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Intellectual Property Alert

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If you read one thing…

- The Federal Circuit held that its RAND-based damages analysis applies to *all* standard essential patents, even when there is no RAND commitment by the patent holder.

"RAND-based Damages Analysis Applies to ALL Standard Essential Patents"

Introduction

On December 3, the Federal Circuit in *CSIRO v. CISCO* held that reasonable royalties for standard essential patents (SEPs), even those not subject to a RAND encumbrance, must be apportioned to the value of the patented invention, not the value of the standard as a whole. The Court determined that the district court erred in calculating its damages award by failing to account for the patent's standard essential status and for failing to apply its RAND-based damages analysis set forth in the Court's recent *Ericsson* opinion.

RAND Background

Standard setting organizations are responsible for developing industry technology standards. To be a member and participate in the standard development process, a member must submit a declaration that it will license its SEPs on reasonable and nondiscriminatory (RAND) terms. The Federal Circuit and district courts have established that parties with SEPs encumbered by a RAND commitment must (1) offer a license on RAND terms and (2) the royalty can only be based on the technological value of the invention—not the fact that the invention must be practiced to comply with the standard.

The Federal Circuit's *CSIRO* Decision

This case began in 2011 when CSIRO sued Cisco claiming infringement of U.S. Patent No. 5,487,069 (the "069 patent"), a patent included in the IEEE 802.11 WiFi standard. CSIRO previously submitted a letter of assurance to the IEEE committing to license the patent on RAND terms for an earlier version of the 802.11 standard. CSIRO, however, failed to make such a commitment with later versions of the standard that included technology claimed in the '069 patent. Because the '069 patent covered the standard, the parties stipulated to infringement and agreed to a bench trial on damages. In calculating the damages award, the district court declined to apply any RAND-based adjustments to the *Georgia-Pacific* factors, stating that it was not necessary because CSIRO only made a RAND commitment with respect to only one version of the standard, and thus was only obligated to license on RAND terms on 0.03% of the accused products.

The Federal Circuit held that the district court erred in failing to consider and account for the value of the ’069 patent based on its standard essential status. Instead of apportioning the value of the patent from the benefit derived from the invention, the district court incorrectly increased the royalty award specifically because the ’069 patent is essential to the standard. Relying on its *Ericsson* decision, the court reiterated the reasonable royalty analysis for SEPs to consider:

- “the patented feature must be apportioned from all of the unpatented features reflected in the standard” and
- “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.”

The Federal Circuit made clear that “the [standard essential patent] holder should only be compensated for the approximate incremental benefit derived from his invention, and not from the value added by the standard’s widespread adoptions.” Pointing again to its Ericsson decision, the Federal Circuit explained that these considerations apply to all SEPs, even when there is no contractual RAND encumbrance. Thus, the court vacated the damages award and remanded the case to the district court to determine a reasonable royalty considering the patent’s standard essential status.[1]

Case Impact

This decision establishes that entities with SEPs that choose not to participate in standard setting organizations will still be bound by RAND economic principles when analyzing infringement damages for those patents. In particular, entities that sit by quietly while its patents are incorporated into standards will not be able to extract the value of the standard as damages. Although the decision imposes RAND economic principles on all SEPs, it likely does not expand other potential RAND liability, such as breach of contract claims for failing to license on RAND terms, because this additional RAND liability is based specifically on the patent holders RAND contract with a standard setting organization.

Commonwealth Sci. and Indus. Research Organisation (“CSIRO”) v. Cisco Sys., Inc., 2015-1066 (Fed. Cir. Dec. 3, 2015).

[1] The Federal Circuit also addressed Cisco’s argument that the damages analysis must begin with the smallest salable patent practicing unit, in this case a wireless chip. The court rejected Cisco’s argument and concluded that the smallest salable unit is a method of determining if an expert’s apportionment model is reliable, but different approaches exist and the facts of each case determines which approach to apply. Here, the smallest salable patent-practicing unit was inapplicable because the district court did not apportion from a royalty base, but instead began with the parties’ prior negotiations. The court also concluded that the district court erred in not considering a prior royalty agreement between the parties in its damages analysis.

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