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, No. 2:10-cv-01823,
Hon. James L. Robart

BRIEF OF *AMICUS CURIAE*
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
IN SUPPORT OF NEITHER PARTY

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IDENTITY AND INTEREST OF AMICUS CURIAE

The American Intellectual Property Law Association ("AIPLA") is a national bar association of approximately 15,000 members engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions, and are involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property.

AIPLA has no stake in any of the parties to this litigation or in the result of this case. AIPLA's only interest is in seeking correct and consistent interpretation of the law as it relates to intellectual property issues, including in the standard-setting context.[1] AIPLA's members participate in the development of standards by standard-setting organizations ("SSOs") by representing both contributors of patented technology to standardization activities and implementers of standards that incorporate such technologies as standard essential patents ("SEPs"). Our members thus represent parties, as both licensors and licensees, to agreements

[1] This brief is filed with the consent of the parties in this case.

granting rights to SEPs on reasonable and non-discriminatory ("RAND") terms as provided for in SSO Intellectual Property Rights ("IPR") policies.

As such, AIPLA has a strong interest in making sure that the use of patented technology in the standard-setting context is undertaken in a balanced way that advances the interests of both SEP owners and those who wish to make use of such technology through RAND licenses.

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

This brief was not authored in whole or in part by counsel to a party, and no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the Association and its counsel. Specifically, after reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter; (ii) no representative of any party to this litigation participated in the authorship of this brief; and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF THE ARGUMENT

The rise of standardized technology has created enormous social and economic benefits. Patented technology is now prevalent in industry standards, and standards cannot succeed without being able to take advantage of patented technology. Because the development of this technology requires great risk and enormous cost, standards cannot attract the best technology without rewarding innovators with adequate compensation. SSOs seek to provide that incentive through effective IPR policies, which are carefully balanced to reflect the interests of all stakeholders and advance two equally important goals: ensuring reasonable access to implementers who want to practice a standard, while providing adequate compensation through licensing of standard-essential patents on reasonable, non-discriminatory terms.

This case presents questions regarding the scope and meaning of an SEP owner's commitment to license on RAND terms. Like a contract, the RAND commitment must reflect the intent of the parties thereto—which, in this case, includes the clear goal of preserving innovators' incentives to contribute to standards development. To that end, the RAND commitment represents a waiver of a patentee's right to refuse to license its technology to willing counterparties. Standing alone, however, it does not contain any other substantive limitations on the licensing of SEPs, provided the ultimate terms are "reasonable." Background principles of patent law, including the *Georgia-Pacific*[2] analysis for calculating a reasonable royalty for patent damages, necessarily inform the expectations of parties who commit to license SEPs on "reasonable" terms. Patent law thus provides an established and neutral framework to assess a hypothetical reasonable royalty.

The District Court's methodology for determining the RAND royalty rate and range in this case departed from the expectations of the parties to the RAND commitment and the accepted method for calculating royalties under patent law. The District Court imported into the RAND commitment limitations on royalties for *all* SEP owners based on concerns about "royalty stacking" and "hold-up." It did so without any evidence that these alleged concerns were affecting access to either of the standards at issue here, or have ever impeded the success of any standard to date. Because the District Court's analysis was not dependent on any supporting evidence specific to this case—which is contrary to established patent law principles requiring evidentiary support for royalty determinations—its methodology would conceivably apply to lower the reasonable royalty available to every single SEP, regardless of the nature of the patent or product in question, and even where the SEP is the driving force for the marketplace success of

[2] *See Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

standardized products that use the SEP. This undermines the very incentive for patentees that IPR policies—including those relevant to this case—seek to preserve, and in turn threatens the success of the existing voluntary standard-setting environment that has greatly facilitated unforeseeable innovation and technological advances, and spurred increased competition among firms implementing those standards to provide increasingly attractive products to consumers.

AIPLA takes no position on whether the actual royalties or ranges of royalties that the District Court determined were consistent with Motorola's RAND commitments, which were based on the specific patents and products at issue in the case. However, AIPLA is concerned that the District Court's unbalanced methodology undermines the incentives that are key to a functional and successful standards environment. AIPLA therefore respectfully requests that this Court avoid any endorsement of the methodology employed below for making its RAND rate and range determinations, and reaffirm the basic patent law principles that govern royalty calculations, unmodified by anything in the RAND commitment.

ARGUMENT

I. THE VOLUNTARY CONTRIBUTION OF PATENTED TECHNOLOGY IS ESSENTIAL TO THE SUCCESS OF STANDARDS.

The rapid growth and emergence of many new technologies over the past decade can be credited, in large part, to the successful development and adoption of standards. Standardization of key technologies has revolutionized the telecommunications, computing, television, and entertainment services fields, to name a few. The proliferation and adoption of standards in these and other industries have lowered barriers to entry, enhanced competition, reduced obsolescence, and facilitated the rapid development of next-generation technologies. As others have aptly noted, standards "have paved the way for moving many important innovations into the marketplace, including the complex communications networks and sophisticated mobile computing devices that are hallmarks of the modern age," and as a result, "standards-setting activities benefit consumers and are in the public interest."[3]

[3] U.S. Dep't of Justice and U.S. Patent & Trademark Office, Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, at 3, 7 (Jan. 8, 2013), available at http://www.justice.gov/atr/public/guidelines/290994.pdf.

The founding principles of patent law—to stimulate innovation and reward those who undertake the risks attendant in invention[4]—play a critical role in preserving the underlying incentives for successful standardization. In the same way that "patent law is designed to encourage competition among inventors by giving a patent to the ingenious [party] who wins in a race for discovery," *Potts v. Coe*, 145 F.2d 27, 31 (D.C. Cir. 1944), standardized products cannot successfully capture market share (or retain it as standards evolve into the next generation) if the standard-development process does not provide its own incentive that will attract the best, often-times patented, technologies. Indeed, participation in any SSO's standard-setting process is itself competitive; there is no guarantee that technology offered will gain consensus approval for inclusion in the standard. Moreover, multiple standards often compete among one another before one prevails in the marketplace. The ultimate path to commercialization of any technology covered by an SEP is thus fraught with risks, both in developing the technology and getting it adopted into the standard. It is therefore essential to preserve innovators' incentives to invest in, develop, and contribute patented inventions to the standard-setting process.

[4] *See, e.g.*, *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974) (noting that patent laws promote scientific progress "by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development").

The major SSOs—including the ones at issue in this case, the Institute of Electrical and Electronics Engineers (IEEE) and the International Telecommunications Union (ITU)—specifically designed their IPR policies to ensure that innovators are sufficiently rewarded for contributing their patented technologies to standards, while providing those who wish to implement the standards reasonable access to the essential patents. The SSOs have repeatedly emphasized the import of this delicate and essential balance. For example, in announcing the Common Patent Policy of the ITU, the ITU's director noted that "it is difficult to develop technical standards without implicating patents. On the other hand, we have to take into account the interests of end-users. Therefore a balance must be found."[5] The IEEE likewise has recognized the need to "improve balance of all stakeholders" and "[e]nsure a fair and balanced environment for all participants … ."[6] *See also* European Telecomm. Standards Institute ("ETSI") IPR Policy § 3.1 (noting that ETSI "seeks a balance between the needs of

[5] *See* ITU Press Release, IEC, ISO & ITU, The World's Leading Developers of Int'l Standards, Agree On Common Patent Policy (Mar. 19, 2007), available at http://www.itu.int/newsroom/press_releases/2007/05.html.

[6] *See* IEEE Presentation, IEEE Standards Ass'n Patent Policy (July 2008), available at https://www.itu.int/dms_pub/itu-t/oth/06/14/T06140000030002PDFE .pdf.

standardization for public use in the field of telecommunications and the rights of the owners of IPRs").[7]

This overarching balanced approach necessarily informs the scope and meaning of the provisions of the IPR policies, including the voluntary commitment to license standard-essential patents on RAND terms. Any faithful interpretation of RAND commitments, then, must support and advance this balance and preserve the incentive of adequate compensation for innovators who contribute their patented technologies to standards.

II. TO PRESERVE THE BALANCE OF INCENTIVES NECESSARY FOR STANDARDS TO SUCCEED, THE COURT SHOULD LOOK TO ACCEPTED PRINCIPLES OF CONTRACT AND CURRENT PATENT LAW.

A. Like A Contract, The RAND Commitment Must Be Interpreted According To Its Terms And Purpose.

The SSO IPR policies at issue in this case, like many others, provide for a process by which those who contribute patented technology to a standard may agree to make licenses available for those patents on RAND terms.[8] As the District Court below recognized, "a contract is formed through … any essential patent holder's[] commitment to the [SSO] to license patents on RAND terms." *Microsoft*

[7] Available at http://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf.
[8] *See* ITU Common Patent Policy § 2.2, available at http://www.itu.int/en/ITU-T/ipr/Pages/policy.aspx; *see also* IEEE-SA Standards Board Bylaws ("IEEE IPR Policy") § 6.2, available at http://standards.ieee.org/develop/policies/bylaws/sect6-7.html#6.

Corp. v. Motorola, Inc., 864 F. Supp. 2d 1023, 1031 (W.D. Wash. 2012); *see also Ericsson Inc. v. Samsung Elecs. Co.*, No. 2:06-CV-63, 2007 WL 1202728, at *1 (E.D. Tex. Apr. 20, 2007) (noting that a RAND obligation "is contractual and binds all of the [SSO] members"). A RAND commitment generally is enforceable by those who wish to implement the standard and secure a license to the patented technology, as "third-party beneficiar[ies] to the agreements between [an SEP holder] and the [relevant SSOs] … ." *Microsoft*, 864 F. Supp. 2d at 1032.

Like all contracts, then, a RAND commitment must be interpreted in a manner consistent with the intention of the parties. "[T]he touchstone of the interpretation of contracts is the intent of the parties." *Contractors Equip. Maint. Co. ex rel. U.S. v. Bechtel Hanford, Inc.*, 514 F.3d 899, 903 (9th Cir. 2008) (quoting *Scott Galvanizing, Inc. v. Nw. EnviroServices, Inc.*, 844 P.2d 428, 432 (Wash. 1993) (en banc)). The best evidence of the intention of the parties is the words used in the contract. *W. Plaza, LLC v. Tison*, 322 P.3d 1, 3 (Wash. Ct. App. 2014) ("In construing a contract, we give the parties' intent as expressed in the instrument's plain language controlling weight … ."). Moreover, courts "can only enforce the contract to which the parties themselves have agreed." 11 WILLISTON ON CONTRACTS § 32:2 (4th ed.).

The plain terms of the RAND commitments at issue in this case obligate patentees to make licenses for SEPs available "under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination." IEEE IPR Policy § 6.2; *see also* ITU Common Patent Policy § 2.2 (providing that an SEP owner may indicate that it "[i]s willing to negotiate licences with other parties on a non-discriminatory basis on reasonable terms and conditions"). The "reasonable terms and conditions" are purposely undefined in these policies, left instead to the negotiating parties. *See* ITU Common Patent Policy § 2.2; IEEE IPR Policy § 6.2.

A RAND commitment thus reflects a compromise of an SEP owner's right to exclude others from using the patented invention and from licensing only on an exclusive or limited basis. It does not, however, purport to impose any other limit on an SEP owner's rights under patent law. Certainly, nothing in the RAND commitment imposes a substantive limit on royalties or requires that they be calculated in any particular way, provided they are "reasonable."

B. Patent Law Provides An Established Method, Known To The Parties To The RAND Contract, For Calculating A "Reasonable Royalty."

Because the RAND commitment does not define "reasonable" terms for the licensing of SEPs, patent law forms the basis of the parties' understanding. "[A] term of art in a given field is given its technical meaning when used in an agreement within that field." *Blue Mountain Mem'l Gardens v. Wash. Dep't of Licensing Cemetery Bd.*, 971 P.2d 75, 77 (Wash. Ct. App. 1999) (citing

RESTATEMENT (SECOND) OF CONTRACTS § 202 (1981)); *see Wash. State Republican Party v. Wash. State Grange*, 676 F.3d 784, 796 (9th Cir. 2012) (noting that "in ascertaining the parties['] intent and in interpreting the contract" courts may consider "the subject matter and objective of the contract" and "usages of trade"). Contract language that references terms of art used in patent law, like the words of the RAND commitments at issue here, "indicate[] that the parties intended for patent law to apply in interpreting" the agreement. *Medtronic, Inc. v. White*, 526 F.3d 487, 497 (9th Cir. 2008); *see Synopsys, Inc. v. Magma Design Automation, Inc.*, No. C-04-3923, 2007 WL 322353, at *24 (N.D. Cal. Jan. 31, 2007) ("The parties reasonably could expect that terms common to patent law and used in the JDA, such as 'invention' … were to be understood in accordance with their meaning under patent law.").

Patent law has long provided a method for determining a "reasonable" royalty for purposes of 35 U.S.C. § 284, which guarantees a patent holder "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty …." In *Georgia-Pacific*, the court listed fifteen non-exclusive factors used to calculate a figure for infringement damages, aimed at determining "[w]hat a willing licensor and a willing licensee would have agreed upon in a suppositious negotiation for a reasonable royalty …." 318 F. Supp. at 1121. While not commenting on the *Georgia Pacific* factors themselves, AIPLA notes that courts have "sanctioned the use of the *Georgia-Pacific* factors to frame the reasonable royalty inquiry" because the factors "properly tie the reasonable royalty calculation to the facts of the hypothetical negotiation at issue." *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1317 (Fed. Cir. 2011). In doing so, as in any litigation, the resulting determination "must be supported by relevant evidence in the record." *Unisplay, S.A. v. Am. Elec. Sign Co.*, 69 F.3d 512, 517 (Fed. Cir. 1995). Analyses "based mainly on speculation or guesswork," on the other hand, cannot survive appellate scrutiny. *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1335 (Fed. Cir. 2009); *accord Wordtech Sys. Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1322 (Fed. Cir. 2010). And as is the case with patents generally, RAND royalties should be based upon "the use made of the invention by the infringer." 35 U.S.C. § 284; *accord LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 66–67 (Fed. Cir. 2012). In this way, the *Georgia-Pacific* framework (when properly applied) is neutral—it does not favor infringers or patentees, and it facilitates flexible examination of the factual record and the invention in question to arrive at a "reasonable" royalty for purposes of 35 U.S.C. § 284.

Given the patent community's more than 30 years of experience with the *Georgia-Pacific* framework, it is unsurprising that when courts are asked to interpret a RAND commitment's guarantee of licensing on "reasonable" terms, they have generally turned to *Georgia-Pacific* to give meaning to that term. The hypothetical negotiations that the *Georgia-Pacific* analysis is intended to approximately parallel the bilateral negotiations envisioned by RAND commitments. Thus, a number of courts—including the District Court below—have concluded that *Georgia-Pacific* provides an appropriate framework for determining a RAND rate. *See Microsoft Corp. v. Motorola, Inc.*, No. C10-1823, 2013 WL 2111217, at ¶ 87 (W.D. Wash. Apr. 25, 2013) (noting courts' "long experience in conducting hypothetical bilateral negotiations to frame the reasonable royalty inquiry").[9]

The *Georgia-Pacific* analysis thus provides a flexible, fact-driven framework to analyze the scope and meaning of an SEP owner's commitment to an SSO that it will license a patent on "reasonable" terms. While that analysis may not be the exclusive way to determine a royalty, any alternatives should in all events apply patent law principles. At the same time, courts must conform their methodology to the objective expectations of the parties to the RAND commitment

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[9] *See also Ericsson Inc. v. D-Link Systems, Inc.*, No. 6:10-CV-473, 2013 WL 4046225, at *25–26 (E.D. Tex. Aug. 6, 2013) (entering verdict of jury instructed on standard *Georgia-Pacific* factors); *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11-C-9308, 2013 WL 5593609, at *4 (N.D. Ill. Oct. 3, 2013) (adopting *Georgia-Pacific* framework for RAND determination); *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 n.8 (3d Cir. 2007) (observing that "[t]he reasonableness of royalties is an inquiry that courts routinely undertake using the 15–factor test set forth in *Georgia-Pacific*" and that some courts have "applied this test in the []RAND context").

at issue, including the complementary goals that RAND is designed to advance. Courts must also rely on evidence—and reject supposition and theory—in reaching their royalty determinations. Otherwise, the courts might undermine the understanding of the parties who made the RAND commitment, and in turn threaten to disrupt the careful balance of interests that has created an overwhelmingly successful and dynamic standard-setting environment.

III. THE DISTRICT COURT'S METHODOLOGY FOR INTERPRETING A RAND COMMITMENT FAILED TO GIVE PROPER CONSIDERATION TO APPLICABLE PATENT LAW PRINCIPLES.

The District Court recognized in passing both the need for a RAND royalty to provide an adequate return, consistent with the intention of the SSO IPR policies to preserve general patent incentives, as well as the suitability of the *Georgia-Pacific* framework to give meaning to the RAND commitment. Its actual application of that framework, however, was inconsistent with those principles. The District Court repeatedly imposed its view that the purpose of a RAND commitment is to ensure "widespread adoption" of the standard, while virtually excluding any considerations that could ensure adequate compensation for those who develop and contribute optimal technical solutions. This one-sided approach led the District Court to "modify" the *Georgia-Pacific* framework in ways that undervalue patents regardless of the specific facts and circumstances in a particular case, and that were not supported by any evidence. This Court's decision should reject these aspects of the District Court's methodology as contrary to patent principles and the understanding of the parties to the RAND commitment.

First, the District Court briefly acknowledged that "[t]o induce the creation of valuable standards, the RAND commitment must guarantee that holders of valuable intellectual property will receive reasonable royalties on that property." *Microsoft*, 2013 WL 2111217, at ¶ 73. But the District Court failed to give this guarantee proper weight in its actual analysis. In contrast, the District Court went on to make extensive modifications to the *Georgia-Pacific* factors to account for what it characterized as "the purpose of the RAND commitment of widespread adoption of the standard …." *Id.* ¶ 110 (modifying *Georgia-Pacific* factor 15); *see also id.* ¶ 51 (noting that "<u>[t]he purpose</u> of the RAND commitment is to encourage widespread adoption of the standard") (emphasis added); *id.* ¶ 509 (describing "the SSOs' goal of promoting widespread adoption of their standards" in discussing potentially comparable licensing arrangements). By repeatedly invoking "widespread adoption" to lower the royalties calculated, the District Court ignored the need to preserve the essential incentive structure that encourages both the invention of products and their contribution to standard-setting. The District Court's analysis thus resulted in an imbalance that was inconsistent with the intent of the parties to the RAND commitment.

Second, the District Court made a number of modifications to the *Georgia-Pacific* framework based upon the speculative possibilities of "hold-up" and "royalty stacking." This aspect of the District Court's decision is particularly troubling because "hold-up" and "royalty stacking" are theoretical "concerns" that were unsupported by the actual evidence below. It is thus essential that this Court correctly apply the *Georgia-Pacific* framework and resist using the mere possibility that one or both of these activities could occur as a reason to devalue all patents.

Consider the District Court's concerns about royalty stacking, which it defined as the "payment of excessive royalties to many different holders of SEPs." *Id*. ¶ 65. Throughout its opinion, the District Court asserted that royalty stacking concerns were central to the purposes of RAND commitments, *see id*. ¶¶ 66, 72, 110, 460, 605, and the District Court ultimately concluded that this threat required a cap in the otherwise reasonable royalty, *see, e.g., id*. ¶ 622 (noting that "stacking concerns from the perspective of the implementer govern the upper bound of RAND"). The District Court also modified *Georgia-Pacific* factor 15 (the amount that a licensor and a licensee would have agreed upon at the time the infringement began) to "consider other SEP holders and the royalty rate that each of these patent holders might seek from the implementer based the importance of these other patents to the standard and to the implementer's products." *Id*. ¶ 112.

However, as a threshold matter, there was no evidence below that the relevant standards (the IEEE 802.11 WiFi standard and the ITU H.264 MPEG standard) have been impeded by "royalty stacking." Indeed, the proliferation of both standards is strong evidence that implementers have *not* faced significant obstacles in obtaining the required licenses to implement the standard.[10] The District Court nonetheless dismissed the argument that "potential royalty stacking concerns have not, to date, impeded widespread adoption of the" standards as "misplaced," holding that the "concern" of royalty stacking must nonetheless inform the RAND royalty rate and range calculation. *Id*. ¶ 460. The District Court's reliance on the wholly theoretical possibility of royalty stacking to limit the reasonable royalty for RAND-committed patents is inconsistent with general requirement that a royalty calculation be based upon evidence, not speculation. *Wordtech*, 609 F.3d at 1322; *Unisplay*, 69 F.3d at 517.

It is therefore unsurprising that other courts have rejected arguments based upon the possibility of stacking precisely because it lacked any evidence to support adjusting the royalty calculation. Most notably, in *Ericsson*—a case that also dealt with RAND-committed patents essential to the 802.11 WiFi standard—the District

[10] Indeed, the use of 802.11 WiFi-compliant devices is expected to account for nearly half (46.2%) of all Internet traffic by 2015. Janko Roettgers, Wifi to Overtake Wired Network Traffic by 2015, Gigaom (June 1, 2011), available at http://gigaom.com/2011/06/01/cisco-wifi-vni-report.

Court refused a proposed jury instruction that would have adjusted the *Georgia-Pacific* analysis to account for royalty stacking. The court did so because the defendants had failed to present any evidence that royalty stacking was, in fact, taking place and inhibiting access to the standard. *Ericsson*, 2013 WL 4046225, at *26 (noting that "[a]ll of Defendants' concerns about royalty stacking were just that—concerns," and that "[f]aced with no actual evidence of stacking, Defendants were forced to argue hypothetically"). This approach is entirely consistent with law requiring evidence, rather than speculation, to support the calculation of a reasonable royalty. *Lucent*, 580 F.3d at 1333.

Without any evidence, there is no reason to assume (as the District Court below did) that royalty stacking inherently affects every license negotiation. As noted above, the RAND contract permits the parties to agree to reasonable terms, which can include non-royalty compensation, such as reciprocal licensing. AIPLA is not aware of any evidence that the possibility of royalty stacking has inhibited access to or the adoption of any standard. The fact that a standard may incorporate a large number of patented technologies does not, in and of itself, support the devaluing of those patents to the level most advantageous for implementers. If a patentee has contributed a valuable piece of technology to the standard, the SSO IPR policies explicitly intended to preserve a reward of adequate compensation for that contribution—regardless of the number of other SEPs that may also contribute to the standard. The District Court's contrary suggestion should be affirmatively rejected by this Court.

In a similar vein, the District Court made a number of adjustments to account for the alleged risk of "hold-up," which it defined as "[t]he ability of a holder of an SEP to demand more than the value of its patented technology and to attempt to capture the value of the standard itself … ." *Microsoft*, 2013 WL 2111217, at ¶ 55. Again, however, the District Court cited no evidence that any such "hold-up" took place below—a factual prerequisite to support any royalty calculation. *Wordtech*, 609 F.3d at 1322. The *Ericsson* court, when confronted with similar arguments, rejected them as unsupported by the facts. *Ericsson*, 2013 WL 4046225, at *25 (declining to modify the *Georgia-Pacific* framework where the "Defendants did not present any evidence any licensee ever complained to Ericsson about hold-up").

In fact, a hold-up not only will be unsuccessful in the long run, but it most likely will expose a patent owner to significant risks. SEP owners face significant disincentives to try and extract supra-competitive royalties from implementers since such behavior would certainly impede efforts to be included in future standards, as well as negotiate access to others' IP. Moreover, an implementer who is being held up retains the remedy of seeking a court order setting a RAND range (or alleging breach, as has happened here). Additionally, any SEP owner who insists on "holding up" potential licensees risks depriving themselves of a substantial portion of revenue, without any assurance that the implementer may not elect to infringe the patent anyway or seek a RAND declaration. As noted in a recent decision of the U.S. International Trade Commission, if a patentee "should 'hold up' [an implementer], they will suffer losses along with the licensee. The negotiations of the license agreements are complex business dealings, and, in this case, they are being conducted with the backdrop that each day they are not concluded, the [licensees] have not had to pay anything for a license they were by [the SSO IPR] policy to obtain prior to adopting the potentially infringing technology." *In re Certain Wireless Devices with 3G and/or 4G Capabilities & Components Thereof*, Inv. No. 337-TA-868, at 118 (ITC June 13, 2014) (Essex, A.L.J.). These kinds of economic and other considerations affect all license negotiations, and severely diminish (if not defeat) incentives to engage in "hold-up." Further, it is central to *Georgia Pacific* analysis that the hypothetical negotiation is between willing licensor and licensee, which implies a general absence of a "hold-up"

Finally, to the extent there is a concern that a patentee's license demands are trying to extract value not attributable to their invention, the ordinary, unmodified *Georgia-Pacific* analysis is more than sufficient to address it. For example, the analysis already provides (through Factor 13) for consideration of "[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." 318 F. Supp. at 1120; *see also id*. (considering, under Factor 11, the extent to which the infringer has made use of *the invention* and value of *that use* to the infringer). There simply is no need to modify the established *Georgia-Pacific* analysis to tilt the balance in favor of implementers, thus diminishing the incentive of adequate compensation that the IPR polices and RAND commitment are intended to preserve.

To hold otherwise would essentially rewrite the RAND commitment and alter the application of long-accepted patent law principles that inform the expectations of RAND licensors. The danger of the District Court's approach is that it would effectively amend the RAND commitment to lower the otherwise applicable "reasonable royalty." Nothing in the RAND contract supports those kinds of limitations. Other attempts to impose these types of extra-contractual limitations on the RAND contract have been rejected. *Cf. Apple Inc. v. Motorola Mobility, LLC*, 2014 WL 1646435, at *35 (Fed. Cir. 2014) (declining to find that a RAND commitment precludes the availability of injunctive relief from federal courts); *In re Certain Wireless Devices*, at 120, 122 (noting that a RAND contract does not limit patentees' legal remedies for infringement and that "[t]he evidence presented does not support the Respondents' position that [the patentee] has violated a []RAND obligation by filing this complaint at the ITC”). This Court should follow suit and make clear that the RAND contract must be enforced consistent with the careful balance intended by the SSOs, rather than used to empower implementers at the expense of SEP owners, and alter long-established principles of patent law.

CONCLUSION

For the reasons stated, AIPLA respectfully requests that this Court emphasize the importance of preserving in the RAND context the incentives for innovators to continually develop new technologies and contribute them to the standard-setting process. And to ensure such incentives, the ability for innovators to realize adequate compensation for their inventive activities, as provided by the purpose of RAND agreements, should be expressly preserved through the evenhanded application of established contract and patent law principles.

Respectfully submitted,

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September 22, 2014

CERTIFICATE OF COMPLIANCE
WITH FRAP 32(a)(7)(B) AND FRAP 32(a)(5) AND 32(a)(6)

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

1. This brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B) because it contains 4,664 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii).

2. This brief complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6) because it has been prepared in a proportionally spaced typeface using Microsoft Word and Times New Roman, 14 pt.

s/ Wayne P. Sobon
Attorney for Amicus Curiae

CERTIFICATE OF SERVICE

I, Wayne P. Sobon, a member of the Bar of this Court, hereby certify that on September 22, 2014, I electronically filed the foregoing "Brief of *Amicus Curiae* American Intellectual Property Law Association in Support of Neither Party" with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system. 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/ Wayne P. Sobon
Attorney for Amicus Curiae