

CSIRO v. Cisco - Judge Davis's Damages Calculation of Reasonable Royalty | Advocate Rahul Dev, Technology Lawyer

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How to calculate damages during patent infringement?

In case of patent infringement, there are two types of damages: (a) Loss Profits, and (b) Reasonable Royalty. Loss profits imply additional profits that the patent owner would have made if there had been no patent infringement. Reasonably royalty on the other hand implies minimum damages that a patent owner can receive pertaining to a reasonable amount that someone would have agreed to pay to the patent owner for using the patented technology and patent owner would have accepted.



Provisions related to Patent Damages as per US Patent Law

In accordance with the provisions of US patent laws (35 U.S. Code § 284 – Damages), section 284 states that a patentee is entitled to damages adequate to compensate for any infringement and that compensation cannot be less than a reasonable royalty for the use made of the invention by the infringer.

How to determine “reasonable royalty” damages?

In past, various federal courts in US have clarified that in case patentee is unable to prove actual damages (i.e. loss profits), there exists no single methodology to determine reasonable royalty damages.

Standard Essential Patents (SEPs)

Technical standard across various industries are defined by standards organizations (SDOs) that can be patented by private companies to protect their research and development activities. Such patents relating

to standardized technology may be used by patent owners to pressurize the market and create monopoly to prevent competition. Accordingly, the SDOs require their participants do disclose patents covering standards prior to adoption. SDOs further require the patent owners to license such patents on “fair, reasonable and non-discriminatory” (FRAND) terms.

However, FRAND terms have been core of various patent infringement lawsuits, specifically in the smartphone industry, wherein the industry standard covers core features of any smartphone, such as, for example, wireless connectivity (WiFi), Bluetooth, GPS (location capabilities), and the like.

WiFi Standard Essential Patents (SEPs)

IEEE (Institute of Electrical and Electronics Engineers) has specified the 802.11 standard for several specifications of WLANs that defines an over-the-air interface between a wireless client and a base station or between two wireless clients. There are several specifications in the 802.11 family and this family is one of the important building blocks to the intersection of computing and consumer entertainment.

CSIRO v. Cisco – Judge Davis’s Damages Calculation of Reasonable Royalty

On July 23, 2014, US District Court for the Eastern District of Texas determined reasonable royalty damages for WiFi standard essential patent owned by CSIRO, which is stipulated to be valid, infringed and essential to several versions of the IEEE 802.11 WiFi standard wherein RAND (reasonable and non-discriminatory) terms were applicable to one version of the standard, but not others.

What CSIRO (patent owner) wanted?

A per-end product reasonable royalty of about \$30 million

Cisco’s Argument

A per WiFi chip reasonable royalty of about \$1.1 million

Judge Davis’s Decision

The judge rejected both damages models that were put forward by Cisco and CSIRO. The judge also found that the patent plays a “significant role” in the success of 802.11 products, and derived his own per-end-product reasonable royalty damages award of about \$16 million.

Importance of Bench Trial Decision

This ruling is an important one as the judge has determined a royalty rate for a standard essential patent by considering previous infringement damages. However, the ruling does not fix a RAND-royalty rate per se. In addition, although the patent was essential to the industry standard, the judge decided that no RAND-obligation is applicable to almost all of the accused patent infringement because the patent owner gave the IEEE a letter of assurance RAND-commitment as to only revision “a” of the standard and refused IEEE request to give such a commitment for later versions of the standard.

Background:

The decision relates to US Patent No. US5487069 titled “Wireless LAN” (<http://www.google.com/patents/US5487069>) that is owned by Commonwealth Scientific and Industrial Research Organization (“CSIRO”), which is the principal scientific research organization for the Australian Federal Government.

The WiFi patent relates to solve multipath problems in a wireless local area network and discloses a wireless LAN incorporating forward error correction, frequency-domain interleaving, and multi-carrier modulation, among other techniques to solve such challenges.

In 1999, the Institute of Electrical and Electronics Engineers (“IEEE”) ratified the 802.11a standard, which

embodies the core technology of the '069 Patent.

In 2003, the IEEE ratified the 802.11g standard, which also embodies the technology of the '069 Patent.

CSIRO filed this suit against Cisco on July 1, 2011 asserting infringement of the '069 Patent.

On March 19, 2013, the Court approved a joint stipulation by the parties to try this case solely as to damages, because liability would not be argued or contested. The parties further agreed the scope of accused products would be all products that practice any of the IEEE's 802.11a, 802.11g, 802.11 draft-n, 802.11n, 802.11 draft-ac, or 802.11ac standards, made in, used in, sold in, offered for sale in, or imported into the United States by Cisco or its subsidiaries, and that did not incorporate a "Licensed Wi-Fi Chip." Linksys products are included because of Cisco's acquisition of Linksys in 2003.

The Ruling

(i) Cisco's Estoppel Affirmative Defenses (Denied)

Although the parties stipulated to try this case as to damages only, Cisco raised the affirmative defenses of legal and equitable estoppel.

The ruling states:

"To establish a defense of equitable estoppel, Cisco must demonstrate that:

(1) CSIRO communicated something in a misleading way by words, conduct, or silence;

(2) Cisco relied upon that communication; and

(3) Cisco would be materially harmed if CSIRO is allowed to assert any claim inconsistent with its earlier communication. See A.C. Aukerman Co. v. R.L. Chaides Constr. Co., 960 F.2d 1020, 1041 (Fed. Cir. 1992) (en banc).

Legal estoppel requires that CSIRO granted Cisco certain rights, received consideration for those rights, and then sought to derogate from the rights granted."

Therefore, judge ruled that Cisco's legal and equitable estoppel defense did not apply except for products practicing revision "a" of the 802.11 standard, which would require RAND licensing terms.

(ii) Damages Model Proposed by CSIRO's (Rejected)

As per CSIRO arguments, the end product devices (network interface cards, routers, access points) were the smallest saleable patent practicing unit. CSIRO further argued that its patent provides the only "improved benefits" between revisions of the standard covered by the patent and other revisions; therefore, the difference in profit margins between covered and not-covered products "largely represents the value attributable to the '069 Patent."

However, Judge did not agree and found issues with the large disparity in profit margins between covered and non-covered products – over \$84 difference for consumer products and over \$200 difference for enterprise products; that disparity made it "impossible to reliably determine where the value of the patented technology lies." The expert also had problems in apportioning value to the patented technology distinct from unpatented features. For example, "802.11g is backwards compatible with 802.11b, a feature not specifically attributable to the '069 Patent, but which adds value to the consumer" not accounted for in CSIRO's damages model.

(iii) Damages Model Proposed by Cisco (Rejected)

Cisco argued that the royalty should be based on WiFi chip prices capped at the royalty rate that CSIRO gave Radiata under the TLA agreement between them, where the inventive concept resides in the chip.

As may be seen in the ruling, Cisco's licensing model was rejected because it relied primarily on the TLA

agreement, which was a unique agreement given the relationship between CSIRO and its business partner that was not comparable to the hypothetical negotiation for CSIRO-Cisco license.

Conclusion from the Ruling

While delivering the judgment, the judge assumed a hypothetical negotiation in 2002/2003 with no “discount” for uncertainty as to liability given the assumption that the patents were valid and infringed. Judge Davis found a base starting royalty rate based on the Voluntary Licensing Program licensing rate and a 90-cents per end-product licensing offer Cisco made during negotiations, the latter being “the best evidence available of how Cisco valued the contribution of the '069 Patent ... and is the best indicator of Cisco’s possible bid price at the time of the hypothetical negotiation.” Judge Davis then considered various Georgia-Pacific factors for adjusting this starting royalty rate, as may be seen in full copy of court order: [CSIRO-v.-Cisco](#)

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