ABA SECTION OF SCIENCE & TECHNOLOGY LAW

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AMERICAN BAR ASSOCIATION

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April 24, 2008

Donald S. Clark
Federal Trade Commission
Office of the Secretary
Room 135-H (Annex D)
600 Pennsylvania Avenue, NW
Washington, D.C. 20580

Re: Negotiated Data Solutions LLC, File No. 051-0094

Dear Secretary Clark:

This comment is submitted on behalf of the American Bar Association (ABA), Section of Science & Technology Law concerning the Commission's ruling in *In the Matter of Negotiated Data Solutions LLC*, File No. 051-0094 ("N-Data"). It is being presented on behalf of the Section only and has not been approved by the House of Delegates or the Board of Governors of the American Bar Association and should not be construed as representing the position of the Association.[1]

The ABA is the largest voluntary professional association in the world. With more than 400,000 members, the ABA provides law school accreditation, continuing legal education, information about the law, programs to assist lawyers and judges in their work, and initiatives to improve the legal system for the public. The Section of Science & Technology Law (the "Section") was formed in 1974 to provide a forum for addressing issues at the intersection of law, science, and technology. The Section has long addressed the issue of standardization, as essential to technological development. The Section's Technical Standardization Committee seeks to improve the development of solutions to policy issues having a mixture of legal and technical factors by seeking to balance or change the law or rules applicable to standards development and use. The Technical Standardization Committee developed and published the ABA's *Standards Development Patent Policy Manual* in August 2007.

[1] The Section of Science & Technology notes that the Section of Antitrust Law believes that the consent decree raises important issues as to the appropriate scope of Section 5 of the Federal Trade Commission Act, but has chosen not to address those concerns in a context involving the resolution of a specific investigation. The fact that these comments do not address this issue should not be interpreted to suggest that the Section of Antitrust Law will not take a position on this issue in a context it feels is more appropriate to address the underlying policy concerns.

The Section supports as a general principle that a party who makes a licensing commitment with regard to the party's essential patents prior to adoption and lock-in of a technical standard, should be required to honor that licensing commitment. We understand the FTC's action under Section 5 of the Federal Trade Commission Act against such a party's successor in interest, Negotiated Data Solutions ("N-Data"), to address N-Data's attempt to breach or renounce such licensing commitment to the detriment of implementers and end users of the standard. Such enforcement actions need to be clear and balanced in their application, taking into account that all interested parties should be encouraged to participate in standards development organizations (SDOs).

The Section believes strongly that each SDO should remain free to adopt a patent policy that best meets the needs of all of its stakeholders, many of whom operate under different business models or have different objectives. The Section does not take a position on the merits of the decision, but is seeking clarification because of the potential precedential effect it may have on standards activities or standards-related patent disputes. Because we believe that this decision will be relied upon by standards developers, participants and implementers as well as various authorities that resolve patent-related standards disputes, it would be helpful to more fully develop the record with respect to many of the specific facts discussed below and make it clear that the decision and consent agreement are limited to the facts of this case, and are not based on the IEEE patent policy.

The Section would like to share with the Commission three concerns that, if not addressed, have the potential to adversely impact the ability of SDOs to achieve the requisite degree of flexibility and predictability in their patent policies, as well as the ability of participants in a standards setting process to know, with certainty, the consequences of their participation.

First, it is unclear why the license in the Consent Order was crafted with certain terms and precluded others. The license in the Consent Order includes only a one-time *di minimus* lump sum presumably because that was the fee National voluntarily offered in connection with its licensing commitment, and not because of any other reason. However, the basis for other important terms of the license is not as clear. Specifically, the license:

(1) is not limited to essential claims but encompasses all claims of the patents committed to be licensed, (meaning any patent claim whether essential to the standard or not would be implicated and thus included in the $1000.00 licensing obligation),

(2) includes a larger portfolio of patents on subsequent improvements and enhancements not essential to the standard, and

(3) precludes all other terms that would be reasonable and non-discriminatory, *i.e.*, it is expressly exhaustive.

As a result, the Commission's remedy could be misunderstood to encourage SDOs, and/or government agencies that influence or regulate standards setting, to adopt certain specific patent policies regarding the scope of licensing commitments (e.g., not limited to essential claims in specific identified patents). It could also increase uncertainty as to which patents are subject to an SDO's particular patent policy (*e.g.*, only those identified in the commitment or other related patents?), as well as uncertainty about the scope of the licensing commitment imposed on those patents (*e.g.*, only essential claims or all claims?). Such increased uncertainty will increase a patentee's view of its risks associated with active participation in the standards development process and, as a result, could discourage patentees from participating in standards development activities. Further, the specific remedy and license resulting from the *N-Data* consent decree could be misapplied as precedent for defining what is, and what is not, an appropriate reasonable and non-discriminatory term in a license (*e.g.*, a lump sum fee of more than $1000 is not reasonable, or inclusion of other traditional RAND terms is not acceptable).

All stakeholders in the standards development process need to be able to understand and rely on the rules set forth in the SDO's patent policy. Consequently, where the policy is clear, we are concerned about situations in which a party might attempt to use the decision inappropriately to argue that the Commission, any other authority, or any stakeholder would be justified to attempt to modify the rules retroactively. In this case we believe it would be helpful if the Commission clarified that it was not interpreting the IEEE's policy decision as to whether or not licensing commitments would be irrevocable, but rather that the Commission based its decision on the fact that National made a voluntary offer to license and there had been no attempt to revoke that offer until after the industry was locked into using National's NWay technology as part of the IEEE standard. Without this clarification, other facts forming the basis of the Commission's decision may be misunderstood and misapplied in subsequent disputes. For example, it is unclear what interchanges between Vertical and the IEEE had taken place at the time of Vertical's attempt to change its licensing commitment. Did the IEEE establish that Vertical's letter met the IEEE's requirements for letters of assurance or did the IEEE negotiate the terms of that letter of assurance with Vertical? To address this concern, the Section requests that the Commission clarify that its actions are taken to remedy the acts of a particular participant and do not question, or affect the validity or applicability of, the SDO's patent policy

Second, without further development of the record, the Commission's decision could be relied upon and applied to other patent licensing situations involving a standard, rather than as a response to the particular facts applicable to the N-Data/IEEE situation in which a licensing commitment was made with regard to essential patents prior to adoption and lock-in of a technical standard. To address this concern, it would be useful if the Commission would clarify that its decision is not intended to set forth a *per se* rule that it will intervene in every case in which a patentee arguably engages in unfair competition in connection with standards setting.

For example, the Commission mentions in its Analysis that certain private causes of action may not be available. It would, therefore, also be useful if the Commission would elaborate on its statement regarding the unavailability and insufficiency of private causes of action, and how such considerations affected the decision made in this case.

Third, although the Commission found that N-Data's conduct constituted an unfair method of competition under Section 5, there are many details about N-Data's conduct that are not clear from the record, which could lead to uncertainty as to the circumstances that can give rise to liability under Section 5. To address this concern we request that the Commission clarify its decision by further developing the record in relation to the following questions:

- Were the higher-cost licenses offered by N-Data and Vertical limited to the patents that were the subject of National's commitment letter or did N-Data and Vertical offer licenses for a broader set of rights that might have justified a higher cost?

- Did N-Data reject requests to license the NWay patents that were consistent with National's commitment letter or did N-Data reject only requests that sought more rights than National had offered?

- Were the contract or other private remedies available to the implementers judged to be inadequate in this case and, if so, why?

- How did the Commission arrive at a license fee of $35,000.00 for situations where an implementer refuses to accept N-Data's $1000.00 license where the $1000.00 is consistent with the offer National had submitted to the IEEE? As a corollary, if an offer above $1,000.00 was considered oppressive or coercive, what are the considerations that justify the $35,000 license fee?

The Section appreciates the opportunity to provide these comments and for the Commission to consider them in its further deliberations in the *N-Data* proceeding.

Respectfully,

Gilbert F. Whittemore
Chair, ABA Section of Science & Technology Law