

## CLIENT ALERT

### Ninth Circuit Hears Argument in Landmark Standard-Essential Patent Case

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Earlier this week, the Court of Appeals for the Ninth Circuit heard oral argument in *Motorola v. Microsoft*. Before the court was Motorola's appeal of a [Washington federal district court's decision](#) in which (1) the district court determined a reasonable and nondiscriminatory (RAND) royalty rate for Motorola's standard-essential patents (SEPs) for WiFi and video coding technology and (2) the court refused to set aside a jury's verdict that Motorola had breached its contractual commitment to license on RAND terms. The case raises important issues for all parties involved in SEP license negotiations, including permissible negotiation and litigation tactics, the evidence necessary to support a finding of breach of RAND, factors to be considered in setting a RAND rate, and the appropriate fact finder in litigating RAND disputes.

#### Background

Motorola holds patents that it declared essential to video coding and WiFi standards developed by the International Telecommunications Union (ITU) and Institute of Electrical and Electronics Engineers (IEEE). Microsoft practices those standards and, therefore, needs a license to Motorola's patents to avoid potential infringement litigation. In 2010, Microsoft and Motorola had engaged in cross-licensing discussions. Motorola sent Microsoft letters offering a worldwide license to its WiFi SEPs at a rate of 2.25 percent per compliant unit and a license to its video coding SEPs under the same terms. Microsoft did not respond to either letter, but instead sued Motorola claiming that its offers constituted a breach of its commitments to ITU and IEEE to license its SEPs on RAND terms. Motorola responded by bringing a separate suit against Microsoft for infringement of those same SEPs.

#### The Case at the District Court and Motorola's Appeal

District Court Judge James Robart bifurcated the trial. The first phase was a six-day bench trial, after which the judge determined a RAND royalty range and rate for Motorola's SEPs. Judge Robart found a rate that was well below Motorola's opening offers. The second phase was a jury trial on the question of whether Motorola had acted in bad faith in violation of its RAND commitment. During the jury trial, Judge Robart ruled that his RAND rate determination and underlying findings of fact could be introduced as evidence of Motorola's lack of good faith in negotiations. After a week-long trial, the jury found that Motorola had breached its RAND obligation.

Motorola's appeal rests on four key arguments:

- **Jurisdiction.** Motorola argues that the Ninth Circuit lacks jurisdiction over the appeal and that the Federal Circuit should hear the case, as it "necessarily involve[s] resolution of substantial issues of patent law." In support of this claim, Motorola contends that Judge Robart, by setting a RAND royalty rate, essentially held a "patent damages trial."
- **RAND Ruling as Advisory Opinion.** Motorola next argues that, if jurisdiction is in fact proper, the Ninth Circuit should reverse because Judge Robart improperly allowed his RAND decision to be disclosed to the jury. According to Motorola,

the RAND ruling was not a prerequisite to trying Microsoft's breach of contract claims, and therefore the ruling was an impermissible advisory opinion that should not have been admitted during, and improperly tainted, the subsequent jury trial. In the alternative, Motorola contends that the RAND determination should be set aside as not based on adequate evidence and contrary to controlling Federal Circuit patent damages law.

- **The Jury Verdict.** Third, Motorola argues that no reasonable jury could find it breached its RAND commitment based merely on initial offer letters to Microsoft and its filing an infringement lawsuit against Microsoft in Germany, where it sought an injunction. According to Motorola, through its letters, it "made its standard opening offer to Microsoft in order to begin a negotiation."
- **The Jury's Damages Award.** Motorola also contends that the majority of Microsoft's damages award (attributable to relocation costs associated with Microsoft moving its European manufacturing facility in response to Motorola's infringement suit) should be set aside. Motorola claims it is exempt from such litigation-related damages under the litigation privilege or *Noerr-Pennington* doctrine.

### Questions to Watch

1. **Sufficiency of evidence for breach?** What level of evidence will support a jury finding of breach of the duty to negotiate a reasonable rate in good faith? Can an unanswered initial offer letter that also advises an alleged infringer that a patentee may pursue litigation and seek an injunction be sufficient to support a bad faith negotiation verdict?
2. **RAND rate determination as a prerequisite to finding breach?** Motorola argued on appeal that the jury did not have to determine or be told the RAND rate in order for it to find whether Motorola had breached its RAND licensing obligations. Therefore, Motorola argued, the admission of the district court's earlier finding was improper, and it also intruded on the jury function in violation of Motorola's Seventh Amendment right to a jury trial.

During oral argument, the panel seemed unanimous in recognizing that a RAND rate was an important (if not essential) determination to be made as part of the contract breach claim, and therefore it needed to be tried before the jury, absent a waiver of the Seventh Amendment right to a jury trial. This issue, therefore, appears to turn on the scope of Motorola's agreement to the first-phase bench trial on the RAND rate, which issue was hotly contested at the hearing.

3. **Breach of RAND issue more appropriately considered a defense to patent infringement claims?** In rebuttal, Motorola argued that Microsoft should have raised the breach of RAND issue as a defense to a patent infringement case, and implied that the issue is properly litigated in the context of appropriate damages when raised as a defense to a patent infringement suit.

The Ninth Circuit panel took the matter under submission, and will issue a decision in the months ahead. Depending on the result, the parties may ask the entire Ninth Circuit as well as the U.S. Supreme Court to weigh in before the matter is resolved.

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