PATENTS AND STANDARDIZATION: HOW TO AVOID 10 COMMON PITFALLS FOR THE UNWARY

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If your company is involved in research, design and development of new technology, chances are a standards setting organization (SSO) is discussing the potential standardization of such technology. There are clear benefits to participation in an SSO – keeping abreast of industry developments, targeting product development toward standard compliant products, steering research and intellectual property protection into potential areas of future standardization and directing the standardization efforts toward your strengths. However, participation comes with risks. Here are 10 ways to avoid patent and licensing pitfalls that can catch the unwary off-guard:

1. **Do not disclose the invention prior to filing a patent application.**

Participation in an SSO, especially technical participation in a working group, may tempt participants to divulge your company’s recent innovations. This disclosure, which may be documented in the working group meeting notes, starts the one-year countdown to placing a patent application on file in the United States. See 35 U.S.C. §102(b). Many other countries’ patent regimes are not so lenient, and disclosure of the innovation prior to filing the patent application may completely bar an inventor from obtaining non-U.S. patent rights.

2. **Be aware of when the IPR must be disclosed to a standards body.**

While each SSO has its own rules and regulations, virtually all have some form of intellectual property rights (IPR) disclosure obligations. The question thus arises: when must this disclosure of patent-related IPR occur? Must you disclose IPR at the time you make a technical submission or contribution? What are the obligations of a company participating in an SSO but not active in a particular working group? Must IPR be disclosed if the standard is not finalized and thus subject to change?

Unfortunately, this is not a wholly academic exercise, and the timing of disclosure can have both business and legal ramifications. If IPR is disclosed too early in the standardization process, the other members of the SSO may change elements of the standard to avoid your IPR and thus negate a potential source of licensing revenue. Additionally, the standard may develop in a direction away from your product development thereby delaying your ability to bring standards compliant products to market.

On the other hand, disclosing IPR too late in the process can lead to legal problems. There is strong concern about companies manipulating the standard setting process
so that the final standard infringes an undisclosed patent. This concern about disclosure to standards bodies is also reflected in litigation where defendants are raising defenses and counterclaiming based on perceived improper activities in association with the belated disclosure of IPR to standards bodies. See, e.g., Rambus Inc. v. Infineon Technologies A.G., 318 F.3d 1081 (Fed. Cir. 2003).

3. Be aware of what IPR must be disclosed to a standards body.

Turning to the IPR itself, what must be disclosed? The easy case would seem to be an already-issued patent. The patent is publicly available and the metes and bounds of the patent are already set by the issued claims. But what about a published patent application, where the invention has already been disclosed to the public, but the claims may have not yet been allowed? What about a patent application that has been filed but not published? What about an idea for which an application is being prepared but has not yet been filed? What, on this sliding scale, needs to be disclosed?

When facing these disclosure decisions, one option is to have an independent expert evaluate every standards organization member’s IPR and determine whether it should be disclosed to the SSO. By utilizing a neutral third party to make all disclosure decisions, you can shield yourself from later accusations of impropriety. This also insures consistency of disclosure among the standards organization members because all members’ IPR is evaluated by the same individual. However, few organizations have taken this route. In fact, most have fairly ambiguous requirements as to what must be disclosed.

4. Be aware of what IPR you may be required to license and under what terms.

Not only must IPR be disclosed to an SSO, but the company owning the IPR often must agree to license it to all parties at Reasonable and Non-Discriminatory (RAND) terms. In some cases, members of a standards organization are required, as part of their membership agreement, to acknowledge that they will license any IPR pertinent to any standard. In other cases, the standards organization requires a specific statement offering to license IPR identified as potentially pertinent to a particular standard. Examples of specific and general IPR statements for the IETF can be found at http://datatracker.ietf.org/public/ipr_disclosure.cgi. The IETF has also published several drafts of “A Template for IETF Patent Disclosures and Licensing Declarations.” See www.ietf.org/rfc/rfc3979.txt. Failure to secure an appropriate statement from the necessary parties may result in the delay or abandonment of the issuance of the particular standard.

Assuming your company has agreed to license its patents related to a particular standard, the question becomes: what are appropriate RAND terms? Are you limited to a paid-up royalty or can you ask for a running royalty? What about a grant-back of a patent from the licensee? Must the grant-back be of a patent related to a standard? Must all potential licensees be licensed on the same exact terms? What if your patent covers an “optional” portion of the standard (i.e., the portion of the standard your patent covers is not required to implement the basic standard)? In that case, do you need to disclose anything at all, much less license? Again, SSO’s historically did not have any specific requirements (or even guidelines). The IETF in RFC 2026 states:
[The IETF] will not make any explicit determination that the assurance of reasonable and non-discriminatory terms for the use of a technology has been fulfilled in practice. It will instead use the normal requirements for the advancement of Internet Standards to verify that the terms for use are reasonable. ... [T]he assumption is that the terms must be reasonable and to some degree, non-discriminatory. This assumption may be challenged during the Last-Call period.

Recognition by the standards organizations that licensing presents issues in this context has led some to try to provide further guidance. See, e.g., Intellectual Property Rights in IETF Technology at www.ietf.org/rfc/rfc3979.txt. Other organizations, such as the World Wide Web Consortium (W3C), have proposed that all members make the IPR that they believe to be essential to a standard available on a Royalty Free (RF) basis.

5. Take care to avoid laches or estoppel.

If you decide against using RAND or RF licenses, you must be aware of the possible consequences if you are unable to negotiate a license with a potential licensee. For example, if you cannot come to an agreement with the potential licensee and delay bringing suit for patent infringement, you may be subject to counterclaims of laches, equitable estoppel or implied license. See, e.g., Wang Labs., Inc. v. Mitsubishi Elecs. Am. Inc., 103 F.3d 1571 (Fed. Cir. 1997); Stambler v. Diebold, Inc., 11 U.S.P.Q.2d 1709 (E.D.N.Y. 1988); Potter Inst. Co. v. Storage Tech. Corp., 207 U.S.P.Q. 763 (E.D.Va. 1980).

6. Take care to avoid an investigation by the government.

Both the disclosure and licensing approach taken with the SSO can lead to potential government investigation for antitrust violations. If you do not disclose all of your IPR in an attempt to capture the market after a standard is set, you could be investigated by the Antitrust Division of the Department of Justice and/or the Bureau of Competition of the Federal Trade Commission. See, e.g., In re Rambus Inc., No. 9302 (F.T.C. filed June 18, 2002); see also In re Dell Computer Corp., 121 F.T.C. 616 (1996).

Additionally, anticompetitive licensing terms can also lead to governmental antitrust investigations. While licensing conduct is less likely to lead to investigation, this is a possibility if the licensing terms unreasonably exclude competitors from access to the standard. Be careful that all prospective entrants into the standard are treated the same in their respective licenses.

7. You are on notice.

Participation in standards organizations provides a further potential pitfall. Assume you participated in an SSO and you launch a product. Suddenly, you receive a complaint stating that your product infringes another of the participant’s patents. They point out that they clearly stated to the standards body that practicing the standard implicates their patent. You failed to secure a license in advance. “Well,” you say, “I’ll take that license.” Not so fast: You were put on notice of the relevant
patent, never got an outside opinion of patent counsel and now are potentially liable for willful infringement and enhanced damages. Your best defense will be a good offense; perhaps the plaintiff may have delayed in identifying the patent to the standards organization, may have delayed in bringing suit or you may have an implied license to the technology in question.

8. Patent pools can limit your rights to separately license.

Increasingly, SSO members are turning to patent pools where each SSO member contributes to the pool all IPR necessary to practice the standard. The purpose of a patent pool is to promote the standard by making it easier to license the necessary technology. Your ability to independently license your patents becomes circumvented because the pool will control the licensing of your patents, at least with respect to the practicing of the standard.

9. When licensing from a patent pool, don’t forget about a defensive suspension.

Not all companies participate in existing patent pools. What happens when a third party takes a position inconsistent with the patent pool? Does the patent pool need to license that third party? Say that third party is you. If you have taken a license from the pool be sure to check for a defensive suspension provision. Such a provision allows for the patent pool to revoke the license in the event any group member is sued by your company. So, in taking a license, make sure you know what rights you are giving up.

10. Revenue sharing in patent pools: get your fair share.

Once the licensing terms for the patent pool have been decided, the question then becomes: What will your company receive in royalties? Generally, patent pools license the group’s entire portfolio and split the revenue among the members. Two common revenue sharing models divide revenue on either a per member or per patent basis. Before entering into a standards organization, you should have your IPR valued to insure you maximize your revenue. If your company owns multiple patents covering the core technology of an emerging standard, your company should try to receive a larger share than members whose portfolios are not as strong.

If you would like further information about the topics covered in this newsletter, please contact Ethan Horwitz, chair of Goodwin Procter’s Intellectual Property Group, at 212.459.7455 or ehorwitz@goodwinprocter.com

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