

JONES DAY COMMENTARY

FEDERAL JUDGE DETERMINES RAND ROYALTY RATE FOR STANDARDS-ESSENTIAL PATENTS IN MICROSOFT-MOTOROLA DISPUTE

In a much-anticipated decision, a federal district court has, for the first time, calculated specific RAND-compliant royalty rates for standards-essential patents. The court's detailed opinion determined a range of Reasonable and Non-Discriminatory, or "RAND," royalty rates for certain patents essential to the implementation of Wi-Fi and video coding standards used by Microsoft in its Xbox and other products. On April 25, 2013, Judge James L. Robart announced the decision of the court regarding the appropriate royalty rate and range. Two aspects of this decision are particularly noteworthy: (i) the methodology used by the court to determine a specific RAND rate or range of rates, and (ii) the resulting rates, which are far below those offered to Microsoft by Motorola prior to commencement of the litigation.

As explained in detail in a recent Jones Day *White Paper*,¹ various courts and competition authorities

around the world have adopted the view that, under certain circumstances, holders of standards-essential patents encumbered with RAND licensing commitments should be limited to monetary damages for infringement, such as a royalty at a RAND rate, and be barred from alternatively or additionally seeking injunctive relief. But reliance on a RAND licensing regime to fairly compensate patent holders presents a particular difficulty—there is no universally accepted definition of what constitutes a RAND licensing rate. Instead, the determination of such a rate is normally left up to bilateral negotiations between the parties, which do not always result in agreement.

As discussed in the *White Paper* (see p. 6), the court in *Microsoft v. Motorola*, Case No. C10-1823JLR (W.D.Wash.), undertook to resolve such an impasse by holding a bench trial to determine a RAND royalty rate and range for certain Motorola patents said

¹ Available at http://www.jonesday.com/standards-essential_patents.

to be essential to the 802.11 “WiFi” standard and the H.264 video coding standard.

In reaching this decision, Judge Robart based his methodology on the familiar *Georgia-Pacific* factors, with modifications to account for the RAND commitment and the asserted essentiality of the patents to the standards. The court’s analysis included an assessment of the relative importance of Motorola’s patents to the standards in question, as well as the relative importance of the standards to the specific Microsoft products involved in the litigation. In making these assessments, the court relied on detailed testimony regarding Motorola’s participation in the 802.11 and H.264 standards activities, and the specific aspects of the standards covered by the patents. For example, many of the Motorola video coding patents appeared to relate to so-called “interlaced” video scanning. The parties and their experts disputed how important this technique was to the actual Microsoft products (the Windows operating system and the Xbox video game device), in contrast to the alternative “progressive” scanning technique. In the case of the 802.11 “WiFi” standard, the court found that the asserted Motorola patents contributed only minimally to the standard but did find in some cases that Xbox does use the aspects contributed to the standard. Based on these findings, the court reached a lower royalty rate than Motorola’s proposed rate.

Further, to assist the court in determining the actual rates, the parties submitted “comparables” based on other license agreements, as well as the rates set by certain patent pools. Motorola submitted evidence regarding various prior licensing arrangements with various parties that it contended supported its asserted rate of 2.25 percent of the end-product price. The court, however, expressed concern that Motorola’s proposals raised “stacking” issues—meaning that, if all holders of patents essential to these standards demanded similar rates, the sum of the rates would be excessive, representing a very large percentage of the product price.

In contrast, Microsoft’s submissions were based mainly on the rates set by two existing patent pools, namely MPEG-LA for H.264 and the Via Licensing pool for 802.11. These pools consist of multiple entities holding patents essential to the relevant standards. Members are cross-licensed, and the pools make licenses available to third parties. While noting certain differences between the dynamics of a patent pool and a bilateral negotiation under its proposed modified *Georgia-Pacific* factors, the court nonetheless concluded that “the characteristics of the MPEG-LA H.264 pool closely align with all of the purposes of the RAND commitment,” and that the Via Licensing 802.11 pool at least “has certain characteristics that are indicative of a RAND royalty rate.” Adopting Microsoft’s comparables over those submitted by Motorola, the court was strongly influenced by the much lower rates charged by the pools, as compared to Motorola’s proposals.

After considering all the relevant factors, the court concluded that RAND royalties for Motorola’s Wi-Fi patents essential to the 802.11 standard range from 0.8 cents to 19.5 cents per unit. It imposed a specific rate of 3.471 cents per unit on Microsoft’s Xbox products and 0.8 cents on all other products. It concluded that RAND royalties for Motorola’s video coding patents essential to the H.264 standard range from 0.555 cents to 16.389 cents per unit. It imposed a specific rate of 0.555 cents per unit on Microsoft’s products. These rates are considerably less than the rate of 2.25 percent of revenues originally sought by Motorola.

It is likely that Motorola will appeal this decision. Nonetheless, this ruling represents a major step by the courts to attempt to resolve some of the outstanding issues associated with RAND-encumbered standards-essential patents, and it provides a practical model for courts to consider when asked to determine a RAND royalty rate.

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