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Beyond Reverse Payments: Will *Actavis* Extend To Patent Activities Generally?

Beyond Reverse Payments: Will *Actavis* Extend To Patent Activities Generally?

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In *FTC v. Actavis*, the Supreme Court ruled that settlements of patent infringement litigation through which the patentee, the maker of a branded pharmaceutical, "pays" the alleged infringer, the maker of a generic version of the brand, may be scrutinized under the antitrust laws. The Court was troubled in certain circumstances by so-called "reverse payments," suspecting that the payments could be inducing anticompetitive agreements to keep generic competition off the market in exchange for a portion of the brand's monopoly profits. The fact that the effects of the settlement were "within the scope of exclusionary potential of the patent" was not enough to "immunize the agreement from antitrust attack."

Although the Court was focused on settlements involving reverse monetary payments, which the Court and many practitioners believe are unique to the pharmaceutical space, there are aspects of the Court's reasoning that litigants may seek to leverage to challenge other patent activities. Those seeking an expansion of antitrust scrutiny could capitalize on the Court's broad interpretation of decades of Supreme Court precedents that it used to lay the predicate for reviewing the pharmaceutical settlements. Proponents of a greater role for antitrust law could also seek to exploit the Court's willingness to allow judicial examination of the competitive effect of the terms of consideration exchanged, which in this case included a reverse payment, in the settlement and licensing agreement.

In this paper, we ask whether the ruling may, perhaps unintentionally, provide a foundation for expansion of antitrust scrutiny of patent activity. In *Actavis*, the Court was concerned with the impact of a reverse payment from a patentee to an alleged infringer in exchange for the infringer's agreement not to challenge the patent's validity and to accept a patent licensee that is restricted in time period. Now, the question is whether parties to licensing agreements arising from settlements of patent infringement litigation inside the scope of the patent should be concerned that their agreements will be more easily challenged. Every such agreement comprises an exchange of consideration and a decision not to litigate patent validity.

Many settlement agreements result in the issuance of a patent license that is restricted in scope to some extent either in time, product space, field of use or geography. A party challenging a future settlement and licensing agreement could use antitrust law and policies to argue that a different exchange of consideration would have resulted in lesser competitive restrictions and that the alleged infringer was "bought off" with a portion of monopoly profits. If so, there is the potential for greater antitrust scrutiny of the terms of patent licensing agreements.

We also discuss in this paper the potential impact of *Actavis* on so-called patent assertion entities. The Court's interpretation of its precedent in *United States v. Singer Mfg., Co.*, may suggest an argument for parties seeking to attack PAEs. That is, district courts should disregard whether enforcement is within the scope of the patent and instead measure the value of PAE activity against the goals of the antitrust laws, especially if patent rights are asserted against competitors of PAE partners. Finally, we note that the rejection of the scope of the patent test could undermine the legal arguments of holders of standard essential patents who seek injunctive relief.

I. Background on the Court's Ruling

Actavis began when the FTC challenged as anticompetitive patent litigation settlements entered into separately by Solvay Pharmaceuticals, maker of testosterone replacement drug AndroGel, with generic manufacturers Watson Pharmaceuticals (now known as Actavis), Par Pharmaceutical and Paddock Laboratories. The FTC alleged the generic companies agreed to abandon their challenges to the patent supporting AndroGel and to refrain from launching their generic drugs for nine years in exchange for a share of Solvay's profits resulting from its continued monopoly on AndroGel. The payments from Solvay were allegedly disguised through contemporaneous business agreements with the generic manufacturers. The FTC claimed the "reverse payment" – reverse because the alleged infringer was receiving payment – violated the antitrust laws, specifically Section 5 of the Federal Trade Commission Act.

The District Court for the Northern District of Georgia dismissed the lawsuit under existing Eleventh Circuit precedent, which held that antitrust liability could only attach for patent settlement agreements if the patent restrictions in the agreement exceeds the scope of the patent. Because the alleged agreement excluded only generic versions of AndroGel and only for a period that ended before the expiration of the patent, the alleged agreement did not exceed the scope of the patent underling AndroGel.[1] The Eleventh Circuit affirmed, stating that a reverse payment settlement agreement generally is "immune from antitrust attack so long as its anticompetitive effects fall within the scope of the exclusionary potential of the patent."[2]

Yet, in a five to three decision delivered by Justice Breyer, the Supreme Court rejected the scope of the patent approach that had been adopted by the Eleventh Circuit and other courts.[3] The Court also rejected the FTC's position that such agreements are "presumptively unlawful" and should be analyzed under a "quick look" approach. Instead, the Court ruled, reverse payment settlements should be analyzed under the rule of reason. (Slip Op. at 20-21)

The Court "[left] to the lower courts the structuring of the present rule-of-reason" analysis. (*Id*. at 21) However, the Court outlined "five sets of considerations" that "lead [them] to conclude that the FTC should have been given the opportunity to prove its antitrust claim." (*Id*. at 14) Presumably, these "considerations" will become factors in the rule of reason analyses of the various lower courts, although the opinion is less than clear as to how this will be accomplished. The Court stated:

1. A reverse payment can bring with it the risk of significant anticompetitive effects; it can serve as "strong evidence that the patentee seeks to induce the generic challenger to abandon" participation in the market. (*Id*. at 14-15)

2. These anticompetitive consequences "will at least sometimes prove unjustified"; although the defendant may show legitimate justifications. (*Id*. at 17-18)

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1 *In re AndroGel Antitrust Litig*., 687 F. Supp. 2d 1371, 1376-79 (N.D. Ga. 2010). The authors were and continue to be counsel to a defendant in this case.

2 *FTC v. Watson Pharms., Inc*., 677 F. 3d 1298, 1312 (2012).

3 *See In re Ciprofloxacin Hydrochloride Antitrust Litig*., 544 F. 3d 1323 (Fed. Cir. 2008); *In re Tamoxifen Citrate Antitrust Litig*., 466 F.3d 187 (2d Cir. 2006).

3. The "size" of the payment is a "strong indicator of market power." (*Id*. at 18)

4. It is "normally not necessary to litigate patent validity to answer the antitrust question"; the "size" of the unexplained reverse payment "can provide a workable surrogate for a patent's weakness." (*Id*. at 18-19)

5. Parties can still settle in other ways, for example, by using an early entry date settlement without a payment. (*Id*. at 19)

II. The Ruling's Legal Foundation

For purposes of this paper, what is significant, beyond the specifics of reverse payment litigation, is how the Court dispatched with the scope of the patent test and made room for an antitrust inquiry of a patent settlement. An understanding of the Court's analysis may assist in determining whether litigants will attempt to apply *Actavis* beyond settlements of pharmaceutical patent infringement litigation.

The Court began its opinion by agreeing with the Eleventh Circuit that the settlements' "'anticompetitive effects fall within the scope of the exclusionary potential of the patent'" *if* one assumes that the patent was valid and infringed. (*Id*. at 8) But asking "what the holder of a valid patent could do does not by itself answer the antitrust question" because the patent here may or may not be valid or infringed. (*Id*.) The settlement prevented validity and infringement questions from being answered, allegedly through the use of an "unusual" agreement to pay the alleged infringer to stay out of the market. (*Id*.) "Given these factors, it would be incongruous to determine antitrust legality by measuring the settlement's anticompetitive effects solely against patent law policy, rather than by measuring them against procompetitive antitrust policies as well." (*Id*. at 8-9)

The Court justified its position that antitrust is not displaced even in situations where the conduct is arguably within the "exclusionary potential of the patent" because it found its precedents have indicated that "patent and antitrust policies are both relevant in determining the 'scope of the patent monopoly'—and consequently antitrust law immunity—that is conferred by a patent." (*Id*. at 9) The dissent, written by Chief Justice Roberts, interpreted the same precedents quite differently.

The Court first cited *United States v. Line Material Co.*,[4] a case in which parties with blocking patents entered into a royalty-free cross-license agreement that allowed each party to manufacture dropout fuse cutouts. The parties agreed that one of them could sublicense their collective patents, sharing the royalties with the other party, and that all licensees to these patents would adhere to fixed prices for sales of the licensed products. The Court held that it is unlawful to include in a patent cross-license agreement a provision that fixed the price of the product produced under the patents.

According to the *Actavis* majority, the Court in *Line Material* balanced patent and antitrust law by "considering traditional antitrust factors such as likely anticompetitive effects, redeeming virtues, market power, and potentially offsetting legal considerations . . . related to patents." (Slip Op. at 9) Thus, *Line Material* instructs that "[w]hether a particular restraint lies 'beyond the limits of the patent monopoly' is a conclusion that flows from" the antitrust analysis. (*Id*. at 10)

The dissent rejoined that "*Line Material* did no such thing." The Chief Justice wrote that the Court in *Line Material* "stressed, over and over, that a patent holder does not violate the antitrust laws when it acts within the scope of its patent" and that the price limitation at issue was beyond the scope of the patent monopoly. Thus, it followed from this determination that antitrust scrutiny was allowed. (Slip Op. at 4-5, dissent)

The Court then discussed *United States v. Singer Mfg. Co*.[5] In *Singer*, a U.S. and two European sewing machine companies possessed competing patents and applications. The firms settled their competing claims by entering into cross-licenses. They also agreed to assign the strongest patent to the U.S. company, Singer, that was best able to enforce it against their common Japanese competitors.

4 333 U.S. 287 (1948).

5 374 U.S. 174 (1963).

According to the *Actavis* majority, the Court in *Singer* "emphasiz[ed] that the Sherman Act 'imposes strict limitations on the concerted activities in which patent owners may lawfully engage,' [and] it held that the agreements, although settling patent disputes, violated the antitrust laws." (Slip Op. at 10) Citing Justice White's concurrence, the majority stated an "important part" of the *Singer* Court's reasoning was its view that "'the public interest in granting patent monopolies' exists only to the extent that 'the public is given a novel and useful invention' in 'consideration for its grant.'" (*Id*. at 10)

The *Actavis* dissent characterized the majority's description of *Singer* as "inaccurate." The dissent believed the *Singer* Court had concluded that the concerted action to transfer the primary patent to one holder to target their mutual rivals was beyond what was permitted by patent law and that this conclusion allowed for antitrust liability. (Slip Op. at 6-7, dissent)

The same disagreement carried over to their respective interpretations of *United States v. New Wrinkle, Inc*.[6] and *Standard Oil Co. (Indiana) v. United States*.[7] The majority believed these cases supported the notion that antitrust scrutiny could be applied to agreements to cross-license or pool patents to settle patent disputes. (Slip Op. at 10, 11-12) The dissent believed that these cases, like *Singer* and *Line Material*, involved conduct that the Court found to be beyond the limits of a patent monopoly and thus subject to antitrust scrutiny. (Slip Op. at 7-8, dissent)

According to the *Actavis* Court, all of the above precedents "seek to accommodate patent and antitrust policies" and to find the challenged terms and conditions unlawful "unless patent law policy offsets the antitrust law policy strongly favoring competition." (Slip Op. at 12) The majority asserted "there is nothing novel to our approach." (*Id*.) If that is indeed the case, then both patent and antitrust practitioners must be prepared to accept the possibility of a greater role for antitrust law. The dissent may have reached the same conclusion when it expressed its "fear [that] the Court's attempt to limit its holding to the context of patent settlements under Hatch-Waxman will not long hold." (Slip Op. at 11, dissent)

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[6] 342 U.S. 371 (1952).

[7] 283 U.S. 163 (1931).

III. Potential Applications of *Actavis* Beyond Reverse Payments

The dissent's observation is a perfect segue to a discussion of how the *Actavis* decision may provide new arguments to those who wish to extend the reach of antitrust law to a variety of patent activities. Antitrust plaintiffs could rely, for example, on the decision's seemingly broad pronouncements, such as it would be "incongruous to determine antitrust legality" by excluding "procompetitive antitrust policies" in favor of "patent law policy." The idea that any settlement or licensing agreement – in which a patent may not be valid or infringed – should be examined through the lens of antitrust gives much ammunition to potential antitrust plaintiffs. Plaintiffs could also use, depending on the circumstances, the case law cited favorably by the majority and discussed above in the belief that *Actavis* has reinvigorated these antitrust precedents. In addition, plaintiffs might utilize some of the "considerations" that the Court offered for why the FTC should have an opportunity to prove its case under the rule of reason to buttress their claims. The lack of protection for settlements within the scope of the patent and a holding that such settlements are subject to the rule of reason provides plaintiffs with a sufficient roadmap to, at a minimum, lodge a well-pleaded complaint.

Defendants can, of course, make the argument that *Actavis* is limited to its facts – concerted action among potential competitors, in the form of settlements of Hatch-Waxman Act litigation, that purportedly involve large reverse cash payments to generic drug companies. Under this argument, the Court's expansive interpretation of its precedents was simply a means to an end, which was to ensure scrutiny of allegedly "large unjustified" cash payments that could potentially be preventing invalidity rulings of weak pharmaceutical patents, thereby thwarting competition for medically useful or necessary products. A narrow interpretation of *Acatvis* may well be what the majority had in mind because the Court considered the conduct, namely reverse cash payments, to be "unusual" and "novel." (Slip Op. at 8, 12) Much of the Court's opinion is spent warning repeatedly how "large" and "unjustified" reverse payments can "sometimes" violate the antitrust laws.

Certainly, there are a variety of questions about Hatch-Waxman Act settlements that remain unresolved. For example, is a "payment" limited to monetary compensation or can it include non-monetary consideration, and how do you value non-monetary consideration? When is a payment large enough to raise antitrust concerns? Is avoidance of uncertainty or differing risk tolerances cognizable justifications for settlement? What role should patent merits play in the analysis, notwithstanding the Court's indication that litigating validity may not be necessary to answer the antitrust question? These questions are presently the subject of intense litigation in a number of alleged reverse payment cases.

We will save these questions for another day, because the purpose of this paper is limited to how *Actavis* might be used to expand the reach of antitrust law beyond Hatch-Waxman Act litigation settlements. We explore this question below in the context of three areas of patent conduct.

A. Terms in License and Cross-License Agreements

Patent licensing is generally procompetitive.[8] Even so, license and cross-license agreements have always received a degree of antitrust scrutiny, as the precedents discussed in *Actavis* illustrate.[9] It is common for those licensing agreements to arise from and resolve patent infringement litigation. The breadth and reach of the antitrust scrutiny of that agreement, however, may increase if lower courts conclude that there must always be some "accommodation" of antitrust and patent policies and some assessment of the terms of the license agreement to ensure they do not have the "potential for genuine adverse effects on competition." (Slip Op. at 14)

As part of the AndroGel litigation settlement, Solvay granted Actavis a license to the patent underlying AndroGel, but the license was restricted in the sense that it was not effective

8 As the joint DOJ and FTC *Antitrust Guidelines for the Licensing of Intellectual Property* (1995) states with respect to cross-licenses and patent pools: "[T]hese arrangements may provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation."

9 Licensing agreements that facilitate price-fixing, market divisions, or collective refusals to deal will continue to face antitrust scrutiny. *See, e.g.*, *Line Material*, 333 U.S. at 315 (two firms with complementary, "blocking" patents, gave each other royalty-free cross-licenses but with a provision that fixed the price of products produced under a sublicense to these patents); *New Wrinkle*, 342 U.S. at 374-75 (two manufacturers of "wrinkle" finish enamels settled patent litigation by forming and assigning patents to a new entity (New Wrinkle), which fixed prices at which all licensed manufacturers would sell product); *but see Standard Oil*, 283 U.S. at 174-78 (upholding patent pool after applying the rule of reason and finding the owners of the potentially conflicting patents did not dominate the market).

until August 31, 2015, which was the negotiated entry date for the Actavis generic drug. According to the FTC's complaint, in exchange for Actavis's agreement to abandon its invalidity counterclaim and delay generic entry, Actavis received millions of dollars. (Actavis had argued below that the payments were actually compensation for other marketing and manufacturing services that they promised to perform.) The Court held that, according to the FTC's allegations, the payment "likely seeks to prevent the risk of competition" that may have resulted had the patent's validity been determined. (Slip Op. at 19) The prevention of the risk of competition was labeled by the Court as being the "relevant anticompetitive harm," (*Id*.)

Litigants may seize the language about the prevention of "the risk of competition" as constituting "anticompetitive harm" to challenge a wide variety of patent infringement settlements and the resulting licensing arrangements. However, there are limits to how much weight can be placed on this language, otherwise a significant amount of procompetitive conduct would be subject to antitrust scrutiny. After all, every settlement of patent infringement litigation prevents a ruling on the patent's validity and on a defendant's infringement. Likewise, when the settlement results in something less than an immediately effective unrestricted license, there is arguably a restraint on competition. The *Actavis* ruling seems to open the door to a plaintiff at least stating a claim based on an allegation that a different entry date or set of license restrictions would have been more reasonable.

Despite this, the Court was not suggesting that all agreements that cut off a judicial ruling on validity and restrict the scope of the license result in actionable anticompetitive harm. The Court stated that parties "may . . . settle in other ways" such as "by allowing the generic manufacturer to enter the patentee's market prior to the patent's expiration, without the patentee paying the challenger to stay out prior to that point." (*Id*.) Such a settlement, as the dissent observed, "also takes away some chance that the generic would have litigated until the patent was invalidated" and restricts the time period of competition. (Slip Op. at 14, dissent) Thus, the Court's language about preventing the risk of competition should not be read too expansively.

Rather, central to the Court was the alleged existence of a "large, unjustified reverse payment" that may constitute a signal that "the payment's objective is to maintain supracompetitive prices to be shared among the patentee and the challenger." (Slip Op. at 18-19)

The payment may be "strong evidence that the patentee seeks to induce the generic challenger to abandon its claim with a share of its monopoly profits that would otherwise be lost in the competitive market." (*Id*. at 15) Therefore, the *payment* was the distinguishing factor, the signal, that made the Court concerned about the potential prevention of potential competition.

And yet, how distinguishable is a "payment" when it is merely one part of an exchange of consideration, or a mutual exchange of "something of value" in the dissent's words, in the context of a commercial agreement? At its basic level, it is no different than the consideration exchanged in any other licensing agreement arising from the settlement of patent infringement litigation. This raises the question of whether courts are permitted to evaluate the consideration exchanged in any settlement and licensing agreement to see if those terms are signaling anticompetitive conduct. In fact, the FTC took the position that if antitrust scrutiny is allowed for cash payments, it may also be required for "other consideration" and "alternative arrangements." (Brief for Petitioner at 36, n.7)

The problem is that licensing agreements arising from patent infringement litigation contain a mix of consideration and, commonly, restraints. For example, the patentee may offer the alleged infringer a restricted license. In *Actavis*, the restriction was in the form of a delayed effective date for the license of the AndroGel patent. In a technology license, there could be restrictions on territory, volume of product produced under license, field of use, or a required grantback of rights to improvements on the patent. The patentee could adjust the degree of restrictions on the scope of the license to reach a settlement agreement. Alternatively, to induce the alleged infringer to drop its invalidity claim and accept the restricted license, the patentee can vary the amount and form of consideration until a mutual agreement is reached. In *Actavis*, the consideration was allegedly in the form of cash payments. In a technology license, the consideration could be the level of royalty rate.[10] A higher royalty demand from the patentee

[10] As the American Intellectual Property Law Association stated in its amicus brief: "Such 'reverse' consideration may take various forms: A license with a favorable royalty rate, for example; a cross-licensing arrangement; the settlement of other disputes; the reimbursement of attorney's fees; the surrender of a claim for money damages; or compensation paid to the licensee for a later licensing date than was originally sought." Brief for the American Intellectual Property Law Association as Amicus Curiae in Support of Respondents, at 16.

may not induce the alleged infringer to drop its invalidity claim, but a lower royalty demand may get the assent of the alleged infringer and prevent the patent's validity from being litigated.

Let us assume in our hypothetical that the parties reach a settlement that results in the patentee providing a royalty-free license in exchange for the alleged infringer dropping its invalidity claim and accepting some license restrictions that restrains the scope of competition between the two parties as to this patented technology. The agreement is within the scope of the exclusionary potential of the patent, but in light of *Actavis*, does this settlement invite antitrust scrutiny? Does the fact that the license is royalty-free, at least as to this licensee, suggest that the patentee has "serious doubts about the patent"? Are the restrictions in the license, perhaps a field of use restriction, unreasonably preventing the "risk of competition"?

The difficulty with the broad language in the *Actavis* ruling is that it raises many questions about the boundaries between patent and antitrust law and how one determines what is and is not permitted within the scope of the patent monopoly. We agree with the dissent's suggestion that the ruling undermines the need for clear rules in antitrust law. (Slip Op at 15, dissent) We can see plaintiffs using the reasoning of *Actavis* to support scrutiny of terms in garden variety licensing agreements that have become fairly standard and that have been seen as well within the scope of the patent.

We can also envision antitrust plaintiffs attempting to use the *Actavis* Court's statements regarding market power to bolster a Section 1 rule of reason claim or a Section 2 monopolization claim. The market power element often presents a hurdle for plaintiffs bringing claims based on patent conduct because the Supreme Court in *Illinois Tool Works, Inc. v. Independent Ink* held that a "patent does not necessarily confer market power upon the patentee."[11] The *Actavis* Court did not alter this holding, but it did state an "important patent itself helps to assure" market power. The Court did not explain what is an "important patent" or how it can "assure" market power in relation to the normal framework for proving market power. Perhaps a standard essential patent qualifies, but we can only guess what would qualify as an "important patent."

[11] 547 U.S. 28, 45 (2006).

The Court, quoting Professor Hovenkamp, also stated the size of the reverse payment "is itself a strong indicator of power." The Court stopped short of stating a large payment creates a presumption of market power, but the Court again failed to explain the import of the words "strong indicator" as it relates to traditional market power analysis. The Court also neglected to quote the next sentence from Professor Hovenkamp's treatise: "To be sure, the indicator is not perfect for the same reason that pricing above marginal cost can be unreliable in markets for products that have a strong intellectual property component."[12]

We can expect enterprising plaintiffs will attempt to exploit the Court's statements on market power and the anticompetitive harm resulting from conduct that "prevents the risk of competition." Lower courts will be left to sort out whether these statements truly change the analysis of antitrust claims challenging patent infringement settlements and licensing agreements. Until the courts sort this out, we can only hope that the recognized benefits of settlements and licensing are not unduly chilled.

B. Patent Assertion Entities

The reasoning of the Court raises questions about possible avenues for attack against patent assertion entities. One of the more striking passages in *Actavis* is where the Court quotes from Justice White's concurrence in *Singer*. Citing the Constitution, Justice White wrote that "the public interest in granting patent monopolies" exists "only when . . . the public is given a novel and useful invention" in return.[13] While this type of argument would effectively allow challenges to clearly fall within the scope of the issued patent, Actavis' reasoning sets up the argument that the antitrust laws may still apply.

There is no dispute that the Constitution gives Congress the power to grant patent rights to "promote the Progress of Science and useful Arts."[14] It is another matter entirely to suggest

[12] 12 P. Areeda & H. Hovenkamp, Antitrust Law ¶2046, at 352 (3d ed. 2012).

[13] Even though Justice White's concurrence was not joined and the conduct he focused on was not central to the *Singer* majority's opinion, the *Actavis* Court appeared to ascribe his reasoning to the *Singer* majority. (Slip Op. at 10)

[14] U.S. Const., Art. I, Sec. 8.

that a violation of antitrust law potentially exists when parties exercise patent rights in a manner that does not comport with some abstract notion of the public interest.[15] We surmise that the Court would agree that such a notion goes too far. It is more likely that the Court was concerned with how reverse payments could keep invalid patents in force, which has some factual similarities to Justice White's concern about agreements to prevent prior art from being disclosed.[16]

Nonetheless, if lower courts construe a litmus test that allows for antitrust scrutiny in situations where the challenged conduct does not promote or further "novel and useful invention[s]," then the activities of PAEs may receive increased scrutiny. The critics of PAEs argue that they have become effectively a tax or toll collector that impedes rather than promotes innovation.[17]

PAE critics contend that PAE activity does not provide directly any novel or useful invention to the public. PAEs typically acquire patents – that some argue are relatively old and weak[18] – to enforce against practicing entities that are already practicing the technology or have already developed a product. By exploiting the costs of defending a patent infringement suit and the "hold up" leverage associated with the sunk costs of previous selections of technology or development of products, the PAE is able to secure a settlement that involves a royalty-bearing license. This settlement cost might be passed on to consumers or borne by the practicing entity through reduced investment in R&D.

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15 We can only speculate as to why the passage in Justice White's concurrence was important to the Court because the Court does not explain how it informs its analysis of the alleged reverse payments.

16 Justice White focused on the fact that the three sewing machine companies aimed to prevent prior art from coming to light, which would imperil the ability of all three companies to enjoy patent protection. Thus, the collusion to prevent the disclosure of prior art was "an inequitable imposition on the . . . public" and a violation of the Sherman Act. 283 U.S. at 200.

17 Jon Leibowitz, FTC Chairman, *Patent Assertion Entity Activities Workshop* (Dec. 10, 2012) (summarizing the views of defenders and detractors of PAE activities in his opening remarks to the workshop), *available at* http://ftc.gov/speeches/leibowitz/121210paeworkshop.pdf.

18 John R. Allison, Mark A. Lemley, Joshua H. Walker, *Patent Quality and Settlement among Repeat Patent Litigants* (September 16, 2010). Stanford Law and Economics Olin Working Paper No. 398, *available at* http://ssrn.com/abstract=1677785 or http://dx.doi.org/10.2139/ssrn.1677785.

PAE defenders argue that they provide indirectly an avenue for small companies and individual inventors to obtain compensation for their inventions because a portion of the royalties obtained by PAE enforcement activities are shared with the inventor. This, in turn, spurs greater innovation from those previously unable to monetize their intellectual property, which will lead to greater competition in technology and product markets.

Regardless, the simple act of a PAE enforcing its patent rights is squarely within the scope of the patent, at least from a patent law perspective. However, if PAE activity is challenged under the antitrust laws, the *Actavis* decision suggests that the antitrust question cannot be measured against patent policy alone. Procompetitive antitrust policies are also relevant in determining whether the conduct in question is within the scope of patent monopoly and antitrust law immunity. (Slip Op. at 9) Indeed, a critic of PAEs could argue that the antitrust laws trump a defense based on the conduct being within the scope of the patent if the activity dos not appear to promote innovation. At the very least, the *Actavis* reasoning appears to provide legal support to the FTC in its plans to conduct an inquiry under Section 6(b) of the FTC Act to study the costs and benefits of PAE activity to competition and innovation.[19]

Another consequence of the *Actavis* ruling in the PAE arena may result from its reliance on the *Singer* decision. In *Singer*, the Court focused on the purpose of a transfer of a patent from a Swiss company, Gegauf, to Singer. The Court found that "the patent was put in Singer's hands to achieve the common purpose of enforcement 'equally advantageous to both' Singer and Gegauf . . . . [for] a common purpose to suppress the Japanese machine competition in the United States through the use of the patent."[20] This concerted action was found to be a violation of Section 1.

These facts could be argued to be analogous to activity in which operating companies transfer patents to a PAE so that the PAE can enforce the patent rights through licensing negotiations, demand letters, and litigation if necessary. Typically, in return for the patent, the

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19 Edith Ramirez, FTC Chairwoman, *Competition Law & Patent Assertion Entities: What Antitrust Enforcers Can Do* (June 20, 2013) (remarks to Computer & Communications Industry Association and American Antitrust Institute Program), *available at* http://ftc.gov/speeches/ramirez/130620paespeech.pdf.

20 374 U.S. at 194.

operating company receives a portion of whatever licensing revenue the PAE obtains. Sometimes this arrangement is called "indirect monetization." When the arrangement entails the PAE targeting the operating company's competitors, some critics have labeled it "privateering."[21]

There is the potential for this so-called privateering to be unlawful under *Singer*, although there are a number of factors to consider for that to be the case.[22] Central to the analysis is whether there is a "common design" among the operating company and the PAE to "suppress . . . competition" through the use of the patent.[23] Beyond that, there are questions concerning market definition and competitive effects.

Prior to *Actavis*, the parties to such arrangements could be expected to argue that there is nothing anticompetitive about the arrangement because both parties are operating within the scope of the patent. The operating company is exercising its right to assign its patent, and the PAE is exercising its right to enforce its assigned patent rights. Now, the parties may have to contend with the argument that antitrust law partially informs the appropriate scope of the patent monopoly. Indeed, if facts in any particular case are alleged suggesting privateering could be anticompetitive under the circumstances of that case, *Actavis* suggests antitrust scrutiny is appropriate where agreements "can sometimes violate the antitrust laws." (Slip Op. at 2) In our view, this is beyond what *Actavis* meant to taught but its broad and ambiguous language leaves the question open.

C. Standard Essential Patents

We could also envision the *Actavis* decision being cited by the FTC or DOJ in support of their policing of SEP enforcement, specifically the use of injunctions against willing licensees of FRAND-encumbered SEPs. There is some debate over whether the inherent right to exclude that

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21 *See* Tom Ewing, *Indirect Exploitation of Intellectual Property Rights by Corporations and Investors*, 4 Hastings Sci. & Tech. L.J. 1 (2012).

22 *Singer* was a Section 1 case. The transfer of patent(s) might be challenged under Section 7 of the Sherman Act. *See* Michael Carrier, *Patent Assertion Entities: Six Actions the Antitrust Agencies Can Take*, CPI Antitrust Chronicle, (January 2013), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2209521.

23 374 U.S. at 194-95.

accompanies the basic patent right is foregone, in whole or in part, through the FRAND and related commitments made to the SSO. Some SEP holders have argued that the SSO commitments do not contain a contractual waiver of its injunction rights.[24] Others have read an implicit waiver in most situations into those commitments because an injunction is inconsistent with the commitment to license to all on reasonable and non-discriminatory terms.[25] The FTC, for one, has brought enforcement actions against SEP holders seeking injunctions against those "willing" to license on FRAND terms but who had not accepted the SEP holder's royalty demands.[26]

Now, let us assume that the SEP holders favoring the retention of injunction rights are correct – the SSO commitments fail to establish a contractual relinquishment of the right to seek an injunction. If voluntary FRAND commitments are the only constraint on a SEP holder's patent rights, this lack of a contractual waiver should free holders to seek injunctions, at least from the perspective of patent policy. Under *Actavis*, however, that may not matter. The reasoning of the Court supports in principle the use of "procompetitive antitrust policies" by the agencies in determining the appropriate scope of the patent monopoly enjoyed by SEP holders. It is in this scenario that we can see the agencies relying on *Actavis*.

IV. Parting Thoughts

On many levels, *Actavis* involved unique facts in the context of a specific regulatory environment. From a different perspective, however, we recognize aspects of the Court's reasoning that could be exploited to further push antitrust law into the patent arena. At a minimum, we expect litigants and the lower courts reacting to *Actavis* will interpret it in ways the majority could not have predicted. Although we are unsure of whether the decision will

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24 *Standard Essential Patent Disputes and Antitrust Law* before the Senate Subcomm. on Antitrust, Competition Policy and Consumer Rights (July 30, 2013) (statement of Donald J. Rosenberg, General Counsel, Qualcomm Inc.).

25 *See Apple, Inc. v. Motorola, Inc*., 869 F. Supp. 2d 901, 914 (N.D. Ill. 2012) (sitting by designation, Judge Posner wrote: "Motorola committed to license the '898 to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent. . . . How could it be permitted to enjoin Apple . . . .").

26 *In the Matter of Robert Bosch GmbH*, Docket No. C-4377; *In the Matter of Motorola Mobility LLC and Google Inc*., No. C-4410.

ultimately remain limited to Hatch-Waxman Act litigation settlements, we are confident that the growing importance of antitrust in the patent space will continue unabated.