

A Dozen Times to Call Your Antitrust Lawyer

By David Balto

The intersection of antitrust law and intellectual property law is at the core of many of the most important and high stakes litigated cases and enforcement efforts by the antitrust agencies. The antitrust enforcement agencies—the Antitrust Division of the Department of Justice (DOJ) and the Federal Trade Commission (FTC) in the United States and the European Commission—spend a vast amount of their resources in bringing cases involving the exercise or acquisition of intellectual property (IP) rights. Some of the most high-profile competitive disputes involve both IP and antitrust law. Prudent IP lawyers know the value of securing antitrust advice, especially when dealing with potential transactions or potential litigation. This article outlines when IP lawyers should seek out the advice of their antitrust colleagues in order to avoid antitrust pitfalls.

When Antitrust Alarm Bells Ring

1 *Entering into a Merger, Acquisition, or Joint Venture*

Whenever parties consider a merger, acquisition, or joint venture, antitrust evaluation is necessary because the commingling of patents, copyrights, and trademarks can raise competitive concerns. The enforcement agencies will carefully scrutinize any acquisition in which there is a substantial overlap or potential overlap in intellectual property.

In situations where a market is concentrated and IP rights present a barrier to entry, antitrust regulators may require divestiture of IP assets and/or compulsory licensing of IP rights to resolve competitive concerns. For example, in 2011 the DOJ approved the purchase of airfare pricing software developer ITA by Google, but as a condition the DOJ required Google to continue to license ITA's products on fair, reasonable, and nondiscriminatory (FRAND) terms.¹ The DOJ consent decree also required that Google not reduce resources devoted to R&D for ITA's products and required information firewalls to be set up between the entities.

Courts and antitrust enforcement agencies are also beginning to closely examine the acquisition and use of standards-essential patents (SEPs), which are patents covering technology that is incorporated into an industry standard by a standards setting organization (SSO). SEPs receive special scrutiny because of the ability an owner of an SEP has to raise the costs of competitors and foreclose competition. In deciding to close investigations of several recent patent acquisitions this year, the DOJ focused heavily on the potential for abuse of the SEPs and commitments to license the SEPs on FRAND terms.² Although the DOJ believed these particular acquisitions would not change market dynamics, it

did send a strong signal that it will closely monitor the use of SEPs and take action if necessary.

2 *Your Rivals Enter into a Merger or Acquisition*

Patents are increasingly used offensively against competitors, and acquisitions of patents can often be a signal of impending litigation or even renewed patent litigation efforts. In these cases, a company's best defense may be to raise antitrust concerns during the government's regulatory review of a merger or acquisition. The analysis of antitrust agencies often depends on information provided by the merging parties' customers and industry participants. If the merger or acquisition involves SEPs or other patents vital to the industry, the agencies may seek to have the merging parties commit to FRAND licensing. This will make it easier to raise an antitrust claim if the merged company refuses to license on FRAND terms or to raise an antitrust counterclaim if faced with a patent attack. Alternatively, an agency may seek resolution of ongoing IP litigation that may be an obstacle to competition.

If the merger or acquisition accumulates patents to the extent that entry by new companies is unlikely, the FTC will often seek divestiture or licensing of IP rights. In 2008, during the merger of Flow International and OMAX, the FTC obtained a consent agreement that required OMAX to grant a royalty-free license to any party that sought access to its controller patents.³ The complaint alleged that OMAX owned two broad patents that created a significant barrier to entry, preventing new entry sufficient to counteract likely anticompetitive harm caused by the merger.

3 *Acquiring a Company with a Potentially Competing Product in R&D*

An antitrust concern can also be raised by products currently in R&D and not yet ready for market. This issue is raised when the acquiring company has near complete or complete control of the market for a product and the target company is developing a product that is likely to compete. In this case, the FTC is likely to seek a divestiture or an irrevocable license of one of the products in question. In the merger

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between Cephalon and CIMA in 2004, the FTC obtained a consent decree requiring a fully paid-up and irrevocable license to sell a generic version of Cephalon's breakthrough cancer pain drug, Actiq, because CIMA was in development of a drug considered to be the best positioned next entrant into the market.⁴

In 2004, the FTC closed investigation of Genzyme and Novazyme due to compelling efficiencies arguments.⁵ These companies were the only two firms developing an enzyme replacement therapy to treat the rare Pompe disease. The FTC agreed with the argument that the combination of the skills and knowledge of these two companies would hasten the development of a treatment for this disease. Neither company was certain to be able to bring an FDA approved drug to market, so combining resources helped reduce risk and costs while increasing the likelihood of success. The FTC's decision was likely heavily influenced by the fact that no treatment for this disease existed, and thus it was more important to have a treatment available as soon as possible than to preserve a possible price competitor.

4 Enforcing IP Rights

Private enforcement of IP rights typically does not raise antitrust concerns. However, the Supreme Court, in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*,⁶ held that the enforcement of a patent procured by fraud might form the basis of an antitrust violation. According to the court, such action constituted an attempt to restrain competition based on an invalid patent right. The FTC has identified this as a major area of antitrust enforcement.

Enforcement of an IP right that was validly obtained in the first instance may still violate the antitrust laws if the owner now knows that the right is not valid, or knows that the alleged infringer is actually not infringing. In other words, the use of "bad faith" or "sham" litigation as a means of restraining competition may also violate the antitrust laws.⁷ An IP enforcement action is considered a sham if: (1) it is "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits," and (2) it is essentially an attempt at "interfer[ing] directly with the business relationships of a competitor through the use of governmental process . . . as an anticompetitive weapon."⁸

Recent developments have raised the possibility of incurring other types of antitrust liability when enforcing patents against competitors. During a patent infringement suit by Motorola, the court ruled that Apple successfully stated both an antitrust counterclaim and a patent misuse counterclaim based on the failure of Motorola to comply with its FRAND commitments on the patents in question.⁹ This raises the possibility that enforcing patent rights subject to FRAND commitments could create an exposure to antitrust liability.

5 Buying Intellectual Property with Attached Commitments

A party that acquires patents subject to FRAND commitments can be subject to FTC action even if it did not make the FRAND commitments itself. In 2008, the FTC obtained

a consent decree from Negotiated Data Solutions (N-Data) that prevents it from enforcing certain patents until it has first offered a license on terms proscribed by the FTC.¹⁰ The patents in question were obtained by N-Data from National Semiconductor Corp., the company that originally made the FRAND commitments. N-Data knew about the FRAND commitments but chose not to comply with them. In response, the FTC opened investigation and announced a complaint against N-Data for violating § 5 of the FTC Act. The complaint alleged that N-Data was able to demand higher royalties than the industry would have otherwise paid because N-Data began demanding royalties after it had become too expensive and difficult to switch to another standard. These higher licensing fees would also eventually harm consumers.

Google also recently filed a complaint against European regulators, alleging that Microsoft and Nokia were using proxy companies to avoid commitments made to SSOs.¹¹ Microsoft and Nokia entered into agreements that allow companies like Mosaid Technologies Inc., a patent enforcement entity (PAE), to enforce their patent rights. A PAE, which produces no products, has no risk of patent infringement counterclaims when pursuing patent litigation and therefore has more leverage in negotiating licensing fees or seeking injunctions. The complaint alleges that Microsoft and Nokia are colluding to raise the price of mobile devices by using companies such as Mosaid to increase licensing fees.

6 Settling Patent Litigation

When settling patent litigation with actual or potential competitors, counsel must carefully consider whether the terms of the settlement raise competitive concerns. This is especially true in the pharmaceutical industry where it has become common for a brand name drug manufacturer to pay a generic manufacturer to settle a patent infringement suit on the condition that the generic manufacturer will not enter into the market for a specified time (called a "reverse payment settlement").

Just recently, in *F.T.C. v. Watson Pharmaceuticals, Inc.*, the Eleventh Circuit joined the Second Circuit and Federal Circuit in ruling that reverse payment settlements are legal as long as the settlement was within the "scope of the patent."¹² This means a company can pay another company to not infringe or challenge a patent, even a weak patent, as long as the patent was not obtained through fraud. In doing so, the Eleventh Circuit rejected the FTC's "strength of the patent" test, which would take into account how likely the challenged patent would be invalidated. However, the FTC has prevailed against a motion to dismiss an antitrust claim based on a reverse payment settlement by Cephalon in the Eastern District of Pennsylvania.¹³ In addition, the Sixth Circuit has ruled a "reverse payment settlement" to be a per se violation of antitrust laws.¹⁴

Just recently, the Third Circuit rejected the "scope of the patent" test in *In re K-Dur Antitrust Litigation*.¹⁵ There, the court stated that "the scope of the patent test does not subject reverse payment agreements to any antitrust scrutiny." Instead, the court held that a reverse payment settlement is "prima facie evidence of an unreasonable restraint of trade"

that can be rebutted by showing “that the payment (1) was for a purpose other than delayed entry or (2) offers some pro-competitive benefit.” This holding puts the brakes on the trend of circuits adopting the “scope of the patent” test.

All of these pharmaceutical settlements must be reviewed by the DOJ and FTC. This area of law is unsettled, and the FTC is active in pursuing reverse payment settlement claims through both litigation and legislation. Therefore, it is important to be aware of these issues to avoid costly litigation or damages.

7 **Dealing with Standards Setting Organizations**

Standard setting plays a critical role in high-tech industries where firms compete to establish the basis for compatibility between complementary products. SSOs are primarily concerned with whether a particular technology is patented, and if it is patented, whether the patent holder will agree to commit that patent to FRAND terms.

Often these types of standard setting issues are brought under § 2 of the Sherman Act, which declares illegal exclusionary conduct that supports monopolization or attempted monopolization.¹⁶ The court in *Broadcom Corp. v. Qualcomm Inc.* found that this element is met when a company makes a false promise to license technology under FRAND terms and the SSO relies on that promise when deciding to include technology in a standard.¹⁷ The boundaries of this liability are not clearly marked, however, as even the *Broadcom* court recognizes that FRAND is not clearly defined.

Complicating this issue is the D.C. Circuit’s reversal of an FTC order in *Rambus Inc. v. FTC*.¹⁸ There the court held that deceptive conduct in avoiding disclosure of a patent to an SSO before a standard is set to avoid making FRAND commitments does not constitute monopolization without proof of anticompetitive effect. The court went on to say that the use of deception to obtain higher prices “normally has no particular tendency to exclude rivals and thus to diminish competition.”¹⁹ The *Rambus* decision may also create incentives for companies to either be deceptive in their dealings with SSOs or to not cooperate with them at all.

An SSO also may be held liable if it does not create sufficient safeguards against the abuse of the standards setting process.²⁰ The court in *Hydrolevel* held an SSO to have a strict antitrust liability for the actions of its agents and stated that an SSO “is best situated to prevent antitrust violations through abuse of its reputation.” *Hydrolevel’s* strict liability is unlikely to survive the passage of the 2004 Standards Development Organization Advancement Act, which mandates the rule of reason for SSOs generally. However, *Hydrolevel’s* relevance will be tested in the pending case, *Trueposition, Inc. v. LM Ericsson Telephone Company*.²¹

8 **Selling Unpatented Products or Services in Conjunction with Intellectual Property**

Antitrust liability for tying the sale of a product or service to the sale of another product or service perhaps reached its height in *Eastman Kodak Co. v. Image Technical Services, Inc.*²² In *Kodak*, the Supreme Court held that a monopoly can

exist in the copy machine servicing aftermarket even if there was no market power in the original market. This was based on the theory that customers could be “locked-in” to a product due to high switching costs and therefore be subject to monopoly pricing for products later tied to that product. The Court has since receded from this ruling, and the decision of *Illinois Tool Works Inc. v. Independent Ink, Inc.*, expressly ruled that the fact that a tying product is patented does not support a presumption of market power.²³

After *Illinois Tool* it became easier to defeat an antitrust tying claim based on intellectual property. In *Schlotsky’s, Ltd. v. Sterling Purchasing & National Distribution Co.*, the court rejected *Kodak* arguments and extended *Illinois Tool* to trademarks by holding that requiring franchise owners to purchase from a particular distributor in order to keep the Schlotsky’s trademark was not a violation of antitrust laws.²⁴

However, it is important to note that *Kodak* was never overruled. There is still a possibility of incurring antitrust liability for IP tying under a “lock-in” or similar theory. The most important distinction between *Kodak* and *Illinois Tool* was the fact that *Kodak* changed the aftermarket in copy machine servicing from an open one to an exclusive one. Courts seem more willing to impose antitrust liability when they believe there was fraud or deception at the initial purchase.

9 **Structuring Licensing Arrangements**

Like mergers and acquisitions, licensing arrangements can raise competitive concerns, especially when the firms are actual or potential competitors. The antitrust agencies have issued detailed guidelines addressing licensing arrangements and dealing with specific issues raised by market exclusivity, cross licensing, grant backs, territorial restraints, field of use restrictions, tying arrangements, and royalty provisions, among others. The government’s interest in this area did not end when it issued these guidelines. In 2011, the FTC released a report advocating changes to patent law regarding notice and remedies to deal with issues such as ex post licensing.²⁵ Ex post licensing can result in higher than market prices for patents when there are high switching costs; often results in duplicated R&D efforts; and can otherwise increase costs, risks, and uncertainty.

Exclusive licensing arrangements raise unique antitrust concerns, particularly among competitors. In *United States v. MathWorks, Inc.*, the DOJ challenged an exclusive licensing arrangement between two software firms.²⁶ The DOJ viewed the exclusive license as an unlawful agreement to eliminate competition between the two companies and required the divestiture of some of the IP rights to a third party.

Like mergers and acquisitions, exclusive licensing arrangements meeting certain size thresholds are reportable to the FTC and DOJ under the Hart-Scott-Rodino Act.²⁷ The regulatory provisions of the Act are quite complex, and licensing arrangements often can be structured so that it is not necessary to report under the Act.

10 **Challenging Regulatory Filings**

IP holders often seek to protect their rights through regulatory filings before agencies such as the U.S. Patent and Trademark Office (USPTO), U.S. International Trade Commission, or U.S. Food and Drug Administration (FDA). Regulatory filings are typically immune from antitrust scrutiny under the *Noerr-Pennington* doctrine, which provides immunity for anticompetitive conduct taken when parties petition the government.²⁸ Although the *Noerr* doctrine is well grounded, petitioning can lead to significant competitive harm. As former Judge Robert Bork observed: “Predation by abuse of governmental procedures, including administrative and judicial processes, presents an increasingly dangerous threat to competition.”²⁹

In *In re Buspirone Patent Litigation*, a district court found that Bristol-Myers Squibb’s (BMS’s) listing of a patent in the FDA’s Orange Book and subsequent patent infringement suits were not immunized from federal antitrust liability under the *Noerr* doctrine.³⁰ BMS argued that its conduct in listing the patent was *Noerr* protected. The court disagreed, holding that when the FDA lists a patent in the Orange Book, it does not perform any independent review of the patent’s merits, but simply lists the patent in accordance with statutory requirements. Thus, the court concluded BMS did not “petition” the FDA when it applied to have the patents listed.

More recently courts have had to deal with claims of sham citizen petitions to the FDA. Citizens are allowed to express genuine concerns about safety, scientific, or legal issues regarding a drug at any time before or after its market entry. These petitions take time to review, and there is growing concern that pharmaceutical companies use carefully timed and meritless petitions, often filed on or near the eve of entry, to delay the release of a competing generic drug. Sham citizen petition claims have had mixed results so far. In *In re Prograf Antitrust Litigation*, the court refused to dismiss an antitrust class action suit stating such a claim.³¹ However, in *In re Wellbutrin XL Antitrust Litigation*, the court granted summary judgment in favor of the defendant.³² There the court stated that because the FDA granted the defendant’s petition in part it was by definition not a sham. The court did not say whether the successful claims immunized the unsuccessful claims because the plaintiffs could not prove injury beyond the delay caused by the successful claims.

11 **Entering into a Patent Pool**

Companies frequently use patent pools to clear patent thickets, which are overlapping sets of patent rights that require multiple licensing agreements with multiple parties. Patent pools can provide pro-competitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking patent positions, and avoiding costly litigation. Patent pools, however, also can raise significant antitrust issues.

For example, in *Summit Technology, Inc.*, the FTC challenged a patent pool for surgical laser vision correction equipment by the only two firms with patents in the area, whereby each contributed their current and future patents.³³

The patent pool operated as the exclusive licensor of the technology. The FTC alleged that the pool operated as a price-fixing scheme that facilitated and stabilized supra-competitive pricing. In fact, through the pool, Summit and VISX fixed the licensing fees charged for every surgical procedure performed under the licenses. The case was settled by a FTC order dissolving the pool and granting each firm a nonexclusive royalty-free license.

In 2008, the DOJ issued a business review letter addressing an ultra-high frequency radio frequency identification (UHF RFID) patent pool agreement.³⁴ There the DOJ was most concerned with potential anticompetitive effects from invalid patents, substitute patents, harm to downstream markets, grant back provisions, tying, and prior license commitments. The DOJ believed the structure of the UHF RFID patent pool agreement adequately addressed all of these issues. In addition, they believed the patent pool agreement could lower transaction costs and lower overall royalty rates.

12 **Introducing New Products and Product Designs**

New product introductions and redesigns are typically pro-competitive. But where a monopolist deliberately creates incompatibilities for the purpose of limiting such competition, there can be anti-competitive consequences. For example, in *Abbott Laboratories v. Teva Pharmaceuticals USA, Inc.*, the court denied a motion to dismiss antitrust claims that the defendants engaged in Walker Process fraud, sham litigation, and an overall scheme to monopolize in violation of §§ 1 and 2 of the Sherman Act.³⁵ In *Abbott*, generic drug manufacturers sought to produce generic drug substitutes for the brand name drug TriCor before the patent expired, believing the patent was invalid. To accomplish this, the generic manufacturers took the appropriate steps to challenge the patent. TriCor’s manufacturers defended their patent and during litigation made minor changes to TriCor and removed the original product from the market. Because of the actions of TriCor’s manufacturers, pharmacies could not fill prescriptions for TriCor with the generic capsules. The generic drug manufacturers challenged the new version of TriCor and the defendants repeated the same actions.

The generic drug manufacturer plaintiffs then filed suit. The defendants argued “that any product change that introduces an improvement, however minor, is per se legal under the antitrust laws.”³⁶ The court disagreed and declined to apply a per se standard, applying the rule of reason due to the nature of the pharmaceutical market. Under the rule of reason, the plaintiffs merely had to show that the anticompetitive harm from the drug reformulations outweighed any benefits presented by the defendants. This “product hopping” strategy will continue to face antitrust challenges, as seen in the recently filed *Mylan Pharmaceuticals v. Warner Chilcott*.³⁷

Abbott centered on whether the product introduction or change intended to exclude competition, whether consumer choice was limited, and whether the change improved the performance of the product. In addition, even if there is a product improvement, if consumer choice is intentionally restricted, a court may evaluate the change as unnecessarily exclusionary.

Heightened Scrutiny

IP and antitrust law are more often than not complementary. However, the very existence of intellectual property does not preclude the application of antitrust law, and as recent enforcement activity and civil cases demonstrate, courts and enforcement agencies may restrain the exercise of IP rights where there are competitive concerns. IP attorneys on both sides of the Atlantic face increasing challenges as antitrust enforcers take a more critical eye toward the acquisition, exercise, and assertion of IP rights. In this environment, prudent IP attorneys should seek out advice on how to avoid the potential antitrust risks. ■

Endnotes

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