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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

MICROSOFT CORPORATION,

Plaintiff,

v.

MOTOROLA, INC., et al.,

Defendants.

CASE NO. C10-1823JLR

ORDER

MOTOROLA MOBILITY, INC., et
al.,

Plaintiffs,

v.

MICROSOFT CORPORATION,

Defendant.

I. INTRODUCTION

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2 This matter is before the court on Plaintiff Microsoft Corporation's ("Microsoft")
3 motion for summary judgment ("Microsoft's Motion") for breach of contract (Microsoft
4 Mot. (Dkt. # 236)), and Defendants Motorola, Inc., Motorola Mobility, Inc., and General
5 Instrument Corporation's (collectively, "Motorola") motion for summary judgment
6 ("Motorola's Motion") that Microsoft repudiated its rights to the contract (Motorola Mot.
7 (Dkt. # 231)).¹ The court heard the oral argument of counsel on May 7, 2012, and has
8 considered all pleadings on file, including: (1) Microsoft's Motion (Microsoft Mot.) and
9 all attachments thereto; (2) Motorola's response to Microsoft's Motion (Motorola Resp.
10 (Dkt. # 274)) and all attachments thereto; (3) Microsoft's reply in support of its motion
11 (Microsoft Reply (Dkt. # 284)) and all attachments thereto; (4) Motorola's Motion
12 (Motorola Mot.) and all attachments thereto; (5) Microsoft's opposition to Motorola's
13 Motion (Microsoft Resp. (Dkt. # 269)) and all attachments thereto; and (6) Motorola's
14 reply in support of its motion (Motorola Reply (Dkt. # 290)). Being fully advised, the
15 court DENIES Microsoft's Motion (Dkt. # 236) and DENIES Motorola's Motion (Dkt. #
16 231).

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21 _____
22 ¹ While the parties in this action have both filed affirmative claims, because (as explained
herein) Microsoft filed the complaint initiating the instant action, for purposes of this order, the
court refers to Microsoft as the "plaintiff."

II. BACKGROUND

A. The IEEE and the ITU as Standard Setting Organizations

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

One complication with standards is that it may be necessary to use patented technology in order to practice them. If a patent claims technology selected by a standards setting organization, the patent is called an “essential patent.” Here, Motorola is the owner of numerous patents “essential” to certain standards established by the IEEE and the ITU. (*See* 10/21/10 Motorola Offer Ltr. (Dkt. # 79-5); 10/29/10 Motorola Offer Ltr. (Dkt. # 79-6) (see list of attachments).) In order to reduce the likelihood that owners of essential patents will abuse their market power, many standards setting organizations, including the IEEE and the ITU, have adopted rules related to the disclosure and licensing of essential patents. The policies often require or encourage members of the standards setting organization to identify patents that are essential to a proposed standard and to agree to license their essential patents on reasonable and non-discriminatory

1 (“RAND”) terms to anyone who requests a license. Such rules help to insure that
2 standards do not allow essential patent owners to extort their competitors or prevent
3 competitors from entering the marketplace.

4 **B. Motorola’s Statements to the IEEE and the ITU**

5 This lawsuit involves two standards—the IEEE 802.11 wireless local area network
6 (“WLAN”) Standard (“802.11 Standard”) and the ITU H.264 advanced video coding
7 technology standard (“H.264 Standard”).² (*See generally* Compl. (Dkt. # 1); Am. Compl.
8 (Dkt. # 53).) The IEEE’s standard setting process is governed by its Intellectual Property
9 Rights Policy (the “IEEE Policy”). (*See generally* IEEE Policy (Dkt. # 79-1).) The IEEE
10 Policy provides that “IEEE standards may be drafted in terms that include the use of
11 Essential Patent Claims.” (*Id.* at 18 (Section 6.2).) The IEEE Policy defines the term
12 “Essential Patent Claim” as one or more claims in an issued patent (or pending patent
13 application) that are “necessary to create a compliant implementation of either mandatory
14 or optional portions of the normative clauses of the [Proposed] IEEE Standard” (*Id.*)

15 If the IEEE learns that an IEEE standard or a proposed IEEE standard may require
16 the use of an essential patent claim, the IEEE requires the patent holder to either state that
17 it is not aware of any patents relevant to the IEEE standard or to provide the IEEE with a
18 Letter of Assurance. (*Id.*) Any such Letter of Assurance must include either (1) a

21 ² The ITU developed the H.264 Standard jointly with two other standard setting
22 organizations—the International Organization for Standardization and the International
Electrotechnical Commission. (Partial S.J. Order (Dkt. # 188) at 3.)

1 disclaimer to the effect that the patent holder will not enforce the “Essential Patent
2 Claims,” or (2):

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

6 (*Id.*) If the IEEE cannot obtain a Letter of Assurance, it refers the essential patent to the
7 IEEE Patent Committee. (*Id.*)

8 Motorola has submitted numerous Letters of Assurance to the IEEE in connection
9 with the 802.11 Standard stating that it “will grant” or “is prepared to grant” a license
10 under RAND terms for its patents essential to the 802.11 Standard. (*See generally* IEEE
11 LOAs (Dkt. # 79-2).) A typical Motorola Letter of Assurance to the IEEE provides, in
12 relevant part:

13 The Patent Holder will grant [or is prepared to grant] a license under
14 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.

15 (*See generally id.*) Such Letters of Assurance are irrevocable once submitted and
16 accepted by the IEEE and apply from the date the standard is approved until the date the
17 standard is withdrawn. (IEEE Policy at 19.)

18 Like the IEEE, the ITU has established a policy (the “ITU Policy”) with respect to
19 holders of patents “essential” to implementing a standard. (*See* ITU Policy (Dkt. # 79-
20 3).) Such patent holders must file with the ITU a “Patent Statement and Licensing
21 Declaration” declaring whether they (1) will grant licenses free of charge on a RAND
22

1 basis; (2) will grant licenses on RAND terms; or (3) are not willing to comply with either
2 of the first two options. (*See id.* at 9-12.) If a patent holder is not willing to comply with
3 either of the first two options, the ITU standard will not include provisions that depend on
4 the patent. (*Id.* at 9.)

5 Motorola has sent numerous declarations to the ITU stating that it will grant
6 licenses on RAND terms for its patents essential the H.264 Standard. (*See generally* ITU
7 Declarations (Dkt. # 79-4).) A typical declaration by Motorola to the ITU provides, in
8 relevant part:

9 The Patent Holder will grant a license to an unrestricted number of
10 applicants on a worldwide, non-discriminatory basis and on reasonable
11 terms and conditions to use the patented material necessary in order to
12 manufacture, use, and/or sell implementations of the above ITU-T
13 Recommendation | ISOC/IEC International Standard.³

14 (*E.g., id.* at 2.)

15 In a February 27, 2012 order, the court ruled that Motorola's Letters of Assurance
16 to the IEEE and Motorola's declarations to the ITU create enforceable contracts between
17 Motorola and the respective standard setting organization. (Partial S.J. Order at 10.)
18 Additionally, the court found that as a member of the IEEE and the ITU and as a
19 prospective user of both the H.264 Standard and the 802.11 Standard, Microsoft is a
20 third-party beneficiary of those contracts. (*Id.*)

21
22 ³ Motorola's declaration to the ITU also states that "negotiations of licenses are left to the
parties concerned and are performed outside the ITU-T | ISO/IEC." (ITU Declarations at 2.)

1 **C. Motorola's Offer Letters to Microsoft**

2 On October 21, 2010, Motorola sent Microsoft a letter (the "October 21 Letter")
3 that read in pertinent part:

4 This letter is to confirm Motorola's offer to grant Microsoft a worldwide
5 non-exclusive license under Motorola's portfolio of patents and pending
6 applications having claims that may be or become Essential Patent Claims
7 (as defined in section 6.1 of the IEEE bylaws) for a compliant
8 implementation of the IEEE 802.11 Standards. . . . Motorola offers to
9 license the patents under reasonable and non-discriminatory terms and
10 conditions ("RAND"), including a reasonable royalty of 2.25% per unit for
11 each 802.11 compliant product, subject to a grant back license under the
12 802.11 essential patents of Microsoft. As per Motorola's standard terms,
13 the royalty is calculated based on the price of the end product (e.g., each
14 Xbox 360 product) and not on component software (e.g., Windows Mobile
15 Software).

16 (10/21/10 Offer Ltr. at 2.) Then, on October 29, 2010, Motorola sent a similar letter (the
17 "October 29 Letter") regarding the H.264 related patents, stating:

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

(10/29/10 Offer Ltr. at 2.) Motorola attached to its October 29 Letter a non-exhaustive
list of patents it offered to license to Microsoft. (*See id.*)

Microsoft filed its complaint initiating this action on November 9, 2010 and its
amended complaint on February 23, 2011. (Compl. (Dkt. # 1); Am. Compl. (Dkt. # 53).)

Microsoft contends that the October 21 and October 29 Letters seek unreasonable royalty

1 rates and therefore breach Motorola's obligations to the IEEE and the ITU to grant
2 licenses on RAND terms. (Am. Compl. at 21 & 22 ¶¶ 80-87.) Microsoft alleges claims
3 against Motorola for breach of contract and promissory estoppel.⁴ (*Id.*) In its prayer for
4 relief, Microsoft seeks, *inter alia*, a declaration that it is entitled to a license on RAND
5 terms from Motorola for all patents subject to Motorola's commitments to the IEEE
6 (through Letters of Assurance) and to the ITU (through declarations). (*Id.* at 25 ¶¶ G, H
7 (Prayer for Relief).)

8 In response, Motorola asserted affirmative defenses and counterclaims. (*See*
9 Motorola Answer (Dkt. # 68).) Motorola's counterclaims seek a declaratory judgment
10 that (1) it has not breached any RAND obligations, and (2) Microsoft repudiated and/or
11 rejected the benefits of Motorola's RAND obligations, and therefore Microsoft is not
12 entitled to a license to Motorola's patents related to the H.264 and 802.11 Standards. (*Id.*
13 ¶¶ 61-75 (Counterclaims).)

14 III. DISCUSSION

15 In its motion, Motorola argues that Microsoft repudiated its rights as a third-party
16 beneficiary to the contracts between Motorola and the IEEE and the ITU. Microsoft
17 responds that it did not repudiate its contractual rights, and in its own motion, Microsoft
18 argues that Motorola breached its contractual duties to Microsoft through the October 21
19 and October 29 Letters. To fully analyze Microsoft's Motion and Motorola's Motion, the

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21 ⁴ Microsoft's action against Motorola also included claims for waiver and declaratory
22 judgment, but the court's June 1, 2011 order dismissed both of those claims, leaving only the
breach of contract and promissory estoppel claims. (Dkt. # 66 at 12.)

1 court must determine the rights and obligations under the contracts. As a starting point,
2 the court examines the formation of the contracts between Motorola and the IEEE and the
3 ITU, and then determines whether Microsoft repudiated any of its rights as a third-party
4 beneficiary to those contracts and whether either of Motorola's letters breached its
5 contractual obligations.

6 **A. Summary Judgment Standard**

7 Summary judgment is appropriate if the evidence, when viewed in the light most
8 favorable to the non-moving party, demonstrates "that there is no genuine dispute as to
9 any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ.
10 P. 56(a); *see Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986); *Galen v. Cnty. of L.A.*,
11 477 F.3d 652, 658 (9th Cir. 2007). The moving party bears the initial burden of showing
12 there is no genuine issue of material fact and that he or she is entitled to prevail as a
13 matter of law. *Celotex*, 477 U.S. at 323. If the moving party meets his or her burden,
14 then the non-moving party "must make a showing sufficient to establish a genuine
15 dispute of material fact regarding the existence of the essential elements of his case that
16 he must prove at trial" in order to withstand summary judgment. *Galen*, 477 F.3d at 658.
17 Here, cross-motions for summary judgment are at issue. The court "evaluate[s] each
18 motion separately, giving the nonmoving party in each instance the benefit of all
19 reasonable inferences." *ACLU of Nev. v. City of Las Vegas*, 466 F.3d 784, 790-91 (9th
20 Cir. 2006) (citations omitted); *see also Friends of Columbia Gorge, Inc. v. Schafer*, 624
21 F. Supp. 2d 1253, 1263 (D. Or. 2008).

1 **B. Motorola's Contracts with the IEEE and the ITU**

2 In its February 27, 2012 order, this court held that (1) Motorola's declarations to
3 the IEEE and the ITU constituted "binding contractual commitments to license its
4 essential patents on RAND terms"; and (2) that Microsoft is a third-party beneficiary of
5 Motorola's commitments. (Partial S.J. Order at 9-11.) Nevertheless, for the first time at
6 the May 7, 2012 oral argument for Microsoft's and Motorola's Motions, Motorola argued
7 that its commitments to the IEEE and ITU were in fact unilateral offers to grant licenses
8 on RAND terms.⁵ Motorola's counsel argued:

9 _____
10 ⁵ Prior to the May 7, 2012 oral argument, Motorola had agreed that its commitments to
11 the IEEE and ITU constituted binding contracts to license its essential patents on RAND terms
12 and that Microsoft was a third-party beneficiary. For instance, the following discussion
13 transpired during a February 13, 2012 status conference with the court:

14 THE COURT: Is the first part of that sentence also accurate, that you entered into
15 binding contractual commitments with IEEE and ITU, committing those to that
16 RAND process?

17 MR. JENNER (counsel for Motorola): Well, yeah, that is really what the issue is,
18 your Honor, in terms of what the assurance is. The assurance is that we would—
19 that Motorola agreed to license those standard essential patents on RAND terms.

20 THE COURT: All I am asking is—I think you just agreed with me. I am not
21 asking you if you did it or not, I am just asking you if that's what you are
22 supposed to do. I think the answer to that is yes.

MR. JENNER: Yes. Enter into a license on RAND terms, that's right.

THE COURT: The second point that Microsoft asked the court to declare is, and
I will quote, "Microsoft is a third-party beneficiary of Motorola's commitment to
the SSOs." Once again, let's stay away from the precise terms that were offered
and asked as a conceptual matter. I think there is also no disagreement on that.
Mr. Jenner, am I correct on that?

MR. JENNER: Your Honor, that is correct, we would agree that Microsoft can
fairly claim to be the third-party beneficiary of the assurance.

1 We believe at this point that the Letters of Assurance are unilateral offers
2 made by Motorola that it will grant licenses on reasonable terms, and that
3 offerees, like Microsoft, if they satisfy the conditions to apply for a license
4 in some form and negotiate, are entitled to the license.

5 So the offer is—there’s never a signed piece of paper constituting the
6 contract. The offer is unilaterally made by Motorola. It’s like, I’ll give a
7 reward of \$500 to somebody who brings my cat. Show up with the cat,
8 then you’ve accepted and you get the reward. You didn’t have to sign a
9 piece of paper. If you apply for a license and negotiate with me, then you
10 have formed a contract under the Letter of Assurance.

11 (5/9/12 Transcript (Dkt. # 315) at 21.) The court disagrees with Motorola’s analysis of
12 contract formation and reaffirms its holding from its February 27, 2012 order.

13 Forming a contract requires an offer, its acceptance, and consideration. *Veith v.*
14 *Xterra Wetsuits, LLC*, 183 P.3d 334, 337 (Wash. 2008) (citation omitted). An offer
15 consists of a promise to render a stated performance in exchange for a return promise
16 being given. *Pacific Cascade Corp. v. Nimmer*, 608 P.2d 266, 268 (Wash. Ct. App.
17 1980) (citing Restatement of Contracts § 24 (1932)). Acceptance is an expression
18 (communicated by word, sign, or writing to the person making the offer) of the intention
19 to be bound by the offer’s terms. *Veith*, 183 P.3d at 337. Consideration is “any act,
20 forbearance, creation, modification or destruction of a legal relationship, or return
21 promise given in exchange.” *King v. Riveland*, 886 P.2d 160, 164 (Wash. 1994). Put
22 another way, consideration is a bargained-for exchange of promises. *Williams Fruit Co.*
v. Hanover Ins. Co., 474 P.2d 577, 581 (Wash. 1970).

(2/13/2012 Transcript (Dkt. # 242) at 4-5.)

1 Here, a contract is formed through Motorola's (or any essential patent holder's)
2 commitment to the IEEE or the ITU to license patents on RAND terms. When the IEEE
3 or the ITU learns that one of its standards or recommendations (as referred to by the ITU)
4 may cover a private patent, both standard setting organizations ask the patent holder to
5 state its intentions with respect its standard essential patents. Specifically, in the case of
6 the IEEE, it requires a Letter of Assurance from the patent holder asking the patent holder
7 to state (1) that it agrees not enforce its essential patents, or (2) that it will license its
8 patents on RAND terms to all applicants. (IEEE Policy at 18.) Similarly, the ITU asks
9 the patent holder to indicate on a form whether it (1) will grant a license free of charge;
10 (2) will grant a license on RAND terms; or (3) is unwilling to grant licenses on either of
11 the two prior options. (ITU Policy at 9-12.)

12 The court concludes that these requests by the IEEE and the ITU constitute offers
13 to the patent holder to indicate their intentions with regard to essential patents so that the
14 IEEE and the ITU may choose whether to incorporate the patented technology into a
15 standard. Indeed, if the IEEE cannot obtain such a Letter of Assurance from the patent
16 holder, it will refer the situation to the IEEE Patent Committee. Historically, the IEEE
17 has not included technology into a standard unless it could obtain a Letter of Assurance.
18 Likewise, the ITU will not incorporate patented technology into a standard unless it can
19 obtain a declaration from the patent holder agreeing to either license free of charge or on
20 RAND terms.

21 The court also concludes that Motorola's Letters of Assurance to the IEEE and
22 declarations to the ITU constitute acceptances for purposes of contract formation.

1 Motorola has indicated repeatedly and on numerous occasions to both standard setting
2 organizations that it will grant licenses to all applicants on RAND terms. By checking
3 the box on both the IEEE and ITU forms that it is willing to grant licenses on RAND
4 terms, Motorola unequivocally indicated its intention to be bound by the respective
5 standard setting organization's terms.

6 Finally, regarding consideration, each standard setting organization promised to
7 include, or at least consider including, the patent holder's technology in its standard in
8 exchange for Motorola's promise to license its essential patents on RAND terms. Thus,
9 the requisite consideration exists for contract formation. Accordingly, the court reaffirms
10 its prior decision that Motorola's statements to the IEEE and ITU constituted a binding
11 agreement to license its essential patents on RAND terms.⁶

12 Additionally, the court reaffirms its prior decision that Microsoft, as a potential
13 user of the 802.11 Standard and the H.264 Standard, is a third-party beneficiary to the
14 agreements between Motorola and the IEEE and Motorola and the ITU. A third party
15 beneficiary is one who, though not a party to a contract, will nevertheless receive direct
16 benefits therefrom. *Wolfe v. Morgan*, 524 P.2d 927, 930 (Wash. Ct. App. 1974);
17 *McDonald Constr. Co. v. Murray*, 485 P.2d 626, 27-28 (Wash. Ct. App. 1971). The right
18 of a third party beneficiary to sue upon a contract depends, as a rule, upon whether the

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⁶ The parties agree that the operative contract language includes the language of
Motorola's statements to the IEEE and the ITU, as well as the relevant language in the IEEE and
ITU Policies. (Motorola Mot. at 18-19; 5/7/12 Transcript (Dkt. # 315) at 53 ("By the way, in
answer to the court's question about the bylaws, we concur with Mr. Jenner's characterization of
the situation regarding the bylaws."))

1 contract is for his or her direct benefit or whether his or her benefit under it is merely
2 incidental, indirect or consequential. *Lonsdale v. Chesterfield*, 573 P.2d 822, 825 (Wash.
3 Ct. App. 1978). A third party for whose direct benefit a contract was entered into may
4 sue for breach thereof. *Id.* (citing 17 Am. Jur. 2d Contracts § 305 (1964)).

5 Motorola's commitments to the IEEE and the ITU are for the direct benefit
6 Motorola's potential licensees, including Microsoft. Motorola has committed to the
7 IEEE and the ITU to license its essential patents on RAND terms to an unrestricted
8 number of applicants. These commitments are clearly designed to benefit potential
9 licensees of Motorola's standard essential patent by ensuring that such patents are readily
10 accessible to everybody at reasonable rates. (*See, e.g.*, ITU Policy at 9 (stating that the
11 objective of the policy "is to ensure compatibility of technologies and systems on a
12 worldwide basis. To meet this objective, which is in the common interest of all those
13 participating, it must be insured that [the standardized technologies] . . . are accessible to
14 everybody"). Accordingly, Microsoft is a third-party beneficiary to Motorola's
15 agreements with the IEEE and the ITU to license its standard essential patents on RAND
16 terms, and therefore, Microsoft may sue for breach of that agreement.

17 **C. The Parties' Cross Claims**

18 Motorola contends that Microsoft's rights as a third-party beneficiary are
19 conditioned on Microsoft first applying for a license to Motorola's standard essential
20 patents and second negotiating for a RAND license to those patents. (Motorola Mot. at
21 19-23.) According to Motorola, because Microsoft failed to perform either of these
22 conditions, it has repudiated its rights to a RAND license for Motorola's standard

1 essential patents. (*Id.* at 23-27.) In its motion, Microsoft asserts that Motorola’s October
2 21 and October 29 Letters offering to license its 802.11 Standard essential patents and its
3 H.264 Standard essential patents, respectively, sought such an unreasonable royalty rate
4 they breached Motorola’s obligation to offer its licenses on RAND terms.

5 To resolve the parties’ cross-motions, the court must first determine the parties’
6 rights and obligations under Motorola’s contracts with the IEEE and the ITU. “The
7 cardinal rule with which all interpretation begins is that its purpose is to ascertain the
8 intention of the parties.” *Berg v. Hudesman*, 801 P.2d 222, 226 (Wash. 1990).
9 Washington courts generally give words in a contract their ordinary, usual, and popular
10 meaning unless the entirety of the agreement clearly demonstrates a contrary intent.
11 *Hearst Commc’ns, Inc. v. Seattle Times Co.*, 115 P.3d 262, 267 (Wash. 2005). Under
12 Washington law, contracts are interpreted in accordance with the context rule. *Wash.*
13 *State Republican Party v. Wash. State Grange*, 676 F.3d 784, 796 (9th Cir. 2012)
14 (citation omitted).

15 Under the context rule, extrinsic evidence is admissible to assist the court in
16 ascertaining the parties[’] intent and in interpreting the contract. The court
17 may consider (1) the subject matter and objective of the contract, (2) the
18 circumstances surrounding the making of the contract, (3) the subsequent
19 conduct of the parties to the contract, (4) the reasonableness of the parties’
20 respective interpretations, (5) statements made by the parties in preliminary
21 negotiations, (6) usages of trade, and (7) the course of dealing between the
22 parties. Such evidence is admissible regardless of whether the contract
language is deemed ambiguous. Extrinsic evidence cannot be considered:
(a) to show a party’s unilateral or subjective intent as to the meaning of a
contract word or term; (b) to show an intention independent of the
instrument; or (c) to vary, contradict, or modify the written word.

1 *Spectrum Glass Co. v. Pub. Util. Dist. No. 1*, 119 P.3d 854, 858 (Wash. Ct. App. 2005)
2 (citations omitted). With that legal framework in mind, the court turns to the parties'
3 respective motions.

4 **1. Motorola's Repudiation Motion**

5 Motorola argues that despite its RAND commitments to the IEEE and the ITU, it
6 does not have any obligations towards Microsoft because Microsoft (1) has failed to
7 satisfy conditions precedent and (2) by failing to satisfy those conditions has repudiated
8 any rights to a RAND license. (Motorola Mot. at 23, 25.) Specifically, Motorola
9 contends that its RAND obligations to Microsoft are conditioned on Microsoft applying
10 for a license to its standard essential patents and negotiating that license in good faith.
11 (*Id.* at 19-23.)

12 "Conditions precedent" are "those facts and events, occurring subsequently to the
13 making of a valid contract, that must exist or occur before there is a right to immediate
14 performance, before there is a breach of contract duty, before the usual judicial remedies
15 are available." *Ross v. Harding*, 391 P.2d 526, 530 (Wash. 1964). By contrast, a breach
16 of a contractual obligation subjects the promisor to liability for damages, but it does not
17 necessarily discharge the other party's duty of performance. *Id.* But the nonoccurrence
18 of a condition precedent prevents the promisor from acquiring a right or deprives it of
19 one, but it does not subject the promisor to liability. *Id.*

20 Whether a contract provision is a condition precedent or a contractual obligation
21 depends on the intent of the parties, and courts determine this intent from a fair and
22 reasonable construction of the language used, taking into account all the surrounding

1 | circumstances. See *Koller v. Flerchinger*, 441 P.2d 126, 128 (Wash. 1968). Importantly,
2 | where it is doubtful whether words create a promise (i.e., contractual obligation) or an
3 | express condition, courts shall interpret them as creating a promise. *Ross*, 391 P.2d at
4 | 531. Words such as “provided that,” “on condition,” “when,” “so that,” “while,” “as
5 | soon as,” and “after” suggest a conditional intent, not a promise. *Jones Assoc. v. Eastside*
6 | *Prop.*, 704 P.2d 681, 685 (Wash. App. Ct. 1985) (citing *Vogt v. Hovander*, 616 P.2d 660,
7 | 666 (Wash. App. Ct. 1979)).

8 | After examining Motorola’s commitments to both the IEEE and the ITU, as well
9 | as the extrinsic evidence presented by the parties to this litigation, the court determines
10 | that it was not the intent of the contracting parties (Motorola and the IEEE/ITU) to
11 | require that implementer of a standard first apply for a license and then negotiate for a
12 | license in good faith before Motorola’s RAND obligations are triggered. As an initial
13 | matter, no words that would indicate the parties’ conditional intent—such as those
14 | articulated by the court in *Jones*, 704 P.2d 685—are found in Motorola’s Letters of
15 | Assurance to the IEEE and declarations to the ITU. Without any such words, the court is
16 | disinclined to find that either applying for a license or negotiating in good faith are
17 | conditions precedent.

18 | Furthermore, Motorola’s commitments to grant licenses to implementers on
19 | RAND terms cannot turn on whether or not the implementer first applies for a license. If
20 | that were the case, Motorola could demand exorbitant licensing fees from implementers
21 | of the standards who had not yet applied for a license. Such a result is contrary to the
22 | purpose of Motorola’s commitments to the IEEE and ITU, which is to ensure that

1 standard essential patents are available to all implementers on RAND terms. (*See, e.g.*,
2 ITU Policy at 9 (“It follows, therefore, that a patent embodied fully or partly in a
3 Recommendation | Deliverable must be accessible to everybody without undue
4 constraints. To meet this requirement in general is the sole objective of the code of
5 practice.”).) Indeed, Motorola’s own standard essential expert testified in a related matter
6 that a patent owner’s RAND obligations are not conditioned on whether the patentee or
7 the implementer makes the first contact. (Microsoft Resp. at 9-10; Holleman Tr. (Dkt. #
8 270-4) at 1-4 (“Q: Okay. And it would be fair to say that you don’t think a patent
9 owner’s RAND obligations turn on the question of whether the patent owner or the
10 prospective licensee makes the first contact? A: No, I do not.”). Thus, Motorola
11 committed to the IEEE and ITU to grant RAND licenses to an unrestricted number of
12 applicants, and Motorola cannot avoid this commitment simply by contacting the
13 implementer before the implementer applies for a license.

14 Likewise, a finding that negotiating in good faith is condition precedent to
15 Motorola’s RAND obligations to the implementer would run contrary to the purpose of
16 Motorola’s commitments to the IEEE and the ITU. Although Motorola correctly asserts
17 that the IEEE and ITU Policies contemplate that RAND licenses will be negotiated
18 between the patent holder and the implementer of the standard, it does not follow that
19 negotiating in good faith is a condition precedent to Motorola’s promise to grant licenses
20 on RAND terms. (*See* Motorola Mot. at 20-21; ITU Declarations at 2 (“Negotiations of
21 licenses are left to the parties concerned and are performed outside the ITU-T |
22 ISO/IEC.”).) Again, under Motorola’s interpretation of its commitments to the IEEE and

1 ITU, Motorola could preemptively request exorbitant compensation for its standard
2 essential technology, and the implementer would be compelled to negotiate in good faith
3 in response to the exorbitant demand. This cannot be the result envisioned by the IEEE
4 and the ITU with respect to Motorola's commitments to them to grant licenses on RAND
5 terms. *See Eurick v. Pemco Ins. Co.*, 738 P.2d 251, 252 (Wash. 1987) (contract
6 interpretation should not produce an absurd result). In sum, the court concludes that
7 Motorola's contracts with the IEEE and the ITU do not condition Motorola's RAND
8 obligations on the implementer first applying for a license and then negotiating in good
9 faith.

10 Motorola's also contends that Microsoft repudiated its rights to a RAND license
11 by bringing this lawsuit. (Motorola Mot. at 25-28.) As a consequence of Microsoft's
12 alleged repudiation, Motorola insists that it may enforce its essential patents through all
13 available remedies. (*Id.* at 25.) Specifically, Motorola states:

14 Any reasonable interpretation of Motorola's RAND obligations must allow
15 for enforcement of its essential patent rights in circumstances where, as
16 here, an implementer of a standard fails (for years) to apply for a license,
claims that it does not need a license, is unwilling to engage in good faith
license negotiations, and instead sues the patentee.

17 (*Id.*)

18 Here, as explained above, the court has determined that neither applying for a
19 license nor negotiating good faith for a license are conditions precedent to Motorola's
20 obligations to grant licenses on RAND terms. Additionally, Microsoft has stated to this
21 court that not only does it believe that it needs a license, it is ready and willing to accept a
22 license on RAND terms. (*See, e.g.*, Microsoft Reply to Mot. Dismissing Inj. Relief (Dkt.

1 # 152) at 9 (“The indisputable evidence is that Microsoft is seeking a license on RAND
2 terms—in this very action.”).⁷ Thus, the entire basis for Motorola’s assertion that
3 Microsoft has repudiated its rights to a RAND license is unwarranted.

4 Moreover, although Motorola cites no legal standard for repudiation, repudiation
5 is closely related with the doctrine of anticipatory breach. An anticipatory breach occurs
6 when one of the parties to a bilateral contract either expressly or impliedly repudiates the
7 contract prior to the time for performance. *Lovric v. Dunatov*, 567 P.2d 678, 683 (Wash.
8 App. Ct. 1977). A party’s intent not to perform his or her contractual obligations,
9 however, may not be implied from “doubtful and indefinite statements that the
10 performance may or may not take place,” or from “a negative attitude” alone. *Id.*;
11 *Palmiero v. Spada Distrib. Co.*, 217 F.2d 561, 565 (9th Cir. 1954). The law requires a
12 positive statement or action by the promisor indicating distinctly and unequivocally that
13 he or she either will not or cannot substantially perform any of his contractual
14 obligations. *Lovric*, 567 P.2d at 683.

15 Here, Motorola points to no positive statement or action by Microsoft indicating
16 that Microsoft will not perform its end of the bargain. Indeed, as stated above, Microsoft
17 has affirmatively represented that it will take a RAND license from Motorola for the
18 standard essential patents. Moreover, the court will not find that Microsoft has
19 repudiated its rights to a RAND license by simply seeking court relief in attempting to

20
21 ⁷ The court takes Microsoft’s assertion at its word and will hold Microsoft to that
22 statement throughout the course of this litigation. Indeed, at the November 19, 2012 trial on the
RAND contract issues, the finder-of-fact will determine a RAND royalty rate for Motorola’s
relevant standard essential patent portfolios.

1 enforce the terms of Motorola's commitments to the IEEE and ITU. Motorola has
2 committed to license its standard essential patents on RAND terms, and, if a third-party
3 beneficiary to that commitment does not believe Motorola is meeting its obligations
4 thereto, the courthouse may be the only place to resolve the differences. In sum,
5 Microsoft has not repudiated its rights as a third-party beneficiary to Motorola's
6 agreements with the IEEE and the ITU to grant licenses to its standard essential patents
7 on RAND terms. Accordingly, the court denies Motorola's motion for partial summary
8 judgment (Dkt. # 236).

9 **2. Microsoft's Breach of Contract Motion**

10 Having determined that Microsoft continues to have a right to a RAND license,
11 the court now examines whether Motorola's October 21 and 29 Letters offering to license
12 its standard essential patents to Microsoft breached its RAND obligations. Microsoft
13 contends that by sending its October 21 and 29 Letters, Motorola breached its
14 commitments to the IEEE and the ITU because the requested royalty rate (1) resulted in
15 "blatantly unreasonable" cash payments, and (2) applied to a "blatantly unreasonable"
16 base—the sale price of Xboxes and computers running Windows. (Microsoft Mot. at 18-
17 22.)

18 With respect to the cash payment, Microsoft asserts that Motorola's requested
19 royalty rate (2.25% for each of Motorola's 802.11 and H.264 portfolio of standard
20 essential patents) as applied to the sale price of end products (Xbox in the case of 802.11
21 Standard essential patents, and personal computers running Microsoft Windows in the
22 case of H.264 Standard essential patents) would result in approximately \$4 billion per

1 year in licensing fees. (Microsoft Mot. at 18-19.) According to Microsoft, when
2 compared to Microsoft's profits and Motorola's royalty revenue from other licensees, a
3 payment of \$4 billion per year in licensing fees is "blatantly unreasonable." (*Id.*)

4 Regarding the base for the royalty, Microsoft asserts that it is "blatantly
5 unreasonable" for the royalty rate to apply to the sale price of Xboxes and computers
6 running Windows. (*Id.* at 20-21.) According to Microsoft, the 802.11 and H.264
7 Standards are but one small part of Microsoft's end products, and Motorola's standard
8 essential patents are but one small part of the 802.11 and H.264 Standards. (*Id.* at 8-9.)
9 Thus, Microsoft believes that the "relevant royalty base for assessing a 'reasonable'
10 royalty is not the selling price of a laptop computer or an Xbox 360 game console, but
11 rather is—at most—the value of the specific component or feature that incorporates the
12 patented invention." (*Id.* at 8.)

13 Motorola responds that its commitments to the IEEE and the ITU do not require
14 Motorola to make unsolicited offers on RAND terms, but instead only requires Motorola
15 to grant licenses, after a negotiation, on RAND terms. (Motorola Resp. at 14-16.) Thus,
16 according to Motorola, because its October 21 and 29 Letters were merely offers to
17 license its standard essential patents, those letters could not have breached its
18 commitments to the IEEE and ITU. (*Id.*) Moreover, Motorola contends that even if it
19 were required to offer on RAND terms, its October 21 and 29 Letters were in fact
20 reasonable. (*Id.* at 16-20.) In support of this contention, Motorola asserts that its offered
21 royalty rate of 2.25% of the end product is both its standard offer given to other
22 implementers of its 802.11 and H.264 patents and similar to the rates of fully-negotiated

1 licenses that include one or more of Motorola's 802.11 and H.264 patents. (*Id.* at 16-17.)
2 Motorola has provided the court with a spreadsheet of more than 50 completed licenses
3 that include one or more of the patents in Motorola's 802.11 and H.264 portfolios. (*Id.* at
4 17.)

5 In short, the central dispute between the parties is whether Motorola's
6 commitments to the IEEE and the ITU require it to offer its standard essential patents on
7 RAND terms. Microsoft asserts that Motorola's Letters of Assurance and declarations
8 require RAND offers. (Microsoft Mot. at 12-17.) Motorola disagrees and argues that
9 because RAND terms are both complex and specific to the parties involved, the patent
10 holder (Motorola, in this case) does not, at the time it makes an initial offer, have
11 sufficient information to be expected to offer on RAND terms. (Motorola Resp. at 9.)
12 Thus, according to Motorola, it is incumbent on the parties to negotiate towards a RAND
13 license. (*Id.* at 9-13.)

14 Motorola's Letters of Assurance to the IEEE and declarations to the ITU state that
15 it "will grant" or "is prepared to grant" licenses on RAND terms to all applicants. The
16 language of Motorola's agreements focuses on the resulting RAND license between the
17 patent holder and the implementer, not on the opening offer. The words of the agreement
18 must be given their ordinary meaning. *Hearst Commc'ns*, 115 P.3d at 267.

19 Additionally, Motorola's declarations to the ITU state that "[n]egotiations are left to the
20 parties concerned and are performed outside [the ITU]." (ITU Policy at 12.) Similarly,
21 the IEEE Policy recites that the IEEE is not responsible "for determining whether any
22 licensing terms or conditions provided in connection with submission of a Letter of

1 Assurance, if any, or in any licensing agreements are reasonable and non-discriminatory.”
2 (IEEE Policy at 19.) Thus, the language of Motorola’s agreements with the IEEE and the
3 ITU envisions a negotiation between the parties towards a resulting RAND license. This
4 give-and-take understanding of the RAND licensing process is buttressed by testimony of
5 Michele Herman, Microsoft’s former Associate General Counsel and Senior Director of
6 Intellectual Property, who stated that the negotiation process was critical to the process of
7 determining a RAND license. (Post Decl. Ex. 21 (Dkt. # 230-5) at 23-25 (Herman Tr.);
8 Post Decl. Ex. 22 (Dkt. # 230-5) at 28 (Herman Article).)

9 Because the IEEE and the ITU agreements anticipate that the parties will negotiate
10 towards a RAND license, it logically does not follow that initial offers must be on RAND
11 terms. Here, critical to the court is the observation that RAND terms cannot be
12 determined until after a negotiation by the parties (or, in this case, after a court
13 determines RAND terms because the parties cannot agree). Indeed, Microsoft’s expert in
14 a related matter stated that “RAND does not dictate specific licensing terms, but provides
15 flexibility with respect to specific deals.” (Berneman Rpt. (Dkt. # 275-1) at 4.) As stated
16 above, the purpose behind the IEEE and the ITU agreements is to ensure widespread
17 access to standard essential patents. Thus, a requirement that the standard essential
18 patent holder (here, Motorola) make unsolicited offers on RAND terms would frustrate
19 this purpose by discouraging the standard essential patent holder to make initial contact
20 with implementers for fear that it will later be sued for making an initial offer that is later
21 determined as not RAND. Accordingly, the court concludes that under Motorola’s
22

1 | agreements with the IEEE and the ITU, Motorola need not make initial offers on RAND
2 | terms.

3 | This conclusion, however, does not mean that Motorola, as the owner of standard
4 | essential patents subject to RAND licensing agreements with the IEEE and ITU, may
5 | make blatantly unreasonable offers to implementers. Such behavior would frustrate the
6 | purpose behind the agreements by allowing the standard essential patent owner to abuse
7 | its power as a standard essential patent holder and extract higher than reasonable royalty
8 | rates (or, at a minimum, royalty rates consistently on the high range of RAND terms).

9 | Thus, although the language of Motorola's agreements do not require it to make offers on
10 | RAND terms, any offer by Motorola (be it an initial offer or an offer during a back-and-
11 | forth negotiation) must comport with the implied duty of good faith and fair dealing
12 | inherent in every contract.⁸ *Badgett v. Sec. State Bank*, 807 P.2d 356, 360 (Wash. 1991).

13 | In its motion, Microsoft asserts that Motorola's October 21 and 29 Letters offering
14 | licenses to Motorola's standard essential patents did so on blatantly unreasonable terms.
15 | The conundrum for the court is that before it can determine whether Motorola breached
16 | its duty to make good faith offers by its October 21 and 29 Letters, the court must first
17 | determine the RAND terms of an agreement between Motorola and Microsoft for
18 | Motorola's relevant portfolios of standard essential patents. In other words, to determine
19 | whether Motorola's offers were so blatantly unreasonable as to breach its duty of good
20 | faith, it is necessary in this instance to compare the offer against a true RAND royalty

21 |
22 | ⁸ Indeed, Motorola agrees that any offer on its part to license its standard essential patents
must comport with its duty of good faith and fair dealing. (Motorola Reply at 14.)

1 rate. Thus, it would be improper based on the facts and argument presented to the court
2 in Microsoft's motion for summary judgment for the court to determine that as a matter
3 of law Motorola's offers were so unreasonable as to breach its duty of good faith and fair
4 dealing. Such a finding is heavily fact intensive and is appropriately placed in the hands
5 of a finder-of-fact that knows what in fact constitutes a RAND agreement between the
6 parties.

7 Microsoft attempts to avoid this conclusion by suggesting that Motorola's offers
8 were *prima facie* blatantly unreasonable such that no reasonable person could find that
9 the offers were RAND. (*See generally* Microsoft Mot.) Although the court can envision
10 a situation where an offer is so exorbitant and unjustified that it breaches the patentee's
11 duty to offer in good faith without needing to weigh it against a true RAND agreement,
12 this is not that situation. Here, Motorola has presented the court with numerous licensing
13 agreements suggesting that it has received comparable royalty rates to those offered to
14 Microsoft from other licensees for some, if not most, of its patents essential to the 802.11
15 Standard and the H.264 Standard. (Motorola Resp. at 17-20.) Although Microsoft
16 asserts that these license agreements are not relevant (and not admissible evidence) with
17 respect to any RAND obligations Motorola has with respect to Microsoft, the court
18 concludes that a determination of the relevance of Motorola's prior license agreements is
19 inherently fact intensive, more appropriate as a motion in limine, and cannot be decided
20 at this time. To make such a determination, the court must engage in a factual
21 comparison between the circumstances of each prior agreement and the circumstances
22 that exist between the parties to this litigation with the benefit of complete briefing as to

1 the law of relevance and admissibility in the context of applicability of prior licenses for
2 patent damages.

3 Additionally, at the summary judgment stage, the court finds unpersuasive
4 Microsoft's assertion that Motorola's 802.11 and H.264 Standard essential patent
5 portfolios cover only a minimal part of the technology involved in the 802.11 and H.264
6 Standards. Microsoft has provided the court no evidence to support this assertion (*see*
7 *generally* Microsoft Mot.), and thus, has not met its burden of demonstrating that no
8 genuine issue material fact exists with respect to the importance of Motorola's standard
9 essential patents.

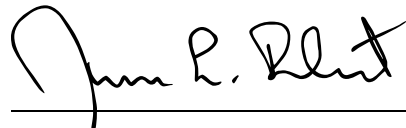
10 Finally, Microsoft has made no showing that Motorola's October 21 and 29
11 Letters were sent in bad faith. Good faith has been defined as "honesty in fact in the
12 conduct or transaction concerned." *Heinrich v. Titus-Will Sales, Inc.*, 868 P.2d 169, 174
13 (Wash. App. Ct. 1994). While the court will not at this time set forth a legal standard
14 with respect to Motorola's duty to offer its patents in good faith, it is likely that any
15 analysis of Motorola's duty will involve, at least in part, an examination of the intent
16 behind Motorola's offers. Microsoft has only offered testimony tending to show that
17 Motorola understood the financial impact of its offers. (Wion Decl. Ex. 12 (Dkt. # 238-
18 12) at 27-28 (Dailey Tr.)) This showing, on its own, however, does not establish that
19 Motorola was acting dishonestly. Motorola very well could have intended the offers in
20 its October 21 and 29 Letters as initial contacts with a potential licensee of its patents.
21 Indeed, Motorola offered on its standard terms.

1 Based on the foregoing, Microsoft has failed to carry its burden of demonstrating
2 to the court that no issues of material fact exist with respect to its breach of contract
3 claim. The court, therefore, denies Microsoft's motion for summary judgment for breach
4 of contract (Dkt. # 236).

5 **IV. CONCLUSION**

6 Based on the foregoing, the court DENIES Microsoft's motion for summary
7 judgment for breach of contract (Dkt. ## 236 (sealed motion) & 237 (redacted motion))
8 without prejudice. The court also DENIES Motorola's motion for partial summary
9 judgment regarding repudiation (Dkt. # 228 (redacted motion) & 231 (sealed motion))
10 with prejudice.

11 Dated this 6th day of June, 2012.

12 
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14 The Honorable James L. Robart
15 U.S. District Court Judge
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