

## PATENT LAW

# Standard-Setting Groups

The proliferation of standard-setting organizations (SSOs) has generated significant benefits for consumers and manufacturers alike. SSOs are responsible for developing industry standards—the technical specifications that provide a common design for a product or process—which foster interoperability within an industry. Without the standardization of voltage for electrical plugs and outlets, no one could be confident that hairdryers would work in any given hotel. And without WiFi standards, laptops might not connect to the Internet at airports, conference centers or coffee shops.

By drawing on the expertise of industry leaders, the standard-setting process can often lead to superior technologies. But there are also opportunities for abuse. Once a standard is adopted, market participants may be at the mercy of patent holders who claim that their patents read on devices that use the standard. SSOs are therefore concerned about “patent hold-up,” whereby a party fails to disclose a patent, and then—after the standard has been adopted—seeks to enforce the patent against manufacturers of standard-compliant products. Many SSOs therefore require that participants in the standard-setting process disclose all relevant intellectual property rights (IPR). Courts are still working out the scope of these disclosure duties and the remedies available when those duties are breached.

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### ‘Qualcomm’ demonstrates the perils of nondisclosure

A recent U.S. Court of Appeals for the Federal Circuit decision tackles these issues. In *Qualcomm v. Broadcom*, 548 F.3d 1004 (Fed. Cir. 2008), the Joint Video Team (JVT), an SSO formed in 2001 to enhance video-coding performance, adopted the “H.264” standard for video-compression technology. Qualcomm owned certain patents related to the standard, but failed to disclose them during the standard-setting process. In October 2005—long after H.264 had been adopted—Qualcomm filed a patent infringement suit against Broadcom, which was producing H.264-compliant products.

Broadcom argued that by not disclosing its patents to the JVT, Qualcomm had breached its disclosure duty and effectively waived its patent rights. Qualcomm repeatedly denied the existence of any such duty on the ground that it had not participated in the JVT. But on one of the final days of the trial, a Qualcomm witness testified to having e-mails relating to the JVT. This revelation turned out to be the “tip of the iceberg.” *Qualcomm Inc. v. Broad-*

*com Corp.*, 539 F. Supp. 2d 1214, 1245 (S.D. Calif. 2007). After trial, Qualcomm produced more than 200,000 pages of documents, which, according to the court, “indisputably demonstrated that Qualcomm participated in the JVT,” and that “Qualcomm witnesses... were well aware of and a part of this participation, and that Qualcomm knowingly attempted in trial to continue to conceal the evidence.” *Id.* The jury found that Broadcom did not infringe Qualcomm’s patents, and also returned an advisory verdict that the Qualcomm patents were unenforceable due to inequitable conduct and waiver. *Qualcomm*, 548 F.3d at 1009.

In the district court’s view, Qualcomm’s behavior was a flagrant example of patent hold-up. “Qualcomm intentionally organized a plan of action to shield the...patents from consideration by the JVT with the anticipation that (1) the resulting H.264 standard would infringe those patents and (2) Qualcomm would then have an opportunity to be an indispensable licensor to anyone in the world seeking to produce an H.264-compliant product.” *Id.* at 1020. On that basis, the district court found that the Qualcomm patents were unenforceable against the world on grounds of waiver and equitable estoppel. It also imposed sanctions on Qualcomm and took the extraordinary step of referring six Qualcomm attorneys to the State Bar of California for an investigation into possible ethical violations based on the concealment of evidence.

On appeal, Qualcomm challenged the lower court’s finding that it had breached disclosure obligations, arguing that the JVT’s disclosure policies were simply recommendations that did not impose a duty of disclosure. The JVT policy stated that members “are encouraged to disclose as soon as possible IPR information...associated with any standard-

ization proposal....Such information should be provided on a best efforts basis." *Id.* at 1013. The Federal Circuit was unmoved and held that the policy unambiguously required Qualcomm—as a participant in the JVT prior to the release of the H.264 standard—to disclose all IPR relating to the proposed standard. *Id.* at 1015.

The Federal Circuit went on to say that even if the JVT disclosure obligations were unclear, it would still have determined that Qualcomm had an obligation to disclose relevant IPR. According to the court, it was necessary to look beyond the specific language of the JVT policy and also to consider the "JVT participants' understanding of the policies." *Id.* at 1015-16. The Federal Circuit endorsed the district court's view that a duty "can arise from a group relationship in which the working policy of disclosure of related [IPR] is treated by the group as a whole as imposing an obligation to disclose information in order to support and advance the purposes of the group." *Id.* at 1022. Thus, the fact that SSO participants believe there is a disclosure obligation may be an independent basis for finding one. While this language is arguably dictum it is likely to be persuasive.

Having found that Qualcomm breached its disclosure duties and waived patent rights, the Federal Circuit turned to remedies. Here, however, it found that the district court's order—which had rendered the Qualcomm patents unenforceable against the world—was too broad. The Federal Circuit found guidance in the doctrine of patent misuse. Under that doctrine, a patent that is used improperly—for example, to bring about an anti-competitive result—is unenforceable, but only until the misuse has been "purged": "[T]he successful assertion of patent misuse may render a patent unenforceable until the misconduct can be purged; it does not render the patent unenforceable for all time." Thus, the court found that the remedy for patent hold-up should be similarly circumscribed, and remanded with an instruction that the Qualcomm patents be held unenforceable only against H.264-compliant products.

Qualcomm generated headlines by virtue of the stiff sanctions imposed because of Qualcomm's litigation misconduct. But a more significant aspect of the case may be the Federal Circuit's statement that a court may consider the subjective "understanding" of SSO participants in determining the scope of a disclosure duty. This statement is arguably at odds with the approach taken in an earlier

Federal Circuit decision, which counseled SSOs to formulate unambiguous disclosure policies rather than rely on participants' "vaguely defined expectations as to what they believe the policy requires." *Rambus Inc. v. Infineon Technologies A.G.*, 318 F.3d 1081, 1102 (Fed. Cir. 2003).

## Courts are still working out the scope of disclosure duties for participants in standard-setting organizations.

An analysis of disclosure duties based on the subjective expectations of participants could create problems for SSO participants. A written disclosure policy can be evaluated by a patent holder and its counsel. It may be very difficult, however, to predict how a judge or jury will evaluate the "understanding" of participants in the process—an understanding that might be inferred from ambiguous evidence of informal statements at SSO meetings, or testimony about the expectations of a patent holder's competitors.

## Risks of waiver may be large for some participants

For some SSO participants, the risks of waiver may be large. As the Electronic Industry Association has explained to the Federal Trade Commission, "Many of the larger member companies have literally tens of thousands of patents and their companies participate in numerous standards activities. No one engineer can be aware of all patents owned by his or her employer." Comments of Dan Bar, Electronic Industries Ass'n/Telecommunications Industry vice president, *In re Dell Computer Corp.* (FTC File No. 931-0097) (Jan. 22, 1996). If, after *Qualcomm*, merely following the letter of the SSO's written disclosure policy is not enough, even dili-

gent SSO participants may be unsure whether a waiver of rights has occurred.

Moreover, transgressing a disclosure requirement may have consequences beyond the waiver of patent rights. Nondisclosure may also draw the ire of the FTC. In *Rambus v. FTC*, 522 F.3d 456 (D.C. Cir. 2008), the D.C. Circuit recently considered whether a patent holder had engaged in anti-competitive behavior by failing to disclose certain patents to a computer industry SSO. The FTC had held that because Rambus owned four patents that were reasonably necessary to practice the SSO's newly promulgated standard, Rambus' nondisclosure amounted to monopolistic behavior. Rambus prevailed on appeal (on grounds that the FTC had failed to show that Rambus' conduct was exclusionary). The FTC's petition for certiorari, filed in November, is pending.

In order to mitigate these risks, SSOs and SSO participants may consider following the Federal Circuit's earlier instruction in *Rambus* to promulgate written disclosure policies to correspond to the expectations of participants. In order to avoid uncertainty, these policies might also state explicitly not only what IPR must be disclosed but also what does not need to be disclosed (for example, planned future applications, or claim amendments). A policy might also include a sort of "merger clause," providing that the informal understanding of participants will not by itself create disclosure duties. SSOs may also wish to adopt dispute resolution procedures so that disputes—at least among SSO participants—are settled in an agreed-upon manner. As standard setting becomes more important, SSO participants may decide that the stakes are too high to tolerate uncertainty.

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