

# LEGAL UPDATE

January 2013 *By: Jeffrey C. Johnson, James R. Klaiber, and Ryan S. Osterweil*

## **FEDERAL TRADE COMMISSION SETTLES INVESTIGATION OF GOOGLE, INC.'S BUSINESS PRACTICES**

On January 3, 2013, the Federal Trade Commission (“FTC”) issued a Statement regarding its enforcement action against Google, Inc. (“Google”), ending an investigation into whether the Corporation’s internet search practices were anti-competitive, constituting violations of Section 5 of the Federal Trade Commission Act, 15 USC § 45. The settlement raises the prospect that smaller actors in industries that rely heavily on standardized technologies which may be patented will have easier access to necessary intellectual property rights, thus decreasing barriers to entry while at the same time facilitating efforts to stay at the industry’s technological forefront.

One of the key issues in the investigation was whether Google, and its subsidiary Motorola Mobility, Inc. (“Motorola”), committed anticompetitive conduct by allegedly breaching commitments to license its standard-essential patents (“SEPs”) on fair, reasonable, and nondiscriminatory (“FRAND”) terms. A standard-essential patent is a patent claiming an invention that must be used to comply with a technical standard in a given industry. In the present investigation, the SEPs at issue covered smartphones, tablet computers, and video game systems. Allegedly, Motorola breached its licensing commitments by seeking injunctions against willing licensees of the relevant SEPs. Google, upon its purchase of Motorola in June, 2012, allegedly continued this conduct.

In the view of many commentators, the FTC ruling was extremely favorable for Google. The settlement required Google to sign a consent order, agreeing to withdraw its claims for injunctive relief based on all standard-essential patents to which it owes a FRAND licensing obligation.

The FTC believes that the proposed settlement in this matter will set a new standard for the resolution of licensing disputes regarding standard-essential patents by reducing the time and cost associated with amassing patents for “purely defensive purposes in industries where standard-compliant products are the norm.” The FTC held that the threat of injunctive relief in matters dealing with FRAND-encumbered SEPs has the potential to cause substantial harm to competition, consumers, and innovation in the United States. The reason, they stated, is that the threat of injunctive relief could lead to royalty payments to the patent holder which are greater than the economic value of the technology in the industry, which can in turn trickle down to create higher prices for the end consumer.

Apparently, the FTC’s hope is that the Proposed Order, when accepted by the Court, will protect the integrity of the FRAND licensing process by deterring holders of standard-essential patents from unilaterally defining the terms of FRAND licensing agreements, and that it will create a guideline for the resolution of similar SEP licensing disputes moving forward.

Interestingly, there was a disagreement among the FTC commissioners as to whether the actions taken by Google and Motorola would be actionable under Section 5 of the Federal Trade Commission Act. The majority found that the matter would have supported claims for unfair acts and unfair methods. Commissioners Rosch and Ohlhausen, however, believed that the actions at issue here were beyond the scope of authority ultimately exercised by the FTC. Because the investigation was settled through a Proposed Order, a final determination on this issue was not required.

Finally, notably absent from this ruling was any action by the FTC against Google's alleged antitrust violations by manipulating its search results to favor, and give priority on the vertical results page to, its own services. The FTC held that any bias in Google's search results did not hurt competition or consumers served, even if it may have hurt an individual competitor.

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*The foregoing is merely a discussion of the Federal Trade Commission's settlement with Google Inc. regarding its unfair competition claims of Google's FRAND violations. If you would like to learn more about this topic or how Pryor Cashman LLP can serve your legal needs, please contact Jeffrey C. Johnson at [jjohnson@pryorcashman.com](mailto:jjohnson@pryorcashman.com), James R. Klaiber at [jklaiber@pryorcashman.com](mailto:jklaiber@pryorcashman.com), and Ryan S. Osterweil at [rosterweil@pryorcashman.com](mailto:rosterweil@pryorcashman.com).*

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Jeffrey Johnson is a partner experienced in the transactional aspects of technology and intellectual property exploitation (patents, trade secrets, trademarks and copyright) including, in particular, all aspects of mergers and acquisitions, joint ventures, strategic alliances, joint development and marketing agreements, private placements and licensing in the biotech, entertainment, Internet, pharmaceutical, software and telecommunications industries.

Jeffrey typically focuses on transactional matters principally involving intellectual property or goods and services the value of which are largely attributable to intellectual property. Representative assignments include:

- Representation of Lady Gaga in her investment in The Backplane, as reported in The New York Times on June 6, 2011
- Representation of a private equity fund in connection with the acquisition and disposition of patent portfolios and related assets
- Representation of a public biotechnology company negotiating and documenting numerous strategic alliances, research and development collaborations, co-promotion agreements, patent and know-how licenses, and other agreements relating to the development and exploitation of the company's core technologies
- Representation of a public telecommunications company in connection with a strategic reorganization to maximize the value of its patent portfolio and licensed rights
- Representation of a "file sharing" website operator in connection with the negotiation and documentation of a sale of substantially all of its assets to a foreign file sharing website operator
- Representation of a pharmaceutical company's bioinformatics group negotiating and documenting numerous strategic alliances, software development agreements and software licenses, as well as the group's form agreements for the provision of bioinformatics services and the licensing of genomic and proteomic databases
- Representation of a technology-transfer company in connection with the sale of a portfolio of patents governing web-enabled software updating, active desktop and offline browsing
- Representation of a telecommunications company in connection with its sponsored research agreements with various U.S. and foreign educational institutions
- Representation of a health services company in connection with the purchase of an information management business including a large, proprietary prescription drug database
- Representation of a European-based public company in connection with the negotiation and documentation of a strategic alliance providing for the joint development and commercialization of an ASP-based software application useful for the on-line calculation, reporting and remittance of sales tax obligations
- Representation of a public pharmaceutical company in connection with the disposition of certain patent portfolios and related clinical data and know-how useful in connection with small molecule anti-genomic therapeutics and small molecule anti-bacterial therapeutics
- Representation of a privately held company in connection with the exploitation of a large portfolio of music rights via alternative media including Internet portals, mobile virtual networks and other wireless products and services
- Representation of a public biotechnology company in connection with the negotiation and documentation of agreements providing for the further clinical development and commercialization of a Phase I pharmaceutical compound in collaboration with a Fortune 100 pharmaceutical company

Jeffrey has been an invited speaker and panelist at a variety of public and private events. He is frequently called upon by the press to comment upon intellectual property and other matters.



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Jim Klaiber is a Partner in Pryor Cashman's Intellectual Property Group. He is experienced in all aspects of patent law, including transactions, litigation and client counseling. His experience is concentrated in electrical and mechanical technologies with particular emphasis on telecommunications, high technology, e-commerce, electronic banking, and healthcare. Jim represents a wide range of clients, from startups to multinationals, and has held a lead role in many large patent litigation cases, trials, and IP-related transactions.

Jim has litigated a variety of patent cases before the U.S. District Courts, the International Trade Commission and the U.S. Court of Appeals for the Federal Circuit, including cases involving:

- Wireless and optical fiber telecommunications
- Electronic securities exchanges and financial transaction software
- Semiconductor design and manufacture
- Medical electrodes and prosthetic devices
- Plasma screen and cathode ray tube displays

Recently, Jim was sole Intellectual Property counsel for the bondholders in the Nortel bankruptcy proceedings, which resulted in the largest patent sale in history.

Prior to joining Pryor Cashman, Jim was a member of the Intellectual Property Group at Milbank, Tweed, Hadley & McCloy, which he co-founded. Before that, Jim gained extensive research and development experience as a member of the Technical Staff at Bell Laboratories' Murray Hill and Whippany labs. He was the principal investigator for numerous high-technology telecommunications projects involving fiber optic undersea transmission media and other technologies.

Jim earned his J.D. from Fordham University School of Law while working at Bell Labs, and holds undergraduate and graduate degrees in mechanical engineering from the Massachusetts Institute of Technology, the University of Michigan, and U.C. Berkeley.

Jim is Chapter Chair of the MIT Enterprise Forum of New York, one of the nation's leading technology entrepreneurship organizations. He is a member of the Scientific Advisory Board of the NSF's sensor research program administered by the University of Maine, and also the Chair of the Continuing Legal Education Subcommittee of the New York City Bar Association's Patent Committee.



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Ryan is a 2011 graduate of Albany Law School, where he was a Note & Comment Editor for the *Albany Law Journal of Science & Technology*. He was also the recipient of the 2010 Capital District Trial Lawyers Association Award.