

Standards-Related Patents and Standard-Setting Organizations

Navigating the Challenges of SSOs: Licensing, Disclosure and Litigation

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Standards-Related Patents and Standard-Setting Organizations

Navigating the Challenges of SSOs: Licensing, Disclosure and Litigation

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I. Background

I. Standard Setting Organizations: Background

Understanding Standard-Setting Organizations

- › ‘Standards’: a set of technical specifications providing a common design for a product or process
 - Addresses interests of wide base of users outside standard-developing organizations
 - Offered for use by manufacturers, regulators, industry as a whole, etc.
- › SSOs typically develop, coordinate, or otherwise maintain standards
- › Examples:
 - IEEE
 - Internet Engineering Task Force (IETF)
 - World Wide Web Consortium (W3C)

I. Standard Setting Organizations: Background

Benefits of Standard Setting Organizations

- › Standards encourage competition for standardized product
 - For manufacturers, a product's value can be a function of how consumers use product in conjunction with other products, for example, allowing peripheral connections
 - Products gain value to manufacturers as more consumers adopt them
- › Standards also promote public welfare
 - Product safety
 - Interoperability, wider use

I. Standard Setting Organizations: Background

Challenges of Standard Setting Organizations

- › Based on voluntary cooperation and self-policing
- › Possible forum for promoting proprietary technology
- › Can lead to patent “hold-up”
 - switching to alternative technology becomes onerous

I. Standard Setting Organizations: Individual SSOs

Understanding the Individual Policies of a Particular SSO

- › No 'general guidelines'
 - Individual policies of each SSO unique
- › Individual policies may vary by industry
 - Fast pace of modern technology may affect the way new standards proposed, developed and implemented
 - Nature and cost of innovation
 - Maturity of industry
 - Relationship between patentable inventions and marketable products

I. Standard Setting Organizations: Individual SSOs

Understanding the Individual Policies of a Particular SSO

- › Standardization by private organizations driven by unique factors
 - Often promotes...
 - Competition between participant
 - Interoperability of technology
 - Competition of technology that is ‘peripheral’ to standardized technology

II. Licensing

II. Licensing: Typical SSO License Requirements

Types of SSO Licenses

- › Unrestricted – no SSO license requirement
- › Commercially Essential
- › Technically Essential

Determination of Essentiality

- › Third party independent evaluator based on submission to SSO or patent pool
- › License essential patents on fair, reasonable, and non-discriminatory terms (FRAND or RAND)

II. Licensing: Generally

Terms of a License

- › License essential patents on fair, reasonable, and non-discriminatory terms (FRAND or RAND)
 - Means of enhancing pro-competitive character of SSO standard or patent pool
 - Exact licensing rates defined in SSO regulations or patent pool documents
- › Royalty free terms

II. Licensing: FRAND Terms

- A commitment to grant a license on FRAND is not a grant of a license
- License to operate under a patent not granted until parties agree on FRAND terms
- Significant disagreement among market participants over meaning of FRAND
 - › Level of royalties considered “reasonable”
 - › Tactics such as seeking injunctive relief fair game when FRAND commitments have been made

II. Licensing: FRAND Litigation

- ***Microsoft v. Motorola*** (W.D. Wash, Case No. C10-1823-JLR)
 - › FRAND issues – Royalty rate, injunctions
 - › Involves Motorola patents covering IEEE's 802.11 (WiFi) standards and ISO/IEC's and ITU's H.264 video codec standards
 - › In 2010, Motorola offered to license patents to Microsoft at proposed royalty of 2.25% of end product (i.e., each Xbox 360, PC/laptop or smart phone implementing standard)
 - › Microsoft did not take license and sought declaratory relief that Motorola breached FRAND obligations to SDOs
 - › Motorola sued Microsoft for patent infringement
 - › Court denied parties' motions for partial summary judgment and set trial for Nov. 19, 2012 to determine FRAND royalty for worldwide license for Motorola's patent on standards

II. Licensing: FRAND Litigation

- ***Apple v. Motorola*** (N.D. Ill, Case No. 1:11-cv-08540, transferred in part from W.D. Wis., Case No. 10-CV-00662-BBC)
 - › FRAND issues – Royalty rate
 - › Apple argues Motorola should be equitably estopped from enforcing patents relating to ETSI GSM/WCDMA and UMTS/3GPP standards
 - › Apple contends Motorola did not offer to license Apple on FRAND terms
 - › Motorola maintains it did, beginning in 2007, offer to license patents to Apple at customary rate of 2.25%
 - › Issue is whether licensing offer complies with Motorola's FRAND obligations to ETSI and other SDOs and, if not, what remedies available
 - › Most of FRAND-related claims case remain in Wisconsin court, which is scheduled for trial in November

II. Licensing: FRAND Litigation

- ***Apple v. Samsung*** (N.D. Cal. Civil Action No. 11-CV-01846-LHK).
 - › FRAND issues – Injunction, failure to disclose
 - › Both Apple and Samsung asserting patents against each other
 - › Apple has moved for partial summary judgment arguing:
 - Samsung failed to disclose patents essential to ETSI UMTS telecommunications standard used in iPhone and iPad
 - Apple licensed under these patents pursuant to cross-license between Samsung and Intel (chipset supplier)
 - Samsung's FRAND commitments to ETSI prevent injunctive relief against Apple
 - › Samsung counters Apple sought FRAND license from Samsung after Apple initiated litigation, then rejected Samsung's FRAND license offer and refused to engage in meaningful FRAND negotiations

II. Licensing: FRAND Litigation

■ European Commission Investigations

- › FRAND issues – Injunction, licensing
- › On April 3, European Commission (following complaints from Microsoft and Apple) announced investigation to determine whether Motorola violated EC competition law by failing to comply with FRAND commitments to SSOs
 - Investigate whether Motorola's attempts to obtain injunctions on basis of standards-essential patents and licensing terms amount to abuse of dominant position in violation of Article 102 of EU Treaty
- › In January, similar investigation launched for Samsung to determine whether its attempts to obtain injunctive relief in various European patent actions pending against Apple violated Samsung's FRAND commitments to ETSI and EC competition law

II. Licensing: FRAND Litigation

- ***Huawei v. InterDigital*** (Del. Ch., No. 6974)
 - › FRAND issues – ITC exclusion orders
 - › InterDigital asserted eight patents relating to 3G telecommunications standards against Huawei at ITC, seeking exclusion order against importation of infringing Huawei products into U.S.
 - › Huawei alleges in action brought in Delaware Chancery Court that InterDigital breached its commitments to ETSI and 3GPP by seeking to enforce patents against Huawei products without first offering FRAND license
 - › Because exclusion order is only remedy that ITC authorized to grant, Huawei seeks to have ITC action dismissed, and establishment of FRAND royalty rate for InterDigital's 3G patents

II. Licensing: Patent Pools

Advantages of Patent Pools

- › Promotes efficiencies in licensing of technologies - one-stop shopping for licenses to essential patents
- › Efficient and pro-competitive alternative to negotiating individual licenses from individual patent holders
- › Reduces transaction costs
- › Prevents blocking patents included in licensing package from being enforced by diverse entities

Challenges of Patent Pools

- › Can be efficient but can also feature:
 - Entry barriers
 - Difficulties in determining value of particular patents in pool

II. Licensing: Cross Licensing

- Commonly cross-licensing occurs between two parties as way of either settling or avoiding potential infringement litigation
- May enhance each party's design freedom and allow them to continue competing in their markets without burden of always-expensive and often-unpredictable litigation over validity and scope of each other's patents
- Cognizant of misusing cross-licensing as:
 - › a sham agreement to avoid competition that could otherwise occur without infringing either party's patents, or
 - › where cross-licensing itself creates incentives to refrain from future competition as a result of future innovation efforts

III. Disclosure Requirements

III. Disclosure Requirements: Generally

Meeting disclosure requirements

- › SSOs try to reconcile goals of encouraging participation and discouraging manipulation of the process
- › Dual roles → corresponding lack of clarity in an SSO's policies
 - Participants forced to guess what must be disclosed
- › Further issues arise when an SSO adopts a standard covering an IPR owned by a party participating in the organization

III. Disclosure Requirements: Generally

Meeting disclosure requirements

- › Adoption of certain standard may result from advocacy of interested parties during standard-setting process
 - Improper manipulation of advocacy most often challenged:
 - When party controls SSO
 - When party makes material misrepresentations causing an organization to adopt standard that includes party's patented technology

III. Disclosure Requirements: Generally

Meeting disclosure requirements

- › Decision to disclose may be impacted by...
 - Secure IP rights already in place?
 - e.g., Patent Application, Issued Patent, Patent under Reexamination?
 - SSO's ability to punish non-disclosure
 - Resources?
 - 'Punishment' policies?
 - Potential impact on industry as a whole?

III. Disclosure Requirements: Consequences

Failure to Disclose

- › Currently some ambiguity in law
 - Early cases indicate that failure to disclose IPR in an SSO setting may result in equitable estoppel defense (even in absence of explicit disclosure policy)
 - Foreclosing future enforcement efforts
 - Duty to disclose when explicit disclosure policy in place obviously much clearer

III. Disclosure Requirements: Best Practices

Best Practices

- › Always request copy of intellectual property patent disclosure policy before joining SSO
 - Many SSOs do not distribute to members as a matter of practice
- › Participants should be well-versed on scope of own company's patent portfolio
 - Understand disclosure policies
- › Standards discussed by SSOs should be reviewed internally
 - Determine scope of policy, whether disclosure is warranted
- › Seek legal counsel
 - Unreasonable to expect inventors to interpret all claims of a patent in light of one particular standard

III. Disclosure Requirements: Court Treatment

Advocacy before an SSO often challenged as improper manipulation of the SSO arrangement in two circumstances:

- › (1) When party actually controls the SSO
- › (2) When party makes material misrepresentations causing organization to adopt a standard that includes party's patented technology
 - More common situation
 - Usually involves efforts by participants to persuade SSO to adopt particular standard.
 - Not illegal or unfair to seek to have one's patented product or product characteristics specified as a standard, but *misrepresentations* to this effect are not tolerated by courts

III. Disclosure Requirements: Court Treatment

Use of Equitable Estoppel/Laches to Curb Misrepresentation in SSOs

- › ***Potter Instrument Comp., Inc. v. Storage Tech. Corp.***, 207 U.S.P.Q. 763 (E.D.Va. 1980) (*aff'd* by 641 F.2d 190 (4th Cir. 1981)). (laches only)
 - Potter prevented from pursuing infringement action against defendants due to failure to disclose ownership of relevant patents during ANSI standard-setting discussions
- › ***Stambler v. Diebold Inc.***, 11 U.S.P.Q.2d 1709 (E.D.N.Y. 1988).
 - Stambler's "intentionally misleading silence" after 11 years and ANSI standard-setting meeting induced Diebold to invest in development and marketing.
 - Decision affirmed by Federal Circuit
- › In response to these decisions, many SSOs began writing explicit IPR disclosure policies and requiring participants to abide by those policies

III. Disclosure Requirements: Court Treatment

Use of Antitrust Law to Enforce Good Faith Participation in SSOs

- › Misrepresentation of patent holdings in context of SSOs has given rise to antitrust suits in which one party claims that misrepresentation violates § 5(a) of FTC Act or § 2 of Sherman Act
 - ***Dell Computer Corp.***, No. C-3658 (F.T.C. 1996).
 - Dell certified that it had no patents covering standard that VESA planned to adopt, but after VESA adopted standard, Dell attempted to enforce its patents against other companies manufacturing standard-compliant products
 - Dell's actions held to be unfair method of competition under § 5 of the FTC Act; mandatory royalty-free license imposed

III. Disclosure Requirements: Court Treatment

The *Rambus* case

- › ***Rambus v. Infineon Tech. AG***, 318 F.3d 1081, 1083-1084 (Fed. Cir. 2003).
 - After participating in development of a standard for RAM after joining JEDEC in February 1992, Rambus withdrew from JEDEC but continued to file continuation and divisional applications based on (disclosed) '898 application.
 - Rambus left JEDEC before work officially began on DDR-SDRAM standard
 - Infineon accused of Rambus of filing applications, waiting until standard was adopted, and then modifying its patent applications so that claims covered standards
 - Case eventually appealed to Federal Circuit

III. Disclosure Requirements: Court Treatment

The *Rambus* case

- › Federal Circuit held that JEDEC's IPR disclosure policy did not specify participants required to disclose *future* plans or intentions to submit patent application
- › Claims in Rambus patent covering SDRAM standard were not pending at the time that standard was under consideration
 - No breach of duty of disclosure to JEDEC
 - JEDEC could have drafted its policy differently if it so desired
- › FTC subsequently upheld independent antitrust claim against Rambus under § 2 of the Sherman Act (later overturned by D.C. Circuit)

III. Disclosure Requirements: Court Treatment

- › As a matter of policy, Federal Circuit emphasized in *Rambus* that clearly drafted policies would be enforced, encouraging SSOs to...
 - review their rules and clarify their scope and application
 - require members to license their intellectual property rights on FRAND terms regardless of whether members disclose those rights
 - Thus, even if IPR policies are not construed to require disclosure of particular patent, participants in SSO still required to license their patents on FRAND terms

III. Disclosure Requirements: Court Treatment

Difficulties in applying *Rambus*

- › Requirement that SSOs and their participants analyze bylaws and determine whether IPRs must be disclosed is difficult to apply in practice
 - Members of SSOs could find it difficult to construe claims of every patent they hold
 - Relevance of stage of prosecution proceedings
 - Could encourage members to over-disclose and ultimately could discourage participation in SSOs

III. Disclosure Requirements: Continuing Trends

Growing divergence between FTC and Federal Courts

- › Federal courts inclined to read ambiguous disclosure policies narrowly
 - Ambiguities read in favor of participants
 - Attempting to avoid ‘chill’ in participation

- › FTC is eager to prevent ‘dishonest participation’
 - Continuing enforcement of § 5 of FTC Act; § 2 of Sherman Act
 - Participants should err on side of disclosure
 - ‘Unintentional’ versus ‘Intentional’ failure to disclose

See Thomas J. Scott, Jr., Stephen T. Schreiner, et al., *Proscribed Conduct for Patent Holders Participating in Standard-Setting Organizations*, 20 No. 10 *Intell. Prop. & Tech. L.J.* 14 (Oct. 2008).

IV. Standards-Related Litigation

IV. Standards-related litigation

Potential defenses against patent infringement in the context of SSOs

- › SSO Participants should be aware of potential defenses, given...
 - Present uncertainty in law
 - Confusion persists: In May 2008, Commissioner of the FTC asserted in a Policy Statement that § 5 of FTC Act may be used to deal with participant misrepresentation in the context of SSOs
 - Reaction to *Rambus* saga
 - Individual SSOs all likely to have own disclosure policies, enforcement tactics
 - Growing importance of SSOs; increasing importance of participation

IV. Standards-related litigation: Fraud defense

Potential defenses available to an accused infringer

› Fraud defense

- Basic elements of fraud must still be shown by clear and convincing evidence:
 - e.g., false representation or omission in face of duty to disclose; of material fact; made intentionally and knowingly; with intent to mislead, etc.
- Strongest when patentee has defied an explicit IPR policy
 - In *Rambus*, Federal Circuit criticized JEDEC’s policy for a “staggering lack of defining details” in its patent disclosure requirements and a failure to outline “what, when, how, and to whom the members must disclose.”

IV. Standards-related litigation: Equitable Estoppel defense

Potential defenses available to an accused infringer

› Equitable estoppel defense

- A party estopped from asserting cause of action when past statements or actions induced reasonable reliance and allowing cause of action would result in an unfair detriment to other party
- Becoming less common as FTC and circuit courts instead turn to § 5 of FTC Act and § 2 of Sherman Act to achieve same result
- Successfully asserted in *Potter Instrument Company* and *Stambler*
 - Mitsubishi unable to prove in *Wang Lab., Inc. v. Mitsubishi Elecs., Inc.*, 103 F.3d 1571, 1576 (C.D. Cal. 1993).

IV. Standards-related litigation: Patent Misuse defense

Potential defenses available to an accused infringer

› Patent Misuse defense

- Prevents patentee from using patent to obtain market benefit beyond what is imparted by statutory right
- Has patentee, by imposing condition in question, impermissibly broadened physical or temporal scope of patent grant and has done so in a manner that has anticompetitive effects?
 - Overlaps with inquiries regarding competition under § 5 of FTC Act and § 2 of Sherman Act
- Recent decisions uphold narrow application of patent misuse doctrine. *Princo Corp. v. International Trade Commission and U.S. Philips Corp.*, 616 F.3d 1318 (Fed. Cir. 2010) (en banc).

IV. Standards-related litigation: Contractual Counterclaims defense

Potential defenses available to an accused infringer

› Contractual counterclaims defense

- Which contracts?
 - Agreement between patentee and accused infringer?
 - › e.g., that may require duty of candor or honesty
 - Agreement between patentee and SSO?
 - › e.g., in which patentee must make certain disclosures to SSO
 - › May be implicit, i.e., as in *Stambler*
 - Agreement between SSOs?
 - › e.g., agreeing to require certain disclosure standards
- In some cases, there may simply be no contract on which to counterclaim

IV. Standards-related litigation: Antitrust Counterclaims defense

Potential defenses available to an accused infringer

› Antitrust counterclaims defense

- Benefits: FTC may be particularly responsive to these counterclaims
 - If goal is to punish 'bad behavior' this defense affords court or tribunal such an opportunity
- Disadvantages: Current conflicts in law may result in some unpredictability
 - e.g., *Rambus*
- Bottom line: consider forum your client will be in

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