FTC BRINGS COMPLAINT BASED ON "UNFAIR" SDO PRACTICES WHILE THE FEDERAL CIRCUIT REJECTS FTC'S MONOPOLIZATION CASE AGAINST RAMBUS

Richard S. Taffet[1]
Bingham McCutchen LLP
New York, New York
richard.taffet@bingham.com

Alicia L. Downey[2]
Bingham McCutchen LLP
Boston, Massachusetts
alicia.downey@bingham.com

The first half of 2008 saw two significant developments in the area of U.S. government enforcement against allegedly unlawful conduct by patent holders participating in standards development organizations (SDOs). First came the FTC's January 23, 2008 decision and proposed consent decree in *In the Matter of Negotiated Data Solutions LLC.*[3] As set forth in more detail below, a three-person majority of the Commission held a patent assignee, N-Data, liable for refusing to honor a commitment that its predecessor-in-interest had made to an SDO (the Institute of Electronic and Electrical Engineers, "IEEE") that manufacturers and sellers of products using a proposed standard could license the patented technology for a one-time, paid-up royalty of $1,000 per licensee. In the FTC majority's view, N-Data's subsequent demand for higher royalties constituted both an unfair method of competition and an unfair or deceptive act or practice, i.e., a "stand-alone" violation of Section 5 of the Federal Trade Commission Act (15 U.S.C. § 45(a)), for which the remedy, as set forth in the accompanying proposed consent decree, would be to restrain N-Data from enforcing the patent until it offered licenses consistent with its predecessor's original offer to IEEE.

Most recently, on April 22, 2008, the Court of Appeals for the D.C. Circuit issued its unanimous decision in *Rambus, Inc. v. FTC*,[4] which set aside the FTC's determination that Rambus, by engaging in an allegedly deceptive "patent hold-up" scheme before an SDO called the Joint Electron Device Engineering Council ("JEDEC"), had engaged in unlawful monopolization in violation of § 2 of the Sherman Act (15. U.S.C. § 2). Specifically, the D.C. Circuit held that the FTC failed to meet its burden of proof by relying on alternative scenarios of the competitive effects of Rambus's failure to disclose certain patented and about-to-be patented technology later incorporated in the JEDEC standard, without finding that either scenario had in fact occurred: *either* Rambus acquired a monopoly through standardization of its patented technology instead of competing alternative technologies, *or* Rambus avoided limits on its patent licensing fees that JEDEC would have imposed on participants who complied with what the FTC found were JEDEC's patent disclosure obligations. Where the latter of these alternatives did not constitute unlawful monopolization as a matter of law, the entire monopolization case against Rambus had to be vacated and remanded to the Commission.

Rambus, Inc. v. Federal Trade Commission

The D.C. Circuit's decision represents the second 180° turn in a matter that began six years ago, with the FTC's filing of a complaint against Rambus under §§ 5(a) and (b) of the FTC Act. As the Court's decision notes, the

[1] Richard S. Taffet is a partner in the New York office of Bingham McCutchen LLP and Co-Chair of the firm's Intellectual Property Litigation and Patent Prosecution practice group.

[2] Alicia L. Downey is a partner in Bingham's Boston office and a member of the firm's Antitrust and Trade Regulation practice group.

[3] File No. 051-0094 (Jan. 23, 2008). *See* http://www.ftc.gov/os/caselist/0510094/index.shtm.

[4] --- F.3d ----, 2008 WL 1795594 (D.C. Cir. April 22, 2008) ("*Rambus*").

FTC eventually dropped its § 5(a) claim, electing instead to focus on a theory of liability premised on unlawful monopolization in violation of § 2 of the Sherman Act.[5] The complaint alleged that Rambus had intentionally failed to disclose to JEDEC patent interests—including issued patents, patent applications, and plans to amend those applications to add new claims—that Rambus held in four technologies that were later standardized. The complaint further alleged that this conduct violated JEDEC disclosure policies and allowed Rambus unlawfully to obtain monopoly power in four relevant technology markets.

An administrative law judge dismissed the complaint in its entirety in 2004, based on findings that, among other things, "Rambus did not impermissibly withhold material information about its intellectual property and, in any event, there was insufficient evidence that, if Rambus had disclosed all the information allegedly required of it, JEDEC would have standardized an alternative technology."[6] Thereafter, the full Commission accepted Complaint Counsel's appeal, reopened the record to receive new evidence, vacated the ALJ's decision, and issued its own findings of fact and conclusions of law.[7] Rambus's appeal from the full Commission's decision was consolidated with its appeal from the later-issued remedy order directing Rambus to license its technologies at rates designated by the Commission.

As described in the D.C. Circuit opinion, the FTC interpreted JEDEC's patent disclosure policies as imposing a duty on participants to disclose not only patents and patent applications relevant to technologies being considered for standardization, but also planned amendments to pending applications and "anything they're working on that they potentially wanted to protect with patents down the road."[8] Based on that interpretation, the Commission found that Rambus had "willfully and intentionally engaged in misrepresentations, omissions and other practices that misled the JEDEC members about intellectual property information 'highly material' to the standard-setting process."[9] The Commission held that "but for Rambus's deceptive course of conduct, JEDEC either would have excluded Rambus's patented technologies from the JEDEC DRAM standards, or would have demanded RAND assurances [i.e., assurances of 'reasonable and non-discriminatory' license fees], with an opportunity for *ex ante* licensing negotiations."[10]

D.C. Circuit Analyzes Exclusionary Conduct in *Microsoft* and Other Cases

The appellate court's analysis relied on two basic antitrust principles that guided its decision in *United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001):

> First, "to be condemned as exclusionary, a monopolist's act must have 'anticompetitive effect.' That is, it must harm the competitive *process* and thereby harm consumers. In contrast, harm to one or more *competitors* will not suffice." . . . Second, it is the antitrust plaintiff—including the Government as plaintiff—that bears the burden of proving the anticompetitive effect of the monopolist's conduct.[11]

The Court's discussion of cases illustrating the proof needed to establish the requisite exclusionary conduct culminated in its observation that the Supreme Court's reasoning in *NYNEX v. Discon, Inc.*[12] applied to the FTC's

[5] *Rambus*, at *5.

[6] *Rambus*, at *3.

[7] 2006 WL 2330117 (F.T.C. Aug. 2, 2006).

[8] *Id. at 56*, cited in *Rambus*, at *3.

[9] *Id.* at 68, cited in *Rambus*, at *3.

[10] *Id.* at 74, cited in *Rambus,* at *4.

[11] *Rambus*, at *5, citing *Microsoft*, 253 F.3d at 58-59.

[12] 525 U.S. 128 (1998).

case against Rambus: "[A]n otherwise lawful monopolist's use of deception simply to obtain higher prices normally has no particular tendency to exclude rivals and thus to diminish competition."[13]

As commented above, the D.C. Circuit concluded that the scenario in which Rambus's deception enabled it to avoid providing JEDEC with assurances of RAND licensing terms could not, by itself, harm the competitive process, where "the Commission expressly left open the likelihood that JEDEC would have standardized Rambus's technologies *even if Rambus had disclosed* its intellectual property."[14] Going further, the Court reasoned that "had JEDEC limited Rambus to reasonable royalties and required it to provide licenses on a nondiscriminatory basis, we would expect *less* competition from alternative technologies, not more; high prices and constrained output tend to attract competitors, not to repel them."[15]

Relying on *NYNEX*, the Court then rejected the FTC's contention that anticompetitive effects necessarily follow when a monopolist's deception allows it to obtain higher prices than it otherwise would have obtained. In the D.C. Circuit's view, the Supreme Court did not agree with this proposition when it decided *NYNEX*, but instead adhered to the principle that "an otherwise lawful monopolist's end-run around price constraints, even when deceptive or fraudulent, does not alone present a harm to competition in the monopolized market."[16] Where the FTC's proof failed to show anything more than such a possibility and without findings that other, allegedly exclusionary conduct by Rambus had actually occurred, the Commission's orders had to be vacated.

The Court further distinguished the case before it from the Third Circuit's decision in *Broadcom Corp. v. Qualcomm, Inc.*, 501 F.3d 297 (3d Cir. 2007), observing that the FTC's reliance in opposition to Rambus's appeal was misplaced:

> To the extent that the [Third Circuit's] ruling (which simply reversed a grant of dismissal) rested on the argument that deceit lured the SSO away from nonproprietary technology, . . . it cannot help the Commission in view of its inability to find that Rambus's behavior caused JEDEC's choice; to the extent that it may have rested on a supposition that there is a cognizable violation of the Sherman Act when a lawful monopolist's deceit has the effect of raising prices (without an effect on competitive structure), it conflicts with *NYNEX*.[17]

Dicta Cast "Serious" Doubt on FTC's Findings of Fact

Although the Court's ruling with respect to the lack of exclusionary conduct disposed of Rambus's appeal, recognizing the possibility that the FTC could conceivably seek to revive its § 5(a) claim on remand, the opinion goes on to express the justices' "serious concerns" about the Commission's findings, described as "murky," in regard to the broad scope of JEDEC's disclosure policies and Rambus's alleged violation of those policies.[18] The Court writes that the Commission's interpretation of JEDEC's written policies "seems to significantly stretch the policies' language," while its efforts to broaden patent disclosure requirements beyond those set forth in writing ignore the fact that JEDEC members were competitors and, thus, the vagueness of JEDEC's alleged unwritten disclosure policies should, if anything, make it "more difficult . . . for the Commission to ascribe competitive harm to its breach."[19]

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[13] *Rambus*, at *7.

[14] *Id.* at *8 (emphasis in original).

[15] *Id.* (emphasis in original).

[16] *Id.* at *9.

[17] *Id.* at *8 (citations omitted).

[18] *Id.* at *9.

[19] *Id.* at *11.

The Court was equally skeptical of the proof underlying the Commission's findings that Rambus deliberately failed to timely disclose its patent interests in the standardized technologies:

> Once again, the Commission has taken an aggressive interpretation of rather weak evidence. For example, the October 1995 survey ballot gauged participant interest in a range of technologies and did not ask those surveyed about their intellectual property (as did the more formal ballots on proposed standards). . . . The Commission nonetheless believes that every member of JC 42.3-membership that included most of the DRAM industry-was duty-bound to disclose *any* potential patents they were working on that related to *any* of the questions posed by the survey. The record shows, however, that the only company that made a disclosure at the next meeting was the one that formally presented the survey results. . . . For reasons similar to those that make vague but broad disclosure obligations among competitors unlikely, it seems to us unlikely that JEDEC participants placed themselves under such a sweeping and early duty to disclose, triggered by the mere chance that a technology might someday (in this case, more than two years later) be formally proposed for standardization.[20]

In the Matter of Negotiated Data Solutions LLC

In notable contrast to *Rambus*, the FTC did not proceed against N-Data under any sort of antitrust theory, but instead relied exclusively on the FTC Act's proscription against "[u]nfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce"—a so-called "stand-alone" § 5 action.[21] Thus, the decision and proposed consent decree in *N-Data* raises new questions regarding the scope of conduct that may be subject to liability in connection with the use of patented technology in the context of standards development.

The FTC's complaint alleges that N-Data violated § 5 of the FTC Act by engaging in unfair acts and practices and unfair competition in connection with licensing terms sought from implementers of an IEEE Fast Ethernet standard. Before the standard was approved, N-Data's predecessor-in-interest, National Semiconductor, provided a licensing assurance to IEEE that it would make licenses available for a one-time fee of $1,000. National Semiconductor later assigned its patents to Vertical Networks, which in turn assigned the relevant patents to N-Data in 2003. Before the assignment to N-Data, Vertical Networks, in 2002, advised the IEEE that one or more of the patents "may be applicable to portions and/or amendments of" the IEEE Fast Ethernet standard, and it provided an assurance that it would make available a non-exclusive license "on a non-discriminatory basis and on reasonable terms and conditions, including its then current royalty rates." Vertical then sought to enforce its patents against those who declined to take a license pursuant to its licensing letter.

Majority Rules N-Data Undermined Competition

The FTC decision was 3-2, with then Chairman Majoras and Commissioner (now Chairman) Kovacic dissenting. In the Statement of the Commission, the majority states that, if not stopped, N-Data's conduct could be enormously harmful to standard setting because it would allow patent owners to change licensing terms after a standard is adopted with the patented technology. As a result, the majority had "little

[20] *Id.* (emphasis in original) (citations omitted).

[21] File No. 051-0094 (Jan. 23, 2008), at http://www.ftc.gov/os/caselist/0510094/index.shtm.

doubt" that N-Data's conduct constitutes an unfair method of competition because, under applicable precedent, such conduct, *inter alia*, is unjust, inequitable and dishonest, as well as being "contrary to good morals." In addition, the majority had "no doubt" that N-Data's conduct harms consumers: "The process of establishing a standard displaces competition; therefore bad faith or deceptive behavior that undermines the process may also undermine competition in an entire industry, raise prices to consumers, and reduce choices."[22] In addition, the majority concluded that N-Data's conduct was also an "unfair" act or practice, notwithstanding that the "victims" of the conduct were large sophisticated computer manufacturers. In reaching these conclusions the majority's position may be construed as supporting a *per se* rule of unfairness if a patent owner changes its licensing terms in the context of standard-setting activities.[23]

Chairman Majoras, in dissent, observes that the majority's decision "departs materially" from the Commission's prior standards decisions in *Dell, Unocal* and *Rambus* because "there is no allegation that National engaged in improper or exclusionary conduct to induce IEEE to specify its NWay technology in the . . . standard."[24] In addition, she states that at the time of Vertical's change in licensing position, the IEEE IPR policy did not state that a licensing assurance was irrevocable. That policy was amended in 2002 expressly to provide for irrevocability. Accordingly, the challenged conduct could be construed as consistent with the SDO policy applicable at the relevant time. Moreover, also according to the Majoras dissent, other firms changed their licensing terms in connection with the same standard without challenge or objection.

Chairman Majoras remarked on the majority's reliance solely on § 5 of the FTC Act, without requiring a showing of a Sherman Act violation, even though the majority expressly acknowledged that the standard for liability under § 5 is "by necessity, an elusive one."[25] As stated by Chairman Majoras, such reliance is inappropriate because it lacks "a meaningful limiting principle that indicates when an action—taken in the standard-setting context or otherwise—will be considered an 'unfair method of competition.'" The fact that there is no private right of action afforded by § 5 does not mitigate the potential for private litigation, as Commissioner Kovacic's dissent notes that such claims may be asserted by private parties under state statutory and common law theories of unfair competition.[26]

Numerous individuals and entities have submitted public comments on the proposed consent decree.[27] N-Data's own submissions point out that, among other things, the new 2002 letter of assurance from Vertical to the IEEE proposed to license a larger number of patents with a broader technical scope and that the letter was revised to reflect comments from the IEEE Patent Committee administrator, changed to

[22] Statement of the Federal Trade Commission, *In the Matter of Negotiated Data Solutions LLC*, File No. 051-0094, at 2 (Jan. 23, 2008) ("N-Data FTC Statement"), at http://www.ftc.gov/os/caselist/0510094/080122statement.pdf.

[23] Analysis of Proposed Consent Order To Aid Public Comment, *In the Matter of Negotiated Data Solutions LLC*, File No. 051-0094, at 6 (Jan. 23, 2008) ("A mere departure from a previous licensing commitment is unlikely to constitute an unfair method of competition under Section 5. The commitment here was in the context of standard-setting."), at http://www.ftc.gov/os/caselist/0510094/080122analysis.pdf.

[24] Dissenting Statement of Chairman Majoras, *In the Matter of Negotiated Data Solutions LLC*, File No. 051-0094, at 1-2 (Jan. 23, 2008), at http://www.ftc.gov/os/caselist/0510094/080122majoras.pdf.

[25] N-Data FTC Statement at 2, *quoting FTC v. Ind. Fed'n of Dentists*, 476 U.S. 447, 454 (1986).

[26] Dissenting Statement of Commissioner William E. Kovacic, *In the Matter of Negotiated Data Solutions LLC*, File No. 051-0094, at 2 (Jan. 23, 2008), at http://www.ftc.gov/os/caselist/0510094/080122kovacic.pdf.

[27] *See* http://www.ftc.gov/os/comments/negotiateddatasol/index.shtm.

reflect such comments, accepted by the IEEE, and posted on its website.[28] Further, according to N-Data, no user of the patented technology had contacted National to request a license on the terms set forth in the original National letter.

The AIPLA's submission dated April 5, 2008, asks the Commission to clarify that "the Decision does not establish a rule applicable to all cases such that patentees may *never* modify their license commitments in the context of standards setting."[29] Just as SDOs seek to balance the competing interests of implementers and patent owners in their rules and policies, the AIPLA writes, so, too, should the Commission confirm that its enforcement action balances those interests, as well as those of users and consumers who may not be participants in the standard-setting process, by expressly acknowledging that "changes in licensing terms may be reasonable and justified under certain circumstances, and that those reasons and justifications as well as injury to consumers or competition [should] be taken into consideration in determining whether an unfair method of competition or an unfair act or practice has occurred under Section 5."[30] Pointing to the Commission's complaints against *In re Dell*, *In re Union Oil,* and *In re Rambus*—all of which alleged that deceptive conduct had improperly induced an SSO to adopt the respondent's patented technology—the AIPLA requests clarification of the facts that led the Commission to bring its action against N-Data, "in the absence of any allegation of fraud in the development of the standard."[31] In addition to requesting more detail about the factual bases for the Commission's concerns, the AIPLA asked the Commission to clarify the rationale behind its proposed remedy and, at a minimum, make it clear that the remedy specifying the particular terms N-Data must offer to licensees "is limited to the specific facts of the case, and is not based on the IEEE patent policy."[32] Otherwise, the letter states, the proposed remedy "could be read to broaden the scope of the license beyond the commitment tendered by National Semiconductor, by including later-issued patents and applying it to all IEEE standards rather than the specific one that generated the licensing commitment."[33]

The public comment period closed on April 24, 2008.

Conclusion

The contrasting approaches taken by the D.C. Circuit in *Rambus* and the FTC in *N-Data* show the continuing unsettled nature of the legal landscape with respect to the disclosure of intellectual property interests in the standards development context. It is notable, however, that with the D.C. Circuit's vacatur and remand of the *Rambus* case, it remains that no court has held that conduct relating to the disclosure and licensing of intellectual property rights in the development of standards constitutes an antitrust violation. It remains to be seen how the FTC might define the full scope of what will comprise "unfair methods of competition" and "unfair or deceptive acts or practices" in this context and resolve the uncertainty that now exists as the result of the *N-Data* decision, and the steps it might take in *Rambus* on remand.

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[28] Statement of Negotiated Data Solutions LLC ("N-Data")—Response to FTC's Action Against N-Data, http://www.negotiateddata.com (follow "Statement regarding FTC action" hyperlink) (Jan. 23, 2008); Negotiated Data Solutions, LLC (Melamed, Douglas) (4/14/2008) #534241-00011, at http://www.ftc.gov/os/comments/negotiateddatasol/534241-00011.pdf.

[29] Letter from Michael K. Kirk, dated April 5, 2008, at 1, 4 (4/5/2008) #534241-00003, at http://www.ftc.gov/os/comments/negotiateddatasol/534241-00003.pdf (emphasis in original).

[30] *Id.* at 2.

[31] *Id.*

[32] *Id.* at 3.

[33] *Id.* at 4.