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## Landmark Motorola FRAND Ruling May Serve As Roadmap

By **Ryan Davis**

Law360, New York (April 26, 2013, 8:23 PM ET) -- A federal judge's Thursday decision setting licensing terms for standard-essential patents held by Google Inc.'s Motorola Mobility Holdings Inc. may not only save adversary Microsoft Corp. \$4 billion in royalty fees, but could provide a useful framework for resolving future disputes if it stands up on appeal, attorneys say.

Motorola is all but certain to challenge the ruling, which held that its patents are worth about 4 cents per Microsoft product, far less than the 2.25 percent of Microsoft's sales that Motorola had sought. Microsoft said it would have to pay \$1.8 million for the patents under the judge's calculation, compared to over \$4 billion under Motorola's demand.

No judge had ever attempted to calculate what would constitute a licensing rate that is fair, reasonable and nondiscriminatory, or FRAND, until U.S. District Judge James Robart of the Western District of Washington issued his complex, 207-page opinion.

The decision lays out a legal framework for determining a FRAND rate by modifying the factors used in traditional reasonable royalty calculations for the special circumstances of patents that are essential to industry standards.

"This is a very significant and very thorough decision," said Andrew Thomases of Skadden Arps Slate Meagher & Flom LLP. "I think Judge Robart has taken the right approach, and when it up comes up again, any district court is likely to follow his approach."

The dispute began in 2010 when Motorola offered to license its standard-essential Wi-Fi and video coding patents to Microsoft at a rate of 2.25 percent of sales of each Xbox, smartphone and other Microsoft product.

Microsoft then sued Motorola for breach of contract, alleging that it violated its commitment to the organizations that establish the standards to license patents on FRAND terms. Judge Robart's ruling is the result of a November bench trial to determine what a FRAND rate for Motorola's patents would be.

He concluded that a reasonable rate for the Wi-Fi patents should be 3.5 cents per unit and the rate for the video-coding patents should be half a cent per unit.

He also calculated that a reasonable rate for the patents could fall somewhere in the range of 1.4 cents and 36 cents per unit. In contrast, Motorola's demand for 2.25 percent of the sale of each product would amount to \$4.50 for each \$200 Microsoft Xbox.

Among other factors, the judge found that several of Motorola's patents contribute very

little to the industry standards and were therefore entitled to low royalty rates. He also used the licensing rates offered by patent pools that cover similar technology as a reference point for his calculations.

Judge Robart was working from a blank canvas and had to establish criteria for how to establish a FRAND rate. He decided to base his calculations on a modified version of the so-called Georgia-Pacific factors used to determine a reasonable royalty in patent infringement cases.

"This is one of the first times a court has had the opportunity to set forth a means of determining what is a FRAND-based royalty," Jeffrey Johnson of Pryor Cashman LLP said. "In doing so, the judge looked at the existing precedent of Georgia-Pacific and expanded on the factors from that case to develop a new set of factors customized to standard-essential patent disputes."

The Georgia-Pacific factors are designed to replicate the results of hypothetical bilateral negotiations to set a reasonable royalty. Judge Robart concluded that to be used in the context of standard-essential patents, where one party has committed to license the patent on FRAND terms, the analysis must be somewhat modified.

When licensing negotiations involve essential patents, he wrote, the parties would set a licensing rate by looking at the importance of the patents to the standard and the importance of the standard and the patents to the products at issue.

"The judge relied heavily on the Georgia-Pacific factors, but how he modified them to account for FRAND renders certain factors less important," said Matthew Rizzolo of Dow Lohnes PLLC.

For instance, while the Georgia-Pacific factors call for consideration of the relationship between the licensor and licensee, such as whether they are competitors, the judge noted that in a FRAND context, the patent owner is obligated to license the patent to everyone on reasonable terms.

Importantly, Judge Robart held that royalties for standard-essential patents should be based on hypothetical negotiations that took place before the standard was implemented, Thomases said.

That results in an analysis where the patent's value is considered "before it gets the extra boost in value by the standard becoming final and everyone has to practice the patent to practice the standard," he said.

The judge also gave significant weight to the value of the patents to the standard, which hurt Motorola. For instance, he ruled that with regard to the video-coding standard, Motorola's patent portfolio "only constitutes a sliver of the overall technology."

"That was really the crux of his analysis," Thomases said.

In establishing Motorola's FRAND rate, the judge accepted Microsoft's suggestion that patent pools that license similar technology be used as proxies. He found that the pools closely align with the purposes of the FRAND commitment and used their rates as the basis of his calculation.

As a result, "the judge provided a road map, but it might not be applicable in all contexts," Rizzolo said. His methodology would be less useful in situations where there is not a comparable patent pool or other body of knowledge about the value of the patents, he said.

According to former FTC policy director David Balto, the low royalty rate Judge Robart calculated for Motorola is likely to be closely scrutinized on appeal and will face a strong challenge by Motorola and others.

"The court doesn't give enough attention to how important it is for firms to be able to reap the rewards of their intellectual property," he said. "On appeal, a lot of IP owners are going to raise concerns about a rule of law that forces them to share their IP at a very low licensing rate."

Motorola's statement about the decision didn't directly address the outcome, and said only that the company "has licensed its substantial patent portfolio on reasonable rates consistent with those set by others in the industry."

Microsoft deputy general counsel David Howard said in a statement that "this decision is good for consumers because it ensures patented technology committed to standards remains affordable for everyone."

The dispute between Microsoft and Motorola is now slated to proceed to trial in August to answer the question of whether Motorola's offer of a 2.25 percent royalty violated its FRAND obligations. However, since the judge's rate is so much lower than Motorola's demand, attorneys said Microsoft might seek summary judgment that the offer was a breach of contract.

When the appeal is filed, the parties will likely tangle over which court should hear it. The suit was filed as a breach of contract action that would normally be heard by the Ninth Circuit, but because it involves fundamental patent issues, it may end up being heard by the Federal Circuit.

Motorola is represented Quinn Emanuel Urquhart & Sullivan LLP, Ropes & Gray LLP, Summit Law Group PLLC and in-house counsel.

Microsoft is represented by Sidley Austin LLP, Calfo Harrigan Leyh & Eakes LLP and in-house counsel.

The case is Microsoft Corp. v. Motorola Inc. et al., case number 2:10-cv-01823, in the U.S. District Court for the Western District of Washington.

--Editing by John Quinn and Elizabeth Bowen.