



# **Getting the Facts: Expert Testimony for FRAND Patents**

*Paula D. Heyman*

BAKER BOTTTS 

# Overview

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- A. What is FRAND?**
- B. How is Expert Testimony Used in Patent Cases?**
- C. Framework for Calculating FRAND Royalties**
- D. Expert Testimony for Performing the Analysis**



# FRAND Obligations

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- Promise to license on **Fair, Reasonable And Non-Discriminatory** terms
  - Intended as a *solution* to the problem of patent hold-up
- ***Contractual relationship*** between a patent holder and Standards Setting Organization (SSO)
  - Defined in SSO's Intellectual Property Rights Policy
- SSO's may require FRAND commitments for 'essential' patents

# Standards Essential Patents (SEP)

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- **What does "essential" mean?**
  - IEEE – “any Patent Claim the use of which was necessary to create a compliant implementation of either mandatory or optional portions of the [standard]”
  - ETSI Definition – "it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use, or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing"



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# When an SEP owner is not "reasonable"

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# FRAND Questions

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- **Non-discriminatory**
  - Similarly situated licensees should receive similar terms
- **Fair and Reasonable**
  - Subjective analysis but royalty rate is important
- **FRAND Cases:**
  - *Microsoft Corp. v. Motorola, Inc.*, C10-1823JLR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013) (Robart, J.)
  - *In re Innovatio IP Ventures, LLC Patent Litigation*, Case No. 11 C 9308, 2013 WL 5593609 (N.D. Ill. Oct. 3, 2013) (Holderman, J.)

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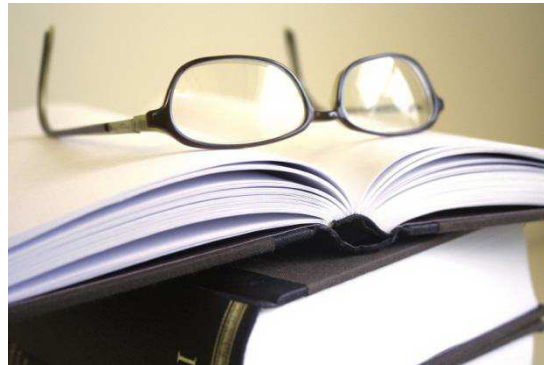
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# Expert Testimony: Judge as a Gatekeeper

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- **FRE 702: "A witness who is qualified as an expert by knowledge, skill, experience, training, or education may testify in the form of an opinion or otherwise"**
- ***Daubert v Merrell Dow Pharmaceuticals, Inc*, 509 US 579, 589 (1993): "[T]he trial judge must ensure that any and all scientific testimony or evidence admitted is not only relevant, but reliable."**





# Good Expert Testimony in Patent Cases

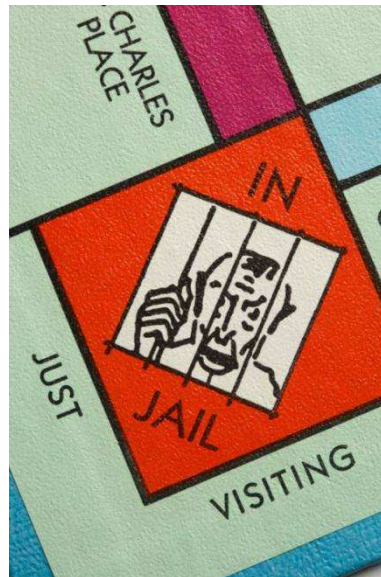
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- **Microsoft:** Court relied heavily on expert testimony for the factual basis of its royalty calculation
- **Innovatio:** Court adopted FRAND royalty analysis proposed by an expert



# Consequences of Bad Expert Testimony

- ***Apple v. Motorola (June 22, 2012)***: Motorola and Apple sued/countersued over SEPs
  - All damages claims dismissed for *lack of adequate proof*
  - No expert provided a good protocol or sufficient facts to do a FRAND analysis



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## ***Microsoft v. Motorola (April 2013) – Overview***

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- Motorola offered licenses to Microsoft for SEPs related to WiFi and Video technology at a **2.25% royalty rate on the price of the end product** (e.g., Xbox 360, PC/Laptops, smartphone, etc.)
- Microsoft sued for **breach of contract**, alleging Motorola breached its FRAND obligation by making an unreasonable offer to license its SEPs
- To determine whether Motorola's initial offer was in good faith, Judge Robart actually calculated a FRAND royalty range

## ***Microsoft: Goals for Royalty Determinations***

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- **Promoting widespread adoption of standards**
- **Mitigate the risk of patent hold-up**
- **Address the risk of royalty stacking**
- **"[I]nduc[ing] the creation of valuable standards [by] guarantee[ing] that holders of valuable intellectual property will receive reasonable royalties." *Microsoft*, 2013 WL 2111217 at \*12.**

## Microsoft: Two Proposed Methods

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- **Option 1:** Microsoft contends that value of patented technology should be determined by ***calculating the incremental value*** of the technology compared to ***alternatives that could have been written into the standard.***
- **Option 2:** Motorola suggests that RAND terms and conditions can be determined by simulating a ***hypothetical bilateral negotiation*** under the RAND obligation.

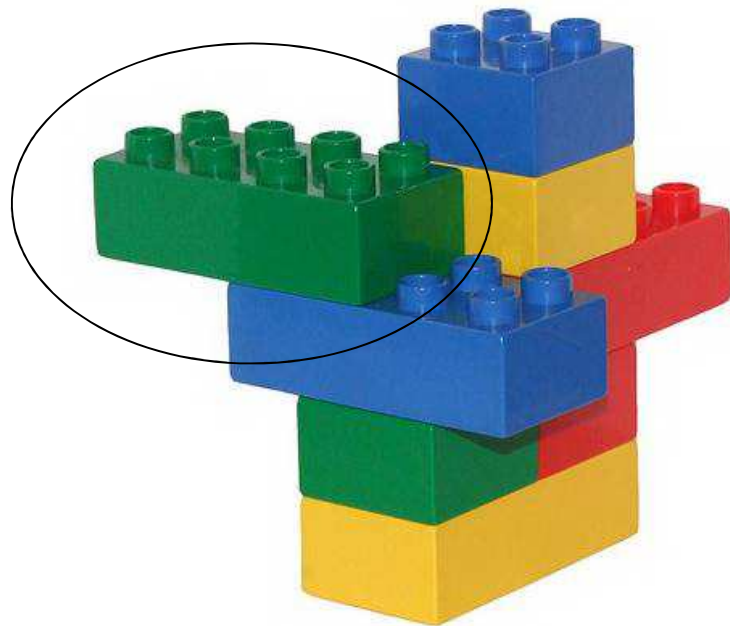
## ***Microsoft: Bilateral Negotiations***

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- "[B]ased on the evidence before the court, RAND license agreements often consummate through bilateral negotiations between the SEP owner and the implementer."
  - Court reasoned that there are comparable licenses
  - Is this really true?
- **Courts often rely on *Georgia-Pacific* factors**
  - G-P "factors must be *adjusted* to account for the purpose of the RAND commitment."

# ***Microsoft: What Would the Parties Negotiate?***

- In normal patent cases, the value of a patent is assessed in comparison to a particular product.
- But standards can include thousands of patents



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## **Microsoft: Royalty Stacking Problem**

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- Extrapolating Motorola's proposed royalty to cover all SEPs in the standard would ***yield royalty higher than product value***
- RAND rates must account for stacking, otherwise ***standards would not be widely adopted***
- "[S]tacking concerns are *heightened* in this case because Motorola's 802.11 SEP portfolio provides only *minimal* contribution to the 802.11 Standard."

# ***Microsoft: The Method***

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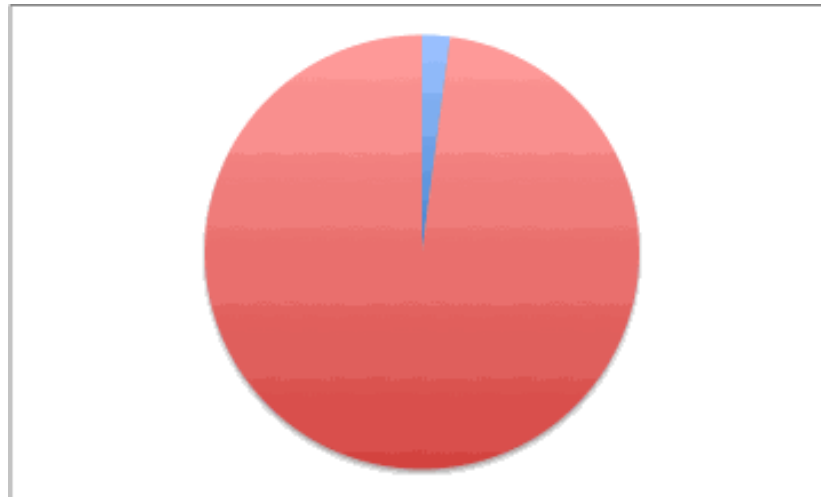
**Trier of fact should evaluate:**

- 1. Importance of the patent to the standard**
  - i. Number of essential patents in the standard
  - ii. Technical contribution of the patent to the standard
- 2. Importance of the patent to the accused products**
- 3. Other licenses for comparable patents**

## Microsoft: The Result

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- Motorola's proposed royalty of **2.25%** translated somewhere between **\$3.00 and \$4.50 per unit**
  - The court determined a significantly lower RAND range:
    - **H.264 – .555 cents to 16.389 cents per unit**
    - **802.11 – .8 cents to 19.5 cents per unit**



## ***In re Innovatio IP Ventures, LLC Patent Litigation***

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- **Innovatio asserted SEPs against users and manufacturers of Wi-Fi**
  - Proposed a royalty between \$3.39 per unit for a wireless router to \$16.17 per unit for a tablet
- **Innovatio bound to RAND terms based on prior patent owners' commitment to license on RAND terms**
- **Judge calculated royalty rate for each accused product**

## ***Innovatio*: The Top Down Approach**

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- 1) Begin with the average profit per Wi-Fi chip as a maximum royalty base**
- 2) Multiply by the number of asserted SEPs and divide by the total number of all patent owners' SEPs**
- 3) Adjust the denominator to reflect the relative value of Innovatio's SEPs to the Wi-Fi standard**

## ***Innovatio* - Advantages of Top Down**

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- **Profit margin as the maximum royalty accounts for non-discriminatory and stacking concerns**
- **Apportions value to patents without relying on information about other licenses that may or may not be comparable**
- **Provides quantitative and analytical rigor**
- **Can account for relative importance of particular SEPs**

## *Innovatio*: The Result

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- **Innovatio proposed a royalty of between \$3.39 per unit for a wireless router to \$16.17 per unit for a tablet**
  - Court determined a significantly lower RAND royalty:  
***9.56 cents per unit***



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## ***Importance of SEP to Standard***

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- **Total number of SEPs and SEP holders**
- **Level of involvement in the standards process**
  - Timeline
  - Research contributions
- **Value of SEPs to standard**
  - efficiency gains
  - improvements over past methods
  - improvements over alternative methods
  - optional/core feature

## ***Importance of SEP to Accused Product***

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- **Show importance of specific patented feature, not entire standard, to the product**
  - repeat per product if more than one
  - how many SEPs actually used
  - core/minor features
- **Independent analysis showing patents do in fact cover the products**
  - claim charts
  - unsubstantiated expert testimony is NOT good evidence

## ***Comparable Prior Licenses***

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- **Licenses taken as part of litigation settlements**
  - **Not persuasive**: Licenses under threat of litigation not good RAND yardsticks.
- **Portfolios including unrelated patents**
  - **Maybe persuasive**: Must be able to apportion relative value of each patent to license
- **Licenses not negotiated under RAND obligations**
  - **Not persuasive**

## Comparable Prior Licenses - Patent Pooling

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- Good RAND indicators if comparable and adjusted
- **Comparability** factors:
  - **Timing** of formation of patent pool
  - **Number and diversity of participants**
  - **Participation** in the patent pool **by the licensor**
  - **Success** of the standard
- **Adjustment** factors:
  - **Pool rates** tend to be **lower**
  - **Pools** may allocate royalties based on quantity
  - **Account for value from membership** in the patent pool other than royalties

## Another methodology?

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- **Ericsson Inc. v. D-Link Systems, Inc., 2013 WL 4046225 (E.D.T.X. Aug. 6, 2013)**
  - Jury determined appropriate FRAND damages.





**Questions?**