



**TABLE OF CONTENTS**

1

2 I. THERE IS NO CONFLICT OF LAW BETWEEN THE POTENTIALLY-APPLICABLE

3 JURISDICTIONS WITH RESPECT TO THE RELEVANT CONTRACT ISSUES..... 5

4 II. RAND COMMITMENTS REQUIRE RAND OFFERS. .... 7

5 A. The IEEE Policies Are Unambiguous on This Point. .... 7

6 B. The ITU Policies Are Also Unambiguous on This Point..... 11

7 III. THE UNDISPUTED FACTS SHOW THAT MOTOROLA’S OCTOBER 2010

8 DEMAND LETTERS FAILED TO SATISFY ITS RAND OBLIGATIONS BECAUSE

9 THEY WERE BLATANTLY UNREASONABLE..... 12

10 A. The Offers Were Blatantly Unreasonable In Light Of Facts Known To Motorola. .... 13

11 1. The Total Cash Payments Sought By Motorola Were Blatantly Unreasonable. .... 13

12 2. The Royalty Base Demanded by Motorola Was Blatantly Unreasonable. .... 15

13 3. Motorola’s Attempt to Equate the Value of Its H.264 and 802.11 Standard-Essential

14 Patents With the Value of Its Cellular Telephony Standard-Essential Patents Is

15 Completely Unreasonable..... 18

16 4. Motorola’s Prior Licenses Do Not Even Suggest That Its 2.25% Royalty Demand

17 Could Be Considered Reasonable..... 18

18 B. Motorola Ignored Crucial Information Concerning the Standards, Its Patents, and

19 Microsoft’s Products In Formulating Its Offer. .... 20

20 1. A Reasonable Offer Would Have Reflected Motorola’s Actual Technical

21 Contribution to the 802.11 and H.264 Standards..... 20

22 2. A Reasonable Offer Would Have Reflected That Other Holders of Standard-Essential

23 Patents Might Also Seek Royalty Payments. .... 21

24 3. Motorola’s “Grant Back” Clause Made Its Offer Even More Unreasonable..... 21

25 IV. MICROSOFT HAS NOT REPUDIATED THE CONTRACTS. .... 22

26

**TABLE OF AUTHORITIES**

**Page(s)**

**CASES**

*Bailey v. Fish & Neave*,  
868 N.E.2d 956 (N.Y. Ct. App. 2007) .....5

*Biegas v. Quickway Carriers, Inc.*,  
573 F.3d 365 (6th Cir. 2009) .....6

*Broadcom Corp. v. Qualcomm Inc.*,  
501 F.3d 297 (3d Cir. 2007) .....10

*Brown v. Hereford*,  
2011 Wash. App. LEXIS 1986 (Wash. Ct. App. Aug. 23, 2011).....7

*Cary Oil Co., Inc. v. MG Refining & Marketing, Inc.*,  
230 F.Supp.2d 439 (S.D.N.Y. 2002) .....9

*Cent. Ill. Light Co. v. Home Ins. Co.*,  
821 N.E.2d 206 (Ill. 2004).....5

*Considine v. Reliance Ins. Co.*,  
35 A.3d 1232.....5

*Coughlan v. NXP B.V.*,  
2011 WL 5299491 (Del Ch. Nov. 4, 2011) .....5

*Fisher v. A.W. Miller Technical Sales, Inc.*,  
762 N.Y.S.2d 205 (N.Y.A.D. 2003) .....6

*Gasaway v. Northwestern Mut. Life Ins. Co.*,  
26 F.3d 957 (9th Cir. 1994) .....6

*Go2Net, Inc. v. C I Host, Inc.*  
60 P.3d 1245 (Wash. App. 2003).....6

*Hall v. Board of Education*,  
593 A.2d 304 (N.J. 1991) .....6

*Hanna v. Plumer*,  
380 U.S. 460 (1965).....6

1 *In the Matter of Certain Dynamic Random Access Memories, Components Thereof, and*  
 2 *Products Containing Same,*  
 3 *Inv. No. 337-TA-242, 1987 ITC LEXIS 95 (May 21, 1987) .....4*  
 4 *Lucent Techs. Inc. v. Gateway, Inc.,*  
 5 *580 F.3d 1301 (Fed. Cir. 2009) .....15, 16*  
 6 *Midland Hotel Corp. v. Reuben H. Donnelley Corp.,*  
 7 *515 N.E.2d 61 (Ill. 1987).....6*  
 8 *Milne v. USA Cycling Inc.,*  
 9 *575 F.3d 1120 (10th Cir. 2009) .....6*  
 10 *Nester v. O'Donnell,*  
 11 *693 A.2d 1214 (N.J. Super. Ct. App. Div. 1997) .....6*  
 12 *Paradise Orchards Gen. P’ship v. Fearing,*  
 13 *94 P.3d 372 (Wash. App. 2004).....5, 6*  
 14 *Potter Instrument Co. v. Storage Technology Corp.,*  
 15 *1980 U.S. Dist. LEXIS 14348 (E.D. Va., March 25, 1980) .....9*  
 16 *Qualcomm, Inc. v. Broadcom Corp.,*  
 17 *548 F.3d 1004 (Fed. Cir. 2008) .....4*  
 18 *Rambo v. Greene,*  
 19 *906 A.2d 1232 (Pa. Super. 2006) .....6*  
 20 *Research in Motion Ltd. v. Motorola, Inc.,*  
 21 *644 F. Supp. 2d 788 (N.D. Tex. 2008) .....10*  
 22 *Rite-Hite Corp. v. Kelley Co.,*  
 23 *56 F.3d 1538 (Fed. Cir. 1995) .....15*  
 24 *Sea-Van Investments Associates v. Hamilton,*  
 25 *881 P.2d 1035 (Wash. 1994) .....9*  
 26 *Spruill v. The Body Beaute Inc.,*  
*2001 WL 1456872 (Del. Super. Ct. Apr. 30, 2002) .....6*  
*Uniloc USA Inc. v. Microsoft Corp.,*  
*632 F.3d 1292 (Fed. Cir. 2011) .....15*  
*Utica Mut. Ins. Co. v. Vigo Coal Co.,*  
*393 F.3d 707 (7th Cir. 2004) .....23*

1 *W.L. Gore & Assoc., Inc. v. Carlisle Corp.*,  
2 529 F.2d 614 (3d Cir. 1976) .....7

3 *Wallace Real Estate Inv., Inc. v. Groves*,  
4 881 P.2d 1010 (Wash. 1994) (en banc) .....23

5 *Wm. Dickson Co. v. Pierce Cnty.*,  
6 116 P.3d 409 (Wash. Ct. App. 2005).....6

6 **STATUTES**

7 19 U.S.C. § 1337.....4

8 **OTHER AUTHORITIES**

9 Adrian U. Dorig, *The Finality of U.S. Judgments in Civil Matters as a Prerequisite for*  
10 *Recognition and Enforcement in Switzerland*, 32 Tex. Int’l L.J. 271 (1997).....6

11 Fed. R. Civ. P. 56.....6, 7

12 *Restatement (Second) of Contracts* § 250 (1981) .....23

13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

1 Plaintiff Microsoft Corporation (“Microsoft”) hereby renews its motion for partial  
 2 summary judgment on its breach of contract claim. Because the undisputed facts establish that  
 3 Motorola failed to make a RAND offer to license its standard-essential patents, and instead  
 4 made a blatantly unreasonable demand, it breached the contract. Therefore, the Court should  
 5 enter judgment for Microsoft on that question.<sup>1</sup>

### 6 INTRODUCTION

7 The Court has ruled that Motorola has a contractual obligation to license its standard-  
 8 essential patents on RAND terms. (Dkt. No. 188, Order on Plaintiff’s Motion for Partial  
 9 Summary Judgment (“Order”) 17.) The Court has also ruled that Microsoft is a third-party  
 10 beneficiary of that contract. (*Id.*) And, it is undisputed that Motorola breached that contract if  
 11 it made an offer to license its standard-essential patents on terms that were blatantly  
 12 unreasonable. (*Id.* 15.) The issue this motion presents is whether Motorola committed such a  
 13 breach. The undisputed record establishes that it did.

14 Motorola’s October 2010 demand letters were nothing more than facially outrageous  
 15 ultimatums intended solely to give Motorola a pretext for using its RAND-committed,  
 16 standard-essential patents to sue Microsoft on commercially successful products rich in  
 17 features, just one of which happened to include compliance with the standard. Motorola’s  
 18 demand was so over-reaching that no rational company could ever have accepted it or even  
 19 viewed it as a legitimate offer. For its approximately 50 designated H.264 patents, for  
 20 example, Motorola sought \$4 billion in annual royalties from Microsoft, while the 29  
 21 companies with 2,339 standard-essential patents in the H.264 patent pool, as a group, would

---

22  
 23 <sup>1</sup> Microsoft has separately moved for summary judgment that injunctive relief is unavailable to Motorola on its  
 24 infringement claims because (1) Microsoft has committed to take a license on RAND terms (*see, e.g.*, Dkt. No.  
 25 152 at 5); (2) Microsoft has not repudiated the RAND contract (*see* Section IV, *infra*); (3) if necessary, the Court  
 26 will determine the specific terms of that license; and (4) the resulting inevitability of such a license removes any  
 basis for injunctive relief—as does Motorola’s implicit admission in its demand letters that monetary relief is an  
 adequate remedy for any infringement (*see* Dkt. No. 139 at 8–11). The preliminary relief Microsoft requested in  
 its motion filed on March 28 will preserve the status quo to allow this Court to make the necessary determinations  
 and to prevent irreparable harm to Microsoft and the public in the meantime.

1 receive only \$6.5 million from the same number of unit sales of Microsoft Windows. See  
 2 Declaration of Christopher T. Wion in Support of Microsoft’s Motion for Summary Judgment  
 3 of Breach of Contract (“Wion Dec.”), Ex. 1 (license terms); Ex. 2 (pooled patents).



13 Rather than seeking genuinely to fulfill its contractual duties, Motorola’s obvious  
 14 strategy was just the opposite—to make an offer that Microsoft was sure to refuse so that  
 15 Motorola then would be free (in its view) to sue on its standard-essential patents to gain  
 16 leverage in other disputes with Microsoft. In addition to being transparently obvious from the  
 17 objective facts at the time, Motorola’s strategy was confirmed by the testimony of both Kirk  
 18 Dailey, the Corporate Vice President of Intellectual Property for Motorola Mobility, Inc.  
 19 (“Motorola”), and K. McNeill Taylor, Jr., Motorola’s Corporate Vice President and Chief IP  
 20 Counsel, who worked with Dailey to draft the October 2010 letters. Dailey and Taylor  
 21 admitted, for example, that Motorola

22  
 23 **REDACTED**  
 24  
 25  
 26

1 Motorola seeks to shield its outrageous conduct by comparing its demands with offers  
2 that it customarily made when licensing its portfolio of cellular telephony standard-essential  
3 patents to competitors in the cell phone industry. But this is meaningless in the context of this  
4 case. Motorola's cellular telephony standard-essential patent portfolio was, by its own  
5 account, the strongest in the world. Taylor admitted, though, that Motorola

6 **REDACTED**

7 Whether charging 2.25% of the cell phone handset price in the context of cellular  
8 telephony standard-essential patents is reasonable has no bearing on the issue presented here.  
9 The ability to communicate via cellular telephony, after all, is what makes a cell phone a cell  
10 phone. By contrast, the ability to play one particular type of compressed video (what the  
11 H.264 standard enables) is at most one feature among thousands in a Windows-based  
12 computer. Similarly, the ability to employ WiFi networking (what the 802.11 standard  
13 enables) is at most an ancillary (and technically redundant) feature of an Xbox 360 game  
14 console. Moreover, both computer and Xbox prices vary widely based on features entirely  
15 unrelated to H.264 and 802.11 (*e.g.*, larger hard drives or other peripherals). (*See* Dkt. No.  
16 77, Microsoft's Mot. for Partial Summary J. 8–10.) Therefore, the relevant royalty base for  
17 assessing a "reasonable" royalty is not the selling price of a laptop computer or an Xbox 360  
18 game console, but rather is—at most—the value of the specific component or feature that  
19 incorporates the patented invention. Viewed from the perspective of that royalty base, the  
20 royalty rate that Motorola demanded in 2010 was not 2.25%, but well over 100%.

21 Moreover, the standards at issue here, 802.11 and H.264, are complex, incorporate  
22 contributions from dozens of companies, and involve by anyone's count thousands of  
23 essential patents. Motorola's contributions form no more than a small portion of the  
24 standards, yet its demands were grossly outsized against any reasonable measure of an  
25 appropriate royalty. Taylor conceded that **REDACTED**





1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

**ARGUMENT**

**I. THERE IS NO CONFLICT OF LAW BETWEEN THE POTENTIALLY-  
APPLICABLE JURISDICTIONS WITH RESPECT TO THE RELEVANT  
CONTRACT ISSUES.**

Given this Court's rulings, and Motorola's concessions, it is settled that Motorola has a contractual RAND licensing obligation, that Microsoft is a third-party beneficiary of that obligation, and that blatantly unreasonable offers by Motorola breach its contract. (Order 15, 17.) There are no other contractual terms that need to be construed or other contractual obligations that need to be established to rule in Microsoft's favor on this motion. The undisputed facts, including testimony from Motorola's own officers, make clear that Motorola's 2010 royalty demands were blatantly unreasonable. This provides an ample basis for the Court to enter summary judgment on Microsoft's breach of contract claim without reaching any choice of law question.

In any event, the governing principles of contract interpretation yield the same result in all of the jurisdictions whose laws might potentially apply, making the choice of law question moot. The contracts here were formed by submission of letters of assurance by Motorola or its subsidiaries (General Instrument Corporation and Symbol Technologies) to the ITU and IEEE pursuant to their by-laws and intellectual property policies. The letters were sent from Motorola in Illinois, from General Instrument in Pennsylvania, and from Symbol in New York; all three entities are Delaware corporations. The letters were submitted to the ITU in Switzerland and IEEE in New Jersey.

In all of these jurisdictions, and in Washington, whether a contract provision is ambiguous is a question of law. *See Paradise Orchards Gen. P'ship v. Fearing*, 94 P.3d 372, 377 (Wash. App. 2004); *Cent. Ill. Light Co. v. Home Ins. Co.*, 821 N.E.2d 206, 214 (Ill. 2004); *Considine v. Reliance Ins. Co.*, 35 A.3d 1232, 1239 (Pa. Cmwlth. 2011); *Bailey v. Fish & Neave*, 868 N.E.2d 956, 959 (N.Y. Ct. App. 2007); *Coughlan v. NXP B.V.*, 2011 WL 5299491,

1 at \*6 (Del Ch. Nov. 4, 2011); *Nester v. O'Donnell*, 693 A.2d 1214, 1220 (N.J. Super. Ct. App.  
 2 Div. 1997).<sup>2</sup> And in each of these jurisdictions, courts may consider objective extrinsic  
 3 evidence of the parties' mutual intent to resolve any ambiguity, but subjective evidence is  
 4 irrelevant. *See Paradise Orchards*, 94 P.3d at 377–78; *Go2Net, Inc. v. C I Host, Inc.* 60 P.3d  
 5 1245, 1251 (Wash. App. 2003); *Midland Hotel Corp. v. Reuben H. Donnelley Corp.*, 515  
 6 N.E.2d 61, 65 (Ill. 1987); *Rambo v. Greene*, 906 A.2d 1232, 1236 (Pa. Super. 2006); *Fisher v.*  
 7 *A.W. Miller Technical Sales, Inc.*, 762 N.Y.S.2d 205, 209 (N.Y.A.D. 2003); *Spruill v. The*  
 8 *Body Beaute Inc.*, 2001 WL 1456872 at \*1 (Del. Super. Ct. Apr. 30, 2002); *Hall v. Board of*  
 9 *Education*, 593 A.2d 304, 307 (N.J. 1991); Swiss Civil Code of Obligations, Obligations  
 10 Arising by Contract Art. 18 (available online at <http://www.admin.ch/ch/e/rs/2/220.en.pdf>)  
 11 (“When assessing the form and terms of a contract, the true and common intention of the  
 12 parties must be ascertained . . .”). Regardless of which law is applied, the result here would  
 13 be the same.

14 Finally, as this Court is well aware, the choice of the substantive law that governs a  
 15 particular dispute does *not* affect the determination whether the evidence raises a genuine  
 16 material dispute of fact for purposes of summary judgment. “[W]hether evidence is sufficient  
 17 to raise a question for the trier of fact” is governed by “federal law alone,” even where the  
 18 substantive rule of decision is supplied by state law. *Gasaway v. Northwestern Mut. Life Ins.*  
 19 *Co.*, 26 F.3d 957, 960 (9th Cir. 1994); *see also Milne v. USA Cycling Inc.*, 575 F.3d 1120, 1129  
 20 (10th Cir. 2009) (same); *Biegas v. Quickway Carriers, Inc.*, 573 F.3d 365, 374 (6th Cir. 2009)  
 21 (same).<sup>3</sup> *See generally Hanna v. Plumer*, 380 U.S. 460, 473–74 (1965).

22  
 23 <sup>2</sup> Switzerland does not use juries in civil cases and therefore lacks a clear distinction between fact and law. *See*  
 24 *Adrian U. Dorig, The Finality of U.S. Judgments in Civil Matters as a Prerequisite for Recognition and*  
 25 *Enforcement in Switzerland*, 32 Tex. Int’l L.J. 271, 291–92 (1997) (“Unlike Switzerland, which has no jury  
 26 system for civil matters, the U.S. system of adjudicating civil claims distinguishes between questions of fact,  
 which are for the jury to determine, and questions of law, which are for the court to decide.”).

<sup>3</sup> It is worth noting, however, that under the law in every relevant state, as under Federal Rule 56, interpretation  
 as a matter of law of even an ambiguous contract is appropriate where only one reasonable inference can be drawn  
 from any extrinsic evidence. *See, e.g., Wm. Dickson Co. v. Pierce Cnty.*, 116 P.3d 409, 412 (Wash. Ct. App.

1 Under Rule 56, summary judgment is appropriate here. Even Motorola admits that a  
 2 blatantly unreasonable offer breaches its contract. (Order 15.) The undisputed evidence  
 3 establishes that Motorola's 2010 offers were blatantly unreasonable.

## 4 **II. RAND COMMITMENTS REQUIRE RAND OFFERS.**

5 Consistent with Motorola's concession and this Court's ruling on this issue already, it is  
 6 illogical and fundamentally inconsistent with the policies underlying RAND commitments to  
 7 say that a party can open a "negotiation" with an outrageous, non-RAND demand coupled with  
 8 an ultimatum, and then seek an injunction when the implementer refuses to bow to the demand.  
 9 "A royalty demand which is so high as to preclude acceptance of a license offer is, after all, not  
 10 appreciably different from a refusal to license upon any terms." *W.L. Gore & Assoc., Inc. v.*  
 11 *Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) (recognizing that in contrast with the  
 12 standards context, in the non-RAND context "[a] patent empowers the owner to exact royalties  
 13 as high as he can negotiate with the leverage of that monopoly"). A blatantly unreasonable  
 14 demand seeks to leverage the monopoly created by standardization to produce non-RAND  
 15 terms. Permitting such offers would render SSO RAND commitments worthless.

### 16 **A. The IEEE Policies Are Unambiguous on This Point.**

17 The 802.11 standard was developed by the IEEE in the mid-1990s.<sup>4</sup> The IEEE bylaws  
 18 in place at the time provided that patented technology would not be included in a standard  
 19 unless the "patent holder agrees to nondiscriminatory licensing at reasonable rates." Wion  
 20 Dec. Ex. 3 at 13. This provision invited participants who wanted their technology to be  
 21 incorporated in a standard to commit to RAND licensing—an invitation Motorola accepted for  
 22

---

23 2005) ("Summary judgment is proper if the written contract, viewed in light of the parties' objective  
 24 manifestations, has only one reasonable meaning."). *See also Brown v. Hereford*, 2011 Wash. App. LEXIS 1986,  
 at \*8 (Wash. Ct. App. Aug. 23, 2011) ("Had only one interpretation of the contract been reasonable, the court  
 would have been required to grant summary judgment.").

25 <sup>4</sup> *See* Official IEEE 802.11 Working Group Project Timelines, Mar. 19, 2012,  
 26 [http://grouper.ieee.org/groups/802/11/Reports/802.11\\_Timelines.htm#tgma](http://grouper.ieee.org/groups/802/11/Reports/802.11_Timelines.htm#tgma) (noting March 1991 project  
 authorization and June 1997 final approval of the original 802.11-1997 standard).

1 purposes of the 802.11 standard in a March 1, 1994 letter: “In the event the proposed standard  
2 is adopted and the standard cannot be practiced without the use of one or more issued patents  
3 which are now or hereafter owned, controlled or assigned to Motorola, Motorola agrees to  
4 license those patents on a non-discriminatory basis *offering fair and commercially reasonable*  
5 *terms.*” Motorola agreed to “licensing at reasonable rates,” and its letter of assurance required  
6 it to “offer[] fair and commercially reasonable terms.” Wion Dec. Ex. 4.

7 Motorola’s October 29, 2010 letter to Microsoft purported to offer a license to all  
8 patents “having claims that may be or become Essential Patent Claims . . . for a compliant  
9 implementation of the IEEE 802.11 Standards,” which includes patents essential to the original  
10 802.11 standard. Motorola unambiguously promised to “offer[] fair and commercially  
11 reasonable terms” for a license to those patents, and therefore Microsoft is entitled to summary  
12 judgment if Motorola’s offer was not commercially reasonable.

13 Since the IEEE originally adopted the 802.11 standard in 1997, it has regularly updated  
14 the standard, and at various times Motorola has reaffirmed its commitment to offer RAND  
15 licenses for patents essential to 802.11 amendments. At the time Motorola sent these more  
16 recent commitment letters, or letters of assurance, the operative IEEE bylaws made the  
17 prohibition on commercially unreasonable offers even clearer: the letter of assurance was  
18 required to include a promise that a license for compliant implementations “will be *made*  
19 *available* without compensation or under reasonable rates, with reasonable terms and  
20 conditions that are demonstrably free of any unfair discrimination.” Wion Dec. Ex. 5 at 12  
21 (emphasis added); *see also* Ex. 6 at 12. Again, the bylaws require commitments to make  
22 patents available on reasonable terms, and in exchange the patentee enjoys the benefit of  
23 having its patented technology incorporated into the standard. Motorola accepted this  
24 invitation for several of the 802.11 amendments by affirming that it “is prepared to grant a  
25  
26

1 license . . . on reasonable terms,”<sup>5</sup> and for others by agreeing that “[t]he Patent Holder will  
2 grant a license under reasonable rates.”<sup>6</sup> These acceptances must have been on the same terms  
3 as the offer in the policy, or else no contract would have been formed. *Sea-Van Investments*  
4 *Associates v. Hamilton*, 881 P.2d 1035, 1038 (Wash. 1994) (“The acceptance of an offer is  
5 always required to be identical with the offer”).

6 At all times, Motorola has agreed to “make available” its standard-essential patents,  
7 *e.g.*, Wion Dec. Ex. 5 at 12, which from the beginning of Motorola’s participation in the IEEE  
8 has included the promise to “offer[] fair and commercially reasonable terms.” Wion Dec. Ex  
9 4. As Motorola concedes, its offers must not be blatantly unreasonable. (Order 15.)

10 Although Motorola’s unambiguous contractual commitment renders extrinsic evidence  
11 unnecessary, all of the potentially relevant extrinsic evidence confirms that Motorola was  
12 correct to concede that a blatantly unreasonable offer is a breach. For example, the American  
13 National Standards Institute (“ANSI”), which governs its member standards bodies, including  
14 IEEE, has explained that its patent policy requires patent owner assurances indicating “that the  
15 patent holder will *offer* to provide licenses [on RAND] terms and conditions.” Wion Dec. Ex.  
16 7 at 11; *see also Potter Instrument Co. v. Storage Technology Corp.*, 1980 U.S. Dist. LEXIS  
17 14348, \*7 (E.D. Va., March 25, 1980) (under ANSI’s policy patentee must “agree to offer  
18 licenses to members of the affected industry on [RAND] terms”). And the IEEE is bound by  
19 contract to “comply fully with the ANSI patent policy.” Wion Dec. Ex. 10 at 3. Where, as  
20 here, a series of writings form “part of a single transaction”—obtaining assurances for the  
21 adoption of an ANSI-approved, IEEE standard—“and are designed to effectuate the same  
22 purpose,” all of the writings must “be read together.” *Cary Oil Co., Inc. v. MG Refining &*  
23 *Marketing, Inc.*, 230 F.Supp.2d 439, 473–74 (S.D.N.Y. 2002) (quoting *Gordon v. Vincent*  
24

---

25 <sup>5</sup> *See, e.g.*, Wion Dec. Ex. 8.

26 <sup>6</sup> *See, e.g.*, Wion Dec. Ex. 9.

1 *Youmans, Inc.*, 358 F.2d 261, 263 (2d Cir.1965)). Moreover, the very purpose of the IEEE’s  
2 patent policy compels such a reading. SSOs develop technical standards to improve  
3 interoperability among complementary products. Having standard dimensions for plugs for  
4 electrical appliances, for example, allows manufacturers to make products and consumers to  
5 buy them without either having to worry about whether the consumer can plug in and use the  
6 products. *See* NEMA Dimensional Specifications, <http://www.nema.org/stds/wd6.cfm>. But  
7 once a standard is adopted, the owner of a patent essential to implementing the standard may  
8 acquire power to extract royalties that are out of all proportion to the value of the patented  
9 invention—the adoption of a standard may give owners of essential patents the ability to use  
10 the standard to “hold up” those who wish to practice it, for example by demanding an  
11 exorbitant royalty based not on the value of its patented technology but on the value of  
12 standardization itself.

13 Patent policies like the IEEE’s prevent this kind of “hold up.” *See Broadcom Corp. v.*  
14 *Qualcomm Inc.*, 501 F.3d 297, 310–14 (3d Cir. 2007); *Research in Motion Ltd. v. Motorola,*  
15 *Inc.*, 644 F. Supp. 2d 788, 791, 794 (N.D. Tex. 2008). Without licensing commitments from  
16 patent holders like Motorola, the standards development process could not function.  
17 Companies invest in developing and manufacturing standard-compliant products in reliance on  
18 binding RAND assurances. Once a company has done so, however, a patentee that ignores its  
19 RAND obligations can demand virtually any royalty for a standard-essential patent because the  
20 manufacturer’s alternative is to sacrifice its investment in its standard-compliant products.  
21 Without binding RAND assurances, patent holders will be less likely to contribute their  
22 valuable technology to a standard—a company has no reason to give up the full value of a  
23 significant patent only to see others capturing “hold up” royalties based on the contributing  
24 company’s innovative technology. Even beyond the agreed prohibition on blatantly  
25  
26

1 unreasonable “offers,” reading Motorola’s contract with the IEEE to require reasonable offers  
2 is the only way to give effect to the patent policy under which the contract was formed.

3  
4 **B. The ITU Policies Are Also Unambiguous on This Point.**

5 Motorola’s obligations for its H.264-essential patents are similarly straightforward.  
6 The H.264 standard was adopted by the ITU in 2003. ITU Work Programme,  
7 [http://www.itu.int/ITU-T/workprog/wp\\_item.aspx?isn=4946](http://www.itu.int/ITU-T/workprog/wp_item.aspx?isn=4946) (last visited Mar. 30, 2012)  
8 (noting May 2003 approval of original standard). The ITU’s patent policy provides that a  
9 patent holder who hopes to see his technology incorporated into a standard must be “*willing to*  
10 *negotiate* licenses with other parties on a non-discriminatory basis *on reasonable terms* and  
11 *conditions.*” Wion Dec. Ex. 11 at 8 (emphasis added). The policy is clear: negotiations, and  
12 not just the ultimate license, must be “on reasonable terms.” The ITU’s policy includes a form  
13 letter of assurance; any patent holder willing to make the commitment the policy invites does  
14 so by submitting the form. Motorola did so for several iterations of the H.264 standard. Some  
15 of these forms provided that the patent holder “will grant a license . . . on reasonable terms,”<sup>7</sup>  
16 while others provided that the patent holder “is prepared to grant a license . . . on reasonable  
17 terms.”<sup>8</sup> By submitting these forms under the ITU bylaws, Motorola agreed to offer  
18 reasonable terms, an obligation necessarily breached—as Motorola concedes—by a blatantly  
19 unreasonable offer. (Order 15.)

20 Again, all the potentially relevant extrinsic evidence confirms that offers must be  
21 reasonable. The ITU policy’s very purpose would be defeated if extortionate demands were  
22 permitted, for the policy is intended to ensure that anyone can implement the standard on  
23 RAND terms, and an extortionate demand may or may not be followed by something  
24 reasonable. There is no evidence that the ITU believed that an extortionate opening offer was

25 <sup>7</sup> General Instrument Corporation, Dec. 2, 2002, and Dec. 2, 2003.

26 <sup>8</sup> Motorola, Inc., Oct. 29, 2008, ITU form submitted re: “H.264 (2005)-update I.D. Number:H.264-30  
submitted December 19, 2003, which discloses three specific U.S. patents (7,162,094; RE38564; 5,736,968).



1 consistent with a RAND promise. To the contrary, when the ITU adopted its new policy in  
 2 2007, it announced that the policy “allows for companies’ innovative technologies to be  
 3 included in standards as long as such intellectual property is *made available* under reasonable  
 4 and non-discriminatory terms and conditions.”<sup>9</sup> (emphasis added). By making a RAND  
 5 commitment in the ITU framework, Motorola promised to make its patented technology  
 6 available on RAND terms, meaning that it would make reasonable offers, not blatantly  
 7 unreasonable demands.

8 **III. THE UNDISPUTED FACTS SHOW THAT MOTOROLA’S OCTOBER 2010**  
 9 **DEMAND LETTERS FAILED TO SATISFY ITS RAND OBLIGATIONS**  
 10 **BECAUSE THEY WERE BLATANTLY UNREASONABLE.**

11 Motorola drafted its demand letters with blatantly unreasonable terms because  
 12 Motorola wanted to ensure Microsoft would reject them. Motorola was attempting to set up a  
 13 lawsuit. According to Kirk Dailey, Motorola’s Corporate Vice President of Intellectual  
 14 Property and the author of the letters, the demand letters **REDACTED**  
 15 (Wion  
 16 Dec. Ex. 12 at 2493, 2495) **REDACTED** (Wion Dec.  
 17 Ex. 12 at 2621–22), **REDACTED** Motorola apparently believed it could paper over  
 18 its RAND obligations by delivering a blatantly unreasonable, sham offer to Microsoft, waiting  
 19 for the 20 days Motorola prescribed, and suing on its standard-essential patents.

20 Motorola is wrong. Blatantly unreasonable offers breach RAND commitments, *see*  
 21 Section II, *supra*, and the undisputed evidence shows Motorola’s demands were blatantly  
 22 unreasonable—and Motorola knew it. Having committed to license its patents on RAND  
 23 terms, a patentee cannot simply fire off an outrageous offer to open the door to suing for an  
 24 injunction, or even to set the bar for obtaining the highest possible royalty. That is particularly  
 25 true where, as here, the patentee ignores information in its possession or readily available to

26 <sup>9</sup> March 19, 2007 Press Release, Wion Dec., Ex. 20.

1 the public concerning the standards, the technical contribution of its patents and those of other  
2 standard-essential patent holders, and the prospective licensee's products. Although some non-  
3 public information, solely in the possession of the potential licensee, might in some instances  
4 impact "what would in fact constitute RAND terms for the offeree" (Order 15), that is not the  
5 situation here. If Motorola had been interested in making reasonable and non-discriminatory  
6 offers to license its patents, its offers would have reflected the information it and the public  
7 had. Instead, Motorola, by its own admission, ignored that information.

8  
9 **A. The Offers Were Blatantly Unreasonable In Light Of Facts Known To  
Motorola.**

10 **1. The Total Cash Payments Sought By Motorola Were Blatantly  
11 Unreasonable.**

12 Motorola's letters demanded a royalty on the price of end products—in the case of  
13 802.11, on the sale price of Xbox, and in the case of H.264, on the sale prices of Xbox and of  
14 laptops and PCs running Microsoft Windows. Wion Dec. Ex. 13; *id.* Ex. 14. Based on the  
15 conservative assumption that the average price of a Windows-based computer was \$500 and  
16 publicly-available projections of the number of Windows-based computers sold in 2010,  
17 Motorola was demanding roughly \$4 billion per year from Microsoft for a license to just its  
18 H.264 patents. As shown below, this amount was

19 **REDACTED** Wion Dec. Ex. 12 at 2546-49; *id.* Ex. 15 at 12.  
20  
21  
22  
23  
24  
25  
26



1                                   **2. The Royalty Base Demanded by Motorola Was Blatantly**  
2                                   **Unreasonable.**

3                   Motorola's letters demanded a royalty rate applied to a royalty base of the sales of  
4 Xboxes and computers running Windows. A single chip provides 802.11 capability in an  
5 Xbox; Motorola's patents do not relate to the hardware of that component, and certainly not to  
6 the *entire* standard it uses. And Motorola's H.264 patents cover only a portion of the H.264  
7 video standard, a capability that is but one tiny aspect of Windows software which, in turn, is  
8 but one component of the computer upon which Motorola sought to base its royalty.

9                   Motorola's attempt to base its royalty on the end-product price runs counter to  
10 fundamental principles that govern the determination of a "reasonable" royalty. In the  
11 litigation context, the Federal Circuit has explained that "[t]he entire market value rule allows a  
12 patentee to assess damages based on the entire market value of the accused product only where  
13 the patented feature creates the 'basis for customer demand' or 'substantially create[s] the  
14 value of the component parts.'" *Uniloc USA Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318  
15 (Fed. Cir. 2011), quoting *Lucent Techs. Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336 (Fed. Cir.  
16 2009), and *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549–50 (Fed. Cir. 1995). The  
17 purpose of the EMV rule is to prevent a patentee—even a patentee who, unlike Motorola, has  
18 actually proven infringement and established that its patent is valid—from capturing as a  
19 royalty the value of unpatented features in a multi-faceted product that incorporates some  
20 patented technology, *unless* that patented technology is actually the basis for customer demand  
21 for the product. *See Lucent*, 580 F.3d at 1337 (rejecting use of the sale price of software as a  
22 royalty base where the patented feature was "a very small component of a much larger  
23 software program" and "[t]he vast majority of the features, when used, [did] not infringe").

24                   Even ignoring the fact that Motorola had committed to license its patents on RAND  
25 terms, Motorola made a royalty demand that it knew, as a matter of established patent law,  
26 vastly exceeded what it ever could have obtained by suing for patent infringement and

1 winning. Motorola knew that H.264 capabilities (especially those capabilities claimed by  
2 Motorola's patents) were a very small component of Windows—but Motorola went even  
3 further in its letters, demanding a royalty untethered to the features of H.264 covered by the  
4 patents, to H.264 as a whole, or even to Windows itself, but instead based on the entire value  
5 of the computers on which Windows would run. The Federal Circuit has explicitly barred even  
6 a successful infringement plaintiff from doing what Motorola did here: demanding  
7 extortionate royalties on the selling price of PCs running Windows, based on a patent on a  
8 small software feature. *See Lucent*, 580 F.3d at 1338 (approving of district court's preclusion  
9 of damages expert's use of the sale price of a Windows computer as a royalty base).

10 Motorola used the end-product price as the royalty base in its demand letters in a thinly  
11 veiled attempt to conceal the blatantly unreasonable nature of its royalty demand. When  
12 applied even to the least expensive Xbox, Motorola's royalty demand was more than the entire  
13 market price of the 802.11 chipset in the Xbox (Wion Dec. Ex. 12 at 1941; Dkt. 78 at 2). Thus,  
14 when judged in terms of a potentially legally-plausible royalty base, Motorola wanted a royalty  
15 of more than 100%.



Motorola was fully aware of all of this when it made its 2010 demands. Kirk Dailey, who signed the 2010 demand letters, **REDACTED**

Wion Dec. Ex. 12 at 2524–25. And Neill Taylor, **REDACTED**

(Wion Dec. Ex. 17 at 12, 113), **REDACTED**

(*id.* at 73–74) **REDACTED**

(*id.* at 91). In other words, Motorola was engaged in a classic “hold up” because Motorola wanted to be paid for the value of the entire 802.11 standard, not just its contribution to it.

Applied to sales of higher-end Xboxes (those with additional components like larger hard drives or the Kinect sensor), Motorola’s offer even more plainly would capture value entirely unrelated to Motorola’s marginal contribution to the 802.11 standard, because the royalty demand on such units is more than twice the price of the entire 802.11 chip—i.e., Motorola was demanding an effective royalty rate of more than 200%. Likewise, even for a low-end \$500 computer, Motorola demanded a royalty of \$11.25, which is a substantial portion of the average price of Windows—of which support for H.264 video decoding is only a tiny part.



1 (ii) a license to virtually all of  
2 Motorola's more than 24,000 patents (including, in the case of cellular patents, those which  
3 could arguably satisfy the EMV rule for **REDACTED**; and (iii) on-going cooperation between  
4 the parties with respect to **REDACTED**. Wion Dec. Ex. 17 at 119, 130; *id.* Ex. 12 at 2584-86;  
5 *id.* Ex. 18 at § 5. And even though the **REDACTED** license covered many more patents and  
6 standards, the royalty rate of **REDACTED** was subject to a **REDACTED** Wion Dec.  
7 Ex. 18 at § 5.1.4. In light of these vast differences, Motorola's **REDACTED** in no way  
8 suggests that a 2.25% royalty based on the prices of end-products compliant with the 802.11  
9 and H.264 standards would be reasonable.

10 The **REDACTED** license is also irrelevant. Given the December 2011 date of the  
11 agreement, Motorola could not have relied upon it in formulating its "offers" to Microsoft in  
12 October 2010. Moreover, **REDACTED** sought a license under Motorola's 802.11 and H.264  
13 patents in connection with **REDACTED**

14 **REDACTED** Wion Dec. Ex. 12 at 68–69, 2588–91.

15 In any event, neither the **REDACTED** agreement, nor any of Motorola's other  
16 agreements, provides a benchmark that supports Motorola's demands on Microsoft. As Dailey  
17 acknowledged, **REDACTED**

18 **REDACTED** as Motorola demanded that Microsoft do for computers incorporating  
19 Windows software. Wion Dec. Ex. 12 at 2530–31. Demanding that Microsoft pay royalties on  
20 a royalty base that the Federal Circuit rejects and that Motorola itself has never used in its  
21 entire corporate history was blatantly unreasonable. Moreover, as noted above, Motorola  
22 sought royalties from Microsoft that were several times greater than the total royalty revenue  
23 that Motorola receives from all of its other licensees combined. It is nonsensical to say that  
24 *any* of these other licenses—much less a portion of **REDACTED**

25 —could justify the exorbitant royalties Motorola sought from Microsoft.  
26



1                   **B. Motorola Ignored Crucial Information Concerning the Standards, Its**  
2                   **Patents, and Microsoft’s Products In Formulating Its Offer.**

3                   **1. A Reasonable Offer Would Have Reflected Motorola’s Actual**  
4                   **Technical Contribution to the 802.11 and H.264 Standards.**

5                   It is undisputed that Motorola’s patents concern only aspects of the 802.11 and H.264  
6 standards—not the entire standards. It is also undisputed that Motorola formulated its demands  
7 to Microsoft without considering the value of the patented technology it contributed to the  
8 standards. Any reasonable offer to license a small subset of patents essential to these two  
9 standards would have had to reflect their relative contribution. Motorola admits its demands to  
10 Microsoft did not do so.

11                   Taylor testified that Motorola **REDACTED**

12                   **REDACTED** Wion Dec. Ex. 17 at 73–74, 147–48. In fact, when Motorola sent these  
13 letters, it did not even know, for either standard, whether Motorola **REDACTED**

14   *Id.* at 73–74, 150. When asked whether Motorola’s  
15 standard-essential patents **REDACTED**

16   *Id.* at 93; *id.* Ex. 19 at 4–5.

17                   Kirk Dailey, who signed Motorola’s letters to Microsoft, **REDACTED**

18   **REDACTED** Wion Dec. Ex. 12 at 2513–18, 2532–34. Even years later,  
19 Dailey **REDACTED**

20                   **REDACTED** (*id.* at 2519),

21                   **REDACTED**

22                   **REDACTED**

23   *Id.* at 2535.



1 establishes that Motorola was demanding compensation equivalent to a 2.25% royalty no  
2 matter what. The “grant-back” clauses in Motorola’s letters thus confirm Motorola’s  
3 impermissible strategy of leveraging the “bullets” of its standard-essential patents to wrest  
4 either crippling royalties, or licenses to Microsoft patents (including non-standard-essential  
5 patents), from Microsoft.

#### 6 **IV. MICROSOFT HAS NOT REPUDIATED THE CONTRACTS.**

7 Microsoft filed this suit to affirm and enforce its contract right under Motorola’s  
8 RAND commitments—a right to license Motorola’s standard-essential patents on RAND  
9 terms. Motorola’s “anticipatory breach and repudiation” argument (Dkt. No. 86, Defs.’ Opp.  
10 to Microsoft’s Mot. for Partial Summary J. 22) is, at bottom, an illogical argument that a party  
11 repudiates a contract by asking a court to enforce it. Claims like Motorola’s—that by filing  
12 this action to enforce the contract Microsoft “breached [the] alleged contract” (Dkt. No. 68,  
13 Motorola Countercl. ¶ 73)—have been properly rejected elsewhere. *See, e.g., Utica Mut. Ins.*  
14 *Co. v. Vigo Coal Co.*, 393 F.3d 707, 715 (7th Cir. 2004) (rejecting argument that a party  
15 breached a contract by attempting to enforce it). And this Court has aptly described  
16 Motorola’s repudiation argument as “perplex[ing]” and “illogical.” (Order 15–16.) As the  
17 Court explained, the courthouse may be the “only viable arena to determine the meaning” of a  
18 contractual term, and thus seeking a judicial interpretation of a contract can hardly be a  
19 repudiation or breach. (*Id.*)

20 Microsoft’s suit to enforce Motorola’s RAND commitments is neither an “anticipatory  
21 breach” nor a “repudiation” because Microsoft seeks to perform and enforce the contract by  
22 obtaining a license on RAND terms. *Cf. Restatement (Second) of Contracts* § 250 (1981) (“A  
23 repudiation is (a) a statement by the obligor to the obligee indicating that the obligor will  
24 commit a breach . . . or (b) a voluntary affirmative act which renders the obligor unable or  
25 apparently unable to perform without such a breach.”). A repudiation requires a “positive  
26

1 statement or action by the promisor indicating distinctly and unequivocally that he either will  
2 not or cannot substantially perform any of his contractual obligations.” *Wallace Real Estate*  
3 *Inv., Inc. v. Groves*, 881 P.2d 1010, 1019 (Wash. 1994) (en banc) (quotation marks omitted).  
4 That repudiation must occur *before* the other party’s performance is due. *See id.*  
5 (“[A]nticipatory breach occurs when one of the parties to a bilateral contract either expressly or  
6 impliedly repudiates the contract *prior to the time of performance.*”) (emphasis added).

7 Here, Microsoft’s conduct reflects neither an anticipatory breach nor a repudiation.  
8 Motorola’s blatantly unreasonable offers to Microsoft breached Motorola’s RAND  
9 obligations—so Microsoft’s filing of this suit was not “anticipatory” because Microsoft acted  
10 *after* Motorola breached. Most critically, Microsoft’s complaint here is *not* a statement that  
11 Microsoft “will not or cannot substantially perform” its contractual obligations. To the  
12 contrary, Microsoft’s complaint unequivocally sought this Court’s assistance in ensuring  
13 *performance* of the contracts—a “[d]ecree that Microsoft is entitled to license from Motorola”  
14 the declared standard-essential H.264 and 802.11 patents. (Dkt. No. 1, Compl. 22 (Prayer for  
15 Relief G, H).) Microsoft wants a RAND license and will pay for one.

### 16 CONCLUSION

17 Motorola’s 2010 demands to Microsoft were blatantly unreasonable in light of  
18 objective facts known to, and ignored by, Motorola. As Motorola concedes, a blatantly  
19 unreasonable offer to a prospective licensee like Microsoft is a breach of Motorola’s RAND  
20 commitment. Summary judgment is therefore appropriate whether or not the contracts require  
21 that a patentee’s initial license offer be a RAND offer. The Court should enter partial  
22 summary judgment on Microsoft’s breach of contract claim.

1 DATED this 30th day of March, 2012.

2 DANIELSON HARRIGAN LEYH & TOLLEFSON LLP

3  
4 By s/ Arthur W. Harrigan, Jr.

5 Arthur W. Harrigan, Jr., WSBA #1751  
6 Christopher Wion, WSBA #33207  
7 Shane P. Cramer, WSBA #35099

8  
9 By s/ T. Andrew Culbert

10 T. Andrew Culbert, WSBA #35925  
11 David E. Killough, WSBA #40185  
12 MICROSOFT CORPORATION  
13 1 Microsoft Way  
14 Redmond, WA 98052  
15 Phone: 425-882-8080  
16 Fax: 425-869-1327

17 David T. Pritikin, *Pro Hac Vice*  
18 Richard A. Cederth, *Pro Hac Vice*  
19 Constantine L. Trela, Jr., *Pro Hac Vice*  
20 Douglas I. Lewis, *Pro Hac Vice*  
21 John W. McBride, *Pro Hac Vice*  
22 SIDLEY AUSTIN LLP  
23 One South Dearborn  
24 Chicago, IL 60603  
25 Phone: 312-853-7000  
26 Fax: 312-853-7036

Carter G. Phillips, *Pro Hac Vice*  
SIDLEY AUSTIN LLP  
1501 K Street, N.W.  
Washington, D.C. 20005  
Phone: 202-736-8000  
Fax: 202-736-8711

Counsel for Microsoft Corporation

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**CERTIFICATE OF SERVICE**

I hereby certify that on March 30, 2012, I electronically filed the foregoing document with the Clerk of the Court using the CM/ECF system, which will send notification of such filing to the following:

**Attorneys for Defendants Motorola Solutions, Motorola Mobility and General Instrument Corporation**

Ralph Palumbo  
Philip S. McCune  
Lynn M. Engle  
Summit Law Group

Steven Pepe  
Jesse J. Jenner  
Norman Beamer  
Paul M. Schoenhard  
Ropes & Gray

s/ Linda Bledsoe \_\_\_\_\_  
LINDA BLEDSOE