



THINK FORWARD

Recent Decisions Provide Clarity to FRAND Licensing Obligations

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Standard essential patents (“SEPs”) cover technology that is required to comply with interoperability standards, such as the 802.11 Wi-Fi standard and the LTE telecommunications standard. Given the “essential” nature of these technologies, SEPs present special difficulties to courts and negotiating parties alike. A single SEP can be used to block a party from implementing a given standard, and the abuse of SEPs can lead to a standard being unavailable to an implementer that has been singled out. For this reason, standard setting organizations (“SSOs”) have required their members to make their SEPs available for license to any standards implementer on Fair, Reasonable and Non-Discriminatory (“FRAND” or “RAND”) terms. The contours of the FRAND obligation, until very recently, have been somewhat murky. Two recent decisions provide some clarity in this area.

Huawei v. ZTE (European Court of Justice)

On July 16, the European Court of Justice issued a decision in [Huawei Tech. v. ZTE Corp., C-170/13 \(E.C.J. July 16, 2015\)](#) relating to the circumstances in which an SEP owner may seek an injunction for infringement of an SEP. The decision set forth bright line rules on how FRAND licensing must be conducted in order to comply with European antitrust laws.

First, prior to filing for injunctive relief against a standards implementer, the owner of an SEP must “alert the alleged infringer of the infringement complained about by designating that SEP and specifying the way in which it has been infringed.” *Id.* at ¶ 61. This notice requirement is applicable even in cases in which the SEP has already been used by the alleged infringer. *Id.* at ¶¶ 60, 62.

Second, after the alleged infringer has expressed willingness to negotiate a license, the proprietor of the SEP must present a “specific, written offer for a license on FRAND terms,” showing the amount of the royalty and how the rate was determined. *Id.* at ¶ 63.

Although the SEP owner is required to provide notice and carries the burden of making the initial offer, the ECJ provided guidelines for alleged infringers to follow in order to preserve their right to argue that an action for prohibitory injunction, based on allegations of infringement of an asserted SEP, is abusive. Namely, once the offer has been received, the alleged infringer should diligently respond in good faith, including issuing a written, specific counter-offer that incorporates FRAND terms. Finally, where the alleged infringer is using the SEP before the license agreement is executed, the alleged infringer should provide an appropriate security and account for acts of past use. The ECJ further provided that an alleged infringer “cannot be criticized either for challenging, in parallel to the negotiations relating to the grant of licenses, the validity of those patents and/or the essential nature of those patents to the standard in which they are included and/or their actual use, or for reserving the right to do so in the future.” *Id.* at ¶ 69.

Microsoft v. Motorola (9th Circuit)

Despite requiring that licenses covering alleged SEPs must be available on FRAND terms and conditions, most SSOs pointedly do not provide methodology to determine FRAND rates. In its July 30 decision, the Court of Appeals for the Ninth Circuit upheld the first attempt by a U.S. court to provide a framework to determine FRAND terms for a portfolio of alleged SEPs. [Microsoft Corp. v. Motorola, Inc., No. 14-35393 \(9th Cir. July 30, 2015\) \(“Microsoft II”\)](#). In doing so, the Ninth Circuit provided an important framework for courts and negotiating parties alike.

In the underlying case, Judge Robart outlined a hypothetical negotiation between the parties to determine a FRAND rate for Motorola’s SEPs, implementing a modified Georgia-Pacific analysis that detailed what factors each party would consider during such a negotiation. *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR (W.D. Wash. Apr. 25, 2013) (“*Microsoft I*”). Appellant Motorola argued that Judge Robart’s approach violated Federal Circuit damages law.

The Ninth Circuit rejected Motorola’s argument, finding that a breach of FRAND contract case is a commercial case, not a patent law action. The Ninth Circuit determined that the district court utilized Federal Circuit case law as guidance and properly adapted it to the context of the case before it. Throughout the opinion, the Ninth Circuit lauded Judge Robart’s 207-page opinion as “meticulous,” “thoughtful,” “detailed,” and as an “exhaustive analysis.” *Microsoft II*, No. 14-35393, at 30, 38.

The Ninth Circuit, citing to the Federal Circuit’s decision in *Ericsson, Inc. v. D-Link Sys., Inc.*, emphasized the need for flexibility in analyzing a FRAND-encumbered patent. *Microsoft II*, No. 14-35393, at 34 (citing 773 F.3d 1201, 1230-31 (Fed. Cir. 2014)). Nonetheless, based on this decision, going forward, litigants should consider (1) the nature and scope of the SEPs at issue, including the relative value that each SEP contributes to the industry standard; (2) how important the technology at issue is to the licensee; (3) FRAND licenses for related patents or portfolios of related patents; and (4) comparable license agreements involving the SEPs at issue.

In sum, these two decisions represent some clarity for future licensors and licensees when negotiating over SEPs. The ECJ decision provided a specific protocol for the conduct of SEP licensing. The Ninth Circuit’s decision gave its stamp of approval on a framework for determining financial terms for a license to an alleged SEP (or portfolio of alleged SEPs).

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