INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS

Open Access, Refereed JournalMulti Disciplinary
Peer Reviewed Edition :

www.ijlra.com

 ISSN: 2582-6433

DISCLAIMER

No part of this publication may be reproduced or copied in any form by any means without prior written permission of Managing Editor of IJLRA. The views expressed in this publication are purely personal opinions ofthe authors and do not reflect the views of the Editorial Team of IJLRA.

Though every effort has been made to ensure that the information in Volume 2 Issue 7 is accurate and appropriately cited/referenced, neither the Editorial Boardnor IJLRA shall be held liable or responsible in any manner whatsever for any consequences for any action taken by anyone on the basis of information in the Journal.

Copyright © International Journal for Legal Research & Analysis

 ISSN: 2582-6433

EDITORIAL TEAM

EDITORS

Dr. Samrat Datta

Dr. Samrat Datta Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Samrat Datta is currently associated with Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Datta has completed his graduation i.e., B.A.LL.B. from Law College Dehradun, Hemvati Nandan Bahuguna Garhwal University, Srinagar, Uttarakhand. He is an alumnus of KIIT University, Bhubaneswar where he pursued his post-graduation (LL.M.) in Criminal Law and subsequently completed his Ph.D. in Police Law and Information Technology from the Pacific Academy of Higher Education and Research University, Udaipur in 2020. His area of interest and research is Criminal and Police Law. Dr. Datta has a teaching experience of 7 years in various law schools across North India and has held administrative positions like Academic Coordinator, Centre Superintendent for Examinations, Deputy Controller of Examinations, Member of the Proctorial Board

Dr. Namita Jain

Head & Associate Professor

School of Law, JECRC University, Jaipur Ph.D. (Commercial Law) LL.M., UGC -NET Post Graduation Diploma in Taxation law and Practice, Bachelor of Commerce.

Teaching Experience: 12 years, AWARDS AND RECOGNITION of Dr. Namita Jain are - ICF Global Excellence Award 2020 in the category of educationalist by I Can Foundation, India.India Women Empowerment Award in the category of "Emerging Excellence in Academics by Prime Time & Utkrisht Bharat Foundation, New Delhi.(2020). Conferred in FL Book of Top 21 Record Holders in the category of education by Fashion Lifestyle Magazine, New Delhi. (2020).Certificate of Appreciation for organizing and managing the Professional Development Training Program on IPR in Collaboration with Trade Innovations Services, Jaipur on March 14th, 2019

 ISSN: 2582-6433

Mrs.S.Kalpana

Assistant professor of Law

Mrs.S.Kalpana, presently Assistant professor of Law, VelTech Rangarajan Dr. Sagunthala R & D Institute of Science and Technology, Avadi.Formerly Assistant professor of Law,Vels University in the year 2019 to 2020, Worked as Guest Faculty, Chennai Dr.Ambedkar Law College, Pudupakkam. Published one book. Published 8Articles in various reputed Law Journals. Conducted 1Moot court competition and participated in nearly 80 National and International seminars and webinars conducted on various subjects of Law. Did ML in Criminal Law and Criminal Justice Administration.10 paper presentations in various National and International seminars. Attended more than 10 FDP programs. Ph.D. in Law pursuing.

Avinash Kumar

Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship.He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi.Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi.He has qualified UGC – NET examination and has been awarded ICSSR – Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.

 ISSN: 2582-6433

ABOUT US

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANLAYSIS ISSN

2582-6433 is an Online Journal is Monthly, Peer Review, Academic Journal, Published online, that seeks to provide an interactive platform for the publication of Short Articles, Long Articles, Book Review, Case Comments, Research Papers, Essay in the field of Law & Multidisciplinary issue. Our aim is to upgrade the level of interaction and discourse about contemporary issues of law. We are eager to become a highly cited academic publication, through quality contributions from students, academics, professionals from the industry, the bar and the bench. INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN 2582-6433 welcomes contributions from all legal branches, as long as the work is original, unpublished and is in consonance with the submission guidelines.

 ISSN: 2582-6433

CASE ANALYSIS ON IN RE INNOVATIO IP VENTURES, LLC PATENT LITIGATION

AUTHORED BY: SAKSHI AGRAWAL & SATYAM SINGH
LL.M (Intellectual Property and Technology Laws)
Jindal Global Law School
O.P. Jindal Global University

In re Innovatio IP Ventures, LLC Patent Litigation

Decided by James F. Holderman, Chief Judge

MDL 2303, 2013 WL 3874042 (N.D. Ill. July 26, 2013)

FACTS

- Innovatio IP Ventures LLC ("Innovatio") are the Plaintiffs and patent-holders. Noel B. Whitley, founder of Innovation and Innovatio Management LLC ("IM"), was a former intellectual property executive at Broadcom Corporation ("Broadcom") and founded the companies after leaving Broadcom in February 2011.
- A series of thirty-one patents were assigned by Broadcom to Innovatio on February 28, 2011 ("Innovatio patents"). Although, before making this assignment, through a letter, Broadcom, along with two other prior owners, had assured the Institute of Electrical and Electronics Engineers ("IEEE") that they would license patents essential to the wireless local area networking technology (Wi-Fi) for the "802.11 standards" on reasonable and non-discriminatory terms ("RAND") or royalty-free terms.
- After Innovatio acquired these patents, instead of bringing an action against manufacturers of devices [(like Cisco, Motorola, and Netgear) "Manufacturers] it began a campaign against the end users of the Wi-Fi technology and tried to enforce their patents by sending more than 8,000 letters against several hotels, coffee shops, restaurants, supermarkets, and other commercial users of wireless internet technology ("Wireless Network Users") throughout the United States, alleging that by providing the customers with wireless internet or using it for managing their internal processes, they have infringed twenty-three Innovatio patents and asked them to pay for the license.

 ISSN: 2582-6433

PROCEDURAL HISTORY

- Innovatio sued Wireless Network Users for infringing their patents in relation to the 802.11 standard.
- Device manufacturers sought a declaratory judgment action against Innovatios' attempt for reaping money from Wireless Network Users in which it claimed that their patents were getting infringed. They requested the court to declare that their products and the networks or systems with these products did not infringe on Innovatio patents.
- All the claims by these parties were consolidated in one Multidistrict Litigation (hereinafter referred to as "MDL") [MDL case No. 2303. (Dkt No. 1)] by the Judicial Panel before the United States District Court, Northern District of Illinois, Easter Division, being heard by Chief Judge James F. Holderman.
- On July 26, 2013, the trial bench determined that the Innovatio patents were essential to the Wi-Fi standard and for the present case, a RAND obligation shall be applicable on all of them.
- Further, the trial bench in September, 2013, severed all the issues regarding RAND with the Wireless Network Users and Innovatio and the Manufactures agreed that a rate determined by the court further shall only be applicable to the Manufacturers.
- In the present trial the court had to decide on the remaining issues regarding determination of RAND.

ISSUES

1. Whether Methodology by Justice Robart be used to calculate a RAND Royalty?
2. Whether there is a correct method to determine a royalty base?
3. Whether Innovatio's Patents were important to 802.11 Standard and whether any alternatives were available?
4. Whether comparable licenses proposed by parties are appropriate for determining a RAND rate?
5. Whether "Top Down" Approach can be used to determine a RAND royalty?
6. How will the court determine the value of the quantitative inputs to Dr. Leonard's method?

 ISSN: 2582-6433

ANALYSIS

Issue 1

The court had to find the best way to determine RAND-licensing rate for standard essential patents. To do so, Justice Holderman relied upon the methodology by Justice Robart in the case *Microsoft v. Motorola*[1] wherein it was found that the best way to determine RAND valuation was through a hypothetical bilateral negotiation simulation and to that effect, fifteen factors of *Georgia-Pacific factors*[2] were adopted and modified by the court. Justice Holderman analyzed the factors in detail and observed that there were mainly three steps that provide a framework for the courts to determine a RAND licensing rate for a given patent portfolio.

First, the importance of the patent portfolio to the standard was to be determined, i.e. the essential and the technical contribution, both were to be looked at towards the standard. Under this, the court has to see if the patent in question is central to the standard in order to determine, if the royalty rate that they seek could be higher than other patents which are not as important in comparison.

Second, the importance of the patent portfolio was to be considered as a whole in proportion to the products of the alleged infringer. In this, the court has to look into the value which is being added to the implementer. If the portion of a patent is not being used by the implementer for the standard in question then it will have little value to the implementer.

Third, the court has to consider existing licenses for comparable inventions in order to determine a RAND rate for licensing the patent portfolio. This decision will be based on its conclusions about the portfolio's importance to the standard and the goods of the alleged infringer.

Justice Holderman made an observation that in the *Microsoft case*, the infringement had not taken place and it was at an *ex-ante* stage and hence, a RAND *range* was determined. However, in this case, infringement had already taken place and the court has to calculate damages for the infringement of standard essential patents for which, a single RAND *rate* can only be made.

The importance of patent hold-up and hold-out in determination of RAND was pointed it. The

[1] Microsoft v. Motorola, 2013 WL 2111217 ("Microsoft case")
[2] Georgia-Pacific Corp. v. U.S. Plywood Corp, 318 F. Supp. 1116

 ISSN: 2582-6433

purpose of RAND determination is to avoid situations like patent hold-up, hold-out and royalty stacking. Former is a situation wherein the SEP holder demands a higher rate for its technology once it has been included in the standard. While RAND rate is being determined by the court, it must give back just the value of the fundamental technology and not the hold-up value of standardization. Hold-out is a situation wherein the implementers use the technologies wothou taking appropriate licenses. Royalty stacking is also a concern as it is a situation wherein a cumulative royalty payment is to be made to all the SEP holders which are involved in the standard (there are hundreds of them), and this payment may become excessive leading to unwillingness to adopt that standard. Hence, the court noted that RAND commitments should be such that licenses are granted on objectively commercial reasonable terms where the overall licensing situation along with other necessary licenses from all other SEP holders involved in this standard for the end product is done. In this case, hold-up and hold-out were determined not be a considerable concern but royalty stacking was concluded to be a concern while setting up a RAND rate as it can be used to check the accuracy of the proposed RAND royalty's technical value.

Therefore, applying the principles above, the court has determined that the methodology taken by Justice Robart in the Microsoft case was correct and there are three aspects that should be considered while determining RAND rate, which are, the importance of the patent portfolio to the standard, the importance of patent portfolio in relation to the products of infringer and comparable licenses. The court it its earlier proceeding had already determined that all the Innovatio patents were essential. Further in this proceeding court took different families of Innovatio patents and determined their importance to be moderate to moderate-high to the standard. Hence, the steps adopted were correct and would aid in understanding and determining RAND determination in future.

Issue 2

The court had to determine a correct royalty base before it could proceed with RAND analysis. Innovatio contended that the court should calculate the royalty as a percentage of the selling price of end-products with these wireless functionality and discount the final selling price of end-products ("Wi-Fi feature factor") which will then take the value of the end product into account that is attributed to the 802.11 functionality (License Benchmark Rate). However, the Manufactures contend that the royalty should be determined by the court as a percentage of the cost of each wireless chip. The court adopted the Manufacturer's methods as Innovatio was

 ISSN: 2582-6433

unable to provide a sound and credible method to determine a royalty base.

Innovatio was unable to give sound reasoning and factually credible method to the court by its Wi-Fi feature factor and License Benchmark Rate and due to the lack of the same, it was correct on the part of the court to set royalty base with the manufacturer's methods.

Issue 3

The court in its previous orders had already declared nineteen of the Innovatio patents in question were essential. However, here, the court explained it further by explaining Technical Background of the 802.11 standard by noting it as "The 802.11 standard establishes protocols for establishing wireless communications among devices in a local area"[3]and discussed if there were any alternative technologies available to the standard setting organisation.

While determining if there were alternative technologies available that could been adopted into the standard, the Modified *Georgia-Pacific factor number 9* was taken into account to consider the utility and advantages of the patented property which could have been taken instead of the patented technology which was taken.[4] It was done to see if the royalty rate could be brought down if an alternate technology is taken. There were various contentions from both sides on how the court should evaluate potential alternatives to ultimately determine RAND rates. The court stated that the even if there are other technologies available in the public domain, it would not mean that Innovatio's patents should be discounted in value. An alternative was not considered by IEEE and they adopted the best and most effective technology available into the standard and if IEEE did not consider any other alternative, there was no reason to do so for the court.

Innovatio's patents were divided into different categories, namely, "The Channel Sharing Patent Family," "Multi-Transceiver Family," and, "Sleep Family." The court discussed in detail about all the categories and went through all the alternatives which were proposed by the parties. After taking everything into account, the court held that all of them were of moderate to high importance and there were no alternatives available to Innovatio's patents that provide all the functionality and flexibility which it does to the 802.11 standard.

The court has correctly determined that there were no alternative technologies available as

[3] Cisco Systems, Inc. v. Innovatio IP Ventures, LLC, *921 F. Supp. 2d 903 (N.D. Ill. 2013)*
[4] Microsoft Case

 ISSN: 2582-6433

various technologies available at that were examined and none of them provided the flexibility which Innovatio's patent provided. The flexibility of interoperability is the most beneficial for the consumer as they can make a choice in different available products in the market without being restricted by one.

Issue 4

Under this aspect, the court had to look into the modified *Georgia-Pacific Factors* 1 and 2 to make an evaluation of the licenses that the parties proposed as comparable licenses to determine a RAND rate. The court stated that Innovatio's license to Broadcom cannot be used to ascertain the RAND rate as a comparable license and the price at which Innovatio acquired the patents was to play no role further. Innovatio relied on various licenses to compare such as Motorola Mobility/Vtech License, Symbol License with Proxim and Terabeam, Symbol/LXE License and Qualcomm/Netgear License but the court rejected all of them. Similarly, the manufactures relied on licenses such as the Via Licensing Patent Pool and non-RAND Comparable Licenses. However, court rejected these as well as it was not satisfied and stated that they are unreliable indicators in case of appropriate RAND rate.

As the court felt that there was insufficient information to rely on the licenses that the parties had relied upon, it was justified to not depend on any of these licenses to determine the RAND rate in this case.

Issue 5

The court initially investigated the 'Bottom-Up' approach before accepting the 'Top-Down' approach as the experts of manufacturers suggested but the court rejected it and found that this methodology had several deficiencies in it. This methodology was based on the premise of identifying viable alternatives to the patented technology and the cost of implementing the alternatives, but the court found that there were no alternatives to Innovatio's 802.11 standards. There were many other complexities like the practical challenges associated with implementing the 'incremental value' approach because making an accurate analysis was too hard for courts to perform and thus for the following reasons the court rejected the 'bottom-up' approach.

After that, Dr. Leonard came up with another method for calculating RAND royalty called the *"Top Down"* approach. This approach works by using the average price of a WI-FI chip from which the average profit that the chipmaker earns on a single unit is calculated. This profit margin

 ISSN: 2582-6433

represents the maximum amount available to pay royalties on all standard-essential patents, as chipmakers cannot pay royalties that would drive them out of business. Then this profit is multiplied by a fraction of the number of 802.11 SEPs divided by the total number of 802.11 SEPs. This ensures the royalty rate reflects only the intrinsic value of Innovatio's patented technology, not the hold-up value of standardization.

The court accepted the use of the Top-Down approach method to calculate RAND royalty as it was the most suitable method given the facts and circumstances of the case. The court gave the following reasons for choosing this methodology:

- One major reason for choosing this methodology was because this method ensures Fairness and Non-Discrimination. It considers chip manufacturers' profit margins as a core for royalty calculation which ensures that the royalty does not exceed the profits that the chip manufacturers expected.
- It also addresses the Royalty stacking concerns by aligning with chipmakers' profit margins. It foresees a hypothetical negotiation in which high royalties can throw chipmakers out of business and it prevents royalties from exceeding an amount that would make the implementation of the standard economically infeasible.
- This method apportions the royalty based on the technical contribution of Innovatio's patents instead of relying on potentially incomparable license agreements, making it a more practical & suitable method for calculating the RAND rate.
- This method relies on verifiable data points, such as chip prices and manufacturer profits for objective analysis that provides a structured approach based on realistic hypotheses which enhances the credibility of RAND determination.
- It allows for distinct consideration of patented features that are important to the standard which keeps a balance in determining the royalty rate and maintains the quantitative rigor and objective verifiability.

Based on the above reasons the court accepted Dr. Leonard's Top Down approach to calculate the royalty rate which the parties would've likely hypothetically adopted in the 1997 negotiations.

The court's decision to adopt the Top-Down approach appears to be justified as it adheres to the principles of fairness by considering the profit margins of chip manufacturers. Furthermore, it provides a practical solution in situations where there are no comparable licenses and guarantees objectivity through structured analysis. By doing so, it establishes a fair, practical,

 ISSN: 2582-6433

and unbiased method for determining royalty rates that considers the interests of both patent holders and implementers.

Issue 6

To determine the price of a Wi-Fi chip, Dr. Leonard asked the court to rely upon a 2010 report from a market research company named ABI Research. This report had data on the average selling price of WI-FI chips in each year from 2000-2015 and information about the number of units sold every year. The court agreed to use this report to determine the price, but it declined to take the data of weighted average discounts as the numbers are not accurate due to the significant sale of Wi-Fi chips in recent years because of its increased demands. Moreover, the available report does not include the data from 1997-2000, thus the court will take $37 as the average price of the chip for the years 1997-2000. After taking into consideration these numbers the court calculated the average chip price for the years 1997-2013 to be $14.85

The court examined the operating profit for Broadcom's sale of Wi-Fi chips from the year 2000-2013 in which the average profit margin was 12.1%. After considering the other supporting evidence, the court decided to use 12.1% as the profit margin.

For determining the total number of 802.11 Standard Essential Patents, Dr. Leonard relied on a July 2013 report by a management consulting firm named PA Consulting Group. The court finds that there are approximately 3000 potentially standard-essential patents, but not all of them may be essential. Innovatio's confirmed standard-essential patents are more valuable to the 802.11 standard compared to the potentially essential patents that have not been confirmed. Therefore, the court decided to use Dr. Leonard's suggested number of 3000, 802.11 standard-essential patents as total but will also keep in mind that many of these patents are less valuable to the standard.

Dr. Leonard provided three calculations for the court's consideration, depending on whether Innovatio's patents were in the top 50%, top 20%, or top 10% of the 3000 802.11 patents. ***The court found that Innovatio's patents are in the top 10% and adopted Dr. Leonard's Top Down method, which came down to a RAND rate of 9.56 cents per Wi-Fi chip for licensing Innovatio's 802.11 patent portfolio.***

At the last stage of the analysis the court compared the present RAND rate of 9.56 cents per Wi-

 ISSN: 2582-6433

Fi chip with rates which were calculated in other case laws.

- In ***Microsoft v. Motorola***, the RAND rate for eleven of Motorola's patents would be 3.471 cents per unit for the Xbox, with a reasonable range between 0.8 cents to 19.5 cents per unit. The current RAND rate of Innovatio's patent falls within the reasonable range that Judge Robart has set in the Motorola case.
- In ***Ericsson v. D-Link***, the court calculated a RAND rate of 15 cents per unit for the infringement and awarded it as an ongoing future royalty to Ericsson. The basis on which this rate was determined was not explained but the court in the present case notes that the 15 cents per unit rate in Ericsson is close to the court's 9.56 cent RAND rate, providing some supportive confirmation of the court's determination.

Therefore, the court was correct in determining the RAND rate of 9.56 cents per Wi-Fi chip by adopting Dr. Leonard's Top Down method as it considers all the necessary data for accurate calculations such as the price of a Wi-Fi chip, the chipmaker's profit, the total number of 802.11 standard-essential patents, etc. The court also corroborated its reasoning by comparing the present calculated rate with the rates determined in other case laws so that the defendant could not question the fairness and biasness of the court.

CONCLUSION

After analysing the reasons mentioned above, the court has decided that the RAND rate to be paid to Innovatio for licensing their portfolio of nineteen 802.11 standard-essential patents **is 9.56 cents for each Wi-Fi chip used or sold by the manufacturers in the United States**. This rate is subject to the terms of the patents, the applicable statute of limitations, and a finding of infringement. In conclusion, the court was correct in adopting Justice Robart's methodology from the Microsoft case to determine the RAND rates. The court focused on three crucial aspects to determine the RAND rate i.e. the importance of patent portfolio to the standard, its importance related to the infringing products and consideration of comparable licenses. The court has made a solid framework for its determination by affirming the moderate-to-moderate high importance of Innovatio's patents to the standard. The determination of RAND rate was made much easier when the court found that there are no other alternative available.The Top-Down approach was adopted by the court which ensured fairness, practicality and objectivity in determining the RAND rate and the court's determination of 9.56 cents per Wi-Fi chip using Top-Down method, along with comparisons to rates in other case laws, supported a fair and unbiased decision.