# SEP and RAND Litigation Update

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# Super-Important Disclaimer

- The authors wish to thank Luke McLeroy, Matt Lynde, Scott Gilfillan, and Ann Armstrong for the generous devotion of their time reviewing these slides
- That said – these slides most emphatically do not necessarily reflect their views (although some might)
- A point they likely will make abundantly clear during the course of our presentation

# Overview

- Availability of Injunctive Relief
- Consequences of Licensor Pre-suit Conduct
- Consequences of Licensee Pre-suit Conduct
- Rate Setting Issues
- SEPs and the Smallest Salable Patent Practicing Unit
- Three Key Emerging Issues in the U.S.
- The View from Outside the U.S.

# Overview

- **Availability of Injunctive Relief**
- Consequences of Licensor Pre-suit Conduct
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# Does the RAND Commitment Foreclose the Availability of Injunctive Relief?

**Judge Posner's view in *Apple v. Motorola* (N.D. Ill. 2012)**

- Motorola sought an injunction and damages based on Apple's alleged infringement of SEPs
- Judge Posner held that Motorola's RAND commitment foreclosed the availability of injunctive relief
- "By committing to license its patents on RAND terms, Motorola committed to license the '898 to anyone willing to pay a RAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent"

# Federal Circuit April 25, 2014 Decision on Injunctions in *Apple v. Motorola*

- Court unanimously rejects a *per se* rule against SEP injunctions, applies *eBay* approach
- Judge Reyna's opinion explained that:
  - A RAND commitment "may" prevent showing of irreparable harm Slip op. at 72
  - But injunction may be justified if infringer unilaterally refuses a RAND license or unreasonably delays negotiations *Id.*
  - No injunction here, because:
    - Motorola's many licenses.
    - Already many competitors in the market
    - Apple has not refused to deal. *Id.* at 73

# Federal Circuit April 25, 2014 Decision on Injunctions in *Apple v. Motorola*

- Judge Prost concurs but says infringer's refusal to negotiate a license does not justify an injunction on an SEP
  - Infringer entitled to challenge the patent's validity
  - Damages can be increased to compensate for refusal
  - Damages always sufficient to compensate for infringement
  - The exception: an  injunction might be warranted if the licensee cannot/will not pay a royalty

# Federal Circuit April 25, 2014 Decision on Injunctions in *Apple v. Motorola*

- Judge Rader dissents and thinks Motorola's injunction claim warrants a trial
  - Evidence suffices to create triable issue about whether Apple is an unwilling licensee creating irreparable harm
  - Concern with "hold-out," "years" of refusal to negotiate
  - A district court needs to distinguish the value of the invention from the value due to standardization, to determine whether Motorola's offer was RAND
  - Hard to do on summary judgment

# Can a Licensee Refuse to Negotiate?

- With the exception of Judges Prost and Posner, a refusal of a licensee to negotiate is often thought to expose the licensee to the risk of an injunction or exclusion order
  - *Apple v. Samsung* (USTR); Judge Reyna & Rader in *Motorola v. Apple*; FTC Google Consent Order; *Realtek* (dicta); USTR Letter in *Apple v. Samsung*
  - *See also Ericsson v. D-Link:* Judge Davis ruled in his order on post-trial motions (August 6, 2013) that a licensee must negotiate in good faith to obtain the benefit of a RAND commitment (RAND licensing is a "two-way street").

# Can a Licensee Refuse to Negotiate?

- *But see Microsoft v. Motorola*, where rather than negotiate, Microsoft sued within two weeks of receiving Motorola's license demand
  – Because Microsoft agreed to be bound by the Court's RAND rate, it was not found to be an unwilling licensee 864 F. Supp. 2d 1023, 1035 (W.D. Wash 2012)

# So What Are The New Rules?

- What is adequate negotiation behavior?
- Clearly a focus on the Licensee’s conduct when considering whether they are exposed to a risk of an injunction
- But whether a Licensee is reasonable also turns out to involve a look at how the Licensor has acted during their negotiations

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# Licensor Pre-suit Conduct

- Can the Licensor Sue before Making an Offer?
- Must the Initial Offer be RAND?
- Can the Licensor Demand a Cross-License?

# Can the Licensor Sue before Making an Offer?

- *Realtek v. LSI*: Cannot sue before making offer where injunctive relief is sought
  - LSI sued Realtek at the ITC, seeking an exclusion order, before making any kind of offer
  - May 2013: LSI enjoined from enforcing “any exclusion order or injunctive relief” granted by the ITC
  - The injunction does not prevent LSI from prosecuting its ITC action, and does not restrain the ITC itself

# Can the Licensor Sue before Making an Offer?

*Fujitsu v. Tellabs* (July 2014): Jury instructed, and found, that following conduct constitutes RAND breach:

- Not offering to grant Tellabs a RAND license
- Filing a lawsuit seeking injunction and non-RAND royalty
- Filing a lawsuit seeking lost profits
- Filing a lawsuit that damages defendant’s business
- Filing a lawsuit that required defendant to devote management attention and time, and other resources

# Must the Initial Offer Be RAND?

- *Is it a breach of contract?*
  - *Microsoft v. Motorola*: No – just within the RAND "range" (IEEE & ITU)
  - *Ericsson v. D-Link* – No, the initial offer need not be RAND (IEEE)
  - 794 Investigation (Apple/Samsung): No (ETSI)
- *But there can be other consequences:*
  - If the Licensor's initial offer is not FRAND it may let the Licensee off the hook as regards the reasonableness of its response

# Can the Licensor Demand a Cross-License?

- ITC 794: Samsung's demand for a cross license to Apple's mobile portfolio was not unreasonable Slip op. at 60-61
- The ITC's rationale:
  - More than 30 Samsung licenses covering the patents-in-suit contained cross licenses
  - Apple's ETSI expert confirmed such licenses may be part of the RAND negotiation process
  - Apple itself had also made cross-license demands to Samsung

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# Licensee Pre-suit Conduct

- Must a Licensee Affirmatively Seek a RAND License?
- If the Licensee Negotiates, Must It Provide a Concrete Counter-offer?
- What If That Counter-Offer Is Not RAND?
- Must a Licensee Be Willing to Accept a Third-Party (Court or Arbitrator) Resolution of Disputed Terms?
- Can It Contest Infringement and/or Validity?

# Must a Licensee Affirmatively Seek a RAND License?

*CSIRO v. Cisco* (July 23, 2014 E.D. Tex.):

- CSIRO’s RAND commitment to IEEE stated that licenses would be available “upon written request”
- The court held that the course of dealing between Cisco and CSIRO, including negotiations and license payments related to the 802.11a standard, obviated the need for a formal request

# Must a Licensee Affirmatively Seek a RAND License?

ITC Investigation No. 337-TA-868 (*InterDitigal*)

- The ALJ found no RAND breach in InterDigital’s pursuit of exclusion order where respondents Nokia and ZTE failed to request a license
- But on review, the Commission agreed with the finding of non-infringement and took no position on the RAND issues – and therefore did not affirm the ALJ’s RAND analysis

# Must a Licensee Affirmatively Seek a RAND License?

ITC Investigation No. 337-TA-868 – the ALJ's analysis

- The ALJ found that using the claimed technology prior to negotiating for a RAND license violated ETSI Rules of Procedure – and therefore that no RAND obligation was triggered
  - The ALJ relied on the ETSI IPR declaration, which states that RAND commitment is made "subject to the condition that *those who seek licenses* agree to reciprocate" (emphasis added)
- The ALJ also found respondents failed to follow ETSI's dispute-resolution procedure, which the ALJ viewed as a pre-requisite to the finding of a RAND breach

# Must a Licensee Provide a Concrete Counter-Offer?

- *Apple v. Motorola* is on point
  - Apple kept negotiating, but never put a specific set of royalty terms on the table
  - Judge Posner was unfazed, as was Judge Prost
  - But Judge Rader was clearly troubled
    - Believed the record "shows evidence that Apple may have been a hold out" Slip op. at 3 (Rader, J. dissenting-in-part)
    - Proper disposition would have been a remand, so that this record could be developed further *Id.* at 4

# What If the Counter-Offer Is Itself Not RAND?

- USTR letter regarding 794 Investigation suggests this may expose licensee to threat of exclusion order:
  - Licensee could be exposed to injunction through “a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably considered F/RAND terms in an attempt to evade the putative licensee’s obligation to fairly compensate the patent holder” USTR Ltr. at 2 n.3
- As a practical matter, resolving appropriateness of injunctive relief would require a substantive determination of RAND terms

# Must a Licensee Accept a Third-Party Rate Determination?

- There is an emerging view that refusing to accept a RAND rate determined by a court or arbitration panel lets the licensor seek an injunction
  - *Realtek*, *USTR 794 Letter, FTC/Google Consent Order*: Injunction appropriate if licensee refuses to accept license terms determined to be RAND
  - *Cf. Microsoft v. Motorola*: No irreparable harm to Moto because MSFT will accept RAND determination

# Does a Licensee Risk an Injunction If It Challenges Validity and/or Infringement?

- The FTC's Google consent order explicitly permits would-be licensees to do so
- *Realtek* also suggests such challenges are not inconsistent with RAND:
  - "Realtek can simultaneously pursue a determination of the RAND royalty rate while denying infringement or asserting invalidity, even though those issues may ultimately obviate the need for a license" *5
- In *Lear v. Adkins*, the U.S. Supreme Court recognized that public policy favored allowing even *existing* licensees to challenge validity

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# RAND Rate-Setting Decisions

- *Ericsson v. D-Link* (Fed. Cir. Dec. 4, 2014)
- *Microsoft v. Motorola* (W.D. Wash.) – currently on appeal to the Ninth Circuit
- *In re Innovatio* (N.D. Ill.) – settled and will not be the subject of an appeal

# *Ericsson v. D-Link*: Overview of District Court Decision

- Infringement suit involving Ericsson's 802.11 SEPs, three of which were found infringed by Defendants
- Jury awarded royalty of 15 cents per end-product
  - Given ordinary *Georgia-Pacific* instructions modified only by passing mention of "Ericsson's obligation to license its technology on RAND terms"
- Judge Davis denied D-Link's JMOL motion and upheld the jury's award
- The court held that Ericsson did not breach its RAND obligations and that Defendants did not negotiate for a license in good faith

# *Ericsson v. D-Link*: Overview of District Court Decision

- Court accepted prior Ericsson licenses as comparables
  - Found Ericsson's expert properly apportioned the value of the licenses to the patents-in-suit
  - Unlike *Microsoft* and *Innovatio,* did not require Ericsson to prove licenses were negotiated within a RAND framework free of hold up; instead, held that public nature of Ericsson's RAND obligations and parties' sophistication was enough
- Because of the expert's apportionment, court found that deriving a royalty from the price of end-products did not violate EMVR
- Court held that royalty stacking was theoretical and unproven

# *Ericsson v. D-Link* at the CAFC: Overview

- The court properly admitted comparable licenses that used end-product prices given testimony on apportionment
- Failure to instruct jury on Ericsson's specific RAND commitment and the apportionment of the value of the patented technology from the value of standardization was error
- Jury instructions on hold-up and royalty stacking not required unless evidence of actual hold-up or stacking is presented
- Damages and ongoing royalty award vacated, and case remanded

# *Ericsson v. D-Link* at the CAFC: Comparable Licenses

- Licenses "tied to the entire value of the licensed products" properly admitted though only a component of the products practiced the patents-in-suit Slip Op. at 37
- A license need not be "perfectly analogous to the infringement action" to be admitted *Id.* at 42
  - This fact goes only to the weight of the evidence
- This includes licenses for multi-component products, "negotiated without consideration of the EMVR" *Id.*
  - But such evidence is reliable only if accompanied by testimony regarding apportionment of the royalty to the incremental value of the patented feature *Id.*
  - In such circumstances, court may give "cautionary instruction" on limited purpose of such evidence, and should properly instruct jury on apportionment principles *Id.* at 43

# *Ericsson v. D-Link* at the CAFC: Instructions on RAND Commitment

- Failing to properly instruct the jury on Ericsson's RAND commitment was error
- Adding a sixteenth GP factor regarding RAND obligation did not suffice
- Courts should consider which GP factors are not relevant to determining a reasonable royalty under a RAND commitment, and which need to be modified
  - This is a case-by-case inquiry
  - The court did not hold that there is a modified version of the GP factors that applies to all RAND-encumbered patents
- Court should also instruct jury about the terms of the licensee's *actual* RAND commitment

# *Ericsson v. D-Link* at the CAFC: Instructions on RAND Commitment

- The court found the following GP factors to have been irrelevant given Ericsson's RAND commitment and the nature of SEPs:
  - Factor 4: Licensor's established policy and marketing program to maintain his patent monopoly by not licensing the invention or granting licenses under special conditions
  - Factor 5: Commercial relationship between licensor and licensee
- Certain aspects of the following GP factors were also found irrelevant or misleading
  - Factor 8: The invention's current popularity
  - Factor 9: Utility and advantages of the patented invention over old modes or devices
  - Factor 10: The licensor's commercial embodiment of the patented invention

# *Ericsson v. D-Link* at the CAFC: Apportionment for SEPs

- The court further held that two special types of apportionment must be performed when dealing with SEPs
    1. Apportionment of the patented feature from all of the unpatented features reflected in the standard
    2. Apportionment of the value of the patented feature from any value added by the adoption of the patented technology into the standard
- Failing to instruct the jury on such apportionment was legal error

# *Ericsson v. D-Link* at the CAFC: Hold-up and Royalty Stacking

- In deciding whether to instruct the jury on patent hold-up and royalty stacking, the court must consider the evidence actually before it
  - A "general argument that these phenomena are possibilities" will not suffice Slip op. at 54
- D-Link failed to provide evidence of hold-up or royalty stacking, and so did not warrant a jury instruction on either issue

# *Microsoft v. Motorola*: Overview of District Court Decision

- Motorola had demanded a royalty of 2.25% of the price of the end product, including PCs containing Microsoft's Windows (more than $4B per year)
- Suit brought by Microsoft as the prospective licensee to 802.11 and H.264 patents
  – Sought a court-determined RAND *rate* for a license to Motorola's patents
  – Sought a court-determined RAND *range* as a predicate for determining whether Motorola's license offer was so high as to constitute a breach of contract

# Initial Legal Determinations on Summary Judgment

- RAND undertakings are binding contracts
- As a member of the SSOs, Microsoft was a third-party beneficiary
- Microsoft's filing of suit without attempting to negotiate a license did not repudiate its right to a RAND license
- Motorola's initial offers not required to be RAND
- However, *every* offer to license RAND-encumbered SEPs "must comport with the implied duty of good faith and fair dealing"

# The Rate-Setting Trial and Results: Scope of the Trial

| | SEPs Asserted by Moto in Demand Letter | SEPs Asserted by Moto at Trial | SEPs Subject to RAND Valuation |
|---|---|---|---|
| H.264 | • 24 U.S.<br>• 47 foreign counterparts | • 16 U.S.<br>• 47 foreign counterparts | • 16 U.S.<br>• 47 foreign counterparts |
| 802.11 | • 53 U.S.<br>• 210 foreign counterparts | • 24 U.S. | • 11 U.S. |

# *Microsoft v. Motorola* :
# Per Unit Royalty Determinations

| | Microsoft Proposal at Trial | Motorola Proposal at Trial | Court Determination |
|---|---|---|---|
| H.264 Range | .065 - .204 ¢ | 50 – 63 ¢ (2.25% adjusted for annual caps of $100-125M) | .555 – 16.389 ¢ |
| H.264 Rate | .197 ¢ | | .555 ¢ |
| 802.11 Range | 3 – 6.5 ¢ | $3 - $4.50 (2.25% minus 0.25-0.5% for MSFT's SEPs) | .8 – 19.5 ¢ |
| 802.11 Rate | 5 ¢ | | 3.471 ¢ (Xbox)<br>.8 ¢ (other prods) |

# *Microsoft v. Motorola*: The Modified *Georgia Pacific* Framework

1. Derived rates/ranges from licenses negotiated under circumstances “comparable to RAND circumstances,” including patent pools (GP Factors 1, 2, and 12)

2. Determined whether the rates/ranges should be adjusted based on the strength/weakness of Motorola’s SEPs vis-à-vis (a) the standard & (b) MSFT’s products (GP Factors 6, 8, 10, 11)

3. Compared SEP to *ex ante* alternatives (*i.e.*, technical solutions that could have been written into the standard) (GP Factor 9)

# *Microsoft v. Motorola*: The Accepted Comparables

- The court accepted Microsoft’s proposed comparables as “indicators” of RAND rates
  - For H.264, the MPEG LA H.264 Patent Pool
  - For 802.11:
    - Via 802.11 Patent Pool
    - ARM license for Marvell Wi-Fi chip
    - Motorola-sponsored valuation of its 802.11 portfolio

# *Microsoft v. Motorola*: The Jury Verdict

- Following trial, the jury unanimously found that Motorola had breached its RAND commitments to IEEE and ITU and awarded $14.5M in damages
- The court upheld the jury verdict, finding sufficient evidence existed that Moto breached its duty of good faith and fair dealing by:
  - Sending demand letters seeking a royalty of 2.25% of the price of the end products
  - Seeking injunctive relief against Microsoft to enforce its SEPs
  - Refusing to include Microsoft in a license granted to Marvell, Microsoft's chip supplier

# *Microsoft v. Motorola*: Rate Setting Issues on Appeal

- In addition to challenging the district court's authority to engage in rate-setting and the necessity of the exercise, Motorola challenges the following substantive aspects of the rate-setting decision:

1. The failure to set a date for the hypothetical negotiation used to determine RAND rates and ranges
2. Reliance on speculative inferences from non-comparable pool rates
3. Exclusion of Motorola's historical licenses from consideration

# *Microsoft v. Motorola* Appeal: Date of Hypothetical Negotiation

- Motorola faults the court for failing to specify the date of the hypothetical negotiation
- Identifies two possible dates:
  - If setting royalty for Moto patents, relevant date is just before Microsoft’s first alleged infringement
  - If setting rate to evaluate Moto’s negotiation conduct, relevant date would be the date of Moto’s demand letters
- Failure to specify date allegedly introduced error:
  - “[V]alue propositions for the negotiators change over time as the products and market change” Moto Br. at 26
  - *E.g.*, court “equated Google and Motorola” for purposes of hypothetical negotiation analysis, though Moto’s offers came well before Google acquisition

# *Microsoft v. Motorola* Appeal: Date of Hypothetical Negotiation

- In response, Microsoft points out that neither Motorola nor its expert ever identified a specific date for the hypothetical negotiation
- Microsoft also argues that Motorola takes contradictory positions regarding the appropriate date to use:
  - On the one hand, Motorola faults the court for equating Motorola and Google because Motorola sent its offer letters well before it was acquired by Google
  - On the other hand, Microsoft stressed that Motorola's key comparable license is from December 2011, i.e., *after* the Google acquisition

# *Microsoft v. Motorola* Appeal: Reliance on Pool Rates

- Motorola argues that the MPEG LA and Via pool rates are not comparable because:
  - Neither pool includes the Motorola patents at issue
  - Both pools assume all patents have same value, and the pool rates do not depend on use of the patents by the infringer, as would a bilateral negotiation
  - No evidence that Motorola’s patents were technically comparable to the patents in the pools
  - No evidence of the relative value of Motorola’s patents to the average patent in the pool

# *Microsoft v. Motorola* Appeal: Reliance on Pool Rates

In response, Microsoft points out:

- The court did not simply apply the H.264 pool royalty to Motorola's patents but adjusted the royalty upward to account for fact that Motorola did not benefit from pool membership
- Motorola ignores "Motorola-specific" evidence, including:
  - Motorola's historic participation in the H.264 pool and acceptance of pool rates
  - Motorola's InteCap valuation for its 802.11 patents
- The 802.11 Via pool rate that Motorola criticizes is the most favorable benchmark to Motorola

# *Microsoft v. Motorola* Appeal: Exclusion of Historical Licenses

- Motorola argues excluding historical licenses that arose from litigation settlements was error
  - Both sides rely on language in *ResQNet.com Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010) and *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012) in arguing this point
- In response, Microsoft argues that such licenses can be problematic and can skew the hypothetical negotiation

# *Microsoft v. Motorola* Appeal: Exclusion of Historical Licenses

- Motorola also cited the Federal Circuit's 2014 decision in the *Apple v. Motorola* appeal
  - Moto stressed the Federal Circuit's reversal of Judge Posner's exclusion of Motorola's historical cross-licenses, finding use of such licenses to be "generally reliable"
- Microsoft is particularly critical of Motorola's settlement license with RIM
  - In addition to being influenced by litigation, Microsoft argues that this license is dominated by cellular patents, and hence irrelevant
  - The 802.11 and H.264 patents at issue were simply "bundled" with the cellular patents, without increasing the royalty

# *Microsoft v. Motorola* Appeal: Breach of Contract

Microsoft made the following arguments in arguing that Motorola breached its duty of good faith and fair dealing

- Motorola was aware its demands were out-of-line with the pool royalties and InteCap valuation when it made those demands
- Motorola knew Microsoft made component software and that Microsoft's customers made end products but Motorola still used end-product prices as the royalty base in its demands
- Motorola's H.264 and 802.11 patents had only been included in cross-licenses that were dominated, in terms of value, by cellular patents
- Expecting Microsoft to respond to supra-RAND demands does not justify making such demands
- "Continued unlicensed use" is of no moment when licensor refuses to grant a RAND license

# *In re Innovatio*

- In theory, Judge Holderman adopted Judge Robart's modified *GP* factors and practical methodology:
  1. Consider the importance of the patents-in-suit relative to the standard as a whole (quantitatively and qualitatively)
  2. Consider the importance of the patents to the alleged infringer's products
  3. Look for comparable licenses to determine a RAND rate

# *In re Innovatio:* Modifications to the Robart Methodology

- Date of hypothetical negotiation tied to adoption of 802.11 standard *8
- Because the court had previously found Innovatio's patents to be essential to 802.11, no adjustment for pre-litigation uncertainty as to essentiality *7
- Because the court concluded that the Wi-Fi chip was the appropriate royalty base, Robart steps 1 & 2 (importance to standard & importance to product) merge *8
- Because there were no comparable licenses, rate determined by an analytical "top down" approach *37-44

# *In re Innovatio* on Comparables

- Innovatio's license-back to Broadcom eliminated: value of the license could not be isolated from total transaction value *30-31
- Motorola and Symbol licenses rejected as products of litigation not comparable to RAND licensing circumstances *31-34
- Qualcomm/Netgear license rejected based on much higher number of patents involved *34
- Via pool rejected because of its lack of success *34-36
- Non-RAND licenses rejected due to lack of evidence of how licensed technology compared to technology claimed by patents-in-suit *36

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# Importance of the Smallest Salable Patent Practicing Unit

- **The law before *Ericsson v. D-Link***
- The Federal Circuit's *Ericson v. D-Link* decision

# Importance of the Smallest Salable Patent Practicing Unit

*LaserDynamics Inc. v. Quanta Computers*, 694 F.3d 51, 67 (Fed. Cir. 2012)

- “Where small elements of multi-component products are accused of infringement, calculating a royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product”
- “[I]t is generally required that royalties be based not on the entire product, but instead on the ‘smallest salable patent-practicing unit’”

# Importance of the Smallest Salable Patent Practicing Unit

***In re Innovatio IP Ventures*** **(N.D. Ill. Oct. 2013)**

- The court concluded that Innovatio failed to put forward a reliable apportionment analysis based on the end-product price – and so adopted the defendants' chipset-based model *12-*18
- Did so even though the patentee pointed out that "it is not possible to provide Wi-Fi functionality or to practice this claim only with a Wi-Fi chip. Instead, one must have at least an access point with a control processor, a central processor, antenna, and an RF Radio." *13

# Importance of the Smallest Salable Patent Practicing Unit

***In re Innovatio IP Ventures*** **(N.D. Ill. Oct. 2013)**

- The court, however, credited the defendants' view that: "[A]ll of the instructions to the various devices mentioned in the claims of Innovatio's patents that operate Wi-Fi are included on the chip. . . . "
- "Moreover, calculating royalties based on the price of the end-products would invite error, as those end products include myriad features that are unrelated to Wi-Fi"
- The court rejected Innovatio's alternative approach of using the end product as the base and then reducing the royalty by an "apportionment factor"

# *GPNE v. Apple* (April 2014): Rejects Claim Drafting to Evade the Smallest Salable Unit

- “The asserted claims recite a ‘node in a data network,’ which GPNE alleges is an iPhone or an iPad, and ‘a memory,’ which GPNE alleges is a generic random access memory for storage, or ‘RAM,’ in addition to the baseband processor, which directly implements the patented invention”
- “Adopting GPNE’s reasoning would allow patent drafters to effectively abolish the smallest salable patent-practicing unit doctrine by simply drafting patent claims to cover end products rather than the individual components that actually embody the invention. . . . Patent drafters must operate within the dictates of the law, not vice versa”

# The SSPU: Contrary Views

- *CSIRO v. Cisco* (E.D. Tex. July 23, 2014)
  - Rejects Cisco's damages model chiefly because it used WiFi chips as the royalty base Slip op. at 22
  - Court conceded that the "inventive aspect" of the patent was practiced by the chip but explained that "the chip is not the invention," and that the "benefit of the patent" lies in the idea, not the chip that implements the idea *Id.* at 22
  - The court also noted chip prices had been depressed due to pervasive infringement during the damages period *Id.*
- *Summit 6 LLC v. Research in Motion Corp.* (N.D. Tex. June 26, 2013)
  - Use of entire mobile device as royalty base permitted because "only the entire device itself is capable of performing the [infringing] image resizing"

# Apportionment Required Even *Within* the SSPPU

*VirnetX, Inc. v. Cisco Systems, Inc.*, 767 F.3d 1308 (Fed. Cir. 2014)

- "Where the smallest salable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature . . . , the patentee must do more [than identify the SSPPU] to estimate what portion of the value of that product is attributable to the patented technology. To hold otherwise would permit the entire market value exception to swallow the rule of apportionment." *Id.* at 1328
- Petition for en banc rehearing pending

# Importance of the Smallest Salable Patent Practicing Unit

- The law before *Ericsson v. D-Link*
- **The Federal Circuit's *Ericson v. D-Link* decision**

# The SSPU: *Ericsson v. D-Link*

- The Federal Circuit held that the law of damages has two components:

1. A legal rule that for multi-component products, "the ultimate combination of royalty base and royalty rate must reflect the value attributable to the infringing features of the product, and no more" Slip op. at 39

2. An evidentiary principle under which, if a product's value is not attributable to the patented feature, "courts must insist on a more realistic starting point for the royalty calculations by juries–often, the smallest salable unit and, at times, even less" *Id.* at 40-41
   - This principle serves to guard against the prejudicial effect of evidence not tied directly to the value of the patented feature

# The SSPU: *Ericsson v. D-Link*

- Applying this principle, the court found licenses based on the prices of end-products admissible, if accompanied by appropriate expert testimony on apportionment
- Under this standard, a litigant may use licenses based on end-product prices if:
  - It presents expert testimony explaining why the claims read on the entire end product; or
  - It presents expert testimony explaining how the royalties in those licenses are apportioned to exclude the value of non-patented features

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- The View from Outside the U.S.

# Key Emerging Issues

- **Establishing RAND Obligations When the Licensor Contests Essentiality**
- Unenforceability as a RAND Remedy?
- IEEE Proposed IPR Revisions

# Establishing Essentiality When the Patentee Disputes It – IEEE

- *In re Innovatio IP Ventures, LLC Patent Litigation* (N.D. Ill., July 26, 2013) required that the licensee establish that a particular patent claim in fact was essential
- The court conducted a substantive analysis of the claims and the patents and did not rely on a blanket IEEE Declaration of the patentee or even their infringement contentions regarding the 802.11 patents-in-suit

# Establishing Essentiality When the Patentee Disputes It – IEEE

The court relied on the definition of "Essential Patent Claim" in the IEEE policy and held that essential means:

1. "at the time of the standard's adoption, the only commercially and technically feasible way to implement a particular mandatory or optional portion of the normative clauses of the standard was to infringe the patent claim; and
2. "the patent claim includes, <u>at least in part</u>, technology that is explicitly required by or expressly set forth in the standard (i.e., that the patent claim does not recite only Enabling Technology)." *10 (emphasis added)

# Establishing Essentiality When the Patentee Disputes It – IEEE

- A claim reciting elements A, B, C, & D, where A & B are explicitly required or expressly set forth in the standard, will be essential under *Innovatio* if:
  - Elements C & D are also explicitly required or expressly set forth in the standard; or
  - They are <u>not</u> explicitly required or expressly set forth in the standard, but:
    - (a) were the only commercially or technically feasible way to implement the standard at the time of adoption; or
    - (b) were one of a few well-known subcategories of the commercially or technically feasible way to implement the standard

# Establishing Essentiality When the Patentee Disputes It – IEEE

| | Required by the standard? | Commercially or technically necessary | One of the few well known technically feasible implementation techniques |
|---|---|---|---|
| A | Yes | | |
| B | Yes | | |
| C | No | Yes | |
| D | No | No | Yes |

# Establishing Essentiality When the Patentee Disputes It – ITU

- The ITU defines essentiality with respect to patents, not patent claims
- ITU defines “essential patents” as “patents that would be required to implement a specific Recommendation/Deliverable”
  - The word “required” is undefined

# Establishing Essentiality When the Patentee Disputes It – ITU

In *Fujitsu v. Tellabs*, Judge Holderman espoused a broad definition of essentiality under an ITU IPR

- The jury instructions defined a patent as essential if it is “one way, among other alternative ways, required to implement one or more of the necessary specifications”
- The instructions specified that “[t]he use of Fujitsu’s ’737 Patent’s technology need not be the only way to implement the ITU-T Recommendation G.692”
  - Instead the technology need only be “one of the ways to implement one or more of the necessary specifications of the standardized technology”

# Establishing Essentiality When the Patentee Disputes It – ETSI

ETSI's definition of "Essential" focuses on technical rather than commercial feasibility of implementation:

- "[I]t is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use, or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringements of IPRs, all such IPRs shall be considered ESSENTIAL."

# Key Emerging Issues

- Establishing RAND Obligations When the Licensor Contests Essentiality
- **Unenforceability as a RAND Remedy?**
- IEEE Proposed IPR Revisions

# *Realtek v. LSI* (N.D. Cal. June 2014)

- Request for an injunction barring any demand of non-RAND royalties and enforcement denied based on absence of irreparable harm (because LSI had lost the ITC case on three independent grounds)
- Realtek's request for a declaration that the patents-in-suit would be unenforceable if LSI attempted to enforce them without offering Realtek a license on the terms set by the jury was similarly rejected
- Instead, the court fashioned its own declaratory relief, ordering LSI to offer Realtek a license on the terms set by the jury "upon Realtek's request for a license"

# *Fujitsu v. Tellabs* (N.D. Ill. July 2014)

- Upon the jury's verdict that Fujitsu breached its RAND obligations, Judge Holderman ordered Fujitsu to show cause why the patent-in-suit should not be unenforceable as to Tellabs
- The order cited *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004 (Fed. Cir. 2008), in which the Federal Circuit upheld the unenforceability of Qualcomm's patents against standards implementers
  - Qualcomm had intentionally failed to disclose its patents to the ITU in spite of an obligation to do so
  - The court found Qualcomm had waived its right to enforce the patents

# Unenforceability as a RAND Remedy: the Role of a "Willful" RAND Violation

- The jury found a "willful" violation of the RAND commitment
- In its brief, Fujitsu stressed its good-faith belief that the patent was not essential, based on its understanding that the ITU required *technical* essentiality
  - And the fact that there were other ways to implement the standard

# Non-Disclosure During the Standard Setting Process vs. a "False RAND Promise"

- Fujitsu argued that its failure to offer a RAND license is not comparable to Qualcomm's intentional scheme to conceal its patents from ITU participants because the '737 patent was in fact disclosed during the standard adoption process
  - The "deceptive" conduct (*e.g.*, failure to disclose the Ericsson negotiations) is alleged to have taken place after the standard was adopted
- Tellabs alleges that it was the <u>disclosure of the patent with an allegedly false RAND commitment</u> that induced the ITU to adopt the standard – not that the patent was hidden from the SSO

# Non-Disclosure During the Standard Setting Process vs. a "False RAND Promise"

Key Sub-Question: causation

- If the patent was known to the public at the time that implementers were creating their products, does that eliminate any argument for unenforceability?

Key Sub-Question: appropriate remedy

- If the problem is the absence of a RAND license then why isn't a RAND license the solution?

# Non-Disclosure During the Standard Setting Process vs. a "False RAND Promise"

Key Sub-Question: intent

- If there was a failure to carry out a RAND promise, must there have been an intent to deceive at the time the promise was made?
- *Cf. Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007) (requiring, *inter alia*, "intentionally false promise" to license on RAND terms for a finding of anticompetitive conduct)

# Key Emerging Issues

- Establishing RAND Obligations When the Licensor Contests Essentiality
- Unenforceability as a RAND Remedy?
- **IEEE Proposed IPR Revisions**

# Proposed Revisions to IEEE Patent Policy

The new policy defines the term “Reasonable Rate” using concepts developed from patent damages law:

- “[A]ppropriate compensation” for practice of essential patent claim, “excluding the value, if any, resulting from the inclusion of that . . . technology in the IEEE standard”
- Rate determination “should include” consideration of:
  - Value that claimed functionality contributes to value of functionality of smallest salable “Compliant Implementation”
  - Value that essential patent claim contributes to smallest salable “Compliant Implementation,” in light of value contributed by all claims essential to same standard
  - Existing licenses, <u>excluding</u> those obtained “under the explicit or implicit threat of a Prohibitive Order”

# Proposed Revisions to IEEE Patent Policy

- The revisions also set some boundaries on the availability of injunctive relief
- New policy advises parties to engage in good faith negotiations, if sought by either party, or to litigate or arbitrate over disputed issues
- SEP holder commits not to seek or enforce an injunction or exclusion order based on essential patent claims unless implementer fails to participate in or comply with a rate-setting adjudication

# Proposed Revisions to IEEE Patent Policy

Status of proposed revisions

- Review and revision process began in March of 2013
- July 10, 2014 – IEEE Standards Association votes to forward draft to Standards Board
- August, 2014 – Standards Board approves revisions and recommends that the Board of Governors do the same
- Board of Governors decision expected in early 2015
- Approval is subject to receipt of favorable Business Review Letter from USDOJ

# Overview

- Availability of Injunctive Relief
- Consequences of Licensor Pre-suit Conduct
- Consequences of Licensee Pre-suit Conduct
- Rate Setting Issues
- SEPs and the Smallest Salable Patent Practicing Unit
- Three Key Emerging Issues in the U.S.
- **The View from Outside the U.S.**

# China: NDRC Suspends Investigation of InterDigital

In May, China's National Development and Reform Commission suspended its investigation of InterDigital for alleged anti-competitive conduct

As a condition, InterDigital agreed to:

1. Offer Chinese manufacturers option of a worldwide portfolio RAND license to only its SEPs (unbundling non-SEPs)
2. Not require Chinese manufacturers to provide a royalty-free, reciprocal cross-license
3. Offer option of binding arbitration prior to seeking injunctive relief for infringement of any SEPs
4. Refrain from seeking injunctions against any Chinese manufacturer that enters into a binding arbitration agreement

# China: New Rules on SEPs

- In June, the State Administration for Industry and Commerce released new draft rules governing the potential anti-competitive use of IPRs
- The rules include two notable prohibitions on SEP-holder conduct:
  - An SEP holder cannot intentionally fail to disclose its IPR when its patent is incorporated into a new standard but then assert that IPR against standard implementers
  - An SEP holder must offer licenses on RAND terms after its IPR becomes standard-essential
- These prohibitions apply whether or not the SEP holder participated in the SSO and was contractually subject to its RAND commitment policy

# China: *Huawei v. InterDigital*

- In response to InterDigital's 2011 ITC complaint against Huawei, Huawei filed two suits in Shenzhen Intermediate Court:
  - a RAND rate-setting action for IDC's Chinese SEPs
  - an action for damages under China's Anti-Monopoly Law
- The court determined a RAND royalty of 0.019%
  - The court made this determination though IDC had never sued Huawei in China, and no license agreement between the two companies existed
- The court also awarded Huawei 20M RMB for its claim under the Anti-Monopoly Law
  - It found that seeking an exclusion order at the ITC while negotiations for Chinese SEPs were in progress was a violation

# China: *Huawei v. InterDigital*

- The Guangdong High Court affirmed these decisions
  - The court found that IDC was bound by its RAND commitments to ETSI, and that it would also have to license its Chinese SEPs on RAND terms
  - It did so even though IDC took no part in the development of Chinese standards, because IDC should have anticipated that its patents would be adopted by the Chinese standards
  - The court rejected certain comparable licenses, including those subject to NDAs or entered into to settle litigation, as well as the licenses of other SEP holders
  - The court used an IDC-Apple license based on a lump sum as a benchmark in setting the royalty rate
- IDC has appealed to the Supreme People's Court, challenging, *inter alia*, the rate-setting methodology

# Korea: *Samsung v. Apple*

- In 2011, Samsung sued Apple in Seoul Central District Court for infringement of its wireless SEPs, seeking an injunction
- In August of 2012, the Seoul court rejected Apple's RAND defenses and issued an injunction, reasoning:
  - An ETSI undertaking is neither itself a license grant nor a binding commitment to grant a license
  - The ETSI undertaking is not a contract between ETSI and the SEP holder for the benefit of third-party licensees
  - Practicing an SEP without requesting a license or making a monetary deposit to the SEP holder is not an expression of willingness to accept a license offer

# Korea: KFTC Rejects Apple's SEP Complaint against Samsung

- In February, Korea's competition authority rejected Apple's 2012 complaint regarding Samsung's worldwide pursuit of injunctions on SEPs
  - The KFTC found the parties' negotiation conduct to be key and determined that Apple failed to negotiate in good faith
  - The conduct at issue included filing (non-SEP) litigation in the course of negotiations, offering Samsung license terms that undervalued its patents, and engaging in "reverse hold-up"
  - The KFTC determined that Samsung's SEPs did not give it "essential facility" monopoly power, because over 50 companies hold the more than 15,000 3G SEPs at issue

# India: CCI Investigates Ericsson for Alleged RAND Violations

- In January 2014, India's competition authority launched a second investigation of Ericsson for alleged breaches of its RAND commitments in its license negotiations with Indian IT firm Intex Technologies (no litigation had been filed)
- The CCI identified several "prima facie" abuses of a dominant position:

1. Demanding royalties that vary as a percentage of the price of end products rather than the same price for all products that implement the same technology
2. Forcing potential licensees to enter NDAs
3. Refusing to accept India as the venue to resolve disputes arising under the NDA

# The European Commission: Willing Licensee Safe Harbor

- In April, the European Commission found that Motorola Mobility abused its dominant position by seeking and enforcing an injunction against Apple based on a mobile SEP
- Apple had shown it was a "willing licensee" by agreeing to take a license and be bound by a determination of RAND royalties by a German court
- The Commission found that such conduct constituted a "safe harbor" that would protect licensees from injunctions
  - The Commission stated that challenging validity, essentiality, or infringement would not make a would-be licensee unwilling
- But the Commission found that seeking an injunction against an unwilling licensee is not an antitrust violation

# The European Commission: Samsung Commitments

- The Commission approved commitments made by Samsung in the wake of the Commission's investigation of its licensing of UMTS SEPs
- Samsung may not seek injunctions for infringement of its mobile SEPs against a party who:
  1. Signs Samsung's "Invitation to Negotiate" within 60 days of receipt;
  2. Negotiates with Samsung for a period of up to 12 months; and
  3. Agrees to have the terms of a RAND license determined by a court or through arbitration if negotiations fail

# Germany: the *Orange Book* Remains Good Law – For Now

Under *Orange Book*, a patent holder may not seek an injunction if the *defendant*:

1. Makes an unconditional offer to license the patents on terms the licensor cannot reasonably refuse;
2. Does not reserve the right to challenge validity or infringement; and
3. Pays or deposits with the court a reasonable royalty

# EU: CJEU to Address SEP Injunctions in *Huawei v. ZTE*

- In March 2013, the Düsseldorf Court referred questions concerning the availability of injunctions for SEP infringement by a "willing" licensee to the CJEU
- Judgment will be binding on all EU institutions, including DG Comp, national courts, and competition authorities
- Hearing September 11, 2014; ruling expected 1H/15
- The questions outline in some detail the respective obligations of the licensor and licensee – with the potential of eliminating the *Orange Book* doctrine

# EU: The EU Advocate General's Opinion in *Huawei v. ZTE*

The AG set forth rules for licensor and licensee behavior governing the availability of injunctions

- The SEP holder must inform the alleged implementer of its infringement in writing ¶¶ 85-85
  - Must identify relevant SEP(s) involved and the manner of infringement, unless the implementer knew of the existence of the patent(s) *Id.*
- The SEP holder should then make a RAND licensing offer that includes all customary license terms and conditions *Id.*
  - The offer must include the precise royalty and the way in which it was calculated *Id.*

# EU: The EU Advocate General's Opinion in *Huawei v. ZTE*

- A licensee must respond to the offer in a "diligent and serious manner" to be considered willing ¶ 88
  - Licensee must supply a reasonable counteroffer *Id.*
- "Mere willingness" to negotiate in a "highly vague and non-binding fashion," without more, does not deprive licensor of right to seek an injunction ¶ 50
  - If licensee's conduct is purely "tactical and/or dilatory and/or not serious," licensor may seek injunction ¶ 88

# EU: The EU Advocate General's Opinion in *Huawei v. ZTE*

- The parties may take their dispute to a court or arbitration tribunal if negotiations are not opened or prove unsuccessful
  - Requesting that a court or arbitration panel determine a RAND rate does not make a licensee unwilling ¶ 93
  - Similar to the *Orange Book* schema, an SEP holder may ask a licensee to provide a bank guarantee for payment of royalties, or to deposit a provisional sum with the court or arbitration tribunal *Id.*
- After entering into a license agreement, the licensee may reserve the right to challenge a patent's validity, infringement, or essentiality ¶ ¶ 94-96

# Japan: RAND Rate Setting and No Injunction

- May 16, 2014 rulings by a Grand Panel of the IP High Court in Tokyo in a series of SEP disputes between Samsung and Apple
- Samsung had filed two suits seeking injunctions for infringement of a UMTS SEP
- Apple had sought a declaratory judgment that Samsung may not seek damages
- The lower courts found Samsung was not entitled to damages or an injunction
- The Grand Panel solicited amicus briefs for the first time and received a total of 58

# Japan: RAND Rate Setting and No Injunction

- The High Court considered whether Samsung's RAND commitment was an offer of a specific license, or merely a commitment to grant such a license
- It found that under French law Samsung had merely committed to grant a RAND license:
  - Samsung's RAND commitment did not include a royalty rate, term, or geographic scope, and so was not sufficiently specific to constitute an offer
  - ETSI's IPR policy contemplated negotiation
  - ETSI's members had opposed a proposal that users be granted "automatic licenses"

# Japan: RAND Rate Setting and No Injunction

- The High Court found that Samsung's requests for an injunction were an abuse of right under Article 1(3) of the Civil Code
- Samsung's negotiation conduct was not fair and sincere, because, *inter alia*:
  - Samsung did not provide any basis for its requested royalty rate
  - Samsung did not disclose any royalties offered to or received from third parties
- Apple was a willing licensee, as it engaged in negotiations and proposed concrete royalty terms

# Japan: RAND Rate Setting and No Injunction

- The High Court reversed the lower court's finding that Samsung was not entitled to damages for infringement
- Award of damages for infringement of SEP is consistent with RAND, but damages may generally not exceed RAND amount
  - Supra-RAND damages may be available under special circumstances, *e.g.*, if it can be shown the licensee did not intend to enter into a license agreement
- The court found no special circumstances and set damages at ¥9.95M ($95,000)