New York Law Journal

SERVING THE BENCH AND BAR SINCE 1888

WWW.NYLJ.COM

An ALM Publication

VOLUME 263—NO. 57

WEDNESDAY, MARCH 25, 2020

PATENT AND TRADEMARK LAW

Expert Analysis

Standard Essential Patents and FRAND Licensing: Anything But 'Standard'

By **Robert L. Maier**

Standard essential patent (SEP) litigation is anything but "standard," especially when it comes to determining remedies for patents that must be licensed under fair, reasonable, and non-discriminatory (FRAND) terms. Court decisions in recent years have outlined a number of different ways these issues can be handled, and parties still today are left with some uncertainty as to which approach to setting FRAND terms will stand.

Background on SEPs and FRAND

Standard essential patents (SEPs) cover technology that must be used in order to comply with an interoperability standard, such as the 3G and LTE standards for cellular telecommunications. These standards are typically developed by standard setting organizations (SSOs) comprised of members from companies across a given industry, all of whom work together to set the requirements and features of a new standard. The success of a standard depends on interoperability to achieve widespread use by numerous different participants in a given technology ecosystem.

> Parties still today are left with some uncertainty as to which approach to setting FRAND terms will stand.

In a cellular telephone network standard, for example, these industry participants can include mobile phone manufacturers and cellular service companies. If, say, a cellular service company owns a patent that covers the process by which a mobile phone must connect to a cellular tower, the cellular service company could in theory block other cellular service companies from connecting phones to their cell towers, or block mobile phone manufacturers from selling phones that connect to the cellular network.

If only a few select industry participants are permitted to implement such a standard, the standard can suffer, and consumers lose—the net result would be haphazard implementation and failure to achieve the widespread use that is the goal of standard setting organizations in the first place. In this sense, the goals of standard setting organizations, and the issuance of SEPs that allow a patent holder to restrict the use of standards, are at odds.

To avoid this scenario in which a single patent holder can block other companies from participating in an industry standard, standard setting

ROB MAIER *is an intellectual property partner in the New York office of Baker Botts, and the head of its intellectual property group in New York.* JESSICA LIN, *a senior associate at the firm, assisted in the preparation of this article.*

organizations typically require members to make their SEPs available for license to any standards implementer on fair, reasonable and non-discriminatory terms (interchangeably referred to as FRAND or RAND terms).

In theory, FRAND licensing is intended to allow a patent owner to capture value from the widespread use of the invention, without excluding industry participants from using the technology or otherwise demanding overly high royalties. In practice, FRAND licensing often results in SEP holders being forced to license the technology at a rate that is less than what might otherwise result from ordinary, unconstrained licensing negotiations.

For patent defendants, FRAND licensing can be a double-edged sword—while a FRAND licensing requirement is often asserted by accused infringers of SEPs to mitigate damages, a ruling that a patent is indeed essential to a standard means that the issue of infringement is all but a foregone conclusion for any products complying with the standard. In other words, a defendant in an SEP case is often faced with an uncomfortable trade-off: conceding the issue of infringement in exchange for driving a low damages figure.

No 'Standard' Approach to Calculating FRAND Rates For SEPs

SEP litigation is often complex and contentious for a variety of reasons, including because SEPs can cover large volumes of products (e.g., all mobile phones that comply with a cellular standard), but also because a FRAND rate can be calculated in a number of different ways.

Only a few U.S. court decisions have addressed the calculation of a FRAND rate. Each case has arrived at the FRAND rate using different methodologies. For example, the court in *In re Innovatio IP Ventures Patent Litig.* determined a FRAND rate using a "top down" approach, which estimated the overall value of the 802.11 Wi-fi standard implemented in the accused products, and then apportioned that value according to the relative value of the asserted patents' contribution to the standard. 2013 WL 5593609, at *38-41 (N.D. Ill. Oct. 3, 2013).

In theory, FRAND licensing is intended to allow a patent owner to capture value from the widespread use of the invention, without excluding industry participants from using the technology or otherwise demanding overly high royalties. In practice, FRAND licensing often results in SEP holders being forced to license the technology at a rate that is less than what might otherwise result from ordinary, unconstrained licensing negotiations.

In another example, the court in *Microsoft v. Motorola* analyzed existing comparable licenses to determine FRAND rates for patents essential to the audio-video encoding and Wi-Fi standards at issue—an approach that is known as the "bottom up" approach. 2013 WL 2111217, at *3-4 (W.D. Wash. April 25, 2013). Both approaches appear equally viable, depending on the evidence gathered in discovery. Other questions still remain as to how FRAND rates, once computed, should be applied (e.g., whether on the price of each phone unit or chipset sold, or as a rate applied to revenue).

FRAND Rates in the Hands of the Jury?

Unless parties in SEP litigation agree to conduct an initial bench trial on the FRAND rate, which would allow the court to set that rate, it is more likely that the FRAND rate will go to the jury as the first decision maker on past damages. When the FRAND rate is left to the jury, the manner in which the FRAND rate was assessed may be less clear.

One recent case from the District of Delaware, *Godo Kaisha IP Bridge v. TCL*, illustrates how a jury's determination of past damages based on a FRAND rate can be broadly applied prospectively, and with little explanation on which facts were conclusive in setting the rate. The case involved patent claims which were found essential to the LTE wireless network standard and which were found to be infringed by the accused TCL phones that communicated over those LTE networks. *Godo Kaisha IP Bridge 1 v. TCL Commc'n Tech. Holdings Ltd.*, No. CV 15-634-JFB, 2019 WL 1877189, at *1 (D. Del. April 26, 2019).

With respect to damages, the verdict form only asked the following: "What has IP Bridge proven, by a preponderance of the evidence, to be a fair, reasonable, and non-discriminatory ('FRAND') royalty for use of the invention covered by all of the infringed and valid Asserted Patent(s)?" The jury's answer: $950,000. Id. Notably, the jury verdict form did not mention whether the royalty rate was applied to revenue, or instead on a per phone unit basis. In a post-trial motion for an ongoing royalty, the court found that "the jury verdict reflects an appropriate determination of the FRAND royalty rate and the court will not supplant the jury's determination." Id. at 6.

Although the court acknowledged that experts at trial "expressed opinions on reasonable *royalty rates as applied to revenue* from infringing sales," the court nevertheless ruled that an ongoing royalty would comprise "a reasonable royalty in the amount of four cents *per unit per patent* on adjudicated products." Id. Still further, the court applied this rate to unadjudicated products which included "any LTE products TCL sells," reasoning that the record and the jury "establishe[d] that there is no colorable difference between the accused products and products that are able to use and communicate over LTE networks." Id. This post-trial decision illustrates the far-reaching effects that a jury's determination of past damages can have on future products.

Cause for Concern? Perhaps

While the uncertainty surrounding the computation of FRAND rates may be cause for concern for those facing a suit from a plaintiff asserting an SEP, defendants may be relieved to know that standard essential patents, despite their label, may not always be all that essential.

A study of 1,446 cases asserting at least one standard essential patent found "no significant difference between SEP and non-SEP win rates." Lemley, Mark A. and Timothy Simcoe, "How Essential are Standard-Essential Patents?", 104 Cornell L. Rev. 607, 624 (2019). Setting aside cases in which a non-practicing entity (NPE, an entity that only holds patents but does not offer products covered by those patents) asserted at least one SEP, the study found that NPEs "are particularly unlikely to win their SEP cases, winning only 6% of them." Id. at 626. Armed with these facts, defendants may be emboldened in license negotiations with SEP holders in instances where the defendant has strong potential non-infringement positions.

However, SEP risks may remain significant. In December 2019, the U.S. Patent and Trademark Office (USPTO) and the Department of Justice (DOJ) Antitrust Division affirmed that remedies available in a given patent case, including injunctive relief, "are equally available in patent litigation involving [SEPs]." See "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments."

The new policy statement contrasts with an earlier 2013 statement which noted that exclusionary remedies may be contrary to FRAND licensing policies. Id. at 3. Explaining that the availability of injunctions, like all other patent remedies, may "help to preserve competition and incentives for innovation and for continued participation in voluntary, consensus-based, standards-setting activity," courts may view injunctions more favorably depending on the "the individual circumstances of licensing negotiations between patent owners and implementers." Id. at 7.

So, while studies indicate that SEP holders may not be dominating in litigation, there is certainly risk that the ultimate remedy—injunctive relief—may be available to SEP holders, particularly given this latest guidance from key agencies. Ultimately, to the extent that parties must litigate these FRAND rates, there remains much uncertainty and risk. At least for the time being, litigants will be forced to continue navigating these issues with mixed guidance from courts and under a potentially increased threat of injunctive relief.