



ARE Patent Law Alert: US Court of Appeals for the Ninth Circuit Affirms District Court’s Decision Setting Reasonable and Non-Discriminatory (“RAND”) Royalty Rate

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Microsoft Corp. v. Motorola, Inc., No. 14-35393, 2015 U.S. App. LEXIS 13275 (9th Cir. July 30, 2015) (“*Microsoft*”).

On Thursday, July 30, 2015, the US Court of Appeals for the Ninth Circuit affirmed the Western District of Washington’s landmark 2013 decision that set, for the first time, a fair, reasonable and non-discriminatory (“RAND”) royalty rate for standard-essential patents (“SEPs”). In addition, the court affirmed the jury’s verdict that Motorola had breached its obligation to offer RAND licenses to Microsoft in good faith, resulting in \$14.52 million in damages. See *Microsoft*, 2015 U.S. App. LEXIS 13275, at *49-50, *70.

The case started in 2010, when Motorola sent Microsoft two letters offering to license its SEPs at 2.25 percent of the price of the end product, i.e., every Xbox game console or computer running Microsoft Windows. In response, Microsoft filed suit in the Western District of Washington, alleging that Motorola had breached its contractual obligation to the Standard-Setting Organizations that requires SEP holders to license their patents on RAND terms. In a lengthy 207-page opinion, Judge Robart ruled that a fair RAND rate would only be 3.471 cents and 0.555 cents per unit for Motorola’s standard-essential Wi-Fi and video coding patents, respectively, amounting to a \$1.8 million license for Microsoft. This is far less than the approximately \$4 billion Motorola would have obtained under its 2.25 percent offer.

On appeal, Motorola challenged whether the district court had the legal authority to decide the RAND royalty rate and whether its methodology in calculating the rate was proper in light of Federal Circuit precedents. Motorola also challenged whether the district court erred in awarding Microsoft attorneys’ fees in connection with Motorola’s pursuit of injunctions against infringement. The court rejected each of these challenges in turn.

Specifically, with regard to the court’s authority to determine RAND royalty rates, the Ninth Circuit noted that Motorola was “quite aware” that RAND rate determination is an “essential precursor to the breach-of-contract trial.” *Id.* at *33. The court found that Judge Robart “quite reasonably” determined that a “true RAND royalty rate for Motorola’s SEPs was an important fact for the jury to consider in determining whether Motorola breached its good faith obligations under the RAND agreements.” Moreover, both parties previously agreed that “the court [will] decide all the material terms of the RAND license.” *Id.* at *30-31. Thus, the court found that Motorola had waived its right to a jury trial on this issue.



Motorola's challenge to the district court's RAND royalty rate analysis was based on the argument that a proper analysis under *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), would be based on the value at "the time the infringement began" and not, as Judge Robart's analysis was, on the present-day value of Motorola's patents. The Ninth Circuit rejected Motorola's argument, recognizing that many of the *Georgia-Pacific* factors merit modification in some RAND contract contexts. The court specifically noted that a rigid application of the *Georgia-Pacific* factors, "without accounting for the particulars of RAND agreements," was rejected by the Federal Circuit in *Ericsson, Inc. v. D-Link Sys., Inc.*, 771 F.3d 1201, 1230-31 (Fed. Cir. 2014).

The Ninth Circuit also affirmed the award of damages for Microsoft's attorneys' fees to defend against Motorola's injunction action, explaining that Motorola's pursuit of injunctions violated its duty of good faith and fair dealing in light of its RAND commitments. Specifically, the court noted that the purpose of RAND royalty would be defeated if licensees "were forced to absorb the cost of defending" against bad faith injunctive relief claims. *Microsoft*, 2015 U.S. App. LEXIS 13275, at *67.

Please feel free to contact us to learn more about how this decision and the evolving law on RAND royalty rates for standard-essential patents may affect your business.

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