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LIVING ON THE FAULT LINE:

Counseling Clients at the Interface of Antitrust and Intellectual Property Law

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IN THE PAST THREE YEARS, A NUMBER of high-profile developments have influenced practitioners' advice with respect to issues at the intersection of antitrust and intellectual property law. These developments have been most marked in two important areas. With respect to settlement of patent infringement litigation, two key decisions have fundamentally changed the nature of counseling clients in the pharmaceutical industry. It remains to be seen how, if at all, the decisions affect practices outside of the unique context of the Hatch-Waxman Act. In the second area, relating to enforcement of patents, the main developments have occurred in connection with standard-setting. These developments may affect the business behavior of patent holders, and may even influence certain acquisitions. Here also, however, the law remains unsettled.

The antitrust practitioner must consider carefully the potential impact of these recent developments on the advice to be given with respect to specific client practices, while at the same time continuing to deal with a considerable measure of uncertainty.

Settlement of Patent Infringement Litigation

Two important decisions—*Schering-Plough Corp. v. FTC* and *In re Tamoxifen*—have changed the landscape with respect to patent settlement agreements. These decisions arose in the context of patent litigation in the pharmaceutical industry, in which the Hatch-Waxman Act creates a unique competitive environment. It remains to be seen whether these decisions will impact settlement of patent litigation in other contexts as well.

In *Schering-Plough* and *In re Tamoxifen*, the Eleventh and Second Circuits respectively held that the antitrust laws did not prohibit a settlement of patent infringement claims brought by a patent holder/branded pharmaceutical manufacturer against a generic pharmaceutical manufacturer whereby the generic manufacturer agreed to refrain from entering the market for a period of time (that was less than the remaining life of the patent at issue), and the patent holder/branded manufacturer agreed to provide compensation to the generic manufacturer and not to challenge entry at a specified time before the expiry of the patent. In *Schering-Plough*, the Eleventh Circuit ruled that the proper analysis requires an examination of "(1) the scope of the exclusionary potential of the patent; (2) the extent to which the agreements exceed that scope; and (3) the resulting anticompetitive effects."[1] Similarly, in *In re Tamoxifen*, the Second Circuit stated that the relevant question is "whether the 'exclusionary effects of the agreement' exceed the 'scope of the patent's protection'."[2] In each case, the court determined that the agreement in question did not result in an extension of the monopoly beyond the patent's scope. In the words of the Eleventh Circuit, the exclusionary effect was "no more broad than the patent's own exclusionary power."[3] The courts also explained the benefits of settlement of litigation, and noted that the allegedly infringing generic manufacturer was enabled to enter the market earlier than it would have if it had lost the patent litigation. For both of these reasons, each court ruled that the antitrust challenge should be dismissed.

Schering-Plough and *Tamoxifen* have introduced a degree of clarity into this area of law, following the apparent split between the Eleventh Circuit's earlier holding in *Valley Drug* and the Sixth Circuit's ruling in *In re Cardizem CD*.[4] The Federal Trade Commission, which saw its decision overturned in *Schering-Plough* and was unable to persuade the Supreme Court to review *Schering-Plough* or *Tamoxifen*, has stated that it believes *Schering-Plough* and *Tamoxifen* to be incorrectly decided, and continues to seek a means of placing the issue before the Supreme Court in hopes of obtaining a different result. At the present time, however, *Schering-Plough* and *Tamoxifen* represent the leading decisions in this area, at least with respect to agreements that appear to be within the exclusionary scope of the patent or patents at issue.

These two rulings apparently have resulted in a sharp increase in the number of agreements settling pharmaceutical patent litigation pursuant to which the alleged infringer agrees to refrain from entering the market. The FTC reported that, in Fiscal Year 2006,[5] fourteen patent litigation settlements in the pharmaceutical industry involved some form of compensation from the patent holder to the alleged

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infringer and an agreement by the alleged infringer not to market its product for a period of time.[6]

Despite the opportunities opened by the *Schering-Plough* and *Tamoxifen* decisions, however, advising clients in this area is by no means free of risk. Although it is unclear whether the Sixth Circuit's decision in *Cardizem CD* would apply to agreements that do not exceed the scope of the patent, that decision nevertheless continues to create some uncertainty.[7] Also, the FTC has stated publicly that it continues to look for opportunities to challenge such settlements. Indeed, in February 2008, the FTC filed a complaint against Cephalon, Inc. in U.S. District Court for the District of Columbia, alleging unlawful monopolization in violation of Section 5 of the FTC Act based on Cephalon's patent settlement agreements with four generic manufacturers.[8]

Additionally, Congress has considered possible legislation that could restrict the terms of pharmaceutical patent settlement agreements.[9] Thus, counseling in this area is not only fact-specific; it also depends on an individual client's willingness to accept some risk of possible FTC scrutiny or a future change in the law. The challenge for the practitioner is to assess the potential implications of any course of action and to try to accomplish the client's legitimate objectives in a manner that minimizes the possible risk.

Duration of Agreement. One critical factor is the duration of the alleged infringer's agreement to refrain from entering the market. Under some circumstances, an agreement to refrain from entering the market beyond the expiry of the patent or patents at issue might create an effect "broad[er] than the patent's own exclusionary power." The FTC has indicated that it would consider challenging a pharmaceutical settlement agreement if a patent-holder were to compensate a generic manufacturer to stay off the market beyond the expiry of the underlying patent.[10]

What about an agreement that lasts for the full remaining life of the patents? This would appear to be lawful pursuant to the Eleventh Circuit analysis in *Schering-Plough*, as any exclusionary effect of the agreement would be no broader than the potential effect of the patents themselves. The agreement would also achieve the benefits of settling the underlying litigation. Nevertheless, without the prospect of the alleged infringer being able to enter at a time certain prior to the expiry of the patents, the agreement might lack one of the procompetitive justifications present in *Schering-Plough* and *Tamoxifen*. Indeed, the Eleventh Circuit distinguished a district court decision in *In re Terazosin Hydrocloride* holding a patent settlement agreement unlawful per se in part on the ground that the *Terazosin* settlement did not permit the generic manufacturer to market its product before the underlying patent expired.[11] Therefore, although an agreement excluding generic entry for the full remaining life of the patent would appear to be consistent with *Schering-Plough* and *Tamoxifen*, a practitioner may seek to reduce legal and practical risk by counseling clients to consider structuring a settlement agreement so as to permit entry some time before the expiry of the relevant patents. This would permit the parties to assert the significant procompetitive justification of generic entry earlier than might have occurred absent the agreement.

Parties may seek to settle only a preliminary injunction phase of litigation, leaving the remainder of the litigation to proceed. The impact of the *Schering-Plough* and *Tamoxifen* decisions on such an agreement is unclear. The benefits of an interim settlement might be less than those of a final settlement, but the exclusionary effect presumably would be less than the patent's exclusionary power. The FTC has asserted that the *Schering-Plough* holding is contrary to that of the Sixth Circuit's holding in *Cardizem CD*, which found that an interim settlement violated the antitrust laws. The FTC's position implies that the reasoning of *Schering-Plough* should apply to an interim settlement as well as a final settlement. In *Schering-Plough*, however, the Eleventh Circuit also distinguished *In re Terazosin Hydrocloride* in part on the ground that it did not involve a final settlement.[12] Thus, the Eleventh Circuit implied that its reasoning would not apply to interim settlements. This remains an area of uncertainty, and the Eleventh Circuit's language and the Sixth Circuit's *Cardizem CD* decision may cause practitioners to exercise caution in this area.

Scope of Coverage. Another critical factor is the scope of the subject matter covered by the agreement. An agreement that precludes the alleged infringer from entering not only with an infringing product, but also with a product that would not infringe the patents at issue, would appear to go beyond the *Schering-Plough* and *Tamoxifen* holdings and could be subject to an FTC challenge. (Indeed, the first of the pharmaceutical settlement agreements challenged by the FTC allegedly involved just such an agreement.[13] The FTC's recent complaint against Cephalon alleges that the agreements at issue prevent the generic manufacturers from selling generic products "whether or not they infringe" Cephalon's patent.[14]) Thus, a practitioner might advise clients to consider restricting the scope of any such agreement to products that are alleged to infringe the claims of the relevant patents. In *Schering-Plough*, the Eleventh Circuit noted that the parties accomplished this by tracking the language of the patent in their settlement agreement.[15]

First or Follow-On Generic Manufacturer. The FTC has noted that the exclusionary effect of a branded pharmaceutical manufacturer's settlement with the first generic filer is likely to be greater than a settlement with a subsequent generic applicant because settlement with the first generic filer is more likely to prevent any generic manufacturer from entering the market. This is particularly true if the branded manufacturer does not sue subsequent generic applicants for patent infringement.[16] The rationale of the *Schering-Plough* and *Tamoxifen* decisions make no distinction between first and subsequent generic applicants, and would appear to apply equally to settlements with all generic filers. Nevertheless, a practitioner should consider the risk that the FTC

will scrutinize settlements between branded manufacturers and first generic filers with particular care, especially if subsequent generic filers are unable to enter the market. (The FTC's pending complaint against Cephalon alleges that each of the four generic manufacturers that settled with Cephalon shared first filer status, and the agreemnts will have the effect of blocking entry by any other generic manufacturer.[17])

Amount of Compensation. Pursuant to the reasoning of *Schering-Plough* and *Tamoxifen*, the amount of compensation paid to the alleged infringer should be irrelevant to the antitrust analysis. Nevertheless, the more an alleged infringer is paid in excess of the amount it could earn by entering the market, the more likely the agreement is to attract the attention of the FTC (other factors being equal). Thus, advice in this area may depend on a company's willingness to tolerate risk of FTC scrutiny. A risk-tolerant company might be willing to set the amount of compensation based solely or primarily on litigation and settlement considerations. A practitioner might advise a more risk-averse company to set the amount of compensation to the alleged infringer by taking into account the amount that the alleged infringer could be expected to earn if it entered.

Settlements Outside the Hatch-Waxman Context. The extent to which the *Schering-Plough* or *Tamoxifen* decisions apply to settlements of patent litigation outside the Hatch-Waxman context is unclear. The core rationale of the decisions—that the effect of the settlement agreement is less than the exclusionary scope of the patent—is based on the general characteristics of patents, and thus would appear to apply to settlement of patent disputes in any context. Nevertheless, both decisions were grounded in the specific context of the Hatch-Waxman Act. This has multiple ramifications for the analysis. Because, under the provisions of the Hatch-Waxman Act, an agreement with the first filer of an abbreviated new drug application (ANDA) may restrict entry by subsequent ANDA filers, settlement agreements in the pharmaceutical sector may have the potential to restrict competition to a greater extent than settlement of patent litigation in other sectors. On the other hand, both the Second and Eleventh Circuits noted that the Hatch-Waxman Act changes the incentives of both patent holders and alleged infringers in a manner that makes so-called "reverse" payments much more likely. Thus, although it appears unlikely, there may be some possibility that the *Schering-Plough* and *Tamoxifen* holdings are limited to the Hatch-Waxman context.

Noerr-Pennington *Protection.* One method of reducing risk is to seek court approval of a settlement agreement in order to obtain *Noerr-Pennington* protection. The lower courts encountered this issue in *MedImmune v. Genentech*. That case arose in part out of an interference proceeding between Genentech and Celltech involving the priority of their respective patents relating to the use of cell cultures to manufacture human antibodies. The district court recommended mediation, and subsequently entered judgment based on the parties' agreement to grant the junior party priority and to enter into a cross-license providing for the sharing of royalties. MedImmune sued Genentech and Celltech challenging, in part, the interference settlement between Genentech and Celltech as collusive and fraudulent. The district court held that the actions of Genentech and Celltech were protected pursuant to the *Noerr-Pennington* doctrine because the exclusionary effect was "the result of a valid governmental action" rather than private conduct.[18] On review, the Federal Circuit held that it was unnecessary to reach the issue of *Noerr-Pennington* because the conduct did not violate Section 1 of the Sherman Act.[19]

The precise extent to which court approval may protect a settlement agreement and surrounding conduct from subsequent antitrust attack remains unclear. Nevertheless, it is probably safe to conclude that the parties' likelihood of obtaining *Noerr-Pennington* protection increases in direct proportion to the degree of court involvement in settling the litigation. Thus, parties seeking to gain *Noerr-Pennington* protection should consider requesting that the judge become involved in active scrutiny of the terms of the settlement agreement, including possibly holding a hearing to review the specific provisions of the settlement agreement in light of the claims of the underlying litigation.

Settlements by Merger or Acquisition. A recent trend involves resolution of patent infringement litigation by merger of the parties or acquisition of the alleged infringer by the patent holder. The parties are likely to counter any allegation that the transaction may substantially lessen competition with the argument that the patent would have excluded the alleged infringer from the market in any case, such that no lawful competition would be eliminated. Parties have asserted this argument, and avoided challenge, in at least a small number of transactions.

The *Schering-Plough* and *Tamoxifen* decisions may strengthen this argument. To the extent that the rationale of those two decisions is based on the nature of a patent grant, it is arguable that the rationale would be relevant in this context as well. Yet there are significant differences in the merger context. The standard of analysis under Section 7 is arguably different than that under Section 1; the transaction is likely to be permanent, and (depending on the useful life of the technology at issue) any effects may extend beyond the life of the underlying patents; and the transaction may include potentially non-infringing products. As a result, it remains unclear to what extent the antitrust counselor can rely on the *Schering-Plough* and *Tamoxifen* precedents in this area. Regardless, pending resolution of this issue by the courts, this argument remains available to parties settling patent litigation by means of an acquisition.

Enforcement of Patents with Respect to Standardized Products

The primary developments relating to enforcement of patents have arisen in the context of a member of a standard-setting organization (SSO) that subsequently seeks to enforce patents

against companies practicing the standard in a manner that those companies believe is inconsistent with obligations owed or commitments made to the SSO. Counseling clients in this area is particularly challenging because of the highly fact-specific nature of the analysis, the problem of obtaining access to all of the relevant information, and the potentially enormous consequences of liability. The prospects for enforcement of patents potentially worth many millions, even billions, of dollars may hinge on detailed analysis of a complex set of specific facts.

One recent court of appeals decision has established important precedent, and a number of recent developments have helped to clarify certain positions of the U.S. antitrust agencies relating to standard setting. The agency positions (which are still subject to review by the courts) and the Third Circuit decision can be summarized as follows:

1. A patent-holder risks antitrust liability if it engages in deliberate misrepresentations to an SSO regarding the existence of relevant patents;[20]
2. A patent-holder risks liability if, in the face of an obligation to disclose, it intentionally conceals from an SSO the existence of relevant patents;[21]
3. If a patent-holder discloses the existence of relevant patents, an SSO may request the patent-holder to disclose the maximum royalties and most onerous licensing terms it will charge;[22] and
4. A patent-holder risks liability if it deceives an SSO regarding the licensing terms it later will demand.[23]

Nevertheless, a number of important issues have not been addressed, and even recent developments tend to raise as many questions as they answer.

Liability for Failure to Disclose Absent Specific Rules. Members of standards bodies sometimes assume that, in the absence of a direct, specific, and binding rule requiring disclosure, they face no risk of liability for a failure to disclose relevant patents. It is not clear, however, that the FTC shares this view.

In *Rambus*, the Commission found Rambus liable for concealing a patent and relevant patent applications from members of the JEDEC standards body as part of a course of conduct intended to monopolize markets for technologies included in JEDEC DRAM standards. Pursuant to the Commission's analysis, the factual context in which the conduct occurred was critical. The Commission considered whether "the standard-setting body has determined to carry out its work in an environment ostensibly characterized by cooperation, rather than rivalry," and members are likely to be less wary of deception.[24] The Commission looked not only to "the letter of [the organization's] rules, but also [to] how the rules are interpreted by its members, as evidenced by their behavior as well as by their statements of what they understand the rules to be."[25]

Thus, pursuant to the Commission's analysis (if it survives appeal to the D.C. Circuit), when advising a client regarding possible disclosure obligations, a practitioner should begin with the purpose, procedures, and rules of the particular SSO in question. If an SSO has a clearly expressed purpose to create open standards, has announced procedures to try to avoid patent hold-up, and has written disclosure requirements, a patent-holder would risk liability pursuant to the Commission's analysis by not disclosing known relevant patents.

Alternatively, in the absence of any procedures designed to avoid patent hold-up or written rules calling for disclosure, liability for a failure to disclose is far less likely. (As the agencies have recognized, an SSO may have multiple reasons for choosing not to adopt disclosure requirements. The agencies appear willing to grant a substantial degree of deference to standards bodies to determine what requirements, if any, are best suited to their activities.)

The most difficult situation for advising a client arises when an SSO has procedures to avoid hold-up and rules calling for disclosure, but those procedures and rules are not stated clearly and consistently. In this situation, much may turn on the conduct and expectations of members. Obtaining access to reliable information can present a particular challenge in this situation, as it is often difficult if not impossible for a practitioner to obtain accurate information with respect to SSO members' conduct and expectations.

Liability for an Affirmative Misrepresentation. In the absence of any affirmative obligation to disclose the existence of relevant patents, could a patent-holder be held liable for affirmatively and falsely stating that it had no patents relevant to a proposed standard? This is another difficult area in which to advise clients because abstract principles are often difficult to apply to specific factual situations.

The Commission's complaint in the *Unocal* matter implied that, in the view of the FTC, liability for an alleged affirmative misrepresentation could arise even in the absence of any obligation to disclose. In its *Rambus* decision, the Commission stated that, "If an SSO chooses not to require [disclosure of relevant intellectual property], SSO members still are not free to lie or to make affirmatively misleading representations."[26]

The difficulty in counseling clients in this area lies in understanding the circumstances in which a statement is made. While some statements may be clearly accurate or clearly misleading regardless of context, many depend on the context in which they are made. It may be impossible to determine whether a reasonable listener is likely to be misled by a statement without understanding the background knowledge and expectations of the recipient of the statement. Thus, understanding the purpose and procedures of the standards organization and the expectations of its members can be critically important to counseling in this area.

Liability for a Negligent Misstatement or Failure to Disclose. Ever since the FTC's consent decree in the *Dell* matter, many SSO members have expressed concern that a company risks liability under the antitrust laws for negligently failing to disclose a patent during the standard-setting

process.[27] Recently, in *Rambus*, the Commission clarified its position with respect to the state of mind necessary to support liability. It stated that, for a company to be liable under Section 2 of the Sherman Act, it "must have acted 'willfully,' as opposed to inadvertently or even negligently."[28] The Commission's decision was based on long-accepted Section 2 precedent imposing liability only for willful conduct,[29] but it also reflected recognition that imposing liability for inadvertent conduct risks chilling participation in standards bodies and that a policy that causes companies to undertake searches of their patent portfolios imposes potentially significant costs.[30]

The *Rambus* decision permits a practitioner to advise a client, with a greater degree of confidence, that it is unlikely to risk liability in an FTC proceeding for failing to disclose a patent as to which its SSO representative had no knowledge, or for failing to conduct a search of its patent portfolio to try to discover potentially relevant patents. This conclusion is subject to an important caveat, however. The FTC could take the position that circumstantial evidence is sufficient to establish a presumption that conduct was intentional. For example, if the evidence showed that a company's SSO representative worked side-by-side with the inventor of the patented technology in circumstances in which the two individuals communicated regularly and understood one another's work, the FTC might consider that to be circumstantial evidence that the SSO representative knew of and understood the relevant patents, and thus acted intentionally in failing to disclose relevant patents.[31]

A RAND Commitment as a Substitute for Disclosure. Companies sometimes have assumed that, at least in some standards bodies, they can avoid any obligations of disclosure by simply making a "blanket" RAND commitment—i.e., by providing an assurance that it will license on RAND terms any patent it may have that is necessary to implement the standard. It is not clear, however, whether this would eliminate risk of liability.

While there has been no decision directly on point, the district court decision in *Symbol Technologies v. Proxim*[32] implies that, in some circumstances, a blanket RAND commitment may be sufficient to avoid liability. When sued for patent infringement, Proxim asserted a defense of equitable estoppel, based on the allegation that Symbol had failed to disclose the patent at issue to the IEEE 802.11 standards committee. The court found, according to the evidence in the record, that IEEE members could either disclose specific patents or commit to license all patents on a reasonable and non-discriminatory basis, and Symbol had done the latter.[33]

This precedent may not necessarily control in the context of antitrust claims, however. Both the Third Circuit in *Broadcom v. Qualcomm*[34] and the Commission in *Rambus* placed heavy reliance on causation. Thus, if the evidence establishes that members were obligated to disclose specific patents, and that disclosure of a specific patent likely would have led to a different outcome, a patent-holder might not escape liability based on a blanket RAND commitment. Again, advising clients in this area will depend heavily on the facts of the specific situation.

Calculation of a Fair or Reasonable Royalty Rate. Both patent-holders that are contemplating or subject to a RAND commitment and potential infringers implementing a standard have a strong interest in knowing what specific royalty rates are consistent with a RAND or FRAND commitment. While no universal answer exists, the agencies provided some guidance to their views in the *Antitrust & IP Report*. Specifically, the agencies indicated that they are likely to "distinguish between the licensing terms a patent holder could obtain solely on the merits of its technology and the terms that it could obtain because its technology was included in the standard."[35] Thus, according to the agencies, fair and reasonable are to be measured on an ex ante basis, based on the value of the technology before the standard is adopted, rather than on an ex post basis, once users may have become locked in to use of a particular technology.

While this precedent supplies helpful background to the agencies' views, it provides little practical guidance to advising a client as to what RAND or FRAND means in a specific factual context. This remains one of the most difficult areas in which to advise a client.

Charging Different Royalty Rates to Different Users. As with the terms fair and reasonable, precedent has yet to explain the meaning of the term "non-discriminatory." One view is that a patent-holder subject to a RAND or FRAND commitment cannot, consistent with that commitment, charge similarly situated licensees different royalty rates. Again, however, the difficulties lie in the details. What, exactly, is the meaning of similarly situated, and what differences in circumstances will justify differing royalty rates?

This issue may be presented in *Broadcom v. Qualcomm*. In that matter, Broadcom alleged that Qualcomm induced the European Telecommunications Standards Institute (ETSI) and other standards bodies to incorporate its patented technology in industry standards by falsely agreeing to license its technology on FRAND terms. After the standards were adopted, according to Broadcom, Qualcomm sought discriminatory royalties because the rates for customers purchasing chipsets from manufacturers other than Qualcomm were higher than the rates for customers purchasing chipsets from Qualcomm.[36] The Third Circuit held that Broadcom's complaint stated a cause of action without, however, providing any further analysis as to whether it would violate a FRAND commitment to charge higher royalties of companies that choose not to purchase downstream products from the patent-holder. In the future, this case may provide some guidance as to the factual circumstances that may justify differential royalty rates, as well as the degree of difference permitted, consistent with a FRAND commitment (as least as understood by ETSI and its members).

Collective Negotiation of Royalty Rates. Some members of standards bodies have expressed concern that, because

traditional RAND or FRAND licensing commitments can be vague and imprecise, they may not be sufficient to prevent hold-up.

The FTC and the Department of Justice have stated that, depending on the specific circumstances, the antitrust laws may permit SSO members to take steps to determine a patent-holder's specific licensing terms before a standard is set. In the context of business review letters, the DOJ analyzed two specific fact patterns in which the VITA and IEEE standards bodies proposed to require and permit, respectively, members to disclose the maximum royalty rates and most restrictive licensing terms that they would charge. Although the IEEE proposed to permit joint discussion of costs, neither involved joint negotiations. The DOJ stated that it did not intend to challenge either practice.[37]

Less clear is how the agencies would react to joint ex ante negotiation of royalty rates. In the subsequent *Antitrust and IP Report*, the FTC and DOJ confirmed that,

> In most cases, it is likely that the Agencies would find that joint ex ante activity undertaken by an SSO or its members to establish licensing terms as part of the standard-setting process is likely to confer substantial procompetitive benefits by avoiding hold up that could occur after a standard is set, and this would be an important element of a rule of reason analysis.[38]

The agencies added, however, that "joint ex ante licensing negotiations may raise competition concerns in some settings."[39]

In counseling clients in this area, it is important to note the limits of the agencies' statement: joint discussion or negotiation of royalties might not be appropriate unless the standards body has alternative technologies available and is acting in good faith to try to select among them, and the royalty rate is relevant to that selection.

Refusal to Honor a Royalty Commitment to a Standards Body. Does a patent-holder risk antitrust liability by refusing to honor a royalty commitment to a standards body? When analyzing this issue, it may be important to distinguish between a patent-holder intentionally deceiving the standards body at the time it makes the commitment and a patent-holder making a commitment in good faith that it subsequently does not honor.

Intentionally deceiving a standards body with respect to a royalty commitment formed the basis of the allegations in *Broadcom v. Qualcomm*. The Third Circuit held that (1) in a consensus-oriented standard-setting environment, (2) a patent-holder's intentionally false licensing commitment, (3) combined with the organization's reliance on that commitment when selecting a technology for a standard, and (4) the patent-holder's subsequent breach of its commitment, states a cause of action.[40] The Third Circuit noted that such a claim "follows directly from established principles of antitrust law."[41]

A patent-holder's failure to honor a commitment made in good faith presents a more complex situation. The FTC addressed this issue recently in its N-Data consent order.[42] The FTC alleged that National Semiconductor, the original IP holder, promised to license its IP for a flat fee of $1,000 per company if the IEEE 802.3 Working Group incorporated its NWay technology into the IEEE Ethernet standards. A number of years later, after the IEEE had done so and the standards had become widely adopted, the subsequent patent owners demanded substantially more for licenses to the technology. In contrast to its *Rambus* decision, the Commission did not apply principles of Section 2 of the Sherman Act. Rather, a three-member majority of the sharply-divided Commission voted to accept for public comment a consent agreement with N-Data on the ground that it had reason to believe that N-Data's conduct violated Section 5 of the FTC Act, applied independently of the Sherman Act.[43] If made final, the FTC consent order would require N-Data to offer any user a license on specified terms (intended to replicate National Semiconductor's original offer) before it could seek to enforce its patents on any other terms.[44] The two dissenting commissioners disagreed with the majority's application of Section 5 independently of the Sherman Act in this matter.[45]

The *N-Data* consent agreement raises more questions than it answers. Two questions dominate. What is the likelihood, if any, that a private party could prevail on a similar claim asserted pursuant to the Sherman Act? And assuming that the FTC believes that such conduct does not violate the Sherman Act, how far beyond the reaches of the Sherman Act will a majority of the commissioners be prepared to assert Section 5? Counseling in this area may remain unsettled for some time to come.

Pursuit of Injunctive Relief Following a RAND or FRAND Commitment. Is a RAND or a FRAND commitment a commitment to impose a permanent limit on the compensation and/or relief that can be obtained for use or infringement of a patent? Or is it a commitment to offer a license that, once made, fulfills the patent-holder's obligations and, if rejected, allows the patent-holder to pursue unlimited relief?

Some precedent supports the proposition that a RAND or FRAND commitment is a promise to offer a license, not a permanent cap on royalty rates. In *CSIRO v. Buffalo Technology*,[46] CSIRO had apparently confirmed that it would license its technology on RAND terms. Yet the court granted CSIRO an injunction without discussion of whether injunctive relief was consistent with its earlier commitment. In *Rambus*, the FTC Order permits Rambus to pursue unlimited relief against a company that refuses an offer from Rambus to license its technologies subject to the maximum royalty rates set forth in the Order.[47]

Yet these decisions may be of limited applicability. It does not appear that the *CSIRO* court considered the issue, and *Rambus* presented the issue in a highly unusual posture. Further precedent will be necessary to permit counseling with any degree of confidence on this issue.

Transfer of Patents to a New Owner. What, if any, are the obligations of a subsequent acquirer of patents if the previous owner has misrepresented facts relating to or improperly concealed from a standards body the existence of relevant patents or has made a commitment to license patents on particular terms?[48] In *N-Data*, the FTC accepted for public comment a consent decree with the subsequent owner of National Semiconductor's patents without, however, discussing the potential import of the transfer of ownership.[49]

In advising clients, it may be important to distinguish among such acquisitions depending upon whether the subsequent acquirer is or is not aware of the prior conduct or commitment at the time it acquires the patents. The risk is greater that an acquirer with knowledge of the prior conduct or commitments would be accused of willful monopolization for acquiring, and then enforcing, patents in a manner inconsistent with those prior obligations. An acquirer without knowledge of prior events may nevertheless face the argument that the socially efficient result would be for the acquirer to be enjoined from asserting the patents in a manner inconsistent with any prior obligations, with the acquirer potentially having a cause of action against the seller if the seller improperly concealed relevant information. Whether the law would support this result is an open question.

In light of the unsettled state of the law, a company planning to acquire patents, or to acquire a company with a significant patent portfolio, should consider conducting appropriate due diligence with respect to any standards-related activities of the prior patent owners that might adversely affect the ability of the acquirer to collect anticipated future royalties.

Conclusion

Recent developments at the interface of antitrust and intellectual property law have provided both opportunities and difficulties for those seeking to counsel clients in the area. While recent court decisions and government positions have clarified certain issues, they have simultaneously raised many new questions. Most importantly, the core nature of the intellectual property grant, and the rights that it provides, continue to be a subject of dispute. One thing appears certain—antitrust practitioners will continue to face challenges in years ahead in this rapidly evolving area of the law. ■

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[1] Schering-Plough Corp. v. FTC, 402 F.3d 1056, 1066 (2005), *cert. denied*, 126 S. Ct. 2929 (2006).

[2] *In re* Tamoxifen Citrate Antitrust Litig., 466 F.3d 187, 213 (2006) (quoting *Schering-Plough*), *cert. denied sub nom.* Joblove v. Barr Labs, Inc., 127 S. Ct. 3001 (2007).

[3] *Schering-Plough*, 402 F.3d at 1064.

[4] Valley Drug Co. v. Geneva Pharm. Inc., 344 F.3d 1294 (2003), *cert. denied*, 543 U.S. 939 (2004); *In re* Cardizem CD Antitrust Litig., 332 F.3d 896 (6th Cir. 2003), *cert. denied sub nom.* Andrx Pharm., Inc. v. Kroger Co., 543 U.S. 939 (2004). Although the two decisions appear to conflict, it is possible that the Sixth Circuit decision was based on provisions in the *Cardizem* agreement that arguably exceeded the potential exclusionary power of the patent. *See infra* note 8.

[5] The FTC is able to monitor settlements in the pharmaceutical industry because parties settling patent infringement litigation initiated pursuant to the Hatch-Waxman Act must notify the FTC and Department of Justice of the terms of settlement.

[6] *See* Oral Statement of FTC Commissioner Jon Leibowitz, Hearing of the House Subcommittee on Commerce, Trade and Consumer Protection, Committee on Energy and Commerce (May 2, 2007), *available at* http://www.ftc.gov/speeches/leibowitz.shtm.

[7] Because the Sixth Circuit decision involved provisions in the Cardizem agreement that arguably exceeded the potential exclusionary power of the patent, *Schering-Plough* and *Tamoxifen* would appear to be the most relevant precedent to a settlement agreement, the effects of which do not exceed the potential exclusionary power of the patent. *See, e.g.*, *Valley Drug*, 344 F.3d 1311 n.26.

[8] Complaint, FTC v. Cephalon, Inc., 1:08-CV-00244 (D.D.C. Feb. 13, 2008).

[9] *See* The Preserve Access to Affordable Generics Act, S. 316, 110th Cong. (2007); The Preserve Access to Affordable Generics Act, H.R. 1432, 110th Cong. (2007).

[10] J. Thomas Rosch, Commissioner, Fed. Trade Comm'n, FTC Litigation at the Antitrust/Intellectual Property Interface, Remarks of at Law Seminars International, Pharmaceutical Antitrust (Apr. 26, 2007), *available at* http://www.ftc.gov/speeches/rosch.shtm.

[11] *Schering-Plough*, 402 F.3d at 1065 n.14 (citing *In re* Terazosin Hydrocloride Antitrust Litig., 352 F. Supp.2d 1279 (S.D. Fla. 2005)).

[12] *Id.* (citing *In re* Terazosin Hydrocloride Antitrust Litig., 352 F. Supp. 2d 1279 (S.D. Fla. 2005) and noting the district court's finding that the interim agreement "did not resolve or even simplify [the] patent infringement litigation," but rather tended to prolong the dispute).

[13] Complaint ¶¶ 23, 32, Hoechst Marion Roussel, Inc., FTC Docket No. 9293 (Mar. 16, 2000), *available at* http://www.ftc.gov/os/2000/03/hoechstandrxcomplaint.htm.

[14] Complaint ¶¶ 77–79, FTC v. Cephalon, *supra* note 8.

[15] *Schering-Plough*, 402 F.3d at 1073.

[16] Prepared Statement of the Federal Trade Commission Before the Special Committee on Aging of the United State Senate on Barriers to Generic Entry 20–24 (July 20, 2006), *available at* http://www.ftc.gov/os/2006/07/P052103BarrierstoGenericEntryTestimonySenate07202006.pdf.

[17] Complaint ¶¶ 85–89, FTC v. Cephalon, *supra* note 8.

[18] MedImmune, Inc. v. Genentech, Inc., 2003 U.S. Dist. LEXIS 23443 at *15 (C.D. Cal. Dec. 24, 2003).

[19] MedImmune, Inc. v. Genentech, Inc., 427 F.3d 958, 965–67 (Fed. Cir. 2005), *rev'd on other grounds*, 127 S. Ct. 764 (2007).

[20] Complaint, Union Oil Co. of California (Unocal), FTC Docket No. 9305 (Mar. 4, 2003), *available at* http://www.ftc.gov/os/adjpro/d9305/index.shtm.

[21] Rambus, Inc., FTC Docket No. 9302 (July 31, 2006) (*Rambus Liability Decision*), *available at* http://www.ftc.gov/adjpro/d9302/index.shtm. *But cf.* Hynix Semiconductor Inc. v. Rambus Inc., 441 F. Supp. 2d 1066, 1068–69 (N.D. Cal. 2006) ("breach of any JEDEC disclosure duty, without more, does not give rise to antitrust liability.").

[22] U.S. DEP'T OF JUSTICE AND FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 53–56 (2007) [ANTITRUST & IP REPORT].

[23] Broadcom Corp. v. Qualcomm Inc., 501 F.3d 297 (3d Cir. 2007); *see also* Negotiated Data Solutions LLC, FTC No. 051-0094 (Jan. 23, 2008).

[24] *Rambus Liability Decision*, *supra* note 21, at 34.

[25] *Id.* at 35. This is consistent with the Commission's statement ten years earlier in the *Dell* matter, that "VESA's affirmative disclosure requirement creates an expectation by its members that each will act in good faith to identify and disclose conflicting intellectual property rights." Dell Computer Corp., 121 F.T.C. 616, 625 (1996). The Commission's approach stands in sharp contrast to that of the district court in *Hynix v. Rambus*, which ruled that breach of the JEDEC disclosure policies alone cannot give rise to

antitrust liability, but permitting Hynix to assert that Rambus's overall course of conduct violated the antitrust laws. *Hynix v. Rambus*, 441 F. Supp. 2d at 1081.

[26] *Rambus Liability Decision*, *supra* note 21, at 35.

[27] *Dell*, 121 F.T.C. 616. The complaint in that case made no mention of state of mind, implying that a company might be liable regardless of whether it had or had not acted intentionally. Multiple public comments expressed concern with the possibility that companies might be deterred from participation in standard-setting bodies if they faced potential liability for negligent failures to disclose relevant patents or, in an effort to avoid such liability, felt compelled to search their patent portfolios for relevant patents. The Commission's final Statement emphasized that the Commission's enforcement action was limited to the facts of that case, "in which there is reason to believe that Dell's failure to disclose the patent was not inadvertent." *Id.* at 625–26. That language led to subsequent speculation as to whether there was a distinction between "not inadvertent" and intentional conduct.

[28] *Rambus Liability Decision*, *supra* note 21, at 30.

[29] *Id.* at 30, 30 n.142 (citing Aspen Skiing, Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 602 (1985)).

[30] *See, e.g.*, ANTITRUST & IP REPORT, *supra* note 22, at 37–40, 42–43, 43 n.51.

[31] In addition, it is worth noting that the FTC could also challenge conduct pursuant to Section 5 of the FTC Act. Although *Dell* implies that the FTC would not challenge negligent or inadvertent conduct, it is unclear whether the FTC would limit application of Section 5 of the FTC Act only to conduct that would satisfy the standard of "willful" under Section 2 of the Sherman Act.

[32] Symbol Tech., Inc. v. Proxim Inc., 2004 U.S. Dist. LEXIS 14949 (D. Del. 2004).

[33] *Id.* at *21–*24.

[34] Broadcom Corp. v. Qualcomm Inc., 501 F.3d 297 (3d Cir. 2007).

[35] ANTITRUST & IP REPORT, *supra* note 22, at 39.

[36] *Broadcom*, 501 F.3d at 304.

[37] Letter from Assistant Attorney General Thomas O. Barnett to Robert Skitol, Oct. 30, 2006, *available at* http://www.usdoj.gov/atr/public/busreview/219380.htm; Letter from Assistant Attorney General Thomas O. Barnett to Michael A. Lindsay, Apr. 30, 2007, *available at* http://www.usdoj.gov/atr/public/busreview/222978.htm.

[38] ANTITRUST & IP REPORT, *supra* note 22, at 52. *See also* Deborah Platt Majoras, Chairman, Fed. Trade Comm'n, Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting, Stanford University, Standardization and the Law: Developing the Golden Mean for Global Trade (Sept. 23, 2005), *available at* http://www.ftc.gov/speeches/majoras.shtm; R. Hewitt Pate, Assistant Att'y Gen. for Antitrust, U.S. Dep't of Justice, Competition and Intellectual Property in the US: Licensing Freedom and the Limits of Antitrust at 9, 2005 EU Competition Workshop (June 3, 2005), *available at* http://www.usdoj.gov/atr/public/speeches/209359.htm.

[39] ANTITRUST & IP REPORT, *supra* note 22, at 53.

[40] *Broadcom*, 501 F.3d at 314.

[41] *Id.* The Third Circuit relied heavily on the FTC's Section 2 analysis in *Rambus*. *Id.* at 311–12, 314.

[42] Negotiated Data Solutions LLC, FTC No. 051-0094 (Jan. 23, 2008), *available at* http://www.ftc.gov/os/caselist/0510094/index.shtm.

[43] *Id.*, Statement of the Fed. Trade Comm'n; Analysis to Aid Public Comment.

[44] *Id.*, Decision and Order.

[45] *Id.*, Dissenting Statement of Chairman Majoras; Dissenting Statement of Commissioner Kovacic.

[46] CSIRO v. Buffalo Tech. Inc., 492 F. Supp. 2d 600 (E.D. Tex. 2007).

[47] Opinion on Petition for Reconsideration, *Rambus* 4–6, FTC Docket No. 9302 (Apr. 27, 2007), *available at* http://www.ftc.gov/os/adjpro/d9302/index.shtm.

[48] *See, e.g.*, Complaint, Rembrandt Tech., LP v. Harris Corp., 6:07-cv-00796-GAP-DAB (Del. Sup. Ct. Sept. 21, 2007) at ¶¶ 5, 7–8, 19 (alleging that AT&T participated in the ATSC standards committee to develop a standard for high definition television, and relevant patents were subsequently transferred from AT&T to Lucent Technologies, to Paradyne Corporation, and ultimately to Rembrandt Technologies; Rembrandt seeks a declaratory judgment that it is not required to offer a license to Harris).

[49] Negotiated Data Solutions LLC, FTC No. 051-0094 (Jan. 23, 2008).