

# Patent Holdup: Theory & Practice

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# Litigation Cases: Holdup as Breach of Contract

- *Microsoft v. Motorola*

- Offered as proof of holdup: Motorola requested 2.25% per unit = \$11.25, Judge Robart awarded \$0.0347
- No post-contractual opportunistic surprise
  - Motorola publicly announced its FRAND rate of 2.25% “per unit” for all standard technologies, including GSM, 802.11, H.264, WCDMA, and LTE
    - At least by 2005, reiterated for LTE at least as early as July 2009
  - Motorola offered rate to Microsoft in October 2010
  - Microsoft sued Motorola for breach of contract in November 2010
  - The contract was Motorola-ITU, with Microsoft as a 3<sup>rd</sup> party beneficiary
- Debatable whether Motorola was attempting exercise of market power with 2.25% rate, but it was widely known throughout the ICT sector for years
  - 2.25% was Motorola’s opening offer; Microsoft never negotiated

# Litigation Cases: Holdup Facilitated by Injunction

- *Realtek v LSI*

- Offered as evidence of using an injunction to raise royalty demands
- LSI sued Realtek in the ITC
  - May have been a surprise as LSI has no program to license chipmakers
  - Unusual facts of the case – LSI needed Realtek docs for another matter
- Realtek countersued for declaratory judgement for breach of FRAND contract in ND-CA
- LSI sought a rate of 0.29% of chip sales price; Realtek argued for a rate of 0.017%
- Jury awarded a rate of 0.19% - much closer to LSI than Realtek

# Litigation Cases: Holdup as Evidence in Declaratory Judgement

- *In Re Innovatio IP Ventures*

- Offered holdup as evidence supporting violation of FRAND
- Patents were previously held by well known contributors to IEEE (including Broadcom)
- Case began as a patent infringement case against WiFi users, then expanded to infringement suits against WiFi manufacturers; manufacturers then sued for declaratory judgement
- Cases were consolidated with Judge Holderman
- The holdup claims were at heart a classic commercial dispute
  - Were the patents really essential?
  - Were the patents valid?
  - If valid and essential, who could be sued? Ok to sue users?
  - What is the proper royalty base? Chips or end products?

# Speculative “Evidence” of Holdup/Stack Insufficient

- Early cases did not require any proof, allowed assertions
- Judge Davis in *Ericsson v. D-Link* (District Court, Texas):
  - “The best word to describe Defendants’ royalty stacking argument is theoretical. ...given the opportunity to present evidence of an actual stack on 802.11n essential products, Defendants came up empty.”
- Likewise Administrative Law Judge Essex at ITC (in case involving 3G and 4G) noted he would require proof of holdup
- CAFC Clarified Evidentiary Standards in *Ericsson v. D-Link* appeal ruling
  - “Certainly something more than a general argument that these phenomena are possibilities is necessary.”
  - “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.”

# Some Patent Infringement Litigation is “Normal”

- Several infringement matters
  - Represent typical negotiation frictions
    - Thousands of standards, hundreds of thousands of SEPs, small percentage end up in infringement litigation
    - Just as for non-SEPs, if dispute over a license negotiation, SEP rights can only be enforced through litigation

# The View from the Trenches

- I have seen some instances of attempted market power exercise
  - SEP holders with initial offers that likely exceed the contributed value of the patented technology
- I have seen many instances of holdout
  - It is common for standard implementers to drag license negotiations out for years, even as long as 3 – 6
- Rate discussions tend to look like normal, strategic bargaining, as expected
  - SEP holders try to earn a return on their patents
  - Implementers try to pay as little as possible to lower their costs
  - But in trial/arbitration both parties are typically bound by existence of many comparable licenses