

Commitment Issues: Federal Jury Awards Damages for Breach of Fair, Reasonable and Non-Discriminatory (FRAND) Obligation

Article By:

Daniel Powers

In the long-running patent dispute between Microsoft and Motorola, a U.S. District Court jury in Seattle found that Motorola breached its commitment to license certain standard-essential patents on fair, reasonable and non-discriminatory (FRAND or RAND) terms. The jury awarded Microsoft damages of approximately \$14.5 million.

The litigation has witnessed numerous legal firsts. In May, the district court became the first U.S. court to set FRAND royalty rates and ranges for standard-essential patents. The dispute between Microsoft and Motorola centered on patents that covered wireless and video technology used in the Xbox game console. Motorola sought a royalty calculated as a percentage of the net selling price of the product. Microsoft claimed this method would have required it to pay approximately \$4 billion per year and argued that royalties should instead be modeled on much lower rates charged by related patent pools, which would have resulted in approximately \$1 million in royalties. The court's ruling established a broad, multi-factor analysis to be used to assess a reasonable rate range for standard-essential patents. Applying this test, the court found that the reasonable rate was much closer to the rate proposed by Microsoft than the rate initially demanded by Motorola.

Building upon the earlier decision, the district court jury considered whether Motorola's initial royalty demands were so unreasonable that they constituted a breach of Motorola's contractual commitment to offer the patents on RAND terms. Motorola argued its proposal was a first offer meant to be subject to additional negotiation; Microsoft countered that the initial offer was a sham designed to elicit Microsoft's rejection. The jury unanimously found that Motorola's actions breached the commitments made in two standards setting organizations.

In addition to legal costs, Microsoft sought \$23 million in damages for the costs associated with relocating a distribution center to avoid the impact of a German injunction Motorola had obtained in related litigation. The jury only granted about half the damages that Microsoft sought, but the penalty imposed on Motorola was still substantial.

The jury verdict suggests patent holders should approach licensing negotiations for standard-essential patents with due care. While the facts in the case may present an extreme example, opening royalty rate offers that are viewed as unreasonable may nonetheless expose patent holder to

claims of breach of the RAND obligation. More importantly, the case establishes that damages may extend beyond legal costs and can be substantial.

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