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FTC Focus: What Access To Patent Settlements Would Mean

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This article is part of a monthly column that considers the significance of recent Federal Trade Commission announcements about antitrust issues. In this installment, we discuss the FTC's attempts to expand its access to settlements of actions before the Patent Trial and Appeal Board.

The Federal Trade Commission has pursued aggressive and creative expansion of its antitrust enforcement efforts under the Biden administration, and the pharmaceutical industry is no exception. Indeed, in a recent interview, FTC Chair Lina Khan said the commission is "using all the tools we have" to pursue drugmakers.

Now, the FTC is seeking to expand its access to settlements of actions before the Patent Trial and Appeal Board. Currently, only in more advanced proceedings — i.e., after a determination that a case should proceed to trial, called post-institution — are the parties required to file a copy of a settlement agreement with the PTAB.[1]

Proceedings at the earlier preinstitution stage do not fall under the statutory requirement. In April, the U.S. Patent and Trademark Office proposed a new rule modifying those requirements.[2]

The proposed new rules would require every settlement be filed with the PTAB. The FTC supports this rule. This means the likely disclosure to the FTC will inevitably form part of parties' considerations in entering and negotiating settlements. We discuss some of those implications here.

Actions and Settlements of the PTAB

The PTAB actions are expedited administrative actions, offering an alternative to costly and expansive traditional litigation in federal court. Approximately three-quarters of litigations in federal district court aren't resolved for over three years, many stretching over six years, while just 30% are resolved within a year.[3]

In contrast, the board must decide whether to institute proceedings, that is, whether to allow a case to proceed to trial, within three months of the initial filing.[4]

If some or all of case proceeds, the trial must be held within one year. Many parties pursue PTAB actions, which only implicate patent validity, along with concurrent actions in federal district court that can include additional claims, such as infringement.

As litigation continues, the parties often settle their dispute. According to the USPTO, approximately 30% of PTAB proceedings are resolved by settlement, with over half of these coming at an early stage, before the board grants institution of the proceeding.[5]

Often, such settlements simultaneously resolve PTAB actions and concurrent federal court litigation. Companies will resolve all disputes and provide a path forward, often including a licensing agreement to allow both parties to proceed without costly litigation.

Under the statute, settlements must be filed only if the settlement comes post-institution. Because preinstitution proceedings are not subject to the same statutory requirements, PTAB panels have been inconsistent in whether to require settling parties to file a copy of their settlement agreement.

The proposed rules seek "consistency and predictability" by requiring settlement agreements be filed in all proceedings, both pre- and post-institution.[6]

The proposed rule would also allow the board to maintain a repository of settlements, accessible to other federal agencies.

The FTC's Comments

In the public comment period, the FTC submitted comments supporting the proposed rule.[7] The FTC emphasized how the proposed rule aligned with the FTC's broader mandate with respect to competitive markets.

It further endorsed the rule as consistent with the executive order on promoting competition in the American economy, which instructed the FTC to be more aggressive with respect to the pharmaceutical industry.[8] In its comments, the FTC listed three main areas it in which it said issues before the PTAB could implicate competition issues:

1. Harkening to its 2003 report on patent law and policy, the FTC argues invalid or overbroad patents claims "may lead a competitor to forgo research and development in the areas that the patents improperly claim," or at least increase the costs of doing so.

2. "In addition," the FTC wrote, "questionable patents can contribute to patent thickets" — the practice of filing multiple overlapping patents on a single existing product.

3. And, of course, the FTC noted "its long history of pursuing ... reverse-payment patent settlements between pharmaceutical brand and generic firms," which arise when the patentee pays a would-be generic competitor to drop the patent challenge and launch a generic product at a later date.

The FTC strongly supports the proposed rule as a means to police potentially anticompetitive settlement agreements. In general, the FTC's comments support the USPTO's efforts to enhance transparency in the resolution of patent disputes.

The FTC posits that these measures will not only protect consumers and businesses from deceptive practices, but also foster a more competitive and innovative market environment.

Impact of the Proposed Rule

The potential, even likely, disclosure of settlement agreements to the FTC means that fact will inevitably become part of parties' thinking and negotiations in entering into a settlement, particularly as these settlements will be earlier in the adjudicative process.

While the FTC seeks greater insight into settlement agreements at the preinstitution stage, these actions are still in their nascent stages. The parties have only exchanged limited briefing.

The board has yet to determine if the petitioner has a reasonable likelihood of prevailing. At the post-institution stage, the parties have the benefit of the board's analysis of their respective strengths and weaknesses. This report from the board, along with the discovery process, offers important context for post-institution settlements.

In contrast, preinstitution settlements may not themselves provide the FTC with sufficient context for a full analysis of the competitive impact of the settlement, because the parties will not have completed any discovery or fulsome filings on the merits of the claims.

As such, it will be important for parties to, as much as possible, include and specify the reasonable rationales and business reasons that support the specific terms of a settlement.

Often, parties negotiate confidentiality provisions in settlement agreements to protect business activities and facilitate prompt resolution of expensive litigation. Several commenters have noted the risk of publication of such documents. The PTAB's proceedings and filings are presumptively public.

Additionally, panels may enter protective orders and any party may request to file documents under seal. However, confidential filings are subject to the same confidentiality rules in the Federal Rules of Civil Procedure and may be shared with other federal agencies.

Practice Notes

Because the PTAB's confidentiality rules are not affected by the proposed rule, parties can consider the scope of confidentiality protections available. Settlement agreements may not be presumptively confidential, meaning parties must consider the need to confer with opposing counsel and any possible justifications for confidentiality, including trade secrets or confidential research.

Along with the request to terminate the PTAB proceeding, the parties can move to keep the settlement confidential. Note, however, this is not a blanket protection.

Instead of filing a motion to terminate the PTAB proceeding, a petitioner can withdraw from the case. In this case, the PTAB may close the case or proceed to an adjudication. While a settlement agreement may not need to be filed in this instance, the parties risk the PTAB rendering a decision notwithstanding the withdrawal.

Settling parties should also consider whether Freedom of Information Act requests could provide the requisite good cause to make the settlement agreement public despite a protective order.

Patent litigants should consider the scope of any settlements made in federal district court. To the extent they include settlement of concurrent PTAB proceedings, they may be subject to the proposed new rules.

Settlement agreements filed with the PTAB may be available to the FTC and other government agencies, on request. To the extent other federal agencies may oversee the industry at issue, the parties should be prepared for that agency to also have access to the settlement agreement.

Parties should consider the business justifications and the competitive impact of any settlement agreement.

Parties should also consider the disclosure possibilities if the PTAB declines to enter a protective order.

This does not mean confidentiality provisions are useless or without teeth. To the contrary, they are all the more important and deserve the parties' attention to work through and limit, to the extent possible and desired, disclosure under this new rule.

[1] See Patent Trial and Appeal Board Rules of Practice for Briefing Discretionary Denial Issues, and Rules for 325(d) Considerations, Instituting Parallel and Serial Petitions, and Termination Due to Settlement Agreement, 89 Fed. Reg.28,697 (Apr. 19, 2024); 35 U.S.C. §§135(e), 317(b), 327(b).

[2] 89 Fed. Reg. at 28,693.

[3] See LexMachina, District Court patent cases by termination dates.

[4] Consolidated Trial Practice Guide, U.S. Patent and Trademark Office at 3 (Nov. 2019) (available at https://www.uspto.gov/sites/default/files/documents/tpgnov.pdf?MURL=TrialPracticeGuide).

[5] 89 Fed. Reg. at 28,697.

[6] 89 Fed. Reg. at 28,697.

[7] Comment of the U.S. Federal Trade Commission, Fed. Trade Comm'n, Dkt. No. PTO-P-2023-0048 (Jun. 18, 2024) ("FTC Comment").

[8] White House, Executive Order on Promoting Competition in the American Economy (July 9, 2021) (available at https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy).

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