

What To Expect From 9th Circ. In RAND Case

Law360, New York (June 22, 2015, 10:28 AM ET) -- Since 1982, the Federal Circuit has had exclusive jurisdiction over appeals from district court decisions in cases depending on the resolution of substantial questions of federal patent law. Accordingly, other federal courts of appeals have had little role in the development of patent law over the past 33 years. In the latest chapter of the litigation between Microsoft Corp. and Motorola Inc., however, the Ninth Circuit has a rare opportunity to address emerging questions of patent damages law regarding the calculation of reasonable and nondiscriminatory royalties for standard essential patents. Whether the Ninth Circuit does so not only will affect the immediate rights of the parties, but may provide broader guidance to patent holders and manufacturers anticipating litigation over RAND royalty commitments.



Matthew Silveira

Path to the Ninth Circuit

An SEP is a patent that has been incorporated into a standard adopted by a standard-setting organization, primarily to promote interoperability of products from different manufacturers. For example, the Institute of Electrical and Electronics Engineers sets standards for wireless communications, providing for compatibility between devices made by competing manufacturers. Commonly, SSOs will only agree to incorporate a patent into a standard if the patent holder agrees to license the patents at RAND royalty rates to any party that desires to implement the standard in its products.

In October 2010, Microsoft sued Motorola in the Western District of Washington after the latter offered Microsoft a license to certain Motorola patents declared essential to the IEEE's 802.11 Wi-Fi standard for wireless communications and the International Telecommunications Union's H.264 video-encoding standard. Microsoft claimed that Motorola breached its RAND commitments by proposing unreasonable royalty rates as a precursor to seeking injunctions against Microsoft's standard-compliant products.[1]

A day later, Motorola sued Microsoft in the Western District of Wisconsin, alleging infringement of several patents.[2] The Wisconsin court transferred that case to the Washington court, which ruled that Motorola's patent claims were not compulsory counterclaims to Microsoft's breach of contract claim, but consolidated the two cases in the interest of judicial economy.[3] In February 2012, the Washington court granted partial summary judgment for Microsoft on its contract claim, finding that Microsoft was a third-party beneficiary of binding contractual commitments Motorola entered with the SSOs promulgating

the standards at issue.[4]

Several months after the U.S. litigation commenced, Motorola sued Microsoft in Germany, seeking an injunction prohibiting Microsoft from selling allegedly infringing products in that country.[5] Microsoft then obtained a preliminary injunction from the Washington court against injunctive relief issued by the German court.[6] Motorola appealed the injunction order to the Ninth Circuit, which affirmed.[7]

After a November 2012 bench trial, the Washington court determined RAND royalty rates and ranges for Motorola's H.264 and 802.11 SEP portfolios.[8] A jury then heard Microsoft's breach of contract claim. Over Motorola's objection, the court allowed the jury to consider the factual findings underlying the court's RAND determinations.[9]

The jury found for Microsoft on the breach of contract claim. Motorola then appealed to the Federal Circuit, which transferred the appeal to the Ninth Circuit, concluding that the Ninth Circuit's exercise of jurisdiction over the case in the appeal from the injunction order constituted law of the case.[10] This most recent appeal was argued before the Ninth Circuit on April 8, 2015, and is now pending decision.

Patent-Related Issues Before The Ninth Circuit

The appeal presents several issues, two of which are of particular interest to patent practitioners: (1) whether the district court constructively amended the breach-of-contract complaint into one requiring resolution of substantial issues of patent law, thereby vesting appellate jurisdiction in the Federal Circuit; and (2) whether the district court erred by determining a RAND rate that contravenes governing Federal Circuit patent damages law.

The history of the case may color the jurisdictional issue. Relying on law of the case, the Federal Circuit already has concluded that the Ninth Circuit's exercise of jurisdiction over Motorola's earlier appeal from the injunction order was, "at a minimum, plausible," and did not work a manifest injustice.[11] That ruling, however, does not address Motorola's argument that the Washington court transformed the case into one requiring resolution of substantial questions of patent law when it established RAND royalty rates and ranges.

Microsoft argues that the district court's RAND analysis did not raise a substantial question of federal patent law because the district court did not determine patent infringement damages and a RAND analysis differs from the standard hypothetical negotiation analysis conducted in a patent infringement action. The district court, however, acknowledged that it "adopt[ed] a modified version of the Georgia-Pacific factors to recreate a hypothetical negotiation between the parties" in establishing the RAND rate and range for Motorola's SEP portfolios.[12] And, in an earlier opinion, the court anticipated that it would "need to issue a RAND rate to determine damages in both cases," suggesting that it believed any RAND royalty determination in the breach of contract case would also govern damages in Motorola's patent infringement action. [13]

Further, in a recent opinion addressing the proper damages for infringement of a RAND-encumbered patent, the Federal Circuit also recognized the utility of the Georgia-Pacific framework in the SEP context and held that, "[a]s with all patents, the royalty rate for SEPs must be apportioned to the value of the patented invention." [14] Thus, it appears that the determination of a RAND royalty rate and its application to a patented invention are issues that, at a minimum, will be heavily influenced by federal patent damages law.

As for the RAND analysis, if the Ninth Circuit concludes that the district court was entitled to determine a RAND royalty rate and range before conducting the jury trial, it will need to

evaluate the propriety of that determination. The Washington court's decision implicates questions of patent damages law concerning the date for the hypothetical negotiation and the import of certain patent pool agreements and licenses in determining the royalty rate. Although Microsoft argues that the district court's RAND determination hinged on the parties' factual presentations, it contends that that determination was in any event consistent with Federal Circuit precedent. Thus, unless the Ninth Circuit concludes that the RAND determination can be reviewed in a legal vacuum, it is likely to apply Federal Circuit patent damages law.

Because there are few Federal Circuit decisions addressing RAND royalties, the upshot of a Ninth Circuit opinion addressing patent damages principles would be to create a new strain of jurisprudence outside of the Federal Circuit in an emerging area of patent law. For example, concluding that a RAND royalty rate may be established without identifying a hypothetical negotiation date or by reference to a date after the infringement began would depart from Federal Circuit precedent on patent damages.[15] Because RAND licensing commitments for SEPs necessarily implicate patents, a Ninth Circuit decision on this issue could not only offer a new perspective, but potentially undermine the uniformity that Congress sought to promote when it vested the Federal Circuit with exclusive jurisdiction over patent cases.

Potential Impact On RAND Licensing Strategies

A Ninth Circuit opinion addressing patent damages law in *Microsoft v. Motorola* not only would have immediate consequences for the parties, but may also impact other litigants in RAND licensing disputes. Further, even if the Ninth Circuit concludes that patent law is irrelevant to its decision, the path of the case may be instructive for parties involved in RAND licensing negotiations.

Congress recently altered the boundaries of the Federal Circuit's jurisdiction over patent-related appeals. Although jurisdiction previously was based on the nature of the complaint alone,[16] the Leahy-Smith America Invents Act[17] amended the statute to provide the Federal Circuit with exclusive jurisdiction over appeals "in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents." [18] Although the AIA amendment had not taken effect when Microsoft filed its complaint, and thus the jurisdictional analysis was based on Microsoft's breach of contract action alone, the district court held that Motorola's patent claims were not compulsory counterclaims. Thus, even if the AIA amendment did apply, Federal Circuit jurisdiction would not have been established on this basis. On the other hand, if the original action arose under the patent laws, the Federal Circuit would have jurisdiction over an appeal regardless of the AIA amendment.

This demonstrates that the sequence of complaints filed in a RAND licensing dispute could play an outsized role in determining appellate jurisdiction. If the first action filed is one for patent infringement, the dispute is more likely to end up in the Federal Circuit on appeal. Although the infringer could attempt to raise breach of contract in a separate action, that cause of action is more likely to be deemed a compulsory counterclaim, particularly if the breach is based in part on the patent holder's request for injunctive relief in its patent infringement action. If the alleged infringer files a breach of contract action first, however, a court may conclude that any subsequent patent infringement claims are not compulsory counterclaims, as the Washington court held in *Microsoft v. Motorola*. Thus, even with the amendment to the AIA, jurisdiction would not necessarily lie in the Federal Circuit.

Alternately, if a party implementing a standard in its products seeks a declaratory judgment to establish a RAND royalty rate rather than claiming breach of contract, there would be a narrower path to avoid the Federal Circuit's jurisdiction. Although the declaratory judgment

action could be construed as an action arising from contract rather than patent law, that construction would be less persuasive if all the plaintiff seeks is a declaration of the royalty rate that otherwise would provide the basis for patent infringement damages.

Finally, even if RAND licensing disputes present an opportunity for courts of appeals other than the Federal Circuit to address issues of patent law, it remains to be seen how those decisions would be treated. If the Ninth Circuit concluded that a RAND royalty rate may be established based on a hypothetical negotiation at the time of trial rather than before the infringement began, would that be binding precedent within the Ninth Circuit in patent cases involving RAND royalties? What is a district court within the Ninth Circuit to do if a subsequent Federal Circuit decision conflicts with the Ninth Circuit's decision? Time will tell how courts would treat non-Federal Circuit decisions deciding issues of federal patent law. In the meanwhile, SEP patent holders and the implementers of those standards may draw some guidance from the Microsoft v. Motorola saga in positioning their RAND licensing disputes.

—By Matthew J. Silveira, Jones Day

Matthew Silveira is a partner in Jones Day's San Francisco office.

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[1] See Microsoft Corp. v. Motorola Inc., 696 F.3d 872, 877-78 (9th Cir. 2012).

[2] Id. at 878.

[3] Id.

[4] Microsoft Corp. v. Motorola Inc., 854 F. Supp. 2d 993, 1002 (W.D. Wash. 2012).

[5] See Microsoft, 696 F.3d at 879.

[6] Id. at 880.

[7] Id. at 889.

[8] Microsoft Corp. v. Motorola Inc., No. C10-1823JLR, 2013 WL 2111217, at *101 (W.D. Wash. Apr. 25, 2013).

[9] Microsoft Corp. v. Motorola Inc., No. C10-1823JLR, 2013 WL 4519451, at *5 (W.D. Wash. Aug. 25, 2013).

[10] See Microsoft Corp. v. Motorola Inc., 564 F. App'x 586, 589-90 (Fed. Cir. 2014).

[11] Microsoft, 564 F. App'x at 590.

[12] Microsoft Corp. v. Motorola Inc., No. C10-1823JLR, 2013 WL 2111217, at *3 (W.D. Wash. Apr. 25, 2013) (citing Georgia-Pacific Corp. v. United States Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970)).

[13] Microsoft Corp. v. Motorola Inc., No. C10-1823 JLR, 2011 WL 11480223, at *6 (W.D. Wash. June 1, 2011) (emphasis added).

[14] *Ericsson Inc. v. D-Link Sys. Inc.*, 773 F.3d 1201, 1232 (Fed. Cir. 2014).

[15] See, e.g., *Lucent Techs. Inc. v. Gateway Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009) (holding that the hypothetical negotiation approach “attempts to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began”).

[16] See *Holmes Group Inc. v. Vornado Air Circulation Sys. Inc.*, 535 U.S. 826 (2002).

[17] PL 112-29, 125 Stat. 284 (2011).

[18] 28 U.S.C. § 1295(a)(1).