



# HOT TOPICS IN INTELLECTUAL PROPERTY AND ANTITRUST LAW

Presentation for

**Commercial Law** *WebAdvisor*

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# OVERVIEW



## The Antitrust / IP interface

- Observers have long noted a perceived tension between antitrust and IP law
- IP law aims to create legally sanctioned zones of exclusivity
- It encourages, *ex ante*, R&D by providing, *ex post*, innovators with supra-competitive returns for their innovations
- Antitrust law, on the other hand, seeks to facilitate the operation of competitive markets

# OVERVIEW



- Antitrust law does so by putting limits on the exercise of market power to exclude rivals or stifle competition
- The perceived tension has probably been overstated. Both antitrust and IP law pursue the same long-term goals: innovation and consumer welfare
- Nevertheless, it's important to calibrate the two doctrines, because antitrust tends to focus in the short-run on competition and consumer welfare, while IP law tends to focus on innovation
- That calibration has resulted in a number of recent decisions and developments

# OVERVIEW

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## Hot Topic Areas

- Patent Assertion Entities (“PAEs”), a.k.a. patent “trolls” or non-practicing entities
- Standard-Essential Patents (“SEPs”)
- Strategic refusals to license
- Excessive royalties (royalties after patent term)

# ANTITRUST LAWS



## Sherman Act

- Sections 1 and 2

FTC Section 5, state consumer protection laws

## Goals:

- Lower prices, increased output, more innovation

Concerns: contracts, combinations, conspiracies;  
monopolization

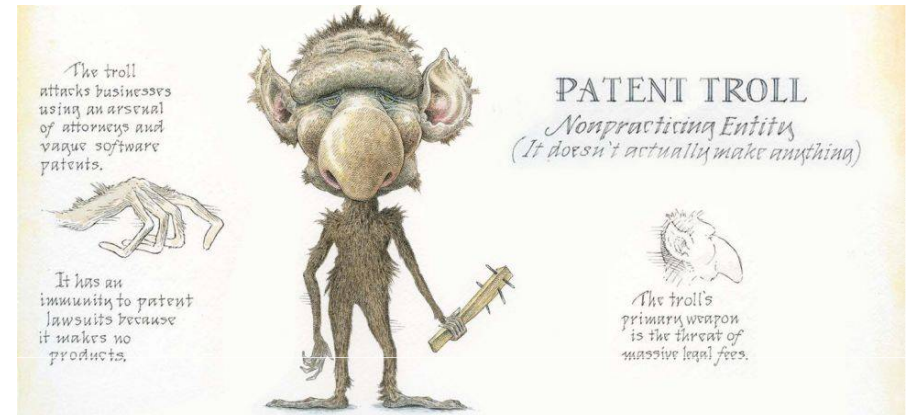
Frameworks: *per se*, rule of reason

# PAEs – BACKGROUND AND ISSUES



## Background

- What are PAEs?
  - » Universities
  - » Non-practicing entities (“NPEs”)
  - » “Privateers” – hybrid
- Scope and size
  - » PAEs generated \$29 billion in revenues from defendants and licensees in 2011 – up 400% from 2005, according to an August 2012 report commissioned by the U.S. Congress



*Inc. magazine*

# PAEs – BACKGROUND AND ISSUES



Is there even a problem?

- GAO Report (August 2013)
  - » Operating companies still bring the majority of patent cases, filing 68% of all lawsuits from 2007-2011
  - » Only an average of 19% of cases filed by “trolls”
  - » Share of patent suits filed by “Patent Monetization Entities” (PMEs) increased from about 17% in 2007 to 24% in 2011, but the change was not large enough to be statistically significant (GAO surveyed 500 representative patent cases)

# PAEs – BACKGROUND AND ISSUES



Is there even a problem?

- GAO found a clearer correlation between software patents and litigation
- Lawsuits involving software-related patents accounted for about 89% of the increase in defendants from 2007 to 2011, and about 84% of PME lawsuits involved software patents
- Poor quality of software patents?
- Tech industry brings new software to market far more quickly, and with less attention to existing patents? (*Cf.* pharmaceutical industry)



# PAEs – BACKGROUND AND ISSUES



## Issues with GAO report

- Data cut off in 2011
- Professor Mark Lemley – number of patent litigation cases filed through late August 2013 was about 90% higher than for the same portion of 2011
- Anecdotal evidence
  - » Operating companies
  - » Downstream purchasers of technology

# PAEs – BACKGROUND AND ISSUES



## Issues – potential anticompetitive effects

- A PAE can raise the cost of IP that is essential for technology to work – PAE buys an SEP
  - » A troll can increase IP costs because a company can't threaten countersuits against an entity that doesn't make products
  - » Some research suggests that less than 25% of the \$29 billion in PAE revenues flow to support innovation, and at least that much goes towards legal fees
  - » Are uniformly higher prices an anticompetitive harm?
- If a PAE buys an SEP, it may be clear – or it may argue that it is clear – of any Fair, Reasonable, and Non-Discriminatory (“FRAND”) contractual licensing commitment (there are reasons to doubt this)

# PAEs – BACKGROUND AND ISSUES



## Issues – potential anticompetitive effects

- Patent “privateering”
  - » Operating companies outsource patent enforcement to PAEs and provide incentives to those PAEs to enforce patents against transferring company’s rivals
    - Asymmetrical litigation
- Non-transparency → litigation merry-go-round
  - » Multiple bites at the patent royalty apple

# PAEs – BACKGROUND AND ISSUES



## Issues – potential pro-competitive benefits

- No price discrimination – trolls tend to charge the same high price to everyone
  - » When a PAE acquires patents, there might be less risk that it will withhold licenses from individual manufacturers than there might be when a manufacturer owns a patent and refuses to license it to a competitor
- Small firms may be better off where a PAE encourages vigorous downstream competition in order to sell more licenses
  - » Large, incumbent companies worse off when patents sold to a PAE
- Might spur more innovation to work around PAE's patents

# PAEs – INVESTIGATION AND REGULATION



## Federal Trade Commission

- September 2013 – study of PAE patent litigation
  - » May take years to complete
  - » Some have urged that the FTC issue an interim report to help inform the debate as Congress considers changes to the patent system
    - Commissioner Wright opposed

## U.S. Congress debate

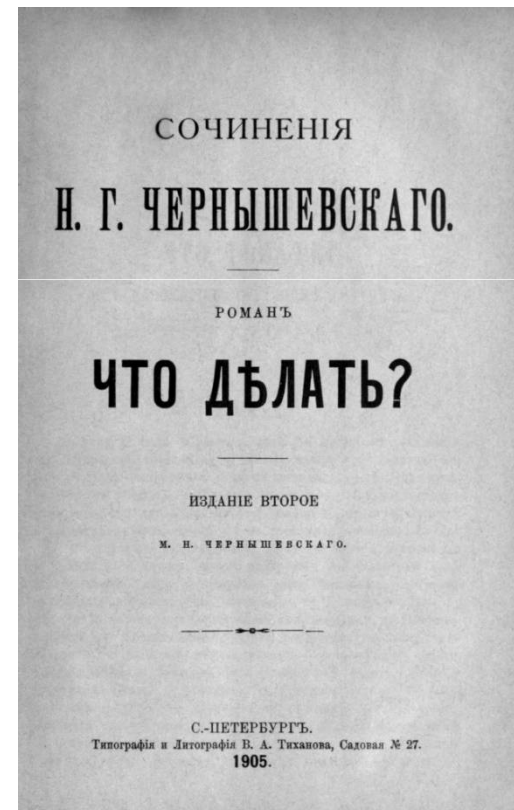
- Heightened patent suit pleading standards; fee-shifting provisions

## PTO

- Real-party in interest information; other patent reforms

# PAEs – WHAT IS TO BE DONE?

Nikolai Chernyshevsky  
*“Shto Delat?”*



# PAEs – IS ANTITRUST LAW A DEFENSE?



Ensure that FRAND commitments are transferred to PAEs (*N-Data, Bosch*)

- Enforcement mechanism – unclear

Sherman Act Section 1

- Could address coordination between PAEs
- Privateering
  - » *United States v. Singer Manufacturing Co.*, 374 U.S. 174, 194-95 (1963) – arrangement by which three companies pursued a common purpose to suppress competition through the use of a patent was unlawful
- Section 1's limited utility – many PAEs not horizontal competitors

# PAEs – IS ANTITRUST LAW A DEFENSE?



## Clayton Act Section 7

- PAEs typically lack market power in any products/goods markets
- Effect in technology / innovation markets
  - » Particular danger in case of “privateers”
  - » Risk asymmetry – no mutually assured destruction
  - » No reputation concern / effect
- But patents do not presumptively confer market power
  - » *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006)



# PAEs – IS ANTITRUST LAW A DEFENSE?



## Clayton Act Section 7

- Hard to prove likely lessening of competition
- Patents can be acquired piecemeal
- Hard to enforce HSR thresholds even if they are met
- PAE activity conducted through a labyrinth of shell companies
  - » Acacia Research Corp. has subsidiaries that control some 250 patent portfolios
  - » Intellectual Ventures has used over 1,200 shell companies to purchase and hold patents

# PAEs – IS ANTITRUST LAW A DEFENSE?



## Sherman Act Section 2

Market power

Raising rivals' costs theory – difficult application – no sales diverted to patent holder. Difficult to quantify

*Noerr-Pennington* immunity – may attach to underlying conduct (litigation and threats of litigation)

## FTC Act Section 5

Deceptive demands

Limited FTC bandwidth and ability to enforce

No private right of action; but “Little FTC Acts” may provide mechanism

→ Antitrust law may not be a particularly good solution, at least in many cases

# PAEs – NON-ANTITRUST APPROACHES?



Adjusting the sham litigation standard

- Constitutional barrier

RICO (*Innovatio*)

Champerty and maintenance

- In modern idiom maintenance is the support of litigation by a stranger without just cause. Champerty is an aggravated form of maintenance. The distinguishing feature of champerty is the support of litigation by a stranger in return for a share of the proceeds. (Wikipedia)

Defensive patent aggregators – but caution: *Cascades Computer Innovation LLC v. RPX Corp.* (settled)

# SEPs – BACKGROUND AND ISSUES



## Standardization

- Critical to success of many industries
- Allows products to interact – pro-competitive
- Thousands of industry standards
  - » WiFi; Bluetooth; Video Codecs; Audio Codecs
  - » Electrical
  - » Plumbing
  - » Standards are ubiquitous

# SEPs – BACKGROUND AND ISSUES



## Development of standards

- Standard-setting organizations (“SSOs”)
  - » IEEE (Institute of Electrical and Electronic Engineers)
  - » ETSI (European Telecommunications Standards Institute)
- An SSO may have dozens, or hundreds, of members
- Member companies work together to develop standards
  - » Submit technology as a proposed contribution to standard
  - » Representatives (engineers) attend SSO meetings
- SSOs often have an Intellectual Property Rights policy
  - » Contract between SSO and members
- Once a standard is adopted, members and non-members can use it (make products that implement it)

# SEPs – BACKGROUND AND ISSUES



## Types of SSO Intellectual Property Rights policies

- Disclosure
  - » Patents, or patent applications, essential or may be essential to a standard
- Licensing
  - » Royalty-free licensing
  - » Commitment to offer a license on Fair, Reasonable, and Non-Discriminatory (“FRAND”) terms
    - Also known as “RAND”

# SEPs – BACKGROUND AND ISSUES



## Antitrust issues raised by SSOs – patent holdup

- Patents do not presumptively confer market power – *Illinois Tool Works, Inc.*
- If a patent holder discloses patents during development of an industry standard, SSO members can evaluate the implications and make an informed decision (including as to likely royalties)
- If a patent holder conceals patents during development of an industry standard, it could in theory obtain monopoly power as a result of adoption of the standard
  - » Network effects (efficiencies grow as usage grows)

# SEPs – BACKGROUND AND ISSUES



A patent holder's intentionally false promise to license essential technology on FRAND terms (in the SSO context), coupled with the SSO's reliance on that promise when including the technology in a standard, and the patent holder's subsequent breach of that promise, is actionable anticompetitive conduct (Sherman Act Section 2).

- *Broadcom Corp. v. Qualcomm, Inc.*, 501 F.3d 297 (3d Cir. 2007)



## WHAT IS A FRAND COMMITMENT?

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FRAND is a potential cure or work-around for the patent holdup problem

### Contractual commitment

- Members to SSO. Third-party beneficiary theories may apply
- Terms may vary depending upon specific Intellectual Property Rights policy

A commitment imposed by law. *Broadcom* – but *FTC v. Rambus* (D.C. Cir. 2008)

- » Non-disclosure → higher prices (FRAND violation)
- » Non-disclosure → prevention of adopting of competing technologies
- » Only the second effect is actionable under Sherman Act § 2, and may be remedied by imposing FRAND obligation



## FRAND TERMS

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Generally, SSO policies do not define “FRAND”

Non-discrimination aspect is fairly easy to define – all licensees treated equally

More difficult to define “fair and reasonable”

- “A ‘fair’ royalty is one that properly rewards the patentee for its technological innovation. This means that a ‘reasonable’ royalty should properly reflect the competitive environment before the creation of the standard locked an industry into a technology, which is equivalent to the incremental value of a technology (or bundle of technologies) relative to the next-best alternative.” *The Patent Holdup Problem*, ALJ (Vol. 77, Issue 3, 2011)



## FRAND TERMS

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### *Microsoft v. Motorola* (W.D. Wash. Apr. 25, 2013)

- Motorola offered Microsoft license to two groups of essential patents (WiFi and video codec); royalty = 2.25% price of end product (e.g., Xbox). Microsoft sued for FRAND violation
- Bench trial re range of FRAND royalty rates and a specific FRAND royalty rate for Motorola patents
  - » Whether FRAND commitment breached (no good-faith initial offer) is a jury issue
- 200+ page decision

# FRAND TERMS



## *Microsoft v. Motorola* (W.D. Wash. Apr. 25, 2013)

- Judge found
  - » FRAND rate ranges in pennies (0.555 → 16.389 cents per unit; 0.8 cents → 19.5 cents per unit)
  - » Motorola FRAND rate of 0.555 and 3.471 (low end of ranges)

# FRAND TERMS



## *Microsoft v. Motorola* (W.D. Wash. Apr. 25, 2013)

- Approach
  - » Modified “*Georgia-Pacific*” factors
  - » Hypothetical negotiation analysis; separate from value of the standard
  - » Inquired into importance of Motorola’s patents to the standards or the Microsoft products
  - » Benchmarks
    - Considered patent pool royalty rates (recognizing limitations)
    - Used a license agreement between two third parties involving other IP as a benchmark
    - Benchmarks should be comparable



## FRAND AND INJUNCTIONS

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Four factor test for federal court injunctions, see *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006):

- Irreparable injury
- Remedies at law are inadequate
- Balance of hardships favors plaintiff
- Public interest would not be disserved by a permanent injunction

If a plaintiff has made a FRAND commitment, may be very difficult to prove factors (1) and (2)

## FRAND AND INJUNCTIONS

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*Apple Inc. v. Motorola, Inc.* (N.D. Ill. June 2012)  
(Posner, J.)

- Apple was third-party beneficiary of an SSO FRAND commitment
- Held: injunctions for SEPs inconsistent with *eBay*
- Damages should be measured based on (*ex ante*) incremental value of patents, not on (*ex post*) market “holdup”

*RealTek Semiconductor Corp. v. LSI Corp.* (N.D. Cal. 2013)

- Must offer FRAND license before seeking injunction; court enjoins enforcing ITC exclusion order

# FRAND AND INJUNCTIONS



## The Department of Justice and Federal Trade Commission

- “[Using] an exclusion order to [seek] more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment . . . may harm competition and consumers by degrading one of the tools SDOs employ to mitigate the threat of such opportunistic actions by the holders of F/RAND-encumbered patents that are essential to their standards.”  
*Joint DOJ/USPTO Policy Statement on Remedies for SEPs* (Jan. 8, 2013)



# FRAND AND INJUNCTIONS



## International Trade Commission

- In August 2013, the International Trade Commission issued an exclusion order for SEP (Apple) products subject to a FRAND commitment
- The U.S. Trade Representative vetoed the order – first time in 26 years the authority to veto was exercised
  - » The USTR invoked the joint Policy Statement from the DOJ and PTO which provides that ITC exclusion orders should be imposed under SEPs only where a U.S. district court cannot obtain personal jurisdiction over a respondent—where a putative licensee refuses to pay what has been determined to be a FRAND royalty or refuses to negotiate to determine FRAND terms

# FRAND AND INJUNCTIONS

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## Open issues

- Is there an “unwilling licensee” exception?
- How do you avoid being an “unwilling licensee”?
  - » Don’t ignore cease and desist letters
  - » Respond to offers



## LICENSING SEPs and NON-SEPs

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No obligation to include non-SEPs

Licensees often (or at least sometimes) want “portfolio” licenses

- Eliminates uncertainty
- Reduces negotiations / negotiation costs

Generally speaking, portfolio licensing is pro-competitive

- DOJ/FTC Antitrust/IP Guidelines
- Possible tying concerns



## LICENSING SEPs and NON-SEPs

*Princo Corp. v. ITC*, 616 F.3d 1318 (Fed. Cir. 2010)

- Philips and Sony – incompatible approaches to blank compact disks – pooled patents, but allowed licensees to use only Philips solution, which became industry standard
- As a result, Sony’s alternative technology arguably not tested or developed. Federal Circuit:
  - » When a patentee offers a license to a patent, the patentee does not misuse the patent by inducing a third party not to license its separate, competitive technology. Any such agreement would not have the effect of increasing the scope of the patent in suit, and it therefore would not fall within patent misuse doctrine
    - No FRAND promise capping “monopoly rents”
  - » However, the court did note, possibly *in dicta*, that such an agreement might be vulnerable to challenge under the antitrust laws

# REFUSALS TO DEAL OUTSIDE THE IP CONTEXT



- Non-monopolists have no duty to deal
- *United States v. Colgate & Co.*, 250 U.S. 300 (1919)

# REFUSALS TO DEAL OUTSIDE THE IP CONTEXT



## Monopolists – a limited duty to deal

- *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985) – refusal to deal as exclusionary or predatory conduct
- Duty narrowed – *Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004)
  - » Prior course of dealing
  - » Sacrifice of short-term profits
- *Pac. Bell Tel. Co. v. Linkline Commc'ns, Inc.*, 555 U.S. 438, 444 (2009) (a business, even a putative monopolist, has “no antitrust duty to deal with its rivals at all”)



# IS THERE AN *ABSOLUTE* EXEMPTION FOR IP?



- Historically antitrust and IP seen as conflicting; today viewed as complementary (encouraging innovation), but still some tension. IP law grants limited monopoly
- IP law – Patent Act § 271(d)(4) (not patent misuse to refuse to license patent)
- Antitrust law – *Kodak’s* footnote (*dicta*)
  - » “The Court has held many times that power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to liability if ‘a seller exploits his dominant position in one market to expand his empire into the next.’” *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 479 n.29 (1992)

# IS THERE AN *ABSOLUTE* EXEMPTION FOR IP?



- Post-*Kodak* circuit decisions (ISO aftermarket cases)
  - » **First Circuit:** *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1182 (1st Cir. 1994) (“the desire of an author to be the exclusive user of its original [copyrighted] work is a presumptively legitimate business justification for the author’s refusal to license to competitors.”)
  - » **Ninth Circuit:** *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1219 (9th Cir. 1997) (desire to profit from IP rights and a refusal to sell patented or copyrighted items is presumptively legitimate, but presumption can be rebutted by evidence that the monopolist acquired IP protection in an unlawful manner or by evidence of pretext)



# IS THERE AN *ABSOLUTE* EXEMPTION FOR IP?



- Post-*Kodak* circuit decisions (ISO aftermarket cases)
  - » **Federal Circuit:** *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1327 (Fed. Cir. 2000) (the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws)
  - » **Eleventh Circuit:** *Telecom Technical Services, Inc. v. Rolm Co.*, 388 F.3d 820, 826 (11th Cir. 2004) (in affirming a summary judgment for defendant Siemens, court did not reach the issue of what impact Siemens' IP rights had on its refusal to sell its parts, but instead found that Siemens' decision was not exclusionary because there was no harm to equipment owners and/or no effect in the aftermarket)

# IS THERE AN *ABSOLUTE* EXEMPTION FOR IP?



- Other recent decisions
  - » *MiniFrame, Ltd. v. Microsoft Corp.*, 2013 U.S. App. LEXIS 25583 (2d Cir. Dec. 23, 2013) – IP issue raised, not decided\*
  - » *Cf. Microsoft* Court of First Instance decision (EU 2007) – European approach differs from U.S. approach
    - €497 million fine for abuse of a dominant market position by leveraging near monopoly in the market for PC operating systems onto the markets for work group server operating systems and media players
    - EC ordered Microsoft to disclose interoperability information to allow non-Microsoft work group servers to achieve full interoperability with Windows PCs and servers

\* Disclosure: I worked on the briefing in *MiniFrame*.

# IS THERE AN *ABSOLUTE* EXEMPTION FOR IP?



Key point – no immunity for refusal to license and:



- Obtaining IP through fraud – *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965)
- Sham litigation to restrict the use of IP – *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993)
- Tying IP to unprotected products and extending power into adjacent markets, *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969)
- Patents subject to SSO/FRAND commitments

# IS THERE AN *ABSOLUTE* EXEMPTION FOR IP?



- **Bottom line:** circuits are not uniform in their approach, so some opportunity for argument remains, but the better-reasoned approach is that an IP owner has the absolute right to license or not license
  - » “If I’m acting within the scope of my IP, then I cannot be liable for a violation of the antitrust laws.” **Beyond the scope of patent/IP standard.**
  - » *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1362 (Fed. Cir. 1999) (finding no reported case in which a court had imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright)



IP  
“Umbrella”

# WHERE IS THE LAW HEADING?



- *FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (U.S. 2013)
  - » Hatch-Waxman Act – settlement of patent claims and “reverse payment” scenario
  - » Partial victory for FTC – but Rule of Reason, not “quick look”
  - » Has the Supreme Court undermined the “beyond scope of patent” standard generally?
    - Arguably not – unique context of *Actavis*
- *But cf. In re Effexor XR Antitrust Litig.* (D.N.J.)
  - » FTC argues that a branded company’s commitment not to launch an authorized generic in competition with the first generic applicant can fall under the *Actavis* rule





## EXCESSIVE ROYALTIES

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- Lawful to charge highest price can negotiate (*Brulotte v. Thys Co.*, 379 U.S. 29 (1964))
  - » Absent voluntary waiver (*Broadcom*) or coercion (*Zenith*)
  - » Even if price makes product not viable (*MSFT-B&N ITC 769 Inv.*)
  - » Even then, need anticompetitive effect (*Princo*)



## EXCESSIVE ROYALTIES

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- Post-expiration royalties?
  - » *Brulotte v. Thys Co.* (U.S. Supreme Ct.) (*per se* unenforceable for single patent)
  - » *Kimble v. Marvel Enterprises* (9th Cir. 2013) (*per se* unlawful unless royalty reduction as portfolio patents expire)
    - *Kimble* on *cert.* review. Judge Easterbrook: requiring royalties after expiration doesn't extend life of patent, but simply amortizes with smaller payments for a longer period an amount that could have been paid for in a lump sum or during a shorter period

## CONTACT INFORMATION

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