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August 5, 2011

Federal Trade Commission
Office of the Secretary
Room H-113 (annex X)
600 Pennsylvania Avenue NW
Washington, D.C. 20580

Re: Federal Trade Commission Request for Comments Concern Patent Holdup

To the Federal Trade Commission:

IBM appreciates the opportunity to respond the Federal Trade Commission Request for Comments on_ "Patent Holdup in Standard-Setting Process" aimed at "examining the legal and policy issues surrounding the competition problem of 'hold-up' when patented technologies are included in collaborative standards."

Our comments include the following sections: IBM's interest, the Patent Holdup concern, topics relating to Disclosure of Patents, topics relating to the RAND Commitment, and topics relating to Ex ante Disclosure and Joint Discussion of Licensing Terms.

Topics for further consideration are highlighted and labeled "Items for Consideration."

Respectfully submitted,

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Director of Standards

Marc Sandy Block
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1. IBM INTEREST

IBM Corporation is a member of and contributor of technology to hundreds of standards setting organizations (SSOs) in the high technology computer, information and communication fields. IBM implements thousands of standards in its many products. IBM recognizes the importance of standards in achieving safety, security, accessibility, quality, and interoperability requirements essential to the businesses of IBM and others and in promoting national and global economic growth and opportunity.

As a holder of approximately 30,000 patents (leading in U.S. patent issuances for the last 18 years) and as an assignor and world-recognized licensor of patents, IBM has a strong interest in promoting the advancement of technology and innovation, in realizing a reasonable return on its R&D investment, and in deriving value from intellectual property (including patents).

In the standards world, IBM wears many hats: as a standard developer, as a patent holder and inventor who contributes needed technology to SSOs, as a standard implementer who provides standardized products to consumers, as a partner to others implementing standards, as a party who makes patented technology available to others, and as a user of standardized products. IBM also participates in the development and revision of SSO Patent (or IPR) Policies, along with other stakeholders.

It is through this prism of interests that IBM considers the questions asked by the FTC in its RFC. IBM appreciates the opportunity to comment on the topics raised by the FTC and to participate in the exchange of ideas aimed at improving the standards system.

2. PATENT HOLDUP IN GENERAL

The focus of the FTC Request for Comments is on "patent holdup." The FTC defines holdup as "a demand for higher royalties or other more-costly or burdensome licensing terms after the standard is implemented than could have been obtained before the standard was chosen."[1] The Report recognizes a narrower definition[2] but opts for the more robust one. Some contend that holdup should be further limited to instances in which the failure to disclose is intentional. Such limited interpretations are less useful, first because proving intent is difficult and second because the adverse impact of stalling or stopping a standard is the same whether there is intent or not.

It is also argued that instances of holdup are rare and overstated. However, that perspective ignores legitimate concerns among many in the standards community, especially in high technology fields where not only standards but patents have been growing in importance.[3] Moreover, in recent

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1 In the March 2011 FTC Report, "The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition" ("IP Marketplace Report") "holdup was similarly defined as "a patentee's ability to extract a higher licensing fee after an accused infringer has sunk costs into implementing the patented technology than the patentee could have obtained at the time of design decisions, when the patented technology competed with alternatives."

2 "A patent owner fails to disclose his patents to a standard setting organization and attempts to license after an industry is locked into using the standard." See IP Marketplace Report at page 191.

3 See "Leveraging Intangible Assets: How a Rating Can Help Measure and Communicate Performance," by Dr. Helena Barton, 2005 http://www.ahcgroup.com/res_art_cst11b.htm ("over 70% of corporate value today lies not in inventory or buildings, but in intangibles – such as intellectual property…").

years, the number and impact of patent assertion entities ("PAEs"), who neither produce marketable products nor implement standards and thereby enjoy asymmetric leverage, have raised concerns inside and outside the standards community.

At the June 21, 2011 FTC Workshop ("FTC Workshop"), Dr. Farrell, the Chief Economist at the FTC, observed that he is not "ready to take the leap" from patent litigation relating to standards to there being a "breakdown in the system."[4] After all, lawsuits may result from one party simply being unreasonable.

That said, IBM sees patent disputes and litigation in standards as reflecting risk and uncertainty, and thus reason for concern.

For example, various patent cases have involved patent holders who participated in or had obligations to an SSO. In a matter relating to *Dell*, an FTC Consent decree led to a patent being declared unenforceable when it was not disclosed as allegedly required by the VESA SSO policy. In *Stambler v Diebold*, the issue involved a participant who allegedly did not disclose an "essential" patent while the industry widely adopted a standard. In *OpenWave v 724 Solutions*, 5-09-cv-03511 (NDCal March 2010),[5] a court found that failure to disclose under a standards policy could render a patent unenforceable, not based on patent misuse but on estoppel or waiver. In a series of *Rambus* cases, a key issue was whether claims filed after the patent holder withdrew from an SSO (JEDEC) were subject to a disclosure obligation – some claims were added after withdrawal to patent applications pending while Rambus was a JEDEC participant. The seesawing holdings in the *Rambus* cases have suggested that the system did not work the way some had expected. *Actividentity v Intercede* (No. C08-4577 VRW, ND Cal 2009) also involves failure to disclose a patent needed for complying with a standard. Implementer's (defendant's) action for unenforceability of the patents was not dismissed, where it was alleged that another technology for updating smart cards remotely would have been selected for a standard "but for" the lack of disclosure.

Cases have also involved licensing commitments made to SSOs. Qualcomm and Broadcom have been engaged in multiple patent battles involving wireless and H.264 (data compression) standards and the RAND commitment.[6] Research In Motion filed suit against Motorola for allegedly not re-licensing essential patents on a FRAND basis.[7] In 2009, Zoran argued for arbitration pursuant to the SSO by-laws to consider RAND anticompetition issues.[8] Currently, Nokia and Apple are in a dispute over patents allegedly needed to implement technology relating to wireless standards (GSM, 3G, and Wifi) and handheld units – some of the key issues relating to the RAND commitment.[9] Also recently, Microsoft filed a complaint against Motorola Mobile based on a standards RAND commitment.[10] In another case, Unocal sought 5.75 cents per gallon [about eight years ago] against implementers of a gas reformulation standard – the matter was finally resolved

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4 See Closing Remarks, Joseph Farrell, Director, Bureau of Economics at Federal Trade Commission, FTC Workshop on Patents and Standards, June 21, 2011 http://meta.media.qualitytech.com/m/wm/woc-01/COMP008760MOD1/FTC_WM/062111_FTC_Sess3.wvx

5 See also *Qualcomm Inc v Broadcom Corp*, 548 F.3d 1004 (Fed Cir 2009) at 1024

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

7 See *Research in Motion Ltd. v. Motorola Inc.*, 644 F.Supp. 2d 788 (N.D. Tex. 2008)

8 See *Zoran Corp. v. DTS, Inc.*, 2009 U.S. Dist. LEXIS 6675 (N.D. Cal 2009)

9 See *Apple Inc. v. Nokia Corp.*, C.A. No. 09-1002 (D. Del., *filed* February 24, 2010);

10 See *Microsoft Corp. v. Motorola Inc.*, No. 2:10-cv-01823 (W.D. Wash., *filed* Nov. 9, 2010). See June 2, 2011 article outlining parties' actions. http://fosspatents.blogspot.com/2011/06/microsofts-dispute-with-motorola.html.

when Chevron acquired Unocal and agreed not to enforce the patents.[11]

Unocal is also notable in that the standard involved was approved by a California government agency CARB ("California Air Resources Board")– entrenching the standard more solidly into the industry.

In the recent FTC N-Data matter,[12] the transferee of a patent contended that it was not bound by a license commitment made by a prior owner of the patent to SSO IEEE.[13]

The situations that, perhaps, warrant special attention are those that impact a host of implementers. Recently, Mosaid charged 17 companies with infringement of WiFi patents.[14] Similarly, CSIRO negotiated numerous licenses in 2009 after prevailing against Buffalo in an injunction action and notifying other companies of a 1996 patent allegedly covering the IEEE standards 802.11(a) and (g).[15] These cases reflect how a patent on a standard can influence an industry.

A notable instance of patents impacting standards does not revolve around litigation or a patentee waiting for implementers to adopt the standard before asserting a patent(s). The VITA Standards Organization is an SSO that develops bus architecture standards for embedded systems used in applications ranging from aircraft to medicine. Each of four VITA standards received patent disclosures on the eve of publication. Questions arose about the disclosed patents and whether the licensing terms offered were RAND, as required by the VITA Patent Policy at the time. Several of the standards were delayed and one standard was discontinued. Arguably, this may not be "patent holdup" under the current definition and it may be argued that the system "worked" – however, the interruption and disruption led VITA to revise its Patent Policy to avoid such events.

The foregoing summary is intended to reflect the timeliness and value of the FTC's current effort in seeking comments to help understand the intersection between patents and standards, and in considering mechanisms that might help smooth issues arising at the intersection.

The FTC RFC breaks down the areas of inquiry into three sections based on approaches to address patent holdup: namely, Patent Disclosure, the RAND Commitment, and Ex Ante Disclosure of Patent Licensing Terms (which have arisen in the aforementioned cases). These approaches interplay but will be covered separately based on questions posed by the Commission. In addition, a number of "Items for Consideration" are offered for the FTC and standards community to consider in helping achieve widely accepted, state-of-the-art standards with appropriate longevity, success, and minimal interruption due to patent holdup and other IPR issues.

3. PATENT DISCLOSURE

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[11] See *FTC v. Unocal*, FTC Docket No. 9305 (2003) ("A private business allegedly has used false and misleading statements to induce a government body to issue regulatory standards that conferred market power upon the firm.")

[12] See *In re Matter of Negotiated Data Solutions LLC*, No 0510094 at http://www.ftc.gov/os/caselist/0510094/080122do.pdf

[13] Other disputes have also arisen over the issue of standards licensing commitments and patent transfers. In Europe, IPCOM has asserted patents previously owned by Bosch, who allegedly made a licensing commitment to a standard.

[14] See http://www.engadget.com/2011/03/18/mosaid-gets-into-wifi-patent-game-sues-17-companies-including-d/

[15] *Commonwealth Scientific and Industrial Research Organization v Buffalo Tech Inc*, 542 F.3d 1363 (Fed Cir 2008). See also http://en.swpat.org/wiki/CSIRO_wifi_patent#Litigation_and_licensing

Many, but not all, SSOs have an obligation to disclose "Essential Patents"[16] i.e., a patent containing one or more claims that are necessarily infringed when the standard is implemented.[17]

The holy grail of an SSO patent [claim] disclosure obligation is to uncover patents (or both patents and patent applications) that include claimed inventions which are unavoidably infringed when implementing the standard, without generating an unwarranted burden on patent holders, without discouraging patent holders from submitting innovations to the standards effort, and without generating efficiency-robbing false positives.

3.1 Patent Applications. The task of patent disclosure in standards could be characterized as trying to control two slippery objects[18] – recognizing that patent claims in a patent application can be revised while the specification for the standard is also under development. Some SSOs focus the identification on only issued patents, while others extend the disclosure requirement to patent applications which are being examined by a patent office.

Patent holders may be reluctant to provide detailed information about applications because (i) these inventions may also signal the companies' technical direction and strategy, and (ii) others could seek patent protection on variations which could impact a resulting patent's value. However, because of the currency of these inventions and the ability to revise the claims to track the standard, SSOs may deem these claims particularly important. Accordingly, disclosure of applications is often required but limited in nature, asking for only a claim or a reference to the applicable section of the standard's draft specification.

There is a distinction between published patent applications which are readily found in a search of patent office files and unpublished applications which may still be secret. Unpublished applications, which are generally less than 18 months old, may be further from commercialization and public disclosure and may be more sensitive to patent holders. Also, because unpublished applications are not in commercial databases, there is a greater likelihood of missing them and violating any "disclosure obligation" than for published applications. Hence, disclosure of unpublished applications (if any) is typically circumspect in its requirements.

A risk relating to the disclosure of patent applications surfaced in the *Rambus* cases.[19] Under U.S. patent law, claims in patent applications can be inserted and amended to track a standard provided that the original document "supports" (or has description of) the later filed claim. Such "late" claims are treated, with respect to prior art, as if they were filed initially in the original application.[20] In the *Rambus* case, late claims filed after Rambus withdrew from SSO JEDEC were not disclosed to JEDEC but were effectively asserted against standards implementers. JEDEC and other SSOs have since revised their policies to address this issue and cover current and

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16 Some SSOs refer to Essential Claims or Necessary Claims. This paper will refer to Essential Patents because patentees and licensees normally identify patents and not claims.

17 The term "Necessary Claim" (or "Essential Claim") is often tailored to the SSO or follows the definition, akin to the one presented here, published in the American National Standards Institute ("ANSI") Patent Policy of the Essential Requirements.

18 Closing Remarks, Joseph Farrell, Department of Economics at Federal Trade Commission, FTC Workshop

19 See *Rambus Inc v Infineon Technologies AG*, 318 F.3d 1081 (Fed. Cir 2003)

20 Accordingly, suppose a patent claim is first introduced in 2005 in a pending application filed in 2000 and there is a publication or patent with a date in 2002. A publication (or patent) that predates the filing of a patent by more than a year precludes patenting. In that the late claims are deemed filed in 2000, the publication or patent would not render the late claim unpatentable (or invalid) if the original application fully described the late invention.

future claims in patent applications pending at the time a member withdraws. Such a policy provision seems fair – if the U.S. Patent & Trademark Office treats the late claim as if it was filed at the time the application was filed (e.g., before the member withdraws), an SSO can do the same.[21]

One conventional practice in patent disclosure policy is not to "require participants to conduct a formal patent search." This recognizes that major companies involved in numerous standards with many features would be heavily burdened if they had to investigate sizable portfolios of patents, and especially patent applications, multiple times during standards development.

3.2 Disclosure Policies Vary. Patent disclosure policies features a number of attributes that further affect its scope. These attributes, which are discussed in the ABA Standards Development Patent Policy Manual (2007), include issues such as (i) who should be involved in identifying and disclosing Necessary Claims, (ii) when should investigations take place, (iii) what the bounds of the investigation are, and (iv) how the results should be updated. The SSO VITA, has outlined an approach in which members are asked to identify patents when they make a contribution of technology to the standard, when drafts are distributed for review, and when the final specification is distributed for vote. VITA also identifies those representing the company and working on technology and patents for the standardized technology as individuals whose "good faith" inquiry is solicited in the disclosure process.[22] Some SSOs limit the disclosure duty to just the personal knowledge of those individuals participating in the standard development, requesting disclosure promptly when they become aware of a Necessary Claim or at a time near final approval.[23] In that standard's representative alone may not be familiar with or aware of patents and in that third parties may have patents that may not be identified, the disclosure approach has distinct limitations.

Some commenters identify a problem when Patent Policies prompt overdisclosure. Overdisclosure, or false positives, can trigger risks that are not warranted. Under ANSI policy, for example, if an "essential" patent is identified without a RAND license assurance (with or without royalty) being made, the standard will not be accredited.[24] Since many SSOs have no process for evaluating disclosed patents, a patent of dubious relevance could stall or stop a standards effort unnecessarily.

Some SSOs provide processes by which this issue is addressed. For example, Ecma allows the approval of a standard with a 2/3 vote, provided that the standards developers and implementers receive notice of the unresolved patent claim. Other SSOs impose a RAND licensing commitment on parties who disclose patents, which may cause patent owners to be more careful when disclosing patents (or patent claims).

For SSOs in which there is a stable technology and few patents, the IP or Patent Policy may simply

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21 Some SSOs include a provision that members who withdraw are committed with regard to specifications distributed to them or approved by the SSO [at least x days] prior to their withdrawal. See OASIS IPR Policy at Article 11 http://www.oasis-open.org/policies-guidelines/ipr

22 See Section 10 of VITA Patent Policy at VITA.org

23 See the Wireless Gigabit Alliance (IPR policy available at http://wirelessgigabitalliance.org/join/) or the Peripheral Connect Interface Special Interest Group (PCI-SIG) (IPR policy available at http://www.pcisig.com/membership/about_us/bylaws/).

24 See ANSI Patent Policy Section 3.1.1 ("Prior to approval of such a proposed American National Standard, the Institute shall receive from the identified party or patent holder...an assurance...in the form of a disclaimer or that a license will be made available...")

adopt the brief ANSI policy. For SSOs involved in emerging high technology fields where patents are acquired to generate return on R&D investment and risk, more sophisticated policies are normally drafted with input from legal counsel and business and standards experts. It is noted that the ANSI Patent Policy includes no patent disclosure obligation and requires a license assurance only when an allegedly essential patent is identified. However, many SSOs (both ANSI accredited and not) have enacted Patent Policies in which members are obligated to both "promptly" disclose and commit to license essential patents.

A creative approach adopted by many SSOs is the "negative disclosure" policy. All of the members' essential patents are subject to a licensing commitment (or default licensing terms) if the member does not timely disclose an essential patent it wishes to exclude.[25] This requires vigilance on the part of the patent holding members, especially if the SSO provides a royalty-free default.

Variations in patent disclosure policy can also depend on (i) the industry's perspective on patents and licensing (semiconductor and wireless technologies being more adapted to patents and royalty-based models than software interoperability technologies); (ii) the policies of competing and complementary SSOs; and (iii) the difficulty in uncovering "essential" patents (e.g. are patents tightly bound to the standardized products? are there a small number of patent holders in the field? are there tools useful in searching the field? are the new, key features of the standard easily identified for searching?).

Moreover, some SSOs may be in traditionally patent-dense fields. For example, the personal computing industry includes major companies who have numerous cross licenses that provide each party freedom of action to develop and market superior products with authorization to use others' patented technologies.

In technologies where patent assertions and litigation are more common [see the chart above for the mobile business], SSO would likely draft a more detailed Patent Policy.

Some SSOs, who operate openly and allow all interested parties to participate, may include participants who do not plan to implement the standard and perhaps have no marketed products. Such patent asserting entities ("PAEs"), or non-product entities, may also affect the sensitivity of the SSO group to patents, where self-controlling mechanisms may not come into play.[26] PAE's can operate from an asymmetric threat position that can impact the SSO, where such entities have no needs under other companies' patents. Hence, a very significant factor in SSO Policy is the composition of the SSO membership. Although most SSOs have a goal of balancing stakeholder interests,[27] the fulcrum may not always rest in the middle. At the FTC Workshop, Dr. Farrell of the FTC noted the absence of a "consumer interest" at the workshop.

Different SSOs view the status quo and risk aversion through different lenses. Accordingly, IBM appreciates that one Patent Policy will not fit all SSOs. However, that bromide should not be misinterpreted to preclude measures that, at least in some industries and technologies, are

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25 See DVB Project "Negative Disclosure" at http://www.igi-global.com/bookstore/article.aspx?titleid=2593

26 Where today's patent holder might be tomorrow's licensee, there is some self-regulation concerning royalties assessed. Moreover, where parties may contribute technology to future standards, there may be some regulation. However, as new patent monetizing models emerge, such regulation diminishes in effect.

27 Balancing stakeholder interests is an Essential requirement for ANSI accreditation. See Essential Requirements at ansi.org. .

preferable or best practices. The American National Standards Institute ("ANSI"), for example, includes a number of Essential Requirements with which SSOs must comply in order for standards to be accredited by ANSI (as "American National Standards", or "ANS").[28] Similarly, that "SSOs should have flexibility in drafting their policies" should not preclude consideration of practices or measures that can generally help achieve openness, transparency, balance, and standards' success, and that can help reduce the instances of patent holdup.

While different SSOs can adopt different Patent Policies that are tailored to member needs, some Policies are more sensitive to patent issues and potential for opportunism than others. For example, a Patent Policy that does not provide for patent disclosure and does not provide ready access to disclosed patents, or that overly limits the "who, when, and what" of the disclosure duty may not be as effective as a more robust Policy.

By way of further observation, IBM recognizes that the standards community comprises many varied stakeholders and that stakeholder interests should be considered in addressing patent matters. However, while participation should be open and while technical merit of the contributions submitted by all should be assessed under rules of due process, all business models do not nurture standards and standard implementation equally. An SSO may prefer a patentee's contribution that demands a lower royalty where the patentee is also an implementer who derives profits from selling products, over a party with interests – albeit legitimate business interests -- of only maximizing royalties.

3.3 Ambiguity in Disclosure. Patent claims are particularly difficult legal documents to interpret.[29] In fact, patent cases often include hearings to determine the meaning of terms used in the claims.[30] In addition, claims can extend beyond their literal meaning to "equivalent s" by either judicial doctrine[31] or statute[32]. The meaning and breadth of the claim is not always precise and the matching of the claim to the standard's specification – to determine if a claim is infringed by the specification -- requires skill. Patent claims carry with them some ambiguity.

In addition, SSO's normally define the word "essential" in a particular way. The requirement that an "essential" claim is "necessarily infringed" may specify that "there is no noninfringing *technical alternative*" or "no *commercially feasible* alternative." While the "commercially feasible" alternative ensures that implementers can practically comply with the standard, the test is not precise. At what price is the alternative no longer "feasible"? Specification definitions thus inject some ambiguity into the disclosure obligation.

The various ambiguities are addressed in some SSO Patent Policies by providing disclosure if a claim *may be* "essential" or *is reasonably believed to be* "essential." This measure of latitude is deemed acceptable to comply with disclosure requirements, but more certainty may be applied to licensing where patent holders generally intend to license only claims that ***are*** essential. To avoid

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[28] ANSI is the organization approved by legislation as the "accrediter" of U.S. standards. ANSI also represent the U.S. in international standards discussions.

[29] As Justice Story observed in *Folsom v Marsh,* 9 F. Cas. 342 (D Mass 1841): "In many cases, indeed, what constitutes an infringement of a patented invention, is sufficiently clear and obvious, and stands upon broad and general agreements and differences; but, in other cases, the lines approach very near to each other, and, sometimes, become almost evanescent, or melt into each other."

[30] See *Markman v Westview Instruments Inc.,* 517 U.S. 370(1996)

[31] *Warner-Jenkinson Company Inc v Hilton-Davis Chemical Company*, 529 U.S. 17 (1997)

[32] See 35 USC 112 paragraph 6

imposing strict obligations where parameters are ambiguous, some SSOs merely request or encourage disclosure.

To make the disclosure policy meaningful, submitted information should be readily accessible by interested parties. While some SSOs provide all standards information to the public at no charge, others rely on the sale of standards to sustain themselves and hence charge a reasonable fee for access. Still other SSOs have reasonable membership fees that enable access to SSO information. In any event, once available on the website, users should have easy access to the information.[33]

Items for Consideration: Uniform specification for posting standards information ***A practice worth SSOs consideration would be a "standard for standards information" – including a specification on where and how disclosed patents, opted out patents, withdrawn members, patent policy, and other patent issues (such as "essential" claims without assurances, etc.) are located on an SSO's website. Attorneys have noted the difficulty and unsure results obtained when, for various reasons, their clients have sought patent-related information on standards.[34] It is appreciated that SSOs have their own web designs, requirements, and formats, but some uniformity on essential elements could be helpful.***

3.5 Disclosure of Third Party Essential Patents. At the FTC Workshop, there was a question about prompting patent disclosures by third parties. "Essential" patents held by third parties raise a number of issues. Parties who do not wish to participate in an open, voluntary standard should be free not to join and to avoid SSO obligations. Accordingly, those who implement or use a standard may be subject to patents that are not subject to the SSO Patent Policy (including any associated RAND licensing commitment). The topic of third party patents, which can lead to patent holdup, will be considered in the following subsections.

3.5.1 Member Disclosure of Third Party Patents. Many SSOs request or encourage members to disclose third party "essential" patents. However, SSOs typically do not require such disclosure for various reasons. Although the *Seagate* case[35] has imposed a higher threshold (of "objective recklessness") for willful infringement and enhanced damages, parties are still reluctant to identify third party patents they have a belief may be infringed over willfulness concerns. Moreover, disclosing another's patent as potentially "essential" may also be used against the discloser in future litigation.

The case of *Telcordia v Cisco*,[36] although not involving a third party patent, raises some interesting considerations. In the *Telcordia* case, one of the grounds the court relied on to show willfulness was that Cisco argued that Telcordia technology should not be included in an ATM Forum standard because it would not be licensed under what Cisco considered RAND terms.[37] Because the patent was not disclosed to the standard group, however, enhanced damages were not

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33 The European Telecommunications Standards Institute (ETSI) recently initiated an IPR database. "The ETSI IPR Database allows public access to information at any time with respect to IPRs which have been notified to ETSI as being essential, or potentially essential, to ETSI Standards and Technical Specifications. Unless otherwise specified, all IPRs contained in the ETSI IPR Database have been notified to ETSI, with an undertaking from the IPR owner to grant licenses according to the terms and conditions of Clause 6.1 of the ETSI IPR Policy." See article at http://www.etsi.org/WebSite/AboutETSI/LegalAspects/iprdb.aspx

34 AIPLA delegates meeting with DoJ in September 2009.

35 *In re Seagate LLC*, 497 F.3d 1360 (Fed Cir 2007)

36 *Telcordia Techs., Inc. v. Cisco Sys.*, 592 F. Supp. 2d 727 (D Del 2009)

37 592 F. Supp. 2d at 746

awarded.

The *Telcordia* case points out a Hobson choice for an SSO member who uncovers a potentially problematic patent. If the member does not disclose a potentially essential patent, it could later hold up the standard and block the member from implementing. However, if the member discloses the patent, it risks a willfulness charge.

The case also points out to the patent holder a possible consequence of not disclosing an "essential" patent to the SSO.[38]

3.5.2 *Third Party Interests*. The third party patent holder has various reasons for not disclosing its patent to an SSO, aside from being unaware of the standards activity. Once identified, a patent can be designed around by an SSO, if alternatives are available. Moreover, if the patent holder waits until the standard is approved and widely adopted and difficult to change because of lock-in, loyalty, and switching costs, better terms and rates can be realized. Staying outside the SSO also leaves injunction more readily available – if the third party has not entered any licenses or made any licensing commitment, a court may be more disposed toward granting an injunction.

That said, a third party has reasons for not remaining quiet. Its technology might never be considered for or supported for inclusion in the standard and the patent holder may forego return on its R&D investment. Moreover, a product maker who may have already paid a patent pool or others to access their patented technology may be reluctant to pay a new licensor. In addition, although other factors may also be considered, rates set by other patent holders may become customary for the field and could influence the royalties available to the delaying patent holder.

Further, in that injunction and enhanced damages involve judicial discretion and equities, a patent holder may improve its position by disclosing its essential patent. Recently, the FTC proposed that all of the *eBay* factors should be informed by the impact on and interests of standards.[39] Evidence of patent holdup – especially under the limited situation of a knowing nondisclosure of an "essential" patent until after its necessary technology is locked in – could steer away from injunction.

3.5.3 Risks of SSOs Identifying Third Party Patents. In addition to asking patent holders to disclose patents believed to be "essential", the question of SSOs themselves investigating the patent landscape has been considered. The process would include SSO members identifying major features of the standard and asking a private (e.g. law firm) or governmental organization (e.g. patent office) to conduct a search. Results could then be reviewed.[40] However, many in the standards community have been unreceptive to this suggestion. Although search strategies have improved over the years,[41] it is argued that such an endeavor would be costly, would uncover too many patents – including some "false positives" – and would miss some relevant essential patents,

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38 The question of when a patent holding member can seek injunction and/or enhanced damages is another difficult issue which is discussed elsewhere in this Comment.

39 See *FTC IP Marketplace Report at page 28*: "Courts should give careful consideration under each of *eBay's* four factors to the consequences of issuing an injunction prohibiting use of a patented invention incorporated into an industry standard. Whether the patent owner made a RAND commitment will also be relevant to the injunction analysis."

40 The European Patent Office has indicated it would perform such a search.

41 Over the years, more sophisticated searching techniques have been developed and the possibility of lost or misfiled patents [as in the days of paper] have been reduced in the electronic era.

and would cause undesired delay in standard approval, especially where a standard has many features.[42] While it may be better to uncover "essential" patents before the standard is widely adopted and costs are sunk into the technology, SSOs have generally not seen the potential benefit warranting the cost of such an effort. Moreover, traditional SSOs generally eschew patent issues.[43]

Items for Consideration: No Enhanced Damages for Nonresponsive Third Party. ***Currently, SSOs can avoid antitrust liability when engaged in standards development activities related to standards registered under the Standards Development Organization Advancement Act of 2004 (SDOAA). Analogously, should nonresponsiveness be a factor operating against enhanced damage liability if a third party patent holder fails to respond to a bona fide request for information from an SSO about a specific patent claim(s), where the standard's specification standard is made available to the patent holder for the purpose of reviewing it against such claims? [It might not be reasonable to urge a patent holder to conduct a review and then make it buy the standard's specification.]With this measure, SSOs are not penalized for good behavior – asking a patent holder about a potential "essential" patent – and a third party who is provided with information to investigate is not rewarded for sitting on its rights. The third party is not precluded from injunction or compensatory damages.***

Commentators have noted other potential risks with SSOs identifying third party patents. Parties who use patents defensively might be urged to take more aggressive licensing postures if they receive inquiries about their essential patents. Also, patent holders unaware of their "essential" patents might be awakened.

- On the other hand, many implementers would prefer to surface "essential" patents early so they can be addressed in the early stages of the standard development. Specifically, such patents can be designed around or reasonable licensing terms can be solicited and negotiated when bargaining positions are more even. Moreover, defensive patent holders may advise others that they will assert only when attacked. Courts and agencies should respect such defensive actors who promote competition and should not impose estoppel or laches if the defensive patent holder is triggered into asserting its patent.

4. RAND COMMITMENT

4.1 Enforceability. Many SSO membership agreements, bylaws, and policies are between the member and the SSO. In these instances, the question arises as to whether members and non-member implementers have enforceable rights under those documents. There are various legal bases to support enforceability.

Although the parties may not sign the membership agreement at the same time, there is an expectation by one member that the other members will comply with their obligations. Hence, there is an understanding among the members that each will perform its obligations. Depending on the SSO, members may agree to disclose their "essential" patents [as described in the prior section] and/or make their "essential" patents available for licensing under terms that are Reasonable And NonDiscriminatory ("RAND"). More generally, the parties at least tacitly agree to set a

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42 The suggestion was raised at an ETSI meeting where opposition was voiced.

43 The ANSI Patent Policy, for example, states that "The Institute [SSO] shall not be responsible for identifying all patents for which a license may be required by an American National Standard or for conducting inquiries into the legal validity or scope of those patents that are brought to its attention." ANSI Patent Policy 3.1.4

technology, possibly not their own, as the standard the industry will use.[44] Hence, there is arguably a contract among the members of the SSO.

In addition, as between members, estoppel and implied license may apply, especially in a context where parties have agreed to specific license terms or have agreed not to assert patents. [45]

In a November 2010 complaint, Microsoft alleged breach of actual or implied contract, promissory estoppel, waiver, and declaratory judgment against patent holder Motorola (later Motorola Mobility), for allegedly not licensing essential patents under RAND terms as committed under the policies of the IEEE and ITU for the H.264 and WLAN standards. Microsoft alleged that Motorola entered an agreement for the benefit of members and implementers of the standard – making Microsoft a third party beneficiary. Microsoft seeks to enjoin Motorola from demanding royalties that allegedly exceed RAND.[46]

In other cases, implementers have asserted fraud,[47] antitrust claims,[48] and patent misuse and unenforceability claims[49] against patent holders who allegedly refused to honor licensing commitments. An implementer's claim for specific performance as a third party beneficiary seeking a license on RAND terms was not dismissed. [50]

Where many implementers are not SSO members and may not have agreed to the SSO Patent Policy or bylaws, direct contractual theories may be less applicable. However, third party beneficiary rights are available. To help assure these rights, SSOs might consider stating in their policy documents (bylaws, Policies, and membership agreements) that implementers are "intended beneficiaries of the policy"[51] (as opposed to merely incidental beneficiaries whose rights are more speculative).

Assuming that the standard is not closed (i.e. limited to members only), there are practical reasons for non-members enforcing a commitment made pursuant to an SSO policy and/or patent holder statement. Who else will enforce the commitment? Many thinly capitalized SSOs do not have the interest or finances or incentive to pursue an action, and may also wish to avoid being caught in the middle between two battling members. Moreover, while the SSO has an interest in supporting its

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44 In the competitive market, the standard is a singularity in which parties agree to a common technology. Members are generally free to develop products and even standards that compete with a standard but, in the standard itself, a single technology normally is approved to the exclusion of others in order to achieve a higher public or industry purpose.

45 See *OpenWave* case (supra) where a court found a patent unenforceable for estoppel and waiver. See also *TEN THINGS TO DO ABOUT PATENT HOLDUP OF STANDARDS (AND ONE NOT TO)* by Mark Lemley, 47 B.C. L. Rev 149 at 157 (2007).

46 On May 31, 2011, the court refused to dismiss any of Microsoft's counts except for the declaratory judgment count which was viewed as "duplicative" and the "waiver" count, waiver being a defense predicated on injunctive relief sought by patentee. See Microsoft Corp v Motorola Mobility Inc, C10-1823jLR and C11-343JLR (WD Wash 2011).

47 In *Rambus v Infineon*, 318 F.3d 1081 (Fed. Cir 2003), the court found no fraud in that the withdrawing SSO member warned JEDEC and its members that it may acquire essential patents and assert them.

48 In *Broadcom v Qualcomm* (3rd), 2007 U.S. App. LEXIS 21092 (3rd Cir 2007), the court did not dismiss an antitrust claim premised on a patent holding SSO member "deceiving" an implementer by demanding non-RAND terms.

49 See *Princo v ITC and Philips*, 563 F3d 1301 (Fed Cir 2009) in which defendant alleged tying between nonessential and essential claims to standard and failed to prevail on patent misuse where court found that patent could be essential.

50 *ESS Technology Inc v PC-Tel Inc, No.*. C-99-20292 RMW, 1999 U.S. Dist Lexis (ND Cal 1999)

51 See *ESS Tech v PC-Tel.* [No.C-99-20292 at 5 (ND Cal. 1999).]

developed standards, the pecuniary debate is with the patent holder and the implementer whose products and business may be at risk. Even if the SSO does engage in an action, remedies would seem limited and inadequate.

4.2 RAND Commitment and Patent Disclosure. The licensing commitment can influence the disclosure obligation (if any). A broad licensing commitment [especially one without a royalty] can reduce the importance of a patent disclosure duty. If a patent will be licensed at no charge or if there is a RAND commitment, one might ask "why is disclosure needed?"

First, given the vagueness of RAND, developers might be skeptical even if there is a RAND licensing commitment. In *Lucent v Gateway*,[52] a case involving the issue of "reasonableness" in a damages context,[53] the patent holder asked the jury to award $560 million as "reasonable" royalties in a damages calculation, a defendant proposed $6.5 million, the jury awarded just over $350 million, and the court challenged the premises on which the expert evaluating "reasonableness" relied. Moreover, the vagueness is further highlighted in the *Georgia Pacific* analysis[54] which includes 15 factors to be weighed, which can understandably lead to disparate results.

With RAND being vague, a disclosure requirement can help identify at least some of the patents that may be subject to the RAND process to fence the issue.

Second, at the FTC Workshop, some of the panelists noted the importance of identifying who the patent holders are. Does the implementer have a cross-license with the patentee? What rates and terms is the patentee known for? How many patentees will the implementer be negotiating with? Is the patentee a member of a related patent pool – which can inform the implementer's perspective on the patent? Patent disclosure can help uncover such information.

Third, if there are multiple alternative technologies of like merit, patent information may be a factor to consider. Oftentimes, patented technology – deemed valuable enough to warrant patenting – is superior to alternatives and provides added value to the standard.[55] However, in other instances, SSOs may select an alternative with no known patents involved or may seek a design around.

Fourth, disclosure can help clarify whether a patent is considered "essential", at least to the patent holder, and may be subject to the RAND commitment.

The disclosure obligation is often limited. Nonetheless, where the RAND commitment may be vague and without a recognized meaning, whatever information the disclosure mechanism can provide can be helpful.

4.3 What are "Reasonable" and "NonDiscriminatory" – SSO Guidance? The RAND model has been part of standards practice for decades with considerable success in many fields and standards. However, in emerging growth fields where the value of patents and standards are increasingly appreciated, local and global disputes have become more common.

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[52] See *Lucent Techs., Inc. v. Gateway*, 580 F.3d 1301 (Fed. Cir. 2009)

[53] See 35 USCode 284 in which damages shall, "in no event be less than a reasonable royalty."

[54] See *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (SDNY 1970)[54]

[55] In the *Princo* case, a Lagadec patent could be essential to the standard and could be used outside the standard. A patent pool member agreed not to license Lagadec outside the standard, which could add value to the standard. [As an aside, the court found no antitrust violation.]

At the FTC Workshop, a number of soft spots were identified in defining the RAND elements. Several panelists indicated that for each implementer, the patent holder would gather information about field, product projections, geography, etc. Each licensee would receive its own tailored agreement. It was also noted that licensees frequently license products or portfolios and do not acquire licenses to just the standard or "essential claims." Also, some patents can be essential in some contexts and nonessential in other contexts.

Another panelist discussed difficulty in approaching the owner of an essential patent(s), observing that the prospective licensee was asked to sign a confidentiality agreement as a precondition to negotiation.

These premises present a difficult puzzle which has been further complicated by recent court decisions. In *Lucent v Microsoft*[56] and *ResQnet v Lansa*,[57] the use of "comparables" in assessing "reasonableness" has been tightened. Lump sum versus royalty bearing agreements were distinguished and, before relying on rates for patents on other inventions, the patentee had to closely tie prior agreements to the subject invention.[58]

These cases further underscore the complicated nature of the RAND paradigm.

The *Georgia Pacific* case provides some guidance on "reasonableness" but must be tailored for use in standards. For example, factor five discusses "The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promotor." When a company joins a standards effort, it recognizes that technology other than its own may be selected and that a prevailing competitor may realize benefits from the selection. However, the company looks to RAND and a tacit understanding that it will not be unfairly "disadvantaged" because it is a competitor and not a customer.[59]

The FTC Marketplace Report provides some principles that warrant consideration in assessing RAND. Royalties should reflect the economic value of the invention contributed by the inventor. Standards represent an accepted singularity in an otherwise competitive market – providing an industry and sometimes government approved monopoly for a specific technology. To the extent that this approach focuses value on the invention itself as opposed to standardization effects, it provides fair return to the inventor and provides fairness to the implementer and user.

The FTC Marketplace Report also limits application of the Entire Market Value Rule, referencing the Uniloc decision.[60] Providing the correct "base" for computing royalties or damages helps ensure "reasonableness" especially in standards where the invention may be a single feature in a larger specification or product. It should be recognized, however, that the royalty is computed from the royalty rate and royalty base, and that the parties should have the flexibility to set terms that are workable and practical. For example, the prospective licensee may find it easier to report sales of a

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56 Lucent Techs., Inc. v. Gateway, 580 F.3d 1301 (Fed. Cir. 2009) at 1327-8

57 594 F.3d 860

58 594 F.3d at 871 (Fed Cir 2010): "The court must carefully tie proof of damages to the claimed invention's footprint in the marketplace...[requiring] sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture."

59 See Broadcom Corp. v. Qualcomm Inc., 2007 U.S. App. LEXIS 21092 (3rd Cir 2007) where Broadcom alleged discriminatory rates between customers and noncustomers.

60 *Uniloc USA, Inc. v. Microsoft Corp.*, 2011 WL 9738 (Fed. Cir. 2011).

product that it tracks, and the licensor may find it easier to audit the system sales rather than the sales of an included patented component. A one percent royalty applied to a $10 patented component that implements a standard is the same as a 1/10 percent royalty applied to a $100 product that includes the patented component, but for which the licensee has available sales information.

A particularly thorny topic involves "patent stacking." There may be numerous patented technologies of numerous parties incorporated into a standard, and multiple standards (with multiple essential patents) in a single product. In some instances, patent pools arise in such circumstances. In a pool, numerous patentees agree to license all their "essential" patents for a fixed cumulative price and the pool members divide up the income according to an algorithm.

Recently, ostensibly to address a "stacking" situation, a number of companies in a Next Generation Mobile Networks ("NGMN") Alliance[61] implemented, for the Long Term Evolution (LTE) standard, an approach by which patent holders confidentially submitted royalty rates to a trusted third party, who aggregated received information without disclosing what individuals submitted. A number of the parties have posted their respective [maximum] royalty rates. Such experimental approaches can be useful in addressing patent "stacking" and providing valuable business information to those implementing and using standards.

One commenter[62] has urged that the standard declare an aggregate royalty cap to address such stacking situations -- which would be akin to a patent pool. The aggregate royalty approach has been questioned by others and has not, to our knowledge, been adopted by an SSO (as opposed to a pool).

In considering a reasonable royalty for a patent in a "stacking" context, a court might consider how many patents have been disclosed to the SSO, how many companies have identified licensing terms and conditions (e.g., royalties) for essential patents in the standard, and how many other standards and non-standards technologies (with applicable patents) may relate to the product. This "patent context" inquiry finds basis in the *Georgia Pacific* case. Factor 13 provides that "The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer." Also factor 15 proposes a hypothetical negotiation between a willing licensor and willing licensee – where the licensing context should be a consideration in such a negotiation. More recently, the licensing context approach seems supported by the FTC Marketplace Report which provides that the economic value of the invention be compared to the value of other portions of the standard and product in determining a reasonable royalty.

As a patent holder and licensor of its patents and technology, IBM appreciates that such measures strike a balance between promoting and rewarding innovation while recognizing the importance of nurturing competition in the standards world. As one commenter observed at the FTC Workshop, businesses, customers, and the economy all benefit when new and valuable technologies are introduced into and made available for standards.

4.4 SSOs Prescribe License Terms. One major SSO, OASIS, authorizes its working groups to

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61 http://www.slideshare.net/alexglee/strategic-patent-management-in-mobile-telecom (Nov 2009)

62 Nokia Response, Contact Tim Frain, July 8, 2011.

select from among four IPR modes.[63] One of the modes is "Royalty-free (RF) with Limited Terms" in which the major substantive terms are specified and only boilerplate (such as choice of laws) may be added to the license agreement. In this mode, the members, comprised of various stakeholders with varied interests, determine that they will forego royalties and that they will comply with a common set of terms. While having no payment provision facilitates the use of common terms, OASIS also sets out a framework of common terms for the other modes as well, including the RAND with royalty mode. The W3C, which also develops standards for the worldwide web, also includes a set of terms and conditions in Section 5 of its Patent Policy.[64]

This paradigm is convenient, saves the expense and time of negotiating independent licenses, and lessens concerns about discrimination. However, in this regime, patent holders forego much of the opportunity to tailor terms.

4.5 Reciprocity and Defensive Termination or Suspension The *General Patent Statement and Licensing Declaration Form for ITU-T/ITU-R Recommendation* authorizes a patent discloser to select the following option along with a RAND license assurance: "*Also mark here if the Patent Holder's willingness to license is conditioned on reciprocity for the above ITU-T/ITU-R Recommendation.*"

If a patent holder grants a license to patented technology needed to implement a standard, elemental fairness dictates that the patent holder can protect itself from being enjoined from implementing that same standard by licensee's essential patent(s). Hence, a patent holder conditioning a royalty free license or a nonassert on reciprocity should raise no issue.

Similarly, defensive termination (or suspension) should raise no issue when a granted license or covenant not to sue is revoked if the licensee (or beneficiary of the covenant) brings action against the grantor in a standards context. While defensive termination is triggered after a "grant" is made and reciprocity generally applies before a license entered, the same fairness notion applies. The defensive measure is more suitable to some circumstances than is reciprocity – for example, in the Open Source world where posted promises not to assert are often used.

A standards-related patent case[65] recognized the appropriateness of reciprocity and rejected a contention that a mandatory cross-license was anticompetitive or an antitrust violation: "Conexant has not identified any authority for the proposition that cross-licensing constitutes antitrust conduct. Generally, cross-licensing is considered procompetitive practice because it can facilitate the integration of complementary technologies. See U.S. Dept of Justice and FTC, Antitrust Guidelines for the Licensing of Intellectual Property (1995). In fact, the terms of the licensing proposal indicate that 3Com sought cross-licenses for technologies which 'are specified in the V.PCM Standard or are related to V.PCM technologies and are otherwise practically necessary or desirable, for technical or economic reasons, in order to make a commercially viable product compliant with the…standard."[66]

In the standards context where the SSO may impose a RAND commitment, the appropriateness of a grant back or reciprocity or defensive termination provision is influenced by the "reasonableness" requirement. For example, an SSO might consider a grant back that covers

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[63] http://www.oasis-open.org/policies-guidelines/ipr
[64] http://www.w3.org/Consortium/Patent-Policy-20040205/#def-RF
[65] See *Townshend v Rockwell*, 2000 U.S. Dist LEXIS 5070, 55 USPQ2d 1011 (ND Cal 2000)
[66] Id at *25

interdependent standards (or standards developed by the same SSO) as reasonable.[67] That is, an SSO might consider that a member licensing another to practice one SSO standard ought not to be precluded from implementing an interdependent standard based on an essential patent of the licensee.

In the OASIS Policy (described above),[68] the scope of reciprocity and defensive termination is prescribed for its various IPR modes.

4.6 Licensing Commitments and Transfers of "Essential" Patents. Questions regarding standards and the transfer of "essential" patents cover two different interests. First, when a patent holder has granted a license, does the license survive a transfer of the licensed patent? Under U.S. law, the patent license continues.[69] However, under the laws of some countries, this premise is not followed as strictly.

Second, a question also arises when an "essential" patent, that is subject to a *commitment* to license but not a license itself, is transferred to a third party. U.S. law is not as certain regarding the survival of license commitments following transfer. Whether the principle of *nemo dat quod non habet* ["you can't give more than you have"] applies to the commitment – so that any transfer includes a carve out for prior commitments – is still to be clarified.

Recently, several cases have highlighted instances in which prior patent holders have made commitments and a later transferee questioned whether the commitment applied to them. In the *N-Data* case,[70] National Semiconductor transferred "essential" patents for an IEEE standard to Vertical who, in turn, transferred them to N-Data who sought royalties that far exceeded the $1000 commitment made by National. National made the commitment to persuade the standards developers to select its technology. The FTC found that the commitment flowed to N-Data.

In the recent Nortel bankruptcy,[71] a number of companies and a standards body[72] filed motions aimed at preserving licensing commitments related to patents being sold off by the debtor in bankruptcy. While the debtor (Nortel) proposal agreed that patent transfers would be subject to existing licenses, commitments made to SSOs were not addressed in the early proposal. Some of the concerned companies created an entity ["Rockstar"] that purchased the patents in an auction for a reported $4.5 billion and announced that the standards commitments would be honored. While this matter was resolved, more certainty is warranted.

The bankruptcy of German company Qimonda AG ("QAG") also raises a question about bankruptcy transfers and licensing commitments to SSOs. In *In re Qimonda AG*,[73] a German insolvency administrator sent letters to terminate existing licenses. Qimonda has also taken steps to

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67 See ABA Standards Development Patent Policy Manual at pages 61-63.

68 See OASIS Policy at Sections 10 and 11 at http://www.oasis-open.org/policies-guidelines/ipr

69 See *Novon Int'l, Inc.*, 2003 U.S. Dist. LEXIS 4782 (ND Ill 2003) (the court found that "the assignee of a patent [took] 'subject to the licenses previously granted by assignor.'" (citing Walker on Patents § 19:22)); *Jac USA, Inc. v. Precision Coated Prods., Inc.*, 2003 WL 1627043, at *12 (N.D. Ill. Mar. 25, 2003); and *Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 939 (D.N.J. 1983) (the court held that "[T]he purchaser of a patent takes subject to outstanding licenses.") The principle is also discussed by Brunsvold & O'Reilly, *Drafting Patent License Agreements*, at § 12.00

70 See *In re Matter of Negotiated Data Solutions LLC*, No 0510094 at http://www.ftc.gov/os/caselist/0510094/080122do.pdf

71 See *In re Nortel Networks Inc*, Chapter 11 Case No. 09-10138 (KG) (Bkcy Del 2011)

72 Id at #5816 (See IEEE Objection to Nortel Sale Free and Clear)

73 Case No. 09-14766-RGM, United States Bankruptcy Court for the Eastern District of Virginia

sell its patents "free and clear" of encumbrances, which could impact not only licenses but commitments to grant licenses.[74] A number of QAG patents have been listed on a JEDEC SSO patent list. Parties have raised standards issues in objections filed against QAG actions that would revoke licenses and commitments related to allegedly essential patents. The case is pending.

Unlike other patent transfer scenarios, the bankruptcy context overlays laws and rules that may impede a party's ability to enforce RAND or other standards' commitments.

While it would be beneficial if laws followed the premise of preserving licenses, SSOs can address some of these situations through Policy provisions. For example, the IEEE[75] and other SSOs have added provisions requiring transferors to notify transferees or somehow continue the rights after the transfer. This may be implemented by either flowing the obligations of transferor to transferee, or by the transferor reserving the right to grant licenses committed through standards. These approaches generally address "essential claims" that are transferred, without identifying the patents by number.

These measures do not come without a trade-off. The patent transfer process may be more complicated because of such "license preserving" provisions.

Recognition by courts and agencies or the legislature that license rights and license commitment rights in standards "run with the patent" could further recognize the rights and the expectations of the parties in a patent sale.

Such measures should help ensure that patents licensed and/or committed by a patent holder will not become a "third party patent" in the hands of a transferee or successor in interest.

Items for Consideration: Prevent Patent Holdup by Clarifying the Span and Certainty of Licensing Commitment and Reducing the Number of Third Party Patents. A number of the comments submitted to the FTC stress that "third parties" are not subject to SSO Policy. If a party wishes to steer clear of the standards process and, perhaps, even compete with it, it should be free to do so.

However, SSO Policies should carefully consider how patents which should be "essential" do not avoid that status. A number of these measures are prompted by recent cases. Specifically,

- ***Affiliates. Are corporate affiliates and employers of signatories subject to the licensing commitment? If not, they are like third parties. This can be especially problematic if the corporate member who owns the "essential" patents is not the corporate member who is participating in and committing to license its "essential" patents. Many SSOs seek to cover corporate family members' patents. Consideration as to how these policies could be strengthened would be useful.***

- ***Member Withdrawal. Does a party withdrawing from a standards effort have any commitment? Does its commitment continue with respect to any necessary patents or applications it owns or acquires, based on whatever standard it voted on, or had an opportunity to review, which is included in a final standard? SSOs can consider***

[74] The Administrator contends that German law (and U.S. cross-border bankruptcy law) allows for termination of "executory" license contracts. The matter is in litigation.

[75] IEEE Patent Policy

properly framing the withdrawing party's obligations to avoid overcommitment while providing reasonable protection to other members. [Consider the Rambus case.]

- ***Opt-out. Some SSOs allow members to exclude patents from the licensing commitment by disclosing them. These patents are akin to third party patents except that they have been disclosed. The timing of such opt-out, which is a trade-off between patent holder review toward the end of the process versus standards developer risk in having to redesign after a lengthy development period, can impact licensing leverage and standard success. SSO consideration of opt-out terms can help address potential holdup.***

- ***Experts and Feedback. If parties who contribute or provide feedback to a standards specification are not subject to the RAND commitment, those parties' "essential" claims may be asserted as third party patents. Consideration as to how expert inputs are regarded can help address a specific instance of potential holdup. One issue of interest is whether the license commitment is limited to the expert's controlled patents or extends to "essential" patents of its employer.***

- ***"Essential Claim" Definition. A narrow definition of what an "essential" claim can take a patent outside the range of what is to be disclosed and subject to licensing commitment. For example, some definitions of "essential claim" include exclusions or limitations that could turn a necessary or essential claim into a nonessential one to which the RAND commitment does not attach. The definition of "essential claim" is drafted by those who wish to understand and circumscribe what patents they commit to license, on the one hand, and by those who wish to avoid standards that require access to patent claims defined as nonessential and not subject to a RAND commitment. If an SSO references other standards – which themselves may have "essential" patents – the SSO Policy should clearly indicate if those patents are subject to the licensing commitment. Clarity in the "essential" claim definition can help avoid patent disputes.***

- ***"Essential Claim" Survival. Can an "essential claim" lose its status (and regain it)? Consider a claim that is designated "essential" today [when the standard is approved], but a noninfringing alternative arises a year later after manufacturing costs have been sunk in. In some SSOs, the alternative may not even be a commercially viable alternative but the "essential claim" could become "not essential" and not subject to the licensing commitment. An SSO might consider whether it wishes to address this potential holdup.***

4.7 Commitment and injunction A number of cases[76] have arisen which raise the question "When can a patent holding SSO member, who is committed to licensing "essential" patents RAND, seek injunction against an allegedly infringing implementation of the standard?" In *CSIRO v Buffalo*,[77] an injunction was granted to a patent holder who committed to license the subject patents under RAND terms for one of the involved standards, where the patent holder allegedly made license offers that defendant rejected.

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[76] See the "Orange Book decision" in the German Federal Supreme Court [May 2009] and *Philips v Kassetten* [Dutch Court March 2010].

[77] See IEEE Patent Policy at http://www.ieee802.org/1/pages/patent.html

For those SSOs that include a RAND commitment, the importance of that commitment to the standards ecosystem must be recognized. However, it is also recognized that situations apply in which patent holders should be entitled to seek injunction or other remedies. For example, an implementer who rejects a bona fide RAND license offer and refuses to negotiate should not seek cover under the commitment. An implementer who asserts its essential patents against a member could likewise be outside the commitment. In such circumstances, injunction and other remedies may be available.

Whether a patent holder seeking an injunction is an SSO member or not, the court should include in its assessment of factors under the *eBay v MercExchange* case,[78] patent holdup and other consequences that will impact standards, implementers, users, and industries. As noted in the FTC Marketplace report:

> Courts should give careful consideration under each of *eBay's* four factors to the consequences of issuing an injunction prohibiting use of a patented invention incorporated into an industry standard. Whether the patent owner made a RAND commitment will also be relevant to the injunction analysis.[79]

SSO efforts to clarify when an injunction may be sought notwithstanding a licensing commitment can be procompetitive in better informing the parties of their rights and obligations and expectations in avoiding patent holdup in vital technologies.

Items for Consideration: RAND Commitment and Patent Holdup

- ***Notice before Payments. Patent holders can, in some instances, recover damages before notifying a standards implementer of the "essential" patent.[80] An SSO Policy could provide that SSO members/participants can collect royalties (or damages) only for infringements that first occur after an "essential" patent has been actually noticed to the implementer or disclosed to the SSO. This measure would also promote early disclosure of the "essential" patent. It may be argued that this limits patent holder rights. On the other hand, if the member has delayed disclosure, should s/he be rewarded? If the member was unaware of the infringement, a balance may be drawn between allowing enforcement of rights under the statute resulting in an unexpected return and disrupting the standard and the other SSO members and implementers.[81]***

- ***Notice to SSO before Targeting Standard. The recent Fujitsu v Netgear decision[82] allows a patent holder to show infringement of an "essential" claim based on standards compliance.[83] Enforcement tribunals should consider delaying or staying the start of an injunction that is based on the standard (rather than a product) until a specified time has***

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78 547 U.S. 388 (2006)

79 FTC Marketplace Report at page 28

80 In the U,S., patent marking (on the product) and method claims may permit the recovery of damages before actual patent notice under 35 USCode 287. Outside the U.S., damages may be recovered for the past. This provision would cover these instances.

81 This measure is in the TMForum Policy. Contact http://www.tmforum.org/ContactUs/746/home.html

82 See *Fujitsu v Netgear,* Case: 3:07-cv-00710- bbc (WD Wisconsin 2009),

83 This facilitates the infringement proceeding for the patent holder, although the implementer has an opportunity to respond that the claim is not "essential", the product does not comply with the "required" portion of the standard referenced in the infringement, or the product does not infringe. While use of the syllogism was affirmed by the court, the implementers (defendants) prevailed in the Fujitsu case.

elapsed after the patent holder has disclosed the essential patent to the SSO. This can apply to third parties and instances in which a member seeks injunction. This is a modest measure which can provide the SSO with time to notify members of the alleged infringement by the standard and for the standards developers to respond. This measure can mitigate disruption that a late-disclosed patent can cause. This measure is in sync with the section on "Delaying Injunction" included in the FTC Marketplace report.[84] This measure could also prompt (third) parties to disclose their patents to an SSO.

- ***Explicit Waiver. To waive a licensing commitment made by the holder of an "essential" patent, an implementer should affirmatively refute the commitment by statement or action. In a recent case,[85] an implementer was found to have apparently waived a patent holder's commitment to license an "essential" claim[86] RAND based on a settlement agreement covering another matter. The settlement agreement license allegedly excluded the essential patent in the field of the standard.[87] The defendant, however, had worked with the patent holder in having the patented invention technology ("UTDOA") included in the standard. Defendant (one of the patent holder's major competitors) was enjoined and subject to enhanced damages for its implementation of the standard. Clarity in the SSO Policy in defining "essential" claims and in specifying when waiver occurs could help mitigate concerns over when an ancillary agreement impacts access to patent license commitments to a standard.***

4.8 SSOs and pools. Patent pools establish royalty rates for a collection of companies' patents, often involving a standard. MPEG LA has formed a number of patent pools. Recently, the IEEE SSO joined with Via to form pools for some IEEE standards. SSOs should have latitude in experimenting with patent pools whose procompetitive aspects generally outweigh anticompetitive effects, as reflected in various business review letters ("BRL's") from the Department of Justice.[88]

While patent pools have numerous benefits, they involve costs as well. Pools can cut administrative costs, can offer implementers a one-stop option to license many patent holders' patents (thereby avoiding "the stacking problem"), can offer a cumulative and often fixed royalty that is typically lower than all the individual rates combined, and can provide the separate patent owners a "fair" share based on a mutually acceptable formula. However, pools can result in patent holders losing some control over the enforcement of their patents. Also, patent holders can

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84 See FTCMarketplace Report at page 238 citing *i4i Ltd. Partnership v. Microsoft Corp.*, 598 F.3d 831, 863-64, 1276-78 (Fed. Cir.), *cert. granted*, 79 U.S.L.W. 3326 (U.S. Nov. 29, 2010) (No. 10-290). See also "Patent Holdup and Patent Stacking" by Mark Lemley and Carl Shapiro, 85 Texas LR 1991 (2007) ("Holdup problems caused by the threat of injunction can be reduced if courts regularly grant stays...to give defendants time to redesign their products...")

85 See *TruePosition Inc v Andrews Corp*, 568 F. Supp. 2d 500 (DDel 2009)

86 The patent holder argued the claim was not essential because it was one of six alternative technologies, one of which had to be implemented to comply with the standard. The court viewed each "option" as a separate standard.

87 The Settlement Agreement resolved a dispute (not involving the standard) but excluded the "essential" patent in the relevant field. The patent holder agreed to a RAND commitment before the Agreement was concluded and also before the standard was concluded and the "essential" patent technology was included in the standard, and before the implementer constructed a standardized system that needed the "essential" patent technology.

88 See 2006 VITA BRL at http://www.justice.gov/atr/public/busreview/219380.htm and 2007 IEEE BRL at http://www.justice.gov/atr/public/busreview/222978.htm

confront actions by the pool that they oppose but which are approved by the majority and which could entail liability. In addition, although "standards" pools, which often include patent holders who worked on the standard, pass antitrust muster, pools may still be subject to antitrust questions.[89]

5. EX ANTE DISCLOSURE AND JOINT DISCUSSION OF LICENSING TERMS

Disclosure of licensing terms during standards development ("ex ante" disclosure) has been discussed by the global standards community in the context of reducing incidents of patent holdup. The distinction between voluntary *ex ante*, in which patent holders (of their own volition) post their licensing terms, and mandatory *ex ante* in which an SSO requires its members to disclose licensing terms while the standard is being developed have been discussed as well. A further aspect of *ex ante* disclosure involves what use the members or SSO make of disclosed licensing terms.

Overall, *ex ante* disclosure has not been widely embraced by SSOs. The most observed example involves the VITA Standards Organization. After confronting four different patent disclosures late in the standards development process, VITA initiated a mandatory *ex ante* disclosure policy in 2006. The VITA experience would be summed up as follows:

- The VITA mandatory *ex ante* policy was re-accredited by ANSI.
- There have been no patent issues arising in VITA since its new *ex ante* policy was adopted
- Less than 10 disclosures have been posted
- VITA members, except for one, continued membership after the new "*ex ante*" policy was adopted
- VITA members are overall satisfied with the organization's performance
- VITA is a relatively small organization with a limited scope relating to a standardized bus system for processors
- Standards parameters are not seriously impacted by the ex ante policy[90]

SSOs, other than VITA, have not adopted mandatory *ex ante* disclosure.

5.1 Business Considerations with Ex Ante In mandatory *ex ante*, patent holders are required to state rates and terms before the standard is finalized, perhaps before the market and value of the patent are fully realized. Hence, there is a possibility of being bound to terms which become inadequate over time, as the fields and uses of the patent(s) become better understood. Moreover, the patent holder may be announcing its royalties and terms before other patent holders – which could result in undervaluing the asset. There may also be a cost in negotiating a license agreement upfront, only to discover that "essential" claims are not embodied in the final standard or that the agreement is otherwise ineffective.

Similar considerations influence a party's interest in making a voluntary *ex ante* disclosure, except

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[89] MPEGLA operates patent pools relating to standards. One pool is directed to a data compression standard. Recently, MPEGLA issued a call for patents on VP8, a technology of Google that allegedly competes with the data compression standard. MPEGLA has reportedly received a number of patents that allegedly read on VP8. The possibility of a pool has been raised. The Justice Department is reportedly investigating. http://www.jhtl.org/archives/2011/03/entry_64.html

[90] Comments by Professor Jorge Contreras at the FTC Workshop

that the discloser may be one of a few who make licensing terms known.

These risks and costs are balanced against the value of standards developers and implementers knowing the risk of incorporating standardized features into a standard and the cost of including the feature in a product. With RAND having a flexible, ambiguous span, launching into a standards field without knowing the potential patent costs can impact product plans and business strategy. For the patent holder, competitive disclosed licensing terms could make standards developers more comfortable than with alternatives where patent terms are vague or unknown. In addition, *ex ante* disclosure helps ensure that standardization effects, as opposed to the invention's economic value, do not leverage the licensing terms.

While there are substantial trade-offs in *ex ante*, some concerns are less significant. Some contend that if terms are disclosed *ex ante*, technical people, without legal or business expertise, will engage in licensing issues. As a practical matter, such issues would likely be directed to the member's licensing and legal experts, as they would be if such issues arose after the standard is approved. There is also a contention that standard approval would be delayed as negotiations proceeded. The trade-off here is whether delay before approval (when alternatives are possible) is more problematic than encountering unacceptable terms after the standard is approved with implementers locked in with sunk costs.

5.2 Anticompetition Issues in Ex ante Joint Discussions Concerns over antitrust may have dissuaded standards participants and SSOs from considering *ex ante* policies. A 2007 article by Joel Miller[91] discusses why SSOs do not negotiate detailed license terms before a standard is approved. The author submits that "the prospect of antitrust liability deters an SSO from being a forum for adopters to bargain as a group with participant patentees...SSOs fearing liability for acting, in effect, as a buyers' cartel that artificially suppresses the price the patentee can command for its access to technology."

In recent years, however, the FTC and DoJ and some European agencies have assuaged many of the antitrust concerns with regard to *ex ante* disclosure and to some extent joint discussion of terms.[92] Former FTC Chair Deborah Majoras in September 2005 at Stanford University commented that "joint ex ante royalty discussions that are reasonably necessary to avoid holdup do not warrant per se condemnation. Rather they merit the balancing undertaken in a rule of

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91 "Standard-Setting, Patents, and Access Lock-in: RAND Licensing and the Theory of the Firm" by Joseph Miller, 40 Ind. L. R. 351 (2007)

92 See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011XC0114%2804%29:EN:HTML paragraphs 287 et seq. [F/RAND] ("In an appropriate case, it may also be possible to refer to *ex ante* disclosures of licensing terms in the context of a specific standard-setting process. This also assumes that the comparison can be made in a consistent and reliable manner. The royalty rates charged for the same IPR in other comparable standards may also provide an indication for FRAND royalty rates." See Section 290.) See also Section 299. ("Finally, standard-setting agreements providing for *ex ante* disclosures of most restrictive licensing terms, will not, in principle, restrict competition within the meaning of Article 101(1). In that regard, it is important that parties involved in the selection of a standard be fully informed not only as to the available technical options and the associated IPR, but also as to the likely cost of that IPR. Therefore, should a standard-setting organisation's IPR policy choose to provide for IPR holders to individually disclose their most restrictive licensing terms, including the maximum royalty rates they would charge, prior to the adoption of the standard, this will normally not lead to a restriction of competition within the meaning of Article 101(1) [124]. Such unilateral *ex ante* disclosures of most restrictive licensing terms would be one way to enable the standard-setting organisation to take an informed decision based on the disadvantages and advantages of different alternative technologies, not only from a technical perspective but also from a pricing perspective.")

reason. We would apply the rule of reason to joint *ex ante* royalty discussions because, quite simply, they can be a sensible way of preventing holdup, which can itself be anticompetitive...Transparency on price can increase competition among rival technologies striving to be incorporated into the standard at issue..."[93]

A speech by Hewitt Pate, Assistant Attorney General for Antitrust Division, Department of Justice has remarked that "It would be a strange result if antitrust policy is being used to prevent price competition. There is a possibility of anticompetitive effects from ex ante license fee negotiations, but it seems only reasonable to balance that concern against the inefficiencies of ex post negotiations and licensing holdup."[94]

There may be instances in which antitrust may arise from joint activities. If considering licensing terms leads to product "price fixing", or if the parties collude to exclude a party's technology, or if the buyers use their market power to form an anticompetitive cartel, antitrust concerns may arise. Although such instances may be rare, SSOs and their members may, in abundance of caution, avoid even the possibility of impropriety.[95]

Statements or guidance by agencies clarifying what conduct gives rise to potential issues in the joint discussion context would be helpful to those SSOs who might consider *ex ante* disclosure.

Items for Consideration: Patent Holdup, Joint Discussions and Alternative Dispute Resolution

- ***Patent Holder and ADR Benefit. It is suggested that the use of alternate dispute resolution, under SSO Policy, could be a useful tool in potential holdup situations.[96] Implementers have charged patent holders with anticompetition charges based on non-compliance with a RAND commitment.[97] To avoid the delay and expense of litigation, SSOs might consider options for alternative dispute resolution (ADR),[98] such as third party mediation, to address RAND anticompetition issues. ADR was the subject of a recent standards-related case. In a case involving two SSO members, implementer Zoran alleged that DTS was not licensing its essential patents on RAND terms and asserted antitrust and patent misuse allegations. DTS argued that the dispute was subject to an arbitration provision in the Blu-Ray Disk Association SSO Policy. Zoran contended that the arbitration only covered F/RAND determination and not antitrust remedies. The court limited the arbitration to F/RAND -- what the SSO policy provided for.[99] This case raises the following questions. Should SSOs consider ADR and, if so, for what issues? Second, if an implementer/member rejects a member/patentee's offer to engage in an ADR pursuant***

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93 Remarks at *Standardization and the Law: Developing the Golden Mean for Global Trade: Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting* 7-8 (Sept. 23, 2005), available at http://www.ftc.gov/ speeches/majoras/050923stanford.pdf

94 A speech by Hewitt Pate, Assistant Attorney General for Antitrust Division, Department of Justice, with a similar message is also cited.

95 See *COMMENT: RAMBUS, N-DATA, AND THE FTC: CREATING EFFICIENT INCENTIVES IN PATENT HOLDERS AND OPTIMIZING CONSUMER WELFARE IN STANDARDS-SETTING ORGANIZATIONS* by Theresa Stadheim, , 19 Alb. L.J. Sci. & Tech. 483 (2009) at 490

96 Vita Standards Organization and other SSOs also have included ,provisions in their Policies.

97 See *Townshend v Rockwell*, 2000 U.S. Dist LEXIS 5070, 55 USPQ2d 1011 (ND Cal 2000), Zoran Corp v DTS Inc., Case No. C 08-4655 JF (HRL), 2009 U.S. Dist. LEXIS 6675 (ND Cal 2009)

98 Where situations can differ, participants may be generally more receptive to nonbinding proceedings.

99 Id.

to a process established by the SSO for such issues, what are the consequences? And, third, how may the results be used? ADR is becoming more accepted in the IP community and might warrant more consideration in the IP standards community.

- ***<u>Patent Implementers and ADR Benefit</u>. Joint discussion by standards implementers of license terms has been targeted with the labels of buyer cartel, conspiracy, and monopsony.[100] It is suggested that an SSO may include an ADR process to assess alleged anticompetitive conduct relating to joint discussions involving patent license terms and conditions. Moreover, if implementers agree to have an offer/counteroffer made to the holder of an essential patent(s) submitted to the ADR process and the patent holder refuses, such implementers could be presumed nonviolative of competition law with respect to the offer/counteroffer.***

6. <u>CONCLUSION</u>

IBM appreciates the FTC initiative to address issues relating to patent holdup in standards. IBM also appreciates the opportunity to share our perspective and propose "items" that the FTC and others may consider that might add to clarity and address issues arising at the intersection of patents, standards, and competition.

[100] See Complaint in *TruePosition v LM Ericcson Telephone Company, Qualcomm Inc, Alcatel-Lucent SA, 3GPP, European Telecommunications Standards Institute (ETSI),* No 11 4564 (ED Pa 2011) in which it is alleged that companies and SSOs, "in concert and conspiracy", are excluding patent holder's technology (UTDOA) from being incorporated into new wireless standards.