

CHAPTER **13**

Intellectual Property and Antitrust Law

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I. Introduction

If your client owns intellectual property rights (IPR) and permits others to use them under the terms of a license agreement, the client should be concerned about the potential antitrust implications of its licensing practices. This concern naturally flows from the fact that most antitrust laws prohibit “combinations in restraint of trade” and many license agreements contain provisions that restrict how the

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licensed IPR can be used. If not properly drafted, license agreements that were intended merely to specify the parameters within which the subject IPR can be used might be interpreted as improper restraints on trade. Similarly, for intellectual property (IP) owners that have achieved great success in their respective markets, there is the added potential their conduct may be scrutinized under the provisions of state and federal law that limit the exercise of monopoly power.

Historically, the goals of antitrust and IP law were seen as contradicting one another. The grant of exclusive proprietary rights, for example, was viewed by some as encouraging monopolies, and thereby directly opposed to antitrust law's limitation on monopoly power. Today, however, enforcement agencies and courts recognize that IP and antitrust laws actually share the fundamental goals of enhancing consumer welfare and promoting efficiency and innovation, all of which increase competition in the marketplace.¹ IP laws enhance competition by incentivizing innovation and creating enforceable property rights for the creators of new products, more efficient processes, and original works of expression. Antitrust laws promote competition by restricting unreasonable restraints of trade and limiting competitors' ability to coordinate efforts to monopolize a particular market. In doing so, antitrust laws ensure that innovative and proprietary technologies, products, and services are bought, sold, traded, and licensed in a competitive environment.²

Despite the recent willingness of enforcement agencies and courts to evaluate the antitrust legality of IP agreements with a less rigid eye, complex questions often arise when antitrust law is applied to specific agreements involving IPR. Thus, a business lawyer must be keenly aware of the implications of, and limitations imposed by, antitrust laws when negotiating and drafting agreements involving IP. Although a client may be primarily focused on protecting his or her proprietary rights, a business lawyer must not lose sight of the possibility that the end result of any agreement may be an unreasonable restraint on trade or exclusionary conduct that violates state or federal antitrust laws.

1. U.S. Department of Justice and Federal Trade Commission, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007) at p. 1, available at www.ftc.gov/reports/index.shtm (hereinafter "Enforcement Report").

2. U.S. Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*, § 1 (1995), reprinted in 4 Trade Reg. Rep. (CCH) ¶ 13,132, available at www.usdoj.gov/atr/public/guidelines/0558.pdf [hereinafter "Antitrust IP Guidelines"].

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This chapter begins with a discussion of the two general types of conduct that may give rise to antitrust liability and the level of scrutiny that is generally applied when analyzing the legality of such conduct. Next, it provides an overview of particular conduct and agreements involving IPR where antitrust hurdles may present themselves and identifies the characteristics of IP agreements that typically survive antitrust scrutiny. Due to the limited scope of this book and the complexity of antitrust law in general, this chapter focuses on antitrust issues related to IP licenses.³ For a broader view of issues related to the licensing of IPR, see Chapter 5.

Traps for the Unwary

1. Enforcement agencies and courts scrutinize agreements between competitors more critically than agreements between firms at different levels of the distribution chain, such as between a manufacturer and its distributor or a licensor and licensee of IP.
2. A legitimate business reason or justification provides no defense for antitrust conduct that has been deemed per se illegal, such as price fixing, market allocations, division of territories, and bid rigging.
3. Patent owners should avoid pooling patents that serve as a substitute for one another in the market place as opposed to pooling complimentary patents that are essential to the effective and efficient use of a given technology.
4. In determining whether a particular licensing agreement is shielded from antitrust liability under the Antitrust IP Guidelines' safe harbor provisions, a practitioner must pay careful attention to the relevant market at issue as particular markets are analyzed differently.
5. Absent certain statutory exceptions, a Hart-Scott-Rodino premerger notification form must be filed with federal enforcement agencies for any merger or merger-like acquisition with a transaction value of \$63.1 million or greater.

3. For a comprehensive study of the interplay between intellectual property and antitrust law, see ABA Section of Antitrust Law, *Intellectual Property and Antitrust Handbook* (2007) [hereinafter "IP/Antitrust Handbook"].

II. The Fundamentals of Antitrust Law

Generally, two types of conduct may give rise to antitrust liability: concerted actions resulting in an unreasonable restraint of trade and exclusionary conduct resulting in or expanding monopoly power. Because conduct resulting in an unreasonable restraint of trade must involve concerted or collaborative action between two or more parties, a business lawyer is often called on to negotiate or analyze concerted activity that arises in conjunction with various contractual agreements and transactions. A business lawyer is less likely to confront conduct resulting in monopoly power due to the fact that it is commonly achieved or attempted through unilateral activity. Nonetheless, understanding the two types of conduct is essential since the antitrust laws and enforcement agencies⁴ treat the conduct differently.

A. Agreements that Unreasonably Restrain Trade

Concerted action is generally analyzed under Section 1 of the Sherman Act, which states: “Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is declared to be illegal.”⁵ Although section 1 does not require a formal agreement,⁶ the existence of a written contract containing anticompetitive obligations may serve as powerful evidence of improper concerted activity. The business lawyer’s role in identifying potential antitrust concerns at the outset of a transaction is therefore vital to the client’s interests.

Recognizing the extremely broad language in Section 1, the Supreme Court has noted that if such language is read literally, essentially all types of contracting activity would be deemed an unlawful restraint of trade.⁷ Instead, the court has ruled that only those restraints of trade that *unreasonably* restrict competition violate the antitrust laws. To advise a client on whether a particular contract (i.e., concerted

4. The FTC and the Department of Justice share concurrent jurisdiction in enforcing the antitrust laws and are typically referred to as the enforcement agencies.

5. 15 U.S.C. § 1.

6. Section 1 of the Sherman Antitrust Act does not require even direct evidence of concerted actions; an agreement may be inferred from “direct or circumstantial evidence” that tend to exclude the possibility of independent action and “reasonably tends to prove . . . a conscious commitment to a common scheme designed to achieve an unlawful objective.” *Monsanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752, 768 (1984).

7. *Standard Oil Co. v. United States*, 221 U.S. 1, 58 (1911); *see also* *Cal. Dental Ass’n v. FTC*, 526 U.S. 756, 769–81 (1999).

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action) violates the antitrust laws, the following requirements for a Section 1 violation should be assessed: (1) the existence of a contract, combination, or conspiracy among two or more separate entities⁸ that (2) unreasonably restrain trade and (3) affect interstate or foreign commerce. (While the federal antitrust laws address only conduct involving interstate commerce, each state has enacted antitrust laws modeled primarily after the Sherman Act to address intrastate activity.) To determine whether a restraint is unreasonable, courts traditionally apply either a *per se* or “rule of reason” standard, discussed *infra*.

Antitrust law interpreting Section 1 of the Sherman Act also distinguishes between horizontal and vertical restraints of trade. Horizontal conduct involves agreements or other concerted action between actual or potential competitors. Vertical conduct involves collaborative efforts between entities at different levels of the distribution chain, such as between a manufacturer and its distributors, sellers and buyers, and licensors of IP and users of IP. Although both constitute concerted action under Section 1, agreements involving horizontal conduct have a higher risk of reducing competition, whereas vertical agreements are more likely to involve mere allocation of task to the most efficient actors within a production stream. Accordingly, careful attention must be paid to any agreements between competitors as courts are more likely to define those restraints as unreasonable or even unlawful *per se*.⁹

B. Per Se Versus “Rule of Reason” Analysis

Understanding the level of scrutiny that will be applied by a court or enforcement agency in analyzing a Section 1 allegation allows a business lawyer to properly advise a client on the potential unlawfulness of a particular agreement and to assist the client in assessing the risks

8. Parallel behavior absent an agreement is typically lawful if it does not rise to the level of concerted action. Even conscious parallel behavior or oligopolistic price coordination does not violate section 1 when competitors arrive at the pricing decisions independent of one another. *Brooke Group v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 227 (1993). *See also* *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 127 S. Ct. 1955, 1964–66 (2007) (allegedly parallel conduct, even if intentional, is not enough to constitute a conspiracy in violation of the antitrust laws).

9. *Compare* *White Motor Co. v. United States*, 372 U.S. 253, 263 (1963) (recognizing that horizontal restraints typically are “naked restraints of trade with no purpose except stifling of competition”), *with* *Bus. Elecs. Corp. v. Sharp Elecs. Corp.*, 485 U.S. 717, 735–736 (1988) (noting that a vertical restraint is not illegal *per se* “unless it includes some agreement on price or price levels”).

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associated with entering into such agreement. The per se method is applied to business arrangements that are considered so virulent and anticompetitive that they can be deemed unlawful “without elaborate inquiry as to the precise harm that they have caused or the business excuse for their use.”¹⁰ Common examples of conduct that is per se illegal are price fixing,¹¹ market allocations or division of territories,¹² and bid rigging. The sole issue in conducting a per se analysis is simply whether the defendant engaged in the prohibited conduct.¹³ Where per se activities are shown, courts are likely to find liability automatically and will not entertain efficiency-based defenses or other business justifications.¹⁴

If the concerted activities of two or more individuals or entities do not constitute per se violations of the antitrust laws, then the complainant in an antitrust action bears a much greater and costly burden of proof.¹⁵ Under this level of scrutiny, the court or agency determines whether the conduct at issue is an unreasonable restraint of trade by balancing the pro-competitive benefits and anticompetitive effects on competition in a particular market.¹⁶ This complex analysis involves several 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.”¹⁷ In addition, courts will often examine whether there are less restrictive means to achieve anticompetitive purposes.¹⁸

A corporate lawyer who can identify the level of scrutiny to be applied to a particular agreement and the risks associated with such conduct serves a vital role for the client. As is discussed in more detail in Section III infra, most conduct involving IPR is analyzed under the “rule of reason” approach. Particular care should be taken, however, to be certain that agreements involving IPR do not contain provisions that will be scrutinized under the per se approach.

10. *N. Pac. Ry. v. United States v. U.S.*, 356 U.S. 1, 5 (1958).

11. *Arizona v. Maricopa County Med. Soc’y*, 457 U.S. 332, 354 (1982); *Catalano, Inc. v. Target Sales, Inc.* 446 U.S. 643, 650 (1980) (per curiam).

12. *Palmer v. BRG of Ga.*, 498 U.S. 46, 49–50 (1990) (per curiam); *United States v. Topco Assocs.*, 405 U.S. 596–608 (1972).

13. *N. Pac. Ry.*, 356 U.S. at 5.

14. See *Palmer*, 498 U.S. at 49–50.

15. See e.g., *Cal. Dental Ass’n*, 526 U.S. at 673.

16. *Nat’l Soc’y of Prof’l Eng’rs v. United States*, 435 U.S. 679–692 (1978).

17. *State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997).

18. See e.g., *United States v. Visa, USA, Inc.*, 344 F.3d 229, 238 (2d Cir. 2003).

C. Exclusionary Conduct Resulting in Monopoly Power

Section 2 of the Sherman Act¹⁹ addresses both concerted conduct (contract or other combination) and unilateral conduct and is designed to prevent the use of monopoly power to “foreclose competition, to gain a competitive advantage, or to destroy a competitor.”²⁰ Section 2 claims are commonly referred to as “monopolization” and “attempted monopolization.”²¹ Common examples of conduct challenged as exclusionary under Section 2 are predatory pricing (that is, uneconomic pricing used to drive rivals from a market, at which time the monopoly expects to recoup its losses), vertical agreements that close competition, illegal tying arrangements, and refusals to deal.²²

The elements of a Section 2 monopolization claim are: (1) the possession of monopoly power in a relevant market; and (2) the willful acquisition or maintenance of that power, as distinguished from growth or development of monopoly power as a consequence of a superior product, business acumen, or historical accident.²³ Monopoly power is the ability to control market prices or exclude competition.²⁴ Such power may be inferred based on a business’ dominant share of a relevant market, especially markets that are protected by entry barriers.²⁵

Understanding the existence of a relevant market requires a determination of the relevant product and geographic market. The relevant product market includes substitute products to which a customer may turn in response to a rise in price of the primary product.²⁶ Thus, commodities that are “reasonably interchangeable” make a part of the

19. 15 U.S.C. § 2.

20. *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 482–483 (1992) (quoting *U.S. v. Griffith*, 334 U.S. 100, 107 (1948)).

21. Attempted monopolization requires: (1) that the defendant has engaged in predatory or anticompetitive conduct with (2) a specific intent to monopolize; and (3) a dangerous probability of achieving monopoly power. *Spectrum Sports v. McQuillan*, 506 U.S. 447, 456 (1993); *United States v. Microsoft, Corp.*, 253 F.3d 34, 80 (D.C. Cir. 2001).

22. See *Antitrust Law Developments*, infra note 54 at 246–297 (discussing these and other common monopolization theories). See also *IP/Antitrust Handbook*, supra note 4.

23. *United States v. Grinnell Corp.*, 384 U.S. 563, 570–571 (1966).

24. *United States v. E.I. duPont de Nemours Co.*, 351 U.S. 377, 391 (1956); *U.S. Anchor Mfg. v. Rule Indus.*, 7 F.3d 986, 994 n.12 (11th Cir. 1993).

25. *Microsoft*, 253 F.3d at 51.

26. *Grinnell*, 384 U.S. at 571.

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same relevant market. The geographic market is the geographic area to which customers may look for competing products. As with any monopolization claim, defining all aspects of the relevant market is an indispensable element to such a claim.²⁷

Because of the need to prove monopoly power, claims under Section 2 of the Sherman Act are not as common as claims under Section 1. Nonetheless, business lawyers should always pause to consider whether their client has monopoly power in a particular market. Keep in mind that how a client defines their market may not be the same as how their markets are viewed by the enforcement agencies.

III. General Antitrust Analysis of Licensing Agreements

Antitrust laws create a special set of constraints on IP licensing which should be considered in the process of either drafting license agreements or assisting in litigation of IPR licenses. Traditionally, the U.S. Department of Justice exhibited a somewhat rigid approach to licensing arrangements, identifying particular practices that it considered to be forbidden as the “Nine No-No’s” of IP licensing.²⁸ Today, the enforcement agencies’ Antitrust IP Guidelines embrace three general principles for the purpose of an antitrust analysis of licensing agreements: (1) the agencies regard IP as being essentially comparable to any other form of property; (2) the agencies do not presume that IP creates market power in the antitrust context; and (3) the agencies recognize that IP licensing allows firms to combine complementary factors of production and is generally pro-competitive.²⁹ These principles represent an important shift from the standards applied in the

27. *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1355 (Fed. Cir. 1999). For defining relevant markets, see generally U.S. Department of Justice and Federal Trade Commission, Horizontal Merger Guidelines, § 1 (April 2, 1992) available at www.usdoj.gov/atr/public/guidelines/horiz_book/toc.html [hereinafter Merger Guidelines].

28. George G. Gordon, *Analyzing IP License Restrictions Under the Antitrust Laws: A General Outline of the Issues* (June 2002), available at www.dechert.com/library/Analyzing%20IP%20License%20-%20Gordon%205-02.PDF citing Bruce B. Wilson, Deputy Assistant Attorney General., Remarks before the Fourth New England Antitrust Conference, Patent and Know-How License Agreements: Field of Use, Territorial, Price and Quantity Restrictions (Nov. 6, 1970).

29. See Antitrust IP Guidelines, *supra* note 3.

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1970s and early 1980s which required no showing of injury and were based on whether the patent holder had misused the IP, toward today's effect-based approach.³⁰

A. Level of Scrutiny

In the vast majority of cases, restraints in IP licensing arrangements are evaluated under the rule of reason by balancing a restraint's pro and anticompetitive effects.³¹ The agencies also analyze whether the parties to an agreement could have achieved similar efficiencies through significantly less restrictive means.³² In some cases, however, the courts conclude that a restraint's nature and effect are so plainly anticompetitive that it should be treated as unlawful per se, without an extensive examination of the efforts of the restraint.³³ For example, in the context of agreements involving IPR, naked price-fixing, output restraints, market divisions among competitors, as well as group boycotts and resale price maintenance agreements have been held to be per se illegal. The agencies also assess whether the particular restraint in a licensing arrangement will likely contribute to an efficiency-enhancing integration of economic activity to determine whether it should be given per se or rule of reason treatment.

When a restraint is likely to have an anticompetitive effect, the duration of that restraint can also be an important factor in determining whether it is reasonably necessary to achieve the putative pro-competitive efficiency. Consistent with their approach to the less restrictive alternative analysis, the agencies will not attempt to draw fine distinctions regarding duration. Rather, their focus will be on situations in which the duration clearly exceeds the period needed to achieve the pro-competitive efficiency. The evaluation of pro-competitive efficiencies, of the reasonable necessity of a restraint to achieve them, and of the duration of the restraint, may depend on the market context.

30. David A. Balto and Andrew M. Wolman, *Intellectual Property and Antitrust: In General Principles*, 43 IDEA 395 (2003).

31. Antitrust IP Guidelines, supra note 3, § 3.4. See also Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law*, § 1502 (2d ed., Aspen L. & Bus. 2003).

32. Antitrust IP Guidelines, supra note 3, § 4.2.

33. *Id.*, § 3.4.

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An IP owner can make a number of arguments to prove the pro-competitive effects of its business arrangements. IP typically is only one component among many in a production process and often derives value from its combination with complementary factors. Frequently, an IP owner will find it efficient to contract with others to sell rights in its IP, or to enter into a joint venture arrangement for further development of the IPR. Licensing, cross-licensing, or other transferring of IP can facilitate integration of the licensed property with other complementary factors of production. Also, by potentially increasing the expected returns from IP, licensing can increase the incentives for its creation and thus promote investment in research and development. It can also increase an IP owner's incentive to license, for example, by protecting the licensor from competition in the licensor's own technology in a market niche that it prefers to keep to itself. These benefits of licensing restrictions apply to patent, copyright, and trade secret licenses, and to know-how agreements.

While IP licensing arrangements are typically welfare-enhancing and pro-competitive, antitrust concerns may nonetheless arise when a licensing arrangement harms competition. Generally, conduct that impairs the opportunities of rivals, and either does not further competition on the merits or does so in an unnecessarily restrictive way, may be deemed anticompetitive. On the other hand, conduct that merely harms competitors while not harming the competitive process itself is not anticompetitive. Licensing arrangements raise concerns under the antitrust laws if they are likely to affect adversely the prices,³⁴ quantities, qualities, or varieties of goods and services either currently or potentially available.³⁵

34. *In re Ciprofloxacin Hydrochloride Antitrust Litigation*, 261 F.Supp.2d 188 (E.D.N.Y. 2003) (agreement between brand name manufacturer and manufacturers interested in producing generic version, under which brand name manufacturer paid generic version manufacturers not to start production until brand name manufacturer's patent expired, caused purchasers to pay supra competitive prices for drug).

35. A good example of licensing agreements that raise concerns under the antitrust laws are horizontal group boycott where independent businesses at the same market level agree to boycott another business, also at the same level of distribution. *See e.g.*, *Beal Corp. Liquidating Trust v. Valleylab, Inc.*, 927 F. Supp. 1350 (D. Colo. 1996).

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One type of licensing arrangement that typically raises concerns under the antitrust laws is the “exclusive license.” An acquisition is deemed exclusive if any aspect of the license is exclusive such as a license limited for a certain use or in a particular territory. An acquisition is considered nonexclusive when the licensor retains the unrestricted right to use the licensed IPR or to license them to another.³⁶ Exclusive licenses can trigger antitrust scrutiny because they typically contain some type of restraint. Nonexclusive agreements do not normally contain limitations or restraints and are not likely to produce anticompetitive effects.³⁷

A licensing arrangement may involve exclusivity in two other respects. First, the licensor may grant one or more exclusive licenses, which restrict the right of the licensor to license others and possibly also to use the technology itself. A license is also exclusive if it prevents or restrains the licensee from licensing, selling, distributing, or using competing technologies.³⁸ A license that does not explicitly require exclusive dealing may have the effect of exclusive dealing if it is structured to increase significantly a licensee’s cost when it uses competing technologies.³⁹

While the mere accumulation of IPR does not normally violate the antitrust laws, a business with market power may be guilty of monopolization when it acquires exclusive licenses that are necessary for participation in the relevant market and competitors do not have an equal opportunity to acquire the requisite licenses.⁴⁰ Acquisition by a monopolist of exclusive rights in a related patent may be considered a presumptive violation of Section 2 of the Sherman Act, although a monopolist should be allowed to acquire exclusive rights in unrelated patents and nonexclusive rights in any patent.⁴¹ When a dominant firm attempts to buy the rights of a potential competing

36. See Bruce J. Prager, ABA Section of Antitrust Law, Pre-Merger Notification Manual 45 (ABA 1991).

37. Antitrust IP Guidelines, supra note 3, § 4.1.2. A putative nonexclusive license may be *de facto* exclusive if the surrounding circumstances, such as when a licensor refuses all of the offers to license the right and refuses to use the technology itself. *Id.* at ex. 11.

38. Antitrust IP Guidelines, 3 supra note 3, § 4.12.

39. 10A William Meade Fletcher, et al., Fletcher Cyclopedic of the Law of Corporations, § 5020.25 (2008).

40. L.G. Balfour Co. v. FTC, 442 F.2d 1 (7th Cir. 1971).

41. 3 Herbert Hovenkamp, et al., IP and Antitrust, § 707(a).

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product through an exclusive licensing agreement, such conduct may also raise antitrust scrutiny.⁴²

D. Safety Zones

One of the most important and useful features of the Antitrust IP Guidelines is the establishment of antitrust “safety zones” to encourage innovation and enhance competition. These safe harbors were designed to provide owners of IP with a degree of certainty where anti-competitive effects are so unlikely that the arrangements may be presumed lawful without an inquiry into particular industry circumstances.⁴³ However, recognizing whether the relevant market is a goods market, technology market, or innovation market is vital to applying the safety zone provisions.

Absent extraordinary circumstances, the enforcement agencies will not challenge a restraint in a licensing agreement if: (1) the restraint is not facially anticompetitive; and (2) the licensor and its licensees collectively account for no more than twenty percent of each relevant market significantly effected by the restraint.⁴⁴ When the relevant market is a technology market, a proposed license arrangement falls within the safe harbor if: (1) the restraint is not facially anticompetitive; and (2) there are four or more independently controlled technologies, in addition to technologies controlled by the parties, which can be substituted for the licensed technologies at a comparable cost to the user. If a research and development or innovation market is involved, the agencies will not challenge a licensing agreement if: (1) the restraint is not facially anticompetitive; and (2) four or more independently controlled entities, in addition to the parties, possess the specialized assets or characteristics, and the incentive, to engage in research and development that is a close substitute for the activities of the parties.⁴⁵ The safety zone does not apply to those transfers of IPR to which a merger analysis is applied.

It should be emphasized, however, that licensing arrangements are not unlawful simply because they do not fall within the scope of

42. See Shelia F. Anthony, speech before the ABA Antitrust and Intellectual Property: The Crossroads Program, *Riddles and Lessons from the Prescription Drug Wars: Antitrust Implications of Certain Types of Agreements Involving Intellectual Property* (San Francisco, Cal. June 1, 200), available at www.ftc.gov/speeches/anthony.htm.

43. Antitrust IP Guidelines, supra note 3, § 4.3.

44. *Id.*

45. Antitrust IP Guidelines, supra note 3, § 4.3.

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the safety zone. Indeed, the agencies have noted that the great majority of licenses falling outside the safety zone will likely remain lawful and pro-competitive.

E. Business Review Letters

Aside from the safety zones established by the Antitrust IP Guidelines, a business lawyer should also take advantage of the Business Review Letter process. Although the Department of Justice lacks authority to issue advisory opinions to private entities, title 28 of the Code of Federal Regulations, section 50.6, grants the department the authority to review the proposed business conduct of the requesting parties and issue a review letter stating its enforcement intentions regarding that conduct. Therefore, any business concerned with the legality of proposed conduct should request a review letter from the department in an effort to avoid potential antitrust liability.

Parties interested in obtaining department review may submit a timely request that fully complies with the procedures outlined in title 28 of the Code of Federal Regulations, section 50.6. The review process can, however, be time-consuming as the department may request additional information before issuing its review letter. Once all requested documentation and information is received, the department's target time frame for issuing the letter is sixty to ninety days. Thus, parties seeking department review should make the request as early as possible to fully appreciate the benefits of the review procedure before pursuing the proposed course of business conduct.

IV. Specific Types of Licensing Restraints

A. Price Restrictions

Price restrictions in licensing agreements restrict the price at which the patented (or other authorized) article is sold. Antitrust law carefully scrutinizes any agreement that can be viewed as a price restraint and, thus, careful attention must be paid in this area.⁴⁶ In *United States v. General Electric Co.*, the Supreme Court held that a licensing

⁴⁶ Licensing agreements that restrict the quantity of the patented articles produced by the licensor rarely require antitrust scrutiny. See e.g., *Atari Games Corp. v. Nintendo of America, Inc.*, 897 F.2d 1572 (Fed. Cir. 1990).

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agreement setting the price at which the manufacturer could sell a patented article was lawful under the antitrust laws.⁴⁷ However, the Court limited its ruling to price restrictions for the patented product itself. Price fixing of non-patented products remains per se unlawful even if such items are produced through patented technology.

The Department of Justice has tried unsuccessfully to attack the *General Electric* decision, although the last challenge was concluded in 1965. Nonetheless, a business lawyer should be aware of the precarious nature of price restrictions in any agreement, licensing or otherwise. Certainly, *General Electric* will serve as no protection when the price restriction is merely incidental to an overall scheme by competitors to fix prices.⁴⁸

B. Field of Use Restrictions

Field of use restrictions in licensing agreements limits a licensee's use of the patent (or other authorized IPR) to one or more specified fields. Such restrictions are typically lawful unless the restriction goes beyond the scope of the patent grant (or other IPR) itself.⁴⁹ In such cases, the field of use restraint will be analyzed under the rule of reason.

C. Territorial Restrictions

Restricting the use of IPR to a specific geographic territory is specifically allowed by the Patent Act.⁵⁰ Therefore, for purposes of antitrust analysis, such territorial restrictions are valid except in extreme situations. For example, if the territorial restriction is nothing more than a sham for market allocation between competitors, courts and enforcement agencies will not hesitate to look beyond the restrictions to the true nature of the restraint.⁵¹ Similarly, territorial restrictions may be illegal where there are several licensees and the restrictions are seen

47. *United States v. General Electric Co.*, 272 U.S. 476, 489–490.

48. Balto & Wolman, *Intellectual Property and Antitrust: In General Principles*, 43 IDEA 395, 440. See also *United States v. Gypsum Co.*, 333 U.S. 364, 400 (1948); *Newburgh Moire Co. v. Superior Moire Co.*, 237 F.2d 283, 292 (3rd Cir. 1956).

49. *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, 181 (1938); *United States v. Westinghouse Electric Corp.*, 471 F. Supp. 532, 541 (N.D. Cal. 1978), *aff'd* 648 F.2d 642 (9th Cir. 1981).

50. 35 U.S.C. § 261.

51. Antitrust IP Guidelines, *supra* note 3 at ex. 7.

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as being requested by the licensees themselves simply as a means of avoiding competition with one another.

D. Requiring Royalty Payments

An IP owner's decision to license its IPR in exchange for a royalty (even one that is considered excessive) does not normally raise anti-trust concerns. While authorities have questioned the practice of licensing a patent to different licensees at different royalty amounts, under today's standards, the activity should not rise to the level of liability. Royalty requirements in licensing agreements may become a concern if the requirements are seen as expanding the patent grant in some manner, such as requiring royalty payments beyond the patent term. However, such practices would more than likely constitute patent misuse as opposed to an antitrust violation.⁵²

E. Grant Back Clauses

As is discussed briefly in Chapter 5 of this book, any time an IP owner licenses its IPR to another, it should consider whether the use of the IPR will result in the creation of new or improved IPR and, if so, whether the licensor or licensee will own the rights in such improvements. Generally, grant backs involve a grant from the IP licensee back to the licensor of improvements that the licensee develop using the licensor's IPR and can give rise to antitrust concerns.⁵³ Grant backs can take the form of assignments, exclusive licenses, or non-exclusive licenses.

Generally, the enforcement agencies and the courts will evaluate grant back provisions under the rule of reason, taking into account several factors including whether the grant back is exclusive or not;⁵⁴ if exclusive, whether the licensee has the right to use improvements that are developed; whether the grant back is royalty free; whether the

52. See *Scheiber v. Dolby Labs, Inc.*, 293 F.3d 1014, 1017–1018 (7th Cir. 2002), *cert. denied* 537 U.S. 1109 (2003).

53. Richard Raysman, Edward A. Pisacreta, et al., *Grant Backs*, IPLFA § 13.06; *see also* 10A Fletcher Cyclopedia of the Law of Corporations, *supra* note 40, § 5020.35.

54. Antitrust IP Guidelines at § 5.6. *See also* *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947) (concluding that a grant back clause was not per se illegal but noting that under certain circumstances a grant back provision could have an anticompetitive purpose or produce an effect that violates the antitrust laws).

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parties are competitors; the market power of the parties involved; whether the grant back permits sublicenses; whether the grant back is limited in scope to the licensed patent; the duration of the grant back; and the effect of the grant back on the incentive for development research.⁵⁵ Nonexclusive grant backs may be necessary to ensure that the licensor is not prevented from effectively competing because it is denied access to improvements developed with the aid of its own technology.⁵⁶ Compared with an exclusive grant back, a nonexclusive grant back (which leaves the licensee free to license technology improvements to others) is less likely to have anticompetitive effects.

Grant backs may result in numerous pro-competitive benefits that would typically support the lawfulness of such provisions. For example, grant backs spread the risk of development between a licensee and licensor, incentivize a licensor to continue research in the area, stimulate first-generation innovation, and encourage the licensing of such innovation.⁵⁷ Of course, grant back clauses may produce anticompetitive effects when discouraging the licensee from engaging in competitive research and development, permitting the licensor to acquire or maintain monopoly, or facilitating cartel behavior in a relevant market.⁵⁸ At a minimum, a business lawyer should determine from the client the need for a grant back in a particular transaction and identify those instances in which the grant back clause is best justified.

F. Tying Arrangements

Tying arrangements occur when a seller conditions the sale or lease of one product or service (the tying product) on the buyer's purchase of a second product or service (the tied product) from the seller or a designated third party.⁵⁹ Tying arrangements must involve at least two separate and distinct products.⁶⁰ When only one product is

55. ABA, Antitrust Section, Antitrust Law Developments, vol. 2, 1038 (Debra J. Pearlstein ed., 5th ed., ABA 2002).

56. 10A Fletcher Cyclopedia of the Law of Corporations, supra note 40, § 5020.35.

57. Antitrust IP Guidelines, supra note 3, § 5.6.

58. *Id.*; See e.g., United States v. General Elec. Co., 82 F. Supp 753 (D.N.J. 1949).

59. Enforcement Report, supra note 2 at 103; Antitrust IP Guidelines, supra note 3 at 26 (citing Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S. 451, 461–462 (1992) [hereinafter *Kodak I*]).

60. 2 Rudolf Callmann, Callmann on Unfair Competition, Trademarks & Monopolies, § 10:18 (4th ed. 2008).

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involved, there can be no tie-in.⁶¹ For example, if a patent owner licenses a patent covering the latest technology for laser printers on the condition that the licensee must purchase unpatented ink cartridges from the licensor or a designated third party, that arrangement typically constitutes an illegal tying arrangement.⁶²

Tying arrangements, regardless of whether they involve the sale or licensing of IPR, may run afoul of Section 1 of the Sherman Act or Section 3 of the Clayton Act. The danger of a tie-in is the seller's use of market power in one market to diminish competition in another market. The Supreme Court has consistently held that "power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to liability if 'a seller exploits his dominate position in one market to expand his empire into the next.'"⁶³ The essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of the tied product that the buyer did not want at all or might have preferred to purchase elsewhere on different terms.⁶⁴

While some courts have characterized tying as per se illegal, the prohibition on tying arrangements has continued to move away from this rigid approach as courts examine the possible economic justifications or benefits to such an arrangement before finding antitrust liability.⁶⁵ Consistent with this approach, the Supreme Court has acknowledged, "many tying arrangements . . . are fully consistent with a pro-competitive market."⁶⁶ According to the Antitrust IP Guidelines, the enforcement agencies will analyze the vast majority of conduct involving IPR, including potential tying arrangements, using the flexible rule of reason approach that considers both the efficiencies of a particular activity as well as any anticompetitive effects it may create. The agencies are likely to challenge a tying arrangement where: (1) the

61. *Id.* Thus, if the seller insists on a minimum quantity purchase of one product, that condition does not involve a tie-in.

62. See e.g., *Int'l Salt Co. v. United States*, 332 U.S. 392 (1947).

63. *Kodak I*, 504 U.S. at 479 n.29 (quoting *Times-Picayune Pub. Co. v. U.S.*, 345 U.S. 594, 611 (1953)).

64. *Illinois Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 44 (2006) (quoting *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984)).

65. See e.g., *United States v. Jerrold Elec. Corp.*, 187 F. Supp. 545 (E. D. Pa. 1960), *aff'd*, 365 U.S. 567 (1961); *Baker v. Simmons Co.*, 307 F.2d 458 (1st Cir. 1962).

66. *Illinois Tool Works*, 547 U.S. at 44.

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seller possessed market power in the tying product; (2) the arrangement produced an adverse affect on competition in the relevant market for the tied product; and (3) efficiency justifications for the arrangement do not outweigh the competitive effects.⁶⁷

The starting point for evaluating a potential tying arrangement is whether the IPR in question confer market power. The mere fact that a tying product is patented does not support a presumption of market power. The Supreme Court in *Illinois Tool Works* explained that the existence of a patent has “no greater bearing on the market analysis” and required the trial court to determine whether the seller possessed market power based on actual proof rather than any presumption.⁶⁸ The Antitrust IP Guidelines⁶⁹ and recent lower court decisions confirm this principle, as do amendments to the Patent Misuse Reform Act that require a showing of actual market power where a tying arrangement is being evaluated as a possible patent misuse.⁷⁰

G. Refusal to License Intellectual Property

Of course, the owner of IPR may choose not to license them to anyone.⁷¹ As a general rule, a refusal to license IP is lawful and does not run afoul of the antitrust laws. However, Section 2 of the Sherman Act may prohibit a unilateral refusal to license IPR where such a refusal allows a business to secure or strengthen monopoly power by excluding competition in a way that harms consumers.

Assessing the legality of any decision to refuse to license IP is complicated by the fact that applicable law has been given conflicting interpretations by the Ninth Circuit in *Image Technical Services v. Eastman Kodak Co.*⁷² and by the Federal Circuit in *In re Independent Service Organizations (Antitrust Litigation)*.⁷³ Because any refusal to

67. Antitrust IP Guidelines, supra note 3, § 5.3. *But see Microsoft*, 253 F.3d at 85 (identifying four elements of a per se violation).

68. Raymond T. Nimmer & Jeff C. Dodd, *Modern Licensing Law* § 14:24, (2007). While the *Illinois Tool Works* decision, supra note 65 dealt with patents, the logic extends easily in other intellectual property settings. See Kathleen A. Dorton, Comment, *Intellectual Tying Arrangements: Has the Market Power Presumption Reached the End of its Ropes?* 57 DePaul L. Rev. 539 (2008).

69. Antitrust IP Guidelines, supra note 3, § 5.3.

70. 35 U.S.C. § 271(d).

71. 35 U.S.C. § 271(d)(4).

72. *Image Technical Services v. Eastman Kodak Co.* 125 F.3d 1195, 1218 (9th Cir. 1997).

73. *In re Independent Service Organizations Antitrust Litig.*, 203 F.3d 1322, 1326 (Fed. Cir. 2000).

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license IP is usually achieved through unilateral conduct (as opposed to an agreement between two parties), a business lawyer may rarely face the task of evaluating this conduct. However, if faced with a refusal to deal situation, the client should, at a minimum, be made aware of the potential for antitrust liability and the viewpoints of the conflicting authorities.⁷⁴ This is particularly important when a client enjoys monopoly power in one or more markets.

V. Cross Licenses and Patent Pooling Concerns

In a cross licensing agreement, two or more parties agree to grant to the other the right to use the IP that is the basis of the agreement. A patent pool is an agreement between two or more patent owners to aggregate their IPR and cross-license those rights to one another or to third parties.⁷⁵ A patent pool combines similar patents for the purpose of licensing all patents in the pool at one time. This “one-stop shopping” allows a party interested in obtaining the right to use certain technology the opportunity to purchase a license to use all the patents in the pool rather than seeking a separate license from each individual patent owner.

In many respects, cross licenses and patent pools are pro-competitive and efficiency enhancing. However, business lawyers who are called upon to review or draft cross-licenses and patent pooling agreements should carefully evaluate the particulars of such agreements to determine whether there is a risk that they violate antitrust laws.

A. Analyzing the Legality of Cross Licenses and Patent Pools

Two fundamental issues should be considered each time a patent pool or cross-license is created: (1) whether the proposed licensing program is likely to integrate complementary IPR; and (2) if so, whether

74. For a complete analysis of the tension between *Xerox* and *Kodak*, see IP/Antitrust Handbook, supra note 4, at 273–314.

75. Jeanne Clark, et al., *Patent Pools: A Solution to the Problem of Access in Biotechnology Patents?* available at www.uspto.gov/web/offices/pac/dapp/opla/patentpool.pdf, at 4 (Dec. 5, 2000).

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the resulting competitive benefits are likely to outweigh the risks of competitive harm posed by other aspects of the program.⁷⁶ According to recent business review letters issued by the U.S. Department of Justice, one of the most important issues involved in analyzing patent pools for possible anticompetitive effect is the degree of complementarity of the patents to each other.⁷⁷ The inclusion of complementary patents in a patent pool is generally seen as desirable, while the assembly of substitute or rival patents in a patent pool can be anticompetitive and lead to elevated license fees. Another critical issue is the ability of the patent owner to license his patent outside the pool.

1. Pro-Competitive Benefits

Pooling and cross-licensing agreements offer several pro-competitive benefits. They give parties greater freedom in using others' technology by allowing parties to design products that would otherwise be covered by patents and, therefore, would be off limits for use in other technology. Broad cross-licensing or pooling agreements help parties avoid infringement actions by providing the parties with a contractual right to exploit the IP of others without fear of legal recourse. These agreements also provide an efficient forum for companies to obtain all the necessary licenses in a particular technological field in one place, thereby reducing transaction costs and encouraging the use of patented technology. Pooling agreements facilitate the rapid development of new technology by making patented technology more easily accessible to others. Both types of agreements also help the parties to avoid disputes over ownership, saving time and money by preventing costly and time-consuming litigation.

2. Anticompetitive Problems

Anticompetitive effects may result if a pooling or cross-licensing agreement is not carefully drafted to avoid such results. While a pool

76. *Id.* at 7. See also Letter from Joel I. Klein to Garrard R. Beeney, Esq., DVD Business Review Letter #1 (December 16, 1998), available at www.usdoj.gov/atr/public/busreview/2121.htm.

77. See e.g., Letter from Joel I. Klein to Carey R. Ramos, Esq., DVD Business Review Letter #2 (June 10, 1999), available at www.usdoj.gov/atr/public/busreview/2485.htm; See also Letter from Joel I. Klein to Garrard R. Beeney, Esq., *supra* note 77; and Letter from Joel I. Klein to Gerrard R. Beeney, Esq., MPEG-2 Business Review Letter (June 26, 1997), available at www.usdoj.gov/atr/public/busreview/215742.pdf.

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of complementary patents is likely pro-competitive, a pool of substitute patents may actually be a mechanism to fix prices in a given market. Therefore, patent owners should pool complementary patents that are essential to the effective and efficient use of a given technology, but should avoid pooling patents that could serve as a substitute for one another in the marketplace. In addition, pooling may result in anticompetitive conduct if: (1) the excluded patents cannot effectively compete in the relevant market for the good incorporating the licensed technologies; (2) the pool participants collectively possess the market power; and (3) the limitations on participation are not reasonably related to the efficient development and exploitation of the pooled patents.⁷⁸

B. Nonexclusive Pooling

Lawful patent pools have a few common attributes: (1) all licensors in the pool grant nonexclusive rights to the pool, therefore, licensors are free to license their IP outside the pool; (2) the patents are evaluated by an expert to determine which patents are essential to the pool; (3) a mechanism is in place that provides for future review of all patents in the pool; (4) the pool is licensed in a nondiscriminatory manner; (5) royalty rates are reasonable; and (6) grant back provisions are limited to essential patents and require fair and reasonable terms for nonexclusive licensing.⁷⁹ Including these basic attributes in a patent pooling agreement will help patent owners avoid antitrust liability.

VI. Mergers and Acquisitions

Finally, a business lawyer should be aware of the antitrust implications of mergers and merger-like transactions involving the acquisition of IPR. The competitive affects of mergers and acquisitions are generally addressed by Section 7 of the Clayton Act, which prohibits transactions “where in any line of commerce or in any activity affecting commerce in any section of the country, the affect of such acquisition may be substantially to lessen competition, or to tend to

78. Antitrust IP Guidelines, *supra* note 3, § 5.5.

79. Jeanne Clark, et al., *supra* note 76, at 13.

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create a monopoly.”⁸⁰ The scope of Section 7 is quite broad and, following the enactment of the Celler-Kefauver Antimerger Act, now encompasses a variety of acquisitions of stocks, assets, and partnership interests. Patents,⁸¹ copyrights,⁸² and trademarks⁸³ are considered assets for purposes of Section 7. Mergers and acquisitions may also be challenged as unreasonable restraints of trade or monopolization under Sections 1 and 2 of the Sherman Act, as a violation of the prohibition against “unfair methods of competition” under Section 5 of the Federal Trade Commission (FTC) Act,⁸⁴ or under various state unfair competition laws.

A. Merger Analysis Under Hart-Scott-Rodino Act

The Hart-Scott-Rodino Antitrust Improvements Act of 1976 requires parties entering into a merger or merger-like transaction or acquisition that meet certain statutory transaction-thresholds to file a notification with the enforcement agencies, and to wait a prescribed time before consummating the transaction.⁸⁵ This premerger process allows the enforcement agencies time to evaluate the likely competitive effects of the transaction or acquisition and, if necessary, to intervene in the transaction to require changes to the deal or challenge the practice before those effects take place. Thus, the Hart-Scott-Rodino notification process avoids the need to reverse a merger or acquisition after the fact. The FTC now publishes an annual notice of the premerger notification filing threshold. In 2008, the threshold for the most frequently applicable portion of Section 7A of the Clayton Act was set at a size-of-transaction value of \$63.1 million.⁸⁶

Like other conduct discussed in this chapter, mergers may produce both pro and anticompetitive effects. A merger can be pro-

80. 15 U.S.C. § 18.

81. See e.g., *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1205 (2d Cir. 1981); *Telectronics Proprietary, Ltd. v. Medtronic, Inc.*, 687 F. Supp. 832, 844 (S.D.N.Y. 1988); *United States v. Lever Bros. Co.*, 216 F. Supp. 887, 889 (S.D.N.Y. 1963).

82. See e.g., *United States v. Columbia Pictures Corp.*, 189 F. Supp. 153, 181-82 (S.D.N.Y. 1960).

83. See e.g., *Lever Bros.*, 216 F. Supp. at 889.

84. 15 U.S.C. § 45.

85. 15 U.S.C. § 18(a).

86. See 16 C.F.R. § 801 (2008) (setting threshold applicable to 15 U.S.C. § 18(a)(2)(b)(i)).

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competitive if it allows or encourages firms to enter new markets, increase or enhance efficiency, or reduce costs. A merger may be anti-competitive if it increases the combined entity's ability to raise prices or restrain output for a significant period of time.⁸⁷ Consequently, the principal concern of the agencies when evaluating a transaction reportable under Hart-Scott-Rodino is whether the agreement creates or enhances market power.

A business lawyer cannot necessarily predict the enforcement agencies' ultimate decision to approve or challenge a particular merger. However, the agencies' horizontal merger guidelines provide a succinct and valuable resource for an overview of merger concerns and analysis.⁸⁸ While the merger guidelines recognize that merger enforcement should "interdict competitive problems in the incipience," they also provide that merger law should "avoid unnecessary interference with the larger universe of mergers that are either competitively beneficial or neutral."⁸⁹

Of particular importance to business and IP lawyers, the FTC merger office views exclusive IP licenses as asset acquisitions.⁹⁰ The FTC Premerger Notification Office has extended this position to field-of-use exclusivity, so that if a license grants exclusivity for specific uses or exclusive territories, it may be considered an acquisition of an asset for Hart-Scott-Rodino purposes. To be treated as an acquisition, a license must be exclusive even against the grantor.⁹¹ A nonexclusive license is not considered an acquisition of an asset for Hart-Scott-Rodino purposes, since the grantor retains the right to use the IP and grant additional licenses. The granting of marketing and distribution rights, even if granted exclusively, does not constitute the acquisition of an asset for Hart-Scott-Rodino purposes.⁹²

87. Merger Guidelines, *supra* note 28, at § 0.1.

88. Merger Guidelines, *supra* note 28, § 0.1; ABA Section of Antitrust Law, *Mergers and Acquisitions: Understanding the Antitrust Issues* (2d ed. 2004); *IP/Antitrust Handbook*, *supra* note 4. *See also* 16 C.F.R. 801–83.

89. Merger Guidelines, *supra* note 28, § 0.1.

90. ABA Section of Antitrust Law, *Premerger Notification Practice Manual*, 38 (3d ed. 2003) (hereinafter "Premerger Practice Manual 3d"). The commission has stated views on many common parts or questions via its informal opinion process, some results of which are recorded in this manual.

91. ABA Section of Antitrust Law, *Premerger Notification Practice Manual*, 49 (2d ed. 1991) (hereinafter "Premerger Practice Manual 2d").

92. *Premerger Practice Manual 3d*, *supra* note 91.

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As with any merger, the business lawyer should first determine the proper value of the transaction to assess whether a merger or acquisition is reportable under Hart-Scott-Rodino. Because of the filing fees and legal costs associated with preparing a premerger notification form, filing a form for a transaction that is not subject to the Hart-Scott-Rodino's size-of-transaction test is not advised. In the context of valuing IPR, certain rights are valued under specific standards. For example, the FTC requires that if the gross amount of royalty payments under an exclusive IP license that are expected to be gained over the life of a license may be reasonably estimated, then the gross amount of the future royalties must be used for the valuation determination, not discounted to present value. But if the amount of future royalties is too speculative to make a reasonable estimate, the acquiring person's board of directors or its delegate must determine the current fair market value of the fully paid license in good faith, within sixty days prior to notification or sixty days prior to consummation if no filing is required.⁹³

The size of the transaction may also be based upon the aggregate amount of future royalties to be paid over the term of the license or a good-faith estimate of fair market value if future royalties are speculative.⁹⁴ Where aggregate royalties are determined by a lump sum payment or otherwise, or where a specified minimum royalty is agreed to, the aggregate sum should be treated as the acquisition price. Future payments of "interest" may be disregarded as separately identified in the license, but the FTC staff will not permit an attempt to designate a portion of future royalties as interest if that amount is not so identified. In other words, interest is not included in the size-of-transaction test, but the installment payments cannot be revalued to reflect their present worth. The fair market value of the license will control if it is greater than the aggregate of future payments.

93. *Id.*, *Interpretation No. 91*; see also FTC, Valuation of Transactions Reportable Under the Hart-Scott-Rodino Act, available at www.ftc.gov/bc/hsr/hsrvaluation.htm (taking the position that the "acquisition price" is "determined" if the amount of consideration is contingent on future payments "can be reasonably estimated" and noting that "anticipated future payments are included at face value and cannot be discounted to present value").

94. See Premerger Practice Manual 2d, supra note 92, *Interpretation No. 129*.