

A Competition View of Patent Settlements

Settling Patent Disputes by Merger: Some Antitrust Considerations

Robert N. Cook

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Introduction

- Transactions settling patent disputes may take various forms
 - ◆ Licensing
 - ◆ Joint venture
 - ◆ Merger or acquisition
- These forms fall along a continuum and represent various complex solutions to various complex problems
 - ◆ Choice of transactional form typically involves business, rather than antitrust, considerations

Merger or Acquisition May Look Like a Clean Way Out

- May be attractive when, for example, other settlement options are difficult to value
 - ◆ Outcome of IP litigation may be difficult to predict
 - ◆ Future revenue attributable to the IP in question may be difficult to predict
- Merger or acquisition may avoid problems
 - ◆ At least to some extent, value can be shared by both parties even if they disagree on what it is

Merger-Related Antitrust Issues Are Not Dispelled Just Because the Context Is Patent Settlement

- A merger that would otherwise be challenged will not get a pass simply because it is undertaken to settle patent litigation
- While patents do not automatically define antitrust product markets, products embodying specific patents may not appear to have effective substitutes

Examples

- DEC v. Intel: DEC alleged Intel infringed certain microprocessor patents
 - ◆ Settlement included licensing of DEC IP to Intel and sale of DEC microprocessor fab to Intel
 - ◆ FTC consent order involved licensing DEC microprocessor IP to other firms
- CVIS v. Boston Scientific: CVIS alleged BSC infringed certain intravascular ultrasound (IVUS) patents
 - ◆ In settlement, BSC acquired CVIS
 - ◆ FTC consent order involved licensing IVUS IP

Common Theme: IP Angle Not Treated As a Mitigating Factor

- DEC v. Intel
 - ◆ FTC alleged horizontal anticompetitive effects in a market for certain microprocessors
- CVIS v. Boston Scientific
 - ◆ FTC alleged horizontal anticompetitive effects in a market for IVUS catheters
- IP settlement context not treated as a mitigating factor in FTC analyses to aid public comment
- Footnote: Difficulties implementing both remedies

Practical Consideration #1

- Factual assertions in pleadings in IP litigation may affect the availability of arguments for use during antitrust review of settlement
 - ◆ Allegations of infringement or harm may appear to support elements of an antitrust challenge
 - ◆ Fed. R. Ev. 801(d)(2)

Practical Consideration #2

- The Government is not likely to undertake a merger challenge that would require it to assume the burden of proving the validity or invalidity of defendants' IP
 - ◆ Extremely difficult as a practical matter
 - ◆ But this may not be enough to avoid Federal Circuit jurisdiction over appeals
 - ☞ Patent issues may arguably be necessary
 - ☞ Patent issues may be intertwined with product market issues

Practical Consideration #3

- The Federal Circuit has a track record of producing outcomes in favor of parties raising patent arguments against antitrust claims
 - ◆ Conflicts with other circuits
 - ◆ Supreme Court likely to step in eventually
 - ◆ Until then, the Federal Circuit may be viewed as the forum of choice for antitrust defendants
- The Government is likely to avoid presenting the Supreme Court with a case that does not frame the Patent-versus-Antitrust issues clearly

Points Made

- Merger or acquisition may present a clean way out of an IP dispute
- Antitrust issues do not disappear simply because a transaction settles an IP dispute
- Assertions in IP pleadings may limit antitrust options
- The Government is not likely to seek to prove the validity or invalidity of defendants' IP
- A “Federal Circuit factor” may cause the Government not to press close cases in which patent issues are arguably “necessary”

Drinker Biddle & Reath LLP
1500 K Street, N.W., Suite 1100
Washington, D.C. 20005-1209
(202) 842-8800 (main)
(202) 842-8465 (fax)

www.dbr.com

*Offices also in Philadelphia, PA; Berwyn, PA; Florham Park, NJ;
Los Angeles, CA; New York, NY; Princeton, NJ; and San Francisco, CA*

Drinker Biddle & Reath LLP practices as
Drinker Biddle & Shanley LLP in New Jersey.