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Litigation Notes

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RAMBUS v. INFINEON

We read a transcript of the proceedings on July 16 in which **Rambus** was seeking to persuade Judge Robert Payne of the U.S. District Court in Richmond to set aside a jury verdict that Rambus defrauded **Infineon** by nondisclosure of its patents and patent applications to JEDEC, an industry standards group. JEDEC was attempting to establish uniform standards for DRAMs to be used on an industry-wide basis, and one of the rules for participation in the group was that patents and patent applications of participants pertaining to the subject matter of the standards had to be disclosed. Infineon asserted that Rambus attended meetings, obtained information about SDRAMs and DDR SDRAMs discussed at the meetings and then incorporated this information into its patent applications without disclosing its actions to the other meeting participants.

In our analysis, Judge Payne is likely to modify the verdict so that it does not apply to DDR SDRAMs, but he will probably leave the verdict as to conventional SDRAMs intact. In order to do so, we think that Judge Payne will probably set the entire verdict aside and order a new trial limited to the issue of damages attributed to the nondisclosure of conventional SDRAM patent information. Additionally, although Judge Payne seems determined to issue an injunction of some sort against Rambus, his comments indicate that the injunction will bar enforcement of U.S. patents only and will apply only to conventional SDRAMs, which are rapidly becoming obsolete. Finally, we think that Rambus has compelling arguments for reversal of the fraud verdict in the Court of Appeals.

What happened in the case was that Rambus sued Infineon for infringement of several patents covering various aspects of its DRAM technology, and Infineon counterclaimed, charging that the Rambus patents, although legitimately applicable to Rambus' own proprietary RDRAMs, were unenforceable against its SDRAM products because of the JEDEC fraud described above. Infineon had previously secured a ruling from Judge Payne that it did not infringe the Rambus patents, but we previously observed that this ruling was the inevitable result of a flawed Markman decision earlier this year construing the technical terms in the patents in an absurdly narrow way, cf. *Litigation Notes*, May 14, 2001, and that this ruling seems destined for reversal in the Federal Circuit Court of Appeals.

In the JEDEC fraud case, what happened was that Rambus attempted to explain to Judge Payne and to the jury that the inventions were its own and that when it saw its inventions presented by others at JEDEC meetings, it wanted to make sure that its patents were properly drafted so as to insure that they

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covered all that Rambus was properly entitled to. In one account of the testimony, certain other companies were said to have actually stolen Rambus technologies and then to have presented them as their own at JEDEC meetings. Ordinarily, issues of first inventorship are properly resolved at the Patent and Trademark Office in the patent application process, and if prior art is in the public domain, then patent claims are not issued. Subsequent litigation merely reviews the highly detailed and meticulous work of the PTO in order to determine whether certain prior art may have been overlooked. However, in this peculiar trial, both Judge Payne and the jury appear to have accepted Infineon's blanket assertions that significant DRAM technologies were in the public domain and that Rambus was seeking to capture patent rights on these technologies.

In the post-trial phase of the case, three important issues were raised as to why the verdict should be set aside, and Judge Payne seemed to have been troubled by two of them. The three issues are reliance, injury and timing of when the duty to disclose is supposed to attach. The latter two are the issues that Judge Payne found most disturbing. As for reliance, the issue, simply stated, is that Infineon cannot logically be said to have relied on the nondisclosure by Rambus of patents and patent applications, since all of Rambus' issued patents are in the public domain and in Infineon's possession, and the European versions of the patent applications were publicly available after 18 months from the date they were filed. It was clear from the evidence that these patent applications were likewise in Infineon's possession prior to the time it purportedly relied on the Rambus nondisclosure. Infineon argues, essentially, that the failure of JEDEC participants to state that they have patent rights to certain DRAM technologies constitutes a waiver of those patent rights, at least as applied to the JEDEC standard under consideration by the participants who were voting on the standard.

The issue as to when the duty to disclose is supposed to attach was a much more important issue for Judge Payne than the reliance issue. Rambus argued that it withdrew from JEDEC prior to the final vote on both the SDRAM standard and the DDR SDRAM standard, and that therefore the JEDEC duty to disclose never applied to it. The logic behind this position is that until the final vote on a product, the question of whether a given feature will be included in the standard is too vague to trigger a donation of valuable corporate secrets, but Infineon's position, also quite sensible, is that participants need to know prior to voting on each feature if intellectual property rights on that feature will be asserted, since this fact could affect the participants' votes.

Judge Payne, at the July 16 hearing, appeared to be leaning in favor of Infineon's view that the disclosure duty was triggered by the balloting by participants on a specific SDRAM feature rather than the final balloting on the overall SDRAM standard. However, he seemed unpersuaded by Infineon's more extreme position that the failure to disclose patent rights applicable to SDRAMs effected a waiver of those patent rights over the same feature when included in the DDR standard, even though the balloting on the feature may have occurred after withdrawal by Rambus from JEDEC in 1996.

More recently, on July 30, Judge Payne indicated how he may be thinking on the subject by ordering short five-page briefs from Rambus and Infineon limited to the issue of whether a new trial on damages would have to be held if he decided to set aside the fraud verdict on DDR but not on conventional SDRAM. To us, it is unlikely that he would have asked for these specific briefs merely because of academic curiosity, and therefore we believe that he will set aside the fraud verdict on DDR. His basis for doing so, we think, will be that the specific features of DDR were voted on after the Rambus became a non-participant in JEDEC and that there was no right to rely on the silence of non-participants as to patent rights applicable to the features included in the DDR standard.

Judge Payne's decision on the post-trial motions will come quite soon, we think, because of the

extremely aggressive briefing schedule set for the briefs. The Rambus brief was due on July 31 at 5:00 PM, the Infineon response was due one day later and the Rambus reply is due today.

The order requesting these briefs can be traced to Judge Payne's questioning at an early point in the July 16 hearing, when he posed the following question to the Rambus attorney: "Let us suppose that you are right, that there isn't any proof of duty to disclose with respect to DDR SDRAM, and, therefore, either because of the absence of evidence or because that evidence which exists cannot in law amount to clear and convincing evidence, you would be entitled to judgment as a matter of law on the DDR SDRAM. If that were the conclusion reached, what would your position be with respect to a new trial on the SDRAM issue, the fraud part of the SDRAM issue? In other words, does the evidence on the DDR SDRAM taint the verdict?" The Rambus attorney responded by pointing out that on the verdict form the issue of damages was merged and that it was impossible to tell what portion of the verdict was attributable to the purported nondisclosure of patent applications applicable to DDR.

The other issue pertaining to the fraud verdict that troubled Judge Payne was the so-called injury element. Injury is one of the five well-established elements of fraud, along with misstatement, intent to mislead, actual misleading and reliance. Rambus argued that since Infineon never paid any royalties to Rambus for either the conventional SDRAM or DDR, Infineon cannot claim to have been injured by any fraudulent nondisclosure of intellectual property rights that Rambus is now seeking to enforce. Moreover, since the outcome of the infringement trial before Judge Payne resulted in a determination that Infineon's SDRAMs do not infringe the Rambus patents, there cannot be any basis for holding that Infineon could be injured in the future. In our analysis, the absence of injury to Infineon is absolutely fatal to the entire fraud claim and, on the merits, requires Judge Payne to enter judgment as a matter of law in favor of Rambus. We don't know whether Judge Payne concurs in our point of view on the injury issue, but we think it provides Rambus with a persuasive argument to use on appeal.

Infineon's counterargument on the injury element is that, in fact, it *was* injured by the fraud insofar as it was required to pay counsel fees to defend itself against the Rambus claims of patent infringement. It made what we regard as a weak argument that counsel fees are recoverable by a defrauded party in Virginia. There are three flaws in this argument, in our perception. First, the Virginia case law cited does not say that counsel fees are recoverable by a defrauded party, but only that counsel fees *may* be recovered in the court's discretion. Second, we do not believe that counsel fees alone can satisfy the injury element of the tort of fraud, even if they *are* recoverable in an appropriate case. Third, the counsel fees that Infineon incurred were not caused by the fraud itself but rather by the fact that Infineon had been sued for patent infringement.

Finally, regarding the prospect of an injunction against Rambus, it does appear from Judge Payne's comments at the July 16 hearing that he is likely to issue an injunction of some sort as a result of the nondisclosure of intellectual property applicable to SDRAMs. However, it seems unlikely that Infineon will get an injunction precluding Rambus from further litigation on the SDRAM patents outside the U.S., which is the only relevant issue since Infineon's infringement inside the U.S. has already been litigated and will soon be on appeal. In particular, Judge Payne made the following remark: "[I] am troubled by what I heard at trial. And what I heard was a deliberate effort to take advantage of the JEDEC situation to leverage up, to pursue a business plan the object of which included the filing of patent lawsuits to bring people to appeal to (sic), and I think that Infineon is entitled to protection against that." At the end, Judge Payne gave Infineon's counsel the following instruction:

> All right, Mr. Desmarais, you please tender an order that provides what you think ought to be the scope of an injunction which – ask you to submit two versions of it, an anti-suit injunction that excludes from its reach the technologies that are exclusively the DDR

SDRAM and then those which include the DDR SDRAM, the geological reach would be in the United States, that would be those nine technologies, identified by those technologies and the appropriate patent numbers that you know about.