Issues related to standard-essential patents (SEPs) have generated significant attention in the wake of the first appellate decisions on royalties for SEPs – *Ericsson, Inc. v. D-Link Systems*. 773 F.3d 1201 (Fed. Cir. 2014) and *Microsoft v. Motorola*, Case No. 14-35393 (9th Cir. July 30, 2015). This article reviews the guidance these cases provide when determining royalty rates for SEPs.

SEPs cover technologies implemented in established industry standards. Standard setting organizations (SSOs) typically require SSO members to license their SEPs on “reasonable, and non-discriminatory” or RAND terms (sometimes referred to as “fair reasonable and non-discriminatory” or FRAND). The goal of RAND is to encourage stakeholders to adopt and implement an industry standard and to ensure that SEP owners benefit for the contributions of their patented technology to that standard.

A typical RAND provision is not an actual license, but an agreement to grant a license on reasonable and non-discriminatory terms. Most SSOs do not define “reasonable and non-discriminatory” or specify a RAND royalty to apply. Therefore, courts have been left to determine how royalties for RAND-encumbered patents should be determined.

*Ericsson* is the Federal Circuit’s first opinion on how royalties should be determined when RAND-encumbered SEPs are asserted in patent infringement actions. In the district court, the SEP owner prevailed on its infringement claim, and the jury determined the RAND royalty owed. On appeal, the Federal Circuit vacated the award and remanded the case for a new trial on damages, concluding that the jury instructions for determining a RAND royalty were improper.

The Federal Circuit eschewed any set use of *Georgia-Pacific* or other factors, but offered the following guidance for determining RAND royalties on a case-by-case basis:

- Comparable licenses based on the entire value of the accused product can be considered if the expert testimony on those licenses accounts for the value contributed by the licensed technology.
- Juries should be instructed as to the SEP owner’s actual RAND commitments.
- The value of the patented feature should be apportioned from: (1) other features in the standard and (2) value added by the adoption of that feature in the standard.
- Jury instructions on patent hold-up (when SEP owners leverage the mere inclusion of their patents in an industry standard to charge an unreasonably high royalty) and royalty stacking (a standard-compliant company forced to
pay successive royalties to all SEP holders) should only be given if competent evidence of patent hold-up or royalty stacking has been presented.

Motorola was a breach of contract case brought by a standard-compliant company alleging that the SEP owner violated its RAND commitments. The SEP owner did not assert its patents in the case and the judge determined the RAND royalty with the consent of the parties. A jury then concluded that the SEP owner breached its RAND obligations and awarded as damages the fees and mitigation costs incurred by the standard-compliant company that related to patent infringement actions in which the SEP owner sought injunctions on its SEPs. In affirming the district court’s judgement, the Ninth Circuit also rejected a requirement to employ a set list of Georgia-Pacific factors and offered the following points of guidance for determining RAND royalties.

- Unlike patent infringement damages, the hypothetical negotiation for determining a RAND royalty need not be confined to the time of first infringement.
- Patent pool arrangements (collections of SEP owners licensing their SEPs collectively) can be considered, but these rates are generally lower than might be achieved in a bilateral agreement like the hypothetical negotiation.
- Existing licenses for SEPs should be considered to the extent they are comparable to the hypothetical negotiation at issue.

The Ericsson and Motorola decisions provide effective direction to parties in RAND negotiations. RAND royalties should reflect the value of the SEPs at issue and account for the particularities of the RAND commitments and existing licensing practices related to a given standard. Leading SSOs, such as the IEEE, have adopted bylaws that require considering the value of the functionality of the claimed invention in setting RAND royalties.

Time will tell whether these cases signal a building consensus on the royalty determination for RAND-encumbered patents or whether the divergent procedural postures of these cases will lead to different RAND considerations in different fora.

AUTHORS

Aaron G. Fountain
Partner
Austin | T: +1 512 457 7000
Houston | T: +1 713 425 8400
aaron.fountain@dlapiper.com