

Patents That Cover Industry Standards

Companies risk losing patents by failing to disclose

BY DON FEATHERSTONE AND EVAN SMITH

Companies that send representatives to standards-setting meetings are usually obligated to disclose patent filings relevant to the standards under consideration. Many companies do not realize that failure to disclose, whether intentional or inadvertent, might destroy their patent rights. Enforcement actions against companies like Rambus, Inc., Dell Computer, and Wang illustrate the potentially serious consequences of attending standards meetings without careful attention to disclosure obligations.

How Standards Are Set

Major national and international standards-setting bodies, like the American National Standards Institute (ANSI), International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), act as nonprofit umbrella organizations for standards-setting activities. Government agencies and nonprofit organizations participate in many standards committees, but most delegates represent private interests. Participation offers significant corporate benefits and many companies, large and small, send delegates to standards meetings. At the meetings, company delegates offer technical input, influence standards decisions in favor of their commercial interests, and gather intelligence about industry trends.

Rules established by the standards-setting bodies provide due process through public review, comment, and revision of draft standards and by permitting all interested parties to join and participate. These and other standards-setting bodies establish working committees, each tasked to develop industry standards in a specific area. Committee work is performed by "volunteers" assigned by their employer to help develop the new standards. The committees meet periodically to seek input, consensus, and compromise among interested members.

Standards and IP Rights

To prevent unfair surprises and overreaching by private interests, standards groups typically set two rules relating to intellectual property:

1. Members of the group are obligated to disclose their pending patent applications and issued patents that cover the proposed standard.

2. Member-owned proprietary technology is ineligible for standards consideration unless the owner of the rights pledges to offer commercially reasonable and nondiscriminatory licenses.

Voluntary disclosure is essential for standard-setting committees; they lack the resources to conduct infringement clearance searches, and in any case pending applications are often known only to the applicants. By sending representatives to standards-setting groups and accepting the benefits of participation, companies also accept the above disclosure rules. This process allows the group to evaluate the scope of the rights and the option of revising the standard to define an alternative, public domain technology.

The rules subject companies to conflicting motivations. If a company discloses its patent filings, a standards committee may design the standard to avoid the patented technology, reducing or eliminating the value of the company's patent rights. If a committee does adopt a proprietary standard, it will do so only with assurances that royalty levels will not be a barrier to broad implementation of the standard. As a result, companies are tempted to allow (or even induce) the industry to adopt a standard, and to wait until the standard is widely adopted before revealing blocking patent rights and demanding substantial royalties.

Mechanisms for Disclosure

Delegates may disclose a patent or pending application applicable to the standard under discussion during a committee meeting, or by written submission to the group. If a member encourages adoption of a standard potentially covered by its own patent filings, its disclosure may be accompanied by a commitment to offer commercially reasonable (or even free) nondiscriminatory licenses.

A large company with many pending applications and issued patents may need a formal system to ensure that it meets these disclosure requirements. For such companies, a clearly defined process is needed to track standards committee attendance, understand proposed standards, identify relevant patent rights and convey that information to delegates, train delegates to spot and report issues to designated counsel, and document these efforts. Small companies with only a few patent filings

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may adopt a less formal system, which still meets the same requirements.

Enforcement Actions

The Federal Trade Commission (FTC) has filed antitrust charges against companies that asserted blocking patent rights covering a standard, but failed to disclose their patent rights during the standards-setting process. At least one court found that similar conduct granted an implied license to the infringer.

Most recently the FTC charged Rambus, Inc. with abusing patent rights to illegally monopolize the market for SDRAM, the industry-standard plug-in memory for PCs and other computing devices.¹ The FTC seeks an order barring Rambus from enforcing U.S. and international patents. The proposed penalty is substantial because Rambus reportedly collects royalties of \$50 million to \$100 million a year from computer memory manufacturers. A hearing before FTC Administrative Law Judge Stephen J. McGuire was underway as this article was written.

The case arises from Rambus' participation in meetings of the Joint Electron Device Engineering Council (JEDEC)² from 1991 to 1996. This standards-setting body includes most major electronics manufacturers and established the SDRAM standard in 1999. The FTC contends that Rambus violated JEDEC rules by failing to disclose SDRAM-related patent applications.³

Rambus is accused of remaining silent when specifically asked about its patent rights during committee meetings.⁴ A document allegedly written by Rambus CEO Geoff Tate directs company employees "not to indicate/ hint/ wink/ etc." that the JEDEC standard might infringe Rambus patents.⁵ The FTC also alleges that the company amended its patent claims in response to what it learned at JEDEC meetings.⁶ The FTC does not contend that amending patent applications to cover competing technology is normally improper, but argues that Rambus' actions violated JEDEC rules and procedures.⁷

Rambus denies the allegations and asserts that the disclosure rules were too vague to be enforced.⁸ In support, Rambus points to a January 2003 decision in Rambus' patent infringement suit against Infineon Technologies. Infineon convinced a jury in 2001 that Rambus committed fraud under Virginia law by failing to disclose pending applications to the standards committee.⁹ On appeal, the Court of Appeals for the Federal Circuit overturned the fraud count.¹⁰ The CAFC held that JEDEC's patent disclosure policy was not specific enough to support a finding that noncompliance constituted fraud.¹¹ Infineon petitioned the Supreme Court for a writ of certiorari on July 3, 2003. The Court had not acted on the petition as this article was being written.

Rambus is not the first company to run into problems with disclosures in standards-setting groups. Previous FTC enforcement actions include a 1996 charge against Dell Computer involving Dell's role in setting the Video

Electronics Standards Association (VESA) VL-Bus standard used in 486-based computers.¹² Dell allegedly represented that it had no patent rights relating to the standard and then tried to enforce rights covering the standard.¹³ That case was settled; Dell agreed not to enforce that patent or any other patents that Dell intentionally failed to disclose on request of a standard-setting organization.¹⁴

In a 1993 case, a jury refused to enforce a Wang patent after Wang participated in standards-setting activities without disclosing a pending application, which later issued, covering the standard.¹⁵ Wang sued adopters of the standard for infringement. Most defendants settled, but Mitsubishi went to trial. The jury found that Wang gave an implied license by encouraging Mitsubishi to adopt the standard and begin its manufacturing activities.¹⁶

Establishing Good-Faith Procedures

Valuable patent rights have been lost through failure to disclose them during the standards-setting process. Intentional cover-ups have foreseeable results, but inadvertent actions could also impair key patents. Joseph J. Simons, director of the FTC Bureau of Competition, says the recent Rambus complaint sends a deliberate signal: "The message is this: If you are going to take part in a standards process, be mindful to abide by the ground rules and to participate in good faith."¹⁷

Established corporate compliance procedures can be helpful in meeting disclosure requirements and in showing good faith if an oversight occurs. Corporate "best practices" may include the following steps:

1. Monitor and control standards committee participation. It is helpful if designated legal counsel (in-house or outside) is kept informed of proposed attendance or other participation in standards groups. Counsel may then ensure that participation is approved by appropriate management and is reviewed regularly for consistency with corporate business and legal objectives. Note that some companies choose to avoid participating in standards committees in areas where they have substantial patent rights.

2. Train standards committee delegates. Briefing by counsel on how to spot legal issues arising in a standards-setting process is desirable before sending an employee to attend a standards-setting meeting.

3. Debrief. Counsel and management may require that standards committee delegates keep them informed with regular reports during and after committee meetings.

4. Identify relevant patent rights. When kept informed of events, counsel can evaluate pending standards proposals in relation to pending applications and issued patents to identify relevant rights.

5. Obtain opinions as needed. In close cases, the company may wish to obtain a formal opinion of counsel. If the company's disclosure decision is later chal-

lenged, reliance on a well-reasoned and fully informed opinion can be presented as evidence of good faith, analogous to reliance on a non-infringement opinion.

6. Respond strategically. Counsel and management can use information received to evaluate the effect of new standards developments on the company's competitive position, research and development priorities, and patent activities, and make appropriate strategic adjustments.

7. Establish disclosure strategy. Determine whether a disclosure is necessary or otherwise desirable, and what business actions should accompany the formal disclosure (such as personal communication with influential delegates or simultaneously announcing an open-licensing commitment).

8. Properly execute and document disclosures. Complete the planned actions and retain complete documentation of the information provided to the group.

Regardless of the outcome of the pending *Rambus* case, technology company executives and counsel should be aware of dangers arising from standards-setting activities. Savvy companies are taking note of recent high profile cases and are establishing appropriate procedural safeguards to protect key patent rights.

Endnotes

1. In re Rambus, F.T.C. Docket No. 9302 (2002).
2. Now known as the "JEDEC Solid State Technology Association," JEDEC is the semiconductor engineering standardization body of the Electronic Industries Alliance (EIA), a trade association that represents all areas of the electronics industry.
3. Administrative Complaint at ¶2, In re Rambus, F.T.C. Docket No. 9302 (2002).
4. *Id.* at ¶72.
5. Opening arguments of M. Sean Royall, deputy director Bureau of Competition, In re Rambus, F.T.C. Docket No. 9302 (Apr. 30, 2002) (displaying document).
6. *See* Administrative Complaint at ¶54, In re Rambus, F.T.C. Docket No. 9302 (2002).
7. *See id.* at ¶¶ 79–80.
8. Trial Brief of Respondent Rambus Inc. at 47–51, In re Rambus, F.T.C. Docket No. 9302 (2002).
9. *Rambus, Inc. v. Infineon Tech. AG*, 164 F. Supp. 2d 743 (E.D. Va., 2001), *aff'd in part, rev'd in part, vacated in part, and remanded*, 318 F.3d 1081 (Fed. Cir. 2003), *reh'g denied*, 2003 U.S. App. LEXIS 8845 (Apr. 4, 2003), *petition for cert. filed* (U.S. July 3, 2003) (No. 03-37).
10. *Id.*, 318 F.3d 1081 at 1081.
11. *Id.*
12. In re Dell Computer Corp., 121 F.T.C. 616 (1996).
13. *See* Administrative Complaint, In re Dell Computer Corp., F.T.C. Docket No. C-3658 (1995).
14. Consent Agreement, In re Dell Computer Corp., F.T.C. . Docket No. C-3658 (June 17, 1996).
15. *Wang Laboratories, Inc. v. Mitsubishi Electronics America, Inc.*, 29 U.S.P.Q.2d (BNA) 1481 (C.D. Cal. 1993), *aff'd*, 103 F.3d 1571, 1580-1582 (Fed. Cir. 1997).
16. *Id.*
17. Fed. Trade Comm., FTC Issues Complaint Against Rambus, Inc. (June 19, 2002) (Press release).