

No. 14-1089

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

MICROSOFT CORPORATION, a Washington corporation,

Plaintiff-Appellee,

v.

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

Defendants-Appellants.

MOTOROLA MOBILITY, INC., GENERAL INSTRUMENT
CORPORATION,

Plaintiffs-Appellants,

v.

MICROSOFT CORPORATION, a Washington corporation,

Defendants-Appellees.

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

**MICROSOFT CORPORATION'S REPLY IN SUPPORT OF ITS
MOTION TO TRANSFER FOR LACK OF JURISDICTION**

Motorola's opposition inaccurately and incompletely presents the relevant facts, the Ninth Circuit's analysis in the prior appeal in this case, and the district court's rulings. Motorola also ignores or attempts to duck Supreme Court precedent that establishes that this Court lacks appellate jurisdiction. Accordingly, Microsoft's motion to transfer should be granted.

ARGUMENT

I. The Ninth Circuit's Ruling Is Law Of The Case.

Motorola cannot escape the law of the case by asserting that the Ninth Circuit blundered into its jurisdictional ruling, failing to recognize that Motorola's patent case had been consolidated with Microsoft's contract case or the supposed significance of that fact. Putting aside that Motorola repeatedly assured the Ninth Circuit that it had jurisdiction, Motorola's suggestion that the Ninth Circuit was unaware of the consolidation is simply wrong. *See Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 878 (Fed. Cir. 2012) (noting that the district court had "consolidated the two cases in the interest of judicial economy"). Likewise, Motorola's assertions that "neither party addressed" consolidation (Opp. 4) and that the Ninth Circuit did not "assess the implications of the consolidated patent infringement case on

its jurisdiction” (Opp. 5) are wrong. While discussing appellate jurisdiction, the Ninth Circuit panel raised the question whether Microsoft’s contract complaint implicated patent law issues “because there is also a United States patent suit consolidated here,” Ex. F at 32–33,¹ but ultimately (and properly) treated consolidation as irrelevant.² The parties did not emphasize consolidation because they too recognized that it was irrelevant to appellate jurisdiction. Only after Motorola lost, and decided it would prefer review by a different appellate court, has consolidation become a supposedly-dispositive fact.

Motorola inaccurately suggests that the Ninth Circuit was unaware that the “district court’s approach to the November 2012 bench trial” would make “the royalty rate ‘central to the parties’ dispute,” or that the district court might employ a modified *Georgia-Pacific* approach in determining contractual RAND royalties. (Opp. 19.) The

¹ Unofficial transcript prepared from the Ninth Circuit’s recording at http://www.ca9.uscourts.gov/media/view.php?pk_id=0000009553.

² Motorola’s argument that a decades-old Ninth Circuit transfer decision shows that the Ninth Circuit’s decision here conflicted with that Court’s own precedent is misguided. (See Opp. 10, 19, *citing Interpart Corp. v. Italia*, 777 F.2d 678 (Fed. Cir. 1985).) *Interpart* predated, and could not have survived, *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002). (See Mot. 17–19.)

Ninth Circuit was well aware that the district court planned “to determine the RAND amount and enforce it.” Ex. F at 41. And, months earlier, Motorola had served expert reports urging the district court to adopt a modified *Georgia-Pacific* approach to determining RAND royalties. Ex. G ¶ 64; Ex. H ¶¶ 54–55.

Finally, Motorola’s assertion that the Ninth Circuit ruling involved “a narrow and tangential matter unrelated to the crux of this dispute” (Opp. 2) is wrong—the Ninth Circuit held that Motorola’s RAND commitments are contracts that Microsoft is entitled to enforce as a third-party beneficiary, thus confirming the basis for Microsoft’s complaint. 696 F.3d at 884 (Motorola’s worldwide contractual commitments govern “what actions Motorola may take” with respect to its standard-essential patents). Even if Motorola were correct, that would have nothing to do with appellate jurisdiction, which is defined by Microsoft’s complaint as a whole, *Christianson v. Colt Indus Operating Corp.*, 486 U.S. 800, 809 (1988), not issue-by-issue.

The Ninth Circuit properly found that it had jurisdiction based on an accurate understanding of Microsoft’s contract case. But even if this were a close question—and it is not—the Supreme Court has directed

that in cases of jurisdictional “close questions,” the circuit courts should adhere “strictly to principles of the law of the case.” *Id.* at 819. Law of the case controls, and appellate jurisdiction lies with the Ninth Circuit.³

II. Consolidation Is Irrelevant To Appellate Jurisdiction.

Motorola’s argument that consolidation creates appellate jurisdiction here ignores *Johnson v. Manhattan Ry.*, 289 U.S. 479, 496–97 (1933), which holds that consolidation “does not merge the suits into a single cause, or change the rights of the parties.” Motorola also misunderstands the import of *Holmes*. (See Mot. 17–19.) It is precisely because *Holmes* “addressed compulsory counterclaims” (Opp. 11) that *In re Innotron Diagnostics*, 800 F.2d 1077 (Fed. Cir. 1986), and the related cases Motorola cites are not good law—*Innotron* rested on the proposition that “consolidation of the cases produced the same status as that which would have obtained if [defendant] had filed its patent claim as a counterclaim.” 800 F.2d at 1080. Because, under *Holmes*, a patent

³ This Court expressly recognized *Christanson*’s “exacting standard” for overcoming law of the case in *Portney v. CIBA Vision Corp.*, 401 Fed. App’x 526, 529 (Fed. Cir. 2010) (unpublished), on which Motorola relies (Opp. 16–17), in which this Court refused to overturn a prior Ninth Circuit determination on appellate jurisdiction.

counterclaim cannot affect jurisdiction, neither can consolidation of a patent case.

Further, Motorola ignores that *CytoLogix Corp. v. Ventana Med. Sys. Inc.*, 513 F.3d 271 (1st Cir. 2008) (per curiam), involved patent and non-patent claims filed by the same plaintiff and tried together. (See Mot. 19.) Microsoft’s contract action and Motorola’s patent action were not consolidated for “all purposes” (Opp. 12)—the district court noted that “the essential facts are not so intertwined and logically connected” that they must be resolved in one lawsuit (Mot. Ex. E at 11), and, indeed, Microsoft’s contract claim was tried alone.

III. Microsoft’s Complaint Provides No Basis For Jurisdiction In This Court.

Motorola does not dispute that Microsoft’s complaint—the sole focus under *Christianson* and *Holmes*—provides no basis for this Court to assert appellate jurisdiction. (Mot. 9–15.) Instead, Motorola offers two alternative jurisdictional theories, neither of which has merit.

A. No “Constructive Amendment” Provides Appellate Jurisdiction.

There was no “constructive amendment” to Microsoft’s complaint that could have turned this contract dispute into a case that arises under the patent laws. (Opp. 13–18.) Indeed, Motorola never explains

what claim it believes the “amendment” added to Microsoft’s complaint, or how that claim arises under the patent laws. Neither the district court nor Microsoft “constructively” added any such claim, and the cases Motorola cites do not support appellate jurisdiction here.⁴

Microsoft’s complaint undermines Motorola’s vague suggestion that there was a constructive amendment “to permit Microsoft to seek a license on RAND terms—and a determination of the RAND royalty rate.” (Opp. 14.) From the outset, Microsoft sought a declaration that it was entitled to a license from Motorola on RAND terms (Mot. Ex. A at 22), and also sought a judicial accounting of a RAND royalty (*id.* at 4) as part of Microsoft’s contract claim. Not even Motorola argues that those requests for relief meant that Microsoft’s complaint arose under patent law, and it fails to explain how a supposed “constructive amendment” to the same effect changed anything. Motorola’s allusion to a supposed request for a “new licensing contract” (Opp. 15) is similarly flawed, as

⁴ *Chamberlain Grp., Inc. v. Skylink Tech, Inc.*, 381 F.3d 1178 (Fed. Cir. 2004), concerns the effect of dismissals of patent claims with or without prejudice. *Id.* at 1189–90. In *Eli Lilly & Co. v. Aradigm Corp.*, 376 F.3d 1352 (Fed. Cir. 2004), the parties’ inventorship dispute began before the patent issued, and the jurisdictional issue concerned the statutory basis for this claim, not whether a non-patent claim had been constructively amended to arise under the patent laws. *Id.* at 1357 n.1.

no such claim has been litigated in this case (and it would not arise under the patent laws even if it had).⁵

Finally, Motorola’s “constructive amendment” theory gains no support from the district court’s decision to determine a RAND royalty to aid in resolving Microsoft’s contract claim, which Motorola mischaracterizes as a “patent damages analysis.” (Opp. 14.) Motorola’s error is evidenced by its statement that the RAND findings were “similar to the findings a court would make if it were determining damages for patent infringement.” (Opp. 19; *see also* Opp. 5 (bench trial “resembled a patent damages trial”).) “*Similar to* a question of patent law” does not satisfy the “arising under” test (neither does “*resembled a* question of patent law”), and the court here did not determine damages for patent infringement.⁶ The fact that, in some sense, the court placed a value on certain patents does not raise a substantial question of

⁵ Motorola’s citation to the district court’s preliminary injunction order (Opp. 15) in support of its “constructive amendment” theory belies its claim that the jurisdictional import of the RAND determination only arose after Motorola’s appeal to the Ninth Circuit—that preliminary injunction decision is the very order Motorola appealed.

⁶ This stands in sharp contrast to *Parental Guide of Texas, Inc. v. Thomson, Inc.*, 446 F.3d 1265, 1267 (Fed. Cir. 2006), where the dispute concerned a “Litigation Royalty” defined explicitly by Section 284.

patent law, any more than would a case involving a corporate acquisition in which part of the purchase price depended on the value of a patent portfolio. *See Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 599 F.3d 1277, 1284 (Fed. Cir. 2010) (“[T]he mere presence of a patent as relevant evidence to a claim does not by itself present a substantial issue of patent law.”).

Motorola’s reference to “[t]he district court’s application of Section 284 to standard-essential patents” (Opp. 17) is wholly unsupported. The district court *did not* apply Section 284, nor did it “purport[] to change the application of the well-established *Georgia-Pacific* analysis applied by district courts across the nation.” (Opp. 18.) The court used *Georgia-Pacific* as a starting point to analyze a contract issue, and made explicit that “the hypothetical negotiation under a RAND obligation *must be different* than the typical *Georgia-Pacific* analysis historically conducted by courts in a patent infringement action.” (Opp. Ex. 5 ¶ 92 (emphasis added).)

Nor does a supposed need for “[u]niformity among courts in different circuits as to how to calculate the royalty rate for standard-essential patents” (Opp. 18) give rise to jurisdiction. A contractual

RAND royalty does not reflect “damages adequate to compensate” a standard-essential patent holder for any “use made” of an invention by implementers of the standard, 35 U.S.C. § 284—it is determined rather by the patentee’s particular contractual commitment (which may be, as here, worldwide and involve non-U.S. patents), to a particular standard-setting organization, as part of a particular technical standard.

B. The District Court Did Not “Incorporate” Any Patent Law Rulings Into Its RAND Determination.

Motorola’s assertions concerning the district court’s means-plus-function ruling in the consolidated patent case are inaccurate. Arguing that this ruling in the patent case “necessarily informed the calculations in the RAND order,” Motorola cites, not the RAND order, but a remark by the district court at a hearing three months before that order issued. (Opp. 15-16.) Motorola is forced to resort to this tactic because the patent case means-plus-function ruling *did not* inform the RAND determination in the contract case (and would not have converted that case into a case arising under the patent laws even if it had). The district court considered the three patents that were the subject of the patent case invalidity ruling as part of the “MBAFF Family” of Motorola H.264 standard-essential patents (Opp. Ex. 5

¶ 163), but made no mention of the invalidity ruling. Instead, stating that this family of patents was essential to the standard (*id.* ¶ 200) and “technically valuable because it is directed to [] core H.264 features” (*id.* ¶ 202), the district court explained how the parties would value the family in light of Motorola’s RAND commitment. (*See id.* ¶¶ 217–18.)

Motorola’s argument that the district court “could not value Motorola’s patents without examining their scope” (Opp. 15), and that this presents questions of claim construction or infringement, is flatly contradicted by the RAND order itself, which treats Motorola’s patents as essential to the standards even though “none of the terms comprising the claims . . . have been construed by a court.” (*E.g.*, Opp. Ex. 5 ¶¶ 169, 189, 203, 226, 235; *see also id.* ¶ 340 & n.13.)⁷

⁷ *Portney*, in which the district court “held a claim construction hearing to determine the boundaries of the patents in suit” (Opp. 16-17) is readily distinguishable, as is *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000), in which determining breach of contract required interpreting the patents and determining whether a product infringed.

Dated: December 12, 2013

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CERTIFICATE OF INTEREST

Counsel for Defendant-Appellee Microsoft Corporation certifies the following:

1. The full name of every party or *amicus* represented by me is:

Microsoft Corporation.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

N/A.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or *amicus* represented by me are:

None.

4. The names of all law firms, partners and associates that have appeared for on behalf of Microsoft Corporation in USDC Case No. 2:10-cv-01823-JLR or are expected to appear in this Court are: Sidley Austin LLP, Cafo Harrigan Leyh & Eakes LLP (formerly Danielson Harrigan Leyh & Tollefson LLP), Michael Best & Friedrich LLP; Anthony Balkissoon, William H Baumgartner, Jr., Richard A. Cederoth,

Theodore W. Chandler, David C. Giardina, David Greenfield, Robert N. Hochman, Douglas I. Lewis, Nathaniel C. Love, John W. McBride, Shubham Mukherjee, Brian R. Nester, Carter G. Phillips, David T. Pritikin, Ellen S. Robbins, Constantine L. Trela, Jr., Kevin C. Wheeler, and Herman F. Webley of Sidley Austin, LLP; Shane P. Cramer, Arthur W. Harrigan, Jr., and Christopher T. Wion of Cafo Harrigan Leyh & Eakes LLP (formerly Danielson Harrigan Leyh & Tollefson LLP); J. Donald Best, Charles J. Crueger, and Christopher C. Davis of Michael Best & Friedrich LLP; T. Andrew Culbert and David Killough of Microsoft Corporation.

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CERTIFICATE OF SERVICE

I certify that on this 12th day of December, 2013, the foregoing Motion to Transfer was filed with the Court using the Court's electronic case filing system, which will send notification to all registered users.

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EXHIBIT F

No. 12-35352

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MICROSOFT CORPORATION,
Plaintiff-Appellee,

V.

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

Defendants-Appellants.

BEFORE NINTH CIRCUIT COURT JUDGES WALLACE, THOMAS and
BERZON

ORAL ARGUMENT

September 11, 2012

James R. Browning US Courthouse
United States Court of Appeals - 9th Circuit
95 Seventh St
San Francisco, California

TRANSCRIBED BY: ANGELA KOTT, CSR 7811

A P P E A R A N C E S

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---oOo---

1 patents?

2 MR. PHILLIPS: I believe that's right, yes, Your
3 Honor.

4 JUDGE WALLACE: Why would we consider this not a
5 patent issue?

6 MR. PHILLIPS: Because, frankly, I would not be
7 unhappy if you ended up sending it to the federal circuit
8 because it's only two blocks away from where I work. But
9 I think the right answer is that this Court does have
10 jurisdiction over this because it doesn't arise under the
11 Patent Act. There's no compulsory counterclaim that
12 provides for a patent, and the decision is based strictly
13 on the question of how to interpret the contract.

14 JUDGE BERZON: That's one way, but the other way
15 the patent question comes in is that the case in Germany
16 was set up as a patent case. And the question -- the
17 contract question did come up but was quickly disposed of
18 for the reason that you stated, i.e., that it's not
19 enforceable in Germany. And then there was also some
20 litigation or discussion of the Orange Book procedure,
21 which you might look at as the parallel to it.

22 So the question of why isn't this a patent case
23 has two meanings here. One is jurisdictional, but the
24 other one is for purposes of the anti-suit injunction
25 there is lots of laws saying that we don't enjoin foreign

1 patent litigation.

2 MR. PHILLIPS: Right, but that's because if you
3 are litigating U.S. patent rights and litigating foreign
4 patent rights, those are completely parallel. They don't
5 intersect at all.

6 JUDGE BERZON: That's some degree going on here
7 because there also is a United States patent suit
8 consolidated here.

9 MR. PHILLIPS: But the place where this entirely
10 changes from parallel proceedings is at the point that you
11 identified at the outset, which is the agreement that
12 Motorola entered into, which was to provide a license
13 across the board globally.

14 JUDGE BERZON: Okay. So to me, the hardest
15 problem here is what do we have to decide in order to
16 decide the propriety of this injunction?

17 You have made certain claims about what this
18 contract is about and what the district judge can do. And
19 it seems to me that the antitrust injunction -- the
20 anti-suit injunction has to assume those. It has to
21 assume that the district judge can set the RAND rate and
22 that he can essentially grant a license and that inherent
23 in this commitment is not having injunctions against the
24 patent because there's going to be a license.

25 Now, suppose all that turns out to be wrong. You

1 colleague about the patent law and the ability and
2 importance of enforcing their patent rights are completely
3 uninterfered with under these circumstances.

4 JUDGE WALLACE: Your point is that you think that
5 it's been demonstrated that it's capable of the -- the
6 Court is capable of disposing of this issue?

7 MR. PHILLIPS: Yes, Your Honor.

8 JUDGE WALLACE: And you don't think it has to go
9 any further, that's Applied Medical and Gallo, as long as
10 you get a reasonable chance?

11 MR. PHILLIPS: I think that coupled with all of
12 the other factors, if all of the other factors tilt in
13 favor of the injunction, and the District Court has, in
14 fact, decided the right way to approach it is to grant an
15 injunction, then I think what this Court should do is
16 respect that and regard that as not an abuse of
17 discretion.

18 JUDGE WALLACE: So what we would have to do is
19 say that the negotiations are liable to take place even
20 though there was an offer and a complete rejection by way
21 of a filing of a lawsuit, and that if the parties never
22 get together, which looks like what we have on the record
23 so far, it's a long way from getting started on mediation,
24 that the law will allow the District Court to determine
25 the RAND amount and enforce it.

EXHIBIT G

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON**

MICROSOFT CORPORATION,

Plaintiff,

v.

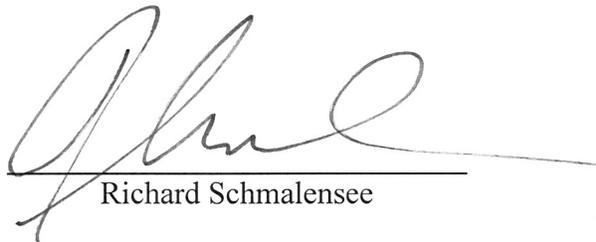
CIVIL ACTION FILE
Case No. 2:10-cv-01823

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

Defendants.

EXPERT REPORT OF RICHARD SCHMALENSEE

July 24, 2012



Richard Schmalensee

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I. Introduction

A. Qualifications

1. My name is Richard Schmalensee. I am the Howard W. Johnson Professor of Economics and Management at the Massachusetts Institute of Technology (MIT). I have taught at MIT since 1977, except for 1989-1991 when I was a member of the President's Council of Economic Advisers. I served as the John C Head III Dean of the MIT Sloan School of Management from July 1998 until I stepped down at the end of June 2007.

2. I am a Director at Global Economics Group, an economic consulting firm with a number of offices in the United States and a worldwide network of experts. I have served as a Director of the Long Island Lighting Company, the International Securities Exchange, MFS Investment Management, and the International Data Group, and as an elected member of the Executive Committee of the American Economic Association.

3. As an academic, I have specialized in using economics to understand the operation of firms and industries, a field known in the profession as industrial organization. Industrial organization economists use economic theory and empirical methods to analyze how firms, consumers, governments and other institutions act and interact with each other in the presence of real world complexities, such as the patent system and standard setting. I was the co-editor of Volumes I and II of the *Handbook of Industrial Organization*, a standard reference in the field, and I wrote the entry on Industrial Organization in the first edition of *The New Palgrave*, an authoritative encyclopedia of economics. I am the 2012 Distinguished Fellow of the Industrial Organization Society. I was the Editor-In-Chief of *Competition Policy International*,

economically appropriate approach to setting RAND terms, given the evidence that is likely to be available to the Court.⁷⁴

63. I understand that Motorola Mobility argues that it made a proposal for licensing its 802.11 and H.264 patent portfolios in the letters it sent to Microsoft in October 2010 and that if Microsoft did not find the proposed royalty rates acceptable, then Microsoft should have engaged Motorola Mobility in further negotiation regarding those rates.⁷⁵ I also understand that Microsoft argues that Motorola Mobility should have been obligated to offer RAND terms, that the royalty rates it did offer in the October 2010 letters were not RAND, and that Microsoft did not believe it was obligated to engage in further negotiations.⁷⁶ I also understand that the Court has ruled that there is no requirement that an initial offer needs to be on RAND terms.⁷⁷

64. The logical starting point for assessing RAND terms is therefore to ask what the parties would have agreed to had they continued to negotiate in good faith following the October 2010 letters. That is, what are the royalty rates and other material terms that could have been agreed to in a hypothetical negotiation between Motorola Mobility and Microsoft at that time. (Per the discussion above, a range of royalty rates and other material terms might result from such a negotiation, and all elements in that range might therefore be RAND.) As I understand it, there were no discussions between Motorola Mobility and Microsoft regarding the SEP patents at issue in this case that preceded the October 2010 letters. This approach is essentially the

⁷⁴ I also want to be clear that I am not offering testimony regarding what specific levels of royalties, or types of other terms, would or would not be RAND in this case. I understand that Motorola Mobility will offer testimony from other experts regarding those issues.

⁷⁵ I also understand that Motorola Mobility argues that there were a range of other terms and conditions that are customarily negotiated in such licenses that were not specified in the letter and that would need to be negotiated in any event. See Motorola Mobility's Motion for Partial Summary Judgment, March 30, 2012, at pp. 14-23

⁷⁶ Microsoft Corporation's Motion for Summary Judgment, March 30, 2012 [hereinafter, "Microsoft Summary Judgment Motion"], at pp. 7-23.

⁷⁷ Order Denying Microsoft's Motion for Summary Judgment and Motorola Mobility's Motion for Partial Summary Judgment, June 6, 2012, at pp. 24-25.

Georgia-Pacific approach, so that the assessment in this case should generally take into account the *Georgia-Pacific* factors, modified or extended as needed to account for the specific circumstances of the essential portfolios negotiation in this case.⁷⁸

65. In this case, of particular relevance is the fact that Motorola Mobility has declared the patents to be essential to the 802.11 and H.264 standards. This has at least two implications. First, at least from Motorola Mobility's perspective, these are valuable patents as Motorola Mobility believes them to be SEPs for commercially successful standards.⁷⁹ Second, because they are SEPs, Motorola Mobility undertook various RAND commitments to the IEEE and ITU, and I understand that Microsoft claims that is entitled to license all of Motorola's H.264 and 802.11-essential patents on RAND terms. I further understand that Motorola disputes Microsoft's claim that all of Motorola's 802.11-essential patents need to be licensed on RAND terms. However, for purposes of my report, I assume that all of Motorola's H.264 and 802.11-essential patents are subject to Motorola's RAND obligations, and therefore must be licensed on RAND terms.

B. Important Factors

66. The types of evidence that are most likely to provide practical guidance as to the likely outcome of the hypothetical negotiation between Motorola Mobility and Microsoft are royalty rates and other terms for comparable licenses.⁸⁰ This was the approach taken by the FTC in

⁷⁸ The *Georgia-Pacific* decision recognizes that the factors enumerated therein may not be exhaustive. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

⁷⁹ This is not to suggest that they should be viewed as valuable because they are included in the standard. Rather, they are valuable because they are viewed as essential components of a technology that has proven to be valuable.

⁸⁰ Roger G. Brooks (2011), "Standards-Setting Organizations, and the FTC's Campaign Against Innovators," *American Intellectual Property Law Association Quarterly Journal*, Vol. 39, No. 4, pp. 435-76, at p. 471. Brooks notes that: "The information pertaining to real-world value that is available (particularly in the case of standardized technologies that will generally be widely licensed) is the rate that others have agreed to pay for

EXHIBIT H

◆ CONTAINS CONFIDENTIAL FINANCIAL INFORMATION -- OUTSIDE
ATTORNEYS' EYES ONLY -- SUBJECT TO PROTECTIVE ORDER ◆

The Honorable James L. Robart

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

MICROSOFT CORPORATION, a Washington
corporation,

Plaintiff,

v.

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

Defendants.

CASE NO. C10-1823-JLR

EXPERT REPORT OF CHARLES R. DONOHOE

♦ CONTAINS CONFIDENTIAL FINANCIAL INFORMATION -- OUTSIDE
ATTORNEYS' EYES ONLY -- SUBJECT TO PROTECTIVE ORDER ♦

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Expert Witness Report of Charles R Donohoe

I. INTRODUCTION

1. I have been retained by Ropes & Gray LLP on behalf of Motorola Mobility, Inc. (“Motorola”) as an expert to provide opinions on (1) the industry practice of licensing patents in high-technology fields; (2) offers made by Motorola, Inc.¹ to Microsoft Corp. in October 2010 for a license to Motorola’s 802.11² and/or H.264³ essential-patent portfolios; and (3) what would be the result of a hypothetical negotiation between Motorola and Microsoft regarding a license to those portfolios, including a grant-back license to Microsoft’s 802.11 and H.264 essential-patent portfolios. Based on my analysis and investigation, I have reached certain conclusions and developed certain opinions on the issues that I discuss in this report. If asked, I will testify in deposition and at trial regarding the matters set forth in this report.
2. Specifically, I have been asked to provide my opinions regarding (1) the manner in which parties negotiate licenses to patents subject to a commitment to license under reasonable and non-discriminatory (“RAND”) terms; (2) practices in the industry regarding bilateral licensing negotiations; (3) the manner in which Motorola and Microsoft would have negotiated for a license to Motorola’s 802.11 and H.264 essential-patent portfolios (and a

¹ I have been informed that Motorola, Inc. separated into two separate entities on January 4, 2011. As part of that separation, certain patents listed in the Annex to Motorola’s October 21, 2010 letter were retained by Motorola Solutions. Because my opinion below places the time of the hypothetical negotiation at November 2010, before the separation, my analysis assumes that both portfolios would be licensed together.

² The 802.11 Standard is a wireless communication standards that was developed over a period of years by the Institute of Electrical and Electronics Engineers (“IEEE”). The IEEE is known as a standard-setting organization (“SSO”).

³ The H.264 Standard is a video coding standard that was developed over a period of years by the International Telecommunication Union (“ITU”); it is also an SSO.

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would need to be negotiated by the parties, each of which would have an impact on the royalty rate.

53. Having explained how a negotiation of a reasonable royalty -- hypothetical or real -- would have been framed, I will now turn to my analysis for determining that royalty pursuant to a hypothetical (i.e., modified *Georgia-Pacific*) negotiation.

C. Evaluation of a Reasonable Royalty

54. I will now explain my opinion as to what would have been the outcome of a hypothetical negotiation between a willing licensor (Motorola) and willing licensee (Microsoft), acting as reasonable and prudent business people, starting in November 2010. As discussed above, and as suggested by Dr. Schmalensee (*see* Schmalensee Report ¶¶ 52-54, 62-71), I will do this in the context of a modified *Georgia-Pacific* analysis, adapted for the unique circumstances of a negotiation for the portfolios of essential patents consistent with each party's RAND commitments.

VIII. APPLICATION OF THE GEORGIA-PACIFIC FACTORS

55. I understand that the so-called *Georgia-Pacific* factors (*see Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970)) are frequently cited by courts as an aid in developing a reasonable royalty rate in a hypothetical negotiation. These fifteen factors provide criteria, albeit not exhaustive criteria, that a willing licensor and willing licensee would be likely to consider in negotiating a royalty. However, as will be explained below, the *Georgia-Pacific* factors are modified somewhat to take into account the context of RAND licensing and RAND commitments for standard essential patents.¹⁰

¹⁰ Schmalensee Report ¶¶ 66-71.

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193. I reserve the right to amend or supplement my opinion should additional discussions take place between the parties that significantly impact the other material terms not addressed here.

Dated: July 24, 2012



Charles R. Donohoe