

## Complaint

## IN THE MATTER OF

**NEGOTIATED DATA SOLUTIONS LLC**CONSENT ORDER, ETC., IN REGARD TO ALLEGED VIOLATIONS  
OF SEC. 5 OF THE FEDERAL TRADE COMMISSION ACT

*Docket No. C-4234; FTC File No. 051 0094  
Complaint, Sept 22, 2008 – Decision, Sept 22, 2008*

This consent order addresses Negotiated Data Solutions LLC's collection of royalties in connection with a number of patents relating to the Ethernet standard for local area networks. The complaint alleges that N-Data refused to honor the agreements made by Vertical Networks, its predecessor in interest, a company formed by the employees of National Semiconductor. The complaint further alleges that N-Data threatened and opened legal actions against companies that refused its demands for royalties far in excess of those originally agreed upon. The consent order prohibits N-Data from enforcing the relevant patents except insofar as they are licensed in accordance with the terms promised by National Semiconductor in its letter of June 7, 1994, to the IEEE.

*Participants*

For the *Commission*: Kent E. Cox, Maria DiMoscato, P. Abbott McCartney, and Christopher Renner.

For the *Respondents*: Jerry L. Beane and Scott M. Kline, Andrews Kurth; S. Calvin Capshaw, Brown McCarroll LLP; John M. Clark III; M. Sean Royall and Jon G. Shepherd, Gibson, Dunn & Crutcher LLP; Brad Blanche and Frank Ubell, Greenberg Traurig; David T. Conrad and Mark N. Reiter, Jones Day; Alan Loudermilk, Loudermilk & Associates; Nancy Ludgus; David S. Elkins, Nathan Lane, III, Jose Martin, and Barry A. Pupkin, Squire, Sanders & Dempsey, LLP; Gregory S. Bishop, William J. Bohler and Thomas F. Fitzpatrick, Townsend, Townsend & Crew, LLP; and Andrew J. Ewalt and A. Douglas Melamed, Wilmer Cutler Pickering Hale & Dorr LLP.

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**COMPLAINT**

Pursuant to the provisions of the Federal Trade Commission Act, as amended, 15 U.S.C. § 41 et seq., and by virtue of the authority vested in it by said Act, the Federal Trade Commission (“Commission”), having reason to believe that Negotiated Data Solutions LLC (hereinafter referred to as “Respondent”) has violated Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues this Complaint stating its charges as follows:

**NATURE OF THE CASE**

1. Through this action, the Commission challenges a course of conduct whereby Respondent, and its predecessor in interest, Vertical Networks, Inc. (“Vertical”), engaged in unfair acts or practices and unfair methods of competition through which it sought to break a licensing commitment that its predecessor, National Semiconductor (“National”), made to the Institute of Electrical and Electronics Engineers (“IEEE”), a standard setting organization, in 1994. The relevant standard, which included the technology subject to the licensing commitment, was subsequently adopted by the industry.

2. The conduct at issue in this action has caused or threatened to cause substantial harm to competition and to consumers, and will in the future cause or threaten to cause further substantial injury to competition and to consumers, absent the issuance of appropriate relief in the manner set forth below.

**RESPONDENT**

3. Respondent is a limited liability company organized, existing, and doing business under and by virtue of the laws of the State of Illinois, with its office and principal place of business

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located at 1550 N. Lake Shore Drive, No. L6C, Chicago, Illinois 60610.

4. Respondent is engaged in the business of licensing patents that it has acquired. Respondent does not produce or manufacture tangible products.

5. Respondent is, and at all relevant times has been, a person, partnership, or corporation within the meaning of Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45, and at all times relevant herein, Respondent has been, and is now, engaged in commerce as “commerce” is defined in Section 4 of the Federal Trade Commission Act, 15 U.S.C. § 44.

**THE DEVELOPMENT OF THE FAST ETHERNET  
STANDARD**

6. In or about 1983, the IEEE published the first 802.3 standard, the Ethernet standard, which allowed computer equipment attached to a local area network (“LAN”) to transmit data across a copper wire at a rate of 10 megabits per second (“Mbps”). Computer equipment manufacturers subsequently adopted the Ethernet standard which ensured that their equipment would be interoperable.

7. In or about 1993, the IEEE authorized the 802.3 Working Group to develop a new standard based on the Ethernet standard to meet the demand for higher data transmission rates. Employees of National were members of and active participants in the 802.3 Working Group.

8. The new standard, commonly referred to as “Fast Ethernet,” would allow equipment attached to a LAN to transmit data across a copper wire at 100 Mbps.

9. The 802.3 Working Group wanted Fast Ethernet equipment to be compatible, to the extent possible, with then-

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existing LANs based on the original Ethernet standard, which operated at substantially slower data transmission rates. The terms “autodetection” and “autonegotiation” were used to refer to technology that would permit such compatibility by enabling two devices at opposing ends of a network link to exchange information and automatically configure themselves to optimize their communication.

10. In 1994, National proposed that the 802.3 Working Group incorporate an autonegotiation technology developed by National, and referred to as “NWay,” into the Fast Ethernet standard. National had filed a patent application for that technology, Ser. No. 07/971,018, in 1992.

11. The 802.3 Working Group considered several alternative technologies to National’s “NWay” technology prior to the adoption of the Fast Ethernet standard. It also considered adopting a Fast Ethernet standard without an autonegotiation feature.

12. At IEEE meetings to determine which autodetection technology to include in the 802.3 standard, one or more representatives of National publicly announced that if NWay technology were chosen, National would license NWay to any requesting party for a one-time fee of one thousand dollars (\$1,000). National made that assurance fully knowing that, as a result, it could be forgoing significant licensing revenues.

13. In a subsequent letter dated June 7, 1994, and addressed to the Chair of the 802.3 Working Group of IEEE, National wrote:

National Semiconductor Corporation (“National”) is pleased to be a contributing member of the IEEE 802.3 Working Group responsible for developing an autodetection standard based upon National’s architecture informally known as “NWay.” To further demonstrate its support for this effort,

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National would like to make clear its position with respect to prospective licensing of National's intellectual property rights in its NWay technology.

In the event that the IEEE adopts an autodetection standard based upon National's NWay technology, National will offer to license its NWay technology to any requesting party for the purpose of making and selling products which implement the IEEE standard. Such a license will be made available on a nondiscriminatory basis and will be paid-up and royalty-free after payment of a one-time fee of one thousand dollars (\$1,000.00).

14. The IEEE adopted a Fast Ethernet standard with an autodetection feature based upon the NWay technology after National made its licensing commitment. National's one thousand dollar licensing commitment was a significant factor contributing to the incorporation of NWay technology into the 802.3 standard. For example, various IEEE members were aware of and relied upon National's one thousand dollar licensing commitment when they voted to include NWay as the autodetection technology in the 802.3 standard.

15. National benefited financially from its licensing assurance. The assurance accelerated sales of National products that conformed to the Fast Ethernet standard by (a) speeding completion of the standard by allaying concerns about the future costs of autonegotiation, and (b) increasing the demand for Fast Ethernet products by making them backward compatible with Ethernet equipment already installed on existing LANs.

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**INDUSTRY ADOPTION OF THE FAST ETHERNET STANDARD**

16. IEEE published the Fast Ethernet standard with National's NWay autonegotiation technology in 1995. By that time, Ethernet was the dominant standard for wired LANs and there were millions of Ethernet ports installed in the United States.

17. Inclusion of autonegotiation technology in the Fast Ethernet standard enabled owners of existing Ethernet-based LANs to purchase and install multi-speed, Fast Ethernet-capable equipment on a piecemeal basis without having to upgrade the entire LAN at once or buy extra bridging equipment.

18. Since 1995, dozens of manufacturers, including many of whom did not participate in the standard setting process, incorporated the Fast Ethernet standard with the NWay technology into hundreds of millions of computer devices such as personal computers, switches, routers, DSL and cable modems, wireless LAN access points, IP phones, and other equipment. Several of these firms were aware of National's commitment to license NWay technology for a one-time fee of one thousand dollars. Standardizing on a single autonegotiation technology allowed Fast Ethernet devices made by different manufacturers to work with one another and with legacy Ethernet equipment.

19. By 2001, there were no commercially viable alternative autonegotiation technologies for Ethernet. The inclusion of NWay in the Fast Ethernet standard and the subsequent adoption of that standard by the industry eliminated viable autonegotiation technology alternatives from the marketplace.

20. The Fast Ethernet standard with the NWay technology became the industry standard after its publication. The standard and the technology have been integrated into hundreds of millions of computer devices and equipment. NWay is the only autonegotiation technology that works with this installed base of

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wired Ethernet and Fast Ethernet equipment. As a result the industry has been locked into using NWay technology since at least 2001.

21. The inclusion of NWay technology into the Fast Ethernet standard and the subsequent adoption of that standard by the industry conferred monopoly power which otherwise would not have existed.

**ASSIGNMENT OF THE PATENTS TO VERTICAL NETWORKS**

22. National was issued U.S. Patent No. 5,617,418 (“the ‘418 Patent”) on April 1, 1997, and U.S. Patent No. 5,687,174 (“the ‘174 Patent”) on November 11, 1997. Both patents arose from a common parent application, Ser. No. 07/971,018, which National had filed on November 2, 1992. National later received equivalent counterpart patents issued by certain foreign governments. Hereinafter, the ‘174, the ‘418, and the equivalent counterpart foreign patents are collectively referred to as “the Patents.” The ‘174 and ‘418 Patents expire in 2014.

23. On or about June 30, 1998, National assigned to Vertical all rights, titles and interests in nine U.S. patents and their foreign counterparts. The Patents were included in that assignment.

24. Prior to the assignment of the Patents, National gave Vertical a copy of the June 7, 1994 letter. Vertical acknowledged at the time that it had been informed “that several of the patents may be ‘encumbered’ by whatever actions [National] may have taken in the past with respect to the IEEE standards.” The final agreement between Vertical and National stated that the assignment is “subject to any existing licenses and other encumbrances that [National] may have granted.” It further provided, “Existing licenses shall include. . . [p]atents that may be encumbered under standards such as an IEEE standard.”

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**BREACH OF THE LICENSING COMMITMENT**

25. Vertical was struggling financially by late 2001 in the wake of the “dot com” bust and the shakeout of the telecommunications industry. Vertical sought to generate new revenue streams by licensing its patents and enforcing its rights against third parties it believed might infringe those patents.

26. In Spring 2002, Vertical also sought to alter the terms of National’s licensing commitment to the IEEE in an effort to increase the prices it could charge those companies that implemented the Fast Ethernet standard and NWay.

27. In a March 27, 2002 letter to the IEEE, Vertical asserted that one or more of the Patents “may be applicable to portions and/or amendments of” IEEE standard 802.3. In that same letter, Vertical promised to make available to any party a non-exclusive license under the Patents “on a non-discriminatory basis and on reasonable terms and conditions including its then current royalty rates.” The March 27, 2002 letter referred to the June 7, 1994 letter, although it did not describe the terms of that letter. In particular, Vertical did not mention that National had committed to license NWay for a one-time fee of one thousand dollars. The 2002 letter concluded by claiming that “the assurances provided in this letter supersede any assurances provided by National Semiconductor Corporation relevant to the above-identified patents.”

28. At or around the same time it sent the letter to the IEEE, Vertical identified approximately sixty-four “Target Companies.” Vertical subsequently sent letters to many of the “Target Companies” demanding licensing fees on a per unit basis for “802.3-compliant auto-negotiating products.” Those demands represent a substantial increase over National’s commitment to license the NWay technology for a one-time fee of one thousand dollars.

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29. Vertical made a “conservative estimate” that the Patents cover at least seventy percent of Ethernet port shipments worldwide. Based on market data, Vertical projected that the Patents would generate more than \$20 million a year in licensing revenue.

30. Several companies sought to accept the original licensing offer and tendered \$1,000 in accordance with the June 7, 1994 letter. Vertical rejected those acceptances.

31. Vertical threatened or initiated legal actions against companies that refused to pay the royalties it demanded. As a result of that effort, several companies entered into licensing agreements that have produced licensing fees for the Patents far in excess of \$1,000 per company.

32. Companies are locked into using NWay given the installed base of Ethernet and Fast Ethernet computer equipment, the incompatibility of NWay with alternative autonegotiation technologies, and the significant costs associated with a decision to abandon autonegotiation altogether.

33. On or about November 14, 2003, Vertical assigned the Patents to Respondent. Subsequently, Vertical sold its remaining business assets and ceased operations.

34. Respondent possessed a copy of, and was familiar with the June 7, 1994 letter of assurance when it received assignment of the Patents from Vertical. A principal of Respondent had represented Vertical in the negotiations in 1998 that led to National’s agreement assigning the Patents to Vertical.

35. Respondent has asserted and continues to assert that making, using, selling, offering for sale, or importing things that employ NWay autonegotiation technology infringes the Patents.

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**HARM TO COMPETITION & CONSUMERS**

36. The acts and practices of Respondent, as herein alleged, were and are to the prejudice and injury of consumers, are continuing and will continue in the absence of the relief herein requested. The injury to consumers of NWay technology include, but are not limited to, the following:

- a. increased royalties (or other payments) associated with the manufacture, sale, use or importation of products that implement an IEEE standard enabling autonegotiation by or with 802.3 compliant products; and
- b. increases in price and/or reductions in the use or output of products that implement an IEEE standard enabling autonegotiation by or with 802.3 compliant products.

37. The threatened or actual anticompetitive effects of Respondent's conduct include, but are not limited to, the following:

- a. increased royalties (or other payments) associated with the manufacture, sale, use or importation of products that implement an IEEE standard enabling autonegotiation by or with 802.3 compliant products;
- b. increases in price and/or reductions in the use or output of products that implement an IEEE standard enabling autonegotiation by or with 802.3 compliant products;
- c. decreased incentives on the part of semiconductor chip and LAN equipment manufacturers to produce products that implement IEEE standards enabling autonegotiation by or with 802.3 compliant products;

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d. decreased incentives on the part of semiconductor chip and LAN equipment manufacturers and others to participate in IEEE or other standard setting activities; and

e. both within and outside the semiconductor chip and LAN equipment industries decreased reliance, or willingness to rely, on standards established by industry standard setting organizations.

**VIOLATIONS ALLEGED**

38. The acts and practices of Respondent, as described in Paragraphs 1-38 above, incorporated herein by reference, constitute unfair methods of competition in or affecting commerce in violation of Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45.

39. Respondent's course of conduct has caused and is likely to continue to cause substantial injury to consumers of NWay technology that could not reasonably be avoided and is not outweighed by countervailing benefits to consumers or competition. Therefore, Respondent's conduct, as described in paragraphs 1-37 above, incorporated herein by reference, constitute unfair acts or practices in or affecting commerce in violation of Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45.

**WHEREFORE, THE PREMISES CONSIDERED,** the Federal Trade Commission on this twenty-second day of September, 2008, issues its complaint against Respondent.

By the Commission, Chairman Kovacic dissenting.

## Decision and Order

**DECISION AND ORDER**

The Federal Trade Commission (“Commission”), having initiated an investigation of certain acts and practices of Negotiated Data Solutions LLC, hereafter referred to as “Respondent N-Data,” and Respondent N-Data having been furnished thereafter with a copy of a draft of Complaint that the Bureau of Competition proposed to present to the Commission for its consideration and which, if issued by the Commission, would charge Respondent N-Data with violation of Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45; and

Respondent N-Data, its attorneys, and counsel for the Commission having thereafter executed an Agreement Containing Consent Order (“Consent Agreement”), containing an admission by Respondent N-Data of all the jurisdictional facts set forth in the aforesaid draft of Complaint, a statement that the signing of said Consent Agreement is for settlement purposes only and does not constitute an admission by Respondent N-Data that the law has been violated as alleged in such Complaint, or that the facts as alleged in such Complaint, other than jurisdictional facts, are true, and waivers and other provisions as required by the Commission’s Rules; and

The Commission, having thereafter considered the matter and having determined that it had reason to believe that Respondent N-Data has violated the said Act, and that a Complaint should issue stating its charges in that respect, and having accepted the executed Consent Agreement and placed such Consent Agreement on the public record for a period of thirty (30) days for the receipt and consideration of public comments, now in further conformity with the procedure described in Commission Rule 2.34, 16 C.F.R. § 2.34, the Commission hereby makes the following jurisdictional findings and issues the following Decision and Order (“Order”):

## Decision and Order

1. Respondent Negotiated Data Solutions LLC is a limited liability company organized, existing and doing business under and by virtue of the laws of the State of Illinois with its office and principal place of business located at 1550 N. Lake Shore Drive, No. 16C, Chicago, Illinois 60610.

2. The Federal Trade Commission has jurisdiction of the subject matter of this proceeding and of Respondent N-Data, and the proceeding is in the public interest.

**ORDER****I.**

**IT IS ORDERED** that, as used in this Order, the following definitions shall apply:

- A. “Respondent” means Negotiated Data Solutions LLC; its directors, officers, employees, agents, and representatives, when acting in such capacities; its successors and assigns; its joint ventures, subsidiaries, divisions, groups and affiliates controlled by Negotiated Data Solutions LLC and the respective directors, officers, employees, agents and representatives of each, when acting in such capacities; and their successors and assigns.
- B. “Commission” means the Federal Trade Commission.
- C. “1994 Letter” means the letter dated June 7, 1994, from Mark Grant, the Director of Intellectual Property for National Semiconductor Corp., to Geoffrey Thompson, Chair of IEEE’s 802.3 Working Group. (A copy of the 1994 Letter is attached to the Appendix C Patent License Agreement as Attachment A.)
- D. “Action” means any proceeding whether legal, equitable, or administrative, as well as any arbitration, mediation, or

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any other form of public or private dispute resolution in the United States or anywhere else in the world.

- E. “Appendix A Offer” means the form of offer attached as Appendix A to this Order, including the Appendix C Patent License Agreement, which shall be attached to, and made part of, the offer.
- F. “Appendix B Offer” means the form of offer attached as Appendix B to this Order, including the Appendix C Patent License Agreement, which shall be attached to, and made part of, the offer.
- G. “Appendix C Patent License Agreement” means the form of agreement attached as Appendix C to this Order.
- H. “Appendix D Letter” means the form of letter attached as Appendix D to this Order.
- I. “Filing” means any document filed in an Action, including, but not limited to, a complaint, an answer, or a pleading.
- J. “Held” and “Holding” mean, with respect to intellectual property:
  - 1. to be the assignee of,
  - 2. to own, or
  - 3. to otherwise have sufficient control over such intellectual property so as to be able to license it to others.
- K. “Person” means any natural person, partnership, corporation, association, trust, joint venture, government, government agency, or other business or legal entity.

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## L. “Relevant U.S. Patents” means:

1. U.S. Patent Nos. 5,617,418 ; 5,687,174; US RE39,405 E; and US RE39,116 E;
2. all continuations, continuations-in part, divisionals, reissues, re-examinations of and extensions or additions to U.S. Patent Nos. 5,617,418; 5,687,174; US RE39,405 E; and US RE39,116 E;
3. all current or future United States patents that share a common parent application with or that claim a priority from an application for U.S. Patent Nos. 5,617,418; 5,687,174; US RE39,405 E; and US RE39,116 E; and
4. all current or future United States patents that share a common parent application with, or that claim a priority from, the following U.S. Patent Applications, Nos.: 971,018 (filed on November 2, 1992); 146,729 (filed on November 1, 1993); or 430,143 (filed on April 26, 1995).

## M. “Relevant Foreign Patents” means all current and future patents issued by a foreign government, including but not limited to certificates and registrations, that are equivalents or counterparts to any Relevant U.S. Patent or that claim priority from any application for a Relevant U.S. Patent; and all child applications of any of the aforesaid patents, including but not limited to continuations, continuations-in-part, divisionals, reissues and re-examinations thereof. The “Relevant Foreign Patents” include, but are not limited to:

1. Korean Patent No. 286791, Taiwanese Patent No. 098359, Japanese Patent No. 3705610; and

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2. all patents arising from the following patent applications: European Patent Applications SN 93308568.0 (DE, FR, GB, IT, NL); Japanese Patent Applications SN H5-274147; Korean Patent Applications SN 22995/93; or Taiwanese Patent Applications SN 83104531.
- N. “Relevant Patents” means all Relevant U.S. Patents and all Relevant Foreign Patents.
- O. “Standard Setting Organization” means any group, organization, association, membership or stock corporation, government body, or other entity that, through voluntary participation of interested or affected parties, is engaged in the development, promulgation, promotion or monitoring of product or process standards for the electronics industry, or any segment thereof anywhere in the world.
- P. “Subsidiaries” means Persons controlled directly or indirectly through ownership interests of 50% or more. For example, if A owns 50% of B and if B owns 50% of C, then C is a Subsidiary of both A and B. The Subsidiaries of an entity would consist of all Persons for which the entity would be the Ultimate Parent Entity if the entity were not controlled by any other entity. For purposes of this definition only, the terms “Ultimate Parent Entity,” “controlled,” and “entity” have the same meaning they have under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, 15 U.S.C. § 18a, and the rules promulgated thereunder, 16 C.F.R. § 801 et seq.

**II.**

**IT IS FURTHER ORDERED** that, as to any intellectual property Held by Respondent, Respondent shall honor all promises or assurances made by Respondent, or by any other

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Person while Holding such intellectual property, where:

- A. such promises or assurances concern the terms on which such intellectual property would be offered if a proposed standard of a Standard Setting Organization were adopted, and
- B. such standard is subsequently adopted.

*Provided, however,* that for purposes of this Order only, Respondent's compliance with Paragraphs III and IV of this Order shall be deemed compliance with the promises and assurances made in the 1994 Letter.

**III.**

**IT IS FURTHER ORDERED** that:

- A. Immediately upon the date this Order becomes final, Respondent shall cease and desist from any and all efforts, and shall not undertake any new efforts, by any means, directly or indirectly, in or affecting commerce as "commerce" is defined in Section 4 of the Federal Trade Commission Act, 15 U.S.C. § 44:
  - 1. to initiate or continue any Action against any Person with respect to the enforcement of any of the Relevant Patents,
  - 2. to assert or enforce, or to threaten to enforce, against any Person, any of the Relevant Patents, or
  - 3. except as specified in this Paragraph III of the Order, to propose, offer, or agree to license any of the Relevant Patents to any Person.

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*Provided, however,* that, if Respondent has offered to enter into an Appendix C Patent License Agreement with such Person, in accordance with Paragraph III.B. of this Order, then Respondent may:

- (i) initiate or continue any Action against such Person with respect to any of the Relevant Patents;
- (ii) assert or enforce, or threaten to enforce, any of the Relevant Patents against such Person; or
- (iii) propose, offer, or agree to license any of the Relevant Patents to such Person.

*Provided, however,* that Respondent may continue, for twenty (20) days after the date that Respondent signs the Agreement Containing Consent Order in this matter, any preexisting Action with respect to any of the Relevant Patents.

*Provided, further, however,* that nothing in this Order shall be construed to limit, expand, supersede, or in any way alter (i) the scope, effect, or meaning of the 1994 Letter, or (ii) any legal or equitable rights arising under the 1994 Letter.

*Provided, further, however,* that a Person's acceptance of, or failure to accept, an Appendix A Offer shall not prejudice, and shall not be construed to limit, such Person's legal or equitable rights, including but not limited to:

- (i) any right to dispute the validity, infringement, or enforceability of any of the Relevant Patents, and
- (ii) any right to defend against a claim of infringement of the Relevant Patents on the grounds that the 1994

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Letter gives such Person a right to a license to the Relevant Patents and that such license would protect such Person against such claim of infringement.

B. An offer to a Person (the “Offeree”) will be in compliance with the first proviso to Paragraph III.A. of this Order only if:

1. Respondent delivers an Appendix A Offer:

- a. to each counsel of record for the Offeree in any existing Action between the Offeree and Respondent, at the addresses for service of Filings on such counsel in such Action, or, if no such Action between the Offeree and Respondent exists, then:
- b. if the Offeree is a natural person, to the primary business address of the Offeree, or, if the Offeree is not a natural person, then:
- c. to one of the following:
  - (1) a patent counsel employed (in-house) by the Offeree, at the primary business address of such patent counsel,
  - (2) the general counsel of the Offeree, at the primary business address of such general counsel,
  - (3) the chief executive officer of the Offeree, at the primary business address of such chief executive officer,
  - (4) the chairman of the Offeree, at the primary business address of such chairman,

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- (5) the president of the Offeree, at the primary business address of the such president, or
- (6) the highest-ranking manager of the Offeree, at the primary business address of such highest-ranking manager, or
- (7) the registered agent for service of process of the Offeree in the state of the Offeree's incorporation (or, if the Offeree is not a corporation, in the state of the Offeree's primary place of business),

or if none of the Persons listed in this Paragraph III.B.1.c. exists, then:

- d. to the natural person with the largest ownership interest in the Offeree, at the primary business address of that natural person;
- 2. Respondent moves, within twenty (20) days of making such Appendix A Offer, to make that Appendix A Offer a part of the record of any existing Action to which both Respondent and the Offeree are parties; and
  - 3. Respondent obtains and retains a receipt signed by the addressee(s), or by an agent or agents of the addressee(s), for delivery of the Appendix A Offer to the Offeree pursuant to Paragraph III.B.1. of this Order.
- C. If Respondent receives a written request to enter into an Appendix C Patent License Agreement from any Person who has not received an Appendix A Offer made in accordance with Paragraph III.B. of this Order, then

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Respondent shall, within sixty (60) days of receiving such request:

1. offer such Person, in accordance with Paragraph III.B. of this Order, an Appendix A Offer, and
  2. deliver, in accordance with III.B.3. of this Order, a copy of such Appendix A Offer to the natural person who requested the offer.
- D. For purposes of Paragraph III of the Order, an Appendix A Offer is effective only as to the Person to which it is made and as to the Subsidiaries of such Person. An Appendix A Offer made to a Subsidiary of a Person is not effective as to such Person nor as to any other parents of the Subsidiary. Nor is an Appendix A Offer effective as to predecessors of, and successors to, the Person to which the offer is made.

*Provided, however,* that an Appendix A Offer made to a Person is effective as to Subsidiaries of such Person only for such time as they continue to be Subsidiaries. If and when they cease to be Subsidiaries of such Person, then Appendix A Offers made to such Person are no longer effective against such former Subsidiaries.

**IV.**

**IT IS FURTHER ORDERED** that:

- A. If and when Respondent enters into an Action with any Person with respect to any of the Relevant Patents, then:
1. if Respondent has not previously made an Appendix A Offer to such Person in accordance with Paragraph III of the Order, then Respondent shall, within ten (10) days of entering into such Action with such Person,

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make an Appendix A Offer to such Person in accordance with Paragraph III of the Order; or

2. if Respondent has previously made an Appendix A Offer to such Person in accordance with Paragraph III of the Order, then Respondent shall make an Appendix B Offer to such Person as follows:
  - a. at the time that Respondent makes its first Filing in such Action, Respondent shall enclose an Appendix B Offer with a copy of such first Filing, and deliver the offer and the filing to each counsel of record for such Person in such Action at the addresses for service of Filings on such counsel in such Action,
  - b. Respondent shall obtain and retain a receipt for each such delivery signed by each such counsel of record, or by each agent of each such counsel of record; and
  - c. at the time that Respondent makes such first Filing in such Action, Respondent shall move to make such Appendix B Offer a part of the record of such Action.

*Provided, however,* that Respondent shall not be required to comply with Paragraph IV.A. of this Order if:

- (i) Respondent previously delivered, in accordance with Paragraph III.B.1.a. of this Order, an Appendix A Offer to each of such Person's counsels of record in an Action then existing between Respondent and such Person; and such Appendix A Offer was made a part of the record of such previous Action following Respondent's

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- compliance with Paragraph III.B.2. of this Order;
- (ii) Respondent previously made an Appendix B Offer to such Person in accordance with Paragraph IV.A.2. of this Order; and such Appendix B Offer was made a part of the record of such previous Action following Respondent's compliance with Paragraph IV.A.2.c. of this Order; or
  - (iii) Respondent previously entered into an Appendix C Patent License Agreement with such Person.

*Provided, further, however,* that a Person's acceptance of, or failure to accept, an Appendix B Offer shall not prejudice, and shall not be construed to limit, such Person's legal or equitable rights, including but not limited to:

- (i) any right to dispute the validity, infringement, or enforceability of any of the Relevant Patents, and
  - (ii) any right to defend against a claim of infringement of the Relevant Patents on the grounds that the 1994 Letter gives such Person a right to a license to the Relevant Patents and that such license would protect such Person against such claim of infringement.
- B. For purposes of Paragraph IV of the Order, an Appendix A Offer or an Appendix B Offer is effective only as to the Person to which it is made and as to the Subsidiaries of such Person. An Appendix A Offer or an Appendix B Offer made to a Subsidiary of a Person is not effective as to such Person nor as to any other parents of the Subsidiary. Nor is an Appendix A Offer or an Appendix B Offer effective as to predecessors of, and successors to, to the Person to which the offer is made.

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*Provided, however,* that an Appendix A Offer or an Appendix B Offer made to a Person is effective as to Subsidiaries of such Person only for such time as they continue to be Subsidiaries. If and when they cease to be Subsidiaries of such Person, then Appendix A Offers and Appendix B Offers made to such Person are no longer effective against such former Subsidiaries.

**V.****IT IS FURTHER ORDERED** that:

- A. Within thirty (30) days after the date this Order becomes final, Respondent shall send by certified mail an executed copy of the Appendix D Letter, a copy of this Order, and a copy of the complaint in this matter (“Complaint”) to each of the following:
  1. Secretary, IEEE-SA Standards Board, and PatCom Administrator  
Institute of Electrical and Electronics Engineers  
445 Hoes Lane  
Piscataway, NJ 08855
  2. Steve M. Mills, Chair, IEEE-SA Standards Board  
IEEE Standards Association  
445 Hoes Lane  
Piscataway, NJ 08855
  3. Bob Grow, Chair, IEEE 802.3 Working Group  
IEEE 802.3 Working Group  
Institute of Electrical and Electronics Engineers  
445 Hoes Lane  
Piscataway, NJ 08855
- B. Within ninety (90) days after the date this Order becomes final, Respondent shall distribute copies of the Complaint

## Decision and Order

and Order in this matter to all Persons with which Respondent has previously communicated with respect to any of the Relevant Patents or the licensing thereof.

- C. Within thirty (30) days after the date this Order becomes final, Respondent shall distribute copies of this Order and the Complaint to every officer, director, employee or agent of Respondent.
- D. For a period of five (5) years after the date this Order becomes final, Respondent shall furnish a copy of this Order and the Complaint to each new officer, director, employee or agent of Respondent. Such copies shall be furnished within thirty (30) days after each such Person assumes his or her position as officer, director, employee, or agent.
- E. In any Action to which Respondent is a party and in which infringement of any of the Relevant Patents is alleged, Respondent shall:
  - 1. attach copies of this Order and the Complaint to the first Filing Respondent makes after this Order becomes final, and
  - 2. deliver a copy of that Filing (with the attached copies of this Order and the Complaint) to all parties to the Action and to any judge, arbitrator, or other official presiding over such Action.

**VI.**

**IT IS FURTHER ORDERED** that Respondent shall not sell, assign, grant exclusive licenses to, or otherwise transfer any of the Relevant Patents to any other Person prior to the termination of this Order.

## Decision and Order

*Provided, however,* that Respondent may sell, assign, grant exclusive licenses to, or otherwise transfer all of the Relevant Patents to a single Person if:

- (i) in an executed agreement providing for such sale, assignment, exclusive license, or other transfer of the Relevant Patents, such Person acknowledges it is, and agrees to be, a successor bound by all the terms of this Order and by all terms and conditions of all Appendix C Patent License Agreements formed pursuant to this Order; and
- (ii) Respondent files such agreement with the Commission at least thirty (30) days prior to such sale, assignment, exclusive license, or other transfer.

**VII.**

**IT IS FURTHER ORDERED** that:

- A. Sixty (60) days after the date this Order becomes final, Respondent shall submit to the Commission a verified written report setting forth in detail the manner and form in which it intends to comply, is complying, and has complied with the terms of this Order.
- B. Beginning twelve (12) months after the date this Order becomes final, and annually thereafter on the anniversary of the date this Order becomes final, for the next 5 years, Respondent shall submit to the Commission verified written reports setting forth in detail the manner and form in which it is complying and has complied with this Order.

**VIII.**

**IT IS FURTHER ORDERED** that Respondent shall notify the Commission at least thirty (30) days prior to:

## Decision and Order

- A. any proposed dissolution of Respondent;
- B. any proposed acquisition, merger or consolidation of Respondent; or
- C. any other change in Respondent, including, but not limited to, assignment and the creation or dissolution of subsidiaries, if such change might affect compliance obligations arising out of the Order.

**IX.**

**IT IS FURTHER ORDERED** that, for the purpose of determining or securing compliance with this Order, and subject to any legally recognized privilege, and upon written request with reasonable notice to Respondent, Respondent shall permit any duly authorized representative of the Commission:

- A. Access, during office hours of Respondent and in the presence of counsel, to all facilities and access to inspect and copy all books, ledgers, accounts, correspondence, memoranda, and all other records and documents in the possession or under the control of Respondent related to compliance with this Order; and
- B. Upon thirty (30) days' notice to Respondent and without restraint or interference from Respondent, to interview officers, directors, or employees of Respondent, who may have counsel present, regarding such matters.

**X.**

**IT IS FURTHER ORDERED** that this Order shall terminate on September 22, 2028.

By the Commission, Chairman Kovacic dissenting.

## Decision and Order

**Appendix A**

Appendix A

**APPENDIX A  
PATENT LICENSE OFFER**

1. This Patent License Offer ("Offer") is made by Negotiated Data Solutions LLC ("N-Data"), an Illinois limited liability company having a mailing address of 1550 N. Lake Shore Drive, Suite 16C, Chicago, Illinois 60610. This Offer provides an opportunity for you to obtain a license for certain patents assigned to, or owned or controlled by, N-Data.
2. The terms and conditions under which N-Data is licensing patents pursuant to this Offer are set forth in the agreement that is attached hereto ("Patent License Agreement").
3. This Offer will remain available and open for 120 calendar days after receipt. If, prior to the expiration of those 120 days, you file a declaratory judgment action in court against N-Data disputing the validity, infringement, or enforceability of any of the Relevant Patents (as that term is defined in the attached Patent License Agreement), the time for your acceptance of this Offer will be extended until 60 days after the conclusion of any appeal, or expiration of time to appeal, from entry of final judgment in, or dismissal of, such declaratory judgment action.
4. You may accept this Offer only by sending to N-Data at 1550 N. Lake Shore Drive, Suite 16C, Chicago, Illinois 60610:
  - a. your name, address, and telephone number,
  - b. one thousand dollars (\$1,000) in the form of either a cashier's check payable to N-Data or a wire transfer to N-Data, and
  - c. a copy of the Patent License Agreement executed by you.
5. Immediately upon N-Data's receipt of such acceptance, your Patent License Agreement with N-Data will become effective ("Effective Date").
6. Within ten (10) days after the Effective Date of the Patent License Agreement, N-Data will mail to you a copy of the Patent License Agreement executed by an officer of N-Data.
7. Your acceptance of, or your failure to accept, this Offer shall not prejudice, and shall not be construed to limit, any of your legal or equitable rights, including but not limited to:
  - a. any right to dispute the validity, infringement, or enforceability of any of the Relevant Patents, and

## Decision and Order

## Appendix A

- b. any right to defend against a claim of infringement of the Relevant Patents on the grounds that the letter dated June 7, 1994, from Mark Grant to Geoffrey Thompson (a copy of which is Attachment A to the Patent License Agreement) gives you a right to a license to the Relevant Patents and that such license would protect you against such claim of infringement.
8. This Offer is made in accordance with a Decision and Order issued by the Federal Trade Commission, a United States Government agency, and the text of this Offer and of the Patent License Agreement is a part thereof. A copy of that Decision and Order, as well as a copy of the related Complaint of the Federal Trade Commission, can be found at [Web links].<sup>1</sup>

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<sup>1</sup> The final sentence of Paragraph 8 should be inserted only in Appendix A Offers delivered after the Complaint and the Decision and Order are public, i.e. after the Commission has accepted for public comment the Consent Agreement Containing Consent Order in this matter.

## Decision and Order

**Appendix B**

Appendix B

**APPENDIX B  
PATENT LICENSE OFFER**

1. This Patent License Offer ("Offer") is made by Negotiated Data Solutions LLC ("N-Data"), an Illinois limited liability company having a mailing address of 1550 N. Lake Shore Drive, Suite 16C, Chicago, Illinois 60610. This Offer provides an opportunity for you to obtain a license for certain patents assigned to, or owned or controlled by, N-Data.
2. The terms and conditions under which N-Data is licensing patents pursuant to this Offer are set forth in the agreement that is attached hereto ("Patent License Agreement").
3. *Expiration of Offer.* Enclosed with this Offer is either a complaint or some other legal document ("Complaint") filed by N-Data in federal court litigation or in some other legal proceeding ("Litigation"). The Complaint names you as a party to the Litigation.
  - a. You may accept this Offer up until the time designated, under the rules of the Litigation, for your filing of an answer or other response to the Complaint; and, thereafter, this Offer is void.
  - b. If, under the rules of the Litigation, there is no time designated for your filing of an answer or other response to the Complaint, then you may accept this Offer up until 45 days after receiving it; and, thereafter, this Offer is void.
4. You may accept this Offer only by sending to N-Data at 1550 N. Lake Shore Drive, Suite 16C, Chicago, Illinois 60610:
  - a. your name, address, and telephone number,
  - b. thirty-five thousand dollars (\$35,000) in the form of either a cashier's check payable to N-Data or a wire transfer to N-Data, and
  - c. a copy of the attached Patent License Agreement executed by you.
5. Immediately upon N-Data's receipt of such acceptance, your Patent License Agreement with N-Data will become effective ("Effective Date").
6. Within ten (10) days after the Effective Date of the Patent License Agreement, N-Data will mail to you a copy of the Patent License Agreement executed by an officer of N-Data.
7. Your acceptance of, or your failure to accept, this Offer shall not prejudice, and shall not be construed to limit, any of your legal or equitable rights, including but not limited to:

## Decision and Order

## Appendix B

- a. any right to dispute the validity, infringement, or enforceability of any of the Relevant Patents, and
  - b. any right to defend against a claim of infringement of the Relevant Patents on the grounds that the letter dated June 7, 1994, from Mark Grant to Geoffrey Thompson (a copy of which is Attachment A to the Patent License Agreement) gives you a right to a license to the Relevant Patents and that such license would protect you against such claim of infringement.
8. This Offer is made in accordance with a Decision and Order issued by the Federal Trade Commission, a United States Government agency, and the text of this Offer and of the Patent License Agreement is a part thereof. A copy of that Decision and Order, as well as a copy of the related Complaint of the Federal Trade Commission, can be found at [Web links].<sup>1</sup>

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<sup>1</sup> The final sentence of Paragraph 8 should be inserted only in Appendix B Offers delivered after the Complaint and the Decision and Order are public, i.e. after the Commission has accepted for public comment the Consent Agreement Containing Consent Order in this matter.

## Decision and Order

**Appendix C**Appendix C  
Page i**Patent License Agreement**

This PATENT LICENSE AGREEMENT between Negotiated Data Solutions LLC (the "Licensor"), an Illinois limited liability company having a place of business at 1550 N. Lake Shore Drive, No. 16C, Chicago, Illinois 60610, and

\_\_\_\_\_ (the "Licensee") having principal offices at \_\_\_\_\_, is effective as of \_\_\_\_\_ ("the Effective Date").

**WHEREAS**, the Federal Trade Commission ("Commission") having initiated an investigation of the Licensor and having thereafter considered the matter and, having determined that it had reason to believe that Licensor had violated the Federal Trade Commission Act, issued a Complaint stating its charges in the matter of *Negotiated Data Solutions LLC*, Docket No. C-####.<sup>1</sup>

**WHEREAS**, the Licensor disputed said charges, but agreed to settle the charges in order to avoid the expense of litigation.<sup>2</sup>

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<sup>1</sup> Until the Decision and Order has become final, the following paragraph should be substituted for this paragraph:

**WHEREAS**, the Federal Trade Commission ("Commission") has initiated an investigation of the Licensor in the matter of *Negotiated Data Solutions LLC*, Matter No. 051 0094.

<sup>2</sup> Until the Decision and Order has become final, the following paragraph should be substituted for this paragraph:

**WHEREAS**, the Licensor believes that it has not engaged in any unlawful conduct, but agreed to settle this matter in order to avoid the expense of litigation.

## Decision and Order

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Page ii

**WHEREAS**, in order to settle said charges, Licensor entered to an Agreement Containing Consent Order pursuant to which the Commission has issued a Decision and Order in the matter of *Negotiated Data Solutions LLC*, Docket No. C-####, requiring, in part, that, under certain circumstances, Licensor enter into this Patent License Agreement.<sup>3</sup>

**WHEREAS**, Licensee wishes to obtain a license to practice the Licensed Patents within the Licensed Field of Use.

**NOW**, therefore, the parties agree as follows:

1. *Definitions.*

1.1. *1994 Letter.* "1994 Letter" means the letter dated June 7, 1994, from Mark Grant, the Director of Intellectual Property for National Semiconductor Corp., to Geoffrey Thompson, Chair of IEEE's 802.3 Working Group. (A copy of the 1994 Letter is attached to this Patent License Agreement as Attachment A.)

1.2. "Held" means, with respect to intellectual property:

1.2.1. to be the assignee of,

1.2.2. to own, or

1.2.3. to otherwise have sufficient control over such intellectual property so as to be able to license it to others.

1.3. *IEEE.* "IEEE" means the Institute of Electrical and Electronics Engineers, Inc. and the Institute of Electrical and Electronics Engineers Standards Association; and their committees and subcommittees.

1.4. *IEEE Standards.* "IEEE Standards" means:

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<sup>3</sup> Until the Decision and Order has become final, the following paragraph should be substituted for this paragraph:

**WHEREAS**, the Licensor entered to an Agreement Containing Consent Order in the matter of *Negotiated Data Solutions LLC*, Matter No. 051 0094, requiring, in part, that, under certain circumstances, Licensor enter into this Patent License Agreement.

## Decision and Order

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1.4.1. any and all standards of the IEEE, including past, current, and future standards, and including all supplemental or letter standards of the IEEE; and

1.4.2. any and all standards of the American National Standards Institute (ANSI) or the International Standards Organization (ISO), that incorporate or replicate any standard specified in Paragraph 1.4.1. of this Patent License Agreement.

1.5. *Importing*. “Importing” means to import into the United States.

1.6. *Licensed Entities*. “Licensed Entities” means the Licensee and all Subsidiaries of the Licensee, including, but not limited to:

1.6.1. Subsidiaries subsequently acquired by the Licensee, and

1.6.2. Subsidiaries of the Licensee that have previously failed to accept, or have rejected, the Licensor’s offer, pursuant to the Decision and Order of the Federal Trade Commission in the matter of *Negotiated Data Solutions LLC*, Docket No. C-####,<sup>4</sup> of a license to the Licensed Patents.

*Provided, however*, that Subsidiaries of the Licensee that become Licensed Entities pursuant to the terms of this Patent License Agreement shall lose their status as Licensed Entities if and when they cease to be Subsidiaries of the Licensee.

1.7. *Licensed Field of Use*. “Licensed Field of Use” means the use of NWay Technology in Products to implement an IEEE Standard. In addition, “Licensed Field of Use” includes optimization or enhancement features that are consistent with the use of NWay Technology to implement the IEEE Standard.

1.8. *Licensed Foreign Patents*. “Licensed Foreign Patents” means all current and future patents issued by a foreign government, including but not limited to certificates and registrations, that are equivalents or counterparts to any Licensed U.S. Patent or that claim priority from any application for a Licensed U.S. Patent; and all child applications of any of the aforesaid patents, including but not limited to continuations, continuations-in-part, divisionals, reissues and re-examinations thereof. The “Licensed Foreign Patents” include, but are not limited to:

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<sup>4</sup> Until the Decision and Order has become final, and a docket number has been assigned to this matter, the words “Matier No. 051 0094” should be substituted for the words “Docket No. C-####.”

## Decision and Order

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- 1.8.1. Korean Patent No. 286791, Taiwanese Patent No. 098359, Japanese Patent No. 3705610;
- 1.8.2. all patents arising from the following patent applications: European Patent Applications SN 93308568.0 (DE, FR, GB, IT, NL); Japanese Patent Applications SN H5-274147; Korean Patent Applications SN 22995/93; or Taiwanese Patent Applications SN 83104531; and
- 1.8.3. any other current or future patent that was issued by a foreign government, that:
- 1.8.3.1. is Held by Respondent now or in the future,
  - 1.8.3.2. was previously Held (or shares a common parent application with, or claims a priority from, a patent previously Held) by National Semiconductor Corporation, and
  - 1.8.3.3. has a claim that Respondent, at any time, asserts is infringed by the use of NWay Technology.
- 1.9. *Licensed Patents.* "Licensed Patents" shall mean all Licensed U.S. Patents and all Licensed Foreign Patents.
- 1.10. *Licensed U.S. Patents.* "Licensed U.S. Patents" means:
- 1.10.1. U.S. Patent Nos. 5,617,418 ; 5,687,174; US RE39,405 E; and US RE39,116 E;
  - 1.10.2. all continuations, continuations-in part, divisionals, reissues, re-examinations of and extensions or additions to U.S. Patent Nos. 5,617,418; 5,687,174; US RE39,405 E; and US RE39,116 E;
  - 1.10.3. all current or future United States patents that share a common parent application with or that claim a priority from an application for U.S. Patent Nos. 5,617,418; 5,687,174; US RE39,405 E; and US RE39,116 E;
  - 1.10.4. all current or future United States patents that share a common parent application with, or that claim a priority from, the following U.S. Patent Applications, Nos.: 971,018 (filed on November 2, 1992); 146,729 (filed on November 1, 1993); or 430,143 (filed on April 26, 1995); and
  - 1.10.5. any other current or future United States patent that
    - 1.10.5.1. is Held by Respondent now or in the future,

## Decision and Order

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- 1.10.5.2. was previously Held (or shares a common parent application with, or claims a priority from, a patent previously Held) by National Semiconductor Corporation, and
- 1.10.5.3. has a claim that Respondent, at any time, asserts is infringed by the use of NWay Technology.
- 1.11. *NWay Technology*. “NWay Technology” is defined by reference to the 1994 Letter and shall have the same meaning that the term “NWay technology” has in that letter.
  - 1.11.1. In determining the meaning of the term “NWay Technology,” the following documents, *inter alia*, can be consulted:
    - 1.11.1.1. “IEEE Link Task Force Autodetect; Specification for NWay Autodetect,” Version 1.0, Copyright National Semiconductor, 1994, having principal sponsors AMD, Ascom Timplex, AT&T – Bell Labs, David Systems Inc., Hitachi Cable, Luxcom, Microlinear, National Semiconductor, Olympic Technology Group, Seeq, SMC, variously dated April 10, 1994, April 15, 1994, April 18, 1994 and May 2, 1994 [Web link]; and
    - 1.11.1.2. Bill Bunch, “An Introduction to Auto-Negotiation,” (February 1995) [Web link].
  - 1.11.2. Some examples of the use of “NWay Technology,” within the meaning of this Patent License Agreement, are described in the various versions of Clause 28 (and Annexes thereto, such as Annexes 28A, 28B, 28C, and 28D) published in the following standards:
    - 1.11.2.1. IEEE Std 802.3an-2006 (Amendment to IEEE Std 802.3-2005), IEEE Standard for Information technology – Telecommunications and information exchange between systems – Local and metropolitan area networks – Specific requirements – Part 3: Carrier Sense Multiple Access with Collision Detection (CSMA/CD) Access Method and Physical Layer Specifications – Amendment 1: Physical Layer and Management Parameters for 10 Gb/s Operation, Type 10GBASE-T;
    - 1.11.2.2. IEEE Std 802.3-2005, IEEE Standard for Information technology – Telecommunications and information exchange between systems – Local and metropolitan area networks – Specific requirements–

## Decision and Order

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Page vi

Part 3: Carrier sense multiple access with collision detection (CSMA/CD) access method and physical layer specifications;

- 1.11.2.3. IEEE Std 802.3aj-2003 (Amendment to IEEE Std 802.3-2002), IEEE Standard for Information technology – Telecommunications and information exchange between systems – Local and metropolitan area networks – Specific requirements – Part 3: Carrier Sense Multiple Access with Collision Detection (CSMA/CD) Access Method and Physical Layer Specifications – Amendment: Maintenance 7;
- 1.11.2.4. IEEE Std 802.3-2002, IEEE Standard for Information technology – Telecommunications and information exchange between systems – Local and metropolitan area networks – Specific requirements – Part 3: Carrier sense multiple access with collision detection (CSMA/CD) access method and physical layer specifications;
- 1.11.2.5. IEEE Std 802.3, 2000 Edition, Information technology – Telecommunications and information exchange between systems – Local and metropolitan area networks – Specific requirements – Part 3: Carrier sense multiple access with collision detection (CSMA/CD) access method and physical layer specifications;
- 1.11.2.6. IEEE Std 802.3ab-1999 (Supplement to IEEE Std 802.3, 1998 Edition), Information technology – Telecommunications and information exchange between systems – Local and metropolitan area networks – Specific requirements – Supplement to Carrier Sense Multiple Access with Collision Detection (CSMA/CD) Access Method and Physical Layer Specifications – Physical Layer Parameters and Specifications for 1000 Mb/s Operation Over 4-Pair of Category 5 Balanced Copper Cabling, Type 1000BASE-T;
- 1.11.2.7. IEEE Std 802.3, 1998 Edition, Information technology – Telecommunications and information exchange between systems – Local and metropolitan area networks – Specific requirements – Part 3: Carrier sense multiple access with collision detection (CSMA/CD) access method and physical layer specifications;
- 1.11.2.8. IEEE Std 802.3x-1997 and IEEE Std 802.3y-1997 (Supplements to ISO/IEC 8802-3: 1996 [ANSI/IEEE Std 802.3, 1996 Edition]), IEEE Standards for Local and Metropolitan Area Networks: Supplements to Carrier Sense Multiple Access with Collision

## Decision and Order

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Detection (CSMA/CD) Access Method and Physical Layer Specifications – Specification for 802.3 Full Duplex Operation and Physical Layer Specification for 100 Mb/s Operation on Two Pairs of Category 3 or Better Balanced Twisted Pair Cable (100BASE-T2); and

- 1.11.2.9. IEEE Std 802.3u-1995, (Supplement to ISO/IEC 8802-3: 1993 [ANSI/IEEE Std 802.3, 1993 Edition]), IEEE Standards for Local and Metropolitan Area Networks: Supplement to Carrier Sense Multiple Access with Collision Detection (CSMA/CD) Access Method and Physical Layer Specifications – Media Access Control (MAC) Parameters, Physical Layer, Medium Attachment Units, and Repeater for 100 Mb/s Operation, Type 100BASE-T (Clauses 21-30).

1.12. *Person*. “Person” means any natural person, partnership, corporation, association, trust, joint venture, government, government agency, or other business or legal entity.

1.13. *Product*. “Product” means any thing, tangible or intangible, including, but not limited to:

1.13.1. any apparatus, device, system, combination, design, process, or method, and

1.13.2. anything that can infringe, in any way, any claim of any Licensed Patent.

1.14. *Subsidiaries*. “Subsidiaries” means Persons controlled directly or indirectly through ownership interests of 50% or more. For example, if A owns 50% of B and if B owns 50% of C, then C is a Subsidiary of both A and B. The Subsidiaries of a Licensee would consist of all Persons for which the Licensee would be the Ultimate Parent Entity if the Licensee were not controlled by any entity. For purposes of this definition only, the terms “Ultimate Parent Entity,” “controlled,” and “entity” have the same meaning they have under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, 15 U.S.C. § 18a, and the rules promulgated thereunder, 16 C.F.R. § 801 et seq.

1.15. *Supply Chain Person*. “Supply Chain Person” means any Person in the Licensed Entities’ downstream chain of manufacture or distribution. The term “Supply Chain Person” includes, but is not limited to, any system integrators, resellers, purchasers and end users of the Licensed Entities’ Products.

2. *License Grant and Release*. Licensor hereby grants to each of the Licensed Entities, under any and all claims of the Licensed Patents, a license to NWay Technology, to make, use, sell, offer for sale, or Import any Product, in the Licensed Field of Use. Such license is fully paid-up,

## Decision and Order

Appendix C  
Page viii

perpetual, irrevocable, worldwide, non-exclusive, non-transferable, and non-sublicensable. As to Licensed Patents that issued prior to the Effective Date, such license shall be given retroactive effect from the moment the Licensed Patents issued. Each of the Licensed Entities is hereby released from any and all claims of infringement – including but not limited to direct infringement, literal infringement, infringement under the doctrine of equivalents, inducement of infringement, and contributory infringement – of the Licensed Patents in the Licensed Field of Use – including claims that the Licensed Entities infringed any of the Licensed Patents in the Licensed Field of Use prior to the Effective Date, on the Effective Date, or after the Effective Date.

3. *Exhaustion and Release.* The license granted herein to the Licensed Entities shall cover, for Products of the Licensed Entities within the Licensed Field of Use, all Supply Chain Persons. Licensor declares and agrees that, as to any Supply Chain Person, all the Licensor's rights with respect to the Licensed Patents are hereby exhausted with respect to Products of the Licensed Entities in the Licensed Field of Use. Each such Supply Chain Person is hereby released from any and all claims of infringement of the Licensed Patents in the Licensed Field of Use, including claims that such Person infringed any of the Licensed Patents in the Licensed Field of Use prior to the Effective Date, on the Effective Date, or after the Effective Date. With respect to any portion of a Product of the Licensed Entities that would, absent the license provided in Section 2 of this Patent License Agreement, infringe any claim of any of the Licensed Patents, such portion will be treated under this Patent License Agreement, for the purposes of applying the "first sale doctrine" or principles of "patent exhaustion," as if it infringed all claims of all of the Licensed Patents. Therefore, as to any portion of a Product of the Licensed Entities that, absent the license as provided in Section 2 of this Patent License Agreement, would infringe one or more claims of the Licensed Patents, Licensor's patent rights for all claims of the Licensed Patents are completely exhausted.
4. *Consideration.* Licensee has provided good and sufficient consideration for the rights provided herein.
5. *No Warranty.* Nothing herein shall be construed as a warranty, admission or representation by Licensor or any of the Licensed Entities as to the validity, enforceability or scope of any Licensed Patent claim, or a warranty, admission or representation by Licensor that any manufacture, sale, offer for sale, use, importation into the United States or other disposition of any Product by any of the Licensed Entities or any third party will be free from infringement of patents other than the Licensed Patents.
6. *Licensee's Retention of Rights.* This agreement shall not prejudice, and shall not be construed to limit, any of the Licensee's legal or equitable rights, including but not limited to:
  - 6.1. the Licensee's right to dispute the validity, infringement, or enforceability of the Licensed Patents, and

## Decision and Order

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6.2. the Licensee's right to defend against a claim of infringement of the Licensed Patents on the grounds that the 1994 Letter gives the Licensee a right to a license to the Licensed Patents and that such license would protect the Licensee against such claim of infringement; and the Licensee's right to argue that the meaning of "NWay Technology" in the 1994 Letter is broader than the definition of "NWay Technology" in Paragraph 1.11. of this Patent License Agreement. Nothing in this Patent License Agreement shall limit, supersede, or in any way alter the scope, effect, or meaning of the 1994 Letter.

7. *Governing Law.* This Agreement shall be construed and controlled by the laws of the State of Illinois.

8. *Public Identification as Licensee.* Licensee, Licensor, and each of the Licensed Entities may publicly disclose or announce that Licensee has entered into this Patent License Agreement with Licensor.

In witness whereof this Patent License Agreement is in effect.

**LICENSOR:****LICENSEE:**Negotiated Data Solutions LLC

\_\_\_\_\_

By: \_\_\_\_\_  
(Signature)By: \_\_\_\_\_  
(Signature)Name: \_\_\_\_\_  
(Printed)Name: \_\_\_\_\_  
(Printed)Title: \_\_\_\_\_  
(Printed)Title: \_\_\_\_\_  
(Printed)

Date: \_\_\_\_\_

Date: \_\_\_\_\_

## Decision and Order

## Attachment A to Appendix C



2900 Semiconductor Drive  
P.O. Box 58090  
Santa Clara, California 95052-80  
(408) 721-5000

June 7, 1994

Mr. Geoffrey Thompson  
Chair, 802.3 Working Group, IEEE  
c/o SynOptics Communications, Inc.  
4401 Great America Pkwy.  
P.O. Box 58185  
Santa Clara, CA 95052-8185

Dear Mr. Thompson:

National Semiconductor Corporation ("National") is pleased to be a contributing member of the IEEE 802.3 Working Group responsible for developing an autodetection standard based upon National's architecture informally known as "NWay". To further demonstrate its support for this effort, National would like to make clear its position with respect to prospective licensing of National's intellectual property rights in its NWay technology.

In the event that the IEEE adopts an autodetection standard based upon National's NWay technology, National will offer to license its NWay technology to any requesting party for the purpose of making and selling products which implement the IEEE standard. Such a license will be made available on a nondiscriminatory basis and will be paid-up and royalty-free after payment of a one-time fee of one thousand dollars (\$1,000.00).

With respect to the "NWay" mark, following adoption by the IEEE of an autodetection standard based upon National's NWay technology, National will offer to relinquish any claims it may have in such mark in favor of the IEEE.

Should there be any questions or concerns about any of the foregoing matters, please feel free to call Paul Ahrens to discuss them. He can be contacted at (408) 721-4251.

Best regards,

National Semiconductor Corp.

A handwritten signature in dark ink, appearing to read 'Mark Grant'.

Mark Grant  
Director of Intellectual Property

cc: Paul Ahrens

Printed on recycled paper

02-0000169  
File No. 051-0094

## Decision and Order

**Appendix D**  
**Letter to IEEE**

Appendix D

[Return Address]

[Date]

[Name]  
[Address]

Re: Patent Assurance; 802.3

To whom this may concern:

This is to notify you, pursuant to the enclosed Decision and Order ("Order") issued by the Federal Trade Commission, that Negotiated Data Solutions LLC ("N-Data") is offering to any requesting party a non-exclusive license to certain patents originally assigned to National Semiconductor Corporation. (A copy of the Order can also be found at [Web link].)

A copy of this offer is incorporated into the enclosed Order as Appendix A. As specified in the offer, N-Data will grant this license, which is paid-up and royalty-free, in exchange for a one-time fee of one thousand dollars (\$1,000.00).

A copy of the license agreement is incorporated into the enclosed Order as Appendix C. The license will cover, within the licensed field of use, the patents specified in Paragraphs 1.8. and 1.10. of the license agreement.

N-Data also notes that IEEE has included on its website a reference, made in connection with IEEE Standard 802.3, to the letter of March 27, 2002, from Scott Pickett, Chief Technical Officer and Executive Vice President of Vertical Networks, Inc., to the IEEE-SA Standards Board Patent Committee. The licensing terms and conditions described in that letter do not apply to NWay Technology. (As the current assignee of the patents identified in that letter, N-Data is now the successor in interest to Vertical Networks, Inc.)

Sincerely,

Alan Loudermilk  
Manager and Member  
Negotiated Data Solutions LLC

Enclosure

## Statement of the Commission

**STATEMENT OF THE FEDERAL TRADE COMMISSION**

The Federal Trade Commission (“Commission”) has voted to issue a Complaint against Negotiated Data Solutions LLC (“N-Data”) and to accept the proposed consent agreement settling it.<sup>1</sup> The Complaint in this matter alleges that N-Data reneged on a prior licensing commitment to a standard-setting body and thereby was able to increase the price of an Ethernet technology used by almost every American consumer who owns a computer. Based on the facts developed by staff during the investigation, we find reason to believe that this conduct violated Section 5 of the FTC Act.<sup>2</sup>

The impact of Respondent’s alleged actions, if not stopped, could be enormously harmful to standard-setting.<sup>3</sup> Standard-setting organization participants have long worried about the impact of firms failing to disclose their intellectual property until after industry lock-in. Many standard-setting organizations have begun to develop policies to deal with that problem. But if N-Data’s conduct became the accepted way of doing business, even the most diligent standard-setting organizations would not be able to rely on the good faith assurances of respected companies. The possibility exists that those companies would exit the business, and that their patent portfolios would make their way to others who are less interested in honoring commitments than in

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<sup>1</sup> Commissioners Harbour, Leibowitz, and Rosch support the issuance of the Complaint and proposed consent agreement and join in this statement.

<sup>2</sup> Section 5 of the FTC Act prohibits “unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce.” 15 USC § 45(a)(1).

<sup>3</sup> One dissent recites a different set of facts than those alleged in the Complaint. We do not agree with that version of the facts. Rather, we believe that staff’s investigation, as described in the Analysis to Aid Public Comment, accurately depicts the facts in this case.

## Statement of the Commission

exploiting industry lock-in.<sup>4</sup> Congress created the Commission precisely to challenge just this sort of conduct.

To prohibit such unacceptable behavior, the Commission today accepts a proposed consent agreement premised on a Complaint that identifies two separate violations. First, we find that N-Data's alleged conduct is an unfair method of competition. Second, we find that this conduct is also an unfair act or practice.

There is little doubt that N-Data's conduct constitutes an unfair method of competition.<sup>5</sup> The legislative history from the

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<sup>4</sup> See generally Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* ch. 2 at 31, n. 220; ch. 3 at 38-41, available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> (2003) (conduct by "non-producing entities" – sometimes referred to as 'patent trolls' – may harm consumers when such firms force manufacturers to agree to licenses after the manufacturers have sunk substantial investments into technologies).

<sup>5</sup> See, e.g., *E.I. du Pont de Nemours & Co. v. FTC*, 729 F.2d 128 (2d Cir. 1984) ("*Ethyl*"); *Official Airline Guides v. FTC*, 630 F.2d 920 (2d Cir. 1980). The conduct falls squarely within the parameters of cases like *Ethyl*. One dissent quotes a passage from the *Ethyl* decision; even that excerpt makes clear that a Section 5 violation can be found when there are "some indicia of oppressiveness" such as "coercive...conduct." For the reasons stated in the Analysis to Aid Public Comment, we find reason to believe that Respondent engaged in conduct that was both oppressive and coercive when it engaged in efforts to exploit licensees that were locked into a technology by the adoption of a standard. We believe the Analysis to Aid Public comment adequately describes the limiting principles applicable here. See generally Statement of Commissioner J. Thomas Rosch, *Perspectives on Three Recent Votes: the Closing of the Adelphia Communications Investigation, the Issuance of the Valassis Complaint & the Weyerhaeuser Amicus Brief*, before the National Economic Research Associates 2006 Antitrust & Trade Regulation Seminar, Santa Fe, New Mexico (July 6, 2006) at 5-12, available at <http://www.ftc.gov/speeches/rosch/Rosch-NERA-Speech-July6-2006.pdf>; Concurring Opinion of Commissioner Jon Leibowitz, *In re Rambus, Inc.*, Docket No. 9302, available at <http://www.ftc.gov/os/adjpro/d9302/060802rambusconcurringopinionofcommissionerleibowitz.pdf>.

One dissent cites the Areeda and Hovenkamp antitrust treatise as well as several other sources to mistakenly suggest that there is a "scholarly consensus" that an unfair method of competition cannot be found under Section 5 unless there is liability under the antitrust laws. Most of the sources cited by

## Statement of the Commission

debate regarding the creation of the Commission is replete with references to the types of conduct that Congress intended the Commission to challenge. *See, e.g.*, 51 Cong. Rec. 12,153 (1914) (statement of Sen. Robinson) (“unjust, inequitable or dishonest competition”), 51 Cong. Rec. 12,154 (1914) (statement of Sen. Newlands) (conduct that is “contrary to good morals”). The Supreme Court apparently agrees as it has found that the standard for “unfairness” under the FTC Act is “by necessity, an elusive one, encompassing not only practices that violate the Sherman Act and the other antitrust laws, but also practices that the Commission determines are against public policy for other reasons.” *F.T.C. v. Ind. Fed’n of Dentists*, 476 U.S. 477, 454 (1986); *see also F.T.C. v. Sperry & Hutchinson Co.*, 405 U.S. 233, 242 (1972) (FTC has authority to constrain, among other things “deception, bad faith, fraud or oppression”).

We also have no doubt that the type of behavior engaged in by N-Data harms consumers. The process of establishing a standard displaces competition; therefore, bad faith or deceptive behavior

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the dissent, however, actually support the Analysis to Aid Public Comment, which notes that, although Section 5 extends beyond the antitrust laws, there are limitations on its reach. Indeed, Professor Hovenkamp has explicitly acknowledged that there is a *lack* of consensus on the scope and application of Section 5. *See* HERBERT HOVENKAMP, *FEDERAL ANTITRUST POLICY* at 596-97 (3d ed. 2005). Professor Hovenkamp states that “[t]here are two views about the wisdom of the FTC’s use of Section 5” and goes on to discuss “[A]n alternative view, perfectly consistent with the proposition that the FTC’s antitrust concern should be limited to identifying practices that are economically anticompetitive.” Under that alternative view, it is appropriate to apply “the FTC Act to practices that do not violate the other antitrust laws . . . when (1) the practice seems anticompetitive but is not technically covered by the antitrust laws; and (2) the social cost of an error seems to be relatively small.” The social cost of an error here is small given the nature of the remedy and the low likelihood that a Commission consent order will be followed by a valid antitrust-based class action suit. *See id.* (“Findings of violations of the FTC Act that are not also antitrust violations will not support subsequent private actions for treble damages”). We nevertheless recognize Commissioner Kovacic’s concern that FTC “unfair methods” cases may support private actions based on state law, and join him in encouraging comment on that issue.

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that undermines the process may also undermine competition in an entire industry, raise prices to consumers, and reduce choices.<sup>6</sup> We have previously noted that “[i]ndustry standards are widely acknowledged to be one of the engines driving the modern economy.”<sup>7</sup> Conduct like N-Data’s – which undermines standard-setting – threatens to stall that engine to the detriment of all consumers.

N-Data’s conduct is also an unfair act or practice under Section 5(n) of the FTC Act and *Orkin Exterminating Co.*, 108 F.T.C. 263 (1986), *aff’d*, 849 F.2d 1354 (11th Cir. 1988). This Commission – *unanimously* – has often found an unfair act or practice proscribed by Section 5 in conduct that victimizes businesses (as well as individuals) who are consumers. The dissent would distinguish those cases on the ground that the businesses here are all “large, sophisticated computer manufacturers” who are able to protect themselves. There is no basis for that distinction in Section 5. In any event, moreover, there is no basis in the record of this investigation for describing all of the “locked in” licensees that way. Similarly, as discussed in detail in the Analysis to Aid Public Comment, no meaningful distinction can be drawn between the circumstances in *Orkin*, where the respondent sought to exploit consumers who were “locked into” long term contracts, and the unique circumstances of this case, where licensees are “locked into” the standard containing technology controlled by this Respondent.

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<sup>6</sup> See *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 (1989); *Am. Soc’y of Mech. Engineers, Inc. v. Hydrolevel Corp.*, 456 U.S. 556, 571 (1982); *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, 41 (1912). See *generally* *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 310-314 (3d Cir. 2007).

<sup>7</sup> U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition* 33, available at <http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf> (2007).

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We recognize that some may criticize the Commission for broadly (but appropriately) applying our unfairness authority to stop the conduct alleged in this Complaint. But the cost of ignoring this particularly pernicious problem is too high. Using our statutory authority to its fullest extent is not only consistent with the Commission's obligations, but also essential to preserving a free and dynamic marketplace.

**DISSENTING STATEMENT OF CHAIRMAN MAJORAS**

I respectfully dissent from the decision to lodge a Complaint in this matter and to accept the settlement described in the majority's *Analysis of Proposed Consent Order to Aid Public Comment* ("Analysis"). The facts do not support a determination of antitrust liability. The preconditions for use of stand-alone Section 5 authority to find an "unfair method of competition" are not present. And the novel use of our consumer protection authority to protect large corporate members of a standard-setting organization ("SSO") is insupportable.

This case presents issues that appear on first inspection to resemble those in our line of standard-setting "hold up" challenges, including *Unocal*,<sup>1</sup> *Dell*,<sup>2</sup> and *Rambus*.<sup>3</sup> As we and the Justice Department have explained jointly, "multiple

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<sup>1</sup> *In re Union Oil Company of California*, 2004 FTC LEXIS 115 (FTC 2004) ("Unocal"), available at <http://www.ftc.gov/os/adjpro/d9305/040706commissionopinion.pdf>.

<sup>2</sup> *In re Dell*, 121 F.T.C. 616 (1996).

<sup>3</sup> *In re Rambus*, FTC Dkt. No. 9302 (Liability Opinion, July 31, 2006), appeal pending, Docket Nos. 07-1086, 07-1124 (D.C. Cir. 2007).

## Dissenting Statement

technologies may compete to be incorporated into the standard under consideration”<sup>4</sup> by an SSO. Once a technology has been selected and the standard that incorporates the technology has been specified, however, the standard’s adopters often will face significant relative costs in switching to an alternative standard. “[T]he chosen technology may lack effective substitutes precisely because the SSO chose it as the standard. Thus, . . . the owner of a patented technology necessary to implement the standard may have the power to extract higher royalties or other licensing terms that reflect the absence of competitive alternatives. Consumers of the products using the standard would be harmed if those higher royalties were passed on in the form of higher prices.”<sup>5</sup> In an effort to avoid the hold-up problem, some SSOs take measures to protect their members, such as imposing patent disclosure rules or securing agreement on licensing terms.<sup>6</sup>

This case departs materially from the prior line, however, in that there is no allegation that National engaged in improper or exclusionary conduct to induce IEEE to specify its NWay technology in the 802.3u standard. No one contends that National deceived SSO members at the time of its initial licensing offer in 1994. Further, from the time National submitted its letter of assurance in 1994 and at least until 2002, some patent holders changed or clarified the terms of their letters of assurance – even after the relevant standard was approved. And although a new IEEE bylaw, passed in January 2002, purported to make patent

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<sup>4</sup> U.S. Department of Justice and Federal Trade Commission, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (April 2007) at 35-36 [hereinafter “DOJ/FTC Intellectual Property Report”], available at <http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf>.

<sup>5</sup> *Id.* at 36. See also Chairman Deborah Platt Majoras, *Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting*, Remarks before the Stanford University Conference on Standardization and the Law: Developing the Golden Mean for Global Trade (September 2005), available at <http://www.ftc.gov/speeches/majoras/050923stanford.pdf>.

<sup>6</sup> DOJ/FTC Intellectual Property Report, *supra* note 4, at 36.

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letters irrevocable, it did not address whether it was to apply retroactively. When Vertical submitted its 2002 proposal under which it would offer its entire patent portfolio that originated with National for license on reasonable and nondiscriminatory terms, the IEEE's Patent Administrator did not object to the departure from the \$1,000 commitment, even while requesting and securing specific changes to Vertical's proposal. The IEEE then appeared to have accepted the revised proposal by posting Vertical's letter on its web site along with National's June 7, 1994 letter.

There is also a substantial question as to whether N-Data enjoyed measurable market power, even with the adoption of the IEEE standard. Under the terms of the standard, the NWay technology was an optional technique. Although National in 1994 had offered to grant a paid-up, royalty-free license to the technology for \$1,000 to anyone seeking to practice the standard, no company had sought to accept the offer until after publication of the 2002 revision on the IEEE web site. And despite ongoing licensing efforts by National's successors, Vertical and N-Data, only one company paid materially more than the originally-quoted \$1,000 for rights to the NWay technology.<sup>7</sup> Most users evidently have preferred to infringe, running the risk of presumably minimal patent damages that they might face at the outcome of litigation.

Thus, the facts do not support antitrust liability here.

The majority evidently agrees that respondent's conduct does not amount to improper acquisition or maintenance of monopoly

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<sup>7</sup> Paragraph 31 of the Complaint alleges that "several companies" entered into license agreements that have produced fees "far in excess" of \$1,000 per company. In fact, three companies entered into license agreements (with Vertical) for the patents. N-Data has never received royalties or fees from those agreements, nor, as I understand it, has it collected any royalties for the relevant patents on terms inconsistent with those offered in the 1994 letter. N-Data itself has initiated suit against one company, with which it had a dispute involving numerous patents other than those at issue in this case.

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power so as to fall within the ambit of Section 2 of the Sherman Act. Instead, the majority seeks to find liability purely under Section 5 of the FTC Act. This is not advisable as a matter of policy or prosecutorial discretion.

The majority's first theory is that N-Data engaged in an unfair method of competition. Although Section 5 enables the Commission to reach conduct that is not actionable under the Sherman or Clayton Acts, we have largely limited ourselves to matters in which respondents took actions short of a fully consummated Section 1 violation (but with clear potential to harm competition), such as invitations to collude.<sup>8</sup> This limitation is partly self-imposed, reflecting the Commission's recognition of the scholarly consensus that finds the Sherman and Clayton Acts, as currently interpreted, to be sufficiently encompassing to address nearly all matters that properly warrant competition policy enforcement.<sup>9</sup> But the limitation also reflects the insistence

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<sup>8</sup> See, e.g., *In re Valassis Communications, Inc.*, Docket No. C-4160, FTC File No. 051 008 (Complaint), available at <http://www.ftc.gov/os/caselist/0510008/0510008c4160ValassisComplaint.pdf>. In its *Analysis*, the Commission explained that competition would not be adequately protected if antitrust enforcement were directed only at consummated cartel agreements. The Commission further explicated the several legal (including precedent) and economic justifications that support the imposition of liability upon firms that communicate an invitation to collude where acceptance cannot be proven. Prior to the *Valassis* case, the Commission entered into consent agreements in several cases alleging that an invitation to collude – though unaccepted by the competitor – violated Section 5 of the FTC Act. *MacDermid, Inc.*, Docket No. C-3911, FTC File No. 991 0167 (Decision & Order), available at <http://www.ftc.gov/os/2000/02/macdermid.do.htm>; *Stone Container Corp.*, 125 F.T.C. 853 (1998); *Precision Moulding Co.*, 122 F.T.C. 104 (1996); *YKK (USA) Inc.*, 116 F.T.C. 628 (1993); *A.E. Clevite, Inc.*, 116 F.T.C. 389 (1993); *Quality Trailer Products Corp.*, 115 F.T.C. 944 (1992).

<sup>9</sup> See, e.g., 5 JULIAN O. VON KALINOWSKI, PETER SULLIVAN & MAUREEN MCGUIRL, *ANTITRUST LAWS AND TRADE REGULATION*, § 77.02 at 77-3 (2007) (“the prevailing view is that there are limitations on Section 5’s applicability to conduct which stretches beyond the letter of [the Sherman or Clayton Acts].”); 2 PHILIP AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW* ¶ 302(h) (2006) (“Apart from possible historical anachronisms in the

## Dissenting Statement

of the appellate courts that the Commission's discretion is bounded and must adhere to limiting principles. In *E.I. du Pont de Nemours & Co. v. FTC*, for example, the Second Circuit stated: "[w]hen a business practice is challenged by the Commission, even though, as here, it does not violate the antitrust or other laws and is not collusive, coercive, predatory or exclusionary in character, standards for determining whether it is 'unfair' within the meaning of § 5 must be formulated to discriminate between normally acceptable business behavior and conduct that is unreasonable or unacceptable."<sup>10</sup> Writing in the context of a challenge to parallel conduct that did not arise from an agreement but that facilitated oligopolistic coordination, the Second Circuit adopted this test:

In our view, before business conduct in an oligopolistic industry may be labelled "unfair" within the meaning of § 5 a minimum standard demands that, absent a tacit agreement, at least some indicia of oppressiveness must exist such as

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application of those statutes, the Sherman and Clayton Acts are broad enough to cover any anti-competitive agreement or monopolistic situation that ought to be attacked whether 'completely full blown or not.');" Richard A. Posner, *The Federal Trade Commission: A Retrospective*, 72 ANTITRUST L.J. 761, 766 (2005) ("It used to be thought that 'unfair methods of competition' swept further than the practices forbidden by the Sherman and Clayton Acts, and you find this point repeated occasionally even today, but it is no longer tenable. The Sherman and Clayton Acts have been interpreted so broadly that they no longer contain gaps that a broad interpretation of Section 5 of the FTC Act might be needed to fill."); John F. Graybeal, *Unfair Trade Practices, Antitrust And Consumer Welfare In North Carolina*, 80 N.C. L. REV. 1927, 1949 (2002) ("Undoubtedly, the FTC today will proceed with great caution under section 5 to claim as an unfair method of competition any conduct that does not violate the Sherman or Clayton Acts."). See also ABA SECTION OF ANTITRUST LAW, ANTITRUST LAW DEVELOPMENTS (6th ed. 2007) ("FTC decisions have been overturned despite proof of anticompetitive effect where the courts have concluded that the agency's legal standard did not draw a sound distinction between conduct that should be proscribed and conduct that should not.").

<sup>10</sup> 729 F.2d 128, 138 (2d Cir. 1984).

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(1) evidence of anticompetitive intent or purpose on the part of the producer charged, or (2) the absence of an independent legitimate business reason for its conduct. . . . In short, in the absence of proof of a violation of the antitrust laws or evidence of collusive, coercive, predatory, or exclusionary conduct, business practices are not “unfair” in violation of § 5 unless those practices either have an anticompetitive purpose or cannot be supported by an independent legitimate reason.<sup>11</sup>

In its *Analysis*, the majority extends the *du Pont* formulation to the monopolization family, asserting that respondent’s conduct was “coercive” and “oppressive” and had an “adverse impact on prices for autonegotiation technology[.]”<sup>12</sup> These assertions are impossible to prove on the evidence we have. N-Data asserts that its renegotiation of its licensing terms was motivated by nothing other than an independent, business reason – that is, the aim of collecting royalties for a new bundle of intellectual property rights on reasonable and non-discriminatory terms. Even if N-Data were motivated by a desire to strike a better bargain than National made several years earlier, that alone should not be considered a competition-related offense. If the majority’s theory is that the evasion of contractual price constraints triggers liability under Section 5 without a concurrent determination that the conduct violates the Sherman Act, then we are headed down a slippery slope, and I take no comfort from the majority’s representation to the contrary. Parties often enter into contractual commitments involving asset-specific investments, creating the potential for opportunism. The majority has not identified a meaningful limiting principle that indicates when an action – taken in the standard-setting context or otherwise – will be considered an “unfair method of competition.”

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<sup>11</sup> *Id.* at 139-140.

<sup>12</sup> *Analysis* at 5.

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Pursuing a second theory, the majority invokes consumer protection doctrine to find that respondent has engaged in an “unfair act or practice” in violation of Sections 5(a) and (n) of the FTC Act.<sup>13</sup> Section 5(n) provides a clear limitation of the Commission’s authority: “[t]he Commission shall have no authority under this section or section 57a of this title to declare unlawful an act or practice on the grounds that such act or practice is unfair unless the act or practice causes or is likely to cause substantial injury to consumers which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to consumers or to competition.”<sup>14</sup> The evidence simply does not support the requisite findings.

In particular, finding “substantial consumer injury” here requires the majority to treat large, sophisticated computer manufacturers as “consumers.” I do not agree with such a characterization, and I have serious policy concerns about using our consumer protection authority to intervene in a commercial transaction to protect the alleged “victims” here. The *Analysis* accurately states that the FTC has used its authority under Section 5 to protect small businesses against unfair acts and practices. We have taken care to exercise this authority judiciously, however, to protect small businesses, non-profits, churches, and “mom and pop” operations<sup>15</sup> that lack the resources and, in some cases, the

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<sup>13</sup> In *Rambus*, the Commission drew upon its experience with the law regarding deceptive acts or practices, which has been developed largely in consumer protection contexts, to inform our analysis of deception before an SSO as part of an exclusionary course of conduct. *Rambus*, *supra* note 3, at 29-30. We did so, however, within a framework based on Sherman Act jurisprudence, recognizing, *inter alia*, the need to examine competitive effects. *Id.* at 28-31. The majority’s extension of our authority over unfair acts or practices, which Congress has specifically limited in Section 5(n), raises altogether different issues.

<sup>14</sup> 15 U.S.C. § 45(n) (2000). *See also International Harvester Co.*, 104 F.T.C. 949, 1061 (1984).

<sup>15</sup> *See, e.g., FTC v. Websource Media, LLC*, No. H-06-1980 (S.D. Tex. filed June 12, 2006) (unfair practice of “cramming” unauthorized charges onto the telephone bills of small businesses); *FTC v. Certified Merchant Services*,

## Dissenting Statement

experience or understanding to defend themselves adequately against fraud. Indeed, certain of these small business owners, non-profit volunteers, and clergy had personally guaranteed the contracts at issue. There is a clear qualitative difference between these entities and the computer manufacturers that the majority treats as injured consumers in this matter.<sup>16</sup>

As I stated above, I am not convinced that any party was injured. And certainly the evidence does not support the finding that the alleged injury here was “not reasonably avoidable” (assuming, of course, that injury can be made out at all). The membership of IEEE includes computer networking equipment manufacturers and telecommunications companies. IEEE knew that its members sometimes made or attempted to make changes in patent commitment letters, and it could have acted sooner to protect its members from potentially adverse changes to commitment letters. IEEE also could have objected to Vertical’s

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*Ltd.*, No. 4:02CV44 (E.D. Tex. filed February 11, 2002) (unfair practice of unilaterally inserting additional pages that describe substantial, undisclosed charges into credit card processing contracts with small business merchants); *FTC v. IFC Credit Corp.*, No. 07C3155 (N.D. Ill. filed June 6, 2007) (unfair practice of accepting and collecting on invalid, fraudulently induced equipment contracts with small businesses and religious and other nonprofit organizations). The majority cites to the Franchise Rule as another example of the Commission using its Section 5 consumer protection authority to protect small businesses from deceptive practices. While the Franchise Rule, which requires certain disclosures prior to the sale of a franchise, sometimes protects businesses, it typically protects individual consumers that are purchasing franchises rather than sophisticated corporations. In adopting amendments to the Franchise Rule earlier this year, the Commission exempted from the Rule’s coverage several categories of sophisticated investors. 16 C.F.R. § 436.8(a).

<sup>16</sup> Some may argue that the Commission has already made the policy decision to treat businesses as consumers, and that there is no rational distinction between the companies we have protected and large corporations. I disagree. Although it is important to draw lines, there is such a vast difference between sophisticated corporations, on the one hand, and storefront shops, on the other, that we do not need to draw a bright line to distinguish this matter from previous cases the Commission has brought to protect small businesses.

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revisions, but instead it accepted and published them without objection. Moreover, any individual company could have entered into a binding agreement with National, but none sought timely to accept the 1994 royalty offer.

*In re Orkin Exterminating Co., Inc.*,<sup>17</sup> on which the majority relies, is fundamentally different from the instant matter. Orkin unilaterally increased its fees for more than 200,000 consumers, all of whom had signed written contracts that could readily be understood to be binding and that committed to a lifetime fee structure that would not increase.<sup>18</sup> If consumers paid the amount specified in their contracts, Orkin's policy was to return the payments. Thus, unlike the situation here, *Orkin* involved both (a) large numbers of individual consumers, and (b) widespread injury that the consumers could not reasonably avoid.

For all of these reasons, I respectfully dissent.

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<sup>17</sup> 108 F.T.C. 263 (1986), *aff'd*, *FTC v. Orkin*, 849 F.2d 1354 (11th Cir. 1988).

<sup>18</sup> Orkin pamphlets echoed this commitment, promising that the annual fee would "never increase." 108 F.T.C. at 356.

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**DISSENTING STATEMENT OF COMMISSIONER  
WILLIAM E. KOVACIC**

I oppose the Commission's decision to accept for comment the settlement described in the Analysis to Aid Public Comment ("Analysis"). Like Chairman Majoras,<sup>1</sup> I would not find that the Respondent engaged in an unfair method of competition or an unfair act or practice within the meaning of Section 5 of the Federal Trade Commission Act. Below I discuss two of the considerations that have influenced my thinking about this matter. These can serve as focal points for public comment before the Commission votes on whether to make the provisional settlement final.

**Effect on Private Rights of Action**

The Commission concludes that the respondent did not violate the Sherman Act or the Clayton Act. The Commission finds that the respondent violated Section 5 of the Federal Trade Commission Act because its conduct constituted both an unfair method of competition and an unfair act or deceptive practice. One reason the Commission gives for basing liability on Section 5 alone is that, unlike liability theories premised on infringements of the Sherman or Clayton Acts, private parties cannot use FTC intervention premised on Section 5 alone to support claims for treble damages in subsequent federal antitrust suits. The Commission's assumption that a pure Section 5 theory will have no spillover effects seems to be important to the result it reaches. Footnote 8 of the Analysis says:

It is worth noting that, because the proposed complaint alleges stand-alone violations of Section 5 rather than violations of Section 5 that are premised on violations of the Sherman Act, this

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<sup>1</sup> Dissenting Statement of Chairman Majoras, In the Matter of Negotiated Data Solutions LLC, File No. 0510094.

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action is not likely to lead to well-founded treble damage antitrust claims in federal court.

If the absence of spillover effects in private litigation is important to the Commission's decision, then the proposed settlement must account for the impact of FTC decisions upon the prosecution of claims based on state, as well as federal, causes of action.

The Commission overlooks how the proposed settlement could affect the application of state statutes that are modeled on the FTC Act and prohibit unfair methods of competition ("UMC") or unfair acts or practices ("UAP"). The federal and state UMC and UAP systems do not operate in watertight compartments. As commentators have documented, the federal and state regimes are interdependent. See, e.g., Dee Pridgen, *Consumer Protection and the Law* 214-22 (2007 Edition) (discussing use of FTC precedent to interpret state consumer protection statutes); Lawrence Fullerton et al., *Reliance on FTC Consumer Protection Law Precedents in Other Legal Forums* (American Bar Association, Section of Antitrust Law, Working Paper No. 1, July 1988) (describing how FTC consumer protection actions inform application of state law). By statute or judicial decision, courts in many states interpret the state UMC and UDP laws in light of FTC decisions, including orders. As a consequence, such states might incorporate the theories of liability in the settlement and order proposed here into their own UMC or UAP jurisprudence. A number of states that employ this incorporation principle have authorized private parties to enforce their UMC and UAP statutes in suits that permit the court to impose treble damages for infringements.

If the Commission desires to deny the reasoning of its approach to private treble damage litigants, the proposed settlement does not necessarily do so. If the Commission's assumption of no spillover effects is important to its decision, a

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rethink of the proposed settlement and order seems unavoidable.

**The Basis of Liability**

The proposed settlement treats the Respondent's conduct as both an unfair method of competition and an unfair act or practice. When a public agency pleads alternative theories of liability, especially in a settlement with a party that appears to lack the means to threaten credibly to litigate, it should specify the distinctive contributions of each theory to the prosecution of the matter. Suppose that an agency comfortably could premise its allegation of infringement upon theory A. If the agency decides to premise liability upon theory B as well as theory A, it is good practice for the agency to explain what theory B adds to the mix.

The Analysis here does not discuss why the Commission endorses separate UMC and UAP claims. The Analysis does not integrate the two theories of liability. A fuller effort to explain the relationship between the theories of liability in the Analysis would have led the Commission to confront anomalies in its exposition of the decision to prosecute. For example, the framework that the Analysis presents for analyzing the challenged conduct as an unfair act or practice would appear to encompass all behavior that could be called a UMC or a violation of the Sherman or Clayton Acts. The Commission's discussion of the UAP liability standard accepts the view that all business enterprises – including large companies – fall within the class of consumers whose injury is a worthy subject of unfairness scrutiny. If UAP coverage extends to the full range of business-to-business transactions, it would seem that the three-factor test prescribed for UAP analysis would capture all actionable conduct within the UMC prohibition and the proscriptions of the Sherman and Clayton Acts. Well-conceived antitrust cases (or UMC cases) typically address instances of substantial actual or likely harm to consumers. The FTC ordinarily would not prosecute behavior whose adverse effects could readily be avoided by the potential victims – either business entities or natural persons. And the balancing of harm against

## Analysis to Aid Public Comment

legitimate business justifications would encompass the assessment of procompetitive rationales that is a core element of a rule of reason analysis in cases arising under competition law.

The prospect of a settlement can lead one to relax the analytical standards that ordinarily would discipline the decision to prosecute if the litigation of asserted claims was certain or likely. This is particularly the case when, as in this matter, the respondent has indicated during negotiations that, for various reasons, it will not litigate and will accept a settlement. If the Commission had in mind specific analytical grounds for including both theories of liability (for example, because each theory standing alone contained weaknesses as foundations for the settlement), the Analysis omits them. In the logic of the Analysis, the UAP theory subsumes the UMC standard and makes the UMC provision superfluous. If the UAP concept is so broad, it is not evident what reasoning in this case supports the parallel inclusion of the UMC claim. More generally, it seems that the Commission's view of unfairness would permit the FTC in the future to plead all of what would have been seen as competition-related infringements as constituting unfair acts or practices.

**ANALYSIS OF CONSENT ORDER TO AID PUBLIC  
COMMENT**

The Federal Trade Commission ("Commission") has accepted, subject to final approval, an Agreement Containing Consent Order ("Agreement") with Negotiated Data Solutions LLC ("N-Data"), a limited liability company whose sole activity is to collect royalties in connection with a number of patents. The Agreement settles allegations that N-Data has violated Section 5 of the

### Analysis to Aid Public Comment

Federal Trade Commission Act, 15 U.S.C. § 45, by engaging in unfair methods of competition and unfair acts or practices relating to the Ethernet standard for local area networks. Pursuant to the Agreement, N-Data has agreed to be bound by a proposed consent order (“Proposed Consent Order”).

The Proposed Consent Order has been placed on the public record for thirty (30) days for comments by interested persons. Comments received during this period will become part of the public record. After thirty (30) days, the Commission will again review the Agreement and the comments received and will decide whether it should withdraw from the Agreement or make final the Agreement’s Proposed Consent Order.

The purpose of this analysis is to facilitate comment on the Proposed Consent Order. This analysis does not constitute an official interpretation of the Proposed Consent Order, and does not modify its terms in any way. The Agreement has been entered into for settlement purposes only, and does not constitute an admission by N-Data that the law has been violated as alleged or that the facts alleged, other than jurisdictional facts, are true.

### **Background**

The Institute of Electrical and Electronics Engineers (“IEEE”) is a standard-setting organization active in a number of different industries. IEEE standards often enhance the interoperability of communications products. One important example, which is at issue here, is the 802 series of networking standards. Many of the standards in the 802 series allow users to reliably access and share information over communications systems by interconnecting many compatible products manufactured by different producers.

The IEEE 802.3 standard, first published in 1983, and commonly referred to as “Ethernet,” applies to local area networks (“LANs”) built on copper, and more recently fiber optic, cables. That standard initially accommodated a maximum data

## Analysis to Aid Public Comment

transmission rate of 10 megabits per second (10 Mbps) between networked devices. By 1994, the 802.3 Working Group was developing a new 802.3 standard for “Fast Ethernet,” which would transmit data across a copper wire at 100 Mbps. The Working Group determined that it would be desirable for Fast Ethernet equipment to be compatible, to the extent possible, with existing LAN equipment and with future generations of equipment. A technology, variously known as “autodetection” and “autonegotiation,” was developed that would permit such compatibility.

Employees of National Semiconductor Corporation (“National”) were members and active participants in the 802.3 Working Group. In 1994, National proposed that the 802.3 Working Group adopt its autonegotiation technology, referred to as “NWay,” into the Fast Ethernet standard. At the time, National disclosed to the Working Group that it had already filed for patent protection for the technology. Several other participants also had developed competing technologies and the Working Group considered several alternatives, each having advantages and disadvantages compared to NWay. The 802.3 Working Group also considered adopting the Fast Ethernet standard without any autonegotiation feature.

At IEEE meetings to determine which autonegotiation technology to include in 802.3, one or more representatives of National publicly announced that if NWay technology were chosen, National would license NWay to any requesting party for a one-time fee of \$1,000. In a subsequent letter dated June 7, 1994, and addressed to the Chair of the 802.3 Working Group of IEEE, National wrote:

In the event that the IEEE adopts an autodetection standard based upon National’s NWay technology, National will offer to license its NWay technology to any requesting party for the purpose of making

## Analysis to Aid Public Comment

and selling products which implement the IEEE standard. Such a license will be made available on a nondiscriminatory basis and will be paid-up and royalty-free after payment of a one-time fee of one thousand dollars (\$1,000).

Based on National's licensing assurance, and following its normal balloting and voting procedures, IEEE incorporated NWay technology into the Fast Ethernet standard, which IEEE published in final form in July 1995. To maintain compatibility with the installed base of Ethernet and Fast Ethernet equipment, subsequent revisions of the 802.3 standard also have incorporated NWay autonegotiation technology. The "Fast Ethernet" standard became the dominant standard for LANs, and users are now locked in to using NWay technology due to network effects and high switching costs. Therefore, today, autonegotiation technologies other than NWay are not attractive alternatives to NWay for manufacturers who want to include inter-generational compatibility in their Ethernet products.

NWay contributed to the success of Fast Ethernet technology in the marketplace. An installed base of millions of Ethernet ports operating at 10 Mbps already existed when IEEE published the Fast Ethernet standard. The autonegotiation technology in the Fast Ethernet standard allowed owners of existing Ethernet-based LANs to purchase and install multi-speed, Fast Ethernet-capable equipment on a piecemeal basis without having to upgrade the entire LAN at once or buy extra equipment to ensure compatibility.

National benefitted financially from its licensing assurance. The assurance accelerated sales of National products that conformed to the Fast Ethernet standard by first, allaying concerns about the future costs of autonegotiation, and so speeding completion of the standard, and second, making Fast Ethernet-compatible products backward compatible with Ethernet

## Analysis to Aid Public Comment

equipment already installed on existing LANs, increasing the demand for Fast Ethernet products by those with existing systems.

In 1997, the United States Patent and Trademark Office issued U.S. Patent Nos. 5,617,418 and 5,687,174 (the '418 and '174 Patents) to National. Both patents arose from the patent application that National disclosed to the IEEE in 1994. National later received equivalent patents in other countries.

In 1998, National assigned a number of patents, including the '418 and the '174 Patents, to Vertical Networks ("Vertical"), a telecommunications start-up company founded by former National employees. Before the assignment, National gave Vertical a copy of the June 7, 1994 letter to the 802.3 Working Group. Vertical's outside patent counsel, Mr. Alan Loudermilk, acknowledged in writing that National had informed him "that several of the patents may be 'encumbered'" by actions National had taken with respect to the IEEE standards. The final agreement between Vertical and National stated that the assignment was "subject to any existing licenses that [National] may have granted." It further provided, "Existing licenses shall include ... [p]atents that may be encumbered under standards such as an IEEE standard ...."

In 2001, Vertical turned to its intellectual property portfolio in an effort to generate new revenues by licensing its technology to third parties. One aspect of this strategy was Vertical's effort to repudiate the \$1,000 licensing term contained in National's 1994 letter of assurance to the IEEE. On March 27, 2002, Vertical sent a letter to the IEEE that purported to "supersede" any previous licensing assurances provided by National. Vertical identified nine U.S. patents assigned to it by National, including the '174 and '418 patents, and promised to make available to any party a non-exclusive license "on a non-discriminatory basis and on reasonable terms and conditions including its then current royalty rates."

### Analysis to Aid Public Comment

In the Spring of 2002, Vertical developed a list of “target companies” that practiced the IEEE 802.3 standard and which it believed infringed on the ‘174 and ‘418 patents. Vertical sought to enforce the new licensing terms on these companies. These companies, which included many large computer hardware manufacturers, represented a substantial majority of all producers of 802.3 ports. Vertical’s patent counsel, Mr. Loudermilk, sent letters to most of these companies between 2002 and 2004 offering a license for patents covering aspects of “the auto-negotiation functionality” in networking products, including products compliant with IEEE 802.3. Vertical also filed suit against a number of companies alleging that “switches, hubs, routers, print servers, network adapters and networking kits” having autonegotiating compatibility, infringed its ‘174 and ‘418 patents. Vertical entered into several licensing agreements producing licensing fees far in excess of \$1,000 from each licensed company.

In late 2003, Vertical assigned some of its patent portfolio, including the ‘174 and ‘418 patents, to N-Data, a company owned and operated by Mr. Loudermilk.<sup>1</sup> N-Data was aware of National’s June 7, 1994 letter of assurance to the IEEE when Vertical assigned those patents to N-Data. Yet it rejected requests from companies to license NWay technology for a one-time fee of \$1,000. Instead, N-Data threatened to initiate, and in some cases prosecuted, legal actions against companies refusing to pay its royalty demands, which are far in excess of that amount.

### **The Proposed Complaint**

Vertical and N-Data sought to exploit the fact that NWay had been incorporated into the 802.3 standard, and had been adopted by the industry for a number of years, by reneging on a known

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<sup>1</sup> Vertical subsequently sold its remaining business assets and ceased operations.

## Analysis to Aid Public Comment

commitment made by their predecessor in interest. Even if their actions do not constitute a violation of the Sherman Act, they threatened to raise prices for an entire industry and to subvert the IEEE decisional process in a manner that could cast doubt on the viability of developing standards at the IEEE and elsewhere. The threatened or actual effects of N-Data's conduct have been to increase the cost of practicing the IEEE standards, and potentially to reduce output of products incorporating the standards.<sup>2</sup> N-Data's conduct also threatens to reduce the incentive for firms to participate in IEEE and in other standard-setting activities, and to rely on standards established by standard-setting organizations.

The Proposed Complaint alleges that this conduct violates Section 5 of the FTC Act in two ways: first, N-Data engaged in an unfair method of competition; and second, N-Data engaged in an unfair act or practice.

### 1. Unfair Method of Competition

N-Data's conduct constitutes an unfair method of competition. The Supreme Court in *FTC v. Sperry & Hutchinson Co.* endorsed an expansive reading of the "unfair method of competition" prong of Section 5, stating that the Commission is empowered to "define and proscribe an unfair competitive practice, even though the practice does not infringe either the letter or spirit of the antitrust laws" and to "proscribe practices as unfair ... in their effect on competition."<sup>3</sup> That description of the scope of Section 5 accords with the legislative history of Section 5.<sup>4</sup>

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<sup>2</sup> The conduct by Vertical and N-Data has led to, or threatened to lead to, increased prices in the markets for autonegotiation technology (1) used in 802.3 compliant products and (2) used in products that implement an IEEE standard enabling autonegotiation with 802.3 compliant products.

<sup>3</sup> *FTC v. Sperry & Hutchinson Co.*, 405 U.S. 233, 239 (1972); *see also* *FTC v. Ind. Fed'n of Dentists*, 476 U.S. 447, 454 (1986). *See generally* Concurring Opinion of Commissioner Jon Leibowitz, *In re Rambus, Inc.*, Docket No. 9302, available at <http://www.ftc.gov/os/adjpro/d9302/>

## Analysis to Aid Public Comment

Notwithstanding that broad description, the unfair method of competition prong of Section 5 is subject to limiting principles. The first relates to the nature of the conduct. In *OAG*, the Second Circuit held that such a violation could not be found where the respondent “does not act coercively.”<sup>5</sup> Similarly, in *Ethyl* the Second Circuit held that “at least some indicia of oppressiveness must exist ....”<sup>6</sup> This requirement is met here, given N-Data’s efforts to exploit the power it enjoys over those practicing the Fast Ethernet standard and lacking any practical alternatives. This form of patent hold-up is inherently “coercive” and “oppressive” with respect to firms that are, as a practical matter, locked into a standard.

The second limiting principle relates to the effects of the conduct. Although the Supreme Court has made it clear that the respondent’s conduct need not violate the letter (or even the spirit) of the antitrust laws to fall under Section 5, that does not mean that conduct can be considered an unfair method of competition if it has no adverse effect at all on competition. That requirement, however, is also satisfied here, given the conduct’s adverse impact

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[060802rambusconcurringopinionofcommissionerleibowitz.pdf](http://www.ftc.gov/speeches/rosch/Rosch-NEERA-Speech-July6-2006.pdf); Statement of Commissioner J. Thomas Rosch, “Perspectives on Three Recent Votes: the Closing of the Adelphia Communications Investigation, the Issuance of the Valassis Complaint & the Weyerhaeuser Amicus Brief,” before the National Economic Research Associates 2006 Antitrust & Trade Regulation Seminar, Santa Fe, New Mexico (July 6, 2006) at 5-12, available at <http://www.ftc.gov/speeches/rosch/Rosch-NEERA-Speech-July6-2006.pdf>.

<sup>4</sup> See, e.g., Cong. Rec. 12,153 (1914) (statement of Sen. Robinson) (“unjust, inequitable or dishonest competition” proscribed), 51 Cong. Rec. 12,154 (1914) (statement of Sen. Newlands) (conduct that is “contrary to good morals” proscribed).

<sup>5</sup> *Official Airline Guides v. FTC*, 630 F.2d 920, 927 (2d Cir. 1980) (“OAG”).

<sup>6</sup> *E.I. Du Pont v. de Nemours & Co. v. FTC*, 729 F.2d 128, 139-40 (2d Cir. 1984) (“Ethyl”).

## Analysis to Aid Public Comment

on prices for autonegotiation technology and the threat that such conduct poses to standard-setting at IEEE and elsewhere.

Respondent's conduct here is particularly appropriate for Section 5 review. IEEE's determination to include National's technology in its standard rested on National's commitment to limit royalties to \$1,000. That commitment had substantial competitive significance because it extended not to a single firm, but rather to an industry-wide standard-setting organization. Indeed, in the standard-setting context – with numerous, injured third parties who lack privity with patentees and with the mixed incentives generated when members may be positioned to pass on royalties that raise costs market-wide – contract remedies may prove ineffective, and Section 5 intervention may serve an unusually important role.

N-Data's conduct, if allowed, would reduce the value of standard-setting by raising the possibility of opportunistic lawsuits or threats arising from the incorporation of patented technologies into the standard after a commitment by the patent holder. As a result, firms may be less likely to rely on standards, even standards that already exist. In the creation of new standards, standard-setting organizations may seek to avoid intellectual property entirely, potentially reducing the technical merit of those standards as well as their ultimate value to consumers.

A mere departure from a previous licensing commitment is unlikely to constitute an unfair method of competition under Section 5. The commitment here was in the context of standard-setting. The Supreme Court repeatedly has recognized the procompetitive potential of standard-setting activities. However, because a standard may displace the normal give and take of competition, the Court has not hesitated to impose antitrust liability on conduct that threatens to undermine the standard-

## Analysis to Aid Public Comment

setting process or to render it anticompetitive.<sup>7</sup> The conduct of N-Data (and Vertical) at issue here clearly has that potential.<sup>8</sup>

## 2. Unfair Act or Practice

N-Data's efforts to unilaterally change the terms of the licensing commitment also constitute unfair acts or practices under Section 5 of the FTC Act. The FTC Act states that "unfair or deceptive acts or practices in or affecting commerce[] are . . . unlawful." An unfairness claim under this part of Section 5 must meet the following statutory criteria:

The Commission shall have no authority . . . to declare unlawful an act or practice on the grounds that such act or practice is unfair unless the act or practice causes or is likely to cause substantial injury to consumers which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to consumers or to competition.<sup>9</sup>

The Commission may consider established public policies as evidence to be considered with all other evidence, though not as a primary basis for a determination of unfairness.<sup>10</sup> As the Eleventh

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<sup>7</sup> See *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, 41 (1912); *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 (1989); *Am. Soc'y of Mech. Engineers, Inc. v. Hydrolevel Corp.*, 456 U.S. 556, 571 (1982).

<sup>8</sup> It is worth noting that, because the proposed complaint alleges stand-alone violations of Section 5 rather than violations of Section 5 that are premised on violations of the Sherman Act, this action is not likely to lead to well-founded treble damage antitrust claims in federal court. See Herbert Hovenkamp, *Federal Antitrust Policy* at 588 (2d ed. 1999).

<sup>9</sup> 15 U.S.C. § 45(n) (1992).

<sup>10</sup> *Id.*

## Analysis to Aid Public Comment

Circuit emphasized in *Orkin Exterminating Co. v. FTC*,<sup>11</sup> the Commission has applied limiting principles requiring a showing that (1) the conduct caused “substantial consumer injury,” (2) that injury is “not . . . outweighed by any countervailing benefits to consumers or competition that the practice produces,” and (3) it is an injury that “consumers themselves could not reasonably have avoided.”<sup>12</sup>

This Section 5 claim against the efforts of Vertical and N-Data to unilaterally increase the price for the relevant technology by knowingly reneging on National’s commitment meets these statutory criteria, and thus constitutes a violation of Section 5’s prohibition of unfair acts and practices. NWay was chosen for the standard on the basis of the assurances made by National to the IEEE 802.3 Working Group. Further, the industry relied, at least indirectly, on National’s assurances regarding pricing, and made substantial and potentially irreversible investments premised on those representations. After the standard became successful, and it became difficult, if not impossible, for the industry to switch away from the standard, Vertical and then N-Data took advantage of the investments made by these firms by reneging on National’s commitment. Because it is now no longer feasible for the industry to remove the technologies, the value that N-Data was able to extract from market participants was due to the opportunistic nature of its conduct rather than the value of the patents.<sup>13</sup>

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<sup>11</sup> *Orkin Exterminating Co. v. FTC*, 849 F.2d 1354, 1364 (11th Cir. 1988).

<sup>12</sup> See Letter from Federal Trade Commission to Senators Ford and Danforth (Dec. 17, 1980), reprinted in H.R. Rep. No. 156, Pt. 1, 98th Cong., 1st Sess. 33-40 (1983) available at <http://www.ftc.gov/bcp/policystmt/ad-unfair.htm>, appended to the Commission’s decision in *International Harvester*, 104 F.T.C. at 949, 1061 (1984), and subsequently codified by Congress at 15 U.S.C. § 45(n).

<sup>13</sup> The IEEE designed its rules to avoid just such a result. IEEE’s stated purpose for requesting letters of assurance was to avoid giving “undue

## Analysis to Aid Public Comment

Accordingly, an action against this conduct meets the criteria set forth in the statute and in *Orkin*. First, N-Data's reneging on its pricing commitments here involved "substantial consumer injury." The increase in royalties demanded by Vertical Networks and later N-Data could result in millions of dollars in excess payments from those practicing the standard, not to mention the legal fees those firms might spend defending lawsuits.<sup>14</sup> In addition, often in market-wide standard-setting contexts, the licensees have an incentive to pass along higher costs to the ultimate consumers who purchase the products.<sup>15</sup> Thus, these end consumers who purchase products using N-Data's technology may face increased prices due to the higher royalties. Further, those demands also have no apparent "countervailing benefit" – to those upon whom demands have been made, ultimate consumers, or to competition – so the second requirement is also met. With respect to the third requirement, both the Commission and the Eleventh Circuit in *Orkin* stated that consumers "may act to avoid injury before it occurs if they have reason to anticipate the impending harm and the means to avoid it, or they may seek to mitigate the damage afterward if they are aware of potential

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preferred status to a company" and to ensure that the adoption of a technology would not be "prohibitively costly or noncompetitive to a substantial part of the industry." 1994 *IEEE Standards Operations Manual* §6.3.

<sup>14</sup> The Commission has a "longstanding position that the statutory prohibition against 'unfair or deceptive acts or practices' includes practices that victimize businesspersons as well as those who purchase products for their own personal or household use," given that businesses "clearly do consume goods and services that may be marketed by means of deception and unfairness." Brief of Federal Trade Commission as Amicus Curiae at 3-4, 8-9, *Vermont v. International Collection Service, Inc.*, 594 A.2d 426 (Vt. 1991) (citing cases); see also, e.g., 16 C.F.R. § 436.1 (FTC rule protecting franchisees); *United States Retail Credit Ass'n v. FTC*, 300 F.2d 212 (4th Cir. 1962) (deception involving business clients); *United States Ass'n of Credit Bureaus, Inc. v. FTC*, 299 F.2d 220 (4th Cir. 1962) (same).

<sup>15</sup> Susan A. Creighton, *Cheap Exclusion*, 72 ANTITRUST L.J. 975, 994 (2005).

## Analysis to Aid Public Comment

avenues to that end.”<sup>16</sup> Here, those who created the standard had no way to anticipate the repudiation of the price commitment before it occurred and, apart from expensive litigation, those locked into the standard had no way to avoid the threatened injury posed by the demands that they faced. Thus, those practicing the standard were locked in to even a greater extent than the consumers in *Orkin*. Put simply, this is a form of what has been described as “patent hold-up.”

The facts alleged in the complaint here are similar to those found in the Commission’s decision in *Orkin*, which was affirmed by the Eleventh Circuit.<sup>17</sup> In that case, the respondent signed contracts with consumers to supply lifetime extermination services at a fixed annual renewal fee. Years later, the respondent unilaterally increased these fees. Consumers needing extermination services had no reason to anticipate Orkin’s unilateral price increase and there was no evidence that they could contract with Orkin’s competitors on terms similar to Orkin’s initial terms. The Commission held, and the Eleventh Circuit agreed, that Orkin’s unilateral price increase was an unfair act or practice under Section 5. Similarly, National made non-expiring royalty commitments that Vertical and N-Data later repudiated with unilateral increases, which the industry could not have reasonably anticipated before the market wide adoption of the standard and which consumers had no chance of avoiding due to network effects and lock-in.

Clearly, merely breaching a prior commitment is not enough to constitute an unfair act or practice under Section 5. The standard-setting context in which National made its commitment is critical to the legal analysis. As described above, the lock-in

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<sup>16</sup> *Orkin*, 849 F.2d at 1365.

<sup>17</sup> *In re Orkin Exterminating Co.*, 108 F.T.C. 263 (1986), *aff’d*, 849 F.2d 1354 (11th Cir. 1988).

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effect resulting from adoption of the NWay patent in the standard and its widespread use are important factors in this case. In addition, the established public policy of supporting efficient standard-setting activities is an important consideration in this case.<sup>18</sup> Similarly, it must be stressed that not all breaches of commitments made by owners of intellectual property during a standard-setting process will constitute an unfair act or practice under Section 5. For example, if the commitment were immaterial to the adoption of the standard or if those practicing the standard could exercise countermeasures to avoid injury from the breach, the statutory requirements most likely would not be met. Finally, it needs to be emphasized that not all departures from those commitments will be treated as a breach. The *Orkin* court suggested that there might be a distinction between an open-ended commitment and a contract having a fixed duration.<sup>19</sup> That distinction does not apply here because the context of the commitment made it plain that it was for the duration of National's patents. However, most such commitments, including the one here, are simply to offer the terms specified. Indeed, those principles are reflected in the remedy set forth in the consent decree.

**The Proposed Consent Order**

The Proposed Consent Order prohibits N-Data from enforcing the Relevant Patents, defined in the order, unless it has first offered to license them on terms specified by the order. The terms of that license follow from those promised by National Semiconductor in its letter of June 7, 1994, to the IEEE. Specifically, N-Data must offer a paid-up, royalty-free license to the Relevant Patents in the Licensed Field of Use in exchange for

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<sup>18</sup> See *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500-01 (1998) (regarding the potential procompetitive advantages of private associations promulgating safety standards).

<sup>19</sup> *Orkin*, 849 F.2d at 1361.

## Analysis to Aid Public Comment

a one-time fee of \$1,000. The form of this license is attached as Appendix C to the order. The Licensed Field of Use is defined in the license as the “use of NWay Technology to implement an IEEE Standard,” and this includes “optimization and enhancement features” that are consistent with such use. NWay Technology is defined in the license to have the same meaning as it did in the June 7, 1994 letter, and the license gives examples of documents describing the use of NWay Technology.

The Commission recognizes that some firms may inadvertently allow the \$1,000 offer from N-Data to languish. Therefore, if an offeree has failed to accept such an offer within 120 days, the Proposed Consent Order allows N-Data to sue to enforce the Relevant Patents. At the time N-Data files suit, however, it must make a second offer. This second offer provides a prospective licensee with an opportunity to accept the patent license specified by the order in return for a payment of thirty-five thousand dollars (\$35,000). The requirement that the second offer be delivered in the context of litigation gives N-Data an incentive to pursue patent enforcement only against companies over which it has a reasonable likelihood of prevailing in court. It will also ensure that the second offer will receive the full attention of knowledgeable counsel for the offeree. A \$35,000 license fee will offset some of N-Data’s costs of litigation, and it will discourage recipients of an initial offer from simply waiting to be sued, and *then* accepting the first offer. The offeree’s time to accept the second offer expires with the time to file a responsive pleading to the filing that accompanies the second offer. After that, the amount that N-Data can collect from an accused infringer is not limited by the order.

The Proposed Consent Order requires N-Data to distribute copies of the complaint and the Proposed Consent Order to specified persons. It also prohibits N-Data from transferring any of the Relevant Patents, except to a single person who has agreed to be bound by the Proposed Consent Order and by the patent

*Analysis to Aid Public Comment*

licenses formed thereunder. The Proposed Consent Order also contains standard reporting, notification and access provisions designed to allow the Commission to monitor compliance. It terminates twenty (20) years after the date it becomes final.

## Complaint

## IN THE MATTER OF

**PERNOD RICARD S.A.**CONSENT ORDER, ETC., IN REGARD TO ALLEGED VIOLATIONS  
OF SEC. 7 OF THE CLAYTON ACT AND SEC. 5 OF THE FEDERAL  
TRADE COMMISSION ACT*Docket C-4224; File No. 081 0119**Complaint, July 17, 2008 – Decision, October 14, 2008*

This consent order addresses the proposed acquisition by Pernod Ricard S.A. of V&S Vin & Sprit AB (publ). The companies are direct and significant competitors in the super-premium vodka market. In addition, after the acquisition, Pernod Ricard would become a joint venture partner with Beam Global Spirits & Wine, Inc., and share in the management of Future Brands LLC, which distributes Beam Global products. As a joint venture partner, Pernod Ricard would have access to competitively sensitive information about Beam Global brands that compete with Pernod Ricard brands. In regard to the vodka market, the order requires that Pernod Ricard divest its interest in distributing Stolichnaya Vodka back to the brand owner, Spirits International BV. If Pernod Ricard fails to complete the required divestiture within 6 months, the Commission may appoint a divestiture trustee to sell V&S's Absolut Vodka assets and business to a Commission-approved acquirer. An exception may be made because of ongoing litigation between Spirits International and others regarding ownership of the Stolichnaya trademark and related rights to sell vodka under that label. If Pernod Ricard is prohibited by court order from divesting its distribution rights to Stolichnaya Vodka, instead of divesting the Absolut Vodka assets, it would have the option of divesting the income stream from its sales of Absolut Vodka. The order requires that Pernod Ricard help ensure that the acquirer of the Stolichnaya Vodka business is able to continue operations in a fully competitive manner, including providing key employees with financial incentives to remain with Pernod Ricard (in order that those employees might then be available for hire by the acquirer); providing lists of key employees to the acquirer; temporarily providing technical assistance and training at the acquirer's request; and temporarily providing back-office procedures to the acquirer. In regard to the Future Brands joint venture, the order prohibits Pernod Ricard from acquiring any business information on Beam Global brands through certain firewall procedures: the Pernod Ricard designees to the Future Brands Board of Managers cannot be officers or directors of Pernod Ricard; Pernod will recommend to the Future Brands board that it implement database protocols limiting Pernod designated