

No. 14-35393

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MICROSOFT CORPORATION,

Plaintiff-Appellee,

v.

MOTOROLA, INC., MOTOROLA MOBILITY, INC., and
GENERAL INSTRUMENT CORPORATION,

Defendants-Appellants.

Appeal from the United States District Court for the Western District
of Washington in Case No. 2:10-cv-01823, Judge James L. Robart

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RULE 26.1 CORPORATE DISCLOSURE STATEMENT

Pursuant to Fed. R. App. P. 26.1, Microsoft Corporation (“Microsoft”) certifies that Microsoft has no parent corporation and that no publicly held corporation owns 10% or more of Microsoft’s stock.

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PRELIMINARY STATEMENT

This is a breach of contract case. Motorola breached patent licensing promises to two standard-setting organizations. Specifically, Motorola committed to license on reasonable and non-discriminatory (“RAND”) terms all Motorola patents “essential” to two technical standards: (1) the 802.11 “WiFi” standard for wireless communications, and (2) a video-encoding standard called H.264. But Motorola did not license, or offer to license, those standard-essential patents to Microsoft on RAND terms.

Instead, Motorola used the leverage those patents provided because they were included in industry standards as a weapon in a broader, unrelated dispute with Microsoft. To that end, in October 2010, as Motorola was preparing lawsuits seeking to enjoin the sale of Microsoft’s products that complied with those standards, Motorola made illusory “offers” to license those patents to Microsoft on what Motorola called RAND terms.

Motorola demanded that Microsoft pay billions of dollars in annual royalties on standard-compliant Microsoft products. Motorola knew that its royalty demands bore no relationship to the value of its

patented inventions or to the royalties received by the holders of thousands of other patents essential to implement the two standards. As Motorola knew it would, Microsoft refused to accept Motorola's wildly-excessive demands.

Microsoft sued Motorola in the court below for breach of contract. Motorola then launched the lawsuits it had been preparing, seeking in the United States and in Germany to enjoin the sale of Microsoft Windows and Xbox. Motorola proceeded with its pre-planned lawsuits even though this breach of contract case was already underway and would fully resolve the parties' license dispute.

The district court, in defense of its jurisdiction to adjudicate this case, partially disrupted Motorola's scheme by preliminarily enjoining Motorola from enforcing an expected German injunction. This Court affirmed that order, but not before Motorola's conduct had, among other things, forced Microsoft to move its European product distribution center out of Germany to avoid devastating injury.

Both rulings on the preliminary injunction recognized that Motorola owed a contractual RAND licensing obligation to Microsoft and other implementers of the standards. Nevertheless, Motorola

continued to pursue injunctions against Microsoft's standard-compliant products in the courts and International Trade Commission, and continued to demand outsized royalties grossly disproportional to commercial or technological reality.

Against this backdrop, the district court resolved Microsoft's breach of contract claim in two phases. First, with Motorola's explicit agreement, the court conducted a bench trial to determine RAND royalties for Motorola's patents. In April 2013, the court issued extensive findings and conclusions, and determined that the RAND royalties were a minute fraction of Motorola's October 2010 demands and the royalties Motorola urged during the bench trial.

Second, the court conducted a jury trial in August-September 2013 to decide whether Motorola had breached its RAND licensing commitments, and (if so) the resulting damages to Microsoft. After hearing evidence of Motorola's entire course of conduct—from its October 2010 demands through its injunctive efforts—the jury returned a verdict for Microsoft and awarded \$14.5 million in damages. The district court entered judgment on that verdict.

Motorola now seeks to walk away from its agreements and positions in the district court, and to reargue the evidence. Motorola agreed that the district court should determine RAND royalties in a bench trial, but changed its mind. Motorola told the court to apply a “modified” version of a common patent damages construct to determine RAND royalties, but now argues that the construct it urged the court to apply is riddled with errors—errors that Motorola never mentioned below. Motorola insisted on telling the jury about the Federal Trade Commission’s regulatory activity with respect to standard-essential patents, but complains that the court permitted Microsoft to offer countervailing evidence. Finally, in its preliminary injunction appeal, Motorola argued (correctly) that this Court had jurisdiction, but Motorola now seeks a new forum for its appeal of the final resolution of Microsoft’s breach of contract claim.

In sum, this case proceeded through a bench trial to a jury verdict of breach of contract on a course that Motorola consented to and participated in charting. The evidence presented at each trial fully supported the court’s RAND royalty determination and the jury’s

finding that Motorola breached its RAND licensing commitments. The judgment should be affirmed.

JURISDICTIONAL STATEMENT

The district court has jurisdiction under 28 U.S.C. § 1332. The amount in controversy exceeds \$75,000 and the parties are citizens of different states: Microsoft Corporation is a Washington corporation with its principal place of business in Washington, and Motorola, Inc., Motorola Mobility, Inc., and General Instrument Corporation (“Motorola”) are Delaware corporations with principal places of business in Illinois and Pennsylvania. On November 12, 2013, the district court entered partial final judgment pursuant to Fed. R. Civ. P. 54(b) on Microsoft’s breach of contract claim. This Court has jurisdiction under 28 U.S.C. § 1291.

ISSUES PRESENTED

1. Whether the two prior determinations that appellate jurisdiction over this state-law breach of contract action lies with this Court were clearly erroneous.
2. Whether the district court erred by conducting, with Motorola’s consent, a bench trial to determine RAND royalties, using the framework Motorola proposed.

3. Whether substantial evidence supports the jury's finding that Motorola breached its contractual RAND licensing commitments by making, and persisting in making, multi-billion-dollar royalty demands on standard-essential patents, and pursuing injunctions against Microsoft's standard-implementing products when Microsoft refused to capitulate.

4. Whether the district court abused its discretion in admitting at the jury trial:

a. responsive testimony concerning FTC proceedings, after Motorola injected Microsoft's communications with the FTC into the case; or

b. the RAND royalties for Motorola's patents, as determined via a bench trial to which Motorola consented.

STATEMENT OF THE CASE

I. The Proceedings Below

Microsoft filed this suit on November 9, 2010. ER1111-33. The district court entered a preliminary injunction on May 14, 2012, ER1018-42, which was affirmed on September 28, 2012. *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872 (9th Cir. 2012). The court held a

bench trial on November 13-20, 2012, ER711-988, and a jury trial on August 26-September 4, 2013, ER187-586. The court entered partial final judgment on Microsoft's breach of contract claim on November 12, 2013. ER3-14.

II. Statement of Facts

A. Standardization and RAND Licensing Commitments.

Standardization of technology can benefit consumers and industry. But “private standard-setting associations have traditionally been objects of antitrust scrutiny,” because standardization is carried out through agreements among competitors to fix the technology available to consumers. *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 (1988). Standardization vests enormous market power in firms holding patents on any part of the standardized technology: Owners of standard-essential patents (even the owner of a single patent among the thousands necessary to implement a standard) could “hold-up” implementers of the standard. *Microsoft*, 696 F.3d at 876. Such patent owners may extort those that invest in implementing the standard, extracting royalties that reflect the value of standardization itself, and far exceed the value of any technology

captured in one holder's patents. *Id.* To minimize this abuse, and to forestall antitrust scrutiny, standard-setting organizations generally require participants in the standard-setting process, like Microsoft and Motorola, to make RAND licensing commitments. *Id.* Antitrust regulators have recognized that the potential value of standardization to consumers resulting from accelerated technology interoperability may outweigh the potential harm from permitting collusion among competitors. But "meaningful safeguards" are required for the antitrust exemptions under which standard-setting processes operate. *Broadcom Corp. v. Qualcomm, Inc.*, 501 F.3d 297, 309-10, 313-14 (3d Cir. 2007); *see Allied Tube*, 486 U.S. at 500-01.

Microsoft's products implement dozens, if not hundreds, of technical standards prescribed by standard-setting organizations. Microsoft, like others who produce standard-compliant products, therefore needs the assurance of RAND patent licensing commitments. Once a standard becomes widely implemented, and standard-compliant products are widely distributed, producers have no reasonable technical or commercial alternative to compliance with the standard consumers have come to expect.

As this Court already recognized, implicit in the “sweeping promise” of the RAND licensing commitment “is, at least arguably, a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made.” *Microsoft*, 696 F.3d at 884. Whatever right to exclude patents might carry normally, the owners of patents declared essential to an industry standard have chosen not to exclude others from using their technology, in return for no more than a RAND royalty and the benefits of having their technology included in the standard.

The threat of such injunctions is extremely dangerous. If just one patent holder, with one patent covering even a marginal portion of the standard, backed a demand for excessive royalties with the pursuit of an injunction, those who produce standard-compliant products would have no options. Even if it were possible to recall all existing products and modify them to remove the marginal feature (and do so for all products going forward), the products would no longer be standard-compliant, and so consumers would have no assurance that they would interoperate with other standard-compliant products. The existence of

RAND licensing commitments thereby encourages adopters to design standard-compliant products. ER241(17:10)-ER242(18:1), ER247(40:15-22), ER426(141:4)-ER427(143:9).

B. Motorola's Standard-Essential Patents.

Motorola is one of more than 50 entities that made RAND licensing commitments with respect to H.264 standard-essential patents. ER1502. Many of the core innovations of H.264 are unpatented, though more than 2,500 patents worldwide have been declared essential to the standard. *Id.*

Motorola is one of nearly 100 entities that made RAND licensing commitments with respect to 802.11 standard-essential patents. ER1553-54. As with H.264, much of the technology embodied in 802.11 is in the public domain, ER1549, though there are thousands of patents declared essential to the standard, ER1554.

In findings Motorola does not challenge, the district court found that Motorola's H.264 patents "constitute[] a sliver of the overall technology" in the standard, providing "only minimal contribution," and that "Motorola did not provide the inventive technology, but instead built upon already-existing technology." ER1624-25. Likewise, the

court found that Motorola's 802.11 patents provided "very minimal technical contribution" to the standard, and that "the record was clear that Motorola did not provide the inventive technology in any area." ER1638.

Motorola's RAND licensing commitments created contractual obligations enforceable by Microsoft and others who use or seek to use the standards. *Microsoft*, 696 F.3d at 878, 884. The district court construed those contracts to require Motorola to make available and grant licenses to its 802.11 and H.264 standard-essential patents on RAND terms.¹ But Motorola did not live up to its RAND licensing commitments.

C. Motorola Decides to Use its Standard-Essential Patents to Retaliate Against Microsoft.

In Fall 2010, after Motorola failed to renew a license to Microsoft proprietary technology, Microsoft and Motorola became engaged in an intellectual-property dispute. On October 1, 2010, Microsoft filed suits

¹ Motorola waived any objection to this construction of the contracts when it failed to object to the portion of the jury instructions explaining the contracts' requirements. Motorola objected only to the existence of the contracts and Microsoft's status as a third-party beneficiary, ER501(205:12)-02(208:21), both of which Motorola had already conceded, *see Microsoft*, 696 F.3d at 878 n.6 (quoting Motorola's concession).

alleging that Motorola smart phones infringed certain Microsoft patents unrelated to the 802.11 or H.264 standards.

In retaliation, Motorola turned to its standard-essential patents. Motorola knew that Microsoft's Windows operating system included (among thousands of features) the ability to view videos encoded under the H.264 standard, although this was far from a core Windows functionality. Motorola also knew that Microsoft's Xbox video game console included the option of connecting to an 802.11 WiFi network (as an alternative to a wired connection) for Internet access, and could also display H.264 video, although that standard is not used in playing video games. ER262(98:5-101:9). Motorola knew that an injunction on even one of its standard-essential patents—no matter how tangential to the core value of Windows or Xbox—could give it massive leverage over Microsoft. An injunction would not only deny Microsoft the ability to sell standard-compliant products, but it would also (at least for a time) stop Microsoft sales of two of its flagship products.

To lay the groundwork for suits seeking injunctions in the face of Motorola's commitment to grant RAND licenses, in October 2010, Motorola sent letters to Microsoft offering to license Motorola's 802.11

and H.264 standard-essential patents. For its 802.11 patents, Motorola demanded 2.25% of the sales price of Microsoft's Xbox, ER1158—around \$4.50 per unit, which exceeds the cost of the entire chipset that provides 802.11 capability to the Xbox. ER311(87:1-3). For H.264, Motorola demanded that Microsoft pay 2.25% in royalties not merely on the price of Microsoft Windows software, but on the sales price of any computer worldwide running Windows software. ER1136. Motorola knew that its demands exceeded \$4 billion in annual royalties. Motorola also knew that its patents represented only a tiny portion of the technology reflected in the standards, and that these standards were, at best, tangential to the Microsoft products. Motorola gave Microsoft 20 days to respond. ER1136, ER1158.

Although Motorola labeled its demands as “RAND,” *id.*, Motorola knew they were not, and knew Microsoft would not accept them, ER267(118:4-7), ER283(185:5-11). Motorola had never licensed its 802.11 or H.264 patents at such royalties, ER257(79:7-13), nor had it ever demanded that a licensee pay 2.25% on end-products sold by the licensee's customers, ER254(69:25)-ER255(70:9); *see* ER488(151:3-11). To the contrary, in 2003 Motorola had participated with many other

prospective licensors in creating a patent pool for licensing all the licensors' H.264 patents, and had endorsed royalties of 10 cents per unit for the entire set of thousands of H.264 standard-essential patents in the pool, in contrast to Motorola's demand that Microsoft pay \$11.25-\$22.50 or more per unit for just Motorola's patents. ER307(72:15)-ER308(75:20), SER110-28, ER325(144:20-145:9). As for 802.11, Motorola had engaged a consultant, InteCap, to value its 802.11 patents, and that study suggested RAND royalties of less than 2 cents per unit, in contrast to Motorola's demand of \$4.50. ER1644-51, ER386(163:16-165:10), ER386(165:23)-ER387(166:13), ER266(114:10-22).

Motorola knew the financial implications of its royalty demands. ER255(71:9-73:9), ER256(74:17-75:18), ER262(100:9-14). If each of the 52 entities with H.264 standard-essential patents demanded 2.25%, the aggregate royalty would far exceed the prices of standard-compliant products. ER384(154:22-25), ER385(160:12-20). If each of the 92 entities with 802.11 standard-essential patents demanded 2.25%, the aggregate royalty would be more than double the end-product price. ER385(158:6-8, 161:5-11); *see* ER470(79:4-18). Especially because these

are only two of the many standards implemented in Microsoft's products, the royalties Motorola demanded were commercially impossible for any licensee.

Motorola had never licensed its 802.11 and H.264 patents on a standalone basis at 2.25% or any other royalty. ER256(77:15-21). Those patents had simply been included in broad cross-licenses primarily focused on Motorola's cellular telecommunications patents, which are declared essential to standards that enable cellular telephony. ER256(77:22)-ER257(78:6). Motorola contended it had a strong patent position in the universe of cellular patents, ER258(82:6-8), but those patents have no connection to this case. Motorola had no reason to believe that its non-cellular, 802.11 and H.264 patents were of any particular significance or any more valuable than the patents essential to those standards owned by dozens of other companies. ER260(90:4-8, 91:13-17).

D. Microsoft's Complaint and Motorola's Execution of its Injunction Strategy.

Faced with Motorola's illusory offers, Microsoft filed this suit on November 9, 2010, asserting breach of contract and related state-law claims, and seeking damages and other relief. ER1111-35. Within

days, Motorola filed its pre-planned lawsuits seeking injunctions against Microsoft's standard-compliant products.² Despite the existence of this contract litigation—seeking a ruling determining actual RAND royalties, and confirming Microsoft's right to RAND licenses—Motorola persisted in seeking injunctions. That forced Microsoft to incur significant costs avoiding injunctions in Motorola's unnecessary suits. Microsoft further committed in writing in September 2011 to take a RAND license, ER453(10:17-11:14), but Motorola's pursuit of injunctions continued.

In addition to district court and ITC actions in the U.S., Motorola sued in Germany on two German H.264 patents, and by early 2012 was on track to obtain an injunction barring sales of Microsoft's products in Germany. Motorola's German action placed Microsoft in serious jeopardy. Germany is a major European market in its own right. More important, Germany was the location of Microsoft's distribution center (for products including Windows and Xbox) for all of Europe, the Middle

² Microsoft later amended its complaint, alleging that Motorola's entire course of conduct—including both its royalty demands and pursuit of injunctions—breached its contractual RAND licensing commitments. ER1083-110.

East, and Africa. ER362(66:21-67:16). Because of the enormous losses that would occur if Motorola's German injunction were entered—disrupting for months Microsoft's distribution center for a large part of the globe—Microsoft had to (and did) relocate its distribution center to the Netherlands, at significant expense. ER362(68:14)-ER363(71:20), ER366(83:1-4); *see* ER242(19:6-21:6), ER248(44:14)-ER249(46:13), ER327(151:16-152:10), ER442(205:17-25).

In May 2012, to defend its jurisdiction to adjudicate this breach of contract case, the district court entered a preliminary injunction barring Motorola from enforcing any injunction it might obtain in Germany. ER1018. This Court affirmed. *Microsoft*, 696 F.3d at 889. While that ruling prevented Motorola from blocking Windows and Xbox from the German market, Microsoft had been forced to move its facility in the spring of 2012 because of the uncertainty of the outcome of that litigation and the enormous costs of any interruption in the product flow.³ Moreover, Microsoft continued to spend millions of dollars defending itself against Motorola's other injunctive efforts. Motorola

³ As the jury was instructed (without objection), Microsoft was obligated to mitigate its damages. ER517(36:2-9), SER35.

did not drop its last attempt to obtain an injunction on standard-essential patents until January 2013, long after it knew that it could secure everything it was entitled to (a license on RAND terms) in the district court proceedings below. ER454(17:13-23), ER453(10:17-11:14).

E. Motorola Agrees to a Bench Trial to Determine RAND Royalties.

In the meantime, Microsoft sought summary judgment that Motorola had breached its RAND contract. Motorola opposed Microsoft's motion, arguing that it should be permitted to present evidence showing that its 2.25% demands were in fact reasonable. SER81-82, ER179-81. The district court accepted Motorola's position that it could not decide whether Motorola had breached its RAND licensing commitments without knowing the appropriate RAND royalties for Motorola's patents. ER180-82.

The parties mutually agreed to a bench trial in November 2012 to determine the worldwide RAND royalties for Motorola's U.S. and foreign 802.11 and H.264 standard-essential patents. SER74(42:15)-SER75(43:2), ER141. In that trial, Motorola's technical experts did not show that Motorola's patents contributed more than minimal value to the standards. Motorola's "historical evidence" of licensing (Motorola

Brief (“Br.”) 11) concerned patents with no relationship to its 802.11 and H.264 patents. The most probative evidence of RAND royalties for these patents came from other historical Motorola conduct—including its participation in and approval of royalties for the H.264 patent pool, and the InteCap valuation of Motorola’s 802.11 patents.

The court issued its findings and conclusions in April 2013 (“the RAND Order”), largely applying the framework that Motorola had proposed. The court began with the purposes of the RAND licensing commitment: widespread adoption of the standard, ER1470; prevention of royalty stacking, ER1473-74 (relying on Motorola’s own emphasis of that risk, SER102-04); and prevention of patent hold-up, ER1471-72 (adopting Motorola’s expert’s testimony that “the RAND commitment and the whole apparatus exists to deal with hold-up,” ER951:13-16).⁴ To determine RAND royalties, the court considered multiple comparables, but relied on those that were consistent with these purposes underlying RAND licensing commitments. ER1615-17,

⁴ The notion that competitive harms from hold-up and unchecked royalty stacking must actually be allowed to occur before the need to prevent them can be considered (*see* AIPLA Br. 17-21; Nokia Br. 6-10; Qualcomm Br. 19-27) makes no sense, and ignores the antitrust implications of the standard-setting process.

ER1626-28, ER1631-54. The court rejected comparables that presented hold-up and stacking concerns. ER1580-98.

In June 2013, Microsoft tendered to Motorola the approximately \$6.8 million in past royalties that result from applying the RAND royalties determined by the court, and undertook to pay future royalties as they arise. SER43-47. Motorola refused to accept.

F. The Jury Finds That Motorola Breached its Contracts.

The district court conducted a jury trial on Microsoft's breach claim in August-September 2013. Microsoft demonstrated that Motorola's strategy—starting with excessive royalty demands in October 2010 that could not be accepted, following through with actions for injunctive relief, and persisting in this tactic into 2013—both directly breached Motorola's RAND licensing commitments, and breached the covenant of good faith and fair dealing inherent in every contract. Motorola tried to block any mention of the RAND royalties to the jury. The court held that very purpose of the bench trial to which Motorola had agreed was to make that determination. The court took a balanced approach, giving the jury the distilled outcome of the RAND royalty trial, and permitting limited use of the RAND findings, while

instructing the jury that those findings had not resolved any question of breach. Microsoft also proved that Motorola's breach—including its relentless effort to shut down Microsoft's German distribution of Windows and Xbox—caused it to incur (1) the costs of relocating its European distribution center, and (2) fees for defending against Motorola's injunctive actions in Germany and the United States.

The jury found that Motorola's conduct generally, and Motorola's pursuit of injunctions specifically, breached its contracts as to both the 802.11 and H.264 standards, and awarded damages in both categories. ER44-46.

SUMMARY OF ARGUMENT

Appellate jurisdiction lies in this Court, as Motorola urged before, and as this Court and the Federal Circuit ruled. Motorola's arguments that this breach of contract case somehow morphed into a case arising under the patent laws misrepresent the district court's findings and lack legal support.

Motorola and Microsoft both agreed to a RAND royalty bench trial as a predicate to a trial on breach, and Motorola urged the framework for assessing RAND royalties that the court ultimately adopted. In any

event, Motorola's backtracking aside, the court's procedures were correct and its findings are well-supported by the evidence. The RAND royalties determined in the bench trial were not "advisory," but were factual findings available to the jury when it assessed "the entire context and circumstances" of the breach (Br. 15), which Motorola concedes must be considered. Federal Circuit patent damages law does not govern the meaning of the parties' contract. Moreover, whether assessed as a matter of patent damages or contract, Motorola's assault on the RAND royalty determination itself fails. Motorola ignores the court's actual reasoning and the lack of any evidence to support its contention that its exceptional royalty demands were justified.

Motorola also ignores the substantial evidence—including evidence of Motorola's real-world practices—which demonstrated that Motorola's demands were not justified. The demands were designed not to produce a license agreement, but served only as a predicate for coercive conduct designed to extract royalties far in excess of those to which Motorola was entitled under its RAND licensing commitments.

The jury heard that Motorola backed its multi-billion-dollar royalty demands by seeking injunctions against Microsoft's core

products in the United States and in Germany. The district court properly instructed the jury on breach and on the covenant of good faith and fair dealing. Overwhelming evidence supports the jury's finding that Motorola breached its RAND licensing commitments and caused legally-compensable harm to Microsoft. The court's balanced handling of evidence concerning the FTC and the RAND trial findings provides no basis for disturbing the jury's verdict. The judgment should be affirmed.

STANDARD OF REVIEW

Prior determinations of appellate jurisdiction should not be disturbed unless the initial decision was "clearly erroneous and would work a manifest injustice." *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 817 (1988). The denial of a motion for judgment as a matter of law should be affirmed if the verdict is supported by substantial evidence. *Gilbrook v. City of Westminster*, 177 F.3d 839, 856 (9th Cir. 1999). Formulation of jury instructions is reviewed for abuse of discretion. *Id.* at 860. Jury instructions challenged as misstatements of law are reviewed *de novo*, and a verdict will be set aside due to an error only where the error is not harmless. *Mockler v. Multnomah*

County, 140 F.3d 808, 812 (9th Cir. 1998). A district court's findings of fact will be affirmed unless clearly erroneous. *Husain v. Olympic Airways*, 316 F.3d 829, 835 (9th Cir. 2002). "Evidentiary rulings are reviewed for an abuse of discretion and should not be reversed absent some prejudice." *B.K.B. v. Maui Police Dep't*, 276 F.3d 1091, 1103 (9th Cir. 2002).

ARGUMENT

I. Appellate Jurisdiction Lies In This Court.

In appealing the preliminary injunction to this Court, Motorola explained that "[b]ecause Microsoft's complaint is pleaded in terms of contractual rather than patent rights, this appeal is properly brought before this Court and not the Federal Circuit." SER78. This Court agreed, *Microsoft*, 696 F.3d at 881, and that ruling is law of the case. Nevertheless, having lost in its previous appeal, Motorola sought a different forum and noticed this appeal to the Federal Circuit. That court rejected Motorola's blatant forum-shopping, and agreed that this Court has jurisdiction. (Dkt. 1.)

In asking this Court to come to a different conclusion, Motorola does not contend that Microsoft asserted a patent claim, nor does it

deny that Microsoft sued for breach of contract. Instead, Motorola asserts that the *district court* (not Microsoft) “*constructively*” (not actually) amended Microsoft’s complaint such that the bench trial was “*for all intents and purposes*” a patent damages trial “requiring the resolution of substantial questions of patent law.” (Br. 18-19 (emphasis added).) This is both factually wrong and legally irrelevant.

The district court did not determine damages for patent infringement. To be sure, the court considered the value of Motorola’s patented technology to the extent relevant to the breach of contract claim. But that did not convert the contractual RAND royalty analysis into a determination of infringement damages under 35 U.S.C. § 284. As the court explained, any analysis “under a RAND obligation *must be different* than the typical [hypothetical negotiation] analysis historically conducted by courts in a patent infringement action.” ER1482 (emphasis added).⁵ The use of a hypothetical negotiation valuation framework is common in contexts beyond patent damages, *see Oracle Corp. v. SAP AG*, 765 F.3d 1081, 1087-93 (9th Cir. 2014) (copyright

⁵ *Parental Guide of Texas, Inc. v. Thomson, Inc.*, 446 F.3d 1265, 1267 (Fed. Cir. 2006) (Br. 19), concerned a “Litigation Royalty” defined explicitly by 35 U.S.C. § 284.

case), and does not make this a patent case. Nor does the valuation of patented technology raise a substantial question of patent law, any more than would a case involving a corporate acquisition in which the price depended on the value of patents. *See Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 599 F.3d 1277, 1284 (Fed. Cir. 2010) (“[T]he mere presence of a patent as relevant evidence to a claim does not by itself present a substantial issue of patent law.”).

Unlike the cases upon which Motorola relies, this case did not require the district court to construe patent claims or address infringement. (Br. 19, citing *Portney v. CIBA Vision Corp.*, 401 F. App'x 526, 528 (Fed. Cir. 2010) (unpublished) (requiring “a claim construction hearing to determine the boundaries of [the] patents”); *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (determining breach of contract required interpreting the patents and determining infringement).) There was no dispute that Microsoft's products implemented the standards, and the court treated Motorola's patents as essential even though “none of the terms comprising the claims ... ha[s] been construed by a court.” ER1506, ER1512, ER1516, ER1524,

ER1529. *See* ER1555-56 n.13 (Microsoft's experts "did not dispute" that Motorola's patents were essential).

Motorola's assertion that the court relied on invalidity findings in a Motorola-filed patent case (Br. 19) is incorrect. The ruling Motorola cites (ER665-92) did not inform the RAND royalty determination. The patents that were the subject of that invalidity ruling were part of a family of related Motorola patents. ER1514. With no mention of invalidity, the court stated that this family of patents was standard-essential, ER1516, and explained how the parties would value that technology in light of Motorola's RAND commitment, ER1521-22. No substantial issue of patent law was decided here.

II. The District Court Issued Its RAND Order Pursuant To Motorola's Consent and Proposed Framework.

There was nothing procedurally or substantively improper in the RAND royalty bench trial. Motorola consented to the procedure. The evaluation of the RAND royalty and the role the RAND royalty determination played in the breach trial were entirely proper.

A. The District Court Appropriately Determined the RAND Royalties.

Motorola consented to a bench trial to determine the RAND royalties for its patents. At a June 14, 2012 hearing, the court sought the parties' positions on whether the court or a jury should determine RAND royalties. Microsoft stated: "[T]he parties agree there is no jury involved." SER74(42:15-18). Motorola agreed: "Our agreement is that the court would decide all the material terms of the RAND license." SER74(42:25)-SER75(43:2). As the court subsequently ruled: "On June 14, 2012, both Microsoft and Motorola agreed to determine the RAND royalty rate by bench trial." ER141.

Motorola apparently later regretted its agreement. When it claims that it "*opposed* the district court's improper decision to sever the RAND rate from the overall good-faith determination and hold a bench trial on that single issue prior to jury trial" (Br. 51), Motorola is referring to its after-the-fact efforts to renege. *See* ER989-1017. The district court rejected Motorola's about-face, observing "isn't it rather late in the game for Motorola to repudiate concessions made during oral argument and announce another new theory of the case?" SER64(5:16-20). As the court carefully analyzed in a ruling before the jury trial,

ER103-10, Motorola waived any right to have a jury determine the RAND royalty (or to have the jury decide breach with no such determination at all). *See Thompson v. Mahre*, 110 F.3d 716, 721 (9th Cir. 1997) (party waived jury trial right on an issue through stipulation to and participation in a bench trial to resolve that issue).⁶

Motorola's waiver aside, its argument mischaracterizes the RAND royalty determination as dispositive of breach. (Br. 2.) Motorola advocates a "fact-intensive" analysis, with no one fact necessarily dispositive. (Br. 20.) And that is precisely what the jury was told:

the size of an offer alone is not exclusively dispositive of whether Motorola has breached its duty of good faith and fair dealing. To determine whether Motorola's offer breached its duty of good faith and fair dealing, you must use the standard set forth in Instruction Number 16.

ER68:4-8, SER26. This instruction favored Motorola more than the law required. Authority Motorola ignores holds that "the size of an offer alone" *can* be so extreme as to constitute a breach. *See In re Vylene Enterprises, Inc.*, 90 F.3d 1472, 1477 (9th Cir. 1996) (California law) (party breached the duty by proposing a franchise agreement that was

⁶ Motorola's consent to the court determination of the RAND royalties precludes its newly-urged Seventh Amendment argument. (Br. 52.)

“commercially unreasonable”); *Best v. U.S. Nat. Bank of Oregon*, 739 P.2d 554, 559 (Or. 1987) (Oregon law) (“When a party has the contractual right to specify a price term, the term specified may be so high or low that the party will be deemed to have acted in bad faith.”). Instruction 16, to which the court directed the jury, listed objective and subjective grounds to consider in deciding whether a breach occurred. ER63:19-65:21, SER22-23. Under any view of the law, whether Motorola’s demands were unreasonably high is plainly *relevant* to whether Motorola breached.

B. The RAND Order Was Not an Advisory Opinion.

Motorola’s argument that the RAND royalty determination was “advisory” makes no sense. Motorola agreed that the court should assess RAND royalties (as terms of the relevant contracts) as a predicate to the jury trial on breach. Moreover, prior to the bench trial, Motorola successfully opposed Microsoft’s motion for summary judgment, claiming that evidence (including Motorola’s prior licenses and licensing practices) showed that “Motorola’s offer plainly was *reasonable*.” SER81-82. Motorola cannot now credibly argue that the

court's evaluation of the evidence it urged the court to evaluate produced an advisory opinion.

Further, Motorola acknowledges that the “covenant of good faith and fair dealing requires a factfinder to consider the entire ‘context’ and ‘circumstances’ of the dealings between the parties.” (Br. 34.) As noted above, the jury was instructed to do just that, and the “context and circumstances” plainly include RAND royalties for Motorola’s patents.

Whether Microsoft sought specific performance (Br. 22-24) does not matter. First, Microsoft’s request for relief was the same at the RAND royalty trial as it was months earlier when Motorola agreed to that procedure. Second, Microsoft sought a declaration that Motorola had not offered royalties “under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination,” ER1107, as well as “a judicial accounting” of RAND royalties for Motorola’s patents, ER1114-15. Each of those claims for relief required determining RAND royalties.

Nor does it matter that patent license agreements can be complex. (Br. 24-25.) The RAND royalties are key contract terms, and the determination of those royalties informed the resolution of the dispute

between the parties. Moreover, the other “complex” terms to which Motorola points are all subsumed in the RAND licensing commitment. The “duration” of any RAND license is life-of-patent. ER1487. “Cross licenses” are irrelevant because standard-essential patents have value independent of the value of other standard-essential patents: cross-licensing could affect the form, but not the value, of RAND compensation. ER1580-81. The “non-discriminatory” requirement bars Motorola from varying royalties based on what patents a licensee holds. Similarly, “royalty caps” potentially discriminate against low-volume “start-up” implementers (who would pay higher per-unit royalties). The “geographical” scope is worldwide, and the “product scope” must extend to any standard-compliant product. Even if these terms were open to debate, the court’s determination of the undeniably key royalty term was still essential to resolution of Microsoft’s claims and Motorola’s defenses.

C. Motorola Established No Error in the RAND Royalty Determination.

1. The District Court Applied a “Modified Framework” as Urged by Motorola.

Patent damages law does not govern the determination of RAND royalties for standard-essential patents, just as rules governing state-law trespass damages do not govern the determination of a contractually-constrained monthly rent. By making RAND licensing commitments, Motorola waived any entitlement to ordinary patent damages for infringement, and agreed it would seek and accept only RAND royalties from any standard implementer.

To determine RAND royalties, the district court did not simply adopt Federal Circuit damages law; rather, at Motorola’s urging, the court used “a modified form of the well-known *Georgia-Pacific* hypothetical negotiation.” SER53; *see* ER1479-91. Motorola’s complaints on appeal ignore what Motorola asked, and did not ask, the district court to do.

For example, Motorola argues that the court failed to select the correct date for the hypothetical negotiation. (Br. 25-27.) Motorola offers no reason why that inquiry would be required in this contract

case. Indeed, Motorola itself *never* proposed a specific date, and its expert testifying about the hypothetical negotiation made no mention of any time period. ER1694(132:2)-98(147:2). Having ignored this supposedly crucial factor below, Motorola cannot claim error now.

Motorola also takes contradictory positions regarding the date. Motorola suggests that evidence concerning Google should not have been considered because Google acquired Motorola in 2012, after Motorola sent its October 2010 letters. (Br. 27.) But the primary “historical license” on which Motorola relied dated from December 2011, *after* Motorola’s proposed cutoff. ER1696(138:12-139:1), ER1701-14.⁷

Motorola asserts that the court “appears to have set the value at the time of the bench trial the court issued the RAND Order [*sic*].” (Br. 27.) Whether Motorola means that the court used November 2012 (the

⁷ There was no error in the court’s reference to Google. (Br. 27.) First, the court noted that Google’s participation in the H.264 pool “further corroborates” that the pool is an appropriate benchmark. ER1617. Motorola participated in the pool’s formation, ER1601-07, so the court’s reliance was well-founded regardless of Google. Second, the presumption that Google and Microsoft would value pool membership similarly because both were “substantial technology firms with vast arrays of technologically complex products” only led to a *higher* RAND royalty—benefitting Motorola, because its status as a less-substantial, less-diverse firm would have reduced the value of pool access. ER1620-21.

time of the bench trial) or April 2013 (when the RAND Order issued), it cites nothing from the court's decision to support its assertion. The court (consistent with the approach Motorola urged) considered a hypothetical negotiation in light of the RAND commitment—which includes the principle of not discriminating against any implementer at any time—and the evidence presented at trial. ER1490-91.

2. The District Court Properly Considered the Evidence Admitted at Trial.

Attempting to retry facts on appeal, Motorola argues that the district court should have concluded that Motorola's licensing evidence was persuasive, while Microsoft's was not. The court as factfinder determined which prior licenses were comparable to the RAND license to which Motorola committed. Motorola presents no reason to second-guess that fact determination.

Motorola simply ignores the court's findings that Motorola's "actual licenses" were non-comparable. Motorola emphasizes that its licenses emerged from litigation settlements, which the Federal Circuit has said could be "the most reliable license[s]" in some patent damages settings. (Br. 32, citing *ResQNet.com v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010).) Motorola misrepresents the Federal Circuit's view. The

Federal Circuit has consistently warned that litigation settlements should rarely be used to assess patent damages, because the “coercive environment” of litigation can skew the results of the hypothetical negotiation, *ResQNet.com*, 594 F.3d at 872, making such agreements “unsuitable to prove a reasonable royalty,” *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 77 (Fed. Cir. 2012). Indeed, in the case *Motorola* cites, the Federal Circuit identified the litigation settlement as the “most reliable” on that record only because the other licenses the patentee offered bore “no relationship at all to the claimed invention.” *ResQNet.com*, 594 F.3d at 869-70.

The district court here properly evaluated the substantial differences between the licenses *Motorola* offered and a license on RAND terms. The first license *Motorola*’s expert offered (to *VTech*, a cordless phone manufacturer) included the 802.11 and H.264 portfolios only as part of a license for a set of cordless-phone patents that *Motorola* accused *VTech* of infringing. ER1582-83, ER1701-14. The court properly found that agreement not probative of a RAND royalty for *Motorola*’s 802.11 and H.264 patents because (1) its value was dominated by the unrelated cordless-phone patents; (2) it was signed

during the pendency of this case, on the eve of a hearing in Motorola's ITC action asserting 802.11 patents against Microsoft, where Motorola attempted to use the newly-minted VTech agreement as evidence of the reasonableness of its demands; and (3) VTech had paid only "trivial royalties." ER1583-85.

The second license, to RIM (a cellular handset manufacturer), was signed under threat of an ITC exclusion order based on Motorola's assertion of cellular standard-essential patents against RIM's Blackberry products. ER1589. That license was dominated by Motorola cellular patents, which have no connection to this dispute. ER1585-86. The court correctly concluded that the royalties RIM agreed to pay for access to Motorola's cellular patents were not relevant to the RAND royalty for Motorola's 802.11 and H.264 patents, where those latter patents were simply bundled with the dominant cellular patents in the same agreement. ER1587-90. Indeed, the fact that the royalty did not increase with the inclusion of 802.11 and H.264 patents supports the conclusion that those patents added little or no value. ER1590. In any event, the court relied on *Motorola's* expert's testimony that it would be a "pretty tough thing" to apportion out the value of the

802.11 and H.264 patents from such a license, and noted that Motorola did not even attempt to do so. ER1588.⁸

The third, fourth, and fifth licenses Motorola offered were granted by Symbol Technologies (later acquired by Motorola) for a handful of 802.11 patents. ER1590-95. The court found no evidence that the licenses reflected consideration of Motorola's RAND commitment, and noted that the agreements centered on patents that expired before October 2010, and patents that were otherwise not relevant or valuable to Microsoft or the 802.11 standard. ER1592-94. The fact that two agreements arose from litigation was only one of several factors undercutting their relevance. *Id.*

Motorola's complaints about the evidence that the court found more probative of a RAND royalty (Br. 28-32) similarly ignore the record and the court's reasoning. For example, Motorola ignores the court's basis for concluding that H.264 pool royalties were probative of RAND royalties: Motorola participated in the formation of that pool;

⁸ Amicus Nokia argues that "expert testimony may illuminate methods of reasonable apportionment [for 802.11 and H.264 patents] which may enable a court to compare the licenses." (Nokia Br. 14.) Perhaps, but Motorola's expert made no attempt to do so.

Motorola argued for lower royalties in that context; and Motorola approved press releases announcing the pool's licensing terms.

ER1601-05. Motorola did not object to the pool's licensing model, which treated all standard-essential patents as equal when allocating royalties—a model adopted by other pools in which Motorola already participated. ER1605-06. Despite Motorola's last-minute withdrawal from the pool, ER1607, the court had ample basis to conclude that the pool royalties informed a RAND royalty.

Motorola's complaint that pool licenses are “radically different” from a bilateral negotiation between the two parties” (Br. 28) is a straw man. The question before the court was what evidence was probative of a RAND royalty, and whether the pool royalties could be *considered* in the court's hypothetical negotiation. Motorola provides no explanation why they could not. The pool granted licenses on RAND terms to thousands of H.264 standard-essential patents—terms to which Motorola had agreed before its change of heart. Motorola disputes none of the extensive findings the court made in determining that the pool royalties were informative of the RAND royalty. ER1609-17. Similarly, although Motorola had not participated in the formation of the Via pool,

the court made detailed findings and concluded that the Via pool provides “an indicator of a RAND royalty rate for Motorola’s 802.11” standard-essential patents. ER1629-33.

Motorola’s claim that there “was no evidence” about the relative value or technical comparability of Motorola’s patents to those in the pools (Br. 29) again ignores the record. First, these patents are indisputably comparable in a key respect: all were declared essential to the same technical standards. Second, while there was evidence that patents in the H.264 pool covered “significant and important technology,” ER1616, Motorola offered no evidence that its patents were any more valuable than those in the pools, ER1623, ER1637. To the contrary, the court found that Motorola’s patents provided only minimal contributions. ER1624, ER1638.

Further, the court did not simply apply the pool royalty to Motorola’s H.264 patents; it found that the RAND royalty for Motorola’s patents was substantially higher. Despite finding the pool royalty of 0.185 cents per unit a strong indicator of a RAND royalty for Motorola’s H.264 patents, the court noted Motorola would receive that amount only if it were a pool participant—and because it was *not* a participant, the

court presumed Motorola was *not* receiving value back from the pool (in the form of licenses to other members' patents). ER1616-20. To compensate, the court set the RAND royalties for Motorola's patents at three times what Motorola would have received as a pool participant. ER1621. Motorola had a full and fair opportunity to argue for an even greater increase over the pool royalty. Instead, Motorola steadfastly insisted that pool royalties be rejected out-of-hand. SER50, SER55-58.

Motorola argues that the court failed to follow the Patent Act's requirement "that a reasonable royalty compensate for infringing use," (Br. 29), but this is not an infringement case, and the Patent Act does not govern the determination of a contractual RAND royalty. As the district court explained, RAND royalties are fundamentally informed by the goals of encouraging widespread adoption of standards and preventing hold-up and royalty stacking. ER1475-76. For example, RAND requires non-discriminatory royalties, but patent damages law endorses discriminatory royalties—in particular, the *Georgia-Pacific* construct contemplates higher royalty damages for a competitor. ER1486. RAND also requires consideration of the effect on the

standard of aggregate RAND royalties imposed on standard-compliant products. ER1489-90.

Finally, while criticizing pool royalties (and the court's "formula" used as part of its analysis of those royalties), Motorola ignores the other evidence, including Motorola-specific evidence, on which the court relied. As to H.264, Motorola ignores its extensive history of pool participation, including its influence on and approval of pool royalties. Moreover, as explained above, the court's "formula" only increased the RAND royalty over the royalty suggested by this comparable. As to 802.11, the court considered evidence independent of the 6-cent-per-unit royalty suggested by the Via pool. The court analyzed evidence concerning licensing in the 802.11 chip industry, which suggested a RAND royalty of 3-4 cents. ER1639-43. The court also considered Motorola's InteCap valuation, suggesting even lower RAND royalties of 0.8 to 1.6 cents per unit. ER1644-51. In the end, the court took the average of these indicators, ER1652-53—the Via pool royalty Motorola wishes to discard being the most favorable to Motorola.

III. Overwhelming Evidence Supports the Jury's Finding of Breach.

A. Motorola Forfeited Any Claim of Insufficient Evidence of Breach of Contract.

Motorola's arguments are directed solely at the breach of its duty of good faith and fair dealing. Contrary to Motorola's assertion (Br. 20), Microsoft also alleged that Motorola breached the contract directly, and the jury was instructed on direct breach. ER59:25-63:18, ER65:22-66:18, SER17-21. Motorola did not move for JMOL on this ground (and does not argue it here) so this Court cannot review the sufficiency of the evidence supporting a finding of direct breach. The judgment should be affirmed on this ground alone. *See Nitco Holding Corp. v. Boujikian*, 491 F.3d 1086, 1088 (9th Cir. 2007).

Even if review were available, the evidence supported a conclusion of direct breach apart from the duty of good faith. The jury saw Motorola's multi-billion-dollar demands, ER1136, ER1158, and heard that Motorola maintained its demand for 2.25% royalties as late as December 2012, ER329(160:23-161:6), while still pursuing injunctions. That evidence alone supports a finding that Motorola failed "to make available and grant a license to its 802.11" patents on RAND terms, and

failed “to grant a license for its H.264” patents on RAND terms, as its contracts required. ER61:10-63:18; *see* ER45.

B. The Good Faith and Fair Dealing Jury Instructions Were Correct.

Motorola’s complaints about the “alone or in combination” instruction are undermined by the authority it cites, which demonstrates (correctly) that the covenant of good faith and fair dealing may be breached through any of a variety of types of conduct. (Br. 34.) The cases do *not* set out a multi-factor test (in which all categories are balanced together), but rather hold that proof of any ground may demonstrate a breach. *See Frank Coluccio Const. Co., Inc. v. King County*, 150 P.3d 1147, 1155 (Wash. App. 2007) (conduct contrary to parties’ reasonable and justified expectations); *Aventa Learning, Inc. v. K12, Inc.*, 830 F. Supp. 2d 1083, 1101 (W.D. Wash. 2011) (frustration of purpose); *Craig v. Pillsbury Non-Qualified Pension Plan*, 458 F.3d 748, 752 (8th Cir. 2006) (Washington law) (commercially unreasonable conduct); *Vylene*, 90 F.3d at 1477 (California law) (same); *Curtis v. Northern Life Ins. Co.*, No. 61372-3-I, 2008 WL 4927365, *6-7 (Wash. App. 2008) (non-precedential) (conduct contrary to industry custom and practice); *Amerigraphics, Inc. v. Mercury Cas. Co.*, 107 Cal. Rptr. 3d

307, 321-23 (Cal. App. 2010) (California law) (same); *Scribner v. Worldcom, Inc.*, 249 F.3d 902, 910 (9th Cir. 2001) (Washington law) (unreasonable exercise of contractual discretion); *Craig*, 458 F.3d at 752 (same).

Motorola's argument that the instruction "shifted the burden to Motorola to disprove" each ground (Br. 35) makes no sense. Microsoft bore (and carried) the burden of proving that Motorola's conduct breached the duty on at least one ground. For example, if Motorola's conduct frustrated the purpose of the RAND commitment, the jury could find breach, regardless of industry custom and practice. Motorola cites no authority suggesting it should be excused if others customarily engaged in patent hold-up. To the contrary, Motorola concedes that the jury was entitled to "giv[e] such weight to each [of these grounds] as the jury finds appropriate." (Br. 35.)

As for any subjective inquiry into Motorola's own view of its conduct, the Washington law Motorola paraphrases holds only that "evidence of good or bad faith *may be* dispositive." (Br. 36, emphasis added.) That is consistent with the jury instruction, which stated that subjective evidence "need not dictate" the jury's conclusion. ER65:14-

16, SER23. Nothing prevented the jury from considering all of the evidence. Further, Motorola's subjective evidence was not un rebutted. The jury heard evidence that Motorola sent its demands in order to set up injunctive actions. ER268(124:15)-ER269(126:11), ER372(107:16-19). The jury also heard that Motorola's outsized demands did *not* reflect a "standard" offer for 802.11 and H.264 patents. ER256(77:15)-ER257(79:20).

Finally, the injunction instruction itself contradicts Motorola's claim that the court "nowhere specified the 'circumstances'" in which pursuit of injunctions could breach the duty of good faith. (Br. 37.) The court told the jury to apply the standard of Instruction 16 (setting out the categories of conduct that can be breaches) when considering Motorola's pursuit of injunctions. ER71:5-12, SER29. The court's earlier summary judgment ruling on injunctions (Br. 37, citing ER565) does not help Motorola. The jury was *explicitly instructed* that "the RAND commitment does not by itself bar standards-essential patent owners from ever, in any circumstances, seeking injunctive relief." ER71:1-3, SER29. That instruction is wholly consistent with the Federal Circuit's consideration of the availability of injunctions on

standard-essential patents in Motorola's suit against Apple. *See Apple, Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1321-22 (Fed. Cir. 2014); *id.* at 1342-43 (Prost, J., concurring-in-part).

C. The Evidence Supports the Jury's Multiple Findings of Breach.

1. The Evidence Supports a Finding That Motorola's Entire Course of Conduct Breached its Duty of Good Faith and Fair Dealing.

Motorola examines its royalty demands piecemeal and its pursuit of injunctions in isolation. (*See* Br. 37-40.) But the evidence showed that Motorola's "entire course of conduct" was "much more consistent with them seeking to hold up Microsoft" in frustration of the purpose of the contracts. ER388(173:22)-ER389(174:19). The jury heard that Motorola's demands were commercially unreasonable, ER321(128:22-25), ER322(131:12-14), that Motorola's purported "RAND" offer was a "going-out-of-business model" for Microsoft's WiFi chip supplier, ER312(93:24)-ER313(94:6), that Windows or Xbox had never before been threatened with injunctions simply because they comply with standards, ER242(19:1-5), ER248(44:9-13), and that Motorola's conduct threatened the entire standards system, ER326(149:12)-ER327(150:5).

The jury saw Motorola's demands, heard that Motorola could have chosen to seek only damages (and not injunctions) in its lawsuits, ER270(132:2-16), learned that the district court and this Court stopped Motorola from pursuing its injunction in Germany, ER271(137:6-20), ER453(13:16)-ER454(15:10), and that Motorola nonetheless continued to seek injunctions knowing Microsoft would accept a license on RAND terms, ER453(11:8-12:8), ER454(15:11-18, 16:5-13). That evidence amply supports a conclusion that Motorola's course of conduct reflects an unreasonable exercise of contractual discretion as a RAND-committed standard-essential patent holder.

2. The Evidence Supports a Finding That Motorola's October 2010 Demands Breached its Duty of Good Faith and Fair Dealing.

The evidence with respect to the five objective inquiries under the duty of good faith and fair dealing supports a finding that Motorola's demands breached that duty. Motorola's argument on industry custom and practice fails. Motorola presents only cursory arguments as to three other inquiries, arguments it waived by not presenting them below and which are unavailing in any event. Motorola ignores the fifth

inquiry (unreasonable exercise of discretion), which by itself is a sufficient basis for affirmance.

Custom and Practice: The record refutes Motorola's assertion that its demands reflected a "standard offer" or ordinary practice of initiating negotiations. (Br. 36-39.) The October letters were *not* opening offers, but by their terms demands open for just 20 days that sought Microsoft's confirmation of acceptance. ER1136, ER1158, ER266(116:14-117:18). Further, the fact that negotiations may follow an opening offer does not imply that *any* opening offer, whatever its terms, is customary. For offers to license standard-essential patents, Microsoft's Horacio Gutierrez expected "a RAND rate or something close to a RAND rate." ER360(61:5-8). Finally, the jury was instructed (without objection) that Microsoft had no obligation to negotiate in response to Motorola's demands. ER71:13-18, SER30. Motorola cannot dodge that instruction by claiming it would have been "customary" for Microsoft to do so.

In any event, the evidence demonstrated that Motorola's conduct was not "customary." ER242(18:2-19:5), ER247(41:12-15); ER320(123:13-24), ER319(120:12-121:23), ER431(160:7-161:9).

Microsoft's 802.11 chip supplier testified that 1% of chip price is a customary ceiling for royalties, but Motorola's 2.25% of end-product price (which Motorola sought from both Microsoft and the chip supplier) exceeded 100% of chip price. ER312(92:15)-ER313(94:6). A licensing structure based on the prices of end products made by Microsoft's PC manufacturing customers is facially impossible for Microsoft to accept. ER242(18:16-25), ER243(22:9-12), ER320(123:1-24).

Motorola's conduct did not even conform to its own prior practice. Kirk Dailey (Motorola's head of licensing) was unaware of any Motorola licensee paying a royalty based on the selling price of a product sold by the licensee's customer, as Motorola demanded of Microsoft. ER254(69:25)-ER255(70:12). Further, Motorola's InteCap valuation proposed royalties far lower than Motorola's 802.11 demand. ER386(164:15-165:10), ER387(166:4-13). The H.264 pool (including thousands of patents from dozens of companies, ER325(144:20-145:9)), indicates customary practice for H.264 licensing, and Motorola endorsed its royalties. ER306(69:25)-ER307(71:3), ER307(72:19)-ER308(76:2). Yet Motorola's demand for its own patents dwarfed the pool royalties covering use of *all* of the pooled patents. ER386(162:8-17).

Frustration of Purpose: The record contains substantial evidence that Motorola engaged in hold-up in frustration of the contracts' purpose. Hold-up was defined for the jury as "the ability of a standards-essential patent holder to demand more than the value of its patented technology." ER66:23-ER67:2, SER25. Motorola's patents represent only a sliver of the technology incorporated into H.264 and 802.11, ER384(156:15-19), ER385(158:12-17), and the jury was instructed that the RAND royalties for Motorola's patents were 0.555 and 3.471 cents per unit, respectively, ER69:7-18, SER28. Motorola demanded vastly more, seeking royalties of \$11.25 and up per unit for H.264, ER255(71:9-11), and as much as \$9 per unit for 802.11, ER256(74:17-25).

Moreover, the jury heard expert testimony that Motorola's demands were consistent with a hold-up strategy. ER380(138:12)-ER381(145:16). Motorola confirmed that its policy was to make a demand before seeking injunctions on standard-essential patents, ER268(125:23)-ER269(126:11), ER372(107:16-19), and conceded it was preparing its injunction suits even as it sent the October letters, ER268(123:18-23, 124:15-125:7). Motorola's immediate pursuit of

injunctions confirms that its demands sought to use the patents for hold-up. ER382(146:3-147:10). Motorola's effort to secure a royalty-free grant-back of Microsoft patents *not* essential to those standards was consistent with hold-up, ER379(135:18-136:19), as was "negotiating" while threatening an injunction, ER387(169:18)-ER388(170:17). Motorola's sole argument is that Microsoft's expert declined to conclude as a factual matter that Motorola "intended" to engage in hold-up (Br. 38)—but that was for the jury to decide.

Motorola ignores another key purpose of the RAND commitment: preventing royalty stacking. ER67:2-4. Motorola's demands failed to account for the dozens of other patent holders, ER372(108:10-109:20), even though the stacking implications were obvious, ER385(160:9-20, 161:3-11). If those entities each demanded 2.25%, as Motorola did, the aggregate royalties would far exceed the prices of standard-compliant products. Because Motorola's patents reflect only minimal contributions, ER385(158:10-17), ER384(156:14-19), the aggregate royalty burden suggested by Motorola's demands is even more unreasonable—especially because Microsoft's products comply with

many other standards, ER241(16:17-22), ER247(39:19-22); ER321(128:3-21).

Commercially Unreasonable: Motorola claims that its demands “cannot be commercially unreasonable as a matter of law.” (Br. 38.) That is wrong (*see Vylene*, 90 F.3d at 1477 and *Best*, 739 P.2d at 559, *supra*), and is also contrary to Motorola’s concession in the district court that “blatantly unreasonable offers would violate its RAND obligations.” SER98. *See W.L. Gore & Assoc., Inc. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) (“A royalty demand which is so high as to preclude acceptance of a license offer is, after all, not appreciably different from a refusal to license upon any terms.”).

The evidence was overwhelming that Motorola’s demands were in fact blatantly—*i.e.*, commercially—unreasonable. Motorola’s H.264 demand of 2.25% on end-product price ranged from \$4.50 per unit for the cheapest Xbox, to \$22.50 per unit for a \$1000 computer running Windows—but the RAND royalty is 0.555 cents for each Xbox or copy of Windows. Motorola’s 802.11 demand equates to \$4.50 per unit or higher for the Xbox, but the RAND royalty is 3.471 cents per Xbox. The determined RAND royalties strongly suggested that Motorola’s

demands were not just high, but commercially outrageous.

ER380(139:12-140:2), ER381(142:6-19), ER321(128:22-25),

ER322(131:12-14).

Motorola's own licensing practices confirm as much. Motorola had never received royalties of the kind it demanded from Microsoft for Motorola's H.264 or 802.11 patents alone. ER257(79:7-13). The royalties Motorola sought for cellular patents shed no light on an appropriate royalty for its insubstantial 802.11 or H.264 patents, ER387(166:20-168:3, 168:23-169:8), as even Motorola's expert admitted, ER489(154:14-19). Motorola admitted that if all owners of 802.11 and H.264 standard-essential patents charged a 2.25% royalty on end products, implementing the standards would not be viable.

ER372(108:10)-ER373(110:1), ER260(92:11-14). And Motorola had no basis for believing that its 802.11 and H.264 patents were any more valuable than those other essential patents. ER260(90:4-8, 91:13-19).

Critically, contrary to Motorola's assertion (Br. 38), this evidence was available to Motorola when it made its demands. Motorola was well aware of the pool royalties, and knew its demands were out of line. ER266(115:9-18, 116:3-10), ER372(109:1)-ER373(111:5). No prior

Motorola license based a royalty on the price of products sold by the licensee's customers, as Motorola's H.264 demand did. ER254(69:25)-ER255(70:9). Indeed, Motorola's InteCap valuation suggested 0.5% of 802.11 chipset price, for chipsets used in end products, as a RAND royalty. ER386(164:2-12). But Motorola's 802.11 demand for the Xbox was over 100% of chip price. ER311(87:1-3). Motorola demanded \$4.50 and up per Xbox; InteCap suggested 2 cents, which confirms that Motorola's demand was commercially unreasonable. ER386(164:15-165:1).

Reasonable and Justified Expectations: Substantial evidence demonstrates that Motorola's demands were contrary to the parties' reasonable and justified expectations. Gutierrez testified that while Microsoft recognized the possibility of assertions and counter-assertions of non-standard-essential patents, ER335(183:24-184:16), Microsoft expected that a RAND-committed company would offer RAND terms, ER360(61:5-8). Microsoft's witnesses explained that the expectation that RAND licenses would be available was critical for product design decisions. ER241(16:25)-ER242(18:1), ER247(40:15-22), ER426(141:4)-ER427(143:9).

Motorola knew that the “reasonable” component of RAND imposed a limit on what it could demand, and that it had to make licenses available on RAND terms. ER372(108:7-9), ER253(63:3-6, 63:22-24). In fact, Motorola had committed from the outset to license its 802.11 patents at “nominal competitive costs.” ER1469-70, ER474(97:6-19), SER108.

Unreasonable Exercise of Discretion: The RAND licensing contracts vested Motorola with discretion in formulating licensing offers, and substantial evidence shows that Motorola exercised that discretion unreasonably. Motorola failed to move for JMOL on this ground, and fails to argue it on appeal, simply asserting without explanation that it “is irrelevant.” (Br. 39 n.9.) It is not.

Motorola knew about the pool royalties (having blessed them as reasonable) and the InteCap valuation, yet ignored them in formulating its demands. Dailey acknowledged that 2.25% of the annual Windows-based computer market amounted to around \$4 billion, knew that billions of dollars of Xbox consoles were sold every year, and was aware of Xbox and Windows revenues. ER255(71:15)-ER256(73:20). Yet Motorola still demanded 2.25%. Further, as to PCs and smart phones,

Motorola knew that Microsoft made component software and that Microsoft's customers sold the end products. ER254(68:22-69:10), ER256(75:9-12). Using the end product as the royalty base in light of that knowledge was unreasonable.

Subjective Bad Faith: Ample evidence indicated that Motorola did all of this in bad faith. Motorola urged its good faith because it had sought 2.25% in prior agreements. (Br. 50.) But in October 2010, Motorola knew its 802.11 and H.264 patents had never been licensed on a standalone basis, and had only been included in cross-licenses dominated, in terms of value, by Motorola's cellular patents. ER256(77:15)-ER257(78:6), ER259(87:22-88:2). Dailey felt that Motorola had a strong position with respect to cellular patents (relative to other cellular standard-essential patent holders), ER258(82:6-8), but had no reason to believe that Motorola's 802.11 or H.264 patents were any more valuable than those of dozens of other companies. ER260(90:4-8, 91:13-19).

Motorola's disregard of known RAND royalty benchmarks also supports a finding of bad faith. Dailey admitted pool royalties could inform RAND royalties, but decided they were somehow "different" from

Motorola's demand to Microsoft. ER266(116:3-13). Dailey's claimed ignorance of Motorola's InteCap valuation at the time he sent the letters, ER265(112:18-113:12), is irrelevant because he personally learned of the InteCap valuation by July 2012, yet did not offer Microsoft a royalty consistent with what he learned, ER266(114:10-22), confirming Motorola's intent from the outset.

Motorola's cursory argument that Dailey expected Microsoft to respond (Br. 39) goes nowhere. It defies common sense to suggest that a party bound by a RAND licensing obligation may use the prospect of future negotiations to justify knowingly making excessive, non-RAND demands. Even Dailey admitted it was incumbent on Motorola to make its patents available on RAND terms. ER253(63:3-6). The jury was entitled to reject any suggestion that Motorola intended its demands as placeholders, not proposals of actual RAND royalties, because the letters expressly state that the offered royalties are "RAND." ER1136, ER1158. Motorola knew its offers could not be accepted but made them anyway. ER267(118:4-7), ER283(185:5-11).

Dailey was well aware of the demands' financial implications. ER255(71:9-73:9), ER256(74:17-75:18), ER262(100:9-14). Dailey's team

had investigated how Motorola's patents and the standards applied to Microsoft's products. ER262(98:5-101:9). Microsoft's use was obvious: Xbox is a game console, with 802.11 available as an alternative means of connecting to the Internet. ER246(36:2-9), ER247(38:22-39:8). In Windows, the ability to display H.264-encoded video is only one of thousands of operating-system features. ER240(13:21)-ER241(15:10). Motorola needed nothing more to ascertain that the royalties it demanded were not remotely reasonable. ER322(133:17)-ER323(134:1)

Finally, Motorola's later conduct confirms its intent in October 2010. Dailey refused to include the 802.11 and H.264 patents in the parties' licensing discussions in late 2010. ER327(152:20-153:16). Even after the November 2012 bench trial, Motorola continued to demand a 2.25% royalty. ER388(171:1-5); ER329(160:23-161:6).

3. The Evidence Is Legally Sufficient to Find That Motorola Breached By Pursuing Injunctions.

Motorola makes three attempts to argue that pursuing injunctions was not a breach of the duty of good faith and fair dealing. First, Motorola blames Microsoft for asserting unrelated patents against Motorola in earlier litigation (Br. 39), but that has nothing to do with whether Motorola's conduct breached its RAND licensing commitments.

Second, Motorola suggests its behavior is excused by “Microsoft’s continued unlicensed use of [Motorola’s] patents.” (Br. 40.) But Microsoft’s products were “unlicensed” because of *Motorola’s* refusal to grant RAND licenses. Microsoft made clear that it was willing to take a reasonable license to Motorola’s patents in early October 2010. ER331(167:21-168:7). Microsoft confirmed this willingness in its complaint, which sought an accounting of RAND terms for Motorola’s patents. ER360(58:23-17), ER448(228:1-14). Microsoft made clear that despite uncertainties over the validity and essentiality of Motorola’s patents, it would accept a license to resolve the issue. ER359(57:15)-ER360(58:14), ER461(45:15-23). And Microsoft further committed in writing in September 2011 to take a RAND license. ER453(10:17-11:14). As the jury heard, *Motorola continued seeking injunctions through January 2013*. ER454(17:13-23).

From November 2010 on, and certainly from September 2011 on, Motorola’s only purpose for seeking injunctions was to pressure Microsoft to settle on supra-RAND terms. If Motorola truly wanted a RAND royalty, it could have obtained one through this lawsuit and had no need to seek an injunction. ER270(132:8-16), ER412(84:1-7).

Further, Motorola had no reason to take its standard-essential patents to the ITC, because the ITC cannot award RAND royalties or any other form of monetary relief. ER459(36:2-10).

Third, Motorola misconstrues a June 2011 letter from Microsoft to the FTC as supporting Motorola's view of injunctions and hold-up. (Br. 40.) The jury heard from the letter's author, David Heiner, and from an expert economist that Motorola's interpretation of the letter was incorrect. ER427(145:17)-ER428(147:25), ER410(76:18)-ER411(78:17). Motorola mischaracterizes Heiner's testimony, which did not mention injunctions at all. ER436(178:19-179:18).

As with its arguments concerning the October 2010 demands, Motorola failed below to address four of the five objective grounds concerning its pursuit of injunctions, each of which supports affirmance. The only ground Motorola addressed was frustration of purpose. None of its arguments on appeal shows any error.

Frustration of Purpose: The jury had ample evidence to conclude that injunctions were part of Motorola's hold-up strategy: Motorola backed unreasonable royalty demands by pursuing injunctions around the world. ER376(125:11)-ER377(127:2), ER328(154:24-155:23,

156:9-16). In light of the timing of those actions, the jury could reject Motorola's suggestion that it sued as a response to Microsoft's contract suit: Motorola filed two suits the day after Microsoft filed this case, and another only 12 days later. The jury heard Motorola's policy of making demands before seeking injunctions on standard-essential patents, and that Motorola prepared its complaints seeking injunctions at the same time it made its October 2010 demands.

If granted, the injunctions would have left Microsoft with a choice between pulling its standard-compliant products out of the U.S. and German markets, or somehow removing the "sliver" of standard-compliant functionality tied to Motorola's technology, which (despite the minor importance of Motorola's patents) would render those products non-compliant with the standards. ER327(151:1-152:10). The threat of injunctions is key leverage in forcing implementers to accept non-RAND terms. ER376(125:11)-ER377(127:2). Motorola continued to seek an ITC exclusion order on H.264 patents until January 2013. ER454(17:19-21).

Commercially Unreasonable, Custom and Practice, and Unreasonable Exercise of Discretion: Even if the pursuit of

injunctions on standard-essential patents were considered reasonable or customary before 2012 (and there is no evidence that it was), the FTC's public interest statement to the ITC, ER429(150:23-151:17), establishes that regulators viewed that conduct as unreasonable, contrary to the public interest, and a "custom and practice" (if it ever existed) that should be abandoned. Further, Motorola's decision to pursue injunctions was so far from commercially reasonable conduct, or a reasonable exercise of its discretion as a standard-essential patent holder, that it prompted regulatory oversight, as demonstrated by the FTC's 2012 investigation of Motorola's conduct. ER428(149:17-25).

Reasonable and Justified Expectations: Gutierrez's testimony establishes that Microsoft's reasonable and justified expectations were that no company with RAND licensing commitments would use standard-essential patents as Motorola did. ER326(149:13)-ER327(150:5), ER360(61:9-13). Even Motorola knew it should not use its standard-essential patents to force concessions on non-standard-essential patents. ER373(111:6-112:6). And by June 2012, Motorola knew its conduct was the subject of FTC scrutiny. ER429(150:23-

153:6). Motorola could not have had any expectation that pursuing injunctions on standard-essential patents was acceptable.

Subjective Bad Faith: Substantial evidence demonstrated that Motorola pursued injunctions in bad faith—especially given Dailey’s admission that injunctions were unnecessary. ER270(132:2-16). This suit put Motorola on notice that the RAND license dispute would be resolved here, yet Motorola pursued injunctions elsewhere in an end-run that ultimately required this Court’s intervention. ER453(11:16)-ER454(15:10).

D. The Record Contains Substantial Evidence of Legally-Supported Damages.

1. The *Noerr-Pennington* Doctrine Does Not Apply to This Breach of Contract Case.

Motorola cites no authority suggesting that *Noerr-Pennington* could immunize it from breach of contract liability for seeking injunctions on standard-essential patents. The only other court to resolve this question held that *Noerr-Pennington* does not apply. *See Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1078 (W.D. Wis. 2012) (“It would be improper to use the *Noerr-Pennington* doctrine to bar Apple from enforcing that contract.”). *Cf. In re Innovatio IP*

Ventures, LLC Patent Lit., 921 F. Supp. 2d 903, 922 n.17 (N.D. Ill. 2013) (noting that the parties—including Motorola Solutions, a defendant here—did not dispute that *Noerr-Pennington* was inapplicable to breach of RAND commitment claims).

Outside the RAND licensing context, courts have ruled that the “*Noerr-Pennington* doctrine does not shield [parties] from liability for failing to comply with [a] contract.” *Powertech Tech., Inc. v. Tessera, Inc.*, 872 F. Supp. 2d 924, 932 (N.D. Cal. 2012); *ClearPlay, Inc. v. Nissim Corp.*, No. 07-81170-CIV, 2011 WL 6724156, at *10 (S.D. Fla. Dec. 21, 2011); *Spear Pharms., Inc. v. William Blair & Co., LLC*, 610 F. Supp. 2d 278, 288 (D. Del. 2009); *Bores v. Domino’s Pizza LLC*, No. 05-2498, 2008 WL 4755834, at *4 (D. Minn. Oct. 27, 2008). None of the cases Motorola cites (Br. 41-42) applies *Noerr-Pennington* to a breach of contract.

Even if *Noerr-Pennington* applied, Motorola ignores that its conduct would still be actionable under the “sham litigation” exception. Motorola’s suits were not “reasonably calculated to elicit a favorable outcome,” *Prof’l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 50, 60 (1993), because this action to enforce Motorola’s

RAND licensing commitments had already been filed, giving Motorola a path to obtaining RAND royalties. Motorola's only hope for a "favorable" outcome would be that its suits outpaced this case, so that Motorola could leverage injunctions to hold-up Microsoft. Such use of "governmental *process*—as opposed to the *outcome* of that process"—is not protected by *Noerr-Pennington*. *Prof'l Real Estate Investors*, 508 U.S. at 60-61.

Finally, Motorola ignores that multiple instances of its conduct, including the October 2010 demands and its later pursuit of injunctions, breached its RAND licensing commitments. Even if Motorola were immune from suit for *filing* the infringement actions, the expenses Microsoft incurred defending those actions and Microsoft's relocation costs in Germany could still be recovered as damages for Motorola's *other* breaching conduct. Authority Motorola cites elsewhere confirms that where breaching conduct exposes a plaintiff to other litigation, fees incurred in that litigation can be recovered as damages. (*See Br.* 43-44.)

2. The Jury Awarded Damages Consistent with Washington Law.

Microsoft is entitled "(1) to recovery of all damages that accrue naturally from the breach, and (2) to be put into as good a pecuniary

position as [it] would have had if the contract had been performed.”

Eastlake Constr. Co., Inc. v. Hess, 686 P.2d 465, 470 (Wash. 1984).

Microsoft’s damages include injuries Motorola “had reason to foresee as a probable result of [its] breach when the contract was made.” *Dally v. Isaacson*, 245 P.2d 200, 203 (Wash. 1952). Such injuries include both the cost of relocating Microsoft’s German facility, and fees Microsoft incurred in defending against Motorola’s injunctive actions.

Motorola ignores the former and argues only about the latter. But this is not a case about the “American rule” (Br. 43), under which attorneys’ fees incurred in an action are generally not awarded as costs or damages to a prevailing party *in that same action*. See *City of Seattle v. McCreedy*, 931 P.2d 156, 160 (Wash. 1997). The damages awarded *were not fees incurred in this contract action*, but those incurred in defense of the injunctions Motorola sought. Those fees were foreseeable and flow directly from Motorola’s breach. At bottom, Motorola argues that it should be immunized from damages because it breached by filing lawsuits. Motorola is not free to impose litigation harms without facing consequences.

The district court's conclusion that Washington law would recognize this form of damages was well-founded.⁹ Awards of fees as damages "are based on a determination [that] a wrongful act may leave another party with no choice but to litigate." *McCready*, 931 P.2d at 162. Cases involving breaches of the duty of good faith and fair dealing are particularly appropriate for such damages. "[A]ttorneys fees are a proper element of damages when the right violated is the right to be free from suit"; "[a]n implied right to be free from suit therefore stands on the same legal footing as a similar express right contained in a covenant not to sue." *Riveredge Associates v. Metro. Life Ins. Co.*, 774 F. Supp. 897, 901-02 (D.N.J. 1991); *see also Cohn v. Taco Bell Corp.*, No. 92-C-5852, 1995 WL 247996, *9 (N.D. Ill. April 24, 1995) (California law).

The jury heard un rebutted testimony that Motorola's injunctive actions caused Microsoft to incur the fees in question. ER455(21:10)-

⁹ *Gruver v. Midas Int'l Corp.*, 925 F.2d 280, 283-84 (9th Cir. 1991), does not "address that very question" (Br. 44), but instead concerns whether (under Oregon law) a party could recover as damages fees "incurred in enforcing [a] provision of a contract which did not provide for fees." The fees portion of Microsoft's damages came from Motorola's patent suits—the fees were not incurred enforcing Motorola's contract in this case.

ER459(36:21). Dailey conceded it was unnecessary for Motorola to seek injunctions. ER270(132:2-16). This was sufficient for the jury to conclude that Microsoft's damages were caused by Motorola's conduct.

Even if the American rule controlled, its equitable exceptions support the jury's award. Washington law recognizes that even fees *in the same action* can be awarded as damages when fees are incurred as a direct consequence of the defendant's wrongful conduct. Courts routinely award fees for defending a lawsuit initiated in violation of a covenant not to sue. *See, e.g., Anchor Motor Freight, Inc. v. Int'l Broth. of Teamsters, Local Union No. 377*, 700 F.2d 1067, 1072 (6th Cir. 1983) (fees should be "used as a measure of the actual damages...incurred in defending against the lawsuit...instituted purportedly in violation of a covenant not to sue"). Motorola's claim that the court's analogy to such authority "lacked any legal or factual justification" ignores the court's analysis. The court reasoned that Washington courts (which had not yet ruled on the general question of fees as damages for violations of covenants not to sue) would recognize a *narrower* exception for suits (and pursuit of injunctions) on RAND-committed patents. ER36-39.

Washington recognizes other equitable exceptions as well, including awarding as damages fees incurred in procuring the dissolution of a wrongfully-issued injunction. *Cecil v. Dominy*, 418 P.2d 233, 234-35 (Wash. 1966); *Ino Ino, Inc. v. City of Bellevue*, 937 P.2d 154, 176 (Wash. 1997) (exception deters “seeking relief prior to a trial on the merits”). The jury found Motorola breached by seeking the leverage of an injunction in Germany, prior to a trial here that would determine a RAND royalty, E45-46, making Microsoft’s fees incurred defending against Motorola’s improperly-sought German injunction recoverable as damages.

3. The Evidence Established the Damage Element of Breach of Contract under Washington Law.

Finally, Motorola’s argument that the evidence of damages was so deficient that it failed even to establish the minimal harm necessary to sustain a breach of contract claim (Br. 45-46) is wrong. First, even if one ignores the fees Microsoft incurred in defending against Motorola’s injunctive efforts, Motorola’s pursuit of an injunction in Germany forced the German relocation (*see pp. 16-18, supra*). That relocation caused Microsoft to incur costs that it would not have incurred absent Motorola’s breach. Microsoft’s expert presented those costs to the jury.

ER415(94:6)-ER420(116:8). The jury explicitly found that Motorola breached the contract by pursuing injunctions and awarded relocation damages. ER45-46. Motorola does not challenge that determination on appeal. The relocation costs, standing alone, establish the requisite damage.

Second, even if one ignores both the defense costs and the relocation costs, nominal damages are sufficient to sustain Microsoft's breach claim, and would be appropriate here because Microsoft sought broad equitable relief. *See Merrell v. Renier*, No. C06-404-JLR, 2006 WL 3337368, at *5-6 (W.D. Wash. Nov. 16, 2006). The cases Motorola cites disapproving of nominal damages when only monetary relief is sought (Br. 45-46) thus do not apply.

IV. The District Court's Evidentiary Rulings Were Correct.

A. The Court's Rulings on FTC-Related Evidence Were Correct.

FTC-related evidence came in at Motorola's insistence, not Microsoft's. Motorola thus opened the door on the specific issue of FTC scrutiny of RAND licensing commitments. *See generally McCollough v. Johnson, Rodenburg & Lauinger, LLC*, 637 F.3d 939, 954 (9th Cir. 2011) (appellant opened the door through preemptive use of evidence at

trial before its introduction by the opposing party). Motorola pressed for admission of a 2011 Microsoft-FTC letter, claiming it showed that “Microsoft had never, to that date, ever accused anyone of patent hold-up.” ER227(159:25-160:5). Motorola told the jury that the “purpose” of Microsoft’s letter was “to say [to the FTC] you don’t have to worry about patent hold-up in the world. It’s not a real problem.” ER232(179:23-24).

In light of Motorola’s arguments, Microsoft called the letter’s author, David Heiner, to testify concerning Microsoft’s interactions with the FTC, including both the letter and Microsoft’s complaints about Motorola’s conduct. Motorola presented an “empty head, pure heart” defense, contending it was unaware that its conduct was inconsistent with its obligations. ER284(186:1-16), ER286(194:19-195:2), ER286(197:3-24), ER287(198:20-199:1). Evidence that the FTC had initiated an investigation of Motorola based on that same conduct undermined the credibility of that claim.¹⁰ The court warned Motorola

¹⁰ Motorola relies on *Kramas v. Sec. Gas. & Oil Inc.*, 672 F.2d 766, 772 (9th Cir. 1982), but the evidence in that case was excluded under FRE 404(b), as evidence of *other* wrongful acts—inapplicable here where the conduct underlying the investigations is the same as the conduct now at issue—Motorola’s pursuit of injunctions on standard-essential patents.

“[i]f you are putting on your good heart or clear-heart evidence, they are permitted to say, well, wasn’t there an FTC investigation going on in which the subject was exactly this issue.” ER424(130:7-10). The court admitted a redacted version of the letter, and permitted testimony concerning “the existence of [the FTC] investigation, but not the details of it.” ER422(124:11-125:23).

Microsoft’s counsel disclosed in advance (outside the presence of the jury) its questions for Heiner about the FTC investigation. ER424(132:18-133:14). Heiner then testified as to his understanding of the investigation, including a partial statement about its conclusion that Motorola flags on appeal. ER429(153:8)-ER430(154:2). Motorola objected, and the court twice instructed the jury to disregard Heiner’s statement, explaining that the consent order was for settlement purposes, contained no admission of liability, and did not conclude that the facts alleged in the FTC complaint were true. ER430(154:4-6), ER431(158:23-159:13).

The court gave the jury “prompt and effective” instructions, *B.K.B.*, 276 F.3d at 1105, and the jury is presumed to have followed them, *United States v. Randall*, 162 F.3d 557, 559 (9th Cir. 1998). The

court's clear instruction was more than adequate to counter any hypothetical prejudice from Heiner's testimony. And Heiner's incomplete statement could not have prejudiced Motorola in light of the other evidence. *United States v. Johnson*, 618 F.2d 60, 62 (9th Cir. 1980). Motorola guaranteed the jury would learn of the existence of the FTC investigation by pressing for admission of the Microsoft-FTC letter. The other evidence of breach, unrelated to the FTC investigation, was overwhelming and fully supported the verdict. *See Johnson*, 618 F.2d at 62.

B. The Court's RAND Findings Were Appropriately Used.

Motorola's argument that the use of the RAND royalty findings presents a timing concern (Br. 48-49), rests on a false premise. The RAND royalty determination was based not on "unknowable facts" (Br. 49), but on information fully available to Motorola in 2010—including Motorola's H.264 pool participation and the InteCap valuation.

Motorola gives one example of claimed "unknowable facts": the court's claim construction and invalidity rulings in a Motorola-filed patent case. (Br. 49.) But Motorola's claim that the court "incorporated those findings into the RAND Order" in this case (*id.*) is refuted by the

passage Motorola cites. At ER1504-16, the court discusses *only* the testimony of technical experts and Motorola’s Ajay Luthra. The court makes no mention of any claim construction ruling or validity determination—in fact, the court notes that Motorola’s witnesses’ opinions “rest on the assumption that a court of law would construe the claim terms to cover a similar scope” as the witnesses did, yet “the court credit[ed] [their] testimony” and relied on it. ER1506-24. The court did not rely on prior rulings adverse to Motorola, as Motorola suggests—it followed the constructions Motorola’s witnesses advocated.¹¹

Especially because the underlying facts were known or available to Motorola in October 2010, the RAND royalty findings were relevant to the jury’s task. Further, the jury’s inquiry was not limited to Motorola’s initial demands, but encompassed Motorola’s ongoing conduct, including its demands and pursuit of injunctions *after* the 2012 RAND royalty trial.

Whether Motorola had to make opening offers on RAND terms does not matter; the jury rightly heard what were appropriate RAND

¹¹ Motorola’s argument about the validity of its patents is also baseless. (Br. 49.) The court presumed that each of Motorola’s patents was valid. ER1504-33, ER1555.

terms either way. (Br. 50.) Knowing the actual RAND royalty would plainly assist the jury in determining whether the offers were consistent with the duty of good faith. Whatever weight is given to the RAND royalty when evaluating breach, Motorola's claim that it "provides no assistance to the jury" (Br. 50) lacks substance.

Motorola's two claimed instances of "prejudice" (Br. 50-51) are unavailing. First, Dailey claimed he had a basis for demanding 2.25% royalties based on the RIM license. ER257(79:14-22). That license (*see* pp. 37-38, *supra*) was the subject of extensive testimony and findings at the RAND royalty trial, and the court correctly determined it did not inform a RAND royalty. The court permitted Motorola to offer testimony on the RIM license over Microsoft's objection, but warned it would instruct the jury that it was not an indicator of a RAND royalty. ER240(10:15-17). Motorola fails to explain how that balanced ruling was prejudicial.

Second, Motorola points to ER266, claiming its witnesses "were not permitted to contradict findings in the RAND Order," but it identifies no proffered testimony that was barred. Even if it had, Motorola fails to explain why it would have been "prejudicial" for the

court to bar Motorola's witnesses from contradicting findings from a trial to which Motorola consented and in which it fully participated. In effect, Motorola sought to retry the RAND royalty bench trial before the jury. The court's refusal to permit that tactic was correct. Motorola's complaint that the RAND trial findings carried "undue weight" (Br. 51) not only ignores Motorola's consent, but also ignores the court's careful restriction on their use. ER109-110.

In claiming that the court's waiver decision is "in error" because "there was no such waiver," Motorola points only to its later-filed, backpedaling motion, ignoring its consent (*see* pp. 28-29, *supra*) and the court's ruling. (Br. 51-53.) The court considered in detail the use of factual findings beyond the numerical RAND royalties. ER100-10. The court addressed Motorola's prior representations, ER103-05; that Motorola participated fully and had "urg[ed] the court to decide the very facts it now seeks to exclude," ER106; the parties' decision to leave the complex findings necessary to determine RAND royalties to the court, ER107; and that the court had intentionally avoided any issues close to the province of the jury, ER108.

The court observed that Motorola’s position—keeping out all RAND trial findings—would allow Motorola “to argue the value of its patents to the judge, and then if the judge disagreed with them, Motorola could simply ask the jury to reach a different result.” ER108. Apparently, Motorola believes it should have been permitted to do just that: Motorola complains that Microsoft’s experts were permitted to treat as undisputed that Motorola’s H.264 patents were of minor importance, and Motorola wished to (but could not) “question” those findings. (Br. 53.) Motorola attempted to establish the importance of its patents at the bench trial and failed as a factual matter. Motorola cannot explain why it should have been permitted to re-argue that issue before the jury.

Finally, Motorola cannot show prejudice from the use of the RAND royalty findings because the jury explicitly found that Motorola’s conduct in seeking injunctions was a breach, a conclusion independent of the court-determined RAND royalties. ER46.

CONCLUSION

For the forgoing reasons, the judgment below should be affirmed.

DATED: Washington, DC
November 14, 2014.

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By: s/ Carter G. Phillips

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REQUEST FOR ORAL ARGUMENT

Plaintiff-Appellee respectfully requests that this Court hear oral argument in this case.

STATEMENT OF RELATED CASES

Pursuant to Circuit Rule 28-2.6, Plaintiff-Appellee states that it is not aware of any related cases pending in this Court.

**CERTIFICATE OF COMPLIANCE WITH
FRAP 32(A)(7)(C) & CIRCUIT RULE 32-1**

Pursuant to Fed. R. App. P. 32(a)(7)(C) and Circuit Rule 32-1, the attached answering brief is proportionally spaced, has a typeface of 14 points or more, and contains 13,976 words.

s/ Carter G. Phillips

Counsel for Plaintiff-Appellee

November 14, 2014

CERTIFICATE OF SERVICE

I, Carter G. Phillips, a member of the Bar of this Court, hereby certify that on November 14, 2014, I electronically filed the foregoing “Brief Of Plaintiff-Appellee” with the Clerk of Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system. I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

I further certify that I caused one copy of Plaintiff-Appellee’s Supplemental Excerpts of Record to be served by third-party carrier Federal Express by overnight delivery to the following counsel for Defendants-Appellants:

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No. 14-35393

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MICROSOFT CORPORATION,

Plaintiff-Appellee,

v.

MOTOROLA, INC., MOTOROLA MOBILITY, INC., and
GENERAL INSTRUMENT CORPORATION,

Defendants-Appellants.

Appeal from the United States District Court for the Western District
of Washington in Case No. 2:10-cv-01823, Judge James L. Robart

**SUPPLEMENTAL EXCERPTS OF RECORD
(SER1 - SER128)**

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SUPPLEMENTAL EXCERPTS OF RECORD

Jury Instructions, September 6, 2013 (Dkt. No. 908).....	SER 001
Letter from Arthur W. Harrigan, Jr. to Judge James L. Robart Requesting Release of Bond, June 18, 2013 (Dkt. No. 701)	SER 043
Excerpt of Defendant’s Proposed Findings of Fact and Conclusions of Law (Redacted) December 17, 2012 (Dkt. No. 624)	SER 048
Excerpt of Defendant’s Post-Trial Brief (Redacted) December 17, 2012 (Dkt. No. 623)	SER 052
Transcript of Telephone Conference, July 9, 2012 (Dkt. No. 359)	SER 060
Transcript of Markman Hearing and Status Conference, June 14, 2012 (Dkt. No. 365, No. 11-1408-JLR (W.D. Wash.); <i>see</i> Dkt. No. 346, No. 10-1823-JLR (W.D. Wash.)	SER 071
Excerpt of Opening Brief of Defendants-Appellants, May 30, 2012 (Dkt. No. 14, No. 12-35352 (9th Cir.))	SER 076
Excerpt of Defendants’ Response to Microsoft’s Motion for Summary Judgment of Breach of Contract, April 13, 2012 (Dkt. No. 274)	SER 080
Order on Plaintiff’s Motion for Summary Judgment, Entered February 27, 2012 (Dkt. No. 188).....	SER 084

Trial Exhibits

Trial Exhibit 1031,
Proposal for IPR Policy Reform by Ericsson, Motorola,
and Nokia, January 10-11, 2006.....SER 102

Trial Exhibit 1130 (excerpt),
IEEE 1994 Operations ManualSER 106

Trial Exhibit 1139,
MPEG LA H.264 Patent Pool Meeting Notes,
July 31-August 1, 2003SER 110

Trial Exhibit 1179,
Email Chain with Motorola’s Approval of H.264 Patent
Pool Press Release, November 5-7, 2003.....SER 124

Trial Exhibit 1584,
MPEG LA H.264 Patent Pool Press Release,
November 17, 2003.....SER 126

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WESTERN DISTRICT OF WASHINGTON U.S. DISTRICT COURT
DEPUTY

ORIGINAL

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

MICROSOFT CORPORATION,

Plaintiff,

v.

MOTOROLA, INC., MOTOROLA
MOBILITY, INC., and GENERAL
INSTRUMENT CORPORATION

Defendants.

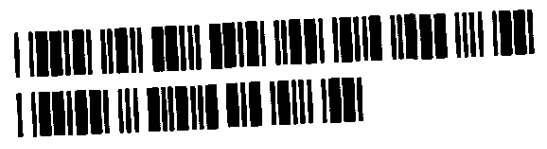
CASE NO. C10-1823JLR

JURY INSTRUCTIONS

Dated this 4th day of September, 2013.



JAMES L. ROBART
United States District Judge



10-CV-01823-JY

1. DUTY OF JURY

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2 Members of the Jury: Now that you have heard all of the evidence and the
3 arguments of the attorneys, it is my duty to instruct you as to the law of the case. Each of
4 you has received a copy of these instructions that you may take with you to the jury room
5 to consult during your deliberations.

6 You must not infer from these instructions or from anything I may say or do as
7 indicating that I have an opinion regarding the evidence or what your verdict should be.

8 It is your duty to find the facts from all the evidence in the case. To those facts
9 you will apply the law as I give it to you. You must follow the law as I give it to you
10 whether you agree with it or not. And you must not be influenced by any personal likes
11 or dislikes, opinions, prejudices, or sympathy. That means that you must decide the case
12 solely on the evidence before you. You will recall that you took an oath to do so.

13 In following my instructions, you must follow all of them and not single out some
14 and ignore others; they are all important.

2. BURDEN OF PROOF

When a party has the burden of proof on any claim by a preponderance of the evidence, it means you must be persuaded by the evidence that the claim is more probably true than not true. You should base your decision on all of the evidence, regardless of which party presented it.

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3. WHAT IS EVIDENCE

The evidence you are to consider in deciding what the facts are consists of:

1. the sworn testimony of any witness;
2. the exhibits which are received into evidence; and
3. any facts to which the lawyers have agreed.

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4. WHAT IS NOT EVIDENCE

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2 In reaching your verdict, you may consider only the testimony and exhibits
3 received into evidence. Certain things are not evidence, and you may not consider them
4 in deciding what the facts are. I will list them for you:

5 (1) Arguments and statements by lawyers are not evidence. The lawyers are not
6 witnesses. What they have said in their opening statements, closing arguments,
7 and at other times is intended to help you interpret the evidence, but it is not
8 evidence. If the facts as you remember them differ from the way the lawyers have
9 stated them, your memory of them controls.

10 (2) Questions and objections by lawyers are not evidence. Attorneys have a duty
11 to their clients to object when they believe a question is improper under the rules
12 of evidence. You should not be influenced by the objection or by the court's
13 ruling on it.

14 (3) Testimony that has been excluded or stricken, or that you have been instructed
15 to disregard, is not evidence and must not be considered. In addition, sometimes
16 testimony and exhibits are received only for a limited purpose; when I have given
17 a limiting instruction, you must follow it.

18 (4) Anything you may have seen or heard when the court was not in session is not
19 evidence. You are to decide the case solely on the evidence received at the trial.
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5. **EVIDENCE FOR A LIMITED PURPOSE**

Some evidence may be admitted for a limited purpose only.

When I instructed you that an item of evidence has been admitted for a limited purpose, you must consider it only for that limited purpose and for no other.

1 **6. DIRECT AND CIRCUMSTANTIAL EVIDENCE**

2 Evidence may be direct or circumstantial. Direct evidence is direct proof of a fact,
3 such as testimony by a witness about what that witness personally saw or heard or did.

4 Circumstantial evidence is proof of one or more facts from which you could find another
5 fact. You should consider both kinds of evidence. The law makes no distinction between
6 the weight to be given to either direct or circumstantial evidence. It is for you to decide
7 how much weight to give to any evidence.

8 By way of example, if you wake up in the morning and see that the sidewalk is
9 wet, you may find from that fact that it rained during the night. However, other evidence,
10 such as a turned on garden hose, may provide a different explanation for the presence of
11 water on the sidewalk. Therefore, before you decide that a fact has been proved by
12 circumstantial evidence, you must consider all the evidence in the light of reason,
13 experience, and common sense.

7. RULING ON OBJECTIONS

1
2 There are rules of evidence that control what can be received into evidence. When
3 a lawyer asks a question or offers an exhibit into evidence and a lawyer on the other side
4 thinks that it is not permitted by the rules of evidence, that lawyer may object.

5 If I overruled the objection, the question was answered or the exhibit received. If I
6 sustained the objection, the question was not answered or the exhibit was not received.
7 Whenever I sustained an objection to a question, you must ignore the question and must
8 not guess at what the answer might have been.

9 Sometimes I ordered that evidence be stricken from the record and that you
10 disregard or ignore the evidence. That means that when you are deciding the case, you
11 must not consider the evidence that I told you to disregard.

8. CREDIBILITY OF WITNESSES

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2 In deciding the facts in this case, you may have to decide which testimony to
3 believe and which testimony not to believe. You may believe everything a witness says,
4 or part of it, or none of it. Proof of a fact does not necessarily depend on the number of
5 witnesses who testify about it.

6 In considering the testimony of any witness, you may take into account:

7 (1) the opportunity and ability of the witness to see or hear or know the things
8 testified to;

9 (2) the witness's memory;

10 (3) the witness's manner while testifying;

11 (4) the witness's interest in the outcome of the case and any bias or prejudice;

12 (5) whether other evidence contradicted the witness's testimony;

13 (6) the reasonableness of the witness's testimony in light of all the evidence; and

14 (7) any other factors that bear on believability.

15 The weight of the evidence as to a fact does not necessarily depend on the number
16 of witnesses who testify about it.

9. EXPERT OPINION

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2 Some witnesses, because of education or experience, are permitted to state
3 opinions and the reasons for those opinions.

4 Opinion testimony should be judged just like any other testimony. You may
5 accept it or reject it, and give it as much weight as you think it deserves, considering the
6 witness's education and experience, the reasons given for the opinion, and all the other
7 evidence in the case.

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10. STIPULATIONS OF FACT

1 The parties have agreed to certain facts that will be read to you. You should
2 therefore treat these facts as having been proved. The parties have stipulated to the
3 following facts:
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5 1. Plaintiff Microsoft Corporation ("Microsoft") is a Washington corporation
6 having its principal place of business in Redmond, Washington.

7 2. Defendant Motorola, Inc. has changed its corporate name to Motorola
8 Solutions, Inc. Motorola Solutions, Inc. is a Delaware corporation, having its principal
9 place of business in Schaumburg, Illinois.

10 3. Motorola Mobility, LLC is a Delaware limited liability company, having its
11 principal place of business in Libertyville, Illinois. Motorola Mobility, LLC's
12 predecessor-in-interest was Defendant Motorola Mobility, Inc. ("MMI"), which was a
13 Delaware corporation having its principal place of business in Libertyville, Illinois.

14 4. MMI was a wholly-owned subsidiary of Motorola Mobility Holdings, Inc.,
15 which was a wholly owned subsidiary of Motorola, Inc. MMI was spun off from
16 Motorola, Inc. on January 4, 2011. MMI was acquired by Google, Inc. on May 22, 2012.
17 Motorola Mobility, LLC is MMI's successor-in-interest and a wholly-owned subsidiary
18 of Google, Inc.

19 5. Defendant General Instrument Corporation is a Delaware corporation,
20 having its principal place of business in Horsham, Pennsylvania. General Instrument
21 Corporation was a wholly-owned subsidiary of MMI and now is a wholly-owned
22 subsidiary of Motorola Mobility, LLC.

1 6. Plaintiff Microsoft Corporation will be referred to in these instructions as
2 “Microsoft.” Unless specifically identified by its corporate identity, Defendants
3 Motorola, Inc., MMI, and General Instrument Corporation will be referred to in these
4 instructions collectively as “Motorola.”

5 7. The parties are members of the Institute of Electrical and Electronics
6 Engineers (“IEEE”).

7 8. The Institute of Electrical and Electronics Engineers Standards Association
8 (“IEEE-SA”) is the division of the IEEE devoted to the development of industry
9 standards.

10 9. The IEEE-SA developed the 802.11 wireless communication standard. The
11 802.11 standard was initially released in 1997. It has been amended and revised
12 numerous times since 1997 (e.g., 802.11a, 802.11b, 802.11g, and 802.11n).

13 10. The parties are members of the International Telecommunications Union
14 (“ITU”). The ITU Telecommunications Standardization Sector (“ITU-T”) is one of the
15 three sectors (divisions or units) of the International Telecommunications Union; it
16 coordinates standards for telecommunications.

17 11. The ITU-T is responsible for the development of thousands of standards.

18 12. The ITU-T, in conjunction with two other standards bodies, the
19 International Organization for Standardization (ISO) and the International
20 Electrotechnical Commission (IEC), developed the H.264 video compression standard.

21 13. Motorola submitted numerous Letters of Assurance to the IEEE-SA in
22 connection with its development of the 802.11 standard.

1 14. Motorola submitted numerous Patent Statement and Licensing Declarations
2 to the ITU-T in connection with the development of the H.264 standard.

3 15. In submitting Letters of Assurance to the IEEE-SA covering their 802.11
4 standard-essential patents, Motorola stated that they “will grant” or “[are] prepared to
5 grant” worldwide, irrevocable, non-exclusive licenses to their 802.11 standard-essential
6 patents covered by each Letter of Assurance on Reasonable and Non-Discriminatory
7 (“RAND”) terms and conditions.

8 16. Motorola sent Microsoft a letter on October 21, 2010, that contained certain
9 proposed royalty terms for a license to Motorola’s patents that “may be or become”
10 essential to the 802.11 standard, and stated that “Motorola will leave this offer open for
11 20 days. Please confirm whether Microsoft accepts the offer.”

12 16. Motorola sent Microsoft a letter on October 29, 2010, that contained certain
13 proposed royalty terms for a license to Motorola’s patents essential to the H.264 standard,
14 and stated that “Motorola will leave this offer open for 20 days. Please confirm whether
15 Microsoft accepts the offer.”

1 **11. SUMMARIES AND CHARTS NOT RECEIVED IN EVIDENCE**

2 Certain charts and summaries not received in evidence have been shown to you in
3 order to help explain the contents of books, records, documents, or other evidence in the
4 case. They are not themselves evidence or proof of any facts. If they do not correctly
5 reflect the facts or figures shown by the evidence in the case, you should disregard these
6 charts and summaries and determine the facts from the underlying evidence.

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1 **12. CHARTS AND SUMMARIES RECEIVED IN EVIDENCE**

2 Certain charts and summaries have been received into evidence to illustrate
3 information brought out in the trial. Charts and summaries are only as good as the
4 underlying evidence that supports them. You should, therefore, give them only such
5 weight as you think the underlying evidence deserves.

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13. CONTRACT DEFINED

A contract is a legally enforceable promise or set of promises.

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1 **14. ISSUES –BREACH OF CONTRACT**

2 The following is a summary of the claims of the parties provided to help you
3 understand the issues in the case. You are not to take this instruction as proof of the
4 matters claimed. It is for you to decide, based upon the evidence presented, whether a
5 claim has been proved.

6 The Microsoft claims that Motorola breached its contractual commitment with the
7 IEEE in one or more of the following ways, or a combination thereof:

8 — by the terms contained in the October 21, 2010, letter offering to license
9 Motorola’s 802.11 standard essential patents;

10 — by filing lawsuits and seeking injunctive relief based on standard essential
11 patents in the International Trade Commission (“ITC”), United States District
12 Courts, and/or Germany; and/or

13 — by having not executed a license agreement covering its 802.11 standard
14 essential patents with Marvell, Microsoft’s chip supplier.

15 Microsoft also claims that Motorola breached its contractual commitment with the
16 ITU in one or more of the following ways, or a combination thereof:

17 — by the terms contained in the October 29, 2010, letter offering to license
18 Motorola’s H.264 standard essential patents;

19 — by filing lawsuits and seeking injunctive relief based on standard essential
20 patents in the ITC, United States District Courts, and/or Germany.
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1 Microsoft also claims that it sustained damages as a result of these breaches of
2 Motorola's commitments to the IEEE and ITU, and it seeks a judgment against Motorola
3 for these damages.

4 Motorola denies that any of its conduct breached its contractual commitments with
5 the IEEE and ITU.

6 Motorola further denies that Microsoft was damaged and denies that any damages
7 were the result of Motorola's conduct. Motorola further denies the nature and extent of
8 the claimed damages.

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1 **15. BURDEN OF PROOF ON THE ISSUES - BREACH OF CONTRACT**

2 The plaintiff, Microsoft, has the burden of proving each of the following four
3 elements on its claims of breach of contract with respect to the IEEE:

4 (1) that Motorola entered into a contract with the IEEE;

5 (2) that the terms of the contract included:

6 that Motorola was required to make available and grant a license to
7 its 802.11 standard essential patents to an unrestricted number of
8 applicants on a worldwide basis under reasonable rates, with
9 reasonable terms and conditions that are demonstrably free of any
10 unfair discrimination;

11 (3) that Motorola breached the contract in one or more of the ways claimed by
12 Microsoft; and

13 (4) that Microsoft was damaged as a result of Motorola's breach.

14 I have already ruled that Motorola entered into an enforceable contract with the
15 IEEE that included the language in subsection (2) above. The court has also already
16 ruled that Microsoft is a third-party beneficiary to this contract because Microsoft is a
17 member of the IEEE and is a prospective user of the 802.11 Standard. As a third-party
18 beneficiary, Microsoft may enforce Motorola's contract with the IEEE. You must follow
19 these rulings, and therefore you need not determine whether Microsoft proved the first
20 two elements of this claim. However, you must determine whether Microsoft has proven
21 each of the other two elements—subsections (3) and (4)—listed above. If you find from
22 your consideration of all of the evidence that either of these other two elements listed
above has not been proved, your verdict should be for Motorola. On the other hand, if

1 both of these elements have been proved, your verdict should be for Microsoft on its
2 claim with respect to the IEEE.

3 Microsoft also has the burden of proving each of the following elements on its
4 claims of breach of contract with respect to the ITU:

5 (1) that Motorola entered into a contract with the ITU;

6 (2) the terms of the contract included:

7 that Motorola was required to grant a license for its H.264 standard
8 essential patents to an unrestricted number of applicants on a world-
9 wide, non-discriminatory basis and on reasonable terms and
conditions to make, use and sell products compliant with the H.264
Standard.

10 (3) that Motorola breached the contract in one or more of the ways claimed
by Microsoft;

11 (4) that Microsoft was damaged as a result of Motorola's breach.

12 I have already ruled that Motorola entered into an enforceable contract with the
13 ITU that included the language in subsection (2) above. The court has also already ruled
14 that Microsoft is a third-party beneficiary to this contract because Microsoft is a member
15 of the ITU and is a prospective user of the H.264 Standard. As a third-party beneficiary,
16 Microsoft may enforce Motorola's contract with the ITU. You must follow these rulings,
17 and therefore, you need not determine whether Microsoft proved the first two elements of
18 this claim as to Motorola. However, you must determine whether Microsoft has proven
19 each of the other two elements—subsections (3) and (4)—listed above. If you find from
20 your consideration of all of the evidence that either of these other two elements listed
21 above has not been proved, your verdict should be for Motorola. On the other hand, if
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1 both of these elements have been proved, then your verdict should be for Microsoft on its
2 claim with respect to the ITU.
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16. DUTY OF GOOD FAITH AND FAIR DEALING

1 A duty of good faith and fair dealing is implied in every contract. A contract is
2 breached by violation of this duty. The implied duty of good faith and fair dealing arises
3 out of the obligations created by a contract and only exists in relation to the performance
4 of specific contract terms. Thus, a party's duty is only to perform, in good faith, the
5 obligations imposed by the contract. There is no "free-floating" duty of good faith and
6 fair dealing that injects substantive terms into the parties' contract.
7

8 The following types of acts are examples of conduct that in other cases have been
9 found to violate the duty of good faith and fair dealing: (1) evasion of the spirit of the
10 bargain; (2) willful rendering of imperfect performance; (3) interference with or failure to
11 cooperate in the other party's performance; (4) abuse of discretion granted by the
12 contract; or (5) lack of diligence in performing the terms of the contract. Each case,
13 however, presents its own unique circumstances, and you should view this list only as an
14 illustration of the kinds of conduct that can violate the duty of good faith and fair dealing.
15 You are not to use this list as a complete catalogue of conduct that violates the duty of
16 good faith and fair dealing or as a standard under which to assess the parties' conduct.

17 It is your job to determine whether Motorola breached its duty of good faith and
18 fair dealing in carrying out the terms of the contracts at issue in this case. Good faith
19 performance of a contract requires being faithful to the agreed common purpose of the
20 contract and performing consistently with the justified expectations of the other parties.
21 On the other hand, bad faith performance involves conduct that violates community
22 standards of decency, fairness, or reasonableness.

1 In deciding whether Motorola breached its duty of good faith and fair dealing, you
2 may consider the following factors, alone or in combination:

- 3 (1) Whether Motorola's actions were contrary to the reasonable and justified
4 expectations of other parties to the contract;
- 5 (2) Whether Motorola's conduct would frustrate the purpose of the contract;
- 6 (3) Whether Motorola's conduct was commercially reasonable;
- 7 (4) Whether and to what extent Motorola's conduct conformed with ordinary custom
8 or practice in the industry;
- 9 (5) To the extent the contract vested Motorola with discretion in deciding how to act,
10 whether Motorola exercised that discretion reasonably;
- 11 (6) Subjective factors, such as Motorola's intent and whether Motorola had a bad
12 motive.

13 If you consider subjective factors such as Motorola's intent or motive, you must be
14 aware that this is only one consideration and it need not dictate your final decision. Bad
15 motive or intent does not necessarily imply bad faith, and good motive or intent does not
16 necessarily imply good faith. Likewise, bad motive or intent is not a prerequisite to bad
17 faith, nor is good motive or intent a prerequisite to good faith.

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1 **18. PURPOSE OF THE RAND COMMITMENT**

2 As set forth in Instruction # 16, one factor to consider in determining if Motorola
3 breached its duty of good faith and fair dealing is whether Motorola's conduct frustrated
4 the purpose of the contract. The purposes of the RAND commitment are:

- 5 (1) to encourage widespread adoption of the standard;
- 6 (2) to prevent patent "hold-up," which is the ability of a standard essential patent
7 owner to demand more than the value of its patented technology;
- 8 (3) to prevent "royalty stacking," which is the payment of excessive royalties to
9 many different standard essential patent owners; and
- 10 (4) to induce the creation of valuable standards by ensuring that owners of
11 valuable patents will receive reasonable royalties for their patents.
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1 **19. OFFERS TO LICENSE STANDARD ESSENTIAL PATENTS**

2 In this case, Microsoft claims that Motorola's October 21 offer letter and/or
3 Motorola's October 29 offer letter breached Motorola's duty of good faith and fair
4 dealing. In assessing this claim, you should rely on the good faith and fair dealing
5 standard set forth in Instruction # 16. Further, in the context of offering to license
6 standard essential patents subject to a RAND commitment, there are additional legal
7 principles that you should be aware of:

8 (1) Initial offers in a RAND licensing negotiation do not need to be on RAND
9 terms;

10 (2) Any offer by Motorola (be it an initial offer or an offer during a back-and-forth
11 negotiation) must comport with the duty of good faith and fair dealing set forth in
12 Instruction # 16;

13 (3) In determining whether Motorola's October 21 offer letter and/or Motorola's
14 October 29 offer letter complied with Motorola's duty of good faith and fair dealing, you
15 may compare Motorola's offers against the RAND royalty rate and range determined by
16 the court and set forth in Instruction # 20. However, the size of an offer alone is not
17 exclusively dispositive of whether Motorola has breached its duty of good faith and fair
18 dealing. To determine whether Motorola's offer breached its duty of good faith and fair
19 dealing, you must use the standard set forth in Instruction # 16.

1 **20. COURT-DETERMINED RAND RATE AND RANGE**

2 As I stated at the beginning of the trial, this case has been conducted in two
3 phases, and this is the second phase. In the first phase, I conducted a bench trial, the
4 purpose of which was to determine a RAND royalty rate and range for Motorola's
5 standard essential patents. As I told you before, the IEEE and ITU do not set RAND
6 rates at which parties are required to license their standard essential patents. Instead,
7 determinations of RAND rates are left to the parties. Here, the parties never agreed on a
8 RAND rate to license Motorola's standard essential patents. However, in order for you to
9 properly assess Microsoft's breach of contract claim, you must know what a RAND
10 royalty rate and range would be for Motorola's standard essential patents.

11 I will now tell you again what those rates are. For each group of standard essential
12 patents, I have found both a RAND rate and a RAND range. This reflects the fact that
13 more than one licensing rate could be RAND. The RAND ranges are defined by an
14 upper bound and a lower bound. To determine the RAND rate and range, I assumed that
15 Microsoft and Motorola engaged in negotiations and found the rate and range that the
16 parties would have agreed to through such negotiations.

17 I found that a RAND royalty rate for Motorola's H.264 standard essential patent
18 portfolio is 0.555 cents per unit, with the upper bound of a RAND royalty for Motorola's
19 H.264 standard essential patent portfolio being 16.389 cents per unit and the lower bound
20 being 0.555 cents per unit. This rate and range is applicable to both Microsoft Windows
21 and Xbox products. For all other Microsoft products using the H.264 Standard, the
22 royalty rate is the lower bound of 0.555 cents per unit.

1 I also concluded in that previous bench trial that the RAND royalty rate for
2 Motorola's 802.11 standard essential patent portfolio is 3.471 cents per unit, with the
3 upper bound being 19.5 cents per unit and the lower bound being 0.8 cents per unit. This
4 rate and range is applicable to Microsoft Xbox products. For all other Microsoft products
5 using the 802.11 Standard, the royalty rate is the lower bound of 0.8 cents per unit.

6 In the bench trial, I did not decide whether Motorola breached its contracts with
7 the IEEE and ITU. That is for you to decide, and you alone. Throughout this trial, you
8 may have heard lawyers refer to the bench trial and to the Findings of Fact and
9 Conclusions of Law that I made in that trial. You must follow the legal rulings I made in
10 that trial and accept the facts that I found as related to you in these instructions and
11 during the course of the trial, but you are not to take any reference to the previous trial as
12 deciding the breach of contract issues in this case or as implying for which side your
13 verdict should be rendered. In the prior trial, I did not examine whether Motorola
14 breached its contractual commitments with the IEEE and ITU by violating the covenant
15 of good faith and fair dealing that is implied in those contracts. I have not made a
16 decision on those issues. It is for you, and you alone, to determine whether Motorola
17 breached its contractual commitments based on the evidence you heard in this trial.

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21. INJUNCTIVE RELIEF IN THE RAND CONTEXT

1
2 Microsoft claims that Motorola's actions in seeking injunctive relief in the ITC,
3 United States District Courts, and/or in Germany violated Motorola's duty of good faith
4 and fair dealing. In assessing this claim, you should again rely on the good faith and fair
5 dealing standard set forth in Instruction # 16. Further, in the context of seeking
6 injunctive relief for standard essential patents subject to a RAND commitment, there are
7 additional legal principles that you should be aware of:

8 (1) The RAND commitment does not by itself bar standard essential patent owners
9 from ever, in any circumstances, seeking injunctive relief to enforce their patents.

10 (2) However, in some circumstances, it may be a breach of the duty of good faith
11 and fair dealing for a standard essential patent holder to seek injunctive relief against a
12 standard essential patent implementer. To determine whether Motorola's actions in
13 seeking injunctive violated Motorola's duty of good faith and fair dealing, you must use
14 the standard set forth in Instruction # 16.

22. MICROSOFT'S RIGHT TO ENFORCE

1
2 Microsoft did not repudiate or forfeit any of its rights under the contracts by
3 seeking the Court's assistance through the present lawsuit against Motorola. Microsoft
4 had neither a duty to first apply for a license from Motorola nor a duty to negotiate with
5 Motorola before Motorola's RAND licensing obligations were triggered.
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1 **23. BREACH OF CONTRACT – ALLOWED RECOVERY**

2 It is the duty of the court to instruct you as to the measure of damages.

3 By instructing you on damages the court does not mean to suggest for which party
4 your verdict should be rendered.

5 In order to recover actual damages, Microsoft has the burden of proving that
6 Motorola breached a contract with the IEEE or the ITU, and that Microsoft incurred
7 actual economic damages as a result of the breach, and the amount of those damages.

8 If your verdict is for Microsoft on Microsoft's IEEE breach of contract claim, and
9 if you find that Microsoft has proved that it incurred actual damages and the amount of
10 those actual damages, then you shall award actual damages to Microsoft.

11 Similarly, if your verdict is for Microsoft on Microsoft's ITU breach of contract
12 claim, and if you find that Microsoft has proved that it incurred actual damages and the
13 amount of those actual damages, then you shall award actual damages to Microsoft.

14 Actual damages are those losses that were reasonably foreseeable, at the time the
15 contract was made, as a probable result of a breach. A loss may be foreseeable as a
16 probable result of a breach because it follows from the breach either

17 (a) in the ordinary course of events, or

18 (b) as a result of special circumstances, beyond the ordinary course of events, that
19 the party in breach had reason to know.

20 In calculating Microsoft's actual damages on its IEEE contract claim, you should
21 determine the sum of money that will put Microsoft in as good a position as it would
22 have been in had Motorola performed all of its promises under the IEEE contract.

1 In calculating Microsoft's actual damages on its ITU contract claim, you should
2 determine the sum of money that will put Microsoft in as good a position as it would
3 have been in had Motorola performed all of its promises under the ITU contract.

4 The burden of proving damages rests with Microsoft, and it is for you to
5 determine, based upon the evidence, whether any particular element has been proved by a
6 preponderance of the evidence. You must be governed by your own judgment, by the
7 evidence in the case, and by these instructions, rather than by speculation, guess, or
8 conjecture.

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24. BREACH OF CONTRACT – MEASURE OF DAMAGES

With regard to Microsoft’s breach of contract claims, in your determination of damages you are to use the following measure of damages, in the amounts proved by Microsoft:

(a) the costs that Microsoft incurred for relocating Microsoft’s distribution centers to the Netherlands in Spring 2012 to avoid the consequences of the injunctive relief sought by MMI and General Instrument Corporation in Germany;

— and —

(b) the costs that Microsoft incurred in defending against lawsuits filed by Motorola seeking injunctive relief against Microsoft in District Courts within the United States, before the ^CITU, and in German courts.

Regarding part (b), you may only award such damages, if you find that Motorola’s lawsuits seeking injunctive relief, apart from Motorola’s general course of conduct, violated Motorola’s duty of good faith and fair dealing. In determining whether Motorola’s lawsuits seeking injunctive relief violated the duty of good faith and fair dealing, you shall consider the circumstances surrounding each lawsuit. Each lawsuit seeking injunctive relief shall be considered individually.

Keep in mind that there are two contracts at issue in this case—the ITU contract and the IEEE contract. If you find that only one of the contracts has been breached, you must determine the amount of damages caused by that breach and award only that amount.

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25. NOMINAL DAMAGES

The law that applies to this case authorizes an award of nominal damages. If you find that Motorola breached its contract with either the ITU or the IEEE and that Microsoft was harmed as a result, but you find that Microsoft has failed to prove damages as defined in these instructions, you must award nominal damages. Nominal damages must be greater than \$0.00 and may not exceed \$1.00.

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26. CONTRACT – MITIGATION OF DAMAGES

A plaintiff who sustains damage as a result of a defendant’s breach of contract has a duty to minimize its loss.

Microsoft is not entitled to recover for any part of the loss that it could have avoided with reasonable efforts. Motorola has the burden to prove Microsoft’s failure to use reasonable efforts to minimize its loss and the amount of damages that could have been minimized or avoided.

27. LIABILITY OF CORPORATIONS

Under the law, a corporation is considered to be a person. It can only act through its employees, agents, directors, or officers. Therefore, a corporation is responsible for the acts of its employees, agents, directors, and officers performed within the scope of authority.

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28. DUTY TO DELIBERATE

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2 When you begin your deliberations, you should elect one member of the jury as
3 your presiding juror. That person will preside over the deliberations and speak for you
4 here in court.

5 You will then discuss the case with your fellow jurors to reach agreement if you
6 can do so. Your verdict must be unanimous.

7 Each of you must decide the case for yourself, but you should do so only after you
8 have considered all of the evidence, discussed it fully with the other jurors, and listened
9 to the views of your fellow jurors.

10 Do not hesitate to change your opinion if the discussion persuades you that you
11 should. Do not come to a decision simply because other jurors think it is right.

12 It is important that you attempt to reach a unanimous verdict but, of course, only if
13 each of you can do so after having made your own conscientious decision. Do not
14 change an honest belief about the weight and effect of the evidence simply to reach a
15 verdict.

29. USE OF NOTES

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2 Some of you have taken notes during the trial. Whether or not you took notes, you
3 should rely on your own memory of what was said. Notes are only to assist your
4 memory. You should not be overly influenced by the notes.
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30. CONDUCT OF THE JURY

I will now say a few words about your conduct as jurors.

First, because you must decide this case based only on the evidence received in the case and on my instructions as to the law that applies, you must not be exposed to any other information about the case or to the issues it involves during the course of your jury duty. Except for discussing the case with your fellow jurors during your deliberations:

Do not communicate with anyone in any way and do not let anyone else communicate with you in any way about the merits of the case or anything to do with it. This includes discussing the case in person, in writing, by phone or electronic means, via e-mail, text messaging, or any Internet chat room, blog, Web site or other feature. This applies to communicating with your fellow jurors until I give you the case for deliberation, and it applies to communicating with everyone else including your family members, your employer, and the people involved in the trial, although you may notify your family and your employer that you have been seated as a juror in the case. But, if you are asked or approached in any way about your jury service or anything about this case, you must respond that you have been ordered not to discuss the matter and to report the contact to the court. Because you will receive all the evidence and legal instruction you properly may consider to return a verdict: do not read, watch, or listen to any news or media accounts or commentary about the case or anything to do with it; do not do any research, such as consulting dictionaries, searching the Internet or using other

1 reference materials; and do not make any investigation or in any other way try to
2 learn about the case on your own.

3 Second, during the trial, do not talk with or speak to any of the parties, lawyers, or
4 witnesses in this case – not even to pass the time of day. It is important not only that you
5 do justice in this case, but also that you act accordingly. If a person from one side of the
6 lawsuit sees you talking to a person from the other side – even if it is just about the
7 weather – that might raise a suspicion about your fairness. So, when the lawyers, parties
8 and witnesses do not speak to you in the halls, on the elevator or the like, you must
9 understand that they are not being rude. They know they are not supposed to talk to you
10 while the trial is going on, and they are just following the rules.

11 The law requires these restrictions to ensure the parties have a fair trial based on
12 the same evidence that each party has had an opportunity to address. A juror who
13 violates these restrictions jeopardizes the fairness of these proceedings, and a mistrial
14 could result that would require the entire trial process to start over. If any juror is
15 exposed to any outside information, please notify the court immediately.

31. COMMUNICATION WITH COURT

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2 If it becomes necessary during your deliberations to communicate with me, you
3 may send a note through the courtroom deputy, signed by your presiding juror or by one
4 or more members of the jury. No member of the jury should ever attempt to
5 communicate with me except by a signed writing; I will communicate with any member
6 of the jury on anything concerning the case only in writing, or here in open court. If you
7 send out a question, I will consult with the parties before answering it, which may take
8 some time. You may continue your deliberations while waiting for the answer to any
9 question. Remember that you are not to tell anyone—including me—how the jury
10 stands, numerically or otherwise, until after you have reached a unanimous verdict or
11 have been discharged. Do not disclose any vote count in any note to the court.

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32. RETURN OF VERDICT

A verdict form has been prepared for you. After you have reached unanimous agreement on a verdict, your presiding juror will fill in the form that has been given to you, sign and date it, and advise the court that you are ready to return to the courtroom.

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LAW OFFICES
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ARTHUR W. HARRIGAN, JR.

E-MAIL: ARTHURH@CALFOHARRIGAN.COM
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June 18, 2013

Via ECF

Honorable James L. Robart
United States District Judge
USDC Courthouse
700 Stewart Street, Suite 14128
Seattle, WA 98101-9906

RE: *Microsoft Corp. v. Motorola, Inc., et al.*; Case No. C10-1823-JLR

Dear Judge Robart:

We write to request the release of Microsoft's \$100 million bond, which has been in place since April 13, 2012. Microsoft has tendered to Motorola the approximately \$6.8 million in past royalties that result from application of the Court's determination of RAND royalties in its Order of April 19, 2013 (Dkt. #673) and has undertaken to make the future royalty payments that arise based on the same rulings.

The bond amount far exceeds any sum that could ever be due to Motorola under that Order. Now that the RAND determination has been made, we submit that Microsoft should not be required to incur the ongoing expenses of maintaining a \$100 million bond, and that Motorola will be fully protected by the current payment and the undertaking to make the future payments.

Motorola has not accepted the tender but its refusal should not affect the outcome.

Specifically, by Order dated April 12, 2012 (Dkt. #261), the Court required Microsoft to post a bond in the amount of \$100 million, in connection with the Court's ruling on Microsoft's motion for temporary restraining order and preliminary injunction (Dkt. #209). That Order temporarily enjoined Motorola from enforcing any injunctive relief received in the German court system relating to the patents at issue in the case before this Court – *i.e.*, the “anti-suit injunction.”

A bench trial was held from November 13-20, 2012.

Honorable James L. Robart
June 18, 2013
Page 2

On November 30, 2012, the Court issued its Order Granting Microsoft's Motion Dismissing Motorola's Claim for Injunctive Relief (Dkt. #607). In that Order (at page 16), the Court described the context of its earlier anti-suit injunction as follows:

In issuing the anti-suit injunction, this court explained that the issues before it in this litigation were dispositive of the question of whether Motorola could enforce an injunction for patent infringement of the European Patents that are essential to the H.264 Standard. In other words, a judicially-determined RAND license encompassing all of Motorola's H.264 essential patents would necessarily dispose of Motorola's request for an injunction in Germany based on Motorola-owned, H.264 standard essential patents. In an effort to limit the impact on comity, the court limited the scope and duration of the anti-suit injunction. The scope of the injunction was limited to Motorola's enforcement of an injunction in Germany but not to further prosecution of the Germany action or the receipt of damages of the non-injunctive form.

The November 30 Order also dismissed Motorola's request for injunctive relief, a decision that "logically extends to all of Motorola's H.264 standard essential patents." Order, p. 17. The Court also explained that Microsoft inevitably would obtain a license to the patents at issue:

[T]he basis for the court's dismissal of injunctive relief for the Motorola Asserted Patents is in no way specific to those patents, but instead is the very fact that litigation in this matter has progressed to the point that it is now clear that a license agreement will result for all of Motorola's H.264 standard essential patents.

Id.

What remained was for the Court to determine the RAND royalties owed to Motorola. That issue was resolved on April 19, 2013, when the Court issued its Findings of Fact and Conclusions of Law (Dkt. #673).

By letter dated June 5, 2013 (attached as Exhibit A), Microsoft tendered to Motorola the approximately \$6.8 million that represents the "to date" sum that would be due under the Court-determined RAND royalties and stated that it would pay future sums predicated on the same royalties established by the Court. Motorola did not accept the tender, and has indicated that it would oppose Microsoft's current request to release the bond.

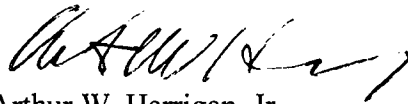
Microsoft has tendered the entire amount the Court has determined is owed. A \$100 million bond is unnecessary to secure Microsoft's payment.

Honorable James L. Robart
June 18, 2013
Page 3

Accordingly, Microsoft respectfully requests that its \$100 million bond be released. Alternatively, if Motorola remains unwilling to accept the cash payment offered by Microsoft, the bond should be reduced to reflect the actual sums due under the Court's April 19, 2013, Order.

Very truly yours,

CALFO HARRIGAN LEYH & EAKES LLP

A handwritten signature in black ink, appearing to read "Arthur W. Harrigan, Jr.", written in a cursive style.

Arthur W. Harrigan, Jr.

AWH:ec
Enclosures

EXHIBIT A

LAW OFFICES
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(206) 623-1700

ARTHUR W. HARRIGAN, JR.

E-MAIL: ARTHURH@CALFOHARRIGAN.COM
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June 5, 2013

VIA EMAIL - ralph@summitlaw.com

Ralph Palumbo
Summit Law Group
315 Fifth Ave. South, Suite 1000
Seattle, WA 98104-2682

RE: *Microsoft v. Motorola et al.*
Case No. 10-1823

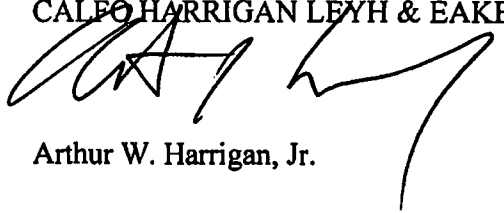
Dear Ralph:

Microsoft is prepared to remit to Motorola immediately the approximately \$6.8 million that represents the "to date" sum that would be due under RAND licenses at the royalty identified in the Court's April 19, 2013 ruling subject to Motorola releasing the bond currently in place.

Please advise as to Motorola's position.

Very truly yours,

CALFO HARRIGAN LEYH & EAKES LLP


Arthur W. Harrigan, Jr.

AWH:lb
cc: All counsel (via email)

The Honorable James L. Robart

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

MICROSOFT CORPORATION, a Washington corporation,)	
	)	CASE NO. C10-1823-JLR
Plaintiff,	)	DEFENDANT’S PROPOSED
	)	FINDINGS OF FACT AND
v.	)	CONCLUSIONS OF LAW
)	
MOTOROLA, INC., MOTOROLA MOBILITY LLC, and GENERAL INSTRUMENT CORPORATION,	)	REDACTED
)	
Defendant.)	

VIII. POLICY IMPLICATIONS OF MICROSOFT'S APPROACH TO RAND

746. If implemented, Microsoft's approach to RAND would have drastic policy implications. Companies might not participate in the standards-setting process or contribute their patents to the standard if they believe that they will not receive full and fair value for their patents. (3/27 Turner Depo. Tr. at 76:12-16, 21-25; 77:2-15; 11/13 (Murphy) Tr. at 168:16-20.) Standards may be put at risk and might not be successful if they do not incorporate the best technology possible. (11/13 (Murphy) Tr. at 169:2-5; 3/27 Turner Depo. Tr. at 76:12-16, 76:21-77:15.)

747. If pool rates were held to be the most appropriate RAND royalty rates, then SEP holders with valuable SEPs would be hesitant to participate in standard-setting activities, and might instead try to develop proprietary standards. (11/19 (Schmalensee) Tr. at 146:6-23.) Moreover, since licensing through SSOs under the RAND commitment is at least for some entities an important component of profitability, reducing that component would reduce the incentive to innovate, and thereby slow the pace of innovation in the economy. (11/19 (Schmalensee) Tr. at 146:24-147:3.)

PROPOSED CONCLUSIONS OF LAW

I. THE PARTIES' LOAS

1. Motorola's various IEEE LOAs constitute enforceable contracts between the IEEE and Motorola and incorporate the IEEE's patent policies by reference.

2. Motorola's various ITU LOAs constitute enforceable contracts between the ITU and Motorola and incorporate the ITU's patent policies by reference.

3. Microsoft's various IEEE LOAs constitute enforceable contracts between the IEEE and Microsoft and incorporate the IEEE's patent policies by reference.

4. Microsoft's various ITU LOAs constitute enforceable contracts between the ITU and Microsoft and incorporate the ITU's patent policies by reference.

5. Under Motorola's ITU LOAs for the H.264 standard, Motorola does not have a RAND commitment unless the potential licensee agrees to cross license its H.264 patents back to Motorola.

II. THE PROPER METHODOLOGY FOR DETERMINING RAND IN THIS CASE

6. A hypothetical negotiation conducted in accordance with the *Georgia-Pacific* factors, modified for the specific circumstances of RAND negotiation generally, and the specific circumstances of the SEPs at issue in this case specifically, is the appropriate methodology for assessing RAND royalties. The hypothetical negotiation assumes that at least some of the Motorola and Microsoft standard essential patents are valid, enforceable and infringed by the respective parties and that at least some are essential to either the 802.11 or the H.264 standards. The hypothetical negotiation will take into account, where known, the real-world business considerations and circumstances of both Motorola and Microsoft. The terms and conditions negotiated will thus reflect the result that would be achieved by reasonable and prudent negotiators in this real-world setting.

7. The most relevant evidence to determining RAND royalty rates using a hypothetical bilateral negotiation is evidence as to the rates negotiated bilaterally under the RAND commitment by the same licensor for the same patents.

8. Pool licenses are not appropriate comparables for a bilaterally negotiated license.

9. A royalty that is based on a percentage of net selling price can be compliant with a party's RAND commitment.

10. The Xbox is the smallest saleable unit for Motorola's 802.11 portfolio.

11. Windows 7 is the smallest saleable unit for Motorola's H.264 portfolio.

12. The Entire Market Value Rule is a limitation on patent damages and is not a limit on how the royalty in patent licenses are structured. A royalty rate can be RAND even if not calculated pursuant to the Entire Market Value Rule.

13. A numeric proportionality approach to determining a royalty rate is inconsistent with the *ex ante* incremental value measure for RAND.

14. Microsoft has the burden of establishing that Motorola's most recent offer was not RAND.

15. There is no RAND commitment under Motorola's H.264 ITU LOA unless the prospective licensee agrees to license its SEPs back to the prospective licensee.

16. Because the parties agree that a RAND royalty for Motorola's patents should be offset by a RAND royalty for Microsoft's patents essential to the 802.11 and H.264 standards, the Court must also determine the RAND royalty for Microsoft's patents. *See* Dkt 453 No. 3 (Microsoft Proposed Conclusion of Law).

DATED this 14th day of December, 2012.

RESPECTFULLY SUBMITTED,

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The Honorable James L. Robart

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

MICROSOFT CORPORATION, a Washington
corporation,

Plaintiff,

v.

MOTOROLA, INC., MOTOROLA MOBILITY
LLC, and GENERAL INSTRUMENT
CORPORATION,

Defendants.

CASE NO. C10-1823-JLR

DEFENDANTS' POST-TRIAL BRIEF

REDACTED

catalyze innovation by encouraging companies to contribute their innovative technology to collaborative standards-setting activities and to share their intellectual property with others via the standardization process. *Standards will not fulfill their salutary purposes if standards policies deter innovators from contributing patented technologies or investing in further innovation related to standardized technology.* Ex. 2970 at 4-5.

See also 11/13 Tr. 167:15-168:8; 11/19 Tr. 136:22-137-138:3, 169:13-170:7.

The RAND commitment provides flexibility to allow SEP holders and implementers to determine RAND terms. 11/19 Tr. 62:19-63:12; 11/16 Tr. 65:15-66:2. While SSOs do not dictate any particular method of doing so, such terms are typically determined through bilateral negotiation. Ex. 2970 at 8 n.5, 14-15; 11/16 Tr. 137:21-138:6; 11/19 Tr.142:17-143:10; Heiner Tr. 33:6-8. Microsoft and its experts agree that bilateral negotiations can lead to RAND licenses. Ex 2970 at 7-8, 14-15; 11/13 Tr. 181:12-15; 11/16 Tr. 138:7-18.

III. RAND SHOULD BE DETERMINED BY A HYPOTHETICAL BILATERAL NEGOTIATION

In its *Daubert* Order, the Court observed that it “must employ a methodology which in some way reconstructs the negotiation that would have taken place between Microsoft and Motorola.” Dkt. No. 490 at 22. As Motorola’s economist, Dr. Richard Schmalensee, explained, the most appropriate way to reconstruct that negotiation is to use a modified form of the well-known *Georgia-Pacific* hypothetical negotiation. 11/19 Tr. 149:16-150:17, 177:7-179:19.

Georgia-Pacific provides an established, reliable framework for simulating a real-world negotiation in damages cases – a helpful analog for RAND licensing. Moreover, as the Court observed, the Federal Circuit “has consistently sanctioned the use of the *Georgia-Pacific* factors ‘to frame the reasonable royalty inquiry.’” Dkt. No. 490 at 13. The Court also noted that “other courts have spoken to the applicability of the *Georgia-Pacific* factors in determining a reasonable royalty in the RAND context.” *Id.* Indeed, there is significant support in the literature for employing a methodology like *Georgia-Pacific* to determine RAND terms. Dkt. No. 409 at 3, n5.

Microsoft, in contrast, advocates determining RAND terms using a theoretical multilateral *ex ante* framework. But the fundamental flaw with this approach is that it is premised on the

existence of two problems – “hold up” and “stacking” – that, as explained below, are not problems in the 802.11 or H.264 industries, or for the parties in this case. Microsoft’s theoretical multilateral *ex ante* “negotiations,” moreover, do not occur in the real world and, in fact, cannot be conducted under the auspices of many SSO policies, including those of the IEEE. 11/16 Tr. 67:11-68:10.¹ Compounding this problem, an *ex ante* approach to valuing SEPs is impractical and inadvisable and would be completely infeasible in this case. 11/19 Tr. 139:4-142:7, 168:3-20.

IV. THE PARTIES’ HYPOTHETICAL BILATERAL NEGOTIATION

A. *Georgia Pacific* Factor 1 -- Licensing Benchmarks

As explained below, Motorola’s licenses (1) are arms-length, marketplace transactions negotiated in good faith under a RAND commitment with sophisticated licensees, (2) include the patents at issue in this litigation, (3) were not the product of hold up, (4) have not contributed to a stacking problem, and (5) are presumed reasonable. As such, these licenses are the best evidence of the RAND rate and range for a license between Motorola and Microsoft. 11/19 Tr. 150:11-17; *ResQNet v. Lansa*, 594 F.3d 860, 869-70 (Fed. Cir. 2010).

Professor Hovenkamp’s recent article endorses use of Motorola’s licenses to determine RAND.² Although he concedes that “computing FRAND royalties . . . is not easy,” he agrees that it is “much easier” when “the FRAND-encumbered patent has been licensed to others, thus creating a ‘yardstick’ for measuring future royalties.” *Id.* at 8. Thus, Prof. Hovenkamp agrees that, where licenses are available, they should be the foundation for determining a RAND rate.

1. Motorola’s 802.11 and H.264 Licenses Are the Best Benchmark

Motorola’s substantial historical investment in R&D has resulted in significant portfolios of important and valuable essential and non-essential patents. To recoup that investment,

¹ In response to questions from the Court, Microsoft’s Dr. Lynde defined “*ex ante*” as before the effective adoption of the standard and “*ex post*” as after the standard. 11/16 Tr. 86:5-15.

² Herbert J. Hovenkamp, *Competition in Information Technologies: Standards-Essential Patents, Non-Practicing Entities and FRAND Bidding*, No. 12-32, University of Iowa Legal Studies Research Paper (Nov. 2012), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2154203.

176:3-177:2 (“I license you, you license me; if I am unreasonable to you, you are going to be unreasonable to me tomorrow.”). Moreover, most SEP licenses are cross-licenses that yield lower “net” rates, which further alleviates any stacking problem. 11/13 Tr. 176:17-20. And there is little likelihood of Microsoft ever facing a stacking problem, as Microsoft [REDACTED]

[REDACTED].

Microsoft relies on two 2006 proposals submitted by Motorola and others to an unrelated standards body (ETSI) for an unrelated technology (cellular) to try to substantiate its purported stacking concern. Exs.1031, 1033. The first proposal suggested “introduce[ing] the principles of aggregated reasonable terms and proportionality into the [ETSI] FRAND definition.” Ex. 1031 at § 6; 11/16 Tr. 77:12-20. This proposed revision was rejected. 11/16 Tr. 68-70. Motorola’s second proposal, which related to a proposed cellular patent pool, was also rejected. Notably, even without these changes being implemented, a cellular stacking problem has not materialized and cellular technology has enjoyed widespread, worldwide success. PFF 129-30. If anything, the history of these proposals confirms that the concepts of aggregate reasonable terms/proportionality and patent pooling are not necessary to prevent stacking problems.

3. The Via Licensing and MPEG LA Patent Pools Are Poor Comparables

Because a multilateral *ex ante* negotiation has never happened in the real world and is impossible to model accurately, Microsoft resorts to the MPEG LA H.264 and Via Licensing 802.11 patent pools (and their depressed rates) as supposed proxies for such a negotiation. But these are poor comparables for a bilaterally negotiated license between Motorola and Microsoft.

The characteristics of these pools make them poor comparables. Pool licenses are fundamentally different from and serve a different purpose than SSOs and bilaterally negotiated licenses. PFF 143-46. Microsoft’s experts tried to justify reliance on these pools by attempting to find similarities between SSOs and patent pools. But Microsoft’s own Gary Sullivan, who helped lead the development of the H.264/AVC standard, refutes this false comparison:

Do not mix up the notion of patent pools and open standards organizations. ***They have NOTHING to do with each other.*** Open standards organizations (e.g., ITU-T, ISO, IEC) have NO OPINION whatsoever on specific licensing terms and they do not force anyone to join any pool and ***have no relationship whatsoever with any pools that do form.*** Ex. 2345; 11/14 Tr. 37:4-40:2.⁵

Indeed, Motorola's economic expert, Dr. Richard Schmalensee, explained that while pools and SSOs both seek broad adoption of the standard, their motivations quickly diverge, making Microsoft's comparison inaccurate. 11/19 Tr. 147:12-148:7.

Here, the Court is determining a RAND rate for a bilaterally negotiated license to Motorola's patents based on the unique circumstances of Motorola and Microsoft. In contrast, the MPEG LA and Via Licensing pools do not include Motorola's patents and were negotiated by multiple parties based on their collective circumstances (and the desire for low rates to stimulate pool membership). Moreover, Microsoft is relying on these pools as proxies for its proposed multilateral *ex ante* negotiation, but these pools are neither fully multilateral nor *ex ante*. PFF 164-172. The Via Licensing pool has been unable over seven years to attract a meaningful number of licensors or licensees and is effectively a failure. PFF 179-84. Indeed, Microsoft told Via Licensing that it did not want to join because it preferred to license bilaterally, outside of the pool – exactly Motorola's position. 11/18 Tr. 152:5-155:19; Ex. 3194. And Dr. Lynde testified in a prior engagement for Fujitsu that a reasonable royalty for an 802.11 SEP would be higher than the Via Licensing pool rate – ***as much as 500% or more higher.*** 11/16 Tr. 175:13-176:17.⁶

Microsoft's pools ignore patent value. These pools also are poor comparables because they ignore the actual value and technical merit of patents and, instead, value all patents equally. This contradicts directly Microsoft's economic theories advanced at trial that “a RAND royalty must reflect the economic value of the patented technology” (11/13 Tr. 151:24-25, 153:1-10) and

⁵ And while Mr. Sullivan tried to distance himself from these statements during trial, his email clearly that “anyone studying the situation would reach the same conclusions [as in his email] and say roughly the same thing. ***There's no major insight here. I don't really understand how a different impression can persist.***” Ex. 2345.

⁶ While Microsoft argues self-servingly that the Via Licensing pool has been a failure because its rates are too high to attract licensees (*see, e.g.*, 11/18 Tr. 117:18-23), an equally plausible explanation is that the rates were set too low to attract licensors. Regardless, the abject failure of the pool makes it completely inappropriate as a benchmark.

that a “reasonable royalty should be tied to the technical merit of the patent” (*id.* at 171:20-24). These pools do precisely the opposite – they distribute royalties on a per-patent basis and treat all patents (both weak and strong) as if they are equally valuable (or equally unimportant). PFF 157-63. This “patent counting” approach (1) is not used in bilateral licensing; (2) ignores the technology of the patent, its contribution to the standard and its use by licensed products; and (3) contradicts the irrefutable logic of Microsoft’s Gary Sullivan, who observed that a company can charge more for “fundamentally-important IPR” than for a “Bozo tweak.” Ex. 2345.⁷

Microsoft’s pools were not designed to maximize return. As the Court recognized, “[t]he motivation of someone joining the pool and setting a pool rate is not the same as Motorola’s motivation, which is to maximize its return.” 10/18/12 Hr’g Tr. at 40. Indeed, the sub-market rates of the MPEG LA pool were motivated by a desire to limit royalty exposure for implementers, not to maximize return. Garrett Glanz, a Microsoft in-house attorney, confirmed that Microsoft lobbied actively for low rates and annual caps to protect its OEM customers and to limit the cost to Microsoft of integrating H.264 into PCs. 11/13 Tr. 97:6-99:16; Ex. 2961.⁸ When these efforts were successful, it was lauded as a “business win.” Ex. 2359 at 5; 11/13 Tr. 99:4-16, 104:12-105:19. Microsoft’s Dean Hachamovitch, a Vice President, confirmed that “revenue play[ed] no part in our decision” to join the pool. Ex. 2840 at 2. Instead, Microsoft sought to maximize its profits by selling as many H.264 products as possible that were clear of infringement claims.

Patent pools are voluntary organizations that companies should not be forced to join. It is not unRAND for a company to reject a pool and seek “higher reasonable rates” outside of the pool. 11/13 Tr. 101:11-18; *id.* at 98:7-12; 11/16 Tr. 139:18-22, 151:7-13. As recognized by Dr. Lynde, the higher the value of a patent owner’s SEPs and the more capable its licensing program,

⁷ Judge Crabb also expressed skepticism that patent counting was “an appropriate way” to determine a RAND rate. (Nov. 5, 2012 Tr., Case No. 11-CV-178-BBC (W.D. Wis.), at 28.)

⁸ Microsoft was not alone in lobbying for low rates and caps. Many of the companies with the largest potential exposure advocated for low rates and annual caps, including Sony, Fujitsu, Mitsubishi, Motorola, Samsung, and Nokia. 11/13 Tr. 78:8-17, 86:11-14; 97:6-13; Ex. 1139.

the lower its incentive to join a pool. 11/16 Tr. 145:21-146:3, 146:23-147:3. Consistent with this, Mr. Glanz conceded that Motorola did not join MPEG LA because it believed “it was advantageous for them not to license through the MPEG LA pool.” *Id.* at 102:6-18.⁹ Indeed, Motorola has invested \$50 billion in R&D over the last twenty years and its decision is in complete harmony with Mr. Sullivan’s testimony that a patent holder is entitled to an “amount that *fairly compensates for the value of their IPR.*” Ex. 2345; 11/13 Tr. 169:11-20; 11/14 Tr. 14:16-15:1, 32:20-33:15; 11/16 Tr. 151:7-13; Ex. 3399.¹⁰ The effect of Microsoft’s use of patent pool licenses as a comparable is to improperly force Motorola to join these pools against its will.

4. Microsoft’s “Confirmatory” Evidence Should be Disregarded

In an attempt to justify its patent-counting-based RAND rate, Microsoft relies on: (1) the ARM Holdings licensing program (11/16 Tr. 120:5-124:16); (2) a 2003 InteCap analysis (11/16 Tr. 124:17-22); and (3) Marvell’s 802.11 chip price (11/16 Tr. 119:5-120:4). None provides a reliable benchmark for determining a RAND rate and range applicable to Motorola’s SEPs.

Royalties Earned by ARM Holdings Are Not Reflective of a RAND Royalty for Motorola’s 802.11 SEPs. Although Microsoft’s Dr. Lynde purportedly relied on ARM’s licensing program as a benchmark, he never read the license agreement that ARM uses in that program (11/16 Tr. 160:20-161:14), never familiarized himself with the agreement’s restrictions on the scope of license (*id.* at 161:15-22), and presented no evidence regarding the number or nature of any patents covered by the agreement. He similarly did not know whether the license covers only ASICs made with ARM tools, and admitted that if so, the license could be “quite a bit less valuable” than an unrestricted patent license. Finally, Dr. Lynde conceded that the ARM license “is not a comparable to a multilateral *ex ante* negotiation....” 11/16 Tr. 160:13-15.

⁹ Even though Motorola was involved in the discussions that set the terms of the MPEG LA H.264 license, Motorola’s decision not to join the pool was not unusual. Indeed, Apple, Nokia, IBM, and Thompson all were involved in discussions with MPEG LA and none joined the pool at that time. 11/13 Tr. 117:2-119:2; 11/16 Tr. 150:5-152:4. Similarly, Microsoft has not joined the 802.11 Via Licensing pool because “Microsoft prefers to enter into bi-lateral discussions with the Licensor’s [*sic*] individually.” Ex. 3194; 11/16 Tr. 153:19-155:19.

¹⁰ Dr. Simcoe admitted that a RAND rate can be above a pool rate. 11/13 Tr. 119:3-190; 11/16 Tr. 72:6-10.

of times before. *See, e.g., Transatron Elec. Corp. v. Hughes Aircraft*, 487 F. Supp. 885, 903 (D. Mass. 1980) (noting that a 1% royalty rate was not excessive, where it was a standard offer made to all licensees and imposed no unreasonable restrictions). Moreover, Motorola's executed licenses are consistent with this standard rate (and, in fact, these very rates were agreed to by VTech in its license). And as the Court has recognized, parties do not have information when an initial offer is made to know what is and is not RAND. Dkt. No. 335 at 23-25. That can only be determined through negotiations, which should have occurred here. For these reasons, Motorola's offer was not unreasonable or a violation of its obligation of good faith and fair dealing.

DATED this 14th day of December, 2012.

RESPECTFULLY SUBMITTED,

SUMMIT LAW GROUP PLLC

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1 UNITED STATES DISTRICT COURT
 2 WESTERN DISTRICT OF WASHINGTON AT SEATTLE

3
 4 Microsoft Corporation, et al.,
 5 Plaintiffs, NO. C10-1823JLR
 6 v. TELEPHONE CONFERENCE
 7 Motorola, Inc., et al., SEATTLE, WASHINGTON
 8 Defendants. July 9, 2012

9
 10 VERBATIM REPORT OF PROCEEDINGS
 11 BEFORE THE HONORABLE JAMES L. ROBERT
 12 UNITED STATES DISTRICT JUDGE

13
 14 APPEARANCES:

15 For the Plaintiffs: Arthur Harrigan

16
 17 For the Defendants: Ralph Palumbo
 18 Jesse Jenner

19
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24 Proceedings recorded by mechanical stenography, transcript
 25 produced by Reporter on computer.

1 THE COURT: Good afternoon, counsel. This is Judge
2 Robart.

3 MR. PALUMBO: Good afternoon.

4 MR. HARRIGAN: Good afternoon.

5 THE COURT: Mr. Palumbo and Mr. Harrigan called the
6 court last week and I'm returning their call. I'm not sure who
7 is speaking for their side.

8 MR. PALUMBO: This is Mr. Palumbo, Your Honor. I'll be
9 speaking for Motorola. Mr. Jenner is also on, and he may chime
10 in if I get something wrong.

11 MR. HARRIGAN: This is Art Harrigan, Your Honor, and
12 I'll be speaking for Microsoft.

13 THE COURT: All right. My clerk gave me a memo
14 concerning your call. Narrowly, the issue appears to be
15 inclusion of a damage analysis concerning the breach of contract
16 claim in the RAND trial. But it seems to me what you're really
17 asking is what's going to happen in November. So let me tell you
18 what I think is going to happen in November and then I'm happy to
19 hear from you.

20 In November, I expect us to try in a bench trial the RAND
21 terms for patents covered by ITU-T standard H264 and the patents
22 pertaining to IEEE 802.11. I understand from the complaint and
23 from Motorola's offer letters of October 21, 2010 and October 29,
24 2010 that these are the patents at issue in what we call the 1823
25 litigation. That mostly is the question of the royalty rate

1 since that is what is covered in your letters.

2 At one point Mr. Jenner said something about, "Oh, but,
3 Judge, you know, these agreements are 70 pages long," of which I
4 expect 69 pages and 24 lines to be boilerplate, and what you
5 really care about are the royalty rates. And, therefore, I am
6 going to have you submit an agreed agreement, or if you are
7 unable to do so, to submit contested boilerplates and we may
8 develop one.

9 In regards to the breach of contract claim, that will not be
10 tried in the November trial date. As I have explained to you
11 previously, my reason for that is the breach of contract, as
12 Motorola has admitted, exists in relation to the RAND Rate. I
13 think Mr. Jenner's example was a million dollars Royalty Rate for
14 one patent and the RAND Rate turns out to be 15 cents. Since I
15 don't know what the RAND terms are yet, it seems to me I can't
16 deal with breach of contract until RAND is determined.

17 Finally, I have waited patiently for Motorola to advise me
18 if breach of contract is a court trial or a jury trial. I am now
19 setting a deadline of 4:30 this Friday for that election to be
20 made.

21 Mr. Palumbo, I believe you initiated the call so I'll hear
22 from you first.

23 MR. PALUMBO: Thank you, Your Honor. As we said in our
24 partial summary judgment briefing and during argument on the
25 partial summary judgment motions, we have been unable to find any

1 authority for a court determining the terms of a RAND license,
2 and this is admittedly a novel issue with which we have continued
3 to struggle. But since we are fast approaching a trial on
4 November 13th, we feel that we've — we have got to take the
5 issue head-on and tell Your Honor what we believe to be the case.

6 The Washington Supreme Court recognizes three types of
7 agreements, and this is out of the Keystone Lamb case, an
8 agreement to agree, an agreement with open terms, and an
9 agreement to negotiate in conformance to a specific course of
10 conduct during those negotiations, such as an agreement to
11 negotiate in good faith or an agreement for a specific period of
12 time. As you are aware, an agreement to agree is unenforceable.
13 The latter two types of agreements both come with remedies.

14 As you've just described this trial, and as you have
15 consistently described the trial, you are treating the agreement
16 or the contract between Motorola and each SSO as an agreement
17 with open terms, and we understand that that is the case that you
18 intend to try starting on November 13th, that is the case which
19 we are preparing to try and we will continue to proceed and be
20 ready to try on the 13th, unless you reach a different decision.
21 But we do think now, having looked at all of the cases and all of
22 the factual evidence which would bear upon the issue, that there
23 are very serious doubts that the contract in this case is an
24 agreement with open terms, and we would like the opportunity —
25 in fact, we feel the need to brief that issue for the benefit of

1 the Court and Microsoft. We understand the urgency of resolving
2 this issue, so despite the fact that there is a lot going on,
3 including the close of fact discovery and expert reports fast
4 approaching, we would be prepared to file a brief on that issue
5 nine days from now on Wednesday, July 18th.

6 In answer to your other question, we have decided not to
7 waive the jury trial on the breach of the duty of good faith
8 issue, and with respect to that issue, we think -- we do agree
9 that that is a triable issue that the jury can determine. In
10 other words, did Motorola accord to its obligation to negotiate
11 the contract in good faith? We may have issues with respect to
12 whether the court can instruct the jury as to the proper RAND
13 rate, but we agree that it is a jury question as to whether
14 Motorola has conformed to its obligation to negotiate a RAND
15 license in good faith.

16 THE COURT: Mr. Palumbo, isn't it rather late in the
17 game for Motorola to repudiate concessions made during oral
18 argument and announce another new theory of the case? You know,
19 frankly, this -- I am sitting here in disbelief that you are
20 going to try this.

21 MR. PALUMBO: Your Honor, I expected that you would be
22 sitting there in disbelief, and the only explanation I have is if
23 you recall, Microsoft's theory in this case has evolved since
24 they filed the complaint from asking -- to the point where they
25 said, we're committed to take a license and we want the court to

1 take that license. It wasn't in the complaint. You certainly
2 have made it clear to us that you believe you've got the
3 authority to determine this, and I have no explanation for the
4 fact that we haven't come to this earlier in time other than the
5 fact that we have been struggling with the issue for a long time.
6 We did raise it in the summary judgment pleadings. There is no
7 question it's late. However, I think it's proper to brief it and
8 present that issue to the court. And as I said, we're prepared
9 to go forward on the terms that Your Honor has told us we're
10 going to go forward on, but at the same time we feel that the
11 court should accept briefing on this issue.

12 THE COURT: Mr. Harrigan?

13 MR. HARRIGAN: Yes, Your Honor. First of all, just on
14 the legal theory part of this, in our view what the court is
15 doing is supplying only -- and is authorized to supply missing
16 essential terms, of which we believe there is one, which is the
17 royalty rate, and that the rest of the terms of this contract are
18 embodied in the patents themselves and in the standards,
19 organizations, policies and procedures and the -- basically the
20 things that the parties signed up for when they submitted their
21 commitments. I am not going to go on at any length about that,
22 but we think that it may well be that parties include hundreds of
23 terms in these agreements typically, but they are not essential
24 terms.

25 All the court needs to do is provide the terms that are

1 necessary to have a performable agreement, and just because there
2 are lots of bells and whistles in the typical contract doesn't
3 mean that they are essential or that they need to be supplied by
4 the court or even can be supplied by the court. So our view is
5 that if you decide what the royalty rate is, we're essentially
6 there, and the court is not making a contract of the parties.

7 I have a housekeeping item, although it's a somewhat urgent
8 one, which was part of the impetus for making the call last week,
9 and that is — and now that we know that the breach trial is
10 going to be off in the relatively distant future, we would like
11 to clarify the requirement with respect to expert reports so that
12 we don't need to file expert reports on breach or damages in
13 July, but at some other date that is more attuned to what is now
14 going to be the trial schedule and if the court doesn't want to
15 be dealing with motions in limine and so forth relating to breach
16 and damages between now and September the 10th.

17 THE COURT: Mr. Palumbo, may I ask you to respond to
18 that narrow question, and then I'll give you the floor again.

19 MR. PALUMBO: To that question, Your Honor, I think
20 that that is in your discretion. We think you should keep in
21 mind the fact that there has never been a bifurcation of
22 discovery and we don't know — we don't understand why there
23 would be an expert on breach of duty and good faith or why they
24 would need a delay, and as I've said previously to Mr. Harrigan,
25 if there is some development after the trial on the RAND terms

1 that would provide a need to amend expert reports or file new
2 expert reports, obviously we can take that up at the time. But,
3 again, while we don't see the need, that's clearly within your
4 discretion to decide.

5 With respect to the terms that you would decide at a trial,
6 if you go forward and make the decision that this is a contract
7 on open terms and that the court can decide those terms, the
8 terms that we believe you should decide are all "material" terms.
9 We will have a disagreement with Microsoft with respect to
10 whether there are terms in addition to the royalty that are
11 material. We think there is a good deal of factual support in
12 this case, including admissions by Microsoft that there are other
13 e-terms in these agreements, but that is an issue that we and
14 Microsoft can breach, and it's not a hundred terms, but we think
15 there are more material terms that would be common in RAND
16 license agreements than merely the royalty, but we can leave that
17 issue for briefing and argument on a separate day. So you would
18 have to decide, if you go forward, to actually set the terms of a
19 RAND license, you would need to decide only which terms are
20 material, and then what each of those material terms would be.

21 MR. HARRIGAN: Your Honor, with respect to the expert
22 issue, my primary concern is the damages aspect of it, which
23 involves, among other things, figuring out what it costs to
24 dismantle Microsoft facilities in Germany in anticipation of an
25 injunction. It's a lot of work. There are going to be

1 depositions about it. There are probably going to be motions
2 about it, and there is no reason -- we suggest that there is no
3 reason for anybody to be working on that within the current
4 compressed schedule for getting the RAND case ready.

5 THE COURT: Thank you. The ruling of the court is as
6 follows:

7 First, let me reaffirm that the breach of contract trial
8 will occur at a later date, and I don't need to wait until
9 Friday, because Motorola has announced that they want that trial
10 to be a jury trial. So that's helpful. Thank you, gentlemen.

11 I authorize Motorola to file its motion. Be advised that
12 the opinion of the Court may be rather savage on what is going on
13 here, but since both sides seem intent on trying this case in the
14 newspapers, leaking settlement discussions and putting out press
15 releases, we'll give you something more to chew on.

16 I will tell you that the operating assumption of the court
17 as to right now is that Motorola, when it contracted for industry
18 standard patent status, obligated itself to make an offer on RAND
19 terms for a license to the patents that are covered, the H264 and
20 the 802.11 patents; that Microsoft has accepted that offer on
21 RAND terms, and what the court is doing is determining what those
22 RAND terms are.

23 In terms of expert reports on both breach and damages, they
24 are not called for at this time and they may be filed in
25 accordance with the schedule that the court puts out in regards

1 to the subsequent trial that we will be conducting.

2 Does that clarify everyone's situation at this time?

3 Mr. Palumbo?

4 MR. PALUMBO: It does, Your Honor. Thank you. I
5 didn't anticipate that you would be pleased with this, but again,
6 we feel the obligation to do it, and I apologize that we haven't
7 come to grips with this sooner in time.

8 THE COURT: Well, frankly it is consistent with
9 Motorola's approach to this litigation, which is to delay at all
10 possible costs and to back-track if they can get away with it,
11 so -- but I await your motion. Both sides have been warned that
12 heavy monetary sanctions may be imposed on the law firms and the
13 parties bad faith or abusive conduct in the litigation will be
14 punished by equitable remedies going to the industry standard
15 patents. That is why I am requiring the parties, in addition to
16 the lawyers, to sign the pleadings.

17 Mr. Harrigan?

18 MR. HARRIGAN: Nothing here, Your Honor.

19 THE COURT: Thank you, counsel. We'll be in recess.

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CERTIFICATE

I, Denae L. Hovland, Official Court Reporter, do hereby
certify that the foregoing transcript is true and correct.

/S/Denae L. Hovland

Denae L. Hovland

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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON AT SEATTLE

MOTOROLA INC., et al,)	
)	
Plaintiffs,	)	11-1408-JLR
)	
v.	)	SEATTLE, WASHINGTON
)	
MICROSOFT CORPORATION,	)	June 14, 2012
)	
Defendant.	)	Markman Tutorial
	)	and Status Conf.

VERBATIM REPORT OF PROCEEDINGS
BEFORE THE HONORABLE JAMES L. ROBERT
UNITED STATES DISTRICT JUDGE

APPEARANCES:

For the Plaintiff: Jesse Jenner, Ralph Palumbo,
Steve Pepe, Stuart Yothers, Khue
Hoang and Mark Rowland

For the Defendants: Arthur Harrigan, Theodore
Chandler, Shubham Mukherjee, John
McBride, Christopher Wion, Rick
Cederoth, Andy Culbert and David
Pritikin

1 MR. PALUMBO: Your Honor, Mr. Harrigan just handed me
2 a note, and if we could just have a couple seconds in the
3 back of the courtroom to see if we have an agreement or
4 disagreement on this.

5 MR. HARRIGAN: I thought of something we hadn't
6 talked about.

7 THE COURT: I'm going to come out at ten after. That
8 will give you four minutes to figure this out.

9 (The proceedings recessed.)

10 THE COURT: So, counsel, what used car are you trying
11 to sell the court today?

12 MR. HARRIGAN: Well, Your Honor, we have three topics
13 and we're going to present them in descending order of
14 agreement. Starting with a proposed schedule.

15 MR. PALUMBO: And I have a written proposed schedule
16 for Your Honor which may be easier to follow.

17 THE COURT: All right. Please approach.

18 MR. Palumbo: And we have keyed this off the
19 September date that you provided to us. And we are in
20 agreement with respect to all of the dates, both leading up
21 to September 10th and following September through to the
22 trial, starting on November 19th.

23 THE COURT: All right. And don't take "all right" as
24 saying that I accept it, because I need to look at my
25 calendar to see if these conflict with anything. But I

1 appreciate the hard work on it.

2 MR. PALUMBO: Okay. That's fine, and we put in -- I
3 think at this point nobody is contemplating dispositive
4 motions, Your Honor. But we put a date in there in case
5 something changes.

6 The other issue here is now that we have a clear
7 understanding of the issues that will be tried, we believe
8 five days is not sufficient and request that the court set
9 aside ten trial days.

10 MR. HARRIGAN: That "we" doesn't include me.

11 MR. PALUMBO: "We," Motorola. Doesn't include him.

12 THE COURT: All right. That will come out at the
13 same time that your schedule comes out.

14 MR. HARRIGAN: So, Your Honor, the other topic, the
15 second topic if you're ready for that.

16 THE COURT: One clarification. In terms of trial
17 days, I think it Microsoft waived the jury in this. Motorola
18 was going to inquire of their client. And I don't think I've
19 heard back.

20 MR. HARRIGAN: Your Honor, you've moved to the third
21 topic.

22 THE COURT: All right. Well then I'll --

23 MR. PALUMBO: We can do the third topic, Your Honor.

24 THE COURT: Well, the length of the trial depends in
25 part, if you're going with a jury or not, in that we normally

1 can pick a jury in a morning. My procedure is to ask the
2 bench-book questions, take stuff out of your proposed voir
3 dire, which is usually loaded up with things that you don't
4 want to ask, and it's easier for the court to ask, and then
5 give counsel the opportunity to do their own voir dire.

6 It is not unusual to have a couple, sometimes more than
7 that, of the jury pool be Microsoft employees, because
8 Microsoft has a very gracious policy in regards to jury
9 service, which the court appreciates immensely. I'm not sure
10 the criminals do.

11 As a result, your jury selection may be slightly more
12 difficult, and therefore it's going to vary a little bit on
13 how much remaining trial time you have. And that's why we'll
14 get to your third topic.

15 MR. HARRIGAN: In a nutshell, Your Honor, the parties
16 agree there is no jury involved -- there's no jury
17 requirement with respect to the court's determination of what
18 is RAND, and the contract, and so forth; and disagree with
19 respect to whether a jury would be required to deal with the
20 breach of contract part of the case.

21 THE COURT: All right.

22 MR. HARRIGAN: And we will continue to see if we can
23 reach agreement, otherwise we're probably going to be
24 briefing this issue for the court.

25 MR. PALUMBO: That's right, Your Honor. Our

1 agreement is that the court would decide all the material
2 terms of the RAND license. And we currently have a
3 disagreement with respect to whether the breach of contract
4 action would be tried by the court or by a jury.

5 And since -- if we can't reach agreement on that, it will
6 require briefing. We're just going to put it off and submit
7 briefs on that issue if it becomes a question.

8 And in requesting ten days, I had assumed in our
9 calculation that we would take a half a day to select the
10 jury. So I think our request for ten days is not dependent
11 on whether there is or is not a jury.

12 MR. HARRIGAN: Just one qualification, Your Honor.
13 We don't mean, in the way Mr. Palumbo expressed the first
14 part of that, to be defining what the court is deciding.
15 We're just saying that the RAND determination part of the
16 case doesn't require a jury, whatever that may be.

17 THE COURT: All right.

18 MR. PALUMBO: And our position, as stated again, if
19 we have a disagreement on whether you're deciding all the
20 RAND terms, or what those terms are, that is going to be
21 subject to briefing. So we're simply putting that over. So
22 that's our understanding of what the issues at trial would
23 be.

24 MR. HARRIGAN: So the issue No. 2 is a question
25 relating to a stay of the issues in this case that do not

No. 12-35352

IN THE
United States Court of Appeals

FOR THE NINTH CIRCUIT

MICROSOFT CORPORATION, a Washington Corporation

Plaintiff-Appellee,

v.

MOTOROLA, INC., MOTOROLA MOBILITY, INC., and GENERAL
INSTRUMENT CORPORATION

Defendants-Appellants.

*On Appeal From The United States District Court
For The Western District Of Washington At Seattle*

OPENING BRIEF OF DEFENDANTS-APPELLANTS

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continued on following page

PRELIMINARY STATEMENT

This appeal concerns the district court's issuance of an extraordinary injunction prohibiting Defendants-Appellants Motorola Mobility, Inc. and General Instrument Corp. (collectively, "Motorola") from enforcing a German court's decision entitling Motorola to an injunction in Germany under German law against continuing infringement of German patents within Germany by Appellee Microsoft. Claiming exclusive jurisdiction to adjudicate terms on which Motorola must license patents to Microsoft around the world, the District Court for the Western District of Washington has enjoined proceedings in the court of a foreign nation concerning that nation's patents, as practiced within that nation's sovereign borders. This Court's precedents do not support this exertion of authority by a U.S. court.

So long as this injunction stands, it offends international comity and the proper respect a U.S. court should express toward the courts of Germany. It also disables Motorola from vindicating its rights under German patents and German law in the face of Microsoft's continuing infringement. Motorola respectfully requests that this Court reverse the district court's ruling and vacate the preliminary injunction.

JURISDICTIONAL STATEMENT

The district court had jurisdiction under 28 U.S.C. § 1332. This Court has jurisdiction under 28 U.S.C. § 1292(a)(1). Motorola filed a timely notice of appeal on May 2, 2012 from the district court's entry of a "temporary restraining order" that was

in substance a preliminary injunction because of its indefinite duration. On May 14, 2012, the district court converted its temporary restraining order to a preliminary injunction, and Motorola filed an amended notice of appeal from that order on May 16, 2012. Because Microsoft's complaint is pleaded in terms of contractual rather than patent rights, this appeal is properly brought before this Court and not the Federal Circuit. *See Prize Frize, Inc. v. Matrix (U.S.) Inc.*, 167 F.3d 1261, 1264 (9th Cir. 1999), *superseded on other grounds by* 28 U.S.C. § 1453 (removal of class actions); *Air Prods. & Chems., Inc. v. Reichhold Chems., Inc.*, 755 F.2d 1559, 1562 (Fed. Cir. 1985).

ISSUES PRESENTED

1. Did the district court err in issuing an "anti-suit injunction" barring Motorola from enforcing a German court's judgment entitling Motorola to an injunction under German law to stop Microsoft's continuing infringement of German patents within Germany?
2. Did the district court abuse its discretion in finding that the likelihood of irreparable harm, the balance of hardships, and the public interest weigh in favor of issuing this "anti-suit injunction"?

STATEMENT OF THE CASE

On November 9, 2010, Microsoft filed a complaint in the Western District of Washington alleging breach of contract and related state-law claims against Motorola

CONCLUSION

For the foregoing reasons, this Court should reverse and vacate the district court's anti-suit injunction.

DATED: New York, New York
May 30, 2012

QUINN EMANUEL URQUHART &
SULLIVAN, LLP

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The Honorable James L. Robart

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

MICROSOFT CORPORATION, a Washington
corporation,

Plaintiff,

v.

MOTOROLA, INC., MOTOROLA
MOBILITY, INC., and GENERAL
INSTRUMENT CORPORATION,

Defendants.

CASE NO. C10-1823-JLR

DEFENDANTS' RESPONSE TO
MICROSOFT'S MOTION FOR
SUMMARY JUDGMENT OF BREACH
OF CONTRACT

**NOTED ON MOTION CALENDAR:
Friday, April 20, 2012**

HEARING: May 7, 2012

ORAL ARGUMENT REQUESTED

REDACTED

case.⁷ The fact remains that the parties know what is RAND only after negotiations. As this Court observed ([REDACTED]), it is difficult to determine in advance what might constitute RAND terms in a particular circumstance, without extensive negotiations involving exchange of often highly confidential information. [REDACTED]

[REDACTED] In recognition of this, the ITU and IEEE policies leave the determination of what qualifies as “RAND” to bilateral negotiations.

Motorola is mindful that the Court observed that the ITU “duty to ‘negotiate licenses . . . on’ RAND terms could reasonably be interpreted to require Motorola to make offers on RAND terms — an ‘offer’ being part of a ‘negotiation’ under such a reading of the policy.” Dkt. No. 188 at 14. Motorola submits, however, that, considering the documents forming the basis for Motorola’s contractual obligations as a whole, and the logic of bilateral negotiations, this phrase is directed to the final result of the negotiations — a RAND license.

C. The October 2010 Letters Offered Reasonable Terms

Microsoft seeks a second bite at the apple, again asking for summary judgment that the October 2010 letters were unreasonable (albeit this time alleging that the letters were “blatantly unreasonable”). This Court previously denied summary judgment, finding that there are genuine issues as to whether or not the October offers were unreasonable. Dkt. No. 188 at 16-17. Microsoft’s current motion articulates no sound reason for reconsidering this ruling. Indeed, as discussed below, every argument Microsoft makes is premised on a disputed factual issue, requiring that the Court again deny Microsoft’s motion. In fact, when the entire factual record – Motorola’s previous RAND offers, its fully-negotiated licenses, jury-awarded royalty rates, and established industry rates – is considered in the light most favorable to non-movant Motorola,

⁷ Compounding this ambiguity, the IEEE Operations Manual specifies that an LOA for one version of a standard does not generally carry over to all subsequent versions of that standard. Ex. 33 at § 6.3.6. Motorola

Motorola's offer plainly was *reasonable* – a far cry from “blatantly *unreasonable*”.

1. Motorola's Offers Were Reasonable and Ripe for Negotiation

The Court will appreciate that an offer requires a starting point – a necessity to determine where a negotiation should begin. Motorola's previous license offers and licenses are the best evidence of what any reasonable offeror should offer and, thus, whether Motorola's offer to Microsoft was “blatantly unreasonable”. Why should any rational offeror underbid as a starting point the offer that had been accepted in prior negotiations? Reasonableness certainly cannot be limited to a “lowball” offer or a revision of Motorola's offer that Microsoft would like – those are for Microsoft to counter-propose in negotiations, which it never did.

[REDACTED]

followed this early letter with a series of LOAs directed to other amendments to the 802.11 base standard. Ex. 16. These superseding documents raise further ambiguity as to the contractual significance of the March 1, 1994 letter.

DATED this 13th day of April, 2012.

RESPECTFULLY SUBMITTED:

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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

MICROSOFT CORPORATION,

Plaintiff,

v.

MOTOROLA, INC., et al.,

Defendants.

CASE NO. C10-1823JLR

ORDER ON PLAINTIFF'S
MOTION FOR PARTIAL
SUMMARY JUDGMENT

I. INTRODUCTION

This matter comes before the court on Plaintiff Microsoft Corporation's ("Microsoft") motion for partial summary judgment (Mot. (Dkt. # 77)). The court has reviewed Microsoft's motion, Defendants Motorola, Inc., Motorola Mobility, Inc., and General Instrument Corporation's (collectively, "Motorola") response (Resp. (Dkt. # 90)), Microsoft's reply (Reply (Dkt. # 96)), all other pertinent documents in the record,

and the relevant law. For the reasons set forth below, the court GRANTS in part and DENIES in part Microsoft's motion.¹

II. BACKGROUND

A. The IEEE and the ITU as Standard Setting Organizations

Microsoft and Motorola are both members of the Institute of Electrical and Electronics Engineers ("IEEE") and the International Telecommunication Union ("ITU"). (Mot. at 9.) The IEEE and the ITU, neither of which are parties to the instant dispute, are international standards setting organizations. Standards setting organizations ("SSOs") play a significant role in the technology market by allowing companies to agree on common technological standards so that all compliant products will work together. Standards lower costs by increasing product manufacturing volume, and they increase price competition by eliminating "switching costs" for consumers who desire to switch from products manufactured by one firm to those manufactured by another.

One complication with standards is that it may be necessary to use patented technology in order to practice them. If a patent claims technology selected by a SSO, the patent is called an "essential patent." Here, Motorola is the owner of several

¹ Both parties have requested formal oral argument. (Mot. at 1; Resp. at 1.) The court, however, determines that this motion is appropriate for decision without oral argument. The general rule is that the court may not deny a request for oral argument made by a party opposing a motion for summary judgment unless the motion is denied. *Dredge Corp. v. Penny*, 338 F.2d 456, 462 (9th Cir. 1964). Further, oral argument is not required if the party requesting oral argument suffers no prejudice. *Houston v. Bryan*, 725 F.2d 516, 517-18 (9th Cir. 1984). Here, because the court is denying the portions of Microsoft's motion opposed by Motorola, the court finds that Motorola is not prejudiced by the court's decision in this order. Furthermore, the issues relevant to the present motion were discussed at a February 13, 2012 status conference before the court.

declared-essential patents to certain standards established by the IEEE and the ITU. (*See* Mot. at 10.) In order to reduce the likelihood that owners of essential patents will abuse their market power, many SSOs, including the IEEE and the ITU, have adopted rules related to the disclosure and licensing of essential patents. The policies often require or encourage members of the SSO to identify patents that are essential to a proposed standard and to agree to license their essential patents on reasonable and non-discriminatory (“RAND”) terms to anyone who requests a license. Such rules help to insure that standards do not allow essential patent owners to extort their competitors or prevent them from entering the marketplace.

B. Facts Relating to Microsoft’s Present Motion

This lawsuit involves two standards—the IEEE 802.11 wireless local area network (“WLAN”) Standard (“802.11 Standard”) and the ITU H.264 advanced video coding technology standard² (“H.264 Standard”). (Mot. at 9-10.) The IEEE’s standard setting process is governed by its Intellectual Property Rights Policy (the “IEEE Policy”). (*See id.* at 10-11.) The IEEE Policy provides that “IEEE standards may be drafted in terms that include the use of Essential Patent Claims.” (IEEE Pol. (Dkt. #79-1) at 18 (Section 6.2).) The IEEE Policy defines the term “Essential Patent Claim” as one or more claims in an issued patent (or pending patent application) that are “necessary to create a compliant implementation of either mandatory or optional portions of the normative

² The ITU developed the H.264 Standard jointly with two other SSOs—the International Organization for Standardization and the International Electrotechnical Commission. (Mot. at 9-10.)

clauses of the [Proposed] IEEE Standard” (*Id.*) If “Essential Patent Claims” are included in an IEEE standard, IEEE requires the patent holder to either state that it is not aware of any patents relevant to the IEEE standard or to provide the IEEE with a Letter of Assurance. (*Id.*) Any such Letter of Assurance must include either (1) a disclaimer to the effect that the patent holder will not enforce the “Essential Patent Claims,” or (2):

[a] statement that a license for a compliant implementation of the standard will be made available to an unrestricted number of applicants on a worldwide basis without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination. . . .

(*Id.*) With respect to the reasonableness or discriminatory nature of any license, the IEEE Policy states:

The IEEE is not responsible for identifying Essential Patent Claims for which a license may be required, for conducting inquiries into the legal validity or scope of those Patent Claims, or *for determining whether any licensing terms or conditions provided in connection with submission of a Letter of Assurance, if any, or in any licensing agreements are reasonable or non-discriminatory.*

(*Id.* (emphasis added).) Motorola has submitted Letters of Assurance to the IEEE in connection with the 802.11 Standard stating that it “will grant” or “is prepared to grant” a license under RAND terms. (Mot. at 11.)

Like the IEEE, the ITU has established a policy (the “ITU Policy”) with respect to holders of patents “essential” to implementing a standard. (*See* ITU Pol. (Dkt. # 79-3).) Such patent holders must file with the ITU a “Patent Statement and Licensing Declaration” declaring whether they (1) will negotiate licenses free of charge on a RAND basis; (2) will negotiate licenses on a RAND basis; or (3) are not willing to comply with

either of the first two options. (*See id.* at 9-12.) The ITU Policy and the Patent Statement and Licensing Declaration both state that “[s]uch negotiations are left to the parties concerned and are performed outside [the ITU].” (*Id.* at 9, 12.) Motorola has submitted Patent Statement and Licensing Declarations to the ITU with respect to its declared-essential patents relating to the H.264 Standard. (Mot. at 77.)

C. Procedural History

This matter has a complex procedural history. Originally, the parties were involved in two separate actions, one in which Microsoft was the plaintiff, No. C10-1823JLR (the “Microsoft Action”), and one in which Motorola was the Plaintiff, No. C11-0343JLR (the “Motorola Action”). On June 1, 2011, the court consolidated the two cases under Cause No. C10-1823JLR. (Order (Dkt. # 66 at 12).)

In the Microsoft Action, Microsoft’s amended complaint alleges that through participation in the industry-standard setting process for both the 802.11 Standard and the H.264 Standard, Motorola agreed to offer licenses on RAND terms to Microsoft (and other potential licensees) for patents “essential” to practice the respective standards, and that Motorola has failed to fulfill these obligations. (*See* Microsoft Compl. (Dkt. # 53) ¶¶ 80-94.) Specifically, Microsoft alleges claims against Motorola for breach of contract and promissory estoppel.³ (*Id.*) In response, Motorola asserted affirmative defenses and counterclaims. (*See* Dkt. # 68.) Motorola’s counterclaims, which are relevant to the

³ Microsoft’s action against Motorola also included claims for waiver and declaratory judgment, but the court’s June 1, 2011 order dismissed both of those claims, leaving only the breach of contract and promissory estoppel claims. (Order at 12.)

instant motion for summary judgment, seek a declaratory judgment that (1) it has not breached any RAND obligations, and (2) Microsoft repudiated and/or rejected the benefits of Motorola's RAND obligations. (*Id.* ¶¶ 61-75 (Counterclaims).)

In the Motorola Action, Motorola's amended complaint for patent infringement⁴ alleges that Microsoft infringed U.S. Patent Nos. 7,310,374; 7,310,375; and 7,310,376 (the "Motorola Patents"). (Motorola Compl. (C11-0343JLR, Dkt. # 29) ¶¶ 14-40.) The Motorola Patents relate to the H.264 video compression technology. (*See id.* ¶¶ 17, 26, 35.) Microsoft answered and asserted affirmative defenses, as well as counterclaims for (1) patent infringement as to U.S. Patent Nos. 6,339,780 and 7,411,582 (the "Microsoft Patents"); (2) breach of contract; and (3) promissory estoppel.⁵ (Dkt. # 37 ¶¶ 11-20, 102-116.) The latter two claims are substantially (if not precisely) the same as the claims set forth by Microsoft in the Microsoft Action. (*Compare* C11-0343JLR, Dkt. # 37 ¶¶ 102-116 *with* C10-1823JLR, Dkt. # 53 ¶¶ 80-94.) In response to Microsoft's counterclaims, Motorola asserted 14 affirmative defenses and brought counterclaims seeking a declaratory judgment that (1) Motorola did not infringe the Microsoft Patents and that the Microsoft Patents are invalid; (2) Motorola met its RAND obligations; and (3) Microsoft repudiated any rights associated with Motorola's RAND statements. (Dkt. # 67 ¶ 8

⁴ Motorola's amended complaint was filed in the Western District of Wisconsin, Civil Action No. 3:10-CV-699, before the case was transferred to this court on February 2, 2012. (Dkt. # 45.)

⁵ Microsoft's counterclaims also included claims for waiver and declaratory judgment, but the court's June 1, 2011 order dismissed both of those claims, leaving only the two patent infringement claims and the breach of contract and promissory estoppel claims. (Order at 12.)

(Affirmative Defenses); Dkt. # 67 ¶¶ 9-90 (Counterclaims).) Motorola's latter two counterclaims are substantially (if not precisely) the same and seek the same relief as the counterclaims set forth by Motorola in the Microsoft Action. (*Compare* Dkt. # 67 ¶¶ 21-90 *with* Dkt. # 68 ¶¶ 61-75.)

Microsoft's present motion raises issues relating to the breach of contract and promissory estoppel claims that it asserted in both the Microsoft and Motorola Actions.

Microsoft seeks a ruling that:

1. Motorola entered into binding contractual commitments with the IEEE and the ITU, committing to license its declared-essential patents on RAND terms and conditions;
2. Microsoft is a third-party beneficiary of Motorola's commitments to the IEEE and the ITU;
3. When offering a license to a third-party beneficiary of Motorola's commitments to the SSOs, Motorola must offer RAND terms and conditions;
4. Motorola's offers to Microsoft to license its H.264 and 802.11 declared-essential patents breached Motorola's RAND obligations because no reasonable trier of fact could conclude that the offers were on RAND terms and conditions.

(Mot. at 9.)

Microsoft's arguments on summary judgment are based on two "demand" letters sent by Motorola to Microsoft relating to licensing of Motorola's declared-essential patents for practicing the 802.11 Standard and the H.264 Standard. (*See id.* at 12.) The first letter, which Motorola sent to Microsoft on October 21, 2010, read in pertinent part:

This letter is to confirm Motorola's offer to grant Microsoft a worldwide non-exclusive license under Motorola's portfolio of patents and pending applications having claims that may be or become Essential Patent Claims

(as defined in section 6.1 of the IEEE bylaws) for a compliant implementation of the IEEE 802.11 Standards. . . . Motorola offers to license the patents under reasonable and non-discriminatory terms and conditions (“RAND”), including a reasonable royalty of 2.25% per unit for each 802.11 compliant product, subject to a grant back license under the 802.11 essential patents of Microsoft. As per Motorola’s standard terms, the royalty is calculated based on the price of the end product (e.g., each Xbox 360 product) and not on component software (e.g., Windows Mobile Software).

(Dkt. # 79-5 at 2.) Then, on October 29, 2010, Motorola sent a similar letter regarding the patents related to the H.264 Standard, which stated:

Motorola offers to license the patents on a non-discriminatory basis on reasonable terms and conditions (“RAND”), including a reasonable royalty, of 2.25% per unit for each H.264 compliant product, subject to a grant back license under the H.264 patents of Microsoft, and subject to any Motorola commitments made to JVT in connection with an approved H.264 recommendation. As per Motorola’s standard terms, the royalty is calculated based on the price of the end product (e.g., each Xbox 360 product, each PC/laptop, each smartphone, etc.) and not on component software (e.g., Xbox 360 system software, Windows 7 software, Windows Phone 7 software, etc.).

(Dkt. # 79-6 at 2.) Microsoft summary judgment motion argues that these two letters from Motorola breached Motorola’s obligations to provide Microsoft and other IEEE and ITU members licenses to Motorola’s declared-essential patents on RAND terms. (*See generally* Mot.)

III. STANDARD OF REVIEW

Summary judgment is appropriate if the evidence, when viewed in the light most favorable to the non-moving party, demonstrates “that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ. P. 56(a); *see also Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986); *Galen v. Cnty. of*

L.A., 477 F.3d 652, 658 (9th Cir. 2007). The moving party bears the initial burden of showing there is no genuine issue of material fact and that he or she is entitled to prevail as a matter of law. *Celotex*, 477 U.S. at 323. If the moving party meets his or her burden, then the non-moving party “must make a showing sufficient to establish a genuine dispute of material fact regarding the existence of the essential elements of his case that he must prove at trial” in order to withstand summary judgment. *Galen*, 477 F.3d at 658. The court is “required to view the facts and draw reasonable inferences in the light most favorable to the [non-moving] party.” *Scott v. Harris*, 550 U.S. 372, 378 (2007).

VI. ANALYSIS

As stated above, Microsoft raises the following four issues: (1) whether Motorola entered into binding contractual commitments with the IEEE and the ITU, committing to license its declared-essential patents on RAND terms and conditions; (2) whether Microsoft is a third-party beneficiary of Motorola’s commitments to the IEEE and the ITU; (3) whether, when offering a license to a third-party beneficiary of Motorola’s commitments to the SSOs, Motorola must offer RAND terms and conditions; and (4) whether Motorola’s offers to Microsoft to license its H.264 and 802.11 declared-essential patents breached Motorola’s RAND obligations. For the reasons described below, the court finds in Microsoft’s favor on the first two issues, but concludes that Microsoft has not met its burden on summary judgment with respect to the third and fourth issues.

First, Microsoft’s asks the court to find that: (1) Motorola entered into binding contractual commitments with the IEEE and the ITU, committing to license its declared-

essential patents on RAND terms and conditions; and (2) Microsoft is a third-party beneficiary of Motorola's commitments to the SSOs. (Mot. at 9.) Motorola does not dispute either of these contentions.⁶ (*See generally* Resp.). The court agrees 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. *See, e.g., Research In Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 797 (N.D. Tex. 2008) (denying motion to dismiss where plaintiff stated breach of contract claim based on the defendant's failure to offer reasonable and non-discriminatory terms as it had promised European Telecommunications Standards Institute and the IEEE); *see also Ericsson Inc. v. Samsung Electronics, Co.*, Civil Action No. 2:06-CV-63, 2007 WL 1202728, at *1 (E.D. Tex. Apr. 20, 2007) (noting that the plaintiff and the defendant asserted claims for breach of contract and acknowledged that licensing obligations were contractual and bound all members of SSOs).

Additionally, the court finds that Microsoft, as a member of both the IEEE and the ITU, is a third-party beneficiary of Motorola's commitments to the IEEE and ITU. *See ESS Tech., Inc. v. PC-Tel, Inc.*, No. C-99-20292 RMW, 1999 WL 33520483, at *4 (N.D. Cal. Nov. 4, 1999) (holding that the third-party beneficiary of contract between a SSO and the defendant, who held essential patents, had properly stated claim for specific performance of the agreement requiring the defendant to license patents on RAND

⁶ On February 13, 2012, the court held a status conference in which Motorola stated on the record that it did not dispute that it entered into the aforementioned binding contractual commitments with the IEEE and the ITU and that Microsoft is a third-party beneficiary of these commitments.

terms). Accordingly, the court concludes that there is no genuine issue of material fact and that Microsoft is entitled to judgment as a matter of law with respect to the first two issues raised in Microsoft's motion.

Next, Microsoft asks the court to find that “[w]hen offering a license to a third-party beneficiary of Motorola’s commitments to the SSOs, Motorola must offer RAND terms and conditions.” (Mot. at 9.) Microsoft argues that because Motorola committed to make its essential patents relating to the 802.11 and H.264 Standards available to an unrestricted number of applicants on RAND terms, any offer by Motorola must likewise be on RAND terms.⁷ (*See id.* at 18-20.) Microsoft relies on *Zoran Corp. v. DTS, Inc.*, No. C 08–4655 JF (HRL), 2009 WL 160238 (N.D. Cal. Jan. 20, 2009), where the court briefly discussed the Bylaws of the Blu-Ray Disc Association (“BDA”), which provided for arbitration of disputes “over whether the [patent holding member] is offering a license” of its essential patents on RAND terms. *Id.* at *3-4.

In response, Motorola argues that the language of the IEEE Policy and the ITU Policy does not require Motorola to offer licenses on RAND terms, but only requires that completed licenses be on RAND terms. (Resp. at 13.) Motorola contends that both policies contain language that identifies a bilateral negotiation process where the responsibility of determining the precise RAND terms is left to the individual companies to negotiate. (*Id.* at 13-15.) According to Motorola, the determination of what

⁷ Microsoft contends that offers on non-RAND terms abuse the power granted to Motorola by the inclusion of Motorola’s patents in the standards set by the IEEE and the ITU. (Mot. at 19-21.)

constitutes RAND terms is highly fact-dependent and unique to each licensing situation, thereby making it impractical to require an offer to be on RAND terms when the offeror may not have all of the pertinent information about the potential licensee at the time it makes its initial offer. (*Id.* at 13-14.) Further, Motorola distinguishes *Zoran Corp.* arguing that the language contained in the BDA Bylaws spoke directly to “offering” a license on RAND terms, whereas the language in the IEEE Policy and ITU Policy is silent with respect to license offers, and instead focuses on the end result—a RAND license through bilateral negotiation. (*Id.* at 15.)

The parties’ dispute regarding whether both the initial license offer and the final negotiated license (Microsoft’s contention) or only the final negotiated license (Motorola’s contention) must be on RAND terms requires the court to interpret the relevant contracts between Motorola and the SSOs. The parties’ submissions, however, fail to sufficiently discuss the issues of contract interpretation that are now before the court. Microsoft, which carries the burden on this motion for summary judgment, fails to provide the court with any law on the issue of contract interpretation and does direct the court to any provision in the policies that is relevant to whether an initial offer must be on RAND terms. Instead, Microsoft argues that Motorola’s “exorbitant” royalty demands are the opposite of Motorola’s obligation to make its relevant patents available on RAND terms.⁸ (*See Mot.* at 18-20.) Although Microsoft may ultimately prevail on this point, it

⁸ Microsoft also points the court the *Zoran Corp.* case interpreting the Bylaws of the BDA. (*Mot.* at 21-22.) The court finds this attempted analogy unpersuasive because the relevant

has little to do with the issue at hand—how the court should interpret the IEEE and ITU Policies with respect to initial offers. In other words, Microsoft has jumped the gun by focusing on Motorola’s actions as opposed to how the court should interpret the IEEE Policy and ITU Policy with respect to whether initial offers must be on RAND terms

For its part, Motorola similarly provides the court with no case law on the issue of contract interpretation and argues that the claim language of the policies dictates a finding in its favor. (Resp. at 13-15.) Although Motorola cites to specific provisions of the policies in support of its position, Motorola fails to explain how those provisions fit into the framework of the applicable law of contract interpretation. The court does not find Motorola’s *ipse dixit* argument compelling.

The parties’ lack of briefing under the applicable law leaves the court to guess at, among other things, which choice of law governs the policies, whether the policies are ambiguous,⁹ whether review of extrinsic evidence is appropriate in interpreting the policies. Because Microsoft has failed to properly brief the issues the court must decide, the court finds that Microsoft has not carried its burden of showing an absence of material questions of fact and that it is entitled to prevail as a matter of law. Accordingly, the court denies Microsoft’s motion for summary judgment with respect to the third issue—whether Motorola must offer on RAND terms and conditions.

language of the Bylaws of the BDA is entirely different from the relevant language of the policies in question. (See Resp. at 15.)

⁹ Under the law in at least some states, ambiguous contracts must be interpreted by the fact finder and not the court on summary judgment. See, e.g., *Wm. Dickson Co. v. Pierce Cnty.*, 116 P.3d 409, 413 (Wash. Ct. App. 2005).

The court would be remiss, however, to point out the holes in the parties' briefing without providing guidance for the path forward. Although the court does not intend to forecast any future rulings on this issue, the court expounds on its independent review of the IEEE Policy and ITU Policy. At the outset, the court notes that the policies make clear (and the parties do not dispute) that the patent holder of an essential patent must grant licenses on RAND terms. The court also notes that—as Motorola points out—both policies lend themselves to a negotiation process. For instance, the ITU Policy places a requirement on the patent holder to “negotiate licenses with other parties on a non-discriminatory basis on reasonable terms and conditions.” (Dkt. # 79-3 at 9-12.) Additionally, both policies state that the negotiating parties will determine the final RAND license, again indicating that the policies contemplate a negotiation process.

Motorola takes these statements to mean that it is not the initial offer that must be on RAND terms, but that through a give-and-take negotiation process, the parties will determine the RAND terms found in the final license agreement. At this time, the court is not entirely convinced by Motorola's rationale. First, at least with respect to the ITU Policy, Motorola's duty to “negotiate licenses . . . on” RAND terms could reasonably be interpreted to require Motorola to make offers on RAND terms—an “offer” being part of a “negotiation” under such a reading of the policy. Second, as Microsoft points out, if the policies are read to permit Motorola to offer on non-RAND terms, then the policies would permit Motorola to make offers on exorbitant terms so long as the final license reflects RAND terms. It seems unlikely to the court that either the IEEE or the ITU would deem a patent essential for a certain standard only to permit that patent holder to

turn around and abuse that power by seeking outrageously high royalty rates. To wit, during the February 13, 2012 status conference, counsel for Motorola agreed that blatantly unreasonable offers would violate its RAND obligations under the policies.

Still, the court is mindful that at the time of an initial offer, it is difficult for the offeror to know what would in fact constitute RAND terms for the offeree. Thus, what may appear to be RAND terms from the offeror's perspective may be rejected out-of-pocket as non-RAND terms by the offeree.¹⁰ Indeed, it would appear that at any point in the negotiation process, the parties may have a genuine disagreement as to what terms and conditions of a license constitute RAND under the parties' unique circumstances. Because the policies leave it to the parties to determine what constitutes a RAND license, when such a genuine disagreement arises, it appears to the court that the only recourse for the parties is to file a lawsuit in the appropriate court of law.

This leads the court to its final observation on this point. Motorola asserts in its pleadings that Microsoft has repudiated its right to a RAND license by filing the present lawsuit rather than negotiating with Motorola towards a RAND license. (Dkt. # 67 ¶¶ 66-90 (Counterclaims).) The court is perplexed by Motorola's argument. As stated above, the court believes that reasonable parties may disagree as to the terms and conditions of a RAND license, leaving the courthouse as the only viable arena to determine the meaning of "reasonable" under the circumstances. It would be illogical, therefore, to deem it

¹⁰ Whether the policies require an offeree to counteroffer or respond (i.e., to partake in the negotiation process) prior to filing a lawsuit under circumstances where the offeree finds an offer to be on non-RAND terms is an open question in this matter.

repudiation of one's rights under a policy to file a lawsuit to enforce one's rights under that same policy. The court leaves it to the parties to address, if they so choose, the court's observations regarding the policies in question pursuant to the briefing schedule set forth at the conclusion of this order.

Finally, with respect to the fourth issue in Microsoft's motion—that Motorola's offers to Microsoft breached Motorola's RAND obligations—the court finds that Microsoft has not met its burden of showing that no genuine issue of material fact exists and that it is entitled to judgment as a matter of law. Without knowing if Motorola had an obligation to offer on RAND terms, the court is unable to determine whether Motorola's offer in fact breached its obligations. Moreover, assuming that Motorola had obligations to offer on RAND terms, the court is unable to the merits of Microsoft's argument. Microsoft argues that Motorola's offers are unreasonable because the royalty demanded is based on the price of the end product and is “not tied to its claimed technological contribution.” (Mot. at 22-24.) Microsoft has not provided the court with case law to support its assertion, and the court does not agree with Microsoft that it is always facially unreasonable for a proposed royalty rate to result in a larger royalty payment for products that have higher end prices. Indeed, Motorola has previously entered into licensing agreements for its declared-essential patents at royalty rates similar to those offered to Microsoft and with royalty rates based on the price of the end product. (Resp. at 17; *see also* Dkt. # 183 (example of Motorola licensing agreement on similar terms).) Motorola also has provided the court with at least one example of such a license. (*See* Dkt. # 183.) On the record before it, the court cannot say that there is no genuine

dispute as to any material fact with respect to whether Motorola's initial offers were on RAND terms. Accordingly, the court denies Microsoft's motion for summary judgment with respect to Microsoft's fourth issue.

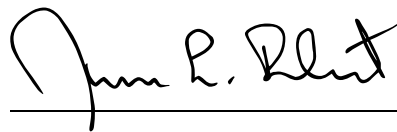
IV. CONCLUSION

For the foregoing reasons, the court GRANTS in part and DENIES in part Microsoft's motion for summary judgment. The court GRANTS Microsoft's motion insofar as it finds that (1) Motorola entered into binding contractual commitments with the IEEE and the ITU, committing to license its declared-essential patents on RAND terms and conditions; and (2) that Microsoft is a third-party beneficiary of Motorola's commitments to the IEEE and the ITU. The court DENIES the remainder of Microsoft's motion.

As the parties are aware, to move the adjudication process forward with respect to the RAND-based issues in this case, the court intends to schedule a mini-trial on any unresolved RAND-based issues. With that goal in mind, the court GRANTS leave, pursuant to the following briefing schedule, for Microsoft and Motorola to file additional summary judgment motions on the limited issues discussed below. If it so chooses, Microsoft may file another summary judgment motion on its breach of contract and promissory estoppel claims specifically addressing whether the IEEE Policy and ITU Policy require offers to be on RAND terms. If it so chooses, Motorola may file a summary judgment motion with respect to its claim that Microsoft repudiated its right to a license for Motorola's declared-essential patents on RAND terms. In their briefs, the parties at a minimum should address (1) the appropriate choice of law of contract

interpretation; (2) whether either the IEEE Policy or the ITU Policy is ambiguous, within the meaning of the applicable law; and (3) what, if any, extrinsic evidence the court should consider in construing the policies. The parties are also welcome to address any of the court's observations regarding the IEEE Policy and ITU Policy. The parties' opening briefs shall be filed no later than March 30, 2012 and must not exceed 24 pages in length. Responsive briefs shall be filed no later than April 13, 2012 and must not exceed 24 pages in length. Reply briefs shall be filed no later than April 20, 2012 and must not exceed 12 pages in length. At the conclusion of this briefing schedule, the court will rule on the parties' motions and set a schedule for a mini-trial to dispose of all RAND-based issues remaining in this matter. The parties may contact the court telephonically with questions they may have regarding the content of this order. Counsel from both parties should be present during any such call.

Dated this 27th day of February, 2012.



The Honorable James L. Robart
U.S. District Court Judge

ETSI GA ahg on IPR Review #1
Munich,
10-11 January 2006

ETSI GA/IPRR01(06)08

{ DATE \@ "dd/MM/yyyy" }

page 1 of 4

Source: Ericsson, Motorola, Nokia

Title: Proposal for IPR Policy Reform

Agenda item: new

Document for:

Decision	
Discussion	X
Information	

1 Decision/action requested

The ETSI GA ad hoc group is invited, as part of its tasks set out in the ToRs, to consider and develop this "Minimum Change Optimum Impact" proposal for updating the IPR regime to meet current challenges.

2 References

ETSI/SOS2(05) 18r1	IPR in Standards – Track 3 breakout report
ETSI ga46_24	IPR Committee
ETSI ga46_28	Terms of Reference for a GA ad hoc group on IPR
ETSI RoP Annex 6	ETSI IPR Policy
VIE_DOC_99	IPR Meeting Vienna, results.ppt (15-16 December 2005)

3 Background & Rationale

Standards development in ETSI has been highly effective and cellular wireless technology, for example, has been an extremely valuable technology offering which has had unprecedented success both in terms of its widespread availability and minimal interoperability problems.

However, the task of licensing all the essential patents needed to implement a standard is becoming increasingly complex due to the proliferation of patents and patent owners, and the lack of transparency surrounding essential patents.

Many alternative views and approaches are currently being discussed among the stakeholder community and a list of criteria for further discussion has been created at the Vienna non-meeting for input for the new ETSI IPR ad hoc group on IPR. Views vary, sometimes dramatically, according to the business model and position in the value chain of the respective stakeholders. This makes it all the more difficult to find a package of measures which is going to be acceptable to all stakeholders in a reasonable time frame.

The present proposal adopts a "minimum change optimum impact" approach in that it seeks to identify what are commonly believed to be the most important and pressing issues that need to be addressed and proposes minimum change to the current regime to promptly achieve maximum improvement in the commercial and competitive landscape.

4 Identification of the critical issues

The ETSI IPR policy requires Members to undertake to license their essential patents on fair, reasonable and non-discriminatory terms (FRAND). However, currently no express definition or qualification of FRAND exists in the ETSI rules.

Consequently, each essential patent owner can develop its own idea of how FRAND should be applied in practice. This fragmented approach means that when there are many essential patents and many essential patent owners the overall license cost, i.e. the "cumulative royalties", are more uncertain.

Also, the increasing tendency for multi-function, multi-technology products means there are ever more patents covering the end product, giving rise to the phenomenon of so-called "royalty stacking".

Overall, cumulative royalties are perceived to be uncertain and often too high, possibly even prohibitive. The application of FRAND at the cumulative royalty level as well as at the individual patent owner level can be difficult to achieve.

Also open standardization is increasingly attracting participants that possess patents but do not themselves manufacture standards-compliant products. While attracting technical contributions from such entities is in itself to be encouraged it also poses a risk of pushing up royalties in an unlimited way because such patent owners are merely licensors and as such are not constrained in their royalty claims. Manufacturers, on the other hand, are generally both licensors AND licensees and being on both sides of the licensing fence has a natural balancing effect in royalty setting.

Another trend is for entities who are not at all active in the technology field to hold essential patents, for example they may have acquired them, perhaps only for licensing purposes, and sometimes such entities (popularly called "patent trolls") may seek extortionate royalties, thus undermining the viability of the standard leading to unreasonably high royalty levels and create uncertainty that is harmful to the sound functioning of the markets.

As an overall principle, FRAND must balance the interests of both the developers and users of the technology. The major contributors to standards invest significant amounts of money and resourcing to develop open standards for the benefit of the whole industry and consumers. IPR policies need to be formulated in a way that such contributors are not at a competitive disadvantage due to their high investment in technology development but rather can be compensated for their effort. At the same time the technology needs to be affordable for the whole industry and the consumers.

An additional, but subsidiary, point concerns "transparency" of essential patents. Firstly, there is a need to have greater visibility of the patent landscape early in the standardization process in order to be able to gauge the economic impact of essential - and potentially essential - patents incorporated into emerging standards. Secondly, essentiality declarations are based on companies' own judgment of their patents and the declaration policy of each individual company can significantly vary. False or misleading declarations of essentiality have the potential to distort the perception of royalty expectations in the market place.

5 Proposal for "Minimum Change Optimum Impact" solution:

Solving the key issues around clarity of the current FRAND based IPR rules will be sufficient to solve the most critical issues and re-establish the credibility of the IPR regime generally in ETSI and also in other standardization bodies.

Therefore, it is proposed to make changes to the IPR regime and practices, but that the changes should focus primarily on clarifying the meaning of FRAND (as proposed in Section 6.1 below).

As a secondary issue, increased transparency of essential patents would help underpin the practical application of the clarified FRAND requirements (see section 6.2).

This "minimum change optimum impact" approach is also desirable from the perspective of the long term credibility of ETSI and other standard development organizations. These proposed changes are really in the nature of clarifications of existing FRAND rules and commonly understood goals. As such, they should not undermine existing FRAND obligations. Major changes in the fundamental rules and statutes may be interpreted as negative evidence of the overall process. Major changes should be applied only as a last resort.

The related practices in the industry such as license negotiations can continue as today i.e. based on bilateral negotiations. This will also reduce risk of expanding the uncertainty beyond the area of our control.

This proposal has the important advantage that it is a generic solution for all situations, not just for specific projects, so that the same IPR regime would apply equally to all standards. Also, the "minimum change" means it can be implemented quickly and easily, so removing any potential roadblocks that could hinder the timetable for ongoing standardisation activities.

6 Consequences and Implication of the proposed changes:

6.1 Clarification of FRAND

It is proposed to revise the ETSI IPR policy to clarify the meaning of FRAND in two important respects in order to assist in the unhindered development of commercially viable standards, and hence commercially viable standard-compliant products.

The two proposed changes would introduce the principles of AGGREGATED REASONABLE TERMS and PROPORTIONALITY into the FRAND definition, as follows:

1. AGGREGATED REASONABLE TERMS. To clarify that the FRAND obligation means essential patent owners agree to grant licences on terms that are *objectively commercially reasonable* taking into account the *overall* licensing situation including the cost of obtaining all necessary licences from other relevant patent holders for all relevant technologies in the end product.
2. PROPORTIONALITY. Compensation under FRAND must reflect the patent owner's proportion of all essential patents. This is not simply a numeric equation but the compensation must, within reasonable bounds, reflect the contribution.

Enforceability of proportionality concept

It is proposed to continue to rely on bilateral licensing and legal enforceability of the rules against anyone violating them, rather than establishing any special resolution mechanisms. This is a traditionally preferred model of regulating licensing transactions. Once one or two test cases have been heard in the courts, for example, it will help to establish a common and authoritative precedent of how FRAND is to be applied. In the mean time the new definition will greatly help parties set the parameters in bilateral negotiations, especially in a case where either party is seeking royalties which are orders of magnitude away from reasonable expectations and would give rise to prohibitive cumulative licensing costs. Importantly, the proposed new definition in the IPR policy will enable and signal to judges in patent litigation that they can and should look at the overall cumulative royalty costs for a given standard and not just to assess whether the terms being offered by one particular licensor are fair and reasonable *in vacuo*. In other words the courts will be directed to take into account the cumulative royalty effect in standards where there are potentially many patent claims.

It is not necessary to impose any concrete royalty cap as market forces will take care of that, and this PROPORTIONALITY approach allows flexibility to accommodate different parameters and considerations applying in different standards and under different market conditions and at different times. It also promotes the continued benefits available from bilateral licensing, where overlapping R&D and alternative technologies can be traded without duplicative costs to the end user.

Importantly, this proposal has the potential to have an indirect but equally binding effect also on essential patent owners (a) who are not members of ETSI, and (b) who are not themselves manufacturing standard-compliant products, including "patent trolls". This would be a major advantage over alternative proposals, for example that seek to impose pre-agreed royalty caps which would only be binding on members who have anyway agreed to comply with the rules. In this sense the proposal, although requiring only minimum change, could nevertheless have an optimum impact.

6.2 TRANSPARENCY of essential patents

Greater TRANSPARENCY of essential patents would help both licensors and licensees to apply the AGGREGATED REASONABLE TERMS and PROPORTIONALITY principles in the practical application of FRAND, so enabling more concrete business modelling and overall licensing cost calculation.

Many solutions are possible, and the IPR ad hoc group is invited to further study and propose realistic solutions both for (1) increasing **patent landscape visibility**, and (2) **supporting essentiality declarations**. Such solutions include, for example the possibility of:

- Means to establish patent landscape analysis for individual standards during the early stages of the standardisation process.
- A requirement for those declaring potentially essential patents to agree to provide evidence of essentiality (e.g. claim charts) to support essentiality declarations, on a bilateral basis upon request.

7 Issues for discussion/decision

The ETSI IPR ad hoc group is invited to study the "Minimum Change Optimum Impact" proposal presented here.

In particular the ETSI IPR ad hoc group is invited:

1. To agree to change the IPR policy to define FRAND in terms of AGGREGATED REASONABLE TERMS and PROPORTIONALITY
2. To consider and propose solutions for increasing TRANSPARENCY

IEEE
STANDARDS

1994

OPERATIONS MANUAL



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MICROSOFT TRIAL EXHIBIT

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6.2 Trademark

6.2.1 General

References to commercial equipment in a standard shall be generic and shall not include trademarks or other proprietary designations. Where a sole source exists for essential equipment or materials, it is permissible to supply the name and address of the source in a footnote, so long as the words "or the equivalent" are added to the reference.

6.2.2 PAR form

During the PAR procedure, the working group shall identify any possible trademark use for the forthcoming standard. The instructions in 6.2.1 shall be completed prior to RevCom submittal.

*add
to Guid*

6.3 Patents

If an IEEE standards-developing committee chooses to use patented technology in its standard, it is essential that the committee cite the reasons why such technology needs to be incorporated into the standard. In addition, alternative technologies should be identified that achieve the same end, along with the advantages and disadvantages of that alternative technology. This information shall be placed on file in the IEEE Standards Department.

The record should be written in the context of who the proponents are of the patented technology and the interests they may have in the adoption of the particular technology. Further, statements that assess the alternatives to patented technologies shall be structured to indicate

- a) If these alternatives will satisfy the public need, and
- b) If the use of the patented technology will exclude any segment of the relevant industry from meaningful competition

The guidelines listed in the following subclauses will be subject to objective oversight and a set of uniform guidelines of a special Patent Committee that reports to the IEEE Standards Board.

6.3.1 Guidelines

A patented technology may only be used when all of the following requirements can be met and documented:

- The patent does not give undue preferred status to a company or a segment of the industry that would benefit by its incorporation
- The patent represents the best available technology
- The patent is accessible to all in the industry on a nondiscriminatory basis for a reasonable cost
- There are no alternative methods or devices that can be used to meet the requirements of the standard without infringing on the patent
- There has been no coercion of a patent owner to provide that technology
- Adopting such technology is not in itself prohibitively costly or noncompetitive to a substantial part of the industry

6.3.2 Submittal

Patent holders shall submit to the Patent Committee of the IEEE Standards Board, prior to any significant drafting of the standard, a draft of their license that assures that the technology will be made available at nominal competitive costs to all who seek to use it for compliance with an incorporated IEEE standard.

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6.3.3 Record of statement

A record of the patent holder's statement shall be placed and retained in the files of the IEEE Standards Department.

6.3.4 Notice

An IEEE standard that may require the use of a patent shall contain a notice in the foreword that includes, but is not restricted to, the following statements:

"The IEEE Standards Board calls attention to the fact that it is claimed that [appropriate portions of the Std] is the subject of (a) patent(s) owned by [name of patentee]. The IEEE takes no position with respect to patent validity. [The name of patentee] has assured IEEE that it is willing to grant a license on this/these patent(s) on reasonable and nondiscriminatory terms to anyone wishing to obtain such a license. The undertakings of [the name of patentee] in this respect are on file with the IEEE Standards Department, and the license details may be obtained from [appropriate department of the patentee, with complete mailing address]."

6.3.5 Disclaimer

The IEEE shall not be responsible for identifying all patents for which a license may be required by an IEEE standard or for conducting inquiries into the legal validity or scope of those patents that are brought to its attention.



MPEG LA AVC Mtg.

Note Title

7/31/2003

Apple & IBM have joined
 Other submissions are in process
 "Sturman is presented to
 start discussions"

Bosch is not present

Sturman Discussion

"Professional" is a codec used
 by someone in the business
 of producing & selling content

~~**~~ \$10K per encoder channel

France Telecom

- seems reasonable
- grace period too long

Sony

- wants no differentiation between profiles
- cap on single structure
- not decided on encoder fee

Fujitsu

- ok w/ two profile rates
- doesn't like sliding scale
- want cap
- not decided on encoder fee

Mitsubishi

- strawman is agreeable
- cap - concerned about "consumer" vs. "professional"
- encoder fee doesn't scale

Toshiba

- agreeable to strawman
- wants one structure for all profiles

JVC

- how do you count?

Sharp

- agreeable to Strawman
- concerned about encoder costs not scaling

Samsung

- agree w/ Sony
- same royalty for all profiles
- caps on all profiles
- does use fee spread royalty burden as intended?

ETRI

- same royalty for all profiles
- no grace period

MET

- same royalty for all profiles
- wants lower priced sliding scale rather than cap
- concerned about amount of encode fee must scale

Motorola

- likes grace period, may need

to be even longer

- (CP)
- wants minimum threshold
 - no projections for mobile
50% of phones w/ video in 2010
 - Too expensive for mobile
& will lead to alternatives
 - Encoder projections seem to
outscale decoders

Columbia

- splitting profiles allows for
more tailored pricing
(higher fees)
- favors sliding scale for both
profiles
- one-time user fee may be
best alternative

Nokia

- lower price for baseline is
goal idea
- strongly support caps
- doesn't like legal entity
+ parent + subs
- id (CP) one price per profile

MS

Polycom

- PC market large & quick to deploy
- wants per-voice pricing vs. per-calls
- wants thresholds
- current codec rate not competitive
- SW systems not economical
- Definitions will be problematic what is "list" encoder, content
- Distinguish revenue - security content

Apple

- plays in many markets
- each market has different dynamics
- License must work across all markets in order to maximize royalty revenues
- have distributed \rightarrow 120M copies of QT w/ MPEG-4

received by
APPLE

- Majority of feedback on ~~MPE~~ has been focused on licensing
- caps eliminate the need to count, which is important for SW
- Products designed for one purpose are often used for another purpose
- mentioned ITU goal of RFB & expressed concern
- Use fee must be very simple
- Limiting certain uses through licensing disrupts customer relationship & not competitive

Philips

- Do Baseline & main apply to different markets? maybe not ...
- One structure for all profiles
- Doesn't it dist. etc. fee
- need for limits on cost,

either caps or sliding scale

- wants use fee caps;
option for fully paid option
- open to grace periods

IBM

- New markets haven't been considered (SW)
- Simple, low cost for broadest adoption - need loss leader approach
- Free, or generous grace period
- caps or sliding scale for cost certainty

Transcom

- open to RFB if that creates market opportunity
- strongly against caps;
prefer sliding scales
- caps/scaling should apply to use fees as well
- no need for grace period
- no thresholds

Lenny's Summary:

- treat all profiles similarly
- caps necessary
- use fees?

USE FEES

Thomson - yes

IBM - yes, if simple & cheap

Philips - yes, should be paid by content companies

Columbia - yes, one-time fee paid by biz entities

Apple - no, but for PC & SW if necessary, per entity

Polycom - no, due to practical issues - need threshold only revenue bearing content

MS - no

Notia - no, doesn't like limited use licenses

Motorola - no, b/c it will flow upstream to mfgs.

Panasonic - yes, enables lower
content royalties

ETRI - yes, one-time fee

Samsung - yes, want to place on
remunerated content

Sharp - yes

JVC - yes

Toshiba - yes, one-time

Mitsubishi - yes, one-time

Fujitsu - yes, make flexible

Sony - yes, must be reasonable
& borne appropriately

FT - yes, per entity, grace
period

8/1 Day 2

Henry: caps are problematic

$x = \$0.50 / \text{decode or encode}$

$0 - 50k = 0x$

$50k - 5M = x (1.00 \text{ each})$

$5M - 10M = 0.5x$

$> 10M = -2x$

OR upfront payment

$\$10M = > 50k - 100M \text{ units}$

$\$2M \text{ per } 25M \text{ units up to } 250M$

$\$1M = \text{every } 25M \text{ units thereafter}$
 average of rates above

mixed
 decode
 encode

proposal

#2

$$x = \$0.50$$

$$0 - 50k = 0x$$

$$50k - 2.5m = x$$

$$2.5m - 10m = .5x$$

$$\geq 10m = .2x$$

\$0.50 for each category:

- provided to product w/ C
- 1 screen w/out telephonic
 - 2 no screen
 - 3 screen < 4"
 - 4 screen ≥ 4"
 - 5 packaged media

FT - OK

Sony - revisited MP4

Fujitsu - wants MP4 model

Mitsubishi - prefers 1stsm proposal

Toshiba - prefers day 1 SM
doesn't like sliding scale
wants cap

IVC - no comment - wants
to research

Sharp - prefers day 2 #1
wants XZ .50
(referenced MP4)

Samsung - want cap
MP4 rates better

Panasonic - cap w/ fixed rate
MP4 for codec
use fees per encoder
paid by content provider
\$10K / dist. encoder
per year

Motorola - proposal #1, day 2
 w/ \$2M cap per biz
 \$8-10M cap per
 enterprise

Nokia - \$9M cap per enterprise

MS - MP4

Polycom - \$1.00/codex is high
 want to model

Apple - MP4 codex structure
 concerned about use fees
 separate discussion
 of codex & use fees

IBM - Collect^{use fees} on creating
 low cost per codex

Thomson - prefers no cap
 SM #2 + replicator
 cap

Philips - \$1.00 codex
 (higher than MP4)

likes SM 2 use fees
willing to consider caps
↳ \$10M is low

reference MP 4, but
raise caps

Reconvene around 9/30
in Japan

conf. call on 9/16

From: Larry Horn
To: Paul Bawel; AVCGroup
Sent: 11/7/2003 1:56:59 PM
Subject: RE: Draft Press Release

Thank you, Paul. Much appreciated.

-----Original Message-----

From: Paul Bawel
Sent: Friday, November 07, 2003 4:39 PM
To: Larry Horn; AVCGroup
Subject: RE: Draft Press Release

OK - Motorola agrees to the terms of the press release. Thanks for all of the hard work, everybody.

Paul Bawel
Sector IP Law Director
Motorola Broadband Communications Sector
215.323.1907 (tel.)
215.323.1300 (fax)

-----Original Message-----

From: Larry Horn [mailto:LHorn@mpegla.com]
Sent: Friday, November 07, 2003 4:22 PM
To: Bawel Paul-MGI0561; AVCGroup
Subject: RE: Draft Press Release

Yes, royalty-free.

Larry

-----Original Message-----

From: Paul Bawel
Sent: Friday, November 07, 2003 4:10 PM
To: Larry Horn; AVCGroup
Subject: RE: Draft Press Release

Understood and Ok to point 1. Can we say that less than 12 minutes is licensed and indicate under what fee or that it is royalty free?

Paul Bawel
Sector IP Law Director
Motorola Broadband Communications Sector
215.323.1907 (tel.)
215.323.1300 (fax)

-----Original Message-----

From: Larry Horn [mailto:LHorn@mpegla.com]
Sent: Friday, November 07, 2003 3:13 PM
To: Bawel Paul-MGI0561; AVCGroup
Subject: RE: Draft Press Release

Hi, Paul. Your comments are appreciated. Your #1 is reasonable but has not been discussed to this point. Would it be okay if we come up with a suitable date in the drafting of the License rather than get into that detail here (the press release does not preclude it). (Also, as you know, even after such a period has passed, a licensing administrator will later request the authority to waive it, as our experience is that licensees will ask for a waiver and a licensing administrator, being more interested in the collection of royalties than in the collection of interest, will want to be able to do that as a carrot in signing up licensees). Regarding your #2, title-by-title is licensed, just no royalties on videos 12 minutes or less.

Case No. 10-1823, W.D.Wash.
MICROSOFT TRIAL EXHIBIT
1179

Regards,
Larry

-----Original Message-----

From: Paul Bawel
Sent: Friday, November 07, 2003 2:21 PM
To: Larry Horn; AVCGroup
Subject: RE: Draft Press Release

Larry,

Motorola has two points it would like clarified in the press release.

1. Is there a date certain by which licensees have to sign to get the benefit of the grace period. Without such a date there is no motivation to sign, even after the royalty period begins.
2. Are title-by-title content licensed? This does not appear to be addressed, and will be desired, especially for music videos which are generally under 12 minutes but very profitable.

thanks,
Paul Bawel
Sector IP Law Director
Motorola Broadband Communications Sector
215.323.1907 (tel.)
215.323.1300 (fax)

-----Original Message-----

From: Larry Horn [mailto:LHorn@mpegla.com]
Sent: Wednesday, November 05, 2003 1:55 PM
To: AVCGroup
Subject: Draft Press Release
Importance: High

Dear Colleagues,

At last, after much effort and cooperation on the part of many parties to put together a broader, more beneficial (to the market) consensus, we are very pleased to report that a compromise has been reached incorporating a narrow OEM Cap/exception for codecs (a form of AVC Option A/Strawman VI) which will apply only to "personal computers." The OEM PC supplier cap would be \$10.5M per year in 2005-2006, \$11M per year in 2007-2008, and \$11.5M per year in 2009-2010 (this is in addition to the Licensee-Seller caps of \$3.5M per year in 2005-2006, \$4.25M per year in 2007-2008 and \$5M per year in 2009-2010).

These changes are incorporated in the attached draft press release. All of the other terms (as discussed during our 22 October conference call) remain the same. We plan to issue the press release next week. Therefore, if you have any suggestions or other comments, please communicate them to me by close of business on Friday 7 November.

We hope everyone will join the press release. We believe this joint effort will reflect very positively on the desire and ability of a very diverse patent holder group to come together for the benefit of the marketplace, and we personally want to thank everyone for their hard work in making this possible. We applaud your effort. Without compromise and open-mindedness in the interest of achieving unity despite differences, this would not have been possible.

Best regards,

Larry Horn

250 Steele Street Suite 300
Denver, Colorado 80206
303 331.1880
FAX 303 331.1879



NEWS RELEASE

For Immediate Release

CONTACT:

Lawrence Horn
MPEG LA
301.986.6660
Fax 301.986.8575
lhorn@mpegla.com

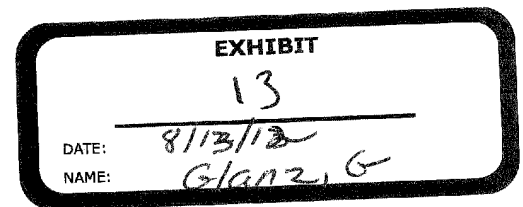
MPEG LA Announces Terms of Joint H.264/MPEG-4 AVC Patent License

(Denver, Colorado, USA - 17 November 2003) MPEG LA today announced that essential H.264/MPEG-4 AVC patent and patent application holders have reached agreement on the terms of a joint patent license for implementation and use of ITU-T H.264 and MPEG-4 Part 10 AVC ("AVC Standard").

"For essential intellectual property holders of such wide diversity to agree on the terms of a joint license in just a matter of months is a remarkable achievement, giving testimony to their support for the AVC standard and their desire to make this promising new technology widely available to the market in the fastest time possible," said MPEG LA CEO Baryn S. Futa. "MPEG LA congratulates each of them for their extraordinary diligence and cooperation, despite differences, in coming together for the benefit of the marketplace. We also thank potential users across all market sectors for their forthrightness in sharing with us their concern for licensing terms that are simple, reasonable and easy to administer. This helped immensely in the group's efforts to make the license terms responsive to marketplace needs."

Following is a brief summary of the licensing terms, which are yet to be incorporated into definitive license agreements and therefore, provided for information purposes only. These terms cover the entire AVC Standard regardless of which Profile(s) are used:

Case No. 10-1823, W.D.Wash.
MICROSOFT TRIAL EXHIBIT
1584



Decoder-Encoder Royalties

- Royalties to be paid by end product manufacturers for an encoder, a decoder or both (“unit”) begin at US \$0.20 per unit after the first 100,000 units each year. There are no royalties on the first 100,000 units each year. Above 5 million units per year, the royalty is US \$0.10 per unit.
- The maximum royalty for these rights payable by an Enterprise (company and greater than 50% owned subsidiaries) is \$3.5 million per year in 2005-2006, \$4.25 million per year in 2007-08 and \$5 million per year in 2009-10.
- In addition, in recognition of existing distribution channels, under certain circumstances an Enterprise selling decoders or encoders both (i) as end products under its own brand name to end users for use in personal computers and (ii) for incorporation under its brand name into personal computers sold to end users by other licensees, also may pay royalties on behalf of the other licensees for the decoder and encoder products incorporated in (ii) limited to \$10.5 million per year in 2005-2006, \$11 million per year in 2007-2008 and \$11.5 million per year in 2009-2010.
- The initial term of the license is through December 31, 2010. To encourage early market adoption and start-up, the License will provide a grace period in which no royalties will be payable on decoders and encoders sold before January 1, 2005.

Participation Fees

- Title-by-Title – For AVC video (either on physical media or ordered and paid for on title-by-title basis, e.g., PPV, VOD, or digital download, where viewer determines titles to be viewed or number of viewable titles are otherwise limited), there are no royalties up to 12 minutes in length. For AVC video greater than 12 minutes in length, royalties are the lower of (a) 2% of the price paid to the licensee from licensee’s first arms length sale or (b) \$0.02 per title. Categories of licensees include (i) replicators of physical media, and (ii) service/content providers (e.g., cable, satellite, video DSL, internet and mobile) of VOD, PPV and electronic downloads to end users.
- Subscription – For AVC video provided on a subscription basis (not ordered title-by-title), no royalties are payable by a system (satellite, internet, local mobile or local cable franchise) consisting of 100,000 or fewer subscribers in a year. For systems with greater than 100,000 AVC video subscribers, the annual participation fee is \$25,000 per year up to 250,000 subscribers, \$50,000 per year for greater than 250,000 AVC video subscribers up to 500,000 subscribers, \$75,000 per year for greater than 500,000 AVC video subscribers up to 1,000,000 subscribers, and \$100,000 per year for greater than 1,000,000 AVC video subscribers.
- Over-the-air free broadcast – There are no royalties for over-the-air free broadcast AVC video to markets of 100,000 or fewer households. For over-the-air free broadcast AVC video to markets of greater than 100,000 households, royalties are \$10,000 per year per local market service (by a transmitter or transmitter simultaneously with repeaters, e.g., multiple transmitters serving one station).

- Internet broadcast (non-subscription, not title-by-title) – Since this market is still developing, no royalties will be payable for internet broadcast services (non-subscription, not title-by-title) during the initial term of the license (which runs through December 31, 2010) and then shall not exceed the over-the-air free broadcast TV encoding fee during the renewal term.
- The maximum royalty for Participation rights payable by an Enterprise (company and greater than 50% owned subsidiaries) is \$3.5 million per year in 2006-2007, \$4.25 million in 2008-09 and \$5 million in 2010.
- As noted above, the initial term of the license is through December 31, 2010. To encourage early marketplace adoption and start-up, the License will provide for a grace period in which no Participation Fees will be payable for products or services sold before January 1, 2006.

Owners of patents or patent applications determined by MPEG LA's patent experts to be essential to the AVC Standard and who have cooperated in the above terms include Columbia University, Electronics and Telecommunications Research Institute of Korea (ETRI), France Télécom, Fujitsu, LG Electronics, Matsushita, Mitsubishi, Microsoft, Motorola, Nokia, Philips, Robert Bosch GmbH, Samsung, Sharp, Sony, Toshiba, and Victor Company of Japan (JVC).

MPEG LA continues to welcome the submission of patents and patent applications for an evaluation of their essentiality to the AVC Standard in order to include as much essential intellectual property as possible under one license for the benefit of the marketplace (only issued patents will be included in the License). For each patent or patent application submitted, an evaluation fee of US \$8,500.00 to cover the outside cost of the patent expert's evaluation is paid to MPEG LA. Additional fees may be required to cover additional outside costs in the event of reevaluation by patent experts. Submitting parties must confirm their agreement with the terms and procedures governing the patent submission process which may be obtained from Jane Tannenbaum, Director, Contract Administration (jtannenbaum@mpegla.com).

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MPEG LA, LLC

MPEG LA successfully pioneered one-stop technology standards licensing with a portfolio of essential patents for the international digital video compression standard known as MPEG-2. One-stop technology standards licensing enables widespread technological implementation, interoperability and use of fundamental broad-based technologies covered by many patents owned by many patent holders. MPEG LA provides users with fair, reasonable, nondiscriminatory access to these essential patents on a worldwide basis under a single license. MPEG LA is an independent licensing administrator; it is not a patent holder and is not related to any standards agency. In addition to MPEG-2, MPEG LA licenses portfolios of essential patents for the IEEE 1394 Standard, the DVB-T Standard, the MPEG-4 Visual Standard and the MPEG-4 Systems Standard. MPEG LA also has initiated a license for digital rights management (DRM) technologies as described in DRM Reference Model v1.0. For more information, please refer to <http://www.mpegla.com>, <http://www.1394la.com> and <http://www.dvbla.com>.