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The FTC's Decision in *Rambus* Sets Antitrust Rules for Standard-Setting Participants

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The Federal Trade Commission continues to act strongly against abuse in the standard-setting process. The suit against Rambus Inc., the third in a series of such cases,[1] is the most recent warning by the FTC that participants in standard-setting organizations ("SSOs") must not only follow the SSO's procedures for the disclosure of intellectual property rights, but also have an implied obligation to work in good faith. On August 2, 2006, the FTC reversed the decision of the Administrative Law Judge ("ALJ"), holding that disclosure obligations should be broadly interpreted, and the failure of an SSO participant to abide by disclosure rules violates the antitrust laws.

FACTS

Rambus, a developer and licensor of computer memory technologies, participated as a member of the Joint Electron Device Engineering Council ("JEDEC"), an industry-wide SSO for computer memory technology, for over four years. Although the JEDEC policy on disclosure was "not a model of clarity," the FTC found that JEDEC rules did contain general requirements of good faith and an obligation to disclose relevant intellectual property rights, which could only be considered for inclusion in the standard if the disclosing party offered a commitment to license those rights on reasonable and nondiscriminatory ("RAND") licensing terms for those implementing the standard.[2] The FTC found that JEDEC participants had a common understanding of these requirements based in part upon the response of participants in prior cases of nondisclosure.

1 *See In the Matter of Dell Computer Corporation*, 121 F.T.C. 616 (1996); *In the Matter of Union Oil Company of California*, Docket No. 9305, Complaint of the Commission (March 4, 2003); *In the Matter of Rambus, Inc.*, Docket No. 9302, Opinion of the Commission (August 2, 2006), www.ftc.gov/os/adjpro/d9302/060802commissionopinion.pdf.

2 *Rambus* at 52-54, 57, 59.

Rambus did not disclose the existence of its patents and patent applications that were relevant to the technologies JEDEC was considering. Indeed, the FTC found that Rambus misled JEDEC members on that issue by remaining silent when it should have disclosed patents and applications, and by making misleading statements. At the same time, Rambus used what it learned at JEDEC about the pending standard to amend some of its patent applications in an attempt to make them cover the standard ultimately adopted.[3] Rambus eventually resigned from JEDEC without disclosing its relevant intellectual property and without offering a RAND assurance. Once the standards were adopted, the company filed patent infringement lawsuits against the JEDEC members who practiced the standard.[4] Infringement defendants have claimed, like the FTC, that Rambus's conduct constituted misuse that rendered its patents unenforceable or an antitrust violation, but those cases remain pending.

While an administrative law judge rejected the Commission's complaint against Rambus,[5] the full Commission disagreed, and on August 2, 2006, found that Rambus's actions resulted in anticompetitive "hold-up" of the computer memory industry and constituted unlawful exclusionary monopolization.[6]

DISCUSSION

The decision raises two critical points. First, the FTC held that, given the SSO context and its requirement of cooperative, open behavior, IP disclosure requirements in the standard-setting process must be determined not only by the letter of the SSO's written rules but by the way the rules have been interpreted and understood by SSO members. Second, it suggested that SSO participants may seek protection from excessive royalties by *ex ante* negotiations that take place before determining which technologies to incorporate into the standard.

1. Disclosure requirements

The FTC is clear that its decision does not mandate that SSOs require disclosure of relevant intellectual property.[7] However, where the rules are ambiguous, disclosure obligations are likely to be inferred from the very nature of the standard-setting effort, which inherently involves an implied duty to operate cooperatively and in good faith. Under the JEDEC rules, "standardization programs…shall be carried on in good faith under policies and procedures which will assure fairness and unrestricted participation."[8]

In this setting of candor and cooperation, arguably ambiguous statements by Rambus were properly viewed as deceptive and misleading. As the FTC stated:

> SSO members…are not free to lie or to make affirmatively misleading representations. In either case, whether the SSO requires disclosure should be judged not only by the letter of its rules, but also on how the rules are interpreted by its members, as evidenced by their behavior as well as by their statements of what they understand the rules to be.[9]

3 *Id.* at 4.

4 *See Rambus Inc. v. Infineon Technologies AG*, 318 F.3d 1081 (Fed. Cir. 2001); *Samsung Electronics Co., Ltd v. Rambus Inc.*, — F. Supp. 2d —, 2006 WL 2061181 (E.D. Va. 2006); *Hynix Semiconductor Inc. v. Rambus Inc.*, — F. Supp. 2d —, 2006 WL 2038357 (N.D. Cal. 2006); *Micron Technology, Inc. v. Rambus Inc.*, 2006 WL 1653136 (D. Del. 2006).

5 *Rambus* at 51.

6 *Id.* at 4.

7 *Id.* at 34.

8 *Id.* at 52.

9 *Id.* at 35.

The FTC relied in part on the way members had behaved in prior standard setting efforts. It was thus important that although "JEDEC's members were not expected to disclose [intellectual property rights] if they did not plan to enforce their patents against JEDEC-compliant standards, there were numerous examples of JEDEC members disclosing patents and applications relevant to the standards under consideration."[10] In previous instances where JEDEC members had not disclosed relevant patents or patent applications, other participants considered those actions contrary to the policies and expectations of JEDEC membership.[11] Given this history, the FTC held, Rambus was aware of its obligations as a JEDEC member to disclose relevant patents and patent applications, and by not doing so it engaged in deceptive, anticompetitive practices. The FTC drew distinctions between evidence on causation necessary for liability in a government case and damages in a private case and asked for further briefing on the question of remedies.

2. *Ex ante* negotiations

The FTC's decision states in several places that Rambus's failure to disclose deprived JEDEC and/or its members of the opportunity to engage in *ex ante* negotiations, i.e., negotiations before the IP owner's market power is artificially created (or augmented) by inclusion of its IP in the standard. Such negotiations protect against excessive royalties and allow an informed decision by the SSO on what IP to include in the standard, based on knowledge of the cost of implementing a standard that incorporates a particular technology.

SSO participants have been wary of *ex ante* negotiations since decisions by the District of Massachusetts and the First Circuit in *Addamax v. Open Software Foundation*.[12] Open Software Foundation ("OSF"), a joint venture that was creating a new operating system, proposed a maximum price it would pay for the right to incorporate Addamax's security technology in its software, implying that if Addamax refused to accept that price, it would purchase another system.[13] Addamax sued when OSF purchased alternative security technology, claiming that OSF was a consortium of competitors that had unlawfully agreed on the price they would pay to purchase security software. Although the court rejected Addamax's claim that OSF's conduct constituted a per se illegal price fixing agreement, it held OSF's conduct might be unlawful under the rule of reason and denied summary judgment.[14] On appeal after a verdict for OSF (based upon a finding that Addamax had not been injured), the First Circuit affirmed the district court's rejection of per se liability but noted in *dicta* that OSF's conduct was not "per se legal" and that the issue was whether

> concentration of purchasing power…was so great that it imposed a significant risk of forcing prices below competitive levels, and that those risks outweighed any benefit from the venture or, more plausibly, that the venture could achieve those benefits in a less restrictive fashion, i.e., without creating a substantial threat of monopsony pricing.[15]

10 *Id.* at 57.

11 See *Id.* at 59.

12 *Addamax v. Open Software Foundation, Inc.*, 888 F. Supp. 274 (D. Mass. 1995), *aff'd* 152 F.3d 48 (1st Cir. 1998).

13 888 F. Supp. at 282.

14 *Id.* at 285.

15 *Addamax Corp. v. Open Software Foundation, Inc.*, 152 F.3d 48, 52 (1st Cir. 1998).

Given this precedent, SSO participants have been justifiably concerned that *ex ante* price negotiations could subject them to claims of unlawful price fixing that could survive a motion for summary judgment.

In a September 2005 speech, however, FTC Chairman Deborah Majoras indicated openness to *ex ante* negotiations by SSOs or their members. While recognizing that the antitrust concerns of SSO participants were "understandable" and agreeing with *Addamax* that joint *ex ante* negotiations should be analyzed under the rule of reason rather than the per se rule, Chairman Majoras also indicated her view that while anticompetitive effects through subcompetitive prices that reduced innovation were "theoretically possible, this risk is unlikely to be a frequent practical concern."[16]

In *Rambus*, the full Commission gave further support for *ex ante* negotiation of royalties by condemning Rambus's conduct because it had the effect of preventing such negotiations (i.e., firms cannot negotiate with Rambus before the standard is adopted if they do not know that Rambus has IP rights). Although the Commission did not expressly adopt Chairman Majoras's assertion that harm from even collective *ex ante* negotiations was likely to be rare, it did cite her speech for the proposition that "under certain circumstances, members of an SSO may even collectively negotiate these types of *ex ante* licenses, without necessarily running afoul of the antitrust laws."[17]

CONCLUSIONS

Rambus is a warning that the FTC continues to believe that standard-setting is a sensitive area important to the market economy. Any doubts as to an obligation to disclose intellectual property rights potentially bearing on a developing standard should be resolved in favor of disclosure. It also indicates that the Commission views *ex ante* royalty negotiations by individual firms as a pro-competitive tool to avoid patent hold-up and that it is open to the possibility of collective *ex ante* negotiation of royalty rates.

We hope you find this summary helpful. If you would like more information about risk transfers, please feel free to contact your Arnold & Porter attorney or

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16 Deborah Platt Majoras, Chairman, Fed. Trade Comm'n, Remarks Prepared for Standardization and the Law: Developing the Golden Mean for Global Trade: Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting (Sept. 23, 2005).

17 *Rambus* at 35-36, 77.