Client Alert

December 10, 2014

Standards Patent Licensing: Always Apportionment, Sometimes Stacking

By Jason R. Bartlett

What is a Fair, Reasonable, and Non-Discriminatory (FRAND) royalty for a few patents essential to practicing a technical standard like WiFi and how should the jury in such a case be instructed on damages? The Federal Circuit addressed these questions in *Ericsson, Inc. et al. v. D-Link Systems, Inc. et al.* (Fed. Cir. Dec. 4, 2014). The answer is that the jury should be instructed to base royalties on the contribution of the patents-in-suit to the standard-practicing component and the contribution of that component to the accused product as a whole. The jury should not, however, be instructed to consider whether the aggregate royalty "stack" for the standard as a whole would be reasonable if all standard patent owners charged similar royalties – unless there is evidence that royalties are already in fact starting to stack up.

Patent owner Ericsson sued D-Link Systems and other implementers for infringing three patents relating to the WiFi standard. The jury found that D-Link infringed and awarded a royalty of fifteen cents per unit. The district court upheld the jury's decision. The Federal Circuit affirmed most of the liability findings but vacated the damages award and remanded.

The principal basis for remand was the lower court's failure to properly instruct the jury on royalty apportionment. The Federal Circuit held that royalties must always "reflect the value attributable to the infringing features of the product, and no more." Accordingly, the district court must instruct the jury that the reasonable royalty award must be based on the "incremental value of the invention, not the value of the standard as a whole or any increased value the patented feature gains from its inclusion in the standard." The accused products were end-user products that incorporated chip components that implement the WiFi standard. To properly apportion damages, the jury should have been instructed to consider both the standard-implementing component's contribution to the accused product as a whole, and the asserted patents' contribution to that component. "Just as we apportion damages for a patent that covers a small part of a device, we must also apportion damages for [Standards Essential Patents] that cover only a small part of a standard."

The opinion also addressed the issues of "holdup" and "royalty stacking" – both hot topics in the standards-essential patent realm. "Holdup" occurs when the owner of an SEP demands excessive royalties after implementers are "locked into using a standard." "Royalty stacking" occurs when implementers are forced to pay excessive aggregate royalties to all SEP owners. Several well-publicized recent district court cases have addressed the issues of holdup and royalty stacking by setting a theoretical aggregate royalty limit and then apportioning some of that aggregate royalty to the patents-in-suit. In the trial below, D-Link requested and was denied special instructions that the jury should consider holdup and royalty stacking when awarding royalty damages.

The Court of Appeals in *Ericsson* "express[ed] no opinion" on the recent district court opinions, but generally rejected the notion that juries in standards-essential patent cases should always be instructed on holdup and royalty stacking. No evidence was adduced to show that D-Link and other defendants were in fact already paying excessive aggregate royalties or that Ericsson had held them up for additional royalties after standardization. The Court reasoned that "[t]he mere fact that thousands of patents are declared to be essential to a standard does not mean that a standard-compliant company will necessarily have to pay a royalty to each SEP holder."

Thus, although the *Ericsson* opinion does not directly address the FRAND royalty-setting methodologies coming up through the district courts, it does call parts of them into question. Appellants and amici emphasized that if every WiFi standards patent owner were awarded royalties comparable to those that Ericsson was awarded in this case, WiFi chips that now cost a dollar or two would have to cost more than $150. The Federal Circuit's view appears to be that so long as the jury is properly instructed on apportionment, it need not be instructed to consider what its damages assessment would imply for the aggregate royalty of the standard as a whole (at least until there is evidence that the aggregate royalty actually starts to become excessive).

The opinion is also notable for its commentary on the long-established *Georgia-Pacific* royalty factors. It cautions that the Federal Circuit has "never described the *Georgia-Pacific* factors as a talisman for royalty rate calculations . . ." Citing *WhitServe, LLC v. Computer Packages, Inc.* (Fed. Cir. 2012), the Court criticized expert testimony and jury instructions that merely "parrot" the fifteen *Georgia-Pacific* factors and leave the jury to sort them out. In the case of SEPs encumbered by a FRAND licensing commitment, many of the *Georgia-Pacific* factors are "simply not relevant" and even "contrary to [F]RAND principles." On remand, the district court will be required to consider carefully the damages evidence presented in the case and craft instructions that address only the relevant factors.

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