

**Keywords:** Duty to disclose within standards-setting organizations; unenforceability remedies for breaching the duty to disclose

**General:** A participant in a standards-setting organization may breach a duty to disclose relevant patents to the standards-setting organization even if the policies of the standards-setting organization do not unambiguously set out such a duty. However, the scope of the remedy for breaching this duty may be limited to holding the relevant patents unenforceable only against products compliant with the standard created by the standards-setting organization.

*Qualcomm Inc. v. Broadcom Corp.*

548 F.3d 1004, 89 U.S.P.Q.2d 1321 (Fed. Cir. 2008)

Decided December 1, 2008

**I. Facts**

Qualcomm holds two patents related to video compression technology. These are U.S. patent number 5,452,104 (the ‘104 patent), which issued in 1995 and is entitled “Adaptive Block Size Image Compression Method and System,” and U.S. patent number 5,576,767, which issued in 1996 and is entitled “Interframe Video Encoding and Decoding System.”

In late 2001, the Joint Video Team (“JVT”) standards-setting organization (“SSO”) was established as a joint project by two parent SSOs: (1) the Video Coding Experts Group (“VCEG”) of the International Telecommunication Union Telecommunication Standardization Sector (“ITU-T”), and (2) the Moving Picture Experts Group (“MPEG”) of the International Organization for Standardization (“ISO”) and the International Electrotechnical Commission (“IEC”). The JVT was created to develop a single “technically aligned, fully interoperable” industry standard for video compression technology. In May 2003, the standard developed by the JVT was adopted and named the H.264 standard.

Qualcomm is a member of the American National Standards Institute (“ANSI”), which is the U.S. representative member body in the ISO/IEC, and was an active dues-paying member for many years prior to 2001. Qualcomm is also a member of the ITU-T and a participant in the JVT. Qualcomm did not disclose the ‘104 and ‘767 patents to the JVT prior to release of the H.264 standard in May 2003.

On October 14, 2005, Qualcomm filed the present lawsuit against Broadcom in the U.S. District Court for the Southern District of California, claiming that Broadcom infringed the ‘104 and ‘767 patents by making products compliant with the H.264 video compression standard. A jury trial was held from January 9, 2007 to January 26, 2007. The jury returned a unanimous verdict, finding that (1) Broadcom did not infringe the ‘104 and ‘767 patents, and (2) the ‘104 and ‘767 patents were not shown to be invalid. The jury also returned a unanimous advisory verdict as to equitable issues, finding by clear and convincing evidence that (1) the ‘104 patent is unenforceable due to inequitable conduct, and (2) the ‘104 and ‘767 patents are unenforceable due to waiver.

On March 21, 2007, the district court entered an order (1) finding in favor of Qualcomm and against Broadcom on Broadcom’s counterclaim of inequitable conduct as to the ‘104 Patent, (2) finding in favor of Broadcom on Broadcom’s affirmative defense of waiver as to the ‘104 and ‘767 patents, and (3) setting a hearing on an Order to Show Cause as to the appropriate remedy for Qualcomm’s waiver.

Throughout discovery, motions practice, trial, and even post-trial, Qualcomm adamantly maintained that it did not participate in the JVT during development of the H.264 standard. Despite numerous requests for production and interrogatories requesting documents relating to Qualcomm’s JVT participation prior to adoption of the H.264 standard, Qualcomm repeatedly represented to the court

that it had no such documents or emails. On January 24, 2007, however, one of the last days of trial, a Qualcomm witness testified that she had emails that Qualcomm previously claimed did not exist. Later that day, Qualcomm produced twenty-one emails belonging to that witness. As the district court later discovered, these emails were just the “tip of the iceberg,” as over two hundred thousand more pages of emails and electronic documents were produced post-trial. The district court later determined that these documents and emails “indisputably demonstrate that Qualcomm participated in the JVT from as early as January 2002, that Qualcomm witnesses ... and other engineers were all aware of and a part of this participation, and that Qualcomm knowingly attempted in trial to continue the concealment of evidence.”

On August 6, 2007, after a hearing on the Order to Show Cause, the district court entered an Order on Remedy for Finding of Waiver, ordering the ‘104 and ‘767 patents (and their continuations, continuations-in-part, divisions, reissues, and any other derivatives thereof) unenforceable against the world.

On August 6, 2007, the district court also granted Broadcom’s exceptional case motion, finding that this is “an exceptional case by clear and convincing evidence based on (1) Qualcomm’s bad faith participation in the ‘JVT’; and (2) the litigation misconduct of Qualcomm through its employees, hired outside witnesses, and trial counsel during discovery, motions practice, trial, and post-trial proceedings.” In conjunction with the exceptional case order, the district court granted Broadcom its attorney fees.

On October 12, 2007, the magistrate judge held a hearing to investigate Qualcomm’s litigation misconduct. As a sanction, the magistrate judge ordered Qualcomm to pay Broadcom’s attorney fees, offset by any amount Qualcomm pays associated with the exceptional case order. The magistrate judge also referred six Qualcomm attorneys to the California State Bar for investigation and possible sanctions. The magistrate judge further ordered Qualcomm and the sanctioned attorneys to participate in a comprehensive Case Review and Enforcement of Discovery Obligations (“CREDO”) program. Qualcomm subsequently paid the sanction and participated in the CREDO program.

This appeal followed.

## II. Issues

- A. Did Qualcomm, as a participant in the JVT, have a duty to disclose patents to the JVT prior to the release of the H.264 standard in May 2003?
- B. If so, what was the scope of its disclosure duty?
- C. Did Qualcomm breach its disclosure duty by failing to disclose the ‘104 and ‘767 patents?
- D. If so, was it within the district court’s equitable authority to enter an unenforceability remedy based on the equitable defense of waiver in the SSO context?

## III. Discussion

- A. Yes, Qualcomm did have a duty to disclose the ‘104 and ‘767 patents to the JVT before release of the H.264 industry standard.

The Federal Circuit noted that, consistent with *Rambus Inc. v. Infineon Technologies AG*, 318 F.3d 1081, 65 U.S.P.Q.2d 1705 (Fed. Cir. 2003), to determine whether Qualcomm had a duty to disclose the ‘104 and ‘767 patents to the JVT involves two questions. First, do the written JVT intellectual property rights (“IPR”) policies impose an express obligation on JVT participants to disclose patents?

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Second, to the extent that the JVT IPR policies are ambiguous, do the JVT participants understand the policies as imposing such an obligation?

With respect to the express obligation, the Federal Circuit noted that the JVT IPR policies state that “members/experts are encouraged to disclose as soon as possible IPR information ... associated with any standardization proposal ... Such information should be provided on a best effort basis.” Qualcomm argued that the policies merely *encouraged* members to disclose patents and, even then, only when the members submitted a proposal. Qualcomm did not, in fact, actually submit a proposal and, as such, contended that they were under no obligation to disclose the ‘104 and ‘767 patents. The Federal Circuit disagreed, stating that the word “encouraged” merely applied to the timing of disclosure, not the disclosure itself. Furthermore, the Federal Circuit noted that Qualcomm had disclosure obligations under the rules of the JVT parent organizations. More specifically, Section 3.2 of the JVT IPR states that all of the participants must make disclosure of relevant intellectual property rights during the final approval process. And, as evidenced by the emails discussed above, Qualcomm was definitely a participant in the JVT.

With respect to the understanding of the JVT participants, the Federal Circuit determined that, even if the JVT IPR policies did not unambiguously require disclosure, the JVT participants nevertheless understood the JVT IPR policies to require disclosure. In particular, the Federal Circuit pointed out that the district court found clear and convincing evidence that the JVT participants treated the JVT IPR policies as imposing a duty of disclosure and that Qualcomm was aware of this understanding.

B. Qualcomm had a duty to disclose the asserted patents before release of the H.264 industry standard.

The Federal Circuit determined that, consistent with *Rambus*, as a participant in the JVT, Qualcomm had a duty to disclose patents which “reasonably might be necessary” to practice the standard and not that a patent must “actually be necessary” in order to trigger a disclosure duty, as argued by Qualcomm. In other words, the “disclosure duty operates when a reasonable competitor would not expect to practice the standard without a license under the undisclosed claims.” The Federal Circuit contended that the “reasonably might be necessary” standard is an objective standard. However, it seems as if there is at least some subjectivity in that the participant must extrapolate what a “reasonable competitor” would think.

C. Yes, Qualcomm did breach its duty to disclose the ‘104 and ‘767 patents to the JVT.

The Federal Circuit noted that the district court had found clear and convincing evidence that the ‘104 and ‘767 patents “reasonably might be necessary” to practice the H.264 standard. Furthermore, the Federal Circuit stated that it was unable to reconcile Qualcomm’s current arguments that the ‘104 and ‘767 patents do not meet the “reasonably might be necessary” standard with their prior arguments that Broadcom was infringing the ‘104 and ‘767 patents by practicing the H.264 standard. Indeed, Broadcom contended that if Qualcomm truly believed that the ‘104 and ‘767 patents do not meet the “reasonably might be necessary” standard, then it necessarily lacked a Rule 11 basis to bring the litigation in the first place.

D. Yes, it was within the district court’s authority to determine that Qualcomm’s misconduct fell within the doctrine of waiver. However, the unenforceability remedy was too broad.

With respect to the waiver of patent rights, the Federal Circuit determined that “true waiver” was not an appropriate framework for determining whether Qualcomm waived its patent rights by failing to disclose the ‘104 and ‘767 patents to the JVT. The district court’s findings demonstrate that Qualcomm intentionally organized a plan to shield its patents from consideration by the JVT, intending to later obtain royalties from H.264-compliant products. Therefore, Qualcomm did not intend to voluntarily relinquish its patent rights. However, the Federal Circuit determined that “implied waiver”

was an appropriate framework for determining that Qualcomm had waived its patent rights. Specifically, the Federal Circuit noted that the district court found clear and convincing evidence that Qualcomm's conduct was "so inconsistent with an intent to enforce its rights as to induce a reasonable belief that such right had been relinquished" (implied waiver).

Furthermore, the Federal Circuit determined that equitable estoppel is another doctrine that could have been raised on appeal. Specifically, the Federal Circuit stated that Qualcomm cannot withhold evidence of its JVT participation, make false factual assertions about this participation to the district court in opposition to Broadcom's equitable estoppel defense, and then argue on appeal that Broadcom failed to sufficiently plead equitable estoppel.

In addition, the Federal Circuit determined that it was entirely appropriate for the district court to address the affirmative defense of waiver after the jury returned a non-infringement verdict. Judgments of inequitable conduct pled as affirmative defenses may lead to judgments of unenforceability. In particular, a district court may, in appropriate circumstances, order patents unenforceable as long as the scope of the unenforceability remedy is properly limited in relation to the underlying breach. As such, the broadest permissible unenforceability remedy in the circumstances of the present case would be to render the '104 and '767 patents unenforceable only against all H.264-compliant products.

Finally, the Federal Circuit determined that the district court did not clearly err in awarding attorneys' fees to Broadcom based on the determination that this was an "exceptional case," under 35 U.S.C. § 285, particularly in light of the litigation misconduct.

#### **IV. Conclusion**

A participant in an SSO may breach a duty to disclose relevant patents to the SSO even if the policies of the SSO do not unambiguously set out such a duty. However, the scope of the remedy for breaching this duty may be limited to holding the relevant patents unenforceable only against products compliant with the standard created by the SSO.