CHAPTER SEVEN

INTELLECTUAL PROPERTY RISKS ASSOCIATED WITH IMPLEMENTING OPEN INDUSTRY STANDARDS

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I. *Overview*

Global industry standards have become the foundation for information exchange, communications and entertainment. You can access your favorite websites from your laptop computer in your hotel room abroad and also from your home computer. Your PDA receives your office email when you are at home or in your car. Download your favorite songs, burn them onto a CD and play the CD on your home audio system, on your portable CD player, or on your automotive entertainment system. Take digital pictures of your children, transfer the images to your laptop and then email the images to your parents. Such scenarios are possible today, in large part, because the products and services involved all support Open Industry Standards.

Standards Basics

"Open Industry Standards" are generally technical interoperability specifications that are approved or ratified by a Standards Setting Organization (SSO). SSOs are very diverse in their structure, membership, policies and objectives. Competing vendors, consumers and government regulators often come together under the auspices of an SSO to agree upon technical details that form the basis of an Open Industry Standard. Typically, a technical committee of the SSO will develop or evaluate a technical specification that describes a product interface or interoperability protocol. The SSO may approve or ratify the specification as an Open Industry Standard. Widespread adoption of the standard generally makes the specification an "Industry Standard," whereas the availability of reasonable and non-discriminatory patent licenses to all implementers of the industry standard is a factor in making the industry standard an "Open" one. To encourage such licensing arrangements, most SSOs have an Intellectual Property Rights (IPR) Policy that defines the license commitments that members of the SSO or contributors to the standard development process are obliged to follow. Like many other aspects of an SSO, these IPR policies typically vary from one SSO to another, often leaving SSO vendors unsure about the IP risks associated with implementing an Open Industry Standard or using products that support one.

This paper highlights some of the more common IP risks that arise from implementing Open Industry Standards and describes some strategies that vendors, developers and engineers can use to mitigate these risks. The most common risks involve IP (patent, copyright, and trademark) infringement, unfair competition, false advertising, and fraud. The circumstances giving rise to each risk and the associated mitigation strategies are described below.

II. *Patent risks*

Understand the license obligations of contributors.

Whenever you implement technology developed by another you may be subject to a heightened risk of infringing that other party's patent rights. For this reason you should understand what license commitments have been made by those who have contributed to the development of an Open Industry Standard. If you plan to implement an industry standard that

has been developed and ratified by an SSO, then you should start by reviewing the SSO's IPR policy. If the IPR policy requires contributors to agree to make patent licenses available on reasonable and non-discriminatory (RAND) terms and conditions, then you know that the contributors will not enjoin you from making, selling or using an implementation of the industry standard so long as you accept and follow the terms of the contributors' license.

However, there is much more you need to know to assess the risk based on your implementation plans. For example, which patent claims have the contributors agreed to license? Often contributors only agree to license essential patent claims but each IPR policy defines the patent claims subject to the licensing commitment differently. You will want to know if they are broadly defined to cover your implementation plans or so narrowly defined that they may not include the patent rights you need. You will also want to know if the RAND terms include reasonable royalties or other fees. Some IPR policies prohibit the inclusion of any royalty or fee and sometimes patent holders forgo such royalties or fees.

Make sure your implementation conforms to the Open Industry Standard.

Sometimes the license commitments apply only to conforming products-those products that implement the industry standard and comply with all its requirements. Industry standards are often accompanied by a testing and certification program to help an implementer know if its products conform to the industry standard. More often though, there are no tests. In such cases, the industry standard itself might be used to define its conformity criteria. In other cases, there may be formal interoperability requirements. Interoperability workshops might be used to assess compatibility with other implementations of the industry standard. Unless there are specific criteria for conformity, an implementer cannot be sure that its product conforms to the standard, even if the product interoperates with others in the market (although interoperability will help). If your product does not "conform" then you may not be entitled to receive even a RAND license from any of the contributors.

An assurance to license is not a license. Know when you need to request a license.

Patent license commitments that are often imposed or result from a SSO IPR policy are not actual patent licenses in and of themselves. They are merely agreements by those subject to the IPR policy to offer patent licenses, such as a RAND license, to others. You should understand the terms of any contributor's RAND license, and importantly, whether you need to affirmatively request an actual license. In the vast majority of cases, there is no reason to affirmatively ask for a license and contributors and other participants in the standards development process rarely request that you execute one. So how do you know when you are likely to need to sign an actual patent license? If a patent pool has been formed or any other licensing program launched in connection with the industry standard, then you are likely to need to sign a license. [1] Failure to do so may subject you to a patent infringement suit.

Many SSOs have patent disclosure policies whereby patent holders may declare specific patent rights and their willingness to license such patent rights on RAND terms to implementers.

[1] *See*, Sample Patent Pool Agreements www.mpegla.com and www.vialicensing.com; For samples of other standards related licenses http://www.dtcp.com/data/AA05312005.pdf, http://domainkeys.sourceforge.net/license/patentlicense1-0.html, and http://portal.etsi.org/dvbandca/MHP/a066r1.V1.0.pdf

Depending on your business practices, you may want to request a license from those who have disclosed specific patent rights. It is uncommon for the contents of pending patent applications to be disclosed, only the existence of them. Under these circumstances, it is often difficult to decide whether or not to seek a license from those that have disclosed patent rights. Factors, such as how much detail has been provided in the disclosure of the patent rights, the number of patent rights disclosed and number of different parties disclosing patent rights, the strength of your own patent portfolio if you have one, and the patent commitments associated with the disclosure, can all be evaluated to assess the pros and cons of seeking an actual licensee from a party that has made a disclosure of patent rights.

Develop a strategy in case your implementation is alleged to be infringing.

Because parties that do not participate in the standards development or ratification process are not going to be subject to the SSO's IPR policy, there is often no way of assessing the potential risks associated with non-participants' patents. A common misperception is that only those that contribute technology during the standards development process can have patents that cover those contributions. While those contributors are the most likely to have such patent rights, there is always a possibility that another party has a patent covering some aspect of the industry standard, even a party who is unaware of the standard being developed. Unfortunately, there is little one can do to mitigate the risks associated with non-participants. Designing products so that features are modular or can be modified or disabled in the field can often help limit damages and costs in the event that you are made aware that your product infringes a patent. As with any commercial product, it is often helpful if you have patent rights covering that product so that you have something to trade with competitors that might refuse to offer you a license or offer you one with unacceptable terms.

Make sure your commercial product licenses adequately take into account the risks associated with the implementation of an Open Industry Standard.

Not all SSO IPR policies require contributors to provide representations that their contributions are their own. Consequently, it is possible for one company, Company A, to propose another company's, Company B's, technology for inclusion in an Open Industry Standard where Company B is not participating in the standards development process. Because company B developed the proposed technology, there is a risk that Company B filed patents that cover the technology. However, Company B is not subject to the SSO patent policy, and accordingly, may not disclose its patent rights or offer you any license. If your commercial product licenses include warranties against infringement or if you indemnify your customers, you may want to carve out implementations of Open Industry Standards if you cannot be sure whose technology has been incorporated into the Open Industry Standard.

Risk Mitigation Strategies

A few ways to mitigate the above risks are: (1) accept and seek licenses when it is apparent that you will need them, consistent with your business practices; (2) make sure that your implementation "conforms" as described by the Open Industry Standard including passing any relevant tests if they are available; (3) design your implementation so that it can be modified or disabled in the field in the event a patent owner refuses to give you a license with terms you can accept; (4) ensure, to the extent practical, that you have important patent rights so that you have some possible bargaining power in cross-license discussions; and (5) do not agree to

indemnify your distributors or customers against third party patent suits where possible, or at the very least, try to carve out infringement suits arising from any implementation of an Open Industry Standard.

III. ***Copyright Risks***

Copyright risks generally arise in three situations: (1) when access to the Open Industry Standard requires that you sign an agreement to get access; (2) you need to distribute the Open Industry Standard with your product, in marketing materials, in technical manuals, or as part of your on-line help materials; and (3) the Open Industry Standard includes source code or other software you want to include in your product.

Sign agreements to obtain a copy of the Open Industry Standard when it is consistent with your corporate policies and when your business justification outweighs any obligations imposed by the agreement.

As a vendor wanting to develop a product based on an Open Industry Standard, you need access to the technical specification describing the industry standard. Occasionally, an SSO will require you to pay a fee to obtain a copy but will not typically require you to sign an agreement for mere access to the relevant specifications. Sometimes the relevant documents may only be available to members of the SSO. If you are not a member, membership is often open to anyone but only if a membership agreement is signed. Membership agreements often have very substantial obligations, including that the company you represent follow the SSO's IPR policy. Many companies do not permit employees to join an SSO without legal review and/or the approval of the company's executive management. Often employees responsible for product development sign a membership agreement not knowing about such corporate policies and thereby unknowingly subject their employer to unwanted obligations, legal risks and IPR licensing commitments without adequate business justifications. In rare cases, the technical specifications are only available to those who will agree to sign licenses that have other restrictions and obligations. Any licenses that restrict access to an Open Industry Standard should be viewed with scrutiny and caution.

Make sure the SSO grants you the rights you need if you want to distribute or display any or all of the Open Industry Standard documentation.

Sometimes the technical specifications need to be reproduced in manuals, on-line help tools, or in readme or similar files when the implementation is distributed as software. Your customers and partners may need the information to use your implementation. Occasionally an SSO will grant rights to copy, publish, or distribute the documents that describe the Open Industry Standard. Very few SSOs will grant the right to modify their Open Industry Standards. So if you need to copy, publish, display or distribute the industry standard in connection with your commercial product, you should first check the copyright license granted by the SSO to make sure that license includes the rights you need.

If the Open Industry Standard includes software, make sure there is an appropriate software distribution license for that code before you incorporate it into your product.

Copyright licenses for copying and publishing the documentation associated with an Open Industry Standard rarely also provide you with the right to include software that is part of

the Open Industry Standard directly in your product and to distribute that software as part of your product. Some SSOs license the software separately from the documentation. If you would like to implement software code that is part of an Open Industry Standard, check to see if there is a software distribution license for the software separate from the license for the documentation. Also, as with all software developed by others, you want to ensure that the contributors have provided representations and warranties that the software does not violate the copyrights, trade secrets or agreements of another.

False Advertising, Unfair Competition, Fraud, and Unfair Trade Practices

There are a number of federal and state laws that provide penalties against anyone who falsely represents that a product complies or conforms to an Open Industry Standard or is compatible with others' implementations of it. A product that implements an Open Industry Standard that is mandated by trade policy or legislation is a "compliant" product. A product that implements all of the required aspects of an Open Industry Standard is one that "conforms." When a product that implements an Open Industry Standard interoperates with other conforming or compliant products, or simply other products that implement the same Open Industry Standard, the product is considered "compatible" with the industry standard. As discussed above, different Open Industry Standards use different tools to specify the requirements of the standard ranging from mandatory testing programs to accepted industry practice. No matter what tool is used, purchasing decisions are frequently based on whether or not a particular product complies or conforms with the Open Industry Standard, or is compatible with other implementations. As a result, misrepresentations about a product in this regard can subject you to claims of unfair competition, false advertising, fraud or unfair trade practices.

Consequently, it is important to be truthful in advertising, promotional activities, and statements made to future customers and partners. Because it is often too difficult to know if a product meets all applicable requirements, it is important to determine whether there are tests, interoperability workshops, or other criteria used by the industry to determine compliance, conformance, or compatibility. As long as you are truthful, there is little risk that you will be liable for unfair competition, false advertising, fraud or unfair trade practices when you promote, advertise or characterize your product's compliance, conformance or compatibility.

IV. *Trademark Risks*

Make sure you are properly licensed and follow the rules to be eligible for such licenses.

Some Open Industry Standards are associated with a trademark, certification mark or unregistered logo. You may want to use the mark to promote or advertise that your product implements the Open Industry Standard. Unlicensed use of a trademark or certification mark is an infringing use. In the case of a certification mark, you may be able to obtain the license from the SSO. However, often your products must pass certain tests and be certified before you can obtain the license. Trademark licenses may be available from the SSO or from one of its members. [2] It is less common to have to certify your product as passing tests before you can obtain a trademark license. Trademark and certification mark licenses will typically include

[2] *See e.g.*, http://www.dvdfllc.co.jp/

usage guidelines that you will need to follow if you license the mark. In most cases you do not need to obtain a license for an unregistered logo associated with an Open Industry Standard.

Make sure the owner of the mark will indemnify you for your use of the mark or clear the mark before you actually use it.

In many commercial settings, trademark owners indemnify their licensees if the licensees are sued for trademark infringement. Trademark licenses for Open Industry Standards are often royalty-free. Since the owner is not deriving any direct financial benefit from licensing the trademark, it rarely offers to indemnify licensees. Under these circumstances it is important to understand the extent of any diligence undertaken by the trademark or certification mark owner to clear the mark from the outset, *i.e.,* ensure that it is not confusingly similar to an existing mark. In the case of an unregistered logo, it is unlikely that anyone has cleared the mark, and such marks are not examined by any official trademark agency. As result, it is especially important that *you* clear the use of an unregistered logo before you use it.

V. ***Conclusion***

Open Industry Standards provide numerous advantages in virtually every industry throughout the world. Common misperceptions can lead to major commercial disruptions if products are enjoined or steep damage awards imposed for IP infringement. As Open Industry Standards become more ubiquitous in modern technologies, it is more important than ever to understand and mitigate risks associated with their implementation.