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Nortel's Patents To Give Buyer A Boost Against Rivals

By **Jacqueline Bell**

Law360, New York (June 20, 2011) -- They might not face scrutiny by U.S. antitrust regulators, but whoever emerges as the winning bidder of bankrupt Nortel Networks Corp.'s massive patent portfolio at an impending auction will have a formidable weapon to wield against competitors, attorneys say.

Nortel's enviable patent portfolio of approximately 6,000 U.S. and foreign patents, and patent applications for wireless, data networking and semiconductor technology is apparently sought by several companies with deep pockets, Google Inc. and Apple Inc. among them.

Google secured a Delaware bankruptcy court's approval in May for its \$900 million stalking horse bid, along with a \$29 million breakup fee and expense reimbursement. But according to Nortel on Thursday there is a significant level of interest in the portfolio from additional companies that has prompted a one week delay of the auction which is now scheduled for June 27.

Other prospective bidders reportedly include Apple Inc., Ericsson AB, Oracle Corp. and Research in Motion Ltd. An attorney for RPX Corp., a provider of patent risk solutions, also said at a May hearing that the company was organizing a joint bid for the portfolio.

Whoever ends up with the Nortel's patent portfolio will certainly become part of an elite group that possess a powerful and threatening patent portfolio in the mobile computing world, said Ron Epstein, CEO of Epicenter IP Group LLC, a large independent patent broker.

"They won't become the 800-pound gorilla, but they will be in the big gorilla club," Epstein said.

Any company or investor willing to spend upwards of a billion dollars on the patent portfolio is certain to want to put those patents to work, either as a shield or a weapon, in the high stakes patent litigation arena, attorneys say.

The winning bidder could assert them against rivals, use them as bargaining chips to negotiate for cross-licensing deals with competitors, raise them as a deterrent to patent suits from other companies by asserting them as counterclaims or countersuits, or simply use them to extract royalties or damages from other firms, among other tactical options.

"Whoever acquires this portfolio will have some formidable assets," said Merchant & Gould PC partner Peter Gergely.

The winner will have an enviable concentration of patent power to use as they please, and some companies are crying foul, saying that the current terms of the auction could harm

competition. But it's still unclear whether those arguments could be used to block the winning bidder's potential power.

Microsoft Corp. has filed an objection saying a free-and-clear patent sale would hurt the whole industry. Google — or whoever wins the auction — cannot be allowed to gain control of Nortel's patents without being bound by licensing deals between Nortel and the industry's standards-setting organizations, known as SSOs, Microsoft argues.

The sale as proposed would allow the buyer to ignore some of the contracts Nortel had with other players in the tech industry, according to Microsoft.

"[That] would result in considerable disruption in the development and enhancement of various existing technologies, and give the prospective purchaser an unfair competitive advantage," Microsoft said in an objection filed with the bankruptcy court. "The transferred patents must be sold subject to all SSO commitments."

Other major players in the wireless industry have filed similar objections to the sale of the portfolio as well, including AT&T Inc., Verizon Communications Inc., Hewlett-Packard Co. and Nokia Corp.

Google's bid has drawn scrutiny from the U.S. Department of Justice over possible antitrust violations resulting from the sale. However, as the Wall Street Journal reported on June 14, the DOJ concluded after a review that the stalking horse bid would not create any major anti-competitive concerns in the tech industry.

Still, the DOJ is reportedly reviewing whether bids from other tech giants, including Apple, could impair competition.

Other competition regulators could also be intrigued by the auction and be inspired to intervene depending on who the winning bidder is.

"Just because the U.S. signs off on something, doesn't mean the [European Union] will as well," said Michael Carrier, law professor at Rutgers School of Law.

But if regulators do not raise antitrust concerns challenging the winning bidder, it may be tough for rivals to claim competition harm down the road when facing one of the Nortel patents in court, Carrier said.

Individual patents are usually viewed by courts as legal monopolies, granting a patent holder the right to exclude others.

"Courts are very hesitant to challenge activities based on a patent," Carrier said.

The arrival of a new patent heavyweight in the high tech industry should nevertheless motivate companies to tighten their defenses before the winning bidder shows up at their door, attorneys say.

"Because of the scope and breadth of the Nortel patent portfolio, I would say that any electronics manufacturer, retailer or parts supplier has to have some concern here," said John J. Skinner of Michelman & Robinson LLP.

Even small companies far removed from the bidding process should undertake a review of their technology, determine what might be implicated by the Nortel patent portfolio and tweak their defenses if necessary, Skinner said.

While the winning bidder may not begin to use those patents in litigation immediately after the auction, they're unlikely to sit idly by waiting for more than a billion dollars worth of

patents to expire, he said.

"There's certainly bound to be litigation over the next few years, as the winning bidder starts to assert those patents," Skinner said.

Who the winning bidder turns out to be will also provide law firms with some clues as to how the patents will be used and what type of defenses they might need.

Google has already said it wants Nortel's patents to protect itself from the recent explosion in patent litigation in the tech world. Google is a relatively young company and has a smaller portfolio of patents than many of its competitors, leaving it without an arsenal to wield in the patent wars.

"One of a company's best defenses against this kind of litigation is [ironically] to have a formidable patent portfolio, as this helps maintain your freedom to develop new products and services," wrote Kent Walker, senior vice president and general counsel of Google, in a blog post when the search giant's stalking horse bid was announced in April.

If a so-called nonpracticing entity makes a successful bid for the Nortel patents, tech firms may find themselves in a tough bargaining position. Nonpracticing entities, which don't make their own products, typically earn money off patent investments by extracting licensing fees or damages through litigation from industry participants, who have very little negotiating power against those types of entities.

"That is also a serious cause for concern. That could raise the price point of products, without any real tangible return," Skinner said.

Another prospective bidder — RPX — touts itself as a company that acquires "problem patents," in order to reduce patent assertions directed at its clients, locking them away so they can't be used as weapons in any disputes.

"We will never assert or litigate the patents in our portfolio," RPX said in a statement on its website.

While patents are usually used as a way to lawfully limit competition, the transfer of Nortel's patent portfolio has the potential to actually boost competition in the industry by allowing a new competitor additional room to maneuver, for example, according to Skinner. Or the future owner of the Nortel patents may be inspired — for one tactical reason or another — to usher new rivals into a particular market through licensing deals.

"I have a feeling that the breadth and scope of this portfolio may work to increase competition in the tech fields those patents happen to cover," Skinner said.

--Additional reporting by Lance Daroni. Editing by Christine Caulfield and Andrew Park.

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