antitrust and trade regulation bulletin FTC Releases Report on Intellectual Property and Antitrust

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Releases Report on Intellectual Property and Antitrust

James Burling, John C. Christie Jr., and Michelle Miller

Abstract

Last year the FTC and the Department of Justice jointly held hearings focused on the current balance of competition and patent law and policy. (See our December, 2001 Antitrust and Trade Regulation Bulletin at www.haledorr.com/antitrust.) The hearings spanned more than 24 days, involving more than 300 panelists and 100 separate written submissions. The first tangible by-product of those sessions came on October 28, 2003, with the release of a 266-page FTC report containing specific recommendations for changes in the existing patent system (the Patent Report)(http://www.ftc.gov/opa/2003/10/creport.htm). A second, joint report with DOJ, containing specific recommendations for antitrust, is promised for the future.
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Set the preparation of a discussion of other issues that have not been the subject of written confirmation.

Although the manual brings the materials completely up to date, incorporating the PNO's latest positions on various issues and setting summaries of interpretations relating to changes that have occurred in the HSR laws since 1995, new cases and interpretations have been confirmed in written and oral interpretations. Many of these oral interpretations have been confirmed in written form. As a result, requiring advice on HSR issues should continue to consult with antitrust counsel.

Personnel Changes at Both Antitrust Agencies

Department of Justice

Bruce McDonald recently joined the DOJ and will serve as the deputy assistant attorney general for the Antitrust Division, overseeing airline, transportation, energy and regulatory matters in the Antitrust Division, serving as the deputy assistant attorney general for the Antitrust Division.

Pamela Robinson as director of operations.

Connie Robinson as director of operations.

Antitrust Agencies

The Antitrust Division is the principal enforcement arm of the Department of Justice, responsible for enforcing federal antitrust laws. The division is composed of the Bureau of Competition, which conducts investigations and litigates cases to prevent anticompetitive behavior, and the Bureau of the Economics, which conducts economic analyses of market structures and market conduct.

The FTC recently enhanced its intellectual property expertise, evidencing yet more institutional interest in this subject. Armando Irizarry and Thomas Froeb will replace Scheffman. Froeb joins the FTC from private practice. Scheffman has filled the associate director for regional litigation for the past two years. Hoffman has been the associate director for regional litigation for the past two years.

Both the Department of Justice and Federal Trade Commission have experienced personnel changes in recent months.

Armando Irizarry and Thomas Froeb

Mays joins the Commission from private practice and was previously a patent examiner at the U.S. Patent & Trademark Office.

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For more information, contact Hale and Dorr's Antitrust and Trade Regulation Group.

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The FTC Releases Report on Intellectual Property and Antitrust

Last year the FTC and the Department of Justice jointly held hearings focused on the current state of competition, patent law and policy. (See our December, 2002, Antitrust and Trade Regulation Bulletin at www.haledorr.com.) The hearings involved more than 300 panels and 100 experts from around the world. A result, the report makes a number of specific recommendations for reforming the antitrust and patent laws. An analysis of those recommendations is available online.

The Patent Report begins with a general discussion of the common aims of both competition and patent law and policy. Competition stimulates innovation by spurring the innovation of new or better ways of doing things. Patent law and policy also stimulate innovation by rewarding the innovator with a right to exclude others from making, using or selling the invention, which is called the patent. As the FTC sees it, these two systems are not inherently in conflict, but any failure to strike the appropriate balance between them can create problems.

The FTC recommends

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Ftc releases new policy statement on monetary remedies in competition cases

ABA releases third edition of HSR Manual

Patent & Trademark Office.

Mays joins the Commission from private practice and was previously a patent examiner at the U.S. Patent & Trademark Office.

antitrust and trade regulation bulletin

New FTC report addresses the antitrust implications of current patent law and policy

Circuit courts offer antitrust analysis of patent licensing settlements.
Many of the FTC’s recommendations would result in significant changes to both patent law and practice.

### Circuits Disagree over Per Se Settlements of Agreements to Settle Patent Infringement

Two United States circuit courts of appeals have reached opposite conclusions regarding the appropriateness of an in-court settlement agreement involving a patent holder by a plaintiff to an alleged infringer in settling patent infringement litigation. First, in June in the Sixth Circuit found that the settlement agreement incorporating terms to forego all patent infringement liability. Second, in the Eleventh Circuit reached a similar finding that the settlement agreement was improperly settled patent litigation in the interests of the public.

### Conflict Court rulings leave significant unanswered questions surrounding the status of patent settlements

Cases involving patent settlements have raised significant issues for the courts. In a recent decision, the Eleventh Circuit upheld an agreement to settle a patent infringement lawsuit for a substantial amount of money. However, the court left open questions about the legality of the agreement and the potential for anticompetitive harm.

In another case, the Supreme Court of the United States ruled that an agreement to settle a patent infringement lawsuit was valid under antitrust law. The court found that the agreement was not an illegal restraint of trade because it was not a per se violation.

These cases highlight the complex and evolving legal landscape for patent settlements. It is clear that further clarification is needed to ensure that such agreements are legal and do not harm competition.

PFC policy statement says challenged consummated mergers may be subject to "disgorgement" in "exceptional circumstances.

The FTC recently issued a policy statement clarifying its position on the use of monetary remedies in competition cases. The statement indicates that disgorgement may be appropriate in certain exceptional circumstances. However, the statement also notes that disgorgement should only be used when there is a reasonable basis for calculating the amount of damages.

In a recent ruling, the Eleventh Circuit upheld a settlement agreement in a patent infringement lawsuit. However, the court remanded the case for further proceedings to determine whether the settlement agreement was an illegal restraint of trade.

The FTC recommends that legislation be enacted to require the creation of a new administrative procedure to allow post-grant review of all patents. This would enable the Patent Office to address invalid patents and ensure that patents are only granted for inventions that actually contribute to innovation and technological progress.
Many of the FTC’s recommendations would result in significant changes to both patent law and practice.

### Recommendations

1. Legislation should be enacted to require the Patent Office to adopt procedures such as continuing applications to allow post-grant review of, and intervening or prior user rights to protect parties from infringement allegations that rely on patent claims first introduced in a continuing or other application.

2. Legislation should be enacted to require the Patent Office to certify that any settlement agreements incorporating terms to bar post-grant review are invalid.

3. Legislation should be enacted to require—as a condition to the validity of a settlement agreement, or to the entitlement of a patentee to either show actual, written notice of invalidity or to enforce a patent or to settle litigation. Instead, the FTC recommends that statutory procedures such as continuing applications to allow post-grant review of, and intervening or prior user rights to protect parties from infringement allegations that rely on patent claims first introduced in a continuing or other application.

4. Legislation should be enacted to require, as a condition to the validity of a settlement agreement, or to the entitlement of a patentee to either show actual, written notice of invalidity or to enforce a patent or to settle litigation. Instead, the FTC recommends that statutory procedures such as continuing applications to allow post-grant review of, and intervening or prior user rights to protect parties from infringement allegations that rely on patent claims first introduced in a continuing or other application.

5. Finally, the FTC promises to take steps to remove compensation between the applicant and the patentee from the examination process.

### Disputes Circumvent Over Per Se Treatments of Settlements to Settle Patent Infringement

Several United States circuit courts of appeal have reached opposite conclusions regarding the appropriate analysis and analysis of settlement agreements. The Patent Report concludes that, if the Patent Office applies such procedures continuing applications to allow post-grant review of, the patentee and the patent office will be able to prove whether the settlement agreement or the settlement agreement as a whole is valid.

6. The Patent Office is instead to be required to, in addition to the settlement agreement, the Patent Office should be required to provide the public with a written notice of invalidity or to enforce a patent or to settle litigation. Instead, the FTC recommends that statutory procedures such as continuing applications to allow post-grant review of, and intervening or prior user rights to protect parties from infringement allegations that rely on patent claims first introduced in a continuing or other application.

7. Legislation should be enacted to require, as a condition to the validity of a settlement agreement, or to the entitlement of a patentee to either show actual, written notice of invalidity or to enforce a patent or to settle litigation. Instead, the FTC recommends that statutory procedures such as continuing applications to allow post-grant review of, and intervening or prior user rights to protect parties from infringement allegations that rely on patent claims first introduced in a continuing or other application.

8. Finally, the FTC promises to take steps to remove compensation between the applicant and the patentee from the examination process.

### Conclusion

In summary, the FTC recommends several changes to the Patent Act, which are intended to address the increasing number of settlements involving patents. These changes would be designed to increase transparency and prevent anticompetitive behavior.

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For more information, refer to the FTC’s report titled ‘The Antitrust-Related Issues in Patent Settlements’.
Recommendations would result in significant changes to both patent law and practice. The Patent Report recommends a variety of changes in the existing patent system.

a) The first change would be the introduction of a new administrative procedure to allow post-grant review, and an appeal to patents. This process would be designed to allow for meaningful challenges to the validity of issued patents.

b) The second change would be the enactment of legislation to modify the legal standard governing the validity of a patent from the present “clear and convincing evidence” to a “preponderance of the evidence” standard. The Patent Report recommends the latter as ensuring fewer invalid patents.

c) The third recommended change is a general tightening in the legal standards used to determine patent validity. According to the Patent Report, “the preponderance of the evidence” standard is inappropriate.

3. Legislation should be enacted to create infringement settlement procedures effective in stopping parties from entering into infringement allegations that rely on patent claims first introduced in a combination or other similar patent application. The Patent Report concludes that, if the patentee successfully pursued such procedures, the practice of entering into such agreements stemming from prior-user rights should be significantly reduced, and invalidate any patent only if at least one valid claim was present before the amended claims were obtained.

4. Legislation should be enacted to require—as a precondition to filing a infringement settlement agreement by a patentee to either show actual, written notice to the patentee to either show actual, written notice to the patentee of the agreements in light of all the circumstances.

Cases Disappear over Per Se Treatment of Agreements to Settle Patent Infringment

United States two Circuit courts of appeal reached opposed conclusions regarding the appropriate analysis and analysis and application of the doctrine. The Patent Report concludes that, if applied to patent law, the doctrine’s case-by-case nature would make it unworkable.

In one case, the Federal Circuit Court of Appeals held that an agreement was not an antitrust violation because the patentee did not initially disclose its invention to the infringer. In the other case, the Sixth Circuit held that the agreement was not an antitrust violation because the patentee did not initially disclose its invention to the infringer.

Cases resolved in different ways include:

- **Valley Drug Co. v. Geneva Pharma.** The court held that the interim agreement was not an antitrust violation because the patentee did not initially disclose its invention to the infringer. In the Sixth Circuit held that the agreement was not an antitrust violation because the patentee did not initially disclose its invention to the infringer.
- **Hale and Dorr LLP v. Geneva Pharma.** The court held that the interim agreement was not an antitrust violation because the patentee did not initially disclose its invention to the infringer.
- **In re Cardizem, No. 02-12091 (11th Cir. Sept 15, 2003).** The court held that the agreement was not an antitrust violation because the patentee did not initially disclose its invention to the infringer.

FTC Clarifies Use of Monetary Remedies in Competition

The FTC issued a policy statement in June 2003 clarifying the use of monetary remedies in competition cases. The statement noted that monetary remedies can play a valuable role in competition law enforcement, but that the use of monetary remedies should be carefully considered.

FTC policy statement says challenged consumers may be subject to “disengagement” in “exceptional” circumstances.

**FTC Clarifies Use of Monetary Remedies in Competition**

The FTC issued a policy statement in the area of monetary remedies such as disgorgement and remittances in competition cases. The statement notes that monetary remedies can play a valuable role in competition law enforcement, but that the use of monetary remedies should be carefully considered. The FTC policy statement says that challenged consumers may be subject to “disengagement” in “exceptional” circumstances. The statement notes that consumers may be “disengaged” under circumstances where the remedy is likely to be ineffective or to cause harm to the consumer.
The Antitrust and Trade Regulation Bulletin is a publication that provides summaries and discussions of developments and interpretations in the antitrust laws. It is published by the Department of Justice and the Federal Trade Commission.

In the third edition of the bulletin, written summaries of interpretations have been confirmed in written confirmations. As a result, parties requiring advice on HSR issues should continue to consult with antitrust counsel.

The bulletin covers antitrust and trade regulation developments, including interpretations in the 27 years since the Act was enacted. The bulletin continues to provide summaries of interpretations relating to changes that have occurred in the HSR laws since 1991, including 25 non-merger cases and two challenges to concentration mergers. Susan Crootel has been named the new director of the Bureau of Competition. Crootel has been deeply involved since August 2002, when she joined the FTC. She previously clerked for Justice Patricia Ann Rayne in the Central District of California and Associate Justice Sandra Day O’Connor. Barry Nigro, Ann Malsin, and Bruce Hoffman have all been deputy directors of the Bureau of Competition. Hoffman joins the FTC from private practice. Malsin has led two of the merger groups in the FTC for the past two years. Hoffman has been the associate director for regional competition for the past two years.

David Scheffman resigned his position as director of the Bureau of Economics. Scheffman, who served as an economic consultant and public advocate, rejoined the FTC. Scheffman joined the FTC as the associate director in the spring of 2001 and was involved in regional competition for the past two years. Scheffman had previously worked as an economic consultant for the FTC.

The FTC recently enhanced its intellectual property section and is expected to focus on the patent system. The FTC is working to strike the appropriate balance between competition and innovation. The FTC recommends sweeping changes in the balance between competition and patent law.

Antitrust Commissioner Herbert, an independent, has most recently been in private practice and was previously a patent examiner at the U.S. Patent and Trademark Office. He may join the Commission from private practice and was previously a patent examiner at the U.S. Patent and Trademark Office.
removal available are likely to fail to fully accomplish the purpose of the antitrust law.

For parties to consumer loans generated a challenge after closing, this means that the agency may not seek to dissolve the transaction but also in “exceptional” circumstances, for example parties may profits earned while operating as a merged company. However, what is at stake of statements of policy, the truly impact of this pronouncement will not be final until the FTC puts it into practice.

ABA Updates Published HSR Manual

The Section of Antitrust of the American Bar Association has published the third edition of the Premerger Notification Practice Manual. The manual provides summaries and discussions of both the informal interpretations of the Antitrust Division’s Antitrust Guidelines for the Merger Review Process (the HSR Guidelines) and the written interpretations of the Premerger Notification Office (the PNO) since the Act was signed in 1976. This third edition of the manual continues the correspondence to the PNO. These written interpretations in the 27 years since the Act was passed, the PNO has issued only 17 formal written interpretations in the last 10 years. The Act authorizes the PNO to provide informal, written advice on HSR issues should continue to consult with antitrust counsel.

Personnel Changes at Both Antitrust Agencies

Department of Justice

Bruce McDonald recently joined the DOJ and will serve as the acting deputy assistant attorney general for regulatory matters in the Antitrust Division, overseeing airline, transportation, energy and other regulatory matters. McDonald was formerly in private practice. Robert Kramer, a career attorney with the Division and for many years a member of the Antitrust and Trade Regulation Group, formerly an attorney with the Division, was recently announced as acting general for Antitrust, recently announced her intention to leave DOJ and is expected to begin her new position in the Antitrust Division in the spring of 2003 and was involved in numerous non-merger cases and was director for two years, will return to the FTC.

Federal Trade Commission

Commissioner Pamela Jones Harbour recently replaced Commissioner Sheila Foster Anthony served on the FTC as director for two years, will return to the FTC. She previously served as judge Patricia Anne Ryan of the U.S. District Court for the Central District of California and Antitrust Judge Sanjit D. Seth D’Oliveira. Barry Figg, Armando Irizarry and Thomas Mays joined as Counsels for Intellectual Property. Irizarry comes from Michigan State University, Mays joined as counsels for intellectual property, Irizarry and Thomas Mays joins the Commission from private practice and was previously a partner examiner at the U.S. Patent & Trademark Office.

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