FRAND or Foe: Litigating Standard Essential Patents

Munich Seminar

May 2013
Munich, Germany
Presentation Overview

I. Background
   • Standard Setting Organizations (SSOs)
   • Standard Essential Patents (SEPs)
   • FRAND
   • Patent Pools

II. U.S. and German Patent Litigation Relating to SEPs
   • Liability Defenses
   • Remedies
     • Injunctions
     • Damages
     • FRAND Determination

III. U.S. and German Regulatory Efforts in U.S.

IV. Practice Pointers
Standard Setting Organizations (SSOs)

- **The Good** – SSOs are a collaborative effort to:
  - Identify technical solutions
  - Promote compatibility
  - Promote adoption of technology

- **The Bad** – once a standard is adopted, the technology is “locked-in”

- **The Ugly** – Opportunity for “patent ambush” or “hold-up”
  - Non-disclosure – concealing essential patents
  - Non-FRAND licensing – refusing to license on fair, reasonable and non-discriminatory terms
Standard Essential Patents & FRAND

- **Often:**
  - Standards will incorporate patented technology
  - SSOs will require working group participants to disclose patents/applications related to the standard
  - SSOs will require participants to agree to license their Standard Essential Patents (SEPs) on FRAND terms

- **Standard Essential Patent:**
  - Patent that is necessarily infringed when the implementer practices the standard

- **FRAND:**
  - Fair
  - Reasonable And
  - Non-Discriminatory
Example of SSO Undertakings

- European Telecommunications Standards Institute (ETSI)
  - 700 Members
  - Behind WCDMA/UMTS mobile communications standards

- Disclosure (Clause 4.1):
  Subject to Clause 4.2 below, each MEMBER shall use its reasonable endeavours, in particular during the development of a STANDARD or TECHNICAL SPECIFICATION where it participates, to inform ETSI of ESSENTIAL IPRs in a timely fashion. In particular, a MEMBER submitting a technical proposal for a STANDARD or TECHNICAL SPECIFICATION shall, on a bona fide basis, draw the attention of ETSI to any of that MEMBER’s IPR which might be ESSENTIAL if that proposal is adopted.

- FRAND (Clause 6.1):
  When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions under such IPR to at least the following extent:
Patent Pools

• Often, companies involved in the creation of a standard will jointly license their SEPs
  • One-stop shopping for implementers
  • Can promote the adoption of standard
• Pools do not necessarily contain all SEPs
• Anti-trust concerns
Is a Standard Essential Patent Actually Essential?

• SSOs do not determine essentiality
• Key Inquiry: who determined that a patent is “essential”?
• Patent pools determination of “essentiality” may be relevant but is not determinative
  • Essentiality determination is a non-adversarial process
  • Limited to comparison of patent claims to the standard
  • No invalidity analysis
  • No inventorship analysis
  • Concerns about impartiality of determination
Hidden Problems with SEPs/Patent Pools

• Given the collaboration amongst standards working groups, there may be unnamed inventors
• Simultaneous proposals from multiple participants in SSO working groups can demonstrate the obviousness of solution and limited value of technology
• Patent pools focus on the number of patents, so the quality of the patents is often low
• Some patent pool enforcement mechanisms are impractical
Standard Essential or Essentially Worthless?

- Many SEPS have value only because they are “essential”
  - Small innovations
  - Many competing alternatives
  - Not necessary to implement core technology described in the standard
  - Hundreds/thousands of essential patents
  - “Essential” but invalid

- The ability to obtain an injunction for a SEP can greatly enhance its value
  - Implementer usually cannot design around
  - Ability to obtain an injunction makes every SEP a blocking patent
Comparison of U.S. and German Patent Litigation Regarding SEPs
# SEP Specific Liability Defenses

<table>
<thead>
<tr>
<th><strong>United States</strong></th>
<th><strong>Germany</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Infringement</td>
<td>Prove infringement based on just the standard</td>
</tr>
<tr>
<td>Invalidity</td>
<td>Separate nullity proceeding</td>
</tr>
<tr>
<td>Antitrust counterclaim</td>
<td>Antitrust counterclaim</td>
</tr>
<tr>
<td>Patent defenses – patent misuse, implied license, estoppel or unclean hands</td>
<td>Exhaustion for specific cases (BGH – “MPEG2 Videosignalcodierung”)</td>
</tr>
<tr>
<td>Breach of contract defense – failure to disclose patents or failure to offer license on FRAND terms</td>
<td>Orange Book defense</td>
</tr>
</tbody>
</table>
U.S. – SEP Specific Litigation Defenses

• Antitrust violation
  • SEP sufficient to show monopoly
  • Failure to disclose likely anticompetitive
  • Authority split on failure to satisfy FRAND duties

• Patent misuse, estoppel or unclean hands defenses
  • Failure to disclose
  • Failure to offer FRAND license
  • Despite recognition, defense has yet to succeed

• Breach of contract – failure to offer FRAND terms
  • Infringer is a third-party beneficiary
# SEP Remedies

<table>
<thead>
<tr>
<th><strong>United States</strong></th>
<th><strong>Germany</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited ability to obtain injunction</td>
<td>Injunctions were automatic in the past – are no longer based on antitrust statements of the EU Commission</td>
</tr>
<tr>
<td>FRAND commitment can be a significant limitation on damages</td>
<td>Orange Book leaves FRAND determination largely to Patentee – possibly to be reviewed and determined by Courts</td>
</tr>
<tr>
<td>Value of SEP based on value of technology before adoption of the standard</td>
<td></td>
</tr>
</tbody>
</table>

Value of SEP based on value of technology before adoption of the standard
U.S. – Injunctions

• Injunctions on SEPs in U.S. District Court are possible but rare
  • Supreme Court’s 2006 *eBay* decision made injunctions difficult to obtain
  • Examples of where Courts have denied injunction for SEPs:
    • *Apple v. Motorola* (N.D. Ill., 2012)
    • *Microsoft v. Motorola* (W.D. Wash., 2012)
  • For SEPs: at a minimum, Patentee will likely need to establish liability plus implementer’s rejection of FRAND license

• Exclusion Orders in ITC are more likely
  • *CAFC*: *eBay* is not binding on ITC
  • Injunction is the ITC’s only remedy
U.S. – Exclusion Orders in ITC

- ITC has rejected the FRAND defense
  - ITC Inv. No. 337-TA-752 (Motorola v. Microsoft), ALJ dismissed FRAND defense
  - BUT, the 752 investigation was terminated after Motorola entered a consent order with FTC
- AND, Recently, the Commission has paid more attention to FRAND issues; public interest factors:
  - Effect on public health and welfare
  - Competition
  - the U.S. Economy, and/or
  - U.S. Consumers
- January 8, 2013: DOJ/USPTO jointly urged the ITC to use these public interest factors to limit exclusion orders, except where:
  - Implementer is unable/refuses to take a FRAND license
  - Implementer is not subject to U.S. jurisdiction
U.S. – April 2013 U.S. Court Sets FRAND Rate

• **Microsoft v. Motorola (W.D. Wash.)**
  • Microsoft asserts breach of contract
    • Motorola asserts patent infringement
    • Wifi (IEEE 802.11) and video coding (ITU H.264) SEPS

• Key summary judgment findings:
  • Court finds Motorola entered binding contract with IEEE and the ITU
  • Court finds Microsoft a third-party beneficiary of those contracts
  • Rules that Motorola’s initial offer need not be on FRAND terms if the offer was made in good faith
U.S. – April 2013 U.S. Court Sets FRAND Rate

• **Microsoft v. Motorola (W.D. Wash.) (cont’d)**
  • FRAND Bench trial (November 2012/April 2013)
    • Motorola’s FRAND offer:
      • 2.25% sales price of Xbox (and Windows)
      • H.264 SEPs: $3.00-$4.50 per Xbox
      • 802.11 SEPs: $6.00-$8.00 per Xbox
    • Court determines FRAND range:
      • H.264 SEPs: $0.0555 - 0.16389 per Xbox
      • 802.11 SEPs: $0.008 - $0.195 per Xbox
  • Jury will now determine whether Motorola breached its Agreement with SSOs to offer FRAND terms
U.S. – What Happens Next?

• *Microsoft v. Motorola* will be appealed
• Will other District Court judges follow
• Key takeaways regarding FRAND royalty rates:
  • The royalty should reflect the **importance** of the patent to the respective standard and to the accused products
  • The royalty for the patent should be **apportioned** to reflect just the value of the individual asserted patents
  • The royalty should be based on the value of the patent **before** the technology was adopted by the SSO.
Germany:

• March 21, 2013 – District Court of Düsseldorf referred to the European Court of Justice five questions regarding SEP remedies

• Questions relate to:
  • More detailed requirements for “Orange-Book” defense
    • Conditions under which an SEP owner may abuse his FRAND obligations when seeking an injunction
    • Obligations to be fulfilled by alleged infringer to make the SEP owner’s behavior abusive

(for more details see: http://www.fosspatents.com/2013/03/german-court-refers-huawei-zte-standard.html)
U.S. and German Regulatory Efforts
"Intellectual property rights are an important cornerstone of the single market. However, such rights should not be misused when they are essential to implement industry standards, which bring huge benefits to businesses and consumers alike. When companies have contributed their patents to an industry standard and have made a commitment to license the patents in return for fair remuneration, then the use of injunctions against willing licensees can be anti-competitive."

Joaquin Almunia, Vice President, European Commission Competition Policy
Copenhagen, December 21, 2012
"The protection of intellectual property is a cornerstone of innovation and growth. But so is competition. I think that companies should spend their time innovating and competing on the merits of the products they offer – not misusing their intellectual property rights to hold up competitors to the detriment of innovation and consumer choice."

Joaquin Almunia, Vice President, European Commission Competition Policy
Brussels, May 6, 2013
SEP Regulatory Issues in Europe

• Article 102 of the Treaty on Functioning of the European Union
• Commission sends Statement of Objections on potential misuse of mobile phone standard essential patents
  • Samsung (December 21, 2012)
  • Motorola Mobility (May 6, 2013)
• Requesting an injunction against a “willing licensee” is likely an anti-trust violation
• FRAND related cases in Germany might be stayed in view of the Commission’s statement and the referral of the District Court Düsseldorf dated March 21, 2013
SEP Regulatory Issues in U.S.

  • *In the Matter of Robert Bosch GmbH*
  • *In the Matter of Google, Inc.*

• U.S. Department of Justice (DOJ) and USPTO, January 8, 2013 Policy Statement on Remedies for Standards-essential Patents Subject to Voluntary F/RAND Commitments:
  • Voluntary FRAND commitment may affect choice of remedy
  • In some circumstances, injunction/exclusion order is inconsistent with public interest
“Although we recommend caution in granting injunctions or exclusion orders based on infringement of voluntary F/RAND-encumbered patents essential to a standard, DOJ and USPTO strongly support the protection of intellectual property rights and believe that a patent holder who makes such a F/RAND commitment should receive appropriate compensation that reflects the value of the technology contributed to the standard.”

January 8, 2013 Policy Statement on Remedies for Standards-essential Patents Subject to Voluntary F/RAND Commitments

USDOJ and USPTO
Practice Pointers
Pre-Litigation – Patentees:

• **Work with SSOs to draft appropriate disclosure obligations**

• **Monitor disclosure obligations**
  • What disclosure obligations has your company undertaken
  • If acquiring patents, what obligations did prior owner(s) undertake
  • Are you tracking these disclosure obligations

• **Meet FRAND obligations**
  • Determine a reasonable metric for FRAND licenses
  • Apply consistently with licensees

• **Choose enforcement venue carefully**
Pre-Litigation – Implementers:

• Determine whether to license SEPs individually or through pool
• Ignore requests to license at your peril
  • Infringers may be enjoined for failure to accept reasonable license
U.S. SEP Litigation Strategy:

- **Patentee should:**
  - Select patents that have real value
  - Consider filing in the ITC
  - Conduct due diligence on SSO and FRAND issues
  - Assess infringement against the product—not just the standard
  - Build a credible damages model
  - Consider non-litigation options

- **Implementer should**
  - Assess traditional patent defenses of infringement and invalidity
  - Investigate patentee’s disclosure and FRAND obligations
  - Consider claims for patent misuse, antitrust violations, and breach of contract
  - Take discovery on inventorship issues
  - Work on damages strategy from the outset
  - Consider non-litigation options
German SEP Litigation strategy

• Patentee should:
  • Select patents that have real value
  • Be careful about expectation to obtain an injunction
  • Build a credible calculation for potential FRAND license rate
  • Consider non-litigation options

• Implementer should
  • Assess traditional patent defenses of infringement and invalidity
  • Investigate patentee’s disclosure and FRAND obligations
  • Consider claims for antitrust violations, and compulsory license
  • Assess possible exhaustion of rights
  • Consider possible use of US discovery
  • Work on FRAND defense seeking a license
  • Consider non-litigation options
Danke!

Jan-Malte Schley – Schley@fr.com
Chris Dillon – Dillon@fr.com