



THE SEDONA CONFERENCE JOURNAL®

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- The Sedona Conference Commentary on Cross-Border Discovery in U.S. Patent and Trade Secret Cases (“Stage Two”)**The Sedona Conference
- The Sedona Conference Framework for Analysis of Standard-Essential Patent (SEP) and Fair, Reasonable, and Non-Discriminatory (FRAND) Licensing and Royalty Issues (“U.S. Edition”)**The Sedona Conference
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**ANTITRUST LAW, COMPLEX LITIGATION, INTELLECTUAL PROPERTY RIGHTS,
AND DATA SECURITY AND PRIVACY LAW**

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Welcome to Volume 24, Number 2, of The Sedona Conference Journal (ISSN 1530-4981), published by The Sedona Conference, a nonpartisan and nonprofit 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, intellectual property rights, and data security and privacy law. The mission of The Sedona Conference is to move the law forward in a reasoned and just way through the creation and publication of nonpartisan consensus commentaries and advanced legal education for the bench and bar.

The various Working Groups in The Sedona Conference Working Group Series (WGS) pursue in-depth study of tipping-point issues, with the goal of producing high-quality, nonpartisan consensus commentaries that provide guidance of immediate and practical benefit to the bench and bar. The Sedona Conference conducts a “regular season” of limited-attendance conferences that are mini-sabbaticals for the nation’s leading jurists, lawyers, academics, and experts to examine cutting-edge issues of law and policy. The Sedona Conference also conducts continuing legal education programs under The Sedona Conference Institute (TSCI) banner, various International Programmes on global legal issues, and webinars on a variety of topics.

Volume 24, Number 2, of the Journal contains one nonpartisan consensus commentary from The Sedona Conference Working Group on Patent Damages and Remedies (WG9), one nonpartisan consensus commentary from the Working Group on Patent Litigation Best Practices (WG10), and one joint project of Working Groups 10 (Patent Litigation Best Practices) and 12 (Trade Secrets), as well as a timely article by U.S. District Judge Xavier Rodriguez on Artificial Intelligence and the Practice of Law. I hope you find the commentaries and article to be thought-provoking, and that they stimulate further dialogue and ultimately serve to move the law forward.

For more information about The Sedona Conference and its activities, please visit our website at www.thesedonaconference.org.

Craig Weinlein
Executive Director
The Sedona Conference
November 2023

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THE SEDONA CONFERENCE COMMENTARY
ON CROSS-BORDER DISCOVERY IN U.S. PATENT
AND TRADE SECRET CASES (“STAGE TWO”)

*A Joint Project of The Sedona Conference Working Groups on Patent
Litigation Best Practices (WG10) and Trade Secrets (WG12)*

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PREFACE

Welcome to the July 2023 Final, Post-Public Comment Version of The Sedona Conference *Commentary on Cross-Border Discovery in U.S. Patent and Trade Secret Cases (“Stage Two”)*, a joint project of The Sedona Conference Working Groups on Patent Litigation Best Practices (WG10) and Trade Secrets (WG12). This is one of a series of Working Group commentaries published by The Sedona Conference, a 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, and intellectual property rights. The mission of The Sedona Conference is to move the law forward in a reasoned and just way.

The Joint WG10 and WG12 *Commentary on Cross-Border Discovery in U.S. Patent and Trade Secret Cases* drafting team was launched in 2019. “Stage One” of the draft *Commentary* was brought to publication for public comment in May 2021. This “Stage Two” of the draft *Commentary* was a focus of dialogue at the WG9&10 Joint Annual Meeting in Portland, Oregon, in May 2023; WG12 Annual Meeting in Reston, Virginia, in September 2022; the WG9&10 Joint Annual Meeting in Boston, Massachusetts, in June 2022; the WG12 Annual Meeting in Phoenix, Arizona, in December 2021; and the WG9&10 Joint Annual Meeting, Online, in November 2021.

WG10 will continue work on a subsequent “Stage Three” of this *Commentary*, focusing on, among other topics, privilege issues relating to cross-border discovery and foreign enforcement of discovery orders.

This “Stage Two” of the *Commentary* represents the collective efforts of many individual contributors. On behalf of The Sedona Conference, I thank in particular the Editors-in-Chief Monte Cooper and G. Brian Busey, who have led this drafting process and have reviewed the comments received through the Working Group Series review and comment process. I further

thank Brian Ferguson, Matthew Powers, and Teresa Rea, who serve as WG9&10 Chair, Chair Emeritus, and Vice-Chair Emeritus and Victoria Cundiff and David Almeling, who serve as WG12 Chair and Vice-Chair, for their oversight. I also thank everyone else involved for their time and attention during the drafting and editing process, including Francesca Fosson, Byron Holz, Samantha Jameson, Ryan Koppelman, Tom McMasters, Jane Mutimear, Jeff A. Pade, and Mark F. Schultz.

The Working Groups have the benefit of candid comments by the Honorable Hildy Bowbeer (ret.) and the Honorable Nina Wang, who are serving as Judicial Advisors for this *Commentary on Cross-Border Discovery in U.S. Patent and Trade Secret Cases*. The statements in this *Commentary* are solely those of the nonjudicial members of the Working Groups; they do not represent any judicial endorsement of the recommended practices.

Craig W. Weinlein
Executive Director
The Sedona Conference
July 2023

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FOREWORD

The growing proliferation of patent and trade secret disputes rising to the level of global litigation produces significant complexities for courts and counsel in the management of cross-border discovery. This “Stage Two” *Commentary on Cross-Border Discovery in U.S. Patent and Trade Secret Cases* offers best practices that address one particularly vexing aspect of cross-border discovery—namely, the management of applications to United States district courts made pursuant to 28 U.S.C. § 1782 by actual or potential litigants seeking evidence encompassing confidential or trade secret information to be used in a proceeding before a foreign or international tribunal.

The complexities of Section 1782 are not unique to patent and trade secret litigation. However, disputes involving intellectual property almost inevitably implicate confidential or trade secret information. While U.S. courts are well-equipped to address such issues in domestic litigation through mechanisms such as confidentiality orders, applications pursuant to Section 1782 raise significant and independent complexities because protections for confidential or trade secret information in a foreign tribunal may not align with protections typically implemented within U.S. courts. This “Stage Two” *Commentary* attempts to present mechanisms for parties raising or responding to a Section 1782 application to address these important distinctions and bring them to the attention of the U.S. district court receiving the application.

The editors would like to express their appreciation to the members of the drafting team, and to the Honorable Hildy Bowbeer (ret.) and the Honorable Nina Wang, who have served as judicial advisors for this effort. The editors also wish to note that the drafting team expects to continue work on a subsequent Stage Three of the *Commentary*, focusing on, among other topics,

privilege issues relating to cross-border discovery and foreign enforcement of discovery orders.

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**CROSS-BORDER DISCOVERY IN PATENT AND TRADE SECRET
CASES BEST PRACTICES AT A GLANCE**

BEST PRACTICE NO. 1 – A party seeking production of any confidential or trade secret information by means of 28 U.S.C. § 1782 should be prepared to explain both the nature and status of the underlying dispute and the need for production of the information via U.S. court procedures rather than through the procedures available where the dispute is or is likely to be venued. 564

BEST PRACTICE NO. 2 – A party seeking production of confidential or trade secret information pursuant to 28 U.S.C. § 1782 should be prepared to explain the importance of the requested information to its positions in the underlying proceeding. 570

BEST PRACTICE NO. 3 – The party seeking to enforce a subpoena pursuant to 28 U.S.C. § 1782 should be prepared to provide the district court with assurances that both it and the foreign tribunal will impose adequate protections for treatment of the responding party’s confidential or trade secret information. 576

BEST PRACTICE NO. 4 – Both the party seeking to subpoena confidential or trade secret information pursuant to 28 U.S.C. § 1782 and the responding party should be prepared to offer evidence relating to the sensitivity of the requested information. 579

- BEST PRACTICE NO. 5 – A respondent to a 28 U.S. § 1782 subpoena should first determine whether confidential or trade secret information is requested and should then pursue appropriate measures such as moving for or negotiating a protective order to ensure to the extent possible that any such information produced will be adequately protected in any foreign proceeding, or explaining to the court why no such measures would be sufficient. 582
- BEST PRACTICE NO. 6 – A party subject to a request under 28 U.S.C. § 1782 should immediately identify to the court supervising the application any concerns it has with the breadth of the requested discovery, particularly when it encompasses confidential or trade secret information. 587
- BEST PRACTICE NO. 7 – A party subject to a subpoena pursuant to 28 U.S.C. § 1782 should promptly identify to the court and provide authoritative support for any contention that the requests for confidential or trade secret information implicate any legally applicable privilege and seek appropriate judicially enforceable protection for such information. 588

BEST PRACTICE NO. 8 – The parties should seek to negotiate a protective order that could also be ordered by the receiving foreign court if necessary to enable the discovery to be used in that jurisdiction. The protective order should contain provisions ensuring that any improper or inadvertent disclosure of any confidential or trade secret information will be subject to legal and equitable remedies adequate to prevent the producing party from being placed in a materially worse position as a result of such disclosure. 590

BEST PRACTICE NO. 9 – Where a Section 1782 request would require producing confidential or trade secret information located outside the U.S., the parties to the 1782 action should promptly bring this to the court’s attention and be prepared to address whether such production is appropriate, both in the context of the usual discretionary factors considered in a 1782 analysis and any other specific issues implicated by the request—such as the appropriateness of seeking extraterritorial information from an affiliate of the 1782 target. 594

BEST PRACTICE NO. 10 – The court considering a request under 28 U.S.C. § 1782 should be notified if either side has reason to believe the requested discovery is subject to export control restrictions, i.e., information that can only be exported, if at all, with restrictions or pursuant to an export license granted by one or more federal regulatory authorities. 601

I. INTRODUCTION

The following best practices represent “Stage Two” of a three-stage publication process for addressing cross-border discovery in patent and trade secret litigation. As The Sedona Conference previously observed, “[c]ross-border discovery represents a ‘Catch-22’ situation in which the need to gather relevant information from foreign jurisdictions often squarely conflicts with blocking statutes and data privacy regulations that prohibit or restrict such discovery—often upon threat of severe civil and criminal sanctions.”¹

To offer guidance to how judicial officers, in-house counsel, government attorneys, and practitioners might navigate the complexities of cross-border discovery in the unique context of patent and trade secret litigation, a joint effort of The Sedona Conference’s Working Groups 10 and 12 published in May 2021 “Stage One” of *The Sedona Conference Best Practices in Cross-Border Discovery in Patent and Trade Secret Cases*. That “Stage One” publication generally covered how parties involved with U.S.-based patent and trade secret cases should approach case management when one or both parties believed discovery from foreign sources would be required. In particular, the Stage One publication proposed best practices for litigants to consider when raising the necessity of foreign discovery with judicial bodies handling intellectual property disputes, as well as additional best practices directed to how comity factors should be weighed when foreign discovery implicates blocking statutes and privacy regulations. The proposed best practices further considered what mechanisms might be used by U.S. judicial

1. Introduction, The Sedona Conference, Framework for Analysis of Cross-Border Discovery Conflicts: A Practical Guide to Navigating the Competing Currents of International Data Privacy and e-Discovery (August 2008) (footnotes omitted), https://thesedonaconference.org/publication/Framework_for_Analysis_of_Cross-Border_Discovery_Conflicts.

bodies to assure that relevant foreign discovery will be produced by reticent parties (and how).

This “Stage Two” *Commentary* offers best practices that address another, particularly vexing aspect of cross-border discovery—namely, the management of applications to U.S. district courts made pursuant to 28 U.S.C. § 1782 by actual or potential litigants seeking evidence encompassing confidential or trade secret information to be used in a proceeding before a foreign or international tribunal. The complexities of Section 1782 are not unique to patent and trade secret litigation. However, one significant issue associated with Section 1782 in intellectual property (IP) disputes is the question of how best to ensure that whatever confidential information, particularly potential trade secrets, produced from or generated in the foreign jurisdiction will be kept confidential by the recipients of that information. While U.S. courts are well-equipped to address such issues in domestic litigation through mechanisms such as confidentiality orders, applications pursuant to Section 1782 raise significant and independent complexities, as protections for confidential or trade secret information in a foreign tribunal may not align with protections typically implemented within U.S. courts. A foreign jurisdiction supervising the underlying IP dispute might not treat the information generated by the Section 1782 application as confidential or as a trade secret, even if a U.S. court would do so. In that regard, the European Union (EU) has candidly observed that “[t]he main factor that hinders enforcement of trade secrets in [EU and U.K.] Court[s] derives from the lack of adequate measures to avoid trade secrets leakage in legal proceedings.”² And questions may exist even in U.S. courts about whether the information being sought should be treated as

2. The European Commission, Study on Trade Secrets and Confidential Business Information in the Internal Market: Final Study, 6 (April 2013).

confidential or a trade secret under U.S. law, let alone the law of the nation where the information is expected to be used.

The application of Section 1782 to intellectual property litigation gives rise to additional complex policy and comity considerations. For instance, in cases in which the information sought through the Section 1782 application is expected to be produced from outside the U.S., the foreign jurisdiction where the information is located may place greater emphasis upon the protection of privacy rights or may have blocking statutes that arguably preclude the production of the discovery altogether.

In this “Stage Two” *Commentary*, The Sedona Conference squarely addresses these important and complex problems. As one example of the kind of guidance the *Commentary* addresses, The Sedona Conference recognizes that the U.S. Supreme Court in *Intel Corp. v. Advanced Micro Devices* clarified that the scope of discovery under Section 1782 is broad and may be compelled from a third party even prior to the initiation of foreign litigation, so long as those proceedings are “within reasonable contemplation.”³ The information also may be produced pursuant to an ex parte request. The Sedona Conference thus offers for parties who receive such a Section 1782 request best practices to protect the confidentiality or trade secret status of their responsive information in the face of these broad standards. Similarly, the *Commentary* offers best practices for parties to consider when presenting arguments to a U.S. district court about potential consequences that may follow if the court compels production of the requested information to a foreign party. Further, the *Commentary* provides guidance for parties to consider in seeking and drafting a protective order that will allow U.S. courts to monitor and perhaps help facilitate the protection in the foreign

3. *Intel Corp. v. Advanced Micro Devices, Inc.*, 542 U.S. 241 (2004).

venue of confidential or trade secret information produced pursuant to the Section 1782 application.

The Sedona Conference anticipates addressing additional issues relating to cross-border discovery in patent and trade secret cases in a forthcoming “Stage Three” *Commentary*. These future topics will include how parties subject to U.S. court orders requiring production of foreign discovery in patent and trade secret cases — for example, in the context of Hague Convention requests and letters rogatory — should navigate the many foreign governmental regulations that may restrict access to such information. The Sedona Conference also anticipates addressing complex attorney-client privilege issues in patent and trade secret cases outside the U.S.

Finally, throughout these best practices, the Sedona Conference has considered the wide range of confidential or trade secret information that may be requested pursuant to Section 1782 for use in intellectual property cases abroad.⁴ At one end of the spectrum is sensitive and confidential information that would qualify as a trade secret under the Defend Trade Secrets Act or the Uniform Trade Secret Laws. However, applications under Section 1782 may also seek production of other types of confidential and sensitive information that may not qualify as trade secrets. Examples of this confidential information might include disclosure of sensitive health information of CEOs or other C-Suite executives or royalty rates under confidential patent license agreements. To encompass this broad universe of sensitive information throughout this *Commentary*, the best practices

4. This *Commentary* uses the term “information” to convey that information subject to a Section 1782 application can include not only documents but testimony and other forms of information, any of which could be confidential.

use the phrase “confidential or trade secret information” for consistency.⁵

5. There also may be fact-specific contexts where intellectual property is neither confidential information nor a trade secret but nonetheless should be treated as “sensitive.” Such fact-specific contexts likely would be addressed by courts considering a Section 1782 application via the familiar mechanisms used under the Federal Rules of Civil Procedure for balancing the need for the discovery against the burdens of producing it.

II. THE USE OF DISCOVERY FROM U.S. LITIGATION IN A FOREIGN PROCEEDING UNDER 28 U.S.C. § 1782

A. *Applying for a 28 U.S.C. § 1782 Subpoena*

Best Practice No. 1 – A party seeking production of any confidential or trade secret information by means of 28 U.S.C. § 1782 should be prepared to explain both the nature and status of the underlying dispute and the need for production of the information via U.S. court procedures rather than through the procedures available where the dispute is or is likely to be venued.

28 U.S.C. § 1782 (Section 1782) is a potentially powerful tool for litigants engaged in, or about to engage in, litigation in foreign judicial forums. The statute allows parties, foreign tribunals, or interested persons to gather evidence for use in a foreign tribunal. Section 1782 provides in pertinent part:

The district court of the district in which a person resides or is found may order him to give his testimony or statement or to produce a document or other thing for use in a proceeding in a foreign or international tribunal, including criminal investigations conducted before formal accusation. The order may be made pursuant to a letter rogatory issued, or a request made, by a foreign or international tribunal or upon the application of any interested person and may direct that the testimony or statement be given, or the document or other thing be produced, before a person appointed by the court To the extent that the order does not prescribe otherwise, the testimony or statement shall be taken, and the document or other thing produced, in accordance with the Federal Rules of Civil Procedure.

The statutory language (“may”) makes clear that Section 1782 “authorizes but does not require” that district courts provide assistance to applicants under Section 1782.⁶ It is important to understand in considering Best Practice No. 1 that the federal courts at one time were divided over whether a Section 1782 application was permissible where foreign courts prohibited such discovery.⁷ To resolve this circuit split, the U.S. Supreme Court in *Intel* held that Section 1782 was not subject to a foreign-discoverability rule.⁸ In that case, Intel objected to discovery pursued by rival Advanced Micro Devices for use in an EU antitrust proceeding and argued that a foreign discovery rule was necessary to avoid offense to foreign governments and to maintain parity between litigants.⁹ The Supreme Court rejected these arguments, noting that “[a] foreign nation may limit discovery within its domain for reasons peculiar to its own legal practices, culture or traditions—reasons that do not necessarily signal objections to aid from the United States federal courts.”¹⁰ Indeed, the Court noted that “[m]ost civil law systems lack procedures analogous to the pretrial discovery regime operative under the Federal Rules of Civil Procedure.”¹¹

As the Supreme Court noted, “Section 1782 is the product of congressional efforts, over the span of nearly 150 years, to provide federal-court assistance in gathering evidence for use in foreign tribunals.” The Supreme Court also noted that the twin aims of Section 1782 were “providing efficient assistance to participants in international litigation and encouraging foreign

6. *See Intel*, 542 U.S. at 264.

7. *Id.* at 253 n.7.

8. *Id.* at 261–63.

9. *Id.* at 261.

10. *Id.*

11. *Id.* at 262, n.12.

countries by example to provide similar assistance to our courts.”¹²

However, the Supreme Court in *Intel* directed the district courts to exercise their discretion and consider a number of balancing factors when considering Section 1782 applications:

The *Intel* factors consider: (a) whether aid is sought to obtain discovery from a participant in the foreign proceeding (“First Factor”); (b) “the nature of the foreign tribunal, the character of the proceedings underway abroad, and the receptivity of the foreign government or the court or agency abroad to U.S. Federal court assistance” (“Second Factor”), (c), whether the applicant is attempting to use § 1782 to circumvent foreign proof-gathering restrictions or other policies of a foreign country or the United States (“Third Factor”); and (d) whether discovery requests are unduly intrusive or burdensome” (“Fourth Factor”).¹³

One of the key *Intel* factors (Factor 3) is whether the use of Section 1782 violates foreign proof-gathering restrictions. The Supreme Court recently held that Section 1782 does not extend to private arbitral tribunals, noting that the “animating purpose of § 1782 is comity: Permitting Federal courts to assist foreign and international governmental bodies promotes respect for foreign governments and encourages reciprocal assistance.”¹⁴ Thus, the federal courts must consider whether respect for international comity warrants denying or restricting a Section 1782 request.

12. *Id.* at 252.

13. *Sergeeva v. Tripleton Int’l Ltd.*, 834 F.3d 1194, 1199 (11th Cir. 2016) (citing *Intel*, 542 U.S., at 264–65).

14. *ZF Automotive U.S. Inv. v Luxshare Ltd.*, 142 S. Ct. 2078, 2088 (2022).

In the wake of *Intel*, certain circuit courts have instructed lower courts to undertake a circumvention analysis before granting a Section 1782 application.¹⁵ The courts have taken different approaches to analyzing the circumvention factor.

In *Sergeeva v. Tripleton*, the Eleventh Circuit considered *Intel* Factor 3 where a spouse suing for divorce from her Russian husband sought documents located outside the U.S. from his U.S.-based company.¹⁶ In considering *Intel* Factor Three, the Eleventh Circuit rejected the husband's argument that Section 1782 did not authorize extraterritorial production of documents.¹⁷ The court held that Section 1782 authorizes production pursuant to the Federal Rules of Civil Procedure, which may include documents located abroad if they are within the possession, custody, and control of the responding party.¹⁸

In *Fuhr v. Credit Suisse AG*, a district court granted an application under Section 1782 for a subpoena directed at Credit Suisse for bank records located in Switzerland.¹⁹ The district court rejected the bank's argument that enforcing the subpoena would circumvent Swiss banking privacy law.²⁰ On appeal, although the Eleventh Circuit vacated and remanded on the ground that the district court relied on erroneous facts relating to ownership of the bank account,²¹ the appellate panel did not criticize the lower court's circumvention analysis.

In another case, a district court denied a Section 1782 request for shareholder records relating to a Polish company where

15. See *In re Clerici*, 481 F.3d 1324, 1334 (11th Cir. 2007).

16. *Sergeeva*, 834 F.3d at 1197.

17. *Id.* at 1200.

18. *Id.*

19. *Fuhr v. Credit Suisse AG*, 687 F. App'x. 810, 812 (11th Cir. May 2, 2017).

20. *Id.*

21. *Id.* at 819.

there was no evidence that the targets of the application were found in the district.²² The court also considered *Intel* Factor Three and concluded there was no reason to believe the records could not be obtained through the Polish courts.²³

In *Glock v. Glock*, the wife of the owner of the Glock handgun business sought company records located in the U.S. for use initially in an Australian divorce proceeding.²⁴ The wife also sought to use the documents in a subsequent, separate civil RICO action in the U.S.²⁵ The Glock entities objected that use in a U.S. proceeding of records obtained pursuant to a Section 1782 request would violate *Intel* Factor Three as a circumvention of normal discovery procedures.²⁶ The court rejected this argument, noting that nothing in Section 1782 restricted subsequent use of evidence in U.S. litigation.²⁷

In satisfying *Intel* Factor Three, it is important that the requesting party carefully explain the nature and status of the foreign proceeding. In addition, the requester should address whether there are discovery restrictions under the law of the jurisdiction where the proceeding is (or will be) venued that would make granting the request in full or in part a circumvention of that law. Any party objecting to the request should also

22. *In re Applications Pursuant to 28 U.S.C. § 1782 for Discovery from Shawomir Kaczor and Tomasz Rogucki*, No. 1:14-mc-44, 2014 WL 4181618, (S.D. Ohio Aug. 21, 2014).

23. *Id.*; see also *Norex Petroleum Ltd. v. Chubb Ins. Co. of Canada*, 384 F. Supp. 2d 45, 54 (D.D.C. 2005) (“The Court is wary of granting discovery under § 1782 when it appears that the party seeking discovery may be using the United States statutes and federal court system to ‘jump the gun’ on discovery in the underlying foreign suit.”).

24. *Glock v. Glock, Inc.*, 797 F.3d 1002, 1004–05 (11th Cir. 2015).

25. *Id.*

26. *Id.* at 1009.

27. *Id.* at 1010.

identify any restrictions under foreign law that might implicate international comity concerns. Pursuant to the Supreme Court's direction in *Intel*, however, the question of foreign discoverability does not preclude grant of a Section 1782 application, but rather the issue of circumvention should be carefully considered among the discretionary balancing factors. This information will allow federal courts to appropriately weigh whether the request should be denied or narrowed to address foreign circumvention and comity concerns.

The use of Section 1782 is growing, including in litigation involving patent and trade secret disputes.²⁸ A recent example is the Section 1782 application by Ericsson for documents and testimony from Broadcom for use in a patent infringement case against Apple in the United Kingdom.²⁹ Ericsson sought evidence of third-party chipsets manufactured by Broadcom that

28. See Edward F. Maluf, et al., *The Expanding use of 28 U.S.C. § 1782*, SEYFARTH (June 7, 2021), <https://www.seyfarth.com/news-insights/the-expanding-use-of-28-usc-1782.html#:~:text=Federal%20law%20provides%20a%20powerful,use%20in%20a%20foreign%20proceeding> (reporting that from 2012 to 2016, Section 1782 applications ranged from 24-45 per year, increased to approximately 60 per year in 2017, 80 in 2018, and approximately 120 in 2020).

29. *In re Ex Parte Application Ericsson Civ. Case #: 5:22-MC-80322-SVK* N.D. Cal. (filed Nov. 25, 2022). Following an apparent settlement of the underlying litigation, on December 9, 2022, Ericsson withdrew its Section 1782 application. Courts have granted Section 1782 applications for information relating to foreign patent infringement proceedings. See e.g. *In re Ex Parte Application of BMW*, No. 19-mc-80272-VKD, 2019 WL 5963234 (N.D. Cal. Nov. 13, 2019) (granting subpoena to Broadcom for information regarding semiconductors relating to German patent infringement proceedings); *In re Application of Google*, No. 14-mc-80333-DMR, 2014 WL 7146994 (N.D. Cal. Dec. 15, 2014) (granting application of Google for information from manufacturer of Google handsets relating to German patent infringement proceedings); *In re Ex Parte App of Nokia Corp.*, No. 8:13 MC11, slip op (C.D. Cal. May 21, 2013) (granting application allowing discovery from Broadcom for use in patent infringement case in U.K.).

were allegedly used in Apple's accused products. Addressing *Intel* Factor Three, Ericsson argued that its application did not circumvent U.K. law because Broadcom was outside the jurisdiction of the U.K. courts and the evidence would assist in showing infringement.

Section 1782 authorizes *ex parte* applications to obtain discovery for use in foreign tribunals. However, because *ex parte* requests are disfavored, orders granting such applications typically only provide that the discovery may be commenced "and thus the opposing party may still file a motion to quash or raise objections."³⁰ Thus, in many cases a 1782 application may involve a two-step process by which the court (1) grants the application and then (2) hears objections or a motion to quash. In other cases where the need for the discovery is more urgent and the target of the discovery has received notice, the court may conduct a consolidated hearing on the application and any objections.

Best Practice No. 2 – A party seeking production of confidential or trade secret information pursuant to 28 U.S.C. § 1782 should be prepared to explain the importance of the requested information to its positions in the underlying proceeding.

As already noted, a party requesting information under Section 1782 should be prepared to explain to the court the nature and status of the underlying dispute. Against that backdrop, the party should be prepared to explain the issues in the dispute and to persuade the court of the importance of the requested

30. *In re Ex Parte Application Varian Med. Sys. Int'l*, No. 16-mc-80048-MEJ, 2016 WL 1161568 (N.D. Cal. Mar. 24, 2016) (granting *ex parte* application under 1782 for design specifications for software for German patent infringement proceeding).

discovery to the party's ability to establish its positions. The fourth *Intel* factor considers whether the request is "unduly intrusive or burdensome," and such requests "may be rejected or trimmed."³¹ Moreover, the importance of the information is a key consideration for U.S. courts in evaluating the proportionality of the discovery under the Federal Rules of Civil Procedure, which are incorporated by reference into Section 1782.³² Courts often deny requests under Section 1782, in part or whole, if the requested discovery is deemed overbroad or not closely related to the pending or contemplated litigation. Accordingly, it is important for the requester to thoroughly explain the relevance of the discovery to the foreign proceeding. This type of explanation not only addresses whether it is "unduly intrusive or burdensome," but also the second statutory requirement that the discovery be "for use in a proceeding in a foreign . . . tribunal."³³

Notably, although the importance of the information to the foreign proceeding is a relevant consideration, the information need not be strictly necessary to that proceeding. In *Mees v. Buiter*,³⁴ the Second Circuit reversed a denial of Section 1782 discovery based on a lack of need in the underlying litigation, stating "[a]n applicant may satisfy the statute's 'for use' requirement even if the discovery she seeks is not necessary for her to

31. *Id.* at *5.

32. *See* FED. R. CIV. P. 26(b)(2).

33. 28 U.S.C. § 1782(a). While the status of the foreign proceeding may be a relevant consideration, it should be noted that the Section 1782 requirement that the discovery be "for use" in the foreign proceeding does not require that a proceeding be currently pending. It may be sufficient that foreign proceedings be "imminent" and not "merely speculative." *Union Fenosa Gas, S.A. v. Depository Tr. Co.*, 20 Misc. 188 (PAE), 2020 WL 2793055 (S.D.N.Y. May. 29, 2020), citing *Certain Funds, Accounts And/Or Investment Vehicles v. KPMG, L.L.P.*, 798 F.3d 113 (2d Cir. 2015).

34. 793 F.3d 291, 295 (2d Cir. 2015).

succeed in the foreign proceeding.” Nevertheless, a court is likely to be more sympathetic to granting the requested discovery if the requester makes a persuasive showing of the “need” for the discovery and the potential consequences of not receiving it, particularly where other discretionary factors may appear to weigh in favor of denying or limiting the discovery. On the other hand, if the requester makes strong statements of necessity and then does not receive the requested discovery, those statements could be used against it in the foreign proceeding to show a failure of needed proof. Thus, it is important for the requester to analyze at the outset whether the discovery is truly necessary for a viable claim in the underlying dispute or whether it would simply improve the chances of success, and then to draft its request under Section 1782 accordingly.

The requester’s ability to persuade the court of the importance of the requested information to the underlying proceeding is even more important if the information is likely to be confidential or trade secret in nature. The production of confidential or trade secret information affects the burden on the producing party and correspondingly affects the balance between the importance of the requested discovery and the burden imposed by that discovery.³⁵ Thus, the court’s understanding of the importance of the information from the requester’s perspective will play a key role in the analysis required both by the discretionary *Intel* factors and by the Federal Rules of Civil Procedure.

Relatedly, many opinions discussing Section 1782 reflect that the statute should not be used as a means to engage in a

35. Best Practice No. 4 discusses further the need for the parties to a Section 1782 proceeding to educate the court about the sensitivity of the requested information.

fishing expedition for discovery.³⁶ This is one reason, but by no means the only one, that many courts entertaining a Section 1782 request hold that “the applicant must have more than a subjective intent to undertake some legal action.”³⁷ This concern, too, is heightened where the information sought encompasses confidential information related to intellectual property, the disclosure of which could severely harm the respondent. A party seeking a subpoena that encompasses confidential intellectual property and related information pursuant to Section 1782 should therefore be prepared to offer evidence and assurances that the discovery genuinely relates to an actual or

36. See, e.g., *In re O2CNI Co.*, No. C 13-80125 CRB (LB), 2013 WL 5826730 (N.D. Cal. Oct. 29, 2013).

37. *Certain Funds*, 798 F.3d at 123; see also *In re Lucille Holdings Pte. Ltd.*, Misc. Act. No. 1:21-mc-99 (GMH) (2022 WL 1421816 May 5, 2022 D.D.C.), at *10 (noting that “[r]equiring a section 1782 applicant to show that a foreign proceeding is its reasonable contemplation at the time it first seeks the assistance of a federal court to issue a subpoena helps to forestall the sort of fishing expeditions unsanctioned by the Federal Rules of Civil Procedure”; it “also helps prevent an applicant from using a pending section 1782 application as leverage to extract information from a target when the applicant is still investigating whether it might have a viable cause of action in a foreign jurisdiction”); *In re Caterpillar Inc.*, No. 3:19-mc-31, 2020 WL 1923772, at *9 (M.D. Tenn. Apr. 21, 2020) (“In addition to providing some indication that an action is ‘being contemplated’ and will commence ‘within a reasonable time,’ the action must have been within reasonable contemplation at the time the section 1782 application was filed with the district court” (quoting *Certain Funds*, 798 F.3d at 124)); *In re Wei*, No. 18-mc-117, 2018 WL 5268125, at *2 n.1 (D. Del. Oct. 23, 2018) (stating that, because “the relevant question under § 1782 is whether ‘at the time the evidence is sought . . . the evidence is eventually to be used’ in a foreign proceeding,” the court “must assess whether the proceedings were in ‘reasonable contemplation’ at the time the application was filed” (quoting *Intel Corp. v. Advanced Micro Devices, Inc.*, 542 U.S. 241, 259 (2004))); *In re Pioneer Corp. v. Technicolor, Inc.*, No. 18-cv-4524, 2018 WL 4961911, at *7 (C.D. Cal. Sept. 12, 2018) (“[A] claim must be within reasonable contemplation at the time the application is filed for the discovery to be ‘for use’ in a proceeding.”).

potential foreign dispute to which the information would assist the trier of fact. Put another way, where a Section 1782 request might result in the production of highly confidential or sensitive intellectual property, the applicant should be prepared to establish that there is some reasonable certainty that foreign proceedings are probable, and not merely speculative. The respondent to a Section 1782 request should not be compelled to produce confidential or trade secret information absent confidence that foreign proceedings implicating that information will actually occur.³⁸

The production of confidential source code is an interesting special case because it is widely recognized as one of the more sensitive and valuable types of trade secrets a company can possess. There is variability in how it is handled in the context of Section 1782, but the issue of burden and intrusiveness is often at the center of the inquiry;³⁹ and this underscores why the party

38. Cf. *Gorsoan Ltd. v. Sundlun*, 843 F. App'x 352, 353–55 (2d Cir. 2021) (upholding the denial of a § 1782 request, finding that “a possibility [of a foreign proceeding] is not enough” because a Section 1782 applicant must provide the court with a “concrete basis from which it can determine that the contemplated proceeding is more than just a twinkle in counsel’s eye”); see also *Intel*, 542 U.S. at 264–66.

39. See *In re Belparts Grp., N.V.*, No. 3:21-mc-0062 (VAB), 2021 WL 4942134 (D. Conn. Oct. 22, 2021) (vacating 1782 discovery of confidential documents, including source code); *Financialright GmbH v. Robert Bosch LLC*, 294 F. Supp. 3d 721 (E.D. Mich. 2018) (denying 1782 motion for source code as unduly intrusive and burdensome); *In re Qualcomm Inc.*, No. 18-MC-80104-VKD, 2018 WL 3845882 (N.D. Cal. Aug. 13, 2018) (granting 1782 motion for source code as not unduly intrusive or burdensome); *Knaggs v. Yahoo! Inc.*, No. 15-MC-80281-MEJ, 2016 WL 3916350, N.D. Cal. (Jul. 20, 2016) (narrowing 1782 discovery request involving source code without clarifying whether source code was removed from the narrowed order); *In re Wobben Props. GMBH*, 2014 U.S. Dist. LEXIS 198052 (denying 1782 discovery for source code but stating court could reconsider “if subsequent discovery indicates the appropriate level of control by [petitioner] over documents within

requesting the discovery should be prepared to persuasively explain the importance of using the requested information in the underlying dispute.

Courts have both allowed and refused source code discovery using Section 1782, under the varying circumstances of individual cases. For example, in *Via Vadis v. Skype*,⁴⁰ the District of Delaware denied a request under Section 1782 seeking the production of confidential source code based, in part, on a finding that source code is too sensitive by its nature. In addition, the court found that an existing protective order between the same parties in an ongoing U.S. case had already established that the source code in question could not be used in the foreign courts. On these combined bases, the court found the source code's production would be both "intrusive" and "burdensome," explaining that the "general request for the source code and related documents places a heavy burden on Respondents. Source codes are the most sensitive and confidential property of Respondents. When disclosed in U.S. litigation, extreme measures are ordered to protect their confidentiality." Other cases, on the other hand, have permitted source code discovery. For example, in *In re California State Teachers' Retirement System*,⁴¹ the District of New Jersey granted a request under Section 1782 seeking the production of confidential source code, denied a motion to quash, and reasoned that the requested source code may be relevant and proportional to the needs of the foreign case.

[respondent's foreign] possession. . ."); *In re Nokia Corp.*, No. 5:13-MC-80217-EJD-PSG, 2013 WL 6073457 (denying 1782 motion for source code as "not narrowly tailored and appear[ing] highly intrusive as well as unduly burdensome").

40. *Via Vadis Controlling GmbH v. Skype, Inc.*, No. Civ.A. 12-MC-193-RGA, 2013 WL 646236, at *3 (D. Del. Feb. 21, 2013).

41. Civil Action No. 16-4251 (SRC), 2017 WL 1246349 (D.N.J. Apr. 3, 2017).

Ultimately, when a requester can persuasively explain the importance of using the requested information in the underlying dispute, this information will allow federal courts to appropriately weigh whether the request should be denied or narrowed in view of all relevant factors.

Best Practice No. 3 – The party seeking to enforce a subpoena pursuant to 28 U.S.C. § 1782 should be prepared to provide the district court with assurances that both it and the foreign tribunal will impose adequate protections for treatment of the responding party’s confidential or trade secret information.

Because confidential or trade secret information is often at stake in Section 1782 discovery, the party seeking such discovery should anticipate and be prepared to address concerns about whether, if it is produced, it will be adequately protected. In most jurisdictions, tribunals conduct litigation in public, holding hearings and making filings open to the public. Some countries such as the United States provide limited exceptions to this rule to protect confidential information during litigation. However, this exceptional protection is not universally available in the tribunals of other countries. Even where such protections are available, they vary in terms of substance, amount of protection, and the familiarity and effectiveness of tribunals when applying them. Parties thus cannot assume that a foreign tribunal will provide the kind and degree of protections that a U.S. court would provide for confidential or trade secret information obtained in discovery.

An example of the challenges regarding security of confidential or trade secret information during litigation is demonstrated by the discussions leading up to the European Union Trade Secrets Directive and its aftermath. The Trade Secrets Directive was motivated by research that showed parties were

foregoing enforcement of trade secret claims due to fears that courts would not adequately protect those secrets from further loss during proceedings.⁴² Before the Trade Secrets Directive, several EU members lacked protection or even had legal requirements pertaining to open proceedings in which trade secrets could be undermined.

The Trade Secrets Directive requires EU member states to provide security for trade secrets during litigation,⁴³ but even still, there are differences from what U.S. courts would require. For example, EU courts may place fewer restrictions on who can review confidential or trade secret information disclosed in litigation. French and German courts consider their pretrial procedures to be sufficiently secure because they prevent public disclosure.

As a result, key personnel such as a litigant's competitive decision-makers might have greater access to documents and information revealed in foreign litigation than a U.S. court might allow. For instance, a U.S. court might enter a protective order denying a competitive decision-maker access to confidential information such as patent license royalty rates. By contrast, while a foreign court might prohibit those confidential licensing terms from being revealed publicly, it might permit those terms to be seen by high-level executives of the litigants themselves—

42. Baker McKenzie, Study on Trade Secrets and Confidential Business Information in the Internal Market, 3–10 (Apr. 2013).

43. Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, art. 9, 2016 O.J. (L 157/1) (EU), available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016L0943&from=>.

executives who might be involved in making competitive decisions about royalty rates for their own product lines⁴⁴

The situation in the EU illustrates how challenging this issue can be even where efforts have been undertaken to improve the situation, let alone in other countries that may afford little or no opportunity to protect secrecy. In many cases, concerns about protection of confidential or trade secret information in a foreign proceeding can be adequately addressed by a protective order entered by a U.S. court, and the willingness of the party seeking discovery to enter or obtain a protective order may aid in having its Section 1782 subpoena granted.⁴⁵ For this reason, the party seeking potentially confidential or trade secret information via Section 1782 should proactively assess—and be prepared to discuss with the court before whom the application is pending—whether a protective order entered by the U.S. court

44. Cf. *In re Pioneer Corp. for an Order Permitting Issuance of Subpoenas to Take Discovery in a Foreign Proceeding*, No. MC18-0037 UA (SS), 2019 WL 2146412, at *9 (C.D. Cal. May 9, 2018) (denying Section 1782 request that encompassed confidential patent license information that the Petitioner intended to use in a German appellate proceeding, in part because the court found the discovery would be “unduly invasive of highly confidential third party information,” given that the German court did not require any restrictions on access to the information that would apply to competitive decisionmakers”).

45. *Siemens AG v. W. Dig. Corp.*, No. 8:13-cv-01407-CAS-(AJWx), 2013 WL 5947973, at *6 (C.D. Cal. Nov. 4, 2013) (“At this juncture, Siemens’ willingness to seek a German protective order appears to address WD’s concerns about confidentiality in the German proceedings.”); *Cryolife, Inc. v. Tenaxis Med., Inc.*, No. C08-05124 HRL, 2009 WL 88348, at *5 (N.D. Cal. Jan. 13, 2009) (“At oral argument, Tenaxis agreed that its concerns would be sufficiently addressed if the parties enter an agreement—enforceable in this court, if not in Germany—that Cryolife will not use in the German action any discovery obtained under § 1782 unless it first obtains a ruling from the German court that the material will be kept confidential.”); *In re Gen. Elec.*, 2022 WL 16720425, at *9 (“While SGRE Inc. objects based on the confidential nature of this information, these concerns can be addressed by a protective order.”).

could assuage any confidentiality concerns, whether the other parties might agree to such an order, and whether there are available procedures in the foreign tribunal that would be adequate to protect the information.

Best Practice No. 4 – Both the party seeking to subpoena confidential or trade secret information pursuant to 28 U.S.C. § 1782 and the responding party should be prepared to offer evidence relating to the sensitivity of the requested information.

This Best Practice underscores that all the parties involved with a Section 1782 request that seeks sensitive information like trade secrets, source code, unpublished patent applications, and the like, should be prepared to offer specific evidence on how the sensitivity of the requested information impacts them. Confidentiality is most often addressed under the fourth discretionary *Intel* factor—whether the subpoena contains unduly intrusive or burdensome requests. Indeed, in recognizing that “unduly intrusive or burdensome requests may be rejected or trimmed,” the Supreme Court cited a remand decision that required consideration of “appropriate measures, if needed, to protect the confidentiality of materials.”⁴⁶ The Supreme Court also noted that the Federal Rules of Civil Procedure could effectively prevent discovery of “business secrets and other confidential information,” pointing to the tools available to the district court under Rules 26(b)(2) and 26(c).⁴⁷ Moreover, since

46. *Intel Corp. v. Advanced Micro Devices, Inc.*, 542 U.S. 241, 266 (2004) (“Nor has it been shown that § 1782(a)’s preservation of legally applicable privileges, and the controls on discovery available to the District Court, see, e.g., Fed. Rule Civ. Proc. 26(b)(2) and (c), would be ineffective to prevent discovery of Intel’s business secrets and other confidential information.” (internal citations omitted)).

47. *Id.*

Section 1782 incorporates the Federal Rules of Civil Procedure by reference, the admonition of Rule 26 that discovery must be “proportional to the needs of the case” requires consideration, *inter alia*, of “whether the burden or expense of the proposed discovery outweighs its likely benefits.”⁴⁸ Therefore, whether the analysis is under the rubric of the fourth *Intel* factor or under Rule 26, the burden associated with the production of requested confidential information is a relevant consideration in any Section 1782 application.⁴⁹

Accordingly, parties on both sides should be prepared to offer evidence related to the sensitivity of the requested discovery and the potential consequences of its production or disclosure. In that regard, it is important to address the confidentiality and sensitivity not only of requested information residing in the United States, but also of the full scope of international information that arguably may be in the possession, custody, and control of the responding entity. As more fully discussed in connection with Best Practice No. 9, discovery of information from outside the United States can be ordered under Section 1782,⁵⁰

48. FED. R. CIV. P. 26.

49. *In re Gen. Elec. Co. for an Order to Take Discovery Pursuant to 28 U.S.C. § 1782*, No. 1:22-cv-91125-IT, 2022 WL 16720425, at *7 (D. Mass. Nov. 4, 2022) (internal quotation marks omitted); *In re Bayerische Motoren Werke AG*, No. 22 MC 115 (VB), 2022 WL 2817215, at *5 (S.D.N.Y. July 19, 2022) (“Courts may also consider whether a subpoena seeks confidential information.”).

50. *In re Gen. Elec.*, 2022 WL 16720425, at *9 (finding that the subpoenaed entity had control over documents held by related entities in Denmark and Spain if it could “access such documents for a business-specific need (other than litigation),” and allowing discovery under Section 1782 of such documents subject to a protective order); *In re Belparts Grp.*, 2021 WL 4942134, at *7 (“[T]he Court reminds Belimo USA that Belparts is not prohibited from obtaining discovery of documents located outside the United States under § 1782, including those documents that are also possessed by foreign affiliates.”).

but that information may present additional confidentiality and sensitivity issues (e.g., applicable European data privacy laws) that should be assessed and addressed by the parties.⁵¹

In sum, as confidentiality issues are routine in patent and trade secret proceedings, parties opposing discovery should be prepared to address the confidentiality of the information sought and the potential consequences of producing it, and (as discussed above in connection with Best Practice No. 3) parties seeking discovery should be prepared to discuss the absence of such sensitivity and/or the protections in place to ameliorate any legitimate concerns about possible disclosure. Moreover, the discussion should be specific and substantiated by evidence, and tied to the relevant factors under *Intel* and the Federal Rules of Civil Procedure.⁵² Failure to substantiate claims of confidentiality may result in their rejection and discovery being ordered.⁵³ Failure to substantiate claims that confidential information will be protected may also result in the denial of confidential discovery.⁵⁴ On the other hand, a specific showing

51. *In re Bayerische Motoren Werke*, 2022 WL 2817215, at *6 (declining to quash subpoena when the party had “not articulated how compliance with the subpoenas would implicate confidential information—such as information protected by European data-privacy laws—nor why any such concerns could not be resolved by a protective order.”).

52. While these issues are most typically addressed in the context of *Intel* Factor Four, to the extent confidentiality issues affect the other three discretionary factors in a particular case, parties should be prepared to address those as well.

53. *In re Bayerische Motoren Werke*, 2022 WL 2817215, at *6 (declining to quash subpoena when the party had “not articulated how compliance with the subpoenas would implicate confidential information—such as information protected by European data-privacy laws—nor why any such concerns could not be resolved by a protective order.”).

54. *In re Belparts Grp., N.V.*, No. 3:21-mc-0062 (VAB), 2021 WL 4942134, at *7 (D. Conn. Oct. 22, 2021) (denying discovery into confidential documents when the party seeking discovery had “not provided this Court with

by either party may succeed. For example, discovery under Section 1782 was found to be properly denied based in part on “evidence that disclosure of 3M’s trade secrets, even if limited to one ingredient of the disputed product, would irreparably harm the company” and “a declaration from German counsel that there is no firm procedure in Germany to prevent disclosure to in-house counsel.”⁵⁵ The court may be receptive to other types of concerns as well. One court denied a Section 1782 request for confidential information that was owned by a foreign entity but was in the possession of that entity’s U.S. counsel because counsel was representing the entity in a United States International Trade Commission investigation. The district court recognized that “[i]f foreign clients have reason to fear disclosing all pertinent documents to U.S. counsel, the likely results are bad legal advice to the client, and harm to our system of litigation.”⁵⁶

B. Responding to a 28 U.S.C. § 1782 Subpoena

Best Practice No. 5 – A respondent to a 28 U.S. § 1782 subpoena should first determine whether confidential or trade secret information is requested and should then pursue appropriate measures such as moving for or negotiating a protective order to ensure to the extent possible that any such information produced will be adequately protected in any foreign proceeding, or explaining to the court why no such measures would be sufficient.

assurance that Dutch and German courts will safeguard the confidentiality of Belimo USA’s documents if this Court authorized their release for use in litigation in those tribunals”).

55. *Andover Healthcare, Inc. v. 3M Co.*, 817 F.3d 621, 624 (8th Cir. 2016).

56. *In re Gen. Elec.*, 2022 WL 16720425, at *8.

As already discussed, in any Section 1782 proceeding that arises from a foreign matter that involves or encompasses patent or trade secret disputes, both the applicant and the respondent should anticipate that the nature of the request may raise significant confidentiality concerns that will need to be identified and addressed as early as possible.

One challenge for courts considering a Section 1782 application is that the application may be filed prior to any foreign proceeding has commenced with respect to the requested discovery. Instead, a Section 1782 application only requires that a dispositive ruling “be within reasonable contemplation.”⁵⁷ This means the court considering the Section 1782 request may not have available the kinds of concrete records about the foreign proceeding that would clearly delineate the metes, bounds, and complexity of the underlying controversy. Thus, the need for and sensitivity of any confidential information sought may not be as well-defined as it would be if a specific foreign proceeding were already underway. Another complexity that can impact the Section 1782 request is that it may be brought *ex parte*.⁵⁸

In part because of these realities, it is particularly important for a respondent that has reason to believe it may be the target

57. *Intel Corp. v. Advanced Micro Devices, Inc.*, 542 U.S. 241, 249 (2004).

58. *See, e.g., In re Roebbers*, No. C12-80145 MISC RS (LB), 2012 WL 2862122, at * 2 (N.D. Cal. Jul. 11, 2012) (“[a]n *ex parte* application is an acceptable method for seeking discovery pursuant to § 1782.”) Some courts that receive an *ex parte* Section 1782 request will nonetheless order that the party making the application serve it upon the relevant target. *See, e.g., In re Ex Parte Application of Telefonaktiebolaget L.M. Ericsson*, Case No. 5:22-mc-80322-SVK, Order dated November 28, 2022 (Court sua sponte ordered Section 1782 subpoena and *ex parte* application to be served on Broadcom where the underlying subpoena sought confidential information regarding Broadcom’s chipsets that the applicant claimed were relevant to a patent infringement action pending in the U.K. related to allegations that Apple infringed two U.K. patents.).

of a Section 1782 subpoena in an intellectual property dispute to regularly monitor the docket to determine if any *ex parte* application is directed to information that is arguably within its custody or control. If so, it should promptly determine whether any of that information is potentially confidential or a trade secret. This evaluation warrants an immediate assessment by the respondent of the full scope of the request, including the extent to which it reaches particularly sensitive information related to the respondent's intellectual property or other confidential information of the respondent or affiliated third parties, along with an analysis of the potential or actual harms that would result if the information were disclosed publicly or to parties that are or may be competitors.

Following such an evaluation, the respondent should move quickly to explore appropriate measures to ensure that any confidential intellectual property that might be produced for the foreign proceeding will receive the maximum confidentiality protection permissible, and preferably the same level of protection it would receive if produced in a United States legal proceeding. At minimum, the respondent should either move for an appropriate protective order from the court entertaining the Section 1782 request or attempt to negotiate with the applicant the terms of such a protective order or a confidentiality agreement (or, as discussed in more detail in Best Practice No. 3) advise the court that there do not appear to be adequate measures to protect its information, and the request should therefore be denied or significantly restricted).

One issue the respondent will want to consider is whether the U.S. or the foreign jurisdiction(s) is the proper venue to take action on confidentiality issues and disputes. As already discussed, a respondent to a Section 1782 subpoena should be sensitive to the fact that any confidential or trade secret information that falls within the scope of the subpoena, such as source code, trade secrets, pending patent applications, and the like, may not

be accorded the same level of protection in the foreign jurisdiction that it would receive in a United States proceeding governed by U.S. discovery rules. By itself, the existence of such a situation may warrant denial of the Section 1782 request, and the respondent should therefore be prepared to highlight this issue with the U.S. court.⁵⁹ Even if the concern is not sufficient to warrant denial of the subpoena as a whole, the respondent should be prepared to address such issues through a mechanism like a protective order or confidentiality agreement governing disclosure of the information.⁶⁰

The respondent should first evaluate what protections will be accorded confidential or trade secret information in the foreign jurisdiction and determine what procedures invoke those protections. In some instances, it may be reasonable for the parties to agree to rely on the foreign judicial body presiding over the underlying dispute to take the necessary steps to protect the confidential materials and information that will be produced. If the concern is primarily about disclosure of confidential information to the public, as opposed to disclosure between the parties, it may not require the intervention of the U.S. court. For instance, many foreign jurisdictions, such as France and Germany, do not permit pretrial submissions to be publicly accessible; in some cases that protection may be enough to assuage the respondent's confidentiality concerns.

59. *Id.*

60. *See* *Illumina Cambridge Ltd. v. Complete Genomics, Inc.*, No. 19-mc-80215-WHO, 2020 WL 1694353, at *5–6 (N.D. Cal. Apr. 7, 2020) (refusing to modify order under 28 U.S.C. § 1782 allowing petitioner to obtain confidential information potentially encompassing trade secret information where a protective order already was in place, but ordering the parties “to abide by the protective order . . . [and to] cooperate in the foreign proceedings in order to maintain the confidentiality of respondents’ sensitive information.”).

On the other hand, if the respondent is concerned that the confidential information might be shared with competitive decision-makers or third parties who could use it to gain an unfair competitive advantage, and if there is reason to believe the foreign jurisdiction may not accord confidential or trade secret information the same level of confidentiality protection as would a U.S. court, the respondent should immediately raise these issues with the court entertaining the Section 1782 request. It should be prepared to educate the court about the chances that if its confidential information is produced in response to the request, the information will be disclosed to the public, third parties, or competitive decision-makers. This education process may be enhanced by obtaining declarations from foreign counsel about the foreign country's sealing or confidentiality procedures, and legal protections for intellectual property such as trade secret information—or lack thereof. The respondent should also be prepared to explain to the U.S. court the potential significant consequences if the information is disclosed to the public, third parties, or competitive decision-makers, including concrete evidence of the kinds of harm, such as competitive harm, that will occur.

For these reasons, it is entirely appropriate for a respondent to a Section 1782 request to raise with the district court the question whether the request seeks “highly sensitive” discovery, and whether there is a “lack of certainty that its confidentiality can be maintained.”⁶¹ This reasoning aligns with the Supreme Court's observation in *Intel* that “unduly intrusive or burdensome requests may be rejected or trimmed.”⁶² The respondent should also be prepared to ask the district court to evaluate whether the evidence reflects that disclosure of the responding

61. *Andover Healthcare, Inc. v. 3M Co.*, 817 F.3d 621, 623–34 (8th Cir. 2016).

62. *Id.* (quoting *Intel Corp.*, 542 U.S. at 265).

party's confidential or trade secret information, even if limited, would irreparably harm the company.⁶³

Best Practice No. 6 – A party subject to a request under 28 U.S.C. § 1782 should immediately identify to the court supervising the application any concerns it has with the breadth of the requested discovery, particularly when it encompasses confidential or trade secret information.

The respondent should be prepared to immediately highlight to the court entertaining the Section 1782 application any discovery requests related to the intellectual property and other confidential information that the respondent contends are overbroad or are not narrowly tailored to the foreign dispute. A district court is not required to grant a request pursuant to Section 1782 “simply because it has the power to do so.”⁶⁴ The potential overbreadth of the underlying requests is a relevant consideration for the court to consider when granting or denying such an application.⁶⁵ For the same reason, a district court has no obligation to “trim” a discovery request after it determines the request is overbroad, because it is the statute, not the Federal Rules of Civil Procedure, that governs its decision.⁶⁶ And at least one court has cited the failure of the party seeking information pursuant to 28 U.S.C. § 1782 to tailor its requests before serving its subpoenas, coupled with the confidential nature of the information sought, as a basis to deny the request.⁶⁷

63. *Id.*

64. *Intel*, 542 U.S. at 264.

65. *See, e.g., In re Application for an Order Pursuant to 28 U.S.C. § 1782*, 473 F. App'x 2, 4 (D.C. Cir. 2012).

66. *Id.*

67. *Baxalta Inc. v. Genentech Inc.*, No. 16-mc-80087-EDL, 2016 WL 11529803, at *9 (N.D. Cal. Aug. 9, 2016).

Best Practice No. 7 – A party subject to a subpoena pursuant to 28 U.S.C. § 1782 should promptly identify to the court and provide authoritative support for any contention that the requests for confidential or trade secret information implicate any legally applicable privilege and seek appropriate judicially enforceable protection for such information.

Section 1782 provides in relevant part that “[a] person may not be compelled to give his testimony or statement or produce a document or other thing in violation of any legally applicable privilege.”⁶⁸ Thus, even if the statutory and discretionary *Intel* factors support an application pursuant to Section 1782, an applicant may be prevented from discovering information that is shielded.⁶⁹

It is also settled that this immunity extends not only to privilege under U.S. law but to “privileges recognized by foreign law.”⁷⁰

In recognition that either U.S. or foreign privileges may be raised as objections to a Section 1782 application, Best Practice No. 7 seeks to promote early identification of privileges that may be implicated to promote prompt resolution of such issues. The issue of whether U.S. or foreign privilege law should govern is beyond the scope of this paper and is expected to be addressed in a Stage 3 publication. Both U.S. and foreign privilege law have been addressed in a number of the Section 1782

68. 28 USC § 1782(a).

69. See *Ecuadorian Plaintiffs v. Chevron Corp.*, 619 F.3d 373, 377 (5th Cir. 2010); *In re Veiga*, 746 F. Supp. 2d. 27, 32 (D.D.C. 2010).

70. *Ecuadorian Plaintiffs*, 619 F.3d at 377 (citing S. Rep. No. 88-1590 (1964) reprinted in 1964 U.S.C.C.A.N. 3782, 3790).

decisions in which privilege objections have been raised and considered by the courts.⁷¹

Based on the limited case law examining privilege objections to Section 1782 applications, it is the consensus that parties raising objections especially under foreign privilege law should provide authoritative support for the existence and specific application of the foreign privilege. In the *Ecuadorian Plaintiffs* case, Ecuadorian citizens appealed an order compelling discovery sought by Chevron of an environmental consultant relating to litigation in Ecuador. The Fifth Circuit affirmed a district court order rejecting claims of privilege under Ecuadorian law.⁷² The court explained that “to avoid ‘speculative foray[s] into legal territories unfamiliar to Federal judges’ parties must provide ‘authoritative proof’ that a foreign tribunal would reject evidence ‘because of a violation of [an] alleged [foreign] privilege.’”⁷³ The court rejected an affidavit from an Ecuadorian attorney suggesting Ecuadorian privilege law barred such discovery.⁷⁴ It also noted the absence of any judicial, executive, or legislative declaration clearly demonstrating that discovery would violate Ecuadorian judicial norms.

Another more recent decision involving foreign privilege objections to a Section 1782 application reached a similar conclusion. In this decision, defendants in Dutch litigation over corporate transactions subpoenaed documents and testimony pursuant to Section 1782 from certain financial institutions in the U.S. for use in the Dutch litigation.⁷⁵ The respondents argued

71. See *Ecuadorian Plaintiffs*, 619 F.3d at 377–80; *In re Veiga*, 746 F. Supp. 2d. at 33–38.

72. *Ecuadorian Plaintiffs*, 619 F.3d at 380.

73. *Id.* at 378 (citations omitted).

74. *Id.*

75. *In re Tinsel Group, S.A.*, 2014 WL 243410 (S.D. Tex. Jan 22, 2014).

that discovery violated Dutch privilege law and U.S. attorney-client privilege and the work-product doctrine.⁷⁶ The district court concluded that to prevail, objecting parties “must provide authoritative proof that a foreign tribunal would reject evidence because of a violation of an alleged foreign privilege.” In this case, the district court rejected as “conclusory” an affidavit from Dutch counsel explaining Dutch privilege law and reiterated the need for judicial, executive, or legislative declarations clarifying Dutch law.⁷⁷

In light of the limited case law examining privilege objections to Section 1782 discovery, it is incumbent on respondents to come forward promptly with specific proof of the existence of privilege. In the case of objections based on foreign privilege claims, the best practice is for authoritative proof of the basis for such claims to be presented. Although declarations of foreign counsel may be helpful background, they are not likely to be sufficient without declarations from foreign legislative, executive, or judicial authorities supporting the foreign privilege.

C. *Negotiating a Protective Order To Maintain Confidentiality of Information Produced Pursuant to 28 U.S.C. § 1782*

Best Practice No. 8 – The parties should seek to negotiate a protective order that could also be ordered by the receiving foreign court if necessary to enable the discovery to be used in that jurisdiction. The protective order should contain provisions ensuring that any improper or inadvertent disclosure of any confidential or trade secret information will be subject to legal and equitable

76. *Id.*

77. The court also proceeded to reject respondents’ U.S. privilege claims. *Id.*

remedies adequate to prevent the producing party from being placed in a materially worse position as a result of such disclosure.

A party served with a subpoena pursuant to Section 1782 will want to ensure that its confidential or trade secret information is protected to the greatest extent possible. The party will likely only want to produce any confidential or trade secret information if the application is granted, and only if the U.S. court first issues a protective order. A protective order will usually only permit disclosure of confidential information on an attorneys'-eyes-only basis and will usually provide that the lawyers and experts acting in the foreign proceeding must first execute the protective order before obtaining access to the confidential or trade secret information produced in response to the Section 1782 application.

This process frequently will be complicated by the fact that the responding party in a Section 1782 proceeding typically is not one of the actual or contemplated parties involved in the foreign proceeding. Furthermore, the nonrequesting party in the actual or contemplated foreign proceeding will typically not be involved in the Section 1782 proceeding, meaning that its counsel ordinarily will have little participation in the negotiation or enforcement of any protective order drafted by the parties in that proceeding. Particularly given that the Section 1782 request may be entertained *ex parte* by the court in the United States, there is no guarantee that the nonrequesting party to the foreign proceeding will have an opportunity to intervene at all to present its own concerns (which may be different from those of the responding party) about the nature or use of any confidential or trade secret information pursuant to the Section 1782 request.

In part due to the particular concerns around confidential or trade secret information, some United States courts, citing the

fourth *Intel* factor, have denied such applications solely on the ground that such a subpoena comprises unduly burdensome or intrusive requests. These courts have concluded that such requests can be unduly burdensome where the applicant broadly seeks confidential or trade secret information of either the party involved with the foreign proceeding or of the Section 1782 respondent, especially if the confidential or trade secret information sought is already the subject of protective orders entered in other litigation.⁷⁸

Accordingly, counsel for a party making a Section 1782 request should contemplate that the court will need assurances that any protective order will not only guard against disclosures of any confidential or trade secret information that could prejudice the responding party, but also the other parties to the pending or contemplated foreign proceedings. Such provisions may include guarantees that the court entertaining the request will continue to possess jurisdiction to enforce the protective order

78. See, e.g., *In re Ex Parte Application of Qualcomm, Inc.*, 162 F. Supp. 3d 1029, 1042–43 (N.D. Cal. 2016) (denying patentee’s ex parte Section 1782 request to take discovery from American companies, where the Korean Fair Trade Commission had previously charged the patentee with violating South Korean antitrust law in its licensing of standard-essential patents, and the court concluded that many of the documents responsive to the requests contained information designated as confidential by the American companies and subject to protective orders issued by the court and the United States International Trade Commission); *In re Pioneer Corp.*, No. CV 18-4524 JAK (SSx), 2018 WL 4963126, at *6 (C.D. Cal. Aug. 27, 2018) (denying reconsideration of an early decision to deny a request under Section 1782 for discovery from an American entity related to the defendant in a German patent infringement proceeding, in part because there were no assurances that “the highly sensitive information” sought by the patent owner “about its own competitors would truly be protected”).

and remedy any disclosures of the confidential or trade secret information.⁷⁹

However, even if the court is willing to issue such a protective order, the production and use of the information in the foreign action may still prove to be complicated. For instance, counsel acting for the adverse party in the foreign litigation might refuse to sign the U.S. court's protective order on the basis that their counsel (or experts) should not have to submit to another court's jurisdiction. If this impasse cannot be resolved, the U.S. court might not compel the production, or even if produced, the foreign court might not permit the Section 1782 discovery be admitted into the case. One potential workaround for this problem could involve having the foreign presiding court replicate, if possible, the terms of the U.S. protective order in an order of its own; the producing party may be satisfied with the assurances that even if certain individuals will not sign the U.S. protective order, the foreign court will enforce equivalent terms. However, this may not be straightforward because the foreign court may not be willing to delegate its discretion as to the confidentiality terms. A particular issue may arise if the foreign court has already made an order governing confidentiality in the proceedings. The foreign court and some of the parties may insist on the existing terms and, accordingly, the practical way forward would be to seek that the U.S. court's protective order be on those terms, assuming that they are sufficiently robust. The foreign court may also be prepared to allow the

79. *E.g., In re Application of Proctor & Gamble Co.*, 334 F. Supp. 2d 1112, 1117 (W.D. Wis. 2004) (permitting discovery to be produced pursuant to a Section 1782 application, but only if the documents generated would remain confidential even in the foreign courts and suggesting one solution would be for the court to retain jurisdiction over the matter to ensure the confidentiality order would be enforced).

producing party the right to enforce its order (which occurred by consent in the English case of *HTC v. Nokia*⁸⁰).

Therefore, the party seeking to use the documents in the foreign case should consult closely with the lawyers acting in that jurisdiction to ensure that the terms of the protective order (so far as practicable) are terms that the foreign court would be prepared to order or that reflect the terms that the foreign court has already ordered. In the event that the adverse parties' lawyers in the foreign court refuse to sign the protective order, the producing party should be consulted in order to ascertain whether it would be prepared to allow its documents to be subject to the foreign court's jurisdiction in relation to the persons unwilling to sign the protective order (with the potential for them to be made a party to the relevant order for enforcement purposes).

D. Treatment of Documents Within Possession, Custody, or Control that are Located Outside of the U.S.

Best Practice No. 9 – Where a Section 1782 request would require producing confidential or trade secret information located outside the U.S., the parties to the 1782 action should promptly bring this to the court's attention and be prepared to address whether such production is appropriate, both in the context of the usual discretionary factors considered in a 1782 analysis and any other specific issues implicated by the

80. *E.g.*, *HTC v. Nokia*, [2013] EWHC 2917 (Pat). In this case, the barristers for HTC declined to sign the U.S. Protective Order in relation to documents obtained from Qualcomm by Nokia under a Section 1782 application. HTC asked the English Court to order disclosure of the Section 1782 materials held by Nokia's solicitors in order for the documents to be submitted into the case. Nokia resisted, and the Court refused to make an order that would circumvent the terms of the protective order.

request—such as the appropriateness of seeking extraterritorial information from an affiliate of the 1782 target.

Thus far, two circuit courts have examined whether Section 1782 prohibits discovery of documents located abroad, and both concluded that there is no per se rule against using Section 1782 to seek documents located outside the United States. The text of Section 1782 provides that a U.S. district court may order a person to produce a document or thing, but on its face does not address the geographic scope of where such document or thing may be located. The Second Circuit, although it had previously opined in dicta that “there is reason to think Congress intended to reach only evidence located within the United States,”⁸¹ more recently held “that there is no per se bar to the extraterritorial application of § 1782.”⁸² In doing so, the Second Circuit joined the Eleventh Circuit, which had previously held that Section 1782 provides for production in accordance with the Federal Rules of Civil Procedure, and Rule 45 sets out limits on the location of production but not on the location of documents to be produced: “the location of responsive documents and electronically stored information—to the extent a physical location can

81. *In re Application of Sarrio, S.A.*, 119 F.3d 143, 147 (2d Cir. 1997); *and see In re Godfrey*, 526 F. Supp. 2d 417, 423 (S.D.N.Y. 2007) (Section 1782 does not allow discovery of documents located outside the U.S., citing cases); *see also In re Kreke Immobilien KG*, No. 13 Misc. 110 (NRB), 2013 WL 5966916 at *4 (S.D.N.Y. Nov. 8, 2013) (denying a § 1782 request noting that “[t]he bulk of authority in this Circuit’ suggests that a § 1782 respondent cannot be compelled to produce documents located abroad,” quoting *In re Godfrey*, 526 F. Supp. 2d 41; *and see Pinchuk v. Chemstar Prods. LLC*, No. 13-mc-306-RGA, 2014 WL 2990416, at *4 (D. Del. June 26, 2014) (quashing a discovery request for documents located abroad).

82. *In re del Valle Ruiz*, 939 F.3d 520, 524 (2d Cir. 2019). *See also Accent Delight Int’l Ltd. v. Sotheby’s, Inc.*, 791 F. App’x. 247 (2d Cir. 2019).

be discerned in this digital age⁸³—does not establish a per se bar to discovery under Section 1782.”⁸⁴

In the absence of such a per se prohibition, courts have applied the *Intel* discretionary factors in considering such requests, including the third factor: “whether the § 1782(a) request conceals an attempt to circumvent foreign proof-gathering restrictions or other policies of a foreign country or the United States.”⁸⁵ The location of the materials sought by applicants has therefore been viewed, for example, as “at most . . . a discretionary consideration” to be weighed in assessing “the alleged hardship and burden.”⁸⁶

As discussed in Best Practice No. 1, courts have examined the fact-specific inquiry of the third *Intel* factor using various considerations. As discussed in the commentary to Best Practice No. 1, the Supreme Court held that Section 1782 imposes no

83. In fact, the physical location of digital copies of documents in cloud storage could be both specified and determined with accuracy to the national level well prior to 2016; and, in general, the fact that existence of an internet-networked “cloud” permits access to remotely stored data doesn’t support a position that the geographic location of documents stored off-premises in a colocated data center or in vendor cloud storage buckets cannot be determined with reasonable certainty. *See, e.g.,* *Microsoft Corp. v. United States (In re Warrant to Search a Certain E-mail Account Controlled & Maintained by Microsoft Corp.)*, 829 F.3d 197 (2d Cir. 2016).

84. *Sergeeva v. Tripleton Int’l Ltd.*, 834 F.3d 1194, 1200 (11th Cir. 2016).

85. *In re Tovmasyan*, 557 F. Supp. 3d 348, 353 (D.P.R. 2021), quoting *Intel Corp. v. Advanced Micro Devices, Inc.*, 542 U.S. 241, 264–65 (2004); and see *Kiobel v. Cravath, Swaine & Moore LLP*, 895 F.3d 238, 244 (2d Cir. 2018).

86. *In re Gemeinschaftspraxis Dr. Med. Schottdorf*, No. Civ. M19-88 (BSJ), 2006 WL 3844464, at *5; and see, e.g., *In re Accent Delight Int’l Ltd.*, 16-MC-125 (JMF), 2018 WL 2849724 (S.D.N.Y. June 11, 2018), affirmed on other grounds *In re Accent Delight Int’l Ltd.*, 696 F. App’x 537, 539 (2d Cir. 2017) (summary order) (the fact that documents are present abroad goes to whether the requested discovery would be unduly burdensome as an *Intel* discretionary factor.).

foreign discoverability requirement.⁸⁷ On the other hand, courts have applied the third *Intel* factor to exercise their discretion to preclude Section 1782 discovery of a nonparty to the foreign proceeding in a manner not permitted in the country where the proceeding is held.⁸⁸ For example, where a court determined that an applicant is merely attempting to “avoid or preempt an unfavorable decision” in the foreign or international tribunal, the court has denied the application.⁸⁹ Absent evidence of an applicant trying to avoid an unfavorable decision, courts may examine the discovery procedures of the foreign tribunal to determine if there are any restrictions placed on discovery; if none exist, this factor weighs in favor of granting the application.⁹⁰

87. *Intel Corp.*, 542 U.S. at 253; see also *In re Hulley Enters., Ltd.*, 358 F. Supp. 3d 331, 347–48 (S.D.N.Y. 2019) (“[R]espondents argue that the documents should have been sought through proceedings in the Netherlands and Russia. The Second Circuit, however, has repeatedly made clear that there is no “exhaustion” requirement under Section 1782.”) See, e.g., *Mees v. Buiters*, 793 F.3d 291, 303 (2d Cir. 2015); *In re Application for an Order Permitting Metallgesellschaft AG to take Discovery*, 121 F.3d 77, 79 (2d Cir. 1997).

88. *Illumina Cambridge Ltd. v. Complete Genomics, Inc.*, No. 19-mc-80215-WHO(TSH), 2020 WL 820327 (N.D. Cal. Feb. 19, 2020).

89. *In re Clerici*, 481 F.3d 1324, 1334 (11th Cir. 2007) (“[U]nduly intrusive or burdensome requests may be rejected or trimmed.” (quoting *Intel*, 542 U.S. at 264) (internal quotation marks omitted)).

90. *Matter of Lufthansa Technick AG*, No. C17-1453-JCC, 2019 WL 331839, at *1 (W.D. Wash. Jan. 25, 2019); see also *In re Eli Lilly & Co.*, 37 F.4th 160, 167–68 (4th Cir. 2022) (holding district court did not abuse discretion by denying a § 1782 application by focusing particularly on the third and fourth *Intel* factors, or in concluding that discovery requested by the § 1782 plaintiff was (1) “unduly burdensome” because the plaintiff gave “no indication” that the materials it sought were “located in the Eastern District of Virginia or even in the United States;” “in essence request[ing] that a substantial volume of data and materials located abroad be brought into the United States for subsequent use in proceedings abroad, a nonsensical result”; and (2) “an attempt to circumvent foreign discovery procedures in the parties’ pending European suits,” particularly in view of the fact that four discovery motions

On the other hand, it might be argued that circumvention lies in the party who refuses to avail itself of discovery processes that exist in the jurisdiction of the dispute; i.e., the party who seeks discovery by means of Section 1782 when there are alternative methods of evidence-gathering available in the foreign jurisdiction is showing insufficient deference to the foreign jurisdiction.

While a party seeking foreign documents in a Section 1782 proceeding typically is not required to demonstrate that it cannot directly obtain the material it seeks in the foreign jurisdiction where the documents are located, some courts have interpreted *Intel* as requiring that the party seeking Section 1782 discovery must show that use of the discovery obtained via Section 1782 would actually be allowed in the underlying foreign proceedings. Other courts have held that while the Section 1782 action should not comprise an affirmative effort to circumvent the laws or public policy of either the U.S. or another country, how the Section 1782 production would eventually be treated by the foreign tribunal is irrelevant, i.e. “[S]ection 1782 does not require that the material sought be discoverable or even admissible in the foreign proceedings.”⁹¹ The third *Intel* factor may also be seen at work in court rulings denying a Section 1782 application on the ground that the applicant paid insufficient deference to foreign rules that prohibit the admission of the evidence in question if it is obtained in contravention of a blocking statute. If the foreign jurisdiction would affirmatively bar the disclosure of the information sought, it is not surprising that U.S. courts would be much less likely to grant the Section 1782 application, if for no other reason than that it is hard to conclude the information is important to the foreign proceeding if the

pending in the underlying Irish proceedings with significant overlap with the § 1782 application had been adjudicated).

91. *In re Barnwell Enters. Ltd.*, 265 F. Supp. 3d 1, 12 (D.D.C. 2017).

foreign court would not admit it into evidence.⁹² Best Practice No. 2 addresses issues regarding the importance of the information sought to the foreign proceeding.

The intent to circumvent addressed by *Intel* Factor Three might be inferred in some circumstances from the Section 1782 applicant's statements and the availability of the discovery in the foreign jurisdiction. U.S. courts are particularly sensitive about attempts to obtain documents via Section 1782 actions against U.S. law firms that possess the documents only because they represent a party in related litigation. As the Second Circuit observed in a situation where a Section 1782 petitioner sought to subpoena a New York law firm to produce documents that had been generated in United States litigation for use in a Netherlands proceeding, despite the fact that a confidentiality order in the U.S. litigation barred the use of the documents outside that litigation: "[S]tatements made by [Section 1782 movant's] counsel demonstrate that [she] is trying to circumvent the Netherlands' more restrictive discovery practices, which is why they are seeking to gather discovery [] in the U.S. . . . [and that while she] may 'request' copies of documents . . . it is hardly possible for a party to obtain evidence from another party pre-trial' in the Netherlands. So to bypass Dutch discovery restrictions and gain access to documents she could not otherwise acquire, [she] is turning to Section 1782."⁹³ And as the Second Circuit further

92. *Union Fenosa Gas, S.A., v. Depository Tr. Co.*, 20 Misc. 188, 2020 WL 2793055, at *8 (S.D.N.Y. May 29, 2020).

93. *Kiobel v. Cravath, Swaine & Moore LLP*, 895 F.3d 238, 245 at n.3 (2d Cir. 2018), *cert. denied*, 139 S. Ct. 852, (2019). In *Kiobel*, the Second Circuit also noted: "The Supreme Court has stressed the need for 'full and frank communication between attorneys and their clients,' which 'promote[s] broader public interests in the observance of law and administration of justice'" (citing *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981)); and *In re Grand Jury Subpoena Duces Tecum Dated Sept. 15, 1983*, 731 F.2d 1032, 1036–37 (2d Cir. 1984) ("The availability of sound legal advice inures to the benefit not

observed, “[I]f foreign clients have reason to fear disclosing all pertinent documents to U.S. counsel, the likely results are bad legal advice to the client and harm to our legal system.”⁹⁴

Questions of the extent of possession, custody, and control may also bear on discovery of documents located abroad,

only of the client who wishes to know his options and responsibilities in given circumstances, but also of the public which is entitled to compliance with the ever growing and increasingly complex body of public law.”). *See also In re Hulley Enters., Ltd.*, 358 F. Supp. 3d 331, 352–53 (S.D.N.Y. 2019) (“We believe it to be ‘unduly intrusive or burdensome,’ to quote the fourth *Intel* factor, to require an American law firm with an office in a foreign country to potentially be directed to act in contravention of that foreign country’s law. Additionally, in light of the lack of clarity in Russian law, we are troubled by the prospect of issuing an order that potentially results in treating an American law firm with a presence in a foreign country differently from how a law firm in that country with no American office would have been treated by a Russian court.”).

94. *Kiobel*, 895 F.3d at 247. One special situation that merits consideration in Section 1782 actions involves where the documents subpoenaed encompass computer source code stored on foreign servers. As the Second Circuit in *Kiobel* also observed: “In order to avoid potential disclosure issues under Section 1782, U.S. law firms with foreign clients may be forced to store documents and servers abroad, which would result in excessive costs to law firms and clients. Alternatively, U.S. law firms may have to return documents like source code to foreign clients (or destroy them) as soon as litigation concludes.” *Id.* To that end, the Second Circuit noted that the New York City Bar Association as amicus raised the issue that “‘New York State Bar Ethics Opinion 780 states that law firms have an interest in retaining documents where needed to protect themselves from accusations of wrongful conduct. So U.S. law firms may be harmed if they must destroy or return a foreign client’s documents as soon as possible once a proceeding is completed. Or foreign entities may simply be less willing to engage with U.S. law firms.’” *Id.* This observation warrants particular caution where the subpoenaed documentation is computer source code residing on a foreign server, which by its very nature will constitute confidential or trade secret information that a foreign entity may be particularly reluctant to produce to U.S. law firms for any purpose if it may be exposed to future Section 1782 demands.

including situations in which the request raises issues regarding documents held by an affiliate of the request's target.⁹⁵ Depending on the circumstances of a specific request, however, it may not always be necessary to examine issues regarding the actual location of the requested information. Some courts have avoided the extraterritoriality issue, holding that the physical location of the responsive information is irrelevant, and there is no reason for a court to affirmatively rule except to the extent that the respondent's possession, custody, or control of the information is in dispute.⁹⁶

Best Practice No. 10 – The court considering a request under 28 U.S.C. § 1782 should be notified if either side has reason to believe the requested discovery is subject to export control restrictions, i.e., information that can only be

95. See, e.g., *In re del Valle Ruiz*, 939 F.3d 520, 533–34 (2d Cir. 2019) (affirming ruling that it was not overly burdensome to require a bank to produce documents from its foreign subsidiary under Section 1782); *Sergeeva v. Tripleton Int'l Ltd.*, 834 F.3d 1194, 1200 (11th Cir. 2016) (holding that § 1782 reaches “responsive documents and information located outside the United States” so long as it is within the “possession, custody, or control of” the discovery target); *In re Matter of De Leon*, Case No. 1:19-mc-15, 2020 WL 1180729, at *4–5 (S.D. Ohio Mar. 12, 2020) (permitting applicant to subpoena entity located in Ohio and ordering production of documents from entity's foreign affiliates, finding the documents were still in the custody and control of the domestic entity), *appeal dismissed*, No. 20-3406, 2020 WL 3969865 (6th Cir. May 26, 2020); *De Leon v. Clorox Co.*, No. 19-mc-80296-EMC, 2021 WL 718840 at *4 (N.D. Cal. Feb. 24, 2021) (same).

96. *In re Stati*, No. 15-MC-91059-LTS, 2018 WL 474999, at *6 (D. Mass. Jan. 18, 2018) (“At this juncture, it is not necessary to take a position because, even if the location is not an absolute bar, this court will ‘not prescribe otherwise,’ 28 U.S.C. § 1782(a), but, rather, will apply the possession, custody, or control of documents requirements in Rule 45(a)(1), as urged by petitioners.”). This approach was also followed in *Illumina Cambridge v. Complete Genomics*, No. 19-mc-80215-WHO(TSH), 2020 WL 820327 (N.D. Cal. Feb. 19, 2020).

exported, if at all, with restrictions or pursuant to an export license granted by one or more federal regulatory authorities.

Discovery requests under Section 1782 could be subject to different restrictions imposed by U.S. export control laws and regulations that, if applicable, could prohibit or at least restrict production of discovery in response to a Section 1782 request. “The U.S. export controls system restricts exports of certain equipment, technology, and software in order to safeguard national security interests as well as further foreign policy goals.”⁹⁷

The U.S. has a number of complex and changing export control laws and regulations that place varying degrees and types of restrictions on exporting outside of the U.S. different technical and other information that may include confidential or trade secret information. The primary U.S. export control laws and regulations include:

- Export Control Reform Act⁹⁸ and Export Administration Regulations;⁹⁹
- Arms Export Control Act¹⁰⁰ and International Traffic in Arms Regulations;¹⁰¹
- Atomic Energy Act of 1954¹⁰² and Assistance to Foreign Atomic Energy Activities;¹⁰³

97. See U.S. Department of State, *Overview of U.S. Export Control System*, <https://2009-2017.state.gov/strategictrade/overview/index.htm> (last visited June 6, 2023).

98. 50 U.S.C. Ch. 58 (2018).

99. 15 C.F.R. § 730.

100. 22 U.S.C. Ch. 39 (1976).

101. 22 C.F.R. § 120.

102. 42 U.S.C.A. § 2011 (1954).

103. 10 C.F.R. § 810.

- Export and Import of Nuclear Equipment and Material;¹⁰⁴ and
- Trading with the Enemy Act¹⁰⁵ and Foreign Asset Control Regulations.¹⁰⁶

The above list of U.S. export control laws and regulations is not exhaustive. At a general level, various types of technical and other information sought by a Section 1782 request could implicate multiple different U.S. export control laws and regulations. A few examples of technical categories that sometimes include information controlled by the above U.S. export control laws and regulations include: nuclear; biotechnologies; artificial intelligence; encryption; microprocessors; advanced computer processing; robotics; ballistics; missiles; hypersonics; and advanced materials.¹⁰⁷ Section 1782 discovery falling within technological areas such as the foregoing could include a variety of different types of information subject to different U.S. export control laws and regulations.

Accordingly, the requesting and responding parties should immediately assess and notify the court if the requested Section 1782 discovery potentially implicates information subject to export restrictions. If so, the parties and the court may need to determine whether the intended recipients of the export-controlled information, whether foreign individuals or entities, would be barred from receiving it at all or otherwise restricted upon receiving it. The prohibitions and restrictions could be

104. 10 C.F.R. § 110.

105. 50 U.S.C.A. Ch. 53 (1917).

106. 31 C.F.R. § 500.

107. In addition, the Export Control Reform Act of 2018 established an interagency review process to identify “emerging and foundational technologies that are essential to the national security of the United States” that will be subject to export controls, even if not subject to existing regulations because the technology is too new.

based on numerous factors such as the intended recipients, the destination country, the technology itself, and the intended end use. If the export that would occur with, or follow from, production in response to the Section 1782 discovery request would be barred or restricted, then compliance with the discovery might not be permitted under U.S. law, or it may require an export license or similar approval from one or more U.S. regulatory agencies that review and approve or deny export control license applications, such as the Departments of State, Commerce, and Energy, the Nuclear Regulatory Commission, and the U.S. Treasury Department, which could potentially delay or prohibit compliance with the Section 1782 request.¹⁰⁸

Even if an export license is not required, U.S. export control laws and regulations may still impose restrictions on the recipients of the export-controlled information, which may warrant a request that the governing court include terms in a protective order that impose restrictions on, and require assurances from, all recipients of the information. If the requesting party intends to file the requested material in the foreign tribunal, it should also consider whether that can be done in a manner consistent with the restrictions on the dissemination of the information imposed by U.S. export control laws; and in particular whether there are procedures available at the foreign tribunal for restricting the dissemination of sensitive information filed with the tribunal. Each circumstance of a potential export should be promptly and carefully evaluated in view of the specific U.S. export control laws and regulations that govern the information and brought to the attention of the U.S. court supervising the Section 1782 application as early as possible.

108. If the responding party is pursuing responsive discovery from locations outside the U.S., then any foreign export control and similar laws of other countries could also limit or prohibit the production of discovery responsive to a Section 1782 request.

THE SEDONA CONFERENCE FRAMEWORK FOR ANALYSIS
OF STANDARD-ESSENTIAL PATENT (SEP) AND FAIR,
REASONABLE, AND NON-DISCRIMINATORY (FRAND)
LICENSING AND ROYALTY ISSUES (“U.S. EDITION”)

*A Project of The Sedona Conference Working Group on Patent
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PREFACE

Welcome to the January 2023 Edition of The Sedona Conference *Framework for Analysis of Standard-Essential Patent (SEP) and Fair, Reasonable, and Non-Discriminatory (FRAND) Issues* (“US Edition”), a project of The Sedona Conference Working Group on Patent Damages and Remedies (WG9). This is one of a series of Working Group commentaries published by The Sedona Conference, a 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, and intellectual property rights. The mission of The Sedona Conference is to move the law forward in a reasoned and just way.

The mission of WG9, formed in November 2010, is “to create guidelines that will help to clarify and guide the evolution of patent damages and remedies considerations to encourage patent damages and remedies law to remain current with the evolving nature of patents and patent ownership.” The Working Group consists of members representing all stakeholders in patent litigation.

The WG9 *Framework* drafting team was launched in 2015 and is led by editors David W. Long, Mark Selwyn, and Leah Waterland. Earlier drafts of this publication were a focus of dialogue at the WG9/WG10 Joint Midyear Meeting in Miami in May 2015, the WG9/WG10 Joint Midyear Meeting in Pasadena in February 2016, the WG9/WG10 Joint Annual Meeting in Houston in February 2017, and the WG9/WG10 Joint Annual Meeting in Philadelphia in March 2019. The first part (“Stage One”) of this *Framework* was published for public comment in February 2018. The second part (“Stage Two”) was published for public comment in November 2019. The editors have reviewed the comments received through the Working Group Series review and comment process and provide this final/post-publication

version updated to 2020. WG9 will form a drafting team to update this *Framework* from 2021 on in a future Sedona publication.

This *Framework* represents the collective efforts of many individual contributors. On behalf of The Sedona Conference, I thank in particular R. Eric Hutz, the former Chair of WG9, and Matthew Powers, the Chair of WG9, who serve as the Editors-in-Chief of this publication, and Teresa Rea, the Vice-Chair of WG10 and WG9 Steering Committee member, who is serving as our WG9 Steering Committee Liaison. I also thank everyone else involved for their time and attention during this extensive drafting and editing process, including David W. Long, Mark Selwyn, Leah Waterland, Hon. Theodore R. Essex (ret.), Thomas A. Brown, Patricio Delgado, Byron Holz, and Theodore Stevenson, III. We also thank other individuals who significantly contributed to the substantive development of this *Framework*, including, but not limited to Chris Dunstan, Anne Layne-Farrar, and Richard J. Stark, and Koren W. Wong-Ervin. We further thank volunteer Henry Becker for his earlier contributions.

For the November 2019 public comment version, the Working Group had the benefit of the review of our Judicial Review Panel formed for this *Framework*, consisting of Hon. Cathy Ann Bencivengo, Hon. Kathleen M. O'Malley, and Hon. James L. Robart. The statements in this *Framework* are solely those of the non-judicial members of the Working Group; they do not represent any judicial endorsement of any recommended practices.

Given the high stakes and highly contentious nature of these SEP/FRAND issues, it is important to emphasize the disclamatory language on the cover of this and all Sedona publications. The statements herein “do not necessarily represent the views of any of the individual participants or their employers, clients, or any organizations to which they may belong.” The numerous “some may argue” positions presented throughout this *Framework* may not represent the consensus of the group described

and implicitly do not each represent the consensus of the full drafting team or all of WG9. It would be expressly contrary to the Sedona consensus, nonpartisan spirit and mission to move the law forward in a reasoned and just way for the contents of this Sedona publication to be used against any of its WG9 member contributors in a litigation or other contexts.

Craig W. Weinlein
Executive Director
The Sedona Conference
January 2023

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FOREWORD

In 2012, Working Group 9 (WG9) began an effort to add clarity and predictability to the area of patent remedies. Participants and observers of WG9 include a diverse group of in-house and outside attorneys representing both practicing and nonpracticing entities, expert witnesses involved in damages issues, and members of the federal judiciary. These efforts culminated in the Sedona Conference *Commentary on Patent Reasonable Royalty Determinations*,¹ published after extensive public commentary. WG9 has also published other white papers,² and more are forthcoming.

WG9 publishes here this final/post-public comment version of its *Framework for Analysis of Standard-Essential Patent/FRAND Issues* to address issues specific to alleged standard-essential patents (SEPs) and to consider the effects of commitments made to license patents on fair, reasonable, and non-discriminatory (FRAND) terms in infringement suits or litigation to determine a FRAND royalty rate. To characterize these SEP/FRAND issues as difficult and complicated would be an understatement. While perhaps not a “doomed undertaking” — as at least one judicial

1. The Sedona Conference, *Commentary on Patent Reasonable Royalty Determinations* (Dec. 2016 Edition), available at https://thesedonaconference.org/publication/Patent_Damages_and_Remedies [hereinafter *Reasonable Royalty Determinations Commentary*].

2. See The Sedona Conference, *Commentary on Case Management of Patent Damages and Remedies Issues: Proposed Model Local Rule for Damages Contentions* (June 2017 Edition), available at https://thesedonaconference.org/publication/Patent_Damages_and_Remedies; and The Sedona Conference, *Commentary on Case Management of Patent Damages and Remedies Issues: Section on Patent Damages Hearings* (May 2017 Public Comment Version), available at https://thesedonaconference.org/publication/Patent_Damages_and_Remedies.

opinion has characterized the issue(s)³—it has given rise to unique challenges in trying to reach a consensus presentation on a wide range of issues, including the following:

- The general approach taken throughout this *Framework* has been to present the various positions that SEP licensors and SEP licensees may argue for key disputed issues. This approach has necessitated attempts to present positions in a balanced, neutral fashion with a similar level of detail provided to each position, instead of allowing the different stakeholders to advocate for their positions as they would in litigation.
- The result may give rise to “false equivalency” issues, an issue that was raised in some of the public comments received. This has been unavoidable, as this is a high-stakes area of the law subject to substantial dispute, legally, economically, and ideologically. The intent of Sedona and WG9 in this publication is to present a framework for analysis, and not to weigh in substantively where the law is still developing on these complex issues. While it may be the subject of reasonable dispute in some instances as to whether the law is in fact still “developing” or whether an appellate court has closed the door on certain positions, it would be inconsistent with the purpose of this *Framework for Analysis*—and of the overall mission of The Sedona Conference—to exclude an argument on such grounds, in particular arguments that are currently still commonly being raised in SEP/FRAND disputes.

3. TCL Comm’n Tech. Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson, 2018 WL 4488286, at *8 (C.D. Cal. Sept. 14, 2018), vacated on Seventh Amendment Grounds, 943 F.3d 1360 (Fed. Cir. 2019).

- There are certain arguments that may be reasonably raised in an adversarial litigation process that fall outside of our Sedona “rules of engagement,” where a brief and fair presentation of both sides is impossible within the context of our Sedona *Framework* here. E.g., arguments that actual statements made in court opinions should be viewed as dicta, limited to the facts presented in a particular case, etc.
- Identifying which nonfederal court opinion sources to include and exclude in support of various positions presented throughout this *Framework* has been a source of controversy. Some question the extent to which government agencies should weigh in at all or whether agency statements should have any weight in a court of law. The WG9 Steering Committee’s viewpoint is that appropriate statements from the various government agencies that address SEP/FRAND issues should be included in this publication. In determining whether to cite a particular governmental statement, we considered whether a court would find the statement informative to its analysis in an SEP/FRAND case and whether the source carries sufficient weight to be included in a Sedona consensus, nonpartisan publication.
- Also challenging was how to address the few U.S. court decisions on SEP/FRAND issues without inadvertently putting too much weight on a particular decision given the still-developing state of this area of law. Cases from the U.S. Court of Appeals for the Federal Circuit, which has nationwide jurisdiction over patent disputes, are binding precedent in

patent cases,⁴ but the regional circuits take appeals on antitrust issues and contract law.⁵ Illustrative of these sample size and jurisdictional issues, to date, there have been only a handful of bench trials determining a FRAND royalty, and each district court did not fully accept the FRAND royalty methodology proposed by any party and instead used its own methodology, which itself differed at least in some respects from the methodology used by any other district court.⁶ Each of those decisions is important to know about given the few cases in this area, but none alone provides definitive guidance on the issues, with several on appeal at the time of this publication. Furthermore, it is difficult to draw conclusions from any purported plurality of cases in favor of a given proportion, or from any absence of decisions supporting a given proposition.

- With respect to more recently issued district court cases, we generally sought to find the most appropriate single place in the paper to cite and provide a brief and neutrally presented discussion.

SEP/FRAND issues are being litigated in jurisdictions around the world, with more than 80 foreign decisions on these

4. For example, the Federal Circuit's decisions in *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1230 (Fed. Cir. 2014) and *Commonwealth Sci. & Indus. Research Org. v. Cisco Sys. Inc. (CSIRO)*, 809 F.3d 1295, 1305 (Fed. Cir. 2015) set forth holdings at least relevant to the issues addressed herein.

5. Although the Federal Circuit does sometimes address antitrust issues where the case also has patent issues, it does so by following the antitrust law of the regional circuit governing the district court in which the case was filed.

6. For relevant discussion, see *infra*, Sect. III.C.2 ("Top Down" v. "Bottom Up" Approaches).

issues to date. A forthcoming Sedona WG9 drafting team will provide a Framework for Analysis “Global Edition” addressing these same SEP/FRAND issues as applied by courts around the world.

The limited, and sometimes conflicting, case law that has been developed by judges struggling to address highly complicated areas of technology, economics, and the law in SEP/FRAND cases both heightens these challenges and highlights the need in the patent community for this publication, which is designed to help practitioners and the judiciary identify and put into the appropriate context the types of issues that frequently arise in SEP/FRAND disputes.

This WG9 *Framework* is the result of an extensive effort over a nine-plus year period, and includes input from both in-house and outside counsel who have different views regarding SEPs and the FRAND commitment; economists; the judiciary; and various government agencies that address SEP/FRAND issues. The *Framework* covers the U.S. case law up to the time of the Nov. 2019 public comment publication version, adding references to some subsequent appellate history going into 2020. WG9 will form a drafting team to fully update this *Framework* in a future Sedona publication.

The editors would like to express their appreciation to the members of the drafting team for their valuable input and thoughtful commentary. This project required a significant time commitment by everyone and involved much discussion and compromise to prepare this publication. This was clearly a team effort.

As the Editors-in-Chief for this publication and as Chair of Working Group 9, we would like to personally thank the co-leads—David Long, Mark Selwyn, and Leah Waterland—as well as Jim Ko for their time and dedication in helping prepare

a document that will be of significant benefit to the judiciary and patent bar.

R. Eric Hutz

Former Chair, Working Group 9 Steering Committee

Matthew Powers

Chair, Working Group 9 Steering Committee

David W. Long

Mark Selwyn

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Chapter Editors

I. INTRODUCTION

Technical industry groups often form voluntary organizations to develop and adopt technical standards that advance the state of the technology and allow compatibility among different products made by different manufacturers so that any of those standard-compliant products can work together. For example, an industry group may develop a standard protocol for wireless communication so that wireless signals transmitted by one standard-compliant device can be received and understood by other standard-compliant devices no matter who made them. This *Framework* refers to such industry groups as standard-setting organizations (SSOs), a broad term applicable to a wide variety of organizations that set technical industry standards.

Some SSOs may make seemingly arbitrary decisions for pure compatibility reasons, akin to deciding whether to drive on the left side or right side of the road: either will work equally well, but you must pick one for people to safely use the road.

In contrast, another category of SSOs creates technology and may spur technical innovations and patentable inventions along the way. These will be referred to here as standard-development organizations (SDOs). Standard-essential patent litigation typically involves this latter type of standards development, and as such SDOs are the focus of this publication.

SDOs often have policies concerning what their participants should do if they own intellectual property relevant to a standard that the SDO is developing. Such intellectual property rights (IPR) policies may require participants to disclose to the SDO if they have a patent that might be “essential” for someone to implement the standard (also called a “standard-essential patent” or “SEP”).⁷ The patent owner is typically not required to

7. SDO IPR policies may define what would make a patent *essential* under the standard at issue, which may differ from one SDO to another. The

represent that the patents it declares are actually essential, and SDOs typically do not make an independent determination of whether any identified patents are actually essential to the standard or valid.

IPR policies also may require the patent owner to let the SDO know if it is willing to license patents that are essential to the standard and, if so, under what terms. A common example is that a patent owner may commit to licensing its patents on “fair, reasonable and non-discriminatory” (FRAND) or “reasonable and non-discriminatory” (RAND) terms if those patents are essential to implementing the standard.

Standard-essential patents, including those with F/RAND (hereinafter FRAND) commitments, have been around for decades in all types of industries, but recent years have seen an increase in litigation concerning such patents. This paper explores the issues and distinct processes in the developing area of litigating standard-essential patent disputes in U.S. courts and the U.S. International Trade Commission (ITC).

specific SDO IPR policy at issue should be considered in determining whether a patent is essential to that SDO’s standard.

II. THE SDO COMMITMENT

A. *Different Types of SDO IPR Policies and Terms*

Standard-development organizations generally maintain policies concerning the intellectual property rights relevant to the standards. IPR policies may serve to (1) encourage participants to contribute their patented innovations to the standard, (2) encourage the development of products that implement standards, and (3) reduce the risk of antitrust concerns that may otherwise arise from collaboration among industry participants in the development of a standard.^{8 9}

SDO IPR policies vary. The “fair, reasonable and non-discriminatory” (FRAND) or “reasonable and non-discriminatory” (RAND) licensing commitments typically have some commonalities across SDO IPR policies. Nonetheless, when evaluating any particular SDO’s IPR policy, it is important to consider the specific text of the FRAND commitment and applicable IPR policy, because there may be significant differences from one policy to another. In addition, SDOs may revise their IPR policies from time to time; a different version of the IPR policy may be in

8. As the U.S. Supreme Court wrote in *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988), “[t]here is no doubt that the members of such associations often have economic incentives to restrain competition and that the product standards set by such associations have a serious potential for anticompetitive harm. Agreement on a product standard is, after all, implicitly an agreement not to manufacture, distribute, or purchase certain types of products.” *Id.* at 500. But the Court also recognized that standards can have “significant procompetitive advantages,” provided that the SSO has “procedures that prevent the standard-setting process from being biased by members with economic interests in stifling product competition.” *Id.* at 501.

9. Others may argue that IPR policies may increase the risk of antitrust concerns.

effect depending on the particular date a FRAND commitment was made.

SDO policies may differ in a number of ways, including with respect to the following important policy issues: (1) the type of IPR licensing commitments and when they become applicable, (2) the patent disclosure commitments, (3) the treatment of non-members, (4) obligations of successors to patents with standard-setting commitments, and (5) reciprocity issues.

1. IPR licensing commitments

The SDO commitment may give rise to a variety of different types of obligations to license, usually defined by the SDO's IPR policy. A common SDO approach is to require, or seek voluntary commitments from, participants to license their SEPs on FRAND terms. Other SDOs may require, or seek commitments from, participants to license on "FRAND-Zero" terms—meaning that the licenses would be granted on a royalty-free, reciprocal basis. And other SDOs' policies may not be based on FRAND at all, but may have IPR policies based on other types of licensing terms. And for some that do require FRAND, they may also provide additional detail and information about what FRAND commitment they seek, and how it should be interpreted in the context of their SDO's standards. This *Framework* focuses primarily on FRAND-committed SEPs.

One issue that may arise is the timing of *when* the licensing commitment becomes applicable. For some SDOs, voluntary agreement to be a member in the SDO will include some form of licensing commitment for any standards developed during the term of the membership. For other SDOs, a member's voluntary participation in a particular work stream includes a licensing commitment; that is, the member does not agree to a licensing commitment for *all* standards developed by the organization, but does agree to a licensing commitment for any

standards that it assists in developing. A third approach is that members agree to make IPR “declarations” if and when they become aware that they own IPR that they reasonably believe is or may become essential to a particular standard. For such SDOs, the IPR owner may simultaneously identify the IPR it reasonably believes may be essential, and declare whether or not it will commit to license such IPR on the applicable SDO’s terms. If the IPR owner declines to make the requested commitment, then the SDO may choose to revise the relevant portions of the standard to avoid the IPR. Although an SDO may have a policy that it may consider revising a standard to avoid IPR absent a licensing commitment, in any given case, the SDO may or may not actually do so.

2. Patent declarations

In connection with the IPR commitment, SDOs often require that a patent owner provide notice to the SDO and other participants whenever it learns that it may own a patent that it reasonably believes might be or might become essential to a standard. The identification of particular patents helps the SDO and its participants understand who owns applicable IPR and whether to design around the IPR. This can assist participants in the standard-development process, as well as in subsequent licensing matters.

Some SDOs will accept a “blanket” licensing commitment, whereby the patent owner commits to license any patents that it owns that are, or may become, essential to the particular standard. While such commitments may not include specific identification of particular patents, the “blanket” commitment to license ensures that licenses to any patents owned by the patent owner will remain available. Such approaches can be particularly useful for SDO participants that do not have the resources to regularly review and analyze their patent assets as

compared with the various SDOs with which their business teams are engaged.

3. Enforceability of standard-setting commitments by SDO members and nonmembers

While the issue of whether a standard-setting commitment constitutes a binding contract enforceable by SDO members or third parties depends on the language of the specific SDO IPR policy, courts that have considered this issue have generally held that the specific SDO IPR policies at issue in the matters before them constituted binding contracts, and that members of the SDO or third-party beneficiaries in the form of parties using the standard have standing to sue.¹⁰

Under many SDOs' IPR policies, the persons entitled to the benefit of a FRAND commitment are not limited to members of the SDO. But some SDOs—particularly smaller collaborations—may limit the licensing commitment to participants in the collaboration or may create multiple “tiers” of rights, with preferential terms provided to certain types of participants.

4. Obligations of successors to patents with standard-setting commitments

Some SDOs have included provisions within their IPR policies that seek to ensure that licensing commitments will continue to bind subsequent transferees.¹¹ Some SDOs address this

10. See, e.g., *Microsoft Corp. v. Motorola, Inc. (Microsoft III)*, 696 F.3d 872, 884–85 (9th Cir. 2012); *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp.2d 1061, 1083–84 (W.D. Wis. 2012); *Microsoft Corp. v. Motorola, Inc. (Microsoft II)*, 864 F. Supp.2d 1023, 1031–33 (W.D. Wash. 2012).

11. For example, 6.1bis of the ETSI IPR Policy (“Transfer of Ownership of ESSENTIAL IPR”) reads: “FRAND licensing undertakings made pursuant to Clause 6 shall be interpreted as encumbrances that bind all successors-in-interest. Recognizing that this interpretation may not apply in all legal

as an issue of “circumvention” of the licensing commitment and restrict transfers with the intent of circumventing such obligations. Other SDOs seek more specific commitments by patent owners, such as a commitment to include an agreement to abide by the applicable licensing commitment as part of the contractual patent transfer documents. Some SDOs encourage the treatment of the licensing commitment as an encumbrance on the patent, applicable to the transferee regardless of whether the patent owner has included such express contractual provisions. And some SDOs do not address the issue at all.

5. Reciprocity and defensive suspension

Some SDO IPR policies expressly contemplate that patent owners may refuse to license to prospective licensees who refuse to reciprocate with a cross-license, to the extent as addressed by the IPR policy. Relatedly, SDO IPR policies may include terms addressing “defensive suspension” as to existing licensees, whereby a patent owner may suspend a previously granted license in the event that the licensee sues the patent owner alleging infringement of the licensee’s own patents.

For SDO IPR policies that permit these express terms, issues of the *scope* of reciprocity may or may not be addressed. That is, some IPR policies may state simply that reciprocity is required, but not provide further clarity as to whether such reciprocity

jurisdictions, any Declarant who has submitted a FRAND undertaking according to the POLICY who transfers ownership of ESSENTIAL IPR that is subject to such undertaking shall include appropriate provisions in the relevant transfer documents to ensure that the undertaking is binding on the transferee and that the transferee will similarly include appropriate provisions in the event of future transfers with the goal of binding all successors-in-interest. The undertaking shall be interpreted as binding on successors-in-interest regardless of whether such provisions are included in the relevant transfer documents.” See ETSI IPR Policy, available at <https://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>.

must extend only to SEPs for the relevant standard, to all SEPs relevant to the SDO, or even to non-SEPs. Other SDO IPR policies expressly provide that the scope of reciprocity must be limited to the standard at issue between the parties, or do not address reciprocity at all.

B. Commitment to Disclose Relevant IPR

Problems may arise if a patent holder has committed to timely disclose patents to an SDO but knowingly or in bad faith fails to do so, and later asserts one or more undisclosed patents.

In evaluating what disclosure commitment an SDO participant undertook with the SDO, the Federal Circuit has considered both the express language of the applicable IPR policy and how, in practice, the SDO members treated the language.¹² Even if the written policy does not impose “a direct duty on members . . . expressly requiring disclosure of IPR information,” courts may nonetheless treat the language as imposing a disclosure duty where consistent with the treatment accorded to it by SDO members.¹³ “The existence of a disclosure duty is a legal question with factual underpinnings.”¹⁴

If a disclosure duty is found to exist, the court will turn to determining its scope.¹⁵ In determining the scope of such a duty, the Federal Circuit has looked to the express language of the policy and, to the extent the written language is ambiguous, the

12. See *Rambus Inc. v. Infineon Techs. AG*, 318 F.3d 1081, 1096–98 (Fed. Cir. 2003).

13. *Id.* (treating SDO IPR policy as imposing a disclosure duty notwithstanding that it contained no express disclosure duty, because members treated policy as imposing such).

14. *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004, 1012 (Fed. Cir. 2008).

15. *Id.* at 1017.

expectations of SDO participants.¹⁶ While the Federal Circuit has cautioned against “after-the-fact morphing of a vague, loosely defined policy to capture actions not within the actual scope of that policy,” it has approved of a scope of disclosure requiring SDO participants to disclose patents and other IPR that “reasonably might be necessary” to a standard.¹⁷

The Federal Circuit has analyzed a breach of a duty of disclosure under various legal theories. For example, the Federal Circuit has found the equitable defense of implied waiver applicable in the SDO context where there was “intentional non-disclosure in the face of a duty to speak.”¹⁸ “[A] duty to speak can arise from a group relationship in which the working policy of disclosure of related intellectual property rights (‘IPR’) is treated by the group as a whole as imposing an obligation to disclose information in order to support and advance the purposes of the group.”¹⁹

The Federal Circuit has also recognized that equitable estoppel may be a defense for a patent holder’s breach of its patent disclosure commitments to an SDO.²⁰ “To support a finding of equitable estoppel, the accused must show that ‘[t]he patentee, through misleading conduct, led the alleged infringer to reasonably infer that the patentee does not intend to enforce its patent against the alleged infringer.’”²¹ Conduct, in this circumstance, “may include specific statements, action, inaction, or silence

16. See, e.g., *Rambus*, 318 F.3d at 1098–99.

17. *Id.* at 1100, 1102 n.10; see also *Qualcomm*, 548 F.3d at 1022.

18. See *Qualcomm*, 548 F.3d at 1021 n.8.

19. *Id.* at 1022.

20. *Id.* at 1022–24.

21. *Hynix Semiconductor Inc. v. Rambus Inc.*, 645 F.3d 1336, 1348 (Fed. Cir. 2011) (quoting *A.C. Aukerman Co. v. R.I. Chaides Constr. Co.*, 960 F.2d 1020, 1028 (Fed. Cir. 1992) (en banc)).

where there was an obligation to speak.”²² Other potentially applicable legal theories for a breach of a duty of disclosure may include implied license and laches.

The Federal Circuit has determined that a “district court may in appropriate circumstances order patents unenforceable as a result of silence in the face of an SDO disclosure duty, as long as the scope of the district court’s unenforceability remedy is properly limited in relation to the underlying breach.”²³ District courts generally have considerable discretion to fashion an unenforceability remedy “reflective of the offending conduct.”²⁴ The Federal Circuit ruled in *Core Wireless v. Apple* that in determining whether to declare a patent unenforceable based on implied waiver, a court must consider whether the patentee “inequitably benefitted” from the failure to disclose, or whether the patentee’s conduct was “sufficiently egregious to justify finding implied waiver without regard to any benefit” that the patentee may have obtained as a result of that misconduct.²⁵ On remand, the district court held the patent was unenforceable under the implied waiver doctrine, finding an inequitable benefit where the SEP-licensor’s failure to timely disclose IPR improperly allowed it to obtain licensing fees and increase its licensing leverage over industry participants that manufacture standards-compliant products.²⁶

In contrast, in the ITC’s full Commission decision in *Samsung v. Apple*, the ITC found there was no implied waiver where (1)

22. *Id.* (quoting *Aukerman*, 960 F.2d at 1028).

23. *Qualcomm*, 548 F.3d at 1026.

24. *Id.*

25. *Core Wireless Licensing S.A.R.L. v. Apple Inc.*, 899 F.3d 1356, 1369 (Fed. Cir. 2018).

26. *See Conversant Wireless Licensing S.A.R.L. v. Apple Inc.*, Case No. 15-cv-05008-NC, 2019 WL 4038419, at *6 (N.D. Cal. May 10, 2019).

the accused infringer disputed whether the patents were essential to the standard; (2) the SDO itself had no clear guidance on what constitutes a “timely” disclosure of SEPs to the SDO; and (3) where the patent owner “can hardly be accused of patent hold-up when it has licensed its declared-essential patents . . . to more than 30 companies.”²⁷

C. *Commitment to License IPR*

Generally, a patent owner possesses “the right to exclude others from making, using, offering for sale, or selling the invention”²⁸ and is under no obligation to license its patent. An obligation to offer to license its patent can arise, however, if the patentee voluntarily makes a licensing commitment to an SDO, such as undertaking commitment to license on FRAND or RAND terms and conditions.

1. How the commitment arises

In some instances, an essential patent owner’s agreement to participate in an SDO may include an express agreement to make its essential patents available on FRAND or other licensing terms. In some U.S. cases, actual or potential SEP licensees have been treated as third-party beneficiaries of the contract, and they may possess legally enforceable rights (e.g., the right to seek enforcement of the patent owner’s FRAND commitments).²⁹

27. *In re Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers (Certain Electronic Devices)*, Inv. No. 337-TA-794, 2013 WL 12410037, at *40–41 (U.S.I.T.C. July 5, 2013).

28. 35 U.S.C. § 154(a)(1).

29. *See, e.g., Microsoft Corp. v. Motorola, Inc. (Microsoft I)*, 854 F. Supp.2d 993, 999 (W.D. Wash. 2012) (“Microsoft, as a member of both the IEEE and

2. Duties associated with the commitment

Generally, the meaning of the patent owner's licensing commitment should be found by applying the traditional law of contract interpretation to the specific licensing commitment made by the patent owner. Thus, the inquiry requires examining the language of the governing commitments, the intent of the parties, and the other relevant facts and circumstances.³⁰ For most SDOs, the relevant documents include at least the patent owner's licensing commitment and the SDO's IPR policy. The patent owner's licensing commitment—often called a declaration—typically is the operative agreement, but the licensing commitment uses terminology from the IPR policy (e.g., “fair, reasonable, and nondiscriminatory”) and, therefore, may be construed with reference to the IPR policy.

Depending on the particular content of the contract documents (i.e., the patent owner's licensing commitment and the IPR policy) and the particular facts of the case, other issues may arise in a dispute concerning the obligation to license a patent. For example, a prospective SEP licensee might argue that a particular commitment creates an express or implied license;³¹ that

the ITU, is a third-party beneficiary of Motorola's commitments to the IEEE and ITU.”).

30. For discussion about the public interest, *see infra* Section IV.D (eBay Factor 4).

31. *See, e.g.,* De Forest Radio Telephone & Telegraph Co. v. United States, 273 U.S. 236, 241 (1927) (“Any language used by the owner of the patent or any conduct on his part exhibited to another, from which that other may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license, and a defense to an action for a tort.”); *but cf. In re Innovatio IP Ventures, LLC Patent Litig. (Innovatio I)*, 921 F. Supp.2d 903, 915 (N.D. Ill. 2013) (“The existence of an obligation to license a patent on RAND terms, without more, is not an actual express license providing a defense to infringement.”). “The doctrines of legal estoppel and equitable estoppel have been applied by courts to imply

the patent owner is equitably estopped from asserting its patent;³² that the patent owner waived its patent rights, expressly or impliedly; or that the patent owner's conduct runs in contravention of the competition laws.³³ The merit of each of these arguments, however, depends on the applicable facts.

Some litigants may argue that it is a competition law violation to fail to abide by a commitment to disclose relevant patents to an SDO or to license SEPs on FRAND or other licensing terms; others, however, may argue that mere failure to disclose or breach of a licensing commitment alone does not give rise to a competition law violation.³⁴

a license." *Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1080 (Fed. Cir. 1987).

32. *Aspex Eyewear Inc. v. Clariti Eyewear, Inc.*, 605 F.3d 1305, 1310 (Fed. Cir. 2010); *Hynix Semiconductor Inc. v. Rambus Inc.*, 645 F.3d 1336, 1347–48 (Fed. Cir. 2011).

33. *Barnes & Noble, Inc. v. LSI Corp.*, 849 F. Supp.2d 925, 931–32 (N.D. Cal. 2012).

34. *See generally* *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297 (3d Cir. 2007); *but see* *Saint Lawrence Commc'ns. LLC v. Motorola Mobility LLC*, No. 2:15-CV-351-JRG, 2018 WL 915125, at *6-7 (E.D. Tex. Feb. 15, 2018) (*Broadcom* and other cited cases do not "stand for the proposition that a breach of FRAND obligations constitutes patent misuse" and "[w]hile a breach of FRAND obligations may be relevant to this inquiry, a breach of FRAND is not determinative of patent misuse."). *See also* *FTC v. Qualcomm (FTC IV)*, 969 F.3d 974, 1005 (9th Cir. 2020) ("To the extent Qualcomm has breached any of its FRAND commitments, a conclusion we need not and do not reach, the remedy for such a breach lies in contract and patent law."); *Continental Automotive Systems, Inc. v. Avanci, LLC*, 485 F. Supp. 3d 712 (N.D. Tex. 2020).

In addition, the Federal Trade Commission has brought three enforcement actions against firms for the failure to disclose information regarding patent rights during the standard-setting process. *See* *Complaint, In re Dell Computer Corp.*, F.T.C. Docket No. C-3658, 121 F.T.C. 616 (May 20, 1996); *Complaint, In re Union Oil Co. of Cal.*, F.T.C. Docket No. 9305, 2005 WL

3. Available remedies for breach of FRAND commitment

If an essential patent owner is held to have breached its commitment to license its SEP on FRAND terms, then a court may order any available remedy, such as damages or specific performance (e.g., that the essential patent owner offer to license its SEP to the standard licensee on FRAND terms). The court may be called upon to determine whether a given offer by the patent owner or counteroffer by the prospective licensee is FRAND. If the essential patent owner sues for patent infringement and seeks injunctive relief, the standard licensee may argue that the patent owner should be precluded from seeking such relief as a violation of the FRAND commitment; may assert as a defense to injunctive relief that the essential patent owner breached its FRAND commitment by failing to offer a license on FRAND terms and is therefore not entitled to an injunction;³⁵ may argue that the seeking of an injunction itself is a breach of contract given the FRAND commitment made by the essential patent

2003365 (Aug. 2, 2005); *Rambus, Inc. v. F.T.C.*, 522 F.3d 456 (D.C. Cir. 2008). Likewise, the Commission has brought three enforcement actions against firms for failing to abide by licensing commitments made during the standard-setting process, including the FRAND commitment. *See* Complaint, *In re* Negotiated Data Solutions, LLC, F.T.C. Docket No. C-4234, 2008 WL 4407246 (Sept. 22, 2008); Complaint, *In re* Robert Bosch GmbH, F.T.C. Docket No. C-4377, 2012 WL 5944820 (Nov. 21, 2012); Complaint, *In re* Motorola Mobility, LLC and Google Inc., F.T.C. Docket No. C-4410, 2013 WL 3944149 (July 23, 2013).

35. *See, e.g., Apple Inc. v. Motorola, Inc. (Motorola)*, 757 F.3d 1286, 1331–32 (Fed. Cir. 2014), *overruled on other grounds by Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015); *see also Microsoft III*, 696 F.3d 872, 889 (affirming the district court's grant of a foreign anti-suit injunction to prevent Motorola from enforcing a patent injunction that it obtained against Microsoft in Germany).

owner;³⁶ may argue that the seeking of an injunction itself forms part of a competition law violation (e.g., of the Sherman Act);³⁷ or may argue that an injunction is generally unavailable for infringement of SEPs under the standard set forth in *eBay*.³⁸

In contrast, the patent owner may argue that it has a First Amendment right to petition the court to grant injunctive relief,³⁹ which a court has discretion to grant upon considering defenses raised by the accused infringer, such as a FRAND defense.⁴⁰ Further, a patent owner may argue that a prospective licensee is an unwilling licensee or otherwise has not satisfied its obligations in order to benefit from the patent owner's

36. *Apple Inc. v. Samsung Elecs. Co.*, No. 11-cv-1846, 2012 WL 1672493, at *9 (N.D. Cal. May 14, 2012); *Microsoft Corp. v. Motorola, Inc. (Microsoft VI)*, 795 F.3d 1024, 1047–49 (9th Cir. 2015).

37. *Huawei Techs. Co. v. T-Mobile US, Inc.*, No. 2:16-cv-00052, 2017 WL 3928836 (E.D. Tex. Aug. 21, 2017); *Microsoft Mobile Inc. v. Interdigital, Inc.*, No. 15-723-RGA, 2016 WL 1464545, at *1–2 (D. Del. Apr. 13, 2016).

38. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006); *see generally infra*, Section IV (Injunctive Relief).

39. *See, e.g., Apple, Inc. v. Motorola Mobility*, 886 F. Supp.2d 1061, 1076 (W.D. Wis. 2012) (“Because Motorola’s enforcement of its patents is privileged conduct protected by the First Amendment, the *Noerr-Pennington* doctrine applies.”); *Innovatio I*, 921 F. Supp.2d 903, 922 (N.D. Ill. 2013) (“Accordingly, Innovatio’s campaign is protected petitioning activity under the First Amendment and *Noerr-Pennington*.”); *TCL Commc’ns Tech. Holdings, Ltd. v. Telefonaktienbolaget LM Ericsson et al.*, Case No. SACV 14-0341, 2016 WL 7049263, at *2–4 (C.D. Cal. Aug. 9, 2016) (dismissing competition law claims under *Noerr-Pennington* and because “business uncertainty” from SEP lawsuit was not a cognizable “economic injury”), vacated on Seventh Amendment Grounds, 943 F.3d 1360 (Fed. Cir. 2019).

40. *See Motorola*, 757 F.3d at 1331–32 (no “per se rule that injunctions are unavailable for SEPs”; court should consider FRAND and SEP issues under the general *eBay* framework in exercising discretion whether to enter injunctive relief).

FRAND commitment.⁴¹ The patent owner may argue that the prospective licensee should be enjoined from using the patented technology, that the prospective licensee should pay some royalty during the course of the litigation, that any license to an unwilling licensee does not need to be limited to FRAND terms, or that the prospective licensee should pay enhanced damages or royalties for willful infringement or such other relief that the court deems appropriate in the circumstances.⁴²

D. Examples of FRAND Licensing Commitments

Below we consider the IPR licensing policies of two SDOs: the European Telecommunications Standards Institute (ETSI), and the Institute of Electrical and Electronics Engineers (IEEE) (both its IPR policy effective 2007 and its IPR policy effective 2015). We do so not because the policies of these SDOs are representative of the IPR policies of SDOs generally, or to suggest that any approach taken is to be viewed more favorably than approaches taken in other SDO IPR policies; we provide them for the sole purpose of helping illuminate some approaches that

41. See *Microsoft Corp. v. Motorola, Inc.*, No. 10-1823, 2012 WL 395734, at *4 (W.D. Wash. Feb. 6, 2012) (denying motion to dismiss a request for declaration that Motorola repudiated its right to a RAND license); *HTC Corp. v. Telefonaktiebolaget LM Ericsson*, No. 6:18CV-00243-JRG, 2018 WL 6617795, at *7 (E.D. Tex. Dec. 17, 2018) (denying motion to dismiss claims seeking, among other things, a declaration that prospective licensee forfeited rights to a FRAND license “by refusing to undertake good-faith negotiations”); *In re Qualcomm Litig.*, No. 3:17-cv-00108-GPC-MDD, Dkt. 1042, at 12-13 (S.D. Cal. Mar. 20, 2019) (denying motion to dismiss claim seeking declaration that prospective licensee was an unwilling licensee).

42. See *Core Wireless Licensing S.A.R.L. v. LG Electronics, Inc. et al.*, Case No. 2:14-cv-00912-JRG, Dkt. 130, at 1-2 (E.D. Tex. Mar. 7, 2019) (enhancing damages for willful infringement due to defendant’s license negotiation conduct).

have been taken by some SDOs with respect to some areas of controversy that often arise in SEP/FRAND litigation.

1. European Telecommunications Standards Institute

ETSI is a leading standardization organization for Information and Communication Technology (ICT) standards. It has over 900 member organizations drawn from over 60 countries and five continents and plays a leading role in cellular standards. Since its founding in 1988, ETSI has published thousands of standards.

ETSI describes the significance of FRAND licensing within its IPR policy as follows: “The ETSI IPR Policy seeks to reduce the risk that our standards-making efforts might be wasted if essential IPRs are unavailable under Fair, Reasonable and Non-Discriminatory (FRAND) terms and conditions. At the same time, we recognize that IPR holders should be fairly and adequately rewarded for the use of their IPRs in the implementation of our standards. The objective of the ETSI IPR Policy is to balance the rights and interests of IPR holders and the need for standard licensees to get access to the technology defined in our standards under FRAND terms and conditions.”⁴³

The ETSI IPR policy does not require participants to commit to licensing patents on FRAND terms, but it does require participants to state whether they are willing to do so. The ETSI IPR policy sets forth the following FRAND commitment for its members:

an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory (“FRAND”) terms and conditions under such IPR to at least the following extent:

43. ETSI IPR POLICY § 3.1 (Apr. 3, 2019), available at <http://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>.

- MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensee's own design for use in MANUFACTURE;
- sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;
- repair, use, or operate EQUIPMENT; and
- use METHODS.

The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate.⁴⁴

Manufacture is defined as "production of EQUIPMENT."⁴⁵ Equipment is defined as "any system, or device fully conforming to" the standard.⁴⁶

The ETSI IPR policy does not contain explicit guidance on what constitutes FRAND terms. The ETSI Guide on Intellectual Property Rights states: "Specific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI."⁴⁷

ETSI has an IPR policy as well as a Guide on Intellectual Property Rights. Below is an excerpt from the guide that includes the IPR policy's definition of the term "ESSENTIAL":

Section 15.6 of the ETSI IPR Policy gives the following definition of essentiality:

44. *Id.* § 6.1.

45. *Id.* § 15.8.

46. *Id.* § 15.4.

47. ETSI GUIDE ON INTELLECTUAL PROPERTY RIGHTS (IPRS) § 4.1 (Sept. 19, 2013), available at <http://www.etsi.org/images/files/IPR/etsi-guide-on-ipr.pdf>.

“ESSENTIAL as applied to IPR means that 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 that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringements of IPRs, all such IPRs shall be considered ESSENTIAL.”⁴⁸

In simpler terms, an “essential IPR” is an IPR that has been included within a standard and where it would be impossible to implement the standard without making use of this IPR. The only way to avoid the violation of this IPR in respect of the implementation of the standard is therefore to request a license from the owner.

2. Institute of Electrical and Electronics Engineers

The IEEE is the world’s largest association of technical professionals and has published thousands of standards in a wide range of industries, including telecommunications, information technology, power, and networking.

The IEEE has maintained an IPR policy that has undergone various updates over time. Summarized below are portions of the IPR policies in effect as of 2007 and 2015.⁴⁹ There may be

48. *Id.* § 15.6.

49. For current version of the IEEE IPR Policy, see IEEE-SA STANDARD BOARD BYLAWS § 6. PATENTS (Dec. 2017), available at <https://standards.ieee.org/about/policies/bylaws/sect6-7.html>.

portions of these policies not summarized below that are pertinent to a particular dispute.

a. 2007 update

In 2007, the IEEE's IPR policy relied on the submission of a "Letter of Assurance" (LOA) from holders of a "potential Essential Patent Claim." The LOA may indicate that the patent owner commits to license its patents on specific terms, or it may indicate that the patent owner would not commit as to whether or on what terms the patent may be licensed. The policy indicates that if a licensing commitment was given, the licensing assurance had to be either:

- a) A general disclaimer to the effect that the Submitter without conditions will not enforce any present or future Essential Patent Claims against any person or entity making, using, selling, offering to sell, importing, distributing, or implementing a compliant implementation of the standard; or
- b) A statement that a license for a compliant implementation of the standard will be made available to an unrestricted number of applicants on a worldwide basis without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination.

The 2007 IPR policy defined "Essential Patent Claims" to mean any patent claim "the use of which was necessary to create a compliant implementation of either mandatory or optional portions of the normative clauses of the [Proposed] IEEE Standard when, at the time of the [Proposed] IEEE Standard's approval, there was no commercially and technically feasible non-infringing alternative." The policy also stated that an essential patent claim did "not include any Patent Claim that was essential only for Enabling Technology or any claim other than that

set forth above even if contained in the same patent as the Essential Patent Claim.” “Patent Claim,” in turn, meant “one or more claims in issued patent(s) or pending patent application(s).”

b. 2015 update

In 2015, the IEEE updated its IPR policy.⁵⁰ The IEEE stated that its updated policy was intended to clarify (though there is dispute within the industry over whether this was a clarification or amendment) the scope of commitments from parties holding patent claims essential to IEEE standards regarding (1) the availability of “Prohibitive Orders”; (2) the meaning of “Reasonable Rate”; (3) the production levels (e.g., manufactures of components or sub-assemblies, or end use products) to which IEEE commitments apply through the definition of Compliant Implementation; and (4) permissible demands for reciprocal licenses.

The IEEE’s 2015 IPR policy relies on the submission of a letter of assurance from holders of a “potential Essential Patent Claim.” The LOA may indicate that the patent owner commits to license its patents on specific terms, or it may indicate that the patent owner would not commit as to whether or on what terms the patent may be licensed. If a licensing commitment is given, the licensing assurance shall be either:

- a) A general disclaimer to the effect that the Submitter without conditions will not enforce any present or future Essential Patent Claims against any person or entity making, having made, using, selling, offering to sell, or importing any Compliant Implementation that

50. The 2015 Update was the subject of considerable debate among various technology companies prior to its approval by IEEE members. Certain opponents of the update continued to express their disagreement after the new language was approved.

practices the Essential Patent Claims for use in conforming with the IEEE Standard; or,

b) A statement that the Submitter will make available a license for Essential Patent Claims to an unrestricted number of Applicants on a worldwide basis without compensation or under Reasonable Rates, with other reasonable terms and conditions that are demonstrably free of any unfair discrimination to make, have made, use, sell, offer to sell, or import any Compliant Implementation that practices the Essential Patent Claims for use in conforming with the IEEE Standard. An Accepted LOA that contains such a statement signifies that reasonable terms and conditions, including without compensation or under Reasonable Rates, are sufficient compensation for a license to use those Essential Patent Claims and precludes seeking, or seeking to enforce, a Prohibitive Order except as provided in this policy.

Among other differences, the 2007 IEEE LOA language did not include the last sentence in sub-paragraph (b), or use the defined terms “Compliant Implementation,” “Prohibitive Order,” or “Applicant” introduced in the 2015 update.

The 2015 IPR policy defined “Essential Patent Claims” to mean any patent claim “the practice of which was necessary to implement either a mandatory or optional portion of a normative clause of the IEEE Standard when, at the time of the IEEE Standard’s approval, there was no commercially and technically feasible non-infringing alternative implementation method for such mandatory or optional portion of the normative clause.” The policy also states that an essential patent claim “does not include any Patent Claim that was essential only for Enabling Technology or any claim other than that set forth above even if contained in the same patent as the Essential Patent Claim.”

“Patent Claim,” in turn, means “one or more claims in issued patent(s) or pending patent application(s).”

The IEEE’s 2015 policy sets forth specific guidance for licensing on reasonable and nondiscriminatory (RAND) terms, including the following:

- *Reasonable licensing rate:* The IEEE policy contains a definition for what constitutes a “Reasonable Rate” for a license to an “Essential Patent Claim.” A “Reasonable Rate” means “appropriate compensation to the patent holder” but “exclud[es] the value, if any, resulting from the inclusion of that Essential Patent Claim’s technology in the IEEE Standard.” The 2007 IEEE policy did not include an express definition of “Reasonable Rate.”

The IEEE policy also lists three additional factors that should be considered in (but need not be limited to) the determination of a “Reasonable Rate”; these factors were not listed in the 2007 IEEE policy:

- “The value that the functionality of the claimed invention or inventive feature within the Essential Patent Claim contributes to the value of the relevant functionality of the smallest saleable Compliant Implementation that practices the Essential Patent Claim.”
- “The value that the Essential Patent Claim contributes to the smallest saleable Compliant Implementation that practices that claim, in light of the value contributed by all Essential Patent Claims for the same IEEE Standard practiced in that Compliant Implementation.”
- “Existing licenses covering use of the Essential Patent Claim, where such licenses were not obtained

under the explicit or implicit threat of a Prohibitive Order, and where the circumstances and resulting licenses are otherwise sufficiently comparable to the circumstances of the contemplated license.”

- ***Non-discrimination:*** The licensing assurance requires patent holders to license their essential patent claims “for any Compliant Implementation.” “Compliant Implementation” means “any product (e.g., component, sub-assembly, or end-product) or service that conforms to any mandatory or optional portion of a normative clause of an IEEE Standard.” The 2007 IEEE policy did not include an express definition of “Compliant Implementation.”
- ***Limitations on availability of injunctions:*** The submitter of a licensing assurance is prohibited from seeking, or seeking to enforce, a “Prohibitive Order” (e.g., an injunction or exclusion order), except in the circumstance where “the implementer fails to participate in, or to comply with the outcome of, an adjudication, including an affirming first-level appellate review, if sought by any party within applicable deadlines, in that jurisdiction by one or more courts that have the authority to: determine Reasonable Rates and other reasonable terms and conditions; adjudicate patent validity, enforceability, essentiality, and infringement; award monetary damages; and resolve any defenses and counterclaims.” The 2007 IEEE policy did not include an express definition of “Prohibitive Order.”
- ***Reciprocity:*** The submitter of a licensing assurance may condition its willingness to license on reciprocal licensing, that is, “the Applicant’s agreement to grant a license to the Submitter with Reasonable

Rates and other reasonable licensing terms and conditions to the Applicant's Essential Patent Claims, if any, for the referenced IEEE Standard, including any amendments, corrigenda, editions, and revisions." The 2007 IEEE policy did not include an express definition of "Reciprocal Licensing."

III. FRAND ANALYSIS

A. *General Overview*

This section addresses methodologies that U.S. courts have considered so far on what constitutes a fair, reasonable, and nondiscriminatory royalty for SEPs in U.S. litigation. General law on how to determine a reasonable royalty for patents has been applied to determining a FRAND royalty for SEPs but has been tailored to the specific circumstances presented by standardization and the FRAND commitment at issue.

Because not all FRAND commitments are the same, it is important when applying the principles presented herein to do so based on the specific FRAND commitment at issue.

It is important to understand the limited scope of this section. These limitations include:

- This section concerns determining a FRAND royalty in U.S. litigation before a judge or jury, which has substantive and procedural issues that may or may not translate directly into parties determining a FRAND royalty in bilateral negotiations outside of litigation or in non-U.S. litigation.
- This section largely concerns litigation to determine only a monetary FRAND royalty without determining nonmonetary terms that may be a component of real-world FRAND licensing. At least one court has further determined other material terms for an adjudicated FRAND license.⁵¹ This case was later

51. See *TCL Comm'n Tech. Holdings Ltd. v. Telefonaktienbolaget LM Ericsson*, No. 8:14-cv-00341-JVS-DFM, Dkt. 1802 (C.D. Cal. Dec. 21, 2017).

vacated by the Federal Circuit on Seventh Amendment grounds.⁵²

This *WG9 Framework for Analysis of SEP and FRAND Licensing and Royalty Issues* incorporates by reference *The Sedona Conference Commentary on Patent Reasonable Royalty Determinations* addressing the history of the reasonable royalty in patent cases and providing Principles and Best Practice recommendations for reasonable royalty determinations.⁵³

We note that this section addresses two scenarios: litigation for infringement of an SEP, and litigation to determine the FRAND royalty rate associated with one or more such patents. We address potential differences in those analyses first below.

B. General Factors for a Reasonable Royalty Determination as Applied in the FRAND Context

1. Possible differences between contract law and patent damages law

Determining a FRAND royalty under the law governing a party's SDO commitment—typically contract law—may be different from the determination of patent infringement damages under 35 U.S.C. § 284. The extent of such differences may be unsettled and is disputed. As noted in Section II.A (The SDO Commitment—Different Types of SDO IPR Policies and Terms) above, courts have held that FRAND commitments under SDO IPR Policies are binding contracts.

When adjudicating whether offered terms and conditions are FRAND, a court should look first to the SDO IPR Policy and the patent owner's commitment in question. As in a traditional

52. *TCL Commc'n Tech. Holdings v. Telefonaktiebolaget LM Ericsson*, 943 F.3d 1360 (Fed. Cir. 2019).

53. *Reasonable Royalty Determinations Commentary*, *supra* note 1.

contract case, the court should analyze the specific terms of the SDO IPR Policy to determine the scope and meaning of the commitment of the contracting parties (the SEP holder and the SDO). When the SDO IPR Policy is governed by foreign law, this will require application of foreign contract interpretation principles.⁵⁴ As part of the analysis, the court should consider whether the IPR Policy sets forth requirements for, among other things, how FRAND royalties should be calculated, the license terms and conditions that an SEP holder must offer, and/or the entities to which an SEP holder must license. In the event that the SDO policy is silent or ambiguous with respect to the issue(s) in dispute, however, then the court should look to the applicable law governing the contract.

Some may argue that a particular royalty may be FRAND, independent of particular strictures of U.S. patent damages law.

54. *See, e.g.* TCL Commc'n Tech. Holding, Ltd. v. Telefonaktiebolaget LM Ericsson, 2018 WL 4488286, at *54–56 (C.D. Cal. Sept. 14, 2018) (applying French law as per the terms of the ETSI policy at issue), vacated on Seventh Amendment Grounds, 943 F.3d 1360 (Fed. Cir. 2019).

This document focuses on FRAND and patent damages cases from the United States, but breach of FRAND claims may involve more than just U.S. patents and arise in the context of global portfolio licensing of patents from the U.S. and several other countries. In those cases, the parties may agree that the license offer to be adjudicated would cover multiple countries. This raises the issue of whether and how a U.S. court can adjudicate a FRAND claim involving the laws in other countries. *See generally* Unwired Planet Int'l Ltd v. Huawei Techs. Co. [2017] EWHC 711 (Pat) (U.K. patents court setting a global FRAND rate absent consent of the parties); Unwired Planet Int'l Ltd v. Huawei Techs. Co. [2018] EWCA Civ 2344 (court of appeal affirming in relevant part); Unwired Planet Int'l Ltd. v. Huawei Technologies (UK) Co., Ltd., [2020] (UK Supreme Court affirming in relevant part) <https://www.supremecourt.uk/cases/uksc-2018-0214.html>.

A framework for analysis for this topic and more will be the subject of the forthcoming Sedona WG9 drafting team on SEP/FRAND and FRAND Licensing and Royalty Issues—"Global Edition."

Under this view, a negotiated royalty is a bargained-for exchange and need not match exactly what a court might award as damages in a patent infringement case. In a contractual setting, the parties are free to agree on commercially convenient terms for royalties and other matters. When litigating a reasonable royalty under Section 284 in a patent infringement case, damages are assessed in accordance with a certain legal framework.⁵⁵ Because the contractual approach and the patent-law approach differ substantively, they may lead to different results.⁵⁶ Proponents of this view may further argue that the SDO IPR policy at issue was entered into prior to some of the litigation damages methodologies used in some court decisions or is not governed by U.S. law; therefore it may be improper to incorporate certain judicially developed damages methodologies into the patent owner's contractual commitment to the SDO.

Others, however, disagree. Under the contrary view, FRAND commitments necessarily incorporate underlying law on patent damages. Put another way, the argument goes, when a party agrees to license its patents for a "reasonable" royalty rate, the party has implicitly agreed to the substantive law governing how to calculate a reasonable royalty rate. The fact that parties to a contract *might* agree to a rate that is different from what would be available under patent damages law is irrelevant, because the parties *have* agreed to a "reasonable" royalty. Thus, proponents argue, a FRAND rate is, by definition,

55. See *Saint Lawrence Commc'ns LLC v. ZTE Corp*, No. 2:15-cv-349-JRG, 2017 WL 679623, at *1-3 (E.D. Tex. Feb. 21, 2017) (hypothetical royalty rate for SEP based on presumption that patent is valid and infringed may be higher than rate of proposed comparable license, because the comparable license royalty rate may have been skewed low by litigation uncertainty and cost discount given for license negotiated without litigation).

56. See, e.g. *HTC Corp. v. Telefonaktiebolaget LM Ericsson*, No. 6:18CV-00243-JRG, 2018 WL 6617795 (E.D. Tex. Dec. 17, 2018).

consistent with patent damages law principles articulated by courts. Thus, if there is a dispute over whether the FRAND rate offered by the SEP licensor is not in compliance with its FRAND commitment, then proponents of this view may argue that this determination inherently requires the application of the applicable patent damages law.

The debate is not necessarily binary. Proponents of the former view may acknowledge that some elements of patent damages law may be relevant to contract damages. And those who endorse the latter view may also agree that certain aspects of damages law require adjustment in a FRAND context.

The analysis below, therefore, may apply in two conceptually distinct contexts. In a patent infringement lawsuit, a court is bound to apply patent damages law rather than contract law, and therefore the considerations outlined in this section apply on their own terms. In a litigation to determine FRAND royalty rates, the arguments may apply depending on the court's views on the relevance of patent damages law in the contract context.

2. Selective *Georgia-Pacific* factors in the context of FRAND

Title 35, section 284, of the U.S. Code states that a patent claimant that proves infringement shall be awarded “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.” Different methodologies may be used to determine a reasonable royalty. One common method—but not the only one—for determining what constitutes a “reasonable royalty” for a given patent is guided by a number of considerations drawn from *Georgia-Pacific v. U.S. Plywood*,⁵⁷ which attempts “to ascertain the royalty upon which the parties would

57. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

have agreed had they successfully negotiated an agreement just before infringement began.”⁵⁸ This methodology is often termed a “hypothetical negotiation,” and the litigated reasonable royalty rate is the result of such a hypothetically negotiated license.

The *Georgia-Pacific* factors considered to determine the reasonable royalty rate for the hypothetically negotiated license are as provided below:

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 non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.
4. The licensor’s established policy and marketing program to maintain his 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.
6. The effect of selling the patented specialty in promoting sales of other products of the licensee; that existing value of the invention to the licensor as a

58. *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009).

generator of sales of his non-patented items; and the extent of such derivative or convoyed sales.

7. The duration of the patent and the term of the license.
8. The established profitability of the product made under the patent; its commercial success; and its current popularity.
9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.
10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.
11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.
12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.
13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.
14. The opinion testimony of qualified experts.
15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if

both had been reasonably and voluntarily trying to reach an agreement⁵⁹

Although the *Georgia-Pacific* analysis captures certain potentially important considerations for calculating a reasonable royalty, it is not a one-size-fits-all test.⁶⁰ Indeed, the Federal Circuit has declined to adopt categorical bright-line modifications to the *Georgia-Pacific* factors themselves in any case, including those involving SEPs subject to a FRAND commitment.⁶¹ Rather, the *Georgia-Pacific* factors must be tailored, omitted, and modified as necessary in each particular case to account for the specific circumstances presented, which includes the specific FRAND or other standard-setting commitment at issue in the case.⁶² “In a case involving RAND-encumbered patents, many of the *Georgia-Pacific* factors simply are not relevant; many are even contrary to RAND principles.”⁶³ Courts should consider the facts of record when instructing the jury, including the actual standard-setting commitment at issue in any given case.⁶⁴

Accordingly, the following discussion addresses each of the fifteen *Georgia-Pacific* factors in the context of a patent subject to a standard-setting commitment. Because not all FRAND commitments are the same, the discussion below is provided as general guidance. The specific FRAND commitment at issue should

59. See *Georgia-Pacific*, 318 F. Supp. At 1120.

60. See e.g., *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1230 (Fed. Cir. 2014).

61. See *id.* at 1230–32.

62. See *id.*; *Commonwealth Sci. & Indus. Research Org. v. Cisco Sys. Inc. (CSIRO)*, 809 F.3d 1295, 1305 (Fed. Cir. 2015).

63. *Ericsson*, 773 F.3d at 1230.

64. *Id.* at 1230–32.

be considered to determine whether and to what extent a factor applies in a particular case.⁶⁵

- **Factor 1: The royalties received by the patentee for the licensing of the patent-in-suit, proving or tending to prove an established royalty.**

Factor 1 concerns licenses that include the patents-in-suit. A key issue is whether and to what extent such licenses are “comparable” to the hypothetically negotiated license at issue in the litigation, as discussed in Factor 15 below.

Section III.B.4 below addresses comparable licenses in the FRAND context.

- **Factor 2: The rates paid by the licensee for the use of other patents comparable to the patent-in-suit.**

Factor 2 concerns licenses that do not include the patents-in-suit, but a party asserts licenses comparable to the hypothetically negotiated license at issue in the litigation. Section III.B.4 below addresses comparable licenses in the FRAND context.

- **Factor 3: The nature and scope of the license, as exclusive or non-exclusive or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.**

Factor 3 concerns whether the hypothetically negotiated license would have broad or limited scope, such as a grant of an exclusive right to practice the licensed invention, a field of use, geographic area restriction, or other terms affecting its scope. A FRAND commitment, however, would preclude the patent owner from granting an exclusive license that allows only one entity to practice the invention.

- **Factor 4: The licensor’s established policy and marketing program to maintain his patent monopoly**

65. *Id.*

by not licensing others to use the invention or by granting licenses under special conditions designed to preserve the monopoly.

Factor 4 concerns whether the patent owner has limited the practice of its invention to itself or only a select set of others under conditions that preserve the patent monopoly and prevent others from practicing the invention. A FRAND commitment generally will prevent the patent owner from maintaining that type of monopoly.⁶⁶ But some SDO IPR policies do allow FRAND commitments with reciprocity or defensive suspension provisions that may allow the patent owner to either: (1) not license others, such as an entity that refuses to give a cross-license on its SEPs, or (2) suspend a license granted to others, such as an entity that sues the patent owner.⁶⁷ Thus, the specific FRAND commitment must be considered in the context of the case presented, such as whether that commitment has reciprocity, defensive suspension, or other conditions relevant to the case.

- **Factor 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.**

Factor 5 concerns the commercial relationship between the parties, such as whether they are competitors, which would

66. *See id.* at 1230 (“Because of Ericsson’s RAND commitment, however, it cannot have that kind of policy for maintaining a patent monopoly.”).

67. *See* ETSI IPR Policy, § 6 (“The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate.”), Appendix A (“This irrevocable undertaking is made subject to the condition that those who seek licences agree to reciprocate (check box if applicable).”); *see also* Bluetooth Patent/Copyright License Agreement, § 5 (allowing the owner of Bluetooth essential patents to change the license grant if it is sued under certain circumstances).

tend to increase the reasonable royalty in a typical patent case. However, the “non-discrimination” part of a FRAND commitment will preclude the patent owner from increasing the reasonable royalty because they are competitors.⁶⁸

- **Factor 6: The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or conveyed sales.**

Factor 6 concerns the patented technology’s contribution to increased sales or promotion of the licensor’s and licensee’s other products, which would tend to increase the reasonable royalty. In applying this factor to a FRAND-committed SEP, care should be taken to avoid including sales or promotional value for other products that are attributable solely to the fact of inclusion in the standard unrelated to the value of the patented technology.

- **Factor 7: The duration of the patent and the term of the license.**

Factor 7 concerns the duration of the patent and the hypothetically negotiated license. One court found that the hypothetical license term would cover the life of a RAND-committed SEP.⁶⁹ But real-world licenses often have limited durations, and the parties may present evidence that a different license term would have been agreed to during the hypothetical negotiation.

68. *Id.* at 1231 (finding in that case factor 5 “irrelevant because Ericsson must offer licenses at a non-discriminatory rate”); see *infra* Section III.C.1 (Non-Discrimination).

69. *Microsoft Corp. v. Motorola, Inc. (Microsoft V)*, No. C10-1823, 2013 WL 2111217, at *19 (W.D. Wash. Apr. 25, 2013).

- **Factor 8: The established profitability of the product made under the patents; its commercial success; and its current popularity.**

Factor 8 includes consideration of the commercial success and popularity of the products that include the patented invention. In applying this factor in a case involving a FRAND-committed SEP, care must be taken to ensure that the commercial success or popularity considered is that which is attributable to the merits of the patented invention and not what is attributable to the technology being required by the standard.⁷⁰ For example, a court should consider whether a patented technology was selected for standardization arbitrarily among equally beneficial alternatives or because it was technically superior to available alternatives.

- **Factor 9: The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.**

Factor 9 concerns the patented technology's advantages over older technology that was used to achieve similar results. In applying this factor to a FRAND-committed SEP, the parties should consider the extent to which the accused product uses the patented invention because it is an improvement over older technology versus its use because it is essential to the standard.⁷¹ Parties can present evidence in the specific case to determine whether and to what extent this factor is relevant to the facts in the case.

70. See *Ericsson*, 773 F.3d at 1231 (“an invention’s ‘current popularity’ . . . is likely inflated because a standard requires the use of the technology”); see also *CSIRO*, 809 F.3d 1295, 1305 (Fed. Cir. 2015) (district court should consider “the standard’s role in causing commercial success”).

71. *Ericsson*, 773 F.3d at 1231 (“Factor 9 . . . 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.”).

Section III.B.3.a-b below addresses arguments that parties may raise as to whether the time period to consider older technology should include when the standard was adopted as well as whether such alternative technology should be limited to what the standards body actually considered when adopting the standard. The law is not settled on these points.

- **Factor 10: The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.**

Factor 10 considers the commercial embodiment of the licensor, including, among other things, the accused infringing product's benefit from use of the invention. For a FRAND-committed SEP, care should be taken to apportion the benefit from use of the invention itself from benefits that arise merely because of standardization.⁷²

Section III.B.3.a-b below discusses the relevant time period when considering benefits from the invention compared to alternatives.

- **Factor 11: The extent to which the infringer has made use of the invention, and any evidence probative of the value of that use.**

Factor 11 is generally considered along with Factor 10 discussed above.

- **Factor 12: The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.**

72. *See id.* (stating that factor 10 "is also irrelevant as the standard requires the use of the technology").

This factor concerns the customary portion of profits allowed for use of the patented invention and may be considered when addressing comparable licenses, which is discussed in Section III.B.4 (Comparable Licenses) below.

- **Factor 13: The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.**

Factor 13 concerns apportioning value attributable to the claimed invention from other nonpatented features of the product. The issue of apportionment of a royalty base or a royalty rate is addressed in The Sedona Conference *Commentary on Patent Reasonable Royalty Determinations*.⁷³ The application of these apportionment issues in the context of SEP/FRAND cases is addressed in Section III.B.4 below.

The fact that a patent is standard-essential will require an apportionment analysis, regardless of whether that patent is subject to a standard-setting commitment. *Ericsson* makes clear that “[a]s with all patents, the royalty rate for SEPs must be apportioned to the value of the patented invention.”⁷⁴ The Federal Circuit explained that:

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

73. *Reasonable Royalty Determinations Commentary*, *supra* note 1.

74. *Ericsson*, 773 F.3d at 1232.

incremental value that the patented invention adds to the product, not any value added by the standardization of that technology.⁷⁵

Thus, “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” and a “jury must be instructed accordingly.”⁷⁶ “[P]roof of damages” must be “carefully tied to the claimed invention itself.”⁷⁷ To be sure, that does not mean “that all SEPs make up only a small part of the technology in the standard.”⁷⁸ Instead, “if a patentee can show that his invention makes up ‘the entire value of the’ standard, an apportionment instruction probably would not be appropriate.”⁷⁹

- **Factor 14: The opinion testimony of qualified experts.**

Factor 14 concerns expert witness testimony on valuing the patented technology, which typically is the vehicle for presenting the *Georgia-Pacific* methodology in a case.

- **Factor 15: The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount that a prudent licensee—who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention—would have been willing to**

75. *Id.*

76. *Id.* at 1233.

77. *Motorola*, 757 F.3d 1286, 1324 (Fed. Cir. 2014).

78. *Ericsson*, 773 F.3d at 1233.

79. *Id.* (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)).

pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

Factor 15 sets forth the hypothetical negotiation that is a fundamental part of the *Georgia-Pacific* methodology. In a typical patent case, the hypothetical negotiation takes place at the time that the accused infringer first started infringing the patent. But for FRAND-committed SEPs, there is some dispute whether that time period should be changed to the date that the standard was adopted, when there were pre-standardization options for consideration.⁸⁰ Section III.B.3.a-b. below addresses this dispute.

3. Noninfringing alternatives

As stated in Principle No. 7(a) in *The Sedona Conference Commentary on Patent Reasonable Royalty Determinations*:

[t]he reasonable royalty must reflect the extent to which the patented invention represents an improvement over any commercially acceptable and available noninfringing alternatives, including any such alternatives disclosed in the prior art. A royalty which over- or undervalues the inventive contribution of the patent claim is not reasonable.⁸¹

Evidence of commercially feasible noninfringing alternatives available at the time of infringement may be relevant to a reasonable royalty analysis. Availability of a noninfringing alternative may indicate that an alleged infringer's bargaining power in a hypothetical negotiation would have been increased because the alleged infringer would have negotiated with

80. *See id.* at 1234 n.10 (noting, but not resolving, this dispute).

81. *Reasonable Royalty Determinations Commentary, supra* note 1, at 42.

knowledge that it had an alternative way to implement the infringing feature or product. Standard-essential patents may present a unique set of circumstances when it comes to noninfringing alternatives, because once a standard is adopted there might not be an alternative to practicing a standard-essential patent.

If noninfringing alternatives are to be considered in a particular case, the next question becomes: how does this analysis differ—if at all—from a traditional noninfringing alternatives analysis in the nonessential patent context?

- a. Must alternatives have existed at the time the standard was adopted?

Some parties may argue that in order for noninfringing alternatives to be considered in an SEP case, they must have been available at the time the standard was adopted. Other parties may argue that noninfringing alternatives that come into existence after this should be considered if they are available at the time infringement began.

In a traditional patent case, “to be an acceptable non-infringing substitute, the product or process must have been available or on the market at the time of infringement.”⁸² In other words, an infringer would have been able to change how its infringing device operates to adopt a noninfringing substitute and still sell a functional, consumer-acceptable, noninfringing device. However, that might not necessarily be an option in a standard-essential patent damages scenario. The infringer may need to comply with the standard and infringe the asserted SEP. Similarly, once a standard is finalized, changing its parameters can be difficult, or at least time consuming, such that switching to a noninfringing alternative technology is impractical. This will

82. *Grain Processing Corp. v. Am. Maize-Products Co.*, 185 F.3d 1341, 1349 (Fed. Cir. 1999).

depend on the scope of the patent claims and other facts and circumstances in the particular case.

This has led some to argue that the court should consider noninfringing alternatives that existed at the time the standard was adopted, which would reflect that time at which the consideration of alternative technologies would have been made and adopted into the standard, rather than alternatives available after the standard was adopted and the infringement began. Even if alternatives available at the time the standard was adopted are considered, others may argue that additional alternatives should also be considered based instead on the time when infringement began.

The Federal Circuit has acknowledged arguments about different potential times to consider alternatives in SEP cases but has declined to decide the issue.⁸³ Motorola presented the timing issue to the Ninth Circuit in the *Microsoft v. Motorola* case, but the Ninth Circuit declined to rule on a specific time frame for the hypothetical negotiation due to, among other things, Motorola's use of evidence that occurred over a widespread period of time that included both when the standard was adopted and when infringement began.⁸⁴ The Working Group has not reached a consensus as to the date to fix for assessing noninfringing alternatives and awaits further case law development of the issue.

If a court determines that additional alternatives should be considered based on the time when infringement began and thus which may have come into existence after the adoption of the standard, as stated in a broader context in *The Sedona Conference Commentary on Patent Reasonable Royalty Determinations*, "it may be appropriate to set different royalty rates to account

83. *Ericsson*, 773 F.3d at 1234 n.10.

84. *Microsoft VI*, 795 F.3d 1024, 1041–42 (9th Cir. 2015).

for the different economic circumstances before and after the date when that proposed alternative became available, acceptable, or noninfringing.”⁸⁵

b. Must alternatives have actually been presented to the SDO?

If the approach of considering alternatives available when the standard was adopted (and not at the time when infringement began) is taken, the issue then arises as to whether only alternatives actually presented to the SDO should be considered, or whether additional alternatives in existence should also be considered.

In *In re Innovatio IP Ventures*, the court attempted to “reconstruct a plausible hypothetical licensing negotiation between the parties immediately before the adoption of the standard.”⁸⁶ The court found that, as part of that negotiation, the parties would consider other alternatives the SDO could adopt because “the presence of equally effective alternatives to the patented technology that could have been adopted into the standard will drive down the royalty that the patent holder could reasonably demand.”⁸⁷ However, in doing so, the court ruled that only alternatives actually presented to the SDO would be considered. The court found that “technology that did not even merit a mention by the IEEE in its deliberations about the standard was not likely to have been a serious contender for adoption into the standard.”⁸⁸ Further, the court found it implausible to believe

85. *Reasonable Royalty Determinations Commentary*, *supra* note 1, at 44.

86. *In re Innovatio IP Ventures*, LLC Patent Litig. (*Innovatio II*), No. 11 C 9308, 2013 WL 5593609, at *20 (N.D. Ill. Oct. 3, 2013).

87. *See id.* at *19.

88. *See id.* at *20.

that asserting such a technology would be an effective negotiating point.⁸⁹

A party may argue that other alternatives that were publicly known but not considered by the SDO should also be considered because any publicly available alternative could have been adopted into the standard. Further, it may argue that the SEP at issue may not have been identified to the SDO, which otherwise may have spurred more diligence at the time to identify alternatives to the technology. The Working Group has not reached consensus on whether alternatives must have been presented to the SDO and awaits further case law development.

c. The cost of a noninfringing alternative

Courts should consider the cost of implementing the proposed noninfringing alternatives, including whether an asserted noninfringing alternative is covered by other patents or is in the public domain.

Noninfringing alternatives for a standard-essential patent may be covered by other patents owned by the patent owner or someone else. When a proposed noninfringing alternative is patented, parties in a hypothetical FRAND negotiation would recognize that the alternative would likely not be available royalty free. That is, if the patented alternative had been adopted into the standard, the owner of the patent covering the alternative may require a royalty for use of the patented technology.⁹⁰ Accordingly, patented alternatives “will not drive down the royalty in the hypothetical negotiation by as much as technology in the public domain.”⁹¹ Whether an alternative would drive down

89. *Id.*

90. *Id.* (“[I]t is implausible that in the real world, patent holders would accept effectively nothing to license their technology.”).

91. *Id.*

the royalty should not be presumed but depends on the particular circumstances presented, such as whether the alternative is of equal, lower, or higher value to the patented technology.

4. Comparable licenses

The Sedona Conference Commentary on Patent Reasonable Royalty Determinations provides a thoughtful discussion of the probative value of actual patent licenses in the context of patent damages.⁹² In this section, the Working Group analyzes some circumstances that may present unique considerations regarding the comparability of licenses in the SEP-FRAND context, with the prior commentary providing a backdrop for this analysis.

There are a variety of approaches for making a FRAND determination for a given SEP or set of SEPs. “Top down” and “bottom up” approaches are discussed in Section III.C.3. below. Another approach is to use comparable licenses.

In the SEP-FRAND context, licenses presented as comparable to a hypothetical license for the SEP(s)-in-suit may be relevant for two analyses: (1) assessing the value of the patented technology to determine a FRAND royalty; and (2) determining whether there was improper discrimination resulting in a breach of a FRAND commitment. This section will focus solely on the valuation analysis. For a discussion regarding the non-discrimination prong, *see* Section III.C.1 (Nondiscrimination) below.

License agreements may be signed under differing commercial and legal circumstances, and evidence regarding comparable licenses can come up in a number of contexts in SEP-FRAND cases, including: (1) litigation over whether a given FRAND offer by a patent owner complied with its FRAND licensing

92. *Reasonable Royalty Determinations Commentary*, *supra* note 1, at 35–41.

commitments; (2) a patent infringement case in which an SEP is asserted; and (3) litigations to determine FRAND license terms for SEPs.

a. General considerations for comparable license determinations

Courts “look to licenses deemed ‘comparable’ as real-world evidence of the commercial market for the patent(s)-in-suit.”⁹³ In the context of patent damages, *Georgia-Pacific* factors 1, 2, and 12 provide for consideration of comparable patent license agreements.⁹⁴ The Working Group has previously observed that courts “have not yet provided a definitive, comprehensive outline stating what criteria must be evaluated to determine if a license agreement is properly ‘comparable.’”⁹⁵ Nevertheless, the Working Group’s prior commentary presents Principles and Best Practices in the general context of reasonable royalty determinations. Because the SEP-FRAND-specific issues raised here relate to comparability analysis, it is appropriate to briefly introduce part of that work. “Rigorously analyzing and adjusting for any material differences between a benchmark license and the hypothetical license, based upon evidence presented, provides a rational and justifiable basis for determining what royalty would result from the hypothetical negotiation.”⁹⁶

93. *Reasonable Royalty Determinations Commentary*, *supra* note 1, at 9.

94. *See id.*

95. *Id.* at 11; *see also id.* at 9–11 (reviewing cases allowing or excluding licenses).

96. *Id.* at 35. The Federal Circuit has recognized that relevant prior licenses can usually be presented at trial to assist the jury in deciding what an appropriate royalty should be, even though those prior licenses will typically not be perfectly analogous to the hypothetical negotiation facts facing the jury, as long as courts “assess the extent to which the proffered testimony, evidence and arguments would skew unfairly the jury’s ability to apportion the damages to account only for the value attributable to the infringing

As stated as Principle No. 5 in *The Sedona Conference Commentary on Patent Reasonable Royalty Determinations*:

Any proposed comparable license offered as “comparable” to the hypothetical license must be evaluated for its similarities to and differences from the hypothetical license.⁹⁷

The contents of a license agreement and circumstances under which it was entered may shed light on how analogous comparable licenses are to the specific analysis being undertaken, and the Working Group believes that the context in which the license agreement is being considered should not alter the general principle that licenses deemed comparable may be considered where possible.⁹⁸

b. Potential factors for comparable license determinations

The comparability analysis has two primary aspects. First, prior licenses must meet a minimum level of comparability to

features.” See *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1227–28 (Fed. Cir. 2014).

97. *Reasonable Royalty Determinations Commentary*, *supra* note 1, at 35.

98. While not all prior licenses may be sufficiently comparable to be admissible, the Federal Circuit in *Ericsson* reiterated that comparable licenses need not be identical to the hypothetical negotiation, and “the fact that a license is not perfectly analogous generally goes to the weight of the evidence, not its admissibility.” 773 F.3d at 1227. Some may interpret this statement from *Ericsson* as compelling the admission by the courts of all proffered comparable licenses. Others may contend that this statement should not be interpreted as going this far in light of other Federal Circuit precedent highlighting the courts’ gatekeeping function with respect to proffered comparable licenses. This issue of comparable licenses was addressed comprehensively in the predecessor *Reasonable Royalty Determinations Commentary*, and this *Ericsson* statement will be specifically addressed in a forthcoming update to the same.

be sufficiently relevant to be considered at all. Second, those licenses meeting that minimum threshold can be more or less comparable—and thus more or less relevant to a calculation of a royalty—depending on several factors.⁹⁹ Those factors are discussed below.

- i. Whether the licensor was under a FRAND commitment at the time of the proposed comparable license

Some may take the view that because a FRAND commitment imposes obligations on a licensor that do not exist absent the FRAND commitment, licenses negotiated without such a commitment are less comparable or not comparable to licenses with a FRAND commitment.¹⁰⁰ Under this view, a license negotiated in the absence of a FRAND or similar commitment may have

99. As stated as in the *Reasonable Royalty Determinations Commentary*, *supra* note 1, at 35:

The courts look to licenses deemed “comparable” as real-world evidence of the commercial market for the patent(s)-in-suit. While this remains the case, in recent years, the Federal Circuit has also shown a willingness to exclude from consideration, in assessing a reasonable royalty license, agreements that are not “sufficiently comparable” to either the patented technology or the economic circumstances of the hypothetical negotiation.

For a discussion of recent federal case law concerning comparable licenses, *see id.* at Sect. I.E.3. (Current State of the Law Regarding the Determination of a Reasonable Royalty—Comparability of Licenses), at 9–12.

100. *See Microsoft V*, 2013 WL 2111217, at *18 (W.D. Wash. Apr. 25, 2013) (“[*Georgia-Pacific*] factor 1 examines the royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty. In the RAND context, such licensing royalties for a given patent(s) must be comparable to RAND licensing circumstances. In other words, to prove an established royalty rate for an SEP, the past royalty rates for a patent must be negotiated under the RAND obligation or a comparable negotiation.”).

been unfair, unreasonable, or discriminatory and may not be comparable or may be considered only after making appropriate adjustments.¹⁰¹

Others, however, may argue licenses that do not include any FRAND-committed patents, when evaluated for their similarities and differences from the hypothetical FRAND negotiation, may be relevant licenses for a comparability analysis. Under this view, it should not be assumed that a prior license negotiated without a FRAND commitment was unfair, unreasonable, or discriminatory and therefore not sufficiently comparable.

Comparability analyses considering licenses that include a mix of FRAND-committed and noncommitted patents (SEPs and non-SEPs) pose additional considerations that will be discussed in Section III.B.3.b.iv (Whether the proposed comparable license is a portfolio license) below.

- ii. Whether the proposed comparable license was entered into under circumstances that may have skewed the royalty high or low

The Working Group previously has considered for all patents generally whether litigation settlement agreements may be deemed comparable licenses.¹⁰² The Working Group here will not revisit that general analysis but will consider specific considerations that might arise about the threat of injunctive relief underlying a proposed comparable license for a FRAND-committed SEP.

In an SEP-FRAND case, some may argue that only licenses negotiated without the threat of injunction are sufficiently comparable to be considered in determining a royalty for a FRAND-committed patent at issue in the case. The argument concerns

101. *See id.*

102. *Reasonable Royalty Determinations Commentary, supra* note 1, at 40.

whether a proposed comparable license may have an unduly higher royalty (or other increased consideration) based on leverage from an explicit or implicit threat of an injunction, which would not exist when negotiating a hypothetical license for the FRAND-committed patent at issue. Proponents of this view might therefore argue that where an agreement has been secured under the explicit or implicit threat of an injunction, whether in the United States or in another jurisdiction, royalties paid under such an agreement should not be probative of reasonable royalties consistent with a FRAND commitment. Some may further argue that a settlement reached during litigation may skew the royalty higher than it otherwise would be if the settlement sought to avoid substantial litigation costs.

Opponents of these views, however, may argue that there is no *per se* rule about injunctive relief for FRAND-committed SEPs, and any concerns about the threat of an injunction unduly influencing the terms of a proposed comparable license should be tied, via particularized evidence, to the specific circumstances of the proposed comparable license. Under this view, differences, if any, between the injunction threat underlying the proposed comparable license and that appropriate for the FRAND-committed SEP at issue in the case should be addressed by making adjustments for the differences and otherwise go to the weight, not admissibility, of the proposed comparable license.

They may further argue that the uncertainty of protracted litigation may have resulted in a lower royalty than would result from a hypothetical negotiation between a willing licensor and a willing licensee where the infringement and validity of the patent is presumed.

See Section IV (Injunctive Relief) below for a more detailed discussion of differing views concerning the propriety of injunctive relief for a FRAND-committed SEP.

- iii. Whether the royalty base for the proposed comparable license is aligned with the royalty base of the proposed license

The Federal Circuit in *Ericsson v. D-Link Systems* ruled that a party is not precluded as a matter of law from relying on end-product licenses to establish a damage royalty for SEPs. Rather, expert testimony relying on such a license may be admissible “where expert testimony explains to the jury the need to discount reliance on a given license to account only for the value attributed to the licensed technology.”¹⁰³ Likewise, in *CSIRO v. Cisco*, the Federal Circuit found it was wrong to exclude a comparable license based on the fact that the product was licensed at the component level, noting that such an exclusion “runs afoul of *Ericsson’s* holding that a license may not be excluded solely because of its chosen royalty base.”¹⁰⁴

For more general discussion on royalty base and apportionment, see Section III.B.5 (Royalty Base and Apportionment) below.

- iv. Whether the proposed comparable license is a portfolio license

Portfolio licenses can potentially be probative of FRAND license terms, including where the FRAND dispute likewise involves portfolio license terms, and even where the scope of coverage and terms of the licenses are not identical. Some courts have been willing to adjudicate disputes concerning what would constitute a FRAND royalty for a patent portfolio where the determination was related to resolving a breach of contract

103. *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1228 (Fed. Cir. 2014).

104. *CSIRO*, 809 F.3d 1295, 1307 (Fed. Cir. 2015).

claim¹⁰⁵ or where the determination was relevant to patent claims and with the parties' agreement.¹⁰⁶ But U.S. courts have been unwilling to date to determine a binding FRAND royalty for a portfolio of patents outside of an infringement action without the consent of both parties.¹⁰⁷

To the extent that the portfolio covered by the potentially comparable license differs in relevant ways from the portfolio-in-suit, adjustments could potentially be made to account for such differences. For example, if a potentially comparable license included a license both to SEPs subject to a FRAND commitment and non-SEPs, it may be possible to propose an allocation of value between the consideration paid for the SEPs and the non-SEPs where there is data available to make such an allocation. Likewise, if a potentially comparable license included additional standards not at issue in the dispute, it may be possible to allocate value between the different standards. Issues

105. *E.g.*, *Microsoft V*, 2013 WL 2111217; *TCL Commc'n Tech. Holdings v. Telefonaktienbolaget LM Ericsson*, No. 8:14-cv-00341-JVS-DFM, Dkt. No. 1802 (C.D. Cal. Dec. 21, 2017), vacated on Seventh Amendment Grounds, 943 F.3d 1360 (Fed. Cir. 2019).

106. *E.g.*, *Innovatio II*, 2013 WL 5593609 (N.D. Ill. Oct. 3, 2013).

107. *See, e.g.*, *Ericsson, Inc. v. D-Link Sys., Inc.*, No. 6:10-cv-473, 2013 WL 4046225, at *21 (E.D. Tex. Aug. 6, 2013) (declining request to determine a worldwide RAND rate because "defendants . . . refus[al] to make any assurance they would accept such an offer" meant that any ruling "would have amounted to nothing more than an advisory opinion"), *aff'd in part, rev'd in part*, 773 F.3d 1201 (Fed. Cir. 2014); *Apple Inc. v. Telefonaktiebolaget LM Ericsson, Inc.*, No. 15-cv-00154, 2015 WL 1802467, at *2 (N.D. Cal. Apr. 20, 2015) ("there exists no legal basis upon which Apple may be compelled to take a license for Ericsson's patents on a portfolio-wide basis"); *InterDigital Commc'ns, Inc. v. ZTE Corp.*, No. 13-cv-00009, 2014 WL 2206218, at *3 (D. Del. May 28, 2014) (declining to set FRAND terms where to do so "would have little utility and serve little to no useful purpose," as it "would not lead directly to a patent license as multiple other license issues would still need to be negotiated . . . , any one of which could become a sticking point").

may also arise in determining the value attributable to one of two portfolios involved in a cross-license, particularly where the agreement does not specify separate rates for each.

U.S. courts have attempted to determine the collective value of multiple FRAND-encumbered patents in a few instances to date, including cases involving groups of patents within a larger portfolio,¹⁰⁸ as well as at least one instance valuing an entire large portfolio involving mobile telecommunications standards.¹⁰⁹ Although subsequently vacated by the Federal Circuit on Seventh Amendment grounds, the bench trial decision in *TCL v. Ericsson* (a contract case) provides a nonbinding example of one court's approach to evaluating some of the considerations that may arise when examining potentially comparable portfolio licenses, which we provide for illustration purposes without commenting on the merits of the decision.

In *TCL v. Ericsson*, the court considered comparable license analysis for multiple licenses to Ericsson's portfolio, both when resolving allegations that Ericsson made discriminatory offers and when setting FRAND rates for technologies covered by Ericsson's portfolio.¹¹⁰ Broadly speaking, the court first determined which of Ericsson's licensee firms were sufficiently

108. *Ericsson*, 773 F.3d at 1207 (assessing patent damages for three WiFi patents within Ericsson's portfolio); *Innovatio II*, 2013 WL 5593609, at *3 (valuing 19 WiFi patents within an IP Ventures portfolio); *Microsoft Corp. v. Motorola, Inc. (Microsoft IV)*, 904 F. Supp. 2d 1109, 1119 (W.D. Wash. 2012) (determining a RAND range for 15 H.264 patents and 11 802.11 patents, a subset of Motorola's larger SEP portfolio). The *Innovatio* and *Microsoft* matters involve issues specific to patent pool licenses discussed in the next subsection.

109. *TCL Commc'n Tech. Holding, Ltd. V. Telefonaktiebolaget LM Ericsson*, No. SACV 14-341, 2018 WL 4488286 (C.D. Cal. Sept. 14, 2018), vacated on Seventh Amendment Grounds, 943 F.3d 1360 (Fed. Cir. 2019).

110. *See, e.g., id.* at *49–50.

similarly situated to TCL¹¹¹ and then “unpacked” the cross-licenses with those firms in order to extract from each agreement effective royalty rates attributable to Ericsson’s portfolio by valuing, e.g.: (1) how to allocate releases for past sales, (2) apportioning lump-sum payments covering multiple standards, and (3) accounting for differences in strength between cross-licensed portfolios.¹¹² A full analysis of these issues is beyond the scope of this section.

v. Whether the proposed comparable license is a patent pool

Generally, patent pools are voluntary agreements between two or more patent owners to license their patents to third parties in a single licensing package. Patent pools can cut down on transaction costs by establishing a licensing fee program that allows potential licensees to obtain licenses to the pool of patents without the need to negotiate individually with all the licensors in the pool, and vice versa. Patent pools may distribute royalties to their members based on an agreed-upon formula, without necessarily examining any given patent’s specific innovation, its strength, or its contribution to a given standard. A patent pool is voluntary; a patent holder may instead choose to license its patents in individual negotiations completely outside of the pool.¹¹³

111. See *infra* Section III.C.1 (Non-Discrimination).

112. See *TCL Commc’n* at *30, *35–41.

113. A different type of organization is sometimes referred to as a “defensive patent pool” or defensive patent aggregator, which accumulates patents and licenses them to its membership. Members are typically operating companies that are the frequent recipients of patent assertions. The defensive patent pool attempts to remove patents from the marketplace to prevent them from getting in the hands of assertion entities. Rather than collecting licensing fees and distributing royalties, defensive patent pools charge fees to their membership, which funds the purchasing of patents. In contrast, an

At least two U.S. district courts have expressly considered whether rates charged by patent pools for a portfolio of SEPs declared essential to a specific standard may be probative comparable licenses in determining a FRAND royalty for other patents alleged to be essential to the same standard.¹¹⁴ One district court found the proposed patent pools to be relevant indicators of a RAND rate in its case, but the other court found, due to the factors discussed below, the proposed patent pool was not an appropriate comparable license in its case. In determining whether the proposed patent pools were relevant to the RAND determination, the courts generally examined:

- the circumstances surrounding the formation of the patent pool, including the number and types of companies participating in the pool,
- the number and quality of patents in the patent pool,
- the number of licensees licensed to the patent pool,
- the availability of alternative technologies outside of the pool, and
- the pool's royalty fee structure and licensing terms.

The courts then examined the proposed "comparable" patent pools to determine whether the pools would be helpful data points in determining RAND rates for the asserted patents.

In *Microsoft v. Motorola*, Microsoft proposed using the MPEG LA H.264 patent pool as a comparable license for the range of RAND royalties for H.264 SEPs, and the Via Licensing 802.11 patent pool for wireless SEPs.¹¹⁵ Based on the evidence presented at the bench trial, the court held that "as a general

"offensive patent pool" or aggregator often refers to entities that acquire patents with the intention of monetizing them through licensing or litigation.

114. *Microsoft V*, 2013 WL 2111217, at *74 (W.D. Wash. Apr. 25, 2013); *Innovation II*, 2013 WL 5593609, at *36 (N.D. Ill. Oct. 3, 2013).

115. *Microsoft V*, 2013 WL 2111217, at *74.

matter . . . patent pools tend to produce lower rates than those that could be achieved through bilateral negotiations.”¹¹⁶ After reviewing the specific patents pools and comparing them to the asserted patents, however, the court went on to determine that both patent pools could serve as indicators of the range of royalties consistent with a RAND commitment.¹¹⁷

In *Microsoft*, the court also articulated a concern specific to the context of its RAND-modified *Georgia-Pacific* analysis, that a patent-counting system for royalty allocation in a patent pool “does not consider the importance of a particular SEP to the standard or to the implementer’s products as the court’s hypothetical negotiation requires.”¹¹⁸

The court in *Innovatio* rejected the use of the Via Licensing patent pool as an indicator of the value of SEPs, concluding that the pool was not an appropriate comparable license in the case.¹¹⁹ The court distinguished the decision in *Microsoft v. Motorola*, in which the court determined that Motorola’s 802.11 patents were not important to the 802.11 standard such that a low value patent could be a comparable license, whereas *Innovatio*’s patent portfolio is of “moderate to moderate-high importance to the 802.11 standard” such that a low value patent

116. *Id.* at *80.

117. *Id.* at *83–93. (The court found that the rate set by the MPEG LA H.264 patent pool was at the low end of the RAND range, and because Motorola did not demonstrate that its SEP portfolio provided significant contribution to the H.264 standard or significant value to Microsoft’s products, it too fell at the low end of the range. The court found the Via pool was less successful than the H.264 pool, but still had characteristics indicative of a RAND royalty rate. Because Motorola’s SEPs provided little value to the standard, the court found the pool rate a helpful data point.)

118. *Id.* at *80.

119. *Innovatio II*, 2013 WL 5593609, at *35–36.

pool would not be a comparable license.¹²⁰ The court also observed that because the pool did not allocate royalties based on relative merit, this may discourage holders of high value patents from participating, and as a result, “the pool rates may be considerably depressed.”¹²¹

5. Royalty base and apportionment

A reasonable royalty is often calculated as a royalty rate (or percentage) applied to a royalty base (often the selling price of an infringing product or a component of such a product).

Often, litigants’ arguments in this area concern the concept of “apportionment.” Apportionment is the principle that the base in a royalty calculation, particularly in cases involving multicomponent products, should be premised on the value that the patented technology contributes to the value of the end product. This principle stems from the Supreme Court’s *Garretson v Clark* decision, which held that when the entire market value of an end product is not “properly and legally attributable to the patented feature,” then “[t]he patentee . . . must in every case give evidence tending to separate or apportion the defendant’s profits and the patentee’s damages between the patented feature and the unpatented features.”¹²²

The apportionment principle applies with equal force to damages for SEPs. The Federal Circuit made this point clear in *Ericsson v. D-Link*, stating that “[a]s with all patents, the royalty rate for SEPs must be apportioned to the value of the patented invention.”¹²³ The Federal Circuit made clear in *Ericsson* that the

120. *Id.*

121. *Id.* at *36.

122. *Garretson v. Clark*, 111 U.S. 120, 121 (1884).

123. *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1232 (Fed. Cir. 2014).

“essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.”¹²⁴ Where “multi-component products are involved, the governing rule is that the ultimate combination of royalty base and royalty rate must reflect the value attributable to the infringing features of the product, and no more.”¹²⁵ The Federal Circuit explained that:

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.¹²⁶

The smallest salable patent practicing unit (SSPPU) methodology is one means of apportioning the royalty base in both SEP and non-SEP cases.¹²⁷ Generally, the SSPPU methodology provides that, “where a damages model apportions from a royalty base, the model should use the smallest salable patent-practicing unit as the base.”¹²⁸ Even if the SSPPU is used as the royalty

124. *Id.* at 1226; *see also* *Finjan, Inc. v. Blue Coat Sys., Inc.*, 879 F.3d 1299, 1311 (Fed. Cir. 2018) (“[T]he fact that [a party] has established a royalty base based on the ‘smallest, identifiable technical component’ does not insulate them from the ‘essential requirement’ that the ‘ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.’”) (quoting *Ericsson*, 773 F.3d at 1226)).

125. *Id.*

126. *Id.* (emphasis in original).

127. *See id.* at 1227.

128. *CSIRO*, 809 F.3d 1295, 1302 (Fed. Cir. 2015).

base, further apportionment may be required based on the facts of the case.¹²⁹

The SSPPU methodology has been employed in SEP cases. For example, in *GPNE Corp. v. Apple Inc.*,¹³⁰ a district court found that the baseband processor chip in the accused smartphone and tablet computer devices was the SSPPU.¹³¹ The court rejected the plaintiff's arguments that (1) the SSPPU must be an item sold by the defendant, and (2) the entire accused devices are the SSPPU because "the patent claims are directed to the entire devices and not just the baseband processor chips."¹³² The court ruled that the mere "recitation of the entire device in the asserted claims does not foreclose the component that directly impacts the invention from being the smallest salable patent-practicing unit for reasonable royalty purposes."¹³³ Similarly, in *In re Innovation*,¹³⁴ the court found that "taking the profit margin on the sale of a chip for a chip manufacturer as the maximum potential royalty . . . accounts for both the principle of non-discrimination and royalty stacking concerns in RAND licensing."

129. As further stated as Principle No. 4(b) in *Reasonable Royalty Determinations Commentary*, *supra* note 1:

It may be appropriate to consider the smallest salable unit containing the feature or embodying the patented method for use as the apportioned royalty base; however, consideration of further apportionment may be required in assessing the royalty rate to ensure that the royalty reflects only the value of the patented features.

130. No. 12-cv-02885-LHK, 2014 WL 1494247 (N.D. Cal. Apr. 16, 2014); *but see* *FTC v. Qualcomm, Inc.*, 969 F.3d 974, 998 (9th Cir. 2020).

131. *Id.* at *12–13.

132. *Id.* at *12.

133. *Id.*

134. *Innovation II*, 2013 WL 5593609, at *38 (N.D. Ill. Oct. 3, 2013).

However, the SSPPU methodology does not invariably control reasonable royalty determinations.¹³⁵ “Under the entire market value rule, if a party can prove that the patented invention drives demand for the accused end product, it can rely on the end product’s entire market value as the royalty base.”¹³⁶ In *CSIRO v. Cisco*, the district court ruled that the SSPPU—e.g., a chip component in a wireless device—was not the appropriate royalty base, stating that “[b]asing a royalty solely on chip price is like valuing a copyrighted book based only on the costs of the binding, paper, and ink needed to actually produce the physical product.”¹³⁷ The court explained that, “[w]hile such a calculation captures the cost of the physical product, it provides no indication of its actual value.”¹³⁸ The Federal Circuit affirmed. In reviewing the district court’s decision, the Federal Circuit recognized that the award of reasonable damages for patent infringement “must reflect the value attributable to the infringing features of the product, and no more. This principle—apportionment—is the ‘governing rule’ ‘where multiple component products are involved.’”¹³⁹ But the Federal Circuit recognized that under the apportionment principle “there may be more than one reliable method for estimating a reasonable royalty.”¹⁴⁰ For this reason, the *CSIRO* court rejected as “untenable” the

135. See *FTC v. Qualcomm, Inc.*, 969 F.3d 974, 998-99 (9th Cir. 2020) (SSPPU concept is not required for patent damages calculation, and royalties based on cellular handset prices rather than baseband processor prices not shown to be anticompetitive).

136. *CSIRO*, 809 F.3d. at 1302.

137. *Id.* at 1300 (quoting *CSIRO*, 2014 WL 3805817, at *11 (E.D. Tex. July 23, 2014)).

138. *Id.*

139. *CSIRO*, 809 F.3d at 1301 (quoting *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1329 (Fed. Cir. 2014)).

140. *Id.* at 1301 (quoting *Motorola*, 757 F.3d 1286, 1315 (Fed. Cir. 2014)).

defendant's argument that all damages methodologies must start with the SSPPU, holding that: "adopting [the accused infringer's] position would necessitate exclusion of comparable license valuations that—at least in some cases—may be the most effective method of estimating the asserted patent's value.¹⁴¹ The *CSIRO* court explained "[t]his adaptability is necessary because different cases present different facts."¹⁴² In *CSIRO*, the Federal Circuit ruled, under the facts of that case, that the SSPPU principle was inapplicable because the "district court did not apportion from a royalty base at all. Instead, the district court began with the parties' negotiations."¹⁴³

Further, when considering FRAND royalties, it may be necessary to take into account the IPR policy, if any, of the relevant SDO. One court has held that the IPR policy of a standard setting body (ETSI) did not require licensing SEPs based on the SSPPU. French law governs the ETSI IPR policy, and French law does not mandate the use of the SSPPU methodology.¹⁴⁴ "To be clear, the ETSI IPR policy neither requires nor precludes a license with a royalty based on the SSPPU. Rather, whether a license meets the requirements of FRAND will depend on the particular facts of the case, as there is no prescribed methodology for calculating a FRAND license."¹⁴⁵

In that case, the court ultimately held that Ericsson's end-device SEP licenses provided "the best market-based evidence of the value of Ericsson's SEPs."¹⁴⁶ The court rejected HTC's

141. *Id.* at 1303–04.

142. *Id.* at 1301–02.

143. *Id.* at 1302.

144. *HTC Corp. v. Telefonaktiebolaget LM Ericsson*, No. 6:18-CV-00243-JRG, 2019 WL 126980, at *5-6 (E.D. Tex. Jan. 7, 2019).

145. *Id.* at *6.

146. *Id.*, Dkt. 538, at *11 (May 23, 2019).

argument that Ericsson should have based its royalty calculation on the SSPPU, which HTC submitted was the baseband processor, reiterating its prior holding that the ETSI FRAND commitment (which covers 2G-5G standards) does not require licenses to be based upon the SSPPU.¹⁴⁷ In so holding, the court concluded that “Ericsson presented credible evidence” that: (1) “the baseband processor is not reflective of the value conferred by Ericsson’s cellular essential patents”; (2) “that Ericsson’s patents are not limited in claim scope to a baseband processor, and as a result, even if one were to indulge HTC’s approach, the baseband processor is not the proper SSPPU”; and (3) licenses based upon the end device are the industry practice with respect to cellular SEPs.¹⁴⁸

On appeal, HTC argued that the district court erred by not instructing the jury on principles of U.S. patent damages law, including the SSPPU methodology.¹⁴⁹ The Fifth Circuit rejected HTC’s argument, holding that “HTC’s proposed instructions were not ‘substantially correct’ statements of the law.”¹⁵⁰ The court found that Ericsson’s FRAND commitment was contractual and governed by French law. All of HTC’s proposed instructions were based on U.S. patent damages law, which was “inapplicable.”¹⁵¹ Accordingly, “the district court was well within its discretion in refusing to give those instructions.”¹⁵²

Arguments about the royalty base and apportionment may also come into play when considering whether a given license

147. *Id.* at *7–11.

148. *Id.* at *11.

149. *HTC Corp. v. Telefonaktiebolaget LM Ericsson*, 12 F.4th 476 (5th Cir. 2021).

150. *Id.* at 484.

151. *Id.*

152. *Id.* at 485.

should be deemed sufficiently comparable to be referenced in a damages analysis. However, the Federal Circuit has cautioned that “a license may not be excluded solely because of its chosen royalty base,”¹⁵³ whether the royalty base is the entire end product or a component within that product. In *Ericsson*, the Federal Circuit held that:

[W]here expert testimony explains to the jury the need to discount reliance on a given license to account only for the value attributed to the licensed technology, as it did here, the mere fact that licenses predicated on the value of a multi-component product are referenced in that analysis—and the district court exercises its discretion not to exclude such evidence—is not reversible error.¹⁵⁴

The court also noted, however, that “when licenses based on the value of a multi-component product are admitted, or even referenced in expert testimony, the court should give a cautionary instruction regarding the limited purposes for which such testimony is proffered if the accused infringer requests the instruction. The court should also ensure that the instructions fully explain the need to apportion the ultimate royalty award to the incremental value of the patented feature from the overall product.”¹⁵⁵

Case-specific factors and evidence should guide apportionment and damages calculations for SEPs, just as they do in traditional non-SEP patent damages calculations. The Working Group further refers to *The Sedona Conference Commentary on Patent Reasonable Royalty Determinations* discussion of the royalty

153. *CSIRO*, 809 F.3d. at 1307 (citing *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1228 (Fed. Cir. 2014)).

154. *Id.*

155. *Id.*

base issue for patents in general, which may inform that inquiry. In determining FRAND contractual obligations, however, courts consider the applicable IPR policy in the case to determine whether the language of that policy provides further guidance on the terms of the specific FRAND commitment.¹⁵⁶

C. *Additional Considerations to the Factors Relevant to a FRAND Reasonable Royalty Determination*

1. Nondiscrimination

a. Illustrative nondiscrimination analyses

Some earlier cases have touched on the issue of non-discrimination,¹⁵⁷ and there have been two recent cases as well. In the U.S. district court case *HTC v. Ericsson* (a contract case), the parties disputed whether Ericsson's license offers to HTC were consistent with prior licenses and license offers or were discriminatory. Following trial, the district court granted Ericsson's motion for a declaratory judgment that it had complied with its FRAND assurance to HTC.

On appeal, HTC argued that the jury had not been properly instructed on nondiscrimination.¹⁵⁸ In particular, HTC argued that the jury should have been instructed that the nondiscrimination requirement of FRAND “serves to level the playing field

156. *See supra* Section III.B.1 (Possible differences between contract law and patent damages law).

157. *See id.* at 1230–31; *Microsoft V*, 2013 WL 2111217, at *18 (W.D. Wash. Apr. 25, 2013); *Innovatio II*, 2013 WL 5593609, at *38 (N.D. Ill. Oct. 3, 2013).

158. *HTC Corp. v. Telefonaktiebolaget LM Ericsson*, 12 F.4th 476, 483–84 (5th Cir. 2021). The full jury instruction on FRAND was: “Whether or not a license is FRAND will depend upon the totality of the particular facts and circumstances existing during the negotiations and leading up to the license. Ladies and gentlemen, there is no fixed or required methodology for setting or calculating the terms of a FRAND license rate.” *See id.* at 482–83.

among competitors' by requiring a patent holder to provide similar terms to similarly situated licensees."¹⁵⁹ The 5th Circuit held that HTC's requested instruction was not a "substantially correct" statement of the law,¹⁶⁰ because factfinders should consider the patentee's actual FRAND commitment in crafting a jury instruction. HTC's non-discrimination instruction did not comport with the agreement between Ericsson and the standard development organization (ETSI) and would therefore have been incorrect.¹⁶¹

In particular, HTC's proposed non-discrimination instruction would do away with any "difference in terms" offered to potential licensees if the difference "creates a competitive disadvantage for a prospective licensee."¹⁶² As such, HTC's proposed instruction would transform the nondiscrimination element of FRAND into a "most-favored-licensee approach," which would require Ericsson to provide identical licensing terms to all prospective licensees.¹⁶³ The 5th Circuit disapproved of HTC's requested instruction, because ETSI had already rejected a most-favored-licensee approach and chosen to give patent holders some flexibility in coming to reasonable agreements with different potential licensees.¹⁶⁴

A U.S. district court decision in *TCL v. Ericsson* (a contract case) provided its view on applying the "non-discriminatory" aspect of FRAND in calculating royalties.¹⁶⁵ We note that this

159. *Id.* at 484–85.

160. *Id.*

161. *Id.* at 485.

162. *Id.*

163. *Id.* at 486.

164. *Id.*

165. *TCL Commc'n Tech. Holdings v. Telefonaktiebolaget LM Ericsson*, Case No. SACV 14-341, Memorandum of Findings of Fact and Conclusions

case was later vacated by the Federal Circuit on Seventh Amendment grounds, and challenges to the court's FRAND methodology were thus not addressed by the Federal Circuit.¹⁶⁶

According to the district court in *TCL*, the parties agreed that "like" or "close to like" rates must be offered to "similarly situated" firms, and the parties' experts generally considered "firms using the same technology and at a similar level in the value chain" to be similarly situated. The court (1) found that because *TCL* was established in the world market, the analysis should include all firms reasonably well-established in that market; (2) examined the particular ETSI policy at issue and the court's view of the goal of that policy; (3) noted that excluding large firms from the analysis would effectively insulate them and further contribute to their dominant positions by imposing a barrier in the form of higher rates for those not at the top end of the market; and (4) further found that permitting the patent holder to pick and choose similarity criteria with no relation to its SEPs or the FRAND commitment would effectively eliminate the non-discrimination element from the FRAND commitment.

In determining the royalty rates of comparable licenses, the district court compared the effective royalty rate offered to the accused infringer with those between the patent holder and "similarly situated" companies, as well as the potential impact of royalty caps and floors. The court found that harm to the firm offered discriminatory rates was sufficient to find a violation of the FRAND obligation; and impairment of the development or adoption of the standard was not necessary for discriminatory harm. The court did note, however, that "there is no single rate

of Law (C.D. Cal. Dec. 21, 2017) and 2018 WL 4488286 (C.D. Cal. Sept. 14, 2018).

166. *TCL Comm'n Tech. Holdings v. Telefonaktiebolaget LM Ericsson*, 943 F.3d 1360 (Fed. Cir. 2019).

that is necessarily FRAND” and different rates may well be FRAND given the economics of the specific license.¹⁶⁷

b. Component-manufacturer v. end-product-manufacturer licensing

It must be noted that some parties argue that the “nondiscriminatory” commitment of FRAND seeks to ensure broad market access to patents covering the standard, meaning the SEP owner must make a fair and reasonable offer to any party that wishes to implement the standard. SDO IPR policies may differ on the extent to which they specifically address this issue; at least one standard-setting organization has updated its policy guidelines to define the term “nondiscriminatory” consistent with this view that an SEP licensor must make licenses available to all applicants.¹⁶⁸ Some have cited in support *Microsoft v. Motorola*, where the court noted that a “SEP holder cannot refuse a license to a manufacturer who commits to paying the RAND rate.”

However, other litigants may argue that the “nondiscriminatory” aspect of FRAND simply means to treat similarly situated entities similarly. Whether a particular entity must be licensed, and on what terms, depends on the terms of the particular FRAND commitment at issue. Arguing that the word “nondiscriminatory” imposes an “all comers” requirement may oversimplify issues relating to the language of a particular IPR policy, industry practice and understanding concerning the policy, and the nature of the license grants affected by the policy.

The Ninth Circuit addressed this issue in *FTC v Qualcomm* and found that the challenged Qualcomm licensing policy, i.e.,

167. 2018 WL 4488286.

168. See *supra* Section II.D.2 (Examples of FRAND Licensing Commitments—Institute of Electrical and Electronics Engineers (IEEE)).

licensing its SEPs exclusively at the original equipment manufacturer (“OEM”) level, does not amount to anticompetitive conduct because Qualcomm is under no antitrust duty to license rival chip suppliers.¹⁶⁹ Additionally, Qualcomm’s patent-licensing royalties and so-called “no license, no chip” policy do not impose an anticompetitive surcharge on rivals’ modem chip sales.¹⁷⁰ Instead, these aspects of Qualcomm’s business model are “chip-supplier neutral” and do not undermine competition in the relevant antitrust markets.¹⁷¹ The court also noted that it did not need to determine whether Qualcomm violated its FRAND commitments because if Qualcomm had breached such commitments, the appropriate remedy was in contract or patent law, not antitrust law.¹⁷²

The court in *Continental Automotive Systems, Inc. v Avanci, LLC*,¹⁷³ granted a motion to dismiss antitrust claims asserted by a component supplier against SEP-licensor defendants and their joint patent pool licensing agent defendants based on their licensing practices. The plaintiff component supplier alleged that defendants refused to license their SEPs to it on FRAND terms. Instead, the plaintiff alleged, the defendants only provided non-FRAND licenses to OEMs, who might pass those costs on to component suppliers including the plaintiff. And the OEMs may in turn pass those excess costs to its component suppliers, including the plaintiff. The court held the plaintiff lacked antitrust standing. The court found that the plaintiff and the OEMs form distinct parts of the supply chain, and that “[t]he anticompetitive conduct allegedly directed at the downstream OEMs

169. *FTC IV*, 969 F.3d 974, 1005 (9th Cir. 2020).

170. *Id.* at 1000–01.

171. *Id.* at 996.

172. *Id.* at 56.

173. 485 F. Supp. 3d 712 (N.D. Tex. 2020).

does not create an antitrust injury for upstream suppliers like the plaintiff.”¹⁷⁴ The court also held that even if the plaintiff had antitrust standing, it failed to allege a violation of Section 2 of the Sherman Act because it failed to allege anticompetitive conduct. More specifically, the court held that “an SEP holder may choose to contractually limit its right to license the SEP through a FRAND obligation, but a violation of this contractual obligation is not an antitrust violation.”¹⁷⁵

2. “Top down” v. “bottom up” approaches

There are a variety of approaches for making a FRAND royalty determination for a given SEP or set of SEPs. Comparable licenses are discussed in Section III.B.3. above. Two other approaches include using a “top-down” or “bottom-up” approach.¹⁷⁶ The contours of the terms “top down” and “bottom up” are not universally agreed upon or applied in a consistent fashion. These types of approaches may not always be mutually exclusive, and some arguments may consider aspects of both.

Under a top-down approach, a litigant will generally propose an aggregate royalty for all SEPs covering a particular standard. After determining a total aggregate royalty burden for products practicing that standard, the party will seek to allocate the appropriate portion of that aggregate to the relevant patent claims. In doing so, the litigant may look to the number

174. 485 F. Supp. 3d at 730.

175. *Id.* at 734.

176. This discussion of “top-down” v. “bottom-up” approaches is not intended to be presented to the exclusion of the multiple factors for a reasonable royalty determination as applied in the FRAND context discussed in prior sections. *See supra* Sections III.B (General Factors for a Reasonable Royalty Determination as Applied in the FRAND Context) and III.C (Additional Considerations to the Factors Relevant to a FRAND Reasonably Royalty Determination).

and the strength of the asserted patent claims to determine the portfolio's share of the royalty. As discussed below, courts have used different variations of the top-down approach to determine an aggregate royalty or to allocate a portion of that royalty to the patents at issue in a case.

In contrast, a bottom-up approach generally aims to assess the value of each asserted SEP individually and then adds up the value of those asserted SEPs-in-suit. The individual patent valuations can be done in multiple manners—e.g., by quantifying the technical benefits (bandwidth savings, battery-life improvement, etc.), by established licensing rates for the SEP, by comparable licenses, or other traditional patent damages analyses.

Regardless of one's view of the optimal framework to determine FRAND royalties, implementation of these frameworks, when applied, has varied greatly case to case. In the United States, several courts have undertaken a FRAND royalty analysis touching on these frameworks. Four cases include: *Microsoft v. Motorola* (contract case),¹⁷⁷ *In re Innovatio IP Ventures* (patent infringement case),¹⁷⁸ *TCL v. Ericsson* (contract case),¹⁷⁹ and *HTC v. Ericsson* (contract case).¹⁸⁰

Decisions determining FRAND royalties reflect differences even when the courts are looking at patents involving the same standard or the same features in a standard. Some of these differences in existing case law stem from the fact that courts

177. *Microsoft V*, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013).

178. *Innovatio II*, 2013 WL 5593609 (N.D. Ill. Oct. 3, 2013).

179. No. SACV 14-341JVS, 2018 WL 4488286 (C.D. Cal. Sept. 14, 2018) (vacated on Seventh Amendment grounds in *TCL Commc'n Tech. Holding, Ltd. v. Telefonaktiebolaget LM Ericsson*, 943 F.3d 1360 (Fed. Cir. 2019)).

180. *HTC v. Ericsson*, 2019 WL 126980; *HTC Corp. v. Telefonaktiebolaget LM Ericsson*, 12 F.4th 476 (5th Cir. 2021).

adjudicating FRAND disputes have different evidence in front of them and are examining the contributions of one patent holder and a limited set of patent claims in a given case.¹⁸¹

3. Royalty stacking¹⁸²

Some may argue that the determination of a royalty in an individual case should take into account the possibility of royalty stacking. “Royalty stacking can arise when a standard implicates numerous patents, perhaps hundreds, if not thousands. If companies are forced to pay royalties to all SEP licensors, the royalties will ‘stack’ on top of each other and may become excessive in the aggregate.”¹⁸³ However, “the mere fact that thousands of patents are declared to be essential to a standard does not mean that a standard-compliant company will necessarily have to pay a royalty to each SEP holder.”¹⁸⁴ Thus, the Federal Circuit requires case-specific evidence before royalty stacking can be introduced to the jury.¹⁸⁵

181. See, e.g., *Microsoft V*, 2013 WL 2111217, at *3 (“However, this litigation is limited in scope by the pleadings and evidence provided to the court, and the court is therefore likewise constrained to determining what constitutes a reasonable royalty rate for Motorola’s SEP portfolio under the RAND obligation.”).

182. The importance of royalty stacking has been substantially debated in economic and academic literature. Compare A. Layne-Farrar & K. W. Wong-Ervin, *An Analysis of the Federal Circuit’s Decision in Ericsson v. D-Link*, CPI ANTITRUST CHRONICLE, 4–5 (March 2015), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2669269, with Jorge L. Contreras, *Aggregated Royalties for Top-Down FRAND Determinations: Revisiting ‘Joint Negotiation’*, ANTITRUST BULLETIN, Vol. 62(4), 690-709 (July 2018), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3051502.

183. *Ericsson Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014).

184. *Id.* at 1234.

185. See *id.*

In *Ericsson v. D-Link*, the Federal Circuit upheld the trial court's decision not to instruct the jury on royalty stacking where the defendant had not come forward with specific evidence supporting the existence of royalty stacking.¹⁸⁶ The defendant's reliance on the existence of a large number of declared SEPs was insufficient in the absence of specific royalty evidence, such as other licenses or royalty demands regarding the same standard.¹⁸⁷

In *CSIRO*, while discussing principles of apportionment, the Federal Circuit referred back to *Ericsson* when explaining that both "abstract recitations of royalty stacking theory, and qualitative testimony that an invention is valuable—without being anchored to a quantitative market valuation—are insufficiently reliable."¹⁸⁸

There are a few examples in the case law of the type of evidence that courts examine to show royalty stacking. In *Ericsson*, for example, the court stated: "In this case, D-Link's expert 'never even attempted to determine the actual amount of royalties Defendants are currently paying for 802.11 patents.' In other words, D-Link failed to come forward with any evidence of other licenses it has taken on Wi-Fi essential patents or royalty demands on its Wi-Fi enabled products."¹⁸⁹ In *Core Wireless v. Apple*, the court denied a *Daubert* motion to exclude an expert from addressing the need to avoid royalty stacking in determining a FRAND royalty, finding that Apple presented "evidence that (1) numerous specific royalty demands have been made that, if paid, would exceed the profit margin of the baseband chip; and (2) Apple considers royalty stacking in real-world

186. *See id.*

187. *Id.*

188. *CSIRO*, 809 F.3d 1295, 1302 (Fed. Cir. 2015).

189. *Ericsson*, 773 F.3d at 1234.

licensing negotiations.”¹⁹⁰ The court indicated in its ruling that it would exclude the opinion at trial if the damages expert failed “to identify a sufficient factual basis for his assertion that Apple would consider royalty stacking in its hypothetical negotiation.”¹⁹¹ At trial, Apple presented evidence of the nature it had indicated pretrial, and the court overruled the plaintiff’s renewed objection, allowing the evidence of royalty stacking to be admitted.¹⁹²

Outside the context of a jury trial, some trial courts have considered in bench trials the concept of royalty stacking in their FRAND analyses. For example, the court in *TCL v. Ericsson* (a contract case) wrote that “[t]he appeal of a top down approach is that it prevents royalty stacking.”¹⁹³ In *Innovatio* (a patent infringement case), the court described royalty stacking analysis as “a way of checking the accuracy of a proposed RAND royalty’s correspondence to the technical value of the patented invention,” and considered both “a proposed RAND rate in light of the total royalties an implementer would have to pay to practice the standard” and “whether the overall royalty of all standard-essential patents would prohibit widespread adoption of the standard.”¹⁹⁴ In *Microsoft* (a contract case), the court

190. *Core Wireless Licensing S.A.R.L. v. Apple Inc.*, No. 15-cv-05008 NC, 2016 WL 8231157, at *2 (N.D. Cal. Nov. 18, 2016).

191. *Id.* at *3.

192. *Core Wireless Licensing S.A.R.L. v. Apple Inc.*, Case No. 5:15-cv-05008-NC, Dkt. 520, at 1148-49 (N.D. Cal. Dec. 9, 2016) (public transcript of December 9, 2016 proceedings before Hon. Nathanael Cousins).

193. *TCL Commc’n Tech. Holding, Ltd. v. Telefonaktiebolaget LM Ericsson*, 2017 WL 6611635, at *8 (C.D. Cal. Dec. 21, 2017) (vacated on Seventh Amendment grounds in *TCL Commc’n Tech. Holding, Ltd. v. Telefonaktiebolaget LM Ericsson*, 943 F.3d 1360 (Fed. Cir. 2019)). *See supra* Section III.C.2 for discussion of top-down analysis.

194. *Innovatio II*, 2013 WL 5593609, at *10 (N.D. Ill. Oct. 3, 2013).

examined stacking allegations in multiple contexts, including “clear stacking concerns” presented by a proposed royalty rate that would result in an aggregate exceeding the total product price—concerns further “heightened” where the portfolio provided “only minimal contribution” to the standard.¹⁹⁵

4. Patent holdup and patent holdout

This section addresses the related concepts of SEP “holdup” and “holdout.” Prospective SEP licensees and SEP holders, respectively, may advance arguments based on holdup or holdout to support their positions.

The Federal Circuit has identified patent holdup as a potential problem that could inhibit widespread adoption of the standard.¹⁹⁶ Patent holdup is alleged to exist when the SEP licensor demands excessive royalties after companies are locked into using a standard.¹⁹⁷ This issue of “lock-in” refers to the changed circumstances after a standard has been deployed in the market. Before standardization, alternative technologies may have been available to market participants. But after standardization, and as a direct result of the collective agreement of the companies participating in the standardization process, only the specific technologies included in the standard can be used for standards-compliant devices, and implementers of standard-compliant products are locked in to using those technologies. As the Ninth Circuit has stated: “[O]nce a standard becomes widely adopted, SEP holders obtain substantial leverage over new product developers, who have little choice but to incorporate SEP technologies into their products. Using that

195. *Microsoft V*, 2013 WL 2111217, at *73 (W.D. Wash. Apr. 25, 2013).

196. As the Federal Circuit noted in *Ericsson v. D-Link*, “SEPs pose two potential problems that could inhibit widespread adoption of the standard: patent hold-up and royalty stacking.” 773 F.3d 1201, 1209 (Fed. Cir. 2014).

197. *See id.*

standard-development leverage, the SEP holders are in a position to demand more for a license than the patented technology, had it not been adopted by the SSO, would be worth.”¹⁹⁸ FRAND rules have been said to address the problem of holdup because they “ensure that standards do not allow the owners of essential patents to abuse their market power to extort competitors or prevent them from entering the marketplace”¹⁹⁹ and thereby serve as “a bulwark against unlawful monopoly.”²⁰⁰

Potential SEP licensees may cite holdup concerns in support of: (1) arguments in favor of lower royalties, (2) contentions that certain prior licenses are not comparable for the purpose of a royalty determination because they were the product of patent holdup and thus do not accurately reflect the value of the patented technology, or (3) arguments against the imposition of injunctive relief. SEP licensors may argue that no holdup concerns exist, at least where FRAND commitments have been made.

The problem of “holdout,” by contrast, has been said to refer to a potential licensee that unreasonably delays or refuses to take a FRAND license, hoping that protracted, uncertain, and expensive legal proceedings may produce a better outcome than paying a FRAND royalty without such litigation.²⁰¹ The

198. *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1030 (9th Cir. 2015).

199. *Apple Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d at 1067.

200. *Broadcom Corp. v. Qualcomm, Inc.*, 501 F.3d 297, 305 (3d Cir. 2007). *But see* *FTC v. Qualcomm, Inc.*, 969 F.3d 974, 995-97 (9th Cir. 2020) (holding that alleged breach of SDO commitments did not amount to an antitrust violation); *Continental Automotive v. Avanci*, 485 F. Supp. 3d 712, 734-35 (N.D. Tex. 2020) (same).

201. *See Motorola*, 757 F.3d 1286, 1332 (Fed. Cir. 2014), overruled on other grounds by *Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015) (en banc) (explaining that holdout may exist “where an infringer unilaterally

resulting concern is that holdout risks “unfair downward pressure” on royalties, which could result in a lower-than-FRAND royalty and disincentives for innovators to contribute their patented technologies to industry standards.²⁰² Some may argue that innovators who contribute to an SDO can be susceptible to licensee holdout if the contributed technologies have a market only within the standard. For example, the patent owner may have substantial sunk costs in researching and developing technology that has value only in the standard, and the patent owner can only recoup those costs through standard licensees based on reasonable and good-faith negotiations under the FRAND commitment. But someone using that technology may not negotiate reasonably and in good faith toward a FRAND license, which deprives the SEP owner of the benefit of its bargain from the FRAND commitment and puts pressure on the SEP owner to agree to a lower royalty to recoup the sunk costs it already invested.

SEP holders may cite holdout concerns in support of: (1) arguments in favor of higher royalties, (2) contentions that certain prior licenses are not comparable for the purpose of a royalty determination because they were the product of patent holdout and thus do not sufficiently reflect the value of the patented technology, or (3) arguments for the imposition of injunctive relief as a means of deterring holdout behavior. An SEP holder may also argue that once it has made a FRAND offer to a prospective licensee, the prospective licensee’s unwillingness to negotiate reasonably and in good faith should result in a finding that the SEP owner’s license offer has discharged its FRAND

refuses a FRAND royalty or unreasonably delays negotiations to the same effect.”).

202. See *In re Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613, 2015 WL 6561709, at *26 (U.S.I.T.C. Apr. 27, 2015) (Initial Determination on Remand).

commitment, and the prospective licensee can no longer benefit from that FRAND commitment.²⁰³

Either patent holdup or patent holdout can potentially disrupt the balance between the interests of IPR holders and licensees of standardized technology that SDO IPR policies seek to maintain.

In *Ericsson*, the Federal Circuit held that a district court “need not instruct the jury on hold-up . . . unless the accused infringer presented actual evidence of hold-up.”²⁰⁴ The *Ericsson* court instructed that patent holdup evidence may consist, for example, of evidence that the patent holder “used its SEPs to demand higher royalties from standard-compliant companies” or that the patent holder “started requesting higher royalty rates after the adoption of the . . . standard.”²⁰⁵ Similarly, courts should require actual evidence of patent holdout before instructing a jury on holdout. Evidence relating to the concept of patent holdout may come from the parties’ conduct in negotiations.²⁰⁶ Courts that evaluate these patent holdup and holdout

203. See *Microsoft Corp. v. Motorola, Inc.*, No. 10-1823, 2012 WL 395734, at *4 (W.D. Wash. Feb. 6, 2012) (denying motion to dismiss a request for declaration that Motorola repudiated its right to a RAND license); *HTC Corp. v. Telefonaktiebolaget LM Ericsson*, No. 6:18CV-00243-JRG, 2018 WL 6617795, at *7 (E.D. Tex. Dec. 17, 2018) (denying motion to dismiss claims seeking, among other things, a declaration that prospective licensee forfeited rights to a FRAND license “by refusing to undertake good-faith negotiations”); *In re Qualcomm Litig.*, No. 3:17-cv-00108-GPC-MDD, Dkt. 1042, at 12-13 (S.D. Cal. Mar. 20, 2019) (denying motion to dismiss claim seeking declaration that prospective licensee was an unwilling licensee).

204. *Ericsson Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1234 (Fed. Cir. 2014).

205. *Id.*

206. For example, in finding willful infringement of an SEP with a FRAND commitment, a district court admitted evidence of actual holdout—the party had abruptly terminated licensing negotiations, stated that it preferred to

concepts do so on a case-by-case basis. The ITC decision in *In re Certain 3G Mobile Handsets and Components Thereof* contains an extended discussion of and detailed findings on holdup and holdout issues.²⁰⁷

Case law in this area is continuing to develop.

litigate, stated that it did not want to be the first in the industry to take a license, and did not present strong defenses at trial. *Core Wireless Licensing S.A.R.L. v. LG Elecs., Inc.*, No. 2:14-cv-912- 2016 WL 10749825, at *1–2 (E.D. Tex. Nov. 1, 2016). The court exercised its discretion to enhance damages, based in part on its determination that the defendant had declined to “engage in serious, good faith negotiations” for a patent license. *Id.*

207. 2015 WL 6561709 (U.S.I.T.C. Apr. 27, 2015) (Initial Determination on Remand).

IV. INJUNCTIVE RELIEF

The Working Group recognizes that the general *eBay* factors and analysis governing issuance of an injunction in general patent cases should also apply in cases involving SEPs.²⁰⁸ The *Framework* drafting team, however, has divergent views on applying the *eBay* factors for injunctive relief on an SEP and, to date, there is little court guidance on the issue.

In *eBay*, the U.S. Supreme Court set forth the governing standard for issuance of injunctions in patent cases. Prior to *eBay* the Federal Circuit applied a “‘general rule’ unique to patent disputes: ‘that a permanent injunction will issue once infringement and validity have been adjudged.’”²⁰⁹ In *eBay*, the Court reversed the Federal Circuit, holding “that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”²¹⁰ Those traditional equitable principles are embodied in a four-factor test requiring the movant to show: (1) irreparable injury; (2) that the remedies available at law are inadequate to compensate for that injury; (3) that the balance of hardships between the plaintiff and the defendant favors an injunction; and (4) that the public interest would not be disserved by issuance of an injunction.

Prior to 2014 there was an open question whether a court could issue an injunction prohibiting a party from practicing an SEP. That issue was addressed by the Federal Circuit in *Apple v.*

208. See *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

209. *Id.* at 391 (quoting *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005)).

210. *Id.* at 394.

Motorola.²¹¹ In *Motorola*, although the court acknowledged that “FRAND commitments are certainly criteria relevant to . . . entitlement to an injunction,” the court held that there was no need for “a separate rule or analytical framework for addressing injunctions for FRAND-committed patents. The framework laid out by the Supreme Court . . . provides ample strength and flexibility for addressing the unique aspects of FRAND-committed patents and industry standards in general.”²¹² Because there is no per se rule, assessing the propriety of an injunction in an SEP setting turns on the application of *eBay* to the unique circumstances of a particular SEP enforcement.²¹³

Many of the substantive arguments that may be raised by SEP patent holders and accused infringers, including those presented below, do not fit neatly within one specific *eBay* factor, but rather can be and often are raised when discussing multiple *eBay* factors.

A. eBay Factor 1: Whether the plaintiff has suffered an irreparable injury

While a variety of issues and considerations can be relevant to assessing the first *eBay* factor, two issues in particular are often raised during the discussion of irreparable harm in the context of SEPs: arguments concerning the causal-nexus requirement, and those concerning willingness to license.

1. The causal-nexus requirement

“To satisfy the first *eBay* factor, the patentee must show that it is irreparably harmed by the infringement,” which “requires proof that a ‘causal nexus relates the alleged harm to the alleged

211. See *Motorola*, 757 F.3d 1286, 1332 (Fed. Cir. 2014).

212. *Id.* at 1331–32.

213. See *id.*

infringement.”²¹⁴ The causal-nexus inquiry begins by asking whether “there is ‘some connection’ between the harm alleged and the infringing acts.”²¹⁵ This causation component requires that “the injury asserted to be irreparable be injury *from the defendant’s use of infringing features*.”²¹⁶ This may be established by showing that the infringing feature is “‘a driver’ of decisions by a substantial number of individual consumer decision-makers considering multiple features.”²¹⁷ If a connection is shown, then “[t]he strength of [the patentee’s] evidence of irreparable harm goes to this factor’s weight when assessing the propriety of the injunction.”²¹⁸

Given the complexity of certain devices, a defendant may argue that the Federal Circuit’s causal-nexus requirement restricts the availability of injunctive relief for devices incorporating multiple additional features and functionalities. The defendant may argue that consumer demand is driven by other features or functionalities of the product or that the aspects covered by the SEP have a negligible independent impact on consumer demand.

A patent holder may respond that the analysis requires only “some connection” between the patented features and the demand for the infringing products. “[I]t is enough that [the patent owner] has shown that these [patented] features were related to

214. *Apple Inc. v. Samsung Elecs. Co. (Apple IV)*, 809 F.3d 633, 639 (Fed. Cir. 2015).

215. *Id.* at 640 (quoting *Apple Inc. v. Samsung Elecs. Co. (Apple III)*, 735 F.3d 1352, 1364 (Fed. Cir. 2013)).

216. *Genband US LLC v. Metaswitch Networks Corp.*, 861 F.3d 1378, 1382 (Fed. Cir. 2017) (emphasis in original).

217. *Id.* at 1382 (emphasis deleted).

218. *Apple IV*, 809 F.3d at 644 (citing *Apple III.*, 735 F.3d at 1364).

infringement and were important to customers when they were examining their [product] choices.”²¹⁹

A defendant may respond that any importance of the feature to customers stems from the need to comply with the standard that has other features sought by customers, and that the patented feature alone has little or no influence on the customer’s purchasing decision.

Whether this factor has been met and what weight to give it depends on the circumstances presented. In multipurchaser, multifeature situations, which often are presented in SEP cases, the standard here reflects general tort principles of causation and lies between (1) too-low showing of an “insubstantial connection” between the infringement and harm, and (2) the too-demanding requirement to show that the infringing feature is “*the driver*” or “sole reason” of customer demand for the product.²²⁰

In some cases, more than one patent claim may be found infringed by more than one feature of the accused product. In those instances, “when considering whether to enjoin a product, it is proper for the court to consider the aggregate harm caused by all of the infringing features, rather than requiring a patentee to address each patent or claim individually.”²²¹

219. *Id.* at 644, *see also id.* (“Apple did not establish that these features were the exclusive driver of customer demand, which certainly would have weighed more heavily in its favor. Apple did, however, show that ‘a patented feature is one of several features that cause consumers to make their purchasing decisions.’ We conclude that this factor weights in favor of granting Apple’s injunction.”) (internal citation omitted).

220. *Genband*, 861 F.3d at 1382–84; *see also id.* at 1384 (“The standard . . . as appropriate to the multi-purchaser, multi-component context, lies between the unduly stringent ‘sole reason’ standard . . . and unduly lax ‘insubstantial connection’ standard[s] we rejected . . .”).

221. *Motorola*, 757 F.3d 1286, 1330–31 (Fed. Cir. 2014).

2. Willingness to license

“The irreparable harm inquiry endeavors to measure the harms that damages awards cannot remedy.”²²² With respect to this prong, another factor that courts may assess in determining whether a patentee has been irreparably harmed is evidence that the patentee previously had chosen to license, or made promises to license, the patent.

In the SEP context, the Federal Circuit has held that a FRAND commitment, and prior history of licensing FRAND-committed patents, is strong evidence that a patent holder would not be irreparably harmed absent issuance of an injunction.²²³ In other words, “[a] patentee subject to FRAND commitments may have difficulty establishing irreparable harm.”²²⁴ In considering the district court’s discretion to enjoin an SEP owner from enforcing a foreign injunction on an SEP where the patent owner submitted a declaration to “grant a license to an unrestricted number of applicants on a worldwide basis,” the Ninth Circuit stated that “[i]mplicit in such a sweeping promise is, at least arguably, a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made.”²²⁵ This is

222. *Hydrodyamic Indus. Co Ltd. V. Green Max Distributors, Inc.*, No. 2:12-cv-05058-ODW, 2014 WL 2740368, at *3 (C.D. Cal. June 16, 2014) (citing *Celsis In Vitro, Inc. v. CellzDirect, Inc.*, 664 F.3d 922, 930 (Fed. Cir. 2012)).

223. *Motorola*, 757 F.3d at 1332 (“Motorola’s FRAND commitments, which have yielded many license agreements encompassing the ‘898 patent, strongly suggest that money damages are adequate to compensate Motorola for any infringement.”).

224. *Id.*

225. *Microsoft III*, 696 F.3d 696 872, 884 (9th Cir. 2012).

particularly true where prior SEP licenses have been granted and the standard has become widely implemented in the industry.²²⁶

However, the patent holder may argue that past licensing history itself may show that there would be irreparable harm in the absence of injunctive relief. District courts should make a specific factual assessment of the circumstances surrounding past licensing behavior to determine the extent to which a past willingness to license evidences that a patentee will not be irreparably harmed if an injunction is denied.²²⁷ In that context, a past willingness to license is not always dispositive of irreparable harm.²²⁸ More generally, the Federal Circuit has confirmed (outside of the SEP context) that “[p]rice erosion, loss of goodwill, damage to reputation, and loss of business opportunities are all valid grounds for finding irreparable harm.”²²⁹ A patent holder thus may argue in the SEP context that “an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.”²³⁰

226. *Id.* (“Considering the large number of industry participants that are already using the system claimed in the ‘898 patent, including competitors, Motorola has not provided any evidence that adding one more user would create such harm. Again, Motorola has agreed to add as many market participants as are willing to pay a FRAND royalty.”).

227. *See, e.g., Apple III*, 735 F.3d 1352, 1369–70 (Fed. Cir. 2013).

228. *Id.*

229. *Celsis In Vitro, Inc., v. CellzDirect, Inc.*, 664 F.3d 922, 930 (Fed. Cir. 2012).

230. *Motorola*, 757 F.3d 1286, 1332 (Fed. Cir. 2014) (referring to the four *eBay* factors as a whole and ultimately ruling against an injunction, in part because the plaintiff had “agreed to add as many market participants as are willing to pay a FRAND royalty”).

B. eBay Factor 2: Whether the remedies available at law are inadequate to compensate for the injury

The second *eBay* factor requires the standard-essential patent holder to prove that “remedies available at law, such as monetary damages, are inadequate to compensate for that injury.”²³¹

A defendant opposing a request for injunction may argue that although there is no per se rule that injunctions are unavailable for SEPs, a FRAND commitment strongly suggests that money damages are adequate to fully compensate the patent holder for any infringement by standard-compliant products.²³² As support, the defendant may cite to the licensing commitments themselves, arguing that a party who has agreed to license its patents should not be relieved of that commitment through its request for an injunction. The defendant may also point to associated IPR policies as well as case law addressing the seeking of injunctions despite a past history of licensing.²³³

An SEP holder seeking an injunction may, on the other hand, argue that its willingness to license its standard-essential patents on FRAND terms does not automatically mean money damages are sufficient compensation for infringement.²³⁴ As support, the patent holder may point to the absence of any express waiver of the right to seek injunctive relief in its licensing

231. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006).

232. *See, e.g., Motorola*, 757 F.3d at 1331 (“FRAND commitments are certainly criteria relevant to [an] entitlement to an injunction”).

233. *Id.* at 1332; *Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998, 1008-09 (N.D. Cal. 2013) (“Unless and until Realtek were to refuse a license under the court’s-determined RAND terms . . . , then any exclusion order or injunctive relief is inconsistent with [the patentee’s] RAND obligations.”)

234. *Apple III*, 735 F.3d 1352, 1369 (Fed. Cir. 2013) (“[A] defendant’s ability to pay a judgment does not defeat a claim that an award of damages would be an inadequate remedy.”).

commitment to the standard-development organization. The patent holder may also argue that interpreting the FRAND commitment to entirely preclude injunctions would conflict with the statements in *eBay* that even patent holders who choose to license their technology rather than use it exclusively are not precluded from obtaining injunctive relief under the *eBay* test.²³⁵ The patent holder could also note that in *Apple v. Motorola*, the Federal Circuit rejected a categorical ban on injunctions for standard-essential patents.²³⁶

The patent holder might argue that monetary damages are inadequate to compensate for infringement of its standard-essential patents because of what it argues is “patent holdout” in the marketplace.²³⁷ The patentee may argue that when defendants—particularly those with large market share—routinely hold out by infringing standard-essential patents without timely taking licenses, this course of conduct could become the industry norm. This in turn makes it more difficult and expensive for the patent holder to efficiently and successfully license its standard-essential patents. The patentee may argue that the cost and burden of litigating becomes so high that the patent holder cannot secure full compensation in the form of money damages.

Defendants may counter that such an argument by the patent holder is overly broad, as it could be made for any patent and is contrary to *eBay*. In particular, defendants may argue that costs of litigation are monetary costs that can be remedied through ordinary damages. Defendants may further counter that seeking an injunction based on an SEP constitutes a form of

235. *eBay*, 547 U.S. at 393.

236. *Motorola*, 757 F. 3d at 1331–32 (holding that although “FRAND commitments are certainly relevant to [the] entitlement to an injunction,” there is no reason for “a separate rule” . . . for FRAND-committed patents”).

237. *See supra* Section III.C.4.

patent “holdup,” whereby a patent holder seeks to leverage its monopoly power associated with ownership of a necessary patent to obtain excessive compensation. As the Federal Circuit has stated, “[p]atent hold-up exists when the holder of an SEP demands excessive royalties after companies are locked into using a standard.”²³⁸

A defendant may also argue that its willingness and ability to pay money damages likewise establish that remedies at law are adequate compensation for its use of the patented technology at issue. The patent holder may respond by pointing to the Federal Circuit’s reasoning in *Apple v. Samsung* (in a non-SEP context) that “a defendant’s ability to pay merely indicates that a court should look to other considerations to determine whether a damages award will adequately compensate the patentee for the harm caused by continuing infringement.”²³⁹ Further, if the defendant in fact is demonstrated to be unavailable or unable to pay a judgment, the patent holder could use that fact to argue that money damages are inadequate compensation for the infringement.²⁴⁰

C. eBay Factor 3: Whether the balance of hardships between the plaintiff and the defendant favors an injunction

“To satisfy the third *eBay* factor, the patentee must show that the balance of hardships weighs in its favor.”²⁴¹ “[This] factor ‘assesses the relative effect of granting or denying an injunction

238. *Ericsson Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014).

239. *Apple III*, 735 F.3d at 1369.

240. *Id.* (recognizing that an infringer’s inability to pay a judgment “may demonstrate the inadequacy of damages”).

241. *Apple IV*, 809 F.3d 633, 645 (Fed. Cir. 2015) (quoting *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 862 (Fed. Cir. 2010)).

on the parties.”²⁴² The defendant may cite to this factor in opposing an injunction if it is willing to pay a court-ordered FRAND royalty. On the other hand, the patent holder may argue that this factor supports an injunction if the defendant refuses or is unable to pay a court-ordered FRAND royalty.

In *Apple v. Motorola*, the Federal Circuit considered this factor in light of the “unique aspects of FRAND committed patents and industry standards in general.”²⁴³ In upholding the district court’s determination that the patent holder was not entitled to an injunction for infringement of its SEP, the Federal Circuit identified various factors that may be relevant to the balance of hardships:

- ***The FRAND commitment:*** Since the patent at issue was FRAND-committed, the patent holder had “agreed to add as many market participants as are willing to pay a FRAND royalty,” including competitors.²⁴⁴ The court also noted, however, that there is no per se rule that injunctions are unavailable for SEPs.²⁴⁵
- ***The status and nature of the license negotiations:*** In this case, license negotiations were “ongoing,” and there was no evidence that the defendant had been “unilaterally refusing to agree to a deal.”²⁴⁶ “On the other hand,” the court noted, “an injunction may be justified where an infringer unilaterally refuses a

242. *Apple III*, 735 F.3d at 1371.

243. *Motorola*, 757 F.3d 1286, 1332 (Fed. Cir. 2014).

244. *Id.*

245. *Id.* at 1331–32.

246. *Id.* at 1332.

FRAND royalty or unreasonably delays negotiations to the same effect.”²⁴⁷

- ***The number of industry participants already using the patent:*** Because the patent was determined standard-essential, there was a lack of evidence that “adding one more user” would harm the patent holder.²⁴⁸

In assessing the balance of hardships, courts may consider the availability of money damages to the patent holder.²⁴⁹ In the case of FRAND-committed patents, the defendant may argue that it is willing to pay a court-ordered FRAND royalty to the patent owner and, therefore, no injunction should be entered because the patent owner ultimately will be made whole. The patent owner, however, may argue that such delayed royalty payment would not make the patent owner whole because it would delay receipt of much needed funds to invest in its ongoing business or other considerations.

Courts have also evaluated balance of hardships with respect to the existence of copying, finding (outside the SEP context) such evidence tips the balance of hardships against a defendant.²⁵⁰ A defendant may argue that the existence of copying has no application to SEPs, because the very purpose of standards is to encourage widespread adoption. The patent owner, however, may argue that such an argument is incomplete, because an important purpose of standards also is to create new

247. *Id.* at 1333.

248. *Id.* at 1332.

249. *See, e.g.,* ActiveVideo Networks, Inc. v. Verizon Commc’ns, Inc., 694 F.3d 1312, 1341 (Fed. Cir. 2012).

250. *See* Apple, Inc. v. Samsung Elecs., Ltd., 678 F.3d 1314, 1338 (Fed. Cir. 2012) (finding “some evidence that Samsung altered its design to make it look like Apple’s . . . further tips the balance of hardships against Samsung”).

and better standards that are worthy of widespread adoption; allowing someone to copy the technology in the standard without adequately compensating patent owners who contributed their innovations to the standard would frustrate that important purpose.

Courts have also considered the competitive relationship between the parties in assessing balance of hardships.²⁵¹ The defendant may argue that the competitive relationship between the parties should not be relevant to a balance of hardships analysis where a FRAND-committed SEP is at issue because a FRAND license must be “nondiscriminatory.” In other words, the FRAND commitment may make the “commercial relationship between the licensor and licensee” “irrelevant because [the patent holder] must offer licenses at a *non-discriminatory* rate.”²⁵² The patent holder may argue, however, that the competitive relationship should be relevant in at least some instances in the SEP context; for example, where the defendant is an unwilling licensee or has refused to negotiate in good faith. Additionally, a patent holder may counter that *Ericsson* is not an injunction case, and that no current case law clearly defines the “nondiscriminatory” requirement of FRAND to include eliminating the competitor relationship as a factor for consideration under an *eBay* analysis.

Outside of the SEP context, the Federal Circuit has found that the availability of a design-around tends to favor the

251. See, e.g., *Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1142, 1156 (Fed. Cir. 2011) (“[R]equiring Bosch to compete against its own patented invention, with the resultant harms described above, places a substantial hardship on Bosch.”).

252. *Ericsson Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1230–31 (Fed. Cir. 2014) (finding under a *Georgia-Pacific* analysis that certain *Georgia-Pacific* factors are not relevant in the context of FRAND-committed patents).

plaintiff in the balance of hardships analysis.²⁵³ Similarly, a sunset provision that gives the defendant time to design around the patent may mitigate the hardship to the defendant from an injunction.²⁵⁴ In the SEP context, however, the essential nature of the patent ordinarily means a design-around is impractical.

D. eBay Factor 4: Whether the public interest would be disserved by issuance of an injunction

“The fourth *eBay* factor requires the patentee to show that ‘the public interest would not be disserved by a permanent injunction.’”²⁵⁵ “[T]he touchstone of the public interest factor is whether an injunction, both in scope and effect, strikes a workable balance between protecting the patentee’s rights and protecting the public from the injunction’s adverse effects.”²⁵⁶

The case law regarding injunctions for SEPs and application of the public interest factor continues to evolve.

The defendant may argue, among other things, that:

- the FRAND commitment “must be construed in the public interest because it is crafted for the public interest,” and that the public interest supports

253. See, e.g., *Douglas Dynamics, LLC v. Buyer Prods. Co.*, 717 F.3d 1336, 1345 (Fed. Cir. 2013) (when infringer “ha[s] a non-infringing alternative which it could easily deliver to the market, then the balance of hardships would suggest that [it] should halt infringement”).

254. See, e.g., *Broadcom Corp. v. Emulex Corp.*, 732 F.3d 1325, 1338–39 (Fed. Cir. 2013) (“[I]n exercising its discretion for equitable remedies, the district court formed a well-crafted sunset period.”).

255. *Apple IV*, 809 F.3d 633, 646 (Fed. Cir. 2015) (quoting *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006)).

256. *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 863 (Fed. Cir. 2010).

enforcement of the patent owner's promise to license SEPs;²⁵⁷

- the standard exists to deter patent holdup harming competition and consumers, and the public interest is thus also served by enforcing the licensing commitment rather than permitting market exclusion;²⁵⁸ and
- preventing companies from building standard-compliant products is contrary to the public interest.

On the other hand, the patent holder may argue, among other things, that:

- granting an injunction on a valid and infringed patent is in the public interest;²⁵⁹
- the public interest also favors protecting the rights of SEP owners so that they will be encouraged to contribute innovations to standards, making such standards worthy of widespread adoption by consumers;
- the public interest favors enforcing the agreement between the patent holder and the SDO that a prospective licensee must negotiate reasonably and in

257. See *Microsoft VI*, 795 F.3d 1024, 1052 n.22 (9th Cir. 2015) (internal quotation marks omitted).

258. See *Ericsson Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014). See also *supra* Section III.C.4 for more complete discussion of patent holdup.

259. See *Apple IV*, 809 F.3d at 647 (holding that “the public interest nearly always weighs in favor of protecting property rights in the absence of countervailing factors” and “the encouragement of investment-based risk is the fundamental purpose of the patent grant, and is based directly on the right to exclude.”) (internal quotation marks omitted).

good faith in order to benefit from a FRAND commitment;²⁶⁰ and

- the Federal Circuit precludes considering abstract arguments about patent holdup, which is only relevant if based on specific evidence of holdup in a specific case.²⁶¹

260. See *Motorola*, 757 F.3d 1286, 1332 (Fed. Cir. 2014) (“Motorola argues that Apple has refused to accept its initial licensing offer and stalled negotiations. However, the record reflects that negotiations have been ongoing, and there is no evidence that Apple has been, for example, unilaterally refusing to agree to a deal.”).

261. See *Ericsson*, 773 F.3d at 1234.

V. STANDARD-ESSENTIAL PATENTS NOT SUBJECT TO A STANDARD-SETTING COMMITMENT

Although standard-essential patents are often subject to some commitment to the organization that set the standard on which the patent reads, that will not always be the case. This section addresses issues to consider when a patent reads on a standard, but there is not a FRAND or other standard-setting commitment associated with the patent.

A. *Circumstances in which SEPs are not Subject to a Standard-Setting Commitment*

In many cases involving standard-essential patents, the patent owner (or a prior owner of the patent) will have provided some licensing assurances, often a FRAND commitment, in connection with its participation in the relevant standard-setting organization. However, sometimes a patent that is not subject to a FRAND or other standard-setting commitment may read on a standard. There are a variety of circumstances in which that might occur.

There may be circumstances where a standard is set without the participation or involvement of patent owners whose patents are encompassed within the standard. It is possible that those developing the SDO standard did not even know about a patent that turns out to read on its standard. The patent may have been pending in a patent application unknown to any participant and later issued with claims essential to the standard.

There may be circumstances where a patent owner submits a statement disclaiming any licensing commitment, but the patented technology is nonetheless included in the standard. SDOs might make such decisions based on the potential cost differential compared to alternative technologies (if any) or based on the technical merit of the technology for which no commitment was provided.

The circumstances leading to the absence of an SDO commitment may be relevant to a court in determining the appropriate remedy for infringement of a valid claim of an SEP.

B. The Availability of Injunctive Relief for SEPs not Subject to a Standard-Setting Commitment

The Federal Circuit has made clear that even in the SEP context, courts should apply the traditional *eBay* factors to determine whether injunctive relief is appropriate.²⁶²

Under the traditional *eBay* factors, a court must consider whether (1) the patent owner has suffered an irreparable injury; (2) remedies available at law are inadequate to compensate for that injury; (3) the balance of hardships between the plaintiff and the defendant warrants a remedy in equity; and (4) the public interest is disserved by issuance of an injunction. The fact that a patent is standard-essential but not subject to a standard-setting commitment will be more relevant to some of these factors than others.

1. Irreparable harm

For example, as discussed in Section IV above, where the owner of a FRAND-committed patent “may have difficulty establishing irreparable harm” considering its willingness to license and actual licensing of its patent,²⁶³ the situation may be different for the owner of a non-FRAND-committed SEP who has made no licensing commitment and has no history of licensing its patents. Such an SEP owner may have an argument that infringement causes it irreparable injury for which damages are

262. For a more complete discussion of injunctions in the SEP context, see *supra* Section IV (Injunctive Relief); see also *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

263. *Motorola*, 757 F.3d at 1332.

not an adequate remedy. The merits of such arguments will depend on the facts and circumstances.

2. Remedies available at law

As discussed in Section IV, the arguments concerning whether there is an adequate remedy at law in the absence of an injunction may mirror those presented in the irreparable harm factor above.

3. Balance of hardships

The defendant and patentee may still make many of the arguments discussed in Section IV regarding the balance of hardships. Further, defendants may argue that the fact that a patent is an SEP may be relevant to the third *eBay* factor even absent a standard-setting commitment. In considering the balance of the equities, a defendant may argue that the harm to the defendant goes beyond not being able to practice just the patented invention, but extends to being unable to sell a product that is completely standard compliant. A patent holder may, in turn, argue that use of its technology in standardized products without its consent results in large scale infringement of a patent it did not intend to license. In considering this factor, the court may consider the conduct of the SEP owner, the defendant, and perhaps even the SDO. For example, the court may consider (1) whether the SEP owner knowingly acquiesced in the SEP being built around its technology, (2) whether the defendant knew or should have known that the patent owner had not agreed to give a licensing commitment to the patent, or (3) the conduct of the parties, if any, in negotiating a license.

4. The public interest

The defendant and patentee may still make many of the arguments discussed in Section IV regarding the public interest.²⁶⁴ Further, defendants may argue that the existence of standardization raises additional public interest concerns, even absent a FRAND commitment. Courts have recognized that standards may significantly benefit consumers as well as industry participants. The Federal Circuit observed in *Apple v. Motorola* that “the public has an interest . . . in ensuring that SEPs are not overvalued.”²⁶⁵ A defendant, therefore, may argue that regardless of how a patent became part of a standard, once it is an SEP, injunctive relief reaches more broadly than the four corners of the patent itself. The patent owner, however, may argue that U.S. law recognizes enforcement of patent rights as being in the public interest and does not condone compulsory licensing.

C. Reasonable Royalty Damages for SEPs Not Subject to a Standard-Setting Commitment—*Georgia-Pacific* Analysis

The fact that a patent is standard-essential will affect the way courts determine reasonable royalty damages. The *Georgia-Pacific* factors must account for standardization, even absent a FRAND commitment.²⁶⁶ Special care should be taken to apply apportionment principles to ensure that the SEP owner is not over- or undercompensated based on the SEP’s inclusion in the standard.

The Federal Circuit has long accepted the *Georgia-Pacific* factors in making reasonable royalty calculations. However, as

264. See *supra* Section IV.D (*eBay* Factor 4).

265. *Motorola*, 757 F.3d at 1332.

266. See *CSIRO*, 809 F.3d 1295, 1304 (Fed. Cir. 2015) (“*Ericsson* explicitly holds that the adjustments to the *Georgia-Pacific* factors apply equally to RAND-encumbered patents and SEPs.” (citing *Ericsson*, 773 F.3d at 1231)).

discussed in Section III.B above, not all of those factors are relevant in any particular case. Specifically, in the context of standardization, several factors need to be adjusted for SEPs generally.²⁶⁷ We discuss some of those factors below.

- ***Georgia-Pacific* Factor 8: The established profitability of the product made under the patents; its commercial success; and its current popularity.**

Care should be given when considering “commercial success” and “current popularity” of the patented invention that is essential to a standard, because they are “likely inflated because a standard requires the use of the technology.”²⁶⁸

- ***Georgia-Pacific* Factor 9: The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.**

The Federal Circuit has found that Factor 9, utility and advantages of the patented invention over the old modes or devices, “is also skewed for SEPs,” since the technology is used because it was required to practice the standard and not necessarily because it is an improvement over the prior art.²⁶⁹

- ***Georgia-Pacific* Factor 10: The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.**

267. *Ericsson*, 773 F.3d at 1230–31; *see also CSIRO*, 809 F.3d at 1305 (“*Ericsson* calls out Factors 8, 9, and 10 as all being irrelevant or misleading in cases involving SEPs.”).

268. *Ericsson*, 773 F.3d at 1231.

269. *Id.*

Factor 10 considers the commercial embodiment of the licensor, which the Federal Circuit has found “irrelevant as the standard requires the use of the technology.”²⁷⁰

- **Georgia-Pacific Factor 13: The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.**

As discussed under Factor 13 of the *Georgia-Pacific* factors in Section III.B, the fact that a patent is standard-essential will require additional apportionment analysis, regardless of whether the patent is subject to a standard-setting commitment. Where the patent owner specifically refused to provide any commitment to the SDO, and the SDO nonetheless included the patented technology in the standard, the patent owner may argue that such inclusion indicates that its SEP has a high value to the standard.

270. *Id.*

VI. UNIQUE ISSUES IN LITIGATING SEPs/FRAND BEFORE THE INTERNATIONAL TRADE COMMISSION²⁷¹

The International Trade Commission is a venue that offers unique remedies for patent infringement in the United States. No damages are available; instead, pursuant to its governing statute,²⁷² the ITC can issue injunctive relief to prevent importation and sales of infringing articles in the United States. In Section 337 litigation, the ITC has the authority to issue two kinds of remedial orders: (1) limited or general exclusion orders, and (2) cease-and-desist orders. An exclusion order will bar importation into the United States of infringing products. A cease-and-desist directs a respondent in the Commission investigation to cease its unfair acts, including selling infringing imported articles out of U.S. inventory.

There are some unique issues that arise when litigating SEPs/FRAND before the International Commission, in particular concerning available remedies.

A. *The Availability of Exclusionary or Cease-and-desist Relief in the ITC for Infringement of SEPs*

The legal standard in the ITC for determining whether injunctive relief should be granted differs from the standard applicable in district court. As discussed above, the Supreme Court's *eBay* criteria govern the availability of injunctions against sales of infringing products in district court patent infringement litigation. However, the Federal Circuit has held that *eBay* does not apply to Commission remedy determinations

271. For a complete discussion of ITC litigation in general, see The Sedona Conference, *Commentary on Patent Litigation Best Practices: International Trade Commission Section 337 Investigations Chapter* (May 2019), available at: https://thesedonaconference.org/publication/Commentary_on_Patent_Litigation_Best_Practices_ITC_Section_337_Investigations.

272. 19 U.S.C. § 1337, usually referred to as "Section 337."

under Section 337.²⁷³ Accordingly, the ITC has examined the issues relevant to SEPs using its own statutory framework.

The availability of exclusionary or cease-and-desist relief in the ITC for infringement of SEPs has been the subject of controversy. Some have argued that exclusion orders and cease-and-desist orders are inconsistent with an SEP owner's commitment to license on FRAND terms. Others have argued that this type of relief is appropriate, for example, to remedy prior "holdout" by companies that have been found to infringe.

Of the SEP-based cases that have been brought in the ITC, a number of them settled without any resulting substantive decisions by the Commission. In nearly all SEP cases that did not settle, the complainants failed to establish a violation of Section 337 (e.g., the patents were not shown to be valid and infringed, or the requisite domestic industry was not established). Accordingly, there was no need in those cases for the Commission to address remedial issues that may otherwise have been implicated. As a result, there is limited case-law guidance from the Commission, let alone the Federal Circuit, on how administrative law judges (ALJs) should approach exclusionary or cease-and-desist issues involving SEPs subject to a FRAND commitment.

B. How SEP/FRAND issues are raised before the ITC

When alleged SEPs have been asserted to be infringed in ITC Section 337 investigations, respondents have generally raised FRAND/SEP issues in three ways: (1) affirmative defenses; (2) counterclaims; and (3) public interest considerations.

273. *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010).

1. Affirmative defenses

As in district court litigation, respondents in the ITC may assert affirmative defenses to infringement. In the case of SEPs, respondents have asserted affirmative defenses such as waiver and estoppel, claiming that the patent owner breached a FRAND commitment and thereby waived or is estopped from enforcing the patent-in-suit, or that the patent owner failed to timely disclose its patent or patent application to the SDO consistent with the SDO's IPR policy. Similarly, the affirmative defense of implied license has been raised, on the theory that a FRAND commitment operates as a license. Respondents have also asserted that breach of a FRAND commitment results in patent misuse, which would render the patent-in-suit unenforceable until the misuse is purged.

2. Counterclaims

To the extent a respondent seeks affirmative relief from a patent owner due to alleged breach of a FRAND commitment, the claim is more properly asserted as a counterclaim. In the ITC, counterclaims can be asserted but must be removed to district court for adjudication, as the ITC does not have the authority to award relief to a respondent.²⁷⁴ Thus, for example, a claim for breach of contract based on breach of a FRAND commitment seeking damages against the patent owner would need to be asserted in district court and would not be adjudicated during the ITC investigation.

274. 19 U.S.C. § 1337(c) ("Immediately after a counterclaim is received by the Commission, the respondent raising such counterclaim shall file a notice of removal with a United States district court . . .").

3. Public interest considerations

In the remedy phase of an investigation, the ITC is required to consider the public interest.²⁷⁵ Section 337 directs that if the Commission finds a violation, it “shall direct that the articles concerned . . . be excluded from entry into the United States” unless it determines that the public interest factors weigh against granting an exclusion order.²⁷⁶ The factors to be considered include the effect of the remedial order on (1) the public health and welfare; (2) competitive conditions in the U.S. economy; (3) the production of like or directly competitive articles in the United States; and (4) U.S. consumers.²⁷⁷

While the public interest is an issue that the full Commission must consider as part of a remedy determination, the Commission also has the option of delegating to the ALJ the task of developing a record on public interest. This option has become more widely used following a pilot project in 2010, and in the case of SEPs in particular, delegation of public interest to the ALJ allows a full development of the record on these issues, which can be quite complex and involve significant fact and expert testimony. One benefit of having the ALJ conduct fact finding on public interest issues is that it allows parties to conduct

275. The Commission denied a request to use the then pilot program to identify and adjudicate potentially dispositive issues within 100 days of institution (which was subsequently codified in June 2018, see *Rules of General Application, Adjudication and Enforcement*, 83 Fed. Reg. 21140 (May 8, 2018)) to address “whether the asserted patents are standards-essential and are encumbered by mandatory licensing obligations giving rise to public interest concerns,” stating this issue should be determined after the actual scope of any Section 337 violation is determined. *In re Certain Industrial Control System Software, Systems Using Same, and Components Thereof*, Inv. No. 337-TA-1020, 2016 WL 1156762, at *1 (U.S.I.T.C. Aug. 11 2016).

276. 19 U.S.C. § 1337(d)(1).

277. *Id.*

discovery, including third-party discovery, into these issues, and evidence is presented in a trial-type hearing, subject to cross-examination.²⁷⁸ In the few instances when the full Commission has held a hearing to take evidence on public interest issues, it has been a legislative-type hearing.

Which party (if any) bears the burden of proof on the public interest makes a difference to the hearing procedure, as it may be unclear as to which party's evidence should be characterized as opening or rebuttal, and consequently when and in what order that evidence will be presented (either in the form of written witness statements or at the hearing). Litigants in ITC cases where public interest has been delegated may therefore wish to seek an early ruling from the ALJ on the burden of proof issue, so that these matters may be clarified well in advance of the hearing.²⁷⁹

As noted above, there is limited case-law guidance from the Commission or the Federal Circuit on how ALJs should approach remedial issues involving SEPs subject to a FRAND commitment, and this includes the public interest considerations. As of this writing, the ITC has issued only one exclusion order in an SEP case²⁸⁰—and that order was subsequently disapproved by the U.S. Trade Representative (USTR), operating

278. 19 C.F.R. § 210.36(d) (hearings are subject to Administrative Procedure Act requirements).

279. The Commission has not weighed in on this burden of proof question, but some ALJ's have. *See, e.g., In re Certain 3G Mobile Handsets and Components Thereof*, 337-TA-613, 2015 WL 6561709 (U.S.I.T.C. Apr. 27, 2015) (initial determination on remand) (holding that the standard burden of proof requirement under 19 CFR § 210.37 that "[t]he proponent of any factual proposition shall be required to sustain the burden of proof with respect thereto," does not change when a public interest inquiry is raised).

280. *See Certain Electronic Devices*, 2013 WL 12410037, at *66 (U.S.I.T.C. July 5, 2013), in which Samsung sought and obtained a limited exclusion order that would have applied to certain Apple iPhone models.

under authority delegated by the president of the United States.²⁸¹

The USTR did not give specific reasons for disavowing the exclusionary relief in that case beyond referring to the various broad public interest policy concerns as they relate to “competitive conditions in the U.S. economy and the effect on U.S. consumers.”²⁸² He did give guidance on what he would look for in future cases, indicating the ITC should take affirmative, proactive steps to develop a record and make specific findings on FRAND issues in its public interest determinations. In particular, the USTR suggested that the Commission should develop “information on the standards-essential nature of the patent at issue if contested by the patent holder and the presence or absence of patent hold-up or reverse hold-up,” and make “explicit findings on these issues to the maximum extent possible.”²⁸³

Subsequently, the Commission directed the development of a record on issues of the standards-essential nature of the patents and the presence or absence of reverse holdup as suggested by the USTR in an investigation involving alleged SEPs.²⁸⁴

281. The USTR, Ambassador Michael Froman, was delegated authority by President Obama. See Letter from Michael Froman to the Honorable Irving A. Williamson, Chairman, U.S.I.T.C. (Aug. 3, 2013) (*Froman Letter*), available at https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

282. *Id.* at 3.

283. *Id.*

284. See *In re Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613, 2015 WL 6561709 (U.S.I.T.C. Apr. 27, 2015) (Initial Determination on Remand).

VII. THE EVOLVING RELATIONSHIP BETWEEN FEDERAL COURTS AND ADMINISTRATIVE AGENCIES IN GOVERNING AND REGULATING SEP/FRAND ISSUES

SEP/FRAND issues operate in a fluid landscape, where patent law, contract law, and antitrust/competition law all converge with sometimes competing principles. There are numerous stakeholders involved, including the federal courts, the USITC, the U.S. Patent & Trademark Office, the Department of Justice—Antitrust Division, and the Federal Trade Commission.

These competing interests are exemplified the International Trade Commission Inv. No. 337-TA-794 case discussed above, where the ITC issued an exclusion order in an SEP case and the U.S. Trade Representative subsequently disapproved it under the authority delegated by the President of the United States.²⁸⁵

This general subject matter will be explored in more detail in the forthcoming *Sedona WG10 Commentary on the Evolving Relationship Between Federal Courts and Administrative Agencies*.

285. *Froman Letter*, *supra* note 281, at 2.

THE SEDONA CONFERENCE COMMENTARY ON PATENT
LITIGATION BEST PRACTICES: STREAMLINING LOWER-
VALUE PATENT CASES CHAPTER

*A Project of The Sedona Conference Working Group on Patent
Litigation Best Practices (WG10)*

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PREFACE

Welcome to the Final, Post-Public Comment Version of *The Sedona Conference Commentary on Patent Litigation Best Practices: Streamlining Lower-Value Patent Cases Chapter*, a project of The Sedona Conference Working Group on Patent Litigation Best Practices (WG10). This is one of a series of Working Group commentaries published by The Sedona Conference, a 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, intellectual property rights, and data security and privacy liability. The mission of The Sedona Conference is to move the law forward in a reasoned and just way.

WG10 was formed in late 2012. The mission of WG10 is “to develop best practices and recommendations for patent litigation case management in the post-[America Invents Act] environment.” The Working Group consists of members representing all stakeholders in patent litigation.

The WG10 *Streamlining Lower-Value Patent Cases Chapter* drafting team was launched in 2020, and the draft Chapter was a focus of dialogue at the WG10 Annual Meeting in November 2021 (remote) and the WG10 Annual Meeting in Boston in June 2022. Chapter Editors Brian E. Ferguson and Matthew Powers have reviewed the comments received through the Working Group Series review and comment process.

This Chapter represents the collective efforts of many individual contributors. On behalf of The Sedona Conference, I thank everyone involved for their time and attention during the drafting and editing process, including: Brooks Beard, Timothy Devlin, Brian E. Ferguson, Samantha Lerner, Guy Perry, Matthew Powers, and David Saunders.

The Working Group had the benefit of candid comments by the Honorable Alan D. Albright, the Honorable Christopher J.

Burke, and the Honorable Beth Labson Freeman, who are serving as Judicial Advisors for this Streamlining Lower-Value Patent Cases Chapter. The statements in this *Commentary* are solely those of the nonjudicial members of the Working Group; they do not represent any judicial endorsement of the recommended practices.

The Sedona Conference hopes and anticipates that the output of its Working Groups will evolve into authoritative statements of law, both as it is and as it should be.

Craig W. Weinlein
Executive Director
The Sedona Conference
July 2023

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FOREWORD

There are thousands of patent infringement lawsuits filed in the United States every year, with over 4,000 such cases filed in each of calendar years 2020 and 2021. While jury verdicts awarding damages for patent infringement in the hundreds of millions and even billions of dollars receive much attention and publicity, such cases are firmly the exception and not the rule. Instead, in the large majority of patent cases that are filed, either the patentee comes forward with a much more modest damages claim, or the jury awards a much lower amount. Working Group 10 ascertained that in the patent cases that went to trial between 2019 and 2021 where the patentee was successful in showing that at least one claim was infringed and not invalid, the amount of damages awarded was less than \$15 million in 74 percent of the cases.

The rules and procedures that govern patent cases in the U.S. district courts, however, generally do not distinguish between patent cases where hundreds of millions of dollars are at stake and those where the amount at issue is a fraction of that amount. As a result, parties to a “lower value” patent case often expend disproportionate amounts of time and money on litigating the case. It is the consensus of Working Group 10 that patent litigants and courts would benefit from a formalized, streamlined program for resolving lower-value patent cases. It is contemplated that the program, when used, will significantly reduce both the time and cost associated with resolving patent cases where the amount at issue is in the range of \$10 million or less. As the statistics set forth above confirm, thousands of patent cases every year could be eligible for and benefit from the program.

The streamlined program may be implemented as part of a district court’s local patent rules or as an individual judge’s standing order for handling certain patent cases. Critical aspects

of the program are the use of a bench trial in place of a jury trial and making use of the program optional to the parties. The program calls for significant reductions in discovery, asserted claims, defenses, asserted prior art, an early claim construction hearing, and a bench trial on liability less than a year after the complaint is filed. If the result of the bench trial is that at least one claim has been found infringed and not invalid, a streamlined damages phase would commence immediately thereafter. The entire case would be complete in a little over a year. Working Group 10 expects that the program should cost the parties less than half of what a patent litigation typically costs today. The program should also help facilitate early settlements, as the parties will know the court's claim construction early in the case.

This streamlined program for resolving lower-value patent cases was developed by a group of practitioners who represent both plaintiffs and defendants in patent litigation, with the guidance of three Judicial Advisors to the WG10 Steering Committee. It has been the focus of the dialogue at numerous Sedona Conference working group meetings and conferences and revised in response to comments received. This final, post-public comment version is the result of this dialogue.

Matthew Powers

Editor-in-Chief

Chair Emeritus, Working Group 10 Steering Committee

Brian E. Ferguson

Chapter Editor

Chair, Working Group 10 Steering Committee

PRINCIPLES AT A GLANCE

PRINCIPLE No. 1 – WG10 is developing Best Practices to improve the system for resolving patent disputes and make it more fair and efficient. These Best Practices apply to and benefit all stakeholders in patent litigation, both bench and bar, and all types of patent holders and accused infringers. These Best Practices should further the goals of Federal Rule of Civil Procedure 1 and “should be construed and administered to secure the just, speedy, and inexpensive determining of every action and proceeding,” all to help ensure a fair and efficient patent litigation system.

BEST PRACTICES AT A GLANCE

- BEST PRACTICE 1 – The Streamlined Program caps the combined amount of past damages and future royalties available at no more than \$10 million.
- BEST PRACTICE 2 – Cases where the plaintiff is willing to settle for a fraction of the cost of litigation (e.g., well under \$1 million) are not suitable for the Streamlined Program.
- BEST PRACTICE 3 – Participation in the Streamlined Program should be optional, not mandatory.
- BEST PRACTICE 4 – The Streamlined Program requires the parties to waive the right to a jury trial.
- BEST PRACTICE 5 – Both parties should opt in to the Streamlined Program before the answer to the complaint is filed.
- BEST PRACTICE 6 – The total number of patent claims that the plaintiff may assert is five, regardless of the number of asserted patents.
- BEST PRACTICE 7 – The Streamlined Program requires the plaintiff to waive any claim for willful infringement.
- BEST PRACTICE 8 – The Streamlined Program requires the plaintiff to waive any claim for injunctive relief.
- BEST PRACTICE 9 – The Streamlined Program requires the defendant to waive any arguments concerning personal jurisdiction and any arguments that venue is improper or inconvenient.
- BEST PRACTICE 10 – The total number of invalidity grounds under 35 U.S.C. §§ 102 or 103 that the defendant may assert against each asserted claim is three. The total number of prior art references that a defendant may rely on across all of its §§ 102/103 grounds is seven.

BEST PRACTICE 11 – The Streamlined Program requires the defendant to waive any right to file invalidity proceedings before the USPTO, including IPR, CBR, or PGR petitions, and requests for ex parte reexamination of any of the asserted patents.

BEST PRACTICE 12 – The Streamlined Program limits any counterclaims the defendant may file to ones for noninfringement and invalidity.

BEST PRACTICE 13 – Early disclosure of the parties' contentions is a key aspect of the Streamlined Program. The plaintiff should identify asserted claims and provide infringement charts one week after entry into the program. The defendant should provide its invalidity contentions eight weeks after entry into the program.

BEST PRACTICE 14 – Six weeks after entry into the Streamlined Program, the parties should produce core documents.

BEST PRACTICE 15 – The Streamlined Program does not allow discovery requests that require searching for and producing email.

BEST PRACTICE 16 – The parties should agree on stringent limits on the number of interrogatories, document requests, requests for admission, subpoenas, and Rule 30(b)(6) topics that may be served, as well as the number of depositions. If the parties cannot agree, the court may impose its own limitations, consistent with the goals of the Streamlined Program.

BEST PRACTICE 17 – Because the Streamlined Program calls for a bench trial in an expedited fashion, the program foregoes any summary judgment briefing or Daubert briefing.

BEST PRACTICE 18 – The court should hold a bench trial, limited to 2-3 days as necessary, 40 weeks after entry into the Streamlined Program.

BEST PRACTICE 19 – The court should issue its decision on liability no later than 44 weeks after entry into the Streamlined Program.

BEST PRACTICE 20 – If the court determines that at least one asserted claim is infringed and not invalid, the court should hold a one-day bench trial on damages 56 weeks after entry into the Streamlined Program. The court should issue its decision on damages no later than 60 weeks after entry into the program.

I. INTRODUCTION

The *Commentary on Streamlining Lower-Value Patent Cases* explores ways to efficiently and effectively resolve certain types of patent cases with proportional impact on the parties, courts, third parties, and other stakeholders. It recognizes that our current “one size fits all” patent litigation model overtaxes the system and parties when the value of a particular patent case is relatively low. The *Commentary* explores the realities of the patent litigation ecosystem and the interests of all stakeholders to generate a balanced proposal that can be effectively employed, focusing on the lower-value cases that consume a disproportionate amount of party and court resources. This *Commentary* is not directed at the very low-value cases that tend to resolve before consuming meaningful court resources.

The overarching principle for all of The Sedona Conference Working Group 10 (WG10) on Patent Litigation Best Practices is:

Principle No. 1 – WG10 is developing Best Practices to improve the system for resolving patent disputes and make it more fair and efficient. These Best Practices apply to and benefit all stakeholders in patent litigation, both bench and bar, and all types of patent holders and accused infringers. These Best Practices should further the goals of Federal Rule of Civil Procedure 1 and “should be construed and administered to secure the just, speedy, and inexpensive determining of every action and proceeding,” all to help ensure a fair and efficient patent litigation system.¹

1. The Sedona Conference, *Commentary on Patent Litigation Best Practices: Case Management Issues from the Judicial Perspective* (December 2015), available at https://thesedonaconference.org/publication/Commentary_on_Patent_

In furtherance of this goal, WG10 has developed a Streamlined Patent Case Program (“Streamlined Program”) that is designed to complete patent cases identified as lower value in a streamlined, cost-effective, and speedy manner. The key aspects of the Streamlined Program are: (a) voluntary participation by the parties; (b) fewer asserted claims and defenses; (c) reduced discovery demands; (d) a bench trial on liability approximately 40 weeks after the parties enter into the Streamlined Program; (e) if necessary, a bench trial on damages 56 weeks after the parties enter into the Streamlined Program; and (f) the default total amount of damages a defendant may be required to pay is no more than \$10 million. Certain issues that tend to drive up the cost and complexity of litigation— such as willful infringement and the pursuit of injunctive relief—are not allowed under the Streamlined Program. Similarly, the Streamlined Program requires defendants to forego filing invalidity challenges with the U.S. Patent and Trademark Office.

The *Commentary* identifies what types of cases might benefit from streamlining. For example, some cases may be good candidates for this program because they involve a limited damages period (i.e., marking problems or expired or soon-to-be-expired patents) or because there is a clear noninfringement, invalidity, standing, or other issue. Some cases might involve a low demand from a plaintiff seeking a large number of smaller settlements. Yet other cases might involve a patent directed to a minor or small aspect of an accused product. The *Commentary* recognizes that some cases may fall within more than one of these categories.

An initial goal of WG10 was to accurately and fairly identify such cases and to develop the Streamlined Program for

resolving them. WG10 examined other procedures and best practices employed in our own judiciary across practice areas and programs implemented in other countries to inform the development of this *Commentary*.

The primary focus of this *Commentary* is to develop a fair and balanced Streamlined Program that will become widely adopted in the court system and by litigants and transform the way lower-value patent cases are resolved. This Streamlined Program reflects the inputs of representatives from all key stakeholders in the patent litigation system, after fleshing out any barriers to adoption and minimizing any unintended consequences.

The Streamlined Program's recommended schedule is outlined immediately below, with the underlying considerations supporting the schedule discussed in detail in Sections IV-VI below.

LIABILITY PHASE

Event	Deadline (from entry into program)
Plaintiff identifies claims and provides claim charts	One week
Parties produce core documents	Six weeks
Defendant provides invalidity contentions	Eight weeks
Parties exchange claim terms/constructions and supporting evidence	10 weeks
Claim construction briefing completed	15 weeks
End of fact discovery	16 weeks

Event	Deadline (from entry into program)
Claim construction hearing (2 hours, preferably by video; constructions provided during or soon after the hearing)	17 weeks
(If constructions not provided earlier) Court's claim construction order	18 weeks
(At court's discretion) Parties conduct mediation and report on results	18-19 weeks
Supplementation of contentions, <i>only if</i> the court adopts a claim construction not advocated by either party and a party deems it necessary to serve supplemental contentions	19 weeks
Service of infringement and invalidity expert reports	21 weeks
Service of responsive expert reports	25 weeks
Expert discovery deadline	27 weeks
Submission of trial briefs	35 weeks
2-3 day bench trial	40 weeks
(At court's discretion) Submission of proposed findings of fact and conclusions of law	41 weeks
Decision on liability	44 weeks

DAMAGES PHASE

Event	Deadline (from entry into program)
Plaintiff serves damages expert report	48 weeks
Defendant serves damages expert report	50 weeks
Damages expert discovery deadline	52 weeks
Submission of damages trial briefs	54 weeks
1-day bench trial on damages	56 weeks
(At court's discretion) Submission of proposed findings of fact and conclusions of law	57 weeks
Decision on damages	60 weeks

II. IDENTIFYING CASES SUITABLE FOR THE STREAMLINED PROGRAM

Patent cases with potentially hundreds of millions of dollars at stake—whether through monetary damages or the threat of an injunction—are the exception not the rule in U.S. litigation. An examination of the 77 cases between 2019 and 2021 that were tried to a verdict and resulted in monetary damages being awarded for patent infringement revealed that in 57 of the cases (74 percent), the awarded damages were less than \$15 million.² Accordingly, the vast majority of patent cases that are filed today would benefit from some form of streamlining. This *Commentary* explores a number of guideposts for identifying such cases, as discussed below.

A. *Amount in Controversy*

Best Practice 1 – The Streamlined Program caps the combined amount of past damages and future royalties available at no more than \$10 million.

In WG10's experience, and as supported by the statistics set forth above, many patent cases filed in the U.S. have a realistic damages recovery of \$10 million or less. This *Commentary* therefore recommends the damages "ceiling" in the Streamlined Program be set at \$10 million. Many plaintiffs initiate litigation with no expectation of receiving \$10 million or more in damages if successful, and for those plaintiffs, there should be no hesitation to enter into the Streamlined Program. For those plaintiffs who may have expectations of a greater recovery, this number sets an appropriate balance between a plaintiff's desire to seek a

2. Information collected from legal analytics firm Lex Machina (subscription required).

greater sum if the case proceeds to trial versus the benefits to the plaintiff in agreeing to enter into the Streamlined Program.³

While WG10 recommends that \$10 million be the default damages cap, there may be instances where the parties to a case would be willing to take advantage of the benefits of the Streamlined Program but are uncomfortable with the \$10 million cap. In such cases, the parties should discuss an agreement to modify the cap (either up or down). If the parties agree, they should inform the court when they enter into the Streamlined Program. If the court finds the modified cap acceptable, the court should then memorialize the parties' agreement in the Scheduling Order or by other means.

In evaluating the realistic value of the case, the plaintiff should assess any prior license agreements to the asserted patents. License rates that have not generated significant revenue should be an indicator to the plaintiff that the case is a strong candidate for the Streamlined Program.

Best Practice 2 – Cases where the plaintiff is willing to settle for a fraction of the cost of litigation (e.g., well under \$1 million) are not suitable for the Streamlined Program.

Some plaintiffs file patent cases with the expectation of quickly settling the case for well under \$1 million. The vast majority of those cases settle before any meaningful effort is expended by the court on the case. These types of cases are generally not appropriate for the Streamlined Program, because the program requires the parties and the court to expeditiously move the case forward. Instead, nearly all of these cases will and do resolve in the ordinary course and will not benefit from the Streamlined Program.

3. See *infra* Section III.B.

B. Factors that May Impact the Parties' Amount in Controversy Analyses.

The parties to a case may consider other damages-related indicators of the value of the case in determining whether to take advantage of the Streamlined Program. Both parties should conduct a realistic damages analysis of their respective cases early on and voluntarily exchange information that may impact their respective analyses. This may encourage one or both parties to seriously consider participating in the Streamlined Program to obtain resolution of the dispute as quickly and efficiently as possible. A nonlimiting list of some of these other factors that may bear on the damages analysis include:

- the patent has expired or will expire soon;
- the plaintiff or its licensees have not complied with the marking requirement of 35 U.S.C. § 287;
- the plaintiff may have overestimated the amount of the defendant's sales of the accused products;
- the patent(s) in suit cover only a minor component or feature of the accused products; or
- instances where the plaintiff has missed or is unaware of facts that adversely impact its case on the merits (e.g., the defendant may have demonstrably strong prior art, an on-sale bar defense, or a straightforward noninfringement argument).

In the last three examples identified above, communication of these facts to the plaintiff early on is encouraged. While the plaintiff may not necessarily agree with the strength of the defendant's arguments, it may nonetheless be convinced to use the Streamlined Program in order to obtain resolution of the issue as quickly and efficiently as possible.

III. OPTING INTO THE STREAMLINED PROGRAM AND THE BENEFITS THEREOF TO THE PARTIES

The many benefits the Streamlined Program offers to both plaintiffs and defendants stem from a core fundamental tenet of the program—the parties must forego a jury trial in favor of a bench trial. As discussed below, this necessarily makes entry into the program optional, not mandatory. The process for the parties electing to use the program, and the benefits it provides to the parties, is discussed below.

A. Both Parties Must Opt-In to the Streamlined Program

Best Practice 3 – Participation in the Streamlined Program should be optional, not mandatory.

Best Practice 4 – The Streamlined Program requires the parties to waive the right to a jury trial.

A fundamental aspect of the Streamlined Program is to eliminate a jury trial and proceed instead with a relatively short bench trial. Jury trials add significant expense due to the voir dire process, the need for jury instructions and a verdict form, Rule 50 and Rule 59 motions, and (for many parties) the use of jury researchers and mock trials. A bench trial avoids these costs. A bench trial is also more efficient and can be completed in a faster time than a typical jury trial.

Thus, in order to participate in the streamlined process, the parties must both agree to waive their right to a jury trial. Because of Seventh Amendment concerns, this necessarily requires participation in the program to be optional to both parties. The consensus of WG10 is that the benefits to both parties of participating in the program will outweigh any concerns they may have regarding giving up the right to a jury.

Making participation optional also avoids any concerns that may be associated with the judge mandating participation. A

party may be understandably concerned that the judge has already prejudged the merits of the case if the judge is the one recommending or requiring that the parties enter into the program. Removing the judge from the process of deciding whether to enter into the program avoids this concern.

WG10 recognizes that the Streamlined Program requires the court to substantively participate in the case at an early stage. With that in mind, district court judges may wish to refer claim construction and any discovery disputes to a magistrate judge (keeping in mind that doing so will allow the parties to file objections to any rulings by the magistrate judge, which may increase the cost and complexity of the case). The parties may also agree to have the magistrate judge preside over and decide the issues raised in the trial, consistent with Federal Rule of Civil Procedure 73.

Best Practice 5 – Both parties should opt in to the Streamlined Program before the answer to the complaint is filed.

The Streamlined Program includes an aggressive schedule.⁴ In order to achieve the goal of a trial on the merits well within a year of filing the complaint, a requirement of the program is that both parties agree to participate before the answer to the complaint is filed. In particular, this gives the defendant enough time to evaluate the merits of the case and determine whether it wishes to enter into the program.

B. The Streamlined Program Benefits Both Parties

Early identification of cases that may benefit from the Streamlined Program is critical to achieving widespread adoption. Trust by the parties in the program is paramount, both to

4. The Streamlined Program schedule is set out in Section I, *supra*.

allow the parties to opt in as required and for the program to be successful. Streamlining cannot successfully occur unless the parties trust the process and recognize that each side is giving up certain rights and positions that might otherwise be available in a traditional, nonstreamlined case. Below is a summary of the advantages the program offers each party. WG10 believes that on balance, the benefits provided by the program inure equally to both parties.

1. Benefits to the plaintiff

For the plaintiff, the Streamlined Program offers several benefits. With the possible exception of the Alexandria Division of the Eastern District of Virginia, the program is significantly faster than any schedule currently available in district court. A plaintiff will receive a decision on the merits 44 weeks after the parties enter into the program. If the plaintiff succeeds on the merits, it will receive a decision on damages 16 weeks later. Given that the average time to a jury trial in patent cases is nearly three years, this is a significant time savings.

More than just speed, the program also offers significant cost savings. The program requires a limited number of asserted patent claims, asserted invalidity grounds, and asserted prior art references, and offers reduced discovery demands. Further, certain issues that might otherwise require substantial time and resources, such as willful infringement, injunctive relief, and inequitable conduct, are not available under the program. The end result is a patent case that should ultimately be completed at a fraction of the normal cost.

The plaintiff also benefits from avoiding the uncertainty and additional cost associated with Inter-Partes Review (IPR) or Post-Grant Review (PGR) proceedings before the Patent Trial and Appeal Board (PTAB), as well as the satellite litigation issues that often surround PTAB proceedings (such as whether

the case should be stayed, and the scope of prior art estoppel if the PTAB proceeding is unsuccessful). The plaintiff further benefits from the requirement that the defendant will not raise jurisdictional or venue arguments and may only assert a limited range of counterclaims.

2. Benefits to defendant

The defendant will enjoy many of the same benefits identified above with respect to the plaintiff. The defendant will enjoy the significant cost savings associated with the program. The defendant also benefits from avoiding any uncertainty associated with willful infringement claims and an injunction request. The defendant avoids the cost and time-consuming nature of email discovery. Finally, the damages cap provides a defendant certainty with respect to the worst-case impact the case could have on the company's bottom line.

IV. REQUIRED WAIVERS OF CERTAIN RIGHTS AND POSITIONS

There are a number of issues that arise in patent litigation that can quickly escalate the cost of the case and require significant resources to address. A requirement for entry into the Streamlined Program is for parties to give up the right to pursue some of these issues. By doing so, the parties will help ensure that their dispute is resolved in a streamlined, cost-efficient manner. Moreover, many of these issues tend to require the court to devote significant resources to resolve the issues themselves as well as discovery disputes concerning them. Waiver of these issues helps to preserve the resources of the court, resulting in a win-win for all participants.

Other factors that frequently drive up the cost of patent litigation are the number of asserted patent claims and the number of asserted prior art references and prior-art-based defenses. The parties must significantly reduce both upon entry into the program. In practice, plaintiffs frequently assert numerous claims, only to drop claims as the case progresses, with only a handful of claims actually tried. Defendants, in turn, frequently identify many dozens of prior art references, generating hundreds or even thousands of pages of invalidity charts, when in reality only a few references may actually be relied on at trial. Putting strict limits in place at the outset reduces the unnecessary costs associated with these practices.

A. Waivers by Patent Owners

Best Practice 6 – The total number of patent claims that the plaintiff may assert is five, regardless of the number of asserted patents.

In keeping with the goal of the Streamlined Program, WG10 recommends that there be stringent limits placed on the number of patent claims the plaintiff can assert—five total claims, regardless of the number of asserted patents.

Best Practice 7 – The Streamlined Program requires the plaintiff to waive any claim for willful infringement.

Best Practice 8 – The Streamlined Program requires the plaintiff to waive any claim for injunctive relief.

By entering into the Streamlined Program, the plaintiff agrees not to pursue any claims of willful infringement. This eliminates costly and time-consuming disputes over the production of opinions of counsel, the scope of any waiver of the attorney-client privilege, and analysis of whether the court should enhance damages.

The plaintiff also agrees not to seek an injunction against the accused products or processes. This eliminates discovery into the irreparable-harm and public-interest factors, and the potential need for expert testimony as to both.

B. Waivers by Patent Defendants

Best Practice 9 – The Streamlined Program requires the defendant to waive any arguments concerning personal jurisdiction and any arguments that venue is improper or inconvenient.

A requirement for entry into the Streamlined Program is that the defendant waive any arguments regarding personal jurisdiction and improper or inconvenient venue. This requirement works towards achieving the goals of the program and allows the parties and the court to proceed expeditiously to issues regarding the merits of the patent claim.

Best Practice 10 – The total number of invalidity grounds under 35 U.S.C. §§ 102 or 103 that the defendant may assert against each asserted claim is three. The total number of prior art references that a

defendant may rely on across all of its §§ 102/103 grounds is seven.

With respect to 35 U.S.C. §§ 102 and 103 defenses, the defendant may assert no more than three different §§ 102/103 invalidity grounds against each asserted claim. Further, the defendant may rely on no more than seven total prior art references in asserting its different §§ 102/103 grounds. If there are multiple asserted patents and the patents have different specifications, then the defendant may add two additional prior art references per different specification. For example, if the plaintiff asserts three patents where two of the patents share a common specification and the third has a materially different specification, the total number of prior art references that the defendant may assert in its §§ 102/103 grounds is nine. Any obviousness grounds must be made from the prior art references identified by the defendant as part of the total allowed number—in other words, the defendant cannot rely on additional references to (for example) show the “state of the art.”

Best Practice 11 – The Streamlined Program requires the defendant to waive any right to file invalidity proceedings before the USPTO, including IPR, CBR, or PGR petitions, and requests for ex parte reexamination of any of the asserted patents.

By entering into the Streamlined Program, the defendant agrees that it will not pursue invalidity proceedings before the PTAB (such as filing petitions for inter partes reexamination, covered business method review, or post grant review) or the Patent Office (ex parte reexamination). This eliminates a significant cost to both parties and also ensures that related disputes are not raised in the court proceedings (such as whether the case should be stayed and the scope of any prior art estoppel).

Best Practice 12 – The Streamlined Program limits any counterclaims the defendant may file to ones for noninfringement and invalidity.

The defendant also agrees that it will not raise any counterclaims beyond noninfringement and invalidity. Other counterclaims that sometimes arise, such as antitrust or unfair competition violations, or counterclaims against the plaintiff for infringement of defendant's patents, introduce too much complexity and are not suitable for resolution under the Streamlined Program. Further, the defense of inequitable conduct often raises complex issues regarding attorney-client privilege and waiver issues, and as such introduces complexity and expense that is not appropriate for the Streamlined Program. The counterclaims contemplated under the program are the ones most frequently asserted in patent litigation cases and should be sufficient to adequately protect a defendant's rights.

V. STREAMLINING OF DISCOVERY

Discovery is arguably the single biggest factor in driving up the cost of patent litigation. In many cases, the discovery period extends too long, and the parties fill up the period pursuing unnecessary discovery from each other and third parties. The default limitations on discovery under the Federal Rules of Civil Procedure—such as 10 depositions per side—also can lead to wasteful discovery. Some of the waivers discussed in Section IV above—such as no willful infringement claims, no inequitable conduct claims, and the reduced number of prior art defenses—will help to reduce the amount of discovery in the case. The Streamlined Program contemplates additional limitations on discovery and proposes a relatively short period of fact discovery. These limitations should benefit both parties in reducing their discovery burdens and the cost associated therewith.

A. Contentions

Best Practice 13 – Early disclosure of the parties’ contentions is a key aspect of the Streamlined Program. The plaintiff should identify asserted claims and provide infringement charts one week after entry into the program. The defendant should provide its invalidity contentions eight weeks after entry into the program.

A key aspect of the Streamlined Program is early disclosure of contentions. The schedule calls for the plaintiff to provide its infringement contentions one week after the parties enter into the program. The defendant’s invalidity contentions are due eight weeks after the parties enter into the program. While the schedule does not include a deadline for the defendant to provide noninfringement contentions and the plaintiff to provide its response to the invalidity contentions, such information may

be provided during discovery, for example, in response to an interrogatory.

It is not contemplated that the parties be allowed to serve “final” or “supplemental” contentions as part of the schedule. Rather, in the rare event that the court adopts a claim construction that neither party proposed, the schedule allows in that instance for supplemental contentions to be served if a party deems it necessary due to the court’s construction.

WG10 also recognizes that contentions may evolve as discovery occurs and believes that the parties may fully develop and explore their contentions during the expert discovery phase of the case. Of course, this does not mean that a party should be allowed to make wholesale changes in its theories. The court will have discretion, during the pretrial and trial phase of the case, to strike or exclude arguments or theories that egregiously differ from a party’s contentions.

B. Discovery Limitations

The Streamlined Program significantly reduces the amount of discovery sought and produced. Discovery is where the bulk of patent litigation expense arises, and it also frequently requires the most commitment from the parties in terms of time and resources.

1. Fact discovery

a. Core documents

Best Practice 14 – Six weeks after entry into the Streamlined Program, the parties should produce core documents.

The Streamlined Program requires that six weeks after entry, both parties produce their “core” documents. A full list of all possible relevant documents that should be produced as core

documents will depend on the circumstances of each case. A nonlimiting list of likely relevant documents that the plaintiff should produce includes the patent(s), file histories, any prior art (including art not cited on the face of the patents), all documents concerning assignment and chain of ownership of the asserted patent(s), documents concerning the inventor(s), development (conception or reduction to practice) history documents (inventor notebooks, presentations, etc.), and documents regarding the accused products or processes. If the plaintiff alleges that it offers a competing product, then documents regarding the customers and sales of the competing products should also be included as part of the core document production.

A nonlimiting list of relevant core documents that a defendant should produce includes prior art, documents sufficient to show the relevant operation of the accused products or processes (specifications, schematics, flow charts, formulas, etc., and, when necessary, source code), financial information concerning the accused products or processes (customers, revenue, profit/loss statements), and any license agreements related to the accused products or processes.⁵

5. For a more thorough analysis and identification of relevant documents that often exist and should normally be part of the parties' document productions, see The Sedona Conference, *Commentary on Patent Litigation Best Practices: Discovery Chapter*, Sections IV, VI (Dec. 2015), available at https://thesedonaconference.org/publication/Commentary_on_Patent_Litigation_Best_Practices_Discovery_Chapter. For an analysis of the type of documents that may be relevant to damages issues in a patent case, see The Sedona Conference, *Case Management of Patent Damages and Remedies Issues: Proposed Model Local Rule for Damages Contentions*, Section B (June 2017), available at https://thesedonaconference.org/publication/Patent_Damages_and_Remedies.

b. Source code

Discovery disputes over source code are frequent in patent litigation, beginning with the threshold question of whether source code production is necessary for purposes of establishing infringement. Additional disagreements that often arise include whether source code should receive heightened protection under the court's protective order, the mechanics and logistics associated with producing source code and allowing review thereof, and the amount of source code that may be printed by the opposing party. These disputes often require the court's intervention to resolve.

The Streamlined Program aims to reduce or eliminate the negative impact that source code disputes may have on the case schedule by requiring the parties to proactively recognize and attempt to resolve source code issues at the earliest stages of the case. The plaintiff should raise the issue of whether it believes source code production will be necessary when the parties first discuss entry into the program, so that they can attempt to resolve source code production logistics and protective order amendments before submission of the Case Management Statement.⁶ Additionally, the court in its Case Management Statement Order⁷ should raise the issue of source code production and require the parties to address it in the Case Management Statement, in order for the court to resolve any source code disputes at the outset of the case.

6. *See infra* Appendix A, Sec. A.

7. *Id.*

c. No email discovery

Best Practice 15 – The Streamlined Program does not allow discovery requests that require searching for and producing email.

A significant limitation on discovery is the elimination of email discovery. Particularly with the requirement that the plaintiff forego any willful infringement claims, the marginal need for email discovery in the Streamlined Program is far outweighed by the cost, in both time and expense, that email discovery typically entails. By eliminating email discovery, the typical disputes over the number of custodians, the scope of search terms, the number of “hits,” etc. are avoided.

This limitation on email discovery is intended to include other forms of electronic communications, such as text messages, instant messaging, voicemails, and the like. The limitation on email discovery, however, must be read in conjunction with the requirement of producing core documents as described above. In other words, if core documents are only available in emails, then in such instances those core documents should still be produced.

d. Interrogatories, document requests, requests for admissions, subpoenas, and 30(b)(6) depositions

Best Practice 16 – The parties should agree on stringent limits on the number of interrogatories, document requests, requests for admission, subpoenas, and Rule 30(b)(6) topics that may be served, as well as the number of depositions. If the parties cannot agree, the court may impose its own limitations, consistent with the goals of the Streamlined Program.

The Streamlined Program imposes significant reductions in: (a) the number of interrogatories; (b) the number of requests for production; (c) the number of requests for admission; (c) the number of subpoenas; (d) the number of Rule 30(b)(6) deposition topics; and (e) the number of depositions that a party may take. Because not every case has the same issues, the program provides flexibility in allowing the parties to jointly propose these limitations, with the court resolving any disputes, keeping in mind the goals of the program.

e. Discovery dispute resolution

The Streamlined Program includes expedited resolution of discovery disputes, whereby the parties provide the court with a brief, joint letter explaining the dispute and each parties' respective positions, followed by a short telephone conference with the court. The court will provide its decision at the conclusion of the conference, or shortly thereafter. This process should be followed whether the dispute involves fact discovery or expert discovery.

2. Expert discovery

The Streamlined Program calls for the parties to serve liability expert reports on the issues for which they bear the burden of proof (e.g., infringement and invalidity) 21 weeks after entry into the program, or approximately three to four weeks after receiving the court's claim constructions. Rebuttal reports are due four weeks later. Expert discovery closes two weeks after that, or 27 weeks after the parties enter into the program.

VI. STREAMLINING OF CLAIM CONSTRUCTION, MOTION PRACTICE, AND TRIAL

A. *Claim construction, summary judgment, and Daubert motions*

The Streamlined Program requires the parties to exchange their identification of claim terms, proposed constructions, and supporting evidence 10 weeks after entry into the program. Because the program requires the court to decide claim construction disputes expeditiously, the parties must propose no more than five disputed terms for construction.

The court will have flexibility in setting its preferred form of briefing and schedule but should hold a claim construction hearing 17 weeks after the parties' entry into the program. The program's default recommendation is that the claim construction hearing take place by video and last no more than two hours. The court in its discretion may consider modifications thereto, such as considering a request from the parties to have the hearing in person. The court should provide its constructions following the hearing, or shortly after the hearing (for example, no later than one week after the hearing). The court may include in the case schedule a deadline for providing its claim constructions.

Best Practice 17 – Because the Streamlined Program calls for a bench trial in an expedited fashion, the program foregoes any summary judgment briefing or *Daubert* briefing.

Because the Streamlined Program eliminates the jury trial in favor of a bench trial, the consensus of WG10 is that the parties should not be allowed to file summary judgment or *Daubert* motions under the program. Summary judgment and *Daubert* motions typically require a court to employ significant resources to resolve. To meet the program's goal of a trial on the merits well within a year of the complaint being filed, summary judgment

briefing is not feasible in that time frame, and because the court will be deciding the issues, *Daubert* motions are unnecessary. To the extent there is dispute over the definiteness of a claim term,⁸ any such disputes should be raised and resolved as part of the claim construction process. Any issues concerning the qualifications of, or the methodologies used, by an expert may be addressed in pretrial briefing.

B. Mediation

The consensus of WG10 is that if mandatory mediation is required, it should occur shortly after the court issues its claim construction ruling. This provides the parties with the first significant merits ruling by the court, and mediation should therefore be more productive at this stage of the case than if it were to occur at the beginning of the case.

C. Bifurcated Trial

1. Liability phase

Best Practice 18 – The court should hold a bench trial, limited to 2-3 days as necessary, 40 weeks after entry into the Streamlined Program.

Best Practice 19 – The court should issue its decision on liability no later than 44 weeks after entry into the Streamlined Program.

The Streamlined Program requires the court to conduct trial on the merits 40 weeks after entry into the program, with the parties submitting trial briefs five weeks prior. The trial should normally be limited to two or three days. The court should issue its decision on liability four weeks after the trial.

8. 35 U.S.C. § 112.

To help meet this four-week deadline, the court may in its discretion require the parties to file proposed findings of fact and conclusions of law within one week after the trial has concluded. If the court allows this filing, it should consider imposing a limit on the submissions, e.g., a limit on the number of pages.

The court may also consider whether to inform the parties shortly after the liability trial has concluded how it intends to rule on the merits without providing a full written opinion at that time. Doing so may benefit both the parties and the court. First, if the court has determined that at least one claim is infringed and not invalid, the parties will benefit from knowing that the case will proceed to the damages phase. The court may then choose to provide a single written opinion addressing both liability and damages at the conclusion of the damages phase, rather than writing two separate opinions.

Second, if the court has determined that the defendant has prevailed on the merits, the parties will know that they will not need to prepare for the damages phase. The court may then use the extra time, if it is needed, to draft the opinion on liability. In this situation, the court should still endeavor to issue the liability opinion within a year of the parties entering into the program.

2. Damages phase

As discussed in Section II.A above, absent agreement by the parties of a different amount, the total amount of damages that a plaintiff may receive under the Streamlined Program is \$10 million.

Best Practice 20 – If the court determines that at least one asserted claim is infringed and not invalid, the court should hold a one-day bench trial on damages 56 weeks after entry into the Streamlined

Program. The court should issue its decision on damages no later than 60 weeks after entry into the program.

If the court determines that one or more of the asserted patent claims is infringed and not invalid, the parties will immediately proceed to the damages phase of the case. This expedited process provides for a short period of damages expert discovery, with the plaintiff serving its damages expert report 48 weeks after entry into the Streamlined Program, or approximately four weeks after receiving the court's liability decision. The defendant serves its responsive damages expert report two weeks later, and expert discovery concludes two weeks after that.

The parties will provide the court with damages trial briefs 54 weeks after entry into the program, with a one-day bench trial on damages taking place two weeks thereafter. The court's decision on damages will issue no later than four weeks after the trial. If helpful, the court may in its discretion require the parties to file proposed findings of fact and conclusions of law within one week after the damages trial has concluded. Again, the court should consider imposing a limit on the submissions, e.g., a limit on the number of pages.

Under this streamlined schedule, the entire case will be complete 60 weeks after the parties enter into the program.

The court may award damages for past infringement and may set an ongoing royalty rate for future infringement. The total amount of damages that a defendant may be liable for, however, is \$10 million. For example, a court may award past damages totaling \$7 million, and set an ongoing royalty rate applied against future infringing sales. The defendant will be required to pay royalties for future infringing sales up to the point those royalty payments reach \$3 million, at which point the royalty

payment obligations come to an end. This provides the defendant the choice of whether to design around the infringed claims and offer a noninfringing alternative or pay the royalties as determined by the court. Of course, the parties may also negotiate a lump-sum payment for the defendant to make in satisfaction of the ongoing royalty payment obligations.

D. Appeal Rights Not Affected

The parties preserve all rights to appeal the court's decisions on liability and damages to the Court of Appeals for the Federal Circuit.

APPENDIX A – MODEL CASE MANAGEMENT STATEMENT ORDER AND SCHEDULING ORDER

A. Case Management Statement Order

As set forth above, the Streamlined Program requires the court's participation early in the process, with claim construction initiating only 10 weeks after entry into the program. The court will benefit from an early disclosure of information regarding the case. Thus, WG10 recommends under the program that the court issue an order immediately after the parties agree to enter into the program that provides the court with information regarding the case. A draft model order is set forth below. The court may in its discretion determine which categories of information it will ask the parties to provide. The list below is exemplary, not exhaustive.

MODEL ORDER GOVERNING THE CASE MANAGEMENT STATEMENT IN A PATENT CASE UNDER THE STREAMLINED PATENT CASE PROGRAM

1-1.1 The Case Management Statement

Within one week after entry into the Streamlined Patent Case Program, the parties will prepare a Case Management Statement and file it with the court. Plaintiff is responsible for ensuring the prompt filing of the Case Management Statement. The Case Management Statement will address or identify the following:

1. When Plaintiff's complaint was filed, and, if applicable, number of extensions and days of extension.
2. When Defendant responded to complaint, or when Defendant's response is due.
3. The date(s) when the parties agreed to enter into the program.

4. Number(s) of asserted patents, numbers of asserted claims, and quantity of asserted patents and claims. (Example: Plaintiff has asserted Patent No. X,XXX,XXX Claims 2 and 4; and Patent No. Y,YYY,YYY Claims 1 and 6; for a total of 2 asserted patents and 4 asserted claims.)
5. A chart of all pending and past cases where a common patent is or was asserted, such chart taking the following form:

Case Name	Case Cite	Venue and Judge	Overlapping Patents	Time to Resolution (if resolved)	Key Rulings

6. Any other litigation between the parties and the nature and status of that litigation.
7. An identification of whether any of the asserted patents are subject to license agreements.
8. Whether the parties have agreed to a damages cap that is different from the default amount of \$10 million.
9. A good-faith estimate of the damages range expected for the case (not to exceed the cap amount) along with an explanation for the estimates. These estimates will be nonbinding. If either party is unable to provide such information, that party will explain why it cannot and what specific information is needed before it can do so. Such a party shall also state the time by which it should be in a position to provide that estimate and explanation.

10. A listing of any key factors that will impact the value or termination of this case.
11. The information required under Federal Rule of Civil Procedure 7.1.
12. A summary of any notice of any patent-in-suit and a summary of any pre-suit or post-suit discussions relating to a potential license of any patent-in-suit.
13. Any IPR, CBM, or other PGR petitions regarding the asserted patent(s) and the status of each. If applicable, provide docket number, filing and docketing date, and date of expected Final Written Decision.
14. The parties' recommendation to the court concerning discovery limits (if the parties cannot agree, provide each party's proposal):
 - a. The maximum number of interrogatories;
 - b. The maximum number of requests for production of documents;
 - c. The maximum number of requests for admission;
 - d. The maximum number of subpoenas the parties may issue;
 - e. The maximum number of Rule 30(b)(6) topics; and
 - f. The maximum number of depositions.
15. The parties' positions regarding whether source code discovery is necessary, and any disputes the parties have regarding the requirements and logistics of source code production.
16. Any proposed modifications to the court's Model Protective Order and justifications thereof.

B. Scheduling Order

The court should also issue a Scheduling Order that memorializes the deadlines in the case. A draft scheduling order is set forth below. The court may in its discretion modify the form of the scheduling order.

**MODEL SCHEDULING ORDER IN A PATENT CASE
UNDER THE STREAMLINED PATENT CASE PROGRAM**

The parties having submitted the Case Management Statement, and after consideration by the court, it is hereby ORDERED that the following schedule will govern this case. There will be no modifications hereto absent a showing of extraordinary circumstances:

Event	Deadline (from entry into program)
Plaintiff identifies claims and provides claim charts	One week
Parties produce core documents	Six weeks
Defendant provides invalidity contentions	Eight weeks
Parties exchange claim terms/constructions and supporting evidence	10 weeks
Claim construction briefing completed	15 weeks
End of fact discovery	16 weeks
Claim construction hearing (2 hours preferably by video; constructions provided during or soon after the hearing)	17 weeks
(If constructions not provided at hearing) Court's claim construction order	18 weeks
(At court's discretion) Parties conduct mediation and report on results	18-19 weeks

Event	Deadline (from entry into program)
Supplementation of contentions, <i>only if</i> the court adopts a claim construction not advocated by either party and a party deems it necessary to serve supplemental contentions	19 weeks
Service of infringement and invalidity expert reports	21 weeks
Service of responsive expert reports	25 weeks
Expert discovery deadline	27 weeks
Submission of trial briefs	35 weeks
2-3 day bench trial	40 weeks
(At court's discretion) Submission of proposed findings of fact and conclusions of law	41 weeks
Decision on liability	44 weeks

If the court determines that at least one asserted claim is infringed and not invalid, then the following schedule shall govern the damages phase of the case:

Event	Deadline (from entry into program)
Plaintiff serves damages expert report	48 weeks
Defendant serves damages expert report	50 weeks
Damages expert discovery deadline	52 weeks
Submission of damages trial briefs	54 weeks
1-day bench trial on damages	56 weeks
(At court's discretion) Submission of proposed findings of fact and conclusions of law	57 weeks
Decision on damages	60 weeks

APPENDIX B – OTHER STREAMLINED PATENT CASE PROCESSES

A. Purpose

WG10 researched other efforts to streamline patent cases. The following systems were explored: Intellectual Property Enterprise Court (UK); the Eastern District of Texas’s Track B Program; the Eastern District of Virginia; and the Copyright Claims Board and the New Case Act.

WG10 is also aware that on May 3, 2022, the Administrative Conference of the United States, on behalf of the U.S. Patent and Trademark Office, announced that it was conducting an independent study of issues associated with and options for designing a small claims patent court.⁹ A report resulting from the study was submitted on March 31, 2023 to the Director of the Patent and Trademark Office that provided analysis based on input from members of Congress, academic experts, and written comments from over 130 people as to whether there is a need for a small claims patent court, the feasibility and potential structure of such a court, and the relevant legal, policy, and practical considerations in establishing a small claims patent court.¹⁰ The report did not, however, provide any recommendations. WG10 intends to closely monitor this development and provide analysis as appropriate in future versions of this *Commentary*.

9. A Notice by the Administrative Conference of the United States, Small Claims Patent Court Study; Comment Request (May 3, 2022) <https://www.federalregister.gov/documents/2022/05/03/2022-09489/small-claims-patent-court-study-comment-request>.

10. See ADMINISTRATIVE CONFERENCE OF THE U.S., PATENT SMALL CLAIMS – REPORT TO THE U.S. PATENT & TRADEMARK OFFICE (2023), available at <https://www.acus.gov/sites/default/files/documents/ACUS%20Report%20on%20Patent%20Small%20Claims%202023.pdf>.

A brief summary of the other systems analyzed by WG10 is set forth below. While this summary is informative, WG10 believes the Streamlined Program is unique in its approach to resolving lower-value patent cases.

B. Analysis

1. Intellectual Property Enterprise Court (UK)

The Intellectual Property Enterprise Court (IPEC), based in London, is an alternative to the regular court system for handling intellectual property disputes. The goal of the IPEC is to resolve simpler cases using a more streamlined and therefore cost-effective process than that used under the regular court system.

The IPEC was set up in 1990 and was originally known as the Patents County Court (PCC). The PCC was a specialist court designed to deal exclusively with intellectual property disputes. It was intended to provide a less costly and less complex alternative to the High Court Patents Court. In 2010, the PCC adopted a new set of procedures under His Honour Colin Birss that streamlined and ultimately revitalized the court.

Some of the key provisions of the streamlined process introduced in 2010 include:

- the parties set out their respective cases fully but concisely at the outset;
- no further evidence, written argument, or specific disclosure is permitted without the permission of the judge, with any disputes decided at an all-important “Case Management Conference”;
- any other applications will, if possible, be dealt with on paper or by telephone;
- the trial will be limited to one or two days;

- the total recoverable costs are capped at £50,000 for determining liability; and
- damages are limited to £500,000.

On October 1, 2013, the PCC was reformulated as the IPEC. Cases may be transferred from the IPEC to the High Court at the discretion of the IPEC. Similarly, the High Court may transfer cases to be heard by the IPEC. As with cases before the High Court, appeals from the IPEC are heard by the Court of Appeal.

On October 1, 2012, the PCC introduced a special “Small Claims Track” for IP claims valued at under £5,000 and related to copyright, trademarks, passing off, database rights, and unregistered design rights. This “no frills” regime was designed to help certain small or mid-sized enterprises and individuals who had previously struggled to justify the cost of enforcement when faced with prolific (often web-based) infringement of their IP rights.

Additional resources:

- HM Courts & Tribunals Service, Take a case to the Intellectual Property Enterprise Court (Feb. 5, 2020), <https://www.gov.uk/guidance/take-a-case-to-the-intellectual-property-enterprise-court>.
- HM Courts & Tribunals Service, Intellectual Property Court, <https://www.gov.uk/courts-tribunals/intellectual-property-enterprise-court> (last visited June 12, 2023).
- UK Ministry of Justice, Part 63 – Intellectual Property Claims, <https://www.justice.gov.uk/courts/procedure-rules/civil/rules/part63> (last visited June 12, 2023).
- UK Ministry of Justice, Practice Direction 57AB – Shorter and Flexible Trials Schemes, <https://www.justice.gov.uk/courts/procedure-rules/civil/>

[rules/practice-direction-57ab-shorter-and-flexible-trials-schemes](#) (last visited June 12, 2023).

- Victoria Bentley, *Patent County Court proves its worth* (Feb. 22, 2013), UNIVERSITY OF WARWICK SCIENCE PARK, <http://www.warwicksciencepark.co.uk/spark-edition-february-2013/patents-county-court-proves-its-worth/>.

2. Eastern District of Texas Track B

The Eastern District of Texas's "Track B" case schedule was announced in February 2014 by then-Chief Judge Leonard Davis as a special track designed to provide litigants with an option for more efficient resolution of patent infringement cases. In practice, the program has been used sparingly, with less than a dozen employing the Track B program over eight years. All of those cases settled before or during the claim construction process.

Entry into Track B requires agreement by both parties. The procedure requires the parties to negotiate and agree to a joint discovery plan that included written discovery limits, deposition limits, limits on the number of expert witnesses, whether expert depositions can be authorized, early reduction of asserted claims and prior art, etc. While there are no specific sanctions identified, the Order from Judge Davis implementing the Track B program warned that sanctions could be imposed for failing to make early disclosures.

The Track B program requires early disclosures of claims and defenses prior to the case management conference:

- The plaintiff is required to provide early infringement contentions and produce all licenses or settlement agreements. The plaintiff is also required to produce a good-faith estimate of damages and the methodology used to arrive at the estimate.

- The defendant is required to disclose summary sales information reflecting the quantity of accused and related unaccused products sold in the U.S. and the revenues from those sales. The defendant is also required to serve invalidity contentions.
- The parties are required to engage in an early exchange of claim terms for construction.

Similarly, the Track B program also provides for the parties determining reduced discovery limits based on the perceived value of the case, such as limiting the amount of written discovery, the number of depositions, a limit on the number of expert witnesses, and whether to allow expert depositions.

Additional streamlined procedures contemplated by the Track B program include:

- Restricting the number of patent claims and prior art;
- Modifying the eDiscovery requirements;
- Using a standard protective order;
- Adjusting the trial and claim construction schedule and including a limit on the number of terms for construction;
- Requests for special scheduling to resolve clearly dispositive issues;
- Whether it would be appropriate to have an expedited trial; whether to consolidate claim construction with trial; whether to have a trial on only limited issues; and whether to conduct posttrial mediation before entry of judgment.

Additional resource:

- In the U.S. District Court, Eastern District of Texas, General Order Regarding Track B Initial Patent

Case Management Order (Feb. 25, 2014),
[https://www.txed.uscourts.gov/sites/default/files/
goFiles/14-03.pdf](https://www.txed.uscourts.gov/sites/default/files/goFiles/14-03.pdf)

3. The Eastern District of Virginia

The Eastern District of Virginia, and in particular the Alexandria Division thereof, has long been recognized as the speediest district court in the country. Until the Covid-19 pandemic, the average time to trial in civil cases in the Eastern District of Virginia was consistently around a year or less (the Federal Case Management Statistics report for the 12-month periods ending March 31 are as follows: 10.1 months for 2017, 12.7 months for 2018, 12.4 months for 2019, and 11.6 months for 2020).

The judges in the Alexandria Division, in particular, have adhered to very fast schedules, even for patent cases. A typical case schedule will require all discovery—fact and expert—be completed approximately five months after the complaint is filed. A hearing on dispositive motions is typically scheduled for less than one month after the close of discovery, with a pre-trial conference scheduled for approximately two months later. The trial will occur thereafter based on the court's availability but will likely take place approximately 10 months after the complaint is filed.

The Eastern District of Virginia does not have Local Patent Rules, but the judges will normally include patent-specific deadlines in their scheduling orders. For example, a patentee's infringement contentions may be due three months after the complaint was filed, with the defendant's invalidity contentions due a month later. Given the compressed schedule, claim construction typically occurs while the parties are completing fact discovery and proceeding with expert discovery.

Nondispositive motion practice is also significantly accelerated. If a motion is filed on a Friday and is noticed for hearing

on the following Friday, the opposition is due on Wednesday, and any reply brief should be filed as soon as possible on Thursday. Motions for extensions of time of any type are disfavored and require a showing of good cause, even if the motion is agreed to by the parties.

To accommodate the expedited schedule, the judges will often impose limits on fact discovery that are more stringent than those in the Federal Rules. For example, most judges will not allow more than five non-party depositions and will agree to other limits that the parties jointly propose. The Eastern District of Virginia Local Rules also provide that objections to discovery requests must be served 15 days after receipt of the request. This allows the parties and the court to proactively address and hopefully resolve discovery disputes in an expedited fashion.

A patentee filing a patent infringement complaint in the Alexandria Division is not guaranteed that the case will proceed there. Instead, the court will consider the case load of the judges and may reassign the case to one of the other divisions (Richmond, Norfolk, or Newport News). This may result in a schedule that is not as fast as the ones set by the Alexandria Division judges.

Additional resource:

- U.S. District Court, Eastern District of Virginia, Local Rules (Jan.8, 2023), <https://www.vaed.uscourts.gov/court-info/local-rules-and-orders>.
- 4. Copyright Claims Board and the New Case Act (Copyright Alternative in Small-Claims Enforcement Act of 2020)

The Copyright Claims Board and New Case Act (Copyright Alternative in Small-Claims Enforcement (CASE) Act of 2020) was signed into law on December 27, 2020. Over 10 years in the making, the CASE Act established the Copyright Claims Board

(CCB) as an alternative to having lower-value copyright disputes heard in federal court. Proceedings before the CCB began in July 2022.

Under the CASE Act, the CCB may award actual or statutory damages (17 U.S.C. § 504(b)) up to \$30,000 per proceeding. Statutory damages are limited to up to \$15,000 per work. There is no injunctive relief available. Attorney fees may be awarded only if there is a showing of bad-faith conduct during the CCB proceeding. An example of a claim that might be suitable for the CCB is a photographer whose copyrighted photo is being used without authorization on a website.

The CCB is comprised of three Copyright Claims Officers, a supervising claims attorney, and two copyright claims attorneys. The CCB requires the works in question be registered but offers an expedited registration process that holds the proceeding in abeyance until the work is registered.

A proceeding is initiated by the claimant filing an online application form (at <https://ccb.gov>). If the claimant has not registered the work in question, a registration form will be available. The named respondent(s) has 60 days after receiving an initial notice of the claim to inform the CCB whether it will participate or opt out of the proceeding. If a respondent opts out, the CCB will dismiss the claim, but the claimant may still bring a case in federal court.

If a respondent does not opt out, the claim proceeds before the CCB. Discovery will be significantly streamlined (only requiring the exchange of limited key documents and information), and depositions are not allowed.

Following the discovery phase, each party presents its claims or defenses to the CCB through written witness statements and supporting evidence. The CCB will determine whether a hearing is necessary. If a hearing takes place, it will

be conducted virtually through video conferencing. It is anticipated that experts are rarely expected to be permitted to testify.

The CCB will issue its final determination after the parties have submitted their written statements and evidence and following any hearing. The CCB's determination must be in writing and explain the facts and the law the CCB relied on in making its determination. The determination must include clear statements explaining any monetary damages awarded to a party.

Following the final determination, each party has 30 days to submit to the CCB a written request for reconsideration or modification. The request must identify a clear error of law or material fact, or technical mistake, or it will not be considered. Other parties will have an opportunity to respond to or oppose the request. The CCB will either deny the request or issue an amended final determination. If a party's reconsideration request is denied, that party has 30 days to request review of the final determination by the Register of Copyrights. The Register's review is limited to considering whether the CCB abused its discretion in denying reconsideration. The Register will either deny the request or send the proceeding back to the CCB to reconsider specific issues.

Finally, a party may seek a federal district court order canceling, modifying, or correcting a CCB determination, but only in limited circumstances: (1) if the determination was issued as a result of fraud, corruption, misrepresentation, or other misconduct; (2) if the CCB exceeded its authority or failed to render a final determination on the subject matter at issue; or (3) in the case of default determination, if the default or failure to participate was due to excusable neglect. A party seeking federal district court review must do so within 90 days after the later of the date that the CCB issued its final or amended determination, or

the date that the Register of Copyrights completed a review of the request for reconsideration.

In the case of a proceeding where the claimant is asking for monetary damages of \$5,000 or less, the claimant may request that the CCB's "smaller claims" procedure be used. In such an instance, smaller claims will be decided by a single CCB member.

Since the CCB went live in July 2022, there have been approximately 400 cases filed, but many of those were dismissed due to opt-outs, noncompliant filings, voluntary withdrawals, and settlements. The first judgment was issued on February 28, 2023, in which the CCB awarded the claimant \$1,000 in statutory damages.

Additional resources:

- U.S. Copyright Office, Copyright Small Claims and the Copyright Claims Board, <https://www.copyright.gov/about/small-claims/> (last visited June 12, 2023).
- U.S. Copyright Office, Copyright Claims Board, <https://ccb.gov> (last visited June 12, 2023).

ARTIFICIAL INTELLIGENCE (AI) AND THE PRACTICE OF LAW

*Judge Xavier Rodriguez**

From quill pens to mobile devices, how to practice law is constantly evolving. “To maintain the requisite knowledge and skill, a lawyer should keep abreast of changes in the law and its practice, including the benefits and risks associated with relevant technology”¹ The growth of artificial intelligence (“AI”) applications is just the latest incarnation of these developments. As lawyers have been required to adapt to these developments, the adaptable lawyer will need to determine when and if to incorporate AI into his or her practice. Such incorporation could help reduce the costs of legal services while increasing quality, expand the availability of legal services, and allow lawyers to get more done in less time. By automating repetitive and mundane processes, those lawyers particularly skilled in using AI to their advantage will be able to spend more time on case analysis and crafting legal arguments. AI is poised to reshape the legal profession. But AI will require courts, rules committees, and ethics bodies to consider some of the unique

* Xavier Rodriguez is a U.S. District Judge in the Western District of Texas. Special thanks are extended to Prof. Josh Blackman, South Texas College of Law; Tara Emory of Redgrave Data; Prof. Maura Grossman of the Univ. of Waterloo; Chris Davis of Gray Reed & McGraw LLP; Prof. Marissa J. Moran of CUNY-New York City College of Technology; Ron Hedges (U.S.M.J. ret.); Jeremy Pickens of Redgrave Data; and Jackie Schafer for their review and comments of earlier drafts of this article or providing resource materials to consider. Thanks are extended to Emily Formica, a student at the St. Mary’s Univ. School of Law, for her research assistance, comments, and edits to this article.

1. MODEL RULE PROF’L CONDUCT r. 1.01 cmt. 8 (AM. BAR ASS’N).

challenges that AI presents. It will require attorneys to evaluate whether to use such products, and the risks associated with any use. Attorneys using AI tools without checking on the accuracy of their output are responsible for the consequences of incorporating inaccurate information into their work product.² This article seeks to provide attorneys with a baseline understanding of AI technology and recommends areas where state bars, courts, rules committees, and attorneys may wish to undertake further study and potential rule changes.

Although AI tools are rapidly developing, no doubt there will be future governmental scrutiny and consumer input into this technology. In July 2023, the Federal Trade Commission began to investigate OpenAI, creator of ChatGPT,³ to determine whether the tool has harmed consumers through its collection of data and how personal data is used.⁴ The Securities and Exchange Commission has likewise begun to propose new regulatory requirements to address risks associated with the use of

2. See, e.g., Michael Loy, *Legal Liability for Artificially Intelligent Robot Lawyers*, 26 LEWIS & CLARK L. REV. 951, 957–58 (2022) (discussing how attorneys have a duty to accept ultimate responsibility for the use of robot lawyers as software tools).

3. This article makes several references to ChatGPT because it was one of the first developers to garner significant publicity. But there are several other text generators in this space (e.g., Claude 2, Google Bard AI, Bing AI Chat, Perplexity AI, and others), as well as many other AI tools now on the market. In addition to these commercial products, some law firms (e.g., Dentons) have now launched their own versions of a large language model (LLM). This article should not be interpreted as making any type of endorsement or nonendorsement of any product or law firm.

4. Cat Zakrzewski, *FTC investigates OpenAI over data lead and ChatGPT's inaccuracy*, WASH. POST (July 13, 2023), <https://www.washingtonpost.com/technology/2023/07/13/ftc-openai-chatgpt-sam-altman-lina-khan> (discussing how analysts have called OpenAI's ChatGPT the fastest-growing consumer app in history).

AI.⁵ ChatGPT's co-founder recently testified before Congress, requesting that Congress enact regulatory policy in these areas, partly to avoid navigating a patchwork of state laws.⁶ Indeed, some commentators question whether generative AI tools will ever gravitate to the necessary level of accuracy, so as to justify their use.⁷ As global entities and states in the United States consider whether to restrict the harvesting of certain data that is ingested into AI tools for training purposes, it is uncertain how any such restrictions may affect the ability of AI tools to produce results with accuracy. If AI tools ingest generative AI results, some experts in the field question whether "data inbreeding" may result that may produce inaccurate results.⁸ It is important for practitioners to monitor this rapidly changing landscape.

This article, however, does not undertake to make any comment on the larger policy issues surrounding artificial intelligence. For example, the American Bar Association in 2023 adopted Resolution 604 that sets forth guidelines requiring AI

5. Press Release, U.S. Sec. Exch. Comm'n, SEC Proposes New Requirements to Address Risks to Investors From Conflicts of Interest Associated With the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers (July 26, 2023) (on file with the U.S. Sec. Exch. Comm'n), <https://www.sec.gov/news/press-release/2023-140>.

6. Cecilia Kang & Cade Metz, *F.T.C. Opens Investigation into ChatGPT Maker Over Technology's Potential Harms*, N.Y. TIMES (July 13, 2023), <https://www.nytimes.com/2023/07/13/technology/chatgpt-investigation-ftc-openai.html>.

7. See Ted Chiang, *ChatGPT is a blurry Jpeg of the Web*, THE NEW YORKER (Feb. 9, 2023), <https://www.newyorker.com/tech/annals-of-technology/chat-gpt-is-a-blurry-jpeg-of-the-web> (analogizing what generative AI does to compressing data as akin to what happens when a file is compressed to a jpeg and loses certain attributes—known as lossy compression).

8. See Maggie Harrison, *When AI Is Trained on AI-Generated Data, Strange Things Start to Happen*, FUTURISM (Aug. 2, 2023), <https://futurism.com/ai-trained-ai-generated-data-interview?ref=refind> (interview with Richard G. Baraniuk, Sina Alemohammad & Josue Casco-Rodriguez).

developers to ensure their products are subject to human oversight and are transparent. This article assumes that policymakers will in the future enact regulatory or statutory requirements in this area,⁹ and accordingly this article will focus on issues practicing attorneys are likely to encounter and steps state bars and related entities should consider.

Some AI issues are raised only briefly here and will require resolution from legislative bodies, courts, and governmental agencies

AI implicates several intellectual property and other considerations that are important for lawyers to be aware of in order to advise clients. For example, to “what extent should AI be considered a legal person and for what purposes?”¹⁰ Who (if

9. See, e.g., *Blueprint for an AI Bill of Rights: Making Automated Systems Work for the American People*, THE WHITE HOUSE OFFICE OF SCI. AND TECH. POL’Y (Oct. 2022) [hereinafter *Blueprint for an AI Bill of Rights*], <https://www.whitehouse.gov/ostp/ai-bill-of-rights/>; ARTIFICIAL INTELLIGENCE RISK MANAGEMENT FRAMEWORK (AI RMF 1.0), THE NAT’L INST. OF STANDARDS AND TECH. (NIST) (Jan. 2023), <https://doi.org/10.6028/NIST.AI.100-1> (a set of standards for the design, development, use, and evaluation of AI products); *Adverse action notification requirements in connection with credit decisions based on complex algorithms*, CONSUMER FIN. PROT. BUREAU, Circular 2022-03 (May 26, 2022), https://files.consumerfinance.gov/f/documents/cfpb_2022-03_circular_2022-05.pdf (The Consumer Financial Protection Bureau (CFPB) May 2022 guidance to financial institutions regarding algorithmic credit decisions and creditor reporting obligations). See also Gibson Dunn, *Artificial Intelligence and Automated Systems 2022 Legal Review* (January 25, 2023), <https://www.gibsondunn.com/artificial-intelligence-and-automated-systems-2022-legal-review/> (summarizing U.S. state and federal legislative, regulatory and policy developments).

10. Fredric I. Lederer, *Here there be Dragons: The Likely Interaction of Judges with the Artificial Intelligence Ecosystem*, 59 THE JUDGES’ J. 12 (Feb. 3, 2020). See also Copyright Registration Guidance: Works Containing Material Generated by Artificial Intelligence, 88 Fed. Reg. 16190 (Mar. 16, 2023), <https://www.federalregister.gov/documents/2023/03/16/2023-05321/copyrig>

anyone) owns a patent for a device designed by AI?¹¹ Who is liable in tort for damages caused by an AI system?¹² Will the ubiquitous use of AI facial recognition devices on public streets trigger a violation of the Fourth Amendment?¹³ Does the “scraping” of data from the internet and other sources violate any copyright works?¹⁴ Can an AI company be sued for defamation if its product manufactures a defamatory statement about a person or entity?¹⁵ This article merely references the likelihood of these developments and defers on these issues for consideration at a later date by courts and governmental agencies.

[ht-registration-guidance-works-containing-material-generated-by-artificial-intelligence](#) (the U.S. Copyright office has taken the position that AI-generated works cannot be copyrighted); Franklin Graves, *DC Court Says No Copyright Registration for Works Created by Generative AI*, IPWATCHDOG (Aug. 19, 2023), <https://ipwatchdog.com/2023/08/19/copyright-registration-works-created-by-generative-ai/id=165444/> (J. Beryl Howell agreed, stating in an August 2023 opinion that “[h]uman authorship is a bedrock requirement of copyright”).

11. U.S. Patent Application No. 16/524,350, Unpublished (filed July 29, 2019) (DABUS, applicant). *See also* Thaler v. Vidal, 43 F.4th 1207 (Fed. Cir. 2022); Thaler v. Perlmutter, No. 1:22-cv-1564, 2023 WL 5333236 (D.D.C. Aug. 18, 2023) (AI-generated works cannot be copyrighted); U.S. Patent and Trademark Office, *Artificial Intelligence*, <https://www.uspto.gov/initiatives/artificial-intelligence>.

12. Lederer, *supra* note 10.

13. *Id.*

14. Winston Cho, *Scraping or Stealing? A Legal Reckoning Over AI Looms*, THE HOLLYWOOD REP. (Aug. 22, 2023), <https://www.hollywoodreporter.com/business/business-news/ai-scraping-stealing-copyright-law-1235571501/> (AI companies contend that their practice of inputting data from the internet and other sources constitutes “fair use” under copyright law).

15. Ryan Tracy, *Some of the Thorniest Questions About AI Will be Answered in Court*, WALL ST. J. (Aug. 23, 2023), <https://www.wsj.com/tech/ai/some-of-the-thorniest-questions-about-ai-will-be-answered-in-court-e7fd444b> (also mentioning issues such as can AI be used by healthcare insurance carriers to review claims and whether AI tools violate privacy laws).

An Introduction to AI

AI is ubiquitous and already in devices we use daily, including our smartphones and cars. “We routinely rely on AI-enriched applications, whether searching for a new restaurant, navigating traffic, selecting a movie, or getting customer service over the phone or online.”¹⁶ To remain proficient and competent in the practice of law, lawyers must have a basic understanding of the technology and terminology used in AI.

AI “refers to computer systems and applications that are capable of performing functions normally associated with human intelligence, such as abstracting, reasoning, problem solving, learning, etc.”¹⁷ “AI applications employ algorithmic models that receive and process large amounts of data and are trained to recognize patterns, thus enabling the applications to automate repetitive functions as well as make judgments and predictions.”¹⁸ “Machine learning is a subset of AI. It refers to humans training machines to learn based on data input [M]achine learning looks for patterns in data to draw conclusions. Once the machine learns to draw one correct conclusion,

16. FINAL REPORT, NATIONAL SECURITY COMMISSION ON ARTIFICIAL INTELLIGENCE at 33 (2021), <https://www.nscai.gov/wp-content/uploads/2021/03/Full-Report-Digital-1.pdf>.

17. CYNTHIA CWIK, PAUL W. GRIMM, MAURA GROSSMAN & TOBY WALSH, ARTIFICIAL INTELLIGENCE AND THE COURTS: MATERIAL FOR JUDGES, ARTIFICIAL INTELLIGENCE, TRUSTWORTHINESS, AND LITIGATION, AM. ASS’N FOR THE ADVANCEMENT OF SCI. (Sept. 2022), available at <https://doi.org/10.1126/aaas.adf0786>.

18. Leslie F. Spasser, Denver K. Ellison & Brennan Carmody, *Artificial Intelligence Law and Policy Roundup*, LEGALTECH NEWS (Mar. 1, 2023), <https://www.law.com/legaltechnews/2023/03/01/artificial-intelligence-law-and-policy-roundup/> (Mar. 1, 2023).

it can apply those conclusions to new data.”¹⁹ “Natural language processing (NLP) is another subfield of AI NLP enables computers to read text or hear speech and then understand, interpret, and manipulate that natural language Using NLP, computers are able to analyze large volumes of text data . . . to identify patterns and relationships This type of AI in law can be applied to help complete tasks like document analysis, eDiscovery, contract review, and legal research.”²⁰ The models powering platforms used for generating text are called large language models, or LLMs.

Much attention has recently been focused on ChatGPT, an AI chatbot created by OpenAI, powered by an LLM trained on a massive dataset to generate human-like responses. But ChatGPT and similar models are only one type of AI, commonly referred to as “generative AI.” “Generative AI is a specific subset of AI used to create new content based on training on existing data taken from massive data sources in response to a user’s prompt, or to replicate a style used as input. The prompt and the new content may consist of text, images, audio, or video.”²¹

Indeed, as one example, electronic research platforms such as Westlaw and LexisNexis are incorporating generative AI capabilities into their platforms.²² Some eDiscovery vendors have likewise begun to incorporate generative AI into their

19. *AI for Lawyers: What is AI and How Can Law Firms Use It?* CLIO, <https://www.clio.com/resources/ai-for-lawyers/lawyer-ai/> (last visited Sept. 26, 2023).

20. *Id.*

21. Maura Grossman, Paul Grimm, Daniel Brown & Molly Xu, *The GPT Judge: Justine in a Generative AI World*, 23 DUKE LAW & TECH. REV. 8 (forthcoming Oct. 2023), available at <https://ssrn.com/abstract=4460184>.

22. See Westlaw Precision, <https://legal.thomsonreuters.com/en/products/westlaw-precision> (last visited Sept. 26, 2023), and Lexis+, <https://www.lexisnexis.com/en-us/products/lexis-plus.page> (last visited Sept. 26, 2023).

platforms, aiming to improve efficiencies in the discovery process.²³ Still, the current state of developments is a work in progress, and there have been conspicuous examples of the technology failing to work properly.²⁴ AI platforms have also been developed for legal writing,²⁵ contract management, due diligence reviews, litigation forecasting, predictions of judicial rulings, and juror screening,²⁶ and nonprofit legal organizations have been experimenting with how to implement bots to

23. It may be possible within a short timeframe for eDiscovery platforms to use generative AI to help locate potential sources of relevant information, and assist with the preservation, collection, and review of relevant data. See *From Bleeding Edge to Leading Edge: GAI and Reciprocal Intelligence in eDiscovery*, COMPLEXDISCOVERY (Aug. 20, 2023), <https://complexdiscovery.com/from-bleeding-edge-to-leading-edge-gai-and-reciprocal-intelligence-in-ediscovery/>. But cost savings in these areas may need to be offset by the need for additional quality control and validation of results. See *Even FLOE? A Strategic Framework for Considering AI in eDiscovery*, COMPLEXDISCOVERY (Aug. 10, 2023), <https://complexdiscovery.com/even-floe-a-strategic-framework-for-considering-ai-in-ediscovery/>.

24. In perhaps the most notable example, a ChatGPT-generated legal brief included six fictitious cases. The lawyers who submitted the brief were sanctioned as a result. See Sara Merken, *New York Lawyers Sanctioned for Using Fake ChatGPT Cases in Legal Brief*, REUTERS (June 26, 2023), <https://www.reuters.com/legal/new-york-lawyers-sanctioned-using-fake-chatgpt-cases-legal-brief-2023-06-22/>.

25. For example, Clearbrief claims to strengthen legal writing in Microsoft Word by using AI to examine discovery, exhibits, pleadings, and other documents and displaying the citations to the source documents. It also claims to create a hyperlinked timeline. See Bob Ambrogi, *New AI Features in Clearbrief Create Hyperlinked Timelines and Allow Users To Query Their Documents*, LAWSITES (Aug. 15, 2023), <https://www.lawnext.com/2023/08/exclusive-new-ai-features-in-clearbrief-create-hyperlinked-timelines-and-allow-users-to-query-their-documents.html>.

26. See *Voltaire Uses AI and Big Data to Help Pick Your Jury*, ARTIFICIAL LAWYER (April 26, 2017), <https://www.artificiallawyer.com/2017/04/26/voltaire-uses-ai-and-big-data-to-help-pick-your-jury/>.

complete legal forms.²⁷ Sullivan & Cromwell has recently announced that it has been investing in LAER.AI to develop an AI Discovery Assistant. The intent is to bring an AI product to market that will accompany an attorney to depositions and trials, having already “digested” the case, “listened” to the testimony, and then suggests questions. One of the products already put in use, AIDA (AI Discovery Assistant), conducts document review.²⁸

AI developments have taken place at a rapid pace not anticipated by the legal community.²⁹ While these developments have been impressive, there is a need for education in the legal community to understand errors or “hallucinations” that may occur in the output of the LLMs powering these platforms. Attorneys and courts need to be aware of both the benefits and limitations that these AI platforms present.

Potential Limitations of Current Generative AI Platforms

Depending on the AI platform, several potential limitations should be considered. Issues to be considered include, but are not limited to, the following: “Was the data used to train the system skewed or complete? Is it representative of the target

27. See Paul W. Grimm, Maura R. Grossman & Gordan V. Cormack, *Artificial Intelligence as Evidence*, 19 NW. J. TECH. & INTELL. PROP. 9, 34–35 (2021). This article is also very useful for a more detailed discussion of what is AI and its historical development.

28. See Patrick Smith, *Sullivan & Cromwell’s Investments in AI Lead to Discovery, Deposition ‘Assistants,’* THE AM. LAWYER (Aug. 21, 2023).

29. It has been widely reported that ChatGPT 3.5, which was introduced in March 2022, scored about the bottom 10th percentile on a simulated bar exam, but GPT4, introduced in March 2023, scored at the 90th percentile on the same exam. See Barry Dynkin & Benjamin Dynkin, *AI Hallucinations in the Courtroom: A Wake-Up Call for the Legal Profession*, N.Y. LAW J. (June 14, 2023) <https://www.law.com/newyorklawjournal/2023/06/14/ai-hallucinations-in-the-courtroom-a-wake-up-call-for-the-legal-profession/>.

population on which the system will be used? If the AI system was trained with historical data that reflects systemic discrimination, how was this addressed? Were variables incorporated that are proxies for impermissible characteristics (e.g., zip code or arrest records, which may correlate with and therefore incorporate race)? What assumptions, norms, rules, or values were used to develop the system? Were the people who did the programming themselves sufficiently qualified, experienced and/or diverse to ensure that there was not inadvertent bias that could impact the output of the system? Did the programmers give due consideration to the population that will be affected by the performance of the system?”³⁰ Most importantly, was the AI system specifically designed to be used by lawyers and the legal profession?

As noted by John Naughton, certain large language models “crawled” or “harvested” an enormous amount of data on which the model could be trained.³¹ The LLM then “learned” from the dataset through neural networks.³² This allows the LLM to compose text “by making statistical predictions of what is the most likely word to occur next in the sentence that they are constructing.”³³ But “[o]ne of the oldest principles in computing is GIGO – garbage in, garbage out. It applies in spades

30. CWIK ET AL., *supra* note 17, at 20.

31. John Naughton, *The World has a big Appetite for AI – but we Really Need to Know the Ingredients*, THE GUARDIAN (Aug. 21, 2023), <https://www.theguardian.com/commentisfree/2023/aug/19/the-world-has-a-big-appetite-for-ai-but-we-really-need-to-know-the-ingredients>.

32. See also Timothy B. Lee & Sean Trott, *A jargon-free explanation of how AI large language models work*, ARS TECHNICA (July 31, 2023), <https://arstechnica.com/science/2023/07/a-jargon-free-explanation-of-how-ai-large-language-models-work/>.

33. Naughton, *supra* note 31.

to LLMs, in that they are only as good as the data on which they have been trained.”³⁴

The above questions require exploration because of the potential for bias in AI systems. “[M]achine-learning algorithms are trained using historical data, [thus] they can serve to perpetuate the very biases they are often intended to prevent. Bias in training data can occur because the training data is not representative of a target population to which the AI system will later be applied.”³⁵ This may or may not be as great a concern in the context of generative AI platforms like ChatGPT, but in the context of lawyers or clients using AI for hiring decisions or judges using AI platforms for bail decisions, bias in the underlying data set is an issue that requires scrutiny. Some researchers are focusing on ways to mitigate such biased models.³⁶ The American Bar Association, among other groups,³⁷ has suggested that lawyers might violate ABA Model Rule of Professional Conduct 8.4’s prohibition against engaging in discriminatory conduct using biased AI platforms. It is uncertain whether mere use of AI tools that subsequently are shown to be flawed would violate certain state-specific Rules of Professional Conduct.

Another concern with certain AI algorithms and their outputs may be the lack of proper testing for reliability for use in

34. *Id.*

35. See Grimm, Grossman & Cormack, *supra* note 27, at 42–47.

36. Hammaad Adam, Aparna Balagopalan, Emily Alsentzer, Fontini Christia & Marzyeh Ghassemi, *Mitigating the impact of biased artificial intelligence in emergency decision-making*, COMMUN. MED. 2, 149 (2022), available at <https://doi.org/10.1038/s43856-022-00214-4>.

37. See Julia Brickell, Jeanna Matthews, Denia Psarrou & Shelley Podolny, *AI, Pursuit of Justice & Questions Lawyers Should Ask*, BLOOMBERG LAW (Apr. 2022), <https://www.bloomberglaw.com/external/document/X3T91GR80000/00/tech-telecom-professional-perspective-ai-pursuit-of-justice-ques>.

the legal profession.³⁸ Attorneys should also be cautious about using an AI platform that was originally intended for a certain use and applying it for another use without adequate testing for validity — this is sometimes known as “function creep,” the widening of a technology or system beyond its original intended use.³⁹

Finally, current pricing may pose a temporary obstacle to widespread adoption. As of August 2023, pricing for the largest GPT-4 model is \$.06 for every 1,000 tokens (about 750 words) input. And \$.12 for every thousand tokens output.⁴⁰ If entire case files were inputted, costs could be significant. As with all technology, as the technology improves and competition grows, these costs are likely to decline.

It should be noted, however, that many concerns over AI have been based on earlier versions. “When OpenAI launched its first large language model, known as GPT-1 in 2018, it had 117 million parameters—a measure of the system’s scale and complexity. Five years later, the company’s fourth-generation model, GPT-4, is thought to have over a trillion.”⁴¹ As these tools mature, their accuracy will likely greatly improve.

38. See Grimm, Grossman & Cormack, *supra* note 27, at 48–51.

39. See *id.* at 51.

40. Dan Diette, *What will Generative AI and LLMs mean for eDiscovery?*, COMPLETE DISCOVERY SOURCE (Aug. 10, 2023) <https://cdslegal.com/insights/ai/what-will-generative-ai-and-llms-mean-for-ediscovery/>.

41. Ian Bremmer & Mustafa Suleyman, *The AI Power Paradox, Can States Learn to Govern Artificial Intelligence— Before it’s Too Late?* FOREIGN AFFAIRS (Aug. 16, 2023) (also noting that “AI could be used to generate and spread toxic misinformation, eroding social trust and democracy; to surveil, manipulate, and subdue citizens, undermining individual and collective freedom; or to create powerful digital or physical weapons that threaten human lives. AI could also destroy millions of jobs, worsening existing inequalities and creating new ones; entrench discriminatory patterns and distort decision-making by amplifying information feedback loops; or spark unintended and

Potential Opportunities That AI may Offer the Legal Industry

Many law firms share the same challenges—rising overhead costs (particularly wages), increasingly complex cases, and the historical reliance on manual processes that are inefficient, reduce productivity, and result in increased costs largely absorbed by clients. AI tools offer the prospect to automate and possibly improve several operations, including legal research, document review, and client communication. The use of AI could also free lawyers to work on issues of strategic importance—both improving the experience of practicing law while at the same time providing more value to the client. In addition, AI's ability to analyze large amounts of data can reduce the risk of human error and increase confidence in the accuracy of the results produced.

But large language models, such as ChatGPT, have recently exposed a weakness—hallucinations or errors. Although why errors occur is not fully understood, generally the LLMs hallucinate because the underlying language model compresses the language it is trained on and reduces/conflates concepts that oftentimes should be kept separate. Ultimately, the LLM is a probabilistic model and generates text, as opposed to true or false answers.⁴² New models, however, are being developed that are being built on archives of legal documents to improve the accuracy of an answer. These new generative AI programs designed for the legal industry may improve accuracy to queries posed; quickly review thousands of pages of documents, expediting due diligence tasks and early case assessment of litigation; and

uncontrollable military escalations that lead to war AGI could become self-directed, self-replicating, and self-improving beyond human control.”).

42. *How Chatbots and Large Language Models Work*, CODE.ORG (Aug. 15, 2023), <https://www.youtube.com/watch?v=X-AWdfSFCHQ> (A video on how LLMs work and further explaining hallucinations).

draft summaries or contract language. In sum, the potential exists to reduce legal costs. That said, lawyers will still have to verify output and provide “human judgment” to the issue at hand.

It is expected that AI tools will be able to: (1) facilitate alternative dispute resolution (ADR) by providing early insights into disputes, (2) predict case outcomes, (3) engage in scenario planning and predict negative outcomes, (4) assist with case management and calendaring/deadlines, (5) conduct contract review and due diligence tasks, (6) automate the creation of forms and other legal documents, (7) assist with discovery review and production, (8) assist with the ability to detect personal identifying information, confidential health information, or proprietary or trade secret information, (9) enhance marketing and social media presence, (10) translate data into another language, (11) automate billing, and (12) expedite and lower the cost of legal research and regulatory compliance. In addition, counsel may be able to use AI tools to engage in strategic planning with their clients by running analyses of the client’s financial statements and other data.⁴³ That said, many other non-AI tools can assist with these tasks. Ultimately, attorneys and clients will need to evaluate whether the benefits of this new technology outweigh any costs or privacy or security concerns.

As lawyers contemplate how they may incorporate AI tools into their practice, the following concerns should be addressed:

Duty to Protect Client Confidential Information and use of AI Tools

ABA Model Rule of Professional Conduct 1.6 provides that an attorney generally may not reveal confidential information.

43. CLIENT COLLABORATION: THE EVOLUTION IN LAW FIRMS, THOMSON REUTERS (2023), available at <https://legal.thomsonreuters.com/content/dam/ewp-m/documents/legal/en/pdf/white-papers/client-collaboration-white-paper-the-evolution-in-law-firms-us-tr3462238.pdf>.

Protective orders issued by individual courts impose even more stringent requirements—including, for instance, that attorneys verify the permanent destruction of discovery materials at the end of a case. Attorneys considering using AI platforms should take care not to disclose confidential information inadvertently by inputting such information into a prompt or uploading confidential information into the AI platform for processing, particularly when the AI system is open source, such as the free version of ChatGPT, and the terms of service may not guarantee confidentiality.

Some AI platforms may save data, such as query history, to train and improve their models. Individuals working for those “free” platforms could potentially be viewing sensitive client data or attorney work product. Other AI platforms may not use prompts or inputted data to train. If using paid subscription services, an argument exists that such confidentiality concerns are mitigated due to the terms of service agreements entered with those paid commercial providers.⁴⁴ Another concern, however, is the concern that exists with any third-party provider—that is the potential that the AI provider is itself hacked in a cybersecurity incident and client data is taken. As always, due diligence must be exercised to satisfy that reasonable security measures are in place with any third-party provider. Further, sometimes additional requirements are imposed on the lawyer, such as an obligation to destroy information upon the conclusion of a matter. Sometimes that obligation is mandated contractually or

44. See John Tredennick & William Webster, *Attorneys using AI shouldn't worry about waiving privilege*, LAW360 (Aug. 22, 2023), <https://www.law360.com/articles/1706972/attorneys-using-ai-shouldn-t-worry-about-waiving-privilege> (arguing that paid commercial licensed products generally contain nondisclosure and nonuse provisions in their terms of use and the expectation of privacy in those products is as strong as those contained in Microsoft 365 licenses).

sometimes included in a protective order or other discovery stipulation or protocol. A lawyer uploading documents into an AI tool may be unable to certify that the information was destroyed unless it confirms that this is covered by the platform's terms of service.

On the other hand, AI can be used to secure information sharing and address privacy concerns. AI-powered redaction tools could possibly automatically identify personally identifiable information (PII) and redact that material from large data sets.⁴⁵ AI-powered redaction tools reduce the risk of accidentally disclosing sensitive data because of human error. An attorney using AI platforms and redaction tools must weigh the benefits and risks associated with both.

Law Firm (and Corporate) Policies

Law firms (and corporations) should consider implementing an AI policy to provide guidance to their employees on the usage of AI. At the end of the spectrum, some firms may completely ban the use of AI platforms. As discussed in this article, this approach may be largely unworkable and fail to prepare the law firm for the realities of the modern practice of law. A better approach may be to instruct employees that they are responsible for checking any AI's output for accuracy, they should consider whether the output of any AI platform is biased, that all appropriate laws be complied with, and they evaluate the security of

45. Sriharsha M S, *Detecting and redacting PII using Amazon Comprehend*, AWS MACHINE LEARNING BLOG (Sept. 17, 2020), <https://aws.amazon.com/blogs/machine-learning/detecting-and-redacting-pii-using-amazon-comprehend> (This early customer use case breaks down a real-time analysis of how Amazon Comprehend automatically identifies and redacts PII).

any AI platforms used before inputting any confidential information.⁴⁶

Use of AI-generated motions or briefs for court use

Although AI tools are vastly improving, attorneys should never file any AI-generated document without reviewing it for accuracy. This includes not only checking to ensure that the facts stated are correct and that legal authorities cited are accurate, but that the quality of analysis reflects good advocacy. Federal Rule of Civil Procedure 11 provides: “By presenting to the court a pleading, written motion, or other paper . . . an attorney or unrepresented party certifies that to the best of the person’s knowledge, information, and belief, formed after an inquiry reasonable . . . (1) it is not being presented for any improper purpose, . . . (2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument . . . (3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery” ABA Model Rule of Professional Conduct 3.3 states a “lawyer shall not knowingly (1) make a false statement of fact or law to a tribunal or fail to correct a false statement of material fact or law previously made to the tribunal by the lawyer; [or]

46. See Task Force on Responsible Use of Generative AI for Law (June 2, 2023), COMPUTATIONAL LAW, <https://law.mit.edu/ai> (lawyers should adhere to the following principles in all usage of AI applications: Duty of Confidentiality to the client, Duty of Fiduciary Care, Duty of Client Notice and Consent, Duty of Competence in the usage and understanding of AI applications, Duty of Fiduciary Loyalty to the client, Duty of Regulatory Compliance and respect for the rights of third parties, and Duty of Accountability and Supervision to maintain human oversight over all usage and outputs of AI applications); Shanq Simmons, *A Chief Legal Officer’s Guide to building a corporate AI Policy*, EVERLAW (Aug. 11, 2023), <https://www.lexology.com/library/detail.aspx?g=c5f2bb0c-c09c-4908-aff0-46efedc69755>.

(2) fail to disclose to the tribunal legal authority in the controlling jurisdiction known to the lawyer to be directly adverse to the position of the client and not disclosed by opposing counsel” As a result, if lawyers are already required to make a reasonable inquiry, it is likely unnecessary for judges to issue additional standing orders requiring lawyers to declare whether they have used AI tools in preparing documents and certifying that they have checked the filing for accuracy.

What remains unclear is whether AI platforms are equivalent to a nonlawyer requiring supervision, as contemplated by ABA Model Rule of Professional Conduct 5.3. It is also uncertain whether negligent reliance on AI tools can establish a violation of these rules, and whether lawyers must exercise “supervisory authority” over the AI platform, such that the lawyer must make “reasonable efforts” to ensure that the AI platform’s output is compatible with the attorney’s professional obligations. Rules Committees and Committees on Professional Ethics may wish to consider strengthening the language of their rules to clarify their scope.

While there has already been substantial publicity about inaccurate ChatGPT outputs and why attorneys must always verify any draft generated by any AI platform,⁴⁷ the bar must also consider the impact of the technology on pro se litigants who use the technology to draft and file motions and briefs.⁴⁸ No

47. *See, e.g.,* Mata v. Avianca, No. 22-cv-01461, 2023 WL 3698914 (S.D.N.Y. May 26, 2023) (lawyers sanctioned for citing to nonexistent cases that were “hallucinated” by ChatGPT and the brief was not verified by the attorney before filing).

48. *See* Berman v. Matteucci, No. 6:23-cv-00660 (D. Or. July 10, 2023) (a pro se prisoner filed a belated habeas petition arguing that his use of ChatGPT helped him discover new arguments to advance. The Court denied the application for habeas, not because of any error in the ChatGPT results, but because the petitioner did not understand how his claim was still untimely).

doubt pro se litigants have turned to forms and unreliable internet material for their past filings, but ChatGPT and other such platforms may give pro se litigants unmerited confidence in the strength of their filings and cases, create an increased drain on system resources related to false information and nonexistent citations, and result in an increased volume of litigation filings that courts may be unprepared to handle.

Evidentiary Issues in Litigation

Generally, relevant evidence is admissible.⁴⁹ Lawyers who intend to offer AI evidence, however, may encounter a challenge to admissibility with an argument that the AI evidence fails the requisite authenticity threshold,⁵⁰ or should be precluded by Rule 403 (“evidence may be excluded if its probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury”).⁵¹

Although the current version of the Rules of Evidence may be flexible enough and sufficient to address challenges to the introduction of AI-created evidence, the rules of procedure or scheduling orders should ensure that adequate deadlines are set for any *Daubert* hearing. “[J]udges should use Fed. R. Evid. 702 and the *Daubert* factors to evaluate the validity and reliability of the challenged evidence and then make a careful assessment of the unfair prejudice that can accompany the introduction of inaccurate or unreliable technical evidence.”⁵²

49. See FED. R. EVID. 402.

50. See FED. R. EVID. 901(a).

51. See FED. R. EVID. 403.

52. Grossman, Grimm, Brown & Xu, *supra* note 21 (offering “practical, step-by-step recommendations for courts and attorneys to follow in meeting the evidentiary challenges posed by GenAI”).

AI evidence may require that the offering party disclose any training data used by the AI platform to generate the exhibit. If a proprietary AI platform is used, the company may refuse to disclose its training methodology, or a protective order may be required. Courts are currently split on how to treat platforms using proprietary algorithms. In a case out of Wisconsin, a sentencing judge used a software tool called Correctional Offender Management Profiling for Alternative Sanctions (COMPAS), which uses a proprietary algorithm, to sentence a criminal defendant to the maximum sentence.⁵³ In that case, the Supreme Court of Wisconsin held that the circuit court's consideration of a COMPAS risk assessment at sentencing did not violate a defendant's right to due process because the circuit court explained that its consideration of the COMPAS risk scores was supported by other *independent factors*, and its use was *not determinative* in deciding whether the defendant could be supervised safely and effectively in the community.⁵⁴ Coming to the opposite conclusion, a district court in Texas held that Houston Independent School District's value-added appraisal system for teachers posed a realistic threat to protected property interests because teachers were denied access to the computer algorithms and data necessary to verify the accuracy of their scores, which was enough to withstand summary judgment on their claim for injunctive relief under the Fourteenth Amendment.⁵⁵ These cases demonstrate how the latter is the better approach. AI evidence requires a balancing between protecting the secrecy of proprietary algorithms developed by private commercial enterprises and due process protections against substantively unfair or mistaken deprivations of life, liberty, or property.

53. *State v. Loomis*, 881 N.W.2d 749 (Wis. 2016).

54. *Id.*

55. *Hous. Fed'n of Teachers, Local 2415 v. Hous. Indep. Sch. Dist.*, 251 F. Supp. 3d 1168 (S.D. Tex. 2017).

Further, a pretrial hearing will likely be required for a trial court to assess the degree of accuracy with which the AI system “correctly measures what it purports to measure” or otherwise “demonstrates its validity and reliability.”⁵⁶ One obstacle that may be encountered is “explainability.” That is how one explains how the AI model generated its output. “[M]ore sophisticated AI methods called deep neural networks [are] composed of computational nodes. The nodes are arranged in layers, with one or more layers sandwiched between the input and the output. Training these networks—a process called deep learning—involves iteratively adjusting the weights, or the strength of the connections between the nodes, until the network produces an acceptably accurate output for a given input. This also makes deep networks opaque. For example, whatever ChatGPT has learned is encoded in hundreds of billions of internal weights, and it’s impossible to make sense of the AI’s decision-making by simply examining those weights.”⁵⁷ Simply put, this is the so-called “black box” phenomenon. “The selection of training data, as well as other training decisions, is [initially] human controlled. However, as AI becomes more sophisticated, the computer itself becomes capable of processing and evaluating data beyond programmed algorithms through contextualized inference, creating a ‘black box’ effect where programmers may not have visibility into the rationale of AI output or the data components that contributed to that output.”⁵⁸ The above statement is not without controversy. Some argue that AI platforms cannot go beyond their programmed algorithms. Even AI tools that have been programmed to modify themselves can only do so

56. CWIK ET AL., *supra* note 17, at 12.

57. Stephen Ornes, *Peering into the Black Box of AI*, PROCEEDINGS OF THE NATIONAL ACADEMY OF SCIENCES OF THE UNITED STATES OF AMERICA (PNAS) (May 24, 2023), <https://doi.org/10.1073/pnas.2307432120>.

58. Spasser, Ellison & Carmody, *supra* note 18.

within the original parameters programmers set up. “Deep Learning” tools may differ from AI tools that are considered “Machine Learning.” Nevertheless, Federal Rule of Evidence 702 requires that the introduction of evidence dealing with scientific, technical, or specialized knowledge that is beyond the understanding of lay jurors be based on sufficient facts or data and reliable methodology that has been applied reliably to the facts of the particular case.⁵⁹ “Neural networks develop their behavior in extremely complicated ways—even their creators struggle to understand their actions. Lack of interpretability makes it extremely difficult to troubleshoot errors and fix mistakes in deep-learning algorithms.”⁶⁰

The AI developers may be unable to explain fully what the platform did after the algorithm was first created, but they may be able to explain how they verified the final output for accuracy. But AI models may be dynamic if they are updated with new training data, so even if a specific model can be tested and validated at one point in time, later versions of the model and its results may be significantly different.

An immediate evidentiary concern emerges from “deep-fakes.” Using certain AI platforms, one can alter existing audio or video. Generally, the media is altered to give the appearance that an individual said or did something they did not.⁶¹ The

59. Grimm, Grossman & Cormack, *supra* note 27, at 95–97. See also FED. R. EVID. 702 (b)-(d).

60. Ben Dickson, *What is Deep Learning?* PCMAG (May 18, 2023), <https://www.pcmag.com/news/what-is-deep-learning>.

61. See John M. McNichols, *How Real are Deepfakes?*, AMERICAN BAR ASSOCIATION (Aug. 23, 2023), <https://www.americanbar.org/groups/litigation/publications/litigation-news/technology/how-real-are-deepfakes/> (noting that the Congressional Research Service warned of deepfakes’ potential to access classified information, falsely depict public figures as making inappropriate statements, or influencing elections and the failure of Congress to pass legislation criminalizing their use).

technology has been improving rapidly. “What is more, even in cases that do not involve fake videos, the very existence of deep-fakes will complicate the task of authenticating real evidence. The opponent of an authentic video may allege that it is a deep-fake to try to exclude it from evidence or at least sow doubt in the jury’s minds. Eventually, courts may see a ‘reverse CSI effect’ among jurors. In the age of deepfakes, jurors may start expecting the proponent of a video to use sophisticated technology to prove to their satisfaction that the video is not fake. More broadly, if juries—entrusted with the crucial role of finders of fact—start to doubt that it is possible to know what is real, their skepticism could undermine the justice system as a whole.”⁶²

Although technology is now being created to detect deep-fakes (with varying degrees of accuracy),⁶³ and government regulation and consumer warnings may help,⁶⁴ no doubt if evidence is challenged as a deepfake, significant costs will be expended in proving or disproving the authenticity of the

62. Riana Pfefferkorn, *‘Deepfakes’ in the Courtroom*, 29 B.U. PUB. INT. L. J. 245 (2020).

63. *Id.* at 268. (“So-called ‘verified media capture technology’ can help ‘to ensure that the evidence [users] are recording . . . is trusted and admissible to courts of law.’ For example, an app called eyeWitness to Atrocities, ‘allows photos and videos to be captured with information that can firstly verify when and where the footage was taken, and secondly can confirm that the footage was not altered,’ all while the company’s ‘transmission protocols and secure server system . . . create[] a chain of custody that allows this information to be presented in court.’”).

64. Top technology firms including Google, Amazon, Microsoft, Meta, and ChatGPT-maker OpenAI recently signed a White House pledge to develop “tools to alert the public when an image, video or text is created by artificial intelligence, a method know as ‘watermarking.’” See also Cat Yakrzewski, *Top tech firms sign White House pledge to identify AI-generated images*, WASH. POST (July 21, 2023), [https://www.washingtonpost.com/technology/2023/07/21/ai-white-house-pledge-openai-google-meta.](https://www.washingtonpost.com/technology/2023/07/21/ai-white-house-pledge-openai-google-meta/)

exhibit through expert testimony.⁶⁵ “The proposed changes to Fed. R. Evid. 702, which become effective on December 1, 2023, make clear that highly technical evidence, such as that involving GenAI and deepfakes, create an enhanced need for trial judges to fulfill their obligation to serve as gatekeepers under Fed. R. Evid. 104(a), to ensure that only sufficiently authentic, valid, reliable—and not unfairly or excessively prejudicial—technical evidence is admitted.”⁶⁶

AI in Law Enforcement

If not already implemented by law enforcement agencies, the probability that AI platforms will be used to track, assess, and predict criminal behavior is probable.⁶⁷ By collecting data on movements, occurrences, time of incidents, and locations, AI tools can flag aberrations to law enforcement officials. Such analyses can allow law enforcement agencies to predict crimes, predict offenders, and predict victims of crimes.⁶⁸ Criminal defense attorneys encountering situations where their clients have been arrested because of AI tools will need to evaluate whether any due process or Fourth Amendment violations can be asserted in this context.

65. Pfefferkorn, *supra* note 62, at 267 (“We can foresee that evidentiary challenges to suspected deepfakes will add significantly to case timelines, and also ‘will likely increase the cost of litigation because new forensic techniques and expert witnesses aren’t cheap.’ Litigators will have to manage their clients’ expectations accordingly.”).

66. Grossman, Grimm, Brown & Xu, *supra* note 21, at 18.

67. See Grimm, Grossman & Cormack, *supra* note 27, at 36–41.

68. See HIMANSHU ARORA, ARTIFICIAL INTELLIGENCE IN LAW ENFORCEMENT: USE-CASES, IMPACT ON FUNDAMENTAL RIGHTS AND ETHICAL REFLECTIONS (2023).

AI and the Criminal Justice System

Some benefits and risks associated with AI adoption in the criminal justice system are apparent. Early adopters, for instance, are using AI-powered document processing systems to improve case management. A new system in Los Angeles recently helped a public defender help a client avoid arrest after the attorney was alerted by the system to a probation violation and warrant.⁶⁹ Lawyers involved in the California Innocence Project are using Casetext's CoCounsel, an AI tool, to identify inconsistencies in witness testimony.⁷⁰

Already tools have been produced that assist courts with bail evaluation and sentencing decisions. However, past platforms of these types have been the subject of some immense scrutiny as being unreliable and biased.⁷¹ Racial bias has seeped into some earlier programs because of inputs such as home residence being used in the algorithms.⁷² Given the presence of racially segregated neighborhoods, these algorithms produced bail recommendations that were unintentionally biased. The effect of implementing AI in place of human-decision making was

69. Keely Quinlan, *L.A. County's Public Defender Uses AI to Improve Client Management*, STATESCOOP (July 12, 2023), <https://statescoop.com/la-county-public-defender-ai-aws>.

70. Matt Reynolds, *California Innocence Project harnesses generative AI for work to free wrongfully convicted*, ABAJOURNAL (Aug. 14, 2023), <https://www.abajournal.com/web/article/california-innocence-project-harnesses-generative-ai-for-work-to-free-wrongfully-convicted>.

71. See also Jeff Larson, Surya Mattu, Lauren Kirchner & Julia Angwin, *How We Analyzed the COMPAS Recidivism Algorithm*, PROPUBLICA (May 23, 2016), <https://www.propublica.org/article/how-we-analyzed-the-compas-recidivism-algorithm>; Julia Dressel & Hany Farid, *The accuracy, fairness, and limits of predicting recidivism*, SCIENCEADVANCES (Jan. 17, 2018), <https://www.science.org/doi/10.1126/sciadv.aao5580>. But see *State v. Loomis*, 881 N.W.2d 749 (Wis. 2016).

72. See, e.g., *Loomis*, 881 N.W.2d 749 (Wis. 2016).

recently studied by a group of researchers. The surprising results showed that models trained using common data-collection techniques judge rule violations more harshly than humans would. “If a descriptive model is used to make decisions about whether an individual is likely to reoffend, the researchers’ findings suggest it may cast stricter judgements than a human would, which could lead to higher bail amounts or longer criminal sentences.”⁷³ Another study found that participants who were *not* inherently biased were nevertheless strongly influenced by advice from biased models when that advice was given prescriptively (i.e., “you should do X”) versus when the advice was framed in a descriptive manner (i.e., without recommending a specific action).⁷⁴

Courts and probation offices that are considering adopting these platforms should inquire into how the platform was built, what factors are being considered in producing the result, and how bias has been mitigated.⁷⁵ Further, if such platforms are used in the bail consideration or sentencing process, they should be used only as a nonbinding recommendation given the complexity and impact of such decisions.

73. Adam Zewe, *Study: AI models fail to reproduce human judgements about rule violations*, MIT NEWS (May 10, 2023), <https://news.mit.edu/2023/study-ai-models-harsher-judgements-0510>. See also Aparna Balagopalan, et al., *Judging fact, judging norms: Training machine learning models to judge humans requires a modified approach to labeling data*, 9 SCIENCE ADVANCES (May 10, 2023), <https://doi.org/10.1126/sciadv.abq0701>.

74. Adam et al., *supra* note 36. (“Crucially, using descriptive flags rather than prescriptive recommendations allows respondents to retain their original, unbiased decision-making.”).

75. *Id.*

AI and Employment Law

Some AI platforms contend that the use of their products could accelerate the hiring process and reduce the potential for discrimination allegations.⁷⁶ Law firms or clients seeking to use these AI platforms should understand that such platforms should be vetted for bias and accuracy. Attorneys counseling employers also need to be aware of the limitations of any such platforms. Efforts should be made to ensure that “explainability” of the platform’s results can be produced. As with all tools that are used to monitor or measure employee actions and performance, privacy and discrimination concerns should be considered.⁷⁷ If law firms or clients use third parties to handle their human resource needs, a review of what, if any, AI platforms are used and how should be made. In addition, lawyers working in this area should monitor developments in this field, such as guidance being developed by the Equal Employment Opportunity Commission⁷⁸ and the National Labor Relations Board.⁷⁹

76. See, e.g., Keith E. Sonderling, Bradford J. Kelley & Lance Casimir, *The Promise and The Peril: Artificial Intelligence and Employment Discrimination*, 77 U. MIA. L. REV. 1, 4 (2022). This paper also provides an excellent summary on how Title VII, Americans with Disabilities Act, and Age Discrimination in Employment Act claims may arise in the AI context.

77. See Annelise Gilbert, *EEOC Settles First-of-Its-Kind AI Bias in Hiring Lawsuit*, BLOOMBERG LAW (Aug. 10, 2023), <https://news.bloomberglaw.com/daily-labor-report/eoc-settles-first-of-its-kind-ai-bias-lawsuit-for-365-000>, (allegations that employers’ AI tools rejected older applicants in violation of the Age Discrimination in Employment Act).

78. See U.S. Equal Emp’t Opportunity Comm’n, *Artificial Intelligence and Algorithmic Fairness Initiative*, <https://www.eeoc.gov/ai> (last visited Sept. 25, 2023).

79. See NLRB General Counsel Memo GC 23-02, *Electronic Monitoring and Algorithmic Management of Employees Interfering with the Exercise of Section 7 Rights* (Oct. 31, 2022), <https://www.nlr.gov/guidance/memos-research/general-counsel-memos> (warning that AI tools that conduct

A recent example is a New York City law requiring transparency and algorithmic audits for bias. New York City Local Law 144 of 2021 regarding automated employment decision tools prohibits employers and employment agencies from using an automated employment decision tool unless the tool has undergone a bias audit within one year of the use of the tool, information about the bias audit is publicly available, and certain notices have been provided to employees or job candidates.⁸⁰

AI and eDiscovery

How generative AI and LLMs will be incorporated into eDiscovery remains uncertain. Discovery is generally conducted by implementing a legal hold when the duty to preserve evidence has been triggered. Later, key players and other data custodians are interviewed to determine what, if any, relevant evidence the custodian or source (e.g., email server) may possess. Then relevant data is gathered and usually sent to a vendor for processing and uploading onto a platform where the documents can be reviewed and tagged for relevance, privilege, or both. Usually, parties agree to search terms to ensure that relevant documents are procured and produced. In larger cases, parties may opt to use technology-assisted review (TAR) platforms where a “seed set” is reviewed by a person knowledgeable on the file, and then the TAR platform “learns” from the “seed set” and

workplace surveillance might interfere with worker rights protected under the NLRA). *See also* New York City Automated Employment Decision Tools law, N.Y. CITY LOCAL LAW 144 (2021) (requiring candidate notice before AI tool use for employment purposes, and annual bias audit); Illinois Artificial Intelligence Video Interview Act (AIVIA), 820 ILL. COMP. STAT. 101-260 (2020) (providing interviewee rights for AI use in video interviews); MD. H.B. 1202 (2023) (requiring notice and consent for facial recognition services in pre-employment interviews).

80. N.Y. CITY LOCAL LAW 144 (2021).

automatically reviews the remaining documents for relevancy and privilege without human input.

It is expected that the natural language search capabilities of LLMs will be incorporated into eDiscovery platforms at some point. This will allow AI to recognize patterns and identify relevant documents. Unstructured data (e.g., social media and collaborative platforms like Slack or Teams) can be reviewed by the AI tool. Theoretically, collection and review costs could be dramatically lessened, and attorney fees reduced. Another possibility is that AI will be used to augment the document gathering and review process, as well as assist with privilege review. For example, the Clearbrief platform, among others, is already being used for this purpose, with the underlying source documents visible in Microsoft Word so the user can verify the AI suggestions of documents. Users can then share a hyperlinked version of their analysis with the cited sources visible so the recipient can also verify the relevance of the source document.

AI and Health Care Law

It is widely expected that AI tools will be more routinely deployed in the diagnosis of diseases and treatment. Lawyers practicing in the healthcare industry will need to consider issues of bias in the AI tool's seed set that may lead to accuracy problems.⁸¹ They will also need to understand how these tools can be employed in a way that complies with healthcare-specific regulatory requirements—in particular privacy requirements imposed by the Health Insurance Portability and Accountability Act of 1996 (HIPAA). As with other issues raised above, liability for any misdiagnosis or treatment resulting from the use of an AI tool will require future judicial resolution.

81. See, e.g., Starre Vartan, *Racial Bias Found in a Major Health Care Risk Algorithm*, SCIENTIFIC AMERICAN (Oct. 24, 2019), <https://www.scientificamerican.com/article/racial-bias-found-in-a-major-health-care-risk-algorithm/>.

AI and Immigration Law

AI tools have already been implemented by immigration law practitioners in completing U.S. Citizenship forms and tracking their status.⁸² AI tools have been helpful in this area, where often the same data must be filled in multiple forms. Again, as with all forms that are generated, it is still the responsibility of the attorney to review for accuracy any forms completed by an AI tool.

The Need for Attorneys to Monitor Regulatory and Statutory AI Developments

To adequately counsel clients, attorneys will need to keep abreast of regulatory and statutory developments in this area. Some states have already passed legislation related to employing AI.⁸³ In addition, the Equal Employment Opportunity Commission,⁸⁴ the Federal Trade Commission, and the White House Office of Science and Technology Policy⁸⁵ have all issued guidelines on the use of AI.⁸⁶ In April 2021, the European Commission proposed the first EU regulatory framework for AI. The Consumer Financial Protection Bureau issued interpretative guidelines that require lending companies to provide notices to credit applicants of the specific reasons they were denied credit, to

82. *Immigration Law Enhanced with AI*, FILEVINE, <https://www.filevine.com/platform/immigrationai/> (last visited Sept. 26, 2023). See also [Visalaw.ai](https://www.visalaw.ai) (last visited Sept. 26, 2023).

83. The Electronic Privacy Information Center summarizes state AI laws and legislation. See AI Policy, <https://epic.org/issues/ai/ai-policy/> (last visited Sept. 26, 2023).

84. Artificial Intelligence and Algorithmic Fairness Initiative, *supra* note 78.

85. Blueprint for an AI Bill of Rights, *supra* note 9.

86. See, e.g., Spasser, Ellison & Carmody, *supra* note 18. See also Blueprint for an AI Bill of Rights, *supra* note 9.

include arguably whether AI was used in that decision making process.⁸⁷ The EU Artificial Intelligence Act sets forth the world's first rules on AI and is anticipated to go into effect by the end of 2023.⁸⁸

AI and the Impact on Individual Privacy

As more states enact privacy statutes, attorneys should know about how such statutes may affect the ability of their clients to sell data they collect and how such statutes may impact what data they are even allowed to store or process. AI algorithms require large sets of data to confidently produce their results. This data is scraped from many sources, and questions are being raised as to whether consumers have provided informed consent to the storage, use, and resale of any data collected⁸⁹ regarding their purchases, internet viewing, medical data, etc.⁹⁰ Companies may also need to be able to quickly respond to consumer requests about data collected, as well as requests to delete the data. For attorneys with clients gathering data from

87. *Adverse action notification requirements in connection with credit decisions based on complex algorithms*, *supra* note 9.

88. *EU AI Act: first regulation on artificial intelligence*, EUROPEAN PARLIAMENT (June 08, 2023), <https://www.europarl.europa.eu/news/en/headlines/society/20230601STO93804/eu-ai-act-first-regulation-on-artificial-intelligence>.

89. At least one lawsuit has been filed in federal court arguing that Google's BARD AI product is "secretly stealing everything ever created and shared on the internet by hundreds of millions of Americans" and "putting the world at peril with untested and volatile AI." *See* J.L. et al. v. Alphabet Inc., et al., No. 23-cv-0344078 (N.D. Cal. July 11, 2023) (putative class action on behalf of all persons whose personal information was used as training data).

90. *See* Grimm, Grossman & Cormack, *supra* note 27, at 53–57.

overseas, the European Union General Data Protection Regulation⁹¹ and the E.U. Artificial Intelligence Act⁹² should be considered given that any data privacy violations could result in large fines.⁹³

AI and Use by Pro Bono and Nonattorney Providers

AI platforms offer the possibility of expanding the ability of pro bono providers to provide legal resources to those otherwise unable to afford an attorney. Relativity, an eDiscovery provider, has been providing an AI product, Translate, to legal aid organizations. The advantages provided by AI in helping to close the access-to-justice gap, however, need to be weighed by pro bono providers. AI tools cannot replace human interaction, evoke empathy, or adequately address nuances that may not be adequately expressed by a nonlawyer using the AI tool. Pro Bono providers will need to exercise care that any advice or work product generated by the AI tool is vetted for accuracy

91. Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the Protection of Natural Persons with Regard to the Processing of Personal Data and on the Free Movement of Such Data, and Repealing Directive 95/46/EC (General Data Protection Regulation), 2016 O.J. (L 119/1), available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016R0679#PP3Contents>.

92. Artificial Intelligence Act, Amendments adopted by European Parliament on June 14, 2023, on the proposal for a regulation of the European Parliament and of the Council on laying down harmonised rules on artificial intelligence (Artificial Intelligence Act) and amending certain Union legislative acts (COM(2021)0206-C9-0146.2021-2021/0106(COD))), https://www.europarl.europa.eu/doceo/document/TA-9-2023-0236_EN.html.

93. *Id.* (administrative fines of up to €30 million or 6 percent of the total worldwide annual turnover depending on the severity of the infringement are set as sanctions for noncompliance with the AI act). See also General Data Protection Regulation, *supra* note 91, art. 83 (administrative fines up to €20 million or up to 4 percent of the total worldwide annual turnover of the preceding financial year, whichever is higher).

prior to being delivered to the client. Attorneys using AI tools without checking on the accuracy of their output may ultimately bear sole or joint liability with the AI provider.⁹⁴ This article expresses no comment on whether AI tools used without attorney oversight could be construed as engaging in the unauthorized practice of law.⁹⁵ Further, any liability for advice or filings generated by a “robot lawyer” will need to be adjudicated by the courts. An example of a so-called “robot lawyer” could be DoNotPay, a platform that uses a chatbot to help contest parking tickets.⁹⁶

AI and ADR

Largely because of the COVID pandemic, many mediators and arbitrators shifted to an online platform to conduct mediations and arbitrations (so-called ODR or online dispute resolution). AI tools might help improve accessibility to the alternative dispute resolution (ADR) process in both the physical (live) and ODR sessions. Arbitrators could benefit from AI tools to help summarize large data sets and generate insights. Without the parties’ consent, an issue exists as to whether this would

94. See, e.g., Michael Loy, *Legal Liability for Artificially Intelligent Robot Lawyers*, 26 LEWIS & CLARK L. REV. 951, 957–58 (2022).

95. See *Unauthorized Prac. of L. Comm. v. Parsons Tech., Inc.*, 179 F.3d 956 (5th Cir. 1999) (sale and distribution of Quicken Family Lawyer product was found by the trial court to constitute unauthorized practice of law but vacated by the Fifth Circuit because of the amendment to Texas Government Code Annotated § 81.101: “the ‘practice of law’ does not include the design, creation, publication, distribution, display, or sale . . . [of] computer software, or similar products if the products clearly and conspicuously state that the products are not a substitute for the advice of an attorney”).

96. See Sara Merken, *Lawsuit pits class action firm against ‘robot lawyer’ DoNotPay*, REUTERS (Mar. 9, 2023), <https://www.reuters.com/legal/lawsuit-pits-class-action-firm-against-robot-lawyer-donotpay-2023-03-09/>. See also *Faridian v. DoNotPay, Inc.*, No. CGC-23-604987 (Cal. filed Mar. 3, 2023).

constitute some ethically impermissible *ex parte* communication, or an inappropriate review of material not submitted in the arbitration proceeding itself. Mediators, however, in some cases could use such AI tools to help guide the parties to an understanding of any weakness in their case. Some mediation platforms have been developed already that offer asynchronous, virtual mediation. Maintaining confidentiality and security of any documents posted to such sites will be essential. As discussed below in the discussion of virtual courts, at present the efficacy of an entirely online ODR session driven by an AI tool without a human neutral does not seem to be an option that would effectively resolve most disputes. In any event, its value in small claims court and other cases with a small monetary amount in controversy should be explored.

In 2016, British Columbia launched the Civil Resolution Tribunal (“CRT”), the first online tribunal to implement ODR mechanisms in Canada. CRT is part of the British Columbia public justice system and aims to provide an accessible and affordable way of resolving civil disputes. In July 2023, CRT closed 51 Strada property claims, 287 small claims, 56 motor vehicle injury/accident benefits/accident responsibility claims, and four miscellaneous cases.⁹⁷ There is little independent research on the effectiveness of the CRT, but the aggregate participant satisfaction survey results for 2022/23 show 78 percent of the participants who responded would recommend the CRT to others.⁹⁸ For low-value matters in particular, the benefits of a speedy resolution may outweigh the risks.

97. CRT Key Statistics, CIVIL RESOLUTION TRIBUNAL (Aug. 3, 2023), <https://civilresolutionbc.ca/blog/crt-key-statistics-july-2023/>.

98. CIVIL RESOLUTION TRIBUNAL, <https://civilresolutionbc.ca/> (last visited Sept. 26, 2023).

AI and Use in Law Firm Marketing

AI platforms can offer instructions on how to create or improve websites, and build content on the site, as well as generate ideas for advertisements, marketing materials, and social media postings. Smaller law firms who do not have the resources of a marketing person might benefit from this assistance, so long as any content is proofed and verified to comply with existing attorney advertising regulations.⁹⁹ Chatbots could assist with client communications, onboarding, and responding to routine questions. That said, care should be exercised to ensure that an improper attorney-client relationship has not been established and that confidentiality is maintained. Answering substantive queries from clients using a chatbot is not advised. But since failure to keep clients informed about the status of their matter is often an item of grievance, chatbots could assist in this regard.

In addition, the development of image-generating AI (e.g., Dall-E 2) may offer law firms the ability to generate unique graphics¹⁰⁰ that otherwise would have been too expensive for inclusion in their marketing.

Additional Training or Skillsets Required

If AI tools are used, AI should be used to complement human judgment. Lawyers and legal professionals should contemplate how to leverage this collaboration effectively and

99. MODEL RULES PROF'L CONDUCT r. 7.1-3 (AM. BAR ASS'N).

100. This article does not opine as to whether any AI-generated graphic may be entitled to trademark or copyright protection, as that issue will need to be resolved through the intellectual property regulatory and litigation process. *See also* Copyright Registration Guidance: Works Containing Material Generated by Artificial Intelligence, *supra* note 10 (the U.S. Copyright office has taken the position that AI-generated works cannot be copyrighted); Graves, *supra* note 10 (J. Beryl Howell agreed, stating in an August 2023 opinion that “[h]uman authorship is a bedrock requirement of copyright”).

efficiently.¹⁰¹ Prior to using any AI tool, lawyers should consider what processes currently used could be improved through AI technology. If AI tools are adopted, personnel will likely require training on how to properly construct prompts/queries and how to evaluate any results. Akin to Boolean searches that require some knowledge of how to construct a “good” search, AI tools require “good” prompts.¹⁰² One advantage of generative AI prompts and responses is that the tool has “thread” conversations. A person can ask clarifying questions. Users can ask the AI tool to clarify previous responses or ask the AI tool to customize the tone or persona of the response. Personnel will also need training on compliance with confidentiality concerns, as well as considerations involving bias. Some commentators envision a new category of employee being trained – a “prompt engineer.”

AI and Cybersecurity Concerns

AI will likely be used by bad actors to penetrate law firm and client IT systems. As noted by Bloomberg Law News, even before the advent of AI, financial fraud scams have proliferated. Concerns now have arisen that AI voice-synthesizing tools

101. See Barclay T. Blair et al., *Law Firms of the Future Will be Different in Three Critical Ways*, U.S. LAW WEEK (Aug. 21, 2023), <https://news.bloomberglaw.com/us-law-week/law-firms-of-the-future-will-be-different-in-three-critical-ways> (arguing that AI will augment the work attorneys perform and be woven into daily tasks such as word processing, timekeeping, and communication platforms. Secondly, AI will assist in the review of evidence and drafting of briefs. Because these transformative processes will displace routine tasks and the billings associated with these tasks, lawyers will need to focus on complex problem solving and strategic thinking).

102. See, e.g., MAXWELL TIMOTHY, UNLOCKING THE POTENTIAL OF CHATGPT, ADVANCED PROMPTING TECHNIQUES TO GET MORE OUT OF CHATGPT (2023) (ebook), available at <https://www.makeuseof.com/unlock-secrets-of-chatgpt-with-free-ebook-unlocking-the-potential-of-chatgpt/>.

could allow scammers to download short voice samples of individuals from social media, voicemail messages, or videos and create new content that would enable a false transaction to occur.¹⁰³ To counter these threats, some banks have deployed suspicious transaction detection systems using NLP models.¹⁰⁴ Though adoption of AI by threat actors is currently still limited to social engineering, AI has the potential to affect the threat landscape in two key aspects: “the efficient scaling of activity beyond the actors’ inherent means; and their ability to produce realistic fabricated content toward deceptive ends.”¹⁰⁵ On August 9, 2023, the Biden Administration together with the Defense Advanced Research Projects Agency launched a two-year \$20 million “AI Cyber Challenge” to identify and fix software vulnerabilities using AI.¹⁰⁶ Law firms should adopt a “proactive approach to breach preparedness by understanding the full scope of costs, conducting simulations, involving key stakeholders, and implementing the right technology solutions.”¹⁰⁷ To this end, the National Institute of Standards and Technology

103. Nabila Ahmed, et al., *Deepfakes are Driving a Whole New Era of Financial Crime*, BLOOMBERG LAW (Aug. 23, 2023), <https://news.bloomberglaw.com/privacy-and-data-security/deepfakes-are-driving-a-whole-new-era-of-financial-crime>.

104. *Id.*

105. Michelle Cantos, Sam Riddell & Alice Revelli, *Threat Actors are Interested in Generative AI, but Use Remains Limited*, MANDIANT (Aug. 17, 2023), <https://www.mandiant.com/resources/blog/threat-actors-generative-ai-limited> (Google’s Mandiant has tracked treat actors’ use of AI since 2019).

106. *Biden-Harris Administration Launches Artificial Intelligence Cyber Challenge to Protect America’s Critical Software*, THE WHITE HOUSE (Aug. 9, 2023), <https://www.whitehouse.gov/briefing-room/statements-releases/2023/08/09/biden-harris-administration-launches-artificial-intelligence-cyber-challenge-to-protect-americas-critical-software>.

107. *Understanding the economic impact of a breach*, CYBERSCOOP (July 31, 2023), <https://cyberscoop.com/video/understanding-the-economic-impact-of-a-breach/>.

(NIST) released the AI Risk Management Framework (AI RMF 1.0) to better manage risks to individuals, organizations, and society. The Framework was published on January 26, 2023, along with a companion NIST AI RMF Playbook, AI RMF Explainer Video, an AI RMF Roadmap, AI RMF Crosswalk, and various Perspectives.¹⁰⁸ Attorneys and law firms can use the Framework to develop their own best practices and standards for using AI systems and managing the many risks of AI technologies.

Ethical Implications of Billing Practices and AI

How should attorneys bill for the use of AI? It is anticipated that law firms will need to hire staff with a greater understanding of technology and data. How does that overhead get absorbed? How does a court determine what is a “reasonable fee” if AI is employed? If a firm makes an investment in AI and then employs that tool to provide value for the client, should the law firm be able to charge for that? State ethic opinion letters are needed to provide guidance in this area, as well as the use of technology generally.

Minimum Continuing Legal Education—Technology Hour Component

Florida and North Carolina have amended their MCLE requirements to add a requirement that attorneys complete some hours of continuing education dedicated to technology concerns. Cybersecurity, privacy concerns, and AI concerns should also lead other states to consider amending their MCLE requirements. In addition, many state CLE regulatory bodies restrict granting MCLE credit for technology courses under the assumption they are not substantive “legal” content. This

108. NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY, AI RISK MANAGEMENT FRAMEWORK (AI RMF 1.0) (Jan. 2023), *available at* <https://www.nist.gov/itl/ai-risk-management-framework>.

restriction should also be reviewed, since the demarcation between substantive legal education, ethics, and use of technology are now blurred. The state of New York now requires continuing legal education credits to be obtained regarding cybersecurity, privacy issues, and data protection.¹⁰⁹

Law Schools

In many respects, the learning needs for the provision of technologically enhanced legal services mirror the “21st century skills” seen in other professions, such as data-oriented and agile thinking, but law students are traditionally not educated in these skills or the field of digital technology in general.¹¹⁰

Given that technology will play a more prominent role in the practice of law, law schools should consider adding to the course offerings additional classes centered on technological and data literacy.¹¹¹ Law schools should prioritize allowing law students access to AI tools and the ability to practice using them in a guided classroom setting. Additionally, law schools should create clear guidelines and update their university policies to include permitted and prohibited uses of generative AI for both staff and students. It is likely that many high school and college students will become dependent on generative AI, and so

109. New York State CLE Program Rules, 22 NYCRR § 1500.2(h), *available at* <https://www.nycourts.gov/LegacyPDFS/attorneys/cle/17a-Rules-1500-2h-Cybersecurity-Definition.pdf>.

110. Václav Janeček, Rebecca Williams & Ewart Keep, *Education for the provision of technologically enhanced legal services*, 40 COMPUT. LAW & SEC. REV. (Apr. 2021), <https://doi.org/10.1016/j.clsr.2020.105519>.

111. *See, e.g.*, Tammy Pettinato Oltz, *Educating Robot-Proof Attorneys*, 97 N.D. L. REV. 185 (2022) (discussing the introductory technology course introduced at University of North Dakota School of Law); JOSEPH E. AOUN, *ROBOT-PROOF: HIGHER EDUCATION IN THE AGE OF ARTIFICIAL INTELLIGENCE* (2017) (discussing the need for universities to broaden their technology offerings and the need for students to better understand technology).

practical and legal reasoning skill sets may require reinforcement in law school. Law schools will need to reflect on how to react to this challenge.

AI Impact on the Judiciary and Judicial Training

As discussed above, AI issues will inevitably appear before judges, and judicial officers should be cognizant of the fundamentals.

Some judges (primarily federal) have entered orders requiring attorneys to disclose whether they have used AI tools in any motions or briefs that have been filed. This development first occurred because an attorney in New York submitted a ChatGPT-generated brief to the court without first ensuring its correctness. The ChatGPT brief contained several hallucinations and generated citations to nonexisting cases. In response, some judges have required the disclosure of any AI that the attorney has used. As noted above, that is very problematic considering how ubiquitous AI tools have become. Likely these judges meant to address whether any generative AI tool had been used in preparing a motion or brief. That said, if any order or directive is given by a court, it should merely state that attorneys are responsible for the accuracy of their filings. Otherwise, judges may inadvertently be requiring lawyers to disclose that they used a Westlaw or Lexis platform, Grammarly for editing, or an AI translation tool.¹¹²

112. See Maura R. Grossman, Paul W. Grimm & Daniel G. Brown, *Is Disclosure and Certification of the Use of Generative AI Really Necessary*, 107 JUDICATURE (forthcoming Oct. 2023) (arguing that Federal Rules of Civil Procedure 11 and 26(g) are sufficient and that individualized standing orders are unnecessary and deter the legitimate use of GenAI applications); Isha Marathe, *4 Generative AI Issues That Are Likely Keeping Judges Up At Night*, LEGALTECH NEWS (Aug. 10, 2023), <https://www.law.com/legaltechnews/2023/08/10/4-generative-ai-issues-that-are-likely-keeping-judges-up-at-night/>.

In addition, for the reasons discussed above, judges and law clerks should be cautious in using generative AI tools in rendering decisions and drafting opinions. At least two foreign judges have acknowledged using ChatGPT to verify their work.¹¹³ In some state court systems, judges are not provided with law clerks. The temptation to augment their staff with an AI tool may exist. The ABA Model Code of Judicial Conduct is written using broad language. Arguably a judge relying solely on an AI tool, with no subsequent verification, could violate Canon 1 (Upholding the integrity and independence of the Judiciary), but the Code is remarkably silent about principles of impartiality, integrity, transparency, avoiding advocacy, and considering diverse perspectives and interpretations of the law. State Commissions on Judicial Conduct may wish to consider whether to amend their codes considering generative AI developments.

Another concern raised about using AI in adjudicative systems is the possibility that AI adjudication will make the “legal system more incomprehensible, data-based, alienating, and disillusioning.”¹¹⁴ Historically, the law has valued explicit reasoning stated in a judicial opinion. But AI may adjudicate based on

113. See *Colombian judge uses ChatGPT in ruling on child's medical rights case*, CBS NEWS (Feb. 2, 2023), <https://www.cbsnews.com/news/colombian-judge-uses-chatgpt-in-ruling-on-childs-medical-rights-case/> (“In this case, [Judge] Padilla said he asked the bot: “Is autistic minor exonerated from paying fees for their therapies?” among other questions. It answered: “Yes, this is correct. According to the regulations in Colombia, minors diagnosed with autism are exempt from paying fees for their therapies.”). See also Aman Gupta, *This Indian court has used ChatGPT on a criminal case*, MINT (Mar. 29, 2023), <https://www.livemint.com/news/india/this-indian-court-has-used-chatgpt-on-a-criminal-case-11679977632552.html> (prompting ChatGPT “What is the jurisprudence on bail when the assailants assaulted with cruelty?” and then denying the defendant’s application for bail).

114. Richard M. Re & Alicia Solow-Niederman, *Developing Artificially Intelligent Justice*, 22 STAN. TECH. L. REV. 242 (2019).

the analysis of a vast amount of data without constructing any explanation.¹¹⁵ Nonquantifiable values like mercy presumably would not be considered by the AI tool.¹¹⁶ No doubt “human judging” has its flaws and biases. Unlike humans, computers never get tired or sick or have a bad day. Data-driven decision-making is consistent and predictable. But, as thought is given as to how far AI adjudicative models should be deployed, there will be a tension and tradeoff between the AI’s capacity for efficiency and mass deployment and the desire for procedural due process and transparency.¹¹⁷ Courts probably will not wish to pursue a “smart court” model of justice now being implemented in some Chinese cities. In the latter model, AI tools generate pleadings for litigants, analyze the litigation risk and issue a judgment—all done virtually.¹¹⁸

115. *Id.* at 246.

116. *Id.* at 247. *See also* Charles Lew, *The AI Judge: Should Code Decide Your Fate?* FORBES (Aug. 22, 2023), <https://www.forbes.com/sites/forbesbusinesscouncil/2023/08/22/the-ai-judge-should-code-decide-your-fate/?sh=13543c654597> (arguing that AI may be fair but would lack the “intangible human qualities of empathy, sensory perception and comprehension of contexts such as cultural, historical and social factors that influence and impact critical decision making.” At the same time, the author promotes the use of prudent AI tools to counter the public perception that our current court system no longer delivers impartial or nonbiased rulings).

117. Re & Solow-Niederman, *supra* note 114, at 255–69.

118. *See, e.g.*, Ummey Sharaban Tahura & Niloufer Selvadurai, *The Use of Artificial Intelligence in Judicial Decision-Making: The Example of China*, <https://www.ijlet.org/wp-content/uploads/2023/03/2022-3-1-20.pdf> (last visited Sept. 26, 2023) (discussing the pros and cons of “smart courts” —human judges are more inconsistent than AI systems because of personal values and “irrelevant extraneous factors.” AI tools, however, reflect the mindset of the code writer and how the tool was trained, leading to bias concerns). *See also* Council of Bars and Law Societies of Europe, CCBE Statement on the Use of AI in the Justice System and Law Enforcement (May 25, 2023) (“The CCBE is convinced that effective human oversight of the use of AI tools in the field of justice is a precondition of a justice system governed by the rule of law and

The Federal Judicial Center and corresponding state agencies should consider providing additional training and resources to judicial officers regarding AI.¹¹⁹

Concluding Remarks

AI platforms will probably not replace lawyers any time soon. Through gains in efficiencies there may, however, be fewer attorneys and paralegals needed in the long term.¹²⁰ It is likely that lawyers and paralegals will be able to identify and retrieve relevant information from large data volumes more readily. Initial drafts of contracts and pleadings produced by AI platforms may result in time efficiencies but will still require

stresses that the decision-making process must remain a human driven activity. In particular, human judges must be required to take full responsibility for all decisions and a right to a human judge should be guaranteed at all stages of the proceedings.”). *But see* Frederick Pinto, *Can AI Improve the Justice System?*, THE ATLANTIC (Feb. 13, 2023) (“Judges who are free from external meddling are nevertheless subject to a series of *internal* threats in the form of political prejudice, inaccurate prediction, and cognitive error In such cases—and many more—less humanity could lead to more fairness Justice may be blind, but human beings are fallible. Our thinking is clouded by more prejudices than we can count, not to mention an excessive confidence in our judgment. A fairer legal system may need to be a little less human.”).

119. The United Nations Educational, Scientific and Cultural Organization (UNESCO) has recently established a massive online open course (MOOC) that explores admissibility of AI-generated evidence and virtual and augmented reality in courts. *See* AI and the Rule of Law: Capacity Building for Judicial Systems, UNESCO (Aug. 2, 2023), <https://www.unesco.org/en/artificial-intelligence/rule-law/mooc-judges>.

120. *But see* David Runciman, *The end of work: which jobs will survive the AI revolution?*, THE GUARDIAN (Aug. 19, 2023), https://www.theguardian.com/books/2023/aug/19/the-end-of-work-which-jobs-will-survive-the-ai-revolution?mc_cid=b8afd98c13&mc_eid=a950705c7a (“[w]orries about automation displacing human workers are as old as the idea of the job itself.” Yet also acknowledging that the “experience of work is far more likely to involve a portfolio of different occupations”).

attorney review and validation. Still, the overall result may lessen costs to the client and make justice more accessible to unrepresented parties. It is likely that because of this increase in automation, lawyers will need to focus on “strategic and other higher-value work.”¹²¹

121. Natalie A. Pierce & Stephanie L. Goutos, *Why Law Firms Must Responsibly Embrace Generative AI*, at 22 (June 14, 2023), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4477704.



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