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WRITER'S DIRECT NUMBER:

November 26, 2007

Rec'd 11-26-07
cc: J. O'Connell

Honorable Thomas O. Barnett, Esq.
Office of the Assistant Attorney General
Antitrust Division
Department of Justice
Main Justice Building, Room 3109
950 Pennsylvania Avenue, NW
Washington, DC 20530

**Re: Letter of Request for Business Review
Regarding the Licensing of
Patents Essential to RFID Reader Products and RFID Label Products**

Dear Mr. Barnett:

We represent the RFID Consortium LLC, an entity newly formed under the laws of Delaware (the "Consortium"). The current participants in the Consortium are France Telecom ("France Telecom"), Hewlett-Packard Company ("HP"), LG Electronics ("LG"), Motorola Inc. ("Motorola"), ThingMagic, Inc. ("ThingMagic"), Zebra Technologies Corporation ("Zebra"), and 3M Innovative Properties Company ("3M").

On behalf of these participants, and pursuant to 28 C.F.R. §50.6, we submit this request for a Business Review by the Department of Justice ("the Department") of a proposed joint patent licensing arrangement. We believe that the design and proposed operation of the Consortium is consistent with both prior Department guidance in this arena and the recent guidance issued jointly by the Department and the Federal Trade Commission, *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition*, April 2007. As noted in these recent guidelines, however, "the enforcement conclusions of the Department and Federal Trade Commission depend heavily on the particular facts of each pooling proposal or existing pool."¹ Accordingly, the founding members of the Consortium have elected to seek review from the Department.

As explained more fully below, the instant proposal relates to patent licensing activities for ultra high frequency radio frequency identification ("UHF RFID") reader products and label

¹ See *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition*, Ch 3, § III(D)(1)(b)(i).

products ("RFID Readers" and "RFID Labels," respectively). Most consumers are already familiar with the ubiquitous "bar code" label on consumer goods. The bar code permits manufacturers, wholesalers, retailers and consumers to capture certain product information (such as product description, serial number, etc.) by exposing the label to a laser reader. Current bar code technology, however, is limited to line of sight reading of single units and is limited in the amount of information that can be conveyed by the bar coded label itself.

UHF RFID technology offers significant advantages over traditional bar code labels and bar code readers. RFID Readers use ultra high frequency radio waves, instead of laser light, to communicate with an encoded RFID Label. The RFID Label in turn provides identifying data back to the RFID Reader. For instance, in a commercial distribution context, this technology enables a person to determine the inventory of an entire warehouse of products with an RFID Reader device. The RFID Reader obtains information from any product that has been properly tagged with an RFID Label. In the retail context, storeowners can take inventory of tagged products directly on the shelf, and consumers will be able to check out entire baskets of tagged items at a store without unloading them. These are only a few examples of RFID's applications.

As explained more fully below, RFID Labels and Readers are subject to two essentially identical standards promulgated by EPCglobal, Inc. in the United States [EPC UHF Generation 2 (CIG2)] and the International Organization for Standardization ("ISO") for international applications [ISO 18000 Part 6] (collectively, the "UHF RFID Standards"). Compliance with these UHF RFID Standards, however, poses a risk that companies may infringe one or more patents in making, using, or selling RFID Readers and Labels. Thus, a need for a joint patent licensing arrangement exists, and the Consortium is designed to address that need.

As with other joint patent licensing activities reviewed by the Department, the Consortium has several salient and familiar features. *First*, only patents that have been determined by an independent outside expert or experts² to be essential to compliance with the UHF RFID Standards will be permitted to be licensed by the Consortium. *Second*, all licensors remain free to license their patents independently. *Third*, licenses will be offered to all interested parties on fair, reasonable, and non-discriminatory terms. *Fourth*, the participants share in the

² The RFID Consortium designated Kenneth Rubenstein, J.D., Ph.D, a partner in Proskauer Rose LLP, to evaluate patents for the Consortium. Dr. Rubenstein has substantial experience as an independent patent evaluator for patent and licensing pools involving industry standards. Each participant, prior to the evaluation of its patents, engaged Dr. Rubenstein pursuant to a Patent Evaluator Engagement Letter in the form attached hereto as Exhibit A. All patents of current participants reviewed to date have been United States Patents. The Consortium contemplates that, as more international patents and equivalents are presented, it may be appropriate to retain experts in multiple countries. Consistent with other Department-approved joint licensing arrangements, the agreements here provide for a streamlined review of foreign equivalents of any patent previously deemed essential. Such patents are called "Vouched Patents" and are governed under Section 3.3 of the Participant Agreement.

royalties received by the Consortium in accordance with certain formulae that are discussed below. *Fifth*, the Consortium will retain an independent outside administrator to handle all licensing and related activity, thus removing the participants from any day-to-day aspects of operations of the Consortium.

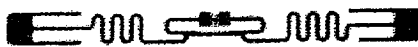
I.
SUMMARY OVERVIEW OF UHF RFID TECHNOLOGY

A. RFID Devices

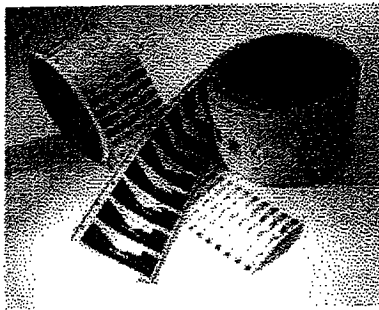
Before turning to the proposed Consortium itself, it may be useful to briefly review the nature of UHF RFID technology.

For purposes of the agreements at issue here, a Label Product is defined as “an RFID device that is designed to be associated with an item to store and communicate data related to the item. Label Products may include, without limitation, integrated circuits (or ‘chips’), antennas, inlays (or ‘inserts’), as well as tags, substrates, labels, encapsulates or carriers with which Label Products are associated.” Participant Agreement, Article I, Section 1.1 [Exhibit B, p. 3]. These components are designed in such a way that they can be embedded into, adhered onto, or otherwise affixed to a box, pallet, or other item.

A common UHF RFID label looks very much like a traditional stick-on label, except that within it is embedded an antenna and an integrated circuit. (Not all UHF RFID labels necessarily are embedded within a sticky label.) An illustration of a representative RFID label and a roll of labels is set forth below:



Illustrative Label

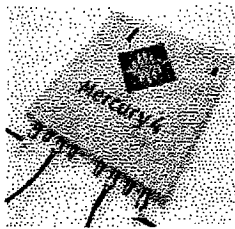


Illustrative Roll of Labels

For purposes of the agreements at issue here, a Reader Product is defined as “a product that is designed to communicate with a Label Product. Reader Products include, without limitation, fixed and portable verifiers, validators, interrogators (or ‘readers’), printer-encoders, reader/writers and other devices or modules that interrogate, receive or process data contained in a Label Product.”³

RFID Readers transmit and receive an ultra-high-frequency radio transmission in the frequency bandwidth of 860-960 MHz through an antenna which is received by the RFID Label. Using the energy from the signal, the RFID Label communicates with the RFID Reader to conduct certain verification and data exchanges, such as providing the Electronic Product Code for that particular product, security information, etc. Once the Electronic Product Code data is received by the RFID Reader, the RFID Reader can then redirect that information to a related computer for processing and management.

There are both mounted and handheld forms of RFID Readers. Illustrative examples of a wall-mounted and a hand-held RFID Reader are set forth below:



Illustrative Mounted RFID Reader



Illustrative Handheld RFID Reader

B. RFID Standards

Where communication among multiple devices is required, there must be standards in order for the devices to properly interface and accurately and consistently communicate information. Standardizing critical aspects of the communications and interface protocols and conformance specifications ensures that RFID Labels and Readers can effectively communicate, regardless of the identity of the manufacturer of the reader or label. Interoperability and intercommunication are vital in that many of the benefits of UHF RFID systems would be lost if there were no uniform data protocols and other standards.

As mentioned above, two groups have played a major role in setting standards for UHF RFID systems generally.

³ Participant Agreement, Article I, Section 1.1 [Exhibit B, p. 5]

1. **EPCglobal**

EPCglobal, Inc. "is a subsidiary of the not-for-profit standards organization GS1 and supports the global adoption of the Electronic Product Code as a global standard to enable accurate information and visibility about products in the supply chain." <http://www.epcglobalinc.org>. EPCglobal is extensively involved with setting standards used in connection with products such as traditional bar code labels and RFID Labels that use Electronic Product Codes.

The EPCglobal Generation 2 UHF RFID standard refers to the standards and specifications announced by EPCglobal for ultrahigh radio frequency identification of Electronic Product Codes, including the Class 0, Class 0+ and Class 1 (Generation 1 and Generation 2) communications and interface protocols and conformance specifications as the same may be developed or hereafter amended from time to time. The EPCglobal Generation 2 standard was approved in December 2004.⁴

2. **ISO**

The International Organization for Standardization ("ISO") is an international standard setting organization composed of members from various standard setting organizations.

As of July 11, 2006, ISO incorporated EPCglobal's Generation 2 standard into its ISO/IEC 18000-Part 6c (Amendment 1). The incorporation of this amendment into the ISO standards gives the EPCglobal Generation 2 standard nearly universal acceptance as the governing protocol for RFID Labels and Readers.⁵

C. **Government and Commercial Interest In The UHF RFID Standards**

There is particular urgency in developing Reader and Label Products that are compliant with these standards. The Department of Defense has issued a *Suppliers' Passive RFID Information Guide*,⁶ which, as part of the Department's efforts to better manage its vast array of critical material, encourages if not mandates the use of labels that are compliant with the EPCglobal Generation 2 standard. It has declared:

DoD has established an expiration date ("sunset date") of 28 February 2007 for EPC Gen 1 Class 0 and Class 1 Specification tags and will accept UHF Gen 2 EPC Standard tags only

⁴ A copy of the EPCglobal Generation 2 UHF RFID standard is attached as Exhibit C hereto.

⁵ A copy of the ISO/IEC 18000-Part 6c (Amendment 1) standard is attached as Exhibit D hereto.

⁶ A copy of the *Suppliers' Passive RFID Information Guide* may be accessed via www.productivitybyrfid.com/dod.asp

thereafter. This corresponds to DoD's goal of migrating to the use of an open standard UHF Gen 2 EPC tag that supports DoD end-to-end supply chain integration.⁷ (Emphasis added.)

Major retailers such as Wal-Mart reportedly see RFID readers and labels as a way of greatly enhancing consumer benefits and streamlining warehousing and distribution. In fact, as with the Department of Defense, Wal-Mart has also encouraged the use of such technology.⁸

These governmental and private mandates have increased the urgency of finding means for all industry participants to more readily and predictably gain access to essential patents that are necessary to comply with the relevant UHF RFID Standards in a fashion that is: (a) more economical than multiple one-on-one negotiations; (b) less subject to the risk of royalty stacking and hold-ups by late licensors;⁹ and (c) less likely to generate costly and disruptive patent infringement litigation.

II. THE PROPOSED RFID CONSORTIUM

Each of France Telecom, HP, LG, Motorola, ThingMagic, Zebra, and 3M has rights under at least one patent that has been determined by an outside expert (as detailed below) to be essential to make, use or sell Label Products, Reader Products, or both.

Those companies have formed and have financially supported the Consortium in order to license, on reasonable and non-discriminatory terms, essential RFID patents to which they (and other patent holders who may subsequently become involved) have rights. The agreements described below were drafted for the purpose of organizing, managing and conducting an RFID patent licensing arrangement. Essential patents are those patents which are determined by the patent evaluator to be either necessarily infringed or patents under which a license is necessary as a practical matter because there are no economically viable substitutes to make, use or sell Reader Products or Label Products in compliance with the UHF RFID Standard as defined in the agreements. Such patents are referred to in the agreements as "Essential UHF RFID Patents."

⁷ See *Suppliers' Passive RFID Information Guide*, Section 3.4; see also *id.*, Section 3.6.

⁸ These organizations have imposed or encouraged the use of UHF RFID technology because of the capabilities of RFID in supply chain management and other areas. Thus far, the deadline for implementation of these requirements has been extended due to the difficulty and cost of implementation, an issue the RFID Consortium is designed to address in part.

⁹ The economic literature and governmental analyses by both the Department and the FTC recognize the prospect of "hold out" licensors attempting to exact a supra-competitive rent simply by waiting to be the last licensor of an essential patent necessary to comply with a standard. See *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation and Competition*, Chapter 3, Section III(A).

As with many modern joint patent licensing arrangements, the Consortium is based on the following series of agreements, each of which will be discussed below in more detail as appropriate:

1. *The Limited Liability Company Agreement* This document creates the Consortium LLC, provides for the admission of Participants as Members and governs the relationship between the Members and the Consortium. This Limited Liability Company Agreement has been signed by each of the Members. We have attached a copy of the form of that agreement as Exhibit E.
2. *The Participant Agreement* This document grants non-exclusive rights to the Consortium to license Essential UHF RFID Patents by an entity that holds rights in such Patents. Each company signing this agreement is considered to be a "Participant." This Participant Agreement has been signed by each of the Participants. We have attached a copy of the form of that agreement at Exhibit B.
3. *The Patent Portfolio License* This document is a non-exclusive license of the rights from an essential patent holder to a licensee. We have attached a copy of the form of that agreement at Exhibit F.
4. *The License Administrator Term Sheet* This document is an agreement between the Consortium and an experienced, independent patent licensing expert which will be retained by the Consortium following a favorable review by the Department, should one be forthcoming, to administer the licensing activities of the Consortium. The licensing activity will be conducted by Via Licensing Corporation, a wholly-owned subsidiary of Dolby Laboratories, Inc., which is based in California. Via has agreed to a License Administrator Term Sheet pursuant to which its services as License Administrator will be rendered. We have attached a copy of the form of that agreement as Exhibit G.

To confirm that no commercial activity may take place before the receipt of favorable Department review, all of the foregoing are subject to a Start Up Rider to the Participant Agreement making Department approval a precondition of any commercial activity. The Start Up Rider to the Participant Agreement has been signed by each of the Participants. We have attached a copy of the form of that agreement at Exhibit H. The date upon which the Consortium begins to grant licenses is referred to in the agreements as the "Commencement Date." The Start-Up Rider is intended to apply only to participants entering into the Participant Agreement prior to the Commencement Date because, following a favorable Department review, no further conditions will be necessary for the Consortium to begin operations.

A. Limited Liability Company Agreement

The Consortium was organized as a limited liability company under the laws of the State of Delaware on August 27, 2007. It has, however, conducted no operations.

Each Participant entering into a Participant Agreement is expected to be a Member of the Consortium and to enter into the Limited Liability Company Agreement. The Consortium will manage the licensing arrangement and will select and oversee the activities of Via as the independent License Administrator. The Limited Liability Company Agreement governs the activities of the Consortium and the relationships among the Participants.

An Administrative Committee elected by the Members of the Consortium directs the activities of the Consortium on behalf of the Members. Members of the Consortium retain the right to vote on major matters such as: any sale or transfer of any significant portion of the assets of the Company, commencement of litigation, call for additional Capital Contribution, and material changes to the form of the Participant Agreement or the Portfolio Patent License.

Each Member has made an initial capital contribution to fund operations of the Consortium. Each Member's percentage interest in the Consortium is based on its respective adjusted capital account balance. The percentage interest in the Consortium of each Member is initially equal among all Members. Thereafter, the percentage interest is subject to adjustment after three fiscal years based on the annual average percentage each Member received of the total royalties paid to all Members by licensees under Patent Portfolio Licenses.

A Member may withdraw from the Consortium at any time upon proper notice effective at the end of the fiscal year or immediately upon the termination of its Participant Agreement. Withdrawal as a Member of the Consortium does not affect the rights and obligations of the Participant under the Participant Agreement. Withdrawal of a Member also will not affect any party's rights under any previously granted Patent Portfolio License.

B. Participant Agreement

In order to participate in the licensing arrangement and to receive a share of royalties as a holder of an Essential UHF RFID Patent, an entity must enter into a Participant Agreement with the Consortium. This agreement gives the Consortium the non-exclusive right to license all that company's Essential UHF RFID Patents pursuant to the Patent Portfolio License.

Participants receive a share of royalties as set forth in Exhibit B of the Participant Agreement. In summary, half of the royalties are allocated to Participants based on the number of Participant's Essential UHF RFID Patents issued in the country of manufacture of the licensed products (25%) and in the country of end-use of the licensed products (25%). The other half of the royalties received are allocated substantially equally among Participants. Each Participant receives one (1) share, except that the program is designed to encourage (a) economic contributions to the formation of the program and (b) early participation by awarding a modified Participant Share as follows:

- A Participant will receive a share of 1.5 instead of 1 if the Participant enters into the Participant Agreement at least seven (7) Days prior to the date of submission to the Department of Justice of the request for business review of the licensing arrangement.

- A Participant will receive a share of 1.3 instead of 1 if the Participant enters into the Participant Agreement prior to the Commencement Date.
- A Participant will receive a share of 1.1 instead of 1 if the Participant enters into this Participant Agreement within the first two years of the Commencement Date.¹⁰

Patent calls for this licensing arrangement have been widely publicized, and the Consortium will continue, through its license administrator, to make patent calls for submissions by interested parties to the independent patent evaluator for an essentiality review.

All Essential UHF RFID Patents of a Participant or its Affiliates are to be included in the Portfolio Patents licensed by the Consortium. The number of Portfolio Patents of the Participant is used in calculating royalty share of the Participant. A patent is included in the calculation if it is determined by an independent patent evaluator to be an Essential UHF RFID Patent or if the patent is considered an equivalent of such patent. For purposes of determining the royalty share of a Participant, patents in a "Common Invention Group" (as defined in the agreements) are only counted once in each jurisdiction.

A Participant has the right to withhold or withdraw its patents from being licensed to licensees that have sued for infringement or have challenged the validity of Participant's RFID-related patents, or from licensees that the Participant has sued under an RFID-related patent.

There are no restrictions on a Participant independently licensing its own patents to any person. Thus, every Participant is free to license those patents that may be involved in this joint licensing arrangement (as well as any other patents within its portfolio) independent of the joint licensing arrangement.

C. Patent Portfolio License

Upon the Commencement Date, the Consortium will offer the right to make, use or sell an RFID device designed to conform to the UHF RFID standard in the form of a Patent Portfolio License. The Patent Portfolio License grants to the Portfolio Licensee a worldwide, royalty-

¹⁰ As a practical matter, the enhanced Participant share translates into a relatively modest incentive, but it may help to encourage participation in the short term, which is important in promoting the widespread adoption of UHF RFID technology. In this regard, the license administrator will be paid first for its services, and 50% of the remaining revenues will be allocated on a per patent basis. The enhanced Participant Share simply means that the remaining 50% of revenues will be allocated on a modestly weighted basis among all of the Participants. The Department has approved other plans that provide for enhanced payments to companies that help fund early operations. See *Promoting Innovation And Competition*, Ch 2, § I.

bearing, non-exclusive license under all of Participants' Essential UHF RFID Patents ("Portfolio Patents") to make, use or sell a "Licensed Product." Participants may elect to enter into a Patent Portfolio License, but are not required to do so. Licensed products may include:

- an RFID device designed to be associated with an item to store and communicate data related to the item ("a Label Product");
- an RFID device designed to communicate with a Label Product ("a Reader Product"); or
- an electronic device designed for mass market distribution to individual users which includes a Reader Product as well as substantial non-RFID functionality ("a Mobile Consumer Communication Device").¹¹

Royalty rates for each of the different licensed products are set forth in the Exhibits of the Patent Portfolio License. The royalty rates are subject to a most favored nations clause such that, if the Consortium offers more favorable royalty rates in the future, the Portfolio Licensees will have the option to enter into an agreement with such terms. The most favored nations clause is beneficial because it encourages early licensing and adoption by eliminating the concern that licensees might get better terms if they wait. The Patent Portfolio License also provides for reporting and payment of royalties by the Portfolio Licensee.

The Patent Portfolio License further permits Portfolio Licensees, under certain circumstances, the ability to "have made" licensed products and to sublicense Portfolio Licensee's rights to Affiliates of the Portfolio Licensees. In addition, the Portfolio Licensees receive a royalty-free license for internal use of the Portfolio Patents by the Portfolio Licensees in connection with testing, development, and research.

The Portfolio Licensees grant back to the Consortium the non-exclusive right to grant licenses on fair, reasonable and non-discriminatory terms under their essential UHF RFID patents. Entry into a Participant Agreement and the use of terms of the Patent Portfolio License are presumed to fulfill these obligations.

On a quarterly basis, each of the Portfolio Licensees will submit to Via, as licensing administrator, activity reports detailing the quantities, description and location where any licensed products were manufactured, acquired or sold by the Portfolio Licensee in the previous quarter along with a computation of the royalties due for such licensed products. This obligation includes an initial activity report for activity prior to the effective date of the Patent Portfolio

¹¹ Depending upon the needs of the industry and subject to further legal review, an additional form of license or non-assert agreement ultimately may be made available to manufacture an integrated circuit included in a Label Product.

License. The information provided in these activity reports will be submitted directly to an independent license administrator who will be under an obligation to maintain all information as confidential, and such information will remain confidential as to the participants and licensees. According to the Term Sheet with Via Licensing Corporation, Via will make available to licensees and maintain a secure, online, extranet-based, royalty reporting system. Information collected by the royalty reporting system will be made available to the Consortium in aggregate form only in accordance with the Term Sheet. This information will not be linked to any particular entity. Therefore, by using this license administrator that is independent of the Consortium, information from each Portfolio Licensee necessary to determine royalty allocation will be kept confidential from other participants.

Patent Portfolio Licenses will be for an initial five-year term. The Portfolio Licensee has the right to renew the Patent Portfolio License for an additional five years on the then-existing terms and conditions offered by the Consortium. The royalties, however, may not be increased by more than twenty-five percent (25%). Royalties may be reduced when and as market conditions require.

Portfolio Licensees may terminate the license at any time upon proper notice to the Consortium.

D. License Administrator Term Sheet

The Consortium plans to engage an experienced, independent expert license administrator to oversee the day-to-day operation of the licensing arrangement according to the terms of the License Administrator Term Sheet. As indicated above, Via Licensing Corporation is to be the license administrator and has agreed to terms set forth in the License Administrator Term Sheet. Via and its parent company Dolby have more than 35 years of experience in administering licensing programs. Via is an experienced license administrator for patent and licensing arrangements involving industry standards.

The duties of the license administrator will include, for example, identification and solicitation of potential portfolio licensees, entering into patent portfolio licenses with portfolio licensees, collecting and accounting for royalties and distributing revenues, and enforcing patent portfolio licenses.

According to the Term Sheet, Via will receive an administrative fee each year of ten percent (10%) of royalties collected. Via will receive a higher percentage of royalties during the first four years on a sliding (and reducing) scale.

E. Participant Agreement Start-Up Rider

The Start-Up Rider to the Participant Agreement is intended to apply to Participants entering into the Participant Agreement prior to the Commencement Date. The Start-Up Rider provides a procedure for transitioning from the execution of the Participant Agreement and the Limited Liability Agreement to the issuance of the first Patent Portfolio License.

Upon entry into a Participant Agreement, Participants may begin submitting patents believed in good faith to be essential UHF RFID patents. At least thirty days prior to the Commencement Date, a list of submitted patents determined to be, or vouched as, Essential UHF RFID Patents will be provided to each Participant. Prior to the Commencement Date and the issuance of any Patent Portfolio Licenses, a Participant has the right to withdraw from the Participant Agreement.

The Start-Up Rider also sets forth the amount of the participation fee and the mechanism for providing credits or repayment of start-up costs paid by Participants.

III ANTITRUST OBSERVATIONS

We believe that the overall structure and content of the proposed UHF RFID joint licensing arrangement are sufficiently similar to prior programs that they do not warrant extended written analysis here. (We are, of course, ready to discuss any of these matters in more detail should the Department have questions.) For example, the proposed program contains many of the same features that the Department has in the past emphasized in concluding that the potential joint patent licensing arrangement is not likely to be anticompetitive and can, in fact, have pro-competitive advantages.¹² Among other things, the Consortium can help ease and speed adoption of the UHF RFID Standards and potentially “address ‘hold up’ and ‘hold out’ problems that can sometimes stymie industry efforts to make a product that conforms to an industry standard.”¹³ In addition, it is anticipated that the Consortium will generate the usual and expected efficiencies associated with lower transaction costs in that “obtaining a pool license may be less costly than negotiating separate licenses with each patent owner.”¹⁴

The program is limited to essential patents. As the Department has noted, “the Department’s favorable business reviews of prior pools have relied heavily on assurances from the parties that the pools contain only complementary patents, stating that ‘a combination of complementary intellectual property rights, especially ones that block the application for which they are jointly licensed, can be an efficient and procompetitive method of disseminating those rights to would-be users.’”¹⁵ The instant program contains such assurances.

¹² See *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition*, Ch 3, Section II(C).

¹³ See *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition*, Ch 3, Section III(A).

¹⁴ *Id.*

¹⁵ See *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition*, Ch 3, Section III(D)(1)(b).

The proposed arrangement provides for the review of each proposed essential patent by an independent expert or experts before the patent may be included under the proposed Patent Portfolio License. Compensation is at the expert's standard hourly rates, the expert has no financial incentive to include or exclude a patent, and the expert has no economic affiliation with any individual entity seeking review. These kinds of protections have been deemed sufficient in prior contexts to indicate the independence of the expert as a gatekeeper.

Here, the proposed arrangement employs a test of essentiality that is consistent with past programs reviewed by the Department. An Essential UHF RFID Patent means "a Patent that is either necessarily infringed or as to which a license is necessary as a practical matter because there are no economically viable substitutes to make, use, or sell Reader Products or Label Products in compliance with the UHF RFID Standards."¹⁶ More specifically, the Department has commented with approval on the utility of such an understanding of essentiality as follows:

The pooling proposals approved by the Department have each defined the term "essential" to the standard in a slightly different manner. The MPEG-2 pool limits essential patents to those that are "technically essential" to produce a product pursuant to the standard's specifications, whereas the DVD pools also include patents that are practically (or economically) essential. Although there is a slightly greater degree of subjectivity in the criterion used by the DVD pools than in the criterion used by the MPEG-2 pool, both were found reasonable based on the facts presented at the time. If properly determined, essentiality should guarantee that the patents in the pool are complements.¹⁷

Here, as with the DVD pool, the standards are narrowly defined and tailored to meet the circumstances of the market and the applicable standards.¹⁸

In addition, the Department has recognized the role of economic self-interest as serving a similar function of discouraging the inclusion of non-essential patents. As discussed above, the formula used for the distribution of royalties includes a factor based on the number of patents. Each participant will benefit monetarily from the exclusion of non-essential patents and, accordingly, will have an incentive to encourage the expert to review other Licensors' patents critically, and to bring to the expert's attention any patents that have ceased to be essential. The

¹⁶ See Participant Agreement, Article I [Exhibit B, p. 3].

¹⁷ See *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition*, Ch 3, Section III(D)(1)(b)(i).

¹⁸ For example, one could argue that a even a crystal radio set strapped to a pallet could serve the same function as a tag and avoid infringement. This may avoid technical infringement, but is not an economically practicable means of compliance.

Participant Agreement expressly allows for challenges to validity of a patent by the Consortium itself or any other person and even requires a Participant itself to notify the Consortium if the Participant comes to a good faith belief that a Participant Portfolio Patent is not an Essential UHF RFID Patent.¹⁹

In order to avoid the antitrust concerns associated with invalid patents, invalid patents are excluded from the licensing program. While the Consortium will rely on the statutory presumption that an issued patent is valid, any patent that is determined to be invalid or unenforceable is subject to mandatory withdrawal.²⁰ All revoked or expired patents are also excluded from the licensing program.²¹ Moreover, Participants must notify the Consortium of any amended or reissued patents for purposes of further evaluation.²²

The program is non-exclusive. Every Participant remains free to license its own patented technology independent of the licensing arrangement on whatever terms may seem appropriate to such entity. Each company thus has the ability to compete freely and offer freely its patents on an individualized basis.

Grantbacks are limited and specific. The proposed licensing program requires licensors and licensees to agree to license to each other both their present essential patents and any essential patents that they may obtain in the future. As the Department has concluded in the past, “[t]he procompetitive benefits of such a requirement are clear.”²³ Among other pro-competitive advantages, the grantback provision likely will serve to help introduce other Essential UHF RFID Patents into the Portfolio License, thereby limiting the ability of a hold-out to exact a supra-competitive toll by remaining on the sidelines. The provision thus is further designed to ensure that no entity can take the benefits of a license but simultaneously block other parties from compliance with the UHF RFID Standards. As an ancillary benefit, the continued inclusion of new patents, should they emerge or be identified, lowers the Consortium’s (and the license administrator’s) cost of identifying and compiling essential patents. Finally, the prospect of the inclusion of future patents reduces the barriers and uncertainties facing other investors in the industry in making long-term investments in UHF RFID technology.

¹⁹ See Participant Agreement, Article III, Section 3.4. [Exhibit B, p. 7].

²⁰ See Participant Agreement, Article III, Sections 3.8 and 3.10. [Exhibit B, p. 9]

²¹ See Participant Agreement, Article III, Sections 3.8. [Exhibit B, p. 9]

²² *Id.*

²³ Business Review Letter Regarding DVD-ROM and DVD-Video from Joel I. Klein, Assistant Attorney General, to Carey Ramos (June 10, 1999) (<http://www.usdoj.gov/atr/public/busreview/2485.htm>).

Termination Rights Are Appropriately Tailored. To ensure stability for licensees, the license is for a five-year term and subject to essentially automatic renewal on the same terms at the licensees' option. (Royalty increases, if any, are capped to further ensure that licensees are provided a predictable investment horizon so as to encourage compliance with, and industry adoption of, the UFH RFID Standard.)²⁴ Termination can be invoked in limited circumstances such as non-payment of royalties. To address a common issue with respect to any joint patent license arrangement, however, a Participant has the right to withhold or withdraw its patents from being licensed to licensees that have sued for infringement or have challenged the validity of Participant's Essential or RFID-related patents, or from licensees that the Participant has sued under an Essential or RFID-related patent. Such rights can be invoked, however, only in limited circumstances.²⁵ Moreover, consistent with the foregoing precept, in the event a patent is withdrawn or withheld due to litigation or a validity challenge, the holder of the rights with respect to the challenged patent cannot share in any royalties received from the entity challenging that patent. And, if any litigation or invalidity challenge is sustained, the patent must be excluded from the Portfolio License. We believe that the applicable provisions in this regard are comparable to those previously reviewed and found competitively reasonable by the Department.²⁶

Access to Information. One potential concern that may be associated with joint licensing activities -- that the arrangement may facilitate access to competitively sensitive information of licensors and licensees -- is substantially ameliorated by the fact that the Consortium will use an independent third party license administrator. As stated above, it is anticipated that, following their retention and a favorable review by the Department should one be forthcoming, the licensing activity of the Consortium will be conducted by Via, a wholly-owned subsidiary of Dolby Laboratories, Inc. Neither Via nor Dolby are participants in the RFID industry. As a result of Via's role, the Participants are removed from, for example, engaging in licensing negotiations with actual or potential competitors. All information provided to Via by licensees and participants will be kept confidential and any information disseminated by Via to the Consortium will be in aggregate form and will not identify any relationship between the information and an individual entity.

Royalties are Reasonable and Non-Discriminatory. The Department has noted that while it generally "do[es] not assess the reasonableness of royalties set by patent pools," it will consider whether the royalty structure and contract terms would likely enable the pool

²⁴ See *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition*, Ch 2, Section 1.

²⁵ See Patent Portfolio License, Article VI, Section 6.6 [Exhibit F, p. 19].

²⁶ See, e.g., Letter from Joel I. Klein to Gerrard R. Beene, June 26, 1997 ("MPEG-2 Business Review Letter")(<http://www.usdoj.gov/atr/public/busreview/215742.htm>).

participants to raise prices or restrict output.²⁷ In this regard, several points may be worth noting. *First*, the royalty rates should not represent a significant percentage of the downstream product price. The proposed royalty is small relative to the total costs of manufacture, making collusion among competitors unlikely. *Second*, any prospect in this regard is even further attenuated in that (a) licensees may select any one or more of three discrete field-of-use licenses (one for chips, one for readers, one for labels); (b) licensees may initially choose from two royalty schedule options on the Reader and Label license (depending on their willingness to make a short-term or long-term license commitment); and (c) licensees may make an additional election under either royalty schedule to cover incremental activities as their needs change. While fairly simple in concept, the way that these choices branch out with their diverse economic impacts on different companies should only serve to further reduce any theoretical concerns about a stabilizing effect. *Third*, the structure of the arrangement and the relationship with Via are designed to encourage responsiveness to market conditions. If prices with respect to RFID technology decline, the agreements permit royalties to drop on an unlimited basis. In contrast, however, the arrangement provides caps on future royalty increases such that the future cost of a license is always subject to an upward boundary, thus promoting certainty among licensees and potentially enhancing competition.

The Licensing Agreements Encourage Innovation. Assuming that the current and prospective participants in the RFID industry can effectively obtain access to essential patents in order to comply with the UHF RFID Standards, the RFID industry is poised for significant innovation and growth. Licenses to the essential patents can be obtained on "fair, reasonable, and non-discriminatory terms" through the Consortium or, at the choice of the relevant companies, individually between relevant entities. Because the Consortium is limited to essential patents, all industry participants will continue to have significant incentives to develop innovative and competing technologies in many different fields.

IV CONCLUSION

We will be available at your convenience to provide any further information you may require. We very much appreciate the Department's attention to this matter. We hereby request that the Department afford confidential treatment to this Letter of Request for Business Review

²⁷ See *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition*, Ch 3, Section III(D)(5)(b).

Honorable Thomas O. Barnett, Esq.
November 26, 2007
Page 17

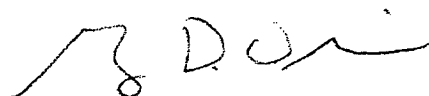
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as well as the appropriately marked exhibits.

Sincerely,



William F. Dolan



Geoffrey Oliver

cc: Bell, Boyd & Lloyd, LLP