PATENTS

The author contends that Judge James L. Robart's framework for determining a royalty rate for infringement of a standard essential patent ''is now on the cusp of changing the patent litigation landscape.''

The Effect of *Microsoft v. Motorola*

BY MAURICIO URIBE

Throughout U.S. patent law jurisprudence, a select number of cases have made significant changes to fundamental aspects of the process of patent litigation. Such milestone cases often eclipse the more specific details of the parties involved in the litigation, the technology and technical industries encompassed by the litigated patents, and even the era of the litigation. For example, a little less than 20 years after the publication of the opinion, there is simply no patent litigation in today's era in which a *Markman* hearing[1] does not play a significant role in the strategy and execution of patent litigation.

With the Ninth Circuit's panel affirmance of the district court's judgment on July 30, 2015, Judge James L. Robart's opinion in *Microsoft v. Motorola* has the potential to make a similar effect on patent litigation for complex technology.

The First RAND Framework—*Microsoft v. Motorola*

In *Microsoft Corp. v. Motorola, Inc.*, Microsoft sued Motorola on the basis of breach of a reasonable and non-discriminatory (RAND) licensing commitment related to patents declared as essential to two technical standards.[2] Based solely on two licensing letters sent by Motorola to Microsoft which included Motorola's proposed royalty rates for Microsoft to take an essential patent license, Microsoft sued Motorola in the U.S. District Court for the Western District of Washington for breach of contract. In filing the lawsuit, Microsoft alleged that it was entitled to enforce Motorola's RAND commitment to the relative standard setting organizations and that Motorola had breached its RAND com-

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[1] Originating from the holding in *Markman v. Westview Instruments Inc.*, 517 U.S. 370, 38 U.S.P.Q.2d 1461 (1996).

[2] *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 2012 BL 62310, 103 U.S.P.Q.2d 1235 (W.D. Wash. 2012) (83 PTCJ 622, 3/2/12). Motorola asserted a 2.25 percent net royalty rate for any device implementing either the 802.11 wireless air interface specification adopted by the Institute of Electrical and Electronic Engineers or the H.264 video encoding standard adopted by the International Telecommunications Union (ITU).

mitments based on the requested royalty rate for the standards essential license.

At the time of the initiation of the litigation, there was no legal precedent or established legal framework to help the district court in defining the meaning of Motorola's RAND licensing commitment and more importantly, to determining whether Motorola had breached its RAND licensing commitment simply with an offer letter. After a series of orders that confirmed Microsoft's standing as a third party beneficiary entitled to enforce Motorola's RAND licensing commitment under the policies of both relevant standard setting organizations, with the consent of the parties, the district court held a bench trial to establish a RAND rate and range for the patents Motorola had declared as being essential to the respective technical standards.[3] Regarding the need for such a bench trial, the district court judge, Judge Robart, reasoned ''[w]ithout a clear understanding of what RAND means, it would be difficult or impossible to figure out if Motorola breached its obligation to license its patents on RAND terms.''

In the simplest approach, Judge Robart could have considered evidence from the parties and determined a RAND royalty rate for Motorola's asserted essential patents. Instead, Judge Robart issued a 207-page opinion setting forth arguably the first framework, bounded by core economic principles, for determining RAND royalty rates or RAND royalty rate ranges. In creating the framework, however, Judge Robart rejected the call for a creation of new legal doctrine to determine the meaning of a RAND licensing commitment. Rather, in his finding of facts, Judge Robart defined a RAND framework commensurate with a hypothetical bilateral negotiation between the parties in accordance with an analysis of the 15 factors set forth in *Georgia-Pacific Corp. v. U.S. Plywood Corp.* as applied to essential patents (RAND framework).[4] Most notably, Judge Robart modified the *Georgia-Pacific* factors on the basis of the more unique aspects of patents considered essential to technical standards and subject to a RAND commitment.[5] Applying the specifics of Motorola's declared essential patents to the newly minted RAND framework, Judge Robart determined a RAND royalty rate range for each patent portfolio and further set a RAND royalty

rate for Motorola's essential patents.[6] Thereafter, the jury was presented with the issue of breach in view of the Findings of Fact and Conclusions of Law and, not surprisingly, determined that Motorola had in fact breached its RAND commitments.

Motorola appealed the district court's Findings of Fact and Conclusions of Law and the jury verdict including at least whether Motorola had consented to bench trial on the determination of RAND royalty rates and royalty rates ranges for Motorola's declared standard essential patents. Eight amicus briefs were filed focusing more particularly on the appropriateness of Judge Robart's framework.[7]

Additionally, in the interim, the Federal Circuit in its holding in *Ericsson v. D-Link Sys, Inc.*, also examined the question of a RAND royalty framework. Stopping short of adopting Judge Robart's framework as *the* only RAND royalty rate framework, the Federal Circuit nonetheless endorsed his approach by reasoning ''[i]n a case involving RAND-encumbered patents, many of the *Georgia-Pacific* factors simply are not relevant; many are even contrary to RAND principles.''[8] In view of the briefing on appeal, including the parties' briefs and amicus filings, Motorola's appeal to the Ninth Circuit could have been interpreted as a clear challenge to Judge Robart's framework. However, the focus of the appeals court's July 30, 2015, opinion was more to the facts of the case related to consent to the bench trial and to the specifics of the application of the framework to the specifics of Motorola's patents (e.g., the lack of weight given to Motorola's other standard essential license agreements).[9] In very limited discussion regarding the appropriateness of the framework, the Ninth Circuit simply summarized:

> In sum, in determining the RAND rate and range for each SEP portfolio, the district court engaged in a thoughtful and detailed analysis, giving careful consideration to the parties' briefing and evidentiary submissions, and to the testimony. Although Motorola criticizes the district court's approach, it provides no alternative other than strict adherence to the *Georgia-Pacific* factors, without accounting for the particulars of RAND agreements—a rigid approach disapproved of by the Federal Circuit in *Ericsson*. *See* 771 F.3d at 1230–31. We conclude that the court's RAND determination was not based on a legal error or on a clearly erroneous view of the facts . . . .

Adoption and Application—*In re Innovatio*

Shortly after the issuance of Judge Robart's RAND royalty rate framework, Northern District of Illinois Judge James F. Holderman adopted Judge Robart's RAND royalty rate framework in *In re Innovatio IP Ven-*

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[3] One of the main issues on appeal to the Ninth Circuit was the effect of the consent provided by Motorola's litigation counsel during a hearing.

[4] *See* 318 F. Supp. 116 (S.D.N.Y 1970).

[5] ''Factor 4 considers the licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly. This factor is inapplicable in the RAND context because the licensor has made a commitment to license on RAND terms and may no longer maintain a patent monopoly by not licensing to others. In fact, as the court has found in this case, the RAND commitment requires the [standard essential patent] owner to grant licenses on RAND terms to all implementers of the standard . . . . Factor 5 examines the commercial relationship between the licensor and licensee, such as whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter. Similar to factor 4, this factor does not apply in the RAND context. This is because having committed to license on RAND terms, the patentee no longer may discriminate against its competitors in terms of licensing agreements. Instead, as explained, the patent owner is obligated to license all implementers on reasonable terms.''

[6] The royalty rate set by Judge Robart corresponded to an approximate 95 percent reduction from the 2.25 percent royalty rate quoted by Motorola in its opening correspondence to Microsoft as applied to Microsoft Xbox 360 video gaming console.

[7] Amicus briefs in support of the Judge Robart's framework were filed by Public Knowledge, Sierra Wireless Inc., Intel Corp. and T-Mobile USA, Inc. Amicus briefs in opposition of Judge Robart's framework were filed by the American Intellectual Property Association, Qualcomm Inc., Nokia Corp. and Apple Inc.

[8] *Ericsson v. D-Link Systems, Inc.*, 773 F.3d 1201, 1229, 113 U.S.P.Q.2d 1001 (Fed. Cir. 2014) (89 PTCJ 295, 12/5/14).

[9] *Microsoft Corp. v. Motorola, Inc.*, No. 14-35393, 2015 BL 243900 (9th Cir. July 30, 2015) (90 PTCJ 2834, 8/7/15).

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tures, LLC Patent Litig.[10] This case was notable not only for being the first district court to embrace and adopt the framework, but also for providing guidance regarding how Judge Robart's RAND royalty rate framework might be applied to different factual scenarios. For example, at the time Judge Holderman adopted Judge Robart's RAND royalty rate framework, Judge Holderman had already determined that the patents asserted by Innovatio IP Ventures were essential to technical standards.[11]

Additionally, because Judge Holderman was applying Judge Robart's RAND royalty rate framework for purposes of setting damages expectations, he determined that a RAND royalty rate range was not appropriate.[12] Accordingly, in line with the Federal Circuit's subsequent guidance in *Ericsson v. D-link*, Judge Holderman made adjustments to the framework based on the facts of the case and the timing of when Judge Robart's RAND royalty rate framework was being applied: "The court notes, however, some of the distinct circumstances of this patent infringement case that will require some modifications to Judge Robart's approach."[13] Because at least a portion of the patents asserted by Innovatio also related to the same 802.11 wireless air interface standards and arguably were considered more significant, Judge Holderman's application of Judge Robart's RAND royalty rate framework and his determination of a royalty rate greater than the royalty rate attributed to Motorola's patents in the *Microsoft v. Motorola* litigation validated the potential that Judge Robart's RAND royalty rate framework may work well for complex technologies likely involving hundreds, if not thousands, of patents.

In re Innovatio is widely known for its adoption and validation of Judge Robart's RAND royalty rate framework, which was facilitated by the agreement by the parties to use the framework to set the royalty rate for the asserted patents.[14] More importantly than the adoption of a framework by another district court, however, was the fact that Judge Holderman and the parties viewed Judge Robart's RAND royalty rate framework as a mechanism for possible settlement or guidance in the litigation: "The court and all parties agreed to address damages at this stage of the litigation, before a determination on the questions of validity and infringement. The court hopes that by doing so, the possibility of settlement will be enhanced because the parties will be better able to evaluate the potential risks and benefits of expending additional resources in the litigation."[15]

With that justification, Judge Holderman likely set forth the true potential and power of Judge Robart's RAND royalty rate framework, as a tool to provide guidance for litigation and licensing by setting potential royalty rate ranges or setting royalty rates for patent portfolios.

The Emergence of Robart Hearings—A Pathway to More Efficient Litigation

With its holding in *Markman v. Westview Instruments, Inc.*, the Supreme Court modified substantive patent law with the interpretation that claim construction was "exclusively with the providence of the court."[16] It seems very likely that very few practitioners are aware that that asserted patents related to tracking clothing through the dry cleaning process using barcodes or the particular terms in the asserted claims that were relevant for a determination of infringement or validity issues. Rather, the subsequent application of the Supreme Court's holdings by the district courts to construe patent claims by holding *Markman* hearings and the eventual adoption of early *Markman* hearings in the trial process have forever modified the process of patent litigation and patent litigation settlement. It can be argued that a significant number of patent infringement lawsuits enter settlement negotiations in view of the results of claim construction via a *Markman* hearing.

Without question, Judge Robart's RAND royalty rate framework may impact substantive patent law by facilitating the determination of RAND royalty rates or RAND royalty rate ranges. Much of the commentary and analysis of Judge Robart's Findings of Fact and Conclusions of Law focus on the minutia of the assumptions made with regard to specific patent pool licensing rates, comparative licenses, determination of essentiality and the like. While certainly relevant for the parties involved in the litigation, the potential range of royalties for patents essential to the 802.11 air interface standards or the H.264 video encoding standards will likely have minimal impact on the larger patent community.

For example, Motorola's appeal brief to the Ninth Circuit focused, among other issues, on whether Judge Robart gave proper consideration to the comparative licenses offered by Motorola and whether Judge Robart gave too much consideration to licensing rates/approaches from relevant patent pools. None of the amicus briefs focused on these factual issues, but rather provided opposing viewpoints regarding the need or effectiveness of Judge Robart's RAND royalty rate framework in addressing issues such as patent holdup and royalty stacking for complex technologies.

It seems that very few patent practitioners would disagree with a proposal, such as an early Robart hearing, that would have the potential effect of promoting settlement or creating more efficient litigation. Nonetheless, skepticism of this approach seems to be focused on the more practical aspects of how exactly a Robart hearing might be applied to patent cases, namely, whether there is a prejudicial effect of considering potential damages/royalties in advance of a determination of infringement or validity and whether the parties could practically present the relevant legal and factual issues. Such concerns can be properly addressed and the likely benefit of Robart hearings in all patent litigations would outweigh potential drawbacks.

With regard to potential prejudicial effects of an early determination of royalty rates or royalty rate ranges,

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[10] No. 11 C 9308, 2013 BL 277902 (N.D. Ill. Oct 3, 2013).

[11] "By contrast, this court has already held a separate proceeding to determine the essentiality of Innovatio's patents, and has determined that they are all standard essential. The question therefore arises of whether the court should adjust the license rate for patents whose essentiality was questionable prior to the court's adjudication." 2013 BL 277902, at *7.

[12] "By contrast, the purpose of the RAND determination here is to set damages for infringement of the standard essential patents. The court must therefore determine a single RAND rate for the purpose of calculating damages, rather than a range." *Id*.

[13] *Id*.

[14] *Id*. at *1.

[15] *Id*.

[16] *Supra* note 1.

that determination could also have a number of potential benefits. First, a determination of lower royalty rates or royalty rate ranges, especially for complex technologies in which royalties would be divided across a larger number of patents, may likely cause plaintiffs to offer more reasonable settlement terms. Second, a determination of higher royalty rates or royalty rate ranges may cause defendants to seek earlier settlement or provide a more appropriate basis for making informed business decisions regarding potential risks. At a minimum, an earlier determination of potential royalty rate ranges or royalty rates should provide guidance in terms of how the parties will litigate and which issues may be most important, especially in view of a glimpse of the potential outcome.

District courts are already well suited to consider issues in a manner to avoid potentially prejudicial effects on juries through the utilization of magistrate judges, arbitrators, mediators and the like, and the application of appropriate safeguards to avoid undue influence of any royalty rate determinations for juries. Moreover, looking to application of Judge Robart's RAND royalty rate framework in *Microsoft v. Motorola* and *In re Innovatio*, different assumptions regarding infringement and validity can easily be incorporated into the framework. If the parties dispute the potential infringement of the patents or the validity of the patents, such disputes are easily factored into the hypothetical negotiation forming the basis of Judge Robart's RAND royalty rate framework.

If the parties do not dispute infringement (or infringement has already been determined), the hypothetical negotiation would simply not consider such disputes, as was the case in *In re Innovatio*. Thus, parties to the litigation could approach a Robart hearing without necessarily conceding any potential issues regarding infringement or validity.

With regard to the practical limitations of incorporating a Robart hearing in litigation, it is likely that most parties that are involved in patent litigation do not have the same financial and legal resources as Microsoft and Motorola. However, Judge Robart's RAND royalty rate framework can be implemented in a manner to leverage the benefit of other existing procedures, such as infringement and invalidity contentions. More specifically, most district courts already require plaintiffs to provide detailed infringement contentions and defendants to provide detailed invalidity contentions prior to discovery. These contentions could easily be considered in Judge Robart's RAND royalty rate framework for purposes of establishing the hypothetical negotiation between the parties. Additionally, district courts could allow for limited early discovery for purposes of better evaluating facts relevant to the framework such as comparative licenses, patent pools, adoption of the accused infringing technology in products, etc.[17] By leveraging existing litigation procedures and with the adoption of streamlined discovery, Robart hearings can be practically implemented across all patent litigations.

Conclusion

Since the publication of Findings of Fact and Conclusions of Law in April 2013, Judge Robart's RAND royalty rate framework has been held out as having the potential to influence future licensing and litigation matters. With the affirmation of the district court in July 2015 and the voluntary adoption of the framework in other district courts, Judge Robart's RAND royalty rate framework has been validated as an effective tool to resolve not only RAND patent issues, but any complex patent issue involving complex technologies.

Similar to the application of the holding in *Markman v. Westview*, if adopted early in the patent litigation process, Judge Robart's RAND royalty rate framework is now on the cusp of changing the patent litigation landscape.

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[17] One example of a procedure for streamlining consideration of RAND disputes was set forth by the World Intellectual Property Organization for arbitrating RAND disputes. *See* http://www.wipo.int/amc/en/center/specific-sectors/ict/frand/annex3/.