

CASE WATCH:

Judge Robart's Opinion in Motorola vs. Microsoft and the Future of FRAND

Andrew Updegrove



Perhaps the most important term in any standards organization's Intellectual Property Policy (IPR) policy is the acronym "RAND," standing for "reasonable and non-discriminatory" (in Europe, they add an "F" – for "fair" – at the front end, yielding "FRAND," but the meaning is the same). Virtually every other term in such a policy will appear in one of many variations from policy to policy, and these definitions can be quite lengthy and precise. But the definition of F/RAND is always word for word the same – never is a different term used. And only rarely is there any elaboration to explain exactly what "fair" or "reasonable" are intended to mean.

The result is that when two parties – the owner of a patent claim that an implementer of a standard can't avoid infringing (an "Essential Claim") and a party that wants to implement the standard – can't agree on what the permissible range of terms bounded by these words should be, a third party is needed to settle the dispute.

Until recently, surprisingly few such disagreements found their way into the courts, meaning that there were not many judicial opinions to turn to for guidance on exactly what FRAND might mean. Because licensing terms are usually kept confidential, this also means that there are few public reference points for licensors and licensees to refer to when they are having trouble reaching agreement.

With the advent of the mobile platform wars, this state of affairs has changed, leading to uncertainties in the marketplace and attracting the attention of regulators on both sides of the Atlantic. They are urging standards organizations to become involved in facilitating resolution of such disputes (e.g., by including voluntary or mandatory arbitration clauses in IPR policies), so that the court system is not clogged with these typically complex, lengthy and difficult contests.

In late April, the task of defining FRAND became incrementally easier, with the handing down by Justice James Robart of a 207 page opinion in a closely-watched dispute between Motorola and Microsoft, involving several patents that Google later acquired (along with the rights under the law suit) when it purchased Motorola Mobility. In that opinion, Robart sought to determine what, under all relevant circumstances, Google could fairly and reasonably charge Microsoft to infringe upon the Essential Claims in question when (for example) it builds and sells an Xbox.

The question at the heart of the case was how individual Essential Claims should be valued. For example, should a patent claim become be worth more when it achieves monopoly

status by inclusion in a standard, or the same, or perhaps even less, since the volume of licenses the owner of the claim would enter into would presumably rise dramatically? And what if a single device (such as a mobile phone) includes dozens, or even hundreds of Essential Claims? Should the value of each Essential Claim be devalued, lest the aggregate licensing fees exceed the maximum that the market could bear?

A number of clear summaries of Judge Robart's complete opinion can be found on the Web (a good example, by Jorge Contreras, can be found [here](#)). For current purposes, however, suffice it to say that a busy judge and his clerks spent an inordinate amount of time poring over the extensively briefed and argued record placed before them by the highly paid legal teams of two very large companies and sought to divine the true economic boundaries of FRAND.

The result is a closely reasoned opinion that is based in part on pre-existing rulings, but in several significant aspects breaks new ground. It is these new aspects that offer the greatest value, because they provide one clearly explained methodology that can be used as a reference by future parties seeking to reach agreement on FRAND terms, and by judges when the parties cannot.

The fact that the opinion provides such a methodology, however, begs the questions of whether the novel aspects of Judge Robart's opinion will in fact be followed, and also whether they even should be.

The question at the heart of the case was how individual Essential Claims should be valued.

Regarding the first query, there are hundreds of independent legal jurisdictions in the U.S. and abroad, none of which are obligated to follow the rulings in the Motorola case (although they may be influenced by it if they so choose).

Instead, Judge Robart's opinion, assuming that it is not reversed in relevant aspects on any appeal that may follow, will only be binding in those courts in the same jurisdiction that are presented with similar situations. And that's a very small slice of the global litigation pie.

Regarding the second question, it remains to be seen whether the concepts that Judge Robart developed will be adopted by future finders of law (e.g., whether the societal benefits of standards should be reflected in permissible royalty rates, and if so, whether the somewhat arbitrary multiplier that Robart chose is appropriate).

Similarly, other judges may disagree that the comparables that Robart used for determining the market value of Essential Claims should in fact be used at all, or at least not in all circumstances.

For example, Judge Robart concluded that the prices charged in standards-related patent pools should be relevant to the pricing of licenses in Essential Claims in one-on-one negotiations as well. A patent pool is most often formed when there are many holders of Essential Claims. When this situation arises, there can be two resulting negative impacts that can potentially prevent a new standard from becoming widely adopted. The first concern is that the simple act of negotiating license terms with scores of different parties may add up to more effort than seems to be worthwhile. The second is that the combined price to be paid may make the standard too expensive to implement at all.

With a patent pool, the owners of the Essential Claims in question agree on several things. First, they agree on how much they think the market will bear for the pool of Essential Claims. Next, they agree on a mechanism (usually involving a third party) to determine whether each patent claim they assert is essential really is, and if it is, what percentage of

the combined license fee that patent claim should be entitled to receive. (You can read more about how a patent pool works in the standards context [here](#)).

Inherent in Judge Robart's turning to patent pools for comparable pricing is a concern with so-called "patent stacking," or the potential for a given standard to be priced out of the market if one or more owners of Essential Claims are unreasonable in its demands.

But in fact, such situations are likely to occur in only a very small number of circumstances involving either very complex technology (e.g., Wi-Fi) and/or market niches where gaining the right to charge royalties is very much part of the reason why companies join standards organizations. And, in fact, standards-related patent pools are only very rarely formed, due to the time and expense (not to mention extensive wrangling among patent owners) required to form them. In other words, the marketplace has only very rarely found that royalty stacking was a serious enough concern to warrant the formation of a patent pool at all.

While not completely unknown, patent pools are particularly rare in the case of software standards. As a result, using a patent pool as a reference in such a case arguably should not be of much relevance at all. Judge Robart would presumably agree with that conclusion. But other judges might not make that distinction, and in any event, once patent pools are removed as a reference, a hole opens up in the Robart analysis that would need to be filled through some other means.

In the software (and many other) domains, the marketplace may therefore be only incrementally better off after the issuance of Judge Robart's opinion than it was before. As a result, courts and judges will still be taxed with adjudicating extremely complex situations, and litigants will still face highly speculative outcomes.

How speculative? In the case of Motorola/Google, Motorola initially requested a royalty rate that Microsoft claimed would require it to pay as much as \$4 billion a year for the use of the Essential Claims (a number that seemed absurd to me, as well as to many others). By the time litigation ensued, the demand had been lowered to \$400 million – an order of magnitude reduction. The final number determined by Judge Robart to be consistent with a FRAND commitment was a mere \$1.8 million per year.

Whether you pick \$4 billion/\$1.8 million or \$400 million/\$1.8 million as the range of legitimate dispute, that's still an enormous disparity of expectation. Normally, businesses hate uncertainty, and are often willing to pay more in order to protect themselves from expensive litigation or the prospect of becoming subject to a wildcard judgment.

So why don't companies simply agree on a definition for FRAND when they form a standards setting organization (SSO), the way they do with so many other complex elements of a typical IPR policy?

For the last twenty-five years, I have tried to interest my consortium clients in addressing this issue head on, and have only rarely been successful in persuading them to even incrementally add to the definition of what FRAND should mean. Here are two examples that clients of mine have included, and which might profitably be considered by other organizations as well:

Reasonable: License terms relating to an Essential Claim included in a Standard that are not more onerous (including as to price) than could be obtained by the owner of such Essential Claim in the open market absent its inclusion in a Standard. It is acknowledged that Reasonableness cannot be established with precision.

Non-Discriminatory: Available to all Implementers under terms that are substantially identical to the terms made available to others under similar circumstances.

To be fair, these definitions would not resolve all sources of disagreement. But they would substantially narrow the range, and could considerably decrease the likelihood of a dispute arising at all.

Despite the fact that U.S. regulators have asked SSOs to consider providing more guidance on what they mean by "FRAND," I am unaware of any SSOs that are taking up this challenge. This seems quite unusual, given that quite a few SSOs and committees in other organizations (e.g., the American Bar Association) are now discussing other suggestions made by the same regulators, such how an arbitration clause in an IPR policy could best be drafted, and then implemented in the marketplace. And it also seems strange that companies are content to allow courts to come up with, almost inevitably, a variety of different rule sets which may take many years to coalesce into a definition that industry could then use as a consistent guide.

It would seem that there would be obvious value in reaching voluntary – as compared to court-imposed – consensus on a definition, or alternative available definitions, of FRAND that any given SSO could include in its IPR policy. These definitions could also include, or reference, specific valuation methods taken from a list developed for that purpose (Judge Robart's methodology providing an appropriate first entry on such a list). Where an SSO decides to follow this path, its members could debate which formulation of FRAND and mechanism they wish to use, just as they already spar with great energy over which variations on other significant terms to employ. In this way, they would get the results that they agree upon, rather than one that some future judge ultimately deems in retrospect to be most appropriate.

The result should be a win-win for all concerned. Licensors and licensees could come to terms faster, and with far less likelihood of ending up in court. Moreover, they would also avoid replacing one long, expensive process (legal action) with another process than be almost as long and expensive, at least in its first act (arbitration). The burden of courts would also be significantly reduced.

Perhaps most significantly of all, SSO members could get back to the important work of developing the hundreds (and even thousands) of new standards that are needed each year in order to allow new products and services to reach the market, to permit the benefits of technology to reach farther and faster into the Third World, and for more and better jobs to be created.

That seems like a very fair and reasonable goal to pursue.

Bookmark the Standards Blog at <http://www.consortiuminfo.org/newsblog/> or set up an RSS feed at: <http://www.consortiuminfo.org/rss/>

Copyright 2013 Andrew Updegrave

Sign up for a [free subscription](#) to **Standards Today** at

<http://www.consortiuminfo.org/subscribe/2.php?addentry=1>