Mock Negotiation
for a license on a standard-essential patent

August 31, 2016

Tokyo, Japan

Background (1)

- KAGURA Electronics Co., Ltd., a Japanese company, manufactures special chips for wireless communication.
- KAGURA's chips are incorporated into wireless electronic devices such as smart phones and tablets in U.S.A.
- The chips are compliant with a Wi-Fi standard established by the Institute of Electrical and Electronics Engineers (IEEE), and provide devices with an internet access function anywhere and anytime in wireless environment.

Background (2)

- Patent Activation Enterprise, Inc. (PAE), a U.S. patent management company, acquired a U.S. patent relating to a Wi-Fi standard from a telecommunications company.

- The prior-owner of the patent declared to the IEEE that the patent was essential to the Wi-Fi standard and that a license was available on fair, reasonable and non-discriminatory (FRAND) terms.

Background (3)

- Before shipping, KAGURA searched US patents on Wi-Fi technologies implemented in its products. There were several Wi-Fi essential patents for which patent clearance was necessary.

- KAGURA obtained licenses from each owner of such essential patents except for PAE's patent which is a different type of industry standards.

- KAGURA decided that no license would be necessary for the PAE's patent because its chips would not infringe PAE's patent.

- In addition, KAGURA was confident that PAE's patent is weak in patentability and easy to invalidate.

Players

- On behalf of KAGURA:
  - Mr. Makoto OGINO, General Manager of Intellectual Property Department; and
  - Mr. Toru KOBAYASHI, Manager of Intellectual Property Department
- On behalf of PAE:
  - Mr. Daniel HARASHIMA, CEO of PAE; and
  - Dr. Richard HARA, Legal Counsel to PAE

Kagura's Wi-Fi Chip

Images coming soon.

Difference bet. 802.11a/b/g

Images coming soon.

Claim 1 at issue

- In a multi-hop data communication system having a host computer node, a plurality of bridging nodes, and a plurality of mobile transceiver nodes, all communicative with a gateway root node, a local area network comprising:
  - said plurality of bridging nodes organized to control the flow of data along communication pathways between said bridging nodes and
  - said gateway root node by periodically broadcasting messages indicating the logical distance to said gateway root node so that said bridging nodes may communicatively attach to nodes logically closest to said gateway root node.

A System Configuration
discussed at IEEE before the patent application

Images coming soon.

PAE's Initial Offer

Damages Amount (US$)

50,000,000 x 300 x 0.0001 = 1,500,000

wherein:

50,000,000 is the total sales volume of chips

300 is the average sales price of smart phones

0.0001 = a royalty rate of a comparative license

Kagura's Counter Offer

Royalty rate (US$ per chip)

20 x 0.5 x 0.05 x 1/100 = 0.005

Damages amount (US$)

45,000,000 x 0.005 = 220,500

PAE's New Offer

Royalty rate (US$ per chip)

$20 \times 0.12 \times 0.84 \times 1/200 = 0.01$

Damages amount (US$)

$45{,}000{,}000 \times 0.01 = 450{,}000$