



## IP Litigation/Antitrust ADVISORY ■

**MAY 6, 2013**

### Federal Court Sets “RAND” Rate for Portfolio of Standards-Essential Patents

#### **Who Should Read this Advisory:**

- Entities that own or control patents essential to industry standards (commonly referred to as standards-essential patents or “SEPs”), if those patents are subject to licensing commitments made to standards-setting organizations.
- Entities that currently or plan in the future to manufacture or sell products that comply with industry standards.
- In-house counsel and other practitioners who like to keep abreast of important developments in intellectual property law and busy professionals that do not have time to read and digest a 207-page opinion.

#### **Why You Need to Know About this Case:**

- This is the first significant case in which a federal court has applied a patent owner’s commitment to license SEPs on reasonable and non-discriminatory (RAND) terms and actually set a RAND royalty rate for the patent owner’s portfolio of SEPs for a particular standard.
- The court’s methodology for determining a RAND rate for SEPs may potentially be used by courts, administrative agencies or arbitrators in future disputes over RAND licensing. Such disputes have become commonplace in the information technology and telecommunications sectors and may also become more prevalent in other industries as companies attempt to monetize their patent portfolios and generate additional returns on their research and development expenditures.

#### **Background on SEPs and RAND Licensing Commitments**

Over the last several years, the licensing and enforcement of standards-essential patents has become an important issue in patent infringement litigation and among antitrust enforcers. Because SEPs can, in some circumstances, give the patent owner the potential power to block or “hold-up” implementation and adoption of important industry standards, SEPs implicate legal and public policy issues in the overlapping spheres of antitrust and intellectual property law.

Recognizing the potential blocking power of essential patents, many standards-setting organizations (SSOs) have put in place intellectual property rights policies that encourage patent owners to identify any SEPs that they hold and to agree that they will license their SEPs on RAND terms. RAND terms, as envisioned by SSOs, are intended to

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reward the patent owner for its investment in research and development, but also permit the standard to be widely and successfully implemented. These RAND licensing commitments have added a contract law overlay to the existing antitrust and intellectual property issues surrounding SEPs.

In the technology marketplace, there has been significant litigation between major manufacturers and patent owners over the contours of RAND licensing commitments and what they permit or prohibit the owner of an SEP to do in licensing negotiations or patent infringement litigation. These battles have included household names like Apple, Samsung, Google/Motorola, Nokia and Ericsson. The Federal Trade Commission, the Justice Department's Antitrust Division and the United States Patent and Trademark Office have all weighed in on the issues related to SEPs and RAND licensing commitments and the FTC has even recently entered into consent orders with Bosch and Google/Motorola restricting their ability to enforce SEPs in a manner that the FTC views as contrary to their RAND licensing commitments. In the Google/Motorola consent order, the FTC indicated that disputes between patent owners and potential licensees over RAND license terms can, and in many cases, should be resolved by a court or arbitrator with the court or arbitrator establishing the RAND licensing terms. At the time of the Google/Motorola consent order, however, no court had engaged in a detailed analysis to set a RAND licensing rate on multiple SEPs. That all changed, however, on April 25, 2013, when United States District Court Judge James L. Robart issued a 207-page decision setting RAND royalty ranges in an SEP licensing dispute between Microsoft and Motorola pending in the United States District Court for the Western District of Washington.

The Microsoft-Motorola litigation has been one of the most-closely watched cases involving RAND commitments. In his April 25, 2013, order, Judge Robart adopted a methodology for determining RAND royalty rates for SEPs and actually set a RAND royalty range for Motorola's portfolio of patents relating to two technology standards—the 802.11 wireless LAN standard (promulgated by the Institute of Electrical and Electronics Engineers (IEEE)) and the H.264 video codec standard (promulgated by the International Telecommunication Union (ITU)). Motorola had committed to license its SEPs for these two standards on RAND terms.

It remains to be seen what impact Judge Robart's order will have on future RAND licensing disputes pending before courts, administrative agencies or arbitrators. As Judge Robart expressly noted in his order, "the court's methodology is necessarily dictated by the circumstances of this litigation—a dispute between an SEP owner and a standard-user over a reasonable royalty rate. The court recognizes that real-world negotiations involving patents committed to the RAND obligation might include layers of complexity beyond determining monetary royalty rates. However, this litigation is limited in scope by the pleadings and evidence provided to the court, and the court is therefore likewise constrained to determining what constitutes a reasonable royalty rate for Motorola's SEP portfolio under the RAND obligation." It is likely, however, that Judge Robart's order will serve, at a minimum, as a reference point for courts, administrative agencies or arbitrators who have to likewise resolve a dispute between a patent owner and potential licensee over RAND licensing terms. The order also highlights some important practical considerations that patent owners and potential licensees should take into account when litigating RAND licensing commitments and disputes over RAND licensing terms.

The case is *Microsoft Corp. v. Motorola Inc.*, No. 2:10-cv-01823-JLR (W.D. Wash. Apr. 25, 2013).

## Background

Shortly after receiving a license offer from Motorola for Motorola's 802.11 and H.264 SEPs, Microsoft initiated a breach of contract action claiming that Motorola breached its RAND licensing commitments to IEEE and ITU by offering to

Microsoft license terms that were not RAND.<sup>1</sup> In its licensing offer, Motorola had requested that Microsoft pay 2.25 percent of the end user sales price for all of Microsoft's products that incorporated the relevant standards—primarily the Xbox 360, Surface tablet and Windows operating system.

In the early stages of the litigation, the court addressed the issue of whether a RAND licensing commitment is enforceable as a matter of contract and agreed with Microsoft that "through Motorola's letters to both the IEEE and ITU, Motorola has entered into binding contractual commitments to license its essential patents on RAND terms" and that "Microsoft, as a member of both the IEEE and ITU, is a third-party beneficiary of Motorola's commitments to the IEEE and ITU."<sup>2</sup> However, the court determined that before it could find whether or not Motorola's licensing offers had breached Motorola's commitments to the IEEE and ITU, the court would have to determine what the actual RAND licensing rate and RAND royalty range (meaning a range of potential rates within which offers would be RAND) would be with respect to Motorola's SEPs for the 802.11 and H.264 standards. In order to establish the RAND royalty range for Motorola's SEPs, the court held a bench trial from November 13–20, 2012. The testimony presented by Microsoft and Motorola included technical experts on the relevant standards, the importance of Motorola's patents to those standards and to Microsoft's products, fact witnesses testifying as to potential comparable licenses and patent pools licensing SEPs for the relevant standards, and economics and licensing experts discussing SEP licensing, the potential for patent "hold-up" by owners of SEPs and the problems of "royalty stacking" due to the large number of SEPs and other patented technologies in modern devices.

## **Executive Summary of Judge Robart's Findings:**

- A party's commitment to license its patents on RAND terms is a binding agreement that may be enforced by an SSO member and prospective licensee.
- A RAND royalty rate should be set by simulating a hypothetical negotiation between the parties using a RAND-modified set of *Georgia-Pacific* factors.
  - This analysis should account for the problem of patent hold-up by examining the importance of the patented technology at issue in relation to the standard and by examining the importance of the standard to the products at issue (i.e., stripping out any value arising from the mere fact that the patented invention is included in the standard and, therefore, can be used to block implementation of the standard).
  - This analysis should also account for the potential problem of royalty stacking by accounting for other essential patent holders and the RAND royalties they may seek from manufacturers of standards-compliant products. The total royalties charged for all SEPs for the standard should, in the aggregate, be set at a level that promotes widespread adoption of the standard and allows each patent owner's proportional share of the total SEPs for the standard to be taken into account
  - RAND royalties must be set at a level that properly rewards the patent owner for its investment in the patented invention.
- Many of Motorola's SEPs related to H.264 and 802.11 provided minimal value to the standard or standards-compliant products and had little incremental value over other available alternative technologies.

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<sup>1</sup> Microsoft's action was consolidated with a related action brought by Motorola asserting infringement of three Motorola patents.

<sup>2</sup> *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 999 (W.D. Wash. 2012); *Microsoft Corp. v. Motorola Inc.*, No. 2:10-cv-01823-JLR, Findings of Fact and Conclusions of Law at 5 (W.D. Wash. Apr. 25, 2013).

- Rates charged by patent pools for the H.264 and 802.11 standards provided instructive data points because the parties contributing patents to the pool were also manufacturers of standards-compliant products with an interest in the success of the standard.
- Motorola's licenses with third parties that included licenses to H.264 and 802.11 SEPs were not comparable licenses because they (i) were executed as part of a settlement to resolve litigation that did not relate to the relevant standards or SEPs, (ii) failed to allocate royalties to the relevant SEPs or (iii) covered expired patents.
- The RAND royalty rate for Motorola's H.264 essential patent portfolio is 0.555 cents per unit. The RAND royalty range for this portfolio is 0.555 – 16.389 cents per unit.
- The RAND royalty rate for Motorola's 802.11 essential patent portfolio is 3.471 cents per unit. The RAND royalty range for this portfolio is 0.8 – 19.5 cents per unit.

## District Court Analysis

As a starting point for its analysis, the district court reviewed the standard-setting process and determined that RAND commitments of the kind made by Motorola are designed, in part, to deal with the problems of patent hold-up and royalty stacking. Patent hold-up occurs where a patent holder uses the fact that its patent has been adopted into a standard to obtain more than the value that the patented invention would have outside the standard—for example, by threatening to block use of the standard (through injunctions or other exclusionary remedies) and thereby forcing the prospective licensee to pay higher royalties in order to avoid switching costs to abandon the standard and change to another technology. Royalty stacking refers to the potential that cumulative royalties could become too expensive for a manufacturer to bear where a product, such as a wireless handset, incorporates many standards, each of which is covered by a large number of essential patents that all come with royalty burdens. The court expressed agreement with the Federal Trade Commission's statement that RAND commitments are used to prevent patent hold-up, and held that "[t]he RAND commitment also addresses royalty stacking and the need to ensure that the aggregate royalties associated with a given standard are reasonable."<sup>3</sup> The court stressed that at the same time, the RAND commitment must guarantee that patent holders receive reasonable royalties for the use of their intellectual property.<sup>4</sup>

The court then turned to the proper methodology for determining a RAND royalty rate. The court discussed Microsoft's proposed approach, which would be to determine the incremental value of patented inventions over the other alternatives available at the time before the standard was adopted. This incremental *ex ante* valuation approach has been suggested by various economists as one way to factor out hold-up value resulting from the patented invention's incorporation into the standard, and it was adopted by Judge Posner in his recent decision in the *Apple v. Motorola* litigation as one way of setting RAND rates for SEPs. The court found the *ex ante* approach to be unworkable, however, because patent owners do not typically disclose licensing rates for competing technologies before a standard is adopted and deriving such rates after the fact would be difficult. The court noted, however, that any RAND royalty rate must look to some extent to the value the patented invention contributes to the standard, which can sometimes be viewed through the lens of available alternatives.

Ultimately, the court adopted Motorola's suggested approach of setting RAND rates by simulating a hypothetical negotiation between the parties for the relevant patents.<sup>5</sup> In order to conduct such a simulation, the court applied a

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<sup>3</sup> See *id.* at 22-23.

<sup>4</sup> See *id.* at 25.

<sup>5</sup> See *id.* at 29.

modified set of the *Georgia-Pacific* factors used in setting reasonable royalties in typical patent infringement actions.<sup>6</sup>

In particular, the court made the following modifications to the traditional *Georgia-Pacific* factors:

- Factor 1 (the royalties received by the patentee for licensing the patents at issue) has to be modified to only take into account royalties paid by licensees under RAND licensing conditions.
- Factors 4 and 5 (the licensor's policy and program of not licensing others and the relationship between licensor and licensee, including whether they are competitors) are disregarded in a RAND analysis.
- Factors 6 and 8 (importance of the patented invention to the licensor's and licensee's products and derivative and convoyed sales) have to be adjusted to factor out any value that arises solely from the patent's potential hold-up power as a result of being included in the standard.
- Factor 7 (duration of patent and term of license) is simplified because the license is assumed to extend for the duration of the patent.
- Factor 9 (the utility and advantages of the patent over old modes or devices) must be focused on alternative technologies that could have been selected and included in the standard before the standard was adopted.
- Factors 10 and 11 (benefits to those who use the invention and value of use to the infringer) must be focused on the contribution of the patent to the technical capabilities of the standard and to the licensee's products.
- Factor 12 (portions of the profit or selling price that are customary for use of the invention) must be focused on what is customary in RAND-licensing situations.
- Factor 13 (the portion of the licensee's profit that should be credited to the invention) must exclude potential hold-up value the patented invention may have solely because it was included in the standard.
- Factor 15 (the amount licensor and licensee would have agreed to at the time infringement began) must assume that the licensor and licensee were negotiating under the shadow of the RAND commitment and its goal of facilitating widespread adoption of the standard by avoiding hold-up or royalty stacking problems. In particular, the court noted that "the parties attempting to reach an agreement would consider the overall licensing landscape in existence vis-à-vis the standard and the implementer's products. In other words, a RAND negotiation would not be conducted in a vacuum. The parties would instead consider other SEP holders and the royalty rate that each of these patent holders might seek from the implementer based on the important of these other patents to the standard and to the implementer's products." In addition, the court pointed out that "reasonable parties in search of a reasonable royalty would consider the fact that, to induce the creation of valuable standards, the RAND commitment must guarantee that holders of valuable intellectual property will receive reasonable royalties on their property."

Having established this RAND-modified *Georgia-Pacific* methodology, the court then applied it to the patents at issue in order to derive a RAND royalty rate for Motorola's 802.11 and H.264 SEPs, applying the principles behind the RAND commitment and considering comparable license agreements and patent pool agreements in order to establish the rate.

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<sup>6</sup> See *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

The court started its RAND rate analysis by breaking Motorola's 802.11 and H.264 portfolios into six patent families and examining the value of each patent family to the relevant standard. For Motorola's H.264 SEP portfolio, the court found that some families in the portfolio were significant contributions with no real alternatives; others provided only minimal advancement over the prior art; some contributed to the standard, but were not significant improvements over other alternatives; and some had limited value because they were limited to hardware implementations only (not software implementations) or applied only to older interlaced video technology, which has largely been replaced by progressive scan video in modern flat-screen televisions and display monitors.

The court then turned to the value of Motorola's H.264 SEPs to Microsoft's products. As an initial matter, the court noted that some of Microsoft's products did not support H.264 interlaced video and, therefore, did not benefit from Motorola's SEPs that related only to interlaced video. The court also noted that Windows is a software product and, therefore, does not benefit from any of the Motorola H.264 SEPs that were limited to hardware implementations. Finally, with regard to Microsoft's primary hardware product—the Xbox 360—the court noted that interlaced H.264 video content was not widely used on Xbox 360s and Motorola's H.264 SEPs did not contribute much to the Xbox 360 since it is primarily used to play games.

After analyzing Motorola's H.264 portfolio, the court then turned to Motorola's 802.11 SEP portfolio, which consisted of 24 patents. The court noted that Motorola provided no evidence that any of the 24 patents at issue were actually essential to the 802.11 standard. Also, the court criticized both parties' experts for providing only "ipse dixit" testimony on the viability of alternative technologies to Motorola's 802.11 SEPs. The court concluded that uncertainty as to the actual essentiality of Motorola's 802.11 portfolio and the viability of alternative technologies are factors that would be taken into account in any hypothetical negotiation. Because Motorola only presented evidence as to use of 802.11 by the Xbox 360 at trial and Motorola concluded that only 13 of its 24 patents applied to the Xbox 360, the court limited its technical analysis to just those 13 patents. After analyzing the patents, the court found little to no evidence of the technical importance of these patents to the 802.11 standard and concluded that parties to a hypothetical negotiation would view them as "providing very minimal technical contribution." The court also concluded that there would be substantial disagreement as to whether the 13 Motorola SEPs were actually practiced by the Xbox 360.

With this technical analysis completed, the court then turned to the actual RAND royalty rates applicable to the two portfolios. Motorola argued that its 802.11 portfolio was worth 2.25 percent of the net selling price of Microsoft's accused products, and that its H.264 portfolio was worth the same rate, with yearly payments capped between \$100 and \$125 million. In support of this calculation, Motorola relied on a license with VTech, which included a license to Motorola's 802.11 and H.264 patents. The license, however, was entered into in connection with a settlement agreement concluding litigation over six unrelated non-SEPs. The court found that the bulk of the royalties paid under the agreement were for the settlement of the outstanding patent litigation and, as a result, very little was paid for Motorola's 802.11 and H.264 SEPs.

Motorola also relied on its cross-license agreement with RIM as a comparable license. The RIM cross-license included a license to Motorola's H.264 and 802.11 patents, as well as various other communication standards and certain non-essential patents, in exchange for a license to RIM's essential patents and a royalty payment made by RIM to Motorola. Like the VTech license, the RIM cross-license was executed to settle outstanding patent infringement litigation, including a pending International Trade Commission investigation commenced by Motorola against RIM. The court pointed out that the RIM agreement did not apportion the royalties to be paid to specific standards licensed. The court found this issue to be significant, stating that "where multiple technologies (including both standard essential and non-essential patents) are licensed within the same agreement, it is necessary to apportion

the value of Motorola's 802.11 or H.264 SEPs from the other licensed properties. . . . Such apportionment would be difficult. As a result, the court has no way of determining the value of Motorola's 802.11 and H.264 patent portfolio's as distinct from Motorola's wireless cellphone portfolio and other patents included in the RIM agreement. . . . The court concludes that to the extent any value can be derived from the RIM agreement for Motorola's H.264 and 802.11 Patents, the evidence suggests that the value is very little."

Finally, Motorola relied on certain license agreements that Motorola's affiliate, Symbol Technologies, executed with third parties. The court found none of the licenses to be comparable because they either involved patents that were expired before Motorola made its first licensing offer to Microsoft or were executed in the context of pending litigation.

Having looked at Motorola's proffered comparable licenses, the court then turned to the royalty stacking issue. The court noted that 92 separate companies claimed to have SEPs for the 802.11 standard. Using simple multiplication, the court found that if each SEP holder made the same royalty demand as Motorola, cumulative royalties payable on 802.11 products would exceed the total purchase price of 802.11 devices. The court also pointed out that Motorola's 802.11 portfolio had already been found to have little technical value to the 802.11 standard or Microsoft's Xbox 360. The court conducted a similar analysis with regard to the H.264 standard. There are 52 entities that claim to have H.264 SEPs, and, if they all sought the same royalty rate that Motorola proposed, the royalties on H.264 would likewise be excessive.

With these royalty stacking concerns in mind, the court examined Microsoft's contention that RAND rates should be based upon the rates charged by the MPEG LA H.264 patent pool and the Via 802.11 patent pool, groups of patent owners with SEPs in each standard that have agreed to license their patents collectively. The court noted problems with using patent pool rates as comparables for the purpose of calculating a RAND rate, including the fact that (i) patent pool rates tend to be lower than rates agreed upon in actual bilateral negotiations; (ii) patent pools tend to allocate royalties among patent holders based purely on the number of patents that each party has included, leaving aside any qualitative analysis of the patents in the pools; and (iii) patent pools do not examine the incremental value of the patents in the pools compared to other available alternatives prior to the establishment of the standard at issue.<sup>7</sup>

Despite these problems, the court ultimately concluded that patent pool rates can be indicators of RAND royalty rates, but one must take into account the fact that parties entering a patent pool receive benefits from membership in the patent pool independent of the royalties they receive. In the case of the MPEG LA H.264 patent pool, the pool facilitated widespread adoption of the standard by including thousands of worldwide patents and licensing those patents to over 1,000 licensees. The evidence likewise showed that the founders of the pool attempted to set the rate high enough to motivate patent holders to contribute patents, but low enough to ensure adoption of the standard, which tracks the purposes of the RAND obligation.

To set the proper RAND rate for the H.264 portfolio, the court looked to the royalties that Motorola would have received for its patents if it and all other identifiable H.264 patent holders were added to the MPEG LA H.264 patent pool. The court determined that "the royalty rate Motorola would receive under the MPEG LA H.264 patent pool for its SEPs represents only a portion of the value Motorola would receive as a member of the MPEG LA H.264 patent pool. The remaining portion of the value would be the value to Motorola in having full access to the immense technology included" in the pool.<sup>8</sup> The court estimated this additional value by adopting Microsoft's view that membership in

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<sup>7</sup> *Microsoft Corp. v. Motorola Inc.*, No. 2:10-cv-01823-JLR, Findings of Fact and Conclusions of Law at 160-61 (W.D. Wash. Apr. 25, 2013).

<sup>8</sup> See *id.* at 170.

the patent pool provided Microsoft with additional value that was at least twice what Microsoft received in royalties from the pool. Using this approach, the court found that Motorola would receive 0.185 cents per unit if Motorola and all other patent holders entered the MPEG LA H.264 patent pool. As a result, the total value to Motorola for its H.264 patents from the pool would be 0.185 cents in patent royalties plus twice that same amount (0.37 cents per unit), with this latter amount representing the value that Motorola would receive through access to the other intellectual property in the patent pool, for a total of 0.555 cents per unit.

In order to determine the proper RAND royalty range for Motorola's H.264 patents, the court looked to how much parties in a RAND negotiation would pay before the standard were to become cost-prohibitive, taking into account the potential for royalty stacking by keeping other essential patent holders in mind. The court determined this maximum amount by looking to the highest fee discussed during the formation of the MPEG LA H.264 pool, which was a total licensing cost of \$1.50 per unit to be split among all patent holders. Since Motorola would own 3.642 percent of the patents essential to the pool if it and all other identifiable patent owners were to enter the pool, the court determined that Motorola would be entitled to 5.463 cents per unit under such an arrangement, then added an additional two times that value to determine the upper limit of the RAND range—16.389 cents per unit. Thus, the court found that the appropriate RAND range for Motorola's H.264 SEPs was between 0.555 cents per unit and 16.389 cents per unit, with the actual rate at the bottom end of this range because Motorola did not provide evidence that its patents were of particular value to the standard.

The court applied a very similar analysis with respect to Motorola's 802.11 patents using the Via 802.11 patent pool. The court repeated many of its problems with using the MPEG LA H.264 pool as a measure of a RAND rate, adding to its list the fact that the Via 802.11 pool is less successful than the H.264 pool as measured by patents contributed to the pool and licensees taking licenses from the pool. Nevertheless, the court used the Via 802.11 pool as an indicator of a RAND rate for Motorola's patents.

To find the proper RAND rate for Motorola's patents, the court determined that Motorola would be entitled to 10.19 percent of the payments made to the pool if the patents that Motorola and Microsoft claimed as essential to the 802.11 standard were added to the pool along with a number of third-party patents declared essential to the IEEE. The court also adjusted Motorola's share of the pool using a weighting system that looks to the number of SEPs held in each country. The court determined that in 2011, Microsoft had shipped 14,263,000 802.11-compliant products, and that, at Via 802.11's rate of \$0.20 per unit at that volume, Microsoft would have paid \$2,852,600 into the pool. Motorola's share would have been 10.19 percent, or \$290,680, which would have been 2.038 cents per unit. Because Motorola would also have received twice this value in the benefits of its membership in the pool, the court determined that the value of Motorola's 802.11 SEPs in the pool would have been 6.114 cents per unit. The court then noted that many companies had not declared individual patents as essential to the 802.11 standard (in other words, there were no patent count numbers available to determine Motorola's true share of the 802.11 SEPs), and that Motorola had not proven that its patents are more valuable than the patents in the 802.11 pool, factors indicating that the actual RAND rate should be lower than the top-end royalty rate of 6.114 cent per unit.

The court also looked to the practice of Marvell Semiconductor, Inc., a third-party chipset provider, which testified that it paid a one percent royalty rate for the licenses necessary to make its 802.11-compliant semiconductor chips. The court found that a one percent rate applied to the sales price of an 802.11-compliant semiconductor chip would be three to four cents per chip.

Finally, the court examined a licensing model proposed by a consulting firm called InteCap, Inc., to Motorola for Motorola's licensing program. InteCap's model resulted in an effective royalty rate of 0.1 percent of the end price of products incorporating 802.11 chips, such as Microsoft's products, which would equate to 20–40 cents per unit. However, the court found that InteCap had erroneously assumed that Motorola owned 25 percent of all 802.11 essential patents, and reduced this amount to 0.8–1.6 cents per unit to reflect its own estimate that Motorola's 802.11 portfolio contained less than one percent of the technology in the standard.

To obtain a RAND rate for Motorola's 802.11 patents, the court decided to determine the average of these three indicators: (1) the 6.114 figure suggested by the Via 802.11 patent pool; (2) 3.5 cents per unit reported by Marvell; and (3) 0.8 cents per unit to represent the InteCap analysis, using the low point of the 0.8–1.6 cents per unit range largely because the InteCap evaluation based royalties on the end price of a product. Averaging these rates, the court found that the proper RAND rate for Motorola's patents is 3.471 cents per unit.

To obtain a RAND range for Motorola's 802.11 patents, the court used the high point of the royalty range offered by Microsoft at the trial, 6.5 cents per unit, to derive the ceiling because it was similar to a number that could have been put forth in negotiations between the parties. Since the 6.5 cents per unit figure was based on Motorola's hypothetical participation in the Via 802.11 patent pool, the court multiplied it by three to reflect the added value to Motorola of pool participation for a final amount of 19.5 cents per unit. The court then set the bottom of the RAND range at 0.8 cents per unit, which was the lowest rate on the record based upon a methodology that the court had found to be an indicator of RAND.

## Conclusions

Judge Robart's decision is important because courts, arbitrators and antitrust enforcers around the world are struggling with how to resolve disputes over RAND license terms for portfolios of SEPs. Judge Robart's methodical approach demonstrates that it is possible for a busy court to resolve such a dispute (including the difficult process of evaluating technical merits and value to a standard). Moreover, his methodology may be followed by others as a roadmap for resolving these types of disputes in the future. As Judge Robart noted, however, "the court's methodology is necessarily dictated by the circumstances of this litigation—a dispute between an SEP owner and a standard-user over a reasonable royalty rate. The court recognizes that real-world negotiations involving patents committed to the RAND obligation might include layers of complexity beyond determining monetary royalty rates. However, this litigation is limited in scope by the pleadings and evidence provided to the court, and the court is therefore likewise constrained to determining what constitutes a reasonable royalty rate for Motorola's SEP portfolio under the RAND obligation."

If Judge Robart's RAND-modified *Georgia-Pacific* analysis is adopted by courts or arbitrators going forward, there are certain practical considerations that both patent owners and potential licensees may have to take into account when facing disputes over RAND licensing terms. A few examples of those practical considerations include the following:

- In order for a court or arbitrator to rigorously apply a RAND-modified *Georgia-Pacific* analysis, the parties will actually have to present evidence on the economic value of the patented invention to the standard and of the standard to the product.
- Knowledge of potentially applicable pool rates and how to argue for or against their application will be important—including any ancillary benefits from pool membership beyond royalties received by patent owners.

After all is said and done, the one thing that is clear from Judge Robart's decision and other recent developments in the area of SEPs is that when seeking to license or enforce SEPs, there are a number of complicated contractual, IP, antitrust and economic factors that must be considered in order to avoid potential antitrust claims, defenses to infringement claims, potential scrutiny from antitrust regulators and potential devaluations of the patent owner's SEP portfolio. Alston & Bird has a special team devoted to RAND licensing issues that has been involved in major, strategic RAND licensing and intellectual property disputes involving major technology companies.

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