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## ANTITRUST ISSUES IN THE LITIGATION AND SETTLEMENT OF INFRINGEMENT CLAIMS

*Deborah A. Coleman*\*

Although the owner of intellectual property rights is privileged to enforce those rights through litigation and to settle such litigation on satisfactory terms, infringement actions or case settlements can create liability for antitrust violations or unfair competition. Most importantly, an agreement in restraint of trade is not sheltered from antitrust scrutiny because it is made in the context of settling threatened or actual infringement litigation. That a patent confers a limited legal monopoly in a product,<sup>1</sup> method or process is only one fact that is taken into account in evaluating whether the terms under which infringement litigation is settled unfairly affect competition. Agreements that settle infringement litigation or interference proceedings between competitors should be evaluated from an antitrust perspective before closing.

### I. THE RELATIONSHIP OF ANTITRUST AND INTELLECTUAL PROPERTY LAW

In the past, it was common to suggest that antitrust law and intellectual property law were at cross purposes, because the goal of antitrust law is to foster competition,<sup>2</sup> whereas patent laws confer a temporary monopoly upon an inventor, protecting him from competitors' exploiting his patented material.<sup>3</sup> As a corollary to this view, courts assumed that the holder of a patent necessarily had market

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1. In re Yarn Processing Patent Validity Litigation, 498 F.2d 271, 275 (5th Cir. 1974).

2. *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 877 (Fed. Cir. 1985) (overruled on other grounds) ("the underlying goal of the antitrust laws is to promote competition").

3. See *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981). "The conflict between the antitrust and patent laws arises in the methods they embrace that were designed to achieve reciprocal goals. While the antitrust laws proscribe unreasonable restraints of competition, the patent laws reward the inventor with a temporary monopoly that insulates him from competitive exploitation of his patented art." *Id.*

power in the product or process that was the subject of the patent.

The contemporary understanding is that antitrust and intellectual property law share the common goal of “encouraging innovation, industry and competition.”<sup>4</sup> Courts and regulators have a more sophisticated view of the economic significance of a patent, recognizing that a holder of intellectual property rights does not necessarily have economic market power, let alone a monopoly, in a relevant market.<sup>5</sup>

This change in perspective did not vary the fundamental principles that apply at the intersection of antitrust and intellectual property law. “Intellectual property is . . . neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.”<sup>6</sup> Acquisition of a patent is considered a legitimate means of competition, but a patent cannot be used as a means for restraining competition beyond the scope of the patentee’s right to exclude.<sup>7</sup>

The antitrust “badlands” that surround bringing and settling patent infringement cases are illuminated by the Sixth Circuit case of *Charles Pfizer & Co. v. Federal Trade Comm’n*.<sup>8</sup> This case arose from an FTC proceeding against Pfizer and American Cyanamid for unfair trade practices under Section Five of the Federal Trade Commission Act.<sup>9</sup> The focal point of the case was the two companies’ settlement of an interference proceeding before the PTO over the priority of their respective applications for tetracycline.<sup>10</sup> Under the settlement, American Cyanamid, which had acquired a third company that had a pending tetracycline application, conceded the priority of Pfizer’s application, withdrew its own application and exchanged cross licenses with Pfizer.<sup>11</sup> The FTC found that the cross-license, combined with the fact that Pfizer had withheld information that it knew or should have known was relevant to the patentability of tetracycline, constituted an attempt by Pfizer and American Cyanamid to share in an unlawful monopoly.<sup>12</sup> The penalty was an order, affirmed by the Sixth Circuit,

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4. Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990).

5. *Id.*

6. U.S. Dep’t of Justice and F.T.C., *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.1 (April 6, 1995), available at <http://www.usdoj.gov/atr/public/guidelines/ipguide.htm> [hereinafter “*IP Licensing Guidelines*”].

7. United States v. Line Material Co., 333 U.S. 287, 308, 310 (1948); Data General Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1185-86 n.63 (1st Cir. 1994).

8. 401 F.2d 574 (6th Cir. 1968), *cert. denied*, 394 U.S. 920 (1969).

9. 15 U.S.C. § 45 (2003); *Charles Pfizer*, 401 F.2d at 586 (“The issue here is a violation of Section 5 of the Federal Trade Commission Act, not the validity of a patent.”).

10. *Id.* at 576.

11. *Id.* at 579.

12. *Id.*

requiring that the two companies license tetracycline to all domestic applicants for a reasonable royalty.<sup>13</sup>

It has been observed that, “[b]ecause patent infringement cases often reflect a struggle for market supremacy . . . patent litigators must pay increasing attention to antitrust issues when evaluating and/or litigating patent infringement cases.”<sup>14</sup> Most obviously, a patentee must consider the possibility of antitrust or unfair competition counterclaims being made by an infringement defendant.<sup>15</sup> Although the question of whether such counterclaims are compulsory or merely permissive remains murky,<sup>16</sup> knowledgeable defense counsel must assess whether the facts support, and strategic considerations<sup>17</sup> favor, asserting an antitrust or unfair competition counterclaim<sup>18</sup> in the infringement case, or in a separate action.<sup>19</sup> Patentee’s counsel should do the same, in order thoroughly to evaluate the cost and risk of litigation with his client.

The antitrust perils are not limited to the additional expense that the litigation of antitrust counterclaims may entail. As shown by the *American Cyanamid* case and the discussion below, cases decided over a fifty year span demonstrate that both the assertion of patent infringement

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13. *Id.* at 586. *But see* North Carolina v. Chas. Pfizer & Co., 537 F.2d 67, 76 (4th Cir. 1976) (affirming dismissal of Sherman Act claims, premised on same conduct, after trial; FTC decision was not given preclusive effect).

14. Stemple, Recent Developments in the Federal Circuit (August 3, 1998) (unpublished manuscript presented to A.B.A. Section of Antitrust Law Spring Meeting) (copy on file with author).

15. Stemple, *supra* note 14.

16. *See* Teague I. Donahey, *Antitrust Counterclaims in Patent Infringement Litigation: Clarifying the Supreme Court’s Enigmatic Mercoide Decision*, 39 J.L. & TECH. 225, 225-26 (1999).

17. Considerations include the availability of treble damages and attorneys’ fees as a matter of right for successful antitrust plaintiffs. 15 U.S.C. § 15(a) (2003).

18. Antitrust issues are increasingly on the Federal Circuit’s docket. Accordingly, the Federal Circuit has decided that Federal Circuit law, rather than the law developed from the regional circuits, will control when it decides “whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws.” *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998). Whether the Federal Circuit will be biased toward patentees in interpreting this key issue is uncertain. One of the most radical antitrust decisions of recent years was the Federal Circuit holding in *C.R. Bard v. M3 Systems, Inc.* that a patentee had violated Section Two of the Sherman Act by making changes in its own patented medical device, the intent and effect of which was to preclude a competitor from selling supplies for the device. *C.R. Bard v. M3 Systems, Inc.*, 157 F.3d 1340, 1382 (Fed. Cir. 1998), *rehearing denied*, 161 F.3d 1380 (1998). The notion of “predatory innovation” has now entered the vocabulary of antitrust lawyers. *See generally* Joseph Sidak, *Debunking Predatory Innovation*, 83 COLUM. L. REV. 1121 (1983).

19. The Federal Circuit has held that state law unfair competition and tortious interference claims may be asserted by a party accused of patent infringement, raising the possibility that competition claims could be made in state court as independent actions. *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470, 1479 (Fed. Cir. 1998).

claims, and the resolution of such claims by way of license agreements and other settlement provisions can themselves give rise to antitrust liability.<sup>20</sup> In the context of an overview of the antitrust laws, some of the antitrust pitfalls of the litigation and settlement of patent infringement claims are discussed. The sensitive issues that may arise in asserting infringement claims and settling infringement litigation are then discussed in greater detail.

## II. OVERVIEW OF THE ANTITRUST LAWS

Because of the importance of intellectual property in our current economy, courts regularly struggle to decide whether the restrictions imposed by a patentee or copyright holder are a fair exercise of rights under intellectual property law or an unreasonable restraint of trade.<sup>21</sup> Therefore, antitrust regulators have placed technology transactions on their priority list.<sup>22</sup> Some familiarity with antitrust law is essential for intellectual property lawyers.

### A. Aim and Sources of Antitrust Laws

The objective of the antitrust laws is to foster competition by regulating agreements in restraint of trade, unfair trade practices and undue accumulations of economic power.<sup>23</sup> There are several sources of antitrust laws.

Section One of the Sherman Act, by its terms, prohibits “[e]very contract, combination . . . or conspiracy, in restraint of trade.”<sup>24</sup> As noted below, earlier courts interpreted Section One to forbid only contracts, combinations or conspiracies that unreasonably restrain trade.

Section Two of the Sherman Act prohibits monopolization,

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20. See generally *Charles Pfizer*, 401 F.2d at 574.

21. See, e.g., *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1349 (Fed. Cir. 1999) (reversing preliminary injunction that required Intel to continue to deal with Intergraph and provide advance disclosure of future Intel projects, despite Intergraph’s patent infringement suit against Intel); *In re Indep. Serv. Org.s Antitrust Litigation*, 203 F.3d 1322, 1329 (Fed. Cir. 2000) (no antitrust liability for Xerox’s refusal to license patented copier parts or copyrighted software to those who wish to compete in servicing Xerox copiers), *cert. denied*, 531 U.S. 1143 (2001).

22. See Joel I. Klein, Acting Assistant Attorney General, *Cross-Licensing and Antitrust Law* § 1, Address Before the AIPLA (May 2, 1997), available at <http://www.usdoj.gov/atr/public/speeches/1123.htm>.

23. See generally *Appalachian Coals, Inc. v. United States*, 288 U.S. 344, 373-74 (1933) *overruled on other grounds by* *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984); *Hunt v. Bhd. of Transp. Workers*, 47 F. Supp. 571, 574 (E.D. Pa. 1942), *aff’d sub nom* *Hunt v. Crumboch*, 143 F.2d 902 (3d Cir. 1944), *aff’d* 325 U.S. 821 (1945).

24. 15 U.S.C. § 1 (2003).

attempts to monopolize and conspiracies to monopolize interstate commerce.<sup>25</sup>

Section Seven of the Clayton Act prohibits the acquisition of stock, assets, or share capital when “the effect of such acquisition may be substantially to lessen competition.”<sup>26</sup>

The Hart-Scott-Rodino Antitrust Improvements Act and corresponding regulations require advance notification to the government and waiting before consummation of all covered mergers and acquisitions.<sup>27</sup>

Section Eight of the Clayton Act regulates overlapping directorates.<sup>28</sup>

Section Five of the Federal Trade Commission (FTC) Act proscribes unfair methods of competition.<sup>29</sup>

The Robinson-Patman Act<sup>30</sup> forbids price discrimination,<sup>31</sup> commercial bribery<sup>32</sup> and favoritism in providing promotional aids and allowances.<sup>33</sup>

State antitrust laws, all mirror Section One of the Sherman Act, and some have additional regulatory provisions. Some states’ statutes also limit the enforceability of certain covenants not to compete.

Foreign countries also have antitrust laws, such as the European Community’s Treaty of Rome and directives promulgated under the Treaty of Rome. Anti-competitive conduct that affects United States domestic interstate commerce, or commerce with foreign states, may violate the United States antitrust laws, regardless of where such conduct occurs or the nationality of the parties involved. However, conduct by foreign governments will be immune from United States antitrust law. Restraints that affect only foreign commerce may be subject to the antitrust laws of other countries, or of the European Community.

#### *B. Department of Justice Guidelines*

Guidance for complying with the antitrust laws is largely derived

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25. 15 U.S.C. § 2 (2003).

26. 15 U.S.C. § 18 (2003).

27. 15 U.S.C. § 18a(a) (2003).

28. 15 U.S.C. § 19 (2003).

29. 15 U.S.C. § 45 (2003).

30. 15 U.S.C. § 13 (2003).

31. 15 U.S.C. § 13(a) (2003).

32. 15 U.S.C. § 13(c) (2003).

33. 15 U.S.C. § 13(e) (2003).

from a study of the case law. For example, the Supreme Court held early that Section One of the Sherman Act does not in fact prohibit all contracts and combinations that restrain trade; rather, only contracts and combinations that unreasonably restrain trade are prohibited.<sup>34</sup> In recent years, the Department of Justice Antitrust Division (DOJ) and the Federal Trade Commission (FTC) have issued guidelines that provide more concise and accessible summaries of the principles that those agencies will employ in analyzing certain antitrust issues.<sup>35</sup> Several of these Guidelines, particularly the *Antitrust Guidelines for the Licensing of Intellectual Property* (“*IP Licensing Guidelines*”) are relevant to provisions that may appear in the settlement of patent infringement litigation.<sup>36</sup> For example, the *IP Licensing Guidelines* specifically discuss the federal agencies’ approach to cross-licensing, pooling arrangements, and grant-backs.<sup>37</sup> These guidelines only express the enforcement policy of the federal antitrust enforcement agencies at or about the time they are issued, and they are not binding in litigation, whether by the government or a private party.<sup>38</sup> Nonetheless, they are a resource for experienced antitrust counsel in helping clients to evaluate the antitrust risk associated with any proposed transaction or activity.<sup>39</sup>

### C. Important Distinctions in Antitrust Analysis

Three threshold determinations are fundamental to any antitrust analysis: whether the challenged conduct is unilateral or concerted; whether the conduct is deemed to occur “horizontally” or “vertically” within a market; and whether the reviewing court or agency will consider the actual purpose and effect of the conduct as unreasonably restraining trade, or will deem the conduct *per se* illegal without regard to the parties’ intent or claimed justifications.

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34. See generally *Standard Oil Co. v. United States*, 221 U.S. 1 (1911). This does not conflict with the distinction between “rule of reason” and *per se* analysis discussed below. *Id.* at 98. The *per se* rule is applied to agreements deemed inherently unreasonable. *Id.*

35. Current D.O.J. and joint D.O.J.-F.T.C. guidelines are listed and available on-line at <http://www.usdoj.gov/atr/public/guidelines/ipguide.htm>.

36. See *IP Licensing Guidelines*, *supra* note 6. Other potentially relevant guidelines regarding horizontal mergers, non-horizontal mergers, collaborations among competitors, and the Antitrust Enforcement Guidelines for International Operations (April 5, 1995), are available at <http://www.usdoj.gov/atr/public/guidelines/ipguide.htm>.

37. *Id.* at §§ 5.5, 5.6.

38. *Id.* at § 1.0.

39. *Id.*

## 1. Single Firm or Multi-Firm Conduct

Unilateral conduct - conduct by a single firm - rarely presents an antitrust issue unless the accused firm has abused a lawfully acquired monopoly, or there is a dangerous probability that it will secure a monopoly through its conduct.<sup>40</sup> The bare contention that the holder of a lawfully acquired patent or copyright has refused to license its intellectual property will not state a claim for monopolization, even if the effect of the refusal is to prevent the emergence of competition.<sup>41</sup> In contrast, any combination or agreement among two or more firms may present antitrust issues.<sup>42</sup> When one party to an agreement has a significant market share, the agreement may be challenged both as an unreasonable restraint of trade under Section One of the Sherman Act, and monopolization or attempted monopolization under Section Two.<sup>43</sup>

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40. *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984). “Congress authorized Sherman Act scrutiny of single firms only when they pose a danger of monopolization. Judging unilateral conduct in this manner reduces the risk that the antitrust laws will dampen the competitive zeal of a single aggressive entrepreneur.” *Id.* at 768. Thus, the conduct of a single firm, governed by Sherman Act § 2, “is unlawful only when it threatens actual monopolization.” *Id.* at 767.

41. *See, e.g., In re Indep. Serv. Org.s*, 203 F.3d at 1329 (no antitrust liability for Xerox’s refusal to license patented copier parts or copyrighted software to those who wish to compete in servicing Xerox copiers). This is consistent with the general principle that claims of monopolization or attempted monopolization require something more than a dominant market share. On the other hand, although a simple refusal to deal is legal, a decision to refuse to deal after a previous course of dealing has established a pattern of competition in the market may state a claim for violation of the Sherman Act § 2. *Eastman Kodak v. Image Technical Services*, 504 U.S. 451, 478-479 (1992) (requiring Kodak to face trial on complaint that its change of policy concerning the availability of copier parts, which made it more difficult for independent repair service providers to compete, violated the Sherman Act §§ 1 and 2). At trial, the jury found for plaintiffs and awarded damages of \$24 million, which was then trebled in accordance with 15 U.S.C. § 15 (2003). *See also In re Intel Corp.*, No. 9288, 1999 WL 701835, \*2 (F.T.C. adjudication) (August 3, 1999) (prohibiting Intel from refusing to provide customers with advance product information solely because the customer has asserted that Intel is infringing its intellectual property).

42. *In re Summit Technology, Inc.*, No. 9286, (F.T.C. adjudication) (February 23, 1999), available at <http://www.ftc.gov/os/1999/03/d09286visx.do.htm> (consent decree requiring the dissolution of patent pool that permitted the holders of method and apparatus patents for photorefractive keratectomy jointly to set royalties and determine licensees). The agreement or coordinated actions of a parent and its wholly owned subsidiary or two commonly owned affiliates cannot be challenged as to firm conduct under Section One of the Sherman Act. *Copperweld Corp.*, 467 U.S. at 777.

43. *See e.g. United States v. Microsoft, Corp.*, 253 F.3d 34, 46 (D.C. Cir. 2001) (affirming trial court judgment that Microsoft monopolized the operating system market under Section Two of the Sherman Act, but reversing judgment that Microsoft attempted to monopolize the browser market, and reversing and remanding judgment that Microsoft engaged in illegal tying in violation of Section One of the Sherman Act for analysis applying the rule of reason, instead of a *per se* rule).

Because every agreement necessarily involves multiple parties, the parties' settlement of a patent case entails a higher degree of antitrust risk than that incurred by the plaintiff in litigating the case, as reflected in the cases discussed below. The size or market share of those parties may be relevant to the antitrust analysis, but an agreement deemed an unreasonable restraint of trade will not necessarily escape penalty because of the relative insignificance of the parties or of their industry.

The potential vulnerability of a settlement agreement to antitrust attack is increased by the fact that an attack may be made by an enforcement agency, a competitor, or a customer who learns of it and is affected by its anticompetitive terms, and also by the settling party itself. Antitrust jurisprudence does not recognize an *in pari delicto* or "unclean hands" defense.<sup>44</sup> As a result, one who settles infringement litigation by way of a settlement agreement containing terms that violate the antitrust laws may find itself unable to enforce those terms. Additionally, the party may be potentially liable in treble damages to the other party to the agreement for any harm that it suffered as a result of complying with the agreement.

## 2. Horizontal or Vertical Market Effect

Antitrust concern increases when agreements are horizontal - that is, they are made by competitors or potential competitors; as distinguished from agreements that are vertical - that is, those created between enterprises at different levels within the same chain of distribution (*e.g.*, manufacturer - distributor - dealer). Horizontal agreements are more likely to fix prices or restrain production, to the detriment of buyers, because they will affect multiple distribution points or products.

Many horizontal agreements are regarded as so utterly lacking in justification or benefit, that courts apply a rule of *per se* illegality to such agreements.<sup>45</sup> Under the *per se* rule, restraints determined to fall within a

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44. *Perma Life Mufflers, Inc. v. Int'l Parts Corp.*, 392 U.S. 134, 140 (1968).

45. *United States v. Topco Assoc., Inc.*, 405 U.S. 596, 608 (1972).

One of the classic examples of a *per se* violation of § 1 is an agreement between competitors at the same level of the market structure to allocate territories in order to minimize competition. Such concerted action is usually termed a "horizontal" restraint, in contradistinction to combinations of persons at different levels of the market structure, *e.g.*, manufacturers and distributors, which are termed "vertical" restraints. This court has reiterated time and time again that "horizontal territorial limitations . . . are naked restraints of trade with no purpose except stifling of competition." Such limitations are *per se* violations of the Sherman Act.

proscribed category of practices are presumed conclusively unreasonable.<sup>46</sup> Strict application of the *per se* rule precludes examination of any business justification for the challenged conduct or consideration of the nature or extent of its effect on competition. In contrast, where courts consider these other factors, the analysis is conducted under the “rule of reason.”<sup>47</sup> The determination of which standard to apply is often decisive to the outcome of the litigation: defendants rarely lose when courts evaluate their behavior under the rule of reason.<sup>48</sup>

The *per se* rule is applied to “naked restraints,” those for which years of experience have revealed no legitimate pro-competitive justification, and which require no elaborate analysis to establish that their purpose and effect is “plainly” or “manifestly” anti-competitive.<sup>49</sup> The restraints that are *per se* illegal all result from combinations or agreements between two or more firms. With one exception,<sup>50</sup> all *per se* illegal offenses are horizontal restraints, self-imposed by firms who would otherwise be competitors or potential competitors. Horizontal price fixing, horizontal market allocation and bid rigging by competitors are *per se* illegal.

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*Id.* (internal citations omitted).

46. NYNEX Corp. v. Discon, Inc., 525 U.S. 128, 133 (1998). “[C]ertain kinds of agreements will so often prove so harmful to competition and so rarely prove justified that the antitrust laws do not require proof that an agreement of that kind is, in fact, anticompetitive in the particular circumstances.” *Id.* See, e.g., State Oil Co. v. Khan, 522 U.S. 3, 10 (1997); Northwest Wholesale Stationers, Inc. v. Pac. Stationery & Printing Co., 472 U.S. 284, 289-290, (1985); United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 218 (1940) (finding horizontal price-fixing agreement *per se* illegal).

47. According to the “rule of reason,” the “true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition.” Chicago Bd. of Trade v. United States, 246 U.S. 231, 238 (1918). The finder of fact must decide whether questioned practice imposes unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature and effect. See 15 U.S.C.A. §1 (2003).

48. *But see* NCAA v. Bd. of Regents of the Univ. of Oklahoma, 468 U.S. 85, 86 (1984) (output restriction on college football broadcasting held unlawful because it was not reasonably related to any purported justification).

49. Bus. Elec. Corp. v. Sharp Elec. Corp., 485 U.S. 717, 723-24 (1988).

50. An agreement fixing a minimum price at which the buyer of a product must resell is also *per se* illegal, although an agreement fixing a maximum resale price is judged under the rule of reason. *State Oil Co.*, 522 U.S. at 22. See also *Dr. Miles Med. Co. v. John D. Park & Sons*, 220 U.S. 373 (1911).

### 3. Intent Inquiry or *Per Se* Illegality

An example of the application of the *per se* rule to horizontal price fixing is the decision in *United States v. Krasnov*, a civil government action for conspiracy in restraint of trade against ready-made slipcover manufacturers who controlled 62% of the market.<sup>51</sup> Pursuant to cross-licensing and other provisions of an agreement settling patent infringement claims brought by one against the other, the defendants jointly policed and controlled the retail prices charged by licensees, and used their pooled patents and threats of patent infringement suits to intimidate competitors.<sup>52</sup> The defendants did not dispute the accuracy of the government's summary of evidence, but wished to offer evidence of benign intent.<sup>53</sup> The court would hear none of it, and granted summary judgment for the government.<sup>54</sup> It is a measure of the gravity of horizontal *per se* offenses such as price fixing, market allocation and bid rigging that the government today prosecutes them as criminal violations of the antitrust laws.<sup>55</sup>

All economic arrangements other than those deemed *per se* illegal must be judged by the more discriminating standard.<sup>56</sup> The object of a rule of reason analysis is to determine whether, under all of the relevant circumstances, the practice is one which furthers or restrains competition in the relevant market.<sup>57</sup> Rule of reason analysis requires careful consideration of the nature of the challenged practice, its history and purpose, and its effects on the relevant market. Cross-licensing and pooling arrangements are reviewed under the rule of reason unless, as in *Krasnov*, they are nothing more than means to accomplish naked price fixing or market division.<sup>58</sup> In contrast to the invocation of the *per se* rule in *Krasnov*, the U.S. Supreme Court has found that ASCAP's and BMI's blanket licenses of copyrighted musical compositions should be judged under the rule of reason, since those arrangements were part of an integration of sales, monitoring and enforcement of music copyrights that would be difficult, if not impossible, for individual rights holders to

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51. 143 F. Supp. 184, 188-89 (E.D. Pa. 1956).

52. *Id.* at 189, 192-193.

53. *Id.* at 190.

54. *Id.* at 202-203.

55. Currently, the criminal penalties for conspiracies in restraint of trade include imprisonment up to three years and fines up to \$10 million for corporate offenders and \$350,000 for individuals.

56. *Broadcast Music, Inc. v. CBS*, 441 U.S. 1, 24 (1979).

57. *Cont'l T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 49 (1977).

58. *United States v. Krasnov*, 143 F. Supp. 184 (E.D. Pa. 1956).

accomplish on their own.<sup>59</sup> Noting that composers gave only non-exclusive licenses for individual works to ASCAP and BMI, the Court found that the blanket licenses offered by these agencies were new products, as to which individual composers could not compete, and that considerable efficiencies were realized through the blanket licensing program.<sup>60</sup>

### III. PATENT LITIGATION CONDUCT AS THE BASIS FOR ANTITRUST CLAIMS

#### A. *Filing Suit as an Anti-Competitive Act*

Filing an infringement suit against a competitor is ordinarily both the statutory and the constitutional right<sup>61</sup> of a patentee, even though the suit may have an anti-competitive effect.<sup>62</sup> However, the presumption that a patent infringement suit is filed in good faith may be rebutted by clear and convincing evidence that it is not.<sup>63</sup> Prosecuting an infringement suit may be considered an element of the proof of unfair competition, violating both federal and state law, where the patent has been secured by fraud or the lawsuit is objectively baseless and amounts to nothing more than an attempt to interfere directly with the business relationships of a competitor.<sup>64</sup> The threat or filing of a patent infringement suit may also be considered when a court examines the market impact of a larger anticompetitive scheme.

The antitrust risk of enforcing a patent secured by fraud on the PTO was established in *Walker Process Equip., Inc. v. Food Mach. and Chem. Corp.*<sup>65</sup> In this case, the alleged infringer counterclaimed against

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59. *Broadcast Music*, 441 U.S. at 20.

60. *Id.* at 20-23.

61. 35 U.S.C. § 281 (2003). See *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Int'l*, 508 U.S. 49, 56-60 (1993).

62. *Glass Equip. Dev. Inc. v. Besten, Inc.*, 174 F.3d 1337, 1343 (Fed. Cir. 1999).

63. *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 996 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980).

64. See, *Repeat-O-Type Stencil v. Hewlett-Packard Co.*, 1998 U.S. App. LEXIS 4396, \*2-3 (No.96-55205) (9th Cir. 1998). A court should focus on whether the baseless lawsuit conceals an attempt to interfere directly with the business relationships of a competitor, through the use of the governmental process (as opposed to the outcome of that process) as an anticompetitive weapon. *Id.* In addition to this test, the court requires that when the antitrust plaintiff challenges a single suit rather than a pattern, a finding of sham requires not only that the suit is baseless, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anticompetitive. *Id.*

65. 382 U.S. 172 (1965).

the patentee for attempting to monopolize by enforcing a patent which it had obtained through fraud on the PTO.<sup>66</sup> The infringer alleged that the patentee had falsely sworn that it did not know or have reason to know of the public use of the invention more than one year prior to the date of the application.<sup>67</sup> The Supreme Court held that enforcement of a patent secured through willful and material misrepresentations to the PTO may, if the patent confers market power in a relevant market, violate Section Two of the Sherman Act.<sup>68</sup> Both fraud effected by deliberate misstatements to the PTO and fraud effected by a knowing omission of material fact, can support a claim for unfair competition.<sup>69</sup>

Even if a patent was not secured by fraud, a sham enforcement action may support an antitrust or unfair competition claim.<sup>70</sup> “Sham” litigation is evaluated by two tests, as explained in *Professional Real Estate Investors, Inc. v. Columbia Pictures Int’l, Inc.*<sup>71</sup> First, litigation is “sham” if “the lawsuit [is] objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits.”<sup>72</sup> Second, the court should focus on whether the baseless lawsuit conceals “an attempt to interfere directly with the business relationships of a competitor, through the use of the governmental process - as opposed to the outcome of that process - as an anticompetitive weapon.”<sup>73</sup> In the patent context, objective baselessness may be pled by alleging that the patentee knew, at the time of the enforcement action, either that the patent was invalid<sup>74</sup> or that the alleged infringer was not, in fact, engaged in infringing conduct.<sup>75</sup> However, the mere fact that a patentee’s claim is rejected by the court will not support an antitrust claim based on the infringement action.<sup>76</sup> Nor will the existence of a

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66. *Id.* at 174.

67. *Id.*

68. *Id.* at 177, 179.

69. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1070 (Fed. Cir. 1998).

70. *Boston Scientific Corp., v. Schneider*, 983 F. Supp 245, 272 (D. Mass. 1997).

71. 508 U.S. 49, 56-60 (1993).

72. *Id.* at 60.

73. *Id.* at 60-61 (internal citations, quotations and edits omitted).

74. *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1292 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985).

75. *See Microsoft Corp. v. Action Software*, 136 F. Supp. 2d 735, 739-741 (N.D. Ohio 2001) (permitting defendant to pursue state unfair competition claim based on Microsoft’s copyright infringement complaint, when Microsoft had presented no evidence that defendant was currently engaged in the sale of counterfeit software).

76. *Mitek Surgical Prod.’s, Inc. v. Arthrex, Inc.*, 230 F.3d 1383, 2000 WL 217637, \*9 (Fed. Cir. 2000) (unpublished). Similarly, the good faith enforcement of a patent later found to be invalid does not violate the antitrust laws. *Transitron Elec. Corp. v. Hughes Aircraft Co.*, 487 F. Supp. 885, 904 (D. Mass. 1980).

limited defense convert a patentee's notice of infringement into an unlawful act.<sup>77</sup>

Finally, patent enforcement litigation has figured as an element in cases involving larger schemes to restrain trade. Thus, *Kobe, Inc. v. Dempsey Pump Co.*,<sup>78</sup> was a suit between two manufacturers of hydraulic oil pumps. Kobe, beginning in 1933, had acquired, by purchase or license, patents for every important development in oil pump technology.<sup>79</sup> When Dempsey began manufacturing a pump that appeared to be cheaper and better, Kobe informed its customers that it would file an infringement action as soon as the first Dempsey pump was sold.<sup>80</sup> Kobe then filed suit before it had even received drawings showing how the Dempsey pump was designed.<sup>81</sup> As a result of Kobe's activities, Dempsey's business was almost at a standstill.<sup>82</sup> Acknowledging that Kobe's infringement action was not filed in bad faith, and was not in itself unlawful, the court nonetheless held that activities related to the suit "when considered with the entire monopolistic scheme which preceded them . . . may be considered as having been done to give effect to the unlawful scheme."<sup>83</sup> Similarly, in *Krasnov*,<sup>84</sup> one element of the defendants' unlawful conspiracy to restrain trade in furniture slipcovers was to threaten and file litigation in order to deter retailers from dealing with defendants' competitors, and to manage the infringement cases in a manner that would avoid a judicial determination of the validity of a key patent.<sup>85</sup>

Litigators should take into account the potential antitrust significance of an infringement claim both before filing an infringement suit, and when settling the suit. Before filing, the litigator's task is consistent with, but more extensive than his obligations under Federal Rule of Civil Procedure 11. The patentee is entitled to a presumption

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77. *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1998) (threat to sue customers of government contractor did not violate Section Two of the Sherman Act, even though the use of the patented product by United States without a license would not constitute infringement, but merely be subject to royalty charge under 28 U.S.C. § 1498).

78. 198 F.2d 416, 418 (10th Cir. 1952).

79. *Id.* at 419-420.

80. *Id.* at 421.

81. *Id.* at 422.

82. *Id.*

83. *Id.* at 425.

84. *United States v. Krasnov*, 143 F. Supp. 184 (E.D. Pa. 1956).

85. *See also* *Rex Chainbelt Inc. v. Harco Prod., Inc.*, 512 F.2d 993, 995 (9th Cir. 1975) (patentee unlawfully tied license of patented process to purchase of unpatented resin; program of suing competing sellers of unpatented resin for infringement of process patent was part of the illegal arrangement).

that its patent is valid, but if the client is aware of circumstances that would invalidate the patent, filing suit is risky. The client should have a good faith belief that the intended defendant is actually engaged in infringing activity, based upon a reasonable construction of the patent claims. The possibility that an infringement suit will draw federal or state unfair competition claims should be reviewed with the client in the context of information about the market for the patented product or process and the conduct of the client and the alleged infringer in that market. Circumstances such as the participation of more than one entity in decisions concerning enforcement actions require investigation.

When settling a patent infringement case, the litigator should attempt to resolve unfair competition claims that might be premised on allegedly improper enforcement activities by an appropriately broad release. If such a resolution cannot be achieved, the client should be warned of the risk that a claim may later be made attacking the infringement action as anti-competitive.

#### *B. Antitrust Considerations in the Settlement of Infringement Litigation*

Settlement of infringement litigation may trigger antitrust concerns that arise directly from the terms of the settlement agreement. Like the provisions of any agreement between competitors or buyers and sellers, the terms of an agreement that settles patent infringement litigation may be attacked as a restraint of trade. Although settlement of litigation is favored,<sup>86</sup> which might be given some weight in later antitrust review, it will not confer immunity.<sup>87</sup> The key issue in analyzing the legality of a settlement agreement, under the antitrust laws, is whether the agreement eliminates actual or potential competition that would otherwise exist. It can be difficult to determine what competition would otherwise exist but for the settlement of patent litigation between a patentee and a would-be competitor, because of the presumptive validity of the patent, and the patentee's legal right to exclude all competition. Struggling with this issue, the Sixth Circuit has moved from a near presumption of legality articulated in *Aro Corp. v. Allied Witan Co.*,<sup>88</sup> to applying a standard of

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86. *Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 1372 (6th Cir. 1976). "Settlement is of particular value in patent litigation, the nature of which is often inordinately complex and time consuming. Settlement agreements should therefore be upheld whenever equitable and policy considerations so permit." *Id.*

87. *Parker v. Brown*, 317 U.S. 341, 351 (1943). Although it is arguable that a settlement embodied in a consent decree might enjoy "state action immunity" to an antitrust suit under *Parker v. Brown*, this paper focuses on the risks of private settlement agreements.

88. See *supra* note 87.

*per se* illegality in *In re Cardizem CD Antitrust Litigation*.<sup>89</sup> In contrast, most tribunals have considered the purpose and actual effect of an infringement settlement agreement, using a rule of reason analysis that seems better suited to a circumstance in which three significant differing public policy interests - fostering innovation, competition and the consensual resolution of disputes - are at play.<sup>90</sup>

Whatever standard of review is applied,<sup>91</sup> the case law points clearly to the settlement terms that give rise to antitrust concerns. These include provisions under which: (1) one party acquires the other or an exclusive license for the patent in the suit; (2) one party is required to exit the market or to cease manufacturing products outside the patent's scope; (3) evidence of patent invalidity is suppressed; or (4) cross-licensing or patent pooling.<sup>92</sup>

### 1. Acquisition of Party or Patent

The enlargement of one firm's market power through the acquisition of an actual or potential rival, or of the exclusive rights to a competing product or process, is subject to antitrust scrutiny even if it occurs in connection with the settlement of litigation. *United States v. Singer Mfg. Co.*<sup>93</sup> was a civil antitrust case charging Singer, the sole United States manufacturer of household zigzag sewing machines, with conspiracy in restraint of trade. Both Singer and Gegauf, a Swiss corporation, had pending United States patent applications for a multiple cam sewing machine.<sup>94</sup> Among Singer's acts in furtherance of the

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89. *In re Cardizem CD Antitrust Litigation*, 332 F.3d 896 (6th Cir. 2003), *petition for cert. filed sub nom. Andrx Pharm. Inc. v. Kroger Co.*, 72 U.S.L.W. 3393 (November 24, 2003) (No. 03-779). See *infra* notes 101-131 and corresponding text.

90. E.g. *Valley Drug Co. v. Geneva Pharm., Inc.*, 344 F.3d 1294 (11th Cir. 2003), *reh'g denied*; *In re Schering-Plough Corp.*, 2003 WL 22989651 (F.T.C.) (FTC Docket No. 9297) (December 8, 2003); *Tamoxifen Citrate Antitrust Litigation*, 262 F. Supp. 2d 17 (E.D.N.Y. 2003); *Ciprofloxacin Hydrochloride Antitrust Litigation*, 261 F. Supp. 2d 188 (E.D.N.Y. 2003). The *Schering-Plough* opinion, which was issued as this article was in the final stages of the editorial process, is the most detailed examination to date of the antitrust issues generated by the settlement of an infringement case.

91. Petitioners in the *Cardizem* case have sought Supreme Court review of the Sixth Circuit decision because of the apparent conflict of the circuits exemplified by the *Valley Drug* and *Cardizem* decisions. The U.S. Supreme Court has invited the Solicitor General to file a brief commenting on the propriety of the *Cardizem* decision. 86 ATRR (BNA) 84 (January 30, 2004).

92. See Mark Crane and Malcolm R. Pfunder, *Antitrust and Res Judicata Considerations in the Settlement of Patent Litigation*, 62 ANTITRUST L. J. 151, \*2 (1993). See also Robert J. Hoerner, *Antitrust Pitfalls in Patent Litigation Settlement Agreements*, 8 FED. CIR. B.J. 113 (1998-1999).

93. 374 U.S. 174 (1963).

94. *Id.* at 178.

conspiracy were its acquisition of the Gegauf patent and its abandonment of the interference proceeding declared by the PTO, which facilitated the issuance of broad claims to the Gegauf patent.<sup>95</sup>

A firm that is acquiring another firm, or an exclusive license, in connection with settling patent litigation, may have reporting obligations under the patent laws and the antitrust laws that will assure enforcement agency review of the acquisition for anticompetitive effect. 35 U.S.C. § 135(c) provides that any agreement or understanding between parties to an interference, including collateral agreements referred to therein, made in contemplation of the termination of the interference, must be filed with the PTO, from whom the DOJ Antitrust Division can obtain it for review.<sup>96</sup> A failure to comply renders the agreement, and any related patents, unenforceable.

A second potentially applicable reporting requirement is the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act).<sup>97</sup> Parties to certain mergers and acquisitions, including the acquisition of an exclusive license, must defer closing until they have reported their plans to the FTC and DOJ, supplied requested information, and received permission to proceed, which is presumed granted if the government takes no action within 30 days after it has advised the parties that their filing is complete.<sup>98</sup> The HSR Act imposes penalties for non-compliance, which apply in addition to the relief that a court can order if an acquisition is found to violate the antitrust laws: a party that fails to file concerning a covered transaction, or fails to wait the required period before closing, is subject to a fine of \$10,000 per day.<sup>99</sup>

## 2. Agreement to Restrict or Refrain from Production or Sales

Until a preliminary or permanent injunction is issued, a firm is free to continue to practice a method or market a product that allegedly infringes a patent, albeit at the risk of liability for willful infringement at

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95. *Id.* at 179-180.

96. 35 U.S.C. § 135(c) (2003).

97. 15 U.S.C. § 18a(a) (2003).

98. *Id.* The reporting and waiting requirements are subject to minimum “size of person” and “size of transaction” tests that may be briefly summarized as follows: if (a) one party has sales or assets of at least \$10 million and one party has sales or assets of \$100 million, and, as a result of the transaction, one party will hold \$50 million of sales or assets of the other, or (b) regardless of the size of the persons involved, as a result of the transaction, the acquiring person will hold an aggregate amount of stock and assets of the acquired person valued in excess of \$200 million, then the HSR Act applies. *See* 16 C.F.R. §§ 801, 803 (2003).

99. 15 U.S.C. § 18a(g)(1) (2003).

the conclusion of the case. When a patentee and a competing accused infringer enter an agreement, that calls for the accused infringer to discontinue the use of the accused method or the marketing of the accused product, before infringement or validity has been determined, the agreement restrains competition that may have been lawful. Such agreements, therefore, are closely scrutinized and can be found to violate Section One of the Sherman Act, as occurred in *In re Cardizem CD Antitrust Litigation*.<sup>100</sup>

In *Cardizem*, purchasers of the heart medication diltiazem hydrochloride sued HMR, the manufacturer of Cardizem CD, the brand name version of the drug, and Andrx, the manufacturer of a cheaper generic version, for conspiracy to restrain trade.<sup>101</sup> The challenged agreement was made in the context of a pending Abbreviated New Drug Application (ANDA) that Andrx was prosecuting through the Food and Drug Administration (FDA) and an infringement claim filed by HMR.<sup>102</sup> Under the 1984 legislation that created the ANDA process, an ANDA application may rely on the FDA's prior determination of the safety and efficacy of a "pioneer drug" that the subject drug emulates, rather than submitting new safety and efficacy studies.<sup>103</sup> Every ANDA application must include a "paragraph IV certification" that the subject drug does not violate any valid patents.<sup>104</sup> An ANDA applicant must notify a patent holder of its paragraph IV certification, and the patent holder has 45 days to file an infringement suit.<sup>105</sup> If the patentee files such a suit, FDA approval is stayed until a court determines that the patent is not infringed or invalid, or 30 months has elapsed, whichever is shorter.<sup>106</sup> In order to encourage generic entry and compensate the generic manufacturer for losses incurred during the stay, the first generic manufacturer to file a paragraph IV certification receives exclusive marketing rights for its generic drug for a 180-day period, beginning on whichever is earlier: the date when it first begins marketing, or when a court decides that the patent is not infringed or invalid.<sup>107</sup>

HMR's original patent for Cardizem CD expired in November

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100. 332 F.3d 896 (6th Cir. 2003), *petition for cert. filed sub nom. Andrx Pharm. Inc. v. Kroger Co.*, 72 U.S.L.W. (November 24, 2003) (No. 03-779).

101. *Id.* at 903.

102. *Id.* at 901-03.

103. *Id.* at 901.

104. *Id.*

105. *Id.*

106. *In re Cardizem*, 332 F.3d at 901.

107. *Id.*

1992.<sup>108</sup> HMR's licensor received a patent for Cardizem CD's "dissolution profile" (the amount of drug released within a given time frame) in November 1995.<sup>109</sup> Two months earlier, Andrx had filed the first ANDA for a generic form of Cardizem CD with the FDA.<sup>110</sup> Andrx filed a paragraph IV certification on December 30, 1995.<sup>111</sup> In January 1996, HMR began a patent infringement suit against Andrx for violating the 1995 patent, but sought neither damages nor a preliminary injunction.<sup>112</sup> The filing of the infringement suit triggered the 30 month stay of the effective date of FDA approval.<sup>113</sup> Andrx asserted antitrust and unfair competition counterclaims.<sup>114</sup> Andrx also amended the dissolution profile for its generic product in a way that excluded the product from the claims of HMR's 1995 patent.<sup>115</sup>

While the patent litigation was pending, the FDA moved ahead on Andrx's ANDA.<sup>116</sup> On September 15, 1997, the FDA tentatively approved Andrx's ANDA, indicating that it would be approved as soon as eligible - either upon the expiration of the 30 month waiting period (early July 1998) or earlier if the court in the infringement action ruled that HMR's patent was not infringed.<sup>117</sup> Within days, HMR and Andrx entered into the challenged agreement.<sup>118</sup> In the agreement, Andrx relinquished its right to begin marketing its generic drug at the expiration of the waiting period and agreed to refrain from marketing any generic or bioequivalent version of Cardizem CD until it obtained a favorable, final and unappealable ruling in its favor in the patent litigation. HMR entered into a license agreement with Andrx or HMR entered into a license agreement with a third party.<sup>119</sup> Andrx also agreed to dismiss its antitrust and unfair competition claims, and to do nothing to relinquish or compromise its ANDA application or associated rights.<sup>120</sup> In exchange, HMR agreed to make substantial payments to Andrx.<sup>121</sup> By June 9, 1999, when HMR and Andrx entered a stipulation

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108. *Id.*

109. *Id.* at 902.

110. *Id.*

111. *Id.*

112. *In re Cardizem*, 332 F.3d at 902.

113. *Id.* at 902.

114. *Id.*

115. *Id.*

116. *Id.*

117. *Id.*

118. *In re Cardizem*, 332 F.3d at 902.

119. *Id.*

120. *Id.*

121. *Id.*

settling the patent infringement case and terminating the agreement, HMR had paid Andrx a total of \$89.83 million.<sup>122</sup>

The Sixth Circuit affirmed the trial court's partial summary judgment for plaintiffs, finding that the HMR and Andrx agreement was a naked horizontal restraint of trade, and *per se* illegal.<sup>123</sup> Although Andrx had secured FDA approval to offer its generic product as of July 1998, and its generic product had been altered to avoid the claims of the 1995 patent, Andrx kept its generic product off the market for a year pursuant to the agreement, which in turn delayed the entry of other competitors because of Andrx's statutory right to a 180-day exclusive marketing period.<sup>124</sup> In effect, HMR had achieved a monopoly beyond the scope of its patent by paying its only potential competitor to refrain from marketing not only the version of Cardizem CD that HMR had attacked as infringing, but also bioequivalent or generic versions that were not at issue in the case.<sup>125</sup>

Certain antitrust "red flags" emerge from the facts of *Cardizem*, and other similar cases. Where an accused infringer agrees to refrain from competition, and the settlement agreement provides for the infringer to receive significant payments from the patentee, a court can reasonably conclude that the patentee is paying the alleged infringer to exit the market, likely because the patentee does not expect similar success through its patent enforcement activity.<sup>126</sup> As noted by the Federal Trade Commission in its recent opinion in a case involving similar facts to *Cardizem*, *In re Schering-Plough Corporation*: "Absent proof of other offsetting consideration [for a payment from the patent holder to an accused infringer], it is logical to conclude that the *quid pro quo* for the payment was an agreement by the [accused infringer] to defer entry beyond the date that represents an otherwise reasonable litigation compromise."<sup>127</sup> After a painstaking review of all relevant facts, including the history of settlement negotiations, the FTC concluded that the defendants had failed to show that the payments totaling \$90 million that Schering-Plough had agreed to make to Upsher-Smith Laboratories and American Home Products could be explained as anything other than

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122. *Id.* at 903.

123. *Id.* at 915.

124. *In re Cardizem*, 332 F.3d at 907.

125. *Id.* at 909.

126. *See also* *United States v. Besser Mfg. Co.*, 96 F. Supp. 304, 312 (E.D. Mich. 1951), *aff'd* 343 U.S. 444 (1952); *United States v. Krasnov*, 143 F. Supp. 184, 194-95 (E.D. Pa. 1956).

127. *In re Schering-Plough Corp.*, 2003 WL 22989651 (F.T.C.) (FTC Docket No. 9297) (December 8, 2003).

payments not to enter the market.<sup>128</sup>

Using infringement litigation to obtain the agreement of an alleged infringer not to sell products that are not covered by the patent is also an antitrust violation.<sup>129</sup> For example, in *Dole Refrigerating Co. v. Kold-Hold Mfg. Co.*,<sup>130</sup> the alleged infringer had agreed not only to refrain from manufacturing products that infringed the patent, but also agreed to discontinue manufacturing any items involving “the vacuum principle” in refrigeration.<sup>131</sup> *Dole Refrigerating* signals the need for those negotiating the settlement of an infringement case to beware of forbidding the manufacture, use or sale of products other than those at issue in the case. Although *Dole* presents an obvious case of an agreement that extends beyond the patent monopoly, the more typical situation is one in which there is a material issue as to infringement or invalidity. Recent cases have held that because of the uncertainty and complexity of patent litigation, courts will not ordinarily deem the existence of material issues as to infringement or invalidity fatal to the legality of a settlement agreement, nor is an antitrust plaintiff required to prove infringement or invalidity in order to succeed.<sup>132</sup> On the other hand, evidence that one or both settling parties is aware of limiting or invalidating prior art may bear prove unlawful intent, as in the cases discussed below.

Finally, as in *Cardizem*, an agreement that is only colorably a settlement agreement, but which leaves some disputes unresolved, is more likely to be found a naked restraint of trade.

### 3. Suppression of Evidence of Invalidity

The settlement of an infringement case in which a substantial attack could have been made on validity reinforces whatever market power the patentee possesses by perpetuating the patent monopoly. Relying on motivated, would-be competitors to do the research and spend the resources necessary to invalidate improvidently granted patents has long

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128. *Id.*

129. *See In re Cardizem*, 332 F.3d 896.

130. 185 F.2d 809, 812 (6th Cir. 1950).

131. Although an arguably similar provision was upheld in *Pet Inc. v. Kysor Industrial Corp.*, 404 F. Supp. 1252, 1258-59 (W.D. Mich. 1975), it was interpreted merely to prohibit each party from violating the other's patent.

132. *In re Schering-Plough Corp.*, 2003 WL 22989651 (F.T.C.), \*33-34 (FTC No. 9297) (December 18, 2003); *Valley Drug Co. v. Geneva Pharm., Inc.* 344 F.3d 1294, 1306-1803 (11th Cir. 2003); *Tamoxifen Citrate Antitrust Litigation*, 262 F. Supp. 2d 17 (E.D.N.Y. 2003); *Ciprofloxacin Hydrochloride Antitrust Litigation*, 261 F. Supp. 2d 188 (E.D.N.Y. 2003).

been an important feature of our patent system. An alleged infringer's abandonment of a strong invalidity case may artificially keep prices higher and restrict competition. For this reason, an alleged infringer's abandonment of substantial invalidity contentions in exchange for a license will weigh heavily in a court's finding of antitrust liability. The focal point in *Krasnov* was an agreement settling an action that one slipcover manufacturer, Sure-Fit, brought against another, Comfy, to declare Comfy's "Oppenheimer" patent invalid on the strength of an analysis by Sure-Fit's attorney which concluded that "there was no possibility of the Oppenheimer patent being sustained in an adequately contested suit."<sup>133</sup> The court held that "a deliberate division of the trade was intended (and achieved) by the defendants" through the agreement by which they settled the litigation between them.<sup>134</sup>

Similarly, in *Singer*, Justice White, in his concurrence, stated that the settlement of an interference proceeding between Singer, the dominant manufacturer of sewing machines in the United States, and Gegauf, which held a dominant Swiss patent, would itself constitute a conspiracy in restraint of trade.<sup>135</sup> Justice White observed that Gegauf "feared that Singer might in self-defense draw to the attention of the Patent Office certain earlier patents the Office was unaware of, which might cause the Gegauf claims to be limited or invalidated," and concluded that "Singer and Gegauf agreed to settle [the] interference, at least in part, to prevent an open fight over validity."<sup>136</sup> Justice White concluded that "collusion among applicants to prevent prior art from coming to or being drawn to the Office's attention is an inequitable imposition on the Office and on the public."<sup>137</sup>

An antitrust violation was also found in an infringement case settlement agreement in *Duplan Corp. v. Deering Milliken, Inc.* ("Yarn Processing").<sup>138</sup> In two of three pending cases between warring competitors in the yarn machinery industry, the validity of one's patents was at issue.<sup>139</sup> The evidence showed that the competitors had settled the litigation with the express understanding that doing so was the only means by which both the patentee and the alleged infringer could maintain their production royalty programs: if the challenger litigated

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133. *Krasnov*, 143 F. Supp. at 192.

134. *Id.* at 193.

135. *United States v. Singer Mfg. Co.*, 374 U.S. 174, 175 (1963) (White, J., concurring).

136. *Id.* at 198, 199.

137. *Id.* at 200.

138. 444 F. Supp. 648 (D. S.C. 1977), *aff'd* 594 F.2d 979 (4th Cir. 1979).

139. *Id.* at 773.

and lost, it would be enjoined, but even if it won the litigation, and established the invalidity of the competitor's patent, it would lose in the market because the buyers would prefer the competitor's machines whose use would no longer require payment of a production royalty.<sup>140</sup>

This review is not intended to suggest that settlement of a case between competitors that involves invalidity claims is impossible, but that such a settlement should be approached with care. The ruling in *Boston Scientific Corp.*<sup>141</sup> discusses the principle that a party that has a strong invalidity case must have a legitimate business justification for settling infringement litigation by taking a license. Similarly, the destruction of evidence is a sensitive matter. A proviso in a settlement agreement requiring the destruction of evidence of invalidity could be considered part of a conspiracy to restrain trade. The destruction of evidence by one party, under circumstances in which similar future claims can be anticipated, may be challenged as spoliation.<sup>142</sup>

#### 4. Cross Licensing or Patent Pooling

Whether or not there are invalidity issues, the cross licensing of patents incidental to the settlement of infringement litigation can present antitrust issues. Cross-licensing and pooling agreements are not inherently illegal; rather, they are considered in the context of their purpose and effect.<sup>143</sup> A settlement involving a cross-license will be examined the same way as any other license under Section One of the Sherman Act, by asking: "first, does something about the license hurt competition that either already existed or likely would have come into being without it? And if the license does have such an anticompetitive effect, . . . is that harm reasonably necessary in order to bring about some even greater procompetitive benefit?"<sup>144</sup> Where provisions of a

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140. *Id.* at 675.

141. *See Boston Scientific Corp. v. Schneider*, 983 F. Supp. 245 (D. Mass. 1997).

142. *See, e.g., Telectron, Inc. v. Overhead Door Corp.*, 116 F.R.D. 107, 132 (S.D. Fla. 1987) (default judgment entered against party whose chief legal officer initiated document destruction after three related suits ended and ordered destruction to continue on the date he received a complaint in a fourth suit). Ohio recognizes the tort of willful spoliation, the elements of which are: (1) "pending or probable litigation involving plaintiff," (2) "knowledge on the part of defendant that litigation exists or is probable," (3) "willful destruction of evidence by defendant designed to disrupt the plaintiff's case," (4) "disruption of plaintiff's case," and (5) "damages proximately caused by the defendant's acts." *Smith v. Howard Johnson Co.*, 615 N.E.2d 1037, 1038 (Ohio 1993).

143. *Standard Oil Co. v. United States*, 283 U.S. 163, 171 (1931). *See also IP Licensing Guidelines*, *supra* note 6 at §§ 5.5, 5.6.

144. Klein, *supra* note 22 at § 1.

cross-license limit competition beyond the bounds of those limitations that would be inherent in the patent grant, there are antitrust concerns.

Settlements involving cross-licenses between competitors, as in *Krasnov, Singer and Yarn Processing*, are most likely to entail antitrust risk. Cross-licensing and information sharing alone is risky when the parties dominate the relevant market and the agreement has the effect of entrenching the parties' control of the market.<sup>145</sup> Horizontal cross-licensing agreements in which each party grants the other control with regard to licensing, pricing, output or markets are particularly suspect. Cases in which such licensing agreements have been found to violate the antitrust laws are numerous.<sup>146</sup> That such cross-licensing agreements may have been crafted in connection with the settlement of interference or infringement litigation is no defense or excuse.<sup>147</sup>

It should be noted that antitrust enforcement agencies are concerned not only with restraints on the licensing of technology or the sale of goods that may be found in cross-licenses or pooling agreements, but also with restraints on innovation that may be expressed or implied in these same agreements. A restraint on innovation may be found in a license that includes a grantback provision, or a pooling agreement that grants members of the pool the right to use further improvements at minimal cost, since either provision may discourage licensees from making improvements because of the limited prospect for return on investment.<sup>148</sup> Grantback provisions are ordinarily evaluated under the rule of reason,<sup>149</sup> but exclusive grantbacks are less likely to be found reasonable in purpose or effect.

Cross-licensing is less likely to raise antitrust issues when the patents contributed by each party are complementary or blocking. If

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145. *Honeywell Inc. v. Sperry Rand Corp.*, 1973 U.S. Dist. LEXIS 15600 (No. 4-67 Civ 138) (D. Minn. 1974) (1956 agreement between IBM and Sperry Rand settling infringement litigation and numerous interferences by the exchange of licenses and technical know-how concerning tabulating machines and electronic data processing violated Section One of the Sherman Act.)

146. *See, e.g., Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *United States v. New Wrinkle, Inc.*, 342 U.S. 371 (1952); *United States v. Vehicular Parking Ltd.*, 54 F. Supp. 828 (D. Del. 1944), *modified* 56 F. Supp. 297 (D. Del. 1944), *further modified* 61 F. Supp. 656 (D. Del. 1945).

147. *See United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963). *See also* *In re Summit Technology, Inc.*, No. 9286, (F.T.C. adjudication) (February 23, 1999), *available at* <http://www.ftc.gov/os/1999/03/d09286visx.do.htm>

148. *See United States v. Mfrs. Aircraft Ass'n*, 1975 U.S. Dist. LEXIS 15333 (S.D. N.Y. 1975); *United States v. Auto. Mfrs. Ass'n*, 307 F. Supp. 617 (C.D. Cal. 1969); *City of New York v. United States*, 397 U.S. 248 (1970); *United States v. Motor Vehicle Mfrs. Ass'n*, 1982 U.S. Dist. LEXIS 17839 (C.D. Cal. 1982); *United States v. Gen. Elec. Co.*, 115 F. Supp. 835 (D. N.J. 1953).

149. *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 646, 648 (1947).

neither party could practice its patent without infringing the patent of the other, the cross-licensing of the patents arguably could enable both parties to make or sell what neither could legally make nor sell before. To the extent that a license facilitates the development or improvement of a product or process, it will likely be judged reasonable and pro-competitive, particularly if the pooled patents are available to all comers for a reasonable royalty.

Generally, openness in a cross-license or pooling arrangement is deemed pro-competitive. Antitrust sanctions have been avoided for arrangements in which each participant remained free to license its own patents to others,<sup>150</sup> or where the pooled patents were available to all comers at reasonable rates.<sup>151</sup>

#### IV. CONCLUSION

Neither the pursuit nor the settlement of patent infringement litigation is an unfettered right. Both the litigation and the resolution of infringement cases should be undertaken with sensitivity toward antitrust risks.

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150. *Boston Scientific Corp. v. Schneider*, 983 F. Supp. 245, 271- 272 (D. Mass. 1997).

151. *See e.g., Standard Oil Co. v. United States*, 283 U.S. 163, 163 (1931).