



Complex Commercial Litigation

Litigating standard-essential patents: recent developments

BY MICHAEL T. RENAUD AND SANDRA J. BADIN

Recently, *Lawyers Journal* republished an article we had submitted to the Massachusetts Bar Association's Complex Commercial Litigation Section Quarterly Newsletter late last year entitled, "The Impact of Recent Decisions Regarding Patent Hold-up on the Future of Standards-Setting Activities." The article discussed a number of important court decisions issued in 2015 that affect the incentives of technology innovators to contribute their patented inventions to standards-setting bodies. Since then, the law of standard-essential patents (SEPs) has continued to evolve. In this piece, we discuss two notable decisions by the Federal Circuit and the International Trade Commission issued over the past year that impact the scope and nature of the remedies available for the infringement of SEPs, and as a result, continue to shape the incentives of technology innovators to contribute their patented inventions to standards-setting bodies.

CSIRO v. Cisco (Federal Circuit)

On Dec. 3, 2015, a few days after our article first went to press, the Federal Circuit issued its much-awaited decision in *Commonwealth Scientific and Industrial Research Organization (CSIRO) v. Cisco Systems, Inc.*, providing meaningful guidance on a number of open questions pertaining to the calculation of damages for the infringement of SEPs. Among other things, the Federal Circuit determined that the district court did not take sufficient account of the asserted patent's status as essential to the standard at issue and concluded that this failure may have resulted in an overvaluation of the patented technology. On this basis, the court vacated the \$16 million damages award won by CSIRO at trial.

Relying on its 2014 decision in *Ericsson, Inc. v. D-Link Sys., Inc.*, the Federal Circuit noted that when SEPs are at issue, two special apportionment considerations apply to ensure that the patent owner is not improperly compensated for the value of the standardization of a technology, and is instead only compensated for the value of the patented invention itself: "First, the patented feature must be apportioned from all of the unpatented features reflected in the standard. Second, the patentee's royalty must be premised on the value of the patented feature, not any value added by the standard's adoption of the patented technology."

Critically, the court made clear that these special considerations apply to all SEPs, not just to SEPs whose owners have agreed to license them on reasonable and non-discriminatory (RAND) terms. It explained that regardless of whether an SEP is subject to a RAND commitment, its value "is distinct from any value that artificially accrues to the patent due to the standard's adoption." A patent owner is only entitled to the former, the court said, but not to the latter. "Without this rule," it observed, SEP owners "would receive all of the benefit created by standardization — benefit that

would otherwise flow to consumers and businesses practicing the standard."

The Federal Circuit went on to explain that the district court "erred because it did not account for standardization." And because it did not have the benefit of *Ericsson*, the district court erred in finding that three *Georgia-Pacific* factors favored CSIRO: factor 8, which relates to the accused product's commercial success and profitability, and factors 9 and 10, which relate to the advantages of the patented invention over competing products. In *Ericsson*, the Federal Circuit had observed that these three factors are irrelevant or misleading in cases involving patented technology that has been incorporated into a standard — especially a widely adopted standard — because products that comply with a standard are much more likely to be commercially successful, all else being equal, than are products that do not.

Conversely, the court noted, competing technology that it is not incorporated into a standard may be a commercial failure at least in part because it is not incorporated into a standard. Therefore, weighing the commercial success of standard-compliant products in favor of the patent owner, as the district court had, without taking into account that the commercial success may derive entirely from standardization itself, opens the door to compensating SEP owners for the value of standardization, not just for the incremental value of their patented technology.

The court's observation that the value of standardization itself should not accrue to the patent owner is based on an unstated (but mistaken) assumption that standards setting organizations (SSOs) are agnostic when deciding among different patented technologies competing for incorporation into their standard. But SSOs typically make their incorporation determinations on the basis of an extensive evaluation of which technology is superior in a number of respects, including workability, ease of incorporation, and efficiency. Under such circumstances an SEP owner would arguably be entitled to some compensation for the success of the standard, and not just the value of the patented technology she contributed to it.

The 1020 Investigation (International Trade Commission)

In our previous article, we discussed Administrative Law Judge Essex's approach to the enforcement of SEPs, which he outlined in his Initial Determination on Remand in International Trade Commission Investigation No. 337-TA-613, *Certain 3G Mobile Handsets and Components Thereof* (the 613 Investigation). In its review of his determination, the Commission did not ultimately comment on Judge Essex's findings regarding patent holdup and patent holdout because it concluded that there was no violation of Section 337 (i.e., no importation or sale after importation into the United States of products infringing the complainant's patents) and therefore no remedy for it to issue or to weigh against the public interest. That is, Judge Essex's findings that the complainant did not engage in patent holdup but that the respondents did engage in patent holdout

were rendered moot by the Commission's conclusion that there was no violation. For the same reason, the Commission did not comment on the viability of the evidence-based framework Judge Essex elaborated for determining whether there had been patent holdup or holdout.

The Commission has yet to touch on these questions directly, but it did recently issue a statement that implicitly reaffirmed its continuing jurisdiction over and its willingness to investigate complaints of patent infringement when the patents at issue are (or are alleged to be) essential to the practice of a standard.

In *Certain Industrial Control System Software, Systems Using Same, and Components Thereof*, Inv. No. 337-TA-1020 (the 1020 Investigation), the Commission was asked to invoke the Early Disposition Pilot Program to direct the presiding Administrative Law Judge to determine whether the asserted patents are standard-essential and therefore subject to mandatory licensing obligations; if so, these would trigger public interest concerns that may weigh against issuing an exclusion order even if the patents are determined to be valid and infringed. The Commission denied 3S's request to invoke the Early Disposition Pilot Program in this way, explaining:

The Commission assesses the effect of potential remedies on the statutory public interest factors following an affirmative determination on violation — once the actual scope of the Section 337 violation is determined, including the scope of valid and enforceable IP rights that are infringed (or other unfair acts) as well as the scope of imported infringing articles involved. As such, this issue is outside the scope of the Early Disposition Pilot Program as the issue cannot be resolved at the beginning of an investigation.

In so doing, the Commission implicitly affirmed that allegations of infringement of SEPs will be investigated just like other allegations of patent infringement made in Section 337 complaints, and that owners of SEPs have the full investigative and adjudicatory authority of the Commission behind them.

Open Questions

The Federal Circuit's opinion in *CSIRO* clarifies that what matters for purposes of

determining appropriate damages in cases involving SEPs is the patents' status as standard-essential, regardless of whether they are subject to any actual commitment to license them on RAND terms. That said, it remains to be seen how *CSIRO* will be applied in cases in which the asserted patents' status as standard-essential is contested. It also remains to be seen how *CSIRO* will be applied in cases in which there is evidence that the patented technology was incorporated into the standard at issue at least in part because it was superior in some important respect to competing technology. Such evidence would support an argument that the patent owner may be entitled to some compensation for the success of the standard, and not just for the incremental value of the patented technology.

At the same time, while the Commission's statement in the 1020 Investigation makes clear that the Commission will investigate complaints of patent infringement brought by owners of SEPs on the same footing as owners of other patents, what is not yet clear is whether the Commission will ultimately issue an exclusion order for the infringement of SEPs, and if so, under what circumstances.

One thing, however, is clear: the continuing uncertainty about the scope and nature of the remedies available to the owners of SEPs for the unauthorized use of their patented inventions fuels continuing doubt about the wisdom of contributing patented technology to the development of standards in the first instance. The doubt is becoming increasingly acute in the face of an ever more forceful resistance by the implementers of standards to pay for the use of the patented technology incorporated into those standards. Many owners of SEPs incorporated into the 4G/LTE standard for example, have yet to be compensated for the use of their technology, and there are very real concerns that the development of the 5G standard will be stymied for want of contributors. In the long run, unless we can fix and stabilize the incentives for innovators to contribute their patented technology to the development of standards — which means ensuring that the innovators will be able to realize the fair value of their contributions — we run the very real risk of impeding technological progress for years to come. ■



The Division Head for the Intellectual Property Section at Mintz, Levin, Cohn, Ferris, Glovsky and Popeo PC, **Michael T. Renaud** is an experienced litigator known for his business approach to identifying and creating value in patent assets and for his ability to develop successful strategies for the monetization of patent portfolios involving complex technologies, through the purchase and sale of patent assets, licensing, and litigation. He also has extensive experience prosecuting and defending patent cases and appeals.

Sandra J. Badin is Special Counsel in the Intellectual Property Section at Mintz, Levin, Cohn, Ferris, Glovsky and Popeo PC. She has substantial trial and appellate experience litigating patents across a wide range of technology fields before the U.S. International Trade Commission, the federal district courts and the Court of Appeals for the Federal Circuit.