

# Ex ante gears up to crack down on patent offenders – and eliminate trips to the courtroom

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U.S. ARMY PHOTO, ENIAC

The word *open* typically has a positive connotation: *open* communication between manager and employee or relationship partners, *open* door policies in politics, perhaps someone is *open* to suggestions or a new company is now *open* for business.

In the world of embedded technology, of course, Standards Development Organizations (SDOs) have their own version of *open* – *open* standards. But how open are they really? While open standards were created to promote competition, innovation, and ultimately benefit consumers, allegations of deceptive, disruptive, or unethical patent practices have been getting in the way: Techniques such as “straw man” patents, patent gaming, patent ambushes, and a multitude of other creative IP misconduct have plagued the high-tech industry for decades, resulting in costly standards redesigns, holdups, and even courtroom battles.

As a result, some SDOs are toughening up their patent policies. VITA is at the forefront of the movement with its new *ex ante* (mandatory predisclosure of patents and licensing terms) policy, and is determined to break the cycle of patent abuse and courtroom melodramas. But is *ex ante* truly a panacea for SDOs?

## So ... what's going on out there?

The 1960s epitomized a “we’re not going to take this anymore” attitude in the United States, as the women’s rights movement and Dr. Martin Luther King Jr.’s civil rights movements both gained swift

momentum. The high-tech industry followed suit (literally) with the grand-scale Honeywell v. Sperry Rand court battle over the Electronic Numerical Integrator and Computer (ENIAC)[1] electronic digital computer patent, which would set a precedent for a history of patent battles in the high-tech industry.

John W. Mauchly and J. Presper Eckert were first to file the ENIAC patent in 1947. Then through a series of domino-effect company acquisitions, the ENIAC patent rights fell into the hands of Sperry Rand in 1964, who then attempted to coerce royalties from major computer industry players including Honeywell. After three years of refusal to pay up, Sperry Rand ran out of patience and filed suit against Honeywell in 1967, leveraging patent infringement charges. Honeywell countersued, alleging antitrust infractions and alleging that the cross-licensing agreement between Sperry Rand and IBM was an attempt to monopolize the industry.

The courtroom dispute continued for six grueling years and produced more than 32,000 exhibits and a trial transcript of more than 20,000 pages. In 1973, Judge Earl Larson ruled that neither of the disputing parties would be awarded damages or court costs and that the patent was invalid because the technology had been in the public domain for more than a year prior to the patent application filing anyway.[2]

VME industry expert Wade Peterson says the ENIAC case mirrors a lot of what’s going on in the SDOs today.

“That’s almost an identical situation to what we’re seeing in standards right now. We’re seeing a lot of patent activity in the patent office on basically materials that are being standardized,” he says, referring to what is known as “straw man” patents.

“Patent gaming” is another patent issue plaguing SDO standards development in recent years, says VITA executive director Ray Alderman. “If they were a good technologist ... what they would have done was get a perspective of where they had to go and what the next requirements would be and they would start patenting those.”

Another problem overtaking and overwhelming SDOs these days is “patent ambushing,” where a patent on a technology is concealed by a company, then the technology is integrated into a standard without the SDO or its members knowing a patent exists. After the standard has progressed or is complete, the company then announces “You owe me,” aka “You’ve been had.”

The recent FTC v. Rambus case illustrates an alleged patent ambush (with a little patent gaming thrown in). Charges brought against Rambus, Inc. in 2002 by the FTC included concealing standards-relevant technology over four years as Rambus worked on “open” standards for SDRAM within the JEDEC SDO. According to FTC documents, “Rambus was actively working to develop, and did in fact possess, a patent and several pending patent applications that involved specific technologies proposed for, and ultimately adopted in, the relevant standards.”

The FTC also reported that Rambus’ JEDEC participation presented a false impression that any SDRAM technologies considered within JEDEC were not technologies Rambus could later claim patent rights on.[3] Rambus has since appealed the FTC’s decision, but too late for its own good. Because of the patent debacle, Rambus lost many of its business partners for its RDRAM technology, once touted to be *the* hot performance memory design. As a result, RDRAM has all but disappeared in desktop applications, and faster SDRAMs have, ironically, overtaken the market.

## Just stop it, already!

To thwart patent issues and their often-dramatic ramifications, some SDOs are seeking assistance from the Department of Justice (DOJ) as they revise their patent policies so the SDO can avoid antitrust

law clashes. One such SDO is the IEEE, whose new “enhanced” patent policy went into effect May 1 and “encourages voluntary disclosure” of patents.

Judy Gorman, IEEE-SA managing director, says, “Our new policy encourages voluntary disclosure of maximum royalty rates and other licensing terms and allows IEEE standards working groups to include these in their comparison of relative costs for the technology alternatives they consider for a standard.”[4]

VITA, on the other hand, is playing hardball. Instead of words like “encourages” and “voluntary,” its recent accreditation with the American National Standards Institute (ANSI) demands compliance with mandatory ex ante procedures that may result in arbitration if not adhered to by members.

#### **A look inside VITA’s new way of life**

Alderman says that during the past five years, 60 to 70-something patent issues have occurred within VITA under the organization’s past patent disclosure policies. The estimated cost to create a standard is \$6 to \$7 million, so if patent issues surface on a standard and market momentum is lost, the monetary stakes rise exponentially.

VITA and its board of directors therefore developed a new patent disclosure policy in the first half of 2006, then submitted it to the DOJ on June 8, 2006 to make sure there were no clashes with existing antitrust law. DOJ approval came in October 2006, and in January 2007 the VITA board of directors and members approved the changes. (VITA’s reaccreditation under ANSI was then approved and went into effect this past May.)

Though VITA’s ex ante procedures passed by a wide margin of 35 to 2 among its members<sup>1</sup>, Motorola reportedly left VITA – and the board of directors on which it sat – within days after the final vote. The company has also made an appeal to the ANSI Executive Standards Council (ExSC), which is expected to offer its ruling later this year, likely in September. (Motorola did not respond to our request for comment by press time.)

The major changes in VITA’s new ex ante patent policy include:

1. Mandatory disclosure of all patents and patent applications for technology essential to the standard;

2. FRAND or Fair, Reasonable, And Non-Discriminatory disclosure – The most restrictive licensing terms must be declared; and
3. Arbitration process.

#### **Mandatory patent disclosure**

Members of new working groups will have 60 days to disclose patents and patent applications on technologies essential to a standard’s development. Members of existing working groups will have 30 days to reveal patents, applications, and license terms.

Different companies draw the line on different sides of the issue, however. Motorola’s appeal expresses concerns with ex ante patent disclosure, saying it presents companies with “an implied duty to search” and that “the risk of non-compliance is too great.” On the other hand, David Compston, Product Marketing Manager, Military & Aerospace Products at GE Fanuc, says his company supports VITA’s new ex ante policy.

“[A] perceived drawback to the adoption of an ex ante policy by VITA is that it places individual VITA members in an invidious position. If they’re representing a major company, so the argument goes, how can they possibly be aware of all the patents their company has? That misses the point,” he says, adding that under ex ante, the VITA member only needs to render proof that all reasonable steps were taken to avoid inadvertent patent nondisclosure. Alderman concurs, adding that relevant e-mails and patent application dates are among the evidence to be considered when a possible infraction may arise.

#### **FRAND licensing terms**

Section 10.3.2 of VITA’s revised patent policy requires each working group member to complete a declaration on behalf of their company and its affiliates, stating a maximum royalty rate on patented technologies that could become essential to the draft VSO specification. This declared “worst-case” royalty rate can be reduced in subsequent declarations, according to Robert A. Skitol, VITA/VSO counsel.

#### **Arbitration process**

So what happens when a breach of VITA’s ex ante patent policy is alleged? The VSO member who suspects another working group member or their company has not

fully complied with the patent policy submits a claim to the working group chair, who tries to work things out with the accused. If the dispute isn’t resolved in 15 days, an arbitration process begins where the accuser and the accused each choose one nominee to participate in a three-person arbitration panel; those two nominees then mutually choose the third arbitration panelist.[5] The panel has 45 days to render a decision to VITA’s executive director, then the executive director and VITA board evaluate whether there were any procedural violations during arbitration. Next, the executive director and board announce the panel’s decision to those involved. Parties to the arbitration have appeals channels available post-decision.

#### **Is all this going to work, though?**

Since ex ante and SDO crackdowns such as VITA’s are an emerging practice, it’s hard to predict what will happen in the future, says Gerald F. Masoudi, Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice. “The application of antitrust law to certain standard-setting practices, including the use of ex ante licensing regimes by SDOs and certain actions by SDO members, is unsettled ... SDO practices are evolving and it is not yet clear what the specific practices and their effects are likely to be.”[6]

Masoudi is probably right: Time will tell whether ex ante is a panacea for standards organizations – or not. Common sense would dictate, however, that a truly open technology playground will foster fair and equitable competition among industry players and result in the most innovative technology development to benefit consumers. It will also leave the courtroom battles safely on television’s “Law & Order” instead of within the SDOs. **CS**

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<sup>1</sup> Full disclosure: OpenSystems Publishing is a VITA member, and Editor Chris Ciufu voted in favor of the ex ante policy at the January 2007 VSO meeting.