

INTELLECTUAL PROPERTY ADVISORY

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IN THE MATTER OF RAMBUS, INC., FTC DOCKET NO. 9302

Administrative Law Judge Holds that Anti-Competitive Practices Not Proven as to Rambus, Inc.'s Participation in a Standards Setting Organization While Obtaining Patent Protection on Technologies Related to Adopted Standards

By Jon Jurgovan and Matthew Urbanawiz

Introduction

Standards setting organizations are common in many industries, and are used to define basic standards to promote widespread acceptance of related technologies. Standards enable manufacturers to independently develop products compliant to the standards, which will interoperate when joined together. The participants in the standards setting process, often manufacturers, benefit from standards by being able to capitalize on the expanded market made possible through their adoption. Technology users can benefit through standards due to increased competition amongst manufacturers developing standards-compliant products, which lowers costs and provides a larger array of products from which the user can select to best suit its needs.

The benefit of widespread use of standards is often in tension with the exclusionary rights of intellectual property owners. This tension is particularly acute in the context in which the intellectual property owner participates in the standard setting process. Participants who own intellectual property have a financial incentive in development of standards so as to require the licensing of their intellectual property. On the other hand, others without such intellectual property rights desire standards that can be used freely.

Further complicating this issue are the antitrust concerns that naturally arise from the concerted action of a group of competitors participating in the standards setting process. These issues, and potential pitfalls in participation in a standards setting organization, were recently addressed in the *In the Matter of Rambus, Inc.*, FTC Docket No. 9302. In this administrative proceeding, the Federal Trade Commission ("FTC") staff accused Rambus, a technology development and patent licensing company, of violating the antitrust laws by participating in a standards setting organization without disclosing patents and patent applications related to standards under consideration by such organization. The facts leading to this litigation are briefly summarized below.

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Description of Rambus and its activities in JEDEC

Rambus, Inc. is a technology development and patent licensing company. On April 19, 1990, Rambus filed U.S. Patent Application No. 07/510,898 (“the ‘898 application”) which, through divisions and continuations, now constitutes approximately forty (40) patents. This portion of Rambus’s patent portfolio is directed to various components and interfaces associated with computer memory that are fundamental to modern computer architectures and have been in widespread use for many years. Rambus licenses its patent portfolio, totaling 300 applications and patents, to the computer industry at recent levels of \$75-120 million dollars in annual revenue.

In June of 2002, the Federal Trade Commission staff filed an administrative complaint against Rambus based on Rambus’s involvement in the Joint Electronic Devices Engineering Council (“JEDEC”) standards organization while simultaneously seeking patent protection on related technologies. JEDEC is affiliated with the Electronic Industries Association (EIA) and has for many years developed standards related to computer memory technologies. As with most standards setting organizations, companies interested in the development of standards related to memory technologies can become JEDEC members and, through attendance at JEDEC meetings, participate in the process of introducing and adopting standards for the computer memory industry.

In late 1991, Rambus joined JEDEC and became a member of the JEDEC subcommittee overseeing computer memory standards. While Rambus was a member of JEDEC, JEDEC had what it considered to be a patent policy to be followed by its members. Before 1993, JEDEC’s patent policy discouraged the adoption of standards that “call for the exclusive use of a patented item or process.” These policies also discouraged adoption of standards referring to “a patented item or process” unless the committee knew “the technical information covered by the patent” and the patentee agreed to license the patent under reasonable terms. In October 1993, JEDEC modified its patent policy and required that:

EIA and JEDEC standards ... that require the use of patented items should be considered with great care Committees should ensure that no program of standardization shall refer to a product on which there is a known patent unless all of the relevant technical information covered by the patent is known

The policy language was further revised to include “pending patents.” As with the patent policies of many standards setting organizations, the October 1993 JEDEC policy required:

The Chairperson of any JEDEC committee...must call attention to the obligation of all participants to inform the meeting of any knowledge they may have of any patents, or pending patents, that might be involved in the work they are undertaking. Appendix E (Legal

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Guidelines Summary) provides copies of view graphs that should be used at the beginning of the meeting to satisfy this requirement.

From 1991 through 1995, Rambus attended JEDEC meetings pertaining to important aspects of modern computer memory chip systems, including: dual-edge clock, column address strobe (CAS) latency, programmable burst length, on-chip phase-locked loop (PLL), and delayed locked loop (DLL) technologies. These meetings resulted in the establishment of JEDEC standards for synchronous dynamic random-access memory (SDRAM). Simultaneously with its attendance at JEDEC, Rambus continued to seek and obtain patents related to these technologies without fully disclosing those patents and patent applications to JEDEC. In September 1993, Rambus disclosed the issuance of one of its patents, U.S. Patent No. 5,423,703 (“the ’703 patent”), to JEDEC. At the same meeting, JEDEC discussed a published World Intellectual Property Organization (WIPO) application of Rambus. In 1996, Rambus formally ended its involvement with JEDEC. During the time that Rambus was a member of JEDEC, it never made a substantive contribution to a standard and did not vote for adoption of any relevant standard, instead abstaining on all but one ballot in which Rambus voted against a proposed standard.

Even before leaving JEDEC, Rambus had approached numerous companies regarding licensing of its patent portfolio and some aspects of its technology. Rambus launched its initial public offering in 1997 and expanded its licensing efforts. In late 1999, Rambus began focusing on licensing SDRAM and double data rate (DDR) SDRAM memory technology. Thereafter, Rambus entered into license agreements on this SDRAM technology with Matsushita Electric Industrial Co., Ltd.; Elpida Memory, Inc.; Samsung Electronics Co.; NEC Corp.; Toshiba America Inc.; Oki Electric Industry Co.; and Mitsubishi Electronics America Inc. Other companies, including Hitachi, Inc., Infineon AG, Hynix, and Micron, initially refused to take a license to the Rambus portfolio. Rambus sued Hitachi and the litigation was quickly settled with Hitachi obtaining a Rambus license. These licensees paid royalties on the basis of 0.75% of SDRAM revenue, and 3.5% of DDR SDRAM revenue. The output of these companies totaled approximately 50% of the SDRAM market estimated at its height to have been approximately \$15 billion annually.

Rambus’s patent infringement suit against Infineon

In 2000, Rambus sued one of the remaining memory manufacturers, Infineon, in the Eastern District of Virginia for patent infringement, asserting U.S. Patent Nos. 5,954,804, 5,953,263, 6,034,918, and 6,032,214. *Rambus, Inc. v. Infineon AG*, 145 F.Supp.2d 721, 60 U.S.P.Q.2d 1385 (E.D.Va. 2001). Infineon counterclaimed against Rambus for fraud due to Rambus’s alleged failure to disclose its patents and applications to JEDEC in relation to the SDRAM and DDR SDRAM standards. Rambus argued that its disclosure of the ’703 patent provided the notice required under JEDEC’s disclosure duty as to all patents and pending applications owned by Rambus, since the specification and disclosure of the ’703 patent was identical to all patents

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subsequently issued on the original '898 application. According to Rambus, the '703 patent disclosed all of the subject matter that Rambus was entitled to claim and, thus, satisfied the JEDEC disclosure duty.

In a complex decision, a jury found that Rambus had committed fraud in its participation with JEDEC on the SDRAM and DDR SDRAM standards by failing to disclose the existence of all of its patents and applications to JEDEC. In addition, the District Court granted Infineon's motion for judgment as a matter of law (JMOL) of noninfringement of the patents at issue. The District Court overturned the jury verdict finding fraud related to the DDR SDRAM standards since JEDEC started work on these standards well after Rambus left JEDEC; accordingly, there was not substantial evidence to support the jury's verdict. Infineon was awarded \$7.1 million in attorneys fees and expenses. Both Rambus and Infineon appealed to the Court of Appeals for the Federal Circuit on several grounds.

On appeal to the Federal Circuit in *Rambus, Inc. v. Infineon AG*, 318 F.3d 108, 65 U.S.P.Q.2d 1705 (Fed. Cir. 2003), Rambus won a reversal of the fraud verdict on the basis that the Federal Circuit could not find substantial evidence in the record that Rambus's patent claims actually controlled the practice of any of the SDRAM standards. Therefore, the Federal Circuit concluded that Rambus was not obligated to disclose its patents or applications to JEDEC. Even if it was obligated to disclose its intellectual property, the Federal Circuit concluded that Rambus's disclosure of the '703 patent was sufficient to meet such disclosure requirement, given the vagueness of JEDEC's disclosure policy in not clearly defining what, when, how, and to whom the members must disclose information regarding their intellectual property. As a result, the Federal Circuit reversed the fraud verdict. In addition, the grant of JMOL of noninfringement was vacated due to what the Federal Circuit perceived as errors in construction as to certain of the claim terms.

The FTC staff complaint against Rambus

Meanwhile, before the Federal Circuit issued its opinion, the FTC authorized its staff to initiate administrative action against Rambus for anti-competitive practices. *In the Matter of Rambus, Inc.*, FTC Docket No. 9302¹, issued June 18, 2002. The FTC staff's complaint alleged that Rambus violated its disclosure duty to JEDEC and engaged in anti-competitive practices by enforcing its patent portfolio controlling those standards against computer memory manufacturers. Unlike Infineon's fraud claim, the FTC staff's complaint was based on the antitrust laws. In an initial decision² rendered February 23, 2004, Chief Administrative Law Judge (ALJ) Stephen J. McGuire dismissed the complaint against Rambus.

¹ <http://www.ftc.gov/os/adjpro/d9302/020618admincmp.pdf>

² <http://www.ftc.gov/os/adjpro/d9302/040223initialdecision.pdf>

“The FTC staff’s complaint alleged that Rambus violated its disclosure duty to JEDEC and engaged in anti-competitive practices by enforcing its patent portfolio controlling those standards against computer memory manufacturers.”

The ALJ's decision is based primarily on the ALJ's extensive factual findings. The ALJ found that the JEDEC patent policy did not require that participating companies disclose all of their patents and pending patent applications; it only required the disclosure of issued patents known to the specific company representative to JEDEC. According to the ALJ, Rambus did not breach any disclosure duty that may have existed because Rambus's representative to JEDEC was unaware of the exact scope of the Rambus patent claims and because neither he nor Rambus had a duty to investigate whether any Rambus patent controlled a proposed JEDEC standard. Also, the JEDEC policy "encouraged" disclosure only of essential patents required to practice the standard. On this point, the ALJ agreed with the Federal Circuit that Rambus's patents were not required to practice the standards. Additionally, the ALJ found that Rambus's silence about its patents did not mislead JEDEC or otherwise wrongly imply that Rambus did not have or would not assert any patent rights related to JEDEC standards.

The ALJ then moved beyond the JEDEC patent policy and found there was not an actionable antitrust injury even if the JEDEC patent policy had been violated. While Rambus met one element for a cause of action under the antitrust laws, specifically, that it had monopoly power in the relevant market, the ALJ held there was no injury because the FTC staff failed to prove that there were viable alternatives to the standards adopted by JEDEC that would have been selected to avoid Rambus's patents. Even if there were such alternatives, the ALJ found that the FTC staff failed to prove that JEDEC would nonetheless have adopted different standards. Additionally, the ALJ found that the royalty rates requested by Rambus, between 0.5 and 3.5%, were reasonable in that particular industry. The ALJ also found that royalty rates charged by Rambus were non-discriminatory even though higher rates were applied to those engaged in litigation with Rambus. Finally, the ALJ concluded that the evidence presented at trial did not establish that the DRAM industry was locked into using Rambus's patented technology. These findings precluded antitrust liability even if Rambus had violated the JEDEC patent policy.

Conclusion

While both the ALJ and Federal Circuit decisions held that Rambus did not violate the JEDEC disclosure policy, both cases recognize the possibility of liability for companies that participate in standards setting organizations and violate the disclosure requirements thereof. Some key considerations that may have allowed Rambus to avoid liability are that Rambus was a passive participant in the standard setting process; it did not misrepresent either its patent rights or willingness to enforce those rights; and it did not violate an unambiguous patent disclosure policy. Accordingly, participants in standards setting organizations should recognize the need to comply with the organization's intellectual property policy and avoid actions that mislead the organization.

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It is important to note that the ALJ's decision may be appealed to the full Commission, and it is thus possible that the ALJ's decision may be overturned on appeal. Accordingly, the ALJ's decision is not necessarily the final determination on the issues presented in this administrative proceeding.

On March 10, 2004, the Commission is scheduled to hear an appeal from another ALJ decision dismissing an FTC staff complaint involving alleged patent misuse in a standard setting process. See *In the Matter of Union Oil Co. of California*, FTC Docket No. 9305³. Although this proceeding involves Noerr-Pennington immunity from antitrust violations due to the standards being adopted by a governmental entity, i.e., the State of California, rather than a non-governmental organization like JEDEC, the Unocal proceeding may reach similar issues to those of the Rambus proceeding, and will likely be of interest to those who participate in standards setting organizations.

³ <http://www.ftc.gov/os/adjpro/d9305/031125aljsinitialdecision.pdf>.

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