

'Rambus' sends signal to standards-setting bodies

Precision is key factor in disclosure requirements.

By Stephen A. Becker
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THE RECENT RULING of the U.S. Court of Appeals for the Federal Circuit in *Rambus Inc. v. Infineon Technologies AG*, 318 F.3d 1081 (Fed. Cir. 2003), has awakened industry to the perils awaiting patent owners that participate in committees that establish industry standards. Industry standards are technical rules agreed to and followed by manufacturers of computer equipment and other products having components that need to communicate with one another.

The equipment in the *Rambus* case was dynamic random access memories (DRAMs), the type used in computers; the standards in question were those issued by the Joint Electron Device Engineering Council (JEDEC). The patent owner was Rambus Inc., a Delaware corporation based in Los Altos, Calif., that designs, patents and licenses forms of semiconductor memory known as synchronous dynamic random access memories (SDRAMs) and double-data-rate SDRAMs, used in many high-speed computers.

Rambus became a member of JEDEC in 1991. One year earlier, Rambus had filed a patent application on its Rambus DRAM architecture, which at that time was a pioneer advance in memory technology. This patent application formed the basis for more than 30 later-filed patents designed to cover not only the Rambus DRAM but also features of SDRAMs, a less sophisticated but cheaper alternative type of memory.

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While attending JEDEC committee meetings that would define the technical standards for SDRAM chips in 1993, Rambus confided to committee members that its basic Rambus DRAM patent had issued, but did not reveal that it had pending patent applications that might cover devices designed to meet emerging JEDEC standards. Rambus also failed to mention that it was continuing to massage the claims of its pending applications to increase patent coverage in view of the direction Rambus knew JEDEC's SDRAM standards were heading. Rambus withdrew from the committee in 1996. Standards for the next generation of double-data-rate memories were discussed later that year, and were adopted by the committee in 2000.

When Rambus approached chip manufacturers in 1999 and 2000, offering to license its newly issued patents, the manufacturers refused to sign on. The chip manufacturers thought Rambus was in violation of JEDEC rules because it had unfairly developed its patents using committee inside information, and because it had not disclosed the applications earlier. They believed that if Rambus had made the appropriate disclosures, the standards would not have been adopted.

Rambus' infringement suit

In August 2000, Rambus sued Infineon—a German chip manufacturer and a member of JEDEC—in federal court in Virginia, for infringement of its SDRAM and double-data-rate patents. Infineon filed a counterclaim, contending that Rambus had committed civil fraud under Virginia law. *Rambus Inc. v. Infineon Technologies AG*, 155 F. Supp. 2d 668 (E.D. Va. 2001). The district court construed the claims narrowly, granting judgment of

noninfringement as a matter of law, and holding that Rambus had committed fraud as to the SDRAM standard—but not the double-data-rate standard because Rambus had left JEDEC before work on that standard had begun. It awarded Infineon damages and attorney fees totaling more than \$7 million.

On appeal (in which Infineon was represented by Kenneth Starr), a unanimous Federal Circuit panel rejected the district court's narrow reading of the claims, vacated the judgment of noninfringement and remanded the issue of infringement to the district court. On the issue of fraud, there was a split. Judge Randall Rader, speaking for the majority, focused on ambiguities in JEDEC's disclosure rules and held that there was insufficient evidence to prove Rambus had not complied with the relevant disclosure duty during its participation in the standards committee.

Rader noted that proving fraud in Virginia requires clear and convincing evidence of a false representation of a material fact, made intentionally and knowingly, with intent to mislead, with reasonable reliance by the misled party and resulting in damages to the misled party. Importantly, under Virginia law, a party's silence or its withholding of information does not constitute fraud in the absence of a duty to disclose that information.

The disclosure policy

In concluding that the record did not support a verdict that Rambus breached its duties under JEDEC's disclosure policy, the court analyzed that policy. Before 1993, JEDEC's policy simply discouraged the adoption of standards that called for the exclusive use of a patented item or process, unless the

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patentee had agreed to license the patent under reasonable terms. For example, a statement shown to committee members to inform them of JEDEC's patent-disclosure policy read as follows: "Standards that call for the use of a patented item or process may not be considered by a JEDEC committee unless all of the relevant technical information covered by the patent or pending patent is known to the committee, subcommittee, or working group."

The policy permitted adoption of a standard covered by a patent if the claimed technology was available under reasonable license terms. Moreover, both Rambus and Infineon treated the policy as if it imposed a sort of duty upon JEDEC members to disclose patents "related to" a proposed standard. The parties differed, however, in their interpretations of the meaning of "related to" and whether the Rambus patents and applications should have been disclosed.

Unfortunately, these policy statements did not impose any clear, direct duty on JEDEC members. While cautioning the committees not to adopt standards that could be encumbered by patents or pending patent applications, the policy statement failed to explain how relevant a patent or application would have to have been to proposed standards under the "related to" measure before a disclosure duty would have been imposed and when, if ever, such a duty arose.

Rader noted: "In this case there is a staggering lack of defining details in the JEDEC patent policy. When direct competitors participate in an open standards committee, their work necessitates a written patent policy with clear guidance on the committee's intellectual property position. A policy that does not define clearly what, when, how and to whom the members must disclose does not provide a firm basis for the disclosure duty necessary for a fraud verdict. Without a clear policy, members form vaguely defined expectations as to what they believe the policy requires—whether the policy in fact so requires or not. JEDEC could have drafted a patent policy with a broader disclosure duty. It could have drafted a policy broad enough

to capture a member's failed attempts to mine a disclosed specification for broader undisclosed claims. It could have. It simply did not." 318 F.3d 1102.

In her dissenting opinion, Judge Sharon Prost stated simply that "substantial evidence supports the jury's verdict that Rambus committed actual fraud under Virginia state law." She explored the history of Rambus' actions, concluding: "The record is replete with additional and specific instances of Rambus employees attending JEDEC meetings, taking notes of what was discussed, identifying instances where Rambus already had claims covering what was discussed, and then seeking claims to cover what they learned at the JEDEC meetings. Yet Rambus 'did not tell the people at JEDEC that what they were proposing for standardization infringed [its] patents.'" *Id.* at 1108.

Reversal of the lower court decision stunned the industry. Those in favor of the *Rambus* ruling felt the company had been vindicated and could now collect the royalties it is entitled to under the law of patents. Others condemn the decision

as being unsupportable, noting that Rambus' conduct was egregious. See, e.g., Gretchen Hyman, "Industry Takes Sides in *Rambus v. Infineon*," *Internetnews.com*, March 12, 2003, available at <http://dc.internet.com/news/article.php/2108831>.

On Feb. 26, Infineon filed a combined petition for panel rehearing and rehearing en banc, seeking to reverse the fraud verdict in Infineon's favor, and returning claim construction to the narrower interpretation so as to find noninfringement. The petitions were denied on April 4.

The FTC action

But Rambus is not out of the woods. On June 19, 2002, the Federal Trade Commission (FTC) filed an administrative law complaint against Rambus alleging anti-competitive behavior in violation of § 5 of the Federal Trade Commission Act for its conduct in the JEDEC standards-setting process. Whereas Virginia law requires a "clear and convincing evidence" standard of proof, the FTC need

satisfy only the lower "preponderance of the evidence" standard of an administrative proceeding.

In its complaint, the FTC alleges that Rambus engaged in anti-competitive behavior by "participating in the work of...JEDEC, without making it known to JEDEC or to its members that Rambus was actively working to develop, and did in fact possess, a patent and several pending patent applications that involved specific technologies proposed for and ultimately adopted in the relevant standards. By concealing this information—in violation of JEDEC's own operating rules and procedures—and through other bad faith, deceptive conduct, Rambus purposefully sought to and did convey to JEDEC the materially false and misleading impression that it possessed no relevant intellectual property rights." The FTC's motion for summary judgment against Rambus has been denied. The hearing at the FTC on the merits of the case began on May 1.

The majority's ruling in the *Rambus* case sends a signal to standards-setting bodies to exercise precision in defining what they expect participants to disclose and when. This case should be considered an invitation to those bodies to review their patent policies, noting the deficiencies in policy that created failure in *Rambus*, and to consider whether their particular policy meets that organization's needs and objectives.

Companies involved in such standards-setting bodies should take away two lessons. First, if an employee of a company is to participate in standards setting, the company must look to the written patent policy of the body for guidance on the duty to disclose the company's patent position, and make sure the company conducts itself accordingly. And second, if the company is not comfortable with the level of duty of disclosure imposed by the body, it should not permit any of its employees to participate in standards-setting activities. ■

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**Court held
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ill-defined.**