IP MISUSE

AND

ANITRUST LAW

THOMAS J. MELORO

THOMAS J. MELORO
PARTNER
New York Office

Practice Areas:
Patents and Trademarks
Areas Of Emphasis:
Litigation
Prosecution
Counseling
Education:
J.D., Georgetown University,
magna cum laude, 1989
Order of the Coif
American Criminal Law Review,
Articles and Notes Editor
B.E., Manhattan College,
magna cum laude, 1986
Chemical Engineering
Tau Beta Pi
Omega Chi Epsilon
Epsilon Sigma Pi
Bar Admissions:
New York
New Jersey
U.S. Court of Appeals for the Federal Circuit
U.S. District Courts for the Southern, Eastern and Northern Districts of New York and the District of New Jersey
Registered Patent Attorney, U.S. Patent and Trademark Office

KENYON & KENYON

One Broadway
New York, NY 10004
(212) 425-7200

1025 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-1776

RiverPark Towers
333 West San Carlos Street, Suite 600
San Jose, CA 95110
(408) 287-2800

Bockenheimer Landstrasse 97-99
60325 Frankfurt am Main
Federal Republic of Germany
(69) 97 58 05 0

Thomas J. Meloro

The focus of Thomas J. Meloro's practice is litigation and adversarial matters concerning patents, trademarks and trade secrets. His litigation experience has involved the chemical industries with particular emphasis on pharmaceuticals, medical products, polymers, immunoassays, food chemistry, catalysis, colloids, and analytical chemistry.

In addition, Mr. Meloro analyzes intellectual properties in disciplines such as pharmaceuticals, polymers, medical products, and catalysis for their validity, enforceability and infringement. He also prepares and prosecutes patent applications worldwide and is involved with licensing and other contractual issues pertaining to intellectual property.

Mr. Meloro is a member of the New York Intellectual Property Law Association, the New Jersey Patent Law Association and the American Bar Association Sections on Intellectual Property and Litigation.

Mr. Meloro is married with three children and lives in River Edge, New Jersey.

tmeloro@kenyonlaw.com

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AN OVERVIEW OF ANTITRUST AND MISUSE ISSUES

IN INTELLECTUAL PROPERTY LAW

Thomas J. Meloro
Kenyon & Kenyon

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Statutes

I. INTRODUCTION[1]

In 1970, Bruce B. Wilson of the United States Department of Justice, Antitrust Division, laid out what he considered to be nine provisions commonly found in patent license agreements which were anticompetitive and therefore would be pursued by the Department of Justice. These provisions became commonly known to the bar as the nine "no-nos". We would like to examine today the status of the nine "no-nos" in light of case law and Department of Justice policy which has evolved since Mr. Wilson's pronouncement.

The paper also covers several additional intellectual property antitrust issues -- acquisition of patents, bad faith patent litigation, fraud on the Patent Office, other litigation related issues, and copyright and trademark-related issues.

II. OVERVIEW

A. THE RELATIONSHIP BETWEEN THE PATENT MISUSE DOCTRINE AND ANTITRUST ALLEGATIONS

Anticompetitive acts constituting patent misuse is a complete defense to a patent infringement action. Senza-Gel Corp. v. Seiffhart, 803 F.2d 661, 668 (Fed. Cir. 1986). A successful patent misuse defense results in rendering the patent unenforceable until the misuse is purged. Id. at 668 n.10. The same acts may also be used offensively to constitute an element of an antitrust claim. A successful complaint for antitrust violation results not only in unenforceability but also in treble damages. Id. It is important to note that a patentee's actions may constitute misuse without rising to the level of an antitrust violation.

B. ANALYTICAL TOOLS FOR PATENT ANTITRUST ISSUES

1. Per Se Analysis

Certain types of conduct presumably restrain trade and are therefore per se illegal without an examination of market power or anticompetitive effect.

a. The Supreme Court still uses the per se analysis in some situations. See Jefferson Parish Hospital v. Hyde, 466 U.S. 2 (1984). However, the per se rule is no longer a pure per se rule. The per se rule is applied when

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[1] I wish to acknowledge the contributions of Arthur Gray, Paul Heller, and Kevin Godlewski. I also acknowledge use of a paper by Gerald Sobel of Kaye, Scholer, Fierman, Hays & Handler, entitled "Exploitation of Patents And The Antitrust Laws".

surrounding circumstances make the likelihood of anticompetitive conduct so great as to render unjustified further examination of the challenged action. NCAA v. Oklahoma, 468 U.S. 85, 104 (1986). Since Congress intended to outlaw only unreasonable restraints on trade, the Supreme Court deems unlawful per se only those restraints which "have such predictable and pernicious anticompetitive effect, and such limited potential for procompetitive benefit." State Oil Co. v. Khan, 118 S. Ct. 275, 279 (1997). The Court expresses a "reluctance" to adopt per se rules with regard to "restraints imposed in the context of business relationships where the economic impact of certain practices is not immediately obvious." Id., quoting FTC v. Indiana Federation of Dentists, 476 U.S. 458-59 (1986).

c. The Department of Justice (DOJ) and the Federal Trade Commission (FTC) released a new set of antitrust guidelines in April of 1995 entitled U.S. Department of Justice & Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property, reprinted in 4 Trade Reg. Rep. (CCH) ¶ 13, 132 (April 6, 1995) (hereinafter 1995 IP Guidelines). Therein, the DOJ and the FTC (collectively, "the Agencies") remarked that those licensing restraints which have been held to be per se unlawful include "naked price-fixing, output restraints, and market division among horizontal competitors, as well as certain group boycotts and resale price maintenance." IP Guidelines, at 20,741. The DOJ will challenge a restraint under the per se rule when "there is no efficiency-enhancing integration of economic activity and if the type of restraint is one that has been accorded per se treatment." Id. The DOJ noted that, generally speaking, "licensing arrangements promote such [efficiency-enhancing] integration because they facilitate the combination of the licensor's intellectual property with complementary factors of production owned by the licensee." Id.

2. Rule of Reason Analysis

a. Most antitrust claims are analyzed under a rule of reason, "according to which the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account various factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature, and effect." State Oil Co. v. Khan, 118 S. Ct. 275, 279 (1997).

b. The IP Guidelines released in April of 1995 refine and replace the prior DOJ pronouncement on intellectual property licensing in the antitrust context, contained in the Department of Justice Antitrust Enforcement Guidelines for International Operations, 55 Antitrust & Trade Reg. Rep. (BNA) No. 1391 (Nov. 17, 1988). The 1995 IP Guidelines "embody three general principles: (a) for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property; (b) the Agencies do not presume that intellectual property creates market power in the antitrust context; and (c) the Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive." 1995 IP Guidelines, at 20,734.

The vast majority of restraints in intellectual property licensing agreements will be analyzed under the rule of reason. When analyzing such a restraint under the rule of reason, the DOJ will consider "whether the restraint is likely to have anticompetitive effects and, if so, whether the restraint is reasonably necessary to achieve procompetitive benefits that outweigh those anticompetitive effects." Id. at 20, 740.

(i) "Licensing arrangements raise concerns under the antitrust laws if they are likely to affect adversely the prices, quantities, qualities, or varieties of goods and services either currently or potentially available." Id. at 20,737. In assessing the competitive effects of licensing arrangements, the DOJ may be required to delineate goods markets, technology markets, or innovation markets (research and development). Id.

(ii) When a licensing arrangement affects parties in a horizontal relationship, a restraint in that relationship may increase the risk of coordinated pricing, output restrictions, or the acquisition or maintenance of market power.... The potential for competitive harm depends in part on the degree of concentration in, the difficulty of entry into, and the responsiveness of supply and demand to changes in price in the relevant markets.

Id. at 20,742; see also State Oil Co. v. Khan, 118 S. Ct. at 282 ("[t]he primary purpose of the antitrust laws is to protect interbrand competition.").

(iii) When the licensor and the licensees are in a vertical relationship, the Agencies will analyze whether the licensing arrangement may harm competition among entities in a horizontal relationship at either the level of the licensor or the licensees, or possibly in another relevant market. Harm to competition from a restraint may occur if it anticompetitively forecloses access to, or increases competitors' costs of obtaining, important inputs, or facilitates coordination to raise price or restrict output.

Id.

(iv) If the Agencies conclude that the restraint has, or is likely to have, an anticompetitive effect, they will consider whether the restraint is reasonably necessary to achieve procompetitive efficiencies. If the restraint is reasonably necessary, the Agencies will balance the procompetitive efficiencies and the anticompetitive effects to determine the probable net effect on competition in each relevant market.

Id. at 20,743.

c. In an effort to encourage intellectual property licensing agreements, which the Agencies believe promote innovation and enhance competition, the IP Guidelines establish an antitrust "safety zone". This "safety zone" is designed to create more stability and certainty for those parties who engage in intellectual property licensing. However, the "safety zone" is not intended to be the end-all for lawful, procompetitive intellectual property licenses, as the "Agencies emphasize that licensing arrangements are not anticompetitive merely because they do not fall within the scope of the safety zone." Id. at 20,743-2. The "safety zone" is defined as follows:

(i) Absent extraordinary circumstances, the Agencies will not challenge a restraint in an intellectual property licensing arrangement if (1) the restraint is not facially anticompetitive and (2) the licensor and its licensees collectively account for no more than twenty percent of each relevant market significantly affected by the restraint.... Whether a restraint falls within the safety zone will be determined by reference only to goods markets unless the analysis of goods markets alone would inadequately address the effects of the licensing arrangement on competition among technologies or in research and development.

Id. (emphasis added) (footnote omitted).

(ii) Absent extraordinary circumstances, the Agencies will not challenge a restraint in an intellectual property licensing arrangement that may affect competition in a technology market[2] if (1) the restraint is not facially anticompetitive and (2) there are four or more independently controlled technologies in addition to the technologies controlled by the parties to the licensing arrangement that may be substitutable for the licensed technology at a comparable cost to the user.

Id. (emphasis added).

(iii) Absent extraordinary circumstances, the Agencies will not challenge a restraint in an intellectual property licensing arrangement that may affect competition in an innovation market[3] if (1) the restraint is not facially anticompetitive and (2) four or more independently controlled entities in addition to the parties to the licensing arrangement possess the required specialized assets or characteristics and the incentive to engage in research and development that is a close substitute of the research and development activities of the parties to the licensing agreement.

Id. (emphasis added) (footnote omitted).

d. Views on how the Antitrust Division has conducted its rule of reason analysis to determine whether a particular license violates the antitrust laws are reflected in Remarks of Roger B. Andewelt, Deputy Director of Operations, Antitrust Division, before the American Bar Association, Patent, Trademark & Copyright Section (hereinafter "Andewelt (1985)") (July 16, 1985).

(i) "[P]erhaps the ultimate licensing issue -- how does the Antitrust Division conduct its rule of reason analysis to determine whether a particular license violates the antitrust laws[?] While patent licenses, even between competitors, [are] at their essence vertical and not horizontal arrangements, they can in some circumstances have horizontal anticompetitive effects. Our rule of reason analysis would exclusively search for such horizontal effects." Andewelt (1985) at 18.

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2 The 1995 Guidelines describe technology markets as consisting of "the intellectual property that is licensed . . . and its close substitutes."

3 The 1995 Guidelines describe innovation markets as consisting of "the research and development directed to particular new or improved goods or processes, and the close substitutes for that research and development."

(ii) "Where an intellectual property license is merely a sham to hide <u>per se</u> illegal horizontal restraints, such as an agreement to fix prices on products unrelated to the intellectual property involved, the analysis of the lawfulness of the license is short and condemnation certain. In all other situations, however, a more studied analysis of the effect of the license would be required." <u>Id</u>.

(iii) "The analysis typically would commence by isolating the relevant product and geographic markets impacted. We would define these markets in the manner described for defining markets n the Antitrust Division's <u>Merger Guidelines</u>."[4] <u>Id</u>. at 19.

e. "Once the product and geographic markets are defined, the analysis would proceed with an assessment of the competitive effect of the license in these markets. The focus of this analysis would not be on the extent to which the license creates competition between the licensor and the licensee or among licensees. The licensor has no obligation to create competition; antitrust policy demands only that the licensor not restrain competition. A patent license therefore typically will not be of competitive concern if it impacts only competition in the use, manufacture, distribution, or sale of the patented invention; the patent grant already gives the patent owner the right to exclude all such competition." <u>Id</u>. at 19-20.

f. "Instead of focusing on the failure to create competition, antitrust analysis should generally focus on the extent to which the license decreases competition. Sometimes the effect of a patent license extends beyond products embodying the patented invention and can reach competition in competing products. For example, licenses can decrease competition compared to no license at all, when they decrease the licensee's incentive or freedom to market products that compete with products embodying the invention, or decrease the licensee's incentive or freedom to engage in (research and development] aimed at producing such competing products." <u>Id</u>. at 20.

g. "The license is illegal if on a net basis it is anticompetitive. In addition... a particular provision [in a procompetitive] license is illegal if it is anticompetitive in itself, and is not reasonably related to serving any of

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[4] U.S. Department of Justice Merger Guidelines (Antitrust Division June 14, 1984), 49 Fed. Reg. 26,823 (1984).

the procompetitive benefits of the license." Id. at 21-22.

III. THE NINE NO-NO's

A. TIE-INS

A "tie-in" is an arrangement in which a seller conditions the sale of his product upon a buyer's purchase of a separate product from the seller or a designated third party. The anticompetitive vice is that competitors are denied access to the market for the tied product. Northern Pacific Railway v. United States, 356 U.S. 1 (1958).

1. Background

a. Typical of a patent tie-in case is Morton Salt Co. v. G.S. Suppiger, Co., 314 U.S. 488, reh. denied, 315 U.S. 826 (1942), in which a licensing agreement that required the licensees to purchase their unpatented salt tablets from the defendant as a condition to leasing his patented salt-making machinery was held a patent misuse and violation of § 1 of the Sherman Act. The Court found it irrelevant that the infringer had engaged in the same practice.

b. The tie-in offense reached its high water mark in cases involving contributory infringement. In Mercoid v. Mid Continent Co., 320 U.S. 661, reh. denied, 321 U.S. 802 (1944), the Court held that limiting the use of a combination patent to purchasers of an unpatented component of the patented combination was a patent misuse even though the unpatented component had no other use but to be used in the patented combination.

c. 35 U.S.C. § 271 (c) & (d) was designed to retreat from and effectively overrule Mercoid.

(i) Under the 1952 Patent Act, a patentee could supply material, nonstaple parts of inventions and sue others, as contributory infringers, who did the same.

(ii) Congress recognized misuse, but limited eradication of it. At this point, it was still unclear what tying was allowed, and whether the patentee could refuse to license use of the patented item.

(iii) In 1980, Dawson Chemical Co. v. Rohm & Haas Co., 448 U.S. 176, 214, reh. denied, 448 U.S. 917 (1980) held that a patentee could refuse to license another who was selling a nonstaple part of the invention and such refusal would not constitute misuse.

(iv) New §§ 271(d)(4) and (5) provide greater flexibility for the patentee.

On November 19, 1988, President Reagan signed legislation (H.R. 4972) which amended the patent misuse law to provide that misuse shall not be found by reason of a patentee having (1) "refused to license or use any rights to [a] patent," or (2) "conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned."

The Act provides that the patent misuse amendment shall apply only to cases filed on or after the date of its enactment.

d. Tying is a per se violation of the Sherman Act only if it is probable that the seller has exploited its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms. Jefferson Parish, 466 U.S. at 12-16 (30% market share held insufficient).

"[T]he essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms."

Id. at 12.

In Jefferson Parish, the per se rule was reaffirmed by a bare majority, with the soundness of the rule having come under attack. According to the court in Mozart v. Mercedes-Benz of North America, Inc., 833 F.2d 1342, 1345 n.2 (9th Cir. 1987), cert. denied, 109 S.Ct. 179 (1988) "[t]wo Justices relied on Congress' silence as a justification for preserving the per se rule. See Jefferson Parish, 466 U.S. at 32 (Brennan, J., concurring). Four Justices, recognizing that tying arrangements may have procompetitive effects, would analyze these arrangements under the rule of reason. Id. at 32-47 (O'Conner, J., concurring). Thoughtful antitrust scholars have expressed serious doubts about the alleged anticompetitive effects of tie-ins. See 5 P. Areeda & D. Turner, Antitrust Law ¶¶ 1129c, 1134b (1980); R. Bork, The Antitrust Paradox 372-75 (1978)." Mozart, 833 F.2d at 1345 n.2 (tying agreement supported by legitimate business justification (reputation for quality) cannot be characterized as the type of predatory anticompetitive or unfair conduct that is necessary to support attempted monopolization claim).

e. In order to prevail under a per se theory, plaintiff must establish the following three elements: (1) a tie-in between two distinct products or services; (2) sufficient economic power in the tying product market to impose significant restrictions in the tied product market; and (3) an effect on a not insubstantial volume of commerce in the tied product market. Tominga v. Shepherd, 682 F. Supp. 1489, 1493 (C.D. Cal. 1988) (citing Robert's Waikiki U-Drive Inc. v. Budget Rent-A-Car Sys., 732 F.2d 1403, 1407 (9th Cir. 1984)).

f. The seller must have "the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market. In short, the question is whether the seller has some advantage not shared by his competitors in the market for the tying product." United States Steel Corp. v. Fortner Enterprises, Inc., 429 U.S. 610, 620 (1977).

g. Courts have identified three sources of market power: (1) when the government has granted the seller a patent or similar monopoly over a product; (2) when the seller's share of the market is high; and (3) when the seller offers a unique product that competitors are not able to offer. Tominga, 682 F. Supp. at 1493; Mozart Co., 833 F.2d at 1345-46. But see Abbott Lab. v. Brennan, 952 F.2d 1346 (Fed. Cir. 1991) ("A patent does not of itself establish a presumption of market power in the antitrust sense.").

h. A threat to void or limit warranties on products which do not contain patented components is not patent misuse, particularly where there is a legitimate business interest in maintaining the integrity of the product. Virginia Panel Corp. v. MAC Panel Co., 45 U.S.P.Q.2d 1233 (Fed. Cir. 1997).

2. Wilson's Prohibition

It is unlawful to require a licensee to purchase unpatented materials from the licensor.

3. <u>Justification for Prohibition</u>

Competitors are denied access to the market for the tied product, which is inconsistent with the basic national economic policy of competition.

4. <u>Criticism of Prohibition</u>

Tie-ins are beneficial to the patentee because they allow the patentee to charge the licensee a closer approximation of the value of the license than would be attainable otherwise.

5. <u>Case Law</u>

a. In Senza-Gel Corp. v. Seiffhart, 803 F.2d 661 (Fed. Cir. 1986), the owner of a patent on a process for producing whole boneless hams tied its license to the lease of an unpatented machine capable of macerating meat. The CAFC held that there existed two products sufficient to sustain a defense of patent misuse, but that there was a genuine issue of material fact on whether there existed two products for antitrust purposes. While consumer behavior or market demand must be considered in determining whether two products exist for antitrust purposes, the court explained, "[t]he law of patent misuse in patent licensing need not look to consumer demand (which may be nonexistent) but need only look to the nature of the claimed invention as the basis for determining whether a product is a necessary concomitant of the invention or an entirely separate product." Id. at 670-71 n.14.

b. Tie-ins may be justified and not violative of the Sherman Act if they are technically necessary. Idacon Inc. v. Central Forest Products, 3 U.S.P.Q. 2d 1079 (E.D. Okla. 1986) (tie-in provisions in license agreement conditioning the license of a wood preservative on the use of a particular organic solvent held necessary to insure sufficient quality and effectiveness of the wood preservative); Dehydrating Process Co. v. A.O. Smith Corp., 292 F.2d 653 (1st Cir. 1967), cert. denied, 368 U.S. 931 (1968) (tie-in provisions conditioning the sale of a patented silo unloader on use of silos by the same manufacturer held justified where attempts to use silos manufactured by others together with the patented product had proved unsuccessful).

c. Furthermore, tie-ins may be found lawful if the antitrust defendant demonstrates a business justification. A tie-in does not violate the antitrust laws if implemented for a legitimate purpose and if no less restrictive alternative is available. In Mozart, agreements between the exclusive U.S. distributor of Mercedes-Benz automobiles (MBNA) and franchised dealerships required the dealers to sell only genuine Mercedes parts or parts expressly approved by the German manufacturer of Mercedes automobiles and their replacement parts. The court found substantial evidence to support MBNA's claim that the tie-in was used to assure quality control, and concluded that the tie-in was implemented for a legitimate purpose, and that less restrictive alternatives were not available.

d. In Polysius Corp. v. Fuller Co., 709 F. Supp. 560, 575-76 ZE.D. Pa. 1989), aff'd, 889 F.2d 1100 (Fed. Cir. 1989), the district court held that tying the sale of an unpatented roller mill to the use of a patented method for reducing the size of brittle particles did not constitute an unlawful tying arrangement, because the roller mill had little or no utility outside of the claimed methods and was a non-staple article of commerce, the sale of which would be contributory infringement under 35 U.S.C. § 271 (c) and (d).

e. More recently, in Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S. 451 (1992), in affirming the Ninth Circuit's reversal of a grant of summary judgment in favor of Kodak, the Supreme Court found there to be a genuine issue concerning Kodak's market power in the markets for service and parts for copying equipment. In order to make it more difficult for independent service organizations to service copying equipment manufactured by Kodak, Kodak allegedly tied the sale of repair parts and services for its copying machines. The Supreme Court ruled there was sufficient evidence to find that (1) the machines and (2) their replacement parts and service constituted two separate products for tying analysis, pointing out that each was sold separately by Kodak in the past. Id. at 462-63. Furthermore, the Court rejected Kodak's contention that "as a matter of law, a single brand of a product or service can never be a relevant market under the Sherman Act," holding instead that the relevant market determination could only be made after a "factual inquiry into the 'commercial realities'" faced by Kodak equipment owners. Id. at 481-82 (quoting United States v. Grinnell Corp., 384 U.S. 563, 572 (1966)).

f. In Sherman Act, § 2, cases alleging monopolization or attempted monopolization, the Ninth Circuit has held that a monopolist's unilateral refusal to license a patent or copyright, or to sell its patented or copyrighted work "is a presumptively valid business justification for any immediate harm to consumers." Image Technical Services Inc. v. Eastman Kodak Co., 44 U.S.P.Q.2d 1081, 1081 (9th Cir. 1997), quoting

Data General v. Grumman Sys. Support, 36 F.3d 1147, 1187 (1st Cir. 1994). However, the presumption was rebutted in that case by a finding that Kodak leveraged its monopoly in the photocopy and photographic machine markets to exclude competition in the parts and service markets, where the alleged business justification was found to be a pretext.

6. Statutory Law

The law on tie-ins and patent misuse was altered by the enactment of 35 U.S.C. § 271(d)(5), which states in pertinent part that:

> No patent owner...shall be ... guilty of misuse ... by reason of... (5) condition[ing] the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned. (Emphasis added).

Congress rejected the automatic inference of market power where a patent covers the tying product. It required consideration of a patent owner's actual power in the relevant market to determine whether a tie-in constitutes patent misuse:

If the alleged infringer cannot prove that the patent owner has market power in the relevant market for the patent or patented product, the tying product, then there can be no patent misuse by virtue of the tie-in, and that is the end of the inquiry. 100th Congr., Congressional Record, S17147 (Oct. 21, 1988).

7. Current Approach and Views of the Department of Justice

In 1995, the Department of Justice expressed its current view regarding tying arrangements when it stated that they were likely to be challenged by the DOJ (and/or the Federal Trade Commission) if:

"(1) the seller has market power in the tying product, (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects. The [DOJ and the FTC] will not presume that a patent... necessarily confers market power upon its owner."

IP Guidelines, at 20,743-3 (footnotes omitted) (emphasis added). The DOJ and the FTC define market power as the "ability profitably to maintain prices above, or output below, competitive levels for a significant period of time." Id. at 20,735 (footnote omitted).

The Department of Justice believes that a tie-in allows the patentee to charge the licensee a closer approximation of the value of the license than would be attainable otherwise. The DOJ believes instead that any antitrust-based prohibition on licensing must be based on a finding that the practice restricts competition and worsens resource allocation. Accord, Remarks of J. Paul McGrath, Assistant Attorney General Antitrust Division (April 5, 1984); Statement of Charles F. Rule, Deputy Assistant Attorney General Antitrust Division (February 22, 1985); Remarks of Roger B. Andewelt, Deputy Director of Operations Antitrust Division (July 16, 1985) (hereinafter "Andewelt"); Remarks of Charles F. Rule, Deputy Assistant- Attorney General Antitrust Division (October 21, 1986) (hereinafter "Rule (1986)").

B. GRANTBACKS

A grantback is a license requirement where the patentee requires the licensee to assign or license improvements on the patent to the patentee.

1. Wilson's Prohibition

It is unlawful for a patentee to require a licensee to assign to the patentee any patent which may be issued to the licensee after the license is executed.

2. Justification for Prohibition

A great danger exists where licenses which provide for exclusive grantbacks are granted to all or most of the potential competitors of an industry-dominating patentee. There exists too much risk of monopolization when this happens. Also, it provides a disincentive to engage in inventive activity. Furthermore, it makes it easy for the licensor to guarantee that licensee-competitors obtain no unique competitive advantage.

3. Criticism of Prohibition

Where parties are not in actual or potential competition, and the grantback is non-exclusive and limited to improvements made possible by practice of the patent, no harm exists. Incentives to invent are heightened because discovery of new technology frees licensees from dependence on the patentee.

4. Case Law

This is perhaps the most difficult of the Nine No Nos with which to create a hard and fast rule.

a. The Supreme Court has held that a rule-of-reason test, not a per se test, should be used for exclusive grantbacks. See Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637, reh. denied, 330 U.S. 854 (1947) (grantbacks are not per se against public interest, and the specific grantback provision at issue here was not per se illegal and unenforceable). No case appears to have held a grantback clause standing alone to be an antitrust violation. Cf. United States v. Timken Roller Bearing Co., 83 F. Supp. 284 (N.D. Ohio 1949), aff'd, 341 U.S. 593 (1951) overruled by Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752 (1984) (the exclusive grantback provision did not by itself violate the antitrust laws; only in conjunction with the other illegal practices were the grantbacks "integral parts of the general scheme to suppress trade." Id. at 309).

b. For a classic example of an illegal grantback, see Hartford-Empire Co. v. United States, 323 U.S. 386, 401-407, clarified, 324 U.S. 570 (1945).

c. Courts have articulated many factors relevant to the rule-of-reason analysis for grantbacks:

(i) whether the grantback is exclusive or nonexclusive;

(ii) if exclusive, whether the licensee retains the right to use the improvements;

(iii) whether the grantback precludes, permits or requires the licensor to grant sublicenses;

(iv) whether the grantback is limited to the scope of the licensed patents or covers inventions which would not infringe the licensed patent;

(v) the duration of the grantback;

(vi) whether the grantback is royalty free;

(vii) the market power of the parties;

(viii) whether the parties are competitors; and,

(ix) the effect of the grantback on the incentive for developmental research.

d. Grantback of patented subject matter broader than that of the patents originally licensed (relating to the entire field rather than only the inventive concept in the licensed machines) has been held to be a patent misuse, but not an antitrust violation. Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), aff'd in part, rev'd in part, 594 F.2d 979 (4th Cir. 1979), cert. denied, 444 U.S. 1015 (1980). But see Robintech, Inc. v. Chemidus Wavin Ltd., 450 F. Supp. 823 (D.D.C. 1978), aff'd, 628 F.2d 142 (D.C. Cir. 1980).

e. The existence of alternative competitive processes to that in the original license militates in favor of upholding the grantbacks. Santa Fe-Pomeroy Inc. v. P & Z Co., Inc., 569 F.2d 1084 (9th Cir. 1978).

f. Pertinent considerations in assessing grantbacks include the effect on incentive to invest, see U.S. v. General Electric Co., 82 F. Supp. 753, 856-58 (D.N.J. 1949), and on competition, see International Nickel Co. v. Ford Motor Co., 166 F. Supp. 551 (S.D.N.Y. 1958).

g. A network of grantback arrangements in industry resulting in the funneling of all inventions to the original patentee perpetuating his control after his basic patents expired may be illegal. Transparent-Wrap, 329 U.S. at 646-47 (1946) (dictum). See also U.S. v. General Electric Co., 82 F. Supp. at 816, where such an arrangement contributed to GE's continued control over incandescent lamp pricing and production volume of its competitors after the patents on the lamp had expired, and was held to be a violation of §2 of the Sherman Act.

5. Current Approach and Views of the Department of Justice

In the past the Department of Justice considered it "unlawful for a patentee to require a licensee to assign to the patentee any patent which may be issued to a licensee after the licensing arrangement [was] executed." Lipsky p. 10. Currently however, the DOJ evaluates grantback provisions under a rule of reason approach, paying particular attention to whether the grantback is exclusive and whether the licensor has market power in the relevant market. IP Guidelines, at 20,743-5.

If the Agencies determine that a particular grantback provision is likely to reduce significantly licensees's incentives to invest in improving the licensed technology, the Agencies will consider the extent to which the grantback provision has offsetting procompetitive effects, such as (1) promoting dissemination of licensees' improvements to the licensed technology, (2) increasing the licensors' incentives to disseminate the licensed technology, or (3) otherwise increasing competition and output in a relevant technology or innovation market. In addition, the Agencies will consider the extent to which grantback provisions in the relevant markets generally increase licensors' incentives to innovate in the first place.

C. RESTRICTIONS ON RESALE OF PATENTED PRODUCT

1. Wilson's Prohibition

It is unlawful to attempt to restrict a purchaser of a patented product in the resale of that product.

2. Justification of Prohibition

There is a general distaste for restraints on alienation.

3. Criticism of Prohibition

Restrictions on resale should be judged by analysis parallel to other vertical restraints. Seller has rightful incentive to achieve maximum economic return from intellectual property.

4. Case Law

a. Since the patent right is exhausted by the first sale of the patented article, use restrictions may not be imposed thereafter. E.g., Adams v. Burke, 84 U.S. (17 Wall.) 453 (1873); U.S. v. Univis Lens Co., 316 U.S. 241 (1942). Restrictions on bulk sales of drug products have been upheld in manufacturing licenses, but not upon resale by a purchaser. U.S. v. Glaxo Group, Ltd., 410 U.S. 52, 62 (1973); U.S. v. Ciba-Geigy Corp., 508 F. Supp. 1118, 1976-1 Trade Cas. § 60,908 (D.N.J. 1976); see also United States v. Bristol-Myers Co., 82 F.R.-D.6-55 (D.D.C. 1979) (consent decree enjoined manufacturer from restraining the sale of drugs in bulk form and from imposing restrictions on resale).

b. In United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1976) overruled by Continental T.V. Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977), a case not dealing with patented products, the Supreme Court held that territorial restraints imposed by a manufacturer on resale by its customers constituted a per se violation of the Sherman Act. In a footnote, the Court alluded to the possibility of a different rule as to patented products, but declined to decide the issue.

"We have no occasion here to consider whether a patentee has any greater rights in this respect. Compare United States v. General Electric Co., 272 U.S. 4761 ... United States v. New Wrinkle, Inc., 342 U.S. 371

(1952) ... United States v. Line Material Co., 33 U.S. 287 (1948), and United States v. Masonite Corp., 316 U.S. 265 (1942)."

All the cited prior cases had involved price-fixing problems. Hence, it is believed that the Supreme Court might in those cases have intended only to dispel any suggestion that it overruled the General Electric doctrine by implication. 4 Chisum, § 19.04 [3][h] p. 19-132 (1990).

The lower courts on occasion have ignored the Supreme Court's footnote and combined the per se rule of Schwinn with the old territorial first-sale cases to derive a rule that the imposition of restraints on resale constitutes patent misuse. E.g., Ansul Co. v. Uniroyal, Inc., 448 F.2d 872, 879-80 (2d Cir.), cert. denied, 404 U.S. 1018 (1971) and Hensley Equip. Co. v. Esco Corp., 383 F.2d 252, 262-64 (5th Cir. 1967); see also Chisum, at 19-133.

c. Field of use restrictions which restrict the type of customer to whom a manufacturing licensee may sell and the type of article he may make, use and sell are lawful. General Talking Pictures Corp. v. Western Electric Co., 304 U.S. 175, aff'd on reh., 305 U.S. 124 (1938), reh. denied, 305 U.S. 675 (1939). Eg., Ciba-Geigy Corp. v. Bolar Pharmaceutical Co., 212 U.S.P.Q. 712 (E.D.N.Y. 1981) (patent owner offered license on HCT in several dosage forms but expressly excepted dosage forms containing hydralazine, which was the subject of an expired patent: Court held no misuse. "Ciba may, if it chooses license some but not all uses for HCT"). "Courts have generally followed General Talking Pictures ... [b]ut have occasionally distinguished [it] and held the restraint illegal where they perceived that the field-of-use restriction was being used to extend the patent into areas not protected by the patent monopoly..." United States v. Studiengesellshchaft Kohle, 670 F.2d 1122, 1133 (D.C. Cir. 1981). One Court has explained that "[a] patentee's right to shut off all competition must necessarily include the lesser right to restrict the exercise of the granted privilege so long as the patentee does not attach a condition that enlarges his monopoly beyond that given by the patent statute and the patent itself." United States v. Westinghouse Electric, Corp., 471 F. Supp. 532, 200 U.S.P.Q. 514 (N.D. Cal. 1978), aff'd in part, rev'd in part, 648 F.2d 642 (9th Cir. 1981). It is important to keep in mind that although courts are reluctant to find field of use restrictions a violation of the Sherman Act, they will hold unlawful such restrictions if the patent is being "stretched.. to continue the monopoly after the sale of the product." Munters Corp. v. Burgess Indus., Inc., 201 U.S.P.Q. 756, 759 (S.D.N.Y. 1978). Under the rule of reason approach of Continental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977), the

Munters court concluded that "what is beyond the protection of the patent laws in this case is also forbidden by the antitrust laws." Id.

More recently, in Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992), the patentee had affixed a "Single Use Only" label on its patented medical inhaler device used to deliver radioactive material to the lungs of a patient. The patentee sued for alleged induced infringement in refurbishing the inhaler devices in violation of the prohibition against reuse. Id. at 701. In reversing the grant of summary judgment for the alleged infringer, the Federal Circuit held that this single use only restriction was not per se patent misuse, nor illegal under the antitrust laws. The Federal Circuit explained that "[t]he appropriate criterion [for analyzing a restriction on a licensee's use] is whether [the] restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason." Id. at 708.

d. In B. Braun Medical Inc. v. Abbott Laboratories, 124 F.3d 1419 (Fed. Cir. 1997), the Federal Circuit reversed a jury verdict of misuse which was based on jury instructions that any use restrictions accompanying the sale of a patented item were impermissible. The court cited two "common" examples of impermissible restrictions as use of the patent to restrain competition in an unpatented product, and employing the patent beyond its term. However, where a condition does not impermissibly broaden the physical or temporal scope of the patent grant with anticompetitive effect, there is no misuse.

e. Provisions in patent licenses restricting the quantity of patented articles produced have been found lawful. United States v. E.I. DuPont de Nemours & Co., 118 F. Supp. 41 (D. Del. 1953), aff'd, 351 U.S. 377 (1956); Rubber Tire Wheel Co. v. Milwaukee Rubber Works Co., 154 F. 358 (7th Cir. 1907), cert. denied, 210 U.S. 439 (1908).

5. Current Approach and Views of the Department of Justice

"Restrictions on resale ought to be judged by the same general standards as those that ought to be in use outside the patent field," that is, Continental T.V. (vertical restrictions on resale may be upheld under the rule of reason, e.g., if they, on balance, promote inter-brand competition). Lipsky at 12; accord, Andewelt.

D. RESTRICTIONS ON LICENSEE'S FREEDOM TO DEAL IN PRODUCTS AND SERVICES NOT IN SCOPE OF PATENT

1. Wilson's Prohibition

A patentee may not restrict his licensee's freedom to deal in products or services not within the scope of the patent.

2. Justification for Prohibition

It is to prevent both vertical and horizontal anticompetitive effects.

3. Criticism of Prohibition

The rule has no general validity in the vertical context. However, it may have some validity horizontally.

4. Case Law

Several Courts have held that it is a patent misuse to require a licensee to refrain from dealing in competitive products. See, Berlen-bach v. Anderson & Thompson Ski Co., 329 F.2d 782 (9th Cir.), cert. denied, 379 U.S. 830 (1964); McCullough v. Kammerer Corp., 166 F.2d 759 (9th Cir.), cert. denied, 335 U.S. 813 (1948); National Lock Washer Co. v. George K. Garrett Co., 137 F.2d 255 (3d Cir. 1943); Krampe v. Ideal Indus., Inc., 347 F. Supp. 1384 (N.D. Ill. 1972). At least one court, however, has upheld a provision converting a license from exclusive to non-exclusive if the licensee handled competing products. See Naxon Telesign Corp. v. Bunker Ramo Corp., 517 F. Supp. 804 (N.D. Ill. 1981), aff'd, 686 F.2d 1258 (7th Cir. 1982).

5. Current Approach and Views of the Department of Justice

When a license prevents a licensee from dealing in competing technologies, the DOJ will evaluate the agreement under the rule of reason. The DOJ will consider whether such an arrangement "is likely to reduce competition in a relevant market,...tak[ing] into account the extent to which the arrangement (1) promotes the exploitation and development of the licensor's technology and (2) anticompetitively forecloses the exploitation and development of, or otherwise constrains competitively forecloses the exploitation and development of, or otherwise constrains competition among, competing technologies." IP Guidelines, at 20,743-4.

E. LICENSEE CONSENT REQUIRED FOR LICENSOR TO GRANT OTHER LICENSES

1. Wilson's Prohibition

It is unlawful for a patentee to agree with his licensee that he will not grant licenses to anyone without the licensee's consent.

2. Justification for Prohibition

This practice goes against the antitrust laws because it is anticompetitive. Furthermore, it is contrary to the policy behind the patent laws in that the licensee gets the benefit and control of the patent, which was intended for the patentee.

3. Criticism of Prohibition

The prohibition has no general procompetitive tendency. A licensee's success in exploiting a patent depends upon its investment in research and development, the fruits of which may not be patentable; in its physical plant; in its goodwill; and in its marketing capability. That investment may be justified only if the licensee expects some level of return. However, the licensee may choose not to exploit the patent at all, which will harm both the patentee and society.

4. Case Law

a. The Supreme Court, in E. Bement & Sons v. National Harrow Co., 186 U.S. 70 (1902), held that an agreement by the licensor of a patent for improvements relating to harrows, not to license any other person than the licensee to manufacture or sell any harrow of the peculiar style and construction then used or sold by such licensee, does not violate the Sherman Act. The Court added that any agreement containing such a provision is proper "for the protection of the individual who is the licensee, and is nothing more in effect than an assignment or sale of the exclusive right to manufacture and vend the article." Id. at 94.

b. However, more recently, some lower Court decisions have questioned the validity of covenants not to license. In Moraine Prod. v. ICI America, Inc., 538 F.2d 134 (7th Cir.), cert. denied, 429 U.S. 941 (1976), the Seventh Circuit adopted a rule of reason approach under which a covenant would be illegal if its purpose or effect was to divide the market between the two parties and eliminate all competition.

c. Courts hold that exclusive licenses are not per se illegal under the

Sherman Act. E.g., Benger Laboratories Ltd. v. R.K. Laros Co., 209 F. Supp. 639, 648 (E.D. Pa. 1962), aff'd, 317 F.2d 455 (3d Cir.), cert. denied, 375 U.S. 833 (1963).

5. Current Approach and Views of the Department of Justice

The current view of the DOJ is that "generally, an exclusive license may raise antitrust concerns only if the licensees themselves, or the licensor and its licensees, are in a horizontal relationship." IP Guidelines, at 20,742 (emphasis added). Examples of such licensing arrangements which may raise antitrust concerns "include cross-licensing by parties collectively possessing market power, grantbacks, and acquisitions of intellectual property rights." Id. (citations omitted).

F. MANDATORY PACKAGE LICENSING

1. Wilson's Prohibition

Mandatory package licensing is an unlawful extension of the patent grant.

2. Justification for Prohibition

It is more efficient to allow parties to negotiate on a per patent basis rather than forcing packages. This rule encourages a free market because people will pay for what they want, leaving what they do not want for someone who values it more. This aids efficient allocation of resources and helps achieve a pareto optimal state.

3. Criticism of Prohibition

This is not a world with perfect information and zero transaction costs. Package licensing allows a patentee to maximize the net return on both patents, given the restraint on the patentee's limited knowledge concerning the value of the patents to different licensees, and the ease with which he can negotiate separate licenses for each patent. Profit from the package is limited to the maximum amount he could extract lawfully in the world of perfect information and zero transaction costs.

4. Case Law

Compelling the licensing of patents not desired by the licensee as a condition for receiving a license under desired patents, has been held to be an antitrust violation. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969). Discriminatory royalties which economically cause the same result have also been held illegal. Id.; cf. Studiengesellschaft Kohle m.b.H. v. Northern Petrochemical, 225 U.S.P.Q. 194, 197 (N.D. Ill. 1984), rev'd & remanded on other grounds, 784 F.2d 351 (Fed. Cir.), cert. denied, 478 U.S. 1028 (1986) (plaintiff's offer to license patent separately from package of patents and applications including first patent at same royalty as the entire package held not to be misuse where the royalty was no more than that charged for the first patent in a third party license).

"Trade is restrained, frequently in an unreasonable manner, when rights to use individual patents or copyrights may be obtained only by payment for a package of such rights-but the opportunity to acquire a package of rights does not restrain trade if an alternative opportunity to acquire individual rights is fully available." Columbia Broadcasting, Systems, Inc., v. ASCAP, 620 F.2d 930, 935-36 (2d Cir. 1980), cert. denied, 450 U.S. 970, reh. denied, 450 U.S. 1056 (1981) (percentage fee licensing of all copyrighted musical compositions in inventory of performing rights organization does not violate the rule of reason under §1 of the Sherman Act since users may negotiate directly with copyright owners); see also Western Electric Co. v. Stewart-Warner Corp., 631 F.2d 333, 338-39 (4th Cir. 1980), cert. denied, 450 U.S. 971 (1981) (no coercive package licensing, where no showing that "Western did not give [licensee) a choice to take a license under the Derick-Frosch patent alone or in combination with other patents on reasonable terms.")

5. Current Approach and Views of the Department of Justice

The Department of Justice no longer believes that mandatory package licensing is unlawful. Lipsky at 14. Package licensing allows the patentee to maximize the net return on his patent. Id. at 15. It "can be efficient in that it avoids the necessity of costly individual negotiations, between the parties with respect to each patent." Andewelt at 16.

G. CONDITIONING LICENSE ON ROYALTIES NOT REASONABLY RELATED TO SALE OF PRODUCTS COVERED BY THE PATENT

1. Wilson's Prohibition

It is unlawful for a patentee to insist, as a condition of the license, that his licensee pay royalties in an amount not reasonably related to the licensee's sales of products covered by the licensed patent.

2. Justification for Prohibition

Royalties discourage any activity that triggers an obligation to pay. This may be anticompetitive.

3. Criticism of Prohibition

It is natural for a patentee to attempt to extract maximum return from each license. The relationship between the sales of the patented item and the royalty is not necessarily paramount in determining royalties.

4. Case Law

a. It is not per se a misuse of patents to require a licensee to pay royalties based on a percentage of its sales, even though none of the patents are used. Automatic Radio Company v. Hazeltine, 339 U.S. 827, 830-34, reh. denied, 340 U.S. 846 (1950). "A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly." Brulotte v. Thys, 379 U.S. 29, 33 (1964), reh. denied, 379 U.S. 985 (1965). See also, Hull v. Brunswick Corp., 704 F.2d 1195 (10th Cir. 1983) (patentee/licensor is not required to renegotiate existing agreement on demand of licensee to change royalty based on right to use any of group of patents to one with royalties for each specified patent); Magnavox v. Mattell Inc., 216 U.S.P.Q. 28, 59 (N.D. Ill. 1982) ("If the mutual convenience or efficiency of both the licensor and the licensee results in a royalty base which includes the licensee's total sales or sales of nonpatented items, there can be no patent misuse").

b. However, to use the leverage of a patent to project royalty payments beyond the life of the patent is an illegal enlargement of the patent grant. Brulotte, 379 U.S. at 33. The Eleventh Circuit has held that hybrid agreements licensing patent rights and trade secrets, where royalty obligations remain unchanged after patents expire, are unenforceable beyond the date of expiration of the patents. Pitney Bowes, Inc. v.

Mestre, 701 F.2d 1365 (11th Cir. 1983), cert. denied, 464 U.S. 893 (1983).

c. A licensor may collect royalties on the manufacture of items based on confidential information that is within the scope of a patent application, even where the patent does not ultimately issue. Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979) (upholding a contract providing for the payment of royalties in exchange for the right to make or sell a keyholder even though the patent on the keyholder was ultimately rejected and the licensed confidential information became public). See also Shacketton v. J. Kaufman Iron Works Inc., 689 F.2d 334 (2d Cir. 1982), cert. denied, 460 U.S. 1052 (1983) (manufacturer held liable for royalties under licensing agreement even though final patent was narrower than the original patent application referred to in the agreement).

d. The Sixth and Seventh Circuits have held, however, that the Brulotte rule precludes enforcement of license provisions extending beyond the then-existing 17-year statutory patent grant period for an item that was unpatented at the time the agreement was executed if such license provisions were agreed to in anticipation of patent protection. Boggild v. Kenner Products, 776 F.2d 1315 (6th Cir. 1985), cert. denied, 477 U.S. 908 (1986); Meehan v. PPG Inds., Inc., 802 F.2d 881 (7th Cir. 1986), cert. denied, 479 U.S. 1091 (1987).

e. A package license agreement which requires the constant payment of royalties beyond the expiration of some of the patents until the expiration of the last patent is valid if voluntarily entered into. Beckman Instruments Inc. v. Technical Development Corp., 433 F.2d 55, 61 (7th Cir. 1970), cert. denied, 401 U.S. 976 (1971); McCullough Tool Co. v. Well Surveys, Inc., 343 F.2d 381 (10th Cir. 1965), cert. denied, 383 U.S. 933 (1966), reh. denied, 384 U.S. 947 (1966), reh. denied, 385 U.S. 995 (1966); Cohn v. Compax Corp., 220 U.S.P.Q. 1077, 1082 (N.Y. App. Div. 2d 1982).

f. Discriminatory licensing rates which impair competition, may constitute patent misuse and an antitrust violation. See Laitram Corp. v. King Crab Inc., 245 F. Supp. 1019 (D. Alaska 1965) (charging twice as much to lessees of patented shrimp peeling machines in the Northwest than to lessees in the Gulf of Mexico area because of the labor costs of the lessees in the Northwest, was held to constitute patent misuse where the Northwest canners suffered competitive injury); LaPeyre v. F.T.C., 366 F.2d 117 (5th Cir. 1966) (same practice head to be an unfair method of competition in violation of Section 5 of the Federal Trade Commission

Act); Peelers Co. v. Wendt, 260 F. Supp. 193 (W.D. Wash. 1966) (same practice held to be a violation of Section 2 of the Sherman Act). See also Allied Research Products, Inc. v. Heatbath Corp., 300 F. Supp. 656, 657 (N.D. Ill. 1969) (patentee's refusal to license its patented technology to Heatbath "solely because of a personal dispute," although a license had previously been granted to Heatbath's competitor held to be patent misuse. The court declared that "Allied had no right to refuse a license to Heatbath as to [the prior licensee].")

g. In a later case involving another shrimp peeling patent, a district the court held that a uniform royalty rate based on uncleaned shrimp poundage was not discriminatory, even though licensees in the Northwest realized less shrimp after the cooking and cleaning process than did licensees in other regions. Laitram Corp. v. Depoe Bay Fish Co., 549 F. Supp. 29, 1983-1 Trade Cas. (CCH) ¶ 65,268 (D. Ore. 1982).

h. In USM Corp. v. SPS Technologies, Inc., 694 F.2d 505, 513, 216 U.S.P.Q. 959, 966, cert. denied, 462 U.S. 1107 (1983), the court held that discriminatory licensing rates did not constitute patent misuse where plaintiff "made no effort to present evidence of actual or probable anticompetitive effect in a relevant market."

i. The Seventh Circuit has held that an agreement between a patent owner and licensees to charge a company a substantially higher royalty for a license than that being paid by other industry members does not amount to a per se violation of §1 of the Sherman Act. Such an agreement should be tested under the rule of reason. Hennessey Inds. Inc. v. FMC Corp., 779 F.2d 402 (7th Cir. 1985).

5. Current Approach and Views of the Department of Justice

Although the IP Guidelines released by the DOJ and FTC in 1995 are silent as to the royalty rates to be allowed in patent licenses, prior DOJ statements are illuminating on the subject. In 1981, Lipsky stated that the Department of Justice considered the reasonableness of the patentee's choice of method for approximating the value of the license paramount, not the actual royalty paid on the sale of the patented item. Lipsky at 16. Sales may be a reasonable method in some instances, but not in others. Id. Where the patentee and licensee are horizontal competitors, a rule of reason approach should be employed against the risk of unnecessary cartelization. Id.

H. SALES RESTRICTIONS OF PRODUCTS MADE BY PROCESS PATENT

1. Wilson's Prohibitions

It is unlawful for the owner of a process patent to attempt to place restrictions on his licensee's sales of products made by the patented process.

2. Justification for Prohibition

It enables the patentee to attain monopoly control over something not necessarily subject to his control by virtue of the patent grant.

3. Criticism of Prohibition

It denies the patentee the means to exploit his legitimate monopoly by the most convenient means.

4. Case Law

a. There is a split of authority as to whether a patentee may limit the quantity of an unpatented product produced by a license under a process or machine patent. Compare United States v. General Electric Co. , 82 F. Supp. 753, 814 (D.N.J. 1949), and American Equipment Co. v. Tuthill, 69 F.2d 406 (7th Cir. 1934), with Q-Tips, Inc. v. Johnson & Johnson, 109 F. Supp. 657 (D.N.J. 1951), aff'd in part, modified in part, 207 F.2d 509 (3d Cir. 1953), cert. denied, 347 U.S. 935 (1954).

b. However, the holder of a process patent uniquely superior to alternative processes may restrict the sale of an unpatented product manufactured by the patented process, and limit the licensee's use of the product, so long as the product is not a generic one "primarily in the public domain." United States v. Studienqesellschaft Kohle, m.b.H., 670 F.2d 1122 (D.C. Cir. 1981). Cf. Ethyl Corporation v. Hercules Powder Co., 232 F. Supp. 453, 457 (D. Del. 1963) (process patentee "can restrict the use of his process, but he cannot place controls on the sale of the unpatented articles produced by the process").

5. Current Approach and Views of the Department of Justice

The rule prohibiting the owner of a process patent from restricting his licensee's sale of products made by using the patented process, "makes sense to the extent that it prohibits the patentee from attaining monopoly or cartel control of something not necessarily subject to that control by virtue of the patent grant." Lipsky at 17. However, since "control of the process necessarily confers control over the product" denying the patentee the "means to exploit his legitimate monopoly by the most convenient means ... is potentially destructive of consumer welfare." Id. Accord United States v. Studiengesellschaft Kohle, m.b.H., 670 F.2d 1122 (D.C. Cir. 1981).

I. PRICE RESTRICTIONS

1. Wilson's Prohibition

It is unlawful for a patentee to require a licensee to adhere to any specified or minimum price with respect to the licensee's sale of the licensed product.

2. Justification for Prohibition

Price restrictions offer an enhanced opportunity to obtain monopoly control beyond the scope of the patent.

3. Criticism of Prohibition

Same as with other distributional prohibitions.

4. Case Law

"Under the Sherman Act a combination formed for the purpose and with the effect of raising, depressing, fixing, pegging, or stabilizing the price of a commodity interstate or foreign commerce is illegal per se." United States v. Socony-Vacuum Oil, Co., 310 U.-S. 150, 223 reh. denied, 310 U.S. 658 (1940); see also Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc., 340 U.S. 211, reh. denied, 340 U.S. 939 (1951) overruled by Copperweld v. Independence Tube Corp., 467 U.S. 752 (1984); and United States v. Trenton Potteries Co., 273 U.S. 392 (1927).

This past term, the Supreme Court overruled a thirty-year old precedent, and held that vertically-imposed maximum price restrictions should be analyzed under the rule of reason, and are not a per se antitrust violation. State Oil Co. v. Khan, 118 S. Ct. 275 (1997), overruling Albrecht v. Herald Co., 390 U.S. 145 (1968). The Court explained that although minimum price restrictions would remain per se illegal, there was insufficient economic justification for per se invalidation of vertical maximum price fixing.

a. In United States v. General Electric Co., 272 U.S. 476 (1926), the Supreme Court upheld the right of a patent owner to insert in a license authorizing the licensee to make and sell a patented product a clause controlling the prices at which the licensee may sell such product. The Court noted

> "[o]ne of the valuable elements of the exclusive right of a patentee is to acquire profit by the price of which the article is sold. The higher the price,

the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price of which his licensee will sell will necessarily affect the price of which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, "Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself." Id. at 490.

b. However, both the Supreme Court and lower courts have applied the rule of the General Electric case narrowly. E.g., Barber-Colman Co. v. National Tool Co., 136 F.2d 339 (6th Cir. 1943) (owner of a process patent could not by license agreement lawfully control selling price of unpatented articles produced by use of patented machine and process); United States v. United States Gypsum Co., 333 U.S. 364, reh. denied, 333 U.S. 869 (1948) (General Electric "gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized"). But see Studiengesellschaft Kohle, 670 F.2d at 1131 ("While this toleration-of price-fixing by the patentee has been seriously questioned, and has survived twice only by the grace of an equally divided court, over the years the General Electric formulation has been the verbal frame of reference for testing the validity of a license restriction in many subsequent decisions."); Duplan Corp. v. Deering Milliken, 444 F. Supp. 648 (D.S.C. 1977), aff'd in part, rev'd in part, 594 F.2d 979 (4th Cir. 1979) (agreement between patent owner and licensing agent as to amount of use royalty to be paid by purchasers of patented machine does not constitute illegal pricefixing); Broadcast Music, Inc. v. Columbia Broadcasting Sys., Inc., 441 U.S. 1 (1979) (blanket licensing of flat fee of performance rights in copyrighted musical compositions through performing rights societies does not constitute price-fixing per se).

5. Current Approach and Views of the Department of Justice

Prior to the Supreme Court decision in Khan, the DOJ stated that it would "enforce the per se rule against resale price maintenance in the intellectual property context." IP

Guidelines, at 20,743-3.

IV. OTHER PATENT ANTITRUST ISSUES

A. The Acquisition of Patents

1. The acquisition and accumulation of patents by internal invention.

    a. "The mere accumulation of patents, no matter how many, is not in and of itself illegal." Automatic Radio Manufacturing Co., Inc. v. Hazeltine Research Inc., 339 U.S. 827, 834 (1950); Chisholm-Ryder Co., Inc. v. Mecca Bros., Inc., [1983-1] Trade Cas. 65,406 at 70,406 (W.D.N.Y. 1982). By itself, "[i]ntense research activity" is not condemned by the Sherman Act as a violation of § 1, nor are its consequences condemned as a violation of § 2. United States v. E.I. DuPont de Nemours & Co., 118 F. Supp. 41, 216-17 (D. Del. 1953), aff'd, 351 U.S. 377 (1956); see also United States v. United Shoe Machinery Corp., 110 F. Supp. 295, 332 (D. Mass. 1953), aff'd per curiam, 347 U.S. 521 (1954).

    b. "No Judge has ever said where an inventor discloses his invention in return for the grant by the Government of a 17-year exclusive right to practice the same, and, having been awarded the patent, produces the product, he is guilty of monopolization." United States v. E.I. DuPont de Nemours & Co., 118 F. Supp. at 214.

    c. It can be inferred from the cases upholding non-use of patents, Special Equipment Co. v. Coe, 324 U.S. 370 (1945); Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (1908); Crown Die & Tool Co. v. Nye Tool & Machine Works, 261 U.S. 24, 35 (1923); Motion Picture Patents Co. v. Universal Film Mfg. 243 U.S. 502, 514 (1917), and the exclusive nature of the patent grant, Dawson Chemical Co. v. Rohm & Haas Co., 448 U.S. 176, reh. denied, 448 U.S. 176 (1980); Bement v. National Harrow Co., 186 U.S. 70, 91 (1902), that Section 2 of the Sherman Act is not violated by a non-monopolist that acquires a larger number of patents with no intention to use them or with a purpose to fence others out. Compare Oahu Gas Service, Inc. v. Pacific Resources, Inc., 838 F.2d 360 (9th Cir.), cert. denied, 109 S.Ct. 180 (1988) (defendant monopolists' decision to refrain from producing propane because it would have resulted in a negative return is sufficient justification to preclude antitrust liability -- even if the decision was based in part on a desire to restrict the supply potentially available to a competitor).

    d. In SCM Corp. v. Xerox Corp. 463 F. Supp. 983 (D. Conn. 1978), aff'd, 645 F.2d 1195 (2d Cir. 1981), cert. denied, 455 U.S. 1016 (1982), the contention that a large number of patents was acquired by defendant with a wrongful intent was rejected by the jury on the facts. However, the court stated:

> [O]nce a company had acquired monopoly power, it could not thereafter acquire lawful patent power if it obtained new patents on its own inventions primarily for the purpose of blocking the development and marketing of competitive products rather than primarily to protect its own products from being imitated or blocked by others.

Id. at 1007. See also GAF Corp. v. Eastman Kodak Corp., 519 F. Supp. 1203, 1235 (S.D.N.Y. 1981).

2. The acquisition of patents from third parties.

   a. Section 7 of the Clayton Act's prohibition of asset acquisitions likely to produce a substantial lessening of competition applies to the acquisition of patents. E.g., SCM v. Xerox Corp., 645 F.2d 1195 (2d Cir. 1951), cert. denied, 455 U.S. 1016 (1982); Automated Bldg. Components, Inc. v. Trueline Truss Co., 318 F. Supp. 1252 (D. Ore. 1970); Dole Valve Co. v. Perfection Bar Equipment, Inc., 311 F. Supp. 459, 463 (N.D. Ill. 1970).

   b. An exclusive license can be the equivalent of an outright acquisition for antitrust purposes. See United States v. Columbia Pictures Corp., 189 F. Supp. 153 (S.D.N.Y. 1960); United States v. Lever Bros. Co., 216 F. Supp. 887 (S.D.N.Y. 1963). Exclusive licenses are not per se illegal. Benger Laboratories Ltd. v. R.K. Laros Co., 209 F. Supp. 639, 648 (E.D. Pa. 1962), aff'd, 317 F.2d 455 (3d Cir.), cert. denied, 375 U.S. 833 (1963).

   c. In SCM Corp. v. Xerox Corp., 645 F.2d 1195 (2d Cir. 1981), cert. denied, 455 U.S. 1016 (1982), the court ruled as follows:

      (i) "Patent acquisitions are not immune from the antitrust laws." Id. at 1205 (emphasis in original).

      (ii) In assessing the legality of a patent acquisition, "the focus should be upon the market power that will be conferred by the patent in relation to the market position then occupied by the acquiring party... [W]hether limitations should be imposed on the patent rights of an acquiring party should be dictated by the extent of the power already possessed by that party in the relevant market into which the products embodying the patented art enter." Id. at 1208 (emphasis in original).

(iii) "[T]he patents ... were acquired in 1956, four years prior to the production of the 914, Xerox's first automatic plain paper copier, and at least eight years prior to the appearance of the relevant market and submarket." Id. at 1207. "[T]o impose antitrust liability upon Xerox would severely trample upon the incentives provided by our patent laws and thus undermine the entire patent system." Id. at 1209.

(iv) As for petitioner's argument that, under United States v. E.I. DuPont de Nemours & Co., 353 U.S. 586 (1957), Xerox's continued "holding" of the acquired patents violated Section 7 of the Clayton Act 13 years after the acquisition, the court ruled that the "holding" doctrine could not sensibly be applied to the lawful acquisition of patents:

> Where a company has acquired patents lawfully, it must be entitled to hold them free from the threat of antitrust liability for the seventeen years that the patent laws provide. To hold otherwise would unduly trespass upon the policies that underlie the patent law system. The restraint placed upon competition is temporarily limited by the term of the patents, and must, in deference to the patent system, be tolerated throughout the duration of the patent grants.

SCM Corp., 645 F.2d at 1212.

d. Section 7 of the Clayton Act may prohibit an acquisition if the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly. Eastman Kodak Co. v. Goodyear Tire & Rubber Co., 114 F.3d 1547 (Fed. Cir. 1997). Although private parties may bring suit for Clayton Act violations, they must allege an antitrust injury. Thus, in Eastman Kodak, summary judgment dismissing a Clayton Act claim was affirmed since the mere acquisition and enforcement of a patent did not amount to antitrust injury. "Goodyear alleges injuries stemming from Eastman's enforcement of the '112 patent. Goodyear, however, would have suffered these same injuries regardless of who had acquired and enforced the patent against it. . . . These injuries, therefore, did not occur 'by reason of' that which made the acquisition allegedly anticompetitive." Id. at 1558.

e. The DOJ will analyze acquisitions of intellectual property rights as follows:

"The Agencies will apply a merger analysis to an outright sale by an intellectual property owner of all of its rights to that intellectual property and to a transaction in which a person obtains through grant, sale or other transfer an exclusive license for intellectual property (i.e., a license that precludes all other persons, including the licensor, from using the licensed intellectual property)."

1995 IP Guidelines, at 20,743-5 to 20,744 (footnote omitted). The merger analysis employed by the DOJ will be consistent with the principles and standards articulated in the U.S. Department of Justice and Federal Trade Commission, Horizontal Merger Guidelines (April 2, 1992). Id. The antitrust "safety zone" discussed above does not apply to such transfers. Id.

B. Bad Faith Litigation

Generally, conduct which tends to restrain competition unlawfully in an appropriately defined relevant market constitutes an antitrust violation. Bad faith in initiating a lawsuit is considered such conduct, and thus has been recognized as a defense to patent infringement causes of action. However, an infringement suit initiated without bad faith does not violate the Sherman Act, because there is a presumption of patent validity. The Court in Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980) and 743 F.2d 1282 (1984), cert. denied, 469 U.S. 1190 (1985) held that an infringement suit is presumptively in good faith. This presumption can only be rebutted by clear and convincing evidence that the patentee acted in bad faith in enforcing the patent because he knew the patent was invalid. See Argus Chem. Corp. v. Fibre Glass-Evercoat Co., Inc., 812 F.2d 1381, 1385-86 (Fed. Cir. 1987) (pre-trial correspondence containing allegations by an accused infringer that the patent is invalid cannot be turned into evidence that the patentee knew the patent was invalid when it instituted an infringement suit).

Defendant in a patent infringement action must prove three elements to establish a § 2 Sherman Act violation: (1) by clear and convincing evidence that patent suit was pursued in bad faith; (2) that plaintiff had specific intent to monopolize the relevant market; and (3) that a dangerous probability of success existed. Argus Chem. Corp. v. Fibre Glass-Evercoat, 645 F. Supp. 15 (C.D. Cal. 1986), aff'd, 812 F.2d 1381 (Fed. Cir. 1987).

C. **Fraud on the Patent Office**

1. The Supreme Court in Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965) held that the maintenance and enforcement of a patent procured by fraud on the Patent Office may be grounds for an action for monopolization or attempted monopolization under §2 of the Sherman Act, 15 U.S.C. §2. The Court distinguished "intentional fraud," which is actionable, from mere "technical fraud," which the Court described as an "honest mistake" as to the effect on patentability of withheld information. Id. at 177. The Federal Circuit, in American Hoist & Derrick Co. v. Sowa & Sons, 725 F.2d 1350, 1368 (Fed. Cir.), cert. denied, 469 U.S. 821 (1984), further refined this distinction in holding that the intent must be specific intent, greater than intent evidenced by gross negligence or recklessness to be an indispensable element in an action alleging fraud on the Patent Office. Also, the Court added another element to the fraud determination, materiality. The misrepresentation or failure to disclose information to the Patent Office must be material. However, materiality in itself will not render a patent invalid or unenforceable. The Court articulated the standard that fraud may be determined only by a careful balancing of intent in light of materiality. Id. at 1364. Finally, it held that fraudulent procurement of a patent without more is not a per se violation of the Sherman Act. Id. at 1367.

2. In Brunswick Corp. v. Riegel Textile Corp., 752 F.2d 261, 265 (7th Cir. 1984), cert. denied, 472 U.S. 1018 (1985) Judge Posner stated that getting a patent by means of a fraud on the Patent Office can, but does not always, violate §2 of the Sherman Act. He explained that three conditions must be satisfied besides proof that the defendant obtained a patent by fraud:

    a. The patent must dominate a real market. See American Hoist & Derrick Co., 725 F.2d at 1350. Although the Patent Office does not require that an invention have commercial value, only apparent utility, the patent must have a significant impact in the marketplace in order to have any anti-trust significance.

    b. The invention sought to be patented must not be patentable. Plaintiff must show that "but for" the fraud, no patent would have issued to anyone.

    c. The patent must have some colorable validity, conferred, for example, by the patentee's efforts to enforce it by bringing patent infringement suits. The fact that a patent has some apparent validity by virtue of being issued is insufficient.

3. In Argus Chemical Corp. v. Fibre Glass-Evercoat Co., Inc., 812 F.2d 1381, 1384 (Fed. Cir. 1987) the Federal Circuit refused to extend the fraud standard under Walker Process to conduct that is inequitable. The Court relied on its decision in American Hoist & Derrick Co., supra, and the Ninth circuit case, Agricultural Equip., Inc. v. Orchard-Rite Ltd., 592 F.2d 1096 (9th Cir. 1979), in holding that under Walker Process, "knowing and willful patent fraud is required to establish a violation of §2 of the Sherman Act based on the use of an invalid patent to monopolize a segment of the market." Id. at 1385 (quoting Agricultural Equip. Inc., 592 F.2d at 1103-04).

   Patent misuse alone does not constitute a per se violation. American Hoist & Derrick, 725 F.2d at 1367. The traditional Sherman Act elements must also be established: (1) an analysis of the relevant market and (2) an examination of the exclusionary power of the illegal patent claim. Walker Process, 382 U.S. at 177. American Hoist & Derrick, 725 F.2d at 1366.

4. In Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059 (Fed. Cir. 1998), the Federal Circuit upheld a jury verdict awarding antitrust damages for a Walker Process-type claim. The court explained the analysis as follows:

   > [I]f the evidence shows that the asserted patent was acquired by means of either a fraudulent misrepresentation or a fraudulent omission and that the party asserting the patent was aware of the fraud when bringing suit, such conduct can expose a patentee to liability under the antitrust laws. . . . Such a misrepresentation or omission must evidence a clear intent to deceive the examiner and thereby cause the PTO to grant an invalid patent. . . . In contrast, a conclusion of inequitable conduct may be based on evidence of a lesser misrepresentation or an omission, such as omission of a reference that would merely have been considered important to the patentability of a claim by a reasonable examiner.

   Id. at 1070. The court further explained that a Walker Process claim "must be based on independent and clear evidence of deceptive intent together with a clear showing of reliance, *i.e.*, that the patent would not have issued but for the misrepresentation or omission." Id. at 1071.

5. If an alleged infringer is successful in making out a Walker Process claim he can recover treble the damages sustained by him, and the cost of the suit, including reasonable attorney's fees. Walker Process, 382 U.S. at 178.

V. LITIGATION RELATED ISSUES

A. JURISDICTION OF THE FEDERAL CIRCUIT

1. Patent Misuse Issues

The Court of Appeals for the Federal Circuit (CAFC) has exclusive jurisdiction on all patent issues pursuant to 28 U.S.C. § 1295 and will be bound by its prior decisions and those of the Court of Customs and Patent Appeals (CCPA).

2. Antitrust Issues

The CAFC has exclusive jurisdiction over any complaint involving an antitrust claim and a non-trivial claim arising under the patent laws. The CAFC will apply the law of the originating circuit to antitrust claims over which it has jurisdiction because of the existence of non-trivial patent claims. Confusion had existed regarding which circuit has jurisdiction to resolve an antitrust claim under the Sherman Act where the patent laws provide the answers to the determinative issues. Both the Seventh Circuit and CAFC claimed they lacked jurisdiction. The Supreme Court settled the jurisdictional dispute by holding that the Seventh Circuit was the proper forum in such a case. Christenson v. Colt Ind. Operating Corp., 798 F.2d 1051 (7th Cir. 1986), 822 F.2d 1544 (Fed. Cir.), cert. granted, 484 U.S. 985 (1987), vacated, 486 U.S. 800 (1988); see also Cygnus Therapeutic Sys. v. Alza Corp., 92 F.3d 1153, 1161 (Fed. Cir. 1996); Loctite v. Ultraseal Ltd., 781 F.2d 861, 871 (Fed. Cir. 1985).

Nonetheless, even in such instances, the Federal Circuit will apply its own law to "resolve issues that clearly involve our exclusive jurisdiction." Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1067 (Fed. Cir. 1998) (applying Federal Circuit law to question of "whether conduct in the prosecution of a patent is sufficient to strip a patentee of its immunity from the antitrust laws"). Regional circuit law applies only to such issues as relevant market, market power, damages, etc., which are not unique to patent law. Id. at 1068.

B. NOERR-PENNINGTON IMMUNITY AND PATENT LITIGATION

In the antitrust context, even though an actor's conduct is allegedly anti-competitive, the Noerr-Pennington doctrine has traditionally conferred antitrust immunity on such conduct when it involves the petitioning of a branch of the federal government. See Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127 (1961); United Mine Workers v. Pennington, 381 U.S. 657 (1965). This petitioning right has been held to include the right to petition the federal courts via a lawsuit that is not considered to be "sham" litigation. California Motor Transport Co. v. Trucking

Unlimited, 404 U.S. 508 (1972). In Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc., 508 U.S. 49 (1993), the Supreme Court articulated a definitive standard for what constitutes "sham" litigation.

In Professional Real Estate, several large motion picture studios sued a hotel owner for copyright infringement based on the fact that the hotel rented copyrighted videodiscs to its guests for viewing on in-room videodisc players. The hotel owner filed an antitrust counterclaim alleging that this lawsuit was instituted only to restrain trade and was sham litigation. Id. at 52. In affirming the grant of summary judgment for the hotel owner on the copyright claim and for the motion picture studios on the antitrust counterclaim, the Supreme Court defined sham litigation employing the following two-part test:

"First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome,... [then] an antitrust claim premised on the sham exception must fail. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of our definition of sham, the court should focus on whether the baseless lawsuit conceals 'an attempt to interfere directly with the business relationships of a competitor'...."

Id. at 60-61 (footnote omitted) (first emphasis added) (quoting Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 144 (1961)). Thus, in articulating its definition of sham litigation the Court has created a high hurdle in order for the antitrust claimant to overcome the Noerr-Pennington immunity.

Perhaps the most intriguing aspect of the Professional Real Estate decision, as it relates to patent litigation, is the Court's comment that it "need not decide here whether and, if so, to what extent Noerr permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations." Id. at 61 n.6 (citing Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172, 176-77 (1965)). Because the Court did not explicitly apply its analysis to cases involving fraud or misrepresentation, the applicability of the new two-part sham litigation test to Handgards and Walker Process claims remains an open issue in the Supreme Court. However, because Handgards claims have been explicitly analyzed in the past as sham exceptions to Noerr-Pennington immunity, see Handgards, Inc. v. Ethicon, Inc., 743 F.2d 1282, 1294 (9th Cir. 1984) ("We believe that Handgards I established a standard that embodies both the Noerr-Pennington immunity and the sham exception."), cert. denied, 469 U.S. 1190 (1985), it appears that the two-part sham litigation test may apply to future Handgards claims. See, e.g., Novo Nordisk of North America, Inc. v. Genentech, Inc., 885 F. Supp. 522, 526 (S.D.N.Y 1995).

The applicability of the two-part sham litigation test to Walker Process claims is less clear. Prior to Professional Real Estate, Noerr-Pennington immunity and Walker Process claims were two distinct doctrines which were analyzed in separate contexts. After twice declinining to decide the issue, the Federal Circuit now has ruled that the sham litigation test does not apply to Walker Process claims. Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059 (Fed. Cir. 1998).

The "objectively baseless" standard of the PRE test has not been easy to meet in the Federal Circuit. In both Filmtec Corp. v. Hydranautics, 67 F.3d 931, 939 n.2 (Fed. Cir. 1995), cert. denied, 117 S. Ct. 62 (1996) and Carroll Touch, Inc. v. Electro Mechanical Sys., Inc., 15 F.3d 1573, 1583 n.10 (Fed. Cir. 1993), although the patentee lost on his infringement action, the court still held that the infringement claim was not "objectively baseless", thereby entitling the patentee to Noerr-Pennington immunity from an antitrust counterclaim.

Although originally applied only to federal causes of action, Noerr-Pennington also has been applied to state law cause of action as well. Raines v. Switch Mfg., 44 U.S.P.Q.2d 1195 (N.D. Cal. 1997).

C. COMPULSORY VERSUS PERMISSIVE ANTITRUST COUNTERCLAIMS IN PATENT INFRINGEMENT ACTIONS

Another issue which commonly arises in the patent/antitrust litigation context is whether an antitrust counterclaim is compulsory or permissive when raised in a patent infringement action. Recently, in the case of Tank Insulation Int'l, Inc. v. Insultherm, Inc., 104 F.3d 83 (5th Cir.), cert. denied, 118 S. Ct. 265 (1997), the Fifth Circuit held that a Sherman Act antitrust claim was not a compulsory counterclaim in a patent infringement action. In this case, the district court had dismissed an antitrust claim by an alleged infringer, ruling that it was a compulsory counterclaim to an earlier patent infringement action which had been waived by the alleged infringer's failure to assert it in the infringement answer. On appeal, the Fifth Circuit found the antitrust claim to meet the established definition of a compulsory counterclaim under Federal Rule of Civil Procedure 13(a), but relied on Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944), as creating a limited exception thereto "for antitrust counterclaims in which the gravamen is the patent infringement lawsuit initiated by the counterclaim defendant." Tank Insulation Int'l, Inc., 104 F.3d at 87. However, the Fifth Circuit stopped short of extending this Mercoid exception to every antitrust counterclaim resulting from patent infringement litigation. Because both Mercoid's and Tank Insulation International's counterclaims were so factually similar in alleging "that the patent infringement litigation violated the antitrust laws," the Fifth Circuit found it unnecesary to decide whether all antitrust counterclaims should receive like treatment. Id. at 87-88; see also Hydranautics v. FilmTec Corp., 70 F.3d 533 (9th Cir. 1995).

Courts questioning the validity of Mercoid, and indicating that antitrust counterclaims grounded on assertion of patents are compulsory to an action for patent infringement, include Burlington Indus., Inc. v. Milliken & Co., 690 F.2d 380, 389 (4th Cir. 1982) and USM Corp. v. SPS Techs., Inc., 102 F.R.D. 167, 170-71 (N.D. Ill. 1984).

VI. ANTITRUST AND MISUSE ISSUES IN OTHER TYPES OF INTELLECTUAL PROPERTY

A. TRADEMARK LAW

Misuse of a trademark may be invoked as a defense in trademark infringement proceedings, and may even rise to the level of an antitrust claim or counterclaim. The Lanham Act, in 15 U.S.C. § 1115(b)(7), explicitily provides for the misuse defense in trademark infringement actions, even for incontestable trademarks, although successful assertion of this defense has proven to be no easy task. See Carl Zeiss Stiftung v. VEB Carl Zeiss Jena, 298 F. Supp. 1309, 1314-15 (S.D.N.Y. 1969) (dismissal of antitrust misuse defense because defendant could not meet heavy burden of proving that trademark itself was the "basic and fundamental vehicle" used to accomplish the antitrust violation), aff'd, 433 F.2d 686 (2d Cir. 1970), cert. denied, 403 U.S. 905 (1971).

The use of trademarks in tying arrangements has sometimes been challenged as a violation of the antitrust laws. One of the first cases to address this issue was Siegel v. Chicken Delight, Inc., 448 F.2d 43 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972). In this case, the Chicken Delight fast food store conditioned the licensing of its franchise name and trademark on the franchisees purchasing cooking equipment, food mixes and packaging exclusively from Chicken Delight. The court held that the trademark itself was a separate item for tying purposes, and so this contractual agreement constituted a tying arrangement in violation of the Sherman Act. Id. at 49-52. In ruling that there existed two separate items for tying purposes, the court relied on the fact that it was not essential to the fast food franchise that the tied products of cooking equipment, food mixes and packaging be purchased from Chicken Delight. Id. at 49; cf. Krehl v. Baskin-Robbins Ice Cream Co., 664 F.2d 1348 (9th Cir. 1982) (Baskin-Robbins trademark for ice cream store held not a separate item from ice cream for tying purposes because the ice cream was made by Baskin-Robbins "in accordance with secret formulae and processes").

In Juno Online Services, L.P. v. Juno Lighting, Inc., 979 F. Supp. 684 (N.D. Ill. 1997), the court refused to recognize an affirmative cause of action for trademark misuse. Characterizing the history of affirmative claims of patent misuse as "suspect," and noting that plaintiff presented no case permitting a claim for trademark misuse, the court dismissed a cause of action for trademark misuse.

B. COPYRIGHT LAW

Similar to the patent misuse defense sometimes asserted in patent infringement suits, the defense of copyright misuse is available to an alleged copyright infringer when the copyright owner has utilized the copyright "in a manner violative of the public policy embodied in the grant of a copyright." Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 978 (4th Cir. 1990). In Lasercomb, the Fourth Circuit held that it was copyright misuse for a software developer to include anticompetitive clauses in his licenses which could potentially outlast the term of the copyright. Id. at 978-79. The Fourth Circuit also concluded that an antitrust violation need not be shown in order to assert a successful copyright misuse defense. Id. at 978.

Although the copyright misuse defense is available in the Fourth Circuit and in other circuits, see Triad Systems Corp. v. Southeastern Express Co., 64 F.3d 1330 (9th Cir. 1995) (recognizing copyright misuse defense), this is not the rule everywhere. Because the Supreme Court has never explicitly recognized the copyright misuse defense, some courts have not allowed it to be asserted in defense of a copyright infringement action. See, e.g., Allen-Myland, Inc. v. International Business Machines Corp., 746 F. Supp. 520, 549 n.45 (E.D. Pa. 1990) (court noted in dictum that "[m]ost courts which have addressed [the validity of the copyright misuse defense] have held that violation of the antitrust laws cannot provide a valid defense to a copyright infringement claim").

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