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INTELLECTUAL PROPERTY LICENSING:
THE INTERSECTION BETWEEN
INTELLECTUAL PROPERTY RIGHTS
AND THE ANTITRUST LAWS

M. Howard Morse
Kenneth M. Vorrasi

Drinker Biddle & Reath LLP

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I. OVERVIEW OF ANTITRUST AND INTELLECTUAL PROPERTY

A. The Antitrust Laws

1. Sherman § 1, 15 U.S.C. § 1: “Every contract, combination . . . or conspiracy, in restraint of trade or commerce . . . is hereby declared to be illegal.”
2. Sherman § 2, 15 U.S.C. § 2: “Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize . . . shall be deemed guilty”
3. FTC Act § 5, 15 U.S.C. § 45(a)(1): “Unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful.”

B. The Intellectual Property Laws

1. U.S. Constitution, Art. I, § 8: “Congress shall have power . . . to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”

C. Recent Federal Guidance on Antitrust and IP Interface

1. FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003).
 - a. “Questionable patents are a significant competitive concern and can harm innovation.” (Ex. Sum. at 5).
 - b. “Competition and patents must work together in proper balance.” (Ex. Sum. at 2).
 - c. FTC recommendations for patent reform including: greater funding for PTO; “second-pair-of-eyes” review to improve patent quality; post-grant review; “preponderance of the evidence” for validity challenges; tighter standards for “obviousness”, considering harm to competition in patent decisions.
 - d. Influencing patent reform legislation and the U.S. Supreme Court (report cited in Justice Kennedy’s concurrence in *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) and Justice

Breyer's dissent in *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124 (2006)).

2. ANTITRUST MODERNIZATION COMM'N, REPORT AND RECOMMENDATIONS (2007).
 - a. Recommendation 1 on the "New Economy": No need to revise the antitrust laws to apply different rules to industries in which innovation, intellectual property, and technological change are central features.
 - b. Recommendation 2 on the "New Economy": Antitrust enforcers should carefully consider market dynamics.
 - c. Recommendation 20 on Standard Setting: Joint negotiations by members of a standard-setting organization prior to the establishment of the standard should be evaluated under the rule of reason.
 - d. Recommendation 21 on Patent Reform: Congress should seriously consider recommendations in the FTC and NAS reports with the goal of encouraging innovation.
3. U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007).
 - a. Unilateral refusals to license: "antitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections." *Id.* at 32.
 - b. Standard setting: "Because of the strong potential for procompetitive benefits, the Agencies will evaluate joint *ex ante* activity to establish licensing terms under the rule of reason." *Id.* at 54.
 - c. Patent pools: "Including substitute patents in a pool does not make the pool presumptively anticompetitive; competitive effects will be ascertained on a case-by-case basis." *Id.* at 9.

D. Historical View

1. Courts and commentators for many years took the view that there is an inherent conflict between the intellectual property laws, which grant a "monopoly" to the intellectual property owner, and

the antitrust laws, which seek to prevent the creation or enhancement of monopoly power.

2. “While the antitrust laws proscribe unreasonable restraints of competition, the patent laws reward the inventor with a temporary monopoly that insulates him from competitive exploitation of his patented art. . . . [T]he patent and antitrust laws necessarily clash. . . . [T]he primary purpose of the antitrust laws to preserve competition can be frustrated, albeit temporarily, by a holder’s exercise of the patent’s inherent exclusionary power during its term.” *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981).
3. Patents are “an exception to the general rule against monopolies”; they reward inventors with a temporary “monopoly.” *Precision Instrument Mfg. Co. v. Auto. Maint. Mach.*, 324 U.S. 806, 816 (1945).
4. The DOJ’s “Nine No-Nos” (1970)
 - a. The view that patents were monopolies that conferred market power to the detriment of competition led to restrictive views of antitrust permissibility of intellectual property licensing practices, which culminated in the DOJ Antitrust Division enunciating “Nine No-No’s” during the 1970s, condemning: (1) tying arrangements; (2) grant back provisions; (3) resale restrictions on the purchaser; (4) restrictions on the licensee’s ability to sell non-patented goods; (5) precluding the licensor from granting further licenses; (6) mandatory package licensing; (7) royalty provisions not reasonably related to the licensee’s sales; (8) restrictions on a licensee’s use of a product made by a patented process; and (9) resale price restrictions.

See Bruce B. Wilson, Deputy Assistant Att’y General, U.S. Dep’t of Justice, *Patent and Know-How License Agreements: Field of Use, Territorial, Price and Quantity Restrictions*, Remarks Before the Fourth New England Antitrust Conference (Nov. 6, 1970), reprinted in ANTITRUST PRIMER: PATENTS, FRANCHISING, TREBLE DAMAGE SUITS 11, 12-14 (1970).

E. Modern View

1. Today, many take the view that the intellectual property laws authorize owners of intellectual property to exclude others from using that property, and do not necessarily create monopoly power.
2. In addition, it is said, the two legal regimes have similar goals, and there is no conflict:
 - a. “[W]hen [a] patented product is so successful that it creates its own economic market or consumes a large section of an existing market, the aims and objectives of patent and anti-trust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition.” There is “a fine line between actions protecting the legitimate interests of a patent owner and antitrust law violations. On the one hand, the patent owner must be allowed to protect the property right given to him under the patent laws. On the other hand, a patent owner may not take the property right granted by a patent and use it to extend his power in the market place improperly, i.e., beyond the limits of what Congress intended to give in the patent laws. The fact that a patent is obtained does not wholly insulate the patent owner from the antitrust laws.”

“When a patent owner uses his patent rights not only as a shield to protect his invention, but as a sword to eviscerate competition unfairly, that owner may be found to have abused the grant and may become liable for antitrust violations”

Atari Games Corp. v. Nintendo of Am. Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990).

- b. *Biotechnology Indus. Org. v. District of Columbia*, 496 F.3d 1362 (Fed. Cir. 2007).
 - i. Struck down a DC law prohibiting sale of patented drugs at “excessive prices.”
 - ii. “[T]he ability to foreclose competitors from making, using, and selling the invention may allow them an opportunity to obtain above-market profits during the patent’s term.”

- iii. “Of course, the patent laws are not intended merely to shift wealth from the public to inventors. Their purpose is to ‘promote the Progress of . . . useful Arts,’ ultimately providing the public with the benefit of lower price through unfettered competition.”
 - iv. “These two objectives – to reward innovators with higher profits and to keep prices reasonable for consumers – are in dialectic tension.”
 - v. “Congress, as the promulgator of patent policy, is charged with balancing these disparate goals.”
3. U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995) (“*IP GUIDELINES*”)
- a. The DOJ and FTC adopted new guidelines in 1995 regarding the application of the antitrust laws to intellectual property licensing. The *IP Guidelines*, by their terms, apply to “the licensing of intellectual property protected by patent, copyright, and trade secret law, and of know-how,” but not to trademark licensing. *IP Guidelines* ¶ 1.0.
 - b. The *IP Guidelines* articulate the modern view of the antitrust/intellectual property interface:

“The intellectual property laws and antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare. The intellectual property laws provide incentives for innovation and its dissemination and commercialization by establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression. . . . The antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers.” *IP Guidelines* ¶ 1.0.
 - c. Basic Principles of the *IP Guidelines*
 - i. Intellectual property is essentially comparable to any other form of property.

The agencies apply the same general antitrust principles to conduct involving intellectual property as to

conduct involving any other form of tangible or intangible property. *IP Guidelines* ¶ 2.1.

- ii. No presumption that intellectual property creates market power. *IP Guidelines* ¶ 2.2.

Consistent with the *IP Guidelines*, the Supreme Court in *Illinois Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006) held that no market power is presumed for a patent. In *Illinois Tool Works*, the plaintiff, Independent Ink, asserted tying and monopolization allegations. The Supreme Court held that market power could not be presumed because of the existence of patent rights, relying on 35 U.S.C. § 271(d)(5) which eliminated any presumption of market power for patent misuse claims and the virtual consensus among economists, DOJ/FTC, and the *IP Guidelines*.

- iii. Intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive.

The agencies recognize that intellectual property licensing and cross-licensing can lead to integration with complementary factors of production and more efficient exploitation of the intellectual property and are typically procompetitive. *IP Guidelines* ¶ 2.3.

- iv. Restrictions in licenses may allow intellectual property owners to efficiently and effectively exploit their intellectual property, by, for example, protecting against free-riding, and may thus serve procompetitive ends. Restrictions also may provide intellectual property owners with the incentive to invest in commercialization and distribution of products and to develop additional applications for their intellectual property. *IP Guidelines* ¶ 2.3.
- v. Competitive concerns may arise where an arrangement harms competition among entities that would have been actual or likely potential competitors in the absence of the license. Antitrust concerns are far less likely where licenses do not interfere with competition that would likely have taken place absent the license. *IP Guidelines* ¶ 3.1.

- vi. If the agencies conclude a restraint may have anticompetitive effects, they will consider whether it is “reasonably necessary” to achieve procompetitive efficiencies. The agencies will require parties to adopt practical and significantly less restrictive means of achieving efficiencies, but they will not engage in a search for a theoretically least restrictive alternative that is not realistic in the business situation faced by the parties. *IP Guidelines* ¶ 4.2.
- d. The *IP Guidelines* recognize three types of antitrust markets that may be affected by intellectual property licensing arrangements: goods markets, technology markets, and innovation markets.

“If a licensing arrangement may adversely affect competition to develop new or improved goods or processes, the Agencies will analyze such an impact either as a separate competitive effect in relevant goods or technology markets, or as a competitive effect in a separate innovation market.” *IP Guidelines* ¶ 3.2.3.

 - i. An intellectual property arrangement may affect competition in the sale of goods by restricting the licensee’s rights to sell or use specified goods. A licensing arrangement may affect competition in markets for final goods, intermediate goods, or upstream goods that are used in conjunction with the intellectual property to manufacture a final product, by restricting competition that would have existed absent the agreement. *IP Guidelines* ¶ 3.2.1.
 - ii. Technology markets are markets in which companies compete in the licensing of intellectual property. A technology market for licensed intellectual property consists of the licensed intellectual property and all close substitutes for it. The agencies will analyze the competitive effects in technology markets when rights to intellectual property are marketed separately from the products in which they are used. *IP Guidelines* ¶ 3.2.2.
 - iii. Innovation markets, sometimes called research and development or R&D markets, are markets in which firms compete in research and development, and are the most controversial. The *IP Guidelines* explain:

“A licensing arrangement may have competitive effects on innovation that cannot be adequately addressed through the analysis of goods or technology markets. For example, the arrangement may affect the development of goods that do not yet exist. Alternatively the arrangement may affect the development of new or improved goods or processes in geographic markets where there is no actual or likely potential competition in the relevant goods.” *IP Guidelines* ¶ 3.2.3.

4. IP rights are not an absolute defense to an antitrust violation.

- a. In *United States v. Microsoft Corp.*, 253 F.3d 34, 63 (D.C. Cir. 2001) (en banc), the D.C. Circuit, in affirming a finding that Microsoft’s licensing restrictions prevented, *inter alia*, original equipment manufacturers from pre-installing a rival browser, thus protecting Microsoft’s monopoly from competition, characterized as “bordering on the frivolous” Microsoft’s argument that its license restrictions were justified by Microsoft’s copyright, explaining:

“The company claims an absolute and unfettered right to use its intellectual property as it wishes: ‘If intellectual property rights have been lawfully acquired,’ it says, then ‘their subsequent exercise cannot give rise to antitrust liability.’ That is *no more correct than the proposition that use of one’s personal property, such as a baseball bat, cannot give rise to tort liability.* . . . ‘Intellectual property rights do not confer a privilege to violate the antitrust laws.’”

II. OBTAINING AND ENFORCING PATENTS

Companies seeking to enforce intellectual property frequently face anti-trust counterclaims alleging fraud on the PTO or bad faith enforcement of intellectual property rights.

A. Fraud on the Patent Office

The government and private parties have challenged enforcement or attempted enforcement of invalid intellectual property rights on the theory that the intellectual property was obtained by fraud perpetrated on the PTO, in violation of Section 2 of the Sherman Act or Section 5 of the FTC Act. *See IP Guidelines* ¶ 6.

1. Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172 (1965).
 - a. Under *Walker Process*, the enforcement of a patent procured by fraud can constitute monopolization under Section 2, where:
 - i. The patent was procured by fraud;
 - ii. The party asserting the patent was aware of fraud;
 - iii. A dangerous probability of obtaining a monopoly; and
 - iv. The party asserting the claim has antitrust standing.
2. Recent Fraud on the PTO Cases
 - a. *Nobelpharma AB v. Implant Innovations, Inc.*, 129 F.3d 1463 (Fed. Cir. 1997), *vacated and withdrawn*, 141 F.3d 1059 (Fed. Cir. 1998).
 - i. Federal Circuit initially held that *Walker Process* requires deliberate, affirmative misrepresentation, not mere omissions, fearing that otherwise many patent infringement actions would be converted into antitrust cases.
 - ii. The same Federal Circuit panel four months later confirmed the viability of antitrust claims premised on fraudulent omissions:

“Such a misrepresentation or omission must evidence a clear intent to deceive the examiner and thereby cause the PTO to grant an invalid patent. . . . A finding of *Walker Process* fraud requires higher threshold showings of both intent and materiality than does a finding of inequitable conduct. . . . [I]t must be based on independent and clear evidence of deceptive intent together with a clear showing of reliance, i.e., that the patent would not have issued but for the misrepresentation or omission.”
 - b. *Hydril Co. LP v. Grant Prideco LP*, 474 F.3d 1344 (Fed. Cir. 2007).
 - i. Fraudulent misrepresentation or fraudulent omission (*Nobelpharma AB v. Implant Innovations, Inc.*, 129 F.3d 1463 (Fed. Cir. 1997)).

- ii. Standard for declaratory judgment action – “reasonable apprehension” – defines minimum level of “enforcement” for *Walker Process* claim (*Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341 (Fed. Cir. 2004), *rev’d on other grounds*, 546 U.S. 394 (2006)).
 - iii. *Walker Process* claim may be based upon threats of patent litigation against customers.
- c. *Dippin’ Dots, Inc. v. Mosey*, 476 F.3d 1337 (Fed. Cir. 2007).
- Even where a patent was unenforceable due to inequitable conduct, the antitrust violation was reversed:
- i. “a claimant must make higher threshold showings of both materiality and intent than are required to show inequitable conduct”
 - ii. “to find a prosecution omission fraudulent there must be evidence of intent separable from the simple fact of the omission”
- d. *Hertz Corp. v. Enter. Rent-A-Car Co.*, 557 F. Supp. 2d 185 (D. Mass. 2008)
- i. Court rejected the argument that threats of enforcement before patent issuance were irrelevant.

B. Enforcement of IP Rights

The filing of a “sham” lawsuit to enforce invalid intellectual property rights may also violate Section 2 of the Sherman Act. *IP Guidelines* ¶ 6.

1. *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282 (9th Cir. 1984).
 - a. Instituting litigation with knowledge that a patent is invalid or not infringed by defendant, even if there was no fraud in the procuring of the patent from the PTO, can constitute monopolization under Section 2 of the Sherman Act.
2. *Prof'l Real Estate Investors v. Columbia Pictures Indus., Inc.*, 508 U.S. 49 (1993).
 - a. Filing suit to enforce intellectual property rights is protected under the *Noerr-Pennington* doctrine unless the litigation is a sham.

- i. In order to prevail on such a claim, the underlying suit must be “objectively baseless” in the sense that no reasonable litigant could have realistically expected to prevail on the merits, and must have been brought in “bad faith.”
 - ii. That is, the antitrust claimant must demonstrate that the intellectual property plaintiff knew its intellectual property was invalid or not infringed, and the suit was “an attempt to interfere directly with the business relationship of a competitor” through the use of governmental process, as opposed to the outcome of that process.
3. *Cardtoons LC v. Major League Baseball Players Ass’n*, 208 F.3d 885 (10th Cir. 2000) (en banc).
 - a. Tenth Circuit sitting en banc reversed panel decision that extended *Noerr-Pennington* immunity to threats of intellectual property litigation, even when a firm does not ultimately seek judicial relief. The court concluded *Noerr* did not preclude liability under state law.
4. Unclear if listing patent in FDA Orange Book is *Noerr-Pennington* protected.
 - a. The listing of patents in Food & Drug Administration (“FDA”) “Orange Book” (formally the “Approved Drug Products with Therapeutic Equivalence Evaluations”) also has been challenged on antitrust grounds.

Pharmaceutical manufacturers must list all patents that cover approved drugs in the Orange Book, and companies seeking to market generic drugs must certify that listed patents are either invalid or not infringed to market a drug before patent expiration. If the “brand-name” manufacturer sues the generic applicant for infringement within 45 days of such certification, then there is a 30-month “stay” on FDA approval while such litigation proceeds.
 - b. FTC has argued that “ministerial government action” is not protected under the *Noerr-Pennington* doctrine. It has argued that Orange Book filings are not entitled to protection because they do not involve petitioning; the FDA merely accepts the NDA holder’s representations and exercises no intervening judgment. *See In re Bristol-Myers Squibb Co.*,

No. C-4076 (Mar. 7, 2003) (Analysis of Proposed Consent Order To Aid Public Comment);

- c. In *In re Buspirone Patent & Antitrust Litig.*, 185 F. Supp. 2d 363, 370 (S.D.N.Y. 2002), the district court held that the *Noerr-Pennington* doctrine does not protect listings in the Orange Book which are “non-discretionary” on the part of the FDA and are therefore not petitioning, alternatively holding that there was no objective basis for Bristol-Myers Squibb listing the patent at issue and it therefore fell within the sham exception to the doctrine and constituted fraud on the FDA analogous to *Walker Process* fraud on the PTO.

But see Twin City Bakery Workers & Welfare Fund v. Astra Aktiebolag, 207 F. Supp. 2d 221 (S.D.N.Y. 2002) (holding that Orange Book listings well in advance of a generic firm’s certification of patent invalidity or non-infringement does not cause harm independent of filing the infringement lawsuit required to obtain a 30-month stay, which is protected by *Noerr-Pennington*).

- d. FTC staff recommended in 2006 that the Commission “[c]larify that conduct protected by *Noerr* does not extend to filings, outside of the political arena, that seek no more than a ministerial government act.” FED. TRADE COMM’N STAFF REPORT, ENFORCEMENT PERSPECTIVES ON THE *NOERR-PENNINGTON* DOCTRINE 37 (2006).

C. Settlement of IP Litigation

Settling patent litigation is generally considered beneficial, but licensing transactions entered into in connection with the settlement of litigation or potential litigation are not immune from antitrust challenge.

1. Supreme Court Precedent

- a. *Standard Oil Co. (Indiana) v. United States*, 283 U.S. 163, 171 (1931) (The Supreme Court reasoned that “[w]here there are legitimately conflicting [patent] claims or threatened interferences, a settlement by agreement, rather than litigation, is not precluded by the [Sherman] Act.”).

2. Settlements under the *IP Guidelines*
 - a. The *IP Guidelines* note that “[s]ettlements involving the cross-licensing of intellectual property rights can be an efficient means to avoid litigation and, in general, courts favor such settlements. When such cross-licensing involves horizontal competitors, however, the Agencies will consider whether the effect of the settlement is to diminish competition among entities that would have been actual or likely potential competitors in a relevant market in the absence of the cross-license. In the absence of offsetting efficiencies, such settlements may be challenged as unlawful restraints of trade.” *IP Guidelines* ¶ 5.5.
3. *Schering-Plough Corp. v. Fed. Trade Comm’n*, 402 F.3d 1056 (11th Cir. 2005)
 - a. FTC argued that the parties’ “permanent settlement” split patent life, entry before patent expiration; the side payment Schering Plough made to the generic manufacturer was “payment for delay” rather than a payment for licensed products; it is not necessary to review underlying patent merits.
 - b. FTC relied on the “untenable supposition” that without a payment there would have been a settlement with earlier entry.
 - c. “Although the exclusionary power of a patent may seem incongruous with the goals of antitrust law, a delicate balance must be drawn between the two regulatory schemes. . . . [A]ntitrust law . . . cannot discount the rights of the patent holder.”
 - d. “The proper analysis now turns to whether . . . the challenged agreements restrict competition beyond the exclusionary effects of the . . . patent.”
4. *In re Tamoxifen Citrate Antitrust Litig.*, 466 F.3d 187 (2d Cir. 2006).
 - a. Settlements, even with large reverse payments, are in the public interest and will violate the antitrust laws only if:
 - i. The terms of the settlement “extend[ed] . . . the monopoly beyond the patent’s scope;” or

- ii. The patent was procured by “fraud” or the underlying infringement lawsuit was “objectively baseless”.
 - b. The plaintiff’s petitioned the Supreme Court for certiorari, but it was denied in 2007. The DOJ’s amicus brief in support of denying certiorari stated:
 - i. “[T]he court of appeals adopted an incorrect standard, [but] this case does not appear to be a good vehicle”
 - ii. “[T]he mere presence of a substantial reverse payment as part of the settlement of a patent infringement claim is not sufficient to establish that the settlement is unlawful under the Sherman Act. . . . [A] court at a minimum should take into account the relative likelihood of success of the parties’ claims, viewed ex ante.”
 - iii. “[A] court reviewing an antitrust challenge to a settlement of a patent infringement claim that includes a reverse payment should apply the rule of reason – and . . . in doing so, a court should consider ‘the strength of the patent as it appeared at the time at which the parties settled.’”
5. *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, No. 2008-1097 (Fed. Cir. Oct. 15, 2008).
- a. Federal Circuit upheld summary judgment in favor of defendants on plaintiffs’ antitrust claims for a patent settlement entered into between Bayer and Barr relating to the drug Cipro.
 - b. It was “well within Bayer’s rights as the patentee” to “exclude the defendants from profiting from the patented invention.”
 - c. “[T]here mere fact that the Agreements insulated Bayer from patent invalidity challenges by the generic defendants was no in itself an antitrust violation.” Bayer was still subject to patent validity challenges from other generic manufacturers and validity challenges were in fact waged against Bayer.
 - d. “The essence of the inquiry is whether the agreements restrict competition beyond the exclusionary zone of the patent.”
 - e. “[W]e agree with the Second and Eleventh Circuits and with the district court that, in the absence of evidence of fraud

before the PTO or sham litigation, the court need not consider the validity of the patent in the antitrust analysis of a settlement agreement involving a reverse payment.”

6. Recent FTC Developments

- a. FTC Testimony Before U.S. Senate Judiciary Committee (Jan. 17, 2007).

“Where a patent holder makes a payment to a challenger to induce it to agree to a later entry than it would otherwise agree to, consumers are harmed – *either* because a settlement with an earlier entry date might have been reached, *or* because continuation of the litigation without settlement would yield a greater prospect of competition.”

Paying Off Generics to Prevent Competition with Brand Name Drugs: Hearing Before S. Comm. on the Judiciary, 110th Cong. (Jan. 17, 2007) (statement of the Federal Trade Commission)

- b. *Fed. Trade Comm’n v. Cephalon, Inc.*, No. 08-CV-2141-RBS (E.D. Pa.) (complaint filed in D.D.C. on Feb. 13, 2008; transferred to E.D. Pa. on Apr. 28, 2008).

i. FTC’s complaint challenges “payments” to four firms, allegedly to prevent sales. The FTC is challenging “side-term inducements,” including favorable supply arrangements, licenses to intellectual property Cephalon did not need, and product development deals.

7. Pending Legislation

- a. S. 316/H.R. 1432 “Preserve Access to Affordable Generics Act”; H.R. 1902 “Protecting Consumer Access to Generic Drugs Act”

i. The legislation would make it unlawful to settle a patent claim if the ANDA filer receives “anything of value” and agrees “not to research, develop, manufacture, market, or sell the ANDA product for any period of time” unless “value paid” is “no more than the right to market the ANDA” before patent expiration.

ii. FTC Congressional Testimony (Sept. 25, 2007): “[T]he Commission supports a legislative solution to prohibit these anticompetitive settlements, while allowing

exceptions for those agreements that do not harm competition.”

Oversight Hearing of the Antitrust Agencies: Department of Justice Antitrust Division and Federal Trade Commission Bureau of Competition Before the H. Comm. on the Judiciary Antitrust Task Force, 110th Cong. (Sept. 25, 2007) (statement of the Federal Trade Commission).

III. LICENSING ISSUES

A. Restraints Condemned as Per Se Illegal

1. The DOJ and FTC will analyze the “vast majority” of intellectual property licensing restraints under the rule of reason. That analysis requires an assessment of whether a restraint is likely to have anticompetitive effects and whether it is reasonably necessary to achieve procompetitive effects that outweigh the anticompetitive effects. *IP Guidelines* ¶ 3.4.
 - a. The agencies will not require the theoretically least restrictive means of achieving an efficiency but will ask whether “the parties could have achieved similar efficiencies by means that are significantly less restrictive.” *IP Guidelines* ¶ 4.2.
2. Naked restrictions on competition unrelated to an efficiency-enhancing integration of economic activity will be treated as per se violations if they have been traditionally subject to per se analysis. These include (*IP Guidelines* ¶ 3.4):
 - a. Price fixing
 - b. Allocation of markets or customers
 - c. Agreements to reduce output
 - d. Certain group boycotts
 - e. Resale price maintenance (*but see* discussion *infra*)
3. Analytical Framework under the *IP Guidelines*
 - a. Competitive concerns may arise where (*IP Guidelines* ¶ 3.1):
 - i. an arrangement harms competition among entities
 - ii. that would have been actual or likely potential competitors

- iii. in the absence of the license
- b. Where the license is a vertical relationship, license restrictions with respect to one market may harm competition in another market by (*IP Guidelines* ¶ 3.1):
 - i. Anticompetitively foreclosing access to, or significantly raising the price of, an important input; or
 - ii. Facilitating coordination to increase price or reduce output

B. Safety Zones

1. The *IP Guidelines* identify a “safety zone” for certain intellectual property licenses.
 - a. The agencies will not, absent extraordinary circumstances, challenge a restraint in an intellectual property license agreement if (*IP Guidelines* ¶ 4.3):
 - i. Licensor and licensee collectively account for no more than 20% of each relevant market; or
 - ii. There are four or more independently controlled technologies or four or more independently controlled entities with specialized assets or characteristics and the incentive to engage in R&D.
 - b. Whether a restraint qualifies depends on factual circumstances at the time of the conduct at issue; qualification may change over time.
2. U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST GUIDELINES FOR COLLABORATIONS AMONG COMPETITORS (2000) (“*Joint Venture Guidelines*”).
 - a. The *Joint Venture Guidelines* provide a slightly wider safety zone for research and development competition analyzed in terms of innovation markets:

“Absent extraordinary circumstances, the Agencies do not challenge a competitor collaboration on the basis of effects on competition in an innovation market where three or more independently controlled research efforts in addition to those of the collaboration possess the required specialized assets or characteristics and the incentive to engage in R&D

that is a close substitute for the R&D activity of the collaboration.” *Joint Venture Guidelines* ¶ 4.3.

C. Refusals to License

1. Courts are divided on when a refusal to license intellectual property can be unlawful exclusionary conduct under Section 2 of the Sherman Act.
 - a. *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994) (“while exclusionary conduct can include a monopolist’s unilateral refusal to license a copyright, an author’s desire to exclude others from use of its copyright work is a presumptively valid business justification”).
 - b. *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997) (“Kodak II”).
 - i. Plaintiffs were independent service organizations (“ISOs”) that sued Kodak for refusing to sell patented parts and to license patented and copyrighted software.
 - ii. The Ninth Circuit held that that “patent and copyright holders may refuse to sell or license their protected works,” but this right is not absolute and may be challenged.
 - iii. The court proposed that an intellectual property owner be accorded a rebuttable presumption that its “desire to exclude others from [copying] its protected work is [a] presumptively valid business justification.”

The court reasoned that intent in refusing to license is relevant and a desire to enforce intellectual property rights cannot be a pretext for refusing to license for reasons lacking legitimate business justification.
 - iv. Since only a small percentage of Kodak’s parts were patented and Kodak had eschewed reliance on its patent rights, the Ninth Circuit found that a jury would have had to view Kodak’s justification as pretextual.
 - c. *In re Indep. Serv. Orgs. Antitrust Litig.* 203 F.3d 1322 (Fed. Cir. 2000) (“Xerox”).
 - i. On similar facts as *Kodak II*, the Federal Circuit held that Xerox did not violate the antitrust laws by refusing to sell

patented replacement parts to ISOs that sought to service Xerox copiers.

- ii. The court reasoned that while intellectual property rights do not confer a privilege to violate the antitrust laws, the antitrust laws do not negate the patentee's right to exclude others from its patented property.
- iii. The court refused to follow those courts (e.g., *Kodak II*) that had adopted a rebuttable presumption that the exercise of the statutory right to exclude provides a valid business justification, reasoning that would require an evaluation of the patentee's subjective motivation.
- iv. The court held that it would not inquire into subjective motivation even where a refusal to license a patented invention may have an anticompetitive effect, so long as that effect is not illegally extended beyond the statutory patent grant.

“In the absence of any indication of illegal tying, fraud on the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws.”

- d. *Verizon Commc'ns v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004).
 - i. While not presented with the issue of refusal to license, in deciding the merits of a refusal to deal claim under Section 2, the Supreme Court was skeptical of imposing an antitrust duty to deal between competitors.
 - ii. *Trinko* suggests that the Supreme Court would reject any duty to license to a competitor because compulsory licensing would force courts to act as central planners, requiring them to identify proper price, quantity, and other terms of dealing.
- 2. U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007).
 - a. The “unilateral right to refuse to license is a core part of the patent grant.” *Id.* at 6.

- b. Antitrust risk arises when a dominant firm terminates a profitable existing license relationship. *Id.*
- c. Liability for “mere unilateral unconditional” refusal to license “will not play a meaningful part in the interface between patent rights and antitrust protections” at the agencies. *Id.*
- d. “Conditional refusals to license that cause competitive harm are subject to antitrust liability.” *Id.*

D. Exclusive Licenses and Exclusive Dealing

1. “Generally, an exclusive license may raise antitrust concerns only if the licensees themselves, or the licensor and its licensees, are in a horizontal relationship.” *IP Guidelines* ¶ 4.1.2.
 “A non-exclusive license of intellectual property that does not contain any restraints on the competitive conduct of the licensor or the licensee generally does not present antitrust concerns even if the parties to the license are in a horizontal relationship, because the non-exclusive license normally does not diminish competition that would occur in its absence.” *IP Guidelines* ¶ 4.1.2.
2. Exclusive dealing “arises when a license prevents or restrains the licensee from licensing, selling, distributing, or using competing technologies.” *IP Guidelines* ¶ 4.1.2.
3. Exclusive restraints may have procompetitive effects, encouraging use of the licensed technology, but may also have anticompetitive effects of foreclosure or raising rivals’ costs or facilitating collusion, similar to other vertical restraints, and will be evaluated under the rule of reason. *IP Guidelines* ¶ 4.1.2.
4. *United States v. Microsoft Corp.*, 56 F.3d 1448 (D.C. Cir. 1995).
 In the first Microsoft consent agreement, DOJ challenged Microsoft’s licenses which required computer manufacturers to pay royalties regardless of whether its software was used on computers, alleging the provisions forced exclusive dealing because customers would have to pay twice if they used competing software.
5. *United States v. Microsoft Corp.*, 253 F.3d 34, (D.C. Cir. 2001) (en banc).

The en banc D.C. Circuit affirmed the district court's finding that Microsoft had illegally maintained its monopoly power in the market for Intel-compatible personal computer operating systems by, inter alia, imposing certain exclusive and other exclusionary provisions in licenses for its copyrighted Windows operating system with computer manufacturers and Internet access providers.

Among the license restrictions found illegal were certain limitations on altering the appearance of the Windows desktop and exclusive supply agreements with leading Internet access providers. The district court found that these provisions were not justified by a valid business purpose and hampered the distribution of competing products that might otherwise have posed a threat to Microsoft's operating system monopoly. However, the D.C. Circuit reversed the lower court's determination that the Windows license prohibition against causing any user interface other than the Windows desktop to launch automatically was a basis for liability, because this restraint was justified by Microsoft's legitimate interest in preventing a "substantial alternation" of its copyrighted work.

E. Tying

1. General Principles

- a. A tying arrangement is an agreement by a party to sell one product (the tying product) on the condition that the buyer also purchases a different product (the tied product) from the seller or at least agrees not to purchase the tied product from another supplier.

(Tying may be unlawful under Section 3 of the Clayton Act as well as Section 1 of the Sherman Act and Section 5 of the FTC Act; Section 3 of the Clayton Act, however, applies only to goods.)

- b. A tying arrangement is considered to be per se unlawful if:
 - i. Tying and tied products are separate and distinct products;
 - ii. Seller has forced purchasers of tying product to also buy tied product – a conditioned sale of the tying product only if agreement to buy the tied product;
 - iii. Seller has market power in tying product; and

- iv. The tying arrangement forecloses a substantial volume of commerce.
Eastman Kodak Co. v. Image Technical Servs., Inc.,
504 U.S. 451 (1992).
2. DOJ/FTC Position
- a. *IP Guidelines*
 - i. The *IP Guidelines* subject tying agreements to rule of reason analysis. Under the *IP Guidelines*, the agencies state that they will likely challenge a tying agreement if “(1) the seller has market power in the tying product market, (2) the arrangement has had an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anti-competitive effects.” *IP Guidelines* ¶ 5.3.
 - b. U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007).
 - i. Report reiterates that the agencies will apply a rule of reason analysis to tying arrangements involving IP rights or products protected by IP rights.
 - ii. Antitrust challenge more likely to occur when (a) licensor has market power in the tying IP, (b) the licensing arrangement “has an adverse effect on competition in the relevant market for the tied” product, and (c) “efficiency justifications for the arrangement do not outweigh the anticompetitive effects.”
3. Tying Essential and Non-Essential Patents
- a. *U.S. Philips Corp. v. Int’l Trade Comm’n*, 424 F.3d 1179 (Fed. Cir. 2005).
 - i. Package license tying essential and non-essential patents is not per se patent misuse.
 - ii. A “package licensing agreement that includes both essential and nonessential patents does not impose any requirement on the licensee.” It “merely puts [a competing licensor] in the same position he would be in if he were competing with unpatented technology.”

- iii. A package license is “not anticompetitive in the way that a compelled purchase of a tied product would be.”
 - iv. Requires evidence of actual foreclosure of competing technologies for tied patents.
 - v. Patent-to-patent ties do not foreclose use of a competing technology, unlike patent-to-product ties.
 - b. *U.S. Philips Corp. v. Princo Corp.*, 173 Fed. Appx. 832 (Fed. Cir. 2006).
 - i. Tying multiple patents covering a single product may constitute patent misuse.
- 4. Recent Tying Cases
 - a. *Monsanto Co. v. Scruggs*, No. 04-1532 (Fed. Cir. Dec. 4, 2006); *Monsanto Co. v. McFarling*, 363 F.3d 1336 (Fed. Cir. 2004).
 - i. No illegal tying where license limited use of Roundup Ready soybeans and cotton to single season.
 - ii. “No replant policy simply prevents purchasers of the seeds from using the patented biotechnology when that biotechnology makes a copy of itself.”
 - iii. Field of use restriction is within the protection of the patent laws.
 - b. *Applera Corp. v. MJ Research Inc.*, 303 F. Supp. 2d 130 (D. Conn. 2004).
 - i. No tying where separate licenses were available for instruments and process patents on financial terms that were realistic.

F. Royalty Terms

1. General Principles

- a. The owner of intellectual property has the right to require royalty payments in exchange for licensing its rights and may generally charge as high a rate as can be obtained, as long as the royalty is related to the licensee’s use of the intellectual property.

- b. The IP owner generally cannot collect royalties beyond the expiration of the licensed intellectual property, though this rule does not apply to package licenses in which the parties agree to a royalty that stays the same even as individual patents expire.
2. Post-Patent Expiration Royalties
 - a. *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) (“A patent empowers the owner to exact royalties as high as he can negotiate” but “[t]he exaction of royalties for use of [a] machine after the patent has expired is [an] assertion of monopoly power in [the] post-expiration period when [the] patent has entered the public domain.”).
 - b. *Bayer AG v. Housey Pharm., Inc.*, 169 F. Supp. 2d 328 (D. Del 2001) (arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties constitute per se patent misuse).
 - c. *Scheiber v. Dolby Labs, Inc.*, 293 F.3d 1014 (7th Cir. 2002) (Posner, J.), *cert. denied*, 537 U.S. 1109 (2003) (constrained to follow *Brulotte v. Thys Co.*, finding patent misuse in requiring post-expiration royalties on patents where licensor agree to lower royalty rate in exchange for continuing royalties until Canadian patent expired, but critical of economic rationale of *Brulotte*).
 3. Discriminatory Royalties
 - a. Discriminatory royalties were found unlawful in the “Shrimp Peeler” cases, *see, e.g., La Peyre v. Fed. Trade Comm’n*, 366 F.2d 117 (5th Cir. 1966), but those decisions have been widely criticized, *see, e.g., USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505 (7th Cir. 1982).
 - b. *Innomed Labs v. Alza Corp.*, 368 F.3d 148 (2d Cir. 2004).
 - i. Robinson-Patman Act prohibits price discrimination on sales of “commodities” or “tangible products.”
 - ii. When both tangible and intangible items are relevant, the Act only applies if the “dominant nature or purpose” was sale of tangible product.
 - iii. Fact that pills contained patented technology not enough to remove them from commodities covered by Act.

4. Zero Royalties

- a. *Wallace v. Int'l Bus. Machines Corp.*, 467 F.3d 1104 (7th Cir. 2006).
 - i. Plaintiff sued open source software companies for providing free software subject to a General Public License (“GPL”). The GPL allows users to distribute the software and make derivative works, but the GPL must carry over to any such works.
 - ii. The Seventh Circuit found that the plaintiff as a software producer lacked standing to bring his antitrust claims.
 - iii. The GPL and open source software have “nothing to fear from the antitrust laws.” GPL is a cooperative agreement that facilitates production of new derivative works.

5. Maximum Royalties

- a. *Schor v. Abbott Labs.*, 457 F.3d 608 (7th Cir. 2006).
 - i. Seventh Circuit rejected monopoly leveraging claims where Abbott sold protease inhibitor booster (Norvir) used in combination with other products at high price and sold combination (Kaletra) inexpensively.
 - ii. “A patent holder is entitled to charge whatever the traffic will bear.”
- b. *Schoenbaum v. E.I. Dupont De Nemours & Co.*, 517 F. Supp. 2d 1125 (E.D. Mo. 2007).
 - i. While “[t]he patent laws permit a patentee to unilaterally ‘exact royalties as high as he can negotiate with the leverage of that [patent] monopoly,’ without offending the antitrust laws[,] . . . if the patentee agrees with his competitors to fix the price of the patented product, then there is an antitrust violation.”

6. Resale Price Maintenance

- a. Beginning in 1911, minimum resale price maintenance (“RPM”) was per se unlawful. *Dr. Miles Med. Co. v. John D. Park & Sons Co.*, 220 U.S. 373 (1911).
- b. The Supreme Court held in *United States v. General Elec. Co.*, 272 U.S. 476 (1926) that a patent owner has the right to establish the price of a licensee’s first sale of a patented

product, but later decisions have limited that holding. *See, e.g., United States v. New Wrinkle, Inc.*, 342 U.S. 371 (1952).

- c. In *LucasArts Entm't Co. v. Humongous Entm't Co.*, 870 F. Supp. 285 (N.D. Cal. 1993), the district court relied on the reasoning of *GE* that the statutory right to forbid sales entirely necessarily includes the power to restrict the prices at which licensees may sell licensed materials. It upheld restrictions on resale below a benchmark price of products incorporating licensed intellectual property. The court reasoned that where there are high fixed costs and low marginal costs, application of traditional antitrust concepts is inappropriate and that the essence of a copyright interest is the right to exclude.
- d. DOJ/FTC “will enforce the per se rule against resale price maintenance in the intellectual property context.” *IP Guidelines* ¶ 5.2.
- e. *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 127 S. Ct. 2705 (2007).
 - i. Minimum RPM no longer per se illegal, overruling *Dr. Miles*; minimum RPM subject to rule of reason analysis.
 - ii. In evaluating minimum RPM, should consider market power and procompetitive justifications.
- f. Post-*Leegin*, legality of minimum RPM under federal law is uncertain; some courts have adopted a truncated rule of reason considering: market power, whether RPM is dealer induced, and the business justifications for the restraints.
- g. Minimum RPM is still per se unlawful under certain state antitrust laws.

G. Patent Pools

1. Supreme Court Precedent
 - a. *Standard Oil Co. (Indiana) v. United States*, 283 U.S. 163 (1931) (holding that the pooling of blocking patents by competitors is “frequently necessary” for technical advancement and is subject to a rule of reason analysis).
 - b. *Broad. Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1 (1979) (holding that pooling of intellectual property is lawful

even where it entails joint price-setting, where the pooling arrangements offer significant efficiencies that make it possible to market new products that otherwise would not exist and participants retain the right to individually license their intellectual property).

2. Government Consideration of Patent Pools

a. *IP Guidelines*

- i. Cross-licensing and pooling among two or more owners of different items of intellectual property – under which intellectual property is reciprocally licensed or licensed together to third parties – can create efficiencies “by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation.” *IP Guidelines* ¶ 5.5.
- ii. Patent pools also can be anticompetitive and will be condemned if (*IP Guidelines* ¶ 5.5):
 - (1) Collective price or output restraints do not contribute to an efficiency-enhancing integration of economic activity among the participants;
 - (2) The effect is to diminish competition among entities that would have been actual or likely potential competitors in the absence of the cross- license;
 - (3) The arrangement deters or discourages participants from engaging in research and development, thus retarding innovation; or
 - (4) Excluded firms cannot effectively compete in the market for goods incorporating the licensed technologies, the participants collectively possess market power, and the limitations on participation are not reasonably related to the efficient development and exploitation of the pooled technologies.

b. DOJ Business Review Letters

- i. Patent pools often are procompetitive, integrate complementary technologies, reduce transaction costs, avoid litigation, and disseminate technology.

- ii. Pools may raise competitive concern when they restrict competition among IP rights, in downstream markets and in innovation.
 - iii. Safeguards from DOJ to minimize antitrust risk: include only “essential” patents in the pool; license on non-discriminatory and non-exclusive terms; limit access to competitively-sensitive information among pool members; ensure grantbacks and nonassert conditions do not limit innovation.
 - iv. DOJ has developed these principles through a series of patent pool Business Review Letters (28 C.F.R. § 50.6).
See MPEG-2 Business Review Letter (June 26, 1997), *available at* <http://www.usdoj.gov/atr/public/busreview/215742.pdf>; 3C DVD Business Review Letter (Dec. 16, 1998), *available at* <http://www.usdoj.gov/atr/public/busreview/2121.pdf>; 6C DVD Business Review Letter (June 10, 1999), *available at* <http://www.usdoj.gov/atr/public/busreview/2485.pdf>; 3G Platform Business Review (Nov. 12, 2002), *available at* <http://www.usdoj.gov/atr/publicbusreview/200455.pdf>;
- c. UHF RFID Business Review Letter (Oct. 21, 2008)
- i. Patent pool formed to license certain patents essential to implement the next generation ultra high frequency radio frequency identification (“UHF RFID”) standard.
 - ii. Structure: pool license only included essential patents; members agreed to license pool of patents on RAND terms; pool license included a reasonably tailored grantback as to essential patents developed by licensees; pool members retained the right to license their essential patents independently; safeguards for the disclosure of confidential information; pool retained an independent expert to determine essentiality independent license administrator used to manage the pool (licensing, marketing, royalty collection and distribution).
 - iii. “The absence of any particular safeguard does not mean that a pool necessarily harms competition in violation of the antitrust laws. In an enforcement action, the Department would not measure a pool against a checklist of safeguards but instead would evaluate the particular facts

and circumstances to determine whether the actual conduct is anticompetitive.”

- iv. Harm to downstream markets unlikely because (a) pool licenses would be available to downstream competitors from an independent licensing agent on RAND terms and (b) an independent licensing agent prevents pool members from accessing sensitive business information of licensees.

UHF RFID Business Review Letter (Oct. 21, 2008), available at <http://www.usdoj.gov/atr/public/busreview/238429.pdf>.

- d. U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007).
 - i. Patent pools generally viewed as procompetitive because of efficiency benefits – e.g., enable commercialization of innovations, lower transactions costs, remove blocking positions, mitigate royalty stacking and holdup concerns.
 - ii. Cross-licensing should not become means of horizontal market allocation, output restrictions, concerted boycott activity.
 - iii. Pooling of “complementary” patents is generally permissible, but the inclusion of “substitute” patents may or may not be problematic.
 - iv. Patent pool licenses should ensure licensor freedom to license independently, avoid overly broad grantback and nonassert conditions that diminish licensees’ innovation incentives, and protect against licensors’ access to competitively sensitive information.

3. Patent Pool Antitrust Litigation

- a. *Matsushita Elec. Indus. Co., Ltd. v. Cinram Int’l, Inc.*, 299 F. Supp. 2d 370 (D. Del. 2004).
 - i. Cinram challenged royalty free cross-licenses to pool members (insiders) and pool royalty for independent licensees (outsiders) as leading to foreclosure, not the dissemination of technology.

- ii. Court found that discriminatory treatment was permissible so long as an individual license alternative is available.
- b. *Int'l Norcent Tech. v. Koninklijke Philips Elecs. N.V.*, No. 07-00043 (C.D. Cal. Oct. 29, 2007).
 - i. Court rejected challenge to DVD standard set around participants' patents, since voluntary; Norcent alleged only that defendants had collaborated with other competitors to create a standard that had, as a result of their promotional efforts, become *de rigueur* in the industry.
- c. *Lucent Techs., Inc. v. Gateway, Inc.*, 509 F. Supp. 2d 912 (S.D. Cal. 2007).
 - i. Lucent did nothing wrong by keeping its patents out of the pool.
- d. *Wuxi Multimedia, Ltd. v. Koninklijke Philips Elecs. N.V.*, 2006-1 Trade Cas. (CCH) ¶ 75,285 (S.D. Cal. 2006), *aff'd* 280 Fed. Appx. 968 (Fed. Cir. 2008).
 - i. Tying of non-essential patents not supported; declining DVD prices contrary to anticompetitive allegations.

H. Reportability of Agreements

1. Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended), 15 U.S.C. § 18A, ("HSR Act")
 - a. The HSR Act requires prior notification of certain intellectual property licensing transactions. The purpose of the Act is to allow the DOJ and FTC to evaluate the competitive impact of transactions and enable the agencies to challenge anticompetitive transactions before consummation.
 - b. The agencies view for purposes of HSR Act notification the grant of an exclusive license as an asset acquisition.
 - c. Exclusivity can be for any field of use or in any territory.
 - d. A license is not exclusive if licensor retains rights, even if exclusive right to sell.
 - e. Value of exclusive license based on aggregate future royalties (if reasonably determinable) or fair market value.

- f. HSR filing thresholds are indexed to GNP and the minimum value was recently increased to \$63.1 million.
2. Medicare Prescription Drug, Improvement, and Modernization Act (Pub.L. 108-173, 117 Stat. 2066)
 - a. The Act requires pharmaceutical patent litigation settlements entered into between branded and generic manufacturers and between two generic manufacturers to be filed with the DOJ and FTC.
3. Patent Interference Settlements
 - a. Patent Interference settlements must be filed with the PTO pursuant to 35 U.S.C. § 135(c).

IV. STANDARD SETTING

A. General Principles

1. Standard setting may facilitate the interoperability or compatibility of products supplied by competitors. Without such activities, the adoption of new technologies may be delayed as customers may be reluctant to invest in technologies that may be stranded by market acceptance of competing standards.
2. Standard-setting activities, however, also may be anticompetitive by raising barriers to innovative technologies or entrenching older technologies and by creating market power in intellectual property. Standard setting may give rise to antitrust liability where misuse of the decision-making process results in the exclusion of a technology from the market other than on its merits.
3. Procedural safeguards in the promulgation, review and application of standards by standard-setting organizations to ensure procedural due process, maximize openness, and consensus decision-making are important factors in the rule of reason analysis. Due process procedures, such as rights to notice, comment and appeal, while not strictly necessary, are relevant.

See generally Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492 (1988); *Am. Soc’y of Mech. Eng’rs, Inc. v. Hydrolevel Corp.*, 456 U.S. 556 (1982); *Radiant Burners v. Peoples Gas Light & Coke*, 364 U.S. 656 (1961).

4. One form of anticompetitive conduct is known as “patent holdup” – which occurs when the owner of patented technology that is incorporated into a standard attempts to extract more value for the technology from users of the standards than it would otherwise be able to absent the standardization.
 - a. SSOs have adopted mechanisms to minimize the occurrence of patent holdup conduct, including:
 - i. Requiring ex ante disclosure of intellectual property.
 - ii. Requiring commitments to license intellectual property on reasonable and non-discriminatory (“RAND”) terms.
 - iii. Permitting ex ante licensing negotiations.

B. Ex Ante Disclosure

1. *In re Dell Computer Corp.*, 121 F.T.C. 616 (1996).
 - a. FTC alleged that Dell falsely certified to an SSO in which it was a participant that it lacked any intellectual property essential to a standard under consideration by the SSO. After the SSO adopted the standard, Dell allegedly demanded royalties from those implementing the standard.
 - b. To resolve the FTC’s concerns, Dell entered into a consent order under which it agreed not to enforce the patent in question against firms using the standard.
2. *In re Rambus Inc.*, No. 9302 (F.T.C. July 31, 2006) (Opinion of the Commission).
 - a. FTC found Rambus’s failure to disclose patent applications and misrepresentations constituted deception and exclusionary conduct, contributing significantly to its acquisition of monopoly power.
 - b. Standard setting “can be highly beneficial to consumers” but “when a firm engages in exclusionary conduct that subverts the standard-setting process and leads to the acquisition of monopoly power, the procompetitive benefits of standard setting cannot be fully realized.”
 - c. “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.”

- d. “If an SSO chooses not to require such disclosure, SSO members are still not free to lie or to make affirmatively misleading representations.”
3. *Rambus Inc. v. Fed. Trade Comm’n*, 522 F.3d 456 (D.C. Cir. 2008)
 - a. The FTC found that if Rambus had disclosed its patent interests, the SSO either would have excluded Rambus’s patented technologies from the standard, or would have demanded RAND assurances, but the D.C. Circuit found there was insufficient evidence to conclude SSO would have standardized on other technologies.
 - b. D.C. Circuit held that no anticompetitive harm flows from the second possible outcome, since a lawful monopolist’s use of deception to obtain higher prices does not exclude rivals and diminish competition.

C. Reasonable and Non-Discriminatory (RAND) Licensing

1. *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297 (3d Cir. 2007).
 - a. Broadcom alleged that Qualcomm gave a RAND assurance to license its IP; post-adoption of the standard, Qualcomm made wholly unreasonable license demands for its IP incorporated into the standard.
 - b. Third Circuit held that the allegations stated valid claims for unlawful monopolization and attempted monopolization.
 - c. “We hold that (1) in a consensus-oriented private standard-setting environment, (2) a patent holder’s intentionally false promise to license essential proprietary technology on FRAND terms, (3) coupled with an SDO’s reliance on that promise when including the technology in a standard, and (4) the patent holder’s subsequent breach of that promise, is actionable anticompetitive conduct.”
 - d. “Deception in a consensus-driven private standard-setting environment harms the competitive process by obscuring the costs of including proprietary technology in a standard and increasing the likelihood that patent rights will confer monopoly power on the patent holder. . . . Deceptive FRAND commitments, no less than deceptive nondisclosure of [intellectual property rights], may result in such harm.”

2. *In re Negotiated Data Solutions, LLC*, File No. 051 0094 (Sept. 23, 2008) (Decision and Order).
 - a. FTC challenged N-Data's refusal to license patents it acquired that were subject to a RAND licensing commitment and its demand for royalties in excess of the RAND commitment.
 - b. FTC alleged both an unfair method of competition" and an "unfair act or practice" under Section 5 of the FTC Act, but there were no allegations of monopolization.
 - c. FTC and N-Data entered into a consent order, under which N-Data will refrain from such practices going forward and will license the relevant patents on RAND terms.

D. Ex Ante Licensing Negotiations

1. DOJ Business Review Letter to VITA
 - a. DOJ analyzed a proposal by VITA, an SSO, to require participants to disclose their maximum royalty rate and most restrictive license terms for essential patents.
 - b. DOJ concluded that VITA's policy would be procompetitive because it preserved competition among competing technologies during the standard-setting process.
 - c. "Working group members may make better informed decisions by considering potential licensing fees when weighing the relative costs of technological alternatives in addition to their technical merits."

Letter from Thomas O. Barnett, Assistant Att'y General, U.S. Dep't of Justice, to Robert A. Skitol, Drinker Biddle & Reath LLP (Oct. 30, 2006), *available at* <http://www.usdoj.gov/atr/public/busreview/219380.pdf>.

2. DOJ Business Review Letter to IEEE
 - a. DOJ approved a proposal by IEEE that was similar to VITA's, except that IEEE's proposal permitted but did not require (as VITA did) the disclosure of licensing terms.

Business Review Letter from Thomas O. Barnett, Assistant Att'y General, U.S. Dep't. of Justice, to Michael A. Lindsay, Dorsey & Whitney LLP (Apr. 30, 2007), *available at* <http://www.usdoj.gov/atr/public/busreview/222978.pdf>.

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