

# FRAMEWORK FOR DETERMINING A FRAND ROYALTY

## A Commercially Balanced Approach

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# THE TECHNICAL MARKETPLACE

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**In a properly functioning technical marketplace:**

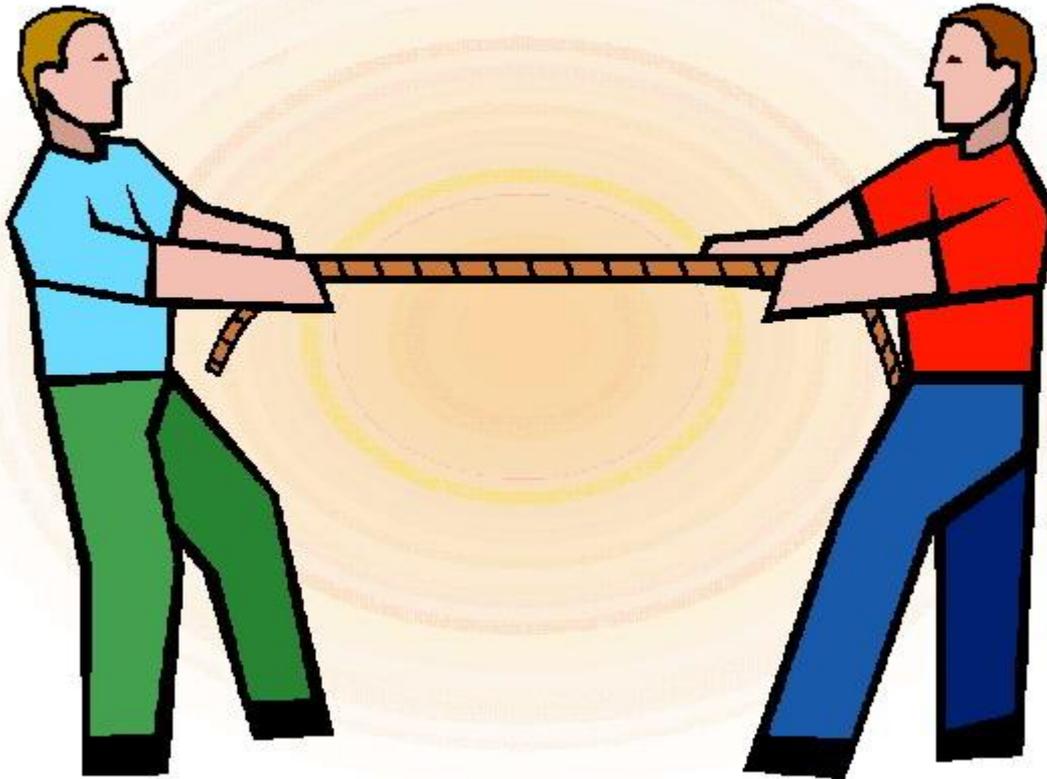
- **Individual innovators are incentivized to develop new technologies advancing the capabilities of a technological space.**
- **Groups of innovators cooperate in SSOs to evaluate these new technologies and select the new technologies which are sewn together to form standards advancing technology.**
- **Implementers implement these new standards profitably.**
- **Markets disruptors (non- or late- innovators) are not blocked from marketplace.**

# THE TECHNICAL MARKETPLACE

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INNOVATORS

IMPLEMENTERS



# RESTRICTING INNOVATORS' INCENTIVES

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**Technological space suffers when the innovators' incentives are restricted in commercially unreasonable ways:**

- **Innovators may choose to reduce or eliminate their innovation in that technological space by redirected their R&D dollars elsewhere;**
- **Innovators may choose to withhold their innovations from that technological space by refusing to give FRAND commitments**
  - e.g., CSIRO refused to give RAND assurance for 802.11 g and n;
- **In an environment of reduced innovation and/or fewer FRAND commitments, standard setting bodies will produce subpar and/or less certain standards.**

# RESTRICTING IMPLEMENTERS' PROFITS

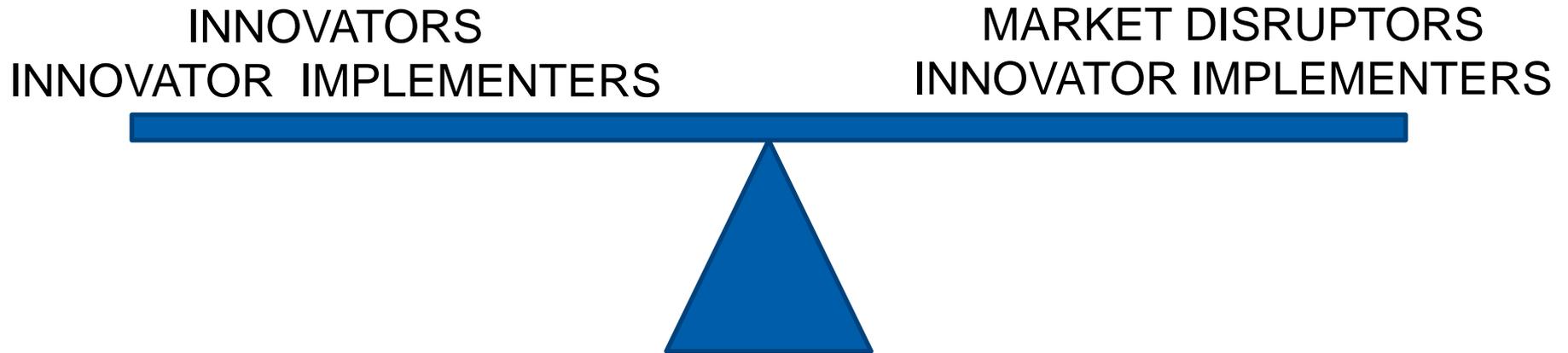
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**Technological space suffers if implementers' incentives are restricted in commercially unreasonable ways:**

- **Implementers who are market disrupters (non- or late- innovators) will be blocked from implementing, or choose not to implement, unprofitable standards.**
- **Space suffers from absence of market disrupters. Fewer less innovative products.**
- **Space dominated by implementers who are also innovators. Cross-licensing arrangement reduce restrictions on implementers' profits.**

# A COMMERCIALY BALANCED APPROACH

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# A COMMERCIALY BALANCED APPROACH

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- **Situation – SEP holder offers an implementer a license and the implementer refuses the license offer and forces the SEP holder to sue to enforce the SEP.**
- **Implementer becomes an unwilling licensee and the SEP is entitled to seek statutory remedies, including an injunction.**
- **Unwilling licensee raises breach of the FRAND promise as a threshold issue / affirmative defense.**
- **Offer is examined to determine if it is FRAND – FRAND includes a rate (or range of rates), reciprocity, royalty base, duration, scope, geographic, termination and other terms.**
- **Licensee should be bound by RAND determination.**

# A COMMERCIALY BALANCED APPROACH

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- The *Georgia-Pacific* hypothetical negotiation framework provides a commercially balanced approach for determining whether an license offer is FRAND.
- The framework properly focuses on the economic realities between two parties bilaterally negotiating a patent license.
- Courts have sanctioned the use of the *Georgia-Pacific* hypothetical negotiation framework to determine a reasonable royalty.

# FIRST FIVE *GEORGIA-PACIFIC* FACTORS

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- 1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.**
- 2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.**
- 3. The nature and scope of the license, as exclusive or nonexclusive, or as restricted or nonrestricted in terms of territory or with respect to whom the manufactured product may be sold.**

# FIRST FIVE *GEORGIA-PACIFIC* FACTORS

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- 4. The licensor's established policy and marketing program to maintain a patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.**
- 5. The commercial relationship between the licensor and licensee, such as whether they are competitors in the same territory in the same line of business, or whether they are inventor and promoter**

# PATENT HOLD-UP AND ROYALTY STACKING

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- **Patent Hold-Up** – A false promise by SEP holder to license patent on FRAND terms.
- **Royalty stacking** – An license offer which disregards the total amount of royalties the accused infringer must pay to all holders of patented input.
- **Unwilling licensees** assert these are relevant factors to be considered in determining whether a royalty charged is reasonable from a FRAND perspective.
- **The unwilling licensee** must come forward with credible evidence that the SEP holder held-up the marketplace to extract extraordinary royalties and that the unwilling licensee faces an actual royalty stacking problem.

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