

Judge: Qualcomm can't enforce 2 patents

by Kathryn Balint

Wireless technology giant Qualcomm withheld its intellectual property from a standards-making body and, therefore, waived its right to enforce two of its video-compression patents, a San Diego federal judge ruled Thursday.

U.S. District Judge Rudi Brewster found that at least four Qualcomm engineers had participated in an international effort to develop an advanced standard for video compression, yet the San Diego company failed to disclose at the time that it owned patents that might apply to the standard.

Brewster said in his 34-page written order that Qualcomm participants had a duty to disclose its video-compression patents to the Joint Video Team developing the H.264 standard - now used in millions of devices, such as Apple video iPods, high-definition DVD players and cable and satellite TV set-top boxes.

"This is especially reasonable in this case, since the H.264 standard for the technology of video compression is extremely critical to multiple electronic devices of international importance," Brewster said.

The judge found that the patents had been filed properly with the U.S. Patent and Trademark Office and that Qualcomm had not withheld key information from the office.

He scheduled a May 2 court hearing to discuss whether Qualcomm should be barred from claiming royalties on its two patents related to the H.264 standard or whether the company should be allowed to participate in a pool of patent owners that share royalties on H.264-related patents.

The judge's ruling is a victory for Qualcomm rival Broadcom, an Irvine company that has been feuding with Qualcomm not only in this case but also in federal courts in San Diego and Santa Ana, at the European Commission in Brussels, Belgium and at the International Trade Commission in Washington, D.C. The ITC

concluded a two-day hearing Thursday in another Qualcomm-Broadcom patent dispute.

"Preventing standards abuse is a critical issue for Broadcom and the entire telecommunications industry," said David Rosmann, vice president of intellectual property litigation for Broadcom. "That's why we're pursuing these abuses by Qualcomm in multiple jurisdictions and across several industry standards."

Lou Lupin, Qualcomm's executive vice president and general counsel, said it's too early to say whether Qualcomm would appeal the case.

Qualcomm shares fell 38 cents to \$43.35 on the Nasdaq and then fell another 32 cents to \$43.03 Thursday in after-hours trading. Broadcom shares, which had fallen \$1.29 to \$32.11 on the Nasdaq, rose 8 cents to \$32.19 after hours.

The patents in the case cover video-compression technology and are not part of Qualcomm's core patents crucial in cell phones. Therefore, Brewster's ruling Thursday has little bearing on the company's ability to earn money by licensing patents to the wireless industry.

But Qualcomm, which prides itself on its ethics and integrity, now finds itself defending its actions between 2002 and 2005 with the Joint Video Team.

Lupin said Qualcomm followed the written rules of the standards-making group and acted in good faith.

"It's extremely important to read the details of what the judge is saying," Lupin said. "He's not saying we came in and flouted the written rules of the standards body. He's not saying we deliberately withheld the patents then waited until the standard was adopted and jumped out of the bushes and said, 'Ah ha! We got

you!"â€š"

In the course of the case, Qualcomm initially had denied any involvement with the Joint Video Team, the judge's order said. Later, Qualcomm employees came forward to say they'd participated in the group and that the company had sponsored one of the team's meetings and hosted a boat cruise in San Diego for its members.

The Joint Video Team requires participants to disclose patent information when they submit a technical contribution to the standards-making effort and "strongly encourages" everyone else to disclose patent information, according to court documents in the case. The judge found that the policy imposes a "duty to disclose" patents on the team's participants.

Michael Cohen, director of research for Pacific American Securities in San Diego, said Qualcomm's engineers participated in the Joint Video Team on an informal basis, never realizing that their actions could have unintended consequences down the road.

"This ruling sends a clear message to companies that they have to be very careful with having employees informally attending or monitoring standards organizations or sponsoring boat cruises to garner the goodwill of the community because it can come back later to bite them," Cohen said.

Marc Lampe, a professor of business law and social responsibility at the University of San Diego's School of Business Administration, is not familiar with the Qualcomm case, but he said that if it is normal practice in an industry to disclose intellectual property to a standards body then a company would have, at the least, "a social contract" and ethical obligation to abide by the practice.

Qualcomm eventually did disclose that it owned intellectual property that might be relevant to the video-compression standard. But the disclosure came six months after the company had filed a lawsuit in October 2005 accusing Broadcom of infringing on the two patents. Brewster noted in his order that even then Qualcomm did not cite any specific patents in its disclosure.

"As a shareholder of Qualcomm, I'm shocked that Qualcomm may likely have not known about its own significant intellectual property until researching it in relation to filing a lawsuit against Broadcom," said Cohen, the analyst.

In the Qualcomm case against Broadcom, which was the subject of a jury trial in January in Brewster's courtroom, Qualcomm said that two of its video-compression patents were essential to the H.264 standard. Qualcomm listed all of Broadcom's H.264 chips - used in a range of consumer electronic devices - as infringing on its patents.

Broadcom defended itself, in part, by saying that Qualcomm had waived its right to enforce the patents because the company had failed to tell the team that developed the H.264 standard that it owned key patents that might apply to the standard.

Broadcom also accused Qualcomm of failing to tell the U.S. Patent Office about key prior scientific research done in that field when applying for its patents.

After a three-week trial, a jury found in favor of Broadcom, saying it had not infringed on Qualcomm's patents. In two advisory votes sought by the judge, the jury said that Qualcomm had acted "inequitably" with the patent office by withholding key research information and had waived its right to enforce its patents because it failed to disclose them to the Joint Video Team.

In his ruling Thursday, Brewster agreed with the jury about Qualcomm's actions with the Joint Video Team but disagreed with regard to its patent application.

Qualcomm has been under fire before for its actions with a standards-setting organization. Last June, the Institute of Electrical and Electronics Engineers halted its evaluation of a high-speed wireless technology backed by Qualcomm after complaints that Qualcomm had voted improperly and violated the institute's review procedures. Three Intel engineers had complained that Qualcomm's consultants appeared to be improperly voting as a bloc. Lupin, Qualcomm's general counsel, said Qualcomm did not do anything wrong but that, as a result of the complaints, the institute has tightened its rules for voting.

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