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In *Ericsson v. D-Link* The Federal Circuit Provides Guidance on Damages for Standard Essential Patents

The debate over the appropriate measure of damages for licensed FRAND patents has been raging in the US courts and abroad for a number of years now. On December 4, 2014, the U.S. Court of Appeals for the Federal Circuit handed down its decision in *Ericsson, Inc. v. D-Link Systems, Inc., et al.* The *Ericsson* case is significant, because the Federal Circuit set forth guidelines for trial courts to employ when instructing juries on the law with regard to damages in cases involving patents that must be licensed on FRAND terms.

The case was brought by Ericsson against D-Link Systems, Netgear, Acer, Gateway, Dell, Toshiba and Intel and involved a number of patents that relate to a type of Wi-Fi technology (IEEE 802.11n) used to wirelessly access the internet. The Eastern District of Texas jury found the three patents at issue infringed and awarded damages in the amount of \$10 million, or approximately \$0.15 per infringing device. In post-trial motions, the D-Link challenged the findings and asked for a new trial based on allegedly deficient jury instructions regarding the standard setting context and Ericsson's "reasonable and nondiscriminatory" licensing obligations based on that context.

At the outset, the *Ericsson* decision provides an excellent review of the issues that arise in the setting of technological standards. In short, while a technical standard such as Wi-Fi provides an excellent advantage in terms of interoperability of devices, there are some potential problems that

arise, namely, patent holdup and royalty stacking. As explained by the court, patent holdup can occur when the holder of a standards essential patent demands excessive royalties after companies are already locked into using a particular standard. Royalty stacking can arise when a standard implicates numerous patents. As is often the case, a particular technical standard may implicate perhaps hundreds or thousands of patents. If companies are forced to pay royalties to all holders of standard essentials patents, the royalties would stack on top of each other and may become impossibly expensive when viewed in aggregate. To alleviate these concerns, standard setting organizations often seek assurances from patent holders and have patent policies requiring that patents be licensed on reasonable and nondiscriminatory terms. This is the case in the IEEE for Wi-Fi and the particular standard at issue here.

On the issue of damages, D-Link argued on appeal that the District Court made prejudicial errors through its jury instructions on the issue of the appropriate royalty rate.

ADMISSIBILITY OF LICENSES

The first damages issue on appeal was whether the licenses relied upon by Ericsson's expert, which were for products that were a combination of the component at issue and other components unrelated to the patent at issue, should have been

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admissible. The Federal Circuit began by explaining its recent rule expressed in the *VirnetX*, 767 F.3d 1308 (Fed Cir.):

“Where multicomponent products are involved, the governing rule is that the ultimate combination of royalty base and royalty rate must reflect the value attributable to the infringing features of the product and no more. ...when the accused infringing products have both patented and unpatented features measuring this value requires its determination of the value added by such features. ...The ultimate reasonable royalty award must be based on the incremental value that the patented invention added to the end product.

Applying these concepts, the Court concluded that the licenses were properly admitted into evidence. The Court recognized that licenses may be presented to the jury to help the jury to decide an appropriate royalty award and found that “making real world relevant licenses inadmissible on the grounds D-Link urges often would make it impossible for a patentee to resort to license-based evidence.”

However, the Federal Circuit did agree that “when licenses based on the value of a multi-component product are admitted or even referenced in expert testimony, the Court should give a cautionary instruction regarding the limited purposes for which such testimony is proffered if the accused infringer requests the instruction.”

JURY INSTRUCTIONS ON RAND

The next challenge that D-Link raised concerned the District Court’s instruction

on RAND. At trial, D-Link asked the District Court to instruct the jury on Ericsson’s RAND obligation. Rather than give a specific instruction that D-Link requested regarding the dangers of patent hold up and royalty stacking in the RAND related context, the District Court instead added a 16th factor to the 15 *Georgia-Pacific* factors on which it instructed the jury and told the jury “that it may consider Ericsson’s obligation to license its technology on RAND terms.”

Noting that this was an issue of first impression, the Federal Circuit explained that only three other courts have considered the issue of appropriate RAND royalty rates. All were District Court cases see *Realtech Semiconductor Corp. v. LSI Corp.*, 2014 WL 2738216, at *5-6 (ND Cal. June 16, 2014); In *Re Innovatio IP Ventures, LLC* Patent Litigation, 2013 WL 5593601 (ND Ill. October 3, 2013); *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 211217 (WD Wash. April 25, 2013).

The Federal Circuit went on to hold that in cases involving RAND encumbered patents, many of the *Georgia-Pacific* factors simply are not relevant, many others are contrary to RAND principles, and several others would at least need to be adjusted for RAND encumbered patents and for standard essential patents in general.

Therefore, the Federal Circuit held, trial courts must consider a patentee’s actual RAND commitment when crafting jury instructions and inform the jury what commitments have been made and of its obligation to take those commitments into account when determining a royalty award. Here, rather than to instruct the jury to consider “Ericsson’s obligation to license its technology on RAND terms,” the Federal

Circuit held that the trial court should have instructed the jury about Ericsson’s actual RAND promises and actual RAND obligations in this particular case.

The Court stressed that it was not holding in this case that there is a modified version of the *Georgia-Pacific* factors that should be used for all RAND encumbered patents. Rather, the facts of each case require careful crafting of jury instructions so that the jury applies the RAND obligation at issue.

APPORTIONMENT OF DAMAGES IN CASES INVOLVING STANDARD ESSENTIAL PATENTS

The *Ericsson* case also contains important rulings on damages apportionment analysis for standard essential patents. The Federal Circuit held that, as with all patents, the royalty rates for standard essential patents must be apportioned to the value of the patented invention. Moreover, when dealing with standard essential patents, there are two special apportionment issues that arise:

1. The patented feature must be apportioned from all of the unpatented features in the standard;
2. The royalty must be premised on the value of the patented feature and not any value premised on the adoption of the technology in the overall by standard.

This is necessary to ensure the royalty award is based on the incremental value of the patented invention to the product not any value added to the standardization of the technology.

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Therefore, the Federal Circuit held that the jury must be told to differentiate the added benefit from any value that is gained simply because it has become a part of the standard and standard essential. Rather, the rate must be attributable to the value of the invention.

JURY INSTRUCTIONS ON ROYALTY STACKING AND PATENT HOLD-UP

Finally, D-Link raised an objection to the fact that the District Court did not specifically instruct the jury on patent hold up and royalty stacking.

Here, the Federal Circuit ruled that the District Court need not instruct the jury on hold up or stacking unless the accused infringer presents actual evidence of hold up or stacking. The Federal Circuit explained that if D-Link had provided evidence that Ericsson started requesting higher royalty rates after the 802.11n standard were adopted, the Court could have instructed the jury on hold up. However, because no such evidence was provided, no such instruction was required. The same logic applies to an instruction of royalty stacking.

CONCLUSION

In sum, the Federal Circuit in *Ericsson* held that:

1. In all cases the District Court must instruct the jury only on factors that are relevant to the specific case at issue and here there is not *Georgia-Pacific* like list of factors that district courts can simply parrot for every case involving RAND encumbered patents. Rather the court should instruct the jury on the actual RAND commitment at issue based on the record that is developed at trial.
2. District courts must make it clear to the jury that any royalty award must be based only on the incremental value of the invention and not the value of the standard as a whole, or any increased value the patented feature gains from being included in the standard.
3. If an accused infringer wants a specific jury instruction on patent hold up and royalty stacking it must provide evidence and develop on the factual record that patent hold up or royalty stacking occurred in regard to the patentee's specific RAND commitment.

We will continue to track this issue and how damages issues on standard essential patents are developed in the law. If you have any questions, please do not hesitate

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