Antitrust and IP Issues Arising in Mergers and Acquisitions

By Steve Bondura
and J. Parks Workman

Dority & Manning, P.A.

Overview

- Basics of Antitrust Law
- Antitrust Issues in the Acquisition of IP Rights
- Antitrust Issues in the Enforcement of Acquired IP Rights
- Practice Tips

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Three Federal Antitrust Statutes

- Sherman Act
- Clayton Act
- Federal Trade Commission Act

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Sherman Act

- Enacted in 1890
- Criminal Penalties: Fines up to $100 million for corporations and $1 million for individuals
- Civil Remedies: Injunction and treble damages

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Sherman Act § 1

- "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with a foreign nation is declared to be illegal."

  – 15 U.S.C. § 1.

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Sherman Act § 1

- Elements of § 1 Violation:
  - (1) Concerted action between at least two parties;
  - (2) Imposes an unreasonable restraint on trade.

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Concerted Action

- Focus of § 1 is on concerted actions or agreements between two or more parties.
- Individual conduct is not actionable.
- Concerted Action can include:
  - IP License Agreements
  - Settlement Agreements
  - Acquisition of IP Rights

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"Unreasonable Restraint on Trade"

- Two different tests for "unreasonableness":
  - (1) The *Per Se* rule; or
  - (2) The Rule of Reason

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The *Per Se* Rule

- Applies a "conclusive presumption" of illegality.
- No defense can be raised under the *per se* rule.
- "*Per se* liability is reserved only for those agreements that are 'so plainly anticompetitive that no elaborate study of the industry is needed to establish their illegality."
  - *National Soc. of Prof. Engineers v. U.S.*, 435 U.S. 679, 692 (1978)

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Examples of *Per Se* Violations

- Horizontal Price Fixing by Direct Competitors;
- Bid Rigging;
- Horizontal Agreements to Assign Sales Territories or Customers;
- Horizontal Agreements not to do Business with Targeted Individuals.

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The Rule of Reason

- Multifactor balancing test.

- Factors Considered:
  - Specific information about the relevant business;
  - The restraint's history, nature, and effect;
  - Conditions before and after the restraint was imposed; and
  - Whether the businesses involved have "market power" in the relevant market

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Sherman Act § 2

- "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony."
  - 15 U.S.C. § 2.

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Sherman Act § 2

- Monopolization
  - (1) The possession of "market power" in the relevant market.
  - (2) Predatory or anticompetitive acts to retain or establish market power in the relevant market.
- Attempted Monopolization
  - (1) the defendant has engaged in predatory or anticompetitive conduct
  - (2) a specific intent to monopolize
  - (3) a dangerous probability of achieving monopoly power

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"Market Power"

- The power to control prices or exclude competition in the relevant market.
  - *U.S. v. E.I. DuPont de Nemoirs*, 351 U.S. 377, 391 (1956).

- Indicators of Market Power
  - High market share;
  - Sustained price leadership and control;
  - Affirmative actions that have excluded competition
  - Size and Strength of competitors
  - Profit levels
  - Barriers to competition in the industry

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Do IP Rights = Market Power?

- **NO**
- Historically, there was a presumption of "market power" from simple ownership of IP rights.
- Courts will no longer infer "market power" from the mere ownership of intellectual property.
  - *See, e.g., Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006).
- IP ownership is still relevant to the market power determination.

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Clayton Act

- Targets specific practices the Sherman Act does not clearly prohibit:
  - Tying arrangements
  - Exclusive dealing arrangements
  - Requirements Contracts
- Mergers and acquisition where the effect may lessen competition
- Enforced by civil action or the Federal Trade Commission

Section 7 of the Clayton Act

- Prohibits mergers and acquisitions where the "effect may be to substantially lessen competition or to create a monopoly."
- Requires a thorough economic evaluation of the market place – including market shares in the relevant market
- Can be enforced by the Department of Justice, FTC, or private parties

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Antitrust Issues in the Acquisition of IP Rights

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Acquisition of IP Rights

- Most transfers of IP **do not** implicate antitrust issues.
- The acquisition and licensing of IP rights can be considered a merger or acquisition subject to Section 7 of the Clayton Act.
- The acquisition and licensing of IP rights can be considered concerted action under Section 1 of the Sherman Act.
- The acquisition and licensing of IP rights can be considered anticompetitive conduct under Section 2 of the Sherman Act.

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Antitrust Issues in Acquisitions

- Justice Department and FTC can apply a merger analysis to the acquisition or exclusive licensing of IP.
- *SCM Corp. v. Xerox Corp.*, 463 F. Supp. 983 (D. Conn. 1978) *aff'd* 645 F.2d 1195 (2d Cir. 1981).
  - Patent acquisitions are not immune from the antitrust laws.
  - Sherman Act Section 2 violation may occur where dominant competitor in a market acquires a patent covering a substantial portion of the market that dominant competitor knows will give him monopoly power.

Antitrust Issues in Acquisitions

- *SCM Corp. v. Xerox Corp.*, 463 F. Supp. 983 (D. Conn. 1978) *aff'd* 645 F2d 1195 (2d Cir. 1981).
  - "Acquisitions of patents are not exempted from reach of section 7 of Clayton Act, and in some circumstances patent acquisition may so strengthen a company's power within an existing relevant market and pose such likely threat of anticompetitive effects condemned by section 7 that equitable relief may be warranted to prohibit acquisition or to require prospective licensing . . . ."

Factors to Consider

- Is it a “horizontal” or “vertical” transaction?
- Is the IP developed?
- Exclusive or Non-Exclusive License?
- Does the original IP owner remain a competitor in the market?
- Does assignment or license of the IP carry market share?
- Will acquisition of the IP lead to market power?
- Is the acquisition driven by “intent to monopolize”?

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Antitrust Issues in the Enforcement of Acquired IP Rights

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Enforcement of Acquired IP Rights

- An IP owner generally has the right to enforce its acquired IP rights.
- Bad faith enforcement of IP rights obtained through fraud or enforcement of IP rights known to be invalid/not infringed can raise antitrust concerns
- Opinions of counsel, due diligence, and negotiation can play a significant role

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Noerr-Pennington Immunity

- IP enforcement through Courts is generally immune from antitrust liability under *Noerr-Pennington* doctrine
- The immunity can be stripped in certain circumstances
  - **(1) *Walker Process* Fraud:** Enforcement of IP obtained through fraud
  - **(2) Sham Litigation:** IP litigation brought in bad faith with knowledge of IP invalidity/non-infringement

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Walker Process Fraud

- Must prove a knowing and deliberate act of fraud in the procurement of intellectual property rights.
  - *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998) (en banc).
- Requires a higher showings of materiality and intent to deceive than inequitable conduct
  - *Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337 (Fed. Cir. 2007)
- Other elements of the antitrust violation must still be shown (e.g. market power in the relevant market).

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Sham Litigation

- Actions brought in good faith are allowed
- Potential Antitrust Violations:
  - Suit is part of a larger anticompetitive scheme
  - Suit is part of a pattern of baseless, repetitive legal actions for the purpose of suppressing competition
  - Suit is brought in bad faith to enforce IP rights known to be invalid or against persons known not to be infringing

Sham Litigation

- Two prong test for stripping *Noerr-Pennington* immunity:
  - (1) **Objective Prong:** No reasonable litigant could realistically expect success on the merits.
  - (2) **Subjective Prong:** motivation behind the suit is to stifle competition.
- Must still prove the other elements of an antitrust violation (e.g. market power in the relevant market)

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The Objective Prong

- "No reasonable litigant could reasonably expect success on the merits."
  - *Professional Real Estate Investors v. Columbia Pictures Indus., Inc.* henceforth *PRE*], 508 U.S. 49, 60 (1993).

- "If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under *Noerr*, and an antitrust claim premised on the sham exception must fail."
  - *PRE*, 508 U.S. at 60.

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The Subjective Prong

- The litigation conceals "an attempt to interfere directly with the business relationships of a competitor . . . ."
  - *PRE*, 508 U.S. at 60.

- May prove by showing:
  - Suit was brought with knowledge that IP rights are invalid
  - Suit was brought with knowledge that accused product did not infringe.

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What is Enforcement?

- Bringing infringement suits constitutes enforcement
  - *See Nobelpharma*, 141 F.3d at 1068.
- Sending cease and desist letters may constitute enforcement
  - *See Hydril Co. LP v. Grant Prideco LP*, 474 F.3d 1344 (Fed. Cir. 2007) (holding threats against customers can be enforcement)
- What about licensing/arms-length negotiations?

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How do I Enforce Acquired Patents?

- Have a reasonable expectation of success on the merits
- Conduct an appropriate Rule 11 investigation
- Address positions taken during due diligence and negotiations
- Analyze the market to determine whether "market power" in the relevant market can be established
- Have a proper motivation for bringing the suit

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What about Opinions?

- Are opinions discoverable in litigation?
- What if the company does not rely on the opinion of counsel?
- What about changed circumstances and secondary considerations?
- Does the company need a second opinion?

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Practice Tips

- Preserve privilege over information obtained during investigation and due diligence
  - Do not share opinions of counsel
  - Preserve confidentiality of all communications with in-house and outside counsel
- Instruct due diligence counsel to provide strengths and weaknesses of potentially acquired IP
- Document strengths of the potentially acquired IP
- Be careful what you say during negotiation

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Practice Tips

- Ensure negotiations and agreed terms remain confidential
- Be careful in valuation reports of IP rights
- Be aware of potential antitrust issues in acquiring or licensing IP that effectively transfers a large market share
- Obtain antirust clearance using the Merger Guidelines

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Prosecution Practice Tips

- How do I handle acquired patent applications?
- Share due diligence results with prosecuting attorney to ensure compliance with Rule 1.56
- Develop and document a strategy for patentability in view of known art
- Address opinions or positions taken in due diligence and negotiations

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Questions?

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