

Session 2: Patent Law Principles

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Western District of Washington
(Seattle)

National Judicial Academy of India Judicial Training
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Patent Law Principles

- Purposes of patent system
 - Encourage dissemination of information
 - Incentivize invention

- Grants exclusive rights in exchange for disclosure.

- Exercising those rights in an anti-competitive manner implicates competition law.

Requirements for a Patent

- New
- Non-obvious
- Useful
- Enabled
- Described in sufficient detail
- Patentable subject matter
 - Excludes laws of nature, physical phenomena, or abstract ideas

- The U.S. Patent and Trademark Office handles patent applications.

Exclusive Rights

- A patent holder is granted the exclusive right to make, use, sell, offer for sale, and import the patented invention for 20 years.
- The negative right to exclude competition is not necessarily a monopoly, but rather an opportunity to develop one.

Patent Enforcement

- Federal judicial system
 - District courts
 - Non-specialized
 - Federal Circuit Court of Appeals
 - Specialized appellate court to hear patent cases.
 - Supreme Court
 - Discretionary review
- International Trade Commission (ITC)
- State courts lack jurisdiction over patent cases.

Patent Enforcement II

- Patent owner must show that the allegedly infringing product practices every element of the patent claim.

- Burden of proof: preponderance of the evidence

- Remedies:
 - Damages
 - Compulsory license
 - Injunction

Patent Validity

- Validity can be challenged in federal court or in separate proceedings before the U.S. Patent and Trademark Office.
 - Post grant and inter partes review.

- Presumption of validity: Challenger must disprove validity by “clear and convincing evidence.”

Standard Essential Patents

- Standard setting organizations (SSOs) develop and promulgate industry-wide technical standards.
- Standard Essential Patents (SEPs) claim an invention that must be used in order to comply with a technical standard.
- SSOs require members that participate in the standard-setting process to license their SEPs on fair, reasonable, and non-discriminatory (FRAND) terms.
- SSOs also impose information disclosure requirements on members.

Competition Issues in IP cases: U.S.

□ Parties

■ Private actions

■ Government enforcement

■ Federal Trade Commission (FTC)

- FTC Act § 5 (“unfair method of competition”)

■ Department of Justice

- Sherman Act §§ 1, 2 (unreasonable restraint of trade, monopolization)

□ Forums

■ Federal district court

■ ITC

■ FTC

Competition Issues in IP cases: E.U.

- Treaty on Functioning of European Union
 - §§ 101, 102 (agreements that restrict competition, abuse of dominant market position)

- Forums
 - European Commission
 - Pursuant to a complaint or its own initiative.
 - National Competition Authorities
 - Coordinate regarding cross-border practices under the European Competition Network.
 - National courts

Infringement actions

- *Noerr-Pennington* doctrine
 - Suits to enforce patent rights are immune from antitrust scrutiny unless they are “sham.”
 - Objectively baseless.
 - Subjective motive is to restrain competition.
 - Example: suing to enforce a patent known to be invalid

- Settlements
 - Example: “pay-for-delay” settlements
 - Patent holders pay potential competitors who threaten to challenge the patent holders’ rights to delay entry into the market.
 - Subject to antitrust evaluation under the rule of reason.

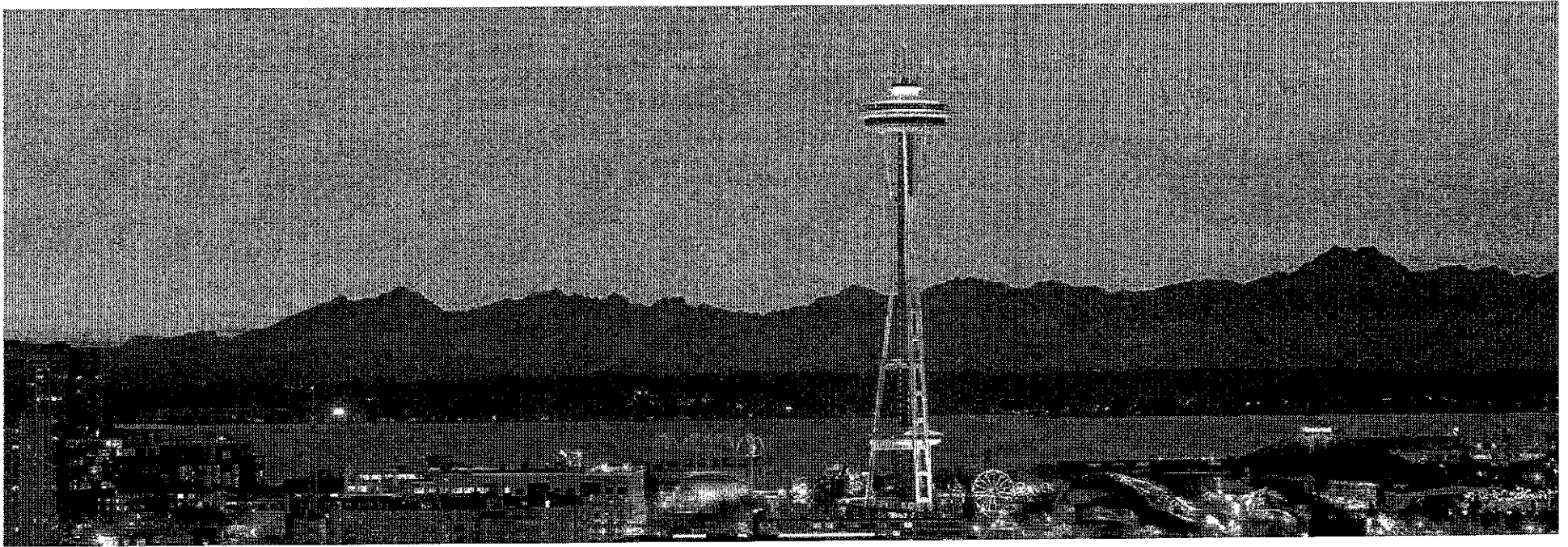
Standards

- SEP holders
 - ▣ Failure to disclose SEPs to SSOs
 - ▣ Refusals to license
 - ▣ Refusals to license on FRAND terms
 - ▣ Requests for injunctions

Licensing

- License restrictions
- Conditional refusals to license
- Cross-licensing
- Patent pools
 - Centralized programs between companies to administer licenses for patents relating to a particular technology standard.

Questions



Session 4: Calculating Patent Royalties

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Trial Proceedings: U.S.

- Discovery
 - ▣ Procedural devices for each party to obtain evidence from the opposing party.
- Claim construction
 - ▣ *Markman* hearing.
 - ▣ Court determines the scope and meaning of a patent's claims.
- Jury trial
 - ▣ If requested.

Trial Proceedings: Worldwide

- Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs)
 - Administered by the World Trade Organization (WTO).
 - Establishes minimum standards for intellectual property regulation of nationals of other WTO members.

- Nonetheless, conflicts between national patent systems and procedures occur.
 - Example: availability of injunctive relief for SEP holders

Royalties

- *Georgia-Pacific* approach: recreate a hypothetical negotiation between the parties to ascertain the royalty they would have agreed on absent litigation.

- Factors
 1. Royalties patentee receives for licensing the patent in suit.
 2. Rates licensee pays for use of comparable patents.
 3. Nature and scope of license.
 4. Licensor's policy to maintain patent monopoly refusing licenses
 5. Commercial relationship between licensor and licensee

Royalties

□ *Georgia-Pacific* factors

6. Effect of selling the invention in promoting sales of other products of the licensee; the value of the invention to the licensor as a generator of sales of his non-patented items.
7. Duration of patent and term of license.
8. Established profitability of the patented product, its commercial success, and its current popularity.
9. Utility and advantages of the invention over old modes and devices.
10. Nature of the patented invention; the character of the commercial embodiment as owned and produced by the licensor; the benefit to users.

Royalties

□ *Georgia-Pacific* factors

11. Extent to which the infringer uses the invention and the value of such use.
12. Portion of profit or selling price customarily allowed for the use of the invention.
13. The portion of realizable profit attributable to the invention as distinguished from nonpatented elements and significant features or improvements added by the infringer.
14. Opinion testimony of qualified experts.
15. Outcome from hypothetical arm's length negotiation at the time infringement began.

Apportionment

- Where a small element of a multi-component product is accused of infringement, calculating a royalty on the entire product risks compensating the patentee for non-infringing components. Therefore, royalties should be based on “smallest salable patent-practicing unit,” rather than on the entire product.
- Additionally, where the smallest salable unit is itself a multi-component product containing non-infringing features, the patentee must estimate what portion of that unit’s value is attributable to the invention.
- Entire market value rule: Only if the patented feature drives the demand for an entire product may the patentee receive a percentage of profits attributable to the entire product as damages.

FRAND Royalties

- A FRAND royalty analysis is different from a traditional patent royalty analysis.
- Considerations
 - Widespread adoption of standards
 - Reasonable compensation for patent holder
 - Patent hold-up
 - Royalty stacking
- Royalty stacking occurs when various licenses, set without regard for each other, combine to impose debilitating aggregate royalty obligations on a good's producer.

Microsoft v. Motorola

- Microsoft uses Motorola's SEPs.
 - Standards: H.264 (video coding), 802.11 (WiFi)
 - Products: Windows 8, Xbox 360, tablets, cell phones

- Microsoft and Motorola could not agree on FRAND terms.
 - Motorola asked for a high FRAND rate and a cross-license to Microsoft's patents.

- Microsoft filed suit for breach of contract and asked the court to set a FRAND rate for the H.264 and 802.11 SEPs.

Major Holdings

- SEP commitments are binding contracts and standard implementers are third-party beneficiaries of an SEP commitment.
- A FRAND royalty should be set at a level consistent with the SSOs' goal of promoting widespread adoption of their standards.
- With modification, the *Georgia-Pacific* factors can be used to determine a FRAND royalty rate.

Major Holdings

- A proper methodology for determining a FRAND royalty should:
 - Recognize and seek to mitigate the risk of patent hold-up that FRAND commitments are intended to avoid.
 - Address the risk of royalty stacking by considering the aggregate royalties that would apply if other SEP holders made royalty demands of the implementer.

Major Holdings

- At the same time, a FRAND royalty should be set with the understanding that SSOs include technology intended to create valuable standards.
- To induce the creation of valuable standards, the FRAND commitment must guarantee that holders of valuable intellectual property will receive reasonable royalties on that property.
- From an economic perspective, a FRAND commitment should be interpreted to limit a patent holder to a reasonable royalty on the economic value of its patented technology apart from the value associated with the incorporation of the patented technology into the standards.

Modification of *Georgia-Pacific* factors

- The court used modified factors:
 1. Royalties received by patentee for licensing the patent-in-suit in other circumstances comparable to FRAND-licensing circumstances
 - 2, 3, 14. Unchanged.
 - 4-5. Inapplicable to FRAND context.
 - 6, 8, 10, 11. Unchanged, but only considered the value of the patented technology and not the value associated with incorporating the patented technology into the standard.
 7. Simplified because the term of the license is co-extensive with the duration of the patent.

Modification of *Georgia-Pacific* factors

□ Modified factors continued

9. The advantages of the patent over alternatives that could have been written into the standard instead of the patented technology.
12. The portion of the profit customarily allowed for the use of the invention or analogous inventions covered by FRAND-committed patents.
13. Unchanged, but also considered the portion of realizable profit attributable to the invention as distinguished from incorporation into the standard.
15. The amount that a licensor and a licensee would have agreed upon if both were considering the FRAND commitment and its purposes, and had been reasonably and voluntarily trying to reach an agreement.

Ericsson v. D-Link

- At trial the jury found D-Link infringed Ericsson's SEPs regarding the Wi-Fi standard and awarded 15 cent royalty per device.
- On appeal, the Federal Circuit held that there is no bright line set of factors to apply to calculate FRAND royalties.
- Rather, "courts must consider the facts of record when instructing the jury and should avoid rote reference to any particular damages formula."

Major Holdings

- In particular, courts should consider the precise terms of the patent holder's RAND obligations.
- This is because RAND terms, which necessarily limit the market value of patented technology, vary from case to case.

Major Holdings

- If courts apply the *Georgia-Pacific* factors, the factors must be modified to take into account the specific facts of the FRAND case. For example:
 - Factors 4 and 5 are not relevant .
 - Factor 8 accounts for an invention’s “current popularity,” which is likely inflated due to the standard
 - Factor 9— the utility and advantages of the invention over old devices— is skewed because the technology is essential, not necessarily an improvement.
 - Factor 10, which considers the licensor’s commercial embodiment, is irrelevant because the standard requires the use of the technology.
 - Other factors may also need to be adjusted.

Major Holdings

- Two special apportionment issues arise in the SEP context
 1. The patented feature must be apportioned from all of the unpatented features included in the standard.
 1. The royalty must be premised on the value of the patented feature, not any value added by the standard's adoption of the patented technology.

- Any royalty award must be based only on the incremental value of the invention

Major Holdings

- Patent hold-up and royalty stacking
 - These are legitimate concerns in the FRAND royalty context.
 - However, a court need not instruct the jury on hold-up or stacking unless the accused infringer presents actual evidence of hold-up or stacking.
 - Something more than a general argument that these phenomena are possibilities is necessary.
 - Depending on the record, reference to such potential dangers may not be appropriate.

Other FRAND cases

- Judge Holderman in *In re Innovatio IP Ventures*
- Judge Whyte in *Realtek v. LSI*
- Judge Koh in *GPNE v. Apple*
- Magistrate Judge Grewal in *Golden Bridge Techn. v. Apple*
- Judge Posner in *Apple v. Motorola*

Unresolved Questions

- In what contexts patent pools are appropriately considered comparable licenses.
- In what contexts a judge or jury should determine the FRAND rate.
- Availability of injunctions for SEPs.
- How to identify the smallest salable practicing unit.

Questions



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- *Ericsson, Inc. v. D-Link Sys., Inc.*, No. 2013-1625, 2014 WL 6804864, at *19 (Fed. Cir. Dec. 4, 2014)
- *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012)
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- *Realtek v. LSI* (N.D. Cal. June 16, 2014), *available at* <http://assets.law360news.com/0548000/548585/Order%202.pdf>.
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- Anne Layne-Farrar and Koren W. Wong-Ervin, "Methodologies for Calculating FRAND Damages," Law360 (Oct. 8-10, 2014). Part 1, *available at* <http://www.law360.com/competition/articles/584906/methodologies-for-calculating-frand-damages-part-1>. Part 2, *available at* <http://www.law360.com/competition/articles/584909/methodologies-for-calculating-frand-damages-part-2>. Part 3, *available at* <http://www.law360.com/competition/articles/584917/methodologies-for-calculating-frand-damages-part-3>.