COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION v. CISCO SYSTEMS, INC., Appeal No. 2015-1066 (Fed. Cir. December 3, 2013). Before Prost, Dyk and Hughes. Appealed from E.D. Tex. (Judge Davis).

Background:

Commonwealth Scientific and Industrial Research Organisation (CSIRO) brought suit against Cisco for patent infringement. The patent at issue is a standard-essential patent that covers a chip essential to implementation of the Institute of Electrical and Electronics Engineers' (IEEE) 802.11 Wi-Fi (wireless LAN) standard. Cisco stipulated to infringement, and the parties agreed to a bench trial on the issue of damages.

In the district court, Cisco argued for damages based on an expired license between Cisco and CSIRO, which was based on per unit sales of each chip. CSIRO argued for damages based on the sale of Cisco's end products that included the chip, asserting that the end product was the only marketable unit for a determination of royalties. The district court rejected both arguments, and instead relied on factors incidental to unsuccessful negotiations between Cisco and CSIRO. One factor included an informal rate suggestion made by a Cisco officer to license the patent from CSIRO. Another factor was a CSIRO rate card that had been distributed to potential licensees, including Cisco. Using these factors, in combination with further calculations and the *Georgia-Pacific* factors for determining damages, the district court entered a judgment for CSIRO in the amount of $16,243,067. Cisco appealed.

Issue/Holding:

Did the district court err in failing to account for the patent's standard-essential status? Yes, vacated and remanded.

Discussion:

On appeal, Cisco argued that the district court erred because it failed to account for any extra value accruing to the CSIRO patent derived from the fact that the patent is essential to the Wi-Fi standard. The Federal Circuit agreed, holding that CSIRO should have considered the patent's standard-essential status in its determination.

The Federal Circuit reasoned that the value of the technology, particularly, the chip technology, in this instance, is distinct from any value that may artificially accrue to the patent as a result of the adoption of the Wi-Fi standard. Without this distinction, the Federal Circuit reasoned that patentees would receive all of the benefits resulting from standardization, whereas these benefits should flow to consumers and businesses that practice the standard.

The Federal Circuit found that the district court did not account for standardization. Although the district court thoroughly analyzed the *Georgia-Pacific* factors, the Federal Circuit concluded that the district erred by failing to consider whether the hypothetical royalty rate derived from the district court's reliance on the CSIRO rate card and the rate suggested by the Cisco officer should be adjusted to exclude the value attributed to standardization.