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Implementing and Enforcing Standard Essential Patents

Practical Perspectives from the U.S. and Europe

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Overview of Standard Essential Patents (SEPs) and Fair, Reasonable, and Non-discriminatory (FRAND) Licensing Terms

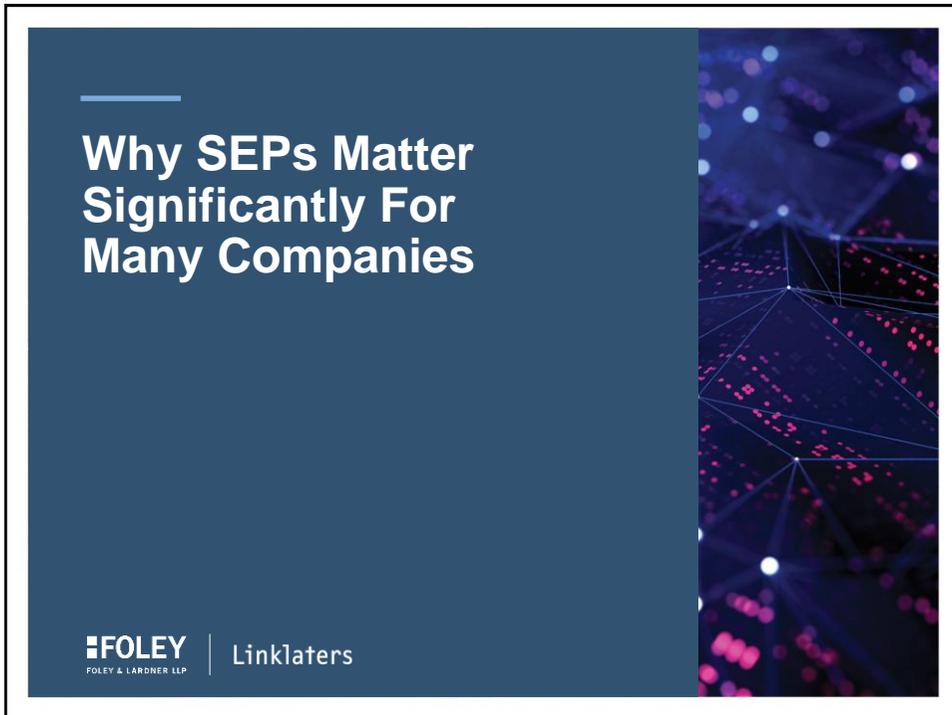


Technology Standards/SSOs

- Standards-setting organizations (SSOs) such as ETSI, ITU, and IEEE set technology standards for easy interoperability
- Participants in SSOs normally include engineers from numerous companies who collaborate to develop standards
- Many companies have patent rights/patent applications that are asserted to cover different aspects of the technology standards

Technology Standards/SSOs

- SSOs typically have Intellectual Property Rights (IPR) policies
- IPR policies require patent owners to make certain commitments relating to essential IPR
 - Typical: Standard Essential Patents (SEPs), e.g., patents essential to carrying out mandatory or optional portions of a standard
- Many Intellectual Property Rights policies require members to commit to license Essential rights on Fair, Reasonable, and Non-Discriminatory (FRAND) terms



Why SEPs Matter Significantly For Many Companies

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Economic perspective

- Increasing use of SEPs in the context of development of the IoT – connectivity features incorporated in more and more industries
- Use of SEPs likely to involve additional costs– potential impact on choice of suppliers, margin, business model
- May impact warranty obligations throughout the manufacturing chain – should the supplier or the OEM be in charge of obtaining the relevant licenses?
- Impact on legal due diligence / legal check when launching new connected products

Legal issues

- What is a FRAND rate? Fair, Reasonable and Non-discriminatory
- How do you evidence comparable licenses/industry practice – different methodologies
- How do you assess the value : value of connectivity features for cars versus electric kettle ?
- What is fair when potentially many patents are not valid/not essential
- Who is entitled to obtain a license : any willing licensee?
- Which jurisdiction is able to decide? Risk of injunction ?

Recent SEP Trends in the EU and UK

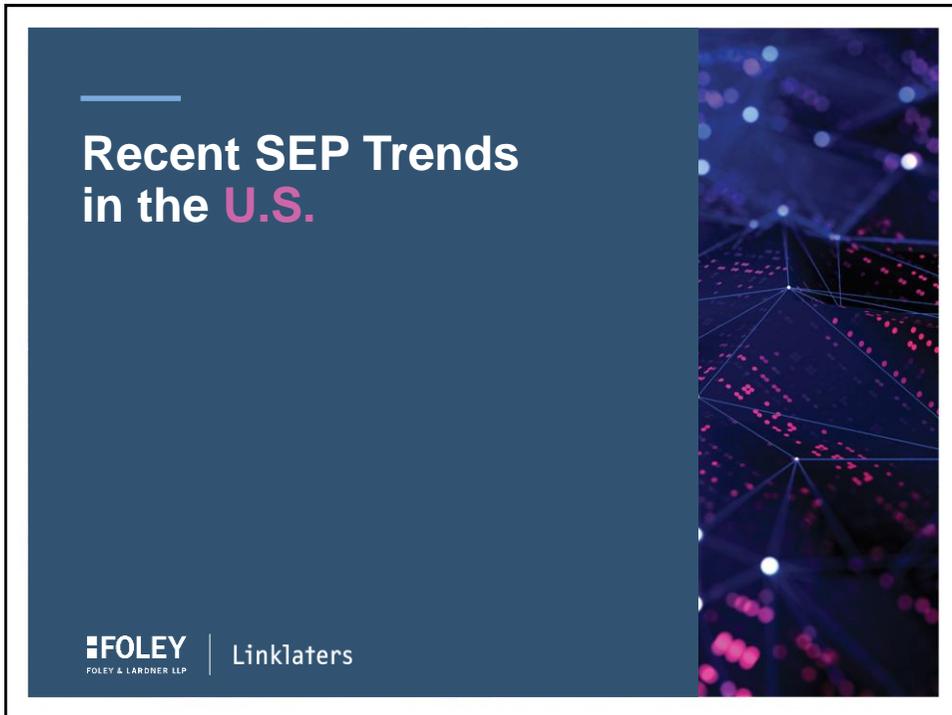


Litigation in Germany

- More and more cases and new sectors involved
- Trend towards more patent-friendly case law
 - Initial safe harbor of CJEU (FRAND licensing negotiations scheme)
 - *Sisvel v. Haier*: increase negotiations obligations for implementers
- Hot topic of level of licensing
 - Context of *Nokia v. Daimler* litigation (infringement actions, antitrust complaint at the EU Commission, parallel US litigation)
 - Referral to the CJEU

Determination of global rates

- UK courts established as go-to venue for patent holders
 - Supreme Court, *Unwired Planet*: UK courts have jurisdiction to set global FRAND rates (based on a UK patent infringement action)
 - Application of contract law (v. competition law in Germany)
 - Increased number of cases
- Counter-attacks from implementers
 - Launch of breach of contract litigation in foreign jurisdictions
 - French court retains jurisdiction on FRAND determination despite pending UK proceedings
 - Anti-suit and anti-anti-suit injunctions



Evolution of Claims/Defenses Over Time

- Alleged Failure to Disclose Patent Rights to SSO:
 - *Rambus*: Alleged failure to disclose patent rights relating to memories/controllers and later requesting high royalties
 - *Broadcom v. Qualcomm* (relating to H.264 standard)
- Breach of Contract Claims - Based on seeking high royalty rates
- Antitrust Claims – Based on seeking unreasonably high royalty rates

Current Environment in the U.S.

- Patent infringement damages
- Injunctive relief
- Breach of Contract Claims
- Antitrust claims
- DOJ View

Patent Infringement Reasonable Royalty Damages

- With proper evidence, apply revised *Georgia Pacific* Factors – *Ericsson v. D-Link* (Fed. Cir. 2014). Factors 4 and 5 are not relevant in RAND
 - #4: “licensor’s established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.”
 - #5: “commercial relationship between the licensor and licensee”
- Several other factors need adjustment depending on record presented
- Must apportion to value of the patented invention: (a) removing value of standardization, and (b) apportion value of patented portion of standard from non-patented portion of standard
- Consider instructions on hold-up and patent royalty stacking, where appropriate based on evidence

Recovering Monetary Relief for Past Infringement – Right to Jury Trial

- Patent owner has right to jury trial to determine “release payment” – which is compensation for past infringement – aspect of a FRAND license. *TCL Comm. Tech. Holdings Ltd. v. Ericsson*, 943 F.3d 1360 (Fed. Cir. 2019)

Obtaining Injunctive Relief

- No *per se* rule against injunctions: “While Motorola’s FRAND commitments are certainly criteria relevant to its entitlement to an injunction, we see no reason to create, as some *amici* urge, a separate rule or analytical framework for addressing injunctions.” *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286 (Fed. Cir. 2014), *overruled on other grounds* (relating to “means” issues)
- December 2019: USPTO/NIST/DOJ joint policy statement that general framework for deciding injunctive relief for SEPs subject to FRAND commitments should be same as non-SEPs
 - “a patent owner’s F/RAND commitment is a relevant factor in determining appropriate remedies, but need not act as a bar to any particular remedy”

Antisuit/Anti-antisuit Relief – Ericsson v. Samsung (ED Tex. 2021)

- December 7, 2020: Samsung files action in Wuhan seeking determination of global licensing terms for 4G/5G SEPs held by Ericsson
- December 11, 2020 – Ericsson files action against Samsung in ED Texas alleging breach of FRAND obligation (later amended to include patent infringement)
- December 25, 2020: Wuhan Court issues order enjoining Ericsson from seeking injunctive relief/administrative measures concerning Samsung products in terms of 4G/5G SEPs
- January 2021: J. Gilstrap ruled, enjoining Samsung from:
 - Taking action in Wuhan action that would interfere with ED Texas Court's jurisdiction to determine whether Ericsson or Samsung met/breached their FRAND obligations relating to Ericsson or Samsung's 4G/5G SEPs
 - Taking action in Wuhan that would deprive Ericsson of its rights to assert full scope of U.S. Patent rights in U.S. forum

Breach of FRAND Contract Obligation - *Microsoft v. Motorola, Inc.*, Case No. 10-cv-1823 (WD Wash)

- Microsoft brought breach of contract claim shortly after receiving letters from Motorola stating that Microsoft needed a license, and offering royalty of 2.25% of the end product
- Motorola then brought various actions seeking injunctive relief. Microsoft contended that these actions violated Motorola's FRAND obligations.
- Motorola subject to RAND obligations with IEEE (802.11) and ITU (H.264)
- Based on party agreement, Court set RAND rate
- Armed with RAND rates and allegations relating to licensing letters and seeking injunctive relief, jury awarded damages to Microsoft
- Ninth Circuit upheld the district court's determination and the jury verdict in favor of Microsoft

Antitrust Claims: Key Decision

- *FTC v. Qualcomm*, No. 19-16122 (9th Circuit August 2020)
 - ND California court found certain antitrust violations against Qualcomm. 9th Circuit reversed.
 - “No license, no chips” policy is not an antitrust violation: Qualcomm refuses to sell its chips to OEMs that do not also take the licenses to practice Qualcomm’s SEPs.
 - Qualcomm has policy that it does not license rival chip suppliers. Court found that this policy is not an anticompetitive violation of the Sherman Act.
 - FTC did not show how such policy hurts its rivals - “chip-supplier neutral”
 - The Court acknowledged certain commentary that contract or patent law is more appropriate than antitrust law to address such issues
 - Qualcomm’s licensing rates did not cause anticompetitive harm

Key Considerations For Companies in the Context of SEP Licensing



Standard Essential Patent (SEP) Licensing: Unique Considerations

- How many patents and are they truly SEPs?
- Patent owner may have disclosure and FRAND obligations (provide letter of assurance).
- Valuation of a patent owner's portfolio — numerous ways
- Worldwide licensing vs. country-by-country
- Obligations/best practices for good faith negotiations for SEP licensing
- Who should obtain the license (e.g., chipmaker vs. end product manufacturer)? / Check warranty obligations from supplier/to customers and impact on business model
- Which information / evidence to require (claim chart, list of patents, evidence of essentiality...)
- What are others paying for similar licenses?

In an SEP Environment, What **Patent Owners and Defendant Implementers** Should Consider in the Context of Litigation



Standard Essential Patent (SEP) Litigation: Unique Considerations

- Choice of enforced SEPs / defendants
 - Asserting a few strong patents may be enough
 - Evidence of essentiality / evidence of infringement
 - Select defendants depending on market shares / setting precedents
 - Possible offensive actions by implementers (breach of contract, antitrust)
- Choice of courts
 - One court to decide global rate
 - Bifurcation system in Germany – injunction more likely to be granted
 - Potential mediation / arbitration
 - Potential counteractions from implementer
- Confidentiality issues
 - Effective and quick rules to set confidentiality clubs

How does this current
SEP Environment Drive
the Way a Company
might Construct its
Patent Portfolio?



Drivers for Developing SEPs

Traditional considerations:

- Protect your products, competitive advantage and investments
- Protect your customers and/or licensees
- Establish a licensing revenue stream

Drivers for Developing SEPs

Some key considerations:

- Set technology trends for industry adoption
- Raise prestige and/or drive sales
- More cost-effective than licensing from others
- Facilitate cross-licensing, or offset cross-licensing royalties
- Facilitate others' access to market segment and/or technology
- Ensure fair co-existence or access to related resources

Other Considerations associated with Developing a SEP Portfolio

- Participate in SSO standards setting
- Timing for filing patent applications
- Allocate time/effort of technical team between R&D, SSO participation and IP portfolio development
- Obligations to disclose standards related patent filings
- Standards setting is a process of negotiation/collaboration
- Update portfolio in line with standards setting process

Effective Development of a SEP Portfolio

- Protect various possible implementations/embodiments prior to SSO meetings
- Develop separate claim sets for: transmit-side, receive-side, devices, methods, CRM, etc.
- Avoid claims that can lead to split infringement
- Use language aligned with the contributions
- Maintain charts that map claims to standards
- Update claims when corresponding standards are or near finalized
- Develop patent families

Other Strategic Considerations

- Develop non-SEP but related patents in parallel
- Prosecute your SEP applications in view of corresponding standards
- Maintain a coordinated global IP filing strategy
- Potentially map IP portfolio to product, technical and geographic segments

Thank You

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