

Issues in Open Innovation: Standards, Open Source Software, and Social Networking Communities

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Overview

- Open Innovation and Collaboration
 - Open Standards
 - Open Source Software
 - Open Standards Versus Open source
 - Open Hardware

Open Standards

What Is a Standard?

[a] prescribed set of rules, conditions, or requirements concerning definitions of terms; classification of components; specification of materials, performance, or operations; delineation of procedures; or measurement of quantity and quality in describing materials, products, systems, services, or practices

Standards Development Process

Initiate Project

Develop Committee Draft

Agree on Committee Draft

Issue Committee Draft Ballot

Resolve Ballot Comments

Develop Consensus and Issue New Ballot

Develop Consensus and Issue Final Ballot

Final Approval by Oversight Body

Publish

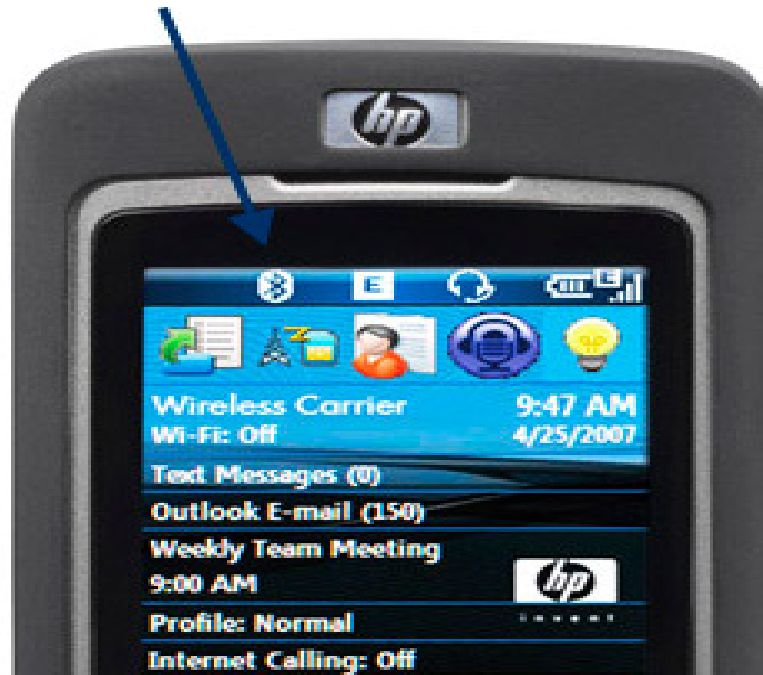
SSO Formation

- Group of founding companies agree to develop a standard
- Group enters into a multi-party agreement or forms an SSO
- In either case, there will be a document describing the governance structure, standards development process, and the IPR Policy.
- Participants are obliged to follow the rules

Patent Policies

- Vary widely from SSO-to-SSO
- 2 common components
 - Patent disclosure – when and how you disclose patents likely to contain Essential Claims
 - Licensing Commitments – RAND or RAND-RF commitment to license Essential Claims
- Definition of Essential Claims varies too
- Failure to abide by the patent policy can render patents unenforceable, subject patentee to antitrust liability, as well as result in fraud, breach of contract, and other related damages.

Essential Versus Non-Essential Claims



Essential Versus Non-Essential Claims

“**Necessary Claims**” means claims ... that ... are necessarily infringed by implementing those portions of a Bluetooth Specification **within the bounds of the Scope**, wherein a claim is necessarily infringed only when it is not possible to avoid infringing it because there is no technically reasonable non-infringing alternative for implementing such portions of the Bluetooth Specification ...

[T]he **Scope** shall not include ... Application Programming Interfaces, applications, or user interfaces; including the technology used to generate, display or interact with a user.

Legal Issues Involving Industry Standards

- Inbound IP Licenses - Can you obtain licenses to implement and/or use the standard?
- Outbound IP Licenses - Will you be obligated to offer licenses to your competitors or customers that conflict with your business model or practices?
- Antitrust and competition – How can you monitor activities to avoid common pitfalls such as failing to disclose patents?

Possible Hold Up Scenarios

- Patentee Bad Faith
 - Patent Ambush
 - Participant intentionally fails to disclose
 - Seeks to extract excessive royalties after “lock in”
 - Renege on RAND commitment
- No Patentee Bad Faith
 - Patent stacking
 - Many patentees hold essential patent claims
 - Cumulative license fees excessive
 - Not unique to standards
 - Third party patents

Trends in the Courts

- Patent Ambush
 - Dell Computer Corp. (FTC 1996)
 - Union Oil of CA (FTC 2005)
 - Rambus v. Infineon (Fed. Cir. 2003)
 - Rambus v. FTC (2008)
 - Qualcomm v. Broadcom (Fed. Cir. 2008)
- Renege on RAND commitment:
 - NData (FTC 2008)
 - Broadcom v. Qualcomm (3d Cir. 2007)
- Third Party Patents
 - CSIRO v. Buffalo Tech. (E.D. Tex. 2007)
 - CSIRO v. Verizon; T-Mobile; AT&T (Filed E.D. Tex. 2010)
 - Eolas Techs. v. Microsoft (Fed. Cir. 2005)
- Patent Stacking
 - CUT FATT Petition (Feb. 2009)

Qualcomm v Broadcom

Court of Appeals for the Federal Circuit (Dec. 1, 2008)

“In the present case, while the district court concluded that there was no express disclosure requirement in the written policies . . . , it found “clear and convincing evidence that JVT participants treated the JVT IPR Policies as imposing a duty to disclose,” . . .”

“[I]n the present case, we agree with the district court that the language requires JVT participants to disclose patents that “reasonably might be necessary” to practice the H.264 standard. This is an objective standard, which applies when a reasonable competitor would not expect to practice the H.264 standard without a license under the undisclosed claims. This formulation does not require that the patents ultimately must “actually be necessary” to practice the H.264 standard. “

“It was entirely appropriate for the district court to address the defense of waiver after the jury returned a non-infringement verdict.”

Rambus v. FTC

Court of Appeals for the DC Circuit (April 22, 2008)

“But an otherwise lawful monopolist’s use of deception simply to obtain higher prices normally has no particular tendency to exclude rivals and thus to diminish competition. “

“Here, the Commission expressly left open the likelihood that JEDEC would have standardized Rambus’s technologies *even if Rambus had disclosed* its intellectual property. Under this hypothesis, JEDEC lost only an opportunity to secure a RAND commitment from Rambus. ... Indeed, had JEDEC limited Rambus to reasonable royalties and required it to provide licenses on a nondiscriminatory basis, we would expect *less* competition from alternative technologies, not more; high prices and constrained output tend to attract competitors, not to repel them.”

Broadcom v. Qualcomm

Court of Appeals for the Third Circuit (Sept. 4, 2007)

“We hold that (1) in a consensus-oriented private standard setting environment, (2) a patent holder’s intentionally false promise to license essential proprietary technology on FRAND terms, (3) coupled with an SDO’s reliance on that promise when including the technology in a standard, and (4) the patent holder’s subsequent breach of that promise, is actionable anticompetitive conduct.”

NDA TA

In the Matter of Negotiated Data Solutions LLC FTC (Sept. 23, 2008)

- FTC brought complaint alleging violations of Section 5 of the FTC Act (not Sherman Act Secs. 1 or 2)
 - Unfair methods of competition
 - Unfair trade practices
- Complaint stated
 - Both Vertical and NData threatened and commenced enforcement actions against implementers seeking royalties far in excess of \$1000.
 - Industry was locked-in to the standard and employing the patented NWay technology and no alternative existed.
- Consent Decree included a \$1000 license

CUT FATT

- Coalition United to Terminate Financial Abuses for Television Transmission' Petition for Rulemaking
- Would require FCC to regulate patent royalty rates associated with ATSC DVT mandatory standard
 - Int'l comparables would be RAND benchmark
 - Distinctions among individual licenses
 - Many factors to consider
 - Other material T&Cs
 - If ATSC royalties higher than int'l comparables, patent holder would have burden of proving that fees RAND
 - Remedy would be forfeiture

Good Risk-Reducing Practices

- Assess possible business and legal risks prior to joining an SSO
- Understand **and follow** the Patent Policy, seeking clarifications, if needed
- Counsel participants involved in SSOs
- Develop patent procurement and out-bound licensing strategies related to standards
- Identify need for inbound licenses and negotiate needed licenses early on
- Educate and train employees about risks associated with standards-setting activities

Questions?



Open Source Software

The Open Source Landscape

- Primary definition of Open Source Software is software that is licensed under a license that conforms to the Open Source Definition (OSD)
- Community Development Projects
 - May be used to produce OSS but not always
- Business Models
 - Save in development costs particularly for operations and web-based services
 - Promote commercial sales of other software, hardware, and/or support services

OSS Licenses

- Important requirements of the OSD
 - Must be royalty free
 - Must permit modifications and redistribution
 - Must not require license execution
 - Must permit code extraction and separate redistribution
- Just because you do not need to sign a license does not mean that there are not significant terms and conditions. Nor does it mean that the IP is in the “public domain.”

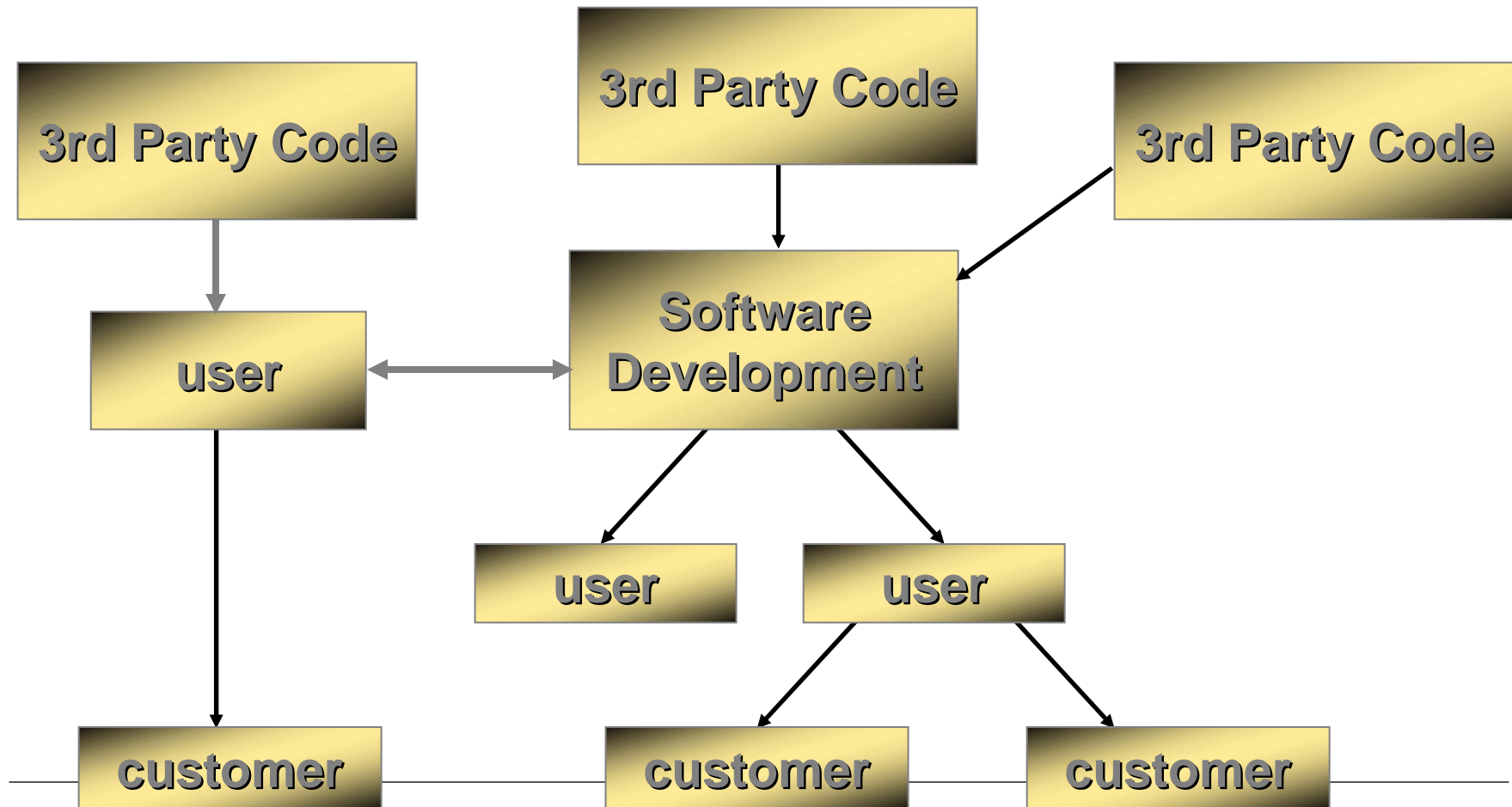
Permissive and Reciprocal Licenses

- **Permissive Licenses** (BSD, MIT, Apache)
 - Reproduce notices and license
 - No requirement to make source code available
- **Reciprocal or Copyleft**
 - Reproduce notices and license
 - Requirement to make source code available
 - **Strong Copyleft licenses** (GPL and LGPL)
 - Do you need to understand the inner workings of the copyleft code or just a standard interface?
 - **Weaker Copyleft licenses** (MPL, EPL, CPL)
 - Usually limited to modifications to the copyleft code

What is a Software Derivative Work?

- Circuit split with respect to the test used
- Third Circuit: structure, sequence, organization test
- Second, Fifth, Tenth, Eleventh Circuits: abstraction, filtration, and comparison (AFC) test
- First Circuit: Rejected AFC test. Held software interface was essential to operation, thus unprotectable
- Ninth Circuit affords “thin” protection to bodies of work that consist largely of uncopyrightable elements and “broader” protection to bodies of work that include variations of expression

Understanding the Legal Issues Flow of IP Rights in OSS



When Legal Issues Arise

- Developing and/or releasing products containing OSS
- Running a web-based service using OSS
- Purchasing OSS for business operations
- Embedding/bundling third party supplied software into your products
- Acquiring ownership of another's software

Key Risks To Avoid

- Loss of trade secrets
- Noncompliance with OSS Licenses
 - Copyright infringement – Injunction, statutory damages
 - Breach of agreement – Damages, specific performance
 - Community outrage
- OSS Integrity/Pedigree
 - Damages
 - Injunction
- Unauthorized contributions to community

Is OSS Enforcement Different?

OSS Differs from Other Acquired Software

- Infringement may be more “innocent”
 - No “physical” acceptance
 - Use may avoid internal legal review
 - Slips through internal procurement processes
- Copyright ownership and standing to sue may be unclear
- Violations easier to detect

Breach of Contract vs. Copyright Infringement

Why it matters

Remedies for Breach of Contract

- **Damages most common**
- **Specific Performance**
 - If, pursuant to or in connection with a single transaction or arrangement, you convey, or propagate by procuring conveyance of, a covered work, and grant a patent license to some of the parties receiving the covered work authorizing them to use, propagate, modify or convey a specific copy of the covered work, then the patent license you grant is automatically extended to all recipients of the covered work and works based on it. (GPLv3)
- **Injunction**

Breach of Contract vs. Copyright Infringement

Why it matters

Remedies for Copyright Infringement

- Damages
 - Copyright owner's actual damages plus infringer's profits; OR
 - Statutory Damages (# of infringing copies multiplied by statutory amount)
- Injunction
- Costs and attorneys fees

Enforcement Objectives

- Follow rules
- Raise “social” awareness
- Ensure intended value is recognized
 - Attribution
 - Marketing
 - Sales of other products/services
 - Improve software
- Discouraging use is NOT an objective

Compliance and Enforcement

Jacobsen v. Katzer (Fed. Cir. 2008)

- Jacobsen manages OSS group called Java Model RR Interface (JMRI).
- JMRI, with many participants, created DecoderPro.
- Jacobsen holds copyright in the code, which he makes available for download from a website under the Artistic License.
- Katzer develops commercial s/w for model train enthusiasts.
- Katzer failed to comply with the notice provisions of the Artistic License
- Court held that Katzer was a copyright infringer
- Court concluded that even though Katzer agreed to comply going forward the D. Ct. could still impose an injunction on the basis that Katzer might fail to comply again
- Settlement Feb. 18, 2010
 - Permanent injunction: no download, modification or distribution
 - \$100,000 payment; each pays own attorney fees

Compliance and Enforcement

BusyBox Cases

- BusyBox – Set of Unix utilities used in limited resource devices such as cell phones and PDAs
- Licensed under the GPLv2
- Widely used in products sold by more than 100 manufacturers
- Many manufacturers apparently did not know that they were distributing BusyBox under the GPL
- Spawned at least several lawsuits all of which have settled

Compliance and Enforcement

Latest BusyBox Suit

- Dec 2009: SFLC filed suit against 14 consumer electronics companies, including Best Buy, Samsung, Westinghouse, and JVC
- Lawsuit covers almost 20 Linux-based products
- Suit filed on behalf of the Software Freedom Conservancy and Erik Andersen, a BusyBox developer and CR holder
- This is the most expansive lawsuit to date, with multiple defendants and products
- 4 defendants have settled; motion of default judgment filed against Westinghouse June 7, 2010

Compliance and Enforcement

BusyBox Allegations

- Complaints have not alleged exotic copyright infringement, such as whether the software is a derivative
- Complaints have alleged
 - Lack of inclusion of source code or an offer for source code
 - Lack of copyright notice
 - Lack of inclusion of a copy of the GPL itself

Enforcement and Compliance

BusyBox Settlement Terms

- Retain Open Source Compliance Officer
- Disclose source code for the version of BusyBox distributed
- Take substantial efforts to inform previous recipients of their rights under the GPL
- Pay an undisclosed amount to the owners of BusyBox

Compliance and Enforcement

Cisco/Linksys

- FSF filed suit against Cisco in Dec 2008 alleging CR infringement by Linksys products of GCC, binutils, and the GNU C Library, licensed under GPL and LGPL
- Settled May 2009; Cisco agreed to:
 - Appoint Free Software Director for Linksys, who will periodically report to FSF
 - Notification on Linksys website and in publications
 - Provide source code on website to FSF programs
 - Monetary contribution to FSF

Good Practices To Avoid Painful Enforcement Situations

- Comply with the licenses for OSS you use
 - Institute an OSS Corporate Policy and Procedures
- But failing that:
 - Identify an internal point of contact
 - Respond immediately to any notification
 - Be constructive
 - Take corrective action
 - Pay a fine

“Open” Standards and “Open” Source Software

- “Open”
 - For standards – open process
 - For software – refers to type of license
- Standards and Software are different
 - Standard is a technical specification that has been ratified or adopted by a SSO
 - OSS is software distributed under an OSS license
- Software developers can write code that implements a Standard.
- Software developers can distribute the implementation under an OSS license or any other software license
- Both OSS and software distributed under other software licenses do implement standards in the marketplace

Questions?

“Open” Hardware

- Collaborative on-line development
 - Local Motors designs custom cars via a community of on-line developers
- Cheap prototyping tools
 - The MakerBot 3-D printer
- Web-centric manufacturers can do smaller volume custom jobs at affordable rates
 - www.alibaba.com

Mitigating Risks Arising From Open Innovation

- Social media and networking tools easily accessible by employees
- Employees may be using tools during working hours, as well as outside of working hours
- Companies should implement policies and training programs to mitigate risks to their businesses

Thank You!

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