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Practical Guide to Antitrust Pitfalls in Licensing

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Historically, the view was that there is an inherent conflict between intellectual property rights (IPR) laws that grant "monopolies" and the antitrust laws that prohibit monopoly. There was an assumption that an intellectual property right confers on the holder some monopoly.

The modern view is that the IPR laws and the antitrust laws are complementary. Both value innovation, competition, and consumer welfare. The prevailing view is that the IPR laws do not necessarily confer monopolies but only the right to exclude others from the areas covered by the IPR. Intellectual property rights are considered to be a form of personal property rights. When the holder of an IPR tries to extend its market power beyond the scope of the IPR, antitrust laws apply.

This article reviews the general principles in the antitrust analysis of licenses of intellectual property rights and applies those principles to some common types of licenses and license restrictions in the context of practical counseling.

Guidelines

Consistent with the current view of IPR and antitrust, the Antitrust Division of the Department of Justice and the Federal Trade Commission issued in 1995 their Antitrust Guidelines for the Licensing of Intellectual Property (IP Guidelines). These, and other guidelines issued by the federal antitrust enforcement agencies, provide good road maps to counseling.

The IP Guidelines apply to patent and copyright licenses, not to trademark licenses, which often have different competition implications. They outline the approach of the federal antitrust agencies in this area, and apply to patent and copyright licenses the same

antitrust principles used to analyze conduct relating to any other type of personal property.

In their guidelines, the agencies define not only traditional products and services markets that may be relevant in antitrust analyses, but also technology and innovation markets. "Technology markets" are markets in which companies compete in the licensing of intellectual property:

Technology markets consist of the intellectual property that is licensed (the "licensed technology") and its close substitutes—that is, the technologies or goods that are close enough substitutes significantly to constrain the exercise of market power with respect to the intellectual property that is licensed.

When rights to intellectual property are marketed separately from the products in which they are used, the Agencies may rely on technology markets to analyze . . . competitive effects. . .!

"Innovation markets," sometimes called research and development or R&D markets, are defined by the agencies as markets in which firms compete in research and development. As explained in the IP Guidelines:

A licensing arrangement may have competitive effects on innovation that cannot be adequately addressed through the analysis of goods or technology markets. For example, the arrangement may affect the development of goods that do not yet exist. Alternatively the arrangement may affect the development of new or improved goods or processes in geographic markets where there is no actual or likely potential competition in the relevant goods.²

The 1992 Horizontal Merger Guidelines provide general guidance regarding how the agencies deter-

mine relevant product and service markets in their antitrust analyses.

With respect to restrictive terms in licenses, the IP Guidelines provide a safety zone. A restriction will not be challenged by the federal antitrust authorities if it is not one that is "facially anticompetitive" and therefore *per se* violative of the antitrust laws, such as price fixing, and either (a) the parties collectively hold less than 20 percent of each of the markets that are affected by the restriction, or (b) when no meaningful market share data can be obtained, there are at least 4 other independent competitors in the technology or innovation markets involved.

The 2000 Antitrust Guidelines for Collaborations among Competitors cover collaborations generally, including those based on IPR and research and development. These guidelines provide a safe harbor when the innovation market involved has at least 3 independent competitors with the specialized assets or characteristics and the incentives to engage in R&D that are alternatives to the R&D of the collaboration.

It should be noted that the guidelines are only indicators of the position of the federal enforcement agencies. The guidelines are also not binding but only persuasive on the courts. There are other sources of antitrust challenges such as private parties and states attorneys generals who may not agree with the approach of the guidelines. While the guidelines are generally consistent with the case precedents, there are some areas in which the guidelines take a different view of licenses than the judicial precedents might justify. Nonetheless, the various guidelines provide a good basis for analysis and counseling.

Key Questions

As in most antitrust counseling, a fact specific analysis is required. The substance of the transaction, and not the form or the parties' labeling, is key. Therefore, in counseling clients regarding the antitrust pitfalls in licensing intellectual property rights, there are several key factual questions. The answers to these questions will determine the appropriate antitrust advice.

The first area to review is the business context of the transaction. Firms with competing technology who license some of that technology, would be considered as having a "horizontal" license and the agreement would be scrutinized to determine whether there is an impermissible restraint between competitors. Therefore, what is the current relationship of the parties? Are they actual or potential competitors in the area of the license? If they are actual or potential competitors, then the prospective licensee may already have technology that competes with or substitutes for the technology that is being licensed. In that case, the license may be considered a "horizontal" arrangement between competitors that requires

closer scrutiny than a "vertical" arrangement between parties on different levels of a distribution chain.

If the licensee lacks the capability that the license will provide, then the license is considered a "vertical" license between "supplier" and "customer" that will be subject to more lenient examination, even if the parties will be competing in the area of the license. There is much less concern about anticompetitive effects resulting from licenses that do not interfere with competition that would probably have taken place absent the license. In vertical licenses, the concerns are that the license may foreclose access to a necessary input or a distribution channel, raise rivals' costs, or may facilitate coordination among competitors.

The next question is what is the arrangement that the parties are contemplating? What are the business goals that they are seeking to achieve by this arrangement, and how will the arrangement help them achieve those goals? How do the parties contemplate the relationship actually working? The nature of the IPR involved and the relationships among the IPRs, if more than one IPR is involved, are important, along with the business reasons for including the particular IPRs in the license.

Once these aspects are determined, there is a context in which to analyze the situation. In particular, the business needs for the arrangement and its terms may help demonstrate the reasonableness of the transaction.

The bottomline is the competitive impact of the proposed transaction. Who are the competitors that may be affected by the deal? Are the parties actual or potential competitors even without the license relationship? Would the deal result in the elimination of an actual or potential competitor as an independent market participant, or would any market participant be excluded or handicapped as a result? What might be the impact on prices and outputs in the markets involved in the transaction? What might be the impact on incentives to innovate? What might happen to the next generation of products? Who is developing the next generation of products, and what might be the impact of the license on its ability or motivation to continue development of the next generation? What might be the impact on the parties' market positions? Might the license help entrench an already dominant market player?

If it appears that the proposed license may have the potential to reduce competition significantly in some way, such as by excluding or greatly handicapping competitors or cutting output or raising prices, then additional factors needed to be considered. What efficiencies might the license accomplish that cannot be achieved by another way? If there are such efficiencies that are substantial, then it may offset the potential anticompetitive impact of the arrangement. A practical question is who might complain about the

transaction, and what might they do about their complaints?

If it appears from the analysis that there are significant antitrust risks to what the parties are contemplating, then it is important to explore alternatives. In most cases, a viable alternative arrangement can be developed that could achieve the parties' business goals or a close approximation thereof, without antitrust concerns, upon a closer examination of the business goals and how the parties expected the original proposed license to accomplish them.

General Principles

Licenses of IPR are generally considered pro-competitive. They often enable the licensor to exploit technology that the licensor controls but may not have the ability to develop or market, and provide the licensee with access to technology that it otherwise might not have but could bring to market with its financing, manufacturing, and marketing capabilities. The federal antitrust agencies recognized in the IP Guidelines that licenses might afford efficient exploitation of IPR and enable complements to come together to the benefit of consumers by lowering costs and speeding the introduction of new products and services. Therefore, the basic antitrust test for licenses is the rule of reason.

However, the enforcement agencies have also cautioned that the licenses must involve substantial IPR. The issue is whether the IPR that is being licensed is sufficiently substantial to be licensed and subject to any ancillary restraints contained in the license. The IPR that is the subject of the license must not be a pretext for an agreement that is in substance a restraint of trade. Thus, for example, in *United States v. Pilkington plc*,³ the Antitrust Division investigated and obtained a consent decree settling allegations that the licenses related to expired patents and trade secrets for the manufacture of flat glass and were but pretexts for allocating the worldwide market among competitors, preventing the use of competing technology, and consolidating control of new technology through the use of grant back obligations.

Particular types of licenses may require more scrutiny than others, particular types of licensor-licensee combinations may need more review, and the nature of the intellectual property rights involved could require careful consideration if more than one intellectual property is involved. Certain types of restrictions in licenses also need extra care.

It is rare that trademark licenses raise the types of issues often seen with patent and copyright licenses. However, in one case, the Federal Trade Commission alleged that the parties to a trademark license agreement used the license as part of an agreement to allocate the world market in microcrystalline cellulose.⁴

Refusals to License, Tie-Ins, and Package Licenses

In some instances, the very refusal to license may raise antitrust issues. This refusal may arise in the context of a request for a license that is rejected, or may arise in the context of a licensor taking the position that a particular IPR will not be licensed unless the licensee also accepts other IPRs, goods, or services.

The patent law provides specifically that:

No patent owner otherwise entitled to relief . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.⁵

It should be noted that Section 271(d)(4) differs from the law in some other jurisdictions, such as some parts of Europe, which effectively requires the patent holder to use or lose the patent.

The antitrust laws provide that "[e]very person who shall monopolize, or attempt to monopolize . . . shall be deemed guilty of a felony . . ." ⁶ It also prohibits "every contract, combination . . . or conspiracy, in restraint of trade . . ." which in rule of reason situations generally requires a showing of impact on the market that is often inferred from the existence of market power.⁷ Therefore, in this area, the patent law might generally reach a result that is consistent with that under the antitrust laws.

Refusals to License

Generally, the rule is that "[a] patent owner is not in the position of a quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others."⁸ Therefore, even a monopolist may refuse to license a patent. However, a concerted refusal to license is suspect. For example, a cross-license that requires joint approval of the parties before any of the IPR involved is licensed to a third party may be questionable. In the copyright area, the Second Circuit has concluded that there may be an antitrust claim if copyright holders agree to limit licenses to third parties. In *Prime-Time 24 Joint Venture v. NBC*,⁹ a retransmitter alleged

that major broadcast television networks, local affiliates, and the National Association of Broadcasters not only brought baseless infringement suits against it, but also agreed not to license future retransmission rights to it.

A refusal to license in order to exclude potential competitors from the market place may be an antitrust violation, if that exclusion extends beyond simply excluding others from use of the IPR. In *Data General Corp. v. Grumman Systems Support Corp.*,¹⁰ the court held that copyright confers no automatic antitrust immunity for a unilateral refusal to license. However, that court also indicated that an intent merely to exclude others only from using the copyright is a presumptively valid business justification for a refusal to license, so that no violation of the Sherman Act would be found.

In *Image Technical Services, Inc. v. Eastman Kodak Co.*,¹¹ Kodak changed an existing policy and stopped selling patented and unpatented parts to independent service organizations that repaired Kodak copier equipment in competition with Kodak's service business. On remand from a US Supreme Court decision holding that the plaintiffs can go to trial on their claim that Kodak tied its patented parts to its unpatented parts, and that Kodak may have market power over its installed base of customers in the after-market parts area because those customers may not be able to switch from Kodak equipment without significant costs, the jury found that Kodak had used its market power in the supply of patented parts to its installed base of customers to obtain market position in the supply of service and unpatented parts to those customers. The Ninth Circuit found that the patentee's statutory right to exclude others from the area covered by the patent creates a rebuttable presumption of a valid business justification for a unilateral refusal to license or sell under the patent. However, the use of that right to exclude to extend the market power of the patent to a market beyond the scope of the patent may be monopoly-leveraging offensive to the antitrust laws. The Court of Appeals concluded that the presumption of valid business justification was rebutted by a showing that Kodak refused also to sell or license its unpatented and uncopyrighted parts, while its patented or copyrights parts accounted for only a small percentage of replacement parts for its equipment.

In comparison, in *In re Independent Service Organizations Antitrust Litigation*,¹² the Federal Circuit found that Xerox did not violate the antitrust laws by its refusal to sell patented replacement parts to independent service organizations that service and repair Xerox copiers in competition with Xerox. CSU, an ISO, claimed that Xerox monopolized the market of the service and repair of Xerox copiers. The Federal Circuit concluded that Xerox had no obligation to sell or license its patented parts. That court found that Xerox's motivation for its unilateral refusal to sell or

license its patented parts is irrelevant. It reasoned that there should be antitrust liability only if there was illegal tying, fraud on the Patent & Trademark Office (PTO) in connection with the patent, or sham litigation to enforce the patent. CSU didn't claim that Xerox tied its patented parts to its unpatented parts, or allege that there was fraud on the PTO or sham litigation by Xerox. The court stated that, since *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*,¹³ protects litigation to enforce IP rights in such situations, that precedent also protects refusals to license in such situations. It found that there could be no antitrust liability if the competitive impact of the refusal to deal was in a market within the scope of the patent. The Federal Circuit also applied the logic of *Data General* to copyrighted software and manuals relating to the copiers, and found that Xerox's motivation was irrelevant when there was no evidence that the copyrights were improperly obtained or used to gain monopoly power beyond the scope of the copyright.

The analysis may be different when the refusal to deal is accompanied by non-use of the IPR by the IPR holder, so that the IPR is not being used at all. In that case, there may be a differentiation between "suppressed" IPR that was developed by the IPR holder and "suppressed" IPR that was acquired by the IPR holder from others.

When the IPR holder developed the technology involved, the inventor is entitled to a patent if the technology was patentable, even if there was an intent not to use or license the patent.¹⁴ A monopoly that might result from such non-use of a patent is not an antitrust violation. It is unlikely that an essential facilities theory would prevail, since the technology is not being used at all.

On the other hand, if the technology that is being "warehoused" was acquired, a different analysis might apply. The acquisition of technology is subject to Clayton Act Section 7 and Sherman Act Section 2, although the mere accumulation of patents, no matter how many, is not an antitrust violation.¹⁵ The standard of behavior may be stricter for conduct relating to acquired technology than that to internally developed technology. In *Kobe, Inc. v. Dempsey Pump Co.*,¹⁶ the court found that there was acquisition, non-use, and vigorous enforcement of "every important patent" in the field with the intent to exclude competition. The patent holder also obtained covenants not to compete from the sellers of the patents that were acquired, and widely publicized its infringement suits enforcing its patent portfolio. The court there found that the result was a "complete monopoly of the business relating to hydraulic pumps for oil wells."

Nonetheless, even if there is suspect suppression of acquired technology by the patent holder, the inventor of the technology who sold it may not have antitrust standing to challenge the subsequent suppression of the technology.¹⁷

Tie-Ins

For a tie involving a patent to be *per se* offensive to the antitrust laws, the following need to be demonstrated: (1) the patent used as the tying item has market power; (2) in order to obtain a license on the patent, the licensee is required to take something else from the patent holder, an entity related to the patent holder, or an entity that will give the patent holder an economic interest in the transaction involving the tied item; and (3) a substantial volume of the tied item is involved.¹⁸ If these attributes are not all present, a tie would not be *per se* offensive to the antitrust laws, but might still be found to be an unreasonable restraint of trade, which is much more difficult to demonstrate if the attributes are not present. A tie can be found not only by express agreement, but also by conduct. For example, in *C.R. Bard, Inc. v. M3 Systems, Inc.*,¹⁹ the court found that modifying a patented biopsy gun so that only the patent holder's needles can be used with the gun effectively imposed a tie.

For intellectual property, a finding of a tie may have repercussions beyond antitrust. If a tie in violation of the antitrust laws is found, then it is also a misuse of the patent, in which case the patent holder cannot enforce the patent against any infringer at all until the misuse has been cured.

The existence of an impermissible tie may arise in the context of patent pools and package licenses. In the copyright area, the block booking of movies is still a source of tying claims. In those cases, a film distributor requires movie theatres to book less desirable films of the distributor in order to get access to a potential blockbuster.

The initial question in evaluating a tie is the business reason for the tie. If separate IPRs are involved, are they blocking or complementary IPRs, so that it is as a practical matter not feasible to use only one of the IPRs without also using the other? If the IPRs are complementary or blocking, then there is a substantial business reason for the tie.

If the IPR is being tied to something that is distinct and not needed to practice the IPR being licensed, then the market power commanded by the IPR needs to be examined. The market position of the tying technology may be insignificant, or there may be several competing technologies, in which case the tie is not a *per se* violation of the antitrust laws and also unlikely to be found to be an unreasonable restraint on trade. This may be the case especially with new and untried technology, which the holder might package with other items to increase its attractiveness to potential licensees. However, if the tying technology is the dominant technology, then there may be market power that is being abused by the tie. In the context of patents particularly, the situation must be monitored over time. A patent that may not have any market power when a license was first issued may

have substantial market power when the license is up for renewal.

The impact of a tie involving IPR with substantial market power must be examined. The extent of the exclusion of other suppliers of the tied item from potential customers is an important factor; these competing suppliers may be denied significant access to the marketplace if their likely customers are buying the tied item from the IPR holder and not from them because of the customers' need for the tying IPR. This was the situation in the first *Microsoft* case.²⁰

Package Licenses

A package license might be characterized as a tie-in which both the tying item and the tied item are intellectual property rights. The licensor bundles several patents and/or technologies in one license.

The key question is the need for such a package license. What are the relationships among the technologies that are bundled in the package? Are they complementary technologies that must be used together to make a complete product or service? Are they basic and improvement technologies that should be used together to produce state-of-the-art results?

If there is no need to have the technologies in one package, then the question is what is the business need for the package. A more appropriate arrangement may be separate licenses for each of the patents or technologies in the proposed package. The arrangement might otherwise be susceptible to challenge as a tie-in arrangement offensive to the antitrust laws, particularly if the tying technology has market power.

Patent Pools

Patent pools may be viewed as packages of technologies from more than one source. Two or more technology owners may license their technologies to each other with the right to sublicense to others, or they may license their technology to a third party that will sublicense the pooled technology to others.

The key question is the purpose of the pool. Often that explains the need to have all the technologies in a pool to provide common access to licensees. If the separately owned technologies placed in the pool are blocking or complementary technologies, then a pool may be the only practical way to exploit these technologies. Otherwise, a license of only one of the technologies involved may have little value because the licensee would not have assurance of access to the other technologies that are needed along with the licensed technology.

If the technologies that are being pooled are not blocking, complementary, or a basic technology and its improvements, then the business reasons for creating the pool should be determined. If in fact the

technologies being pooled are substitutes for each other, so that they are really competing technologies, the better approach may be for the technologies not to be pooled but for the technology owners to compete for licensees and license their technologies independently.

Even if some of the technologies being pooled should be packaged, each of the technologies being pooled should be reviewed to determine whether that technology needs to be pooled with the others to fulfill the purpose of the pool and provide potential licensees with a package of technologies from different sources that will enable the licensees to produce a good or service. If the pool has only the technologies needed to fulfill the purpose of the pool, then the pool is probably pro-competitive; it enables a stronger offering to potential licensees and access to the market for the owners of the technologies. In that case, even if the pool will be the only source of such a package of technologies, its creation is unlikely to be challenged as anti-competitive. On the other hand, if the pool includes some technologies that are substitutes for each other, then it may include more technology than is warranted. However, if the "duplicative" technologies cannot be fully utilized on a "standalone" basis but instead must be combined with other technologies that are available only in the pool, that may justify including those "duplicative" technologies in the pool. The better approach may be to have all technologies be contributed to the pool on a nonexclusive basis and to remove the "duplicative" technologies from the pool, so that the "duplicative" technologies can be licensed in competition with the pool, perhaps together with complementary technology that was contributed to the pool on a nonexclusive basis. The federal antitrust agencies have favored the use of third party technical experts to determine which technologies should be included in the pool, and some major patent pools have been organized with such a system.²¹

The open or closed nature of the pool should also be reviewed. Will new technologies from other parties be accepted into the pool, or will only those of current pool contributors be accepted, and on what terms? A closed pool may make it more difficult for new technologies to gain access to the marketplace if those new technologies need to be coupled with technology that is in the pool. On the other hand, an open pool might decrease the incentives to pool members to innovate further since they are assured of returns from the pool generally. This may be the case particularly if the pool ultimately includes an overwhelming majority of the entities capable of R&D in the area.

Concerns that may be raised by these considerations are amplified if the parties are actual or potential competitors outside the pool in the area that is covered by the pool, especially if they hold significant market positions.

Restrictions on the contributors to the pool should be reviewed for their potential impact. Are the licenses of technology to the pool exclusive, so that the technology owners may not license the technology directly to others? Are the technology owners free to develop improvements without being required to contribute those improvements to the pool? If improvements must be licensed to the pool, what terms will be required? Any collateral agreements relating to the pool should be reviewed. There should be a clear business reason for agreements that relate to the functioning of the pool.

The administration of the pool also needs to be carefully arranged. The better approach may be to have a third party administer the pool, negotiate with licensees, and establish terms and royalties. The policy of the pool should be to make licenses generally available to all financially qualified applicants, and to charge royalties that are related to the particular package of technologies licensed. Firewalls among pool participants and the pool may be appropriate, to ensure that data flows and activity coordination are limited to that needed for the functioning of the pool.

Finally, the pool's impact on future innovation should be considered. What might be the impact of the pool, as structured, on the incentives to continue to develop new technology in the area?

Cross Licenses

Unlike the other situations discussed in this article, there is a two-way technology flow in a cross-licensing situation. The parties in a cross-license are licensing their respective technologies to each other.

As in other situations when more than one IPR is involved, a key issue is the need for the cross-license. Does each of the parties need the technology of the other in order to fully utilize its own technology? Are the parties' technologies blocking each other, so that each cannot use its own technology without infringing upon the other's rights? Or are the parties' technologies complementary, so that neither can bring a product or service to market without having access to the other's technology? Is one party's technology an improvement upon the other's, so that the first can't use its technology without infringing on the other's rights, but the other cannot provide a competitive product or service without the first's improvement? In these types of situations, a cross-license may be the only practical way of enabling the parties to exploit their technologies.

On the other hand, if the parties do not need both sets of technologies in order to fully exploit their own technology, then the question must be asked why there is the linkage of the technologies in a cross-license. Separate and independent licenses of the parties' technologies might be more appropriate.

License Restrictions Generally

Just as licenses are generally beneficial to the exploitation of intellectual property and consumer welfare, restrictions in licenses are recognized to be often pro-competitive by enabling the efficient and effective exploitation of intellectual property rights and preventing free riding. Therefore, most license restrictions are tested under the reasonableness standard. For example, field of use restrictions, limiting the licensee's right to practice the licensed IPR to a particular industry, customer group, or product type are common and generally inoffensive to the antitrust laws. In many situations, such as an agreement by the licensee not to challenge the validity of the licensed patent or restrictions on where a purchaser may resell a patented product, patent misuse concerns may be greater than antitrust concerns.

For most license restrictions, the key question is whether the restriction enables the licensor to exert control beyond the scope of the patent. Therefore, the restriction should be reasonably related to the licensed IPR. Questions regarding the competitive impact of the restriction, who may complain about the restrictions, and what alternatives should be considered.

Some license restrictions are considered *per se* violations. As a matter of counseling, clients should be advised against attempting to dictate the terms, particularly prices, at which licensees sell products produced under license. Less often, the parties may attempt to restrict the terms at which the licensor will license to others. That should also be avoided.

Licenses among competitors should be closely scrutinized to ensure that they might not be the means by which competitors allocate the market or limit output. Such "horizontal" market agreements are *per se* illegal. A network of licenses with licensees who compete with each other should also be reviewed to ensure that they do not actually effectuate a cartel among the licensees, using the licensor as a hub and conduit. Exclusive territories and output limitations that are imposed by a licensor on its licenses may be reasonable as a method unilaterally developed by the licensor to exploit its intellectual property rights most efficiently and effectively. However, if such terms are included in other licenses granted by the licensor at the behest of licensees, they are suspect.

The business reasons for the terms should be explored. It is not uncommon that the business goals can be achieved, or approximated, by alternative license terms that are not so suspect under the antitrust laws. For example, if the concern is that the licensee may sell the licensed product at such a low price that a percentage royalty will yield little revenue for the licensor, then the royalty might be set at the greater of a minimum dollar amount per unit and a percentage of the licensee's revenues.

Exclusivity

Exclusivity of various types is common in licenses and is tested under the rule of reason. Whether a license is exclusive is determined by its substance, and how it is actually implemented, not by how the parties label it.

Exclusive License

It is common that a licensor will agree not to license others in a specified area, be it geographic, use or customer group, and not to practice the IPR itself. With this exclusivity, the licensee has the security of knowing that it is the only holder of the IPR in the area, and can devote its best efforts to exploiting the IPR without concern about free riders. Exclusive licenses are generally acceptable under the antitrust laws if other potential licensees have similar technology that they can license from others, or if the exclusivity is unlikely to have significant impact on prices or output levels in the market generally even if specific competitors may be adversely affected. In the rare case when the licensor controls IPR that is an essential input for some products or services, then exclusive licenses might be attacked under the essential facilities doctrine.²²

An exclusive license may also be viewed as the acquisition by the licensee from the licensor of the licensed IPR. The scope and terms of the license (such as a license of all rights under a patent for the remaining life of the patent) may have the effect of a transfer of the IPR for all practical purposes. In that case, Clayton Act Section 7, 15 U.S.C. § 18 would apply in order to determine whether the transaction is an acquisition that may tend to lessen competition or create a monopoly. An exclusive license may raise concern under Section 7 if the licensor and licensee are actual or potential competitors in the area in which the IPR is practiced, and there are few other competitors in that market. In that case, an exclusive license may result in the exit from the market of one of the few competitors, leaving the market even more concentrated, and may violate Section 7. A similar concern may arise if the licensee is also the owner or exclusive licensee of competing technology so that the acquisition of the licensed IPR may result in the licensee holding a substantial portion of the IPR in the area.

In many collaborations, particularly in the biotechnology area, where exclusive IPR licenses are often coupled with an investment by the licensee in the licensor, the premerger notification requirement under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, 15 U.S.C. § 18a, may also be triggered.

Exclusive Dealing

Exclusive dealing is involved when the licensee is restricted from licensing similar or competing technology from others, or from developing its own IPR

in the area. It provides incentive to the licensee to focus on the licensed IPR and comfort to the licensor that knowledge transferred to the licensee might not be used to benefit the licensor's competitors.

A factor that should be considered is whether the access of other IPR holders to the market would be substantially restricted by the unavailability of the licensee. If the licensor has a network of exclusive dealing licenses so that many licensees are restricted from dealing with similar or competing IPR, then there might be such a restrictive effect on the market place. If there will be foreclosure of competitors of either the licensor or the licensee from the marketplace as a result of the exclusivity, then there should be consideration of the complaints that may be made and how and of the practical alternatives to the proposed arrangement.

Co-Exclusive Licenses

A "co-exclusive" license is midway between an exclusive and a nonexclusive license in the sense that the licensee is sharing rights only with one other entity. In many cases, this occurs when the licensor reserves the right to compete with the licensee but agrees not to license any other licensees. In other cases, the licensor licenses two licensees with the same rights.

One recent case highlights a pitfall in drafting co-licenses with two licensees. In *Cook Incorporated v. Boston Scientific Corp.*,²³ Angiotech granted co-exclusive licenses to Cook Incorporated and Boston Scientific Corporation to produce and market stents that are coated using Angiotech's patented technology with medication for the treatment of arteriosclerosis. These licenses were embodied in a single document and granted Cook and Boston Scientific worldwide co-exclusive rights under Angiotech's technology. None of the parties could assign its rights or obligations under the agreement without the prior consent of the others.

Cook contracted with a third party to handle obtaining regulatory approval for its stents and to sell its stents. Boston Scientific notified Cook that it considered Cook's arrangement a breach of the license agreement, and issued a press release to that effect. Cook filed an action seeking a declaratory judgment that it was not in breach of the Angiotech license, and alleging that Boston Scientific had violated the Lanham and Sherman Acts by sending the notice letter and issuing the press release. Boston Scientific answered and counterclaimed. Each side moved to dismiss parts of the other's claims.

With respect to Cook's Sherman Act claim, the Northern District of Illinois, Eastern Division, ruled that the Angiotech license agreement might be concerted action that violates the antitrust laws, if Boston Scientific's interpretation of it is correct. Cook alleged that Boston Scientific's interpretation of the license renders it a horizontal restraint of trade by giving

Boston Scientific a veto over the arrangement that Cook, Boston Scientific's competitor, had with Guidant to produce stents. The court ruled that Cook stated a claim, even though Cook would have invalidated the license it received from Angiotech if it prevails.

It is unclear whether the court will uphold Boston Scientific's reading of the license and Cook will ultimately succeed in showing that the license is therefore a contract that created an unreasonable restraint on trade. However, the fact that Cook's complaint withstood a motion to dismiss demonstrates that there are significant antitrust risks in following Angiotech's approach in licensing its intellectual property rights.

Some lessons might be learned from this case. First, it may be wiser not to embody multiple licenses to different licensees in one document executed by all the licensees. It is entirely possible that Angiotech's intent was that it, and only it, would have the right to approve the actions of its licensees, and not that the licensees would have the right to review each other's activities. The consent clause in question might have been drafted without taking full account of the fact that both licensees were signatories. Second, it is wiser not to permit licensees to have a veto on the activities of other licensees. This is the wiser approach for all licenses. Such a veto arrangement creates a situation where competitors can restrict each other's activities. In any event, the licensor can retain a right of approval over the licensee's sublicense arrangements.

Finally, this type of situation can arise in the context of licenses involving know-how, copyrights, or trademarks and so care should be taken in those contexts too. All types of licensees may feel that they have an interest in the activities of other licensees and want to have some powers over those activities. With the possible of exception of franchise licenses, when specific state statutes may have an impact, it is wiser not to permit licensee to have review rights over the activities of other licensees.

Grant Backs

It is common to include in licenses grant backs from the licensee to the licensor of improvements that the licensee makes in the licensed IPR. There are usually good business needs for such including grant backs. For example, without the grant back, the licensor may have put the licensee in business and enabled the improvement, but put its own IPR at risk of obsolescence. Grant backs encourage licensors to offer IPR to licensees who could improve the technology, without fear that the licensee will make the IPR obsolete.

Grant backs that are nonexclusive generally raise no questions under the antitrust laws. More questions

are raised when the grant backs are exclusive and the licensee is restricted from licensing the improvements to others or to use it. Such exclusivity is especially suspect if the licensor has a network of licenses with an exclusive grant back requirement.

The scope of the grant back requirement should be carefully considered. Are all improvements on the licensed IPR to be granted back to the licensor? Or are only improvements in a particular area of use to be granted back? What use may the licensor make of the granted-back IPR? What are the time and scope of the grant back? What sublicensing rights and royalties are involved?

The impact of the grant back requirement on incentives to innovate should also be considered. If the grant back is too onerous on the licensee, it may have no incentive to improve the licensed IPR because it may not get much of the fruits of its labors. Some alternatives to grant backs might be considered, such as an interest in any licenses that the licensee may grant to others in the improvements.

Some Additional Considerations

Antitrust issues may have implications beyond the antitrust remedies that are available to the injured party if the doctrine of patent misuse is invoked. Antitrust concerns may also arise in litigation settings involving IPR licenses. Foreign law implications should be considered when cross-border situations are involved.

Misuse

Misuse may, in some circumstances, be a more important consideration than antitrust. That is because misuse may be found even when there is no antitrust violation, and because misuse results in unenforceability of the IP rights against the world and not just liability to the other party in litigation.

Misuse is a form of the "unclean hands" doctrine that was developed in the patent context, most often in the context of finding that the patent holder extended the scope of the patent beyond its legal scope.²⁴ Some courts have extended it to copyright situations.²⁵

Misuse is a defense to an infringement action or an action to enforce a license, but is not an affirmative claim for relief.

Settlements

It is not uncommon that infringement lawsuits are settled by licenses between the parties. While it might be argued that an agreement that was approved by the court in settlement of a lawsuit should be acceptable under the antitrust laws, the federal enforcement agencies, and some courts, are clearly not of that view.²⁶

Therefore, licenses entered into as part of the settlement of a lawsuit involving IPR, must be analyzed in the same manner as any other license for antitrust issues. In particular, the principal purpose of the license must be considered. A license may be found to have been created principally to exclude competition, and not merely to settle priority between the parties as to certain IPR.²⁷

Foreign Law

When there are parties from outside the United States, foreign law may need to be considered. In some cases, the foreign law that may be relevant may take a more restrictive view of permissible IPR license relationships. For example, in the European Union, the Technology Transfer Block Exemption (which is under review and may be superseded in the next year with another block exemption) exempts from the EU's competition law strictures only certain forms of bilateral licensing agreements, but not any multi-lateral agreements. Therefore, all patent pools may be found violative of Articles 81 or 82 of the European Community Treaty, unless specific individual clearance is obtained from the European Commission.

1. IP Guidelines ¶ 3.2.2.
2. IP Guidelines ¶ 3.2.3.
3. *United States v. Pilkington plc*, 1994-2 Trade Cas. (CCH) ¶70,842 (D. Ariz. 1994).
4. Complaint, *FMC Corp. and Asahi Chem. Industry Co., Ltd.*, File No. 981-0237 (Dec. 21, 2000).
5. 35 U.S.C. § 271(d).
6. Sherman Act § 2, 15 U.S.C. § 2.
7. Sherman Act § 1, 15 U.S.C. § 1.
8. *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945).
9. *PrimeTime 24 Joint Venture v. NBC*, 219 F.3 92 (2d Cir. 2000).
10. *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994).
11. *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997).
12. *In re Independent Serv. Orgs. Antitrust Litig.*, 203 F.3 1322 (Fed. Cir. 2000), cert. denied, 121 S. Ct. 1007 (2001).
13. *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49 (1993).
14. *Hartford-Empire Co.*, 323 U.S. 386.
15. *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 834 (1950).

16. *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir. 1952).
17. See, e.g., *McDonald v. Johnson & Johnson*, 722 F.2d 1370 (8th Cir. 1983); *Alling v. Universal Mfg. Corp.*, 5 Cal. App. 4th 1412, 7 Cal. Rptr. 2d 718 (Ca. App. 1992).
18. See, e.g., *Eastman Kodak Co. v. Image Technical Servs.*, 504 U.S. 451 (1992); *Northern Pac. Ry. v. United States*, 356 U.S. 1, 5-6 (1958).
19. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 120 F. Supp. 2d 1145 (N.D. Ill. 2000).
20. *United States v. Microsoft Corp.*, 1995-2 Trade Cas. ¶¶ 71,027, 71,096 (D.D.C. 1995) (consent decrees).
21. See, e.g., Business Review Letters of Antitrust Division, Department of Justice, dated December 16, 1998, June 10, 1999, relating to DVD patent pools; Business Review Letter, dated June 26, 1997, relating to MPEG-2 compression technology pool.
22. The essential facilities doctrine comes into play when an entity (1) with monopoly power in one market which is an input for another market, (2) is also a competitor in that second market, and (3) uses that monopoly power against competitors in the second market by denying access to the input. The competitor in the second market seeking access must show that (a) the IPR owner controls that essential facility, (b) the competitor cannot practically duplicate that "facility", and (c) it would have been feasible for the IPR owner to provide access to the IPR. See, e.g.,

- United States v. Terminal R.R. Ass'n, 224 U.S. 383 (1912); MCI Communications Corp. v. AT&T, 707 F.2d 1081, 1132 (7th Cir. 1983); Montgomery Co. Ass'n of Realtors, Inc. v. Realty Photo Master Corp., 878 F. Supp. 804, 817 (D. Md. 1995).
23. Cook Inc. v. Boston Scientific Corp., 208 F. Supp. 2d 874 (N.D. Ill. 2002).
24. *E.g.*, Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942).
25. *See, e.g.*, Alcatel USA, Inc. v. DGI Techs., 166 F.3d 772 (5th Cir. 1999); Practice Mgmt. Info. Corp. v. American Med. Ass'n, 121 F.3d 516 (9th Cir. 1997); Lasercomb of Am., Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1970).
26. *See, e.g.*, Andrx Pharm., Inc. v. Biovail Corp., 256 F.3d 799 (D.C. Cir. 2001); *In re Terazosin Hydrochloride Antitrust Litig.*, 2000 U.S. Dist. LEXIS 20477 (S.D. Fla. Dec. 13, 2000); *In re Cardizem CD Antitrust Litig.*, 105 F. Supp. 2d 682, 685 (E.D. Mich. 2000); *In re Abbott Labs.*, FTC, Dkt. No. 9273 (March 16, 2000), CCH Trade Reg. Rep. [1997-2001 Transfer Binder] ¶24,715; *In re Hoechst Marion Roussel, Inc.*, FTC, File No. 981-0368 (filed March 16, 2000), CCH Trade Reg. Rep. [1997-2001 Transfer Binder] ¶24,715; *In the matter of Schering-Plough Corp.*, FTC, Dkt. No. 9297 (Initial Decision filed June 27, 2002); IP Guidelines ¶5.5.
27. *See, e.g.*, *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963); *Hartford Empire Co. v. United States*, 323 U.S. 386 (1945); *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648 (D.S.C. 1977), *aff'd in part & rev'd in part*, 594 F.2d 979 (4th Cir. 1979), *cert. denied*, 444 U.S. 1015 (1980).