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## December 14, 1999

The Honorable Joel I. Klein, Esq. Assistant Attorney General Antitrust Division United States Department of Justice 10<sup>th</sup> and Constitution Ave. N.W. Washington, D. C. 20530

> Re: Request for Business Review Letter Regarding the 3G Patent Platform for the Third Generation (3G) Mobile Communications Systems Based on the IMT-2000 Standards

Dear Assistant Attorney General Klein:

On behalf of the 3G Patent Platform Partnership (*Attachment 1* identifying the parties), we hereby submit a request for a business review letter pursuant to 28 C.F.R. § 50.6 for the operation of the "3G Patent Platform". The 3G Patent Platform provides a voluntary cost-effective mechanism for evaluating, certifying and licensing Essential Patents for third generation mobile communication systems defined within the framework of standards set by the International Telecommunications Union (ITU).

The world's leading telecommunications companies have completed the definition of a 3G Patent Platform for handling the intellectual property rights ("IPR") concerns first highlighted by the standardization bodies. The introduction of this arrangement will contribute towards the commercial viability of 3G Mobile Communications Systems and catalyze market entry and growth.

The 3G Patent Platform has been defined within the framework of the Universal Mobile Telecommunications System ("UMTS") Intellectual Property Rights Working Group ("UMTS IPR Working Group") (which forms part of the "UMTS Intellectual Property Association") during the period February 1998 - June 1999 involving 42 organizations. *See Attachment 2*.

- The 3G Patent Platform, which is intended to become operational on or about March 1, 2000, will operate within a to-be-established non-profit service company lead by a Director General. The preparatory work necessary for operational implementation of the 3G Patent Platform will take place within a partnership legally constituted under English law ("3G Patent Platform Partnership"). The 3G Patent Platform Partnership came into being on October 1, 1999 and was formed by those

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companies sharing the desire to launch an operational 3G Patent Platform. See Attachments 3 and 4.

The 3G Patent Platform is not a patent pool, but represents an innovative mechanism that will facilitate bilateral licensing of patents essential to the 3G standards by those holding the patents and those needing them to manufacture products meeting the 3G standards.

This request is made on behalf of the 3G Patent Platform Partnership, which currently comprises 20 organizations representing manufacturers of telecommunications equipment, users of such equipment (operators), makers of peripheral products, and major international industry groupings. *See Attachment 1.* 

Set out below is a chronological outline of the Definition Phase of the 3G Patent Platform undertaken by the telecommunications industry. Following this is a description of how the 3G Patent Platform will operate, the safeguards built into it to avoid any anti-competitive effects, and the procompetitive benefits of the 3G Patent Platform. *See Attachment 5.* 

#### I. Background of 3G Standards and Technology and the 3G Patent Platform

#### A. The Emergence of 3G Standards

IMT-2000 is the name of the new 3G mobile communication system standard. Currently being developed under the auspices of the International Telecommunication Union, IMT-2000 will provide wireless access to the global telecommunication infrastructure through both terrestrial and satellite systems, serving fixed and mobile users in public and private networks.

IMT-2000 is what is known as a third generation mobile communication system. The most popular mobile systems in widespread use today are second generation, which replaced the analogue technology of the first generation. IMT-2000 will make anywhere, anytime communications a reality, providing a truly global standardized telecommunications system which will facilitate the seamless operation of mobile headsets all around the world.

IMT-2000 is a family of inter-related standards with several radio transmission technologies accessing core networks that have evolved from the well established GSM (defined by ETSI in Europe), and IS-95 and IS-136 (defined by ANSI T1 Committee in USA) network infrastructures. Numerous international groupings of operators and manufacturers, in close association with the regional and national telecommunications standards organizations, have worked together as feeder organizations to the IMT-2000 standards process.

First versions of the standards are currently being agreed (first release available by end of 1999) with revisions anticipated during 2000. For most technologies an annual release process is envisaged with many features necessary to complete the 3G vision being included over the period 2000-2004.

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## B. The Emergence of 3G Technology

Over the next few years, the world's telecommunication operators will begin to apply 3G technology that will revolutionize the telecommunications industry and significantly increase the services available to consumers. The third generation technology covering the radio interface and infrastructure will bring a plethora of multimedia services such as high speed data to mobile phone users including internet browsing, global roaming, and video conferencing. However, despite the clear advantages to consumers and to the world economy of the availability of such services, mobile communications operators and equipment manufacturers are now faced with the question of whether and when to commit the considerable investments necessary to make the new services a reality. Whether the decision will be positive depends on whether it seems possible that a "critical mass" of industry participants will decide that the commercial context of 3G, including the prospects for timely and affordable licensing of all essential intellectual property, is viable. Although not directly comparable, the recent failure of mobile satellite communications technology should not be made unless sufficient thought has been given to the critical issues of timeliness and affordability.

If the history of the telecommunications industry is any indication, the transition to 3G mobile communications systems might be slowed considerably by problems associated with the intellectual property necessary to implement the 3G systems and manufacture 3G compatible products. It is anticipated that a significantly greater number of patents will be found essential to the new 3G standards and that a larger number of companies will hold such essential patents than was true for past generations of mobile communications technology. Moreover, the provision of high bit rate multimedia services enhances the significance of the infrastructural elements of the 3G systems since this part will contain much of the service creation functionality; this aspect was less important for the existing mobile communications systems.

While it is indisputable that holders of patents are entitled to a fair return on their intellectual property, the holding by multiple owners of complementary patent rights essential to implement a new technology can impede the development of the new technology and create insurmountable barriers to entry. The telecommunications industry includes numerous players that are involved in various facets of the industry. The entities involved in the production and manufacturing of telecommunications services and products include handset manufacturers (not just voice telephones but new innovative multimedia terminals), chip set and ASIC foundries/manufacturers, software houses, smart card manufacturers, infrastructure developers, network operators, and service vendors. Each of the companies involved in these aspects of the telecommunications industry needs access to essential intellectual property.

Traditionally, in the mobile communications industry, a small group of players has been able to maintain relative advantages in licensing and obtaining licenses of the essential patents necessary to implement the standard technology. This group of players has remained small due to problems associated with identifying and licensing on reasonable terms the essential intellectual property. New market entrants not already owning worthwhile patent portfolios found the cost of entry prohibitive since they could not negotiate favorable licensing arrangements. The problems facing new entrants have included: (1) an inability to acquire timely licenses; (2) the imposition of Joel I. Klein, Esq. Page 4 December 14, 1999

prohibitively high royalty rates due to the actual importance or even mere perceived importance, sometimes unmerited, of particular intellectual property rights; (3) the enhanced bargaining positions of the companies that hold the broadest and most diverse patent portfolios; and (4) an uncertainty about whether royalties had already been paid which led those players farther downstream in the chain of supply to inadvertently pay excessive royalties. Due to those industry conditions, small and medium-sized companies have been largely absent in the mobile communication technology arenas.

Entrants to the emerging 3G arena need to be satisfied that the commercial environment will enable them to effectively compete in the various sectors involved, whether in producing software or hardware or providing communications services. Unless the patent licensing regime is made open, transparent, and accessible, new entrants will be deterred from entry by the cost and uncertainty of licensing essential technology. In addition, the new technology will develop slowly and with unnecessary expense as existing companies negotiate and litigate over access to essential patents and the implementation of an industry-wide standard, unless action is taken to alleviate bottlenecks. Such a commercial environment could even cause some 3G services never to appear at all or in a very limited form.

In previous generations of technology for telecommunications, various competing standards resulted in the failure to achieve interoperability of mobile communications systems in various parts of the world, which in turn exacerbated the intellectual property problems and resulted in higher costs of equipment, with fewer opportunities for new entrants to compete in the various markets involved in mobile communications, and higher costs to ultimate consumers.

If the problems associated with the current and past mobile communications systems are to be avoided in the development of 3G systems, the industry participants must have available fair and non-discriminatory procedures by which essential patents will be identified and licensed. Without such procedures, the implementation of 3G technology will be retarded and new entrants will be excluded from the various markets involved. In implementing the new IMT-2000 Standards (the International Mobile Telecommunications standards being promulgated by the ITU), the proposed 3G Patent Platform will materially assist in avoiding bottlenecks and fostering pro-competitive effects benefiting consumers.

#### C. Background of the Process That Developed the 3G Patent Platform

In late 1997, there was growing uncertainty within the telecommunications industry regarding the commercial future of the 3G systems. The cause of the uncertainty was whether: (1) potential essential patent owners of 3G technology would in fact grant licenses on the "standardized" technology to all industry players who sought them; (2) the cumulative maximum licensing cost (royalties) would be consistent with the commercial viability of the telecommunications service provision; and (3) the industry would or could establish an arrangement for the cost effective management and administration of the licensing of essential patents involved. <sub>a</sub>To address the concerns related primarily to intellectual property rights, the major global telecommunications. manufacturers and operators formed in February of 1998 an international independent body, the UMTS IPR Working Group ("UMTS IPR WG"). The UMTS IPR WG eventually brought together Joel I. Klein, Esq. Page 5 December 14, 1999

42 international companies and organizations (including companies based in the United States, Europe, and Asia). See Attachment 2.

The UMTS IPR WG was created by those companies (about 30 operators and manufacturers) that were signatories of the European Telecommunications Standards Institute ("ETSI") press release concerning the consensus agreement on the choice of the radio interface for the Universal Mobile Telecommunications System ("UMTS") at an ETSI meeting on January 29, 1998. An important element of the latter agreement was an undertaking to work together to provide guidelines for handling intellectual property essential to the emerging 3G standard.

Brian Kearsey and Dr. Serge Raes launched the initiative to bring together all the concerned parties with the intention of creating an open and transparent process. The convocation to the inaugural meeting on February 25, 1998 was publicized openly via several well known industry organizations. Following the inaugural meeting, the UMTS IPR WG issued a press release; subsequently, several other press releases were made available during the seventeen month Definition Phase. *See Annex 1 of Attachment 5* for all UMTS IPR WG press releases. In parallel to the UMTS IPR WG activities, the companies and organizations were actively contributing to the global, regional and national standardization process under the auspices of various international standards making bodies.

### (1) The Definition Phase

The Definition Phase lasted 17 months during which time the work was scheduled into two distinct stages. During the Definition Phase, it was necessary to create a non-profit association, the UMTS Intellectual Property Association (UIPA), in order to support the UMTS IPR WG.

#### (a) Phase 1 - Stage 1 (February - September 1998)

The UMTS IPR WG identified three options for handling the IPR concerns. The work was done within three rapporteur groups. Option 1 referred to the existing ETSI IPR Policy (maintaining the status quo) for which rapporteurship was assigned to Motorola. Option 2 referred to a Patent Pool (based on the structure established for MPEG-2 patent licensing) for which rapporteurship was assigned to Sony. Option 3 referred to a Patent Forum (new concept) for which rapporteurship was assigned to Siemens. Both options 2 and 3 were compatible with the ETSI IPR Policy (and that of other major standards bodies) and were effectively "ETSI +" approaches. Most members expressed a strong preference for an "ETSI +" approach. Moreover, there was an agreement for a unique arrangement for certifying essential patents, i.e. a Patent Evaluation Entity. The independent Patent Evaluation Entity was considered indispensable.

The outcome of Phase 1 - Stage 1 was published in an Interim Report. See Attachments 6 and 7. The Interim Report noted that further work would be required to explore the possibility of creating a commonly agreed approach combining the best features of the Patent Pool and the Patent Forum as this would attract a critical mass of the participating companies. During this period, the UMTS IPR WG was chaired by Brian Kearsey.

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## (b) Phase 1 - Stage 2 (September - December 1998): The Industry Reflection Period

The purpose of the Industry Reflection Period was to catalyze the creation of a commonly agreed arrangement. During this period, it was decided to publicize the three Options, with the objective of identifying a preferred industry choice and to address the outstanding commercial, business and economic aspects with the senior executives of the participating companies. The objective of the Industry Reflection Period was to achieve guidelines which would enable the UMTS IPR WG to define fully and to implement a widely supported arrangement for the licensing of 3G essential patents.

The key issues addressed during this period included: (1) a fair and reasonable maximum cumulative royalty rate; (2) the validity of traditional licensing notions and past royalty rate practices considering the forecast for a significant increase in the number of essential patents and patent holders necessary to achieve 3G systems; and (3) the flexibility sought by many participating companies, particularly those with a wide range of manufacturing interests who potentially will be the holders of essential patents, to enter into arrangements for compensation in a form best matching the patent holder's priorities, whether in the same field of technology or in neighboring or remote fields of application (e.g., cross-licensing), while satisfying antitrust and competition laws and regulations.

Given the nature of the potentially conflicting interests, an independent chairman with no affiliation to the telecommunications industry was nominated, namely John MacNaughton. During the same period, a Coordination Team (CT) was installed to direct the overall activities. All major companies were members of the CT to ensure a good geographical mix of origins. See Annex 1 of Attachment 8.

A feature of the Industry Reflection Period was a private and confidential dialogue between the independent chairman and the senior executives of 20 major companies on the key business and economic issues. A report of the Industry Reflection Period was published in January 1999. *See Attachment 8.* The report recommended the consideration of an emerging fourth Option, entitled the Patent Platform, which relies on the best features of the Patent Pool and Patent Forum and takes full account of the dialogue with the industry participants. The report also stressed the importance of completing the definition of a Patent Evaluation Entity.

### (c) Phase 2 - (January - June 1999): Definition Finalization

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Within the framework of several team and group activities, Phase 2 saw the completion of the 3G Patent Platform functional specification including the necessary legal and contractual documentation. *See Attachment 9*.

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## (2) The UMTS IP Association (UIPA) and the Promulgation of the 3G Patent Platform

During the UMTS IPR WG Plenary meeting of September 4, 1998, a decision was made to create a legal vehicle so that funding could be raised to finance the continuation of the activities. The UIPA, a non-profit association under French law, was created in December of 1998 to support the work of the UMTS IPR WG. The UIPA was directed by a Board under the chairmanship of UIPA President, Brian Kearsey, and assisted by the Treasurer and Secretary Dr. Serge Raes.

Attachment 10 is the "3G Patent Platform for Third Generation Mobile Communications Systems: definition, function, structure, operations, governance". Effectively, this specification represents the major and final deliverable of the overall Definition Phase. During the UIPA General Assembly on June 30, 1999, a press release was published announcing the successful completion of the work. See Attachment 5.

The UIPA is currently responsible for the ownership and maintenance of the 3G Patent Platform specification until a new corporation ("NewCo") is formed to take over this responsibility in early 2000. After the ownership of the specification is transferred to NewCo, UIPA will be disbanded once all its financial obligations are discharged by its members.

### (3) Implementation Phase

The 3G Patent Platform, which is intended to become operational on or about March 1, 2000, will operate within a to-be-established non-profit service company led by a Director General. The preparatory work necessary for operational implementation will take place within the 3G Patent Platform Partnership. The Partnership became effective from October 1, 1999 under the leadership of a Director General (Designate), Brian Kearsey. The Partnership is open to all interested companies sharing the desire to launch the 3G Patent Platform. (See Attachments 3 and 4).

#### (4) Implementation Schedule: Overview

#### (a) Consideration Period (July - August 1999)

Following the UIPA General Assembly on June 30, 1999, a two month Consideration Period permitted individual companies to consider whether they were willing to assume responsibilities for implementing and financing the 3G Patent Platform under the governance of the 3G Patent Platform Partnership. The committed companies were expected to make known their intentions to join the Partnership to the UIPA President by not later than September 1, 1999. Twenty-seven companies responded positively. The UIPA President convened a kick-off Partnership meeting in Paris for the "committed" companies on September 15, 1999. During the latter meeting, the partners nominated unanimously a Director General, Brian Kearsey. See Attachment 11.

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#### (b) Gap Period (September 1999-February 2000)

During the Gap Period, the Partnership will, *inter alia*, select and establish a third party Licensing Administrator and a Patent Evaluation organization through a competitive tendering process. It will interface with the antitrust authorities in USA, Europe, and Japan (and such other countries as may be required), to establish cooperative arrangements with the international and regional standards bodies, and liaise with the various industry organizations.

The Partnership will continue beyond the establishment of NewCo up until the latter becomes self-financing and commercially successful. The Partnership will be disbanded when the original upfront financing of the partners has been refunded.

### (c) NewCo Creation (March 2000)

The target operational date for the 3G Patent Platform is on or about March 1, 2000. NewCo will be ultimately self-financing through a levy on the fees charged for the evaluation and licensing administration processes and possibly a nominal membership fee. The Partnership will continue the initial financing of NewCo for an undefined period. However, twelve months subsequent to the incorporation of NewCo, the Partnership will review whether NewCo is likely to be a commercial success.

(d) Appointment of Licensing Administrator and Patent Evaluation Mechanism administrator

Prior to the creation of NewCo or shortly thereafter, an independent licensing administrator and an independent Patent Evaluation Mechanism administrator will be selected in an open tendering process. Both the Licensing Administrator and the Patent Evaluation Mechanism administrator will be selected on their independence and competence, and neither entity will be affiliated in any way with companies currently involved with the implementation of the 3G Patent Platform. A competitive procurement process has commenced following a Bidders' Conference held in London on November 10, 1999 in the presence of seven interested companies. An Invitation to Tender was sent to eight interested companies on November 29, 1999, and a detailed procurement schedule was defined. See Attachments 13 and 14, respectively.

## II. The Rationale of the 3G Patent Platform

#### A. The Basic Rationale

Third generation mobile communications systems require the use of state-of-the-art technologies, and the global nature of the systems ensures that potential conflicts concerning the right to use those technologies will cross national boundaries. As a result, intellectual property considerations are of paramount importance. The 3G Patent Platform represents a pragmatic solution to the inevitable intellectual property problems associated with the implementation of a new technology. The UMTS IPR WG that defined the 3G Patent Platform had open membership and enjoyed the active support of many of the major telecommunications manufacturers and operators.

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The 3G Patent Platform is a common industry-wide approach to addressing intellectual property problems and offering essential patents licenses for the realization of third generation mobile systems.

Recognizing that the rapid and global development of 3G systems will be delayed unless the intellectual property issues are addressed openly, the UMTS IPR WG defined the minimum set of terms and agreements necessary to operate the 3G Patent Platform. The 3G Patent Platform is designed, at an early stage, to remedy the problems associated with essential patents held by multiple owners, to catalyze market growth through the creation of a favorable but fair intellectual property licensing regime, and to eliminate currently identified deficiencies associated with the acquisition of 2G (second generation) Mobile Communications technologies. If the goals of the 3G Patent Platform are realized, all current players and potential future entrants in the mobile telecommunications industry who choose to participate in the 3G Patent Platform will have: (1) knowledge of which patents are essential to an identified 3G system; (2) the ability to license essential patents on fair and non-discriminatory terms; (3) procedural mechanisms to ensure that all parties (licensors and licensees) are not discriminated against; (4) access to licensing and patent evaluation administrators that lower transaction costs for all parties involved; (5) the certainty of geographical coverage of licenses; and (6) minimal unlicensed use of patents because of a more expansive licensing arrangement worldwide.

The 3G Patent Platform will benefit both licensors and licensees of essential patents. The 3G Patent Platform will provide access to essential patents and eliminate the cost and uncertainty of determining which patents are essential. This, alone, will spur new entrants into the 3G marketplace that were previously excluded from the mobile telecommunications industry by intellectual property barriers. Licensors should also benefit as the certainty, transparency and cost-effectiveness of the 3G Patent Platform to determine which patents are essential will create additional licensing opportunities. Though royalty rates may decline under the terms of the 3G Patent Platform, the volume of licensing should increase, and the cost of licensing should decrease dramatically. In addition, Patent Holders maintain flexibility under the terms of the Patent Platform as they remain free to negotiate fair and reasonable bilateral licensing agreements that do not comply with the Standard License Agreement. *See Annex B of Attachment 10*.

The 3G Patent Platform was designed with input from numerous participants involved in every aspect of the mobile telecommunications industry, and no segment of the industry will be disadvantaged if the 3G Patent Platform operates as expected. This industry-wide initiative seeks to establish a collective arrangement for the cost effective and transparent evaluation and administration of the licenses of the patents essential to the production of 3G compliant telecommunication systems and products. The 3G Patent Platform will lower licensing transaction costs, reduce uncertainty and litigation over patents, and increase the output of 3G products and services. These expected results will benefit patent holders and licensees, while consumers of mobile telecommunications services should receive the greatest benefit as the 3G Patent Platform is designed to address the intellectual property barriers and blocking problems that have consistently retarded the development of new technologies in the telecommunications industry. Joel I. Klein. Esq. Page 10 December 14, 1999

The 3G Patent Platform eliminates the obstacles, expense, complexity and uncertainties associated with the traditional arrangements for acquiring technology and, at the same time, creates a level playing field for acquiring 3G technology for existing and new market entrants.

## B. How the 3G Patent Platform Works

For those patent holders who believe that they possess patents that are *essential* to meeting the IMT-2000 standards (a family of standards as the standard setting body is likely to choose to adopt a set of regional standards as an evolution of the installed base systems), the 3G Patent Platform affords them a mechanism for having their belief in essentiality evaluated by the 3G Patent Platform.

## (1) Framework Agreement

If a patent holder chooses to have the 3G Patent Platform evaluate a patent (or patents), it will enter into the "Framework Agreement" with the 3G Patent Platform (*see Annex A to Attachment 10*). If the patent holder's patent is deemed essential ("Essential Patent") by the 3G Patent Platform's Patent Evaluation Mechanism, the Framework Agreement between the 3G Patent Platform and the patent holder requires the patent holder to adhere to certain licensing arrangements which include (a) the continued ability of the patent holder to negotiate independently of the 3G Patent Platform with potential licensees, but (b) with the potential licensees' having the right to a "Standard License Agreement" if independent negotiations do not succeed. The patent holder (as well as any Licensee under the 3G Patent Platform) must also make available within the 3G Patent Platform all of its patents that are essential to the 3G standards when applied to telecommunications uses. *Clause 9 of Attachment 10* sets out the governance and management mechanisms of the 3G Patent Platform.

#### (2) Essentiality Determination by the Patent Evaluation Mechanism

The purpose of the evaluation mechanism is to establish an independent, fair, and transparent procedure whereby patents are evaluated to determine whether they are technically *essential* under the 3G standards. *Clause 7 of Attachment 10* explains in greater detail the composition of the Patent Evaluation Mechanism, which is controlled by the Evaluation Policy Committee. The governance requirements for these are also set forth in the *Clause 9 of Attachment 10*, and are designed to ensure fair and impartial treatment of all who apply.

Attachment 12 is a fuller treatment of the concept of *essentiality*. In essence, no competing patents can ever be essential. By definition under the mechanism established, the patent evaluators cannot declare a patent essential if another patent can do the same job for the identified 3G standard.

Please note that no company which holds a patent, even if it is in fact essential to the standard, is forced to apply or make use of the 3G Patent Platform. Thus, while certain incentives to use the 3G Patent Platform exist (as for instance in the availability to the patent holder of other patents held by others that are essential to the standards), there is no coercion of anyone to utilize the 3G Patent Platform. Each firm's own calculations of its own self-interest will determine whether

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it participates in the 3G Patent Platform, even if in fact it is the holder of an essential patent (as determined, for example, by the courts), or when it becomes convenient to terminate its participation.

# (3) Licensing Of Essential Patents Under the 3G Patent Platform

Each party joining the 3G Patent Platform must sign the Framework Agreement with the 3G Patent Platform, (*Annex A of Attachment 10*) and agree to be bound to certain standard non-negotiable conditions for licensing terms and royalty rates for all patents that are certified as essential under the patent evaluation procedures discussed previously and in *Attachment 10*. Any license of an Essential Patent granted by a member of the 3G Patent Platform must conform to either:

- (1) the Standard License Agreement and the 3G Patent Platform royalty structure (see Annex B of Attachment 10); or
- (2) fair and reasonable alternative compensation and terms outside the scope of the 3G Patent Platform. See Clause 8 of Attachment 10 for the Licensing Procedures.

The possibility of obtaining compensation other than the 3G Patent Platform rate of royalty will provide the flexibility sought by members to meet the legitimate business interests of the licensor and licensee. While bilateral, cross-license or non-monetary negotiations proceed, potential licensees will have access to the Essential Patent under the 3G Patent Platform's Interim License Agreement. See Annex C of Attachment 10. The Interim License facilitates entry into the market by allowing potential licensees immediate access to Essential Patents. In high-tech areas such as telecommunications, the time required to negotiate multiple licenses for Essential Patents can impede or discourage entry. The Interim License Agreement provision is designed to solve the problems associated with lengthy licensing negotiations.

# (a) Terms and Conditions of the Standard License

The Standard License Agreement (*Annex B of Attachment 10*) is a voluntary contract between a Patent Holder and a licensee ("Licensee") defining a non-negotiable set of rules and conditions for granting a license to use an Essential Patent. The Standard License incorporates the royalty structure and licensing terms as agreed upon by the UMTS IPR WG. The members of the 3G Patent Platform may utilize the Standard License Agreement as a default contract or may enter into bilateral, crosslicense or non-monetary negotiations for fair and reasonable alternative consideration and terms. Please note that the agreement is between the Patent Holder and the Licensee. Potential licensees are the beneficiaries of the agreement between each patent holder who participates in the 3G Patent Platform and the 3G Patent Platform itself, but do not directly have any agreement (as a licensee) with the 3G Patent Platform.

The 3G Patent Platform defines four product categories ("Product Categories") in which Essential Patents will be grouped: infrastructure, terminals, test equipment, and miscellaneous (all 3G products or services not covered by the other Product Categories). Each patent certified as essential will be placed in at least one of the Product Categories. The Product Categories may be Joel I. Klein, Esq. Page 12 December 14, 1999

reviewed by the Board of NewCo from time to time and amended or expanded as the technology or the market for 3G Mobile Communications Systems develops.

The Cumulative Royalty Rate ("CRR") is the actual aggregated royalty rate that will be paid by a Licensee based on the sum of its licenses taken under Standard Licenses for each Product Category. The Maximum Cumulative Royalty rate ("MCR") is a predetermined royalty level in each Product Category which will not be exceeded by the CRR. The initial value of the MCR shall be 5 percent (of the ex-work sales value) per Product Category which was proposed in response to the senior executives' view that it is imperative that the total amount of royalties to be paid by any one Licensee should be contained. The value of the MCR may be adjusted by the Board of NewCo under exceptional circumstances and increased or reduced as the technology or the demand for 3G Mobile Communications Systems develops.

There shall be only one criterion for the weighting of Essential Patents and that is their essentiality. This principle justifies that each patent shall attract the same Standard Royalty Rate ("SRR") within the same Product Category. The SRR is the current royalty rate for a particular Product Category applied per individual patent license under the Standard License or Interim License Agreement. The SRR is determined according to an agreed upon formula and is assigned by the Licensing Administrator. At the initial or any additional requests for licenses under the Standard License and the CRR may temporarily exceed the MCR. The SRR shall be adjusted in the next period so that the CRR shall not exceed the MCR. The royalty rate applicable to each license in the Interim License Agreement shall be the current SRR and this rate shall follow any periodical adjustment made to the SRR.

#### (b) Determination of the Standard Royalty Rate

The Licensing Administrator shall compute the value of the SRR that shall be applied for each new period by dividing the maximum number of licenses granted to any Licensee (during the previous period) into the MCR. The number of licenses shall be calculated by taking into account only those licenses obtained through Standard and Interim License Agreements and bilateral agreements covering only 3G Essential Patents under the same royalty rates as those in the Standard License Agreement without any other form of compensation. This shall be done on the last day of each period and shall apply immediately for the following period. The license shall be deemed to be automatically amended by the issue of formal notification of any adjusted SRR by the Licensing Administrator which shall be made within three working days from the end of period under review. The period is defined as three calendar months.

#### (c) Collection of Royalties

The royalty "collection point" shall be the last manufacturer in the manufacturing "chain". This means that chip and sub-system manufacturers shall be indemnified for sales made to Licensees of certified Essential Patents who are the last manufacturers in the chain. Licensees shall not include those manufacturers of component products which are incorporated into final assembled products for which royalties are paid to their respective licensor(s). See sub-clause 8.2.6 of Attachment 10.

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Royalties shall be collectable only in countries where patents have been granted and indemnity automatically extended by each grant of patent. If a patent has been granted in two regions and is pending in a third region, the Licensee shall become liable for royalties in those countries in the third region in which a patent is pending from the date of the application in the third region or from the date of the grant of the license whichever is the latest, and the royalties shall become payable to the Patent Holder upon the grant of those patents. If the application was filed in the third region before the patent was granted in the two regions, the starting date for the liability shall be the date when the patent has been granted in the two regions.

Where a patent has been granted only in one region, royalties shall not be collectable in the other two regions, and when a patent has been granted in two regions, royalties shall be collectable in both regions. Provided always that there is a patent pending in the third region, the Licensee shall become liable for royalties in the third region from the date of the patent application or the granting of the license, whichever is the later of the two. Upon the granting of a patent in the third region, the royalties shall be collectable. *See, in general, sub-clause 8.2.7 of Attachment 10.* 

Royalties under the 3G Patent Platform shall be payable from the date of the request for evaluation of a granted patent or from the date of the grant of the license, whichever is the latest. Infringement in the period prior to the date of the request for evaluation or the grant of the license shall not be erased with the grant of a license and this shall be resolved by the Patent Holder and Licensee outside the scope of the 3G Patent Platform. The Patent Holder shall limit the indemnity for infringement to those regions/countries in which its own patents have been granted. *See, in general, sub-clause 8.2.8 of Attachment 10.* 

### (d) Alternative Licensing of Essential Patents

If the Patent Holder and the Licensee wish to enter into negotiations for a bilateral, crosslicense or other agreement, they must advise the Licensing Administrator of the intention to do so. The 3G Patent Platform principles affirm the right of the Patent Holder or the Licensee to request alternative consideration as significant in value as the grant of the licenses for Essential Patents. As the nature of such other compensation will inevitably be dependent on the specific circumstances and bilateral relationship of the particular parties, the 3G Patent Platform will not attempt to classify what forms of alternative compensation shall be permissible and in what circumstances. Such compensation should be fair and reasonable and reflect a balance between the parties. See, in general, sub-clauses 8.3.1 and 8.3.2 of Attachment 10.

In order to protect the Licensee and to provide a certainty of getting licenses without undue delay and complication, a Licensee that is offered a license with "other" forms of compensation shall be granted an Interim Standard License Agreement shortly after the date of notification of the wish of the Patent Holder to negotiate alternative arrangements. The Patent Holder and the Licensee shall have a right for any alternative arrangement to be fair and reasonable. If either party considers the requirement of the other party not to be fair and reasonable, the Patent Holder may, at its sole discretion, grant a Standard License Agreement to the Licensee. Alternatively, both parties may refer the matter to a form of Dispute Resolution preferred by the 3G Patent Platform and if the dispute remains unresolved, may proceed to mediation and then to non-binding arbitration. The parties may

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choose to refer the matter to non-binding arbitration without recourse to the form of Dispute Resolution. The outcome of the Dispute Resolution and non-binding arbitration processes may have an impact on the Interim License Agreement and on the Dispute Resolution process cost liability.

### III. Safeguards Built Into the 3G Patent Platform

#### A. Participation and Termination

#### (1) Voluntary and Open

No company, not even one which has patents essential to the 3G standards, is required to utilize the 3G Patent Platform. Only if a company decides unilaterally that it is in its own self interest to participate will it do so. In addition, the 3G Patent Platform is open to all patent holders, and to each and every potential licensee who requests a license to any of the Essential Patents. Any company that believes it has a patent related to the practice of any aspect of the 3G standards or any company that desires to license a patent essential for the manufacture of 3G products is not in any way excluded from the 3G Patent Platform.

The 3G Patent Platform will operate within an independent non-profit making company under the governance of the members, i.e. owners of certified Essential Patents and Licensees. Consequently, the membership will not be known until the 3G Patent Platform becomes operational. This combination of both Patent Holders and Licensees should ensure that the conduct of the 3G Patent Platform respects the legitimate expectations of both parties.

#### (2) Termination

Furthermore, anyone who does choose to participate can terminate such participation at any time on one year's written notice. Of course, any licenses previously granted while a participant continue in existence for their regular terms.

#### **B.** Licensing Safeguards

## (1) Direct Agreement Between Patent Holder and Licensee (not with the 3G Patent Platform)

3G Patent Platform license agreements (either under the Standard License Agreement or an agreement resulting from bilateral negotiation) are designed to be voluntary, bilateral contracts between the Patent Holder and the Licensee. The members of the 3G Patent Platform may utilize the Standard License Agreement as a default contract or may enter into bilateral negotiations for fair and reasonable alternative consideration and terms. Regardless of the license agreement entered into, the agreement is between the patent holder and the licensee. Potential licensees are the beneficiaries of the agreement between each patent holder who participates in the 3G Patent Platform and the 3G Patent Platform itself (the "Framework Agreement," see Annex A of Attachment 10), but do not directly have any agreement (as a licensee) with the 3G Patent Platform. Patent Holders benefit

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(through royalty payments) for each license entered into, but neither other Patent Holders nor the 3G Patent Platform should benefit from the bilateral licensing agreements.

# (2) No Bundling of Patents: the Licensee Takes Only Those Patents It Wants

In the Antitrust Guidelines for the Licensing of Intellectual Property ("IP Guidelines"), the Department of Justice has recognized that an aggregation of patent rights "may provide competitive benefits by integrating complementary technologies, reducing transactions costs, clearing blocking positions, and avoiding costly infringement litigation". The 3G Patent Platform is designed to provide these pro-competitive benefits and also avoid the potential anti-competitive effects associated with patent pools. The Department has approved the MPEG-2 and DVD patent pools despite the fact that patent pools have the potential to produce serious competitive concerns through price setting for patent licenses.

The members of the 3G Patent Platform have gone farther than MPEG-2 and DVD patent arrangements in ensuring that patent rights are individually granted and not bundled for the benefit of any or all Patent Holders. The Essential Patents are not bundled in any manner, and a potential licensee can choose to license only one or more Essential Patents it deems necessary for conducting its business in the countries and regions of its choice (in the case of regional standards). The license for one Essential Patent is not conditioned on the license of another. Since the scope of the 3G Patent Platform is limited to only Essential Patents, non-essential patents are separated out so that Licensees do not have to take licenses and pay royalties on those parts of 3G systems that do not require the use of essential patents.

#### (3) Freedom to Negotiate Individually on Royalty Rates

Patent Holders and Licensees retain the freedom to negotiate agreements to meet their legitimate business requirements, and all licenses, whether obtained through the 3G Patent Platform or by separate negotiation, are made between the Patent Holder and Licensee. Likewise, the determination of royalty amounts and payments can be made independently between the Patent Holder and Licensee when not utilizing the Standard License Agreement. The 3G Patent Platform was designed to give the members the flexibility to negotiate mutually beneficial licensing agreements for patents within and outside the 3G Patent Platform.

Despite predictions of their relatively large number compared to previous generation mobile communication technologies, it is believed that Essential Patents will make up only a small percentage of the patents that will be incorporated into 3G products, and Patent Holders are free to negotiate fair and reasonable royalty rates for Essential Patents through bilateral negotiation and are completely free to negotiate royalty rates for patents related to competing technologies. Because royalties from Essential Patents will comprise only a small percentage of the cost of 3G Products and because the members are not restricted to the Standard License Agreement, the 3G Patent Platform will not encourage or facilitate collusion on downstream product prices.

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# (4) In the Absence of Individually Negotiated Licensee Agreements, the Licensee Becomes Beneficiary of the 3G Platform Standard License (and the Interim License)

In order to provide a certainty of getting licenses without undue delay and complication, a potential licensee will be granted an Interim Standard License Agreement shortly after the date of notification of the wish of the Patent Holder to negotiate an alternative arrangement. If the potential licensee considers the bilateral negotiations of the Patent Holder not to be fair and reasonable, the potential licensee may refer the matter to a form of Dispute Resolution preferred by the 3G Patent Platform. If the dispute remains unresolved, the potential licensee may proceed to binding or non-binding arbitration. At all times, the potential licensee will have access to the Essential Patent through the Interim License Agreement at royalty rates determined through the 3G Patent Platform procedures. After the conclusion of the binding or non-binding arbitration, the parties will agree to a license on fair and reasonable terms, or the parties will move to the Standard License Agreement.

# (5) The Bilateral Nature of Each Patent Holder's Framework Agreement with the 3G Patent Platform to Charge Royalties Set Under the Framework Formula For 3G Mobile Communications Uses Is Highly Pro-Competitive

A key element of the 3G Patent Platform is the fact that any patent holder desiring to participate in the 3G Patent Platform and to obtain the benefits thereof for itself must agree with the 3G Patent Platform that the royalties it collects directly from the licensees on its 3G Essential Patents will be capped under the 3G Patent Platform's formulas for the Standard Royalty Rate, the Cumulative Royalty Rate and the Maximum Cumulative Royalty Rate (as determined by the Licensing Administrator under the formulas set out). This feature is the basic incentive which allows the 3G Patent Platform to assist in the wider use of the 3G standards by all users, thus maximizing the opportunities for licensing for all who participate. It is a highly pro-competitive feature that helps unblock the technology embodied in complementary patents, thus increasing the use of the 3G standards and the patents essential to their use. No company with a patent is forced to use the 3G Patent Platform; only if, in the calculation of its own self-interest, it concludes that entering into the Framework Agreement with the 3G Patent Platform is in its interest, will such a company participate in the 3G Patent Platform.

Furthermore, the 3G Patent Platform's licensing requirements under the Framework Agreement pertain only to licensing of Essential Patents for *purposes of use in the scope of the IMT-2000 standards*. If the technology embodied in a patent essential to the 3G standard can also be used for purposes *other than 3G Mobile Communications Systems* purposes, then the patent holder is free to license for such purposes on any terms its wishes. Thus, there is no limitation whatever on the freedom of the patent holder to do what it wishes in other areas of endeavor.

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# IV. The Pro-competitive Benefits of the 3G Patent Platform

#### A. There Are No Anti-competitive Effects

### (1) Avoidance of Any Facilitation of Collusion

The 3G Patent Platform was designed to avoid the potential anti-competitive effects that have been identified by the Department of Justice in previous analyses of patent arrangements and to eliminate current identified deficiencies associated with the acquisition of 2G (second generation) Mobile Communications technologies. The arrangement is not a patent pool capable of producing coordinated output restrictions or collective price setting. The 3G Patent Platform is open to all existing and potential manufacturers of 3G products on non-discriminatory terms. The possibility of collusion is curtailed by granting the members the flexibility to negotiate private, bilateral licensing agreements. All Standard License, Interim License and alternative bilateral license Agreements are between the Patent Holder and the Licensee (not with the 3G Patent Platform). The 3G Patent Platform will not facilitate the sharing of competitively sensitive information as the 3G Patent Platform is limited in scope to facilitating the licensing of those patents essential to manufacture 3G compliant products. The antitrust experience with patent arrangements has shown that they can produce both pro-competitive and anti-competitive effects. The 3G Patent Platform has been carefully and narrowly constructed to accomplish the pro-competitive virtues of patent sharing arrangements while avoiding any conceivable intended or unintended anti-competitive effects.

#### (2) No Foreclosure of Competing Technologies

The 3G Patent Platform specification (*see Attachment 10*) has been prepared with the input of companies from every level of the telecommunications industry including patent holders, product and components manufacturers and operators, with due monitoring from standards and regulatory bodies and other industry associations. The participating companies include representatives from North America, Europe, and Asia, and the governance structure of the 3G Patent Platform should incorporate representatives from each of the major telecommunications regions. For example, the patent Evaluation Policy Committee and the NewCo Board should have at least two members from each of the identified regions. The operation of the 3G Patent Platform will not discriminate against any company, technology, or standard.

Moreover, the 3G Patent Platform is designed to integrate only complementary patent rights and not patents for competing technologies. Thus, competing technologies cannot be favored or disadvantaged by the 3G Patent Platform. This is accomplished by limiting the 3G Patent Platform to patents that are *essential* to compliance with the 3G Standards. Essential Patents by definition have no substitutes; one needs licenses to each of them in order to comply with the standard. There will not be technical alternatives to any of the Essential Patents within the 3G Standards. At the same time, the Essential Patents are complementary to each other; a license to one Essential Patents. Limitation of the 3G Patent Platform to technically Essential Patents, as opposed to merely advantageous but non-essential patents, helps ensure that the 3G Patent Platform scheme does not, Joel I. Klein, Esq. Page 18 December 14, 1999

by including such non-essential patents, foreclose competitive implementation options that the 3G Standard may have left open.

The 3G Patent Platform identifies patents that independent experts have determined to be essential to compliance with the 3G Standards. If a patent is found to have substitutes it will not be declared essential by the Patent Evaluators. The continuing role of the independent Patent Evaluators to assess essentiality is an especially effective guarantee that the certified Essential Patents are complements, not substitutes. The independence of the Patent Evaluators is intended to reduce the likelihood that the Patent Holders might act in concert to keep non-essential patents in the 3G Patent Platform, or to exclude other essential patents from being certified as Essential Patents.

#### (3) No Anti-competitive Effect on Rival Companies

The 3G Patent Platform is designed in ways that reduce any possibility of the 3G Patent Platform's being used to disadvantage any company. First, the 3G Patent Platform is open to all holders of patents that may be essential to the 3G Standard and all potential licensees of 3G Essential Patents. Thus, mavericks and new entrants cannot be refused a license, and can have access to the 3G Essential Patents on the same terms as all other licensees. As can be seen, access to Essential Patents is enhanced rather than limited.

Furthermore, the Essential Patents are not bundled in any manner, and a potential licensee can choose to license only those Essential Patents it deems necessary for conducting its business. Because the license for one Essential Patent is not conditioned on the license of another, the 3G Patent Platform produces fewer competitive concerns than the MPEG-2 and DVD patent arrangements which were approved by the Department. Since the scope of the 3G Patent Platform is limited to only Essential Patents, non-essential patents are separated out so that Licensees do not have to take a license and pay royalties on those parts of 3G systems that do not require the use of essential patents.

#### (4) Effect on Innovation

The 3G Patent Platform does not impose any restraint, either explicitly or implicitly, on the development of new technologies, whether they apply to the 3G mobile communications systems or future technologies. Nothing in the 3G Patent Platform discourages, either through outright prohibition or economic incentives, the Patent Holder or Licensee from developing or supporting new technology. In fact, the Standard License Agreement explicitly leaves Licensees free independently to make products that do not comply with the 3G Standards (*see Section 2.5 of the Standard License Agreement, which is Annex B of Attachment 10*).

The proposed licensing program requires Patent Holders and Licensees to agree to license to each other not only their present Essential Patents, but also any ones they obtain in the future that become Essential Patents. This requirement ensures that no party will be able to benefit from the 3G Patent Platform while blocking other parties from utilizing the 3G Standards and reduces the possibility that a future Essential Patent will block a Licensee from practicing a technology in which Joel I. Klein, Esq. Page 19 December 14, 1999

they may already have invested heavily. Reducing this uncertainty should be a significant procompetitive benefit to Licensees and Licensors, as well as consumers of 3G compliant products and services. In addition, the requirement that a Licensee provides its Essential Patents to all potential licensees under the sponsorship of the 3G Patent Platform is, like that of the Standard License Agreement, limited to 3G Essential Patents. It does not extend to mere implementations of the 3G Standards or even to improvements on Essential Patents. Rather the reciprocity simply obliges a Licensee of the Standard License Agreement that controls an Essential Patent (not a licensee who has a separate bilateral agreement for Essential Patents with a Patent Holder) to make all its Essential Patents available to all members of the 3G Patent Platform on a non-exclusive basis. This means that any Licensee that wishes to take advantage of the cost savings afforded by a Standard License Agreement cannot hold back its own Essential Patents from other potential manufacturers of 3G compliant products.

The reciprocity is directed to the 3G Patent Platform membership as a whole, and not to any particular Patent Holder. Therefore, it should not create any disincentive among Licensees to innovate. The reciprocity provision is likely to simply bring other Essential Patents into the 3G Patent Platform, thereby: (a) limiting holdouts' ability to exact a supra-competitive royalty from other Licensees; and (b) further lowering Licensees' cost in assembling the patent rights essential to their compliance with the 3G Standards. Importantly, the Patent Holder is free to pursue any consideration for its Essential Patents under a bilateral agreement with a Licensee, as long as it negotiates in a fair and reasonable manner. Moreover, any restraint on the Patent Holder's Essential Patents is only for products used in the field of 3G mobile communications systems. These limitations are designed to ensure that all will continue to benefit from research and development relating to the 3G Standards.

Patent Holders remain free to capture whatever value their Essential Patents may have outside of the 3G Standards. In addition, licensing of Essential Patents in the field of 3G products does not prevent or discourage Patent Holders (and Licensees) from capturing whatever value they create in non-essential technology and patents.

Furthermore, the 3G Patent Platform does not limit other options of the Patent Holders (or Licensees) that may support altogether different product standards, including any other competing mobile communications standards that may be created.

Finally, the duration of the Standard License Agreement is for life of the last to expire Essential Patent. (Licensee may terminate at any time on ninety days notice).

Such predictability of pricing and freedom from being blocked in the marketplace can only facilitate investment in research and development in the field, and result in more efficient exploitation of 3G technology.

Moreover, should 3G Mobile Communications Systems become a success, and should the 3G Patent Platform be perceived as being a catalyst to that success, innovation not only in related but also in unrelated technological fields which face comparable problems in licensing of technology could be stimulated on the basis of a perceived solution to those problems. Joel I. Klein, Esq. Page 20 December 14, 1999

#### **B.** There Are Many Pro-competitive Benefits

The third generation of mobile communications systems will allow the consumer to access the internet, download data and video files, send and receive electronic mail, and speak to anyone from anywhere in the world. The major obstacle to the major investments necessary for the rapid implementation of 3G technology is the potential uncertainty surrounding the licensing of patents essential to the operation and production of 3G compliant products. As a result, leading telecommunications companies formed the UMTS IPR WG to resolve potential 3G intellectual property problems before they retarded the global development of the 3G technology and before the completion of the 3G standards.

The UMTS IPR WG included representatives of companies from North America, Asia, and Europe, and the 3G Patent Platform has been designed to be non-discriminatory as to 3G technology, patents, and licensing. The pro-competitive purpose of the 3G Patent Platform is to expedite the availability of 3G technology and lower the barriers to entry into the manufacture and sale of 3G compliant products. Regardless of the 3G standard or standards that are implemented, the 3G Patent Platform is designed to: (1) reduce the uncertainty of the availability of patent licenses by identifying those patents essential for the manufacture of 3G compliant products and by creating a mechanism for their licensing; (2) reduce the royalties that would be payable if each essential patent license were individually negotiated; (3) eliminate the cost of determining the holders of essential patents; (4) reduce other transactions costs and delays of potential licensees having to negotiate and execute multiple licenses (where the delays resulting from years of negotiation over essential patents significantly deter entry in areas of fast-changing technology); (5) reduce the licensing costs of essential patent holders thereby allowing licenses to be offered at a lower royalty rate; (6) offer a fair and non-discriminatory royalty rate for the licensing of essential patents; and (7) increase licensing of essential patents and thereby increase the production of 3G compliant products by reducing the transaction delays and costs, and royalty rates associated with intellectual property licensing.

The terms and conditions of the patent evaluation and licensing arrangements of the 3G Patent Platform have been structured to provide the pro-competitive benefits recognized in the Department of Justice's *IP Guidelines* and the Department's Response Letters for the approval of the MPEG-2 and DVD patent licensing programs. Like the MPEG-2 and DVD arrangements, the 3G Patent Platform involves only essential patents; all complementary patents and technologies remain outside the scope of the 3G Patent Platform. In addition, the 3G Patent Platform is non-exclusive and voluntary and allows its members to negotiate fair and non-discriminatory licensing agreements outside of the Standard Licensing Agreement. The licensing terms guarantee that patent holders will receive reasonable royalties for their essential patents, and the limited scope of the arrangement (only essential patents for 3G mobile telecommunications systems) ensures that patent holders will not be deterred from future innovation.

#### V. Cooperation with the European Commission

The UMTS IPR Working Group, the UMTS IP Association and the 3G Patent Platform Partnership have, through its officers and European counsel, been in informal contact with the Telecommunications ("Information Society") Directorate-General of the European Commission

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about the 3G Patent Platform, and the efforts to achieve new 3G mobile communications standards. Together with representatives of the Telecommunications Directorate-General, counsel and officers of the UMTS IPR WG, the UMTS IP Association and the 3G Patent Platform Partnership have also been in communication with the Competition Directorate-General of the European Commission and are currently preparing for a European Union Notification. The undersigned is authorized to state that the 3G Patent Platform Partnership is agreeable to the Antitrust Division of the United States Justice Department and the European Commission's relevant Directorates-General talking with one another about the 3G Patent Platform and sharing documents with one another. We are hopeful that approval of the creation and operation of the 3G Patent Platform will receive the approval of both the authorities in the United States and the European Commission.

#### Conclusion:

For all of the reasons and on the facts outlined above, we respectfully request the issuance by the Antitrust Division of a favorable Business Review Letter pursuant to 28 C.F.R.§ 50.6. We stand ready to answer questions and supply such other information as the Antitrust Division may require. Please call the undersigned with any questions and any requests for information or data at 202-639-6580.

Respectfully submitted,

Ky P. Ewing,

Ký P. Ewing, Jr. Attorney for the 3G Patent Platform Partnership

cc: Mr. Brian Kearsey, Director-General (Designate) 12, rue de la Baume F-75411 Paris, Cedex 08 FRANCE