FEES & BURGESS, P.C.

SUPPLY CHAIN MANAGEMENT MEMO

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Infringement Liability Arising from Compliance with Industry Standards

A number of industries have bodies that publish standards for the manufacture or operation of products in those industries. Increasingly, manufacturers and distributors are attempting to contractually disclaim liability for any intellectual property infringement that arises from compliance with industry standards. This might seem reasonable. After all, the manufacturer/distributor does not set the standards. Furthermore, one would assume that, if something has become accepted as the standard for the industry, compliance with that standard should not result in liability for the manufacturer/distributor or the buyer. In reality, industry standards often require the use of patented technologies, and compliance with industry standards can lead to an infringement claim.

In many cases, the body setting an industry standard is aware of the patented technology that has to be used in order to comply with the standard. In those instances, the standard-setting body will typically request a letter of assurance from the patent owner, whereby the patent owner agrees to license the technology on reasonable and non-discriminatory terms to third parties. The "reasonable" terms for the grant of the license will usually involve the payment of some royalty to the patent owner by the party seeking to comply with the industry standard. Unfortunately, letters of assurance tend to be lacking when it comes to spelling out what terms are considered "reasonable," especially with respect to royalty amounts. This ambiguity has led to several lawsuits being filed over people contesting whether a royalty sought by a patent owner was too high and, therefore, in breach of the patent owner's letter of assurance.

The more worrisome scenario is when someone holds a patent that arguably overlays an industry standard and no one, including the standard-setting body, is aware of the patent. In considering this risk, it is important to know that liability for infringing a patent can apply to any party that makes, uses, distributes, or sells the patented technology without the patent owner's consent. So, even if your company is not the manufacturer or the initial seller of an infringing product, it can still be held liable if it uses or re-sells the product. In fact, it has become an increasingly common practice for patent holders to sue end users for infringement, rather than the party who manufactures or is the initial seller of an infringing product.

In most cases, the manufacturer/distributor providing the product should be responsible for determining if compliance with a particular standard will result in the need to pay a royalty to a patent owner. As the party that regularly manufactures and/or sells the kind of products at issue, the manufacturer/distributor is in a better position to known about the applicable standard and any infringement risks associated with the standard. If there are royalties that must be paid in order to comply with an industry

Continued on page 2

FEES & BURGESS, P.C.

SUPPLY CHAIN MANAGEMENT MEMO

Volume 10, Issue 2 May 2013

INFRINGEMENT LIABILITY ARISING FROM COMPLIANCE WITH INDUSTRY STANDARDS

continued from page 1

standard, those costs should be disclosed to the buyer by the manufacturer/distributor and included as part of the total product cost.

This analysis would not apply to situations where a buyer asks a manufacturer to build products that are custom items, or that fall outside the scope of the products the manufacturer otherwise produces. In that situation, the buyer may be in the best position to know whether compliance with an industry standard will require use of patented technology and give rise to the obligation to pay a royalty. If that is the case, the buyer should do its due diligence to make sure it is informed about any patents underlying the industry standard and any associated royalties. The buyer should be able to get information from the standard-setting body itself regarding any known patents that overlay the standard. In an abundance of caution, the buyer may want to hire someone to investigate whether there are any infringement risks associated with unknown patents that might overlay a particular industry standard. If the buyer has knowledge of actual infringement risks, it should notify the manufacturer so that arrangements can be made to obtain an appropriate license, and the licensing fee can be built into the product cost. Failing to take these steps risks possible litigation between the buyer, the manufacturer/distributor, and the patent owner, if an infringement claim is asserted. While no one wants to end up in a lawsuit, patent litigation, in particular, should be avoided, since it tends to be the most expensive form of litigation.

Of the cases filed in the last few years relating to issues associated with industry standards that rely on patented technology, cases involving consumer electronics and technology used to communicate between electronic devices seem to be the most common. Companies involved in the manufacture, use, or sale of products that make use of these kinds of technologies should be especially mindful of potential risks associated with relying on industry standards and perform appropriate due diligence to mitigate those risks. A good example is Fujitsu Limited v. Netgear, Inc., 620 F.3d 1321 (Fed. Cir. 2010). In that case, plaintiffs Fujitsu Limited; U.S. Phillips Corporation; and LG Electronics, Inc., accused Netgear, Inc. ("Netgear"), of infringing their patents by implementing wireless networking protocols for sending and receiving messages between a base station, such as a wireless router, and a mobile station, such as a laptop. Specifically, plaintiffs argued that Netgear's compliance with two industry standards used to ensure interoperability led to the infringement. The standards at issued were the Institute of Electrical and Electronics Engineers 802.11 2007 Standard and the Wi-Fi Alliance Wireless Multi-Media Specification, Version 1.1. While the appellate court in Fujitsu found there was no infringement as to the majority of the patents at issue, and reserved the remaining claims for the lower court to consider, the appellate court did acknowledge that, in the right circumstances, compliance with an industry standard that is based on patented technology can be sufficient to give rise to a valid infringement claim.

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Volume 10, Issue 2 May 2013

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Michael L. Fees
mfees@feesburgess.com

Allen L. Anderson
anderson@feesburgess.com

Stacy L. Moon
smoon@feesburgess.com

Ryan G. Blount
rblount@feesburgess.com

FEES & BURGESS, P.C.
213 Green Street
Huntsville, Alabama 35801

Telephone (256) 536-0095
Facsimile (256) 536-4440

www.feesburgess.com

C. Gregory Burgess
gburgess@feesburgess.com

Jeffrey L. Roth
jroth@feesburgess.com

Allison B. Chandler
achandler@feesburgess.com