



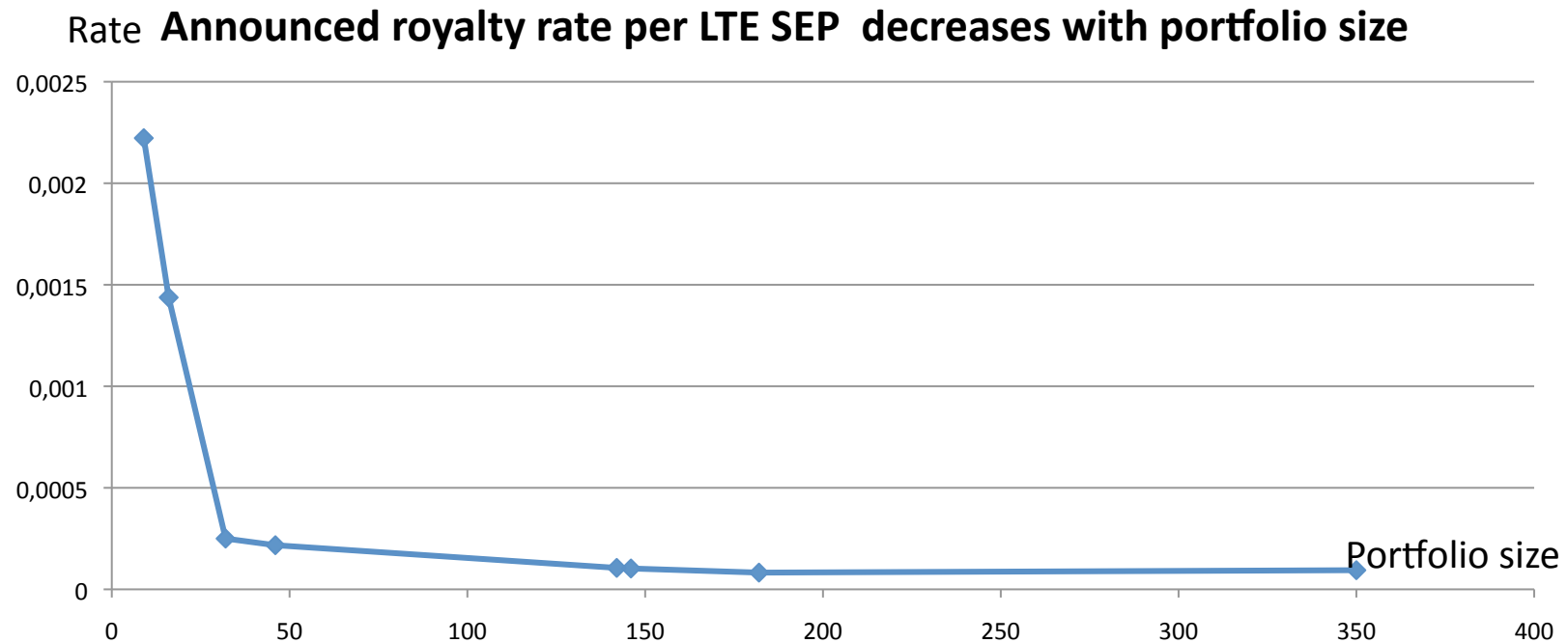
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■ Licensing and selling SEP portfolios

Standards & Patents conference 2014
December 3, 2014

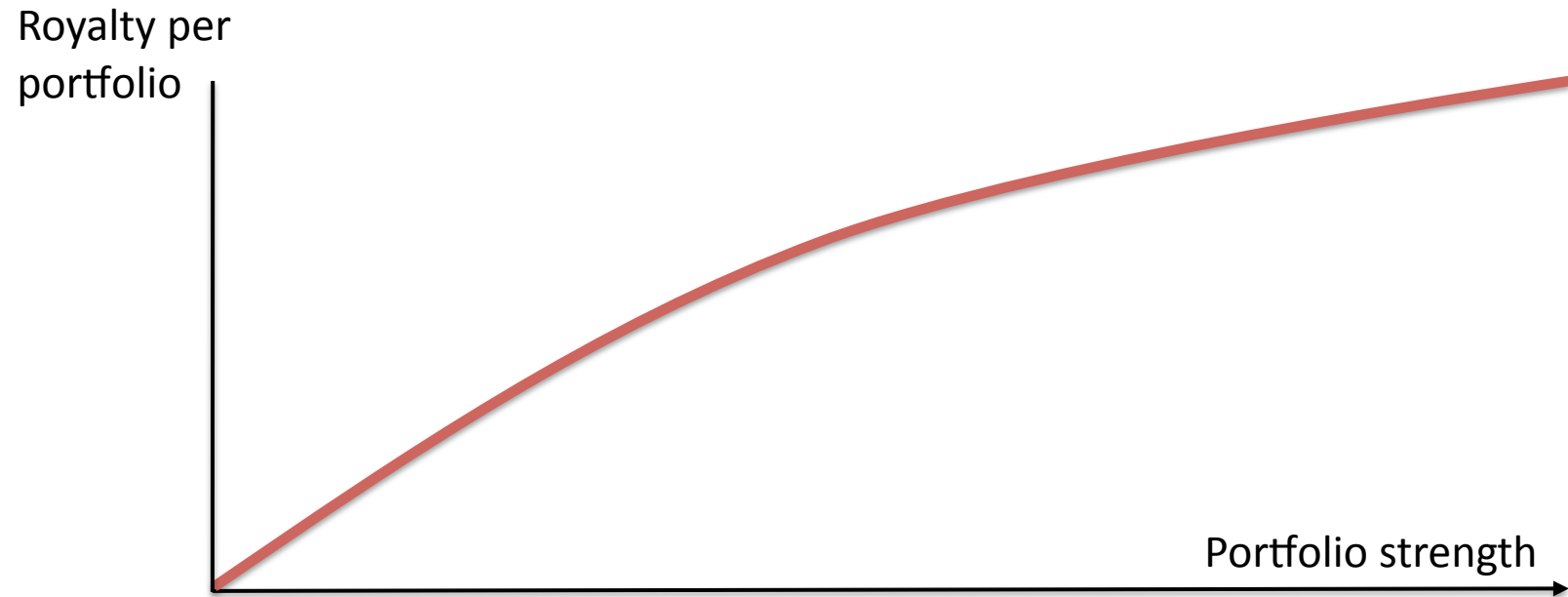


Why? Implications?

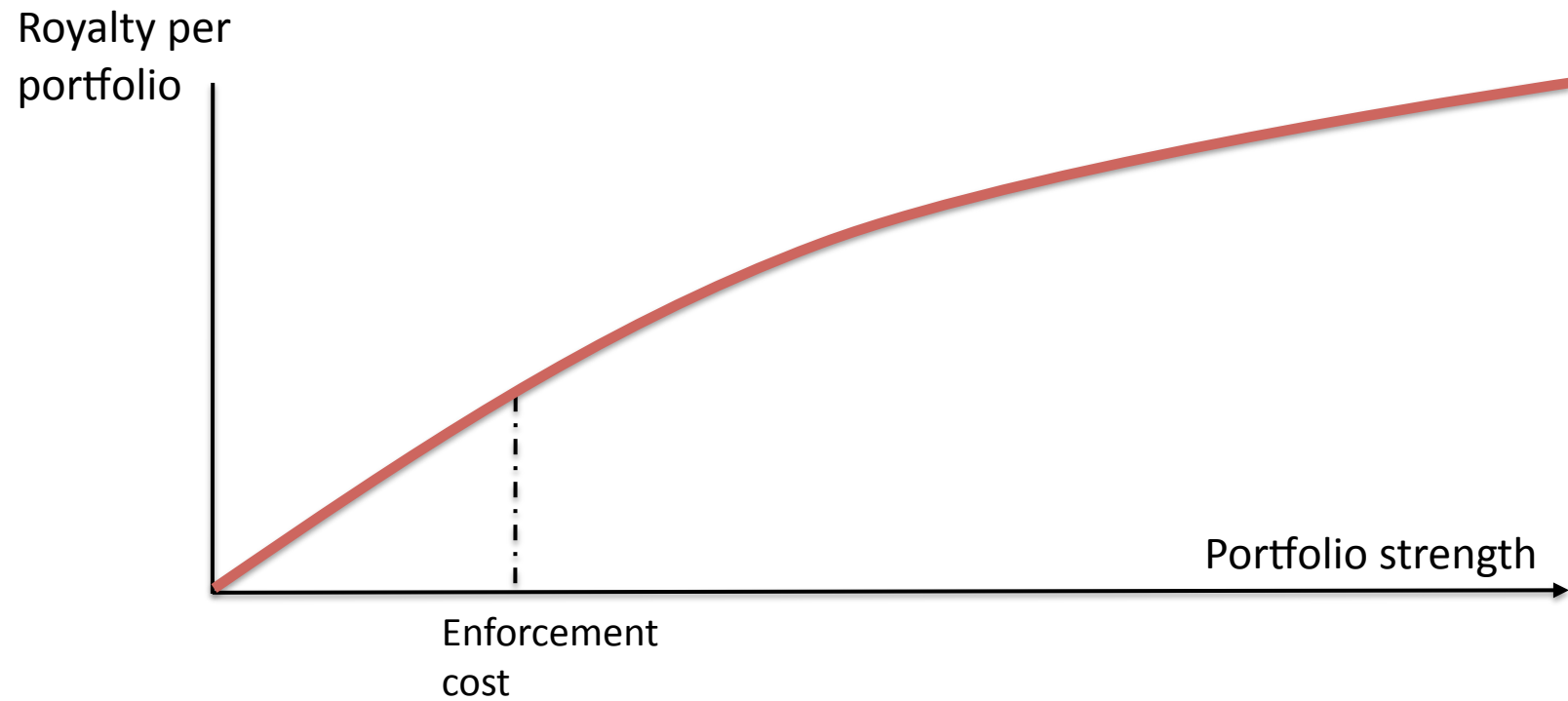
⇒ A simple economic model:

- Licensors endowed with SEP portfolios
- Demand for standard-compliant products is price elastic
- FRAND royalties replicate expected litigation outcome
 - Royalties increase with portfolio strength, but with decreasing returns
 - Fixed cost of litigation

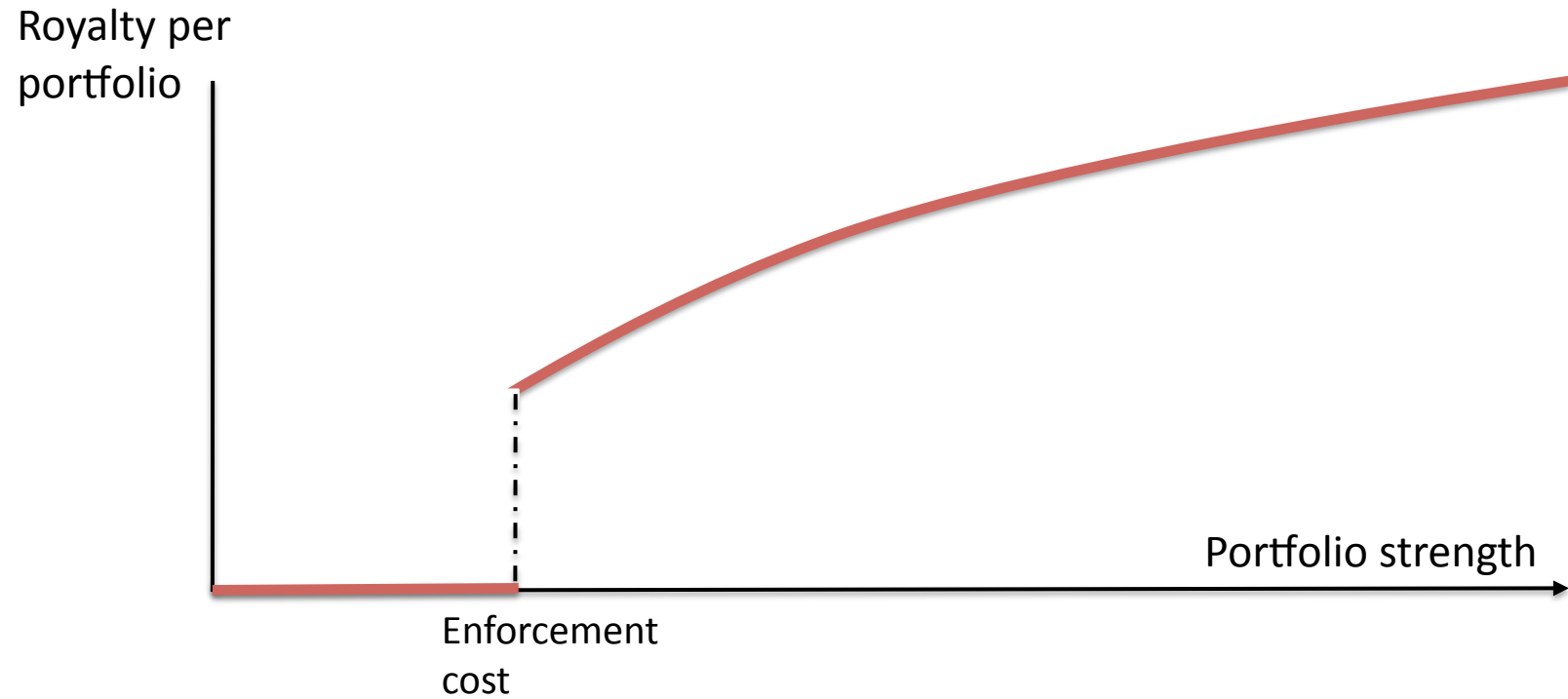
Relating royalties to portfolio strength



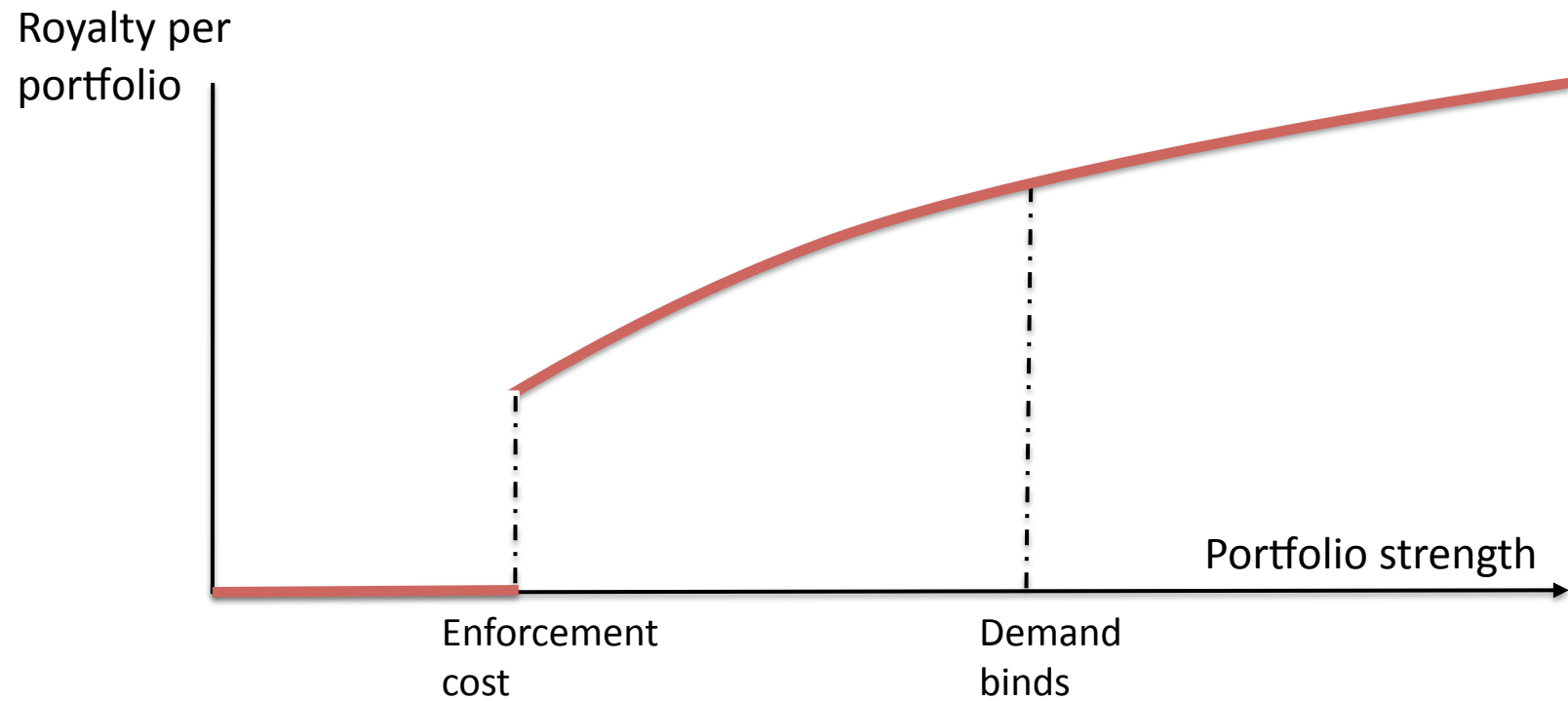
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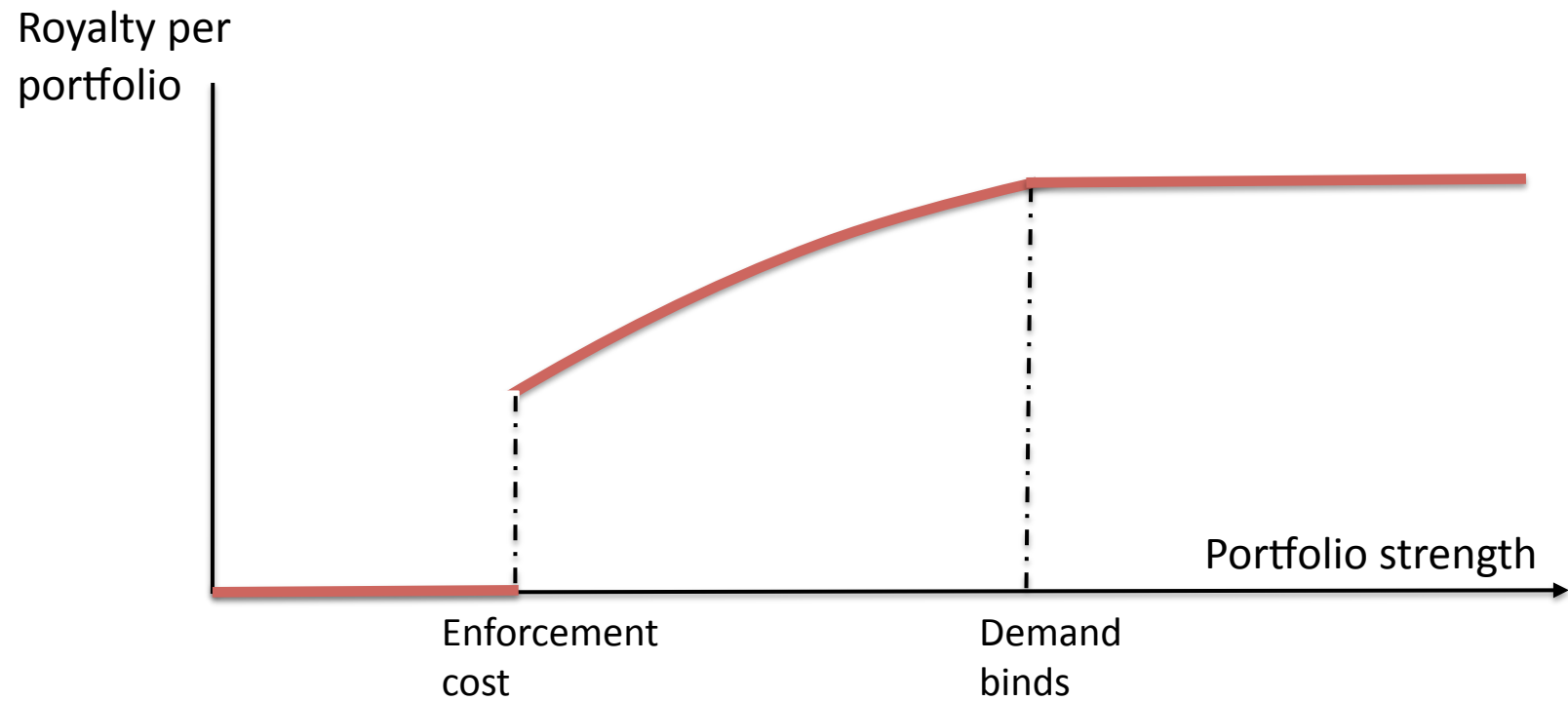
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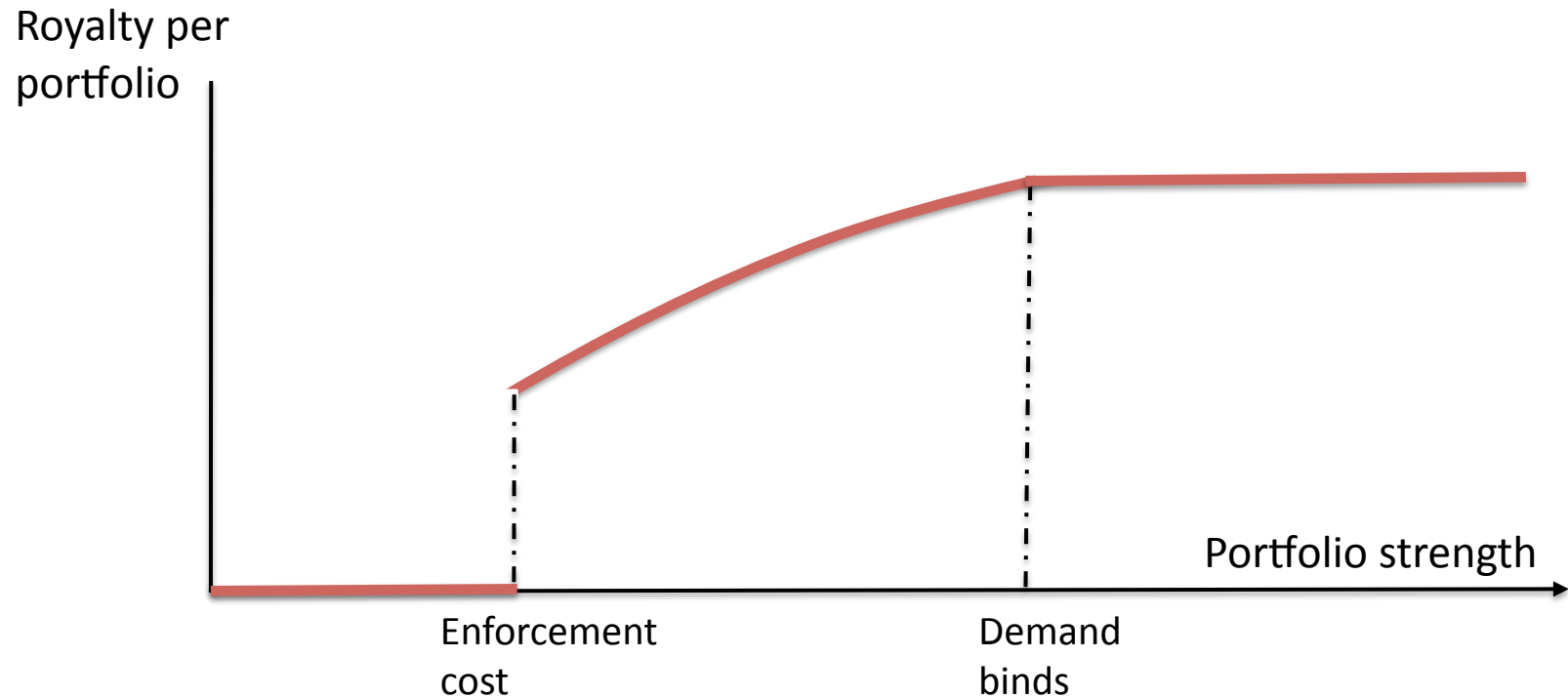
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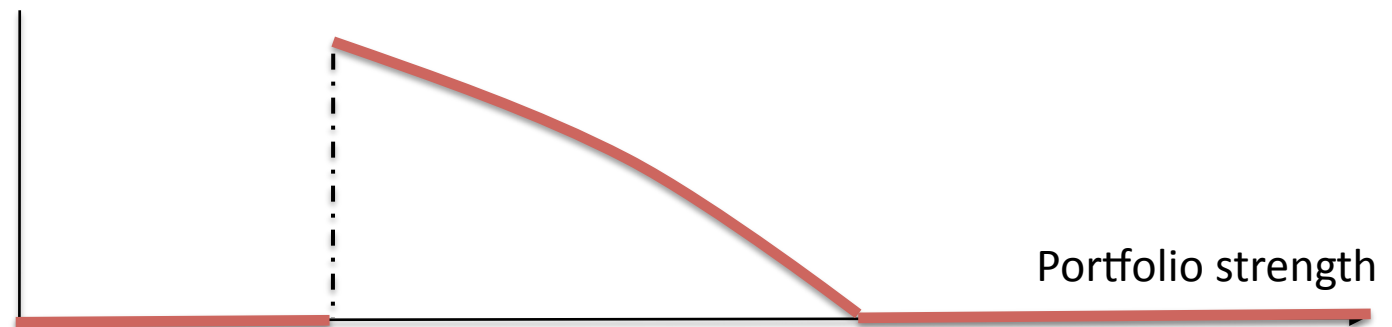
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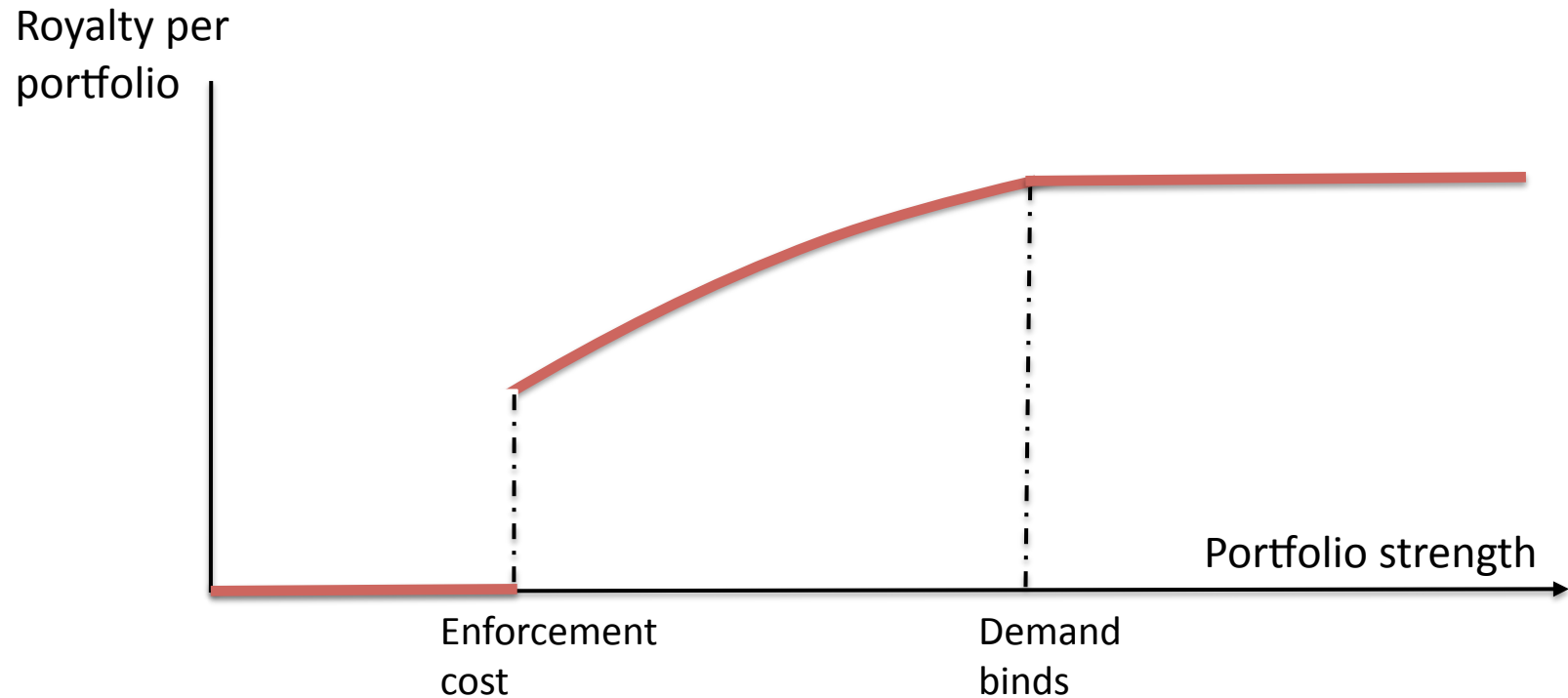
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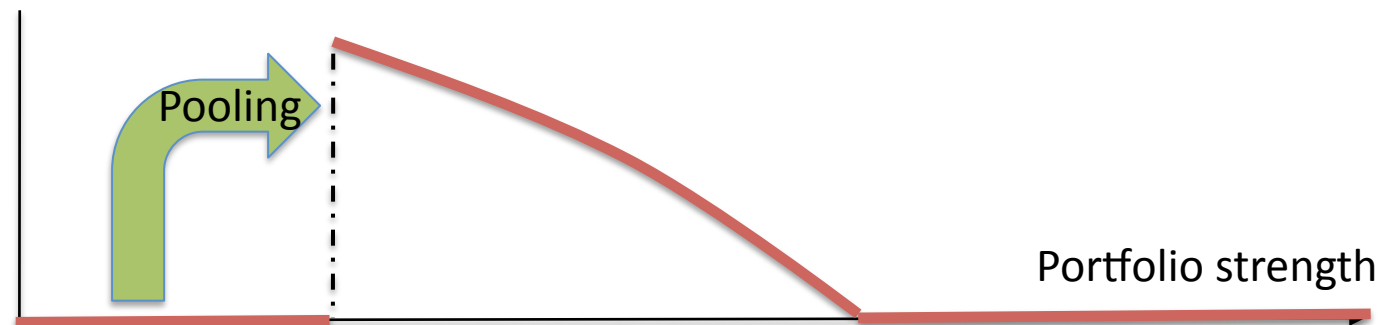
Marginal benefit of increasing Portfolio strength



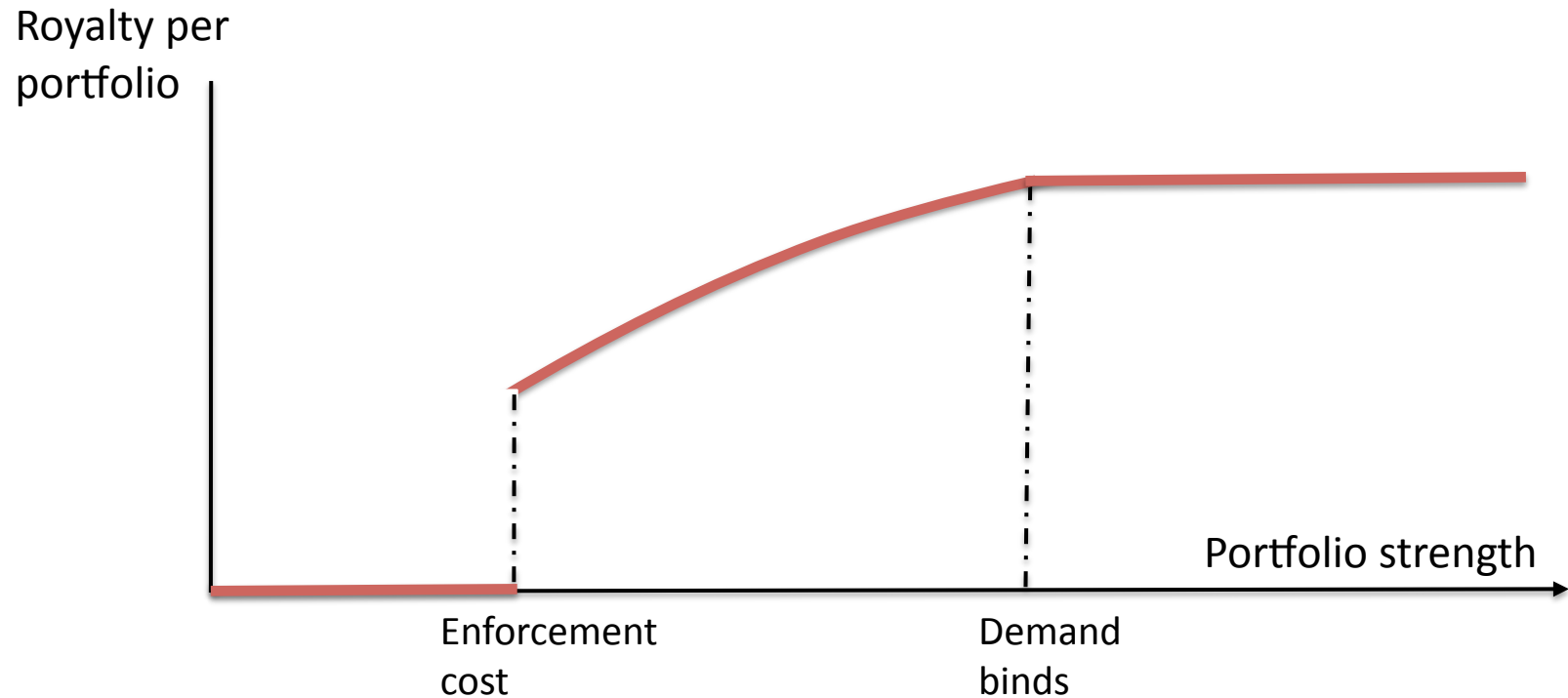
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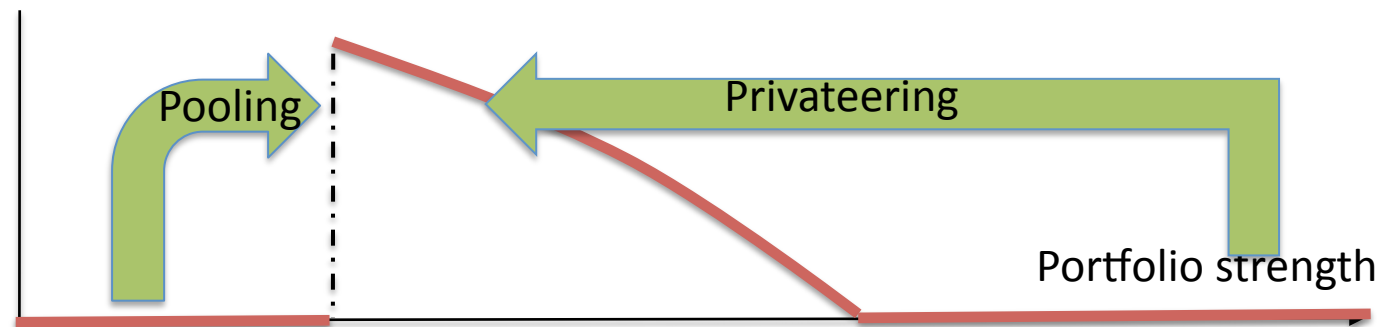
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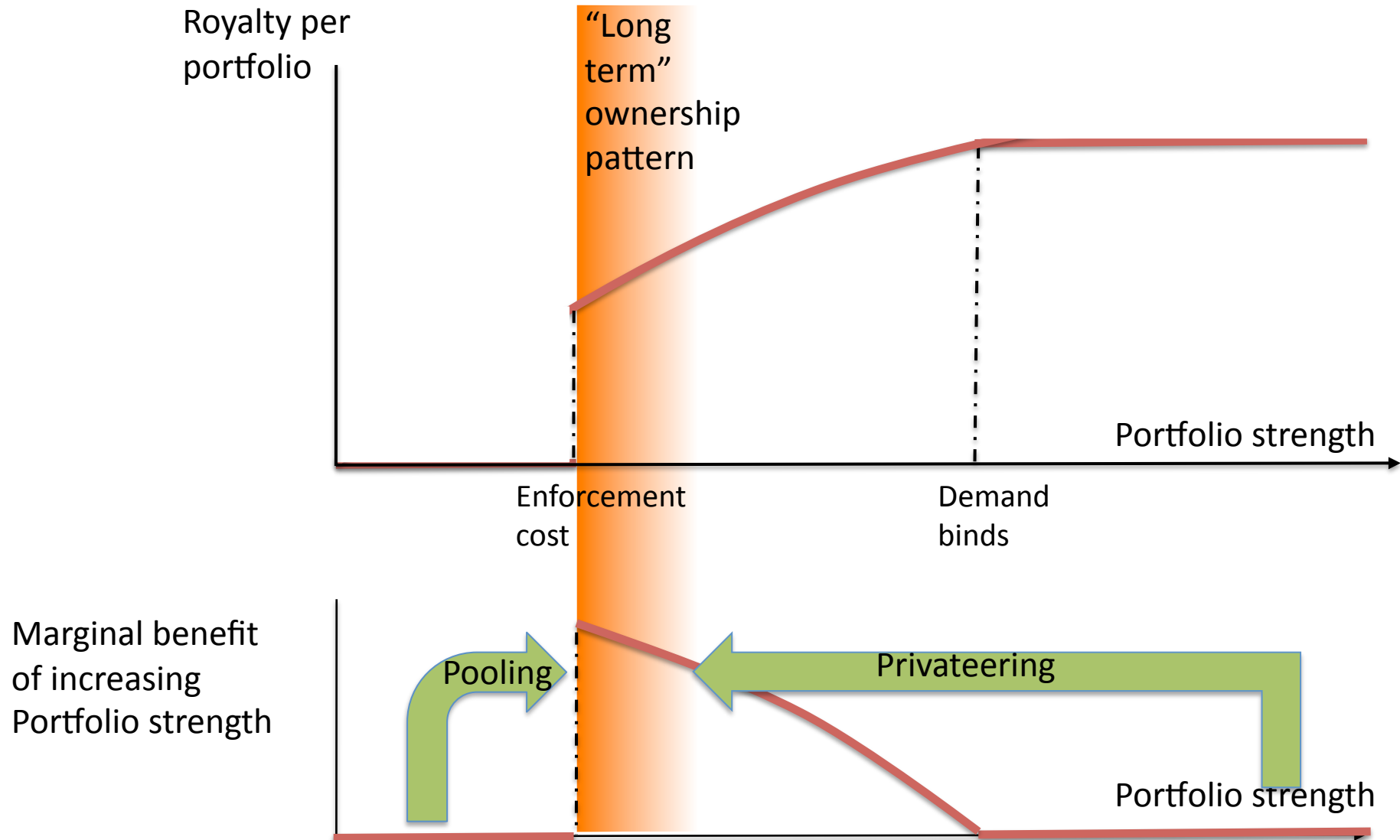
Relating royalties to portfolio strength



Marginal benefit of increasing Portfolio strength



Relating royalties to portfolio strength



Comments

- The “long term ownership pattern” maximizes the royalty stack (not royalty revenues) at the standard level
 - Each transfer induces a “royalty stacking” cost for all SEP holders
 - but a net gain for the contracting parties
- The model suggests that only a single dominant licensor would be able to profitably aggregate patents
 - Unlikely in practice