DrinkerBiddle&Reath LLP

Robert A. Skitol
202-842-8824
robert.skitol@dbr.com

Law Offices
1500 K Street, N.W.
Suite 1100
Washington, DC
20005-1209

202-842-8800
202-842-8465 fax
ww.drinkerbiddle.com

PHILADELPHIA
NEW YORK
LOS ANGELES
SAN FRANCISCO
PRINCETON
FLORHAM PARK
BERWYN
WILMINGTON

June 15, 2006

The Honorable Thomas O. Barnett
Assistant Attorney General
U.S. Department of Justice
950 Pennsylvania Avenue, N.W.
Washington, D.C. 20530

Re: **Business Review Letter Request**

Dear Mr. Barnett:

On behalf of VITA and its VITA Standards Organization ("VSO"), and pursuant to 28 C.F.R. § 50.6, we hereby request a Business Review Letter regarding a proposed new Patent Policy and associated procedures as set forth in exhibit A to this letter. Exhibit B sets forth existing VITA/VSO policies that the new policy would replace.

VITA is a non-profit association of developers, vendors and users of real-time modular embedded computing systems. Exhibit C to this letter is a list of VITA's current members; exhibit D is a list of the current members of VSO. VITA members share longstanding interests in the development of "VME" technology as it has evolved and continues to evolve from its genesis around the Motorola 68000 line of microprocessors and its Virtual Memory Bus.

VSO is VITA's ANSI-accredited standards development organization ("SDO") that develops and promulgates open architecture standards supporting the growth of competitive markets for a broad range of products employing VME technology. Examples of products incorporating VME systems are ultrasound and MRI machines, aviation and navigation devices, telecommunications switches, oil refining processes, semiconductor manufacturing equipment, and devices used under extraordinarily harsh environmental conditions such as military/defense and space exploration applications.

VITA and VSO are committed to standards development activity that continually enhances the capabilities and uses of VME technology while also ensuring interoperability among both competing and complementary VME-based products. These efforts support users' choice among an expanding array of vendors and deployment of the technology from one generation to another with minimum cost associated with new-product development cycles.

A. Background

VSO working groups may consider and accept patented solutions for incorporation into standard specifications; doing so can enhance the technical merits of

Established 1849

the adopted standards and thus the quality and range of applications for compliant products. This use of patented inputs, however, is consistent with open architecture standards objectives only if patent holders agree to license their patents on terms that permit the use of those patents in commercially viable products. VSO has traditionally sought to ensure this availability by following the longstanding ANSI policy of requiring a patent owner's general commitment to providing interested parties with licenses under reasonable and non-discriminatory ("RAND") terms as a condition to incorporating the owner's technology into a final standard.

VITA and VSO now consider that traditional approach to be inadequate for their purposes. It does not require disclosure of essential patent claims at a time when participants can use the information to make meaningful choices about whether to include particular technologies in a proposed standard. And, even when a claim is disclosed, the existing policy does not require similarly timely disclosure of intended license terms, or any explanation of what the patent owner deems to be "reasonable" under its RAND commitment. The absence of this information during a standard development process exposes VSO standards to highly disruptive patent ambush conduct -- excessive license demands that stall implementation of a final standard, threaten to exclude some or many parties from the affected market altogether, and thereby undermine the fundamental open standards effort.

VSO has experienced four such episodes in the past six years. They can be briefly summarized as follows:

On the eve of completing the development process for VITA-1.1, a specification for injector/ejector handles, a working group member asserted that the standard implicated eleven of its patent claims for which licenses would be required. Two particularly troublesome claims involved the working group members' patent that included an injector/ejector claim and a patent that involved edge finger-gasket technology to comply with FCC RFI/EMI regulations. Only after VITA retained patent counsel to contest the assertions, including through discovery of prior art, did the patent owner finally back down and agree to a nonassert understanding to protect VITA members. The episode nonetheless delayed the implementation of VITA-1.1 for more than a year and burdened VITA with extraordinary legal expenses.

On the eve of completing VITA-41 and -42, specifications for high-speed serial connections, a working group member announced that it had a patent application expected to result in claims for which licenses would be required. Again, only after VITA retained counsel to contest the assertions, search for prior art and engage in a prolonged negotiation process did the patent owner agree to an informal nonassert understanding. The result again was major delay in standard implementation and major legal costs for VITA.

Early in the process for VITA-46, another connection-related specification, a working group member persuaded the group to accept its patented connector solution in reliance on the member's RAND commitment. At the conclusion of the development process, the patent owner disclosed license terms that were considered entirely unacceptable and that have thus halted implementation. Indeed, a year later, the patent owner announced new terms that were even more onerous and thus all the more unacceptable. This situation remains unresolved.

The fourth episode concerns the same connector incorporated into VITA-46. The working group member that made the RAND commitment for its connector as described above failed to disclose until the end of the process that the core of its technology was licensed from another party under terms that permitted no more than a single sublicense. VITA was thus forced to attempt to negotiate terms with that other party, complicated by that other party's recent acquisition by another company. This situation remains unresolved.

VITA is concerned that similar and even more injurious ambush situations of those kinds will stall its processes in the years ahead in light of a major technology transition now underway: the VME migration to serial "fabric" solutions. While this transition is highly desirable because of its promise of dramatically greater product performance, there appears to be a major thicket of patents around it. Thus, absent some means of informing working group members about patent claims and license terms for them at early stages of development efforts, VITA is unlikely to succeed in effectuating this transition process in a manner consistent with open standards principles.

B. **The Proposed New Policy**

The proposed new policy and associated procedures, as set forth in exhibit A, would meet those concerns through more robust disclosure requirements and related license commitments. Central features are as follows:

- Under section 10.2, each working group member would be required to disclose at specified times during a development process all patents and patent applications that are owned, controlled or licensed by the member's company and that the member believes may become essential to the draft specification under development. The member would make this disclosure based on its good faith and reasonable inquiry.

- Under section 10.3, each working group member would agree to grant to all interested parties licenses to all essential patent claims on fair, reasonable and non-discriminatory terms.

- Also under section 10.3, each working group member would be required to disclose at specified times its maximum royalty rate for all of the member company's patents that are essential to a final standard. Members would also either provide a draft license agreement or alternatively accept prescribed limits on the scope of any grantbacks, nonasserts, reciprocity or defensive termination provisions in their ultimate license agreements.

- Section 10.3.4 expressly prohibits "negotiation or discussion of license terms among" working group members or with third parties at VSO and working group meetings. VITA considers this prohibition to be an important safeguard against conduct that could present antitrust concerns.

- Under section 10.4, failure to comply with the above-referenced disclosure requirements results in the member company's obligation to license any essential claim in an undisclosed patent on a royalty free basis and in accordance with above-mentioned limits on the scope of grantbacks, nonasserts, reciprocity or defensive termination provisions.

- Section 10.5 provides an arbitration procedure for resolving disputes over whether a member has complied with any of the above-referenced requirements. The chair of the arbitration panel would be a person unaffiliated with any VITA member or with VITA.

- The declaration on which the required disclosures are to be made (which is the appendix accompanying exhibit A to this letter) would include representations that the declaration is enforceable against the signing member company and its affiliates, successors, assignees and transferees; it would also confirm that licensees and prospective licensees are third party beneficiaries entitled to enforce the provisions therein.

These reforms generally, and the early disclosure requirements in particular, would enable all VSO standards development participants to make informed choices among competing technology solutions available for inclusion in a draft VSO specification. The result would be a greater prospect that adopted VSO standards can be implemented without risk of incurring unacceptable royalty costs or other unacceptable license terms. It would thereby facilitate rapid implementation of final standards and associated growth of new markets for members' compliant products.

With greater transparency about license terms during VSO standards development, VSO can also expect more competition among technology developers for acceptance of their proffered solutions, enhancing innovation and the overall quality of

VSO standards. The maximum royalty rate disclosures, for example, could generate desirable price competition by enabling participants to consider relative costs as well as relative technical merits of competing offers. And with greater confidence that RAND license commitments made during a VSO development process will be meaningful and enforceable over the years ahead, all VITA members and potentially many non-members as well will be more inclined to invest in the development of compliant products, thereby strengthening prospects for success in VITA's fundamental standards and technology development missions.

C. **Competition Policy Considerations**

The testimony and submissions of several prominent participants in the 2002 DOJ/FTC "Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy" support the desirability of SDO reforms along these lines, as well as their general compatibility with antitrust law.[1] There is also a growing body of more recent published commentary to this same effect.[2] Congress in its 2004 enactment of the Standards Development Organization Act expressed an intent to encourage SDOs to move in this direction.[3] Five major companies that actively participate in many SDOs submitted a white paper to the Department of Justice and FTC last June discussing the need for more meaningful disclosures of license information during standards development processes, highlighting the same concerns that are comprehensively addressed by VITA's proposed new policy and associated procedures.[4]

---

[1] *See* Department of Justice and Federal Trade Commission, Joint Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy (Nov. 6, 2002) (Statements of Joseph Farrell, Joseph Kattan, Scott Peterson, and Carl Shapiro), *available at* http://www.ftc.gov/opp/intellect/index.htm. *See also* Department of Justice and Federal Trade Commission, Joint Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy (Apr. 18, 2002) (Statements of Carl Cargill, Donald Deutsch, Ernest Gellhorn, Peter Grindley, Mark Lemley, Scott Peterson, and Daniel Swanson), *available at* http://www.ftc.gov/opp/ intellect/index.htm.

[2] *See, e.g.*, John J. Kelley & Daniel I. Prywes, *A Safety Zone for the Ex Ante Communication of Licensing Terms at Standard Setting Organizations*, THE ANTITRUST SOURCE (Mar. 2006); Daniel G. Swanson & William J. Baumol, *Reasonable and Nondiscriminatory (RAND) Royalties, Standards Selection, and Control of Market Power*, 73 ANTITRUST L.J. 1 (2005); Robert A. Skitol, *Concerted Buying Power: Its Potential for Addressing the Patent Holdup Problem in Standard Setting*, 72 ANTITRUST L.J. 727 (2005); Gil Ohana, Marc Hansen & Omar Shah, *Disclosure and Negotiation of Licensing Terms Prior to Adoption of Industry Standards: Preventing Another Patent Ambush?*, 12 EUR. COMPETITION L. REV. 644 (2003).

[3] *See* 150 Cong. Rec. H3656-H3657 (June 2, 2004): "The legislation . . . seeks to encourage disclosure by intellectual property rights owners of relevant intellectual property rights and proposed license terms."

[4] "Disclosure of Licensing Terms During Standard Setting: The Need for Antitrust Agency Guidance," Submitted by Apple Computer, Cisco Systems, Hewlett-Packard Company, International

We interpret former Assistant Attorney General Pate's remarks on this subject in June 2005[5] and FTC Chairman Majoras's remarks on this subject in September 2005[6] as encouraging SDOs to experiment with new policies and procedures of this general kind. The particular approach now proposed for VSO would be procompetitive, in the very manner that both Mr. Pate and Ms. Majoras suggested, through its protection against patent holdup conduct that can corrupt open standards processes into opportunities for exclusionary strategies and market monopolization. As now structured, the proposal would present no material risk of anticompetitive effects. It strikes an eminently reasonable balance between and among the interests of patent owners in exploiting their innovations, the interests of the entire VITA/VSO community in promoting open architecture standards, and the interests of the public at large in the maintenance of robustly competitive markets for VME systems.

We will be pleased to amplify on these perspectives and provide whatever additional information that the Department may seek in the course of its work on the requested Business Review Letter. Our thanks for your consideration.

Sincerely,

Robert A. Skitol
Kenneth M. Vorrasi
Counsel for VITA and VSO

Enclosures

cc: Frances E. Marshall, Esq.

Business Machines and Sun Microsystems, to Department of Justice and Federal Trade Commission (June 2005).

[5] R. Hewitt Pate, Competition and Intellectual Property in the U.S.: Licensing Freedom and the Limits of Antitrust (Jun. 3, 2005), *available at* http://www.usdoj.gov/atr/public/speeches/209359.pdf.

[6] Deborah Platt Majoras, Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting (Sept. 23, 2005), *available at* http://www.ftc.gov/speeches/majoras/050923stanford.pdf.