

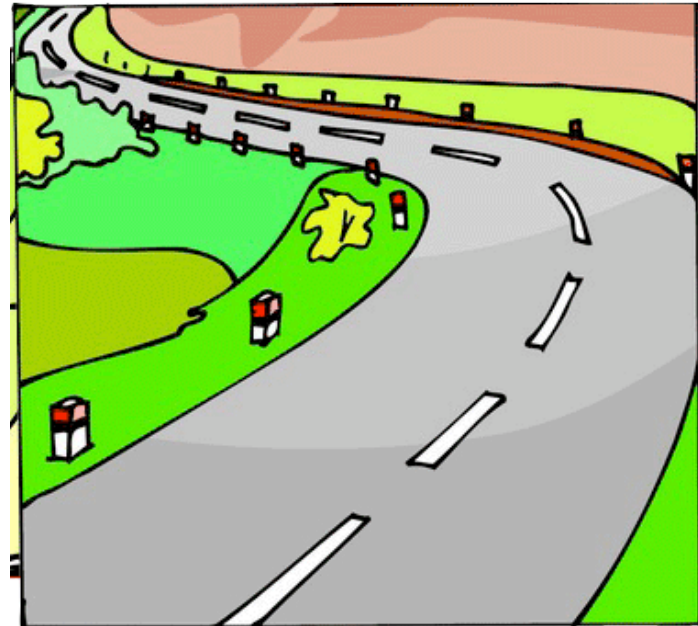
Patents and Standards – The American Picture

Judge Randall R. Rader
U.S. Court of Appeals for the
Federal Circuit



Roadmap

- Introduction
- Cases
- Conclusions
- Questions



An Economist's View

- Terminologies:
 - “patent ambush”
 - “IP opportunism”
 - “patent hold-up”
- Hold-up arises when one party makes investments specific to a relationship before all the terms/conditions of the relationship are agreed
 - May cause economic inefficiency

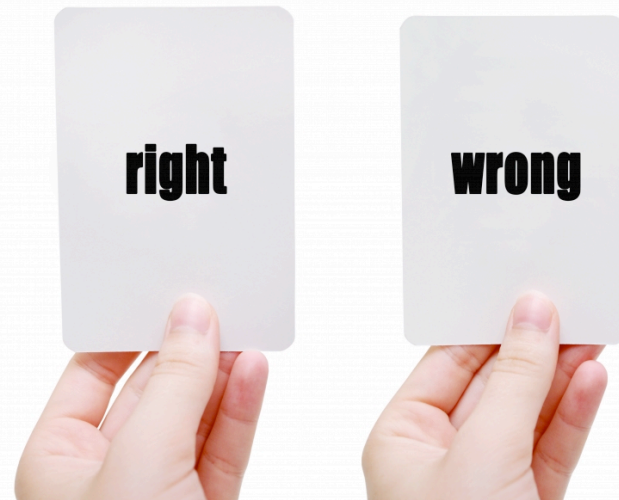


Before and after

- Ex ante
 - Before industry standard is chosen, there are various attractive technologies
- Ex post
 - After standard is chosen and industry participants implement it, alternative technologies are less attractive (“irreversible investments”)
- A patent covering a standard can thus confer much more market power ex post than it could have ex ante

SSO Rules

- Many SSO's have three types of rules relevant to the hold-up problem
 - Disclosure rules
 - Scope, timing
 - Negotiation rules
 - Timing, place, etc.
 - Licensing rules
 - FRAND, RAND, etc.
- Courts must often step in to decide when/whether rules have been breached, and if so, what consequences flow

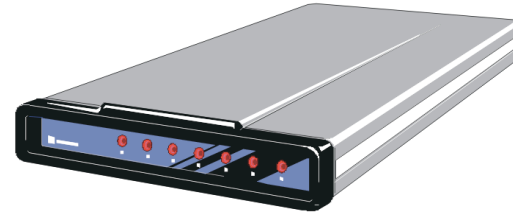


In the Matter of Dell Computer Corporation, 121 F.T.C. 616 (1996)

- Dell participated in Video Electronics Standards Association (“VESA”) meetings to promulgate a new local bus standard for 486-based PCs.
- Dell affirmed to VESA that it had no patent rights on the proposed standard, though it did
- After adoption of the standard, Dell asserted its patent.
- FTC found that Dell acted in **bad faith**, relying on VESA’s strong stated preference for standards that did not include proprietary technology. This was “evidence that the association would have implemented a different non-proprietary design.”
- Dell entered into a settlement agreement barring it from enforcing the VL-bus patent against any company using the standard.



Townshend v. Rockwell International Corp., 55 U.S.P.Q.2d 1011 (N.D. Cal. 2000)



- During the standard-setting process for the 56K modem standard at the Int'l Telecom. Union, Townshend encouraged the use of its patent-pending contributions in the V.90 standard.
- ITU's code of practice stated that once a participant has identified patented technology in a contribution, the patent holder may either:
 - a) waive its rights to collect royalties,
 - b) state its willingness to negotiate on a RAND basis (outside the auspices of ITU), or
 - c) state that it is not willing to negotiate licenses, in which case ITU would not recommend incorporation of the technology

Townshend (continued)

- Townshend notified ITU that it had applied for patents and submitted a licensing proposal (a per unit royalty, and cross-licensing provisions for other technologies included in the V.90 standard)
- Townshend entered into a licensing agreement with 3Com
- On Sep. 15, 1998, the ITU adopted the V.90 standard which included Townshend's patented technology
- In Jan. 1999, Townshend and 3Com filed a patent suit against Rockwell.

Townshend (continued)

- Rockwell asserted two antitrust counterclaims:
 1. “Townshend and 3Com have combined and conspired to . . . deceive the ITU into incorporating Townshend’s patent into the industry standard, to deny competitors access to this technology, to restrain competition, and to file this lawsuit in order in order to prevent [Rockwell] from using Townshend’s technology”
 2. 3Com and Townshend “willfully engaged in conduct creating a dangerous probability that 3Com will acquire and maintain monopoly power in the market for 56K modem chipset products.”

Townshend Antitrust Claim #1

- District court analyzed under § 1 of the Sherman Antitrust Act, which requires “(1) an agreement or conspiracy among two or more persons or distinct business entities; (2) by which the persons or entities intend to harm or restrain competition, and (3) which actually injures competition.”
- Court dismissed, saying “the ITU, whose members included Rockwell, adopted the V.90 standard **after receiving 3Com’s [licensing proposal]**. The adoption of the V.90 standard by the ITU suggests that the ITU was satisfied that the proposed terms submitted by 3Com evidenced a willingness by 3Com to negotiate non-discriminatory, fair, and reasonable terms.”
- Further, “[g]iven that a patent holder is permitted under the antitrust laws to completely exclude others from practicing his or her technology, the Court finds that 3Com’s submission of proposed licensing terms with which it was willing to license does not state a violation of the antitrust laws.”
- As for the cross-licensing provision: “cross-licensing is considered a pro-competitive practice because it can facilitate the integration of complementary technologies.”

Townshend Antitrust Claim #2

- District court analyzed under § 2 of the Sherman Antitrust Act: “attempted monopolization requires: (1) a specific intent to control prices or to destroy competition in the relevant market; (2) predatory or anticompetitive conduct; (3) a dangerous probability of achieving monopoly power; and (4) causal antitrust injury.”
- Rockwell, relying on *Dell*, alleged that 3Com/Townshend deceived the ITU by convincing the SSO to adopt the standard and then refusing to license the technology on “fair terms.”
- Court dismissed this as well:
 - “there is no allegation that 3Com has refused to license with [Rockwell] in accordance with the proposed terms submitted to the ITU.”
 - The court distinguished *Dell*:
 - Townshend's patents issued **after** the ITU had adopted the V.90 standard, unlike in *Dell*
 - 3Com informed the ITU that Townshend had pending patent applications covering 56K chipset modem technology, unlike in *Dell*
 - No evidence that ITU **could have adopted** a non-Townshend V.90 standard, whereas in *Dell*, the SSO was choosing among various options

The *Rambus* Saga

- *Rambus v. Infineon Technologies*, 318 F.3d 1081 (Fed. Cir. 2003)
- *Rambus v. FTC*, 522 F.3d 456 (D.C. Cir. 2008)

Rambus

Rambus v. Infineon

- Rambus sued Infineon (and many others) alleging they infringed on Rambus patents by manufacturing memory chips compliant with the ubiquitously practiced SDRAM and DDR SDRAM standards
- Rambus develops memory technologies, but relies solely on licensing (not manufacturing) for its revenue in this space
- Rambus' aggressive litigation stance: “[t]hose companies that decide to litigate” rather than voluntarily enter into licensing agreements “will pay higher royalty rates.”

Rambus v. Infineon (continued)



- Rambus was a long time member of the body that established the SDRAM industry standards, Committee 42.3 of the Joint Electronics Devices Engineering Infineon Council (“JEDEC”). Rambus *disclosed* its ‘703 patent to JEDEC, but *not* several pending applications that shared the same specification
- Infineon asserted (under VA state law) that Rambus
 - had failed to disclose relevant pending patent applications while it was a member of Committee 42.3
 - used information obtained as a result of its participation in JEDEC Committee 42.3 to draft patent claims that covered the SDRAM and DDR SDRAM standards.
- Virginia jury – Rambus committed fraud by not disclosing patent applications related to both SDRAM and DDR-SDRAM.
- District court *reversed* the fraud verdict as to DDR-SDRAM, but *not* as to SDRAM.



Rambus v. Infineon – the appeal



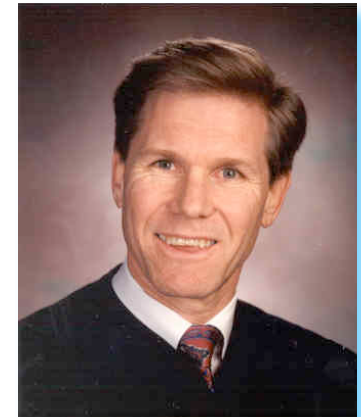
- “because substantial evidence does not support the implicit jury finding that Rambus breached the relevant disclosure duty during its participation in the standards committee, this court reverses the denial of judgment as a matter of law that let the fraud verdict stand.”

Rambus v. Infineon - the appeal

- Appendix E of the JEDEC policy prohibited standards that “call for use of a patented item or process” unless all information “covered by the patent or pending patent” was known and a license was available under reasonable terms.
- Even though there was no indication that members ever legally agreed to disclose information, “because JEDEC members treated the language of Appendix E as imposing a disclosure duty, this court likewise treats this language as imposing a disclosure duty.”
- CAFC: The disclosure duty of the JEDEC policy hinges on whether the **claims** “reasonably might be necessary to practice the standard.”
- Rambus did disclose its ‘703 patent while it was a JEDEC member. As to other pending applications, “substantial evidence does not support the finding that these applications had claims that read on the SDRAM standard.”
- Rambus’ *subjective* belief and desire that certain pending application claims *might* read on the standard were “irrelevant” to the necessary objective inquiry regarding breach of the disclosure duty.

Rambus v. Infineon – key holding

- “In this case there is a staggering lack of defining details in the EIA/JEDEC patent policy. When direct competitors participate in an open standards committee, their work necessitates a written patent policy with clear guidance on the committee's intellectual property position. ***A policy that does not define clearly what, when, how, and to whom the members must disclose does not provide a firm basis for the disclosure duty necessary for a fraud verdict.*** Without a clear policy, members form vaguely defined expectations as to what they believe the policy requires -- whether the policy in fact so requires or not. JEDEC could have drafted a patent policy with a broader disclosure duty. It could have drafted a policy broad enough to capture a member's failed attempts to mine a disclosed specification for broader undisclosed claims. It could have. It simply did not.”



Rambus v. Infineon - Settlement

- Infineon agreed to pay Rambus a quarterly license fee of \$5.85 million for 2 years
- Infineon also agreed to pay up to \$100 million worth of continuing quarterly payments after 2007 in exchange for a global license to all existing and future Rambus patents and patent applications for use in Infineon products.



Rambus v. FTC (D.C. Cir. 2008)



- Based on essentially same facts as *Infineon*, but this time, based on a FTC administrative complaint alleging antitrust law violations
- According to the FTC, Rambus engaged in deceptive conduct which violated JEDEC disclosure rules by either failing to disclose patent related data, or making misleading statements about such data. This led JEDEC to adopt standards utilizing Rambus patents, thereby permitting Rambus to acquire a monopoly and seek high licensing fees.
- The FTC remedial order required Rambus to license its patents on reasonable royalty terms for three years, but thereafter forbade any royalty collection.
- On appeal, Rambus did not dispute the FTC findings that it had monopoly power in the markets identified by the FTC. Instead, it argued that the FTC had not satisfied the conduct element of monopolization.

Rambus v. FTC (continued)



UNITED STATES COURT OF APPEALS
FOR THE
DISTRICT OF COLUMBIA CIRCUIT

- The FTC made a problematic finding: but for Rambus's conduct, JEDEC would have *either*
 - (a) adopted a non-proprietary standard *or*
 - (b) extracted a commitment from Rambus to license on RAND terms.
- Regarding option a), the FTC made clear that "there was insufficient evidence that JEDEC would have standardized other technologies had it known the full scope of Rambus's intellectual property"
- Thus, the court focused on the question of whether Rambus's conduct enabled it to avoid making a RAND commitment to JEDEC that it otherwise would have made.

Rambus v. FTC: no competitive harm even if Rambus deceived JEDEC

- “[d]eceptive conduct – like any other kind – must have an anticompetitive effect in order to form the basis of a monopolization claim,”
- “[e]ven if deception raises the price secured by a seller, but does so without harming competition, it is beyond the antitrust laws’ reach.”
- If Rambus acquired its monopoly position lawfully but used deception “simply to obtain higher prices,” such conduct “has no particular tendency to exclude rivals and thus to diminish competition,” and therefore cannot serve as the exclusionary conduct element of a monopolization claim.
- Court expressed “serious concerns about the strength of the evidence . . . regarding the scope of JEDEC’s patent disclosure policies and Rambus’s alleged violation of those policies.”:
 - *“the more vague and muddled a particular expectation of disclosure, the more difficult it should be for the Commission to ascribe competitive harm to its breach.”*

Qualcomm v. Broadcom, 548 F.3d 1004 (Fed. Cir. 2008)

- District court: Qualcomm breached its duty to disclose patents to the Joint Video Team “JVT” SSO that developed the H.264 video compression standard.
- Throughout district court discovery, Qualcomm maintained that it did not participate in JVT’s development of H.264.
- On one of the last days of trial, a Qualcomm witness revealed she had emails that Qualcomm had previously claimed did not exist – this led to Qualcomm’s compelled production of thousands of pages of documents revealing that Qualcomm had concealed its involvement in JVT.
- District court: “In light of all of the . . . evidence finally revealed, the eventual collapse of Qualcomm’s concealment efforts exposes the carefully orchestrated plan and the deadly determination of Qualcomm to achieve its goal of holding hostage the entire industry desiring to practice the H.264 standard.”
- Remedy: patents unenforceable under the equitable waiver doctrine



Qualcomm v. Broadcom – on appeal

- JVT policy: “members/experts are encouraged to disclose as soon as possible IPR information (of their own or anyone else’s) associated with any standardization proposal (of their own or anyone else’s). Such information should be provided on a best effort basis.”
- Threshold dispute - whether the written JVT IP policies impose any disclosure duty on participants apart from the submission of technical proposals.
 - Qualcomm: Policy required disclosure only by the party making a technical proposal
 - Broadcom: Policy imposes a general disclosure obligation on all participants

Qualcomm v. Broadcom - affirmed

- Federal Circuit: “By Qualcomm’s own admission, it did not present evidence of any efforts, much less best efforts, to disclose patents associated with the standardization proposal (of their own or anyone else’s) to the JVT prior to the release of the H.264 standard.”
- Court invoked *Rambus v. Infineon*: even non-explicit disclosure requirements can create a duty to disclose patent rights during standard setting discussions.
- **Affirmed:** “clear and convincing evidence that Qualcomm had knowledge, prior to the adoption of the H.264 standard, that the JVT participants understood the policies as imposing a disclosure duty, that the asserted patents ‘reasonably might be necessary’ to practice the H.264 standard, and that *Qualcomm intentionally organized a plan to shield said patents from consideration by the JVT*, planning to demand license fees from those seeking to produce H.264-compliant products.”



Conclusions

- American legal system has many enforcement mechanisms for regulating anticompetitive behavior:
 - Federal antitrust laws
 - State unfair competition / contract law
 - Equitable doctrines (waiver, estoppel)
- Fraud always requires a high showing, as do antitrust claims
- Case law suggests that SSO's should carefully craft disclosure policies: vagueness begs exploitation

Questions

