19-16122

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

FEDERAL TRADE COMMISSION,

Plaintiff-Appellee,

—v.—

QUALCOMM INCORPORATED, A Delaware corporation,

Defendant-Appellant,

SAMSUNG ELECTRONICS COMPANY, LTD.;
SAMSUNG SEMICONDUCTOR INC.; INTEL CORPORATION; ERICSSON, INC.;
SAMSUNG ELECTRONICS AMERICA, INC.; MEDIATEK INC.,

Intervenors,

NOKIA TECHNOLOGIES OY,

Intervenor.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA (KOH, J.)
DISTRICT COURT CASE NO. 5:17-CV-00220-LHK

BRIEF OF *AMICUS CURIAE* DOLBY LABORATORIES, INC. IN SUPPORT OF NEITHER PARTY

GARRARD R. BEENEY
AKASH M. TOPRANI
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, New York 10004
(212) 558-4000

Counsel for Amicus Curiae
Dolby Laboratories, Inc.

August 30, 2019

CORPORATE DISCLOSURE STATEMENT

Dolby Laboratories, Inc. does not have any parent corporations, and no publicly held corporation owns 10% or more of its stock.

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Page(s)

Cases

Statutes and Rules

Government Publications

Other

INTEREST OF AMICUS CURIAE[1]

Founded in 1965 and headquartered in California, Dolby Laboratories, Inc. ("Dolby") has a long history of innovation, delivering a series of new and superior products in numerous technologies, including audio and video compression and noise reduction, to consumers around the globe. From its beginnings in addressing analog noise reduction, to path-breaking digital surround sound in cinemas, to today's applications which stream content to mobile devices and the home, Dolby has continued to bring value to consumers by introducing multiple generations of new fundamental technologies that enable superior consumer experiences in content ecosystems across industries. Since its founding, Dolby has relied upon legal protections for its intellectual property to further fuel cutting-edge research and as a means to bring its innovations into the hands of consumers.

Dolby has been an innovator not only in technology, but also in the way Dolby shares its innovations and technologies with market participants. For example, over its history, Dolby has shared its technology and expertise with a variety of standard development organizations ("SDOs"), and allowed others access to that technology

[1] Pursuant to Federal Rule of Appellate Procedure 29(a)(4)(E), Dolby Labs affirms that no counsel for a party authored this brief in whole or in part, and that no person other than *amicus* or its counsel contributed any money to fund its preparation or submission. Additionally, pursuant to Federal Rule of Appellate Procedure 29(a)(2), all parties have consented to the filing of this *amicus* brief.

through both patent pools and Dolby licensing programs. As a result of Dolby's participation in SDOs, these organizations have standardized technologies which have benefited from Dolby's contributions, thereby enabling a wide array of industry participants to bring new and innovative products to consumers.

As a result of its history of innovation, Dolby has been awarded and owns multiple patents. Because Dolby's inventions have been widely adopted by many SDOs as the best or superior technological solution to the challenges of innovation, Dolby also owns many patents that are essential to the practice of several SDO standards, known as standard essential patents ("SEPs").

Dolby submits this brief to address the district court's improper holding that Qualcomm's assurances pursuant to the intellectual property rights ("IPR") policies of two SDOs, the Alliance for Telecommunications Industry Solutions ("ATIS") and the Telecommunications Industry Association ("TIA"), require Qualcomm to license its SEPs to chipset manufacturers. The district court's construction of Qualcomm's assurances misconstrues the contractual language at issue and thereby incorrectly limits the ability of licensors and licensees to determine how to best structure their licensing arrangements to bring new technologies and products to market.

Undoubtedly, Qualcomm has provided assurances that it will license its SEPs for standards adopted by ATIS and TIA on fair, reasonable and non-discriminatory

terms ("FRAND"), to further enable widespread adoption of the SDO standards in consumer products. These assurances, however, do not prescribe to whom in the product manufacturing chain a license *must* be offered. Dolby firmly believes that collaborative standard setting and new product introduction works best when market participants are free to adopt the license structure that suits their needs, whether this be licensing end products or licensing components that are incorporated into those end products. This historical flexibility has not only enabled widespread distribution of new technologies to consumers, but also has encouraged innovators' participation in SDOs' development of superior technologies by giving them flexibility within the general FRAND license requirements they agree to. By interpreting Qualcomm's assurances as *requiring* Qualcomm to license SEPs to chip manufacturers, the district court eliminated the important flexibility of patentees to determine where in the product manufacturing and distribution chain to license products incorporating the SDO standard. Dolby submits this brief to point out not only how the district court's erroneous interpretation of the relevant agreements is at odds with the contractual language and decades of established and successful industry practice, but also how imposing a general duty to license at a particular point in the product manufacturing chain would disrupt the efficient licensing models that private industry has adopted in many contexts.

INTRODUCTION

In its decision granting summary judgment, the district court held that, as a matter of law and contract interpretation, the assurances Qualcomm made pursuant to the TIA and ATIS IPR policies require Qualcomm to license its SEPs to modem chip suppliers. ER273. This holding is incorrect as a matter of contract interpretation, inconsistent with established industry practice, and would impose multiple inefficient licensing requirements and discourage innovators' participation in SDO technology development.

The district court's decision relies upon a reading of "non-discrimination" in the FRAND commitment that is at odds with the long-held understanding of market participants, and that is inconsistent with industry practice in many fields that rely upon standards. In contrast to the established understanding that non-discrimination relates to the terms offered to similarly situated licensees (and does not inform to whom a license must be offered), the district court interpreted non-discrimination as imposing "an obligation to license all who seek a license, including competing modem chip suppliers." ER265.

By its terms, however, the relevant IPR policies do not mandate licensing to "all" applicants, and the policies and Qualcomm's assurances expressly require licensing only to a particular and defined class of implementers of the standard. In

the IPR policies relevant here, those entitled to rely on Qualcomm's assurances are end product manufacturers and sellers, not chip makers.

The district court's interpretation is not only at odds with contractual language, but it also conflicts with how that and similar language has been understood as a matter of industry practice: SEP licensing is normally done in many industries at the end-product level. This is because, for a variety of legal and practical reasons, SEP licensors seek to obtain a royalty for the use of its SEPs at only one point in the product manufacturing chain rather than from multiple portions or components of a product that use or incorporate the patented technology. For example, with regard to the mobile communications standards at issue in this litigation, an SEP owner could obtain a royalty-bearing license from the manufacturer of a chipset that uses the patent, the manufacturer of a component that may include the chipset, or from the smartphone that includes the component or chipset, but generally not from more than one on a specific patent. For a variety of practical reasons discussed below, industry custom has been to seek a FRAND royalty and SEP license from the end-unit manufacturer or seller, and the contractual language of Qualcomm's assurances recognizes the flexibility industry practice has adopted. However, the district court's ruling, if left undisturbed, will put SEP licensors in an inefficient situation of *requiring* a FRAND license to any chip,

component or end-product manufacturer, even though all such applicants contribute to the same end product.

Moreover, following the district court's newly imposed rule is far from straightforward. When product and component manufacturers implement open standards, not only would it be difficult and costly to determine which devices have been licensed as a result of chip or component licensing, but complexities of determining which SEPs may be infringed by which participants in the product manufacturing chain require expensive and time-consuming solutions that generally are obviated by end-product licensing. The standardized functionality in many of the smartphones at issue here results from the interaction of hardware, software, and firmware that is often obtained from complex supply networks around the globe and not combined together until production of the end device. Thus, it is difficult and costly to determine whether—and to what extent—any subassembly or component may actually infringe an SEP.

What is straightforward is that fully-assembled and operational end-products practice the standards that they are certified to practice. And, by extension, they infringe the patents essential to those standards. The patent statute, 35 U.S.C. § 271(a), establishes that "whoever without authority makes [or] uses . . . any patented invention . . . infringes the patent," and 35 U.S.C. § 284 establishes that, in the event of infringement, "the court shall award . . . claimant damages adequate to

compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." Thus, under the law, an SEP owner is entitled to a reasonable royalty to compensate for the infringement by sale and use of end-products. In most cases, it is most efficient for both licensees and licensors that the license bearing this statutory-afforded royalty be negotiated between the SEP owner and the end-product manufacturer.

As a result, countless licensors who have offered FRAND commitments to SDOs typically choose to license their SEPs at the end-product level for multiple reasons. These include: (i) conforming to long-established market practice and expectations; (ii) seeking fair royalties for patents through basing royalty rates on the product which fully reflects the value of standardized technology and benefits from the patented invention; (iii) the ability to track end products in worldwide licensing programs and thereby determine which products are or are not licensed; and (iv) the ability of end-product manufacturers to appropriately price their products to include the cost of intellectual property based on the value of the SEP to their products.

These practices are fully in accord with the purpose of SDO FRAND policies. Antitrust agencies around the world have long-recognized that the purpose of the FRAND commitment is to mitigate the risk of patent hold up during the standard setting process as a result of a patented technology being incorporated into a

standard, while encouraging both use of the standardized technology and innovators' widespread SDO participation to develop new technologies by enabling a fair return on licensing IP. *See* U.S. Dep't of Justice and Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, at Ch. 2 § IV.B. (Apr. 5, 2007), https://www.justice.gov/atr/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition ("2007 DOJ/FTC Report"). As the European Commission has explained:

> Standards ensure that interoperable and safe technologies are widely disseminated among companies and consumers. Patents provide R&D with incentives and enable innovative companies to receive an adequate return on investments. . . .
>
> Smooth licensing practices are therefore essential to guarantee fair, reasonable and non-discriminatory access to standardised technologies and to reward patent holders so they continue to invest in R&D and standardization activities.

European Commission, *Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: Setting out the EU Approach to Standard Essential Patents*" at 1-2 (Nov. 29, 2017), https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0712&from=GA ("EC Communication"). Prior to this litigation, there has been no

similar understanding that the FRAND commitment was meant to impose a requirement to license anyone other than end-product manufacturers.

The district court's summary judgment opinion below casts a shadow over these well-established global licensing practices. The determination that Qualcomm's FRAND commitments constituted contractual obligations to license Qualcomm's SEPs to chip suppliers, as opposed to allowing Qualcomm to license end-user device manufacturers, was wrong for multiple reasons.

First, the plain language of the IPR policies at issue provide an obligation to license only those who "practice" or "implement" the two standards at issue. In the context here, it is end products that implement and practice the standards, and generally not components.

Second, extrinsic evidence, properly evaluated under California law, demonstrates that there is no FRAND contractual obligation to license components. The purposes of FRAND policies—to encourage wide use of the standard, avoid blocking implementation of the standard, and encourage innovators to participate in SDO activities by allowing a fair return on their SEPs—is completely fulfilled by licensing end-products. Reflecting the benefits of end-product licensing and how it serves the purpose of FRAND, industry has for decades licensed SEPs at the end-product level where appropriate.

Third, the district court misconstrued this and other courts' precedents as requiring that SEPs be licensed at the component level. There is no such authority; to the contrary, decisions of U.S. courts as well as guidance from government agencies around the world confirm that SEPs are not required to be licensed at any particular level, and certainly not at the component level.

Finally, the decision below would wreak havoc on successful and pro-competitive licensing models developed over decades that license SEPs subject to FRAND commitments only to end products. Licensing SEPs on FRAND terms to end-product manufacturers has been a consistent aspect of many industries and a material contribution to their success, allowing widespread consensual licensing on mutually-agreed and fair terms, and avoiding expensive infringement litigation. Those end-product licenses have worked well, enabling competitive markets, widespread use of standards, fair return to owners of SEP, and continued innovation. As shown below, mandating licensing at the chip level would upset this careful historical balance and create multiple inefficiencies, costs and uncertainties in worldwide licenses of SEPs.

While the ultimate remedy imposed by the district court may be appropriate in certain circumstances,[2] this Court should clarify that the FRAND licensing

[2] Dolby expresses no opinion about the circumstances under which the antitrust laws impose a duty to deal with competitors, and whether, in a particular case, mandating

policies at issue do not, as a matter of contract, require licensing at the chip or component level.

ARGUMENT

I. THE DISTRICT COURT ERRED BY CONCLUDING THAT QUALCOMM'S FRAND COMMITMENTS IMPOSE A CONTRACTUAL OBLIGATION TO LICENSE AT THE CHIP LEVEL

A. The Plain Language of the Relevant FRAND Contracts is Satisfied by Licensing End-User Device Manufacturers and Sellers

Dolby has agreed to multiple FRAND commitments to several SDOs, and the exact nature of those obligations naturally depends on the specific contractual language in each FRAND commitment. As a general matter, however, while those commitments *permit* FRAND licensing to anyone, Dolby generally does not understand these commitments to *require* offering a license on FRAND terms to each participant in the product manufacturing chain. Consistent with this understanding, Dolby has entered into thousands of licenses with end-product manufacturers, both through bilateral agreements and through patent pools,[3] thereby

---

licensing to a competitor may be an appropriate remedy for an adjudicated violation of the antitrust laws.

[3] Patent pools consist of "pools" of patents, typically SEPs, owned by multiple licensors which are licensed in a single, worldwide standardized license by the pool administrator. *See* Gavin Clarkson & Joshua Newberg, *Blunt Machetes in the Patent Thicket: Modern Lessons from the History of Patent Pool Litigation in the United*

permitting those licensees to use Dolby's SEPs when implementing standardized technologies.

The FRAND license obligation in this case arises from Qualcomm's assurances to ATIS and TIA. ER252. As noted by the district court, ATIS and TIA are both SDOs that facilitate the creation of technical standards for certain cellular communications. ER251.

In relevant part, Qualcomm's assurances concerning its ATIS SEPs incorporate language from the ATIS IPR policy, which requires an SEP holder to provide "assurance that a license to each essential patent claim(s) will be made available to applicants desiring to utilize the license for the purpose of implementing the standard . . . under reasonable terms and conditions that are demonstrably free of any unfair discrimination." ER1031.

Similarly, Qualcomm's assurances concerning its TIA SEPs arise from the TIA IPR policy, which requires that an SEP holder provide a commitment to license "all applicants under terms and conditions that are reasonable and non-discriminatory, which may include monetary compensation, and only to the extent necessary for the practice of any or all of the Normative portions for the field of use of practice of the Standard." ER1038-1039.

States Between 1900 and 1970, 22 J. Tech. L. & Pol'y 1, 2-3 (2018). As shown *infra*, virtually all SEP pools license only at the end-product level.

In the context of the standards at issue, these policies by their terms are satisfied by licensing at the end-product level because only end products "practice" or "implement" "the" standard as promulgated by the SDO. Indeed, it was uncontested below that a component chip does not by itself complete the relevant ATIS and TIA standards: as the district court found, component manufacturers do not "themselves 'practice' or 'implement' *whole* standards." ER271 (emphasis added).[4] Instead, a standard-compliant device such as a smartphone at issue here typically uses many different components that, working together, implement the relevant standards. *See* ER265 ("A single standard can implicate perhaps hundreds, if not thousands of patents." (internal quotation marks omitted)).

Despite these factual determinations, the district court nevertheless found that the language of Qualcomm's FRAND commitments at issue required component licensing based on two fundamental errors. *First*, the district court reasoned that licensing only end-user device manufacturers "violates the non-discrimination obligation" under the IPR policies—*i.e.*, concluding that an SEP holder cannot discriminate by refusing a license to a component manufacturer while offering one

[4] Use of the term "*whole* standards" is redundant. There is no suggestion that the SDOs at issue intended "implementing" or "practicing" "the standard" to be less than the entire standard. In sum, "the standard" is the standard, not part of the standard.

to an end-user device manufacturer. ER271. That reading misconstrues the import of the non-discrimination obligation in the TIA and ATIS policies. The FRAND obligation requires non-discrimination among those entitled to a license; it does not inform who must be offered a license.[5] Indeed, even the FTC recognized that the TIA and ATIS IPR policies do not require that FRAND licenses be offered to all applicants, explicitly acknowledging that the FRAND licensing obligation does not apply to "applicants that wish to implement *other* standards." FTC Summ. J. Reply Br., *Fed. Trade Comm'n* v. *Qualcomm Inc.*, No. 17-cv-00220, ECF No. 893 at 8 (N.D. Cal. Oct. 4, 2018) (emphasis in original). Qualcomm was actually entitled to limit its FRAND license under the explicit terms of the IPR policies at issue to a specific class of those implementing or practicing the standards at issue. Thus, the determination below conflated the issue of what is mandated by FRAND when it does apply with the question of to whom a FRAND license must be offered. The non-discrimination provisions of the IPR Policies at issue are silent on the latter point.

[5] *See* ER1031 (patent holder must license only "applicants desiring to utilize the license for the purpose of implementing the standard," and those licenses must be on FRAND terms); ER1038-1039 (patent holder must license "all applicants" under FRAND terms, but "only to the extent necessary for the practice of . . . the Standard").

Second, the district court focused on specific language in the TIA IPR policy (but not in the ATIS IPR policy), which provides that a license must be granted for "the practice of any or all of the Normative *portions*" of the standard "for the field of use of practice of the standard." ER272 (emphasis by district court). This, the district court concluded, showed that the license obligation is not restricted to those who practice or implement the "whole" standard, but extends to those who practice only a "portion" of the standard. But the court failed to recognize the TIA IPR policy's definition of "Normative" refutes any such conclusion. As another court explained, the function of the "Normative" language is to clarify that a patentee has a FRAND obligation to those practicing the standard even if the standard is implemented by using an "optional" element of the standard, *i.e.*, using an alternative way to completely practice or implement the standard. *See Koninklijke Philips NV* v. *Asustek Computer Inc.*, [2016] EWHC 2220 (Pat) ¶ 57 (normative language used "to make it explicit that a patent was necessarily infringed by the practice of an 'optional' element of a standard was nonetheless still an 'essential' patent").

In other words, the language relied upon by the district court provides no more than that a device manufacturer practicing or implementing "the standard" through one or more normative portions is entitled to a license. Use of "normative portions" does not imply that the FRAND obligation requires extending a license to those who do not implement or practice the standard but only a portion of it. To the contrary,

as described in the very provisions relied upon by the district court, licenses may be restricted to only those that "practice the standard."

In sum, the language of the TIA and ATIS IPR and FRAND policies does not mandate licensing at the chip or component level.

B. Extrinsic Evidence Confirms that FRAND Does Not Require Licensing at the Component Level

1. Worldwide Industry Practice Reflects No Component Level Licensing Requirement

The consistent experience of Dolby, a licensor to thousands of licenses under SEPs, is that FRAND licensing of SEPs takes place at the end-product level. For example, Dolby has several bilateral patent licensing programs for its patents that are essential to standardized technologies such as HEVC (a video coding technology) and AAC (an audio coding technology), which license end products.

In addition to its own licensing programs, Dolby also licenses its SEPs through patent pools, by licensing its SEPs in a joint license with multiple other SEP owners. Those programs—administered by patent pool administrators such as Via Licensing, MPEG LA and HEVC Advance—also license almost exclusively at the end-product level notwithstanding that many or all of the SEPs licensed through these pools are subject to SDO FRAND commitments.[6]

---

[6] *See*, *e.g.*, Via Group, AAC Frequently Asked Questions," http://www.via-corp.com/licensing/aac/faq.html ("Who must sign a license? An AAC patent license

In combination, these pools and licensing programs license end products across numerous industries and applications, including smartphones, to a multitude of licensees.[7] These end-product licenses include portfolios of patents subject to the same or similar FRAND commitments at issue in this case.

Dolby's experience and those of other licensors as reflected in the patent pools described above—that FRAND does not require component licensing—is consistent with worldwide governmental agency guidance on the requirements of FRAND. For example, although the U.S. Department of Justice Antitrust Division and Federal

---

is needed by manufacturers or developers of end-user encoder and/or decoder products."); Via Group, "IEEE 802.11 standard," http://www.via-corp.com/us/en/licensing/ieee-80211/overview.html ("Via Licensing offers this patent licensing program to manufacturers of end user products that implement the IEEE 802.11 standard."); MPEG LA, "DisplayPort FAQ," https://www.mpegla.com/programs/displayport/faq/ ("Q: Who signs the DisplayPort Patent Portfolio License? A: A company offering branded or other end products that use the DisplayPort technologies would sign the DisplayPort Patent Portfolio License."); One-Blue, "One-Blue License Program," https://www.one-blue.com/license-programs/ (offering licensing terms for "products that conform to the UHD Standard Specifications, BD Standard Specifications, DVD Standard Specifications and the CD Standard Specifications applicable to BD and UHD products"); HEVC Advance, "HEVC Advance Program Overview 10," https://www.hevcadvance.com/pdfnew/HEVC_Advance_Program_Overview.pdf ("TOPIC: What do we License – Devices . . . We license HEVC Decoders and Encoders in Consumer HEVC Products"); Avanci, "FAQ," http://avanci.com/faq/ ("Who should obtain a license from Avanci? Manufacturers who are creating products for the Internet of Things and including wireless connectivity in their new devices should take a license from Avanci.").

[7] *See* n.6, *supra*.

Trade Commission have issued multiple guidelines and statements regarding FRAND licensing (*see*, *e.g.*, 2007 DOJ/FTC Report, *supra*), Dolby is not aware of either agency (other than the FTC in this case) asserting that FRAND requires chip or component licensing.

Multiple international government agencies are in accord. For example, the European Commission has set out multiple licensing guidelines and requirements for SEPs, but imposes no obligation to license at the component level. *See generally* EC Communication, *supra*.

Similarly, a Chinese Court that regularly addresses FRAND issues recently issued guidance on SEPs, which implicitly recognizes that FRAND licensing may be at the end-product level, and, while establishing multiple requirements and guidelines, suggests no FRAND obligation on the patentee to license at the chip or component level. *See* Guangdong High People's Court, *Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)* (Apr. 26, 2018), http://www.iprdaily.cn/article_18855.html; *see also* Hogan Lovells, "Guangdong Court Issues new Guidance for Standard Essential Patent Disputes" (May 2018), https://www.hoganlovells.com/en/publications/~/media/15a4dfbf48264596a8c1137051b39451.ashx.

Likewise, the Japan Patent Office specifically determined that SEP licensing does not require licensing at the component level: "In general, the rights holder is

in the position to decide with which party in the supply chain it signs an agreement, *e.g.*, end product manufacturer, component manufacturers, or subcomponent manufacturer." Japan Patent Office, *Guide to Licensing Negotiations Involving Standard Essential Patents*, at 24 (June 5, 2018), https://www.jpo.go.jp /e/system/laws/rule/guideline/patent/document/seps-tebiki/guide-seps-en.pdf; *see also id.* at 13 (recognizing the potential need for the "implementer" in licensing negotiations with the "rights holder" to obtain technical information from the "implementer's" component suppliers).

While this worldwide guidance does not bind this Court to a particular contractual interpretation, it is persuasive evidence of parties' intent in entering into FRAND commitments. Moreover, because the bulk of SEP licensing is worldwide, international practice and guidance is relevant, and harmonization of worldwide requirements for these licenses is important.

2. The District Court Disregarded Relevant Evidence of Widespread Practice in Multiple Industries

Qualcomm offered testimony from several SEP holders that licenses pursuant to SDO FRAND commitments are generally made available for the manufacture and sale of end-user devices, but not for the manufacture and sale of components. *See* Qualcomm Summ. J. Opp. Br., *Fed. Trade Comm'n* v. *Qualcomm Inc.*, No. 17-cv-00220, ECF No. 870 at 8-10 (N.D. Cal. Sept. 24, 2018) ("Qualcomm SJ Opp."). This is consistent with the Dolby's experiences and observation, and was

acknowledged by the FTC's own expert, who admitted that industry "practice to date is—has been people take licenses at the device level." Donaldson Dep. Tr., *Fed. Trade Comm'n* v. *Qualcomm Inc.*, No. 17-cv-00220, ECF No. 870-2 at 283:17-24 (N.D. Cal. Sept. 24, 2018). Nevertheless, the district court discounted this evidence entirely.

The district court should have credited this persuasive evidence. Under California law,[8] it is well established that evidence of industry practice "is always admissible . . . as a means of [contract] interpretation where it does not alter or vary the terms of the contract." *Gerawan Farming Partners, Inc.* v. *Westchester Surplus Lines Ins. Co.*, 2008 WL 80711, at *15 (E.D. Cal. Jan. 4, 2008) (quoting *California Lettuce Growers, Inc.* v. *Union Sugar Co.*, 45 Cal.2d 474, 482 (1955)). The district court's two reasons for discounting this extrinsic evidence do not withstand scrutiny.

First, the district court discounted Qualcomm's evidence because "none of those assertions are tethered to an interpretation of any IPR policy." ER270. This misses the point; industry practice prevalent at the time that Qualcomm granted its FRAND assurances (and at the time that ATIS and TIA adopted their IPR policies) informs each of the parties' expectations of what those agreements meant. This evidence shows that end-product licensing was an accepted norm across multiple

[8] Dolby takes no position on appropriate choice of law, but follows the parties' and district court's application of California law.

industries. There would be no need to have an explicit and unambiguous statement of intention from ATIS or TIA to confirm that its policies were consistent with industry practice; indeed, to be contrary to industry practice (and consistent with the district court's holding), one would expect the relevant SDOs to explicitly state that there is a requirement to license components, but there is no record evidence of ATIS or TIA making any such statement. *See Midwest Television, Inc.* v. *Scott, Lancaster, Mills & Atha, Inc.*, 205 Cal. App. 3d 442, 451 (1988) ("Generally, when there is a custom in a certain industry, those engaged in that industry are deemed to have contracted in reference to that practice unless the contrary appears.").

Second, the district court identified specific exceptions to the general industry practice that Qualcomm's evidence established, ER269-271, and consequently concluded that the general practice of end-product licensing was therefore not sufficiently "certain, uniform, . . . or generally known and notorious" as to be "regarded as part of the contract," ER270 (quoting *Webster* v. *Klassen*, 109 Cal. App. 2d 583, 589 (1952)). In so doing, the court misapplied California law.

The term "uniform," as used by the court in *Webster*, does not mean "without any exceptions." This rule traces back to *Crocker-Woolworth Nat. Bank* v. *Nevada Bank*, 139 Cal. 564 (1903).[9] In that case, the California Supreme Court distinguished

[9] In relevant part, *Webster* cites to *Security Com. & Sav. Bank* v. *Southern Trust & Com. Bank*, 74 Cal. App. 734, 749 (1925), which in turn relies on *Crocker*.

"uniform" from "well-nigh universal," finding that evidence of "uniform" practice can admit to exceptions while still being informative. *Id.* at 582. Indeed, the *Crocker* court suggested that not even "uniform" conduct was necessarily required for industry custom to be relevant to contractual interpretation; the court considered certain evidence of custom that, despite not being "uniform practice," was "certainly the general practice." *Id.*

In addition to misapplying controlling law, the district court cited no persuasive evidence contradicting the "uniform" practice of end-product licensing. The district court placed great emphasis on the fact that Qualcomm—a component manufacturer—has been granted licenses to SEPs as a result of the grant-back requirement in Qualcomm's licenses with end-product manufacturers. *See* ER269-270. But, as Qualcomm explained, it does not proactively seek licenses for its cellular components; rather, it obtained cross-licenses or grant-backs from its licensees to clear blocking positions. *See* Qualcomm SJ Opp., *supra*, at 10 n.3. Whatever may be said of Qualcomm's grant-back requirements, it is not evidence that component manufacturers are routinely extended licenses, or evidence that counters the general industry practice of licensing SEPs only at the end-product level.[10]

[10] After trial, the district court also noted that at some point in the past, "Qualcomm previously licensed its SEPs to its rivals," but later began to license only end-user

3. The District Court's Interpretation of the TIA and ATIS IPR Policies Fails to Maintain their Required Consistency with Other IPR and Patent Policies

ATIS and TIA are the North American regional partners of the 3GPP and 3GPP2 global collaborative partnerships. The IPR policies of regional partner organizations such as ATIS and TIA are required to be consistent with those of the other regional partners of 3GPP and 3GPP2. *See* ER883, ER1025-1026. Rather than comporting with the required consistency, the opinion below creates a contradiction between the ATIS and TIA policies and those of other partner SDOs, such as European Telecommunications Standards Institute ("ETSI"). For example, the Eastern District of Texas recently held that the ETSI IPR policy does not "impose a requirement that every FRAND license must be based on the SSPPU" or "smallest salable patent practicing unit," *i.e.*, a component. *HTC Corp.* v. *Telefonaktiebolaget LM Ericsson*, 2019 WL 126980, at *5 (E.D. Tex. Jan. 7, 2019). To support its conclusion, the *HTC* court noted that "the prevailing industry standard or approach has been to base FRAND licenses on the end-user device and not on the SSPPU." *Id.* (citing sources).

---

device manufacturers because that was "humongously more lucrative." ER125-126. But, of course, the fact that one company for some unspecified duration in the past offered licenses to component manufacturers does not identify what the "general practice" was at the time SEP holders contracted pursuant to the relevant TIA and ATIS IPR policies. *Crocker*, 139 Cal. at 582.

Similarly, the American National Standards Institute ("ANSI") is the body that accredits American SDOs such as ATIS and TIA. ATIS and TIA have kept their IPR policies consistent with ANSI's own patent policy: ATIS adopted ANSI's patent policy word-for-word, while the wording of the TIA IPR policy is functionally equivalent. *Compare* ER899, *with* ER1031, ER1038-1039. In a recent decision, the ANSI Executive Standards Council Appeals Panel rejected the contention "that ANSI's Patent Policy requires licensing at the component level." ER908 (emphasis omitted). Rather, the panel left "it to negotiations between patent holders and implementers to decide what licensing terms are appropriate in particular standards." *Id.*

The district court held that this evidence was not relevant because—in its view—the interpretation of the ETSI IPR policy and ANSI patent policy were not related to the "circumstances surrounding the making of the [TIA and ATIS IPR policies]." ER261 (quoting *Pac. Gas & Elec. Co.* v. *G.W. Thomas Drayage & Rigging Co.*, 69 Cal. 2d 33, 40 (1968)). This is incorrect. Far from being unrelated, the link between the proper interpretations of the ETSI IPR policy and ANSI Essential Requirements, and the TIA and ATIS IPR policies, is direct. For ETSI, its IPR policy must be consistent with the TIA and ATIS IPR policies per 3GPP and 3GPP2 requirements. Likewise, to be accredited by ANSI, TIA and ATIS must have an IPR policy that aligns with the ANSI Essential Requirements. Thus, in both

instances, the ATIS and TIA IPR policies would have been determined with the background of other policies that had no requirement to license at the component level, and the district court's disregarding of this important context was error.

C. The District Court's Ruling Misapplied Appellate Precedent

1. The *Microsoft* and *Ericsson* Decisions Are Not Relevant

The district court relied heavily on dicta from this Court's decisions in *Microsoft Corp.* v. *Motorola, Inc.*, 696 F.3d 872 (9th Cir. 2012) ("*Microsoft II*") and *Microsoft Corp.* v. *Motorola, Inc.*, 795 F.3d 1024 (9th Cir. 2015) ("*Microsoft III*"), which addressed the determination of a FRAND rate for SEPs essential to International Telecommunications Union ("ITU") video coding standards.

The district court cited these decisions for the proposition that an "SEP holder that commits to license its SEPs on FRAND terms must license those SEPs to all applicants," including chip makers which were not in any way an issue in the two *Microsoft* decisions. ER266. In support of its determination, the district court cited this Court's language that (i) the ITU IPR policy required SEP holders to license "*all comers*," ER265 (quoting *Microsoft II*, 696 F.3d at 876) (emphasis by district court), and (ii) that an "SEP holder *cannot refuse* a license to a manufacturer who commits to paying the FRAND rate," *id.* (quoting *Microsoft III*, 795 F.3d at 1031) (emphasis by district court).

The *Microsoft* cases, however, concerned a royalty dispute over *end-user* devices. *See Microsoft II*, 696 F.3d at 879 (allegedly infringing products were "the Microsoft Xbox gaming system and certain Microsoft Windows software"). There was no dispute about Microsoft's right—as an end-product manufacturer—to receive a FRAND license. *See id.* at 884. This Court's references to "all comers" and refusals to license applied to the issue in that case: a methodology for determining a FRAND royalty for an end-product, and not to whether FRAND required licensing chip makers. In neither decision did this Court address the present issue: who in the product manufacturing chain must be given a license under FRAND SDO requirements.

The district court also misread the Federal Circuit's decision in *Ericsson, Inc.* v. *D-Link Sys., Inc.*, 773 F.3d 1201 (Fed. Cir. 2014). According to the district court, "the Federal Circuit [in *Ericsson*] has . . . held that S[D]O IPR policies require SEP holder to grant licenses 'to an unrestricted number of applicants,' and that such a FRAND commitment prohibits the SEP holder from refusing to license its SEPs to others who wish to use the invention." ER266 (quoting *Ericsson*, 773 F.3d at 1230). In the portion of the opinion cited by the district court, however, the Federal Circuit merely comments (in dicta) on *how many* licenses must be given—*i.e.*, an "unrestricted number"—to those entitled to a license. *Id.* Nowhere did the Federal Circuit address *who* must be given a license, because—like in the *Microsoft*

litigation—that question was not before the court. Indeed, the actual issue in *Ericsson* was "appropriate [F]RAND royalty rates" to end-product manufacturers, *Ericsson*, 773 F.3d at 1229, and not to whom FRAND licensing obligations are owed.

2. Authority Not Cited by the District Court Rejects Component Licensing Requirements

While inappropriately relying on inapposite cases, the district court failed to address the Federal Circuit's holding in *Commonwealth Sci. & Indus. Research Organisation* v. *Cisco Sys., Inc.* ("*CSIRO*"), 809 F.3d 1295 (Fed. Cir. 2015). In *CSIRO*, the Federal Circuit addressed whether a reasonable royalty for infringement of an SEP must begin with the value of the SEP to the smallest salable patent practicing unit or "SSPPU." While CSIRO did not explicitly address whether the FRAND commitment required component or SSPPU licensing, the Federal Circuit implicitly rejected the notion by holding that a rule that "would require all damage models to begin with the smallest salable patent-practicing unit[] is untenable." *Id.* at 1303.[11] Indeed, the Federal Circuit specifically rejected Cisco's argument that the district court erred by not beginning its damage analysis for infringement of an SEP with the "wireless chip." *Id.* at 1301. The Federal Circuit instead concluded that it

[11] A small percentage of the products accused of infringement in *CSIRO* were subject to a FRAND commitment (to an SDO called the Institute of Electrical and Electronics Engineers).

was appropriate to value "the asserted patent with reference to end product licensing negotiations." *Id.* at 1303; *see also Intellectual Ventures II LLC* v. *Sprint Spectrum, L.P.*, 2019 WL 1877309, at *4 (E.D. Tex. Apr. 26, 2019) ("[N]ot all damages models must begin with the SSPPU, as requiring every damages model to do so conflicts with" *CSIRO*. (internal quotation marks omitted)).

If SEPs must be licensed to component manufacturers—as the district court held—that would turn the very approach rejected as "untenable" by the Federal Circuit into a *requirement*.

II. IF AFFIRMED, THE DISTRICT COURT'S RULING WOULD UPEND LICENSING PRACTICES ACROSS NUMEROUS MARKETS AND MANDATE INEFFICIENT LICENSING

The district court's determination that Qualcomm's commitments to ATIS and TIA require SEP owners to grant licenses to all applicants is not only at odds with the expectations of thousands of parties to existing FRAND licenses, but would also force future SEP licensing into an unworkable system. Forcing SEP holders to license component suppliers would interfere with historical precedents and established practices, and produce significant inefficiencies and lack of transparency regarding whether products in the stream of commerce are in fact licensed.

For example, mandating chip licensing causes difficulties and inefficiencies in both the infringement and patent essentiality analysis. Patentees must naturally determine which manufacturer/seller is actually *using* its patent before seeking a

license under its patents. In the case of standardized technologies and end products, the process is relatively confined: if the patent is essential to a standard and the standard is employed in a product, use (or infringement) may be proven. *See Fujitsu Ltd*. v. *Netgear Inc*., 620 F.3d 1321, 1327 (Fed. Cir. 2010).

This calculus can be far more time consuming, expensive, and complex for components. It requires answers to complex, fact-specific inquiries, including: (i) what functions are actually carried out by a chip and do those functions meet all patent claim limitation; and (ii) is it one component in an end product that practices all elements of an asserted claim or more than one? By mandating component licensing, the holding below would substantially increase the cost and decrease the efficiency of licensing SEPs by forcing industry to abandon its established practices that have avoided the necessity of addressing these complex and time consuming issues if components were the licensed "product."

In addition, licensing on a component basis also would require licensors to keep track of what is licensed on a component-by-component basis. Under the current practice, where end products are normally licensed, licensors typically track which products are licensed by following end products and their manufactures. The process is straightforward and comparatively efficient, as the identity of the manufacturer and/or seller of end products is transparent through market reports, other third party data, and use of visible brand names.

This is generally not the case with components or chips. Without proprietary information, it would be substantially more difficult to determine which components are used in which product and their source. Even with such knowledge, which components are licensed and which are not may not readily be apparent. End-product manufacturers may use different vendors for the same or similar components, making it possible and even likely (if components are licensed) that some of the same products may be licensed while others are not. It may be difficult and costly to determine which end products use which vendor components.

In sum, the efficiency of end product licensing—a primary reason SEPs typically are licensed at that level—would be undone by the holding below, adding costs, inefficiencies and complexities to licensing.

CONCLUSION

Dolby respectfully submits that for the reasons explained above—the language of FRAND commitments given by Qualcomm, industry practice, precedent, and the practicalities of licensing—there is no contractual FRAND obligation to license SEPs at the component level based upon assurances made in accordance with the TIA and ATIS IPR Policies. The district court's summary judgment determination to the contrary should be reversed.

August 30, 2019

Respectfully submitted,

/s/ Garrard R. Beeney

Garrard R. Beeney
Akash M. Toprani
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, NY 10004
(212) 558-4000

Counsel for Amicus Curiae
Dolby Laboratories, Inc.

CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32 and Circuit Rule 32-3, counsel for *Amicus Curiae* Dolby Laboratories, Inc. hereby certifies that this brief is proportionally spaced, has a typeface of 14 points or more, and contains 6759 words.

August 30, 2019

/s/ Garrard R. Beeney
Garrard R. Beeney
Counsel for Amicus Curiae
Dolby Laboratories, Inc.

CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of August, 2019, I electronically filed the foregoing Brief of Amicus Curiae with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate ECF system. Counsel for the parties are registered ECF users.

August 30, 2019

/s/ Garrard R. Beeney
Garrard R. Beeney
Counsel for Amicus Curiae
Dolby Laboratories, Inc.