

Standards, Patents & Competition: Law and Litigation

Latest Views From the U.S. on SEP's & FRAND

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LATEST VIEWS FROM THE U.S. ON SEP'S & FRAND

UNITED STATES REACTION TO DATE TO UK HIGH COURT OF JUSTICE (PATENTS) DECISION,
UNWIRED PLANET V. HUAWEI, [2017] EWHC 711 (PAT) (5 APRIL 2017) [BIRSS, J.]

- Paul Michel, former Chief Judge of the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”), did not mince his words when he described *Unwired Planet v. Huawei* in an interview with *IAM* as “**the decision of the decade**” in FRAND SEP licensing.
- But what about the broader implications of the judgment, particularly its potential impact in the U.S.? To that end [*IAM*] asked Professor Jorge Contreras of the University of Utah law school for an opinion. He stated:

On one hand, courts in other countries need not follow the rulings of the UK courts (especially after Brexit!). However, this case is interesting in that the court is actually applying French law, which governs the ETSI policy. **Thus, the court’s reasoning will be informative to any non-French court that is considering a dispute concerning an ETSI standard (i.e., many of them). As such, U.S. courts would do well to consider the UK court’s reasoning, especially since it conducts its entire analysis without reference to the U.S. *Georgia-Pacific* framework, which really does not work in the context of FRAND.** In this sense, I would encourage the U.S. courts to look at the methodology used by Justice Birss.

Emphasis added.

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U.S. REACTION TO *UNWIRED PLANET V. HUAWEI* (CONT'D)

- Ashley Keller of litigation funder Burford Capital cast doubt on how much sway the judgment will hold in the U.S. Instead, he forecast that the drift of cases from U.S. courts to Europe will accelerate:

To my eyes, the ruling is a big deal, but not because it will influence U.S. courts. **I think the federal judiciary will at best treat this as persuasive authority; but, more likely, will not consider it much if at all in U.S. adjudications.** The bigger impact could be to further the marginal incentive for patent holders to enforce in Europe (and by extension, for innovators to innovate there).

Lloyd, “‘The decision of the decade’ – U.S. reaction to the UK’s landmark Unwired Planet FRAND judgment;” <http://www.iam-media.com/blog> (April 14, 2017) (emphasis added).

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See also, Contreras, “Unwired Planet v. Huawei An English Perspective on FRAND Royalties,” <https://patentlyo.com/patent/2017/04/unwired-perspective-royalties.html>? UTM-source (April 10, 2017) (“**E. FRAND Royalty Calculation Methodology:** Perhaps the most significant aspect of Justice Birss’s opinion in *Unwired Planet* is his careful calculation of the FRAND royalty applicable to the parties’ transaction. **He offers two possible methods of calculating the FRAND royalty, one based on an analysis of comparable license rates, the other based on a top-down analysis of the total aggregate royalty that should be attributable to the standards and SEPs at issue.** . . . What is most refreshing about Justice Birss’s opinion, however, is **the absence of any attempted application of the 15-factor *Georgia-Pacific* framework for “reasonable royalty” patent damage**, which U.S. courts feel compelled to apply despite the fact that a FRAND royalty calculation is not a remedial damages calculation”) (emphasis added);

Contreras, “Global Markets, Competition and FRAND Royalties: The Many Implications of *Unwired Planet v. Huawei*”, www.antitrustsource.com (August 3, 2017), p.1 (“The single-rate FRAND approach adopted in *Unwired Planet* is conceptually different than the approach developed by Judge Robart in *Microsoft Corp. v. Motorola*. There, the court determined a FRAND range to assess whether the SEP holder complied with its duty of good faith and fair dealing under applicable law. Then, in setting a final royalty, the court [sic., the jury] placed a specific rate within the allowable range.”)

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U.S. REACTION TO *UNWIRED PLANET V. HUAWEI* (CONT'D)

Based on existing U.S. law and 35 USC § 284, Sidak disagrees with Mr. Justice Birss's conclusion that FRAND is a point/single rate:

Legal interpretation of the FRAND or RAND commitment (under American law) independently confirms that a FRAND or RAND royalty may be situated anywhere along a range of possible outcomes. In both their interpretation of section 284 of the Patent Act and their application of the hypothetical negotiation framework to determine damages for patent infringement under section 284, **the federal courts** recognize that a range of reasonable royalties exists for a given patent. **Any contractual bargaining away by the patent holder of its rights arising from that statutory framework would need to be indisputably clear.** However, such clarity is nonexistent. The patent policies of the major SSOs allow the SEP holder and the implementer to set licensing terms for an SEP, including the ultimate royalty rate, through voluntary, bilateral negotiation. **Far from dictating a unique point value, that mechanism permits a range of FRAND or RAND royalties for a given SEP.**

Abstract (emphasis added); Sidak, "Is a FRAND Royalty a Point or a Range?", *Criterion Journal on Innovation*, Vol. 2 (2017), pp 401-3 ("[T]he conclusion that the FRAND . . . rate is a single point would be incorrect as a legal matter in a case controlled by American law"), 419-425 (citing *Microsoft v. Motorola*, concluding that "Consequently, [U.S.] courts have recognized that the patent holder is entitled to a range, rather than a unique point of reasonable royalties for an infringed patent.) 425 ("There is no indication that a typical FRAND . . . commitment provides either an explicit or an implicit waiver of the SEP holder's right to a range of reasonable royalties").

LATEST VIEWS FROM THE U.S. ON SEP'S & FRAND

U.S. REACTION TO *UNWIRED PLANET V. HUAWEI* (CONT'D)

Judge Robart, who decided *Microsoft v. Motorola*, did not agree with Mr. Justice Birss's approach, as reported by Lloyd, "*Microsoft v. Motorola* Judge criticizes recent UK *Unwired Planet* licensing Decision":

U.S. district court judge James Robart has taken aim at the decision handed down by Justice Colin Birss in the high profile London High Court SEP/FRAND CASE OF *Unwired Planet v. Huawei*, decided earlier this year. Speaking at the annual IPO MEETING IN San Francisco yesterday [September 10, 2017], **Robart**—who issued the famous *Microsoft v. Motorola* decision in 2013 and sits in the Western District of Washington – **said that Birss was wrong to offer specific royalty rates for the technology in question, rather than offering a range, and stated that he did not expect the judgment to be particularly influential in U.S. courthouses.**

Furthermore, Robart referred to *Unwired Planet v. Huawei* as a “perfect storm” that featured an English judge, making a ruling on the eve of Brexit, in a high-profile case in Europe which was grounded in part in French law. ETSI, one of the leading standard setting organisations in the mobile space, is chartered under French law.

Robart's comments are particularly noteworthy as *Microsoft v. Motorola* is one of the highest profile SEP/FRAND judgments ever made in the U.S. That case, which was a breach of contract lawsuit rather than a patent infringement dispute, was brought by Microsoft after it accused Motorola of not offering a license to its patents relating to WiFi and video coding on FRAND terms.

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Lloyd, “*Microsoft v. Motorola* Judge criticizes *Unwired Planet* licensing Decision” (cont'd):

Robart [applying Ninth Circuit law] ruled that more than one royalty rate could be considered FRAND and calculated a rate far lower than the ones proposed by Motorola. As the first time a U.S. court had offered a determination on FRAND licensing terms in an SEP dispute, Robart's decision not surprisingly received a lot of attention.

Mr. Justice Birss' ruling in *Unwired Planet* has proved to be similarly high profile. In his very detailed decision he suggested that there was a single rate which should be considered FRAND and also introduced the idea of a FRAND injunction, which ceases to exist once the two parties in an SEP licensing dispute agree to a FRAND license.

Robart's claim that the *Unwired* decision wouldn't have much influence over U.S. courts has previously been made by **former Chief Judge for the Federal Circuit Paul Michel who told this blog after the London ruling was handed down that the U.S. legal system was traditionally inward looking and so rarely paid much heed to overseas cases.** Of course, judges around the world often disagree on key areas of patent law – the [U.S.] Supreme court's rulings in several patent eligibility cases has meant that the U.S. is out-of-step with many jurisdictions in sectors like medical diagnostics – **but Robart's comments highlight the degree to which the law in FRAND licensing remains unsettled.**

That's not particularly helpful for licensing experts, although since the *Unwired* ruling many may now be looking much more closely at patent assertion in Europe rather than the U.S. – especially after what Judge Robart said yesterday!

Lloyd, supra, IAW Law Blog (Sept. 19, 2017) (emphasis added).

LATEST VIEWS FROM THE U.S. ON SEP'S & FRAND

TCL COMMUNICATIONS TECHNOLOGY HOLDINGS v. TELEFONAKTIENBOLAGET LM ERICSSON
CIVIL ACTION No. SACV14-00341 JVS (ANX) (CD CAL. JULY 25, 2016)

GENERAL BACKGROUND; OVERVIEW

General Background

- TCL is a mobile telecommunication vendor that licenses patents from telecommunications companies like Ericsson... **Ericsson owns a portfolio of intellectual property rights, some of which are “essential” to the global 2G (second generation), 3G (third generation), and 4G (fourth generation) telecommunications standards set by the European Telecommunications Standards Institute (“ETSI”) . . . ETSI is a standard-development organization that adopts globally-accepted technological standards to facilitate compatibility between products and services in the telecommunications industry... ETSI requires members who declare their patents “standard essential” (“standard essential patents”) to license them on FRAND terms...**

Emphasis added.

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TCL COMMUNICATIONS TECHNOLOGY HOLDINGS (CONT'D)

STRUCTURE OF THE TRIAL

With this structure of the dispute in mind, the Court finds it is worth taking a step back to provide this Court's view of **the general tasks that will be posed to the fact-finders at trial.**

- *First*, an overarching question at trial will be: “Was Ericsson compliant with its obligations to ETSI and to TCL as a purported third party beneficiary?” **Essentially, the jury will be tasked with deciding whether Ericsson complied with its obligation to offer licenses to standard essential patents on FRAND terms.** As the parties have identified in their many papers, Ericsson may be able to show it was compliant with its obligations to license on FRAND terms and conditions **even if** neither of its long-form licenses submitted in this litigation as Option A and Option B are, in fact, FRAND licenses. **For example, Ericsson might argue that it was not under an obligation to offer a FRAND license to TCL because TCL's negotiating conduct proves that TCL was not acting in good faith...** Ericsson's position is that its obligation is only to negotiate in good faith towards a FRAND license)) TCL has also suggested that the jury might find that Ericsson's offers were outside of the FRAND range, but “close enough” to find that Ericsson was not in breach of its obligation. . . . **Consequently, the Court will ask the jury to decide whether Ericsson was compliant with its FRAND obligations without specific reference to Option A or Option B. If the answer to this initial question is no, the jury will be tasked with assessing what damages TCL is entitled to (if any).**

Emphasis added.

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TCL COMMUNICATIONS TECHNOLOGY HOLDINGS (CONT'D)

STRUCTURE OF THE TRIAL (CONT'D)

- ***Second***, without regard to whether Ericsson met its FRAND obligation, the Court will consider: “Is Option A a FRAND license? Is Option B a FRAND license?” As the Court and the parties recognize, a jury finding that Ericsson has met its FRAND obligations does not necessarily dictate an answer of “yes” to either of these two subsequent questions. The fact-finder will be independently tasked with deciding whether the evidence establishes that Ericsson’s offers were FRAND. If the offers themselves are FRAND, then this should end the inquiry about what the binding payment obligation should be going forward. **The fact-finder’s determination that either Option A or Option B are FRAND licenses would permit the Court to enter such option as the Court’s final judgment in this matter. One of those Options will be entered as the binding license agreement between the parties if such Option is determined to be FRAND.** In a separate motion, Ericsson indicates that if the fact-finder decides that both Option A and Option B are FRAND, then TCL can elect which will constitute the binding payment obligation. . . . The Court is persuaded that any other procedure following a determination that Option A or Option B are FRAND would be unfair to Ericsson, because it would create a “risk free” opportunity for TCL to improve on Ericsson’s licensing proposals through the mechanism of trial. . . .
- ***Third***, and only if the fact-finder find that neither Option A nor Option B are FRAND licenses, the fact-finder will be tasked with answering the question: “What are the components of a FRAND license?” Such inquiry would proceed in three steps:

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TCL COMMUNICATIONS TECHNOLOGY HOLDINGS (CONT'D)

STRUCTURE OF THE TRIAL (CONT'D)

[First], **the fact-finder will first identify what it finds to be the material terms of a FRAND license.** The parties are likely to agree that certain terms are material (e.g., License and Royalty Terms), and the fact-finder may be directed to so find.

[Second], **upon identifying the material terms, the fact-finder will then be tasked to supply the FRAND term for each material term.** The Court anticipates that for each term the factfinder will be presented with competing options, and the fact-finder will be free to pick one of the options or craft its own option. **For example, the fact-finder will determine FRAND terms for each royalty TCL must pay to Ericsson for each product that is part of this license that is compliant with 2G, 3G, and/or 4G. This determination will not be limited to a particular form. The fact-finder will be permitted, for example, to enter its determination in a form that is the percentage of a net selling price or enter its determination in a form that is a dollar-per-unit amount. The fact-finder will be permitted to use a cap and a floor, if the evidence shows that such mechanisms are FRAND.**

[Third], after the fact-finder supplies a FRAND term for each material term, **the Court will inquire whether all the terms, in the aggregate, meet the requirements of a FRAND license.** If the fact-finder concludes that the aggregate of all the terms as found by the fact-finder is a FRAND license, then that determination will constitute the binding final judgment of the Court.

Finally, the Court's present view is that this final step is a task for the Court to complete, and not a task for the jury.

The Court, in its discretion, is considering empaneling an advisory jury to assist in any fact-finding necessary for this step.

Emphasis added.

LATEST VIEWS FROM THE U.S. ON SEP'S & FRAND

TCL COMMUNICATIONS TECHNOLOGY HOLDINGS (CONT'D) STATUS

Pursuant to these various rulings, the Court held a bench trial beginning in early February 2017. See, e.g. Graham, “Ericsson, TCL Battle Over FRAND Patents in ‘Cutting-Edge’ Case”, The Recorder, <http://www.therecorder.com/printerfriendly/id=1202779302289> (February 16, 2017); Eslinger, “Ericsson FRAND Trial Enters Day 2 With TCL Expert”, Law 360, <https://www.law360.com/articles/892745/print?section=california> ; Siegal, “Ericsson IP Chief Testifies TCL License Terms Were Fair”, Law 360, <https://www.law360.com/articles/896885/print?section=california> (February 28, 2017).

A decision is expected later this year [2017]. Decker, “Ericsson Tries to Avoid Patent War by Publishing Rates for 5G”, Bloomberg News, <https://www.bloomberg.com/news/articles/2017-03-17>.

LATEST VIEWS FROM THE U.S. ON SEP'S & FRAND DAMAGES

TCL COMMUNICATIONS TECHNOLOGY HOLDINGS v. TELEFONAKTIENBOLAGET LM ERICSSON
Civil Action No. SACV14-00341 JVS (ANx) (CD Cal. December 21, 2017)

District Court Determines FRAND Royalty for Cell Phone Technology Based on Top-Down Analysis and Global Licenses

https://content.next.westlaw.com/w-012-4284?utm_medium=email&utm_source=PLC&e...

LATEST VIEWS FROM THE U.S. ON SEP'S & FRAND DAMAGES (CONT'D)

In *TCL Communication Technology Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson*, the US District Court for the Central District of California issued the public version of its Memorandum of Findings of Fact and Conclusions of Law **where it determined that Telefonaktiebolaget LM Ericsson's proposed royalty rates for a license to standard essential patents (SEPs) were not fair, reasonable, and non-discriminatory (FRAND) based on a top-down analysis and a comparison with other global licenses (C.D. Cal. Dec. 21, 2017).**

Ericsson holds an extensive portfolio of telecommunications patents, including patents affecting 2G, 3G, and 4G cellular technologies that the European Telecommunications Standards Institute (“ETSI”) accepted into these standards. Acceptance into the standards required Ericsson to license the SEPs at FRAND rates. TCL Communication Technology Holdings, Ltd. manufactures and distributes cell phones worldwide and sought to license Ericsson's SEPs, but the parties were unable to reach an agreement. The parties had been negotiating for several years and Ericsson sued TCL in several foreign countries for alleged infringement of the SEPs before **TCL sought a declaratory judgment in the Central District of California: that Ericsson failed to offer FRAND terms and conditions; to establish the FRAND rates.**

During the negotiations, Ericsson had made several offers to TCL and asserted during litigation that two options based on a April 23, 2014 offer and a February 11, 2015 offer (Options A and B) were FRAND. **TCL suggested a top-down approach for determining a FRAND rate.** This approach identifies an aggregate royalty for all SEPs within a standard and apportions the aggregate based on the specific SEPs relative value to the overall value of all SEPs within the standard using a fraction where: the numerator is the value of the licensor's SEPs for the standard; the denominator is the total value of all SEPs within the standard. **Ericsson suggested determining FRAND rates *ex ante*** by estimating the value of SEPs independent of any value arising from their inclusion into the standard.

LATEST VIEWS FROM THE U.S. ON SEP'S & FRAND DAMAGES (CONT'D)

The district court concluded that neither Option A nor Option B were FRAND based on: A top-down analysis to determine a FRAND rate; global licenses that Ericsson granted to other companies.

First, the district court: rejected Ericsson's approach as flawed in light of evidence suggesting that by using this approach just two features of the SEPs would have a value greater than Ericsson's entire patent portfolio; **used the top-down approach** because it prevents royalty stacking. **The district court then adjusted the royalty determined from the top-down approach based on:** the importance and contribution of Ericsson's SEPs compared to other SEPs covering the standard; the geographic strength of Ericsson's SEPs, since many companies agree to a global rate.

Next, the district court identified Ericsson's licenses **with other companies similarly situated to TCL. Whether another company is similarly situated to TCL is based on:** the company's geographic scope, noting that companies selling most of their products in a single country are not similarly situated to companies distributing the product globally; the licenses the company requires; the company's sales volume. **The analysis of these licenses included:** identifying an appropriate discount rate; estimating the revenue from sales of products compliant with the standard; evaluating the strength of the licensor's SEPs compared to the strength of the licensee's SEPs.

Based on these inputs, the district court identified FRAND rates, concluded that Options A and B were not FRAND, and determined that TCL must pay Ericsson: over \$16 million for unlicensed past sales; running royalty rates of between: 0.090% to 0.164% for the 2G standard; 0.224% to 0.300% for the 3G standard; and 0.314% to 0.450% for the 4G standard.