

SEPs In The Wake Of Qualcomm: 4 Enforcement Issues

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Standard-essential patent considerations have become increasingly critical, while simultaneously becoming more complex. The impending rollout of standards based 5G wireless technologies that impact a wide range of industries has driven much of the recent SEP attention. Additionally, many industries beyond wireless communications rely on standards, making SEP issues widely important. At the same time, SEP case law remains unsettled and is rapidly evolving.

This is the second in a series of articles designed to examine key SEP issues. The **previous article** covered the top four considerations when patenting standardized technologies. This article covers the top four considerations when seeking to enforce SEPs, and the third article will cover the top four considerations when defending against SEP attacks. Awareness and consideration of numerous recent significant SEP-related court decisions is critical to parties involved with SEP enforcement.

While the fact that a patented technology is considered essential to an industry standard suggests that infringement of any standard-compliant products may be easier to prove, SEP infringement suits are hardly straightforward. There are still various factors to keep in mind when strategizing an infringement suit. In this article, we analyze recent court decisions and statements from government agencies to highlight four key points that SEP holders should keep in mind when seeking to enforce their SEPs.

Selection of Patents to Enforce

SEPs typically implicate a large number of potentially infringing products, including the end products available to the consumer, individual components within the end products and/or platforms or network elements that facilitate the use of end products. Thus, SEP patent holders should carefully select the patents that will target the right products, especially for damages and royalty-calculating purposes. When considering initiating an infringement suit, SEP holders often seek to first identify which of their patents fully claim the product features that drive sales and capture the most value of the product.



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At the outset, considering how the court may eventually calculate a royalty rate for damages may be helpful. While the U.S. Court of Appeals for the Federal Circuit has not provided a bright-line rule for determining a royalty rate, it has stated that “the essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.”[1]

Typically, courts will calculate a royalty base by using the smallest salable unit,[2] and patentees cannot alternatively calculate damages based on sales of the entire product “without showing that the demand for the entire product is attributable to the patented feature.”[3] Thus, sophisticated patentees consider what the smallest salable unit of the infringing product is and which patent best claims that invention. In order to maximize potential damages, patentees typically assert the patents that cover the most valuable units of the product.

It is also worthwhile to note that courts have found the smallest salable unit principle inapplicable where it can instead reference price points from the parties’ actual licensing negotiations.[4] In *Commonwealth Scientific & Industrial Research Organisation v. Cisco Systems, Inc.*, the Federal Circuit found that the district court did not err in valuing the asserted patent with reference to end product licensing negotiations where the court heard evidence of the rates the parties had actually discussed in prior negotiations.[5] Thus, as SEP holders participate in licensing negotiations, they often consider the potential ramifications on future litigation and royalty calculations and are aware of these negotiations when moving forward to enforce a particular SEP in court.

SEP holders must also be mindful of the specific rules and policies of the relevant standard-setting organizations, especially since many SSOs have rules or guidelines regarding fair, reasonable and nondiscriminatory obligations or factors to consider in calculating royalties. For example, the Institute of Electrical and Electronics Engineers notes that determination of reasonable rates should include, but need not be limited to, “the value of the relevant functionality of the smallest saleable Complaint Implementation that practices the Essential Patent Claim.”[6]

Similarly, one court found that under the applicable law, the intellectual property rights policy for the European Telecommunications Standards Institute did not require a FRAND license to be based on the smallest salable patent practicing unit, thereby enabling the patent owner to argue for a higher royalty rate.[7] Overall, being aware of SSO guidelines helps inform the patentee of any particular FRAND obligations relevant to the patents it may choose to enforce.

Additionally, SEP holders should be attentive to the development of the standard, as it is possible that the final version of the standard will not read directly on the declared patent, leaving room for potential noninfringement positions for future defendants in litigation. Moreover, it is important to remember that many SSOs do not conduct their own assessments as to whether a declared patent is essential to a standard.[8] Thus SEP holders need to consider this on their end.

Selection of Potential Infringers to Pursue

When considering which potential infringers to target, SEP holders consider parties all along the supply chain, at various levels of implementation, and at different industry applications. If it is likely that the patent owner can prove that the patented invention drives demand for the entire accused product, then the patent owner may be able to focus on potential infringers farther down the supply chain. Otherwise, the patent owner will need to identify which entity sells the smallest salable patent-practicing unit in

order to build up its damages analysis.

Another factor to consider is patent exhaustion and the potential risk of precluding an infringement case against other players. There are multiple advantages to seeking a license from upstream actors, including that it may be easier to demonstrate that the patented feature drives demand or sales and that upstream actors are more likely to have documents that prove infringement.

However, one major risk is that licensing an SEP to an upstream supplier may limit an SEP holders' ability to enforce the patent against any downstream players. Under the exhaustion doctrine, once a patentee sells one of its products it no longer controls that item through the patent laws, and its patent rights are said to "exhaust."^[9] As downstream players are the ones who sell the higher-valued end product, they can provide a better sales figure for the royalty base calculation. Consequently, the royalties available from downstream players are usually higher than the royalties available from their upstream counterparts.

Of course, targeting downstream manufacturers has its own set of challenges. As illustrated in the recent Federal Trade Commission v. Qualcomm Inc. case, SEP holders may be accused of violating FRAND commitments or even antitrust laws if they exclusively license downstream suppliers and refuse to license to other entities along the supply chain.

Qualcomm's licensing strategy included licensing only to original equipment manufacturers that sold the handsets that incorporated the allegedly infringing chips.^[10] The district court determined that this tactic was anticompetitive and violated Qualcomm's FRAND obligations; subsequently, it ordered Qualcomm to "make exhaustive SEP licenses available to modem chip suppliers on fair, reasonable, and non-discriminatory ("FRAND") terms and to submit, as necessary, to arbitral or judicial dispute resolution to determine such terms."^[11]

Qualcomm appealed, and the district court's injunction was recently stayed pending appeal. Whether Qualcomm's targeted licensing practices will be tolerated by courts is something SEP holders should keep on their radar.

Further, SEP holders should consider which players the courts will have jurisdiction over, which may also determine where they choose to file a complaint. Where foreign parties are involved, the U.S. International Trade Commission may be a worthwhile option, as it has in rem jurisdiction over accused imported products and thus does not need to have personal jurisdiction over accused manufacturers or meet venue requirements. In addition, Section 337 investigations offer exclusion orders as a remedy, providing SEP holders with possible injunctive relief that they would otherwise struggle to obtain from district courts.

Additionally, SEP holders often consider and implement a global enforcement strategy as different jurisdictions offer different advantages and procedural benefits. For example, in Germany, an SEP holder can obtain an injunction if he or she complies with certain minimum requirements regarding its FRAND obligations.^[12] Alternatively, in comparison to Germany and other foreign jurisdictions that do not conduct extensive pretrial discovery, the U.S. may offer a more attractive fact discovery procedure.

Ensuring That FRAND Obligations Are Met

In anticipation of an infringement suit, SEP holders should be sure to satisfy their FRAND obligations under the relevant SSO standard. Typically, this includes negotiating a license in good faith.^[13] By being

mindful of their FRAND obligations, SEP holders can shield themselves from future breach of contract claims or a defense of patent unenforceability.

In some instances in which SEP holders have failed to comply with their FRAND commitments, courts have threatened to find their patent unenforceable against certain infringers. For example, in *Fujitsu Ltd. v. Tellabs Operations Inc.*, the jury found that Fujitsu had breached its FRAND obligations by failing to offer a reasonable license for its SEPs before suing for injunctive relief.[14] From the jury verdict form, it is clear that in making its decision that Fujitsu breached its agreement, the jury considered the following factors:

- Fujitsu did not offer to grant Tellabs a license on RAND terms for Fujitsu's patented technology;
- Fujitsu filed a lawsuit against Tellabs seeking injunctive relief based upon the alleged infringement of the patent;
- Fujitsu filed a lawsuit against Tellabs seeking a nonRAND royalty rate based on alleged infringement of the patent;
- Fujitsu filed a lawsuit against Tellabs seeking damages in the form of lost profits based on alleged infringement of the patent;
- Fujitsu filed a lawsuit against Tellabs alleging infringement of the patent that damaged Tellabs's business;
- Fujitsu filed a lawsuit against Tellabs alleging infringement of the patent that required Tellabs to devote management attention and time, as well as other resources to defending the lawsuit, such as attorney fees, expert fees and related costs.[15]

In light of the jury verdict, the district court ordered Fujitsu to show cause why one of its patents should not be held unenforceable as to Tellabs. [16] The parties settled soon thereafter.

Alternatively, where SEP holders have been able to show that they did engage in negotiations to license their patents, courts have been satisfied with a good faith standard. For example, in *HTC Corp., et al, v. Telefonaktiebolaget LM Ericsson*, the district court found that to satisfy the FRAND obligations of the French organization ETSI, HTC Corp. needed to either (1) offer a FRAND license or (2) negotiate in good faith towards a FRAND license.[17] Notably, the court did not suggest that HTC needed to have formally offered a FRAND license.

Additionally, in *Realtek Semiconductor Corp. v. LSI Corp.*, the district court found that LSI violated its contractual obligations to IEEE by instigating an ITC Section 337 action naming Realtek as a respondent prior to offering a RAND license to Realtek.[18] Despite evidence of some correspondence between the parties, the court found it did not amount to a RAND offer because the standard referenced in the correspondence was different from the actual standard at issue, the parties ceased communications before any specific offer was actually made, and Realtek continued to sell its product for years without hearing again from LSI.[19]

These cases illustrate the importance of fulfilling all FRAND obligations in the short term in order to avoid headaches in later litigation. By having a thorough short-term strategy for addressing these requirements, SEP holders can later move forward with litigation unencumbered by potential

weaknesses in their infringement case.

Being Aware of the Changing Landscape

In considering a long-term litigation strategy, SEP holders should keep in mind developing case law, including shifting attitudes concerning injunctions in the SEP space.

After *eBay Inc. v. MercExchange LLC*, it had been generally understood that injunctions are not a guarantee with a finding of infringement. This is especially true for SEPs where FRAND licensing terms suggest a price point for compensating the SEP holder, making it more difficult to show irreparable harm.

Additionally, previous statements from the Antitrust Division of the U.S. Department of Justice have suggested a hesitation in issuing injunctions. In 2013, the DOJ submitted a joint statement with the U.S. Patent and Trademark Office that expressed concerns regarding injunctions and exclusion orders, including that the SEP owner may take advantage of its market power by engaging in “patent hold-up,” which could then discourage implementers from committing to standardized technology in order to protect themselves.[20]

The agencies noted that “[i]n some circumstances, the remedy of an injunction or exclusion order may be inconsistent with the public interest,”[21] and they “recommended caution in granting injunctions or exclusion orders based on infringement of voluntarily F/RAND-encumbered patents essential to a standard[.]”[22]

However, in December 2018, Assistant Attorney General Makan Delrahim formally withdrew the DOJ’s assent to the statement.[23] In a speech to the Berkeley-Stanford Advanced Patent Law Institute, he noted that the statement had not accurately conveyed the Antitrust Division’s position regarding “when and how patent holders should be able to exclude competitors from practicing their technologies” and suggested that the DOJ would be engaging with the USPTO to draft a new statement that would “better provide[] clarity and predictability with respect to the balance of interests at stake when an SEP holder seeks an injunctive order.”[24]

He also disagreed that excluding competitors from using SEP-covered technology is a per se violation of antitrust law, and asserted that such an approach “is wrong as a matter of antitrust law and bad as a matter of innovation policy.”[25]

Interestingly enough, however, the DOJ argued against issuing an “overly broad remedy” in the *FTC v. Qualcomm* case. In a statement of interest submitted to the court, the DOJ urged the court to hold a hearing and order additional briefing to determine a proper remedy “[b]ecause an overly broad remedy could result in reduced innovation, with the potential to harm American consumers.”[26] The U.S. Court of Appeals for the Ninth Circuit later stayed the district court’s injunction.[27]

The USPTO on the other hand is still mulling over whether to keep the 2013 policy statement. At a recent speech in Belgium, USPTO Director Andrei Iancu said that his office continues to consult government agencies, including the DOJ, and that any new policy regarding injunctions in the SEP space should be “balanced and structured” to promote technological and industrial growth.[28]

Thus, while still uncertain, the prospect of a shift in attitude towards injunctions in SEP cases is a development worth following.

Conclusion

SEPs can present unique litigation challenges, especially in light of FRAND obligations. By carefully establishing a presuit strategy, including a careful selection of the patent(s) to assert and the proper jurisdiction for bringing a suit, and a thorough analysis of potential infringers and relevant SSO policies, SEP holders can put themselves in a stronger position for litigation. SEP holders must also be mindful of satisfying their good-faith negotiation obligations before bringing an SEP suit so as to avoid unenforceability issues. Finally, SEP holders should closely monitor SEP case law, which remains unsettled and is rapidly evolving.

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[1] *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014).

[2] See *Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys., Inc.*, 809 F.3d 1295, 1302 (Fed. Cir. 2015) (“CIRO”).

[3] *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67–68 (Fed. Cir. 2012).

[4] *CIRO*, 809 F.3d at 1302; see also *Intellectual Ventures II LLC v. Sprint Spectrum, L.P.*, No. 2:17-CV-0661-JRG-RSP, 2019 WL 1877309, at *4 (E.D. Tex. Apr. 26, 2019) (“not all damages models must begin with the SSPPU, as requiring every damages model to do so ‘conflicts with [the Federal Circuit’s] prior approval of a methodology that values the asserted patent based on comparable licenses.’”).

[5] *CIRO*, at 1302-1303.

[6] See IEEE, IEEE-SA STANDARDS BOARD BYLAWS 16, http://standards.ieee.org/develop/policies/bylaws/sb_bylaws.pdf (March 2019).

[7] *HTC Corporation, et al. v. Telefonaktiebolaget LM Ericsson, et al.*, No. 6:18-CV-00243-JRG, at *7 (E.D. Tex. May 23, 2019) rejects the notion that the smallest-saleable patent practicing unit (“SSPPU”) sets the boundaries for determining a royalty base.

[8] See, e.g., *Understanding Patent Issues During IEEE Standards Development*, IEEE Standards Association, <https://standards.ieee.org/content/dam/ieee-standards/standards/web/documents/other/patents.pdf> (June 2019).

[9] *Impression Prod., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1529, 198 L. Ed. 2d 1 (2017).

[10] *Fed. Trade Comm'n v. Qualcomm Inc.*, No. 17-CV-00220-LHK, 2019 WL 2206013, at *4 (N.D. Cal. May 21, 2019).

[11] Id. at *138.

[12] Gniadek, Thomas and Sebastian Zwick, "Litigating Standard-Essential Patents in Germany," IEEE Consumer Electronics Magazine at 115 (July 2016) available at <https://ieeexplore.ieee.org/stamp/stamp.jsp?arnumber=7539262>.

[13] See, e.g., HTC Corporation, et al, No. 6:18-CV-00243-JRG, at *7-8 (E.D. Tex. May 23, 2019).

[14] Order to Fujitsu Limited to Show Cause Why the '737 Patent Should Not Be Held Unenforceable as to Tellabs, Fujitsu Ltd. v. Tellabs Operations, Inc., No. 1:09-cv-04530 (N.D. Ill. July 23, 2014).

[15] Official Final Verdict Form, Fujitsu Ltd. v. Tellabs Operations, Inc., No. 1:09-cv-04530 (N.D. Ill. July 23, 2014).

[16] Id.

[17] See, e.g., HTC Corporation, et al, No. 6:18-CV-00243-JRG, at *7-8 (E.D. Tex. May 23, 2019).

[18] 946 F. Supp. 2d 998, 1005 (N.D. Cal. 2013).

[19] Id. at 1007.

[20] POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS (2013) at. 4.

[21] Id. at 6.

[22] Id. at 8.

[23] "Assistant Attorney General Makan Delrahim Delivers Remarks at the 19th Annual Berkeley-Stanford Advanced Patent Law Institute," The United States Department of Justice <https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-remarks-19th-annual-berkeley-stanford> (December 7, 2018)

[24] Id.

[25] Id.

[26] Statement of Interest of the United States of America, Federal Trade Commission v. Qualcomm Incorporated, Case No. 5:17-cv-00220-LHK, Doc. No. 1487 (May 2, 2019).

[27] Fed. Trade Comm'n v. Qualcomm Inc., No. 19-16122, 2019 WL 3977818, at *1 (9th Cir. Aug. 23, 2019)

[28] See Tiffany Hu, Iancu Emphasizes Good Faith In FRAND Negotiations Policy (September 11, 2019), https://www.law360.com/technology/articles/1197893/iancu-emphasizes-good-faith-in-frand-negotiations-policy?nl_pk=43d49a47-3b96-439a-a1de-0ed74ee6aad3&utm_source=newsletter&utm_medium=email&utm_campaign=technology