WILLKIE FARR & GALLAGHER LLP

CLIENT MEMORANDUM

FTC ADDRESSES APPLICATION OF ANTITRUST LAWS TO STANDARD-SETTING PROCESS

In a decision issued on August 2, 2006 (the "FTC Decision" or the "Decision"), the Federal Trade Commission ("FTC") determined that Rambus, Inc. ("Rambus") violated Section 2 of the Sherman Act ("Section 2") and Section 5 of the FTC Act ("Section 5") by unlawfully monopolizing various technology markets through the deliberate manipulation of an industry standard-setting process.

Rambus, a licensing company for semiconductor technology, was a member of JEDEC Solid State Technology Association ("JEDEC" or the "Association"), a standard-setting organization for the semiconductor industry, from 1991 through 1995. While a member of JEDEC, Rambus held, and submitted additional applications for, patents that would cover technology that was included in proposed standards then under consideration by JEDEC. The FTC concluded that, although Rambus knew that its patents covered technology included within the proposed standards, Rambus did not disclose to JEDEC — and misled JEDEC members as to the existence of — its patents and patent applications. Ultimately, JEDEC adopted the proposed standards and Rambus proceeded to enforce its patent rights against members that implemented those standards.

In opposing the FTC's charges of unlawful monopolization, Rambus argued that no JEDEC rule required members to disclose their patents or patent applications. That argument was initially successful when, in February 2004, an FTC Administrative Law Judge ("ALJ") held that Rambus had not violated any JEDEC rules and that such a rule violation would not provide the basis for antitrust liability in any event. The ALJ found under the FTC Act no "duty upon corporations that participate in standard-setting organizations to comply with the rules of the standard-setting organization, to disclose their patent applications, or to act in good faith toward other members. Although [Rambus's] conduct may provide a basis for private causes of action, such as breach of contract, fraud, or equitable estoppel, no such duty is created by provisions of the FTC Act." *In the Matter of Rambus, Inc.*, FTC Docket No. 9302, at 258 (Feb. 23, 2004).

In overturning the ALJ's decision, the FTC noted that "[t]he Complaint in this case alleged not just a breach of a duty to disclose under JEDEC rules, but a course of conduct that was materially deceptive under *all* of the circumstances in which the standard setting occurred." *In the Matter of Rambus, Inc.*, FTC Docket No. 9302, at 51 (Aug. 2, 1006) (emphasis in original). Expansively interpreting JEDEC's rules and regulations in light of members' expectations and actions, the FTC found that "JEDEC's policies . . . and practices, considered as a whole, gave JEDEC's members reason to believe the standard-setting process would be cooperative and free from deceptive conduct." *Id.* at 51-52. The FTC thus concluded that, by failing to disclose its pending and existing patents that would be implicated by the proposed standards, Rambus had deliberately subverted JEDEC policy and had thereby secured monopolies in four technology markets in computer memory.

The FTC held that Rambus's failure to disclose its pending and existing patents amounted to deception qualifying as exclusionary conduct under Section 2. The analysis in the Decision draws heavily from the FTC's experience in evaluating deceptive conduct under Section 5 of the FTC Act, but notes that, unlike deception under Section 5, Section 2 requires exclusionary conduct to have been "willful" and to have harmed competition. The FTC Decision found that Rambus's deceptive conduct met both of those criteria. Thus, as stated in the Decision, "[w]hatever the potential breadth of Section 5 of the FTC Act in these circumstances, [the] analysis in this opinion rests on the traditional criteria for evaluating allegations of monopolization under Section 2 of the Sherman Act." *Id.* at 30 n.141.

In its analysis, the FTC contrasted competitor conduct in the standard-setting context with conduct in competitive environments. In the competitive marketplace, rivals expect — and readily identify and defend against — misrepresentations, omissions, and similar conduct by competitors. In contrast, members of a standard-setting organization expect to work cooperatively toward the selection and implementation of efficiency-enhancing industry standards. The FTC Decision notes that standard-setting organizations may opt not to require member disclosure of intellectual property rights. If, however, a standard-setting organization requires that such disclosures be made, "non-disclosure – followed by adoption of a standard incorporating the intellectual property, and royalty demands against those practicing the standard – may be considered a material omission and may constitute deceptive conduct under Section 5." *Id*. at 34-35. Moreover, the FTC Decision warns that, regardless of the particular rules of any standard-setting organization, members are not free to make affirmatively misleading statements.

The Decision does not reach a conclusion regarding the appropriate remedy for Rambus's violation. Rather, the FTC will allow the parties to brief their respective positions as to remedy. The Decision notes, however, that the FTC is "most interested in the parties' views regarding possibilities for establishing reasonable royalty rates for JEDEC-compliant products affected by Rambus's exclusionary conduct." *Id.* at 119.

Implications

The FTC Decision is not binding on courts, and the reach of antitrust law into the private standard-setting process remains an area of disagreement among courts and scholars. The Decision demonstrates, however, that members of standard-setting organizations must exercise caution to avoid the risk of potential antitrust liability. In particular, the Decision serves as a warning that, where members of a given standard-setting organization are required to disclose their intellectual property, whether that requirement is explicit in the rules or is evidenced by how the rules are interpreted, a member that does not so disclose risks antitrust liability if that intellectual property is ultimately incorporated into a standard.

The FTC Decision also highlights the need for members of standard-setting organizations to insist upon rules that clearly set forth what is and is not required of organization members. In the absence of a written rule either specifying the details of a requirement that organization members disclose their intellectual property or stating that members have no such obligation, room for ambiguity exists. Such ambiguity, as demonstrated by the FTC Decision, may be found to imply an affirmative duty of disclosure.

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