Antitrust and Intellectual Property Alert

Published by Bradley Arant Boult Cummings LLP

DOJ to Standard Essential Patent Holders—"We have our eye on you"

By Frank M. Caprio, Michael S. Denniston and Jay L. Levine

Last week, the Antitrust Division of the Department of Justice warned patent holders to make sure that enforcement of their patent rights do not hinder competition, either by charging excessive royalties or by foreclosing competition outright. This cautionary pronouncement was included in its closing statement explaining its decision not to challenge three high profile acquisitions of intellectual property portfolios critical to the wireless device industry. The division reiterated its intention to carefully monitor the manner in which patent holders enforce their patent rights, particularly in patents that are essential to industry standards.

The division reviewed the competitive issues arising from the following notable transactions this year:

- Google Inc.'s acquisition of Motorola Mobility Holdings Inc.;
- the acquisitions by Apple Inc., Microsoft Corp., and Research in Motion Ltd. (RIM) of certain Nortel Networks Corporation patents; and
- the acquisition by Apple of certain Novell Inc. patents.

Each of these acquisitions affected the intersection of antitrust and intellectual property in general, and the telecommunication industry in particular. In brief, the Google acquisition involved the maker of the Android operating system purchasing Motorola Mobility, a manufacturer of smartphones and computer tablets and the holder of a portfolio of approximately 17,000 issued patents and 6,800 applications. RIM, Microsoft, and Apple formed a partnership that sought to acquire patents relevant to wireless devices at the June 2011 Nortel bankruptcy auction, and to license and distribute them to certain partners. Apple also sought to acquire certain Novell patents related to the open source "Linux system."

In each transaction, many of the acquired patents were standard essential patents (SEPs). The division recognized that industry standards, often established through standard setting organizations (SSOs), facilitate interoperability and provide consumers with a wider array of options than would otherwise be available. The industry standards impacted by the patents at issue relate to, among other things, cellular air interface such as 3G and 4G LTE, wireless broadband technologies such as WiFi, and video compression technologies such as H.264.

The basic competitive issue in each transaction was whether the acquirer would have the ability or incentive to hold the industry for ransom by either raising competitors' costs prohibitively or foreclosing competition outright. As the division noted, "After industry

February 22, 2012

Authors

Frank M. Caprio
256.517.5142
fcaprio@babc.com

Michael S. Denniston
205.521.8244
mdenniston@babc.com

Jay L. Levine
202.719.8215
jlevine@babc.com

participants make complementary investments, abandoning the standard can be extremely costly. Thus, after the standard is set, the patent holder could seek to extract a higher payment than was attributable to the value of the patented technology before the standard was set." According to the division, such hold-ups could include:

- demanding supracompetitive licensing rates,
- compelling prospective licensees to grant the licensee's differentiating intellectual property,
- charging licensees the entire portfolio royalty rate when licensing only a small subset of the patent holder's SEPs, or
- seeking to prevent or exclude products practicing those SEPs from the market altogether.

Many SSOs require patent holders to license their patents on reasonable and nondiscriminatory terms before the patents are established as part of the standard. Nevertheless, the division stated that such requirements have not prevented significant disputes from arising.

Though many of the patents that would be acquired by the respective companies are SEPs, the division felt in each case that the acquirer did not have the incentive and/or ability to hold up licensees. With respect to RIM and Microsoft's acquisition of Nortel patents, their low market shares made it unlikely that they would attempt to seek injunctions or supracompetitive royalties. In terms of Apple's acquisition of certain Novell patents, because Novell was required to offer a perpetual, royalty-free license for use in the "Linux-system," and because Apple could not avoid such commitments, the division concluded that Apple could not likely attempt to act anticompetitively as a result of the acquisition of the patents.

In addition, Apple, Microsoft, and Google all committed to play nice with rivals and not enforce SEP rights in a way that would adversely affect competition. While the commitments by Apple and Microsoft were fairly clear on the matter, the division noted that Google's commitment was less so. Nevertheless, and in a twist of irony, the division noted that "Motorola Mobility has had a long and aggressive history of seeking to capitalize on its intellectual property and has been engaged in extended disputes with Apple, Microsoft, and others." Because the acquisition was not likely to alter that policy, the division concluded that "transferring ownership of the patents would not substantially alter current market dynamics." Ominously, the division provided an important caveat to this finding by making it clear that its "approval" is "limited to the transfer of ownership rights and not the exercise of those transferred rights."

Indeed, the entire purpose of the statement was to deliver just that message—"the division continues to have concerns about the potential inappropriate use of SEPs to disrupt competition and will continue to monitor the use of SEPs in the wireless device industry, particularly as they relate to smartphones and computer tablets." The division's message is clear—antitrust enforcement of intellectual property rights, especially those considered essential to industry standards, is of primary importance.