SEP Litigation – Emerging Issues

December 2013

The Purpose of These Slides

- These slides are based on public information

- The statements made herein do not represent the views of the firm or of any of its clients

- The slides are being circulated for discussion purposes to advance the understanding of the issues considered herein

Overview

- ***Microsoft v. Motorola* – a new law on SEP valuation?**

- *In re Innovatio IP Ventures*

- *Ericsson v. D-Link* (E.D. TX)

- Injunctions and Exclusion Orders – the state of the law after *Apple v. Samsung*

- Developments at the SSOs

- Google consent decree – the shape of things to come for licensors?

- Where do we go from here?
  - Licensee strategies and key issues
  - Licensor strategies and key issues

RAND Rate-Setting Under *Microsoft v. Motorola*

- Suit brought by Microsoft as the prospective licensee to 802.11 and H.264 patents
  - Sought a court-determined RAND *rate* for a license to Motorola's patents
  - Sought a court-determined RAND *range* as a predicate for determining whether Motorola's license offer was so high as to constitute a breach of contract

Initial Legal Determinations on Summary Judgment

- Motorola's RAND undertakings to SSOs were binding contracts

- As a member of the SSOs, Microsoft was a third-party beneficiary

- Microsoft's filing of suit without attempting to negotiate a license did not repudiate its right to a RAND license

- Motorola's initial offers were not required to be RAND *per se*

- However, *every* offer to license RAND-encumbered SEPs "must comport with the implied duty of good faith and fair dealing"

Microsoft v. Motorola
April 25, 2013

	Microsoft Proposal (per unit)	Motorola Proposal (per unit)	Court Determination (per unit)
H.264 Range	.065 - .204 ¢	50 – 60 ¢ (2.25% adjusted for annual caps of $100-125M)	.555 – 16.389 ¢
H.264 Rate	.197 ¢		.555 ¢
802.11 Range	3 – 6.5 ¢	$3 - $4.50 (2.25% minus 0.25-0.5% for MSFT's SEPs)	.8 – 19.5 ¢
802.11 Rate	5 ¢		3.471 ¢ (Xbox) .8 ¢ (other prods)

Microsoft v. Motorola :
The Modified *Georgia Pacific* Framework

1. Derived rates/ranges from comparable licenses, negotiated under circumstances "comparable to RAND circumstances," including patent pools (GP Factors 1, 2, and 12)

2. Determined whether the rates/ranges derived from comparables should be adjusted based on, among other things, the strength/weakness of Motorola's SEPs vis-à-vis:

   – (a) the standard as a whole &

   – (b) MSFT's products (GP Factors 6, 8, 10, 11)

3. Compared SEP to *ex ante* alternatives (*i.e.*, technical solutions that could have been written into the standard) (GP Factor 9)

Judge Robart's Stated Method:
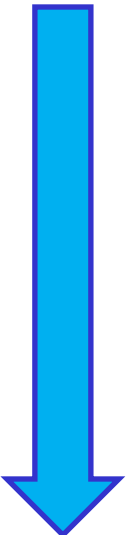## Factors for Measuring the Patent's Value to the Standard

- Whether at least one claim is practiced by the standard E.g., ¶ 169

- Whether directed to core feature of the standard E.g., ¶ 168

- Whether the patented solution was limited to only specific implementations (*e.g.*, hardware only) E.g., ¶ 173

- Whether the patented solution improves efficiency E.g., ¶ 177

- Whether the patented solution was superior to *ex ante* alternatives E.g., ¶ 172

- Whether age diminished importance of the patent E.g., ¶ 171

- Contribution of the patent to the relevant feature of the standard, relative to that of other technical contributions E.g., ¶¶ 218, 301

Judge Robart's Stated Method:
Factors for Measuring the Patent's Value to the Product

- Proof that the accused product practices the patent
  E.g., ¶ 257

- How important the patented solution is to the accused products, apart from the value associated with the standard E.g., ¶ 258

- Where the patented solution was limited to only specific implementations, the product's use of those implementations as opposed to others E.g., ¶¶ 260-279

Judge Robart's Stated Method: Patent Pools as Comparables

The Court made adjustments to the pools it analyzed as comparables in order to derive RAND-indicative rates

- Enlarged the pool size by including all identifiable SEPs for the standard
  - Did this because "as a general matter, the more relevant patents included in the pool, the more the pool acts to address the stacking concerns implicit in the RAND commitment" ¶ 520

- Left in place the existing fee structure (*e.g.*, $0.20/unit)

- This diluted Motorola's share of the fees, thus reducing Microsoft's rate to Motorola

- Adjusted the rate upward to account for the value Motorola would receive through pool membership (*i.e.*, access to other members' SEPs)

Microsoft v. Motorola : Calculating the H.264 RAND Range

- First, the Court determined the *lower bound* of the RAND range (0.555 cents per unit) by
  - Reducing the per unit capped royalty MSFT would owe under the license pool by Motorola's "share" of the MPEG LA license pool (3.642%) ¶¶ 520-22, 544
    - Critically: this 3.642% "share" was derived by assuming that all identifiable (non-blanket-declared) declared-essential H.264 patents would be added to the pool ¶ 521
  - Then applying a 3x "enhancement" to account for non-royalty benefits of pool membership ¶¶ 523-26

Microsoft v. Motorola : Determining the H.264 RAND Range

- Second, the Court calculated the *upper bound* (16.389 cents per unit) by
  - Starting with the highest rate discussed by the MPEG LA pool founders in the lead-up to the pool ($1.50) ¶ 543
  - Multiplying it by Motorola's *diluted* share of relevant SEPs (3.642%) ¶ 544
  - Then applying the 3x enhancement for non-royalty benefits ¶ 545

The math: ($1.50 * 3.642%) * 3 = 16.389 cents

Microsoft v. Motorola : Determining the H.264 RAND Rate

- Third, the Court determined that the RAND rate was equivalent to the lower bound of the range: 0.555 cents per unit

    – Based on conclusion that there was no basis for finding that Motorola's SEPs were particularly valuable ¶¶ 527-37

How Judge Robart Applied His Method:
Technical Valuation of the H.264 Patent Families

	Krause	Wu	Eifrig	MBAFF	PAFF	Scan
Dedicated to core feature	+	+	+	+	+	+
At least one claim practiced by the standard	+	+	+	+	+	+
Improved efficiency	+	+			+	+
Chosen over alternatives				+		+
No evidence that age diminished importance	+	+				

"+" indicates that this factor favored an upward valuation of the patent family

"-" indicates that this factor favored a downward valuation of the patent family

Yellow indicates that the court gave this factor limited weight due to unopposed conclusory assertions or disputed evidence

How Judge Robart Applied His Method:
Technical Valuation of the H.264 Patent Families

	Krause	Wu	Eifrig	MBAFF	PAFF	Scan
Applies only to interlaced video			-	-	-	-
Only ipse dixit on existence or non-existence of alternatives	+	+				-
Viable alternatives existed				-		-
Discloses only hardware implementations	-	-				
Entire family provides one core innovation				-	-	

Microsoft v. Motorola :
Determining the 802.11 Rate

- For 802.11, the Court's method was *different*

- There, the Court simply averaged three RAND "indicator" rates to determine a RAND rate of 3.471 cents per unit ¶¶ 614-21

  - the VIA Pool indicator: 6.114 cents/unit ¶ 577

  - the Marvell-ARM indicator: 3-4 cents/unit ¶ 590

  - the InteCap Analysis: 0.8-1.6 cents/unit ¶ 612

Microsoft v. Motorola: Determining the 802.11 Range

- Upper bound: 19.5 cents per unit ¶ 624

  – Used high point of range proposed by MSFT (6.5 cents/unit), which was based on the "mistake" of including over 200 additional Motorola patents in Via Pool calculation ¶¶ 622-624

  – Applied 3x enhancement, since 6.5 cents was pool-derived ¶ 624

- Lower bound: 0.8 cents per unit ¶ 627

  – Citing a lack of evidence, simply used lowest number in the record (the low end of the InteCap rate) ¶ 627

Microsoft v. Motorola:
The Jury Verdict

- Following trial, the jury unanimously found that Motorola had breached its RAND commitments to IEEE and ITU and awarded $14.5M in damages

- The court upheld the jury verdict, finding sufficient evidence existed that Moto breached its duty of good faith and fair dealing by:

  - Sending demand letters seeking a 2.25% royalty
  - Seeking injunctive relief against Microsoft to enforce its SEPs
  - Refusing to include Microsoft in a license granted to Marvell, Microsoft's chip supplier

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In re Innovatio:
September 27, 2013

Defendants' Proposal (per unit)	Innovation Proposal (per unit)	Court Determination (per unit)
.072 ¢ - 3.09 ¢	• $3.39 per access point • $4.75 per laptop • $16.17 per tablet • $36.90 per bar code scanner	9.56 ¢

In re Innovatio:
Accepting the Robart Methodology

- In theory, Judge Holderman adopted Robart's modified *GP* factors and practical methodology:

    1. Consider the importance of the portfolio-in-suit relative to the standard as a whole (quantitatively and qualitatively)

    2. Consider the importance of the portfolio to the alleged infringer's products

    3. Look for comparable licenses to determine a RAND rate

In re Innovatio:
Modifications to the Robart Methodology

- Because the Court had previously determined that Innovatio's patents were essential to 802.11, no adjustment for pre-litigation uncertainty as to essentiality *7

- Because the Court concluded that the Wi-Fi chip was the appropriate royalty base, Robart steps 1 & 2 (importance to standard & importance to product) merge *8

- Because there were no comparable licenses, rate determined by an analytical "top down" approach *37-44

In re Innovatio:
Determining the Royalty Base

- Innovatio's (Rejected) Proposal: use price of end products discounted by a "Wi-Fi feature factor" that accounts for value of Wi-Fi to product *12

- Innovation contended that because its patents read on systems (including tranceivers, antennas, etc.), the smallest saleable "patent-practicing" unit was not a WiFi chip *13

  – Court was dismissive of this position in view of case law restricting smallest saleable unit despite system claims (e.g., *Lucent*) *14

In re Innovatio:
Determining the Royalty Base

- Defendants' (Accepted) Proposal: Use Wi-Fi chip as royalty base *12

- Court used the average price of a Wi-Fi chip over the life of Innovatio's patents, based on assumption that parties to hypothetical negotiation in 1997 would consider likely success of chips in future years *40-41

    – But rejected Defendants' proposal of using a weighted average price, since this would give too much value to later lower prices achieved because of standardization *40

In re Innovatio:
Determining the Royalty Rate

Innovatio's SEPs "of moderate to high importance" to the standard *21-30

- While certain proposed *ex ante* alternatives could provide some of Innovatio's functionality, none were complete replacements and therefore the alternatives "do not alter the Court's conclusion . . . of moderate to high importance" *E.g.*, *24

- Considered only alternatives actually before IEEE *20

- Patented alternatives considered but would have less downward effect on license rate *20

In re Innovatio:
Determining the Royalty Rate

Judge Holderman rejected all proposed comparables

- Innovatio's license-back to Broadcom eliminated: value of the license could not be isolated from total transaction value *30-31

- Motorola and Symbol licenses rejected as products of litigation not comparable to RAND licensing circumstances *31-34

- Qualcomm/Netgear license rejected based on much higher number of patents involved *34

- Via pool rejected because of its lack of success in recruiting participants *34-36

  - Noted that Robart's use of this pool may have been appropriate given the weakness of Motorola's patents *36

- Non-RAND licenses rejected based on lack of evidence *36

In re Innovatio:
The "Top Down" Method

1. Begin with average price of *all* Wi-Fi chips - $14.85

2. Calculate average profit to chipmaker for sale of chip
    – 12.1% * $14.85 = $1.80

    – 12.1 % was *Broadcom's* operating profit from 2000-2012 *42

3. Multiply by a qualitative factor to account for relative strength of Innovatio's SEPs – 84% * $1.80 = $1.51

    – 1998 Article found that the top 10% of all electronics patents account for 84% of the value of all electronics patents; *43

4. Multiply profit by Innovatio's proportion of 802.11 to total 802.11 SEPs – $1.51 * (19/300) = $.0956

    – 3,000 patents a "reasonable" estimate of potentially essential 802.11 patents; 300 used as denominator because of restriction to top 10% *43

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RAND Rate Setting Under
Ericsson v. D-Link (E.D. TX Aug. 6, 2013)

In ruling on various post-trial motions, Judge Davis upheld a jury verdict of $0.15 per unit for three SEPs, reasoning:

- Using the revenue from end products, reduced to account for Ericsson's contribution to the 802.11 standard and the limited number of patents-in-suit Slip op. at 29

- Noted that by adopting a per-unit approach the royalty would not fluctuate with the price of the end product *Id.* at 31

- Refused to set a RAND rate for the entire portfolio because the Defendant had not committed to pay that royalty *Id.* at 42-45

- Found no violation of RAND obligations if the licensor's initial negotiation position was greater than RAND *Id.* at 50

- Refused to consider the effect of "stacking" as a general principle – required actual proof of how much parties were in fact paying for stacked 802.11 royalties *Id.* at 35-37

RAND Rate Setting Under *Ericsson v. D-Link*
Treatment of "Comparable Licenses"

- Questioned the view that comparable licenses must have been negotiated within a RAND framework Slip op. at 35

- Determined that allegedly comparable licenses could be considered where the licensee did not rebut evidence that they were negotiated subject to RAND constraints *Id.*

- Assumed that sophisticated licensees would have known of Ericsson's RAND policies and negotiated on that assumption *Id.*

- Credited the view that the Ericsson's other licenses were only for its portion of the 802.11 standard and therefore reflected a "real-world valuation" of Ericson's 802.11 patents *Id.* at 29

- Concluded that these licenses reflected the value Ericsson's patents added to the end-user products and were not an attempt to appropriate technology that Ericsson did not invent *Id.* at 29-30

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Does the RAND commitment foreclose the availability of injunctive relief?

Apple v. Motorola (N.D. III.) (Posner, J.) (June 22, 2012)

- Motorola sought an injunction and damages based on Apple's alleged infringement of six SEPs

- After excluding both sides' damages experts, the court found that neither side could establish its damages, and as a result, was not entitled to damages or an injunction

- The court nonetheless held a "traditional injunction hearing" where it addressed the *eBay* standard

Does the RAND Commitment Foreclose the Availability of Injunctive Relief?

- Motorola's RAND commitment foreclosed the availability of injunctive relief:

    - "By committing to license its patents on RAND terms, Motorola committed to license the '898 to anyone willing to pay a RAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent"

- Currently on appeal to Federal Circuit

Stays of Injunctive Relief Based on RAND: *Microsoft v. Motorola*

- The court dismissed Motorola's request for an injunction (Nov. 30, 2012)
  - "Motorola cannot demonstrate that it has been irreparably harmed," because a RAND license "will become a reality" as a result of the case
  - Because the RAND license will be worldwide, Moto will not be allowed to seek injunctive relief on its SEPs anywhere
  - The court's dismissal was without prejudice, allowing Moto to seek injunctions if circumstances "change in a manner to warrant injunctive relief"

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RAND and ITC Exclusion Orders
The '794 Investigation (Samsung v. Apple)

- The Commission (June 4, 2013) issued an exclusion order, finding that Apple had failed to carry its burden to sustain its RAND defenses and declining to bar the exclusion order on the basis of a public interest analysis

- On August 3, 2013 the U.S. Trade Representative (USTR) on behalf of President Obama exercised its non-reviewable authority to bar the exclusion order

- In so doing the USTR directed that in the future, ITC decisions regarding SEPs should contain specific findings pertinent to the parties' RAND obligations

The USTR Decision in Apple/Samsung

- The USTR exercised its delegated Presidential authority to block the exclusion order on the basis of the manner in which RAND obligations affect the public interest factor analysis

- The USTR noted that there could be circumstances where an exclusion order could issue to enforce an SEP, but apparently found that no findings had been made to support that conclusion in this case

USTR: When An Exclusion Order Might Be Appropriate for an SEP at the ITC

- An Exclusion Order might be appropriate if the Licensee:

    - flatly refuses to negotiate; or

    - refuses to pay a rate "determined to be a RAND royalty"; or

    - makes offers that are "clearly outside the bounds" of a FRAND royalty (*Note: This will require a substantive RAND rate-setting analysis*)

What the USTR Mandated for Future Cases

The parties should develop a "comprehensive factual record" and the ITC must make "explicit findings" on:

- [1] the "standards-essential nature of the patent at issue if contested by the patent holder and . . .

- [2] . . . the presence or absence of patent hold-up or reverse hold-up"

Why Weren't the Facts of Apple/Samsung Sufficient to Justify An Exclusion Order?

- There were extensive findings that Apple had failed to carry its burden on demonstrating that Samsung had violated its RAND obligations

- But there were no findings that Apple had violated its obligations as a RAND licensee

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The FTC's Google Consent Order

- Before seeking any injunction on RAND-encumbered SEPs (worldwide, any standard), Google must:

  - (1) Make a qualified license offer to the prospective licensee at least <u>six months</u> before seeking an injunction. The offer must include all material terms necessary to license the SEPs, including royalties, defensive suspension or termination provisions, and scope or field-of-use restrictions

  - (2) Provide the prospective licensee with an offer of binding arbitration to determine disputed license terms at least <u>60 days</u> before seeking injunctive relief

The FTC's Google Consent Order

- The prospective licensee may also seek a judicial determination of a RAND rate

    – If the licensee does so before the later of (a) 7 months after the offer to license or (b) 3 months after the offer to arbitrate, Google may not seek an injunction during the proceedings, including any appeals

    – The prospective licensee must agree to be bound by the terms set by the court

The FTC's Google Consent Order

- Google may seek injunctive relief if the potential licensee:

  - Is not subject to U.S. jurisdiction; or

  - States in writing or in sworn testimony that it will not accept a license for Google's SEPs on *any* terms; or

  - Refuses to enter into a license on terms set by a court or through binding arbitration; or

  - Fails to assure Google in writing that it is willing to accept a license on RAND terms on receiving Google's licensing offer

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Key Issues for the Net Licensee

- **Relying on Robart and Holderman?**

- Determining the Smallest Salable Unit

- Establishing RAND Obligations When the Licensor Contests Essentiality

- What is a "Willing Licensee"?

- Enjoining ITC actions based on FRAND defenses

- Winning the Comparables Fight

- Addressing the Large Portfolio Problem

Relying on Robart and Holderman

***Daubert* and *In Limine* Order in *Realtek v. LSI*, Case No. 12-cv-03451 (N.D. Cal. Nov. 13, 2013)**

In ruling on various pre-trial motions ahead of a RAND rate-setting trial, Judge Whyte provided guidance as to rate-setting methodology:

- Denied motion to preclude Realtek's expert from relying on Judge Robart's 802.11 rates from *Microsoft* Slip op. at 3

    – Rates are to serve as data points, lending additional support to other benchmarks in comparable licenses

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Importance of the Smallest Salable Unit

- Strong trend in non-RAND patent damages cases toward use of smallest salable unit as royalty base

    - "[I]t is generally required that royalties be based not on the entire product, but instead on the 'smallest salable patent-practicing unit.'" *LaserDynamics Inc. v. Quanta Computers*, 649 F.3d 51, 67 (Fed. Cir. 2012)

    - Component need not be separately priced or sold *Cornell v. HP*, 609 F. Supp. 2d 279 (N.D.N.Y. 2009)

Importance of the Smallest Salable Unit

- Apportionment may be required even *within* the smallest salable unit

    – Apportionment required if the "smallest salable unit . . . is still a multi-component product encompassing non-patent related features." *Dynetix Design Solutions v. Synopsis*, Case No. C 11-15973 PSG (N.D. Cal. Aug. 22, 2013)

    – *See also AVM Technologies v. Intel Corp.*, Case No. 10-610-RGA (D. Del. Jan. 4, 2013) (excluding damages assessment based on a microprocessor when only particular circuits were implicated in infringement)

    – *But see Summit 6 LLC v. Research in Motion Corp. et al.*, No. 3:11-CV-367) (N.D. Tex. June 26, 2013) (upholding use of entire mobile device as royalty base because "only the entire device itself is capable of performing the [infringing] image resizing" functionality)

Importance of the Smallest Salable Unit

In re Innovatio IP Ventures

Strongly embraced the SSU – the WiFi chip – as the appropriate royalty base *12-*18

- Did so even though the patentee pointed out that "it is not possible to provide Wi-Fi functionality or to practice this claim only with a Wi-Fi chip. Instead, one must have at least an access point with a control processor, a central processor, antenna, and an RF Radio." *13

Importance of the Smallest Salable Unit

- The court, however, credited the defendants' view that: "[A]ll of the instructions to the various devices mentioned in the claims of Innovatio's patents that operate Wi-Fi are included on the chip. . . . "

- "Moreover, calculating royalties based on the price of the end-products would invite error, as those end products include myriad features that are unrelated to Wi-Fi." [*13]

- The court rejected Innovatio's alternative approach of using the end product as the base and then reducing the royalty by an "apportionment factor"

Key Issues for the Net Licensee

- Relying on Robart and Holderman

- Determining the Smallest Salable Unit

- **Establishing RAND Obligations When the Licensor Contests Essentiality**

- What is a "Willing Licensee"?

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Establishing Essentiality When the Patentee Disputes It

- *In re Innovatio IP Ventures, LLC Patent Litigation* (N.D. Ill., July 26, 2013) required that the Licensee establish that a particular patent claim in fact was essential

- The court conducted a substantive analysis of the claims and the patents and did not rely on a blanket IEEE Declaration of the patentee or even their infringement contentions regarding the 802.11 patents-in-suit

Establishing Essentiality When the Patentee Disputes It

- Looking to the language in the IEEE Bylaws, the Court defined essential to mean that:

  - "(1) at the time of the standard's adoption, the only commercially and technically feasible way to implement a particular mandatory or optional portion of the normative clauses of the standard was to infringe the patent claim; and

  - "(2) the patent claim includes, at least in part, technology that is explicitly required by or expressly set forth in the standard (i.e., that the patent claim does not recite only Enabling Technology)." [*10]

- A claim where a disputed element is directed to only one of a number of well-known ways to implement the standard is also essential [*19-20]

Establishing Essentiality When the Patentee Disputes It

- A claim reciting elements A, B, C, and D, where A-C are explicitly required or expressly set forth in the standard, will be essential under *Innovatio* if:

  – Element D is also explicitly required or expressly set forth in the standard; or

  – Element D is <u>not</u> explicitly required or expressly set forth in the standard, but:

    - (a) was the only commercially or technically feasible way to implement the standard at the time of adoption; or

    - (b) was one of a few well-known subcategories of the commercially or technically feasible way to implement the standard

Key Issues for the Net Licensee

- Relying on Robart and Holderman

- Determining the Smallest Salable Unit

- Establishing RAND Obligations When the Licensor Contests Essentiality

- **What is a "Willing Licensee"?**

- Enjoining ITC actions based on FRAND defenses

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"Willing Licensee" Safe Harbors?

Issue	Yes	No
Can Licensor sue before making offer?		Realtek/LSI (where injunctive relief is sought)
Licensor initial offer must be RAND?		MS/Moto, ITC 837 (Realtek LSI) ITC 794 (Apple/Samsung)
Licensee must negotiate before seeking Declaratory Relief?		MS/Moto
Licensee must counter?		Apple/Moto (Ill), Msft/Moto

"Willing Licensee" Safe Harbors?

Issue	Yes	No
Can Licensee make offer clearly outside the bounds of RAND?		USTR (ITC 794 veto)
Can Licensee refuse to negotiate?		Realtek, USTR (ITC 794 veto), Google consent
Licensee commits to accept 3rd party rate determination	Msft/Moto, Realtek, Apple/Moto (Wisc.), Google Consent, USTR (ITC 794 veto)	
Can a Licensor demand a cross license?	ITC 794 (Apple/Samsung)	
Can Licensee challenge validity and infringement and still seek FRAND relief?	Google Consent	ITC?

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- **Enjoining ITC actions as a remedy for a FRAND breach of contract claim**

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Preventing an SEP Holder from Enforcing Injunctive Relief at the ITC

Realtek v. LSI (N.D. Cal. 2013)

- Realtek sought summary judgment on its breach of contract claim
- The court held that LSI violated its contractual obligations by suing at the ITC before offering Realtek a RAND license
  - "[T]he act of seeking injunctive relief . . . is inherently inconsistent and a breach of defendants' promise to license the patents on RAND terms"
  - Realtek suffered harm as a result because the threat of an exclusion order gives LSI "inherent bargaining power"
- The court stated that its contract breach holding is limited to cases where defendants made no license offer until after seeking injunctive relief

Preventing an SEP Holder from Enforcing Injunctive Relief at the ITC: *Realtek*

- LSI enjoined from enforcing "any exclusion order or injunctive relief" granted by the ITC

  – The injunction does not prevent LSI from prosecuting its ITC action, and does not restrain the ITC itself

  – The injunction takes effect only if the ITC grants an exclusion order or injunctive relief in favor of LSI

- Meanwhile, the ID in the ITC case rejected all RAND defenses, but found no infringement of the SEPs

  – On October 17, 2013, the Commission issued a notice that it would review the ID in its entirety, and in response to the USTR's veto in the Apple case, asked for further submissions on the RAND defenses

Preventing an SEP Holder from Enforcing Injunctive Relief at the ITC: *Realtek*

***Realtek v. LSI Corp.* (N.D. Cal.)**

The court also rejected LSI's request to stay the case pending resolution of the ITC action, noting:

- The ITC will not determine a RAND rate, and cannot order any monetary relief

- LSI's conduct in seeking an exclusion order "necessitates a speedy resolution of the RAND issues by [the district] court"

Key Issues for the Net Licensee

- Relying on Robart and Holderman

- Determining the Smallest Salable Unit

- Establishing RAND Obligations When the Licensor Contests Essentiality

- What is a "Willing Licensee"?

- Enjoining ITC actions based on FRAND defenses

- **Winning the Comparables Fight**

- Addressing the Large Portfolio Problem

Are Nearly All Comparables Tainted?

- Most comparable licenses were negotiated based on the ASP of a multi-feature device

- And few non-pool licenses even implicitly take into account concerns such as stacking

- Moreover, many were negotiated before recent case law evolved to limit the leverage of the licensors

- Holderman and Robart do not expressly state that all such licenses are per se tainted – but they do provide language making it hard to rely on them

Microsoft v. Motorola :
Key Factors Distinguishing Licenses as Non-Comparable

	Vtech ¶¶ 407-20	RIM ¶¶ 421-35	Symbol-Proxim ¶¶ 439-43	Symbol-HHP ¶¶ 444-49	Symbol-Terabeam ¶¶ 450-54
Settlement License	✓	✓	✓	✓	
Threat of Litigation	✓				
Very Low Payment	✓	✓		✓	✓
Licensed More Than SEPs in Suit		✓			
No Evidence of RAND Negotiation			✓	✓	
Covered Less Than Full Portfolio			✓	✓	✓
Licensed Patents Expired Before Hypothetical Negotiation			✓		✓

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- **Addressing the Large Portfolio Problem**

The Large Portfolio Problem

- The larger the portfolio the harder it will be to conduct an *ex ante* analysis of alternatives to the standard

- Similarly, it will be difficult to determine the importance of the patents to the standard and/or the accused products when considering hundreds of patents

Overview

- *Microsoft v. Motorola* – a new law on SEP valuation?

- *In re Innovatio IP Ventures*

- *Ericsson v. D-Link* (E.D. Tex 2013)

- Injunctions and Exclusion Orders – the state of the law after *Apple v. Samsung*

- Developments at the SSOs

- Google consent decree – the shape of things to come for licensors?

- **Where do we go from here?**
  - Licensee strategies and key issues
  - **Licensor strategies and key issues**

Licensor Key Issues

- Determining essentiality

- Approach to stacking

- Apportioning the value of a portfolio to specific patents

- Apportioning the royalty base

- Challenges for each of the dominant valuation methodologies

Licensor Key Issues: Determining Essentiality

- Hard to assess whether 100s of patents are truly essential or not

- The need to generate a "proud list" and a process to resolve the issue of essentiality

    - Arbitration?

Licensor Key Issues: Stacking

- Should "consider other SEP holders and the value they will seek from the licensee" to avoid stacking

- Total number of patents essential to a standard is a complex analysis

- Blanket disclosures to SSOs tell you very little

- Determining importance of patent to standard/technology is challenging

Licensor Key Issues: Apportionment of the Value of the Portfolio to Specific Patents

- What value should be attributed to specific patents

  - *Ericsson*: expert apportioned E's 5 patents-in-suit at 50% of E's portfolio value

  - *Innovatio*: expert relied on 1998 article that in the electronics field, top 10% of patents have 84% of the value

Licensor Key Issues: Apportioning the Royalty Base

- It may be possible to determine the smallest saleable unit

- But it can be hard to determine the appropriate apportionment of the value of the SSU that corresponds to the patent before an offer is made

  - Much may depend on obtaining information regarding valuable features not covered by the patent(s)