UNITED STATES: INTELLECTUAL PROPERTY

Court of Appeals says Rambus did not deceive standard setting organization

Joel Lutzker
Sheppard Mullin

Many Asia-based companies participate in industries in which products must meet technical standards established by a standard setting organization; there are many standards assuring network compatibility in the mobile telephone industry, for example. These standards are usually the result of the efforts of a committee formed of individual companies in the industry. Most standard setting organizations have policies requiring the members of such committees to disclose patents, or in some cases patent applications, that may be relevant to the standard under discussion. Disputes often arise concerning the scope of these disclosure requirements, whether they have been complied with, and what remedy exists for non-compliance. A good US example highlighting these issues was the decision of the US Federal Trade Commission (FTC) which found that Rambus had failed to properly disclose patent applications relating to DRAM technology – a type of technology used for data storage in certain electronic devices. The United States Court of Appeals for the District of Columbia Circuit has now reviewed and reversed the FTC's decision.

The court unanimously set aside the FTC decision holding that Rambus' conduct constituted monopolization in violation of the US antitrust laws. The court held that the FTC failed to carry its burden to show the conduct was exclusionary. *In dicta*, the court also suggested that the FTC had taken "an aggressive interpretation of rather weak evidence" to conclude that the failure to disclose was a violation of the standard setting organization's disclosure rules.

Rambus was a member of the Joint Electron Device Council (JEDEC) in the mid-1990s, when the Council was in the process of developing standards for certain DRAM technology. Under JEDEC rules, members were to disclose patents and patent applications relating to a technology being standardized. Assuming proper disclosure, the Council could either adopt a standard which did not utilize such proprietary data, or require the member to license its proprietary data on reasonable, non-discriminatory terms.

According to the FTC, Rambus engaged in deceptive conduct which violated JEDEC disclosure rules by either failing to disclose patent related data, or making misleading statements about such data. This led the Council to adopt standards allegedly utilizing Rambus patents, thereby permitting Rambus to acquire a monopoly and seek high licensing fees. The FTC remedial order required Rambus to license its patents for reasonable royalty rates for three years, and thereafter royalty free.

In its opinion reversing the FTC's decision, the court expressed "serious concerns" about the strength of the evidence relied on by the FTC to support its crucial findings regarding the scope of JEDEC's disclosure policies and Rambus' violation of those policies. It did so since, on remand, the FTC may evaluate the conduct under § 5 of the *FTC Act*, a broader standard than under the antitrust laws. The Court conceded that JEDEC rules required disclosure of patents and patent applications, but it expressed scepticism that those rules required disclosure of potential amendments, or work in progress on those amendments. It also questioned the FTC's conclusion that Rambus engaged in deceptive conduct with respect to a standard adopted more than two years after Rambus stopped attending meetings related to that standard. The FTC presumably will consider these comments when and if it considers the case further on remand.

The court was highly critical of the JEDEC disclosure rules, finding that they "suffered from 'a staggering lack of defining detail.'" Thus, "[o]ne would expect that disclosure expectations ostensibly requiring competitors to share information that they would otherwise vigorously protect as trade secrets would provide 'clear guidance' and 'define clearly what, when, how and to whom the members must disclose.'" Since the JEDEC rules fell far short of that standard, the court stated its scepticism that evidence of a breach could be established.

It seems likely that the FTC will seek to convince the United States Supreme Court to review the decision by the Court of Appeals. Regardless of whether or not the Supreme Court accepts the case for review, it seems highly likely that JEDEC and other standard setting organizations will take steps to clarify their disclosure rules to overcome the criticisms voiced by the appeals court. Such clarification would go a long way to minimizing standards disputes in the future.

SHEPPARD MULLIN
SHEPPARD MULLIN RICHTER & HAMPTON LLP
ATTORNEYS AT LAW

30 Rockefeller Plaza, 24th Floor
New York, NY 10112, USA

Tel: 212-332-5025
Fax: 212-332-1233

Email: JLutzker@sheppardmullin.com
Website: www.sheppardmullin.com