

WHY CAN'T WE BE (F)RANDS?: THE EFFECT OF REASONABLE AND NON-DISCRIMINATORY COMMITMENTS ON STANDARD-ESSENTIAL PATENT LICENSING

Abstract

This Note explores the effect of a patent holder's reasonable and non-discriminatory ("RAND") commitments to standard-setting organizations on their patent claims which are declared "standard-essential" by the standard-setting organization. It also analyzes the current standard-essential patent ("SEP") licensing system used by the majority of standard-setting organizations around the world and proposed modifications thereto.

This Note looks toward the current case of *Microsoft v. Motorola Mobility*, the recent Google Settlement with the Federal Trade Commission ("FTC"), and various calls for reform from other areas of the government. The Note concludes that it appears that we are moving toward a system in which SEP holders must now take their RAND commitments more seriously by making good faith attempts at negotiation before accepting an ongoing royalty rate for the use of their patents in lieu of exclusionary relief. Such a system will hopefully bolster technological innovation and provide the economic incentive for patent holders to include their patented inventions in standards.

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INTRODUCTION

Today, nearly every technological product contains some type of standardized component that adds to its functionality.¹ Be it a computer, smartphone, or a lowly, single screw, products today rely on industry standards to provide numerous benefits to both consumers and producers of new technology. These benefits to consumers include lower prices, increased options, compatibility and interoperability of competing devices, and greater innovation in the market place.² Producers enjoy the benefits of lower research and development costs, reduced time to market, greater sales, increased competition, and a larger market share.³ Combined, these benefits are generally seen as outweighing the perceived antitrust violations inherent in the cooperative standardization process.⁴

In order to be effective, a new standardized specification should

¹ Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CALIF. L. REV. 1889, 1896 (2002).

² See generally *Standardized Technology and Standard Essential Patents*, FEDERAL TRADE COMMISSION, <http://www.ftc.gov/os/2013/01/130103google-seps.pdf> (last visited Sept. 16, 2013).

³ Daniele Gerardino & Michael Hilb, *The ISO Methodology: Assessing the Economic Benefits of Standards*, 10, 12, ISO FOCUS+ (June 2010), available at http://www.iso.org/sites/TC_Chairs_2011/assets/Gerardino_Hilb_ISO%20Focus%2010-06-E.pdf.

⁴ Lemley, *supra* note 1, at 1937.

make use of the latest, best technology available for the lowest cost. This allows for the most benefits to be reaped by both the consumer and the producer of new products, as consumers are generally willing to pay a premium for access to the latest technology. Yet, it is nearly impossible to develop a viable technical standard without potentially impinging on *someone's* patent rights.⁵ As a result, standard-setting organizations (“SSOs”), the blanket term for the groups responsible for developing industry-wide consensus standards, have adopted several measures to ensure that when a standard specification includes patented technology, a license to that technology will be available on a reasonable and non-discriminatory (“RAND”) basis.

However, what makes a license RAND is notoriously undefined.⁶ Due to this fact, a number of disputes have entered the courts in recent years, with participants seeking to clarify what a RAND license truly is and what entering into a RAND commitment with a SSO entails.⁷ Additionally, numerous administrative agencies are closely watching the owners of these standard-essential patents (“SEPs”) to make sure they comply with their seemingly nebulous RAND commitments.⁸ Recently, even the White House and members of Congress have been getting involved in the RAND arena, by vetoing U.S. International Trade Commission (“ITC”) rulings and introducing new legislation, respectively.

This Note seeks to address the problems inherent in RAND licensing, by looking at who is entitled to benefit from the RAND commitment, what remedies are available to both the licensor and licensee when the RAND commitment is breached, and what RAND terms actually are in a license. This Note does so by exploring recent decisions in the *Microsoft v. Motorola Mobility* case, the Federal Trade Commission's (“FTC”) settlement with Google and Motorola Mobility, and other calls for reform in the SEP licensing framework.⁹

The Note will conclude by determining that, in line with recent

⁵ World Intell. Prop. Org., *Patents in Technical Standards*, 1, 21, WIPO MAGAZINE, (Nov./Dec. 2005), available at http://www.wipo.int/wipo_magazine/en/pdf/2005/wipo_pub_121_2005_11-12.pdf.

⁶ AM. BAR. ASS'N COMM. ON TECH. STANDARDIZATION SECTION OF SCI. & TECH. LAW, STANDARDS DEVELOPMENT PATENT POLICY MANUAL 22 (Jorge L. Contreras ed., 2007) [hereinafter ABA MANUAL].

⁷ See generally *Microsoft Corp. v. Motorola Mobility, Inc.*, 696 F.3d 872 (2012).

⁸ See *Motorola Mobility, LLC*, FTC File No. 121-0120 (July 23, 2013); *Robert Bosch GmbH*, FTC File No. 121-0081 (Apr. 24, 2013); *Negotiated Data Solutions LLC*, FTC File No. 051-0094 (Sept. 22, 2008). See generally, *IP Rights in Standard Setting*, FTC, <http://www.ftc.gov/opp/workshops/standards/index.shtml> (last visited Sept. 16, 2013); *ITU Patent Roundtable*, INT'L TELECOMM. UNION, <http://www.itu.int/en/ITU-T/Workshops-and-Seminars/patent/Pages/default.aspx> (last visited Sept. 16, 2013).

⁹ See *Microsoft v. Motorola*, 696 F.3d 872. See also *Motorola Mobility, LLC*, FTC File No. 121-0120.

decisions, injunctions and other exclusionary relief should be generally unavailable to those with RAND-encumbered patents. It will also conclude that recent regulatory steps have been a good starting block for reform, and that more clarity is needed for the effective, consistent application of compulsory RAND licenses in the courts.

I. BACKGROUND

History is replete with examples of how standardization has positively impacted economic and social conditions around the globe. Standardized systems of writing, currency, and, most recently, interchangeable parts, show their benefits to society at face value and directly affect our daily lives. Potentially most interesting to the reader is the effect of the standardization of common law legal systems over the past millennium. It is well understood that arbitrary and capricious application of legal doctrines would be disastrous for society; no one would be able to align their actions with those deemed “legal.” In fact, a great number of legal problems arise because of an ambiguity in the law that begets controversy, or, in other terms, because of a lack of standardization.

Oddly enough, today, SSOs and their members are plagued with the problem of dealing with inconsistent and undefined legal standards, the most glaring of which come from the RAND framework. While SSOs and their member organizations have been doing their best to adhere to the undefined doctrine of RAND licensing, there is only so much they can do before receiving greater clarity of the law. Therefore, in order to determine where the deficiencies and indefiniteness in the RAND system lie, it is necessary to step back and analyze how SSOs operate and how member organizations license their SEPs.

A. *Standard-Setting Organizations*

Professor Mark A. Lemley defines a standard “as any set of technical specifications that either provides or is intended to provide a common design for a product or process.”¹⁰ Somewhat more restrictively, the International Organization for Standardization (“ISO”) and International Electrotechnical Commission (“IEC”) define a standard as a “document, established by consensus and approved by a recognized body, that provides, for common and repeated use, rules, guidelines or characteristics for activities or their results, aimed at the achievement of the optimum degree of order in a given context.”¹¹

¹⁰ Lemley, *supra* note 1, at 1896.

¹¹ INT’L. ORG. FOR STANDARDIZATION, THE CONSUMER AND STANDARDS: GUIDANCE AND PRINCIPLES FOR CONSUMER PARTICIPATION IN STANDARDS DEVELOPMENT 5 (2003), *available at* <http://www.iso.org/iso/standardsandconsumer.pdf> (last visited Jan. 21, 2013) (quoting INT’L.

These definitions are remarkably similar; both would cover standardized specifications for local computer network operation,¹² the font to be used in a legal brief,¹³ or the even size of a ballpoint pen.¹⁴

The difference in the definitions comes from the difference in how standards are formed. To Professor Lemley, standards need not be developed by industry consensus; they can be formed *de facto*.¹⁵ A product is standardized *de facto* through tradition, market acceptance, industry adoption, or government action.¹⁶ *De facto* standards tend to be adopted informally over time, with examples including the QWERTY keyboard, the Microsoft Office Software Suite, and driving on a specific side of the road.¹⁷

Meanwhile, the ISO seeks to isolate the definition of a standard as one brought about by industry consensus.¹⁸ This type of standard, known as a *de jure* standard,¹⁹ works to the benefit of both industry parties and consumers. As stated earlier, these benefits generally include interoperability with devices across manufacturers, industry-wide lower research and development costs, and a lower price point for consumers.²⁰ These benefits are generally seen to outweigh the loss of market competition that is the basis of most antitrust laws, so long as all standard setting activity is “pre-competitive” in nature.²¹ Examples of *de jure* standards include the Universal Serial Bus (“USB”)²² and the Institute of Electrical and Electronics Engineers (“IEEE”) 802.11

ORG. FOR STANDARDIZATION & INT’L ELECTROTECHNICAL COMM., ISO/IEC GUIDE 2:1996, definition 3.2 (1996).

¹² INST. OF ELEC. AND ELECS. ENG’RS COMPUTER SOCIETY, 802: IEEE STANDARD FOR LOCAL AND METROPOLITAN AREA NETWORKS: OVERVIEW AND ARCHITECTURE, (Feb. 7, 2002), available at <http://standards.ieee.org/getieee802/download/802-2001.pdf> (Accept IEEE license by selecting an appropriate “User Type,” entering an email address and clicking “ACCEPT.”).

¹³ See, e.g., SUP. CT. R. 33(b) (“The text . . . shall be typeset in Century family . . . 12-point type with 2-point or more leading between lines. . . . The typeface of footnotes shall be 10-point or larger with 2-point or more leading between lines.”).

¹⁴ Ylan Q. Mui, *Low-Tech Skilcraft Pens Endure in a High-Tech World*, WASH. POST (Apr. 18, 2010), http://www.washingtonpost.com/wp-dyn/content/article/2010/04/17/AR2010041701297_2.html?sid=ST2010041800259.

¹⁵ Lemley, *supra* note 1, at 1896.

¹⁶ *De Facto Standard Definition*, THE LINUX INFORMATION PROJECT (Nov. 27, 2005), http://www.lininfo.org/de_facto_standard.html.

¹⁷ *Contra id.* (Driving on a certain side of a road was presumably more of a *de facto* standard that later became standardized by law.)

¹⁸ See INST. OF ELEC. AND ELECS. ENG’RS COMPUTER SOCIETY, *supra* note 12.

¹⁹ *De Facto Standard Definition*, *supra* note 16.

²⁰ See Lemley, *supra* note 1, at 1937.

²¹ See *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 506–07 (1988) (“Indeed, because private standard-setting by associations comprising firms with horizontal and vertical business relations is permitted at all under the antitrust laws only on the understanding that it will be conducted in a nonpartisan manner offering procompetitive benefits.”).

²² USB Developers Documents, UNIVERSAL SERIAL BUS, <http://www.usb.org/developers/docs/> (last visited Sept. 16, 2013).

standard for wireless networks, colloquially referred to as “Wi-Fi.”²³

Typically, *de jure* standards are passed by SSOs. The membership of a typical SSO could consist either solely of universities, private companies, vendors, or government agencies, or a mix thereof.²⁴ Some of the oldest industry-wide SSOs were formed in the late nineteenth century, and continue to standardize industry developments to this day.²⁵ In 1996, it was estimated that more than ninety-three thousand standards are produced by roughly seven hundred SSOs every year.²⁶ The United States Government is the largest single producer of standards in the United States, accounting for roughly half of the standards produced in a year.²⁷ Regrettably, recent statistics for all standard-setting activity seem to be unavailable,²⁸ though the total number of standards passed in individual SSOs seems to be following a generally increasing trend in the last few years as the demand for new consumer technology has increased.²⁹

The fact that SSOs allow interested industry members to come together to develop and bring a new technology to market sounds anticompetitive at face value. However, the economic benefits gained from standardization are generally seen to outweigh the risks of collusion and price fixing, so long as discussions regarding new standards are approached from a purely technical point of view.³⁰ The competitive nature of business can also lead to competing standards for the same application; market competition is a great way to give

²³ IEEE 802.11: WIRELESS LANS, INST. OF ELEC. AND ELECS. ENG'RS. <http://standards.ieee.org/about/get/802/802.11.html> (last visited Sept. 16, 2013).

²⁴ Take, for example, the International Telecommunications Union (“ITU”), which has member states and sector members in the areas of industry, international and regional organizations, and academia. See *Sector Members, Associates, and Academia*, INT'L TELECOMMS. UNION, <http://www.itu.int/en/membership/Pages/sector-members.aspx> (last visited Sept. 16, 2013); see also *Member States*, INT'L TELECOMMS. UNION, <http://www.itu.int/en/membership/Pages/member-states.aspx> (last visited Sept. 16, 2013).

²⁵ The ITU was founded in Paris in 1865 as the International Telegraph Union. *History*, INT'L TELECOMMS. UNION, www.itu.int/en/about/Pages/history.aspx (last visited Sept. 16, 2013). The precursor to the IEEE, the American Institute of Electrical Engineers, was founded in 1884. *History of IEEE*, IEEE, http://www.ieee.org/about/ieee_history.html (last visited Sept. 16, 2013).

²⁶ *Domestic Programs (American National Standards) Overview*, AM. NAT'L STANDARDS INSTIT., http://www.ansi.org/standards_activities/domestic_programs/overview.aspx (last visited Sept. 16, 2013).

²⁷ *Id.* (“Of these, the federal government is the largest single creator and user of standards (more than 44,000 of them); the private sector in America collectively has about 49,000 standards.”).

²⁸ *Id.*

²⁹ JORGE L. CONTRERAS, NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY AN EMPIRICAL STUDY OF THE EFFECTS OF EX ANTE LICENSING DISCLOSURE POLICIES ON THE DEVELOPMENT OF VOLUNTARY TECHNICAL STANDARDS, 54 (GCR 11-934, 2011), available at <http://www.ftc.gov/opp/workshops/standards/exantereport.pdf>.

³⁰ BRIAN G. BRUNSVOLD, DENNIS P. O'REILLEY & D. BRIAN KACEDON, DRAFTING PATENT LICENSE AGREEMENTS § 29.01.G, at 422 (6th ed. 2008).

consumers a say in new standards by voting with their wallets.³¹ Competition for a *de jure* standard can get ugly, and may raise concerns about potential anticompetitive conduct by one proponent of a proposal against another.³² Consumer interests are generally represented by the manufacturers of technology in standard-setting activities.

1. The Standardization Process

At the beginning of the standardization process, a committee will consider all technology that is essential to meet the proposed standard. Most SSOs would rather not use proprietary technology in their standards that implementers will have to license. However, in our legal system, the very nature of technological advancement almost pre-defines that most recent inventions will be subject to patent rights.

During the standardization process, SSO members are required to disclose any claims in patents or patent applications which read onto the standard, as required by the policies of a particular SSO.³³ While disclosure policies may differ between SSOs, the SSO's policies may not require the disclosure of any potentially related patent. In the words of Judge Rader, members generally only need to disclose patents when there is "some reasonable expectation that a license is needed to implement the standard."³⁴ By adopting this language in an opinion, the Federal Circuit has ensured that absent a bad faith withholding of

³¹ At times, this can lead to the development of multiple proposals. Many famous *de facto* standards were determined in this manner; take, for example, the famous so-called "format-wars" of VHS/Betamax and Blu-Ray/HD-DVD.

³² Recently, Apple's design for the fourth form factor of the subscriber identity module ("SIM") card found in many cell phones won in the European Telecommunication Standards Institute ("ETSI") over a design backed by Nokia and RIM. See Mikael Ricknas, *Apple Wins Battle Over Nano-SIM Standard*, PCWORLD (June 1, 2012, 10:08 AM), http://www.pcworld.com/article/256626/apple_wins_battle_over_nanosim_standard.html. Both Nokia and RIM accused Apple of misusing the standardization process for its own gain, calling the Apple proposal technologically inferior and saying that it did not live up to the initial specification. *Id.* Nokia, despite its RAND commitments to ETSI, went so far as to say it would not license any of its SEPs that read on Apple's proposal should it win. See Chris Ziegler, *Nokia Won't License "Essential" Patents if Apple's Nano-SIM Standard is Selected*, THE VERGE (Mar. 28, 2012, 9:13 AM), <http://www.theverge.com/2012/3/28/2908116/nokia-license-nano-sim-apple-etsi>. Disappointingly from the view of those seeking answers in the patent licensing world, Nokia withdrew this threat shortly after making it. See Mikael Ricknas, *Nokia Lashes out at Apple's Royalty-free Nano-SIM*, PCWORLD (Mar. 26, 2012, 10:10 AM), http://www.pcworld.com/article/252554/nokia_lashes_out_at_apples_royaltyfree_nanosim.html?tk=rel_news.

³³ BRUNSVOLD ET AL., *supra* note 30, § 29.01.G, at 423. See *Rambus Inc. v. Infineon Techns. AG*, 318 F.3d 1081, 1100–01 (Fed. Cir. 2003) ("Rambus's duty to disclose extended only to claims in patents or applications that reasonably might be necessary to practice the standard.").

³⁴ *Rambus*, 318 F.3d at 1101. Yet, members are not required to disclose every such patent claim which may be tangentially related to the standard in question; "[u]nder such an amorphous duty [to disclose], any patent or application having a vague relationship to the standard would have to be disclosed. [SSO] members would be required to disclose improvement patents, implementation patents, and patents directed to the testing of standard-compliant devices—even though the standard itself could be practiced without licenses under such patents." *Id.*

information regarding essential patents, a complete list of patents whose license is needed to implement the standard, free of superfluity, is available to potential implementers. Most recently, a court has held a patent essential to a standard because no “commercially and technically feasible non-infringing alternative” exists.³⁵

While SEPs are being identified, the members must consent to enter license negotiations with anyone who wishes to implement the standard.³⁶ Approximately 63% of organizations require the use of RAND terms in licenses.³⁷ While the precise meaning and implication of the RAND commitment that a company makes to an SSO is currently up for debate, the term is still used throughout the standards industry.³⁸ Notably, any licensing commitment made to a SSO is not an actual license in and of itself; it is instead a contract with the SSO to enter into a certain type of license (generally RAND) when the opportunity arises.³⁹

2. Post-Standardization

After a standard is set and publicized, SEP holders are expected to uphold their licensing commitments and enter negotiations with anyone seeking a license.⁴⁰ However, there are a few major traps that, once sprung, could have devastating hold-up effects on the entire community seeking to implement the standard.

First, there could be an unknown patent that reads onto the standard. If a member organization of the SSO that signed a RAND commitment owns the patent, and did not disclose by reason of good faith error or mistake, there will likely be no problem; many members sign general commitments to license to avoid this scenario.⁴¹ Even if they did not sign a general commitment to license patents reading on the standard, most members would likely make a new commitment for the newly discovered standard-essential claims. However, if the member acted in bad faith by failing to disclose the patent, hoping to unfairly extract large royalties, they could face antitrust sanctions from the

³⁵ *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11 C 9308, 2013 WL 3874042 (N.D. Ill. July 26, 2013).

³⁶ Some parties may wish to offer more lenient licenses. Examples of such include royalty-free licenses, open source licenses, or even free licenses. *See generally* ABA MANUAL, *supra* note 6.

³⁷ Benjamin Chiao, Josh Lerner & Jean Tirole, *The Rules of Standard Setting Organizations: An Empirical Analysis* (Nat'l Bureau of Econ. Research, Working Paper No. 11156, 2006) (“The majority (63%) of organizations use RAND in the patent licensing rules. Only 9% of organizations use royalty-free rules. Even fewer organizations use assignment (2%) and compulsory rules (2%).”).

³⁸ *Id.*; *see generally* ABA MANUAL, *supra* note 6.

³⁹ ABA MANUAL, *supra* note 6, at 47.

⁴⁰ *See generally id.*

⁴¹ *See id.* at 55.

FTC.⁴²

Yet, if a non-member seeks to enforce their patent rights, having no prior knowledge of the standard, they are generally entitled to whatever good faith negotiation can yield.⁴³ They have no commitment to license their patents, and could even seek injunctive relief against anyone making, using, selling, or importing a product implementing the standard.⁴⁴ However, if at any point in the chain of ownership of the patent an owner signed a RAND commitment and offered licenses thereon, a new owner is bound by that commitment, presumably due to the detrimental reliance of others in the SSO.⁴⁵

Second, there is a current debate about the remedies the owner of a SEP can obtain for the infringement of a RAND-encumbered patent. Currently, it appears that SEP holders must make a good faith attempt at bilateral negotiation before injunctive relief may be granted in the United States.⁴⁶ As such, many calls for reform seek to limit the availability of the ITC courts, whose only remedy is a form of equitable relief: a bar against importation.⁴⁷

B. *The RAND Commitment*

As stated previously, finding a strict definition of what constitutes a reasonable and non-discriminatory basis for a license is impossible.⁴⁸ RAND has rarely been given any meaning in the courts, industry professionals seem to always have a definition to suit their interests, and scholars constantly debate over what it should mean. Some scholars even go so far as to say that having a definition would not even be worthwhile, given the situation-dependent nature of real-world intellectual property transactions.⁴⁹ There is some truth in this, as there are a relatively small number of SEP-related disputes reaching the courts, when considered in respect to the number of intellectual property

⁴² See generally *Negotiated Data Solutions LLC*, FTC File No. 051-0094 (Sept. 22, 2008).

⁴³ See ABA MANUAL, *supra* note 6, at 43.

⁴⁴ *Id.*

⁴⁵ BRUNSVOLD ET AL., *supra* note 30, § 29.01.G, at 425–26. See also *Negotiated Data Solutions LLC*, FTC File No. 051-0094. Interestingly, the FTC held in *Negotiated Data Solutions* that there was not an antitrust violation under Sherman Antitrust Act or the Clayton Antitrust Act, but found unfair competition under Section 5 of the FTC Act. See *Negotiated Data Solutions LLC*, FTC File No. 051-0094 (Sept. 22, 2008) (Dissenting Statement of Commissioner William E. Kovacic).

⁴⁶ See *Motorola Mobility, LLC*, FTC File No. 121-0120 (July 23, 2013).

⁴⁷ Florian Mueller, *Federal Judge Bars Hold of Standard-Essential Patents from Enforcing ITC Exclusion Order*, FOSS PATENTS (May 21, 2013, 2:31 PM), <http://www.fosspatents.com/2013/05/federal-judge-bars-holder-of-standard.html>.

⁴⁸ ABA MANUAL, *supra* note 6, at 22.

⁴⁹ See, e.g., Michele K. Herman, *Negotiating Standards-Related Patent Licenses: How the Deal is Done, Part I*, LANDSLIDE, Sept./Oct. 2010, at 35; Michele K. Herman, *Negotiating Standards-Related Patent Licenses: How the Deal is Done Part II*, LANDSLIDE, Nov./Dec. 2010, at 35.

transactions.⁵⁰

As such, a good place to begin exploring the RAND commitment is by looking at who is entitled to benefit from another's RAND commitment, or, in other words, who the third-party beneficiaries are. Courts have ruled that other members of the same SSO are, without question, third-party beneficiaries to the RAND commitment.⁵¹ Yet, this leaves open the question as to whether non-member organizations or individuals can also be considered third-party beneficiaries.

The IEEE-Standard Association Standards Board Bylaws require that a Letter of Assurance, which establishes the RAND commitment on essential patent claims, either stipulate that the patent holder will either “without conditions [] not enforce any present or future Essential Patent Claims against *any person*”⁵² or will “license . . . compliant implementation[s] of the standard . . . 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.”⁵³ This language seems to establish that under the IEEE framework, RAND licenses are available to any applicant who chooses to apply for one. This view is in line with those who believe that SSOs need to protect their members from antitrust and consumer protection issues, as excluding other third parties would bring up questions of anticompetitive collusion.

Furthering this view, RAND also requires that the patent holder must be “nondiscriminatory” in their grant of licenses. On its face, the non-discriminatory requirement would dictate that a licensor treat all potential licensees in the same manner.⁵⁴ Yet, the only situation where this standard would clearly be met is where the licensor offers identical RAND licenses to each and every applicant. However, since each applicant approaches the licensor with a different background and divergent needs, this is unfeasible in the real world.⁵⁵ In exchange for a license, an experienced research and development company may have hundreds of patents, trade secrets, or other technical know-how that they are willing to cross-license, while a new start-up without any intellectual property of their own will likely need to pay some kind of

⁵⁰ *Id.*

⁵¹ *Microsoft Corp. v. Motorola Mobility, Inc.*, 696 F.3d 872, 878 (2012) (“In February 2012, the district court granted partial summary judgment for Microsoft on its contract claims, finding 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.”).

⁵² INST. OF ELEC. AND ELECS. ENG’RS, IEEE-SA STANDARDS BOARD BYLAWS 16 (2012), available at http://standards.ieee.org/develop/policies/bylaws/sb_bylaws.pdf (emphasis added).

⁵³ *Id.* (emphasis added).

⁵⁴ See ABA MANUAL, *supra* note 6, at 22.

⁵⁵ See *id.*

royalty. Therefore, non-discriminatory must mean that the licensees get offered similar terms if they are similarly situated at the time they approach the SEP hold.

Further, as technology obsolesces or experiences a sudden spike in popularity, there is no reason to believe that past license terms should be comparable to those offered in the present.⁵⁶ SSOs routinely institute reduced “early adopter” licensing rates to garner support for new standardized products they seek to bring to market.⁵⁷ However, no one would presume that these reduced rates, effective only for a short time at the beginning of the life of a standard are meant to continue indefinitely. Therefore, any definition of “similarly situated” must also extend to temporal concerns.

Now that it is established that companies must offer reasonable rates to all applications who are similarly situated, various questions emerge, including, how to calculate or know that a rate is reasonable. Today, there is no set formula for what a reasonable rate is, only vague guidance. According to Justice Kennedy, license terms should be based on the value of the technology and its contribution to its specific component of the end-product.⁵⁸ This does not help two parties negotiating, or a judge hearing a dispute, determine a reasonable rate.

Despite the uncertainty, I believe the definition of “reasonable” is two-fold: the licensor must both behave reasonably and come to reasonable licensing terms with the licensee. First, reasonable must mean that the formation of the license occurred without the licensor having an undue advantage over the licensee.⁵⁹ Second, reasonable speaks toward the amount of royalties that can be levied against the practice of the patent claims.

Under a RAND commitment, a licensor may only obtain royalties equal to the value that the patent claim added to the standardized component, and therefore, the end-product.⁶⁰ Royalties should not be

⁵⁶ See generally *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396–97 (2006) (Kennedy, J., concurring).

⁵⁷ Claire Swedberg, *RFID Consortium Releases Patent-Licensing Portfolio*, RFID JOURNAL (Sept. 1, 2010), <http://www.rfidjournal.com/articles/view?7844> (detailing how one licensing consortium offered early-adopter licensing rates at an expected savings of fifty percent off the normal rate).

⁵⁸ *eBay*, 547 U.S. at 396–97 (Kennedy, J., concurring).

⁵⁹ The licensee can have advantages over the licensor; perhaps the licensor is going out of business, needs the revenue from the license to stay afloat, and is therefore willing to accept reduced royalties. However, the reverse situation, where the livelihood of the licensee is dependent on the implementation of the standard, may not be exploited unfairly by the licensor, as it leads to an improper undue advantage prohibited by the RAND commitment. The licensor must offer a reasonable license, regardless of the situation of the licensee. This notion is what is somewhat inherent in the “fair” concept typically found in European licensing commitments. See ABA MANUAL, *supra* note 6, at 22.

⁶⁰ *eBay*, 547 U.S. at 396–97 (Kennedy, J., concurring).

based upon the end-cost of the product at market. Instead, when determining what constitutes reasonable royalties, the parties should break down the implemented end-product into discrete, functional pieces in order to determine where the patented standardized components are being used, and to what extent.⁶¹ At this point though, the game is lost, as the situation becomes too fact-dependent to give a formula for the calculation of a “perfect” reasonable royalty.

To further complicate matters, the actual wording of RAND can vary between SSOs, generally with the addition of various extra terms in an attempt to add meaning or stipulate required licensing conditions. Common additions include Royalty-Free (“RAND-RF”),⁶² signifying a license without royalty payments, and Zero (“RANDz”), for a license that does not include any monetary compensation or royalty.⁶³ Yet, additional meaning does not necessarily flow from additional terms; agreements have been made which stipulate that FRAND, used mostly in Europe, and prepends “fair” to RAND, does not add any additional meaning to the base-term.⁶⁴

Also, there is a large, on-going debate over whether injunctive relief should be available to parties under a RAND commitment.⁶⁵ The ability to exclude others from using an entire standardized specification is a patent holdup concern with undertones of anticompetitive behavior and unfair competition stemming from an unfair edge in negotiations which would allow SEP holders to extort unreasonable royalties from licensees.⁶⁶

A prospective licensee has presumably already spent much time and money in anticipation of practicing the standard, detrimentally relying on the availability of a license to SEPs. An injunction against practicing the SEP claims would essentially render that preparation moot and valueless. Therefore, under this view, the SEP holder is not negotiating the value of the technological improvement found in the patent claims, but the sum of that value with the cost of the prospective licensee to switch from the standardized technology to another solution and the degradation of the value of their products when they are not

⁶¹ Typically, this should add no extra work for the parties; functional diagrams are nearly always part of the engineering design process for new inventions.

⁶² See, e.g., Michele K. Herman, *Negotiating Standards-Related Patent Licenses: How the Deal is Done, Part I*, LANDSLIDE, Sept./Oct. 2010, at 35; Michele K. Herman, *Negotiating Standards-Related Patent Licenses: How the Deal is Done Part II*, LANDSLIDE, Nov./Dec. 2010, at 35. See also ABA MANUAL, *supra* note 6, at 23 (detailing that in certain situations, “RF” is used on its own).

⁶³ *Id.*

⁶⁴ *Id.* at 22. As such, both will be used interchangeably in this Note.

⁶⁵ See generally *Microsoft Corp. v. Motorola Mobility, Inc.*, 696 F.3d 872 (2012); *Motorola Mobility, LLC*, FTC File No. 121-0120 (July 23, 2013).

⁶⁶ See *Motorola Mobility, LLC*, FTC File No. 121-0120.

competitive on the market because of interoperability concerns.

Therefore, the patent holdup potentially caused by the availability of the injunction is both anticompetitive and is contrary to consumer interests. In cases where relief is sought from the court for a failure to reach a RAND agreement, supporters of a “no-injunction” rule would prefer that a compulsory license be granted to the applicant.

Yet, *eBay v. MercExchange* teaches that:

According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.⁶⁷

An analysis of the first two prongs of the *eBay* test for injunctive relief show that they would generally not be met in a RAND case. In fact, a finding for an injunction using the *eBay* factors would likely run counter to the basic nature of the RAND licensing commitment, in which the SEP holder is essentially representing and warranting that a reasonable royalty is available as compensation for the value of practicing the patent. Presumably, there is little irreparable injury that can be shown to stem directly from the use of a standardized component in a new product in order to satisfy the first prong.⁶⁸ With respect to the second point, the SEP holder has already told the SSO through the RAND commitment that monetary compensation is adequate to compensate for using the patent. While factor three is a little more situation-dependent, it would likely be as hard to prove as factor one. Finally, if one takes the view of the FTC, the public interest is arguably in direct opposition to the imposition of an injunction or other exclusionary relief.⁶⁹

Courts will recognize these factors as being unsatisfied, and as such, there is little threat of injunctive relief when parties negotiate in good faith and simply disagree on how to arrive at a reasonable royalty. This means that making any change to the RAND system to expressly disallow injunctions will have to come in the form of a binding commitment between the SEP holder and the SSO.

⁶⁷ *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006).

⁶⁸ See *Apple, Inc. v. Samsung Elecs. Co., Ltd.*, 678 F.3d 1314 (Fed. Cir. 2012) (holding that it would be hard to attribute irreparable harm in the form of brand dissolution to single design patent).

⁶⁹ *Motorola Mobility, LLC*, FTC File No. 121-0120.

Yet, it is important to note that there are still cases in which the availability of injunctions or exclusionary orders is desirable and available under the *eBay* test. In one such case, *Commonwealth Sci. & Indus. Research Organization (“CSIRO”) v. Buffalo Tech. Inc.*, the Eastern District of Texas levied an injunction against the defendant after applying the *eBay* test, despite the presence of CSIRO’s RAND commitment to the IEEE.⁷⁰ The court reasoned that CSIRO, a research and development firm that did not practice its own inventions, but instead chose to license them, suffered irreparable harm to its licensing revenues, business opportunities, and reputation as a research and development institute which could not be adequately remedied at law.⁷¹ Further, the court believed that a compulsory license would be detrimental to CSIRO, as the only negotiation leverage it had was its patent on technology essential to implementing the standard and the availability of the injunction.⁷²

The CSIRO court made a point of distinguishing the facts of CSIRO from Justice Kennedy’s concurrence in *eBay*, which warned of injunctions based on patents that read on only a small part of the allegedly infringing device.⁷³ Here, the court calls the patent the “core technology embodied in the . . . standard[.]”⁷⁴ making “monetary damages . . . less adequate in compensating CSIRO for Buffalo’s future infringement.”⁷⁵

C. RAND Reform Proposals

Numerous proposals to directly define the RAND commitment have been made, each with varying degrees of promise and implementation.

1. Good Faith Negotiation

A few years ago, the idea that making a RAND commitment also entailed committing to enter into good faith negotiation regarding licensing terms seemed to be a proposal for reform.⁷⁶ However, recent

⁷⁰ *Commonwealth Sci. & Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 601–02 (2007).

⁷¹ *Id.* at 603–05.

⁷² *Id.* at 605–06.

⁷³ *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 396–97 (2006) (Kennedy, J., concurring) (“When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.”).

⁷⁴ *Commonwealth Sci. & Indus. Research Org.*, 492 F. Supp. 2d. at 606.

⁷⁵ *Id.*

⁷⁶ ANNE LAYNE-FARRAR, *Be My FRAND: Standard Setting and Fair, Reasonable and Non-discriminatory Terms*, in AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION 2010 SPRING

case law has established that in making a RAND commitment to a SSO, the entity making the commitment is bound by promissory estoppel to offer and negotiate licensing terms, and to even have the courts or an arbiter step in to determine licensing terms if the parties cannot agree.⁷⁷ As discussed above, in this framework, potential licensees are viewed as third-party beneficiaries of the RAND commitment made to the SSO.⁷⁸ Further, the RAND commitment carries over if the patent is assigned to a new party and there has been detrimental reliance by a third party beneficiary on the existence of the RAND commitment.⁷⁹

2. *Georgia-Pacific* Factors

Coming out of a 1970 patent infringement case, the *Georgia-Pacific* factors for determining a reasonable royalty rate seem, at first glance, to be an excellent solution for those seeking to give guidance on what a RAND royalty truly is.⁸⁰ The fifteen *Georgia-Pacific* factors address most of the concerns SSOs have in deciding whether to include a patented technology in a standard specification, including a cost-benefit analysis of one technology over another⁸¹ and the nature and scope of the license to be granted (RAND or otherwise).⁸² As such, it is generally believed that the results of the *Georgia-Pacific* analysis adequately resemble an actual bilateral negotiation.

However, the *Georgia-Pacific* factors are generally used to determine a reasonable royalty. It is not clear that reasonable royalties are inherently RAND. Still, scholars have noted that the *Georgia-Pacific* factors would require only minor alterations to apply to the RAND framework instead of simply reasonable royalties.⁸³ This would allow courts to include more concerns unique to the standard-setting industry in their analysis and determine RAND royalties for parties. However, it must be noted that the *Georgia-Pacific* factors still provide little guidance to parties in actual negotiations.

Nonetheless, adapting the *Georgia-Pacific* factors for use by the

MEETING MATERIALS 10–11 (2010).

⁷⁷ See ABA MANUAL, *supra* note 6; *Microsoft Corp. v. Motorola Mobility, Inc.*, 696 F.3d 872 (2012).

⁷⁸ See *supra* notes 51–53 and accompanying text. See also, e.g., *Microsoft v. Motorola*, 696 F.3d at 878.

⁷⁹ BRUNSVOLD ET AL., *supra* note 30, §29.01.G, at 425–26. See *Negotiated Data Solutions LLC*, FTC File No. 051-0094 (Sept. 22, 2008).

⁸⁰ *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970). Since the fifteen factors are too long to reprint here, they will be included and referenced as needed.

⁸¹ *Id.* (“9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.”).

⁸² *Id.* (“3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.”).

⁸³ LAYNE-FARRAR, *supra* note 76, at 5.

courts or other third-party mediators in RAND disputes may not be ideal. It is almost as if the *Georgia-Pacific* factors provide too much guidance, in that the application of the factors is purely subjective. It should come as no surprise that if the *Georgia-Pacific* factors are adapted for use in the RAND framework, parties will be able to distort the factors to meet their own needs. This will place a hefty burden on the courts, which will need to sift through these opposing arguments. However, the same could be said for the *Georgia-Pacific* factors on their own. Therefore, it may be in everyone's best interest to simply modify the *Georgia-Pacific* factors in RAND licensing cases to include the specific intricacies inherent in the standard-setting industry.

3. Ex-Ante Licensing

Many believe that part of the problem of patent holdup can be rectified if each SSO member organization is required to disclose to the SSO the material terms on which it will license patents declared standard-essential prior to the adoption of the standard (“*ex-ante*”).⁸⁴ SSOs would then be able to take these licensing terms into account when deciding which technological improvements to use in a standard. There are obvious drawbacks to a system such as this, including a longer time to standardization, fewer standards adopted, and of course, antitrust concerns.⁸⁵

Despite these concerns, in 2006–07, the U.S. Department of Justice allowed limited *ex ante* disclosure in two U.S.-based SSOs: the VMEBus International Trade Association (“VITA”) and the IEEE.⁸⁶ In his review of the empirical statistics of this experiment for the National Institute of Standards and Technology, Jorge L. Contreras concluded that “*ex ante* disclosure policies resulted in [no] measurable negative effects” on the metrics he reviewed.⁸⁷ In fact, “[t]here was also evidence to suggest that the adoption of *ex ante* policies may have contributed to positive effects observed on some of these variables.”⁸⁸ As such, there is support for future experiments in *ex ante* disclosure of material license terms, though they will likely be closely watched by agencies such as the FTC and its European counterparts.

4. Royalty Rate Aggregation

Still, others argue that using numeric proportionality to assign royalties to SEP holders will provide the clarity that the RAND

⁸⁴ ABA MANUAL, *supra* note 6, at 97–98 (citing various articles on *ex ante* disclosure).

⁸⁵ See Contreras, *supra* note 29, at 1.

⁸⁶ *Id.*

⁸⁷ *Id.* at 51.

⁸⁸ *Id.*

commitment desperately needs and help combat the problem of royalty stacking.⁸⁹ Under this framework, SEP holders would receive a percentage of the total royalties paid to use the standard based on the number of SEPs they hold that read on the standard.⁹⁰ In other words, every SEP is deemed to have contributed equally to the standard, and therefore deserves the same amount of royalties. This kind of licensing is inherently “fair” to licensees, and helps to significantly reduce the number of licenses that need to be obtained before one can practice the standard.

However, the problems with defining the total royalty and the percentages everyone gets are much harder in practice. Settling on the total royalty will be difficult, as implementers and consumer groups will push for lower aggregate royalties, while patent holders will argue for higher royalties. Still, determining the share each SEP holder receives will likely be the most difficult challenge. SEP holders will likely argue over the relative essentiality and contributed value of their patent claims. These arguments would be resurrected whenever a new patent is declared essential or the standard is updated to obtain the capabilities of industry advancement. As such, “[i]t is difficult to see how this approach could be made workable or equitable in practice.”⁹¹

II. DEVELOPING LEGAL FRAMEWORK

Companies, especially those in the mobile phone industry, seem to be increasingly enforcing their patent rights against their competitors.⁹² Expensive, drawn-out litigation, which potentially removes products from shelves and takes money away from research and development, is not in the public interest, so it may be insightful to question the rights being asserted in the lawsuits. For the purposes of this Note, I think it best to focus on just one set of facts that will shed the most light on the problems currently plaguing SEP licensing. As such, we begin with a discussion of Motorola Mobility.

Motorola Mobility is a telecommunications company that specializes in producing smartphones and tablets using the Google Android operating system.⁹³ Formerly the cellular phone division of Motorola, Motorola Mobility is now a wholly-owned subsidiary of

⁸⁹ See LAYNE-FARRAR, *supra* note 76, at 8 (discussing the drawbacks and benefits of such a system).

⁹⁰ *Id.*

⁹¹ *Id.* at 10.

⁹² *Smart-Phone Lawsuits: The Great Patent Battle*, THE ECONOMIST (Oct. 21, 2010), <http://www.economist.com/node/17309237> (explaining the rise of litigation in the smart-phone industry).

⁹³ About Motorola, MOTOROLA, http://www.motorola.com/Consumers/US-EN/About_Motorola/Corporate_Overview (last visited Sept. 16, 2013).

Google, Inc. following the final approval of its acquiescence in May 2012.⁹⁴ Google's purchase of Motorola Mobility, which includes the company's sizable patent portfolio, was made despite antitrust concerns in the United States and the European Union.⁹⁵

Motorola Mobility's behavior regarding the licensing of some of their SEPs has been subject to criticism over the past few years. Numerous disputes with the company over their RAND-licensing methods have arisen with companies such as Microsoft and Apple, leading to costly and time consuming litigation in a variety of fora.⁹⁶ The company has also attracted the attention of the FTC due to its licensing practices.⁹⁷ With some of the complaints against Motorola Mobility dismissed and now entering arbitration,⁹⁸ this Note turns to a dispute between Motorola Mobility and Microsoft, currently being adjudicated in the United States District Court for the Western District of Washington, which poses numerous interesting questions regarding RAND licensing.

A. Microsoft v. Motorola Mobility

Microsoft's dispute with Motorola Mobility revolves around patents Motorola Mobility owns that are essential to the IEEE 802.11 wireless local area network and ITU H.264 advanced video coding technology standards set by the IEEE and the International Telecommunication Union ("ITU"), respectively.⁹⁹ During the standard-setting process, Motorola Mobility provided both the IEEE and ITU

⁹⁴ *Id.*

⁹⁵ *Investor Relations: Google Acquires Motorola Mobility*, GOOGLE (May 22, 2012), <http://investor.google.com/releases/2012/0522.html>. Both the E.U. and the U.S. Department of Justice's Antitrust Division have announced that they would closely monitor the use of Motorola Mobility's patent arsenal, especially SEPs, rather than oppose the merger. James Kanter & David Streitfeld, *Google Deal for Motorola Mobility Gets Clearance*, N.Y. TIMES (Feb. 13, 2012), <http://www.nytimes.com/2012/02/14/technology/europe-clears-google-acquisition-of-motorola.html>. See *Statement of the Department of Justice's Antitrust Division on Its Decision to Close Its Investigations of Google Inc.'s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp. and Research in Motion Ltd.*, DEPARTMENT OF JUSTICE: OFFICE OF PUBLIC AFFAIRS (Feb. 13, 2012), <http://www.justice.gov/opa/pr/2012/February/12-at-210.html>.

⁹⁶ *Microsoft Corp. v. Motorola Mobility, Inc.*, 696 F.3d 872 (2012); *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178-bbc, 2012 WL 3289835 (W.D. Wis. Aug. 10, 2012).

⁹⁷ *Motorola Mobility, LLC*, FTC File No. 121-0120 (July 23, 2013).

⁹⁸ Dan Levine & Alexei Oreskovic, *U.S. Judge Tosses Apple vs. Google Lawsuit over Patents*, REUTERS (Nov. 5, 2012 7:14 PM), <http://www.reuters.com/article/2012/11/06/net-us-google-patent-idUSBRE8A419M20121106>. See also Ryan Davis, *Apple Asks Fed. Circ. To Revive Motorola FRAND Fight*, LAW360 (July 26, 2013, 4:51 PM), <http://www.law360.com/ip/articles/460406>.

⁹⁹ *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2012 WL 5993202, *1 (W.D. Wash. Nov. 30, 2012).

with assurances¹⁰⁰ that they would license the patents on RAND terms.¹⁰¹

In late October 2010, Motorola Mobility offered a grantback¹⁰² license on each of the SEP families (IEEE 802.11 and ITU H.264) to Microsoft at a royalty rate of 2.25%, “calculated based on the price of the end product . . . and not on component software.”¹⁰³ Such a royalty rate would account for up to four billion dollars being paid annually to Motorola Mobility to license these SEPs.¹⁰⁴ Microsoft, believing the proposed royalty rates unreasonable, sued Motorola Mobility for breach of contract and promissory estoppel.¹⁰⁵ Microsoft asked the court to declare that it is entitled to a RAND license to all patents subject to Motorola Mobility’s RAND commitments and to determine a RAND royalty rate for these patents.¹⁰⁶ Motorola Mobility counter-sued, asking the court to declare that it had not breached its RAND obligations, and that Microsoft is no longer a beneficiary of its RAND commitments¹⁰⁷ because it brought this action “without first applying for, and negotiating towards, a patent license.”¹⁰⁸

In February 2012, Judge James L. Robart ruled that Motorola Mobility’s letters of assurance and declarations to the IEEE and ITU:

[C]reate enforceable contracts between Motorola and the respective standard setting organization to license its essential patents on RAND terms . . . [and] as a member of the IEEE and the ITU and a

¹⁰⁰ Motorola Mobility provided IEEE with a “Letter of Assurance” and the ITU with a “Patent Statement and Licensing Declaration.” *Microsoft Corp. v. Motorola, Inc.*, 904 F. Supp. 2d. 1109, 1113–14 (W.D. Wash. Oct. 22, 2012). See ABA MANUAL, *supra* note 6.

¹⁰¹ *Microsoft v. Motorola*, 904 F. Supp. 2d. at 1113. Motorola’s Letter of Assurance to the IEEE provides, in relevant part: “The Patent Holder will grant [or is prepared to grant] a license under reasonable rates to an unrestricted number of applicants on a worldwide, non-discriminatory basis with reasonable terms and conditions to comply with the [Proposed] IEEE Standard.” *Id.* Motorola’s declaration to the ITU provides, in relevant part: “The Patent Holder will grant a license to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions to use the patented material necessary in order to manufacture, use, and/or sell implementations of the above ITU-T Recommendation | ISOC/IEC International Standard.” *Id.*

¹⁰² A grantback license is “[a] license-agreement provision requiring the licensee to assign or license back to the licensor any improvements that the licensee might make to a patent or other proprietary right.” BLACK’S LAW DICTIONARY 769 (9th ed. 2009).

¹⁰³ *Microsoft v. Motorola*, 904 F. Supp. 2d. at 1114.

¹⁰⁴ Susan Decker, *Microsoft Counters Motorola Mobility’s \$4 Billion Demand*, BLOOMBERG (May 7, 2012), <http://www.bloomberg.com/news/2012-05-07/microsoft-counters-motorola-mobility-s-4-billion-demand.html>.

¹⁰⁵ *Microsoft v. Motorola*, 904 F. Supp. 2d. at 1114.

¹⁰⁶ *See id.*

¹⁰⁷ *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2012 WL 5993202, *4 (W.D. Wash. Nov. 30, 2012).

¹⁰⁸ *Id.*

prospective user of both the H.264 Standard and the 802.11 Standard, Microsoft is a third-party beneficiary of the contract.¹⁰⁹

The trial court reaffirmed this ruling in June 2012,¹¹⁰ adding that Motorola Mobility's offers were required to be made in good faith. Further, the court noted that "applying for a patent license and negotiating towards a patent license were not conditions precedent to Motorola Mobility's obligations to grant licenses on RAND terms."¹¹¹

Since questions of fact existed, the court determined that a bifurcated trial would be held. First, the court would determine what it believes a RAND rate for Motorola Mobility's two SEP families would be as a matter of law. Subsequently, a jury would be impaneled to decide questions of fact, including whether Motorola Mobility was in breach of its RAND commitments in its licensing offers to Microsoft.¹¹² The trial to determine an appropriate RAND rate was held from November 13–21, 2012.¹¹³

Before determining what the RAND rate would be, the court issued an order on November 29, 2012, precluding Motorola Mobility from obtaining injunctive relief in any contemporaneous action against Microsoft with respect to the two SEP portfolios.¹¹⁴ This order was important for two reasons: first, it established that under the facts of the case, the *eBay* four-factor test did not warrant the issuance of an injunction;¹¹⁵ and second, the order precluded Motorola Mobility from seeking relief from foreign or international courts.¹¹⁶ While the court had previously precluded Motorola Mobility from enforcing the foreign judgment of a German court in a substantially similar action against Microsoft based on European patent-counterparts, this order stripped Motorola Mobility of the option of going to the ITC for an exclusion order on the importation of Microsoft products.¹¹⁷

In late April, Judge Robart came down with a 207-page opinion determining, using all relevant factors, the RAND rate Microsoft would be required to pay Motorola Mobility for its infringement of the two SEP families.¹¹⁸ The entirety of Section III of the opinion, entitled

¹⁰⁹ *Id.* (internal citations omitted).

¹¹⁰ *See* Microsoft Corp. v. Motorola, Inc., 864 F. Supp. 2d 1023 (W.D. Wash. 2012).

¹¹¹ *Microsoft v. Motorola*, 2012 WL 5993202, at *4.

¹¹² *Id.* at *5.

¹¹³ *Id.*

¹¹⁴ *Id.* at *7–8.

¹¹⁵ *Id.* at *7.

¹¹⁶ *Id.* at *7–8.

¹¹⁷ *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2012 WL 5993202, *7–8 (W.D. Wash. Nov. 30, 2012).

¹¹⁸ *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013).

“Economic Guideposts for Assessing RAND Terms,” focuses on what Judge Robart believes should be in the analysis for determining a RAND licensing rate.¹¹⁹

In Section III, Judge Robart identified five “Basic Principles” for assessing RAND terms.¹²⁰ First, “[a] RAND royalty should be set at a level consistent with the SSOs’ goal of promoting widespread adoption of their standards.”¹²¹ Second, in determining whether a given royalty is RAND, one should “recognize and seek to mitigate the risk of patent hold-up that RAND commitments are intended to avoid.” Third, “a RAND royalty should address the risk of royalty stacking by considering the aggregate royalties that would apply if other SEP holders made royalty demands of the implementer.”¹²² Fourth, “the RAND commitment must guarantee that holders of valuable intellectual property will receive reasonable royalties on that property,” in order to “include technology intended to create valuable standards.”¹²³ Finally, fifth, and faintly echoing Justice Kennedy’s concurrence in *eBay*, “a RAND commitment should be interpreted to limit a patent holder to a reasonable royalty on the economic value of its patented technology itself, apart from the value associated with incorporation of the patented technology into the standard.”¹²⁴

In coming to his opinion, Judge Robart had to weigh Motorola Mobility’s proposed *Georgia-Pacific* factor-based framework with Microsoft’s proposed *ex-ante* multilateral negotiation, which would have been similar to one that occurs in establishing patent pool.¹²⁵ Rather than side with either approach, “Judge Robart elected to thread the needle: he incorporated Microsoft’s approach into Motorola Mobility’s by using pool rates as a (key) indicator of FRAND rates that the parties to a hypothetical bilateral negotiation [sic] would consider.”¹²⁶ Speaking of Section III himself, Judge Robart remarked:

¹¹⁹ *Id.* at *12–20.

¹²⁰ *Id.* at *12.

¹²¹ *Id.*

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013). To put it more succinctly, Judge Robart’s basic principles are intended to: (1) Further widespread adoption of standards; (2) Reduce patent-holdup; (3) Address royalty stacking concerns; (4) Ensure reasonable royalties on valuable intellectual property; and (5) Determine the value based on the technology itself, apart from the standard. Or, to give a helpful mnemonic: FRAND.

¹²⁵ *Id.* at *13–15.

¹²⁶ Florian Mueller, *A Closer Look at the 207-Page, Landmark FRAND Rate-Setting Decision in Microsoft v. Motorola*, FOSS PATENTS (Apr. 28, 2013, 11:49 PM), <http://www.fosspatents.com/2013/04/a-closer-look-at-207-page-landmark.html>.

[T]he court adopts a modified version of the *Georgia-Pacific* factors to recreate a hypothetical negotiation between the parties. Importantly, the court determines that the parties in a hypothetical negotiation would set RAND royalty rates by looking at the importance of the SEPs to the standard and the importance of the standard and the SEPs to the products at issue. These considerations are central to the court's analysis.¹²⁷

As is shown, Judge Robart takes into account the broad industry and public benefits conferred by standard-setting, many of which were discussed previously in this Note. "Thus, unlike most patent licensing negotiations, the licensing of standards-essential patents takes on a public character. It is not merely a closed-door negotiation between two private parties. It must be conducted, and reviewed, with these public benefits in mind."¹²⁸

The final rates calculated by Judge Robart are significantly reduced from the initial demands of Motorola Mobility. Motorola Mobility was asking for greater than 4 billion dollars, while Microsoft's own calculations put the rate at approximately 1.2 million dollars.¹²⁹ Under Judge Robart's scheme, Microsoft will only have to pay approximately 1.8 million dollars.¹³⁰ Having considered motions for summary judgment by both parties, the jury trial is set to begin on August 26, 2013.¹³¹

B. *The Google FTC Settlement*

On January 3, 2013, the FTC issued a Complaint and Order against Google, which was designed to address perceived breaches of Google and Motorola Mobility's commitments to license their SEPs on RAND bases,¹³² thereby creating an allegedly anticompetitive situation in violation of Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45.¹³³ Google chose to offer a settlement with the FTC, which would require that Google "withdraw its claims for injunctive relief on

¹²⁷ *Microsoft v. Motorola*, 2013 WL 2111217 at *3 (internal citations omitted).

¹²⁸ Jorge L. Contreras, *SO THAT'S WHAT "RAND" MEANS?: A Brief Report on the Findings of Fact and Conclusions of Law in Microsoft v. Motorola*, PATENTLYO (Apr. 27, 2013, 6:33 AM), <http://www.patentlyo.com/patent/2013/04/so-thats-what-rand-means-a-brief-report-on-the-findings-of-fact-and-conclusions-of-law-in-microsoft-v-motorola.html>.

¹²⁹ Joe Mullin, *Court Shreds Power of Motorola's Standard-Based Patents*, ARS TECHNICA (Apr. 26, 2013, 9:26 AM), <http://arstechnica.com/tech-policy/2013/04/court-shreds-power-of-motorolas-standard-based-patents/>.

¹³⁰ *Id.*

¹³¹ *Microsoft Corp. v. Motorola, Inc.*, No. C 10-1823JLR, 2013 WL 4053225, at *3 (W.D. Wash. Aug. 12, 2013). See also Jeff Sistrunk, *Motorola, Microsoft FRAND Suit Left Mostly Intact for Jury*, LAW 360 (Aug. 12, 2013, 4:54 PM), <http://www.law360.com/ip/articles/464269>.

¹³² These SEPs include the ones asserted in the *Microsoft* and *Apple* lawsuits.

¹³³ See *Motorola Mobility, LLC*, FTC File No. 121-0120 (July 23, 2013).

FRAND-encumbered SEPs around the world, and to offer a FRAND license to any company that wants to license Google's SEPs in the future."¹³⁴

On July 24, 2013, after considering public comments from twenty-five interested parties,¹³⁵ the FTC issued a final Complaint and Order against Google.¹³⁶ Google's antitrust battles are not yet over, however, it still faces investigations by European regulators and U.S. state attorneys general.¹³⁷

It is interesting to note that the FTC's complaint raises many of the same concerns as another FTC case, *in re Robert Bosch GmbH*. The complaint in *Bosch* issued on November 26, 2012, just weeks prior to the Google complaint.¹³⁸ The Google case shows a shifting of FTC policy to "impose both competition *and* consumer protection liability on Google for the same type of conduct alleged in *Bosch*."¹³⁹ In the words of former FTC Chairman Jon Leibowitz, who was chairman at the time of the initial Google complaint, "Google's settlement with the commission requires Google to abandon its claims for injunctive relief on any of its standard-essential patents with a FRAND commitment and to offer a license on FRAND terms to any company that wants to license these patents in the future."¹⁴⁰

The FTC order sets up a framework through which Google is to license its SEPs in the future. Under the order, Google and a potential licensee must enter into an agreement to follow the licensing procedure outlined in Paragraph III of the order, or another suitable agreement that references the paragraph.

The requirements of Paragraph III are as follows: (1) Google must negotiate for a period of at least six months if no agreement is reached; (2) Google must send an offer to license that is binding if executed at their discretion or within sixty days of the request of the potential licensee; (3) Potential licensees must either accept the proposed license agreement, or designate all terms of the proposed license which are

¹³⁴ *Id.* at 1.

¹³⁵ Federal Trade Commission, *Public Comments and Related Filings*, <http://ftc.gov/os/comments/motorolagoogole/index.shtm> (last visited Sept. 16, 2013).

¹³⁶ Motorola Mobility, FTC File No. 121-0120 (Decision and Order), *available at* <http://ftc.gov/os/caselist/1210120/130724googlemotorolado.pdf>.

¹³⁷ Amir Efrati & Brent Kendall, *Google Dodges Antitrust Hit*, WALL ST. J., Jan 4, 2013, at A1, *available at* <http://online.wsj.com/article/SB10001424127887323874204578219592520327884.html>.

¹³⁸ Robert Bosch GmbH, FTC File No. 121-0081 (Apr. 24, 2013).

¹³⁹ Motorola Mobility, LLC, FTC File No. 121-0120 (July 23, 2013) (Ohlhausen, Comm'r, dissenting) (emphasis original) (citing Complaint ¶¶ 31–32), *available at* <http://www.ftc.gov/os/caselist/1210120/130103googlemotorolaohlhausenstmt.pdf>.

¹⁴⁰ Scott Flaherty, *FTC Finalizes Google Standard-Essential Patents Deal*, LAW360 (July 24, 2013, 6:48 PM), <http://www.law360.com/articles/459726/ftc-finalizes-google-standard-essential-patents-deal>.

inconsistent with Google's RAND commitments, and elect to have the disputed terms resolved either in the United States District Courts or through binding arbitration; and (4) The resulting terms stemming from either the District Court Action or binding arbitration is a binding license agreement for the SEPs.¹⁴¹

This licensing framework appears to give potential licensees the chance to enter into good faith negotiation and create a record that facilitates entering into a proceeding, should the negotiation turn sour. Presumably, this is the procedure the FTC would like to see used throughout the United States for any company engaged in voluntary standard-setting. By issuing this order, the agency sent the strong message that failing to follow these procedures will likely result in strong scrutiny from the FTC on the basis of antitrust and consumer protection.

C. Other Areas of Government

On January 8, 2013, the United States Patent and Trademark Office ("USPTO") and Department of Justice ("DOJ") released a joint statement urging the ITC¹⁴² to consider whether "[a] patent owner's voluntary F/RAND commitments may also affect the appropriate choice of remedy for infringement of a valid and enforceable standards-essential patent."¹⁴³ This is the latest in a long line of statements and testimonies regarding (F)RAND commitments by U.S. regulatory agencies.¹⁴⁴ The statement goes on to advise that:

In some circumstances, the remedy of an injunction or exclusion order may be inconsistent with the public interest. This concern is particularly acute in cases where an exclusion order based on a F/RAND-encumbered patent appears to be incompatible with the terms of a patent holder's existing F/RAND licensing commitment to an SDO.¹⁴⁵

While the USPTO and DOJ go on to warn about the harmful patent hold-up affects the threat of an injunction can create, the two

¹⁴¹ Motorola Mobility, LLC, FTC File No. 121-0120, 8–9 (July 23, 2013) (Decision and Order).

¹⁴² Many claims for patent infringement are brought simultaneously in Article III courts and the ITC. While Article III courts have many choices as to remedies, the only remedy available in the ITC is an injunction against the importation of goods into the United States.

¹⁴³ UNITED STATES DEPARTMENT OF JUSTICE AND UNITED STATES PATENT & TRADEMARK OFFICE, POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS 6 (2013) [*hereinafter* DOJ/USPTO JOINT STATEMENT], available at <http://www.justice.gov/atr/public/guidelines/290994.pdf>.

¹⁴⁴ See Jorge L. Contreras, *Good Things Come in Threes? DOJ, FTC and EC Officials Wax Eloquent about FRAND*, PATENTLYO (Oct. 28, 2012, 9:01 PM), <http://www.patentlyo.com/patent/2012/10/good-things-come-in-threes-doj-ftc-and-ec-officials-wax-eloquent-about-frand.html>.

¹⁴⁵ DOJ/USPTO JOINT STATEMENT, *supra* note 143, at 6.

organizations do concede that the injunction may be proper in some fact patterns. “An exclusion order may still be an appropriate remedy in some circumstances, such as where the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder’s commitment to license on F/RAND terms.”¹⁴⁶

It is interesting how the entire proposed FTC order in the Google case seems to be in line with the USPTO and DOJ joint statement regarding the use of injunctions in SEP licensing cases. This is no coincidence; the joint statement was released mere days after the FTC order. In their respective documents, the three administrative agencies are decrying the use of SEPs as negotiation leverage or as a holdup tool.¹⁴⁷ However, all agencies seem to accept that there need to be a few exceptions in which injunctive relief is available, such as when a potential licensee “refuses to enter a License Agreement covering the FRAND Patent on terms that have been set in the Final Ruling of a Court or through Binding Arbitration.”¹⁴⁸ Yet, there seems to be strong hints from all agencies that injunctions are to be used sparingly and only in the interest of the public good.

This sentiment was reactivated back in May, when bipartisan groups from both the Senate and House of Representatives sent letters to the U.S. ITC urging the commission to carefully consider the effect of exclusion orders on SEPs.¹⁴⁹ Senator Amy Klobuchar, one of the co-signatories of the senate group’s letter and the chair of the Senate’s antitrust subcommittee, recently called for new legislation dealing with whether U.S. Courts, including the U.S. ITC, should be able to utilize exclusionary relief in SEP cases.¹⁵⁰

Even the White House has become involved with SEPs. On August 3, 2013 President Barack Obama through U.S. Trade Representative Michael Froman, vetoed a June 4, 2013, U.S. ITC exclusion order, “prohibiting the unlicensed importation of infringing devices” in a dispute between Apple and Samsung.¹⁵¹ Citing to the

¹⁴⁶ *Id.* at 7.

¹⁴⁷ *See id.*; *see also* Motorola Mobility, LLC, FTC File No. 121-0120 (July 23, 2013) (Decision and Order).

¹⁴⁸ Motorola Mobility, FTC File No. 121-0120 at 8 (Decision and Order).

¹⁴⁹ *See* Florian Mueller, *Bipartisan Group of Congressmen Stresses SEP Concerns in Letter to ITC Ahead of Samsung-Apple Ruling*, FOSS PATENTS (May 22, 2013), <http://www.fosspatents.com/2013/05/bipartisan-group-of-congressmen.html>; Florian Mueller, *Four Senators Write to the ITC, Raise SEP Issues with a View to Samsung-Apple Decision*, FOSS PATENTS (May 23, 2013), <http://www.fosspatents.com/2013/05/when-i-reported-yesterday-on-may-letter.html>. *See also* Florian Mueller, *Six Senators Oppose Exclusion Orders over Standard-Essential Patents*, FOSS PATENTS (June 28, 2012), <http://www.fosspatents.com/2012/06/six-republican-senators-oppose.html> (2012 letter to the ITC from six senators).

¹⁵⁰ Melissa Lipman, *Sen. Eyes Bill on Standard-Essential Patent Import Bans*, LAW360 (July 30, 2013), <http://www.law360.com/ip/articles/459736>.

¹⁵¹ Ryan Davis, *White House Vetoes ITC Ban on Apple iPhones, iPads*, LAW360 (Aug. 4, 2013,

USPTO/DOJ joint statement from January, Ambassador Froman explains that “to mitigate against patent hold-up, exclusionary relief from the [ITC] based on FRAND-encumbered SEPs should be available based only on the relevant factors described in the [USPTO/DOJ Joint Statement].”¹⁵² There is no doubt that this veto will have lasting impacts in ongoing patent litigation cases.¹⁵³

III. ANALYSIS

A. *The Google FTC Settlement*

The Google Settlement with the FTC will have lasting effects not only on Google, but also on the entire voluntary standard-setting community. In the order, the FTC is flexing its regulatory muscles by sending a message to the entire voluntary standard-setting community that, for the benefit of American industry and the public good, the licensing of standard-essential patents needs to be more stringently regulated.¹⁵⁴ The FTC is achieving this goal by tackling two problems that have plagued standard-setting for years: (1) the availability of an injunction in SEP licensing cases; and (2) the process by which SEP holders should go about licensing their patented inventions.¹⁵⁵

The FTC is essentially attempting to ban injunctions in all but the most egregious of cases. Despite the fact that the order was directed towards Google only, it is not a stretch to imagine that the FTC is actually speaking to the entire voluntary standard-setting industry. As stated earlier, since courts are generally not going to find for injunctive or other exclusionary relief under the *eBay* test,¹⁵⁶ this stance on injunctive relief is simply going to help licensees who would otherwise have to respond to the motions in court. Further, this dissuades parties from bringing actions in the U.S. ITC, which can only issue exclusionary relief, again reducing potential future litigation costs for potential licensees and serving the public interest. Finally, the order allows implementers of the standard to continue their existing activities with respect to the essential patent claims, knowing full well that they will be able to get a license, compulsory or not.

3:16 PM), <http://www.law360.com/ip/articles/462443>.

¹⁵² Michael B. G. Froman, Letter to the Hon. Irving A. Williamson, Chairman of the U.S. Int'l Trade Comm'n 2 (Aug. 3, 2013), available at www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

¹⁵³ See, e.g., Ian Sherr & Brent Kendall, *Veto of Apple Ruling Likely To Upend Key Patent Battles*, WALL ST. J. (Aug. 5, 2013, 8:20 AM), <http://online.wsj.com/article/SB10001424127887323420604578648272862276836.html>.

¹⁵⁴ Motorola Mobility, LLC, FTC File No. 121-0120 (July 23, 2013).

¹⁵⁵ *Id.*

¹⁵⁶ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

Yet, by taking away the option of seeking injunctive or other exclusionary relief, the FTC is potentially eliminating U.S. Federal Courts from hearing RAND-related disputes. Most SEP holders likely hold foreign counterpart patents, which they can easily sue over in foreign courts.¹⁵⁷ This happened in *Microsoft v. Motorola Mobility*, when Motorola Mobility brought an action in a German Court.¹⁵⁸ While Judge Robart was able to enter an anti-suit injunction against Motorola Mobility, precluding them from exercising the injunctive relief granted in the German action, this was only because the U.S. Federal action was brought first.¹⁵⁹ Unless the rest of the world is willing to pass a similar regulation on injunctive relief, there will be an uptick in foreign litigations filed by SEP holders on RAND issues whenever an international patent, standard-setting organization or third party is in the picture.

In setting up a procedure under Paragraph III, which fully documents the negotiation process and binds both the potential licensor and licensee to certain terms, the FTC seems to have found a good middle ground for dealing with the fact that licenses are very fact-specific and need to be negotiated.¹⁶⁰ Under Paragraph III, parties are free to conduct bilateral negotiations for the licensing of the SEP.¹⁶¹ When negotiations break down, they go to court or arbitration for the determination of what the compulsory license will be.¹⁶² This allows parties and courts to freely determine what a reasonable license is under every factual circumstance which can possibly arise.

Yet, the FTC order still gives no guidance as to a procedure for determining a reasonable royalty. Instead, Paragraph III procedures shift negotiation leverage away from the licensor and to the potential licensee. Potential licensees can now wield the threat of initiating legal proceedings, be they in a court or arbitration, as a bargaining chip. While this threat was always there, now, in addition to having to pay the costs associated with the proceeding, SEP holders face the threat of being called “unreasonable” in their SEP license negotiations. Such a label will likely open up SEP holders to investigation and scrutiny by the FTC and other regulatory bodies. In addition to having to grant a compulsory license, the SEP holder will likely face FTC sanctions for antitrust and consumer protection breaches. Therefore, with no guidance as to what a reasonable royalty is, SEP holders are going to behave

¹⁵⁷ Except Google, who is now bound by the Judgment of the FTC. *Motorola Mobility, LLC*, FTC File No. 121-0120, 3 (July 23, 2013) (Decision and Order).

¹⁵⁸ *Microsoft Corp. v. Motorola Inc.*, 696 F.3d 872, 879 (9th Cir. 2012).

¹⁵⁹ *Id.* at 879–80.

¹⁶⁰ *See* *Motorola Mobility*, FTC File No. 121-0120, 8–9 (Decision and Order).

¹⁶¹ *Id.*

¹⁶² *Id.*

cautiously and will potentially concede in negotiations where they do not receive compensation equal to the full benefit of the patent claims licensed.

B. Microsoft v. Motorola Mobility

The Google FTC Settlement will in no doubt affect the adjudication of the current *Microsoft v. Motorola Mobility* case in the Western District of Washington. The FTC Settlement helps to resolve many of the important questions regarding RAND commitments that the court faces, and reaffirms many of the decisions from the FTC's regulatory perspective that the court already made. These issues include, but are not limited to, whether injunctions are proper in SEP licensing and whether an offer of license needs to be on RAND terms.¹⁶³ Yet, there is no indication yet of whether these resolutions are optimal. Further, it is still up to the court to determine what is arguably the most important aspect of the case, a reasonable royalty rate for Motorola Mobility's SEPs. As such, it remains important to analyze the case in the wake of the FTC Settlement.

First, *Microsoft v. Motorola Mobility* asks whether an injunction is proper when the SEPs in question are encumbered by a RAND commitment. This matter was decided by the court in the negative, determining that a RAND license, however compulsory, is an adequate remedy at law for Microsoft's use of the SEPs.¹⁶⁴ The FTC seemingly concurs with Judge Robart's order, as does the USPTO, DOJ, White House, and certain members of the Senate and House of Representatives.¹⁶⁵ As such, the law regarding injunctions in SEP-licensing cases is somewhat settled. The only question that remains is whether the FTC, or even Congress, will take action to impose the order on all licensors in the United States with RAND-encumbered patents, or if the industry will comply by itself.

Second, Motorola Mobility asked the court whether a third-party beneficiary of a RAND commitment loses their entitlement to a license by taking a complaint about an unreasonable offer to court rather than engaging the offeror in negotiation.¹⁶⁶ The court agreed with Microsoft by recognizing that in order for the RAND to be upheld, a potential licensee must be allowed to seek judicial remedies to settle the dispute regarding licensing terms.¹⁶⁷ The FTC is taking this a step farther by

¹⁶³ See generally *Microsoft Corp. v. Motorola Mobility, Inc.*, 696 F.3d 872 (2012).

¹⁶⁴ *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2012 WL 5993202, at *6 n.9 (W.D. Wash. Nov. 30, 2012).

¹⁶⁵ See *supra* notes 142–153 and accompanying text.

¹⁶⁶ *Id.* at *4.

¹⁶⁷ *Id.*

requiring potential licensees to bring these matters to the courts or arbiters under Paragraph III of the Google FTC Order, and essentially by making sure that offers are made on a RAND basis.¹⁶⁸

Finally, the case asks what reasonable terms would be for Motorola Mobility to license their technology to Microsoft. While almost everyone seems to recognize that this is a very situation-dependent question, Judge Robart took the first crack at developing a general method of determining a RAND royalty rate in employing a hybrid system comprised of *Georgia-Pacific* factors fused with *ex ante* multilateral negotiation factors. While it still remains to be seen whether Motorola Mobility's initial 2.25 percent offer will be deemed reasonable by a jury, it appears that Judge Robart's estimate of a RAND royalty, at a figure much lower than Motorola Mobility initially requested, will likely carry the day in this case.

However, while the *Microsoft v. Motorola Mobility* factors are very meticulous, taking into account every imaginable factor, they consequently take far too long to be applied by a third party mediator, as evidenced by the 207-page opinion in which the factors were set out. Though currently only binding precedent in the Western District of Washington, Judge Robart's hybrid system will give judges and arbiters guidance on determining RAND royalties in the same way *Georgia-Pacific* does to this day. This precedent comes at a good time, as RAND royalty disputes will be more likely to flood the courts in the coming years, due to the rise of standardization in everyday consumer products, combined with the influence of the Google FTC Order and, if the White House and certain members of Congress have their way, the pending unavailability of the U.S. ITC as an alternative forum to resolve these disputes.

CONCLUSION

The recent decisions in both *Microsoft v. Motorola* and the FTC settlement with Google give great guidance to the voluntary standard-setting industry. Both decisions reflect the public interest in voluntary standard setting by making it easier for standard-implementers to come to the market with their products. This is achieved through the combined effects of decrying the imposition of injunctions, bolstering the clarity of the SEP licensing process, and giving incentives toward continuing negotiations.

However, this clarity is only found in the United States. Considering that many SEP portfolios are licensed on a worldwide basis, there is going to be a need for coordinated international efforts for

¹⁶⁸ Motorola Mobility, LLC, FTC File No. 121-0120, 8-9 (July 23, 2013) (Decision and Order).

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a more robust and consistent system of patent licensing in the future in order to ward off forum selection by parties.

Yet, the *Microsoft v. Motorola Mobility* factors on how to effectively determine reasonable and non-discriminatory licensing rates and the guidance offered in the Google FTC Order come at a very opportune moment, as courts are likely to begin seeing more RAND royalty disputes. It appears that the new system we are moving toward, in which SEP holders and potential licensees must both make good faith attempts at the negotiation of a RAND royalty rate and bring any potential disputes to a third-party mediator who will determine the RAND rate, will likely bolster innovation and provide benefits for those seeking to monetize their SEPs and consumers alike.

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