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EDITORIAL

RAMBUS - HARD CASES MAKE BAD LAW

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Law and Society. There is an old saying among those in the legal profession that "hard cases make bad laws". The cases that most often give rise to this maxim involve an appealing victim, a sympathetic judge or jury, and a lack of legal authority for helping the aggrieved party out. The result can be that existing law can be "stretched" or misapplied in order to avoid what seems like an unfair result. All can still be well and good (at least one type of moral perspective) in such a situation, if the outcome is limited to the parties involved. But if the judge elects (or is required) to file the opinion for that case, then it becomes a part of the body of case law that defines the rights of future parties in litigation. Why? Because the courts in America and many other countries around the world are bound to apply the holding of past cases to future actions, where the facts are substantially similar. And since the same system is hierarchical, the higher the court, the greater the number of subordinate courts that are bound by the decision.

All of which brings us to the much-followed litigation between Rambus and Infineon, which proves that strictly following the letter of the law can result in what many observers believe to be a bad result for the standard setting world nonetheless.

Rambus, Infineon and JEDEC. For those who have not followed the complex factual and litigation history of this conflict, the high-level facts are as follows. Rambus, a company that develops technology and licenses it to semiconductor memory device manufacturers, participated formally and informally from December, 1991 through December of 1995 in the standard setting process of the Joint Electron Devices Engineering Council, commonly referred to as JEDEC, which operates under the auspices of the Electronic Industries Alliance (EIA). Prior to joining that body, Rambus filed a broad US patent application. While Rambus was a member, JEDEC developed and adopted a standard for synchronous dynamic random access memory (SDRAM). Rambus dropped its membership prior to the adoption of that standard, but during and after its membership it made additional filings with the US Patent and Trademark Office intended (the jury found) to ensure that anyone who implemented the standard would infringe their intellectual property rights - thereby becoming liable for the royalties which Rambus looked forward to earning as manufacturers built memory devices to the standard.

After adoption of the JEDEC standard, companies did indeed implement it, and Rambus duly notified implementers that they would be required to pay a royalty to Rambus if they wished to continue to do so. One company that refused to comply was Infineon, an SDRAM manufacturer. Infineon counterclaimed against Rambus, alleging fraud on the part of Rambus, based on its alleged "gaming" of the JEDEC process. Rambus filed suit against other recalcitrant manufacturers as well, and in time the US Federal Trade Commission announced that it had opened an investigation into the conduct of Rambus in the JEDEC process.

In its counterclaims, Infineon alleged that Rambus' conduct had been egregious, conscious and calculating, and that this type of conduct should neither be sanctioned nor rewarded by the courts. The jury accepted Infineon's version of the facts, and found that Rambus had committed sufficient bad acts to satisfy the Court's interpretation of fraud under Virginia law. The court also held that Infineon had not in fact infringed the Rambus patents. In light of the fact that the court found that Rambus had not only acted inequitably in its commercial dealings, but had also destroyed evidence and committed other misconduct during the litigation process, it awarded Infineon over \$7 million in attorneys fees and expenses.

Due to the popular perception that Rambus had acted in a way that was very harmful to the validity and integrity of the standard setting process, many who are involved in standard setting world felt a sense of satisfaction with this outcome. Thus it was that the standards world was much less pleased when, on appeal, a three-judge panel of the United States Court of Appeals of the Federal Circuit -- which has jurisdiction over all appeals from US patent cases -- held in a non-unanimous opinion on January 26, 2003, that Rambus had not, in fact committed fraud under the laws of Virginia. The court also directed the lower court to reconsider the finding of patent non-infringement, which might well result in a finding of infringement, permitting Rambus to successfully assert its patents against not only Infineon, but other implementers of the SDRAM standard as well. Finally, the court vacated the award of attorney fees and expenses, and directed the lower court to reconsider the appropriate amount of any award in light of the vacating of the fraud verdict.

While many were shocked, fewer were surprised by this outcome, since JEDEC (like many standard setting bodies in the early 1990s) utilized what most would agree was a rather skeletal and vague written IPR policy. The majority opinion of the Circuit Court was even more unkind in its assessment of the JEDEC policy, finding that "[T]here is a staggering lack of defining details in the EIA/JEDEC patent policy." While acknowledging that Rambus itself may have felt that it was violating this policy, the majority of the judges nonetheless found that the letter of the policy, in fact, had not been violated. Rambus was thus vindicated (in a sense) against its own will at the time the actions in question were taken.

Of equal concern to those who have read the case closely is the fact that the analysis which the majority followed to reach this conclusion may be read to generally change the rules for the creation and operation of patent policies in the standard setting environment generally. In a forcefully worded dissenting opinion, Judge Prost (the third judge) expressed concern that the majority opinion would greatly increase the analytical burden of not only courts, but participants in the standard setting process as to what patents would, and would not, need to be disclosed. Defending JEDEC's right to set a broad policy, if it so chose, he observed that "[While] the majority may believe that JEDEC's 'might be involved' standard is impossibly amorphous, the majority's restatement of the JEDEC policy might prove impossibly complex." Given that the Circuit Court is, for most intents and purposes, the court of last appeal in patent cases (the Supreme Court could, but would be unlikely, to hear the case if a petition is filed by Infineon to seek its intervention), the opinion of a two out of three judge subset of the entire Court of Appeals will become the ruling precedent by which future cases involving alleged abuse of IPR policies in the standard setting milieu will be judged. And while the facts may vary in the future, a clear message has been sent that standard setting IPR policies will receive a very critical review before they are enforced against a patent holder.

The Fallout. How bad is this result? In some ways, it is not bad at all, since it should provide a motivating boost to those standard setting bodies that have thus far shied away from the unrewarding and contentious process of upgrading antiquated and inadequate IPR policies. Whether or not these policies are ultimately tested in court, this type of policy can still provide too little detail, not enough process, or just plain "bad" rules of operation, all of which ill serve the members of such organizations. Many, but by no means all, consortia have remedied this situation since the FTC and Dell computer entered into a much-publicized consent decree in 1996 involving Dell's participation in the Video Electronics Standards Association (VESA).

But in other ways, this hard case makes bad law indeed, in that just when a semblance of order and certainty was beginning to evolve among standard setting bodies about what an IPR policy should say, and what range of acceptable alternative options on given terms can be considered, the Court of Appeals has raised a host of new questions about what is and is not enforceable in an IPR policy, and how much effort must be undertaken by members in standard setting bodies in order to participate. Moreover, the court has held that willful misconduct can, indeed, pay. Hardly a healthy message to send to some participants in a commercial world that has so recently proven itself capable of gross accounting fraud and other abuses.

Had the court wanted to, it could have offered some help by adding more so-called "dicta" to its opinion, giving guidance to the industry on how standard setters could perform their work with assurance the Court of Appeals would uphold the results. Instead, it may take years to resolve these questions through new litigation. While such dicta would not actually bind future courts (or even the Court of Appeals), it

would be persuasive to lower courts, and more importantly, it would assist participants in standard setting in guessing what the Court of Appeals itself would uphold in the future.

Where do we go from here? There is one hope for a shortcut to more definitive answers. This week, Infineon filed a petition to the Court of Appeals for a rehearing "en banc", meaning that all of the judges on the Court would reconsider the opinion handed down by only two of its judges in January. The granting of such petitions is infrequent, and therefore the odds of success for Infineon are low. A decision on whether to grant the petition could come as early as March 5, and one element in the Court's decision on whether to grant a rehearing could be the impact that the technology industry fears from the January ruling. It is expected that "amicus briefs" may be filed by some companies that are very active in the standard setting arena, urging that the full Court consider the fallout which may result from the existing ruling. The purpose and justification for such filings (literally, "friends of the court" briefs) is to permit third parties to bring to the Court's attention any unintended consequences and other considerations that the amici believe should be taken into account before a binding judgment is handed down.

The moral of the story is that the proverbial ounce of prevention can indeed be worth a pound of cure, as implementers of the JEDEC standard have found, to their economic sorrow. Consortia should not, by failing to have robust IPR policies, present courts with a Hobson's choice of making bad law no matter which way they rule. Nor should the industry, as a result, have to share in the consequences.

What you can do: *If you are active in standard setting, or if you are a standard setting organization, consider filing an amicus brief with the Court of Appeals no later than March 5, 2003 urging a rehearing.*

If you would like to join in an amicus brief already in preparation, *in which several standard setting organizations are participating, please contact Andrew Updegrove , whose firm, Lucash, Gesmer & Updegrove LLC, is preparing the brief.*

For additional detail on the Rambus case and relevant decisions which have preceded it, see <http://www.consortiuminfo.org/laws/#cases>

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