

## Fifth Circuit Affirms Jury Verdict on Willing Licensee FRAND Commitment

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The US Court of Appeals for the Fifth Circuit affirmed a jury verdict finding that a standard essential patent (SEP) owner did not breach its commitment to license its SEPs on fair, reasonable and non-discriminatory (FRAND) terms. The ruling establishes not only that willing licensee disputes can be subject to jury adjudication, but also that in willing licensee disputes, traditional patent damages factors such as apportionment are not required, since willing licensee disputes are based in contract law rather than patent law. *HTC Corp. et al. v. Telefonaktiebolaget LM Ericsson et al.*, Case No. 19-40566 (5th Cir. Aug. 31, 2021) (Elrod, J.) The panel concluded that the district court properly instructed the jury on the meaning of FRAND and did not err in granting a post-trial declaratory judgment in the SEP owner's favor.

Ericsson holds patents that are essential to the 2G, 3G, 4G and WLAN wireless communication standards and made a commitment to the European Telecommunications Standards Institute (ETSI) to license those SEPs on FRAND terms. In order to minimize the risk of anticompetitive behavior, standards setting organizations such as ETSI may exclude patented technology from their standards if an SEP holder does not commit to license the patent on FRAND terms.

HTC makes smartphones that implement Ericsson's SEPs. In 2016, Ericsson and HTC were engaged in negotiations to renew their third licensing agreement. Negotiations broke down, and HTC filed a lawsuit alleging that Ericsson breached its commitment to provide a license on FRAND terms. HTC argued that Ericsson's royalty rate should be based on the smallest salable patent-practicing unit (SSPPU) of HTC's smartphones—specifically, the baseband processor component—rather than the net sales price of the entire end-user device. Ericsson counterclaimed for a declaration that it had complied with its FRAND obligation. Ericsson argued that its offer to HTC was fair and reasonable because its licenses to other similarly situated device makers were also based on the value of the end-user product, not just the smallest salable unit. After an earlier Fifth Circuit decision (applying French law) determined that the ETSI intellectual property rights policy contained no express language requiring SEP holders to base royalties on the SSPPU. The Court also noted that the prevailing industry standard has been to base FRAND licenses on the end-user device. Thus, a "reasonable person" would not interpret Ericsson's FRAND commitment to mean that it must base its SEP royalties on the SSPPU.

The case proceeded to trial, and a Texas jury found that Ericsson did not breach its FRAND

commitment. The district court also granted a declaratory judgment in Ericsson's favor following trial, concluding that Ericsson's offers were FRAND. HTC appealed to the Fifth Circuit, challenging the district court's exclusion of several of its proposed jury instructions and the declaratory judgment in Ericsson's favor. At trial, the district court had instructed the jury that whether a license is FRAND "will depend on the totality of the particular facts and circumstances," and that "there is no fixed or required methodology for setting or calculating the terms of a FRAND license." HTC argued that the jury should have been instructed to apportion the value of Ericsson's patents from the non-patented features of HTC's phones in determining whether a license proposal was FRAND.

The Fifth Circuit panel concluded that HTC's proposed instruction relied on inapplicable law. Specifically, the proposed instruction was based on Federal Circuit decisions addressing patent damages, while Ericsson's agreement with ETSI was governed by French contract law. Although the district court may have been permitted to use patent law principles to inform its jury instructions, it was not required to do so. The Fifth Circuit panel further reasoned that the parties did not actually dispute at trial whether the value of Ericsson's patents should be apportioned from the non-patented features of HTC's phones. Only the *methodology* for apportionment was disputed: HTC argued that the patents' apportioned value should be based on the SSPPU, while Ericsson defended calculating their value based on the entire end-user device. Thus, HTC's proposed instruction did not concern "an important point in the trial" and did not impair HTC's ability to present its claim.

HTC also challenged the district court's declaratory judgment that Ericsson's licensing offers to HTC were FRAND. HTC argued that the judgment was legally erroneous due to the disparities in the terms Ericsson offered to HTC and to several of its competitors. The Fifth Circuit found that HTC did not properly preserve its challenge, but even if it had, the Court would not reverse the declaratory judgment. The panel reasoned that Ericsson presented substantial evidence to support its position that its offers to HTC were FRAND, including licenses with companies similarly situated to HTC with terms that were remarkably similar to those Ericsson offered HTC. Although HTC presented evidence that Ericsson made licenses that were more favorable to some of HTC's competitors, Ericsson showed that HTC was not similarly situated to those entities for a variety of reasons. The Fifth Circuit found that the evidence HTC presented was not so overwhelmingly in HTC's favor that no reasonable jury could have found for Ericsson.

**Practice Note:** This jury verdict is the first of its kind in the United States to address the meaning of FRAND in SEP license agreements, and the Fifth Circuit ruling is a significant victory for SEP owners. The decision rejects the mandatory application of Federal Circuit patent damages decisions supporting the SSPPU methodology to license disputes between SEP holders and licensees, reasoning that these disputes are governed by contract law. SEP holders now have additional support for basing their royalty rates on the value of end-user devices.

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