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Expert Analysis

Qualcomm v. Broadcom: The Federal Circuit Weighs in on ‘Patent Ambushes’

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The U.S. Circuit Court of Appeals for the Federal Circuit’s decision in *Qualcomm Inc. v. Broadcom Corp.*¹ is another important case involving the intersection of intellectual property and standard-setting. High-tech companies increasingly are finding themselves at the crossroads of standardization and efforts to monetize intellectual property. These companies need to participate in industry standard-setting efforts, which typically open membership to all interested industry participants to collaborate on the creation of technical standards. But participation may have a substantial impact on the ability to enforce intellectual property.

A finding that a company failed to abide by the intellectual property rights policy of a standard-setting organization, or SSO, may preclude the company from enforcing its patents and expose it to substantial liability. A breach of a duty to disclose intellectual property to an SSO may be the basis for antitrust, fraud or contract liability. In addition a breach may lead to a waiver of the right to enforce the undisclosed patents or equitable estoppel.

So-called “patent ambush” cases, in which a patent holder participates in a standard-setting effort and later seeks to enforce previously undisclosed patents against those producing industry-standard-compliant products, have become increasingly prevalent. *Qualcomm* is just such a case; it “involves the consequence of silence in the face of a duty to disclose patents in a standard-setting organization.”²

The central dispute in *Qualcomm* was whether the SSO imposed a duty to disclose relevant intellectual property. Along with *Rambus Inc. v. Infineon Technologies*³ and *Rambus Inc. v. Federal Trade Commission*,⁴ *Qualcomm* provides critical insight into how the courts will interpret the often unclear IPR policies of SSOs. It therefore is an important case not only for SSO participants but also for those who produce standard-compliant products.

Key Implications

The key lessons from *Qualcomm* are:

- SSO members may need to assume a duty to disclose relevant intellectual property rights even when the written policy is not entirely clear. The trial court in *Qualcomm* found that the written IPR policies did not explicitly impose a duty to disclose. The Federal Circuit, however, did find such a duty based on the written policies. Although the Federal Circuit in the *Rambus v. Infineon* case stressed the need for clear IPR policies that spell out SSO members' duties, in *Qualcomm* the Federal Circuit found that the written IPR policies imposed a duty to disclose by interpreting the IPR policies' language in the context of concerns about patent "holdup." Other courts may follow the *Qualcomm* court's lead; and
- Even if a written IPR policy does not impose a duty to disclose, the courts may be willing to rely on SSO participants' understanding that such a duty existed. The Federal Circuit affirmed the trial court's reliance on this type of evidence, and other courts have stated that this type of evidence may demonstrate a duty to disclose even when the IPR policy is plainly ambiguous.

Qualcomm therefore represents an important case involving the oft-litigated issue of whether a patent holder should have disclosed its IPR to an SSO.

Background

The case centered on Qualcomm's participation in the Joint Video Team, an SSO created in late 2001 to develop an industry standard for video compression technology. Qualcomm began to participate in the JVT as early as January 2002. The JVT developed the H.264 standard, which was adopted in May 2003 by the JVT's parent SSOs.

Before Qualcomm joined the JVT, its vice president of technology became the named inventor on two patents, which were assigned to Qualcomm. During the development of the standard, Qualcomm did not make any technical proposals. But after the H.264 standard issued and firms developed and produced compliant products, Qualcomm claimed that H.264 standard-compliant products infringed these two patents.

As in many standard-setting cases, the parties vigorously disputed whether the SSO imposed a duty to disclose relevant intellectual property rights. In deciding this key issue, the Federal Circuit relied on both the written IPR policy of the SSO and the SSO participants' understanding.

The lessons from the court's analysis of these issues, however, have been overshadowed by the spectacular context of the decision. The case was most notable for the trial court's finding of discovery and litigation abuse. Throughout the trial, Qualcomm denied that it had participated at all in the JVT. In response to numerous discovery requests seeking documents related to its participation, "Qualcomm repeatedly represented to the court that it had no such documents or e-mail."⁵ On one of the last days of trial, however, a Qualcomm witness testified that she did have e-mails related to the JVT. These 21 e-mails turned out to be the "tip of the iceberg."

After trial, Qualcomm ended up producing more than 200,000 pages of documents, which the court said "indisputably demonstrated that Qualcomm participated in the JVT from as early as 2002, that Qualcomm witnesses ... and other engineers were all aware of and a part of this participation, and that Qualcomm knowingly attempted in trial to continue to conceal the evidence."⁶ The trial court imposed sanctions for this conduct, which the Federal Circuit affirmed. Volumes have been written about the lessons counsel can learn from this situation.

But *Qualcomm* presents important lessons for SSO participants and product manufacturers as well. First, the case demonstrates that some courts may broadly construe IPR policies to avoid "holdup" — the situation in which a patent holder asserts previously undisclosed patents against companies that have invested substantial resources to develop and produce standard-compliant products. Second, the case shows the willingness of courts to find a duty to disclose based on the understandings of the SSO participants, even when the written IPR policies are ambiguous.

Interpreting the Written IPR Policies

The Federal Circuit's analysis of the written IPR policies may set important precedent in interpreting IPR policies. In *Rambus v. Infineon* the Federal Circuit emphasized the ambiguity in the at-issue IPR policy: "There is a staggering lack of defining details in the

... patent policy. ... Without a clear policy, members form vaguely defined expectations as to what they believe the policy requires — whether the policy so requires or not.”⁷ Based on these ambiguities, a federal district court construing the same policy held that the policy “was not definite enough to make clear to Rambus what disclosures it was required to make, if any.”⁸ A Federal Trade Commission administrative law judge also construed that policy to only encourage, not require, disclosure. Similarly, the trial court in *Qualcomm* held that the JVT IPR policies did not impose a duty to disclose on Qualcomm; they only encouraged disclosure. The Federal Circuit, however, disagreed.

The JVT IPR policies stated that members “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.”⁹ To collect this information, JVT developed a patent declaration form. The IPR policies required that all technical proposals include this form, which stated that “JVT *requires* that all technical contributions be accompanied with this form,” while others with knowledge of patents were “*strongly encouraged* to submit the form as well.”¹⁰ Based on this language, the trial court found that JVT written policies “provide no express requirement to disclose patents unless a member submits a technical proposal.”¹¹

The Federal Circuit, however, went beyond this language and held that the JVT IPR policies did impose a duty to disclose on all participants. The court started its discussion by noting that “to avoid ‘patent holdup’ many SSOs require participants to disclose and/or give up IPR covering a standard.”¹² It further noted that the JVT IPR policies explicitly stated a goal of creating a “royalty free” baseline standard and that the nondisclosure of relevant patents would undermine that goal.¹³ Given this context, the appellate court interpreted the “encouraged” language in the IPR policies to apply to the timing of disclosure (“as soon as possible”) rather than the duty itself. The court further found that the policies at least imposed a “best efforts” standard on all participants.¹⁴ That is, all participants had an obligation to use their best efforts to identify and disclose relevant patents.

Participant Understanding of the IPR Policies

Going beyond the written policies, the Federal Circuit emphasized that even if it did not find that the

written IPR policies imposed an unambiguous duty to disclose, the language of the IPR policies coupled with evidence of participant understanding of the IPR policies demonstrated a duty to disclose. The court emphasized that in its *Rambus* decision, even though it determined that the written policy did not contain an express disclosure obligation, the court nonetheless treated the policy as imposing an obligation because the SSO members treated it as doing so.

In *Qualcomm* the trial court found a duty to disclose, relying on the testimony of the chair of JVT and a participant that they understood the IPR policies to impose a mandatory disclosure duty on all participants. Because this understanding was not directly contrary to the written policies, the Federal Circuit affirmed this finding.¹⁵ The appeals court thus held that an ambiguous written IPR policy does not preclude a duty to disclose; members’ understanding of the policy may demonstrate that a duty exists.

This holding is consistent with other cases involving ambiguous written policies. A district court reviewing the policies at issue in *Rambus* similarly instructed the jury that an antitrust violation may be based on a breach of a member-shared “clearly defined expectation” to disclose relevant intellectual property, even if the written IPR policy does not impose a duty to disclose. That court held that a duty could be found based on such factors as the expectations of individual SSO members, the behavior of SSO members, oral information shared at SSO meetings, industry customs and the purpose of the SSO.¹⁶

Conclusion

The *Qualcomm* court’s analysis of the IPR policy duty to disclose is particularly notable in light of its previous decision in *Rambus*. In that case the Federal Circuit emphasized that when competitors participate in SSOs:

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 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.¹⁷

Similarly, in *Rambus v. FTC*, the District of Columbia U.S. Circuit Court of Appeals emphasized the need for clear IPR policies.¹⁸ In *Qualcomm*, however, the court emphasized the SSO's need to avoid holdup; it did not mention any need for clear policies.

Qualcomm therefore stands as an important decision for SSO participants as well as product manufacturers. It clearly demonstrates that companies participating in SSOs cannot rely solely on the written IPR policies to determine their disclosure obligations. It also may give product manufacturers defending infringement suits additional weight for the argument that the patent holder breached a duty to disclose to an SSO.

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