



Extending the Useful Life of Intellectual Property: Antitrust Risks and Safety Zones

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Ways to Extend IP's Useful Life

- Trade secrets
- Incentive sales agreements
- Joint venture restrictions
- Package or pool licenses
- Acquisitions
- Hatch-Waxman
- Legislation

Trade Secrets

- Outside patent/copyright regime:
 - *Kewanee Oil v. Bicron Corp.* (1974)
- No expiration if information remains “generally unknown”
- Example - Coca-Cola’s secret formula

Trade Secrets

- *United States v. Pilkington* (1994) (settled)
 - Patented float process for making flat glass
 - Worldwide licensing, with exclusive territories
 - Principal U.S. patents expired by early 1980s
 - Licensing of know-how continued, with exclusive territories
 - DoJ alleged “[Pilkington’s] secret unpatented technology consisted largely of engineering solutions with no substantial value over other, equally efficacious engineering alternatives.”
 - Allegedly, now simply a cartel

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Trade Secrets - Issues

- Sham?
- Is strength of secrets weighed against competitive effects of licensing arrangement?
 - No precedent for this approach in trade secret law
 - Some precedent in copyright law
 - Policy arguments for and against it

Incentive Sales Agreements

- *Chemical Products Technologies v. Monsanto Co.* (pending)
 - Patent on Roundup© about to expire
 - New sales incentive agreements with herbicide dealers
 - Allegedly, rebates earned from sales over several years, including pre- and post-expiration years
 - Allegedly, if sales too low in post-expiration years, credits earned in pre-expiration years are forfeited
- Sales terms reminiscent of *LePage's v. 3M* (en banc review pending in 3rd Cir.)

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Incentive Sales Agreements - Issues

- Does calculating a total discount based on purchases both pre- and post-expiration of the patent improperly extend the term of the patent?
- What factors are relevant?
 - Existence of competing IP?
 - Amount of pre-expiration credits at risk post-expiration?
 - Amount of post-expiration purchases required to retain pre-expiration credits?
 - Efficiencies in licensing scheme?

Joint Venture Restrictions

- *United States v. LSL Technologies* (dismissed, appeal possible)
 - Joint venture dissolved
 - Perpetual non-compete clause survives
 - Few competitors in market for specialized tomato seeds
 - Clause allegedly excludes from North America one of most likely entrants

Joint Venture Agreements - Issues

- Is the competitive restriction “ancillary”?
- Are there less restrictive, effective alternatives?
- Is it appropriate to weigh the procompetitive effects of the venture against the anticompetitive effects of the restriction?

Package or Pool Licenses

- 3 DoJ business review letters
 - MPEG - 2 (1997), DVD-Video and DVD-ROM (1998), and DVD-Video and DVD-ROM (1999)
 - DoJ reviewed the offering of a package license by a number of entities that had developed standards for new technology
 - DOJ cited the importance of an independent expert to assess the essentiality of each patent in the pool
- *Echostar v. Gemstar* (pending)

Package and Pool Licenses - Issues

- Are unnecessary, later-running patents included in the package or pool in order to extend the term of royalty payments?
 - Does asking this question involve the courts in product and process design decisions they are not qualified to address?
 - Does not asking create an unwarranted exemption?
 - As a practical matter, is this an issue that the courts will only rarely be willing to examine?
 - Does excluding unnecessary patents address the more tractable aspects of the issue?

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Acquisitions

- *FTC v. Xerox* (settled); *SCM v. Xerox* (Xerox prevailed)
- *Echostar v. Gemstar* (pending)
 - Allegedly, a pattern of anticompetitive acquisitions
- *FTC v. Biovail* (settled)
 - Allegedly, anticompetitive acquisition of a single, strategic patent

Aquisitions - Issues

- If jurisdictional thresholds are met, IP licenses that are exclusive in any field of use are reportable under Hart-Scott-Rodino
- Standard merger analysis
 - Define relevant market
 - Identify and measure market participants - number and significance of sources of alternative IP
 - Competitive effects
 - Entry - ability to invent around

Aquisitions - Issues

- Additional considerations
 - does acquisition of improvement patents enable patent-holder to leverage expired core patents into control of later-generation product standards?

Hatch-Waxman Cases

- Private litigation and FTC enforcement
- 1st generation FTC cases
 - manipulation of H-W time schedule to delay entry of
 - 1st generic's own product
 - any additional generics
 - *FTC v. Hoechst Marion Roussel* (2000) (settled)
 - *FTC v. Abbott Laboratories* (2000) (settled)

Hatch-Waxman Cases

- 2d generation FTC cases
 - wrongful listing of patents in FDA Orange Book to delay generic entry
 - FTC *amicus* brief on *Noerr* issues in *In re Busirone Patent Litigation*
 - (S.D.N.Y. denied motion to dismiss)
 - *FTC v. Biovail* (2002) (settled)

Hatch-Waxman Cases - Issues

- Does FTC enforcement discourage *de facto* settlement of infringement litigation?
- What conduct should be *Noerr* protected?
- Is appropriate solution to amend the regulatory scheme rather than apply the antitrust laws?

Legislation

- Sony Bono Copyright Extension Act
- Specialized legislation
 - Hatch-Waxman gave pharmaceutical manufacturers some additional advantages in exchange for enabling generics to practice a patent, without a license, prior to expiration as necessary to file for FDA approval
 - Other

Legislation - Issues

■ Constitutionality

○ *Eldred v. Ashcroft* (cert. granted)

- Constitution enables Congress to enact legislation to foster the “progress of science and the useful arts” by protecting “original works”
- Is increasing the value of already-invented IP fostering future “progress”?
- Is already-invented IP an “original work”?

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Predictions

- More cases to come
- Development of a consistent theoretical framework for analysis of these claims
- Reciprocal development of defenses

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