houston L. Rev. 1023, 1028 (2010) (“[S]tandard-setting is a process run by engineers, not lawyers.”); Scott K. Peterson, *Consideration of Patents during the Setting of Standards*, Remarks for Nov. 6, 2002 FTC and DOJ Roundtable on SSOs, at 8 (“[C]onsideration of patent issues requires expertise that is not part of the background of those who are typically most directly involved in the standards setting activities.”) available at <https://web.archive.org/web/20120111042859/http://www.ftc.gov/opp/intellect/021106peterson.pdf>.

¹³ See *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178-bbc, 2011 WL 7324582, *4 (W.D. Wis. June 7, 2011) (“Apple alleges that Motorola has engaged in a pattern of unfair, deceptive and anticompetitive conduct by failing to timely

Regardless of participation level and regardless of technological merit and contribution,¹⁴ SEP holders can expect widespread adoption of the standard and, therefore, their technology. As a result, the value of their patents becomes entangled in the value of the overall standard to the implementers. “In this unique position of bargaining power, the patent holder may be able to extract supracompetitive royalties from the industry participants.” *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 310 (3d Cir. 2007).¹⁵ As the district court correctly found, “[w]hen the standard becomes widely used, the holders of SEPs obtain substantial leverage to demand more than the value of their specific patented technology. This is so even if there were equally good alternatives to that

disclose ownership of patents that it now declares are essential to standards that have been adopted by the industry.”).

¹⁴ The standard-setting process is not a rigorous, scientific endeavor driven by identifying the “best” technology in the field. *See* Lemley 2002 at 1897 (“It may be more important that an industry coalesces around a single standard than which particular standard is chosen.”); Stanley M. Besen and Joseph Farrell, *Choosing How to Compete: Strategies and Tactics in Standardization*, 8 J. Econ. Persp. 117, 118 (1994) (In standard setting, “victory need not go to the better or cheaper product: an inferior product may be able to defeat a superior one.”).

¹⁵ *See also* Mark A. Lemley, *Antitrust and the Internet Standardization Problem*, 28 Conn. L. Rev. 1041, 1056 (1996) (“[T]he winners of standards competitions receive a windfall that is far greater than what intellectual property normally gives as an incentive to invention.”).

technology available when the original standard was adopted.” *Microsoft*, 2013 WL 2111217, at *10.

Amici argue that holdup is a “theoretical” or “hypothetical” concern.¹⁶ But, the mere fact that Motorola repeatedly attempted to *enjoin* Microsoft from selling its products because Microsoft would not yield to Motorola’s exorbitant licensing demands indicates that the holdup concern is real.¹⁷ Moreover, Motorola appears to have attempted repeatedly to license RAND-encumbered patents covering different technologies at a rate of 2.25%, with no apparent attempt to distinguish technological value from standardization value.¹⁸

¹⁶ See, e.g., American Intellectual Property Law Association (“AIPLA”) Amicus Br. at 17-18; Qualcomm Amicus Br. at 6, 11, 17, 19, 22, 24; Nokia Amicus Br. at 3, 6, 8-10, 15.

¹⁷ See Microsoft Br. at 11-15, 47-48, 51-52, 61-62.

¹⁸ See Motorola Br. at 13 (referring to the 2.25% rate as its “standard baseline rate,” regardless of the standard or the technology); see also, e.g., *id.* at 5, 11-12; *Microsoft*, 2013 WL 2111217, at *2 (offering same 2.25% rate for both 802.11 SEPs and H.264 SEPs for gaming consoles); Google Letter to IEEE dated Feb. 8, 2012, available at <http://www.scribd.com/doc/80976133/12-02-08-Google-to-IEEE-on-MMI-Patents> (acknowledging that Google will continue Motorola’s longstanding practice of offering its SEPs for a rate of 2.25%); *Apple, Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1323 (Fed. Cir. 2014) (licensing SEP portfolio to cell phone manufacturers at a rate of 2.25%); *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178-bbc, 2012 WL 5416941, *7 (W.D. Wis. Oct. 29, 2012) (demanding same 2.25% rate for 802.11 SEPs, UMTS SEPs, and GSM SEPs); *In the Matter of Certain Gaming & Entm’t Consoles, Related Software, & Components Thereof Initial Determination*, United States Int’l Trade Comm’n Inv. No. 337-TA-752, 2012 WL 1704137, at *168 (Apr. 23, 2012) (admitting that it

Not surprisingly, given these real world examples, many have recognized the holdup concern as legitimate, including:

- significant players in the electronics industry,¹⁹
- thought leaders in the field of intellectual property,²⁰
- federal courts,²¹ and
- SSOs themselves.²²

It short, holdup concerns are real and have the potential to threaten widespread adoption of standards.

licensed its cellular essential patent portfolios, as well as its 802.11 and H.264 portfolios for the same 2.25% rate).

¹⁹ Including T-Mobile, Microsoft, Dell, Intel, Netgear, Gateway, Cisco, Hewlett-Packard, Broadcom, and others. *See, e.g.*, Briefs and Amicus Briefs filed in *Ericsson, Inc. v. D-Link Sys., Inc.*, Nos. 2013-1625, -1631, -1632, -1633 (currently pending in the Federal Circuit).

²⁰ Including, for example, influential professors Mark Lemley and Carl Shapiro. *See, e.g.*, Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 *Tex. L. Rev.* 1991 (2007); Mark A. Lemley, *Ten Things to do About Patent Holdup of Standards (And One Not to)*, 48 *Boston College L. Rev.* 149 (2007).

²¹ *E.g.*, *In re Innovatio*, 2013 WL 5593609, at *8-*10 (Holderman, J.); *Microsoft*, 2013 WL 2111217, at *10-*11, *74 (Robart, J.).

²² Including IEEE: “SDOs seek patent licensing commitments because avoiding ‘hold-up’ is critical to ensuring that a standard will be genuinely ‘open’ to implementation by all interested parties.” IEEE-SA Amicus Br. at 22.

C. **RAND Rates Must Account For The Potential For Royalty Stacking, Otherwise Widespread Adoption Would Be Threatened**

Standards often implicate hundreds or even thousands of patents. For example, the 802.11 standards implicate the use of thousands of essential patents that an implementer might be required to license in order to practice the standards.²³ It would make little sense for an implementer to adopt a standard only to pay excessive royalties to many different holders of SEPs. As such, the potential for “royalty stacking” threatens widespread adoption of standards.

The potential for stacking is significant because RAND contemplates a reasonable cumulative royalty burden for implementation of a standard, and any particular owner of a subset of essential patents is entitled only to a fair share of that burden. Under RAND circumstances, it simply cannot be “reasonable” for license fees substantially to exceed the price of the component covered by the SEPs. In this case, Motorola sought 802.11 royalties of \$4.50 on a WiFi chip that costs only \$3 to \$4.²⁴ Failure to account for the possibility that dozens of royalties may be stacked on top of each other at supracompetitive rates leads to aggregate royalties that are commercially unreasonable and inconsistent with RAND. If

²³ See Microsoft Br. at 10 (citing ER1554).

²⁴ ER386 at 163:3-15; ER312 at 92:25-93:9.

RAND commitments are to have any force at all, surely they must be interpreted to account for those aspects of standardization.

D. The *Georgia-Pacific* Factors Provide A Useful Framework For Calculating RAND Rates, Including Consideration Of Holdup And Royalty Stacking

The parties and amici seem to agree that the *Georgia-Pacific* factors²⁵ provide an appropriate starting point for a RAND royalty calculation.²⁶ Their disagreement centers on whether it is also appropriate to account for RAND commitments and standardization in the analysis. T-Mobile respectfully submits that it is.

Rigid application of the *Georgia-Pacific* factors is not a required part of any reasonable-royalty determination, let alone a RAND rate determination. *See, e.g., Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 31 (Fed. Cir. 2012) (“We do not require that witnesses use any or all of the *Georgia-Pacific* factors when testifying about damages in patent cases.”). Indeed, the Federal Circuit has allowed approaches that do not strictly follow the *Georgia-Pacific* framework, explaining that the reasonable royalty analysis must be “flexible.” *See, e.g., Lucent*

²⁵ *See Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1119-20 (S.D.N.Y. 1970).

²⁶ *See, e.g.,* Motorola Br. at 10-11 (only criticizing modifications to the *Georgia-Pacific* factors); AIPLA Amicus Br. at 12-15; Qualcomm Amicus Br. at 15-17; Nokia Amicus Br. at 6-10.

Techs., Inc. v. Gateway, Inc., 580 F.3d 1301, 1335 (Fed. Cir. 2009) (considering only “the relevant *Georgia-Pacific* factors”); *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 899-900 (Fed. Cir. 1986) (explaining that “[35 U.S.C. §] 284 does not mandate how the district court must compute [a reasonable royalty]” and affirming a royalty calculated under the “so-called ‘analytical approach’”). Accordingly, district courts need not rigidly adhere to the 15 *Georgia-Pacific* factors in assessing a reasonable royalty, and this Court should endorse the approach taken by the district court in this case.

In analyzing the *Georgia-Pacific* factors, the district court properly sought to account for holdup by distinguishing the standardization value of the SEPs from their technological value. *See, e.g., Microsoft*, 2013 WL 2111217, at *19 (“Rewarding the SEP owner with any of the value of the standard itself would constitute hold-up value and be contrary to the purpose behind the RAND commitment.”). In doing so, the district court correctly recognized that pre-standardization considerations, such as alternative technology, are critical to the analysis. *See id* (“[T]he parties to a hypothetical negotiation under a RAND commitment would consider alternatives that could have been written into the standard instead of the patented technology. The focus is on the period before the standard was adopted and implemented . . .”).

The district court also correctly applied the *Georgia-Pacific* framework to account for the potential of royalty stacking created by SEPs. *See Microsoft*, 2013 WL 2111217, at *16 (“[T]he implementer of a standard will understand that it must take a license from many SEP owners, not just one, before it will be in compliance with its licensing obligations and able to fully implement the standard.”). To be sure, and as the district court explained, a licensee in the hypothetical *Georgia-Pacific* negotiation may take royalty stacking into account. *See id.* at *20 (“With respect to stacking concerns, the parties attempting to reach an agreement would consider the overall licensing landscape in existence vis-à-vis the standard and the implementer’s products.”).

The fact that the language of RAND commitments may not expressly discuss “royalty stacking” and “holdup” does not preclude courts from considering those issues in evaluating a reasonable royalty.²⁷ If that were the test, courts would be precluded from considering the *Georgia-Pacific* factors in any RAND royalty determination, as the language of RAND commitments does not recite those

²⁷ T-Mobile disagrees that “ETSI specifically *rejected* efforts to add royalty-stacking language into its IPR policy precisely because it would overturn the required balance of interests.” *See Qualcomm Amicus Br.* at 21. ETSI’s decision not to incorporate royalty-stacking language into its IPR policy was motivated by a desire to maintain the flexibility and breadth of its policy, not by a conclusion that royalty stacking is not a valid issue. *See Roger G. Brooks & Damien Geradin, Interpreting & Enforcing the Voluntary FRAND Commitment*, 9 Int’l J. of IT Standards & Standardization Res. 1, 9-10 (2011).

considerations, either. RAND commitments contemplate a “reasonable” royalty. The breadth of the word “reasonable” easily can—and should—encompass considerations of stacking and holdup. Any contrary conclusion or attempt to treat RAND-encumbered SEPs exactly the same as non-standard-essential patents ignores the reality that standardization creates unique challenges that should be addressed in determining a reasonable RAND rate on SEPs.

III. CONCLUSION

The district court properly applied the *Georgia-Pacific* factors, specifically accounting for holdup and stacking, in determining the RAND royalty rates. The court’s flexible framework will provide greater certainty for the marketplace and ensure that SEP owners fulfill their obligation to license at RAND rates. This Court should adopt the district court’s methodology and consideration of patent holdup and the potential for royalty stacking in setting the RAND rate. This will ensure that manufacturers, consumers, and patent owners will continue to enjoy the benefits of interoperability and widespread adoption of standards.

Respectfully submitted,

KNOBBE, MARTENS, OLSON & BEAR, LLP

Dated: November 21, 2014

By: /s/ Christy G. Lea
Christy G. Lea

Attorney for Amicus Curiae T-Mobile USA, Inc.

CERTIFICATE OF SERVICE

I certify that I electronically filed this Brief of Amicus Curiae T-Mobile USA, Inc. in Support of Plaintiff-Appellee Microsoft, Corp. with the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system on November 21, 2014.

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

/s/ Christy G. Lea

Christy G. Lea

CERTIFICATE OF COMPLIANCE

Pursuant to Fed. R. App. P. 32(a)(7)(C), I certify that:

1. This brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B). This brief contains 3,538 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii).
2. This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). This Brief has been prepared in a proportionally spaced typeface using Microsoft Word 2010 in 14 point font Times New Roman.

Respectfully submitted,

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Dated: November 21, 2014

By: /s/ Christy G. Lea

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