



Standard Essential Patent (SEP) Licensing and Litigation



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February 21, 2019

Technical Minds. Legal Muscle.

Executive Summary

1. SEP Basics

2. Building an SEP Portfolio

3. SEP Statistics & Trends

Case Study

4. SEP Licensing & Litigation Considerations

5. Looking To the Future

Standard Essential Patents | Basics

- **What is an SEP?**

- Just like any other patent, except unavoidable for the implementation of a standardized technology
 - Usually claiming only incremental changes & small portion(s) of a standardized technology
- SEP holder identifies patents/applications that **may** be essential & makes a commitment to SSO to license on FRAND
 - Constitutes a binding contract between SEP holder, SSO, and implementer
 - Ensures that SEP holder does not extract greater than fair value of its patented technology
 - **SSOs do not evaluate patents to determine if they are essential or not**
- Obligation to negotiate in “good faith” – both sides
 - SEP holder cannot refuse license to implementer willing to pay the FRAND rate
- SEP holder’s remedy is limited to collecting FRAND royalty consistent with obligation – historically **no injunctive relief**

Standard Essential Patents | Basics

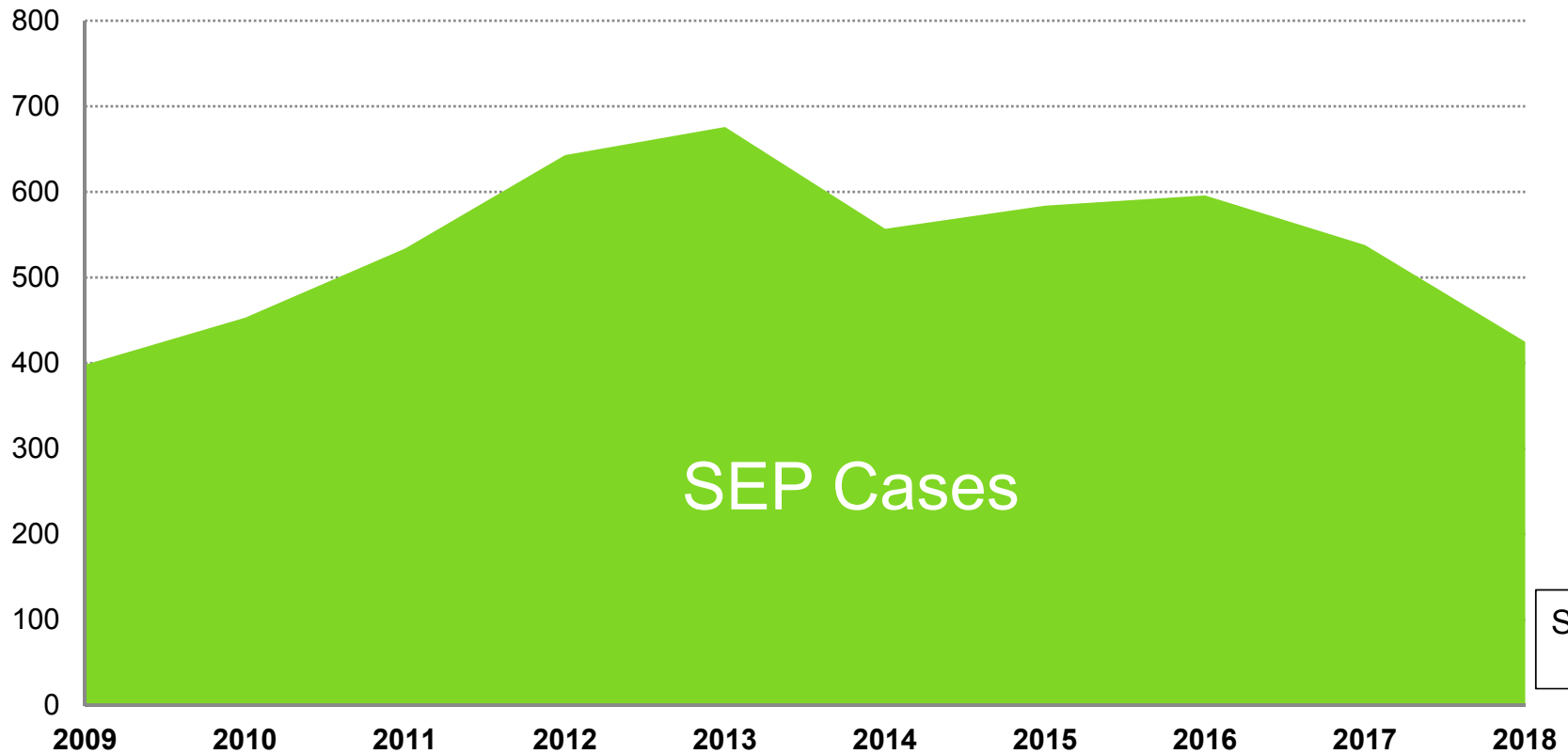
- **Why are SEPs potentially valuable?**

- Large number of potential infringers
 - Targets all along supply chain & at various levels of implementation (service provider / user)
- Large number of potentially infringing products
 - End (consumer) products
 - Individual components within end products
 - Platform / network elements facilitating use of end products
- Clearer path for proving infringement
- Difficult for SEP implementer to design around
- Strengthens negotiating position
- Establishes strong defensive position

Standard Essential Patents | Building an SEP Portfolio

- **Factors that will dictate strength of SEP portfolio**
 - Emerging technology or legacy technology?
 - Impact on scope of potential infringers and infringing products, design around availability
 - Applicable to multiple entities along supply chain and/or service implementation levels?
 - Applicable/importance to other industries (*connected cars, smart homes, etc.*)
 - Strength of claims (*breadth, divided infringement, written description support*)
 - Strength of read on standard
 - E.g., mandatory or optional features, patent or application subject of declaration to SSO, time between declaration and finalization of standard
 - Source of acquisition (*home grown, practicing entity, member of SSO*)

Patent Infringement Cases with SEP Issues



Source of Data:
Lex Machina

SEP Patent Infringement Suits

Plaintiff	# of Cases
Intellectual Ventures	31
Cellular Communications Equip.	21
Philips	15
Realtime Data	13
Ericsson	10
WiLan	10
TQ Delta	10
Chrimar Systems	9
Sony	7
Nokia	6

Defendant	# of Cases
Apple	55
Samsung	46
AT&T	39
Sprint	33
T-Mobile	31
Motorola	26
HTC	26
Verizon	25
Huawei	22
ZTE	22

Source of Data:
Lex Machina

SEPs | Difficult Environment in U.S. District Court

- Injunction grant rates and requests are at record lows
 - *eBay Inc. v. MercExchange, L.L.C. (2006)*
 - Removed presumption favoring entry of injunction
 - More difficult for NPEs to demonstrate irreparable harm
 - *TC Heartland (2017)*
 - Limiting where corporate defendants can be sued
 - Shifts cases away from patent owner-friendly and injunction-friendly venues
- U.S. District Courts: FRAND-encumbered SEPs illicit fact patterns inconsistent with justifications necessary to obtain equitable relief
 - *Qualcomm Inc. v. Compal Elecs., Inc. (S.D. Cal. 2017)*; *Apple Inc. v. Motorola, Inc. (Fed. Cir. Apr. 25, 2014)*
 - Injunctive relief is generally available only if legal remedies are inadequate
 - Promise of FRAND licensing is an admission that monetary damages are adequate compensation (*Realtek Semiconductor Corp. v. LSI Corp. (N.D. Cal. May 20, 2013)*)

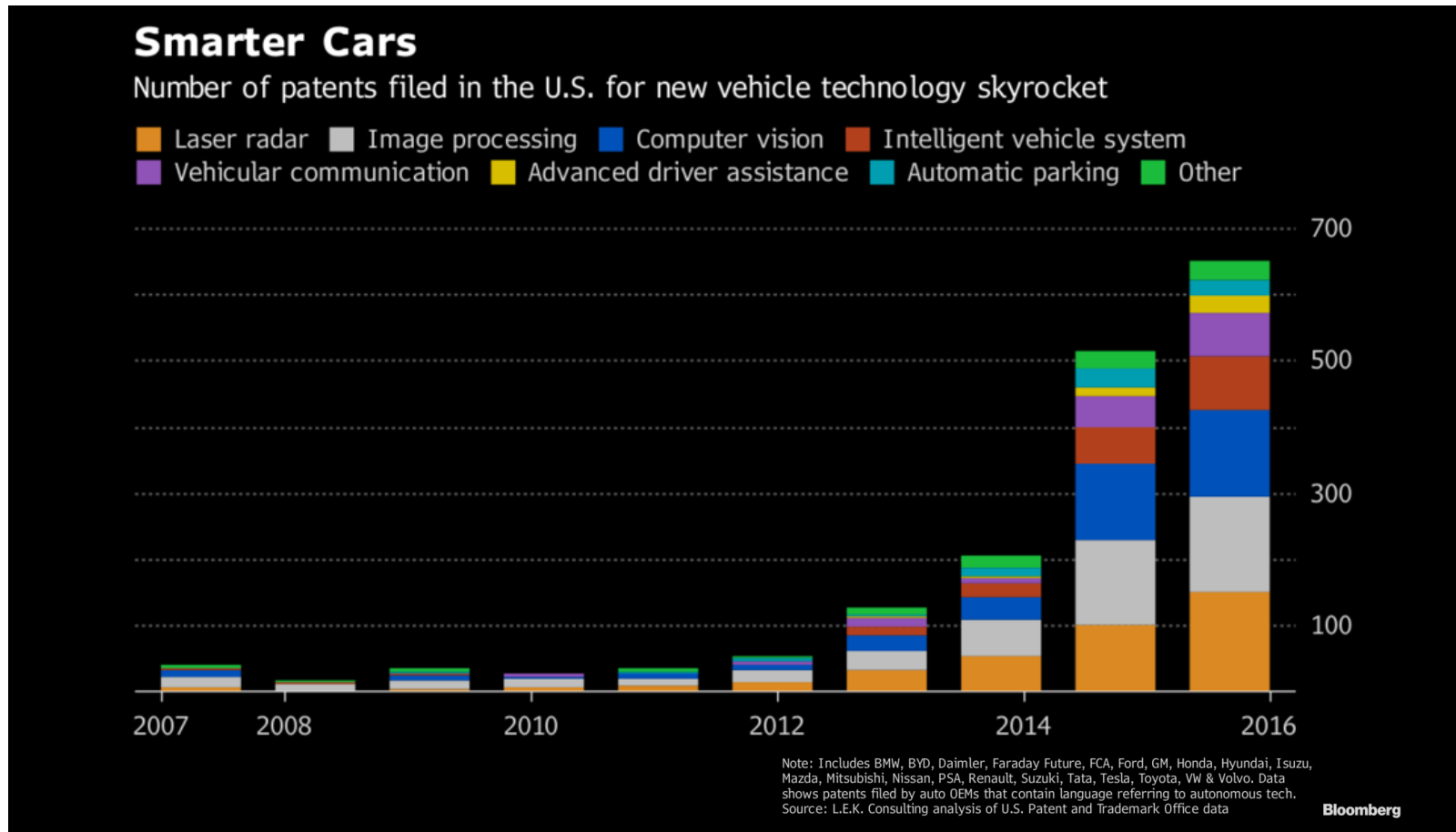
SEPs | Difficult Environment in U.S. District Court

- Institution rates of IPRs have dropped recently, but remain high (~70.2% in 2018)
- Increasing likelihood of district court stays
 - *SAS Institute Inc. v. Matal* (IPR institution must be on *all* challenged claims)
 - Claim construction standard at the PTAB changed to match district court
- Result: sophisticated filers are turning to the ITC and global forums for threat of injunctive relief
 - ITC: injunction is Commission's primary remedy, so more likely
 - ITC will consider essentiality, and evidence of hold-up or reverse hold-up as public interest factors in determining whether to issue an exclusion order

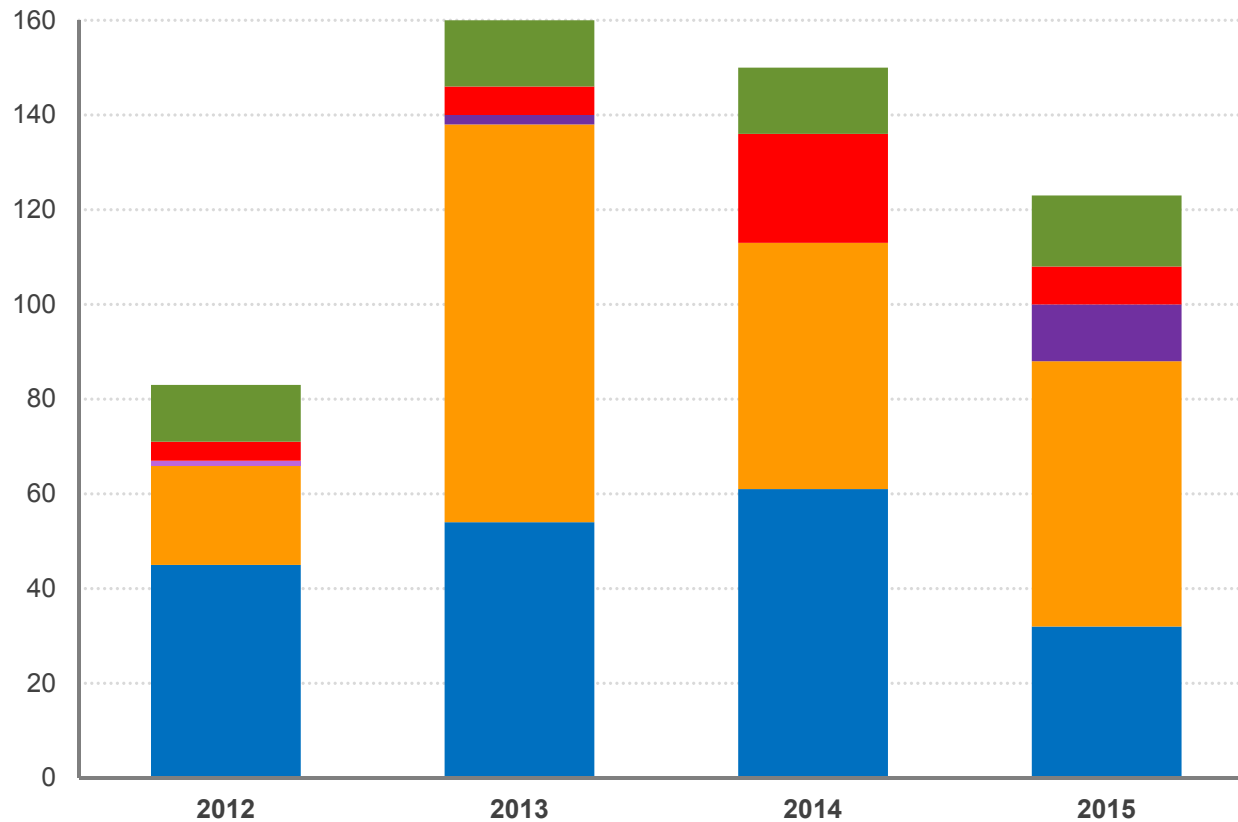
SEPs | Overall Trends

- 4th Industrial Revolution: Creating a group of core technologies that are spanning across traditionally separate industries
 - Digital, Biotechnology, Energy & Environment, Advanced Materials
- This core group of technologies (*e.g., connectivity, big data, AI, etc.*) goes hand-and-hand with the standardization developments in the electronics, wireless, and telecom industries:
 - 3G, 4G, 5G
 - Internet of things (IoT)
 - Audio/video
 - WiFi
 - Z-Wave, Zigbee (smart home)
 - V2X communications
- More players, more crossover, more exposure in each industry
- Expect rise in SEPs and SEP litigation; particularly in injunction friendly forums

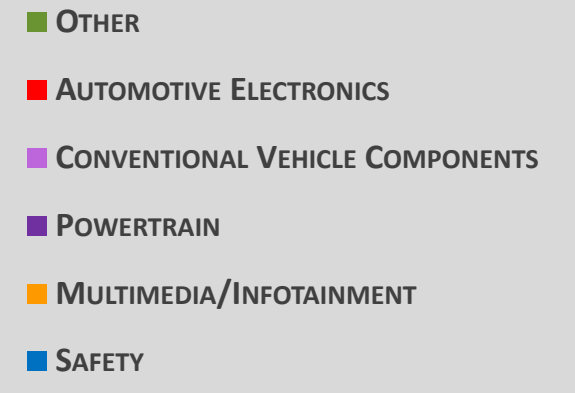
Case Study | Auto Industry



Case Study | Auto Industry



Automotive Litigation
by Technology



Case Study | Auto Industry

- The rise in the number of patents applications and lawsuits involving core technologies is reflective of the increase in **standardized technologies** and the rise of **autonomous vehicles / connected cars**
- Same trends can be seen in other industries as standardized technologies begin/continue to be adopted:
 - Home appliances
 - Smart sensors
 - 3D printing
 - Robotics

SEPs | Pre-Suit Considerations (*SEP Implementer*)

- Indicate willingness to negotiate in good faith with SEP holder
- Demand detailed infringement allegations
 - Reasonable to demand infringement claim charts drawn to underlying technology
- Demand enough time to sufficiently examine infringement and standard essential claims
- Concurrently, develop long term strategy:
 - Take license now
 - Negotiate down to an acceptable license
 - Rely on suppliers (indemnification, exert influence, gather evidence)
 - Never take license
 - Hybrid approach
- Develop roadmap to reduce exposure

SEPs | Pre-Suit Considerations (*SEP Holder*)

- Indicate willingness to negotiate in good faith with SEP implementer
- Ensure that infringement allegations are sufficiently definite (identification of end product may not be enough)
 - *If possible* prepare infringement claim charts drawn to underlying technology at outset
- Set defined deadline for SEP implementer to response to initial offer
- Ensure that SEP implementer responds with counter offer
- Have long term strategy in place
 - Define acceptable licensing terms and royalty rates
 - Set short and long term deadlines
 - Understand willingness to litigate
 - Develop plan for dealing with suppliers (direct communications, behind the scenes, location of necessary documentation)

SEPs | Pre-Suit Considerations (*SEP Implementer*)

Reduce number of patents

Round 1 (read on product)

Platform / network element v. End product

- End product manufacturer may not infringe platform / network patents
- Divided infringement/non-infringement

Round 2 (read on standard)

Mandatory v. Optional features

- Not all standardized features are mandatory
- If feature is only optional, infringement is more difficult to prove
- Declared patent may not reflect finalized standard

Round 3

Invalidity Issues

- Written description issues (common in SEPs)
- Earlier dated draft specifications (working groups)
- Incremental changes can be obvious from drafts

SEPs | Pre-Suit Considerations (*SEP Holder*)

- Identify correct patents to assert
 - Directed to platform / network element, end product, or both
- Identify correct target(s)
 - Who to target along supply chain & at various levels of implementation (service provider / user)
- Understand history of asserted SEPs
 - Landscape at time of filing, prosecution history, history with respect to finalization of standard
- Understand SSO's IPR policies
- Understand the applicable standard
 - Development of the standard, changes, differences from prior standards, draft specification

SEPs | Licensing Considerations (*SEP Holder & Implementer*)

- Does licensing offer satisfy FRAND (Fair Reasonable And Non-Discriminatory) Obligations?
 - Initial offer does not have to be FRAND; but ultimate result must be FRAND
- What is a “reasonable” royalty rate?
 - No “one-size-fits-all” list of factors to consider (*Ericsson v. D-link (Fed Cir.)*)
 - Based on the economic value of the patented technology itself (not including the value due to incorporation into the standard)
 - Accounts for importance of the SEPs to the standard, and importance of the standard and the SEPs to the product
 - Uses only comparable patents as benchmarks
 - Accounts for royalty stacking
 - Rates charged by SEP holder and/or other patent pools may be relevant indicators
 - Offering different rates to different licensees may well be FRAND

SEPs | Licensing Considerations (*SEP Holder & Implementer*)

- Determining Royalty base
 - Royalty is often based on the number of infringing units
 - **Only** based on entire market value of accused multi-component product (e.g., end product) **when** the patented feature creates the basis of customer demand
 - Default rule is apportionment
 - applies even when the accused product is the smallest saleable unit
- Misrepresentation that Patents are SEPs
 - A misrepresentation that claims are standard essential (i.e., mandatory features) when claims cover only optional or implementation-specific features may be evidence of sham licensing. (*In re Innovatio IP Ventures, LLC Patent Litigation*)

SEPs | Licensing Considerations (*SEP Implementer*)

- **Develop pre-suit licensing strategy**
 - Cut down on potential royalty payments (number of patents and royalty rate)
 - Determine smallest saleable unit/apportionment
 - Decide appropriate aggressiveness
 - Desired length of negotiations?
 - Leverage relationships with suppliers/patent pool participants to reach more favorable terms
 - Compare license offer to other SEP holder licenses
 - Monitor status of other SEP holder negotiations and litigations

SEPs | Enforcement Considerations (*SEP Holder*)

- **Develop pre-suit enforcement strategy**
 - Establish technical knowledge and willingness to fight
 - Due diligence on targets
 - Understand litigation history of targets
 - Understand and be ready to distinguish SEPs from universe of prior art
 - Be ready for targets to file IPRs
 - Develop support for secondary considerations arguments (industry praise, commercial success, copying, long-felt but unsolved needs, failure of others)
 - Identify appropriate experts and fact witnesses

SEPs | Litigation Considerations (*SEP Implementer*)

- Prepare IPRs asap
- Look for creative ways to win early
 - Analyze patents in SEP holder’s portfolio for high-value targets, and deficiencies
- Challenge essentiality, FRAND compliance, adherence to SSO obligations
- Be aggressive in offensive discovery
 - Broad third-party efforts, i.e., SEP holder’s investors, entities with likely prior art, SSO, original assignee of SEP
- Always reinvent, i.e., no “one size fits all” approach

SEPs | Litigation Considerations (*SEP Holder & Implementer*)

Defense	Defense Raised*
Non-Infringement	100%
Invalidity	100%
Estoppel	84%
Laches	81%
Implied/Express License	68%
Unclean Hands	55%
No Entitlement to Injunctive Relief	42%
Patent Misuse	26%
Violation of FRAND Terms	26%
Failure to Mitigate Damages	10%
Antitrust	3%

* Estimates based on initial analysis of a small, randomly-selected sampling of SEP cases

SEPs | Litigation Considerations (*SEP Holder & Implementer*)

SEP Holder Win Rate:

Venue	Per Case/Per Defendant	Per Patent/Per Defendant
District Court	28%	12%
ITC	49%*	31%
Combined (D. Ct./ITC)	44%	25%

Non-SEP Plaintiff Win Rate

Venue	Per Case/Per Defendant	Per Patent/Per Defendant
District Court	68%	38%
ITC	41%	32%
Combined (D. Ct./ITC)	57%	36%

* Drops to 33% if Rambus's 337-TA-661 ITC proceeding is excluded (settled – remedial orders rescinded)

Source: RPX

Looking To the Future

- Expect to see an increase in:
 - SEP litigation
 - Lawsuits in injunction-friendly forums
 - Lawsuits involving a discrete number of core technologies
 - Mergers, acquisitions, joint ventures, and patent portfolio purchases
- Compare with recent smartphone wars (last major technology convergence)
- Potential for massive cross-licensing end product manufacturers? Suppliers? Wireless/telecom companies?
- New entrants into unfamiliar industries (e.g., tech-based companies entering traditionally non-tech industries) could lead to SEP litigation uncertainty

SEPs | Evolving Considerations

- What makes a patent standard essential? Assessment of key standard body SEP procedures?
- What constitutes fair and reasonable royalties?
- What constitutes non-discriminatory royalty rates?
- What constitutes good faith negotiation obligations?
- How to demonstrate SEP invalidity?
- Comparative SEP analysis between US, European and Asian SEP treatment?
- Recommendations as to how to address SEP opportunities and challenges within particular industries?
- What are your concerns?



Thank You

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