Standards and Patents in the Telecom and ICT Sectors

- U.S. Perspective

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Standard Essential Patents (SEPs) / RAND

- Relevant Issues:
  – When is a patent a SEP?
  – Does the patent have RAND obligations?
  – How to determine a reasonable royalty?
  – What are non-discriminatory terms?
  – Other obligations of the patent owner?

What is a SEP?

Standard Essential Patent Claims

- IEEE Bylaws for Patents (2015)
  - "Essential Patent Claim" shall mean any Patent Claim the use of which was necessary to implement either a mandatory or optional portion of a normative clause of the IEEE Standard when, at the time of the IEEE Standard's approval, there was no commercially and technically feasible non-infringing alternative.
  - An Essential Patent Claim does <u>not</u> include any Patent Claim that was essential only for Enabling Technology or any claim other than that set forth above even if contained in the same patent as the Essential Patent Claim.

http://standards.ieee.org/develop/policies/bylaws/approved-changes.pdf

Standard Essential Patent Claims

- *In re Innovatio,* 956 F. Supp. 2d 925 (N.D. Ill. 2013)
  - Analyzed an "Essential Patent Claim" in accordance with IEEE Bylaws (proposed form in 2013)
  - "[T]o determine if a claim is necessary, one must ask if there were commercially and technically feasible non-infringing alternative ways to implement the standard at the time of the standard's approval." *Id.* at 938.
  - Held that the burden is on the accused infringer to prove essentiality. *Id.* at 939.

Reasonable Terms

RAND: What Is a Reasonable Royalty?

- In the U.S., courts beginning to address issue
- Bench Trials
  - *Microsoft v. Motorola* – April 2013 (Judge Robart)
  - *In re Innovatio* – September 2013 (Judge Holderman)
- Jury Trials
  - *Ericsson v. D-Link* – June 2013
  - *LSI v. Realtek* – February 2014
- Federal Circuit Decisions
  - *Ericsson v. D-Link – June 2013*
  - *CISRO v. Cisco Sys., Inc.*, (Fed. Cir. 2015)

Microsoft v. Motorola

- First case explaining RAND determination
- Microsoft (implementer) sued Motorola (SEP owner), alleging license offer was too high and damages for defending against injunction request
- Breach of contract action
  - Court held implementers are third-party beneficiaries of SEP owner's contractual commitment to SSO to license on RAND terms
- Used modified *Georgia Pacific* factors
- Bench trial to determine RAND rate and range, and jury trial to determine breach of contract
- Affirmed on appeal by 9^{th} Circuit

Microsoft: Analytical Method

- **Modified *Georgia-Pacific* factors** for hypothetical negotiation between willing licensor and willing licensee before standard is set
  - Differences from typical *Georgia-Pacific* analysis
    - Not all *G-P* factors are relevant and some need adjustment
    - Owner of SEP with RAND commitment required to license SEPs
    - Implementer understands it must take license from many SEP owners to implement standard

Microsoft: Analytical Method

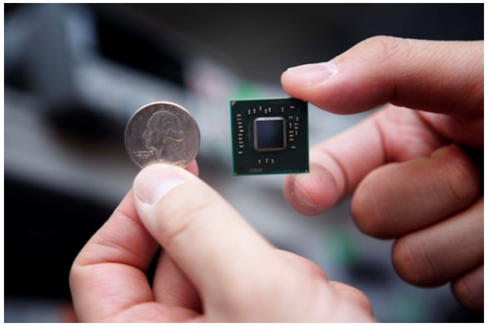
- Key considerations
  - – Importance of SEPs to standard
  - – Importance of standard and SEPs to implementer's products
    - Not charge for value of SEP due to inclusion in standard
  - – Promoting widespread adoption of standard
  - – Avoiding so-called patent "hold-up"

Innovatio

- Second written determination of RAND rate
- Innovatio sued numerous Wi-Fi end users (e.g., coffee shops, restaurants, trucking companies)
- Equipment manufacturers filed DJ actions challenging patent
- Parties agreed to have court determine RAND rate for manufacturers before patent trial

Innovatio: Analytical Method

- Largely followed *Microsoft* method with **modified *Georgia Pacific* analysis**
- Could not determine value of standard and SEPs to individual products, because of *lack of evidence*
  - Determined royalty would be based on Wi-Fi chip as **smallest saleable unit**
  - Same royalty for all end products



Jury Trials

- Jury trials on RAND
  - *Ericsson v. D-Link* – June 2013
  - *LSI v. Realtek* – February 2014
- Juries not given specific RAND analysis instructions
  - *LSI v. Realtek*: Considered
    - *Georgia-Pacific* factors
    - Importance of SEP owner's patents to standard as a whole
    - Contribution of standard as a whole to market value of defendant's products using standard

RAND Royalty Rates Awarded (Well Below Initial Offers)

	Patent Owner Offered Rate	Determined RAND Rate
Microsoft v. Motorola	2.25% of product sales	3.471¢/Xbox Wi-Fi product 0.8¢/other Wi-Fi product $0.555¢/H.264 video product
In re Innovatio	$3.39/Wi-Fi access point $4.72/laptop with Wi-Fi $16.17/tablet with Wi-Fi	9.56¢/Wi-Fi product* (*After decision, Cisco settled for 3.2¢/Wi-Fi product)
Ericsson v. D-Link	50¢/Wi-Fi product	15¢/Wi-Fi product
Realtek v. LSI	5% of product sales	0.19% of Wi-Fi chip sales

Federal Circuit Decisions

- *Ericsson v. D-Link* (Fed. Cir. 2014)
  - **Confirmed Modified Approach**: For SEPs, many *Georgia-Pacific* factors are not relevant and others need modification to be relevant.
  - Courts should instruct jury on actual RAND commitment at issue, and must be cautious not to instruct jury on any factors not relevant to record developed at trial.
  - **Royalty must be based on incremental value of invention, not value of standard as a whole** or any increased value patented feature gains from inclusion in standard.

Federal Circuit Decisions

- *Ericsson v. D-Link* (Fed. Cir. 2014)
  - If **accused infringer** wants jury instruction on patent hold-up and royalty stacking, it **must provide evidence of patent hold-up and royalty stacking** in relation to both RAND commitment at issue and specific technology at issue.
  - **Vacated damages award** so that district court could properly instruct jury.

Federal Circuit Decisions

- *Commonwealth Scientific and Indus. Res. Organization v. Cisco Sys., Inc*. (Fed. Cir. 2015)
  - CSIRO sued Cisco for infringing SEPs essential to IEEE's WiFi standard. CSIRO previously submitted RAND commitment for early version standard, but not for later versions of standard.
  - After Cisco stipulated to infringement and validity, district court held **bench trial on damages**, rejecting both parties' damages models and setting royalty rates between $0.90 - $1.90 per Cisco product ($0.65 - $1.38 per Linksys product).
  - **Vacated damages ruling**

Federal Circuit Decisions

- *Commonwealth Scientific and Indus. Res. Organization v. Cisco Sys., Inc*., (Fed. Cir. 2015)
  – District court did not err in setting royalty based on evidence from parties' negotiations.
  – **District court erred, however, by failing to take into account standardization**; district court found that *Georgia-Pacific* factors 8-10 favored increasing the royalty given commercial success and widespread adoption of the technology, but "**never considered the standard's role in causing commercial success**."

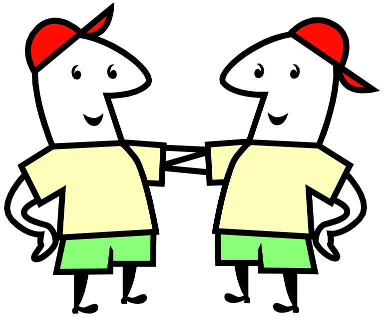
Federal Circuit Decisions

- *Commonwealth Scientific and Indus. Res. Organization v. Cisco Sys., Inc*., (Fed. Cir. 2015)
  - "[A] reasonable royalty calculation…attempts to measure the value of the patented invention. This value—**the value of the technology**—is distinct from any value that artificially accrues to the patent due to the standard's adoption."
  - Without this rule, patentees would receive all of the benefit created by standardization—benefit that would otherwise flow to consumers and businesses practicing the standard. We therefore reaffirm that **reasonable royalties for SEPs generally**—and *not only* those subject to a RAND commitment—**must not include any value flowing to the patent from the standard's adoption**."

Non-Discriminatory Terms

What Is Non-Discriminatory?

- Case law under development in the U.S.
- *Microsoft* indicated RAND-SEP owners **may charge** different licensees **different royalties and terms**
- *Innovatio* held same royalty for all licensees, since per-chip royalty
  - Evidence lacking to support differences
  - Judge later said could have differences
- "Similarly situated" licensees



Duty of Good Faith and Fair Dealing

SEP Owner May Owe Implementer Damages

- Implementer (Microsoft) awarded $14.5 million
  - SEP owner (Motorola) held to violate duty of good faith and fair dealing with <u>too high</u> initial offer and seeking injunction

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Duty of Good Faith & Fair Dealing

- Duty requires contracting parties to
  - Perform contractual obligations in good faith
  - Cooperate so each may obtain full benefit of performance
  - Perform consistently with justified expectations of other parties
- Implied under Restatement of Contracts

Factors To Decide Violation of Duty

- *Microsoft*—Six non-exclusive factors
  - Were licensor's actions contrary to reasonable and justified expectations of contracting parties
  - Would licensor's conduct frustrate purpose of contract
  - Was licensor's conduct commercially reasonable

Factors To Decide Duty Violation

- *Microsoft*—Six non-exclusive factors (con't)
  - Whether and to what extent licensor's conduct conformed with ordinary custom and practice in industry
  - If contract gave licensor discretion in deciding how to act, was discretion exercised reasonably
  - Subjective factors such as licensor's intent and motive

Does Implementer Have Duty To Negotiate?

- *Ericsson v. D-Link*
  - – Yes: duty to negotiate in good faith
- *Microsoft v. Motorola*
  - – Maybe not: “good-faith … negotiations [were] not a condition precedent to Motorola’s obligation to grant a RAND license”
- *Realtek v. LSI*
  - – Maybe not: implementer need not negotiate under threat of an injunction

Thank You!

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