

## Standard-Essential Patents And FRAND: Complex Interplay

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Patents confer upon the owner of the patent the right to exclude others from making, using, offering for sale, selling or importing the invention for a set period of time. Tensions arise when patented technologies are included as part of industry technical standards, creating standard-essential patents that are required for system interoperability for certain technologies. In such cases, patent owners can make contractual commitments to an industry standard-setting organization (SSO) to license technology on fair, reasonable and nondiscriminatory terms (known as FRAND or RAND) to promote such interoperability and provide lower product costs and increased price competition.

Standard-essential patents, however, pose the problem of granting increased market power to the holders of the patent. For example, once a patent is declared to be an essential part of an international standard in a particular industry, use of the patent is effectively required and the holder of the standard-essential patent could demand unreasonably high royalties for the use of the patent, thus creating a phenomenon known as a “patent holdup.”

In order to avoid a “patent holdup” — and in exchange for a hand in setting the industry standard — members of SSOs must agree to abide by the organization’s bylaws. These bylaws generally require that members must license any intellectual property rights included in a standard on FRAND terms.

The agreement to abide by FRAND terms, however, is not a license in and of itself, and a party seeking to use patented technology must still come to its own agreement with a patent holder as to what constitutes FRAND licensing terms before it uses the protected technology. The inability of parties to reach agreement on FRAND terms — and the high stakes involved in certain industries — has sparked a flurry of recent litigation not only in this country, but in other jurisdictions across the world.

### Recent Litigation over FRAND Terms in the Federal Courts and the U.S. International Trade Commission

In several recent cases in the United States, courts have taken similar approaches to FRAND disputes. For example, in *Apple Inc. v. Motorola Inc.*, Judge Richard Posner of the United States Court of Appeals for the Seventh Circuit, sitting by designation on the U.S. District Court for the Northern District of Illinois, denied injunctive relief to a plaintiff alleging infringement of a standard-essential patent.

The court held that it would not “be justified in enjoining Apple from infringing the [patent at issue] unless Apple refuses to pay a royalty that meets the FRAND requirement. By committing to license its patents on FRAND terms, Motorola committed to license the [patent] to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent.” (N.D. Ill. 2012) at \*12.

Similarly, in *eBay Inc. v. mercExchange LLC*, 547 U.S. 388, 396-97 (2006), Justice Anthony Kennedy, in a concurring opinion, signaled his view that injunctions against patent infringement “may not serve the public interest” where “the threat of an injunction is employed simply for undue leverage in negotiations.”

The debate about enforcing standard-essential patent rights is also being litigated at the International Trade Commission. The ITC enforces patent rights by stopping infringing imports from entering the United States, by way of an exclusion and/or a cease and desist order. This unique forum has seen a three-fold increase in patent infringement actions in the last 10 years. Recently, the ITC decided that Apple had not infringed four of Samsung Electronics Co. Ltd.’s patents related to the iPhone and iPad, two of which are alleged to be standard-essential patents.

Apple argued that Samsung should have been barred from even bringing the claims based on standard-essential patents because Samsung’s agreement to FRAND terms prevented Samsung from seeking remedies at the ITC. Apple referred to a June 6, 2012, statement by the Federal Trade Commission that stated that the ITC’s remedies, exclusion and cease and desist orders in actions over standard-essential patents could cause “substantial harm to U.S. competition” and argued that the ITC should not enter exclusion and cease and desist orders for infringing standard-essential patents for fear of a patent holdup.

In the same matter, the Federal Trade Commission described alternative remedies that the ITC could use, including a suggestion that the ITC could find that the public interest requires denial of an exclusion order where the holder of a standard-essential patent has not negotiated in good faith with prospective licensees. After Samsung’s appeal of Judge James Gildea’s initial determination, the ITC is poised to determine whether public interest factors preclude the ITC from issuing exclusion and cease and desist orders based on FRAND-committed patents.

### Breach of Contract Claims and FRAND Terms

Another strategy for a plaintiff seeking to enforce FRAND terms for technology is to assert a breach of contract claim against the patent owner. This approach was taken by Microsoft Corp. in litigation against Motorola Mobility Inc. in the Western District of Washington and the ITC. The district court case arose when Microsoft filed a complaint for breach of contract seeking contract damages for Motorola's breach of FRAND licensing terms after Motorola asked Microsoft for 2.25-percent royalties for licenses of certain of Motorola's standard-essential products for various Microsoft products, including the Xbox. Alleging that these terms were unreasonable, Microsoft filed its claim on the grounds that it was a third party beneficiary of Motorola's contractual commitments to the Institute of Electrical & Electronics Engineers, which was the relevant SSO for the technology in question.

In an interlocutory appeal, the Ninth Circuit affirmed the district court's injunction against Motorola pursuing relief in Germany related to the German patents on the ground, *inter alia*, that the anti-suit injunction did not offend international comity because Microsoft's contract claim in United States District Court could resolve licensing of patents under FRAND terms on a worldwide basis, as opposed to the piecemeal or country-specific approach taken by Motorola. See *Microsoft Corp. v. Motorola, Inc.*, 2012 U.S. App. LEXIS 20359 (9th Cir. Sept. 28, 2012).

In a related case, the ITC in early 2012 granted Microsoft's motions for summary adjudication, holding that Motorola's RAND commitments were enforceable promises and that Microsoft, as an industry participant making the standard compliant products, had standing to assert breach as an intended third-party beneficiary. *Certain Gaming & Entmt Consoles*,

*Related Software & Components Thereof*, USITC Inv. No. 337-TA-752 (April 23, 2012).

Although the fate of Microsoft's contract claims against Motorola is as yet undecided, it should be noted that third-party beneficiary claims in the FRAND context have not always been successful because plaintiffs have been found not to have standing and had difficulties in proving damages. In the Microsoft case, the plaintiff's standing was essentially admitted by the defendant — a circumstance that may not be present in other cases.

Litigation over the meaning of FRAND terms is still very much a developing area of intellectual property law and is likely to gain increased scrutiny as incorporating patented technologies becomes even more prevalent in a wide array of technologies and industries. Standard-essential patent holders appear to have a substantial burden in obtaining an injunction, and will likely need to demonstrate that the other side has rejected FRAND licensing terms to do so. Similarly, the popular ITC forum for litigating patent disputes may foreclose the ability of standard-essential patent holders to obtain exclusionary and cease and desist orders where FRAND terms have been proposed.

Several pending decisions in federal courts around the country and the ITC are expected to shape this area of law over the next few years and will likely shed additional light on whether injunctions by district courts and exclusion and cease and desist orders by the ITC are proper remedies for infringement of a standard-essential patent. While breach of contract claims may be a unique way of imposing FRAND terms, issues with standing and proving damages prevent this from becoming a mainstream way of enforcement. Furthermore, Motorola's ability, or inability, to prove contract damages as a result of breach of FRAND terms may signal how others parties in similar lawsuits may fare.



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