chapter 2

Antitrust Issues in the Acquisition, Procurement, and Ownership of Intellectual Property

I. Introduction

Parties considering mergers, acquisitions, joint ventures, or joint development agreements should consider whether these collaborations will limit or appear to limit competition. They must be careful to properly procure their intellectual property to avoid later antitrust disputes. In managing their intellectual property portfolios, intellectual property holders also should be aware of potential antitrust issues associated with their refusal to sell or license their property, especially if such refusal is done in concert with others. FTC and DOJ officials recently reaffirmed that they will continue to focus on competition concerns in the patent area, including portfolio acquisitions.1 This chapter will address antitrust issues associated with acquiring, procuring, and owning intellectual property.

II. Acquisition

The acquisition of intellectual property presents three antitrust questions: (1) what markets may be affected, (2) how will the acquisition affect market power in those markets, and (3) what are permissible methods of intellectual property acquisition?

Sections 2.1, 2.2, and 2.3 discuss three kinds of relevant markets that may be implicated: goods, technology, and innovation markets. Sections 2.4 and 2.5 discuss important principles for assessing whether market power may exist: monopolization and barriers to entry. Sections 2.6, 2.7, 2.8, and 2.9 discuss antitrust issues that arise when acquiring intellectual property in various ways: exclusive versus non-exclusive licenses, joint ventures, cross-licensing and pooling arrangements, and grantbacks.

§ 2.1 Goods Markets
Related markets of goods can be relevant to evaluating the competitive effects of an acquisition or licensing arrangement. For example, “[a] restraint in a licensing arrangement may have competitive effects in markets for final or intermediate goods made using the intellectual property, or it may have effects upstream, in markets for goods that are used as inputs, along with the intellectual property, to the production of other goods.” When reviewing a transfer of intellectual property through an acquisition or license, federal agencies evaluate the delineation of the goods market as detailed in Section 1 of the U.S. Department of Justice and Federal Trade Commission’s Horizontal Merger Guidelines. 3

In the context of a proposed acquisition of intellectual property, antitrust authorities analyze the relevant product market to determine whether the acquisition will have anticompetitive effects in that market. For example, the DOJ closely examined the product market for wireless device operating systems in connection with three separate proposed acquisitions. 4 At the end of 2011, Google’s Android accounted for approximately 46 percent of the U.S. smartphone operating system platform subscribers, while Apple, Research In Motion, and Microsoft held 30, 15, and 6 percent of subscribers, respectively. 5 The DOJ scrutinized three patent portfolio acquisitions: (1) Google’s acquisition of 17,000 issued patents and 6,800 applications from Motorola Mobility, including hundreds of Standard Essential Patents (SEPs) relevant to wireless devices; (2) the


4. Dep’t of Justice, Statement of the Department of Justice’s Antitrust Division on Its Decision to Close Its Investigations of Google Inc.’s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp. and Research In Motion Ltd. (Feb. 13, 2012).

5. Id.
acquisition by Rockstar Bidco, a partnership including RIM, Microsoft, and Apple, of 6,000 patents and patent applications, including many SEPs relevant to wireless devices, from Nortel; and (3) Apple’s acquisition of patents held by CPTN Holdings LLC, formerly owned by Novell. After carefully analyzing the product market and relying on assurances from the acquiring companies about their intended licensing practices with respect to the newly acquired patents, the DOJ determined that the acquisitions were unlikely to substantially lessen competition.

The FTC and the lawyers for Integrated Device Technologies, Inc. and PLX Technology, Inc. disputed the relevant market to consider when analyzing the proposed purchase of PLX. The FTC contended that the relevant market was PCIe switches. In contrast, PLX contended that PCIe switches were not a relevant market because PCIe switches were part of a wider “systems interconnect solutions” market, in which PCIe competes with various data transfer protocols including Ethernet and InfiniBand. FTC Commissioner Julie Brill’s public comments about the case suggest that the FTC believed, after interviews with IDT and PLX customers, that customers would most likely pay the increased price and not switch to the alleged substitutes for PCIe switches if faced with a price increase following the merger.

Other product markets involving patents that have been the subject of recent antitrust inquiry include over-the-counter motion sickness medication; generic pharmaceuticals to supplement fluoride; the market for air-conditioning recycling, recovery, and recharge services; and magnesium plates for photoengraving applications.

§ 2.2 Technology Markets
Technology markets “consist of the intellectual property that is licensed . . . and its close substitutes—that is, the technologies or goods that are close enough substitutes significantly to constrain the exercise of market power

6. Id.
7. Id.
9. Id.
10. Id.
11. Id.
with respect to the intellectual property that is licensed.”16 The federal agencies rely upon technology markets to analyze the competitive effects of a licensing arrangement when “intellectual property are marketed separately from the products in which they are used.”17 For example, when a patented product is sold with an implied license permitting its use, there is no need for a separate analysis of the technology market.18 When technology markets are relevant, courts and agencies consider whether other technologies are alternatives.19

Magnesium Elektron’s acquisition of Revere Graphics Worldwide, Inc. in September 2007 resulted in a single company possessing the intellectual property used to manufacture magnesium plates for photoengraving applications.20 In 2012, the FTC compelled Magnesium Elektron to provide licenses to its intellectual property and transfer technical know-how to a potential competitor, Universal Engineering, to enable competition in the technology market for the manufacture of magnesium plates for photoengraving applications.21

The FTC had a similar dispute with Honeywell International, Inc. regarding Honeywell’s proposed acquisition of Intermec, Inc.22 According to the FTC, Honeywell, Intermec, and Motorola are the only 2D scan engine firms in the United States that “have deep and broad portfolios of relevant IP that insulate them and their customers from infringement suits.”23 A key issue in the complaint, however, involved identifying the relevant market for 2D scan engines. “2D scan engines are hardware components that include a two-dimensional (“2D”) image sensor and translate a barcode into a digital format that computer processors can interpret and analyze.”24 The FTC took the position that so-called “1D” scan engines and scanning functions found on smartphones and other consumer devices are not substitutes for 2D scan engines because 1D scan engines are unable to read most types of 2D images and therefore do not constrain prices of 2D scan engines. Ultimately, to obtain FTC approval, Honeywell agreed to

16. Antitrust-IP Licensing Guidelines, supra note 2, § 3.2.2.
17. Id.
18. Id. at 8 n.19.
19. See, e.g., DSM Desotech, Inc. v. 3D Sys. Corp., 2013 WL 389003, at *11 (N.D. Ill. Jan. 31, 2013) (granting summary judgment to defendant where court found there was no genuine dispute that other technologies were alternatives to stereolithography).
21. Id.
23. Id. at 3.
24. Id. at 1.
provide 12-year licenses for both Honeywell and Intermec’s patent portfolios to some of the major consumers of 2D scan engines. The FTC also challenges transactions that may limit the availability of licenses for intellectual property. In 2015, Eli Lilly and Co. proposed to acquire Novartis Animal Health for $5.4 billion. Both companies engaged in development and licensing of canine heartworm parasiticides. The proposed transaction would result in one firm, Eli Lilly, controlling more than 43 percent of the relevant market. The FTC alleged that this combination would allow Eli Lilly to increase the pricing for canine heartworm parasiticides. The FTC approved the merger, subject to Eli Lilly’s agreement to divest its canine heartworm parasiticide business, to ensure availability to parasiticide licenses.

§ 2.3 Innovation Markets

Sometimes a “licensing arrangement may have competitive effects on innovation that cannot be adequately addressed through the analysis of goods or technology markets.” In these cases, the federal agencies analyze the competitive effect of the licensing arrangement in a separate innovation market. An innovation market concerns the development of goods that do not yet exist or 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.

Concerns regarding innovation markets often animate agency action during a merger. For example, the FTC filed a complaint against Houghton International, Inc. for its purchase of D.A. Stuart GmbH because as a result of that acquisition, Houghton would have control of almost 75 percent of the North American market for aluminum hot rolling oil. The agency was concerned that “the acquisition could decrease innovation for this vital input into aluminum manufacturing.” Similarly, in Nielsen’s

27. Id. ¶ 7.
28. Id. ¶ 9.
30. ANTITRUST-IP LICENSING GUIDELINES, supra note 2, § 3.2.3.
31. Id.
32. Id.
33. Press Release, FTC, Houghton International Agrees to Sell Aluminum Production Assets to Settle Charges That 2008 Acquisition of Stuart Was Anticompetitive (July 14, 2010).
34. Id.
proposed acquisition of Arbitron, Inc., the FTC filed a complaint based upon its apparent concern that the merger would negatively affect innovation “by eliminating future competition between Nielson and Arbitron for the provision of national syndicated cross-platform audience measurement services.”

The risk of reduced product development motivated, in part, the FTC’s opposition to the proposed merger between Medtronic, Inc. and Covidien PLC. Medtronic proposed to merge with Covidien in exchange for cash and stock valued at $42.9 billion. However, Medtronic and Covidien were the only two companies developing drug-coated balloon catheters indicated for the fem-pop artery, which are used to treat peripheral artery disease in the fem-pop artery. In the United States, only one company, C.R. Bard, Inc., supplied such catheters. Covidien and Medtronic were in clinical-stage trials to enter the U.S. market with competing products. The FTC complaint alleged that the merger would eliminate competition between Covidien and Medtronic, increase the likelihood that the combined entity would delay a product launch, and would reduce research and development for drug-coated balloon catheters. To garner agency support for the deal, the parties agreed that Covidien would divest its drug-coated balloon catheter business to a third party, helping to ensure continued research and development in this area.

The FTC’s consent agreement with Google in 2013 reflected agency concerns with respect to two innovation markets—innovation in the wireless devices market and innovation in the online advertising market. Google’s acquisition of Motorola’s patent portfolio in 2012 permitted Google to threaten to seek injunctions against other mobile device companies for alleged infringement of former Motorola standard essential patents. Following the FTC’s investigation, Google agreed to make changes to ensure competition “in the online marketplace and in the market for innovative wireless devices.” In addition to Google committing to license its SEPs on FRAND terms, Google “promised to provide all websites the option to keep their content out of Google’s vertical search offerings, while still

37. Id. ¶ 7.
38. Id. ¶ 9.
41. Id.
having them appear in Google’s general or ‘organic’ web search results.’

This action was in response to allegations that “Google misappropriated content, such as user reviews and start ratings, from competing websites in order to improve its own vertical offerings, such as Google Local and Google Shopping.” The agency had raised concerns that this practice “might chill firms’ incentives to innovate on the Internet.”

Where the government determines, however, that a proposed merger will not chill innovation, no corrective action is necessary. The FTC investigated Zillow, Inc.’s proposed acquisition of Trulia, Inc. in 2014. Zillow and Trulia operated the largest and second-largest consumer-facing web portals for home buying that sell advertising space to real estate agents seeking to attract customers buying and selling homes. The FTC opened an investigation due to evidence that the two companies competed closely with each other for consumer traffic and for real estate advertising dollars. A focus of the investigation was “whether the merger would reduce competition on the consumer-facing side of the platforms, i.e., whether the merger would substantially lessen competition for consumers interested in researching home buying or selling online.” The investigation concluded that “the combined entity will continue to have strong incentives to develop new features in order to grow its consumer audience.” The FTC found no other competition risks and closed the investigation.

§ 2.4 Monopolization

Though the grant of a patent confers a limited right of monopoly on the patent holder, antitrust law applies when a party seeks to monopolize a market through the acquisition of patents. Federal agencies will thus analyze certain transfers of intellectual property rights using the standards typically used to review mergers. Section 7 of the Clayton Act prohibits merger if “in any line of commerce or in any activity affecting commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.” It has long been accepted that a party’s action to acquire patents, even though not in and of itself unlawful, violates the antitrust laws when the patents are acquired as part of an overall monopolization scheme.
Where a proposed merger threatens to create a monopoly in a given market, the regulatory agencies may block the merger or seek to compel licensing of key intellectual property as a condition to approve the merger. For example, the FTC conditioned Robert Bosch GmbH’s acquisition of SPX Service Solutions U.S. LLC on an agreement to grant manufacturers of equipment used to recharge vehicle air-conditioning systems licenses to key patents that they need to compete in the market for such equipment. According to the FTC, Bosch’s acquisition of SPX would give it a “virtual monopoly” in the market for air-conditioning recycling, recovery, and recharge (ACRRR) devices. Moreover, SPX held various ACRRR standard-essential patents based on the industry standards set by SAE International. The FTC obligated Bosch not to “pursue any actions for injunctive relief on these patents and to make them available on a royalty free basis to implementers of the relevant SAE standards in the ACRRR market.” The FTC further required that Bosch deliver to SAE “a letter of assurance that going forward it will license any additional SEPs it may acquire or develop for the two relevant industry standards on FRAND terms to any third party that wants to use the technologies covered by the patents to make ACRRR devices in the United States.” The FTC had contended that SPX’s decision to seek injunctive relief against willing licensees of their FRAND-encumbered SEPs violated section 5 of the FTC Act.

Similarly, where a proposed transaction would remove one party, or one of few parties, from the relevant market that has an incentive to oppose the other party’s intellectual property claims, the agency may challenge the transaction. The FTC challenged the proposed acquisition of EagleView Technology Corp. by Verisk Analytics, Inc. The companies competed in the market for rooftop aerial measurement services and reports for insurance purposes, and their combination would have resulted in a single company with more than 90 percent of the market share. Moreover, Verisk “owns the dominant software platform through which insurers use Rooftop Aerial Measurement Products to estimate property damage claims” and, therefore, “has a strong incentive to withstand the threat of patent litigation from EagleView (which already has forced others from the market).” The FTC further contended that the risk of patent litigation from EagleView, combined with a lack of revenue incentive, created a substantial barrier to entry. In support, the FTC pointed to

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51. See also infra p. 16 discussing merger in context of SEP patents.
53. Id. at 2.
numerous cases in which EagleView has “aggressively asserted its patent rights,” eliminating most competitors from the market through threats of litigation.\textsuperscript{54} Shortly after the FTC filed its challenge, Verisk abandoned the transaction.\textsuperscript{55}

Where a merger results in a monopoly in a particular product or technology market, the FTC may take action to restore competition. The FTC compelled Magnesium Elektron to sell necessary intellectual property to a newly created competitor to permit some competition in the manufacture of magnesium plates for photoengraving applications.\textsuperscript{56} According to the FTC, Magnesium Elektron’s acquisition of Revere Graphics Worldwide, Inc. in 2007 combined the “only two manufacturers and sellers of magnesium plates for photoengraving in the world at that time.”\textsuperscript{57} The FTC alleged that this combination violated the FTC Act and section 7 of the Clayton Act.\textsuperscript{58}

The acquisition of patents may also result in civil litigation based upon monopolization. For example, in \textit{Clean Conversion v. CleanTech Biofuels},\textsuperscript{59} Clean Conversion Technologies, Inc. (CCT), a licensee of patents for pressurized steam classification (PSC) conversion, brought suit against its licensor, CleanTech Biofuels, Inc., in response to CleanTech’s efforts to terminate CCT’s license through litigation and, simultaneously, to purchase all known patents related to PSC technology. The suit claimed that CleanTech’s acquisition strategy constituted a scheme to monopolize the PSC market in violation of sections 1 and 2 of the Sherman Act. The plaintiff alleged that the patent holder acquired the patents with the intent to monopolize the market. As evidence, it referenced the above-market value premium that the purchaser paid to the prior patent holder and to the patent holder’s securities filings, in which it stated the company’s “intention to consolidate the ownership of the intellectual property rights to PSC technology to corner the PSC market.”

The court rejected CleanTech’s motion to dismiss the monopolization suit. The court found that CCT had antitrust standing because CleanTech’s alleged actions, if true, reflected harm to competition, not just to CCT. The court distinguished CCT’s action by pointing out that CCT did not allege that “it suffered antitrust injury from CleanTech’s enforcement of its patent rights” but that it “suffered an injury to competition as a result

\textsuperscript{54} Id. at 10.
\textsuperscript{55} Press Release, Verisk Analytics, Verisk Analytics Ends Effort to Acquire EagleView Technology Corporation (Dec. 16, 2014).
\textsuperscript{56} Press Release, FTC, FTC Order Restores Competition in Market for Magnesium Plates for Photoengraving (Oct. 12, 2012).
\textsuperscript{57} Id.
\textsuperscript{58} Id.
of CleanTech’s effort to conspire to consolidate the market and monopolize the market power into one entity.\textsuperscript{60} CCT adequately pleaded market power by CleanTech in the PSC conversion market because it pled facts showing the exclusionary effect of CleanTech’s refusal to license its acquired patents and the otherwise high barriers to entry.\textsuperscript{61} Finally, the court rejected CleanTech’s \textit{Noerr-Pennington} defense because the infringement litigation commenced by CleanTech was only implicated to the extent that it supported a broader scheme to violate the antitrust laws, and, in any event, CleanTech failed to identify any petitioning activity subject to protection.\textsuperscript{62}

\section*{2.5 Barriers to Entry}

Harm to competition from a transfer of intellectual property “depends in part on the degree of concentration in, the difficulty of entry into, and responsiveness of supply and demand to changes in price in the relevant markets.”\textsuperscript{63} In particular, “[t]he risk of anticompetitive coordination is increased when the relevant markets are concentrated and difficult to enter” because new participants cannot readily enter the market to offset a super-competitive price.\textsuperscript{64}

In 2012, the existence of barriers to entry played a role in the FTC’s decision to challenge a high-tech market merger, which resulted in the abandonment of the merger. Electronics component manufacturer Integrated Device Technologies, Inc. proposed to purchase competitor PLX Technology, Inc. for $330 million.\textsuperscript{65} According to the FTC, the deal would give the combined firm a near-monopoly in the market for a type of integrated computer circuits called PCIe switches, which perform critical connectivity functions in computers and other electronic devices widely used by American consumers and businesses.\textsuperscript{66} The FTC complaint alleged that “IDT and PLX are the only firms offering 3rd generation PCIe switches today, and this head-to-head competition would be eliminated by the proposed acquisition.”\textsuperscript{67} Shortly after the FTC filed its complaint, the parties decided to abandon the proposed merger.

In comments the following month, FTC Commissioner Julie Brill commented on some of the lessons learned from the proposed IDT-PLX
merger. One of the lessons Commissioner Brill cited related to how the 
FTC should analyze claims about market entry. She noted that a key 
question is: “[W]hat was the past evidence regarding entry and reposition-
ing telling us about the likelihood of either happening in the post-merger 
world? If, as was argued, the market truly was at an inflection point or 
was threatened by technological leapfrogging, then I could think of no 
better yardstick than natural experiments that have already occurred to 
test these arguments.”

§ 2.6 Exclusive versus Non-exclusive Licensing

A critical issue for assessing the antitrust impact of the acquisition of 
intellectual property is whether the acquisition will be exclusive or non-
exclusive. Exclusive arrangements raise greater antitrust concerns because 
they prevent competitors from accessing intellectual property. There are 
two kinds of exclusivity that occur in licensing arrangements and each 
poses distinct antitrust concerns. First, the licensor may engage in “exclu-
sive dealing” by restricting the licensee from selling, distributing, or using 
technologies by competitors of the licensor. Second, a license can be exclu-
sive to the licensee where the terms of the license prevent the licensor from 
licensing to others or even from using the technology itself. Sections 2.7, 
2.8, and 2.9 will discuss specific arrangements that should be scrutinized.

In United States v. United Technologies (UTC), the DOJ was con-
cerned that UTC’s acquisition of Goodrich would lessen competition in 
the development, manufacture, and sale of large main engine generators, 
aircraft turbine engines, and engine control systems for larger aircraft 
turbine engines. The proposed final judgment issued on August 2, 2012, 
requires UTC to divest Goodrich assets used to design, develop, and man-
ufacture engine control products. Part of the divestiture is an exclusive, 
irrevocable, royalty-free license for Goodrich intellectual property that 
is used exclusively for engine control products and a similar, but non-
exclusive, license for intellectual property that is used primarily for engine 
control products. The proposed judgment explains: “These licenses will 
further ensure that the acquirer [of the divestiture assets] has the assets it 
needs to be a viable competitor in the engine controls systems business.”

68. Julie Brill, Comm’r, Speech on Merger Enforcement in High-Tech Markets (Jan. 28, 
2013).
70. Competitive Impact Statement, United Techs. Corp., 1:12-cv-01230, at 24 (July 26, 
2012).
71. Id.
The FTC orders issued in 2012 suggest the divestiture of non-exclusive licenses may be more common. In *In re Carpenter Technology*,\(^{72}\) Carpenter Technology Corp. planned to acquire Latrobe Specialty Metals. The April 12, 2012, FTC order required respondents to divest specialty metal products and related intellectual property. The divested license for intellectual property was “a perpetual, non-exclusive, fully paid-up and royalty-free license(s) with rights to sublicense.”\(^{73}\) Similarly, in *In re Teva Pharmaceutical*,\(^{74}\) a July 2, 2012, FTC order required respondents to divest the generic fentanyl and cyclobenzaprine and related intellectual property. The licenses were also perpetual, non-exclusive, fully paid-up, royalty-free, and with rights to sublicense.\(^{75}\)

The FTC’s investigation of Google in 2012 resulted in two changes to Google’s exclusive practices. Although the FTC approved Google’s acquisition of Motorola’s patent portfolio in 2012, the FTC entered into a consent decree with Google in 2013, under which Google agreed to commit to provide FRAND licenses to the wireless market for all of Google SEPs. Google had been seeking or threatening injunctions against other wireless companies that allegedly infringed the Motorola patents. In addition, Google agreed to change its AdWords contracts, so as to allow advertisers to more easily use competing online advertising products. Some FTC commissioners believed that Google’s terms of use for its API were making it difficult for advertisers to use competing online advertising products. However, at least one FTC commissioner has suggested that the recent Google/Motorola and Bosch cases touch the outer boundary of FTC enforcement power and have limited import. Commissioner Maureen Ohlhausen recommended that “any agency or party interested in relying on those decisions proceed with caution and consider all of the Commissioner statements that were issued in connection with those decisions.”\(^{76}\) Commissioner Ohlhausen issued dissenting statements in both decisions on the grounds that both


\(^{73}\) Id. at *33–34.

\(^{74}\) *In re Teva Pharm. Indus. Ltd.*, 2012 F.T.C. Lexis 117.

\(^{75}\) Id. at *18, *23; see also *In re Novartis AG*, 2012 F.T.C. Lexis 148, at *9–10* (Sept. 4, 2012) (requiring divestiture of all products related to three ANDAs—calcipotriene topical solution, lidocaine/prilocaine cream, and metronidazole topical gel—including perpetual, non-exclusive licenses under that patent); *In re Watson Pharm., Inc.*, 2012 F.T.C. Lexis 195, at *18* (Dec. 13, 2012) (requiring divestiture of Irsradipine and Loxapine Products and Morphine Sulphate Naltrexone Extended Release Products including perpetual, non-exclusive licenses to related intellectual property).

decisions lacked transparency, failed to provide adequate guidance, created conflicts between the FTC and other U.S. governmental institutions, and risked sending a message to foreign counterparties that the United States does not place a very high value on intellectual property rights.

Industry participants have also weighed in on the FTC’s consent decree in the Google/Motorola case. On one side, Microsoft and Apple applauded the FTC’s decision to require Google/Motorola to license their SEPs on FRAND terms. On the other side, other industry participants have filed comments with the FTC arguing that the FTC’s consent decree should be limited to the Google/Motorola case. For example, Ericsson commented that, although it agrees with the Commission that, in general, injunctive relief should be available against an unwilling licensee who refuses to accept a license on FRAND terms, “the specific procedures described in the order, if widely adopted, may cause unintended and undesirable consequences, particularly within the telecommunications industry.”

Another criticism of the FTC’s Google/Motorola decision is that the FTC improperly relied on FTC Act section 5 as a basis to challenge Google/Motorola’s post-merger patent licensing. For example, the Intellectual Property Owners Association (IPO), a trade association with over 200 company-members, submitted a comment, in which it stated that it “opposes the unrestricted use of Section 5 of the Federal Trade Commission Act, . . . as a standalone basis for intervention by the Commission in situations where the agency cannot rely on a violation of the antitrust laws as the basis for exercising governmental power to restore or preserve competition.” As the IPO argued, “the use of ‘unfair’ as a legal standard for prohibiting certain types of conduct must necessarily be accompanied by well-defined limits that apprise market participants as to what is permitted and what is not.” IPO expressed concern that “[n]o such limiting principles or definitions are discernible from the Complaint and the Statement of the Commission in this matter.”

§ 2.7 Joint Ventures
Joint collaboration with other entities can be a mutually beneficial way to develop new intellectual property. However, joint ventures will be

78. Id (providing comments of Ericsson Inc. on Feb. 22, 2013).
80. Id.
81. Id.
scrutinized to ensure that they do not impose illegal competitive restraints or otherwise have the effect of foreclosing competitors from a vital resource.

In 2012, a complaint filed by the DOJ challenged a set of agreements among Verizon, Time Warner Cable, Cox Communications, and Bright House Networks to sell each other’s services, create a joint entity to develop new products and services, and create a future option for members to operate a virtual wireless network using Verizon’s fiber-based network (FiOS).82 Three key provisions regarding the joint venture in the proposed final judgment demonstrate that (1) the DOJ was concerned with the duration of the venture, so it required government approval for participants to continue in the venture after December 2016; (2) the DOJ was concerned that the agreement prohibited members from independently developing technologies regarding the integration of wire-line and wireless services, so it required the agreement to be amended to allow Time Warner Cable and Bright House Networks to independently develop any technology they present to the joint entity for development but which the joint entity declined to pursue; and (3) the DOJ required that when members exit the joint entity they be granted a perpetual, royalty-free, non-exclusive license to intellectual property then owned by the joint entity so that members could sublicense venture-developed technology to other wireless carriers if they choose after leaving.83

In a recent joint venture outside the United States, two Swedish companies Tele2 and Telenor transferred mobile-frequency licenses to a network joint venture.84 The putative basis for the joint venture, called Net4Mobility, was to pool limited resources such as frequency licenses.85 A third Swedish company lodged a complaint with the Swedish competition authority Konkurrensverket, alleging that this transfer of licenses to a joint venture violates the antitrust laws because it gives the Net4Mobility venture an unfair advantage over operators with fewer frequencies.86

The Chinese antitrust authority, Ministry of Commerce, approved a joint venture between three technology and security companies. As a condition of approval, China required an eight-year commitment from the parties to make licenses, programming code, and standards for its technology available to other companies and to refrain from certain intellectual

83. Id.
85. Id.
86. Id.
property development paths that could restrict competition. These conditions mirror the conditions imposed by the European Commission when it approved the transaction in November 2012.87

In 2015, the European Commission opened an investigation to “assess whether the proposed creation of a joint venture between three collective rights management organizations (CMOs) in the online licensing of musical works is in line with the EU Merger Regulation.”88 The CMOs manage the copyrights of authors, performers and writers of musical works, and grant licenses on their behalf and redistribute the royalties collected.89 The initial investigation revealed that the proposed joint venture between the CMOs would result in each CMO ceasing its offer of multinational licenses for its own repertoire, and instead requiring prospective licensees to bargain with the joint venture for a multinational license for all of the CMOs’ repertoires. This new bargaining power for multinational licenses could adversely affect digital service providers in the European Economic Area because the operation of digital music relies upon multinational licenses. The net effect could be higher prices for consumers and less choice for digital music.90

§ 2.8 Cross-Licensing and Pooling Arrangements

While joint ventures are a common way to develop new intellectual property with others, competitors can also acquire rights to existing intellectual property through cross-licensing and pooling agreements. Non-exclusive cross-licensing is generally pro-competitive—it decreases litigation and permits additional development.

In the context of patent transfers, cross-licensing is an important tool that can help prevent unexpected patent litigation, especially litigation brought by patent assertion entities. In March 2013, Google launched a website to encourage private companies to cooperate to reduce patent litigation by entering into cross-licensing agreements.91 The website includes four sample agreements, titled (1) License on Transfer Agreement, (2) Non-sticky Defensive Patent License, (3) Sticky Defensive Patent License, and

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89. Id.
90. Id.
(4) **Field-of-Use Agreement.** Under the terms of the License on Transfer Agreement, every company that participates agrees that when it transfers a patent (other than as part of a legitimate spin-out), the transferred patent automatically becomes licensed to the other companies that are participants at the time of the transfer.

Another example of a recent cross-licensing arrangement in a patent portfolio sale is the Kodak case. Pursuant to bankruptcy court approval, Eastman Kodak Co. sold $525 million of its digital imaging patents portfolio. Under the terms of the sale, Kodak agreed to license its patents to a consortium of twelve companies organized by Intellectual Ventures Management LLC and RPX Corp. The sale was accompanied by an agreement between Kodak and other participants in the deal, including Apple, FlashPoint Technologies, and Fujifilm Corp., to resolve ongoing patent litigation. RPX is among the leading patent licensing consortiums with the purpose of acquiring pools of patents for defensive purposes.

§ 2.9 **Grantbacks**

Grantbacks are another method of acquiring intellectual property. Under a grantback license, a licensee permits the licensor to use any improvements the licensee makes to the licensed technology.

Grantbacks can be pro-competitive, “especially if they are nonexclusive,” because they promote innovation and subsequent licensing of the results of innovation. The federal agencies analyze grantbacks under the rule of reason. “An important factor in the Agencies’ analysis of a grantback will be whether the licensor has market power in a relevant technology or innovation market. If the Agencies determine that a particular grantback provision is likely to reduce significantly licensees’ incentives to invest in improving the licensed technology, the Agencies will consider the extent to which the grantback provision has offsetting procompetitive effects, such as (1) promoting dissemination of licensees’ improvements to the licensed technology, (2) increasing the licensors’ incentives to disseminate the

92. Id.
94. Id.
95. Id.
96. Id. See supra § 2.2 for further discussion of recent litigation involving patent licensing consortiums.
98. Id.
licensed technology, or (3) otherwise increasing competition and output in a relevant technology or innovation market. In addition, the Agencies will consider the extent to which grantback provisions in the relevant markets generally increase licensors’ incentives to innovate in the first place.99

In *PNY v. SanDisk*,100 the court dismissed with leave to amend various section 2 monopolization claims made by PNY Technologies regarding SanDisk’s use of its patent portfolio regarding the flash memory market. SanDisk claims to own more than 1,400 U.S. patents relating to flash memory technology that cover 100 percent of the flash memory technologies that are or can be used to manufacture or assemble flash memory devices, flash memory systems, or flash memory products for sale in the United States.101 PNY alleged that there are “no closely suitable substitute technologies to which a manufacturer or aggregator of flash memory devices, systems, or products can switch to avoid using SanDisk’s memory patented technology.”102 Among other antitrust claims, PNY asserted that SanDisk’s licensing of its patent portfolio violated the antitrust laws because it required that licensees grant back to SanDisk a worldwide, royalty-free cross-license to all future flash-memory-related innovations developed by the licensee, inhibiting efforts to design around SanDisk’s patents and stifling licensees’ incentives to innovate.103

The court found the complaint deficient in its allegation of facts and dismissed with leave to amend PNY’s claims regarding illegal licensing tactics by SanDisk. Following a brief background description of the “tension between patent rights and antitrust claims,” the court marched through each of PNY’s specific licensing claims. The court also noted that “[t]here is nothing inherently illegal or anticompetitive about a grant-back provision in a patent license,”104 PNY does not allege that “facts to show that the grant-back provision is anticompetitive,” such as that the grant-back has stifled competition.105

III. Procurement

The means by which intellectual property is procured may raise antitrust concerns. With respect to patents, the courts have developed the *Walker*

99. *Id.*
101. *Id.* at *2.
102. *Id.*
103. *Id.*
104. *Id.* at *12.
105. *Id.; see infra* p. 88 discussing all of the antitrust claims at issue in this case.
Process doctrine, under which proof that a patent holder knowingly and willfully misrepresented material facts to the PTO will deny the patent holder exemption from the antitrust laws ordinarily provided by that patent.\footnote{106. \textit{Walker Process Equip. Inc. v. Food Mach. & Chem. Corp.}, 382 U.S. 172, 176–80 (1965); see Noblepharma AB v. Implant Innov., Inc., 141 F.3d 1059 (Fed. Cir. 1998) (detailing elements of \textit{Walker Process} claim); infra § 4.10 (describing \textit{Walker Process}).} In addition to statutory prohibitions of fraud in the procurement of trademarks,\footnote{107. Lanham Act § 38, 15 U.S.C. § 1120 (“Any person who shall procure registration in the Patent and Trademark Office of a mark by a false or fraudulent declaration or representation, oral or in writing, or by any false means, shall be liable in a civil action by any person injured thereby for any damages sustained in consequence thereof.”).} there is also case law suggesting that \textit{Walker Process} will apply to trademark claims as well.\footnote{108. \textit{Vendo Co. v. LektroVend Corp.}, 433 U.S. 623, 652 (1977) (Blackmun, J., concurring) (“[T]he enforcement of restrictive provisions in a license to use . . . a trademark may violate the Sherman Act.”).}

§ 2.10 Securing Patents

If a patent is secured from the PTO improperly, then enforcement of that patent by the patent owner may subject the patent owner to potential antitrust liability. The relevant doctrine is called the \textit{Walker Process} doctrine. \textit{Walker Process} antitrust claims are often brought as counterclaims. They arise as follows: A patent owner accuses a defendant of infringing a patent. The defendant responds with a counterclaim alleging that the attempted enforcement of the patent is an antitrust violation and further alleging the traditional elements of an antitrust claim (standing, relevant market, market power, and damages). The patent owner responds that its lawsuit to enforce its patent cannot violate the antitrust laws because the prosecution of a lawsuit is immune to antitrust liability under the \textit{Noerr-Pennington} doctrine.\footnote{109. \textit{E. R.R. President’s Conference v. Noerr Motor Freight, Inc.}, 365 U.S. 127, 135 (1961); \textit{United Mine Workers v. Pennington}, 381 U.S. 657, 670 (1965).} The defendant/counterclaimant responds that its antitrust counterclaim pierces the immunity under \textit{Noerr-Pennington} because its antitrust counterclaim is a \textit{Walker Process} antitrust claim. To overcome the qualified immunity of \textit{Noerr-Pennington}, the \textit{Walker Process} claim must adequately plead fraud in the procurement of the patent.\footnote{110. \textit{Walker Process} should not be confused with the “sham litigation” exception, which also overcomes \textit{Noerr-Pennington} immunity. See generally \textit{Cal. Motor Transp. Co. v. Trucking Unlimited}, 404 U.S. 508 (1972); \textit{Prof’l Real Estate Investors, Inc. v. Columbia Pictures, Inc.}, 508 U.S. 49 (1993). The “sham litigation” exception is discussed at p. 126 and may be raised without regard to how the patent was procured. However, \textit{Walker Process} and “sham litigation” claims are often plead together.}

In \textit{Arctic Cat, Inc. v. Polaris Industries, Inc.},\footnote{111. 2014 WL 5325361, slip op. at *25 (D. Minn. 2014).} the court provided a useful summary of the \textit{Walker Process} doctrine:
Because a patent is a monopoly, a patent-holder can generally enforce its rights under a patent without fear of antitrust liability. Simpson v. Union Oil Co., 377 U.S. 13, 24, 84 S.Ct. 1051, 12 L.Ed.2d 98 (1964). But under the Walker Process doctrine “[a] patentee who brings an infringement suit may be subject to antitrust liability for the anticompetitive effects of that suit if the alleged infringer (the antitrust plaintiff) proves . . . that the asserted patent was obtained through knowing and willful fraud.” Nobelpharma AB v. Implant Innovations, Inc., 141 Fed. 1059, 1068 (Fed. Cir. 1998)(citing Walker Process Equip., Inc. v. Food Mach. &Chem. Corp., 383 U.S. 172, 177, 86 S.Ct. 347,15 L.Ed.2d 247 (1965)). To establish fraud on the PTO, a party may assert “either a fraudulent misrepresentation or a fraudulent omission.” Id. at 1070. The misrepresentation or omission alleged “must evidence a clear intent to deceive the examiner and thereby cause the PTO to grant an invalid patent.” Id. With regard to allegations based on fraudulent omissions, “there must be evidence of intent separable from the simple fact of omission.” Dippin’ Dots, Inc. v. Mosey, 476 F.3d 1337, 1347 (Fed.Cir. 2007).

Applying those principles, the court concluded that Arctic Cat’s claim for Walker Process fraud was deficient. It was based on the same omissions of fact that Arctic Cat relied on in its inequitable conduct claims, which the court previously had concluded did not adequately allege materiality and intent. “Because these allegations do not support a claim for inequitable conduct, they are also insufficient to allege Walker Process fraud.”

In Tyco Healthcare Group LP v. Mutual Pharmaceutical Co.,114 the Federal Circuit affirmed the trial court that had granted summary judgment dismissing Mutual’s Walker Process claim.115 Mutual argued that Sandoz, from which Tyco acquired the patents-in-suit, had obtained the patents from the PTO fraudulently. Mutual contended that Tyco constructively knew of the fraud when it asserted the patents against Mutual and that knowledge stripped Tyco’s lawsuit of its antitrust immunity. Mutual identified two pieces of evidence to support its Walker Process claim: (1) Tyco had read the patents’ prosecution histories when it acquired the

112. Id.
113. Id.
115. The Federal Circuit also considered, and remanded for further fact finding, Mutual’s argument that there was “a disputed issue of fact concerning whether Tyco’s infringement suit was ‘objectively baseless’ so as to fall within the sham-litigation exception to Noerr-Pennington immunity.” Id. at 1343-45.
patents from Sandoz, and (2) Tyco knew of the “Memo for the Record,” a Sandoz document that contained some support for an invalidity argument. The trial court had rejected both pieces of evidence, and the Federal Circuit agreed. In the Federal Circuit’s view, although the evidence supported an inference that Tyco knew that an invalidity challenge was likely, a reasonable finder of fact could not find that Mutual had carried its burden to show “no less than clear, convincing proof of intentional fraud involving affirmative dishonesty.”

In In re Lipitor Antitrust Litigation, a class of direct purchaser plaintiffs of Pfizer’s pharmaceutical product Lipitor, a drug used to limit cholesterol levels in human blood, brought antitrust claims against Pfizer and others based upon sections 1 and 2 of the Sherman Act. Among other claims, the plaintiffs argued that one of Pfizer’s Lipitor-related patents, the ’995 patent, should be invalidated under Walker Process because Pfizer engaged in fraud in the procurement of that patent at the USPTO. The initial patent Pfizer obtained regarding Lipitor was the ’893 patent. The ’995 patent claimed the enantiomer of the ’893 patent. While an enantiomer of a patented molecule would ordinarily be considered obvious to a person of ordinary skill, Pfizer presented evidence to the USPTO that the enantiomer of the ’893 patent had “surprising” and “unexpected” properties in that it was tenfold as active as the originally patented molecule. Plaintiffs, in short, claimed that Pfizer fabricated or massaged the evidence of the tenfold activity increase and manufactured the story that the enantiomer’s properties were surprising.

The court dismissed the class plaintiffs’ Walker Process claim against Pfizer under Bell Atlantic Corp. v. Twombly because it did not find the allegations plausible in light of the litigation and prosecution history of the ’995 patent. First, a generic company, Ranbaxy, had challenged Pfizer’s ’995 patent in litigation by raising all of the same facts underlying the Walker Process claim. Judge Farnan of the Delaware District Court considered the identical facts under the more lenient standard used to determine whether a patent holder engaged in inequitable conduct. The court believed it was implausible that plaintiffs could meet the higher standard of Walker Process if Ranbaxy had failed to meet the lower standard on the same facts.

116. Id. at 1350 (quoting C.R. Brad, Inc. v. M3 Sys. Inc., 157 F.3d 1340, 1364 (Fed. Cir. 1998)).
118. Id. at *3–5.
121. 2013 WL 4780496, at *19.
Second, the court found it persuasive that parallel litigation in Canada and Australia had rejected similar claims against Pfizer. In fact, the Australian court “specifically held that Pfizer did not intentionally misrepresent anything to the relevant patent office.”\(^\text{122}\) Third, the court found instructive “[t]he PTO’s reissuance of the ’995 patent despite its aware[ness] of all of the foregoing” allegations of fraud.\(^\text{123}\) As the court summarized, “[p]laintiffs’ Walker Process claim rests on a glimmer of hope that a factfinder will somehow be convinced that Pfizer intentionally lied to the PTO, when a District Court has already found after a trial that Pfizer did not misrepresent anything to the PTO, let alone that Pfizer lied intentionally.”\(^\text{124}\)

The court also addressed whether direct purchaser plaintiffs have standing to pursue a Walker Process claim.\(^\text{125}\) Pfizer argued that the court should follow other courts that have denied standing to purchasers to pursue Walker Process claims because granting standing would conflict with the Declaratory Judgment Act and the Hatch-Waxman Act, would “upset the delicate balance between the patent and antitrust laws,” and “purchasers’ claims are derivative of generic manufacturers’ claims, such that purchasers have not suffered the sort of ‘direct’ injury necessary for antitrust standing.”\(^\text{126}\) Although the court recognized the need to be “cautious about exposing patent holders to ancillary attacks, including antitrust attacks, because the threat of vexatious litigation would ‘disturb the incentives for innovation,’” the court relied upon the Federal Circuit decision in *Ritz Camera v. SanDisk*,\(^\text{127}\) which held that direct purchasers have standing to pursue Walker Process claims. Unlike other cases, the Federal Circuit did not limit its holding to cases in which the patents have already been “tarnished” in another proceeding. The court nevertheless suggested that the situation in Lipitor might call for a different result because *Ritz Camera “did not speak to patents whose validity has been confirmed after repeated scrutiny, and where repeated challenges failed to result in findings of intentional misconduct.”*\(^\text{128}\)

In *FTC v. Cephalon, Inc.*,\(^\text{129}\) the court found that Cephalon was precluded from relying on “litigation uncertainty” to defend against a Walker Process antitrust claim challenging a pay for delay settlement. In an earlier trial involving Cephalon and Apotex, the court had found that Cephalon

\(^{122}\) Id.

\(^{123}\) Id. at *20.

\(^{124}\) Id.

\(^{125}\) As a technical matter, the court sidestepped the standing issue by pointing out that it would resolve the Walker Process claim on its merits anyway. Id. at *17.

\(^{126}\) Id. at *15.

\(^{127}\) *Ritz Camera & Image, LLC v. SanDisk Corp.*, 700 F.3d 503 (Fed. Cir. 2012).

\(^{128}\) 2013 WL 4780496, at *17.

\(^{129}\) 36 F. Supp. 3d 527 (E.D. Pa. 2014)
obtained the patent-in-suit by intentionally failing to disclose to the Patent Office that another company had invented the drug formulation for which it sought a patent. That ruling was affirmed by the Federal Circuit.\footnote{Apopex, Inc. v. Cephalon, Inc., 500 F. App’x 959 (Fed. Cir. 2013).}

In the instant suit, the FTC argued that Cephalon should be barred from introducing evidence relating to the merits of its patent for any one of three reasons. First, \textit{Actavis}\footnote{FTC v. Actavis, Inc., 133 S. Ct. 2223 (2013).} directs that perceived merits of the underlying suit are irrelevant to antitrust liability. Second, principles of collateral estoppel preclude relitigation of the inequitable conduct issue. Third, the undisputed facts establish as a matter of summary judgment that the patent is invalid.

Cephalon argued in contrast that what matters for antitrust purposes is whether there was legitimate uncertainty for both sides at the time the accused settlement was negotiated. Because the court’s finding of inequitable conduct did not occur until five years later, that finding is not probative to whether Cephalon had acted anticompetitively.

The court accepted the FTC’s collateral estoppel argument. The earlier finding that the patent had been procured by fraud stripped the patent of antitrust immunity and Cephalon would not be permitted to rely on “litigation uncertainty” relating to the merits of such a patent to defend against the FTC’s antitrust claim.\footnote{See also infra p. 138.}

\textit{Kimberly-Clark v. First Quality Baby Products}\footnote{Kimberly-Clark Worldwide, Inc. v. First Quality Baby Prods. LLC, No. 14-cv-1466, slip op. (E.D. Wis. Apr. 9, 2015).} illustrates how patent prosecution conduct and strategy can provide a factual basis, at least in part, for an antitrust claim. There, after years of patent litigation between the parties involving disposable training pants, Kimberly-Clark filed a new infringement complaint based on a newly issued continuation patent whose parent had been invalidated in a prior case by the same judge who had the new case. First Quality took the position that the court’s opinion invalidating the parent patent and the Federal Circuit’s opinion affirming the trial court together made clear that the continuation patent must be invalid too. First Quality filed an antitrust counterclaim asserting a “sham litigation” claim and Kimberly-Clark moved to dismiss.

The court denied the motion to dismiss, citing Kimberly-Clark’s assertion of the continuation patent even after the Federal Circuit affirmed the invalidity of the parent patent. This, the court reasoned, distinguished the case from others in which \textit{Noerr-Pennington} immunity was applied.\footnote{Id. at 11.}
The court also found it pertinent—at least at the pleading stage—that Kimberly-Clark had a practice of filing continuation patents so that it could add new claims to protect its monopoly. In particular, the court seemed concerned that Kimberly-Clark wrote new claims to read on a redesign provided by First Quality in confidential settlement negotiations, while allowing First Quality to believe that Kimberly-Clark concurred that the redesign would not infringe. Based on those allegations, the court could not conclude at the pleading stage that Kimberly-Clark had not lost its immunity to antitrust liability.

§ 2.11 Securing Copyrights and Trademarks

In *Southern Snow Manufacturing v. SnoWizard Holdings*, Southern Snow alleged that SnoWizard procured various patents and trademarks relating to ice-shaving machines and flavors of snowballs produced by those machines were invalid because they were procured from the USPTO by fraud. The court was called upon to decide on a pretrial order regarding legal issues only whether SnoWizard’s trademarks had to be registered in order for Southern Snow to bring a claim under Lanham Act section 1120 and whether the *Walker Process* doctrine could apply to trademarks, as opposed to patents, alleged to have been procured by fraud.

The court held that Southern Snow did not have a Lanham Act section 1120 claim because, by its plain language, the provision applies only to registered marks and SnoWizard’s marks were not yet registered. The statute applies to “[a]ny person who shall procure registration in the Patent and Trademark Office . . . .” The court identified no controlling precedent on the issue of whether actual registration—as opposed to a mere application for registration—could be challenged under section 1120. But the court relied upon numerous cases in other jurisdictions that limit the application of section 1120 to actually registered marks.

However, the court permitted Southern Snow to proceed to trial on its *Walker Process* claim against SnoWizard’s trademarks. The court readily agreed that Southern Snow could pursue a *Walker Process* claim against SnoWizard’s patents, subject to meeting all of the elements of such a claim. The court noted that although there is no controlling authority that such a claim can be pursued against procured trademarks, “the attempted enforcement of a trademark registration may constitute an antitrust

135. *Id.*
136. See also *infra* p. 139.