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Western District of Washington Sets Fair, Reasonable, and Non-Discriminatory (FRAND) Royalty Rates and Range for Standard-Essential Patents (SEPs)

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Last week in ***Microsoft v. Motorola***, the U.S. District Court Western District of Washington became the first U.S. court to set fair, reasonable, and non-discriminatory (FRAND or RAND) royalty rates and range for standard-essential patents (SEPs). *See* Findings of Fact and Conclusions of Law, *Microsoft v. Motorola*, 2:10-cv-01823-JLR (W.D. Wash. Apr. 25, 2013). The suit stems from Microsoft's allegation that Motorola's offers to license certain Wi-Fi and video compression SEPs was too high and therefore violated Motorola's contractual RAND commitments. This issue is arising with greater frequency in antitrust/IP matters when patent licensing is involved with licensors who are standards setting organizations as well.

Microsoft v. Motorola is important because it is the first thoroughly reasoned decision by a U.S. federal district court that developed a framework for courts to assess FRAND terms for SEPs. In setting forth the basic principles at issue, the court stated that "a RAND commitment should be interpreted to limit a patent holder to a reasonable royalty on the economic value of its patented technology itself, apart from the value associated with incorporation of the patented technology into the standard." *Id.* at 25-26. So, the court focused its analysis on its conclusion that "the parties in a hypothetical negotiation would set RAND royalty rates by looking at the importance of the SEPs to the standard and the importance of the standard and the SEPs to the products at issue." *Id.* at 7. The court's analysis employed a modified-version of the *Georgia-Pacific* factors, which courts use to calculate "reasonable royalty" damages in patent infringement actions. Of note, the court modified the first *Georgia-Pacific* factor (the royalties received by the patentee for the patent(s) at issue) to include consideration only of certain types of royalties, *i.e*., those "comparable to RAND licensing circumstances," including both "license agreements where the parties clearly understood the RAND obligation, *and … patent pools*." *Id.* at 35-36 (emphasis added). Another of the court's noteworthy modifications to the *Georgia-Pacific* factors is that the fourth factor (the licensor's policy and marketing program to maintain its patent monopoly via selective licensing), "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." *Id.* at 36. Finally, as relates to the final factor (a hypothetical negotiation), the court concluded that "reasonable parties in search of a reasonable royalty rate under the RAND commitment 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 that property." *Id.* at 40.

Concluding that several of Motorola's patents provided only minimal contribution to the standards and played only minor importance in the overall functionality of some of Microsoft's products, and that the characteristics of a similar patent pool (of which Microsoft and Google, Motorola's parent, are members) "closely align with all of the purposes of the RAND commitment," *id.* at 166, the court set RAND royalty rates far lower than Motorola requested and only slightly higher than Microsoft's proposed rates. The case is slated to proceed to trial later this year on the issue of whether Motorola's offer violated its RAND obligations.

Microsoft v. Motorola is precedential only in the Western District of Washington, but at 207 thorough and well-reasoned pages, it provides a valuable roadmap and will likely be quite influential in future RAND cases in other U.S. and foreign jurisdictions. However, it might not always be licensee-favorable. This case presented substantial and potentially-unique evidence, for instance, of patent pools relating to the standards at issue, that the SEPs at issue were not particularly valuable as compared to other patents essential to the standards (particularly for the uses at issue), and of similar (low) valuation analyses commissioned by the patent holder.

In any event, both licensors and licensees of SEPs should take serious note of *Microsoft v. Motorola*.

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