

Advanced Seminar on China Antitrust

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Interface of Antitrust Law and Patent Law: A Comparative Analysis of U.S., Europe and China's Approach to SEPs and FRAND

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Tweeting about this conference?

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FRAND and SEP Litigation in the U.S.

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Enforcing FRAND in America

- **Primary approach: Third-party beneficiary enforcement**
 - FRAND commitment = enforceable SEP-owner/SSO contract
 - potential licensees are the **third-party** beneficiaries
 - *Microsoft Corp. v. Motorola, Inc.*

“... Microsoft, as a member of both the IEEE and the ITU, is a third-party beneficiary of Motorola’s commitments to the IEEE and ITU.”
 - *Apple, Inc. v. Motorola Mobility, Inc.*

“As a potential user of the standards at issue and a prospective licensee of essential patents, Apple is a third party beneficiary of the agreements between Motorola and IEEE and Motorola and ETSI.”

FRAND Enforcement Problems

- **Choice of law**
 - law of SSO's home jurisdiction may control interpretation
 - But local courts interpret what it means
- **May not be enforceable contract**
 - E.g., lacks definitive terms, such as price
- **Venue may not recognize third-party beneficiary standing to sue**
 - *For example, Hong Kong (adopted 3rd party beneficiary law in December 2014; but it is not retroactive)*

Injunctions by SEP Owners?

- ***Microsoft Corp. v. Motorola, Inc.***

“First, the RAND commitment does not by itself bar SEP holders from ever, in any circumstance, seeking injunctive relief to enforce their patents. However, in some circumstances, it may be a breach of the duty of good faith and fair dealing for a SEP holder to seek injunctive relief against a SEP implementer.”

- ***Apple, Inc. v. Motorola Mobility, Inc.***

holding that the FRAND commitment does not deprive patent holder of its right to seek injunctive relief

Injunctions by SEP Owners?

- **Permanent injunction requires showing no adequate remedy at law (*i.e.*, money not enough)**
 - Hard to do when FRAND license fees remain a possibility
 - *Apple, Inc. v. Motorola, Inc.*

“The grant of an injunction is not an automatic or even a presumptive consequence of a finding of liability, either generally or in a patent case. . . . And that means, with immaterial exceptions, that the alternative of monetary relief must be inadequate. . . . A FRAND royalty would provide all the relief to which Motorola would be entitled if it proved infringement of the [patent], and thus it is not entitled to an injunction.”

Injunctions by SEP Owners?

- ***Microsoft Corp. v. Motorola, Inc.***
 - “Motorola has not shown it has suffered an irreparable injury or that remedies available at law are inadequate.”
- ***Realtek Semiconductor Corp. v. LSI Corp.***
 - “In promising to license on RAND terms, defendants here admit that monetary damages, namely a RAND royalty, would be adequate compensation for any injury it has suffered as a result of Realtek’s allegedly infringing conduct.”

Are injunctions still available?

- Injunctive relief May be available to prevent “reverse hold up”
 - User refuses FRAND rate or refuses to negotiate (i.e., reverse hold up)
 - *Realtek Semiconductor Corp. v. LSI Corp.*

“[A]n injunction may be warranted where an accused infringer of a standard-essential patent outright *refuses* to accept a RAND license.”
 - *No known injunction like this yet!*

Which Comes First?

- **Infringement**
- **Setting of FRAND rate?**
- **The sequence does not matter!**
 - *Realtek Semiconductor Corp. v. LSI Corp.*

“This court already determined that Realtek can simultaneously pursue a determination of the RAND royalty rate while denying infringement or asserting invalidity, even though those issues may ultimately obviate the need for a license and that there is no reason the RAND royalty rate cannot be determined first.”

Attorney's fees: Yes!

- ***Microsoft Corp. v. Motorola, Inc.* court awarded attorney's fees as part of damages available to a licensee who sought a FRAND license from an SEP owner**
- **SEP owner's attempt to seek an injunction may violate its duty of good faith and fair dealing to negotiate a FRAND rate**

"Thus, under those circumstances and those circumstances only, the RAND commitment is analogous to a covenant not to sue for injunctive relief, and the implementer may recover attorney's fees as an element of damages in the bad faith action."

Microsoft v Motorola: Simplified Chronology

- **October 29, 2010 – Motorola sends 2.25% letters to Microsoft**
- **November 9, 2010 – Microsoft files WDWash breach of FRAND contract suit against Motorola**
- **November 10, 2010 – Motorola files WDWisc patent infringement suit**
- **February 18, 2011 – WDWisc transfers patent infringement case to WDWash**
- **May 14, 2012 – Microsoft sought from WDWash. an anti-suit injunction preventing Motorola from continuing with suit in Germany; granted by district court and affirmed by 9th Circuit**

Microsoft v Motorola: Simplified Chronology – cont'd

- **November 13, 2012 – WDWash trial begins on FRAND rates/ranges**
- **April 25, 2013 – WDWash Judge Robart findings on FRAND rates/ranges**
- **August 26, 2013 – Trial starts on Motorola's breach of implied claim**
- **September 4, 2013 – Jury deliberates 4 hours, returns verdict for Microsoft of \$14.5 MM (\$11.4M damages re German "action," \$3.1 MM fees)**
- **Appeals pending at the 9th Circuit (as of April 2, 2015)**

Microsoft v Motorola: FRAND Rate Trial

- **One week trial**
- **Bench trial: to District Judge James Robart**
- **18 witnesses**
 - 9 PhD Engineers or Licensing Experts
- **207 Page Opinion- - Findings of Facts and Conclusions of Law**

Microsoft v Motorola: Calculating RAND (4/25/2013 Order)

- **Define the standards (802.11 and H.264)**
- **Identify the Standard Essential Patents of those asserted**
- **Determine test for identifying FRAND royalty rates**
 - 15 Georgia Pacific factors
 - But some are modified or not used



Microsoft v Motorola: *Georgia Pacific* Factors Modified (4/25/ 2013)

	Georgia Pacific Factors	Microsoft v. Motorola
1	Royalties actually received	Yes; but modified
2	Royalty rates paid by licensee on comparable licenses	Not expressly addressed
3	Nature and scope of license	Not expressly addressed
4	Licensor's practice to license or not	Inapplicable
5	Commercial relationship between licensor and licensee	Inapplicable
6	Impact of selling products with patented invention	Yes; but modified
7	Duration of the patent	Simplified
8	Profitability of products made using the patent	Yes; but modified
9	Utility of patent over prior/other alternatives	Yes
10	Nature of patented invention; benefits to those who use	Yes
11	Extent of infringer's use of invention	Yes
12	Customary profitability in similar field with patented invention	Yes; but modified
13	Profit attributable to patent (vs non-patentable features)	Yes; but modified
14	Opinion testimony of experts	Not expressly addressed; but heard expert testimony
15	Hypothetical negotiation at time infringement began	Yes; but modified



Microsoft v Motorola: Calculating RAND (4/25/2013 Order)

SEP	Microsoft	Motorola	Court RAND Rate	Court RAND Rate Range
H.264 (Video Compression)	.065 to 0.204 c/u Or \$167k to \$502k/yr (\$474k avg)	50 to 63 c/u Or \$137 MM/yr	.555 c/u (0.0028%)	.555 to 16.4 c/u (0.0028%-0.082%)
802.11 (WiFi)	5 cents/u Or \$736k/year	\$3.00 to \$4.50/u Or \$36 to \$54MM/yr	3.471 c/u (0.017%)	.8 to 19.5 c/u (0.004%-0.0975%)
Cumulative Annual Royalty (projected)	\$1.1 MM	\$173 to \$191 MM	\$1.8 MM	

IEEE's Amendments To Its Patent Policy

- **New amendments require that IEEE members holding patents covering IEEE standards:**
 - must offer to license those patents to all applicants requesting licenses, and cannot pick and choose among licensees,
 - may not seek, or threaten to seek, injunctions against potential licensees who are willing to negotiate for licenses,
 - may insist that licensees offer them reciprocal licenses under their own patents,
 - may arbitrate disputes over FRAND terms,
 - may charge a reasonable royalty that is based, among other things, on the value that the patented technology contributes to the smallest salable component of the overall product, and
 - should ensure that subsequent purchasers of these patents agree to abide by the same commitments.
- **US DOJ issued a favorable Business Review Letter on February 2, 2015.**