An Overview of Antitrust and Misuse Issues in Intellectual Property Law

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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 under the antitrust laws by the Department of Justice. These provisions became commonly known to the bar as the nine no-nos". This paper will examine 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 will examine the antitrust implications of acquiring intellectual property and in refusing to license intellectual property, as well as other litigation-related issues. Finally, the paper will address issues unique to trademark and copyright law.

II. 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.

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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."

> Patent misuse is viewed as a broader wrong than antitrust violation because of the economic power that may be derived from the patentee's right to exclude. Thus misuse may arise when conditions of antitrust violation are not met. The key inquiry is whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect.

C.R. Bard Inc. v. M3 Sys. Inc., 157 F.3d 1340, 1372 (Fed. Cir. 1998), *cert. denied,* 119 S. Ct. 1804 (1999).

III. ANALYTICAL TOOLS FOR ANTITRUST ISSUES

A. *PER SE* ANALYSIS

Certain types of conduct presumably restrain trade and are therefore *per se* illegal. 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 should not necessarily be considered a "pure" *per se* rule. The *per se* rule is applied when surrounding circumstances make the likelihood of anticompetitive conduct so great as to render unjustified further examination of the challenged action. *NCAA v. Board of Regents of Univ. of 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 pro competitive benefit." *State Oil Co. v. Khan,* 522 U.S. 3, 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. 447, 458-59 (1986).

The Department of Justice (DOJ) and the Federal Trade Commission (FTC) released 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) T 13, 132 (April 6, 1995) (hereinafter "1995 IP Guidelines"). In the 1995 IP Guidelines, 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.*

B. RULE OF REASON ANALYSIS

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,* 522 U.S. 3, 118 S. Ct. 275, 279 (1997). When analyzing 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." 1995 IP Guidelines, at 20,740.

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 EP Guidelines, at 20,734.

"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 (research and development) markets. *Id.*

> 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.").

> 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.

IP Guidelines at 20,742.

* * * *

> 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.

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:

> 1. 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 <u>goods markets</u> 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).

> 2. 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).

> 3. 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).

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).

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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."

> [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.

> Where an intellectual property license is merely a sham to hide *per se* 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.

Id.

> 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 in the Antitrust Division's *Merger Guidelines.* U.S. Department of Justice Merger Guidelines (Antitrust Division June 14, 1984), 49 Fed. Reg. 26,823 (1984).

Id. at 19.

> 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.

Id. at 19-20.

> 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.

Id. at 20.

> 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 the procompetitive benefits of the license.

Id. at 21-22.

IV. THE NINE NO-NO's -- LICENSING PROVISIONS TO WATCH FOR

A. TIE-INS

A "tie-in" is an arrangement in which a seller conditions the sale of its product upon a buyer's purchase of a separate product from the seller or a designated third party. The anticompetitive vice is the denial of access to the market for the tied product.

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.

In *Jefferson Parish, the per se* rule was reaffirmed by a bare majority of the Supreme Court, with the soundness of the rule having come under attack. As stated by the court *in Mozart Co. v. Mercedes-Benz of North America, Inc.,* 833 F.2d 1342, 1345 n.2 (9th Cir. 1987), *cert. denied,* 488 U.S. 870 (1988):

> Two Justices relied on Congress' silence as a justification for preserving the *per se rule. See* 466 U.S. at 32, 104 S. Ct. at 1568 (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, 104 S. Ct. 1568-76 (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).

For a tie-in to rise to the level of an antitrust violation, 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).

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 v. Shepherd,* 682 F. Supp. 1489, 1493 (C.D. Cal. 1988); *Mozart Co. v. Mercedes-Benz of North America,* 833 F.2d at 1342, 1345-46. However, the Federal Circuit, which handles all appeals in cases arising under the patent laws, has stated that "[a] patent does not of itself establish a presumption of market power in the antitrust sense." *Abbott Lab. v. Brennan,* 952 F.2d 1346 (Fed. Cir. 1991), *cert. denied,* 505 U.S. 1205 (1992).

A 1988 amendment to the patent statute addresses the market power requirements in a tie-in analysis, in at least the patent misuse context. 35 U. S.C. § 271(d)(5). Under the statute, misuse shall not be found by reason of a patentee having "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 Justice Department also will require proof of market power, apart from the existence of a patent right, in order to invoke the antitrust laws against a tie-in. The 1995 IP Guidelines state that tying arrangements are 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] <u>will not presume that a patent... necessarily confers market power upon its owner</u>.

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).

Even where market power is present, tie-ins may be justified and not violative of the Sherman Act if they are technically necessary. In one case, tie-in provisions in a license agreement conditioning the license of a wood preservative on the use of a particular organic solvent were held to necessary to insure sufficient quality and effectiveness of the wood preservative, and therefore not an antitrust violation. *Idacon Inc. v. Central Forest Products,* 3 U.S.P.Q.2d 1079 (E.D. Okla. 1986). Likewise, tie-in provisions conditioning the sale of a patented silo unloader on use of silos by the same manufacturer were held justified where attempts to use silos manufactured by others together with the patented product had proved unsuccessful. *Dehydrating Process Co. v. A. O. Smith Corp.*, 292 F.2d 653 (1st Cir.), *cert. denied,* 368 U.S. 931 (1961).

The Ninth Circuit has ruled that 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 Co. v. Mercedes-Benz of North America,* 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. 833 F.2d at 1348-51. Thus, there was no antitrust violation.

An issue which sometimes arises is whether a "product' is a single integrated product or two products tied together. In *United States v. Microsoft Corp.,* a divided panel of the D.C. Circuit vacated a contempt order, ruling that Microsoft's Windows 95/Internet Explorer package is a genuine integration, and that Microsoft was not barred from offering it as one product under a previous consent decree. 147 F.3d 935 (D.C. Cir. 1998). The court ruled that an integrated product is a product which "combines functionalities (which may also be marketed separately and operated together) in a way that offers advantages unavailable if the functionalities are bought separately and combined by the purchaser." *Id.* at 948. The court explained that:

> The question is not whether the integration is a *net* plus but merely whether there is a plausible claim that it brings some advantage. Whether or not this is the appropriate test

> for antitrust law generally, we believe it is the only sensible reading of [the consent decree].

Id. at 950 (emphasis in original).

The dissenting opinion urged a balancing test where:

> the greater the evidence of distinct markets, the more of a showing of synergy Microsoft must make in order to justify incorporating what otherwise would be an 'other' product into an 'integrated' whole. If the evidence of distinct markets is weak, then Microsoft can get by with a fairly modest showing (although perhaps not the minimal showing required by the majority).

Id. at 959. The dissent also relied on *Jefferson Parish,* which it concluded did not permit a product to be "integrated" simply "where *some* benefit exists as a result of joint provision." *Id.* at 961 (emphasis in original).

The use of trademarks in alleged tying arrangements sometimes has been challenged as a violation of the antitrust laws. In *Siegel v. Chicken Delight, Inc.*, Chicken Delight allegedly conditioned the licensing of its franchise name and trademark on the franchisees' purchasing cooking equipment, food mixes and packaging exclusively from Chicken Delight. 448 F.2d 43 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972). 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. However, in *Krehl v. Baskin-Robbins Ice Cream Co.,* the Baskin-Robbins trademark was held not to be 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." 664 F.2d 1348 (9th Cir. 1982). Likewise, in *Principe v. McDonald's Corp.,* the Fourth Circuit found allegedly tied products to be integral components of the business method being franchised, and rejected an antitrust suit. 631 F.2d 303 (4th Cir. 1980), *cert. denied,* 451 U.S. 970 (1981).

B. GRANTBACKS

A grantback is a license provision in which a patentee requires a licensee to assign or license improvements to the patent to the patentee. The Supreme Court has held that a rule of reason test, not a *per se* test, should be used to analyze the propriety of 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 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, 289 (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.").

Courts have articulated many factors relevant to the rule of reason analysis for grantbacks, among them:

(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.

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. 101 5 (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).

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). 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).

A network of grantback arrangements an 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.

Currently, 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.

> If the Agencies determine that a particular grantback provision is likely to reduce significantly licensees' 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.

IP Guidelines, at 20,743-45.

C. RESTRICTIONS ON RESALE OF PATENTED PRODUCT

Wilson's prohibition considered it unlawful to attempt to restrict a purchaser of a patented product in the resale of that product. However, critics contend that restrictions on resale should be judged by analysis parallel to other vertical restraints. A seller has a rightful incentive to achieve maximum economic return from intellectual property.

Since the patent right is exhausted by the first sale of the patented article, use restrictions generally 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). For example, 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 (D.N.J. 1976); *see also United States v. Bristol-Myers Co.,* 82 F.R.D. 655 (D.D.C. 1979) (consent decree enjoined manufacturer from restraining the sale of drugs in bulk form and from imposing restrictions on resale).

In *Mallinckrodt, Inc. v. Medipart, Inc.*, 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. 976 F.2d 700 (Fed. Cir. 1992). The patentee sued for alleged induced infringement against refurbishing the inhaler devices in violation of the prohibition against reuse. *Id.* at 701. In reversing a 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.

Similarly, in *B. Braun Medical Inc. v. Abbott Laboratories,* 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. 124 F.3d 1419 (Fed. Cir. 1997). 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.

In *PSC Inc. v. Symbol Tech. Inc.*, 26 F. Supp. 2d 505 (W.D.N.Y. 1998), the district court ruled that it was patent misuse for a licensor to attempt to collect royalties from two licensees for the same patents, covering the same products. The court stated that the patentee's "attempts to collect royalties for the same product violates the exhaustion doctrine, and impermissibly extends the scope of the patent grants." *Id.* at 510, citing *Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993); *Cyrix Corp. v. Intel Corp.*, 846 F. Supp. 522, 539 (E.D. Tex.), *aff'd,* 42 F.3d 1411 (Fed. Cir. 1994).

In United States v. Arnold, Schwinn & Co., 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. 388 U.S.365 (1976), *overruled by Continental T.V. Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977). 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.").

Field of use restrictions, which restrict the type of customer to whom a manufacturing licensee may sell and the type of article it may make, use and sell, generally are upheld as lawful. The seminal case in this regard is *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). Although General Talking Pictures remains essentially unencumbered by later Supreme Court pronouncements on antitrust issues, lower courts "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. Studiengesellschaft Kohle m.b.H*, 670 F.2d 1122,1133 (D.C. 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). One court has explained that, under the rule of reason approach set forth in *Continental T V, Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977), "what is beyond the protection of the patent laws in this case is also forbidden by the antitrust laws." 201 U.S.P.Q. at 759.

The Justice Department has indicated that 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, the rule of reason expressed in *Continental T.V.*

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

Wilson's prohibition stated that a patentee may not restrict its licensee's freedom to deal in products or services not within the scope of the patent. However, critics contend that the rule has no general validity in the vertical context.

Several Courts have held that it is a patent misuse to require a licensee to refrain from dealing in competitive products. *See Berlenbach 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. 111. 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. 111. 1981), *aff'd,* 686 F.2d 1258 (7th Cir. 1982). Moreover, at least one court has ruled that the amendment to 35 U.S.C. § 271(d)(5), precluding a presumption of market power from the existence of a patent, applies to a "tie-out." *In re Recombinant DNA Tech. Patent & Contract Lit.*, 850 F. Supp. 769, 776-77 (S.D. Ind. 1994).

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

The prohibition stated that it is unlawful for a patentee to agree with its licensee that it will not grant licenses to anyone without the licensee's consent. However, 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. The Supreme Court, in *E. Bement & Sons v. National Harrow Co.,* held that it was not a Sherman Act violation for a patentee to agree that the patentee would not license any other person to manufacture or sell any licensed product of the peculiar style and construction then used or sold by the licensee. 186 U. S. 70 (1902). The Court noted 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.

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. 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

The prohibition stated that mandatory package licensing is an unlawful extension of the patent grant. The justification is that 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. However, this is not a world with perfect information and zero transaction costs. Package licensing allows a patentee to maximize the net return on a portfolio of patents, given the restraint on the patentee's limited knowledge concerning the value of the patents to different licensees, and the ease with which it can negotiate separate licenses for each patent. Profit from the package is limited to the maximum amount the patentee could extract lawfully in the world of perfect information and zero transaction costs.

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). Similarly, 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) (plaintiffs' 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.")

The Department of Justice has stated that it no longer believes that mandatory package licensing is inherently unlawful. Package licensing allows the patentee to maximize the net return on its patent portfolio. The DOJ has recognized that package licensing can be efficient in that it avoids the necessity of costly individual negotiations between the parties with respect to each patent.

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

The prohibition had stated that it is unlawful for a patentee to insist, as a condition of the license, that a licensee pay royalties not reasonably related to the licensee's sales of products covered by the licensed patent.

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). Likewise, a patentee/licensor is not required to renegotiate an existing agreement to change the royalty scheme from one based on the right to use any of group of patents, to one based on royalties for each specified patent used. *Hull v. Brunswick Corp.,* 704 F.2d 1195 (10th Cir. 1983). "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." *Magnavox Co. v. Mattell Inc.,* 216 U.S.P.Q. 28, 59 (N.D. Ill. 1982).

However, to use the leverage of a patent to project royalty payments beyond the lifeofthepatenthasbeenheldtobeanillegalenlargementofthepatentgrant. *Brulotte*, 379 U.S. at 33. The Eleventh Circuit also has employed a similar rationale in striking down a hybrid agreement licensing patent rights and trade secrets, where royalty obligations remain unchanged after patents expire, as unenforceable beyond the date of expiration of the patents. *Pitney Bowes, Inc. v. Mestre,* 701 F.2d 1365 (11th Cir.), *cert. denied,* 464 U.S. 893 (1983).

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. In *Aronson v. Quick Point Pencil Co.,* the Supreme Court upheld 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. 440 U.S. 257 (1979). Likewise, a manufacturer may be obliged to pay royalties under an agreement involving a patent application even though the scope of the issued patent was narrower than the original patent application referred to in the agreement. *See Shackelton v. J Kaufman Iron Works, Inc.,* 689 F.2d 334 (2d Cir. 1982), *cert. denied,* 460 U.S. 1052 (1983). However, the Sixth and Seventh Circuits have held that the *Brulotte* rule precludes enforcement of license provisions extending beyond the 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 Indus., Inc.,* 802 F.2d 881 (7th Cir. 1986), *cert. denied,* 479 U.S. 1091 (1987).

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 has been deemed 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, *reh. denied*, 384 U.S. 947, *reh. denied*, 385 U.S. 995 (1966); *Cohn v. Compax Corp.*, 220 U.S.P.Q. 1077, 1082 (N.Y. App. Div. 2d 1982).

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 held 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].")

In a later case involving another shrimp peeling patent, a district 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) T 65,268 (D. Ore.1982).

In *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 513, *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."

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).

Although the 1995 IP Guidelines are silent as to the royalty rates to be allowed in patent licenses, prior DOJ statements indicate that it will consider 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. Sales may be a reasonable method in some instances, but not in others. Where the patentee and licensee are horizontal competitors, a rule of reason approach should be employed against the risk of unnecessary cartelization.

H. SALES RESTRICTIONS OF PRODUCTS MADE BY PROCESS PATENT

Wilson's prohibition stated that it is unlawful for the owner of a process patent to attempt to place restrictions on its licensee's sales of products made by the patented process, since it enables the patentee to attain monopoly control over something not necessarily subject to his control by virtue of the patent grant.

A number of courts have analyzed the validity of restrictions on use of an unpatented product of a patented process. In the seminal case, *United States v. Studiengesellschaft Kohle, m.b.H.,* the Court of Appeals for the D.C. Circuit held that a license to a process which permitted the licensee only to use the resulting product, but not sell it, was valid. 670 F.2d 1122, 1130 (D.C. Cir. 1981).

In *Studiengesellschaft*, Ziegler held a patent on a process for making certain catalysts (which themselves were useful to make plastics). Ziegler licensed one manufacturer (Hercules) to sell the catalyst made from the process patent. Ziegler required other licensees to restrict use of the catalyst solely to meet their own needs for making plastics, and prohibited them from selling the catalyst on the open market. The court, using a rule of reason analysis, held that this was a valid restriction because the patentee was legally entitled to grant an exclusive license to a single licensee if he so desired, thereby prohibiting any use of the process by others. *Id.* at 1131. Therefore, the patentee was not deemed to have acted "unreasonably" under the antitrust laws since he had taken the less extreme step of licensing additional manufacturers, subject to the condition that the resultant product be restricted to their own use. *Id.* at 1131, 1135. In justifying this conclusion, the court stated that the licensor had no monopoly over the unpatented product produced by other processes. The court stated that a de facto monopoly of the product can continue only so long as its process remains "so superior to other processes that [the unpatented product] made by those other processes could not compete commercially. . ." *Id.* at 1129.

The same Ziegler patents and licenses also had been examined in *Ethyl Corp. v. Hercules Powder Co.,* 232 F. Supp. 453, 455-56 (D. Del. 1963). In *Ethyl Corp.,* the district court ruled that Ziegler could not convey an exclusive right to sell the product of the patented process. The court explained that a process patentee "can restrict the use of his process, but he cannot place controls on the sale of unpatented articles produced by the process." *Id.* However, in a supplemental opinion, the court did state (somewhat semantically) that, although the patentee could not convey an exclusive right to sell the catalyst -- which was unpatented -- it could convey an exclusive license to use the patented process to make product for the purpose of sale. Thus, the patentee also could prevent another licensee from using the process to make product for sale. *Id.* at 460.

There has been a split of authority in caselaw 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).

An interesting question is whether restrictions in a license of a trade secret process should be treated any differently under the antitrust laws from a process patent license. At least one case advises that the licensor of a trade secret process may restrict the use of a product of that process as long as the restriction may be said to be ancillary to a commercially supportable licensing arrangement, rather than a sham set up for the purpose of controlling competition while avoiding the consequences of the antitrust laws. *Christianson v. Colt Indus. Operating Corp.*, 766 F. Supp. 670, 689 (C.D. Ill. 1991), *quoting A. & E. Plastik Pak Co. v. Monsanto Co.*, 396 F.2d 710, 715 (9th Cir. 1968). In determining whether a licensing arrangement is a sham, the court will examine the licensor's secret process to determine the extent of know-how or technology exclusively possessed by the licensor, and provided to the licensee, and whether the substance of such technology may fairly be said to support ancillary restraints. *A. & E. Plastik Pak*, 396 F.2d at 715. Under the *Christianson* case, a party challenging such a license provision bears the burden of proving by clear and convincing evidence that the arrangement is a sham, or that the licensor asserted its trade secrets with the knowledge that no trade secrets existed. If the challenger fails to carry this burden of proof, then the court should conclude that the actions of the licensor have a sufficient legal justification and are reasonably necessary to enforce the licensor's trade secrets. 766 F. Supp. at 689.

Similar to the owner of a process patent, the owner of a trade secret under ordinary circumstances may grant an exclusive license without antitrust implications. See *Frank M. Denison, D.D S., Inc. v. Westmore Dental Arts, P.C.*, 212 U.S.P.Q. 601, 603 (W.D. Pa. 1981). However, unlike a patent licensor, the licensor of a trade secret is not relying upon (and hence, not arguably improperly extending) a statutorily-based exclusivity, which historically has been a concern of the antitrust laws. Thus, at least one commentator has suggested that a licensor of a trade secret process may have somewhat greater latitude under the antitrust laws than a process patent licensor. ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS 10-175 (1998).

I. PRICE RESTRICTIONS

The prohibition stated that 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. 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).

Recently, 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,* 522 U.S. 3, 118 S. Ct. 275 (1997), *overruling Albrecht v. Herald Co.,* 390 U.S. 145 (1968). The Court explained that although minimum price restrictions would remainder *per se* illegal, there was insufficient economic justification for *per se* invalidation of vertical maximum price fixing. The Supreme Court decision in *Khan,* and much of the *per se* treatment of price fixing, is outside the intellectual property context. There is little recent precedent analyzing whether intellectual property licenses should be analyzed under different standards than other agreements with regard to price restrictions.

The Supreme Court previously has upheld the right of a patent owner to control the prices at which its licensee may sell a patented product. *United States v. General Electric Co.*, 272 U.S. 476 (1926).

> One 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.

The Supreme Court and lower courts have applied the *General Electric* case narrowly. The Supreme Court itself has explained that *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." *United States v. United States Gypsum Co.*, 333 U.S. 364, 400 (Frankfurter, J., concurring), *reh. denied,* 333 U.S. 869 (1948); *see also 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).

However, the *General Electric* holding has not been overturned, and has maintained some vitality in the lower courts. The D.C. Circuit, while noting that *General Electric* has "been seriously questioned, and has survived twice only by the grace of an equally divided court," nonetheless recognized that it remains "the verbal frame of reference for testing the validity of a license restriction in many subsequent decisions." *Studiengesellschaft Kohle,* 670 F.2d at 1131, *citing United States v. Huck Mfg. Co.,* 382 U.S. 197 (1965); *United States v. Line Material Co.,* 333 U.S. 287 (1948). Both the Fourth Circuit and the Supreme Court have employed the *General Electric* framework in upholding agreements challenged as illegal price-fixing. *Duplan Corp. v. Deering Milliken,* 444 F. Supp. 648 (D.S.C. 1977) (agreement between patent owner and licensing agent as to amount of use royalty to be paid by purchasers of patented machine did not constitute illegal price-fixing), *aff'd in part, rev'd in part,* 594 F.2d 979 (4th Cir. 1979), *cert. denied,* 444 U.S. 1015 (1980); *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*).

Notwithstanding *General Electric,* the Justice Department has stated that it will "enforce the per se rule against resale price maintenance in the intellectual property context." IP Guidelines, at 20,743-3. Although this pronouncement was prior to the Supreme Court decision in *Khan,* given the longstanding existence of *General Electric,* there is a substantial question whether *Khan* would change the DOJ view on this issue, at least outside the arena of maximum vertical resale price maintenance.

V. ACQUISITION OF INTELLECTUAL PROPERTY

The acquisition and accumulation of patents have been analyzed under the antitrust laws from two perspectives -- patents acquired by internal invention, and patents acquired from third parties.

In general, simply accumulating patents by internal invention does not implicate the antitrust laws. "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, *reh. denied,* 340 U.S. 846 (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). Likewise, in *SCM Corp. v. Xerox Corp.,* the contention that a large number of patents was acquired by defendant with a wrongful intent was rejected by the jury on the facts. 463 F. Supp. 983 (D. Conn. 1978), *remanded* 599 F.2d 32 (2d Cir. 1979), *aff'd after remand,* 645 F.2d 1195 (2d Cir. 1981), *cert. denied,* 455 U.S. 1016 (1982). However, where a monopolist seeks new patents simply to block competitive products, without any intention to protect its own products, the antitrust laws may be called into play.

> [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 Co.,* 519 F. Supp. 1203, 1235 (S.D.N.Y. 1981).

The prohibitions of Section 7 of the Clayton Act, against asset acquisitions likely to produce a substantial lessening of competition, may be applied 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). Moreover, 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). However, 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).

While patent acquisitions are not immune from the antitrust laws, the analysis should focus on the "market power that will be conferred by the patent <u>in relation</u> to the market position then occupied by the acquiring party." *SCM Corp. v. Xerox Corp.,* 645 F.2d 1195, 1205, 1208 (2d Cir. 1981) (emphasis in original), *cert. denied,* 455 U.S. 1016 (1982). 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).

Though acquisitions of patents may be subjected to antitrust scrutiny, the mere holding of a patent, lawfully acquired, ordinarily should not implicate the antitrust laws. The Second Circuit has explained that:

> 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.

645 F.2d at 1212.

Although private parties may bring suit for Clayton Act violations, they must allege a cognizable 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." 114 F.3d at 1558.

The Justice Department has stated that it will analyze acquisitions of intellectual property rights by applying a merger analysis to outright sales by an intellectual property owner and to licenses that preclude 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.*

VI. **REFUSALS TO LICENSE**

Once a party is deemed a monopolist, business practices that might otherwise seem ordinary sometimes are subjected to closer antitrust scrutiny. One such area concerns refusals to license intellectual property in ongoing litigation involving the computer industry, one district court has granted a preliminary injunction against Intel for allegedly violating its "affirmative duties not to misuse its monopoly power and to compete in a manner which does not unreasonably or unfairly harm competition." *Intergraph Corp. v. Intel Corp.*, 3 F. Supp.2d 1255, 1277 (N.D. Ala. 1998). The order granting the preliminary injunction has been appealed to the Court of Appeals for the Federal Circuit.

As stated in the district court's fact findings, Intergraph is a developer of computer-aided designing and drafting workstations. In the 1990's, Intergraph began designing workstations which incorporated Intel microprocessors, and by the end of 1993 had ceased further development of its own "Clipper" microprocessor. From 1993 to 1997, Intergraph received confidential information from Intel related to Intel's microprocessors, subject to various confidentiality agreements. In 1997, Intergraph began threatening some Intel customers with patent infringement, based in part on the use by those customers of Intel microprocessors in their products, and Intergraph sued Intel for patent infringement. Intel sought a license under the Intergraph patents, and also proposed licensing its own patents to Intergraph. Intergraph declined the Intel proposal. Eventually, Intel invoked the provisions of the confidentiality agreements to terminate those agreements and demand return of its confidential information. Intergraph then asserted an antitrust claim against Intel for its refusal to supply it with confidential information. Intergraph moved for a preliminary injunction to prevent Intel from refusing to engage in business with Intergraph in a manner similar to that existing between 1993 and the commencement of the parties' disputes. On April 10, 1998, the district court granted the preliminary injunction.

The district court found that Intel had monopoly power in both the microprocessor market and in the separate market for Intel microprocessors. It found that Intergraph was "locked in" to Intel's microprocessors and technical information. *Id.* at 1275-76. The court then explained that:

> Even conduct by a monopolist that is otherwise lawful may violate the antitrust laws where it has anticompetitive effects. *Image Technical Services, Inc. v. Eastman Kodak Co.,* 125 F.3d 1195, 1207 (9th Cir. 1997).... [T]he court concludes that Intel has violated its affirmative duties not to misuse its monopoly power and to compete in a manner which does not unreasonably or unfairly harm competition.

Id. at 1277.

The court stated that Intel's attempt to "coerce Intergraph into relinquishing its intellectual property rights as a condition of Intel permitting Intergraph to continue as a competitor in the high-end graphics workstation market" and its alleged inducement for Intergraph to discontinue its Clipper microprocessor development evidenced Intel's "willful acquisition or maintenance of monopoly power," in violation of Section 2 of the Sherman Act. *Id.* at 1276-77. In its decision, the district court also concluded that "Intel is an actual and serious competitor of Intergraph" and that Intel had "conspir[ed] with Intergraph's competitors to take away Intergraph's customers." The court therefore found Intergraph likely to succeed under Section 1 of the Sherman Act, which prohibits a "contract, combination ... or conspiracy, in restraint of trade or commerce. . ." *Id.* at 1280-81.

The district court also found Intergraph likely to prevail on one or more of the following "established theories" of liability under Section 2 of the Sherman Act: (1) unlawful refusal to deal and denial of access to essential facilities; (2) unlawful monopoly leveraging; (3) unlawful coercive reciprocity; (4) use of patented technology to restrain trade; and (5) retaliatory enforcement of non-disclosure agreements. *Id.* at 1277-80. Among the more interesting issues raised by the *Intergraph* decision is its analysis of Intel's "refusal to deal" with Intergraph.

A patent owner's refusal to license its patents ordinarily raises no antitrust scrutiny. However, the circuit courts have held somewhat differing views on the absolute limits of a patentee's discretion in refusing to license others. At least one appellate court has explained, without qualification, that a patent owner "cannot be held liable under Section 2 [of the Sherman Act] ... by refusing to license the patent to others." *Miller Insituform, Inc. v. Insituform of North America, Inc.,* 830 F.2d 606 (6th Cir. 1987), *cert. denied,* 484 U.S. 1064 (1988); *see also Simpson v. Union Oil Co.,* 377 U.S. 13, 24 ("The patent laws which give a 17 year monopoly on 'making, using, or selling the invention' are *in pari materia* with the antitrust laws and modify them *pro tanto."), reh. denied,* 3 77 U.S. 949 (1964); *see also Schlafly v. Caro-Kann Corp.,* 1998 U.S. App. LEXIS 8250, at *19 (Fed. Cir. Apr. 28, 1998) (unpub.) ("a patentee may lawfully refuse to issue licenses at all."). The Ninth Circuit has promulgated a rule whereby a monopolist's otherwise unlawful refusal to deal presumptively is justified where the refusal to deal involves patented or copyrighted technology. *See Image Technical Services Inc. v. Eastman Kodak Co.,* 125 F.3d 1195, 1218 (9th Cir. 1997), *cert. denied,* 118 S. Ct. 1560 (1998).

> Kodak's contention that its refusal to sell its parts ... was based on its reluctance to sell its patented or copyrighted parts was a presumptively legitimate business justification. Kodak may assert that its desire to profit from its intellectual property rights justifies its conduct, and the jury should presume that this justification is legitimately procompetitive.

According to the Ninth Circuit, however, the presumption can be rebutted, such as by evidence that the intellectual property was acquired unlawfully, or evidence that the desire to profit from its intellectual property was a mere pretext. *Id.* Indeed, in the *Image Technical Services* case, the court concluded that the presumption was rebutted by evidence of "pretext."

At least one subsequent district court decision refused to follow the Ninth Circuit's institution of a rebuttable presumption of legitimacy, and instead concluded that "where a patent or copyright has been lawfully acquired, subsequent conduct permissible under the patent or copyright laws cannot give rise to any liability under the antitrust laws." *In re Independent Svc. Orgs. Antitrust Litigation,* 989 F. Supp. 1131, 1134 (D. Kan.), *appeal denied,* 129 F.3d 132 (Fed. Cir. 1997). In that case, the court followed the *Miller* line of cases, and affirmed that "a patent holder's unilateral refusal to sell or license its patented invention does not constitute unlawful exclusionary conduct under the antitrust laws even if the refusal impacts competition in more than one relevant antitrust market." *Id.* at 1138. The court applied a similar rule to a refusal to sell or license copyrighted properties. *Id.* at 1142-44. The court did not directly address whether trade secrets would be governed by the same principles.

Although the district court in *Intergraph* appeared to accept that Intel's information was proprietary intellectual property, in its discussion of Intel's refusal to deal the court did not directly address the *Miller* line of cases, nor address in detail the rebuttable presumption of business justification set forth in *Image Technical Services.* Rather, it discussed the "essential facilities" doctrine. As set forth in *MCI Communications Corp. v. American Tel. & Tel. Co.*, "the antitrust laws have imposed on firms controlling an essential facility the obligation to make the facility available on non-discriminatory terms." 708 F.2d 1081, 1132 (7th Cir.), *cert. denied,* 464 U.S. 891 (1983). The *MCI* court identified four elements for liability under the essential facilities doctrine:

> (1) control of the essential facility by a monopolist; (2) a competitor's inability practically or reasonably to duplicate the essential facility- (3) the denial of the use of the facility to a competitor; and (4) the feasibility of providing the facility.

Id. at 1132-33.

However, at least one subsequent court has stated that the essential facilities doctrine is inapplicable where the defendant is not a monopolist in a market in which it competes with the plaintiff. *See Ad-Vantage Tel Directory Consultants v. GTE Directories Corp.*, 849 F.2d 1336, 1348 (11th Cir. 1987) (rejecting Sherman Act essential facilities claim because plaintiff did not compete in market where defendant had monopoly power and defendant did not have monopoly power in market where it did compete with plaintiff). Thus, taking the rules of *Miller* and *Ad-Vantage* together, a monopolist may be free to refuse to license its proprietary intellectual property to others, even if the intellectual property qualifies as an "essential facility," so long as the licensee does not compete with the licensor in the market in which the licensor is a monopolist. The impact of these lines of cases may greatly influence the ultimate resolution of *Intergraph,* which itself may provide significant guidance for intellectual property holders which do not wish to license their intellectual property to others.[4]

VII. 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. *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) establishes that an infringement suit is presumptively in good faith. *See also C.R. Bard Inc. v. M3 Sys. Inc.*, 157 F.3d 1340, 1369 (Fed. Cir. 1998), *cert. denied,* 119 S. Ct. 1804 (1999). This presumption can only be rebutted

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4 On March 17, 1999, Intel entered into a Consent Agreement with the U.S. Federal Trade Commission. Pursuant to the Agreement, Intel agreed for a period of ten years not to withdraw or refuse access to certain technical information for reasons related to an intellectual property dispute, if at the time of the dispute the customer is receiving such information from Intel. Intel is permitted to withhold information specific to any Intel microprocessor that the customer has asserted is infringing its patent, copyright or trade secret rights, unless the customer agrees not to seek an injunction for the asserted infringement. The Consent Agreement does not constitute any admission by Intel that it violated any law. *See* www.ftc.gov/os/1999/9903/d09288intelagreement.htm

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).

A 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).

VIII. FRAUD ON THE PATENT OFFICE

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.

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. The court 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 1350 (Fed. Cir.), *cert. denied*, 469 U.S. 821 (1984). 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.

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 *Walker Process* 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*, 3 82 U.S. at 177. *American Hoist & Derrick*, 725 F.2d at 1366.

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.

The enforcement or assertion of the patent is an element necessary to establish *Walker Process* antitrust liability. *K-Lath v. Davis Wire Corp.*, 15 F. Supp. 2d 952 (C.D. Cal. 1998); *see also California Eastern Labs. v. Gould*, 896 F.2d 400, 403 (9th Cir. 1990). Where the patentee has not threatened an infringement claim, such that there is no jurisdiction for an action seeking a declaration of invalidity or unenforceability, dismissal under Fed.R.Civ.P. 12(b)(6) of a *Walker Process* claim is warranted. *K-Lath,* 15 F. Supp. 2d at 963-64.

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

IX. 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. 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.

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. In one case, 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 Indus. 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).

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. <u>Only</u> 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 <u>directly</u> 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.*, 3 82 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 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 of *PRE* may apply to *Handgards* claims. *See, e.g., Novo Nordisk of North America, Inc. v. Genentech, Inc.*, 885 F. Supp. 522, 526 (S.D.N.Y 1995); *see also C.R. Bard Inc. v. M3 Sys. Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), *cert. denied,* 119 S. Ct. 1804 (1999).

The applicability of the two-part sham litigation test to *Walker Process* claims is perhaps 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 declining 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 its infringement claim, the court still held that the claim was not "objectively baseless," thereby entitling the patentee to *Noerr-Pennington* immunity from an antitrust counterclaim.

An interesting question is whether *Noerr-Pennington* immunity applies to pre-litigation threats of litigation. In a decision by a divided panel, in *Cardtoons, L.C. v. Major League Baseball Players Association,* 1999 U.S. App. LEXIS 14618 (10th Cir. Jun. 29, 1999), the Tenth Circuit held that "whether or not they are consummated," pre-litigation threats are entitled to *Noerr-Pennington* immunity to the same extent as litigation itself. *Id.* at *11-12. The court also held that the two-part *PRE* sham test must be applied to pre-litigation threats. *Id.* The court noted that it was following the decisions of three other circuits which have addressed the issue. *Id.* at *9-10, *citing McGuire Oil Co. v. Mapco, Inc.,* 958 F.2d 1552, 1558-60 (11th Cir. 1992); *CVD, Inc. v. Raytheon Co.,* 769 F.2d 842, 850-51 (1st Cir. 1985); *Coastal States Mfg., Inc. v. Hunt,* 694 F.2d 1358 (5th Cir. 1983). The court stated that applying the immunity to pre-litigation threats "is especially important in the intellectual property context, where warning letters are often used as a deterrent against infringement." *Id.* at *11, n.4, citing *Matsushita Elec. Corp. v. Loral Corp.,* 974 F. Supp. 345, 359 (S.D.N.Y. 1997); *Thermos Co. v. Igloo Prods. Corp.,* 1995 U.S. Dist. LEXIS 14221 (N.D. Ill. Sept. 27, 1995).

Although originally applied to federal causes of action, *Noerr-Pennington* also has been applied to state law causes of action. *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. In *Tank Insulation Intl., 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 unnecessary 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).

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

A. TRADEMARK LAW

The Lanham Act, in 15 U.S.C. § 1115(b)(7), explicitly provides that use of a mark in violation of the antitrust laws of the United States is a defense in trademark infringement actions, even for incontestable trademarks. However, 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).

Whether a trademark "misuse" which does not rise to the level of an antitrust violation is cognizable as a defense or affirmative cause of action is less clear. 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. In *Northwestern Corp. v. Gabriel Mfg. Co.*, 48 U.S.P.Q.2d 1902 (N.D. Ill. 1998), the court likewise noted the checkered history of the trademark misuse defense. Characterizing trademark misuse as a "phantom defense," the court ruled that "if"the defense exists, "it probably is limited to misrepresentations, just as patent and copyright misuse is limited to anticompetitive conduct." *Id.* at 1907-09.

B. COPYRIGHT LAW

Similar to the patent misuse defense sometimes asserted in patent infringement suits, the defense of copyright misuse may be 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. Other circuits have recognized that copyright misuse is a defense to a claim of copyright infringement. *See DSC Comm. Corp. v. Pulse Comm., Inc.,* 170 F.3d 1354 (Fed. Cir. 1999); *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995) (recognizing copyright misuse defense).

Although the copyright misuse defense is available in some circuits, 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").