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Articles

Intellectual Property/Antitrust Issues

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I. **General**

A. Despite natural tension, IP and antitrust laws share common goals -- innovation and consumer welfare.

B. Many "hot" current IP/antitrust issues -- Noerr Pennington immunity, settlements, FDA Orange Book cases, standard setting, etc.

C. FTC -- Aggressive Enforcement Coupled With Task Force Reports

II. **Key Antitrust Laws**

A. Section 1 of Sherman Act (15 U.S.C. 1) -- restraints of trade, e.g., price fixing, market allocations, etc.

1. Per se illegal v. rule of reason

B. Section 2 of Sherman Act (15 U.S.C. § 2) -- Monopolization and attempt to monopolize - requires market power and exclusionary conduct

C. Sections 3 & 7 of Clayton Act (15 U.S.C. § 14, 18) -- exclusive dealing, acquisitions

D. Section 5 of FTC Act – Unfair Methods of Competition

III. **DOJ/FTC Intellectual Property Guidelines**

A. IP treated same as other property for purposes of antitrust analysis

B. No presumption of market power arising from patent or copyright

C. Licensing is Procompetitive

D. "Safety zones" for licensing restrictions -- not per se and less than 20% of market

E. Other relevant enforcement guidelines are Competitor Collaborations (Joint Ventures) and Merger Guidelines

IV. **Noerr-Pennington/Walker Process Doctrines**

A. Noerr-Pennington doctrine based on two 1960s Supreme Court decisions holding that efforts to influence public officials are immune from antitrust laws even if intend to eliminate competition. Noerr, 365 U.S. 127 (1961); Pennington, 381 U.S. 657 (1965)

B. Walker Process is 1965 Supreme Court decision holding that enforcement of fraudulently obtained patent from PTO may violate Section 2 if other elements of Section 2 violation satisfied. Walker Process v. Food Machinery, 382 U.S. 172 (1965).

C. Noerr immunity extended to lawsuits and administrative proceedings in California Motor Transport, 404 U.S. 508 (1972). But CMT also held that a pattern of baseless legal proceedings could be a "sham" and thus no antitrust immunity.

D. Lawsuits, including infringement suits, get Noerr immunity unless they are "objectively baseless" and, if so, the subjective motivation of lawsuit is to restrain competition. Professional Real Estate v. Columbia Pictures, ("PRE:) 508 U.S. 49 (1993) (copyright infringement suit)

1. Objectively baseless means "no reasonable litigant could realistically expect to secure favorable relief" and not satisfied if there is "some chance" claim is valid. PRE, 508 U.S. at 62-65. Lawsuits are not objectively baseless simply because litigant lost. Id. at n.5. In PRE, infringement suit not objectively baseless even though lost on summary judgment.

2. Subjective element of sham exception satisfied only when defendants are using the petitioning process itself, as opposed to its outcome, to restrain competition. Omni, 499 U.S. 365, 380 (1991); PRE, 508 U.S. at 61 (subjective element); Glass Equipment v. Besten, 174 F.3d 1337, 1343-44 (Fed. Cir. 1999) (Noerr immunity for actual and threatened patent infringement suits).

3. Prime Time 24 v. National Broadcasting Co., 219 F.3d. 92 (2d Cir. 2000) – TV networks, to enforce copyrights, filed repetitive signal strength challenges to satellite providers under Satellite Home Viewers Act ("SHVA") -- sham exception satisfied since filed repetitively without regard to merits. See also USS-POSCO v. Contra Costa County, 31 F.3d. 800 (9th Cir. 1994).

E. Scope of sham exception may vary with type of proceeding. Fraud and unethical conduct tolerated in legislative arena is not in adjudicative proceedings and thus may be sufficient for sham exception in latter. Calif. Motor Transport, 404 U.S. at 512-13. Manistee, 227 F.3d. 1090 (9th Cir. 2000)

1. PRE expressly says it does not reach issue of whether a fraud exception to Noerr exists. 508 U.S. 62, n.6. Courts are split on whether apart from Walker Process, fraud in court proceedings is sufficient for sham exception. Compare Kottle v. Northwest Kidney, 146 F.3d. 1056 (9th Cir. 1998) (is sufficient) with Armstrong Surgical v. Armstrong County Hospital, 185 F.3d. 154 (3d. Cir. 1999) (not sufficient)

2. Other courts require that fraud sufficient for sham exception be the type that affects the core of the proceeding and deprives litigation of its legitimacy. Baltimore Scap v. David Joseph, 237 F.3d. 394 (4th Cir. 2001); Liberty Lake Investments v. Magnuson, 12 F.3d 155 (9th Cir. 1993)

3. In re Buspirone Patent Litigation, 185 F. Supp. 2d. 363 (S.D.N.Y. 2002) (false FDA Orange Book filings were sham)

4. FTC Unocal Case (see infra): Is California Air Resources Board a legislative or adjudicative body?

F. Relationship between PRE and Walker Process -- see Nobelpharma v. Implant Innovations, 141 F.3d 1059 (Fed. Cir. 1998) -- "alternative" bases for stripping patentee of antitrust immunity. Walker requires actual fraud at PTO -- inequitable conduct not sufficient -- but if Walker satisfied need not satisfy PRE standard.

G. Handgards v. Ethicon, 601 F. 2d. 286 (9th Cir. 1979) -- enforcement of knowingly invalid patent is bad faith conduct giving rise to potential Section 2 violation even if no PTO fraud. But requires "clear and convincing" evidence.

H. Conduct Reasonably Related to Litigation May Also be Protected by Noerr

1. Infringement notices and pre-lawsuit threats generally protected. Virginia Panel, 133 F.3d. 860 (Fed. Cir. 1997); Versatile Plastics v. Sknowbest, 247 F. Supp. 2d 1098 (E.D. Wisc. 2003) (infringement notices required by Patent law immune under Noerr) but see Cardtoons, 208 F.3d. 865 (10th Cir. 2000) (cease and desist letters in publicity rights case involving no patent or antitrust claims not immune).

2. "Ministerial" information filings, such as tariffs submitting patents to FDA Orange Book filings may not be protected. In re Buspirone, 185 F. Supp. 2d. 363 (S.D.N.Y. 2002); Twin City Bakery, 207 F. Supp. 2d 221 (S.D.N.Y. 2002) (assumes listings are covered by Noerr and finds not a sham).

3. Refusal to settle -- refusal to license copyright -- is probably entitled to Noerr immunity. PRE, 944 F. 2d. 1525, 1528-29 (9th Cir. 1991), aff'd 508 U.S. 49 (1993); Prime Time 24, supra.

I. Private Settlements (see also discussion infra) are generally not protected by Noerr. Andrx Pharmaceuticals, 256 F.3d. 799 (D.C. Cir. 2001) (settled patent infringement suit by substituting market allocation agreement); In re New Mexico Natural Gas, 1982 U.S. Dist. LEXIS 9452 (D.N.M.) ("When parties petition a court for judicial action, Noerr protection attaches, but when they voluntarily withdraw their dispute from the court and resolve it by agreement among themselves there would be no purpose served by affording Noerr protection.")

1. Settlements with state Attorneys General in tobacco cases immune under Noerr because were "incidental" to litigation and negotiating settlements with state Attorney Generals is form of petitioning. A.D. Bedell v. Phillip Morris, 263 F.3d. 239 (3d. Cir. 2001)

2. Some courts hold that court approval of private settlement does not create immunity at least where judge played no role other than signing Consent Judgment. Ciprofloxacin, 261 F. Supp. 2d. 188, 212-14 (E.D.N.Y. 2003)

V. **Settlements as Antitrust Violations**

A. Generally patent settlements involving licensing or similar agreements do not raise antitrust issues and is strong public policy in favor of settlement. Duplan, 540 F. 2d. 1215 (4th Cir. 1976); Boston Scientific v. Schneider, 983 F. Supp. 245 (D. Mass. 1997). Raise antitrust issues when part of a scheme to monopolize or the settlement itself restrains trade beyond the scope of the patent monopoly.

B. United States v. Singer, 374 U.S. 174 (1963): Singer settled patent disputes with European manufacturers, including resolution of patent interference proceedings to avoid disclosure of invalidating prior art. Singer then got assignments of European patents and filed tariff commission actions against Japanese manufacturers to prevent their competing products from entering the U.S. This was held to be a Section 2 conspiracy to monopolize.

C. Many IP litigation settlements would, absent valid IP rights, be market allocation or similar agreements that violate antitrust laws. When litigating parties make good faith settlement due to uncertainty on validity/ infringement issues, however, courts should not second guess that decision under guise of antitrust analysis. See Clorox v. Sterling Winthrop, 117 F.3d. 50, 60 (2d. Cir. 1997) (articulating this principle in context of

trademark dispute settlement); Asahi Glass v. Pentech Pharmaceuticals, ___F. Supp. 2d. ___ (N. D. Ill. 2003) (Judge Posner holds that where there is nothing "suspicious" about patent settlement whereby infringer stays off the market, the public policy in favor of settlement applies).

D. Patent invalidity does not make settlement per se unlawful. Valley Drug v. Geneva Pharmaceuticals, _____ F.3d. ___ (11th Cir. 2003) (Complementary objectives of patent and antitrust law caused court to conclude the exposing settling parties to antitrust liability for exclusionary effects of settlement reasonably within scope of patent merely because the patent is subsequently declared invalid would undermine patent incentives.

E. Hatch Waxman Act: Congress sought to speed entry of lower cost, generic drugs while still protect rights of patent holders necessary to encourage innovation and development of new branded drugs. 21 U.S.C.§ 355(b) et seq. Congress created a patent infringement exemption for generics during FDA testing process but preserved the patent protection through the following procedures:

1. Patent listed in FDA Orange Book

2. Generics must "certify" -- four types of certification but Par. IV certification is that patent is either invalid or not infringed.

3. Par. IV certification must be sent to patent holder and is artificial act of infringement that triggers 45 day period for patentee to file infringement suit --

4. If suit filed, then FDA cannot approve generic until earlier of 1) 30 months or 2) court finding that patent invalid or not infringed – effectively operates at 30 month automatic stay.

5. First generic filer gets 180 day exclusivity from date of court ruling or first use permitted by FDA

After ¶ IV infringement suit filed, parties "settle" by payments from patentee to alleged infringer/generic to stay off market which, due to the 180 day exclusivity, prevents other generic's from entering -- "bottleneck" effect

F. Some cases hold these settlements of infringement suits involving "reverse" payments to be per se illegal, while others hold rule of reason applies. Compare Cardizem, 332 F.2d. 896 (6th Cir. 2003) (per se); Valley Drug v. Geneva Pharmaceuticals, _____ F.3d. ___ (11th Cir. 2003) (not per se); Ciprofloxacin, 261 F. Supp. 2d. 188 (E.D.N. Y. 2003) (rule of reason); Tamoxifen, _____ F. Supp. 2d. _____ (E.D.N.Y. 2003) (rule of reason).

G. Key Differences Between Per Se and Rule of Reason In Hatch - Waxman Settlement Cases

1. Does "settlement" agreement go beyond the scope of the patent monopoly? If doesn't, then not per se. In Cardizem was formulation or method of delivery patent, yet agreement with generic extended to all versions of Cardizem. In Cipro, patent covered the active ingredient of Cipro, and thus patent covered all Cipro regardless of formulation or method of delivery. Agreement did not go beyond scope of patent.

2. Does agreement really "settle" the infringement litigation between the parties? In Cardizem did not, and payments to first generic went beyond the 30 month stay and patent infringement litigation remained pending. In Cipro, did settle litigation.

3. Does settlement agreement maintain the "bottleneck" caused by the 180 day exclusivity given the first generic which precludes entry/FDA approval of later generics? In Cipro, it did not because generic changed ¶ IV certification to ¶ III. In Cardizem, bottleneck maintained.

4. Judge Trager in Cipro also recognized that the "reverse payments" are caused by the unique character of Hatch Waxman Act which creates artificial act of infringement by Par. IV certification. Patentee can't sue for damages since no sales by infringer, but is at risk for substantial loss if generic challenges to patent is successful. See also Valley Drug, supra, Stip. Op. at pp. 33-34.

H. Schering-Plough: FTC Docket No. 9297. Pending before FTC but ALJ applied rule of reason to patent litigation settlement in which generic agreed to stay off market for five years but got license for branded product for five years and $60 million for rights to other unrelated drugs under development by manufacturer. ALJ found that Schering did not have monopoly power in potassium chloride market, no evidence of delay in generic entry, and settlement did resolve the litigation.

VI. **Standard Setting**

A. Arises when patentee participates in a standard setting body ("SSO") which adopts its patented product as standard without disclosing patent or misuses the process to exclude competitive technologies on basis other than merits. American Society of Mechanical Engineers v. Hydrolevel, 456 U.S. 556 (1982). Most standard setting bodies have rules that require disclosure of patents and/or requires licenses in RAND terms.

B. Allied Tube and Conduit v. Indian Head, 486 U.S. 492 (1988): Defendants persuaded private trade assn. (NFPA) not to include product of competitor in model code later adopted by government bodies. Court rejected Noerr immunity since plaintiff's injury flowed from exclusion from code, not government adoption. Compare Sessions Tank Liners v. Joor Mfg. Inc., 17 F.3d. 295 (9th Cir. 1994) (all injury resulted from government adoption of standard).

C. Rambus & Unocal Cases: FTC seeks to establish that trying to persuade SSO to adopt proprietary product without disclosing patents violates FTC Act, and antitrust laws.

D. Unocal: FTC Docket No. 9305. FTC action alleges that failure to disclose (i.e., allegedly said product was nonproprietary) to California Air Resource Board ("CARB") violates Section 5 of FTC Act. Unocal prevailed in infringement suit, and asserts that, even if there was failure to disclose, its conduct is immune under Noerr since CARB is a "quasi-legislative" body and only the "outcome" of the process, not the process itself, would restrain competition.

E. Rambus: FTC Docket No. 9302. FTC alleges that Rambus participated in JEDEC standard setting process without making it known that it was developing or possessed patents and had pending patent applications that involved specific technologies proposed the SDRAM standards. While this action was pending, Federal Circuit held that Rambus had no duty to disclose under JEDEC rules and set aside fraud verdict in favor of an alleged infringer who counterclaimed for fraud. Rambus v. Infineon, 318 F.3d. 1081 (Fed. Cir. 2003).

F. Dell: Mid-90s FTC case in which Dell approved a proposed standard and allegedly said it would not infringe on any of Dell's intellectual property rights. Dell later informed some manufacturers that standard infringed Dell's patents. FTC brought action under Section 5 alleging that Dell's conduct was anticompetitive because it hindered industry acceptance of the standard. In March, 1996 FTC approved consent order whereby Dell agreed to abandon any effort to enforce patent rights.

VII. **Refusals to License**

A. Kodak, 125 F.3d. 1218 (9th Cir. 1997) -- exclusionary conduct for Section 2 claim may include unilateral refusal to license. Presumption that statutory right to exclude is a valid business justification is rebuttable by evidence of pretext.

B. ISO (Xerox), 203 F.3d. 1322 (Fed. Cir. 2000) -- rejects Kodak, holds that, in absence of tying, fraud in PTO, or sham litigation, patent holder may refuse to license so long as anticompetitive effect does not extend beyond the statutory monopoly grant.

C. Data General, 36 F.3d. 1147 (1st Cir. 1994) -- refusal to license copyright may constitute exclusionary conduct under Section 2 but presumption is that there is a valid business justification.

D. Intergraph v. Intel, 195 F.3d. 1346 (Fed. Cir. 1999) (refusal to maintain commercial relationship with plaintiff suing for patent infringement not antitrust violation).

VIII. **Restrictions in Patent/Copyright Licenses**

A. License restrictions such as customers, territories, field of use nonexclusive grant banks, etc. generally do not violate antitrust laws so long as don't go beyond the scope of patent/copyright monopoly. But see U.S. v. Microsoft, 253 F.3d. 34, 62-64 (D.C. Cir. 2001) (court characterizes as "frivolous" Microsoft's argument that, if intellectual property rights have been lawfully acquired, their subsequent exercise cannot give rise to antitrust liability).

B. If restriction exceeds scope of the statutory monopoly, there is a potential antitrust issue, e.g., restriction on dealing with competitive products. Rule of reason analysis.

C. Restrictions in licenses to competitors ("horizontal") more likely to raise antitrust issues than those to non-competitors ("vertical").

D. Even though license restriction may not be antitrust violation, may be sufficient to constitute misuse. Practice Management, 121 F.3d. 516 (9th Cir. 1997) (restriction in copyright license prohibiting use of competitive products is sufficient for misuse even though not an antitrust violation); See also Mallinckrodt, Inc., 976 F. 2d 700 (Fed. Cir. 1992) (ban on reuse of patent device not misuse).

E. Tying -- licensing on condition that licensee also buy another product -- may be per se illegal under antitrust laws if licensor has market power. Neither Guidelines nor most courts, however, find market power based on patent or copyright itself. Independent Ink, 210 F. Supp. 2d 1155 (C.D. Cal. 2002); but see MCA Television v. Public Interest Corp., 171 F.3d 1265 (11th Cir. 1999) (block booking case and copyright sufficient to show market power). See also 15 U.S.C. § 271(d) (no misuse absent market power).

F. Resale price restraints -- if minimum, probably per se illegal but U.S. v. General Electric, 272 U.S. 476 (1926) permits as to licenses but not where patent owner makes the patented article and sells it. -- so does California law. Lucas v. Humongous Entertainment, 878 F. Supp. 285 (N.D. Cal. 1993). But both are questionable precedent as such restraints are usually per se illegal.

IX. **Acquisitions of Patents, Patent Pools and Cross-Licensing**

A. Kobe Pump, 198 F. 2d 416 (10th Cir. 1952): defendant acquired all relevant patents in industry, obtained covenants not to compete and then filed infringement suits and threatened others. Violated antitrust laws.

B. Summit Technology: Summit and VISX had competing patents for laser eye surgery and agreed to deposit in a newly created entity. They then set a $250 licensing fee to be paid the pool each time a laser produced by either firm was used. FTC challenged since pool effectively foreclosed all price competition for patents.

C. Broadcast Music v. Columbia Broadcasting, 441 U.S. 1 (1979): Pooling of copyrights lawful even where it entails joint price setting where pooling arrangements offer efficiencies that make it possible to market new products.

D. DVD/MPEG Business Review Letters: Pools should be limited to only essential patents as stated by an independent expert, license by single organization on same terms, patent owner still permitted to individually license, and patent pool of limited duration.

Practice Areas

Antitrust and Competition

Intellectual Property