1. **Definitions.**

**1.1** “**Acme Licensed Patent”** means each patent and patent application listed in Attachment A hereto, any patent issuing on any such application or any continuation, continuation-in-part or division thereof any reissue, reexamination, or extension of any such patent, and all worldwide patent applications corresponding to any of the foregoing and all patents issuing therefrom.

**1.2 “Acme Licensed Product”** means any device, apparatus, product, compound, composition of matter, product-by-process, kit, system, material, or algorithm the manufacture, use, sale, offer for sale, or import of which, if unlicensed, would infringe a Valid Claim of any Acme Licensed Patent.

**1.3** **“Valid Claim”** means a claim of an issued patent which has not expired, and which has not been disclaimed, canceled, or held invalid or unenforceable by a court or administrative agency of competent jurisdiction from which no further appeal is possible.

**1.4 “Zeta Licensed Patent”** means each patent and patent application listed in Attachment B hereto, any patent issuing on any such application or any continuation, continuation-in-part or division thereof any reissue, reexamination, or extension of any such patent, and all worldwide patent applications corresponding to any of the foregoing and all patents issuing therefrom.

**1.5 “Zeta Licensed Product”** means any device, apparatus, product, compound, composition of matter, product-by-process, kit, system, material, or algorithm the manufacture, use, sale, offer for sale, or import of which, if unlicensed, would infringe a Valid Claim of any Zeta Licensed Patent.

1. **License.**

**2.1 License Grant: Acme to Zeta.** Subject to the terms and conditions set forth in this agreement, Acme Inc. (“Acme”) grants to Zeta, Ltd. (“Zeta”); under Acme Licensed Patents; and for the lives of such Acme Licensed Patents or the life of the agreement: an exclusive, worldwide license, excepting the United States, but including the states of New York and California, and excepting Canada, and Mexico, and the respective territories and possessions of each, to make, use, offer to sell, sell, and import Acme Licensed Products; provided, however that:

**2.1.1** The license granted in section 2.1 of this agreement is subject to a reserved exclusive, worldwide license, excepting Europe and the state of California, in Acme, to make, use, sell, offer for sale, and import Acme Licensed Products.

**2.2 License Grant: Zeta to Acme.** Subject to the terms and conditions set forth in this agreement, Zeta grants to Acme; under Zeta Licensed Patents; and for the lives of such Zeta Licensed Patents, or the life of agreement: an exclusive, worldwide license, excepting the state of California and Europe, to make, use, offer to sell, sell, and import Zeta Licensed Products; provided, however that:

**2.2.1** The license granted in section 2.2 of this agreement is subject to a reserved exclusive, worldwide license, excepting the United States, but including the state of New York, Canada, and Mexico, and the respective territories and possessions of each, in Zeta, to make, use, sell, offer for sale, and import Zeta Licensed Products.

**Antitrust Concerns Within the Agreement**

**Post Expiration Royalties.** The first issue is one of patent misuse regarding post expiration royalties. In *Brulotte v. Thys Co.*, 339 U.S. 827, USPQ 378 (1950), the Supreme Court held that requiring payment after expiration of a patent was misuse. “A patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*.” *Id.* at 32, 143 USPQ at 266. Here, the Acme patents expire in 2024, and the Zeta patents expire in 2023, but the agreement is set to run until 2026. Paying royalties after the expiration of the patents extends the temporal scope of the patents and is therefore patent misuse. Acme would need to stop paying royalties in 2023, and Zeta in 2024. Paying royalties past that would be patent misuse. If there is some know-how being exchanged in the agreement, those royalties could continue until 2026, but royalties would need to decrease after the expiration of the patents to show that royalties were only being paid on the know-how.

**Division of Markets.** The second issue regards the division of markets. The Supreme Court, in *Northern Pacific Railway Co. v. United States*, 356 U.S. 1 (1958), stated that there are certain agreements and practices that are presumed unreasonable. One of these “per se” practices is the division of markets among competitors. *United States v. Addyson*, 85 F. 271 (6th Cir. 1898). The division of markets means that competitors limit their markets to a certain geographic area to reduce competition in agreed-upon territories. *Id.* Here, Acme and Zeta have agreed that only Acme will sell in the majority of the United States, all of Mexico and Canada, and Zeta will be the exclusive seller in California and Europe. They have agreed to both sell in the rest of the world, and the state of New York. This is division of markets among competitors and is an antitrust violation.

**Patent Tie-out.** Third issue concerns patent tie-out: Acme insisted that Zeta not sell phones in California or New York that do not contain the Fold Plus Display. Patent tie-out is a form of patent misuse in which a licensor conditions granting a license on the licensee agreeing to not to purchase, use, or sell another article of commerce not within the scope of the patent. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969). Like other patent misuse, it is subject to § 271(d)5, which is met here because Acme has 70% of the smartphone market, and arguably has strong market power. This is not *per se* misuse; however, it does broaden the scope of the patent because it prevents Zeta from practicing other technologies. It is important to apply the rule of reason to determine if there is an anti-competitive effect. There is likely anti-competitive effect because it forces consumers to only buy a single type of phone, broadening the sale of the Fold Plus Display, and forces Zeta to forgo selling other products in California and New York. Additionally, it is important to know if Zeta was coerced by Acme to do this. There are little facts one way or the other: both companies have technology helpful to the other and strong market shares in different areas. It is likely an antitrust violation but could possibly be acceptable.

**Price Fixing.** The next issue concerns fixing a minimum sale price for the Fold Plus Display phones at $800. This is horizontal price fixing, which is another *per se* violation of antitrust law. *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150 (1940). Competitors cannot agree to set minimum sales prices, this is an antitrust violation.

**Assignment and License of Improvements.** The next issue concerns the conditions on improvements. Zeta’s granting of a non-exclusive license back to Acme on any improvements to the display is not an antitrust violation. *See United States v. Huck Mfg., Co.*, 227 F. Supp. 791 804 (E.D. Mich. 1964), *aff’d*, 387 U.S. 197 (1965). Grant backs of non-exclusive licenses to the licensors are seen as pro-competitive, because they encourage the licensor to grant the license. *Id.* However, Acme assignment of improvements on the plastic may be problematic. *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947). While not per se illegal, these assignments should be agreed to with caution, in two situations: 1) if the improvement definition extends beyond the scope of the license technology leading to potential patent misuse by extending the scope of that patent, and 2) the grant back provision is in numerous nonexclusive licenses, placing all improvement technology in the licensor’s possession. *Id.* Here, we would need to know more about the planned scope of the definition of “Improvements” in the agreement, and how improvements are assigned back in the various sublicenses.

**Sublicenses.** There are no antitrust concerns when each participate holds unilateral right to grant licenses under its own patents to order parties outside of the cross-license or pooling arrangement. However, if granting a license requires approval of the other participants, the agreement may present antitrust issues. Here, Acme and Zeta are allowed to grant sublicenses on their respective patents, but each requires the approval of the other to sublicense the rights to any maker, *even their own patents*. Because of this restraint on each company licensing their respective patents, there may be antitrust concerns. Acme and Zeta should consider this provision with caution.

**Tying with Acme Headphones.** Conditioning the sale of Acme’s patent to the sale of its headphones is likely an antitrust violation. Tying occurs where an entity or individual with market power uses that power to coerce another to take an unwanted action affecting competition in another market. *International Salt Co. v. United States*, 332 U.S. 392 (1947).Patents alone do not confer market power; the patent owner must have actual market power*. Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 US. 28, 77 USPQ2d 1801 (2006). An essential element of improper tying lies in the seller’s forcing the buyer into the purchase of a product the buyer did not want or would have purchases elsewhere on different terms. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 US. 2 (1984). Additionally, tying must be judged under the rule of reason. There are four elements to tying: 1) the tier must have market power, 2) there must be coercion, 3) the items must be separable, and 4) must affect commerce.

Here, Acme conditioned the licensing of its patent on the condition that Zeta purchase its headphones from Acme. Acme has strong market power, with 70% of the United States smart phone market under its control. We would need more evidence and details regarding the negotiations, but the language of your email suggests there was coercion, as Acme “refused to enter the deal unless Zeta agreed.” The items were clearly separable: headphones are not an essential piece of Acme’s foldable screen, and there is no advantage of Acme’s headphones over others. Zeta likely would be able to get the headphones from another source. Additionally, tying under patent issue inquiries into if the item is a staple of commerce. The headphones have a non-infringing use, so it would likely be seen as improper tying. We would need further details concerning the affect of the market, but likely due to Acme’s large market share, it would affect the headphone market, however it may not as users frequently do not use the headphones that come with their phones, buying or using higher qualify headphones from other sources. With these facts, it highly suggests there is improper tying.

**Standard Essential Patents and SSOs.** Acme have acted improperly by refusing to grant Zeta a license to Acme’s standard essential LTE patents. Standards do eliminate some competition, but it allows for efficiency and technical advancements and so are viewed as pro-competitive. Anyone wishing to practice the standard, must do so under license, Stand Setting Organizations (SSOs) therefore require participants in the standard setting process to commit to a free or reasonable and nondiscriminatory (RAND) license. *See, e.g.*, ANSI Patent Policy (2014), available at http://publicaaansi.org/sites/apdll/Documents/Forms. Here, Zeta did not participate in the standard setting process, and so its refusal to grant Acme a license to its standard essential patents on LTE may be acceptable. However, Acme participated in the standard setting process and so must grant Zeta a RAND or even a free license to practice its standard essential patents. *Id.*

**Refusals to Deal / Group Boycotts.** Refusals to deal are concerning when a party has monopoly power. *Image Technical Services, Inc. v. Eastman Kodak*, 125 F.3d 1195 (9th Cir. 1997)*. Co.* Acme does not have monopoly power, but it does have a large amount of market power (70% of the U.S. cell phone market). Zeta also has large amounts of market power, albeit outside the United States. Acme and Zeta have decided to license to each other exclusively, and this refusal to deal with others does raise antitrust concerns. Additionally, as they are working together to deny others license, a concerted refusal to deal is a group boycott, a per se antitrust violation.