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Federal Circuit Patent Bulletin: *Ericsson, Inc. v. D-Link Sys., Inc.*

December 4, 2014

"[T]he royalty for [Standard Essential Patents] should reflect the approximate value of that technological contribution, not the value of its widespread adoption due to standardization."

On December 4, 2014, in *Ericsson, Inc. v. D-Link Sys., Inc.*, the U.S. Court of Appeals for the Federal Circuit (O'Malley,* Taranto, Hughes) affirmed-in-part, reversed-in-part, vacated-in-part, and remanded the district court's judgment, inter alia, that D-Link infringed U.S. Patents No. 6,424,625, No. 6,466,568, and No. 6,772,215, which related to Wi-Fi 802.11(n) standard technology employed by electronic devices to wirelessly access the Internet. The Federal Circuit stated:

Because Ericsson was obligated to license the patents at issue on RAND terms, D-Link asked the district court to instruct the jury on that RAND obligation. . . . This is an issue of first impression for us. To our knowledge, only three other courts have considered the issue of appropriate RAND royalty rates—all district courts. . . . Although we have never described the Georgia-Pacific factors as a talisman for royalty rate calculations, district courts regularly turn to this 15-factor list when fashioning their jury instructions. Indeed, courts often parrot all 15 factors to the jury, even if some of those factors clearly are not relevant to the case at hand. And, often, damages experts resort to the factors to justify urging an increase or a decrease in a royalty calculation, with little explanation as to why they do so, and little reference to the facts of record. In this case, the district court included all 15 Georgia-Pacific factors in its damages instruction—over objection—without considering their relevance to the record created at trial.

In a case involving RAND-encumbered patents, many of the Georgia-Pacific factors simply are not relevant; many are even contrary to RAND principles. . . . Several other Georgia-Pacific factors would at least need to be adjusted for RAND-encumbered patents—indeed, for SEP patents generally. For example, factor 8 accounts for an invention's "current popularity," which is likely inflated because a standard requires the use of the technology. Factor 9—"utility and advantages of the patented invention over the old modes or devices,"—is also skewed for SEPs because the technology is used because it is essential, not necessarily because it is an

improvement over the prior art. Factor 10, moreover, considers the commercial embodiment of the licensor, which is also irrelevant as the standard requires the use of the technology. Other factors may also need to be adapted on a case-by-case basis depending on the technology at issue. Consequently, the trial court must carefully consider the evidence presented in the case when crafting an appropriate jury instruction. In this case, the district court erred by instructing the jury on multiple Georgia-Pacific factors that are not relevant, or are misleading, on the record before it, including, at least, factors 4, 5, 8, 9, and 10 of the Georgia-Pacific factors. . . .

To be clear, we do not hold that there is a modified version of the Georgia-Pacific factors that should be used for all RAND-encumbered patents. . . . We believe it unwise to create a new set of GeorgiaPacific-like factors for all cases involving RAND-encumbered patents. Although we recognize the desire for bright line rules and the need for district courts to start somewhere, courts must consider the facts of record when instructing the jury and should avoid rote reference to any particular damages formula.

As with all patents, the royalty rate for SEPs must be apportioned to the value of the patented invention. When dealing with SEPs, there are two special apportionment issues that arise. First, the patented feature must be apportioned from all of the unpatented features reflected in the standard. Second, 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. These steps are necessary to ensure that the royalty award is based on the incremental value that the patented invention adds to the product, not any value added by the standardization of that technology.

Just like modern electronic devices, technological standards include multiple technologies. We know that patents often claim only small portions of multi-component products and we have precedent which covers apportionment of damages in those situations. Similarly, SEPs can, and, often do, claim only limited aspects of the overall standard. For example, the 802.11 standard encompasses numerous technologies to enable devices to communicate with each other via wireless network connection. This includes, among many other things, technologies on link establishment, security protocols, error control, and flow control. By way of example, the '568 patent, at best, only covers the ability of the system to prioritize time-sensitive payloads by informing the system what type of data is in each transmission. This is only a small aspect of the 802.11(n) standard. Indeed, based on the record in this case, it is undisputed that some programs do not even take advantage of this 802.11(n) standard capability. The '215 patent, moreover, at best covers the ability to send different feedback response types. Again, based on the undisputed record, some 802.11(n) standard products do not use more than one type of feedback message.

Just as we apportion damages for a patent that covers a small part of a device, we must also apportion damages for SEPs that cover only a small part of a standard. In other words, a royalty award for a SEP must be apportioned to the value of the patented invention (or at least to the approximate value thereof), not the value of the standard as a whole. A jury must be instructed accordingly. Our decision does not suggest that all SEPs makeup only a small part of the technology in the standard. Indeed, if a patentee can show that his invention makes up "the entire value of the" standard, an apportionment instruction probably would not be appropriate.

Turning to the value of a patent's standardization, we conclude that Supreme Court precedent also requires apportionment of the value of the patented technology from the value of its standardization. . . . In other words, the patent holder should only be compensated for the approximate incremental benefit derived from his invention. This is particularly true for SEPs. When a technology is incorporated into a standard, it is typically chosen from among different options. Once incorporated and widely adopted, that technology is not always used because it is the best or the only option; it is used because its use is necessary to comply with the standard. In other words, widespread adoption of standard essential technology is not entirely indicative of the added usefulness of an innovation over the prior art. This is not meant to imply that SEPs never claim valuable technological contributions. We merely hold that the royalty for SEPs should reflect the approximate value of that technological contribution, not the value of its widespread adoption due to standardization.

Because SEP holders should only be compensated for the added benefit of their inventions, the jury must be told to differentiate the added benefit from any value the innovation gains because it has become standard essential. Although the jury, as the fact finder, should determine the appropriate value for that added benefit and may do so with some level of imprecision, we conclude that they must be told to consider the difference between the added value of the technological invention and the added value of that invention's standardization.