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# LEGAL DEVELOPMENTS

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## FTC RULES THAT DECEPTION REGARDING PATENTS DURING STANDARD SETTING PROCESS VIOLATES ANTITRUST LAWS

**The FTC recently ruled that Rambus, a high-speed microchip design company, "held-up" the computer memory industry by failing to disclose and manipulating relevant intellectual property during standard setting activities. This decision is a cautionary tale for all companies involved in standard setting organizations.**

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Rambus develops, secures intellectual property ("IP") rights to, and licenses high-speed computer memory technologies. During the 1990's, Rambus participated for four years in the Joint Electron Device Engineering Council ("JEDEC"), which is a standard setting organization ("SSO") that includes most members of the computer memory industry. JEDEC operates on a cooperative basis, requiring its members to participate in good faith and, like some SSOs, to reveal the existence of any patents or applications that might be relevant to standards under consideration by JEDEC. JEDEC also requires members to commit to licensing applicable IP to other members on a reasonable and non-discriminatory ("RAND") basis. During and after Rambus' involvement in JEDEC, JEDEC considered and implemented standards for dynamic random access memory ("DRAM") technologies, which are circuit systems that store and process information while a computer is on.

Based on Rambus' conduct during and after its participation in JEDEC, the FTC brought a complaint in June of 2002 charging, among other things, monopolization of four DRAM technology markets. The complaint alleged that royalties to license DRAM technology increased, prices of DRAM to equipment manufacturers increased, incentives to produce JEDEC compliant memory technology decreased, and incentives to participate in SSOs decreased. While Rambus initially prevailed before an administrative law judge, FTC Complaint Counsel appealed and won.

Specifically, Complaint Counsel convinced the Commission that Rambus engaged in deception that rose to the level of exclusionary conduct for purposes of Section 2 of the Sherman Act. The FTC found that Rambus embarked on a deliberate IP strategy to gain as much coverage as possible over the high-speed DRAM markets. Pursuant to that strategy, Rambus deceived the other JEDEC members by refusing to disclose the existence of relevant Rambus patents and applications, misleading members to believe that Rambus was not seeking patents that would cover the standards to be implemented by JEDEC, and repeatedly amending its patent applications (based on information gathered at JEDEC meetings) to ensure that subsequently-issued patents would cover the ultimate standard. The FTC also found that Rambus strategically concealed its relevant IP until after the standards were adopted and the market was locked in, at which point Rambus brought patent infringement lawsuits against members employing the standard.

However, one of the decision's most interesting aspects is that the FTC arguably points to no affirmative conduct by Rambus. The specific conduct on which the FTC relies illustrates that, at

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Axinn, Veltrop & Harkrider LLP practices in the areas of antitrust and trade regulation, intellectual property and complex litigation. The firm provides ongoing advice and services to Fortune 500 clients in the antitrust aspects of M&A transactions. The firm also counsels clients in a wide range of other areas, including deceptive acts and practices, health care, consumer protection, FDA law and various regulatory areas.

most, Rambus omitted information regarding relevant IP, rather than affirmatively deceiving JEDEC. For example, when called to disclose relevant IP on a JEDEC ballot, Rambus simply provided no information. Later, when asked if Rambus wanted to comment on the possibility that it had IP relevant to a standard under discussion, the representative shook his head, but did not explain what that gesture meant. Similarly, Rambus disclosed IP relating to a different, non-DRAM standard, but noted that the disclosure statement "does [not] make any statement regarding potential infringement of Rambus intellectual property." When asked to explain this statement, the representative suggested obliquely that it only related to the non-DRAM technology. Thus, the decision relies on "deceptive omissions" and "evasive and misleading responses," rather than affirmative deception.

Perhaps to bolster its conclusion, the FTC also noted as significant that Rambus' general counsel concluded that Rambus' strategy was problematic and urged its withdrawal from JEDEC, and that even after Rambus withdrew, it continued to obtain information about JEDEC standards and amend and file IP applications to cover relevant new technologies. Moreover, the FTC emphasized that JEDEC's atmosphere of cooperation, members' expectation of disclosure of relevant IP, and the absence of any notice to JEDEC members regarding Rambus' IP were vital to its decision.

Having determined Rambus' conduct was exclusionary, the FTC concluded that Rambus possessed monopoly power and that Rambus' monopoly power was causally linked to its exclusionary conduct. Determination of a remedy, however, awaits further briefing by the parties.

It is interesting to note that this decision reflects a possible conflict between the Federal Circuit and the FTC: in a related case, the Federal circuit concluded that JEDEC rules did not require participants to affirmatively disclose relevant IP. *Compare* this decision *with Rambus, Inc. v. Infineon Techs. AG*, 318 F.3d 1081 (Fed. Cir. 2003). However, the Federal Circuit opinion analyzed the elements of fraud under Virginia law, which necessarily presents questions distinct from antitrust analysis. Similarly, other decisions refusing to penalize lack of disclosure of IP appear to turn more heavily on factual questions than on differences of legal opinion. *See, for example*, *Symbol Techs., Inc. v. Proxim Inc.*, 2004 U.S. Dist. LEXIS 14949 (D. Del. 2004) (ruling that there was no obligation to disclose – and thus no equitable estoppel – where SSO rules gave members a choice of agreeing to disclose or agreeing to license on RAND basis); *Sony Elecs., Inc. v. Soundview Techs., Inc.*, 157 F. Supp. 2d 172, 178 (D. Conn. 2001) (distinguishing disclosure in context of SSO from advocacy of a standard before an agency); *Townshend v. Rockwell Int'l Corp.*, 2000 U.S. Dist. LEXIS 5070 (N.D. Cal. 2000) (holding that where SSO by-laws did not spell out terms of disclosure, defendant did not violate them by not disclosing); *Lucas Aerospace v. Unison Indus.*, L.P., 899 F. Supp. 1268, 1294 (D. Del. 1995) (distinguishing disclosure in context of SSO from advocacy of standard to one customer). At a minimum, however, it is clear that this area of law continues to develop and thus bears ongoing attention from companies that are actively involved with SSOs.

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**Takeaways for companies with IP that are considering joining an SSO: It is important to understand SSO membership obligations, both with respect to disclosure of relevant IP and RAND licensing requirements, prior to joining. Where the SSO regulations require disclosure and cooperation, companies should reveal relevant IP and pursue a good faith course of dealing. Counsel should be consulted regarding IP strategy in light of SSO activity.**

**Takeaways for members of SSOs with obligations to disclose: It is advisable to perform due diligence on other members' IP applications. However, recognizing that applications are not published until at least 18 months, it is important to seek out information about SSO partners' IP and to ensure that any responses to questions regarding relevant IP are unambiguous.**

**Takeaways for SSOs: It is important to ensure that members' duty of good faith, disclosure obligations, and RAND licensing obligations are clearly articulated and legally sound. Counsel should be consulted regarding drafting SSO rules.**

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