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## Patent Misuse and Antitrust: Rebirth or False Dawn?

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# PATENT MISUSE AND ANTITRUST: REBIRTH OR FALSE DAWN?

Daryl Lim<sup>†</sup>

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*This Article examines how two recent cases, F.T.C. v. Actavis and Kimble v. Marvel Enterprises Inc. could affect both the equitable defense of patent misuse and the patent-antitrust interface more generally. It begins by tracing the history of patent misuse and its reformulation into an “antitrust-lite” doctrine by the Federal Circuit. This Article presents new empirical data confirming this reformulation, and unveils the surprising influence of the Seventh Circuit and the Chicago School on that reformulation. The Article then explores Actavis and Kimble. It explains why Actavis will catalyze more antitrust challenges when patent rights are exercised, and why it also challenges the Federal Circuit’s formulation of patent misuse. The Article proceeds to observe Kimble’s misunderstanding of the patent policy underpinning the Supreme Court’s prohibition against post-expiration royalties. This Article confronts three key objections to a revival of misuse—its vagueness, lax standing requirements and punitive effects on patentees—and explains why these objections are misplaced. The Article concludes by recommending that judges and attorneys use the opportunity provided by Actavis to develop a more thoughtful framework for patent misuse that draws upon the strengths of its roots in patent policy and its interface with antitrust policy.*

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<sup>†</sup> Assistant Professor, The John Marshall Law School. I am grateful to Bill McGrath, Josh Sarnoff, Dave Schwartz and Spencer Weber Waller for their valuable comments, to Chris Berry for permission to use graphs from the PricewaterhouseCoopers Patent Litigation Study 2013, and to Raizel Liebler for footnote assistance. I also thank Sarah Cork and her Board for their outstanding editorial contributions in bringing the article to print. All errors and omissions are my own.

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## I. INTRODUCTION

In *F.T.C. v. Actavis*, the U.S. Supreme Court recently revitalized the debate on how the law should operationalize policy dichotomies underlying the patent-antitrust interface.<sup>1</sup> The Court held that “pay-for-delay” settlements between patent-owning drug companies and their generic competitors could be anticompetitive even if these settlements were within the scope of the owners’ patent rights.<sup>2</sup> The *Actavis* decision has been hailed as potentially “one of the most important patent/antitrust rulings of all time,”<sup>3</sup> recog-

1. *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223 (2013). See also generally Herbert Hovenkamp, *IP and Antitrust Policy: A Brief Historical Overview* (Univ. of Iowa Legal Studies, Working Paper No. 05-31, 2005), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=869417](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=869417) (describing the early twentieth century as “an era of IP expansion and antitrust accommodation,” to “antitrust aggressiveness” “beginning during the New Deal and extending through the Warren era [where] the Supreme Court was more inclined to view patents as inherently anticompetitive and to interpret the antitrust laws expansively,” to the 1960s and 1970s, when antitrust was scaled back to focus “on identifying serious threats to competition that were not justified by explicit provisions of the IP laws,” to the present when “we once again live in an era of IP expansionism.”).

2. *Actavis*, 133 S. Ct. at 2226, 2230.

3. Michael Carrier, *The U.S. Supreme Court Issues First Ruling on Antitrust Legality of Reverse-payment Drug Patent Settlements (Actavis)*, E-COMPETITIONS BULLETIN (July 2013), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2293867](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2293867); see also *Supreme Court Issues Significant Patent Antitrust Decision Rejecting the “Scope of the Patent” Rule*, PERKINS COIE (June 18, 2013), [http://www.perkinscoie.com/news/pubs\\_Detail.aspx?publication=869018d4-0267-49b4-8c26-991255646b19](http://www.perkinscoie.com/news/pubs_Detail.aspx?publication=869018d4-0267-49b4-8c26-991255646b19) (describing *Actavis* as “the most significant patent antitrust decision in decades. . .”).

dition that its impact exceeds the narrow regulatory confines of the Hatch-Waxman Act.<sup>4</sup>

Shortly after in *Kimble v. Marvel Enterprises Inc.*, the U.S. Court of Appeals for the Ninth Circuit declared that an agreement requiring Marvel to pay royalties for patent license covering a Spider-Man “Web Shooter” beyond the patent’s term was unenforceable.<sup>5</sup> The Ninth Circuit did so “reluctantly,” expressing that it was bound by the Supreme Court’s controversial decision in *Brulotte v. Thys Co.*<sup>6</sup>

Commentary on *Actavis* has focused overwhelmingly on the Court’s application of antitrust law’s rule of reason to “pay-for-delay” settlements, the resulting need to assess patent validity and infringement, and whether antitrust incursion into a properly obtained patent monopoly was orthodox.<sup>7</sup> In contrast to the heated debate generated by *Actavis*, *Kimble* has attracted little

4. Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585; see also Herbert Hovenkamp, *Anticompetitive Patent Settlements and the Supreme Court’s Actavis Decision*, 15 MINN. J.L. SCI. & TECH. 3, 22 (2014) (“A striking part of Justice Breyer’s discussion of Supreme Court precedent was its showing that restraints involving patents whose validity or coverage was not in dispute could nevertheless run afoul of the Sherman Act, and outside of the Hatch-Waxman context.”); Mark Botti & Jessica Hoke, *Redefining the Border between Intellectual Property and Antitrust: Implications of FTC v. Actavis*, BLOOMBERG LAW (2013), <http://about.bloomberglaw.com/practitioner-contributions/redefining-the-border-between-intellectual-property-and-antitrust/> (“For intellectual property and antitrust counselors in the U.S., the implications from *Actavis* will need to be carefully considered. Even more care needs to be exercised in settling patent disputes between competitors or potential competitors. The activities of PAEs or patent trolls warrant closer antitrust scrutiny. And terms and conditions in licensing agreements, even where unilaterally negotiated by a single patent holder, may no longer be protected from challenge under the antitrust laws. Licensing agreements embodying terms or arising in circumstances that might raise significant antitrust issues if employed outside of the patent licensing context now clearly warrant some careful consideration in the patent licensing context, even if they fall within the scope of the patent.”).

5. *Kimble v. Marvel Enters. Inc.*, 727 F.3d 856 (9th Cir. 2013).

6. *Id.* at 857 (citing *Brulotte v. Thys Co.*, 379 U.S. 29 (1964)); see e.g., Petition for a Writ of Certiorari at 2, *Kimble v. Marvel Enters., Inc.*, 727 F.3d 856 (2013) (No. 13-720) (“Petitioners respectfully ask this Court to overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), App. 73-85, and to reject its per se prohibition on licensing arrangements involving post-expiration patent royalties. . . . *Brulotte*, now approaching its half-century anniversary, has not withstood the test of time. Other competition law decisions from that era have been updated by this Court in light of a keener awareness of economics and real world business circumstances, with rigid per se rules, unequal to the realities of the marketplace, supplanted with analysis under the rule of reason. It is now *Brulotte’s* turn. . . .”); see also 1 HERBERT HOVENKAMP ET AL., IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW § 3.3 (2d ed. 2013) (“While *Brulotte* itself did not invoke the patent misuse doctrine, merely speaking of the unenforceability of the royalty agreement itself, term extension has been accepted into the canon of patent misuse.”).

7. See e.g. Dana A. Elfin, *Experts Say High Court’s Reverse Payments Ruling May Have Far-Reaching Implications*, 86 PAT. TRADEMARK & COPYRIGHT J.(BNA), No. 2123 (July 26, 2013); Aaron S. Edlin et al., *Activating Actavis*, ANTITRUST MAGAZINE, Fall 2013, at 16; Thomas F. Cotter, *FTC v. Actavis, Inc.: When Is the Rule of Reason Not the Rule of Reason?*, 15 MINN. J.L. SCI. & TECH. 41 (2014) (analyzing the rule of reason under *Actavis*).

attention beyond a few amicus briefs urging the Court to grant certiorari and overrule *Brulotte*.<sup>8</sup> This Article fills an important gap in the literature by explaining the interrelated implications of *Actavis* and *Kimble* for the future of patent misuse<sup>9</sup> and the patent-antitrust interface.

Part I presents the methodology for much of the original empirical data study appearing in this study. The discussion draws upon two sources. The first source is quantitative—a comprehensive study of every case substantively discussing patent misuse and antitrust law from the federal district and appellate circuit courts, as well as the Supreme Court. These hand-coded cases span the sixty-one years between January 1953, the effective date of the 1952 Patent Act, and ending December 2013.<sup>10</sup> The second source is qualitative. It presents in-depth interviews with leading federal judges, government officials, attorneys and academics familiar with patent misuse and antitrust law.

Part II traces key moments in the history of patent misuse, presenting new empirical evidence that confirms the Federal Circuit's role in the decline of patent misuse, and unveils the influence of the Seventh Circuit and the Chicago School of antitrust in shaping conventional wisdom on patent misuse.

Part III analyzes *Actavis* and *Kimble*. It explains why *Actavis* was correct both as a matter of law and judicial rulemaking. It considers the re-emergence of a patent-skeptical Supreme Court, and its implications for the patent-antitrust interface and patent misuse. It also observes that while the Ninth Circuit in *Kimble* reached the correct result, it misapplied patent misuse and overlooked its function as a patent policy lever.

Part IV responds to the three key objections to patent misuse—its vagueness, lax standing requirements and punitive effect on patentees—and

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8. Petition for a Writ of Certiorari, *Kimble v. Marvel Enters., Inc.*, 2013 WL 6665193 (U.S.) (2013) (No. 13-720). See also Brief of the Intellectual Property Law Association of Chicago as Amicus Curiae on Petition for Writ of Certiorari in Support of Petitioners, *Kimble v. Marvel Enters., Inc.*, 2014 WL 768706 (U.S.) (2014) (No. 13-720) (arguing that *Brulotte* is “out of step” with modern antitrust jurisprudence and should be replaced with a more economics-based approach.); Brief of Memorial Sloan-Kettering Cancer Center, et al., as Amici Curiae in Support of Petitioners, *Kimble v. Marvel Enters., Inc.*, 2014 WL 768320 (U.S.) at \*3 (2014) (No. 13-720) (“By making the payment of royalties that extend beyond the life of the patent per se illegal, *Brulotte* prohibits an important financial arrangement that may be preferred by both patent owner and licensee, and may deter the formation of agreements through which commercial actors transform scientific research into pharmaceutical products that benefit society as a whole.”).

9. 6 MOY'S WALKER ON PATENTS § 18:1 (4th ed.) (“Patent misuse refers to a loose collection of activities by which the patent owner is said to have taken unfair advantage of the patent right in the marketplace. Where it occurs, patent misuse is an affirmative defense to a charge of patent infringement. The party raising the defense need not have been the target of the misuse; instead, he can raise the defense vicariously.”).

10. Act of July 19, 1952, Pub. L. No. 82-593, §4, 66 Stat. 815. Case reports gleaned from the Lexis search provided a dataset with over 12,000 data points. See *infra* Part I.

explains why the concerns underlying these objections are largely unfounded. In particular, this Part shows that (1) there are virtues to its open-ended nature, (2) patent misuse based on antitrust policy is no easier to operationalize than patent policy, (3) that helping patent misuse find its identity will be key to greater predictability. It reveals through empirical data that nearly all parties alleging patent misuse are licensees or competitors, and that no unrelated party has successfully asserted patent misuse. It explains that protecting the public interest is a core reason for patent misuse's broad standing requirements. Finally, this Part observes that, although patent misuse is about deterrence, judges consciously exercise their discretion in tailoring the defense to reach a fair outcome.

In Part IV, the Article recommends that judges and attorneys use the opportunity provided by *Actavis* to develop a more thoughtful framework for patent misuse that draws upon the strengths of its roots in patent policy and its interface with antitrust policy.

## II. EMPIRICAL METHODOLOGY<sup>11</sup>

This Section explains the inner workings of the empirical component of this paper. It begins by looking at why and how the case content analysis was done. It then explains the relevance of the interviews to the discussion and provides a list of those interviewed.

### A. Case Content Analysis

Case content analysis helps determine whether conventional wisdom on misuse has empirical support. The data is useful in verifying claims about case law through data points collected from coding the content of cases.<sup>12</sup> Coding provides a means of quantifying otherwise qualitative notions in misuse for comparison over indicia such as time and space. An initial set of variables was created based on a review of the literature. A sample number of cases were coded according to variables. The number of case was expanded and the variables were refined along the way.

The graphs in this Article were created based on a dataset consisting of all reported U.S. federal opinions that provided substantial analysis of patent misuse from January 1, 1953, the effective date of the U.S. Patent Act, through December 31, 2013.<sup>13</sup> A Lexis opinion search was conducted in the

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11. The methodology mirrors the one adopted for my book, DARYL LIM, *PATENT MISUSE AND ANTITRUST: EMPIRICAL, DOCTRINAL AND POLICY PERSPECTIVES* (2013). The interview findings presented here were originally conducted for the book. The dataset presented here have been expanded to include cases reported in 2013.

12. Lee Petherbridge et al., *The Federal Circuit and Inequitable Conduct: An Empirical Assessment*, 84 S. CAL L. REV. 1293, 1304 (2011); see also Mark A. Hall & Ronald F. Wright, *Systematic Content Analysis of Judicial Opinions*, 96 CAL. L. REV. 63, 77 (2008).

13. Act of July 19, 1952 Pub. L. No. 82-593, §4, 66 Stat. 792, 815, ("This Act shall take effect on January 1, 1953 and shall apply to all applications for patent filed on or after such

Lexis Federal Court Cases, Combined database: “patent misuse” or patent w/ 3 misuse and date(geq (1/1/1953) and leq (12/31/2013)).

These opinions were then reviewed to exclude those that did not involve any substantive issue of patent misuse. The result is a dataset spanning 61 years, with 378 cases coded into over 12,000 data points. Each of the opinions was coded directly into an Excel 2013 spreadsheet according to a coding instrument consisting of 34 variables. The data from the case content analysis was analyzed using SPSS 21.<sup>14</sup> The coding instrument recorded the following:<sup>15</sup>

- a. REFERENCE DATA: Case citation; date; caption.
- b. DOCKET DATA: Level of court deciding case; circuit case was decided in; court; case posture.
- c. FACTS OF THE CASE: Industry case took place in; alleged misuse or antitrust breach; literature and governmental reports cited,<sup>16</sup> whether legislative history featured; whether the case concerned patent misuse, antitrust or both; the controlling precedent and the circuit it came from;<sup>17</sup> whether the court was willing to expand the preexisting categories of misuse; the outcome of the

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date and to all patents granted on such applications”). “Substantial analysis” refers to patent cases which both mention and analyze the two issues rather than merely citing them.

14. IBM Corp. Released 2012. IBM SPSS Statistics for Windows, Version 21.0. Armonk, NY: IBM Corp.

15. Not every variable listed here is examined in this Article. The variables are studied more fully in LIM, *supra* note 11, at 283-390, 391-429 (These pages reference Chapters 6, The Empirical Landscape of Misuse, and 7, Charting the Scope of Patent Misuse).

16. See, e.g., Kolene Corp. v. Motor City Metal Treating, Inc., 440 F.2d 77, 85 (6th Cir. 1971) (“Motor City is not a party to the allegedly illegal contracts, and a realistic analysis does not show that the patent in suit ‘itself significantly contributes to the practice under attack.’ See, Report of the Attorney General’s Committee to Study the Antitrust Laws 251 (1955).”).

17. In some cases the court cited a precedent that generally stands for one proposition but used it in the context of another. For example in *Cummins, Inc. v. TAS Distrib. Co.*, the court cited *Windsurfing* for the usual proposition that “the patentee has impermissibly broadened the ‘physical or temporal scope’ of the patent grant with anticompetitive effect.” *Cummins, Inc. v. TAS Distrib. Co., Inc.*, 676 F. Supp. 2d 701, 705 n.2 (C.D. Ill. 2009) *aff’d*, 700 F.3d 1329 (Fed. Cir. 2012). The case, however, concerned whether the license at issue required the defendant to pay royalties past the expiration of the patents, and one where *Brulotte* might have been expected to be a more natural choice. Such cases were coded as *Windsurfing* because the lens through which the court viewed misuse was still consistent with the rest of the cases in the dataset cited for that proposition. Where a case had more than one type as misuse, each type of misuse was individually coded while keeping the rest of the variables constant. For example in *Miller Insituform, Inc. v. Insituform of North America, Inc.*, the defendant alleged two counts of misuse: tying under Section 2 of the Sherman Act and Section 3 of the Clayton Act, as well as an exclusive agreement under Section 1. *Miller Insituform, Inc. v. Insituform of N. Am., Inc.*, 605 F. Supp. 1125 (M.D. Tenn. 1985). The Court found misuse with respect to the Section 1 claim but not Section 2 or the claim under the Clayton Act. In this instance *Miller Insituform, Inc* would be coded three times, keeping variables other than type of antitrust and antitrust outcome constant. A column in the dataset codes for repeated cases to avoid inflating counts of the other variables.



case in that instance as well as on appeal; instances of application for certiorari to the Supreme Court; whether there were dissents. A marker was used to denote cases in which multiple accounts of misuse were alleged. When this occurred, each count was analyzed independent of the other counts.

- d. SCOPE OF THE PATENT: whether the court defined the “scope of the patent”; whether the court regarded misuse and antitrust as coexisting or not; whether coextensive, broader or different and the policies informing the decision-making;<sup>18</sup> the court’s treatment of bad faith by one or both parties.
- e. POLICY APPLIED: the study distinguished between patent and antitrust policy. The distinction between the two can sometimes be easily missed. Because much of the coding is subject to the bias of the coder, steps were taken to ensure greater objectivity, though it is acknowledged that complete objectivity may be impossible to attain. Discrepancies were noted and the dataset was refined along the way. Any discrepancies were case specific and the final version of the study reports the same overall trends observed in the initial version.
- f. Some cases contained multiple variables, such as the outcome for each count of misuse. In such cases the same case was coded twice. An additional column was created in the dataset to mark cases that are repeats so that they can be filtered off where the inquiry required that each case only be counted once, such as the number of cases from each regional circuit court of appeals.
- g. Given the small size of the dataset, calculations were rounded off to the nearest whole number.

Cases are relevant to the quantitative analysis only to the extent that they reveal a feature of misuse case law that can be categorized and sub-categorized.<sup>19</sup> The dataset does not distinguish between “minor” and “major”

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18. See, e.g., *Hearing Components, Inc. v. Shure, Inc.*, 2009 WL 815526, at \*1 (E.D. Tex. Mar. 26, 2009) (“The doctrine of patent misuse “relates generally to the use of patent rights to obtain or to coerce an unfair commercial advantage. Patent misuse relates primarily to a patentee’s actions that affect competition in unpatented goods or that otherwise extend the economic effect beyond the scope of the patent grant. . . . The patent misuse doctrine is an extension of the equitable doctrine of unclean hands, whereby a court of equity will not lend its support to enforcement of a patent that has been misused. Patent misuse arose, as an equitable defense available to the accused infringer, from the desire to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy. When used successfully, this defense results in rendering the patent unenforceable until the misuse is purged.”) (citations omitted).

19. See LIM, *supra* note 11, at 443 (“District Court cases proved to be more challenging than the cases coming from a higher-level court. These cases tended to not be organized as well having distinct headings and separate sections for each issue of discussion. Many of the



rulings, because any attempt to do so would almost certainly lead to categorizations that would be indefensible. Instead, cases were included as long as the court identified, discussed, and made a determination on an allegation of patent misuse.

Observations about cases within the dataset are confined to what adjudicated decisions reveal. Few disputes reach trial and even those which do may not result in a published opinion.<sup>20</sup> For instance, the dataset excludes out of court settlements, jury verdicts and pleadings. Also, unless otherwise indicated, findings are based on a combination of district, appellate and Supreme Court decisions. As one might expect, data trends could vary within each level of the judicial hierarchy according to time, subject matter and location. More recent records in Lexis and Westlaw are more comprehensive than earlier ones. These caveats should be borne in mind with the recognition that the findings may not be generalizable to all misuse disputes regardless of whether they resulted in a substantive ruling.<sup>21</sup>

Much of the coding was objective. However, some of it could not be so. One of the most challenging aspects of defining the variables was finding a way to effectively deconstruct the process of how a judge decides a case.<sup>22</sup> After reading through a few dozen cases, the rhetoric begins to settle into a discernable, though inconsistent pattern. Naturally, the cleaving of fluid le-

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district court cases addressed on findings of fact more so than legal analysis and precedent interpretation. Sometimes they cited cases for different propositions. Sometimes they would list a series of cases and it would not be clear which one they were specifically referring to. However, this was mitigated by systemically grouping cases together because the proposition was often cited in groups of cases. In one specific example, the court cited to *Microsoft*. For the purposes of the coding key, *Senza Gel* was used instead of *Microsoft* because *Microsoft* is a district court case cited to only once and the quotes were from *Senza Gel*.”)

20. Additionally, summary affirmances under FED. R. CIV. P. 36, while omitted, are also not relevant to the study as they do not add statements of law or explanations to the facts. However, as others have noted, outcomes under Rule 36 decisions may be relevant because the appellate court may have applied the relevant doctrine—here misuse—to resolving the issue on appeal. See, e.g., Lee Petherbridge et al., *supra* note 12, at 1306 n.41 (noting that Rule 36 dispositions may increase the size of a sample of case outcomes, but that “[t]he text of opinions—the evidence of the law cited in briefs and argued to courts—is unchanged.”); see also Christian A. Chu, *Empirical Analysis of the Federal Circuit’s Claim Construction Trends*, 16 BERKELEY TECH. L.J. 1075, 1128 (2001) (reporting the use of Rule 36 in 21% of patent cases); David L. Schwartz, *Explaining the Demise of the Doctrine of Equivalents*, 26 BERKELEY TECH. L.J. 1157, 1194 n.176 (2011) (discussing the prevalence of Rule 36 affirmances.).

21. See Petherbridge et al., *supra* note 12, at 1308 (noting their “endeavor[ ] to collect the entire population of written inequitable conduct analyses over the period studied”, which are “by definition a statistically significant representation of the population”).

22. RICHARD POSNER, *HOW JUDGES THINK* 110–11 (2008) (“At every stage the judge’s reasoning process is primarily intuitive. Given the constraints of time, it could not be otherwise; for intuition is a great economizer on conscious attention. The role of the unconscious judge in judicial decision making is obscured by the convention that requires a judge to explain his decision in an opinion. The judicial opinion can best be understood as an attempt to explain how the decision, even if (as is most likely) arrived at on the basis of intuition, could have been arrived at on the basis of logical, step-by-step reasoning.”) (footnote omitted).

gal analysis into discrete categories for statistical enumeration is liable to appear artificial, and often it is. The nature of empirical analysis, putting numbers on people and their behavior, is ultimately an artificial exercise, and the limits this respect must be readily acknowledged. For example, judges who write the opinions may present a strategic view of the facts or law to shape the doctrine. Litigants may also decide to emphasize aspects of the doctrine on appeal when other aspects may be more applicable.<sup>23</sup>

At the same time, it is important to underscore that case content analysis is a well-accepted method of empirical research in law.<sup>24</sup> The value of empirical work like this is to articulate judicial decision-making in a way that is as systematic and comprehensive as possible, thus providing a basis for future application and refinement.

### B. Interviews

The second empirical component links both conventional wisdom and the unearthed data from the case content analysis to the larger socio-legal context through interviews. The case content analysis spans 61 years and 378 opinions. The opinions were coded quantitatively. In contrast, the interviews were contemporary, narrative and organic. The datasets therefore complement, rather than provide substitutes for, each other.

The sum of the findings present an empirical analysis of how federal judges employed the misuse doctrine, and how misuse is currently perceived by a group of contemporary judges, academics, government officials, and lawyers. They are not intended to be a representative population of stakeholders. Instead, they are a group of distinguished individuals who provide a flavor of well-informed views on the issues discussed in the Article.

Interviews were given on the basis of anonymity. Occasionally interviewees are identified according to their occupations in order to provide more context to the discussion. Interviewees sometimes prefaced their answers with the caveat that their views straddle the narrow border between anecdotal observations and reasoned speculation. Below is a list of interviewees with their designations when interviewed.

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23. See Petherbridge et al., *supra* note 12, at 1304.

24. See, e.g., John R. Allison & Mark A. Lemley, *Who's Patenting What? An Empirical Exploration of Patent Prosecution*, 53 *VAND. L. REV.* 2099 (2000); Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978–2005*, 156 *U. PA. L. REV.* 549 (2008); Christopher A. Cotropia, *Nonobviousness and the Federal Circuit: An Empirical Analysis of Recent Case Law*, 82 *NOTRE DAME L. REV.* 911, 941 (2007); Lee Petherbridge & R. Polk Wagner, *The Federal Circuit and Patentability: An Empirical Assessment of the Law of Obviousness*, 85 *TEX. L. REV.* 2051, 2070–71 (2007); David L. Schwartz, *Practice Makes Perfect?: An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 *MICH. L. REV.* 223, 237–38 (2008); R. Polk Wagner & Lee Petherbridge, *Is the Federal Circuit Succeeding? An Empirical Assessment of Judicial Performance*, 152 *U. PA. L. REV.* 1105, 1133–34 (2004).

## JUDICIARY

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 (until May 31, 2010)  
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## III. ORIGIN AND EVOLUTION

Patent misuse is an extension of the equitable doctrine of unclean hands where courts exercising their discretion will deny enforcement even if infringement is found.<sup>25</sup> It acts as a public injunction against abuses of the privilege granted under patent law, and balances public and private inter-

25. U.S. Gypsum Co. v. Nat'l Gypsum Co., 352 U.S. 457, 465-66 (1957) ("It is now, of course, familiar law that the courts will not aid a patent owner who has misused his patents to recover any of their emoluments accruing during the period of misuse or thereafter until the

ests.<sup>26</sup> Examples of patent misuse include tying,<sup>27</sup> package licensing,<sup>28</sup> and horizontal price-fixing<sup>29</sup> and territorial allocations<sup>30</sup> under the guise of sham patent licenses.<sup>31</sup>

A judge finding patent misuse has the discretion to withhold damages or injunctive relief even if the patents themselves have not yet been enforced.<sup>32</sup> The patents in question are rendered unenforceable until the effects of the misuse have been purged.<sup>33</sup> Purging requires patentees to show that they have completely abandoned the misconduct, and that their “baleful effects” have dissipated.<sup>34</sup>

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effects of such misuse have been dissipated, or ‘purged’ as the conventional saying goes. . . . The rule is an extension of the equitable doctrine of “unclean hands” to the patent field.”)

26. See *Syndicate Sales, Inc. v. Floral Innovations, Inc.*, No. 1:11-CV-00465-SEB-DK, 2012 WL 4477691, at \*2 (S.D. Ind. Sept. 28, 2012) (“A patent is, therefore, appropriately viewed as a contract between the patentee and the public. Patent misuse occurs when the scope of an otherwise valid patent monopoly extends beyond the prescribed boundaries of the patentee’s control.”).

27. *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 31 (2006) (defining tying as occurring “when a seller conditions its sale of a patented product (the “tying” product) on the purchase of a second product (the “tied” product)”).

28. For a discussion of package licenses, see HERBERT HOVENKAMP, *FEDERAL ANTI-TRUST POLICY* 241-42 (3d ed. 2005) (“A package license covers more than one patent. A patent pool occurs when a group of firms license their individually held patents to one another, or sometimes exchange licenses.”).

29. Joseph W. deFuria, Jr., *Reasoning Per Se and Horizontal Price Fixing: An Emerging Trend in Antitrust Litigation?*, 14 *PEPP. L. REV.* 39, 68 n.2 (1986) (“A horizontal price fixing practice generally involves an agreement among competitors at the same level of the market structure, such as producers, wholesalers, or retailers, to set, directly or indirectly, a price for a particular commodity.”).

30. 10 JOHN A. DONOVAN ET AL., *BUSINESS AND COMMERCIAL LITIGATION IN FEDERAL COURT* § 111:53 (3d ed. 2013) (describing territorial allocations as arrangements “to divide up territories so that customers have no choice but to purchase from the seller who has the rights to the designated territory.”).

31. *United States v. U.S. Gypsum Co.*, 333 U.S. 364 (1948) (patentees were not entitled to use licenses to control pricing of the end products); *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.* 329 U.S. 637 (1947) (grantback clauses to be judged under the rule of reason); see also, e.g., *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) (demonstrating the coercion of licensees to pay royalties on unpatented and patented products). For a detailed discussion, see 1 HOVENKAMP ET AL., *supra* note 6, § 3.3.

32. See, e.g., *United Shoe Mach. Corp. v. United States*, 258 U.S. 451, 458 (1922).

33. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 492 (1942).

34. *United States v. U.S. Gypsum Co.*, 124 F. Supp. 573, 594–95 (D.D.C. 1955) (“This rule is applicable where the owner of patent rights seeks to extend those rights beyond the limits of his patent monopoly.”). What amounts to a successful dissipation depends on the nature and extent of the misuse. Cancellation of an offending licensing clause may be sufficient. Where the conduct involves a price-fixing conspiracy, the violation is presumed to continue until some affirmative act of termination or withdrawal is shown. See *United States v. Consolidated Laundries Corp.*, 291 F.2d 563, 573 (2d Cir. 1961). Where the misuse consists of “extensive and aggravated misconduct over several years,” which “substantially rigidified the price structure of an entire market and suppressed competition over a wide area, affirmative action may be essential to effectively dispel the consequences of the unlawful conduct.” See *Ansul Co. v. Uniroyal, Inc.*, 306 F. Supp. 541, 560 (S.D.N.Y. 1969).

Abandonment of the misconduct may occur at any time, even after the filing of the suit in which the question of misuse is raised. The standard is an objective one, and the abandonment need not take the particular form desired by the defendant.<sup>35</sup> At the same time, “[t]here is no set time period for purging; the time will vary with the facts of each case,” since “whether a purge has been accomplished is a factual matter and is ‘largely discretionary with the trial court.’”<sup>36</sup> Additionally, successful defendants may recover expenses in defending the action in an award for damages.<sup>37</sup>

Patent misuse and the antitrust laws both seek to restrain the myriad of ways that a patentee’s exclusive right can be abused.<sup>38</sup> Indeed, at a sufficiently high level of abstraction, the goals of promoting innovation and competition pursued by both the antitrust and patent laws are similar.<sup>39</sup> Authorized under the Commerce Clause,<sup>40</sup> the antitrust laws promote vigorous competition in the marketplace so that consumers benefit from a variety of goods and services at competitive prices.<sup>41</sup> The Supreme Court heralded the antitrust laws as “the Magna Carta of free enterprise,”<sup>42</sup> and explained that they “are as important to the preservation of economic freedom and our free enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms. And the freedom guaranteed to each and every business, no matter how small, is the freedom to compete.”<sup>43</sup>

Early courts observed an “obvious tension” between the patent law and the antitrust laws, because one “creates and protects monopoly power while the other seeks to proscribe it.”<sup>44</sup> Later courts were more conciliatory, recognizing that patent and antitrust laws serve the public in complementary but different ways. Specifically, the patent system facilitates invention by ensuring a return on risky investments, while the antitrust laws foster market competition.<sup>45</sup> Despite the latter view prevailing today, the intersection between the patent and antitrust laws remains “a source of confusion and contro-

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35. See *B. B. Chemical Co. v. Ellis*, 314 U.S. 495 (1942).

36. *Jack Winter, Inc. v. Koratron Co.*, 375 F. Supp. 1, 71 (N.D. Cal. 1974).

37. *Kearney & Trecker Corp. v. Cincinnati Milacron Inc.*, 562 F.2d 365, 374 (6th Cir. 1977).

38. See *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223, 2231 (2013) (“[P]atent and antitrust policies are both relevant in determining the ‘scope of the patent monopoly’”); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221 (1980) (“The policy of free competition runs deep in our law. It underlies both the doctrine of patent misuse and the general principle that the boundary of a patent monopoly is to be limited by the literal scope of the patent claims.”).

39. U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, *ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION* 1 (2007).

40. U.S. CONST. art. I, § 8 cl. 3 (giving Congress the power to regulate interstate and foreign commerce).

41. See generally 1 HOVENKAMP ET AL., *supra* note 6, § 1.2.

42. *United States v. Topco Assocs.*, 405 U.S. 596, 610 (1972).

43. *Id.*

44. *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 646 (9th Cir. 1981).

45. *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1362 (Fed. Cir. 1999).

versy.”<sup>46</sup> Patent misuse rests at the heart of the patent-antitrust interface and has inherited all of that “confusion and controversy.”<sup>47</sup> In 1957, the Ninth Circuit observed that patent misuse was “one of the most important and unsettled aspects of patent law.”<sup>48</sup> That sentiment continues to echo on today.<sup>49</sup>

According to a 2013 patent litigation study conducted by Price-waterhouseCoopers (the PwC Study), patent litigation in America is rising, nearly tripling in the last ten years (see Figure 1 below). Part of the reason stems a higher number of patent filings and grants. Figure 1 shows the strong correlation between the spike in litigation and patent grants.<sup>50</sup> As the number of issued patents increase, companies anxious to avoid these “patent thickets”<sup>51</sup> will contribute to a higher frequency of licensing agreements and therefore increase the likelihood that misuse might result.<sup>52</sup>

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46. See LIM, *supra* note 11, at 31. (“Some courts have viewed misuse as a broader wrong than antitrust violations, so that while the nature of the offense may be similar, misuse may arise if the degree of the offense does not warrant attention under the antitrust laws.”).

47. See, e.g., 1 HOVENKAMP ET AL., *supra* note 6, § 3.1 (“The doctrines of intellectual property misuse lay an important foundation for the main subject of this book. Misuse is closely intertwined with antitrust law, and most findings of misuse are conditioned on conduct that would also violate the antitrust laws.”)

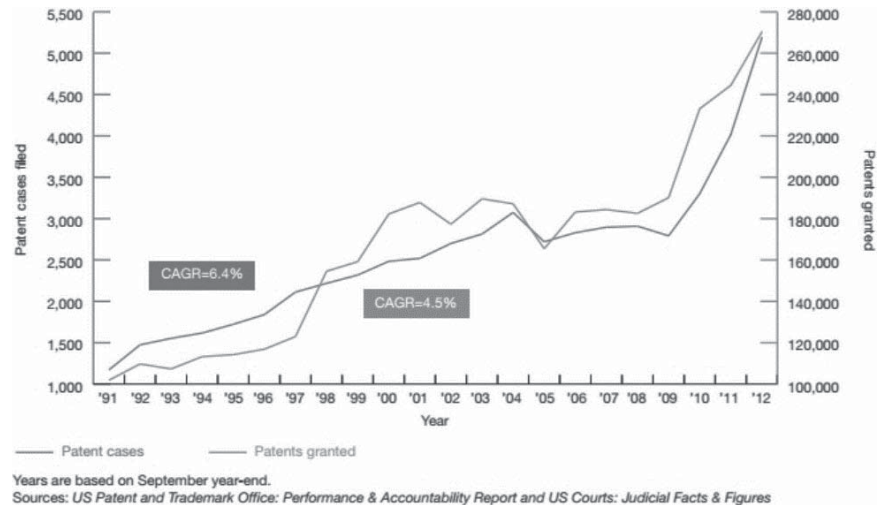
48. *Stearns v. Tinker & Rasor*, 252 F.2d 589, 600 (9th Cir. 1957).

49. Christina Bohannon & Herbert Hovenkamp, *IP and Antitrust: Reformation and Harm*, 51 B.C. L. REV. 905, 929 (2010) (commenting that the “uncertainty” created by the ambiguous boundaries of a patent makes it “impossible to say that no reasonable person would have brought a particular infringement suit to enforce a patent.”).

50. The spike in 2011 and 2012 is likely driven by joinder rule changes. See Jay Kesan, Christopher Cotropia and David L. Schwartz, *Unpacking Patent Assertion Entities* (Chicago-Kent College of Law Research Paper No. 2013-49, 2013), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2346381](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2346381).

51. See Adam Mossoff, *The Rise and Fall of the First American Patent Thicket: The Sewing Machine War of the 1850s*, 53 ARIZ. L. REV. 165, 166-67 (2011) (“A ‘patent thicket’ exists when too many patents covering individual elements of a commercial product are separately owned by different entities.”).

52. Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. HIGH TECH. L. 142, 142 (2010) (“As the number of issued patents skyrocket, companies more frequently enter into arrangements with competitors ‘not only to recover their investment from creating patented products but also to avoid the patent landmines that line the path of innovation.’”).

FIGURE 1. PATENT CASE FILINGS AND GRANTS<sup>53</sup>

Another factor fuelling the high rate of litigation may be the high payoff to the plaintiff from a successful suit. The PwC study reveals that “the annual median damage award ranged from \$1.9 to \$16.5 million between 1995 and 2012, with an overall median award of \$5.5 million over the last 18 years.”<sup>54</sup> Increased litigation risks should lead to more defendants invoking patent misuse to shield themselves from liability.<sup>55</sup>

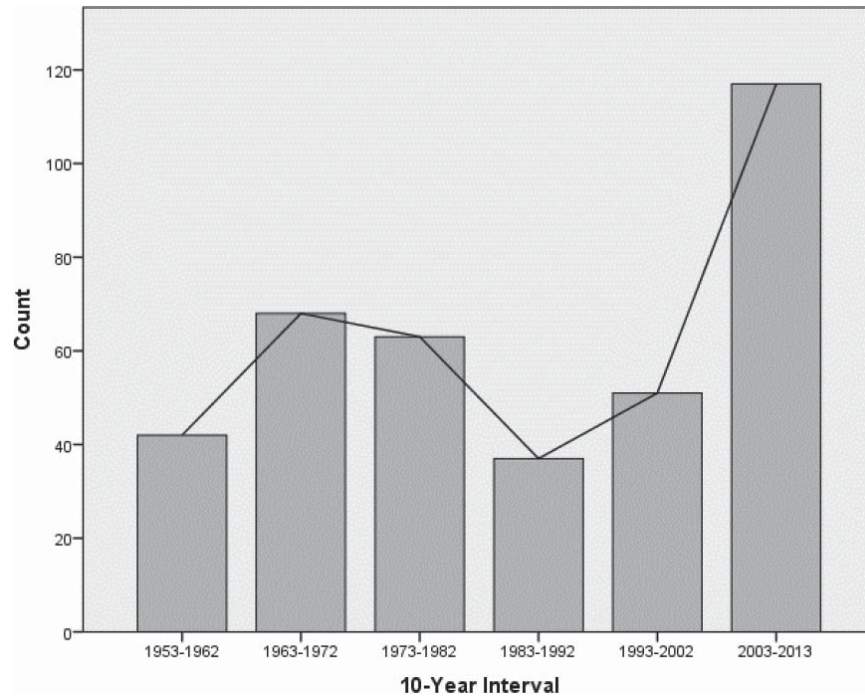
53. Chris Barry et al., *2013 Patent Litigation Study: Big Cases Make Headlines, While Patent Cases Proliferate*, PRICEWATERHOUSECOOPERS LLP 6, 34 (Jun. 2013), [http://www.pwc.com/en\\_US/us/forensic-services/publications/assets/2013-patent-litigation-study.pdf](http://www.pwc.com/en_US/us/forensic-services/publications/assets/2013-patent-litigation-study.pdf) (“To study the trends related to patent decisions, PwC identified final decisions at summary judgment and trial recorded in two WestLaw databases, U.S. District Court Cases (DCT) and Combined Jury Verdicts and Settlements (JV-ALL), as well as in corresponding Public Access to Court Electronic Records (PACER) system records. The study focuses on 1,856 district court patent decisions issued since 1995.”).

54. *Id.* at 7.

55. U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, *ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION* 111 (2007), available at [www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf](http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf) (quoting May 14, 2002 Hr’g Tr., Antitrust Analysis of Specific Intellectual Property Licensing Practices: Bundling, Grantbacks and Temporal Extensions (Morning Session)).



FIGURE 2. NUMBER OF MISUSE CASES 1953 – 2013 (TOTAL)



Swept by a rising tide of litigation, the number of patent misuse cases on the whole has also risen over the years, but with a smaller proportion of cases in recent years compared to the 1950s and 1960s (see Figure 2 above). As a proxy of activity, it is useful to compare them with inequitable conduct cases. Like patent misuse, inequitable conduct is a defense to patent infringement.<sup>56</sup> Both inequitable conduct and patent misuse are equitable remedies, and therefore very much subject to the discretion of the court. Inequitable conduct results in unenforceability *ab initio* and is unsalvageable. Misuse results in temporary unenforceability. They exist on different points within the same spectrum.

Courts have treated inequitable conduct as overlapping with patent misuse.<sup>57</sup> Between 1983 and 2008, inequitable conduct featured in about 300

56. *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1287 (Fed. Cir. 2011) (“To prevail on the defense of inequitable conduct, the accused infringer must prove that the applicant misrepresented or omitted material information with the specific intent to deceive the PTO.”).

57. *See, e.g., Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, No. 08-309-JJF-LPS, 2009 U.S. Dist. LEXIS 118383, at \*29 n.6 (D. Del. Dec. 18, 2009) (“Power relies for its patent misuse defense on the same ‘facts and allegations’ on which it bases its inequitable conduct allegations.”); *see also Tessengerlo Kerley, Inc. v. Or-Cal, Inc.*, No. C 11-04100 WHA, 2012 WL 1094324, at \*5 (N.D. Cal. Mar. 29, 2012) (“Defendant’s patent misuse defense appears to rest entirely on its inequitable conduct allegations.”).

cases at the Federal Circuit.<sup>58</sup> In contrast, the Federal Circuit has decided twenty-one patent misuse cases during the same period.<sup>59</sup> Because the facts that give rise to inequitable conduct potentially give rise to misuse, it is surprising that patent misuse is not alleged every time an allegation of inequitable conduct is raised. The incongruity of the sparing use and an increasing need of defendants for a defense like patent misuse makes for a curious conundrum. And to understand this conundrum, one must trace the evolution of patent misuse to its origins.

### A. A Supreme Court Original

The history of patent misuse spans nearly a century. The Supreme Court first articulated the defense in 1917 in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*<sup>60</sup> The Court held that a patentee could not use its patent on projector technology to control the sale of movie film. This tie was outside the scope of the patent.<sup>61</sup> A leading treatise noted the case “established the misuse doctrine as rooted in patent policy,” and “set the stage for the doctrine’s preoccupation with ‘extension’ of the patent monopoly in general.”<sup>62</sup>

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58. Christian E. Mammen, *Controlling the “Plague”: Reforming the Doctrine of Inequitable Conduct*, 24 BERKELEY TECH. L.J. 1329, 1333 (2009).

59. See *Sanofi-Aventis v. Apotex Inc.*, 659 F.3d 1171 (Fed. Cir. 2011); *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (Fed. Cir. 2010); *Princo Corp. v. Int’l Trade Comm’n*, 563 F.3d 1301 (Fed. Cir. 2009); *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004 (Fed. Cir. 2008); *Monsanto Co. v. McFarling*, 488 F.3d 973 (Fed. Cir. 2007); *Monsanto Co. v. Scroggs*, 459 F.3d 1328 (Fed. Cir. 2006); *U.S. Philips Corp. v. Princo Corp.*, 173 F. App’x 832 (Fed. Cir. 2006); *U.S. Philips Corp. v. Int’l Trade Comm’n*, 424 F.3d 1179 (Fed. Cir. 2005); *Monsanto Co. v. McFarling*, 363 F.3d 1336 (Fed. Cir. 2004); *Monsanto Co. v. McFarling*, 302 F.3d 1291 (Fed. Cir. 2002); *Ricoh Co., Ltd. v. Nashua Corp.*, 185 F.3d 884 (Fed. Cir. 1999); *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997); *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir. 1997); *Engel Indus., Inc. v. Lockformer Co.*, 96 F.3d 1398 (Fed. Cir. 1996); *Glaverbel Societe Anonyme v. Northlake Mktg. & Supply, Inc.*, 45 F.3d 1550 (Fed. Cir. 1995); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992); *Allen Archery, Inc. v. Browning Mfg. Co.*, 819 F.2d 1087 (Fed. Cir. 1987); *Hodosh v. Block Drug Co.*, 833 F.2d 1575 (Fed. Cir. 1987); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986); *Windsurfing Int’l Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986).

60. 243 U.S. 502 (1917).

61. *Id.* at 517 (“[W]e are convinced that the exclusive right granted in every patent must be limited to the invention described in the claims of the patent, and that it is not competent for the owner of a patent by notice attached to its machine to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation but which are no part of the patented invention, or to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid, to be imposed thereafter at the discretion of such patent owner.”).

62. 1 HOVENKAMP ET AL., *supra* note 6, § 3.2a; see also *Motion Pictures*, 243 U.S. at 519 (“A restriction which would give to the plaintiff such a potential power for evil over an industry . . . is plainly void, because wholly without the scope and purpose of our patent laws and because, if sustained, it would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes.”).

However, it was not until 1942 that the Supreme Court formally articulated the doctrine in *Morton Salt v. G.S. Suppiger Co.*<sup>63</sup>

Morton Salt's patented machine deposited salt tablet in canned goods. It leased its machines to customers if they purchased their salt tablets from Morton Salt.<sup>64</sup> Morton Salt discovered the defendant making infringing machines and sued it for patent infringement.<sup>65</sup> Writing for a unanimous Court, Chief Justice Harlan Fiske Stone framed the question as "whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article."<sup>66</sup>

*Morton Salt* illustrates the influence of competition policy on patent misuse, even though the Court consciously avoided relying on antitrust law in formulating the defense.<sup>67</sup> Patent law is concerned about competition, but an IP doctrine does not become encrusted by antitrust analysis merely because it bears a shade of competition policy. As Justice Sandra Day O'Connor noted, "the Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'"<sup>68</sup> It is unsurprising then that allegations of misuse, such as the tying found in *Morton Salt*, involve some competition concerns.

But patent misuse is not the only patent doctrine concerned with competition. Courts use patent exhaustion to prevent patentees from leveraging their patents to control downstream commerce.<sup>69</sup> Similarly, judge-made doctrines such as experimental use and inequitable conduct respectively circumscribe the extent to which patentees can interfere with third party activities and extinguish conferred rights because patentees had in fact contributed nothing worthy of a patent award.<sup>70</sup> More broadly, doctrines such as the fair

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63. 314 U.S. 488 (1942); see also *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 975 (4th Cir. 1990) ("Although a patent misuse defense was recognized by the courts as early as 1917, most commentators point to *Morton Salt Co. v. G.S. Suppiger* . . . as the foundational patent misuse case"); Robert J. Hoerner, *The Decline (and Fall?) of the Patent Misuse Doctrine in Federal Circuit*, 69 ANTITRUST L.J. 669, 670 (2002). ("The 'misuse of the patent' doctrine was originated by name in *Morton Salt Co. v. G.S. Suppiger Co.*").

64. *Morton Salt*, 314 U.S. at 491.

65. *Id.* at 490.

66. *Id.*

67. *Id.* at 494 (finding it "unnecessary to decide whether [the patentee] had violated the Clayton act, for [it] concluded that in any event the maintenance of the present suit . . . [was] against public policy"). The Clayton Act is an antitrust statute. 15 U.S.C. §§ 12–27 (2012).

68. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

69. See, e.g., Daryl Lim, *Self-Replicating Technologies and the Challenge for the Patent and Antitrust Laws*, 32 CARDOZO ARTS & ENT. L.J. 131 (2013) (discussing exhaustion in the context of self-replicating technologies such as genetically modified seeds).

70. See ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, *PATENT LAW AND POLICY: CASES AND MATERIAL* 842-54, 1056-80 (6th ed. 2013) (discussing experimental use and inequitable conduct).

use defense in copyright and functionality in trademark law illustrate how IP policy endogenously incorporate competition concerns.<sup>71</sup>

A second reason for the overlap relates to how they feature in litigation. Patent misuse and antitrust issues are routinely tried together, separate from patent validity and infringement.<sup>72</sup> Third, misuse cases tend to arise out of patent licensing agreements. Such agreements affect market competition, and courts have expanded misuse to include antitrust standards to address market distortions.<sup>73</sup> The overlap has led some courts to view misuse as a similar albeit broader wrong than antitrust, so that an offense that does not warrant attention under the antitrust laws due to market power may still give rise to misuse.<sup>74</sup>

Notwithstanding the competition policy overlap, it is important to recognize that patent misuse and the antitrust laws differ in a number of respects. First, misuse is an affirmative defense; antitrust laws state a federal cause of action. As a defense, misuse is also cheaper to raise as a counterclaim than to initiate an antitrust suit.<sup>75</sup> Defendants in patent infringement suits are normally reactive parties in the litigation process. However, with declaratory judgments, defendants can proactively neutralize a patentee's advance.<sup>76</sup> The Supreme Court's decision in *MedImmune, Inc. v. Genentech, Inc.*, serves to

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71. See, e.g., *Authors Guild, Inc. v. Google Inc.*, 05 CIV. 8136 (DC), 2013 WL 6017130 (S.D.N.Y. Nov. 14, 2013) (discussing fair use in copyright law); *In re Morton-Norwich Prods., Inc.*, 671 F.2d 1332 (C.C.P.A. 1982) (discussing functionality in trademark law). For a comparative perspective, see Ashish Lall & Daryl Lim, *Singapore, in INTELLECTUAL PROPERTY, COMPETITION LAW AND ECONOMICS IN ASIA* (R Ian McEwin ed., 2011).

72. *Hunter Douglas, Inc. v. Comfortex Corp.*, 44 F. Supp. 2d 145 (N.D.N.Y. 1999) (holding that antitrust and patent misuse would be heard separately from the infringement claims).

73. Thomas F. Maffei, *The Patent Misuse Doctrine: A Balance of Patent Rights and the Public Interest*, 11 B.C. L. REV. 46, 52 (1969) ("Because the subject matter of the licensing agreement and the manner in which it is obtained effect directly the maintenance of a competitive economy, the existence of licensing abuses has necessitated the application of antitrust principles to patent law.").

74. See *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140–41 (1969) ("[I]f there was such patent misuse, it does not necessarily follow that the misuse embodies the ingredients of a violation of either § 1 or § 2 of the Sherman Act, or that Zenith was threatened by a violation so as to entitle it to an injunction under § 16 of the Clayton Act"). *But see Raychem Corp. v. PSI Telecomms.*, No. C-93-20920 RPA, 1995 U.S. Dist. LEXIS 22325, at \*9 (N.D. Cal. March 6, 1995) ("Although the contours of this doctrine are vague, patent misuse claims are generally tested by conventional antitrust principles.").

75. See LIM, *supra* note 11, at 412 (noting avoidance of higher litigation costs incurred from "economic analysis required to define markets and show that the elements of antitrust injury are met.").

76. 1 LOUIS ALTMAN & MALLA POLLACK, *CALLMANN ON UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES* § 4:57 (4th ed. 2010); see also *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843 (2014) (holding that the patent holder bears the burden of proving infringement, even in a declaratory judgment action brought by a licensee.).

encourage challenges to patent validity,<sup>77</sup> leading commentators to suggest that this might include challenges by licensees on the basis of misuse by licensors as well.<sup>78</sup>

While this may appear to narrow the gap between misuse and antitrust as a matter of litigation strategy, other differences exist. Unlike antitrust plaintiffs who need to show evidence of an antitrust injury, infringers asserting misuse need not prove direct harm from the misuse.<sup>79</sup> Further, whereas misuse results in unenforceability of the patent, antitrust provides for a host of remedies, including a devastating nondiscretionary trebling of damages by a court.<sup>80</sup>

The most critical difference, however, is that antitrust policy does not address the questions which patent policy cares about. Herbert Hovenkamp and Christina Bohannon observed that “[t]he antitrust approach undervalues the fact that the roots of misuse doctrine lie in IP policy, not in antitrust policy, and IP policy has its own reasons for limiting overreaching.”<sup>81</sup> According to them, “[e]ven on antitrust’s own rationale for misuse, namely to prevent anticompetitive conduct, the antitrust definition has focused too much attention on market power in the patented or copyrighted product or technology, and too little on the foreclosure of rival products or technologies.”<sup>82</sup> Indeed, this difference was one of the few things that the majority and dissent in *Actavis* agreed on.<sup>83</sup>

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77. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 777 (2007) (enhancing the ability of licensees to challenge the scope and validity of patents by allowing licensees to challenge licensed patents while retaining the protection of the license.).

78. See Donald S. Chisum, *Chisum on MedImmune, Inc. v. Genentech, Inc.*, 2008 EMERGING ISSUES 872 (2007) (noting that, prior to *MedImmune*, patent owners would assume that a “no contest” clause would be unenforceable or could constitute patent misuse, but that now those assumptions should be revisited); see also Stephanie Chu, *Operation Restoration: How Can Patent Holders Protect Themselves from MedImmune?*, 2007 DUKE L. & TECH. REV. 8, at \*6 (2007) (“*MedImmune* leaves patent owners wondering whether or not they can contract around their potential vulnerability to patent challenges.”).

79. See, e.g., *JTC Petroleum Co. v. Piasa Motor Fuels, Inc.*, 190 F.3d 775 (7th Cir. 1999).

80. Note, *Is the Patent Misuse Doctrine Obsolete?*, 110 HARV. L. REV. 1922, 1924 (1997).

81. CHRISTINA BOHANNAN & HERBERT HOVENKAMP, CREATION WITHOUT RESTRAINT: PROMOTING LIBERTY AND RIVALRY IN INNOVATION 260 (2012).

82. *Id.*

83. *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223, 2225 (2013) (“It would be incongruous to determine antitrust legality by measuring the settlement’s anticompetitive effects solely against patent law policy, and not against procompetitive antitrust policies as well. Both are relevant in determining the scope of monopoly and antitrust immunity conferred by a patent. . . .”); *id.* at 2238 (Roberts, C.J., dissenting) (“The point of antitrust law is to encourage competitive markets to promote consumer welfare. The point of patent law is to grant limited monopolies as a way of encouraging innovation.”). But see Robin Feldman, *Ending Patent Exceptionalism & Structuring the Rule of Reason: The Supreme Court Opens the Door for Both*, 15 MINN. J.L. SCI. & TECH. (forthcoming 2013), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2333291](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2333291) (“Despite common misperceptions, the patent system is not a monstrous

Patent law assumes that market failure resulting from free-riding would result in a suboptimal level of innovation to the detriment of society, and incentivizes innovation.<sup>84</sup> To fulfill the Constitutional mandate for Congress to “promote the Progress of Science and the useful Arts,”<sup>85</sup> Congress allows patentees to exclude others, earn royalties, and set the terms of access for those benefitting from the use of patented technologies.<sup>86</sup> This limited monopoly rewards innovators who take risks and invest in innovation and the commercialization of their inventions, incentivizing them to disclose, develop and market inventions that may not have been realized otherwise.<sup>87</sup>

The lure of exclusive rights also attracts others into the inventive enterprise. It feeds into a virtuous cycle of innovation where each successive generation “stand[s] upon the shoulders of Giants”<sup>88</sup> as new entrants, licensees, and competitors are enabled to build upon the patentee’s technology, which is disclosed in return for the monopoly protection.<sup>89</sup> When patentees are overcompensated for their contributions, it disrupts the incentive system and results in inefficiency and reduced technological output. According to Thomas Jefferson, overreaching patent owners becomes “more embarrassment than advantage to society.”<sup>90</sup> In policing patent misconduct, judges applying patent misuse attempt to delineate this metaphysical boundary.

The Supreme Court forged patent misuse as a tool to prevent abuses of the patent system, regardless of a demonstrable effect on competition.<sup>91</sup> It begins with the premise that the patent grant is not a property right as such,

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beast, rapacious for the sacrifice of competition. Even the majority opinion in *Actavis* subtly falls prey to the simplistic image of patents, imaging that the patent system is single-mindedly anticompetitive. . . . Along the same lines, the dissenting opinion is strongly out of focus when it notes that ‘the whole point of a patent [is] to confer a limited monopoly.’”

84. See, e.g., Bohannon & Hovenkamp, *supra* note 49, at 922 (“[M]arket failure is the starting point for IP laws, and it is market failure that gives rise to the need for legal entitlements.”).

85. U.S. CONST. art. I, § 8, cl. 8.

86. 35 U.S.C. §§ 283–285 (2012) (providing for patent infringement remedies such as injunctions, damages, and attorney fees).

87. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974) (“The patent laws promote this progress by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development.”).

88. Letter from Isaac Newton to Robert Hooke (1676) (on file with author).

89. See 35 U.S.C. § 112(a) (requiring the patent applicant be fully in possession of the invention claimed and to disclose his invention in a manner which enables a person ordinarily skilled in the art to make and use the invention).

90. Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813), available at [http://press-pubs.uchicago.edu/founders/documents/a1\\_8\\_8s12.html](http://press-pubs.uchicago.edu/founders/documents/a1_8_8s12.html).

91. 1 HOVENKAMP ET AL., *supra* note 6, § 3.2 (“[S]ince the inception of the misuse doctrine, courts have treated extension of a patent grant—by lengthening its duration, by bundling it with some other unpatented product, or by some other means—as an evil to be avoided regardless of a demonstrable effect on competition. While concerns about competition clearly animated the Court’s first statement of misuse doctrine in the Motion Picture Patents case, the Court has also been concerned about what might be termed the integrity of the patent system. Patent policy permits the grant of exclusive rights only under certain conditions and only



but a privilege conferred by the patent office to promote technological progress.<sup>92</sup> Patentees found to be misusing their patents are not allowed to enforce their patents.<sup>93</sup>

Patent misuse may be analogized to the fair use defense in copyright law. Fair use permits use of copyrighted works “to fulfill copyright’s very purpose, ‘[t]o promote the Progress of Science and useful Arts.’”<sup>94</sup> Like patent misuse, fair use is “an open-ended and context-sensitive inquiry.”<sup>95</sup> Both fair use and patent misuse are rooted in IP policy despite its inquiry into aspects of market competition.<sup>96</sup> As noted earlier, misuse contains a blend of competition and innovation policies. In the case of fair use, the crucial inquiry is “whether the new work merely supersedes the original work, or instead adds something new with a further purpose or of a different character.”<sup>97</sup>

Ramsey Hanna observed that, in contrast to “copyright and patent law [which] recognize the importance of encouraging socially beneficial innovation,” antitrust law “lacks similar sensitivity to the central role of innova-

within a limited scope, and the expansion of that scope through coercive use of a government-granted legal right has been thought to undermine the limitations built into patent law.”).

92. See *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948) (“The copyright law, like the patent statutes, makes reward to the owner a secondary consideration.”); see also *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006) (noting that unlike real property rights, “the Patent Act itself indicates that patents shall have the attributes of personal property ‘[s]ubject to the provisions of this title.’”).

93. BOHANNAN & HOVENKAMP, *supra* note 81, at 264 (“Thus developed the highly draconian remedy that if a patentee’s license agreement constitutes ‘misuse,’ the patentee loses its right to enforce that patent against anyone.”).

94. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 576-77 (1994) (“[T]he fair use of a copyrighted work, . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.”); see also *id.* at 594 (finding that the commercial character of a song parody did not create presumption against fair use).

95. *Blanch v. Koons*, 467 F.3d 244, 251 (2d Cir. 2006).

96. 17 U.S.C. § 107(4) (2012) (examining “the effect of the use upon the potential market for or value of the copyrighted work.”).

97. *Campbell*, 510 U.S. at 579 (“[T]he more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.”). A similar rationale exists for trademark fair use. See, e.g., *New Kids on the Block v. News Am. Pub., Inc.*, 971 F.2d 302, 309 (9th Cir. 1992) (“While the New Kids have a limited property right in their name, that right does not entitle them to control their fans’ use of their own money. Where, as here, the use does not imply sponsorship or endorsement, the fact that it is carried on for profit and in competition with the trademark holder’s business is beside the point.”).



tion.”<sup>98</sup> Hanna partly attributes this to “a dearth of economic literature dealing with determinants, mechanics, and dynamic effects of innovation”<sup>99</sup> as well as “the difficulty in defining markets in industries with differentiated but highly substitutable goods.”<sup>100</sup>

Antitrust law is concerned about economic monopoly power and of patentees using that power to raise prices and stifle output.<sup>101</sup> It works *ex post* to create a competitive environment taking into account the need to incentivize innovation. Although the antitrust laws purport to take into account dynamic efficiencies that include innovation concerns, commentators like Marshall Leaffer are concerned that it does not do so “adequately”<sup>102</sup> because antitrust policy has a “natural bias” toward static analysis, which is more measurable.<sup>103</sup>

The differences between antitrust and patent policy led Robin Feldman to conclude that antitrust law is “designed to address only particular types of harm, and it cannot reach everything that patent policy addresses.”<sup>104</sup> As

98. Ramsey Hanna, Note, *Misusing Antitrust: The Search for Functional Copyright Misuse Standards*, 46 STAN. L. REV. 401, 422 (1994) (footnote omitted).

99. *Id.*

100. *Id.* at 431.

101. See PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 1781 (3d ed. 2008).

102. Leaffer, *supra* note 52, at 153; see also Ilan Charnelle, *The Justification and Scope of the Copyright Misuse Doctrine and Its Independence of the Antitrust Laws*, 9 UCLA ENT. L. REV. 167, 197 (2002) (“Antitrust analysis relies on static single-period models that do not account for innovation and its effect on consumer welfare. In static single-period models, an investment is assumed to last for a set time period and the focus is on two possible fixed values at the end of that time period. The investment can go up or down, usually on a percentage basis. These models do not take into account fluctuations in value that occur between the start of the investment and the end of the investment. In order for innovation and creativity to occur, these fluctuations must be examined.”).

103. See Joshua S. Gans, When is Static Analysis a Sufficient Proxy for Dynamic Considerations? Reconsidering Antitrust and Innovation 2 (April 29, 2010) (unpublished manuscript), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1603955](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1603955) (describing static analysis as “largely based on price,” compared to dynamic analysis where “innovation plays a significant role”); Transcript, *The Antitrust Marathon Part II: The Role of a Consumer Harm Test in Competition Policy*, 20 LOY. CONSUMER L. REV. 151, 163 (2008) (remarks of Christopher Leslie: “[T]he problem [is that] . . . static price analysis appears to be so precise. It gives this illusion of a precise quantifiable answer that you can see on a graph. But there’s just no way that you can easily put quality, innovation, and consumer choice on that graph. Even when you try to have a balance between these two things, our natural bias is to give more weight to the thing that looks measurable.”); see also J. Thomas Rosch, Comm’r, Fed. Trade Comm’n, *The Role of Static and Dynamic Analysis in Pharmaceutical Antitrust at the Fifth Annual In-House Counsel Forum on Pharmaceutical Antitrust* 4–5 (Feb. 18, 2010), available at <http://www.ftc.gov/speeches/rosch/100218pharmaantitrust.pdf> (“The antitrust community—both lawyers and economists—has far greater familiarity and comfort with static analysis than dynamic analysis.”).

104. See Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 400 (2003); see also Leaffer, *supra* note 52, at 157 (“Patent policy is involved with expansions of patent rights that impede system-wide innovation; even if those expansions do not create the kind of consequences that the antitrust law takes into account.

examples of these unreachable aspects, she cites the following: preventing economic loss that occurs in defensive research activities in patent circumvention; the negative effects on innovation caused by an excess of patent rights, and the impediments to innovation from awarding patents to early-stage inventors at the expense of late-stage inventors.<sup>105</sup>

Julie Cohen, Brett Frischmann, Dan Moylan and a number of others agree, and they have argued that misuse provides a more relevant answer to harms to market innovation.<sup>106</sup> These may include the lack of ability to use and the diminished position of licensees that results from the ability to meter uses.<sup>107</sup> These fundamental differences in policy explain why different or additional elements may be required to prove an antitrust violation from a case of patent misuse.

From the 1940s until the 1970s, the Supreme Court continued to shape patent misuse in cases involving restrictive license agreements, vexatious litigation and other patent abuses.<sup>108</sup> However, things came to a head in *Mercoïd Corp. v. Mid-Continent, Inv. Co.*, when the Court extended misuse to render tying arrangements unenforceable even though the tied components had no substantial non-infringing uses.<sup>109</sup> *Mercoïd* provoked a Congressional response, immunizing tying arrangements covering non-staple items in the context of contributory infringement.<sup>110</sup> In 1988, Congress tacked on additional restrictions immunizing from misuse refusals to license as well as ty-

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The basic problem is that antitrust focuses on competition in defined markets and in so doing tends to disregard, and may even be blind to, activities that undermine the overall effectiveness of the patent system.”) (footnote omitted).

105. Feldman, *supra* note 123, at 400; *see also* Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CALIF. L. REV. 1599, 1611 (1990) (“[A]ctivities constituting patent misuse can (and often do) diverge from those activities constituting antitrust violations.”).

106. *See* Julie E. Cohen, *Reverse Engineering and the Rise of Electronic Vigilantism: Intellectual Property Implications of “Lock-Out” Programs*, 68 S. CAL. L. REV. 1091, 1192–94 (1995) (arguing that the misuse doctrine may be better tailored than antitrust to address harm to innovation); Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and its Application to Software*, 15 BERKELEY TECH. L.J. 865, 927–30 (2000) (arguing that misuse doctrine should come into play in some cases in which restraints undermine public policy, such as by unduly inhibiting innovation, even if they fall short of violating antitrust law); *see also* Note, *supra* note 80, at 1934–36 (arguing potential harm to innovation markets may justify the application of patent misuse in some cases, but noting the difficulty of applying this insight in practice).

107. I am grateful to Josh Sarnoff for this observation.

108. *See* LIM, *supra* note 11, at 287.

109. *Mercoïd Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944).

110. 35 U.S.C. § 271(d)(1)–(3) (2012); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 200 (1980) (“The *Mercoïd* decisions left in their wake some consternation among patent lawyers and a degree of confusion in the lower courts. . . . Certain segments of the patent bar eventually decided to ask Congress for corrective legislation that would restore some scope to the contributory infringement doctrine. With great perseverance, they advanced their proposal in three successive Congresses before it eventually was enacted in 1952 as 35 U.S.C. § 271.”).

ing arrangements where the patent owner lacked market power.<sup>111</sup> But whereas Congress took a piecemeal approach to misuse reform, the Federal Circuit would seek to change it entirely.

#### B. Patent Misuse under the Federal Circuit: Windsurfing and its Progeny

Established in 1982, the Federal Circuit is unique among appellate courts in that its jurisdiction is determined by subject matter rather than geographical location.<sup>112</sup> While the Federal Circuit's portfolio covers a number of areas including federal claims, veterans' claims, international trade dispute claims, and federal employment claims, it is perhaps best known for its role as the nation's appellate patent court. It was a new kind of court, an experimental court created especially for the adjudication of patent rights, and the first of its kind anywhere in the world.<sup>113</sup> And, because patent misuse is a defense to patent infringement, "what constitutes substantive misuse is ordinarily a matter within the control of the Federal Circuit."<sup>114</sup>

Commentators observed that the Federal Circuit "rapidly strengthened the rights of patent owners."<sup>115</sup> The Federal Circuit does not have exclusive jurisdiction over patent-antitrust cases.<sup>116</sup> However, it has asserted its jurisdiction over those cases.<sup>117</sup> Consistent with its mission, incorporating antitrust principles within patent trials would give the Federal Circuit greater influence in controlling how antitrust principles would be applied to patents.<sup>118</sup>

111. 35 U.S.C. § 271(d)(4)-(5).

112. See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25, §§ 37-39 (codified as amended at 28 U.S.C. § 1295 (2000)).

113. See Paul R. Gugliuzza, *Rethinking Federal Circuit Jurisdiction*, 100 GEO. L.J. 1437, 1453, 1461, 1467 (2012).

114. MARTIN ADELMAN ET AL., *CASES AND MATERIALS ON PATENT LAW* 814 (3d ed. 2009); see also Thomas F. Cotter, *Misuse*, 44 HOUS. L. REV. 901, 912 (2007) ("The Federal Circuit therefore has taken the leading role in recent years in refining the contours of the patent misuse doctrine.").

115. HOVENKAMP ET AL., *supra* note 6, § 1.3a.

116. CHRISTOPHER LESLIE, *ANTITRUST LAW AND INTELLECTUAL PROPERTY RIGHTS: CASES AND MATERIALS* (2010) 577 ("In adjudicating non-patent issues in patent cases, the Federal Circuit is supposed to apply the law of the regional circuit where the district court whose decision the Federal Circuit was reviewing.").

117. See e.g., *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) ("[W]hether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law."); see also *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1360 (Fed. Cir. 1999) ("Pro-Mold and Nobelpharma make clear that our responsibility as the tribunal having sole appellate responsibility for the development of patent law requires that we do more than simply apply our law to questions of substantive patent law. In order to fulfill our obligation of promoting uniformity in the field of patent law, it is equally important to apply our construction of patent law to the questions whether and to what extent patent law preempts or conflicts with other causes of action.").

118. See, e.g., THE FEDERAL ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY 67 (2002) (noting the different outcomes reached by the Federal Circuit [in *In re Indep. Serv. Organizations Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000)] and Ninth

Federal Circuit first had occasion to consider patent misuse in *Windsurfing Int'l v. AMF, Inc.*<sup>119</sup> The patent licensor required licensees to acknowledge the validity of its trademarks.<sup>120</sup> The package deal prevented challenges to the validity of the marks.<sup>121</sup> In declining to find misuse, the Federal Circuit held that the alleged infringer had to show the patentee impermissibly broadened the physical or temporal scope of the patent grant with anticompetitive effect “in an appropriately defined relevant market.”<sup>122</sup>

Although antitrust law has a well-developed framework for market definition, a similar framework was foreign to patent law analysis.<sup>123</sup> The infusion of patent misuse with antitrust law became even more apparent in the Federal Circuit’s 1992 decision in *Mallinckrodt, Inc. v. Medipart, Inc.*,<sup>124</sup> where “as with an affirmative antitrust claim, the issue of misuse was held to require further legal analysis under relevant antitrust principles before it could be determined whether invalidating misuse had occurred.”<sup>125</sup>

Later Federal Circuit cases identified three categories of patent misuse and articulated a framework for analyzing misuse cases. The first are forms of *per se* misuse, which include tying, post-expiration royalties and price-fixing arrangements.<sup>126</sup> In the second category are forms of conduct specifically immunized from a finding of misuse.<sup>127</sup> These include refusals to license, as well as tying arrangements in which the patent owner had no proven market power.<sup>128</sup>

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Circuit [in *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1216 (9th Cir. 1997)] on “strikingly similar facts.”)

119. *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 n.9 (Fed. Cir. 1986).

120. *Id.* at 1001.

121. 1 HOVENKAMP ET AL., *supra* note 6, § 3.3.

122. *Windsurfing*, 782 F.2d at 1001–02.

123. Mark A. Lemley & Mark P. McKenna, *Is Pepsi Really a Substitute for Coke? Market Definition in Antitrust and IP*, 100 GEO. L.J. 2055, 2077 (2012). (“Antitrust law has a well-developed methodology for defining markets, but, as we argued, that methodology does not work well in the context of IP goods. . . . To the extent we want to reduce IP owners’ market power, there are doctrinal levers within IP that can be used to enable more and better substitutes.”). *But see id.* at 2069–70 (“Market definition plays a role in several patent contexts too because courts are sometimes called on to determine the extent to which there are alternatives to the patented invention or the range of relevant prior art.”)

124. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

125. 1 WILLIAM C. HOLMES, *INTELLECTUAL PROPERTY AND ANTITRUST LAW* § 1:17 (2013). (“Typical is the 1992 Federal Circuit decision of *Mallinckrodt, Inc. v. Medipart, Inc.*, where it was held that a patentee did not commit *per se* patent misuse by prohibiting purchasers of its patented products from reconditioning and reusing the products. Rather, as with an affirmative antitrust claim, the issue of misuse was held to require further legal analysis under relevant antitrust principles before it could be determined whether invalidating misuse had occurred.”) (footnote omitted).

126. *See Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997); *see also Mallinckrodt*, 976 F.2d at 704.

127. *Va. Panel*, 133 F.3d at 869; *see supra* text accompanying note 111.

128. 35 U.S.C. § 271(d)(4)-(5) (2012).

If the conduct is neither expressly exempted nor condemned, it falls into the third category. Courts first determine if that practice relates to subject matter “within the scope of the patent claims.”<sup>129</sup> If so, “the practice does not have the effect of broadening the scope of the patent claims and thus cannot constitute patent misuse.”<sup>130</sup> If the conduct is not within the scope of the patent claims, the anticompetitive effects flowing from the extension must be analyzed under a rule of reason, where the reasonableness of the restraint on competition is determined by taking into account “information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature and effect.”<sup>131</sup> In *Monsanto Co. v. McFarling*, the court elaborated that, where “the restriction is reasonably within the patent grant, the patent misuse defense can never succeed.”<sup>132</sup>

In an *en banc* review, *Princo Corp. v. Int’l Trade Comm’n* further limited the applicability of patent misuse.<sup>133</sup> Affirming the panel below, the majority held that even an antitrust violation would not give rise to a misuse defense if the alleged misuse was not directly asserted against the defendant.<sup>134</sup> In that case, the patentee agreed with its rival to refrain from offering competing alternatives to technology for recordable and rewritable compact discs in return for a share of the patentee’s profits.<sup>135</sup> One of the patentee’s licensees stopped its payments and alleged misuse on the grounds that the parties were conspiring to suppress the rival’s technology.<sup>136</sup> The *Princo* dissent found misuse on the basis that the licensing agreements between the patentee and its licensees was part and parcel of the horizontal agreement between the patentee and its rival to suppress the rivals’ technology.<sup>137</sup>

The discussion of the history of misuse reveals two different premises for invoking the defense: the *Morton Salt* standard, which focuses upon abuses of the patent system, and the *Windsurfing* standard, which focuses upon anticompetitive effects measured through the rubric of the antitrust

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129. *Va. Panel*, 133 F.3d at 869.

130. *Id.*

131. *Id.*

132. *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1341 (Fed. Cir. 2004).

133. *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (Fed. Cir. 2010).

134. *Id.* at 1331 (“Patent misuse will not be found when there is ‘no connection’ between the patent right and the misconduct in question, or no ‘use’ of the patent.”) (citation omitted). For a detailed critique of the *Princo* decision, see Daryl Lim, *Misconduct in Standard Setting: The Case for Patent Misuse*, 51 IDEA 559 (2011).

135. *Princo*, 616 F.3d at 1323.

136. *Id.*

137. *Id.* at 1342 (Dyk J., dissenting) (“I read the relevant Supreme Court cases and congressional legislation as supporting a vigorous misuse defense, clearly applicable to agreements to suppress alternative technology. The majority cabins the doctrine in contravention of this Supreme Court authority.”).

laws. Antitrust law has made clear for at least forty years that it is interested in protecting market competition and not the competitor.<sup>138</sup>

Thus, unless the patent defendant can show market harm, there is no misuse under the Federal Circuit's formulation. As the Seventh Circuit noted "[i]f no consumer interest can be discerned even remotely in a suit brought by a competitor—if, as here, a victory for the competitor can confer no benefit, certain or probable, present or future, on consumers—a court is entitled to question whether a violation of antitrust law is being charged."<sup>139</sup>

Diminished antitrust scrutiny and a weaker misuse defense favor patentees. Defendants face formidable hurdles proving market power and anticompetitive effects, since they would have to marshal economic evidence, market surveys and engage in a "turducken" antitrust trial within an already complicated patent infringement suit.<sup>140</sup>

To better understand the Federal Circuit's impact on patent misuse, it is helpful to look at the number of cases that have cited its jurisprudence over the years (see Figure 3 below).<sup>141</sup>

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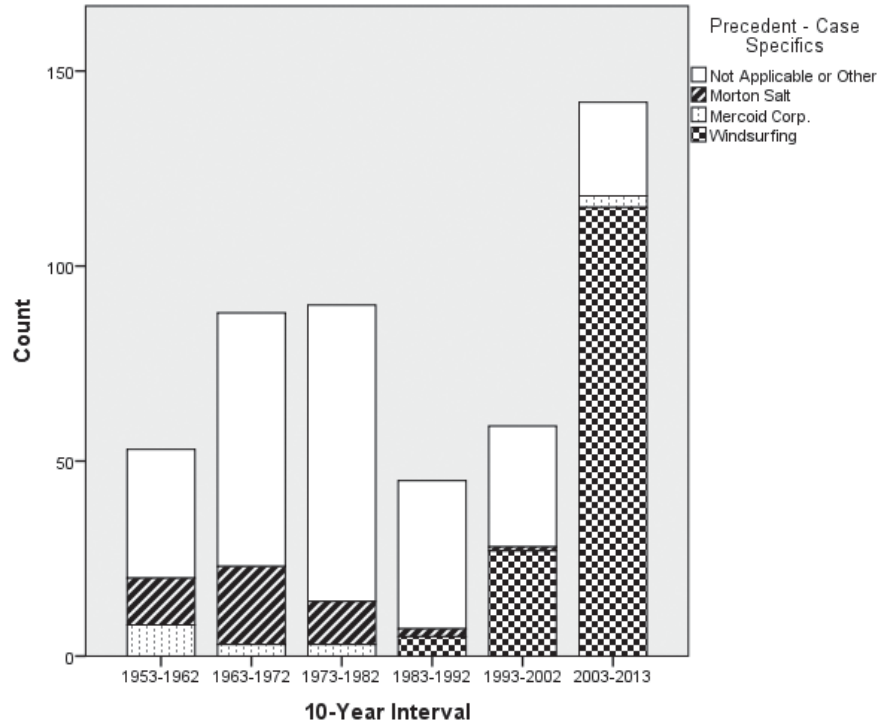
138. See *Brooke Grp. Ltd v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 224 (1993).

139. *Brunswick Corp. v. Riegel Textile Corp.*, 752 F.2d 261, 266–67 (7th Cir. 1984).

140. "Turducken" refers to a dish where a turkey is stuffed with a duck that is in turn stuffed with a chicken. See 1 HOVENKAMP ET AL., *supra* note 6, § 3.2. ("[D]emonstrating misuse will require a full-fledged economic inquiry into the definition of the market, barriers to entry, and the like.").

141. See Part I for a discussion on how precedent cases were selected and coded.

FIGURE 3. DISTRIBUTION BY PRECEDENT OVER TIME (1953 – 2013)



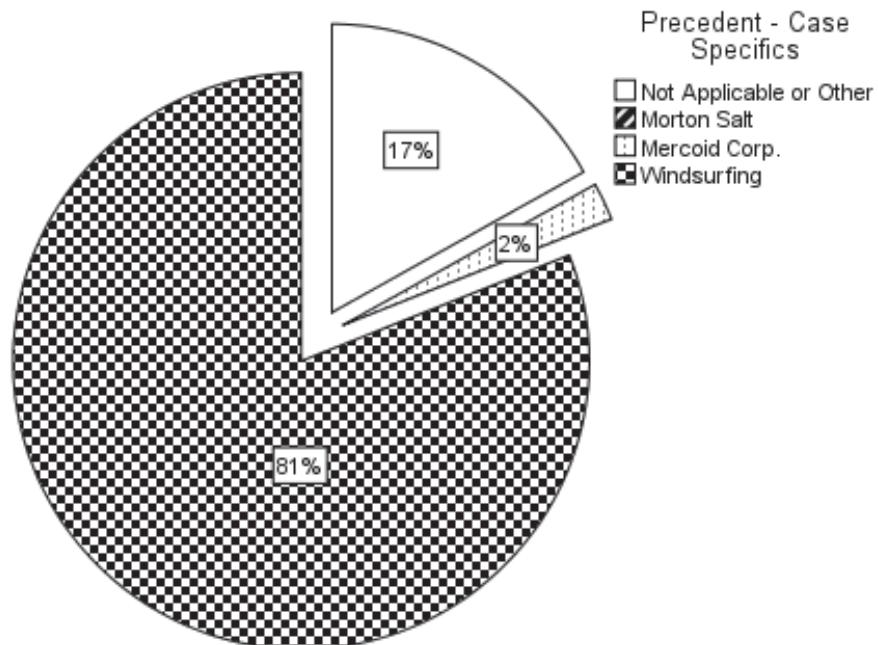
It is clear that *Windsurfing* has almost exclusively dominated the cases across all levels since 1993.<sup>142</sup> This change happened remarkably quickly. *Morton Salt* was on the wane between 1953 and 1982, falling from 41 percent of cases to 27 percent. By the time the Federal Circuit began to take cases, *Morton Salt* was cited in a mere 21 percent of cases before vanishing from the 1990s onwards. Between 2003 and 2013, *Windsurfing* was the controlling precedent in 81% of the cases (see Figure 4 below).<sup>143</sup>

142. The frequency count focuses on the citation of precedent.

143. Calculated by taking the number of cases citing to *Windsurfing* or its progeny as a fraction of the total number of cases.



FIGURE 4. CONTROLLING PRECEDENT (2003 – 2013)



In reformulating patent misuse, the Federal Circuit has taken the leading role in strengthening the rights of patentees and, as Dan Burk suggested, may have correspondingly narrowed the instances where misuse can be found.<sup>144</sup> The Federal Circuit seems to see patent rights through the lens of property rules, rather than liability rules.<sup>145</sup> Under the lens of property rules, patentees are entitled to deny access to their patented technology as a matter of right, even if a reasonable fee for access is offered.<sup>146</sup> In contrast, liability rules “confer a lesser degree of protection that is akin to tort law: the right to collect damages caused by another’s intrusion.”<sup>147</sup>

A court’s view of patents based on a property or liability rule informs its view of patent misuse in another way. The refusal to grant an injunction has

144. Dan L. Burk, *Anticircumvention Misuse*, 50 UCLA L. REV. 1095, 1118 (2003).

145. Hoerner, *supra* note 63, at 684-85 (“[I]t could be argued that the Federal Circuit appreciates that the patent applicant has made an irrevocable but valuable disclosure, to the benefit of the public, in his patent application, and that he should be regarded as having a property right to enforce it. Misuse destroys that right until purge.”). See generally Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972).

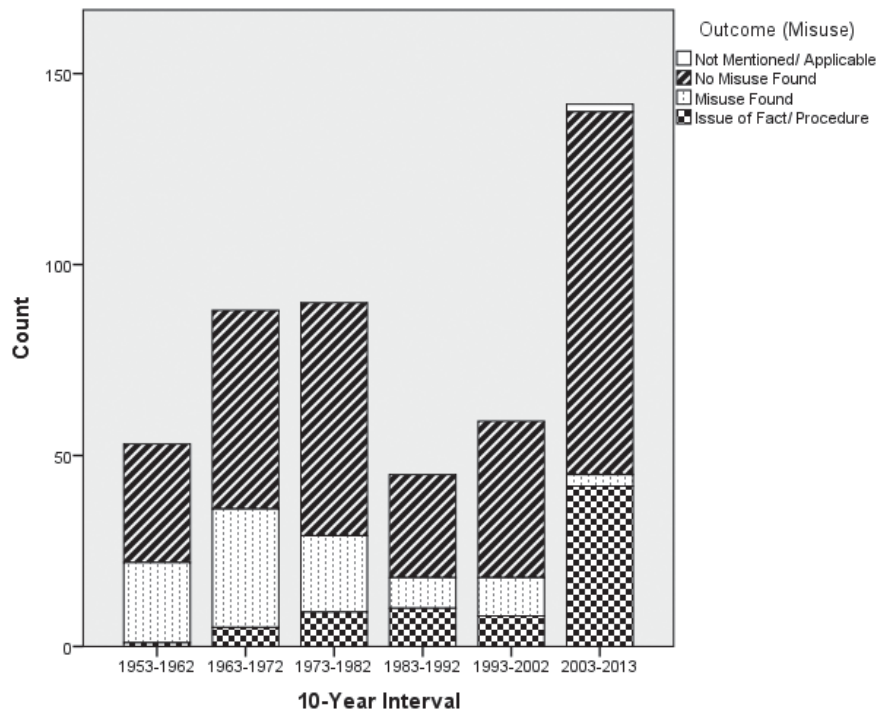
146. See, e.g., Calabresi & Melamed, *supra* note 145, at 1092 (noting in a non-patent context that legal rules that create private causes of actions can be sorted into rules that entitle the claimant to an injunction and rules that entitle the claimant to damages).

147. ADELMAN ET AL., *supra* note 133, at 840.

been viewed as a form of compulsory license.<sup>148</sup> Judges with this view are probably more concerned with the effects of finding patent misuse than the refusal to grant an injunction. By rendering a patent unenforceable, patent misuse makes patentees even worse off because they do not even get a shot at the reasonable royalties or damages that would accrue to a successful patent plaintiff in lieu of an injunction. As the *Princo* court noted, finding misuse “expansively” will diminish the value of patent rights and discourage investment in innovation.<sup>149</sup>

When looking at all misuse cases between 1953 and 2013, the success of defendants pleading misuse has been on the steady decline (see Figure 5 below).

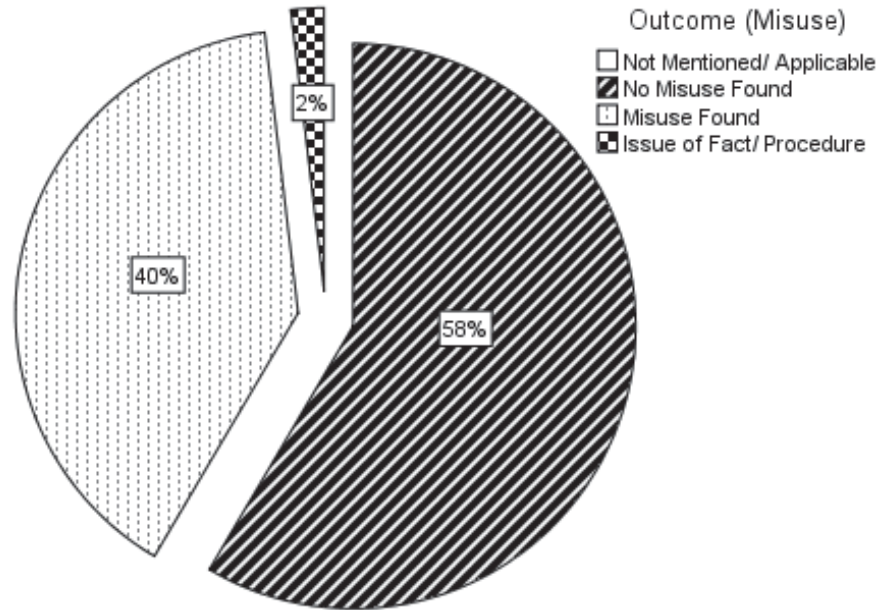
FIGURE 5. DISTRIBUTION OF CASES OVER TIME AND OUTCOME



148. See Lemley, *supra* note 124, at 1619 (“In effect, the patent misuse doctrine creates a scheme of royalty-free compulsory licensing where a patentee is guilty of misuse.”); see also *Paice LLC v. Toyota Motor Corp.* 504 F.3d 1293, 1316 (Fed. Cir. 2007) (Rader, J., concurring) (“[C]alling a compulsory license an ‘ongoing royalty’ does not make it any less a compulsory license.”).

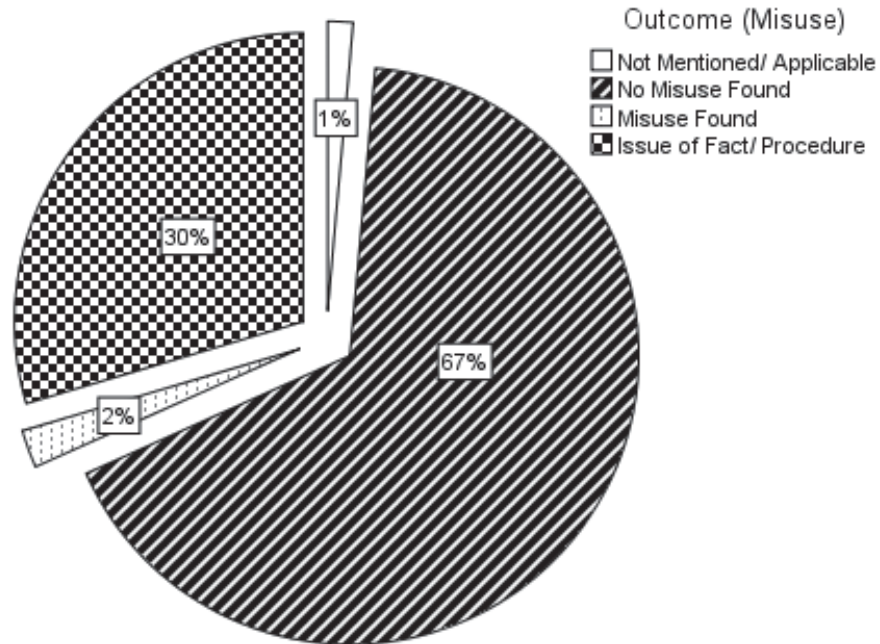
149. *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1321 (Fed. Cir. 2010) (“In the licensing context, the doctrine limits a patentee’s right to impose conditions on a licensee that exceed the scope of the patent right. Because patent misuse is a judge-made doctrine that is in derogation of statutory patent rights against infringement, this court has not applied the doctrine of patent misuse expansively.”).

FIGURE 6. OUTCOMES IN PATENT MISUSE CASES (1953 – 1962)



Between 1953 – 2013, the percentage of cases finding misuse plummeted from a high of 40% between 1953 – 1962 (see Figure 6 above) to a low of 2% between 2003 – 2013 (see Figure 7 below).

FIGURE 7. OUTCOMES IN PATENT MISUSE CASES (2003 – 2013)



Perhaps the irony in the Federal Circuit’s antitrust formulation of patent misuse is its origin. Just as the Federal Circuit is preeminent in patent law matters, the Seventh Circuit is the thought leader in all matters relating to antitrust law, stereotypically seen as an antithesis of patent law.<sup>150</sup> The Seventh Circuit is seated in Chicago, the city that lent its name to a noninterventionist school of antitrust policy that continues to permeate present day cases under the watchful gaze of the court. And, as described below, it was the most famous member of the Seventh Circuit, Judge Richard Posner, who first gave misuse its antitrust trappings.

### C. Grafting Antitrust: Seventh Circuit Genesis

Anecdotally, stakeholders today have also observed a recent decline in patent misuse. Those I interviewed observed that a shift in economic thinking toward less judicial intervention, and towards a greater reliance in the mid-1970’s on the free market to iron out anticompetitive kinks caused by patent rights, resulting in courts to find misuse less frequently.<sup>151</sup> As will be seen, this “economic thinking” was the “Chicago School of Antitrust” which

150. 1 HOVENKAMP ET AL., *supra* note 6, § 1.3 (“A simplistic assessment of this interaction might proceed as follows: intellectual property rights are monopolies, and antitrust is designed to prevent monopoly, so the two laws are in conflict.”).

151. LIM, *supra* note 11, at 55.

“evolved in part as a critical response to the principal tenets of industrial organization economics.”<sup>152</sup>

The Chicago School viewed most markets as self-correcting. Supernormal profits would induce entry and erode market share.<sup>153</sup> Daniel Crane candidly described the benefits of the Chicago School of antitrust’s approach:

Enforcement is costly and there is a general sense that market dislocations are more quickly corrected than legal dislocations. The Chicago School has the advantage of offering solutions that are not only simple theoretically, but simple practically. Doing nothing is much easier than constructing the remedy to a complex and contested liability finding.<sup>154</sup>

Over time, courts reformulated the antitrust laws with the express mandate to protect competition and not competitors.<sup>155</sup> Antitrust plaintiffs would have to show an injury to market competition that went beyond economic loss suffered by individual actors.<sup>156</sup> Alleged antitrust violations were also increasingly judged under the rule of reason.<sup>157</sup> This required courts to consider both harm and benefits of conduct. Consequently, *per se* rules that allowed condemnation based on production of evidence indicating the alleged conduct alone, became narrowly circumscribed.<sup>158</sup> Finally, plaintiffs had to show economically rational evidence of harm, rather than mere circumstantial evidence.<sup>159</sup> The impact of these reforms circumscribed antitrust law considerably.

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152. ANDREW GAVIL ET AL., *ANTITRUST LAW IN PERSPECTIVE: CASES, CONCEPTS AND PROBLEMS IN COMPETITION POLICY* 66 (2d ed. 2008).

153. *Id.*

154. Daniel A. Crane, *Chicago, Post-Chicago, and Neo-Chicago*, 76 U. CHI. L. REV. 1911, 1927 (2009).

155. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 488 (1977) (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 320 (1962) (“The antitrust laws, however, were enacted for ‘the protection of competition not competitors.’”).

156. *Id.* at 489 (An antitrust plaintiff “must prove antitrust injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants’ acts unlawful.”).

157. William E. Kovacic & Carl Shapiro, *Antitrust Policy: A Century of Economic and Legal Thinking*, 14 J. ECON. PERSP. 43, 55 (2000) (“The most noteworthy feature of recent cases concerning collusion or cooperation between firms is the search for manageable analytical techniques that avoid the complexity of the traditional rule of reason yet supply a richer factual analysis than *per se* tests.”).

158. *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 895 (2007) (recognizing that *per se* rules “decrease administrative costs” and acknowledging that they can also increase costs by “prohibiting procompetitive conduct the antitrust laws should encourage . . . promoting frivolous suits against legitimate practices” if applied to practices that were not “manifestly anticompetitive.”).

159. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586-87 (1986) (requiring plaintiffs to establish a genuine issue of material fact of illegal conduct that caused

The Chicago School advocated reduced intervention by antitrust plaintiffs. This culture of non-intervention was reinforced by courts and by antitrust enforcers embracing dynamic efficiency.<sup>160</sup> Political conservatism in the 1980s compounded the Chicago School's successful gospel of nonintervention. The Reagan Administration reduced the resources available to the Federal Trade Commission and the Department of Justice's Antitrust Division, leading to fewer investigations.<sup>161</sup>

Crane observed that Richard Posner, Robert Bork, James Miller, William Baxter and others from the Chicago School influenced the Supreme Court as well as lower courts to re-evaluate their attitude towards existing prohibitions.<sup>162</sup> Baxter was appointed as head of the Antitrust Division at the DOJ.<sup>163</sup> Miller was appointed as chair of the FTC.<sup>164</sup> Bork and Posner were appointed appellate judges, as were other "very substantial numbers of ideologically sympathetic judges."<sup>165</sup> Indeed, as Crane noted, "[i]f one wants to identify a Chicago School centrist, there is no more representative scholar than Richard Posner."<sup>166</sup> And it was Judge Posner who left an indelible mark of Chicago School ideology on misuse.

Judge Posner wrote his patent misuse decision in *USM Corp. v. SPS Technology, Inc.* in 1982, the year the Federal Circuit was established.<sup>167</sup> The case concerned a patented industrial fastener. The patentee sued its competitor-licensee for infringement. The latter alleged that the discrimina-

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them a "cognizable injury." If the facts indicated that plaintiffs' claims made no economic sense, they had to offer more persuasive evidence.)

160. *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 n.64 (1st Cir. 1994), *abrogated* on other grounds by *Reed Elsevier, Inc. v. Muchnick*, 559 U.S. 154 (2010) ("Wary of undermining the Sherman Act, however, we do not hold that an antitrust plaintiff can never rebut this presumption, for there may be rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act").

161. Albert A. Foer, *The Federal Antitrust Commitment: Providing Resources to Meet the Challenge*, AM. ANTITRUST INST., available at <http://www.antitrustinstitute.org/files/whitepaper.pdf> ("The election of President Reagan was accompanied by a decisive reorientation of antitrust under the influence of the Chicago School of economics and law. The federal antitrust resources and the mission of antitrust were dramatically reduced during the Reagan years, only to be restored in a slow but steady way under the administrations of President Bush and President Clinton.").

162. Crane, *supra* note 154, at 1912. Ralph J. Winter Jr. and Douglas H. Ginsburg are also important members of this group. I thank Spencer Waller for this insight.

163. *Id.* ("Under [Baxter's] direction, the Justice Department veered away from interventionist stances on vertical restraints and mergers, monopolization, and even horizontal mergers.").

164. *Id.* ("Although slightly more interventionist policies would reemerge in the agencies during the Clinton Administration, Baxter and Miller's revolution set the agencies on a durable new path."); see also TIMOTHY J. MURIS, *Looking Forward: The Federal Trade Commission and the Future Development of U.S. Competition Policy*, 2003 COLUM. BUS. L. REV. 259, 388 (2002).

165. GAVIL ET AL., *supra* note 152, at 67.

166. Crane, *supra* note 154, at 1917.

167. *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505 (7th Cir. 1982)



tory royalties amounted to patent misuse.<sup>168</sup> He wrote that if misuse were not guided by antitrust law's concern for anticompetitive conduct, its broad scope would subject "the rights of patent holders to debilitating uncertainty."<sup>169</sup> As Robert Merges explained, "[t]he thinking [was] that antitrust has evolved a 'precise' methodology for ascertaining when improper market leverage is being used by a patentee . . . and that the relatively imprecise 'equitable' doctrine of misuse only adds confusion and uncertainty to the scene."<sup>170</sup>

In writing *Windsurfing*, Chief Judge Markey cited Judge Posner's *USM* opinion in fashioning an "antitrust-lite" version of misuse and wrote that "[r]ecent economic analysis questions the rationale behind holding any licensing practice per se anti-competitive."<sup>171</sup> Robert Hoerner noted that "[t]his was a genuinely startling pronouncement because existing case law, including controlling Supreme Court precedent, had never held that a relevant market finding or a finding of an anticompetitive effect had been required to support a finding of extension of the monopoly-type patent misuse."<sup>172</sup>

The Federal Circuit's version of patent misuse has generally been followed by the district courts.<sup>173</sup> Some courts have taken the approach that if the defendant does not show anticompetitive effects, the matter is resolved in the patentee's favor without further inquiry into allegations of wrongful

168. *Id.* at 512.

169. *Id.* But Judge Posner's arguments invite the question: why could courts not simply have relied upon preexisting antitrust laws? After all, the Sherman Act was enacted in 1890, and by 1942, the Clayton Act, which the lower court of appeals in *Morton Salt* relied on to reach the same result was also available to the courts.

170. Leaffer, *supra* note 52, at 155.

171. *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 n.9 (Fed. Cir. 1986) (citing *USM Corp.*, 694 F.2d at 510-14); *see also* *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1329 n.2 (Fed. Cir. 2010) ("Some courts and commentators have questioned the continuing need for the doctrine of patent misuse, which had its origins before the development of modern antitrust doctrine); *USM Corp.*, 694 F.2d at 511 ("Since the antitrust laws as currently interpreted reach every practice that could impair competition substantially, it is not easy to define a separate role for a doctrine also designed to prevent an anticompetitive practice—the abuse of a patent monopoly.").

172. Hoerner, *supra* note 63, at 697; *see also* Brett Aaron Mangrum, Casenote, *Patent Misuse – A Questionable Permission of Licensing Arrangements that Tie Down the Equitable Scales*, 60 SMU L. REV. 307, 309 (2007) (noting that "the Federal Circuit pulled out of thin air the additional 'anticompetitive effect' requirement for a finding of patent misuse.").

173. *See e.g.*, *Home Gambling Network, Inc. v. Piche*, No. 2:05-CV-00610-DAE-VCF, 2013 WL 5492568, at \*11 (D. Nev. Sept. 30, 2013) (quoting *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997)) ("Patent misuse occurs when a patentee tries to 'impermissibly broaden[ ] the physical or temporal scope' of the patent grant with anticompetitive effect."); *see also* *Intellectual Ventures I LLC v. Capital One Fin. Corp.*, No. 1:13-cv-00740(AJT/TRJ), 2013 U.S. Dist. LEXIS 177836, at \*32 (E.D. Va. Dec. 18, 2013) ("The concept of patent misuse is premised on the existence of an enforceable patent, and the use of the monopoly power that accompanies such a patent, to extract concessions that exceed the temporal or subject matter scope of that monopoly power.").



conduct, even when it may indicate an abuse of the patent system.<sup>174</sup> At least one district court has expanded the market power requirement for tying allegations to other forms of misuse allegations, raising the threshold defendants must cross beyond what Congress had proscribed.<sup>175</sup>

In *Hon Hai Precision Indus. Co., Ltd. v. Wi-LAN, Inc.*, the licensee argued that the licensor was attempting to expand the scope of that license to include products not covered by the patent.<sup>176</sup> The district court equated the threat to terminate a pre-existing license to a tying arrangement, and required the defendant to show market power.<sup>177</sup> By interpreting a threat to terminate as equating a tying arrangement, any *ex post* condition including grantbacks, price-fixing, and output reduction arrangements, could be shoehorned into a tying rubric.

Looking at Figure 8 below, district court cases have formed a larger proportion of cases in the 2003–2013 period compared to any other period. This trend may indicate that parties are better able to satisfactorily resolve their differences without seeking review in a higher court. It could also show a stabilization of misuse law over the years, therefore requiring less error correction by an appellate court. If this is so, then it indicates that the Federal Circuit's harmonizing of patent law may be a stabilizing factor. The dominance of district court cases from the Seventh Circuit (see Figure 9 below), where influential Chicago School antitrust judges like Judges Posner and Wood have presided over some misuse appeals, could have been another contributing factor to the infusing of patent misuse with antitrust jurisprudence.<sup>178</sup>

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174. See e.g., *Seaboard Int'l, Inc. v. Cameron Int'l Corp.* No. 1:13-CV-00281-MLH-SKO, 2013 U.S. Dist. Lexis 106784, at \*8 (E.D. Cal. July 30, 2013) (finding no misuse despite disclaiming subject matter during prosecution of patents in suit because "Cameron has failed to sufficiently allege that Seaboard's actions have had anticompetitive effects"); see also *Home Gambling Network*, 2013 WL 5492568, at \*12 ("Because Plaintiffs bring a claim for breach of contract to enforce provisions of a license agreement that impermissibly encompasses subject matter they affirmatively surrendered during the course of patent prosecution, the doctrine of patent misuse bars their claim.").

175. See 35 U.S.C. § 271(d) (2012) ("No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of . . . 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.").

176. *Hon Hai Precision Indus. Co. v. Wi-Lan, Inc.*, No. 12 Civ. 7900(SAS), 2013 WL 2322675, at \*10 (S.D.N.Y. May 28, 2013).

177. *Id.*

178. See *Cnty. Materials Corp. v. Allan Block Corp.*, 502 F.3d 730, 736 (7th Cir. 2007); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505 (7th Cir. 1982) (opinion by Judge Posner); see also LIM, *supra* note 11, at 335 (discussing data that shows antitrust policy permeates district court and appellate cases at the Seventh Circuit).

FIGURE 8. CASE DISTRIBUTION (BY LEVEL) (1953 – 2013)

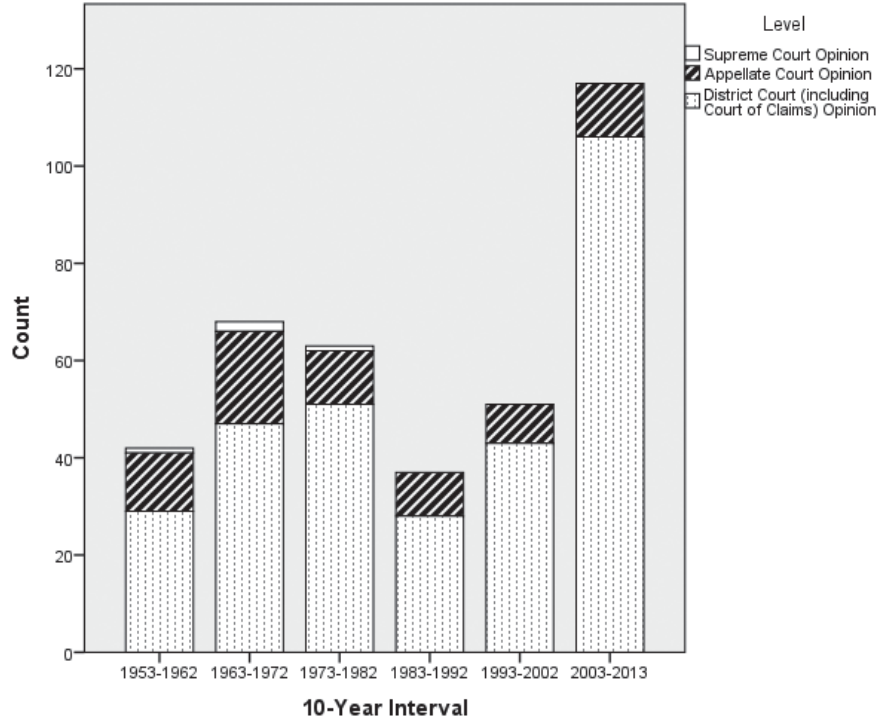
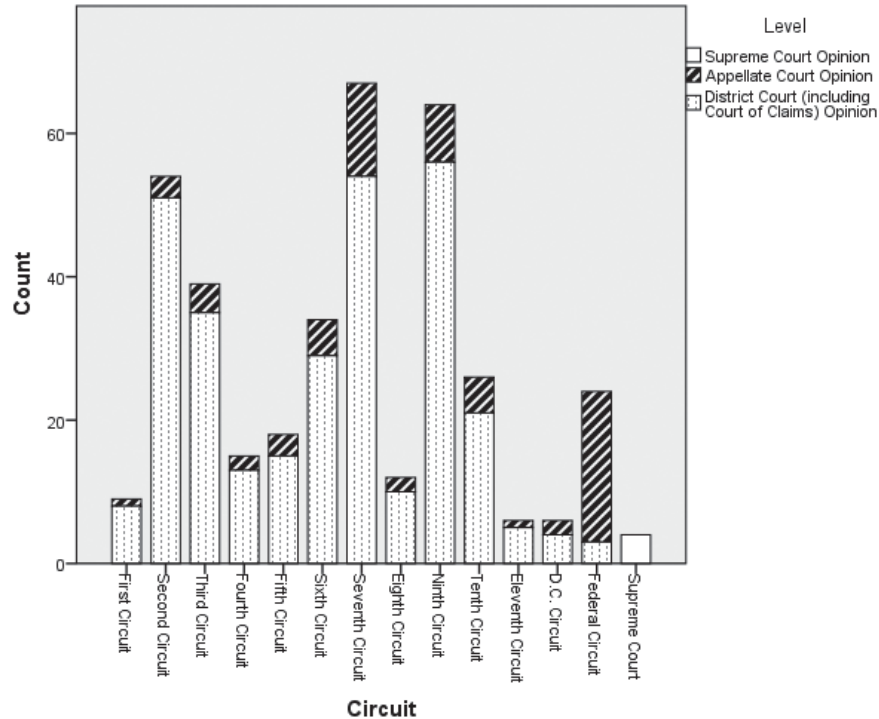


FIGURE 9. CASE DISTRIBUTION (BY CIRCUIT) (1953 – 2013)



From the 1980s through to early 2000s, the pendulum swung in the direction of strong patent rights. Antitrust law was kept under a tight leash by the courts. Patent misuse was a waning defense. More recent antitrust jurisprudence has moved away from *per se* prohibitions common during the middle of the twentieth century.<sup>179</sup> But just because old Supreme Court precedent employing the *per se* approach fell out of favor, it did not automatically mean that old misuse precedent is also bad because courts during that time often used similar rhetoric when talking about patent “monopolies.”<sup>180</sup>

Moreover, a leading treatise pointed out that, although Judge Posner’s exhortations are “legitimate from an economic standpoint,” “patent misuse is not only about ‘monopolistic abuse,’ but also serves as an internal constraint on efforts to expand the patent system beyond its bounds.”<sup>181</sup> In Chief Justice Roberts’s dissent in *Actavis*, he too noted that, although antitrust law sought to determine whether the practice harmed competition, patent policy encompasses a set of judgments about the proper tradeoff between competi-

179. See, e.g., Kovacic & Shapiro, *supra* note 157, at 55.

180. See e.g. *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 451 (1940) (discussing the “patent monopoly.”).

181. 1 HOVENKAMP ET AL., *supra* note 6, § 3.2.

tion and the incentive to innovate over the long run,”<sup>182</sup> and that “[a]ntitrust’s rule of reason was not designed for such judgments and is not adept at making them.”<sup>183</sup>

One thing is certain. The Supreme Court’s and Congress’ views on patents are changing. The Court’s reversal of the Federal Circuit in *Mayo Collaborative Servs. v. Prometheus Laboratories, Inc.* was accompanied by an expressed concern over “a danger that the grant of patents . . . will inhibit future innovation . . . or otherwise forecloses more future invention than the underlying discovery could reasonably justify.”<sup>184</sup> Echoing *Morton Salt*, the Court expressed concern over the need to limit patentees to the scope of their patent grant.<sup>185</sup> *Prometheus* follows a number of earlier decisions to reverse the standards put in place by the Federal Circuit that were deemed too pro-patentee.<sup>186</sup> Congress also has considered a slew of legislative initiatives to introduce more competition in the pharmaceutical industry and curb vexatious litigation.<sup>187</sup> But the development that best indicates a swing away from patent deference is the Supreme Court’s ruling in *Actavis*.<sup>188</sup>

#### IV. REFORMULATING THE PATENT-ANTITRUST DOUBLE HELIX

*Actavis* is the latest in a string of cases signaling a concerted effort by the Supreme Court to narrow the reach and scope of patent rights. After explaining why *Actavis* is correct both as a matter of law and judicial

182. *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223, 2246 (2013) (quoting 12 AREEDA & HOVENKAMP, *supra* note 101, § 7.3).

183. *Id.*

184. *Mayo Collaborative Servs., v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1301 (2012).

185. *Id.*

186. *See Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013) (reversing the Federal Circuit’s decision on gene patents, holding that isolated DNA sequences did not qualify as patentable subject matter); *see also KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (raising the threshold required by patent applicants or owners to show that their inventions were nonobvious); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (reversing Federal Circuit precedent automatically granting injunctions upon a finding of infringement, requiring courts instead to weigh the equities as in non-patent injunction requests).

187. *See, e.g.*, Andrew Baluch, Patent Reform 2014: A Comprehensive Guide to Current Patent Reform Developments in Congress, the Executive Branch, the Courts and the States (March 24, 2014) (unpublished manuscript), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2414306](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2414306).

188. Thomas Frongillo et al., *Reverse Payment Settlements in Jeopardy Following Supreme Court Ruling in FTC v. Actavis*, FISH & RICHARDSON (June 19, 2013), <http://www.fr.com/FTC-Actavis-Reverse-Payment-Settlement/> (“[W]hen viewed in conjunction with the Court’s recent decisions in *Association for Molecular Pathology v. Myriad Genetics, Inc.*, and *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, [*Actavis*] may signal the beginning of a trend in which the Court is narrowing both the reach and scope of the patent laws”) (footnotes omitted). 2014 saw the Court accepting more patent cases. *See, e.g.*, *Lime-light Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 895 (2014) (whether a party should be held liable for inducing another party to infringe a patent if that party did not perform every claim in the patent); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 896 (2014) (on the proper standard for indefiniteness).

rulemaking, this Part considers the re-emergence of a patent-skeptical Supreme Court and its implications for the patent-antitrust interface and patent misuse.<sup>189</sup> It then turns to the Ninth Circuit's decision in *Kimble* and observes that while the court reached the correct result, it misunderstood *Bruno* and overlooked the patent policy lever function of patent misuse.<sup>190</sup>

#### A. *The Patent-Antitrust Interface after Actavis*

*Actavis* seemed to contain the elements of a straightforward antitrust indictment: a dominant drug company paid potential rivals millions of dollars not to compete at the cost of public access to cheaper medicine.<sup>191</sup> The interests of these rivals, once aligned with those of the public, had been twisted to align with its former rival and current paymaster. According to an FTC report, these settlements cost consumers \$3.5 billion a year.<sup>192</sup> The Court pointed accusingly to the Hatch-Waxman Act as a significant reason for these settlements.<sup>193</sup>

Ironically, the Act was enacted to accelerate the entry of generic drugs into the market<sup>194</sup> under an abbreviated new drug application (ANDA). The Act allows generics to piggy-back on the prior regulatory approval obtained by brand name drugs without undertaking costly and time-consuming clinical trials of their own, if the generic drugs contained the same active ingredients and were bioequivalent.<sup>195</sup> Under a "Paragraph IV" filing, a generic can avoid waiting until the pioneer's patent expires by showing that the patent was invalid or not infringed by the manufacture, use, or sale of the generic's drug.<sup>196</sup>

189. See generally Daryl Lim, *Reverse Payments: Life After Actavis*, 45 INT'L. REV. INT. PROP. & COMPETITION L. 1 (2013) (noting closer scrutiny of settlements post-*Actavis* and the opportunity it provides to catalyze dialogue between the patent and antitrust bars).

190. Christopher A. Cotropia, *Patent Claim Interpretation Methodologies and Their Claim Scope Paradigms*, 47 WM. & MARY L. REV. 49, 58 (2005) ("Patent policy levers are patent doctrines that can be adjusted to implement particular patent policies or patent theories.").

191. *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223, 2229 (2013) ("Solvay agreed to pay millions of dollars to each generic—\$12 million in total to Paddock; \$60 million in total to Par; and an estimated \$19–\$30 million annually, for nine years, to Actavis.").

192. FED. TRADE COMM'N, *PAY FOR DELAY: HOW DRUG COMPANIES PAY-OFFS COST CONSUMERS BILLIONS 2* (Jan 2010), available at <http://www.ftc.gov/sites/default/files/documents/reports/pay-delay-how-drug-company-pay-offs-cost-consumers-billions-federal-trade-commission-staff-study/100112payfordelayrpt.pdf>.

193. *Actavis*, 133 S. Ct. at 2235 (pointing out that the 180-day exclusivity period blocks subsequent challenges).

194. H.R. Rep. No. 98-857, pt.1, at 14 (1984). (seeking "to make available more low cost generic drugs.").

195. 21 U.S.C. §§ 355(j)(2)(A), 355(j)(8)(B) (2012).

196. 21 U.S.C. §§ 355(j)(2)(A)(vii); see also Barry et al., *supra* note 53, at 27 ("ANDA litigation transpires when a generic drug manufacturer files with the Food and Drug Administration (FDA) an ANDA paragraph IV certification challenging a brand drug manufacturer's patent(s). Damages are rarely, if ever, awarded because the alleged infringer does not generally

To entice generic challengers to step into the arena, the first-filing generic wins 180 days of shared exclusivity in the marketplace with the patent owner.<sup>197</sup> The brand is able to obtain a 30-month stay on generic approval, and no other generics can enter during the first filer's 180-day period.<sup>198</sup> With the marginal cost of drug manufacture being almost negligible, and with little or no generic competition (unless simultaneous generic filing occurs), that period assures the first filer a bountiful windfall.<sup>199</sup> Under these circumstances, a rational first filer would only accept a payment to settle that was at least as great as the expected value of production.<sup>200</sup> Further, most first filers bear no risk of being liable for damages even if they lose, unless they have begun manufacturing before they win the challenge.

Between 1992 and 2012 the number of ANDA challenges has risen steadily from seventeen to seventy-seven over five-year intervals (see Figure 10 below). While fluctuating between 2006 and 2012, the success rates for patentees have generally risen (see Figure 11 below).

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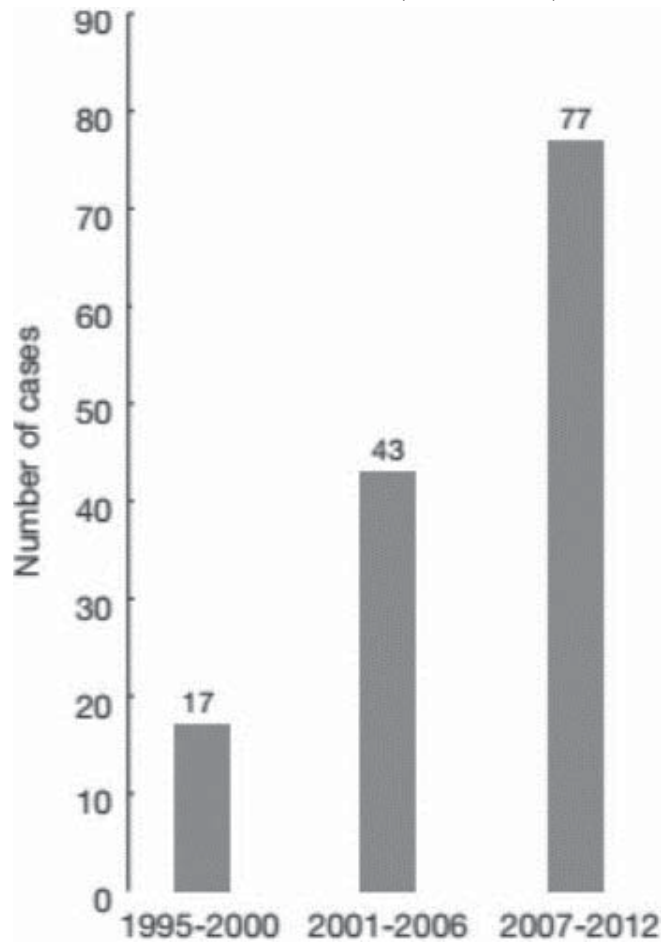
make any infringing sales prior to the filing of the litigation. However, the economic ramifications of ANDA litigation are significant because of the potential for lost patent protection of highly profitable brand name drugs. In addition, the first generic filer of a successful patent challenge is awarded a period of exclusivity in the generic drug market.”).

197. 21 U.S.C. § 355(j)(5)(B)(iv).

198. 21 U.S.C. § 355(j)(5)(B)(iii).

199. Indeed, the Court noted that most of the generic's profits for the drug were made during that period. *See* F.T.C. v. Actavis, Inc., 133 S. Ct. 2223, 2229 (2013) (citing C. Scott Hemphill, *Paying for Delay: Pharmaceutical Patent Settlement as a Regulatory Design Problem*, 81 N.Y.U. L. REV. 1553, 1579 (2006)) (“During that period of exclusivity no other generic can compete with the brand-name drug. If the first-to-file generic manufacturer can overcome any patent obstacle and bring the generic to market, this 180-day period of exclusivity can prove valuable, possibly “worth several hundred million dollars.”).

200. Hovenkamp, *supra* note 4, at 24.

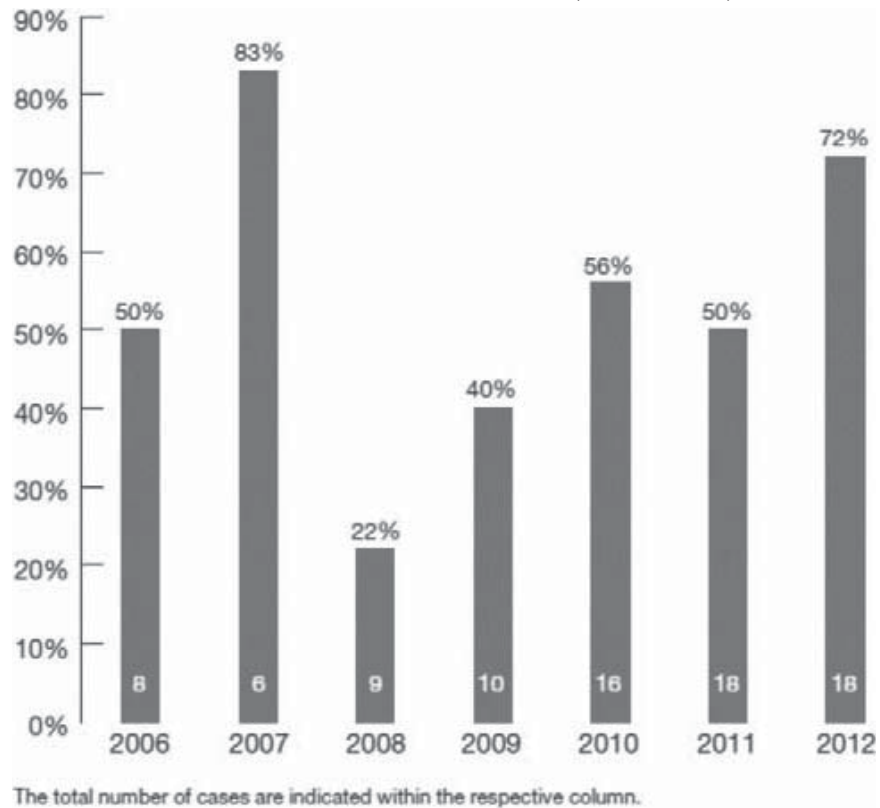
FIGURE 10. ANDA CASES (1995 – 2012)<sup>201</sup>

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201. Barry et al., *supra* note 53, at 27.



FIGURE 11. ANDA SUCCESS RATES (1995 – 2012)



Notwithstanding the success patentees enjoyed, the number of payments they made to their generic competitors has increased from three in 2011 to forty in 2013 (see Figure 12 below).

FIGURE 12. SETTLEMENTS BETWEEN PATENT OWNERS AND POTENTIAL GENERIC COMPETITORS<sup>202</sup>

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Final Settlements	14	11	28	33	66	68	113	156	140
Potential Pay-for-Delay	0	3	14	14	16	19	31	28	40
Potential Pay-for-Delay Involving First Filers	0	2	9	11	13	15	26	18	23

202. FED. TRADE COMM'N, OVERVIEW OF AGREEMENTS FILED IN FISCAL YEAR 2012: A REPORT BY THE BUREAU OF COMPETITION 2 (January 2013). For a critique of this data, see Kevin E. Noonan, *FTC Releases Another Report on Reverse Payment Settlement Agreements*

In assessing whether patent infringement settlements involving reverse payments violated the antitrust laws, the *Actavis* Court found that the payment may “provide strong evidence that the patentee seeks to induce the generic challenger to abandon its claim with a share of its monopoly profits that would otherwise be lost in the competitive market.”<sup>203</sup> It also found that the Hatch-Waxman Act’s “general procompetitive thrust” of facilitating challenges to patent validity and the requirement for parties to report the settlement terms to antitrust agencies indicates a general policy favoring settlement of disputes.<sup>204</sup>

The reverse payments had the effect of shifting the alignment of interests of generics from the side of consumers to the brand name companies, thereby corrupting the process by which cheap drugs were intended to be encouraged.<sup>205</sup> The Court summed up its position that “challenged terms and conditions [were] unlawful unless patent law policy offsets the antitrust law policy strongly favoring competition.”<sup>206</sup>

The *Actavis* Court’s analysis sets out the burden of proof and the evidence needed to carry that burden. The plaintiff carries the burden of proving the settlement violates antitrust laws, but enjoys a more abbreviated process if the evidence warrants it.

In particular, the Court noted that the “size of the payment from a branded drug manufacturer to a prospective generic is itself a strong indicator of power.”<sup>207</sup> Such evidence is a more direct measurement of market power, and is superior to a more indirect measurement of that power through market definition.<sup>208</sup> As a proxy of competitive harm, the Court pointed out that “the likelihood of a reverse payment bringing about anticompetitive effects depends upon its size, its scale in relation to the payor’s anticipated future litigation costs, its independence from other services for which it might represent payment, and the lack of any other convincing justification.”<sup>209</sup> This proxy obviates the need to analyze which party would have prevailed in the underlying infringement action.

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in *ANDA Litigation*, PATENT DOCS (Jan 17, 2013), <http://www.patentdocs.org/2013/01/ftc-releases-another-report-on-reverse-payment-settlement-agreements-in-anda-litigation.html>.

203. *Actavis*, 133 S. Ct. at 2235.

204. *Id.* at 2225.

205. See, e.g., Michael A. Carrier, *Unsettling Drug Patent Settlements: A Framework for Presumptive Illegality*, 108 MICH. L. REV. 37, 39-41 (2009).

206. *Actavis*, 133 S. Ct. at 2233.

207. *Id.* at 2236.

208. Hovenkamp, *supra* note 4, at 24 (“In a competitive market the value of keeping a competitor out is close to zero, but becomes higher as price-cost margins increase. Further, in these cases the duration of the monopoly is not infinite, but is limited by the remaining duration of the patent. A rational patentee would pay no more than the anticipated value of monopoly returns over the remaining period, so a large payment surely indicates power.”).

209. *Actavis*, 133 S. Ct. at 2237; see Monte Cooper et al., *Reverse Payment Settlements Now Subject to Antitrust Scrutiny, but Lower Courts Left to Fill in the Blanks*, ORRICK (Jun 18 2013), <http://www.orrick.com/Events-and-Publications/Pages/Reverse-Payment-Settlements->

As a matter of law, the Court's reasoning is correct. It is hornbook law that the antitrust laws prohibit the exclusion of both actual and potential competitors,<sup>210</sup> as well as patent infringement settlements that unreasonably restrain competition.<sup>211</sup> Section 211 of the Patent Act is also clear that "[n]othing in this chapter shall be deemed to convey to any person immunity from civil or criminal liability, or to create any defense to actions, under any antitrust law."<sup>212</sup>

Further, commentators have cautioned against writing "exceptions for certain conduct or industries," since "[o]ur antitrust laws are written broadly enough to apply to all industries and to conduct that changes over time[.]"<sup>213</sup> Notwithstanding that the Patent Act expressly permits assignments, the routine application of Section 7 of the Clayton Act to asset acquisitions of patents, shows that antitrust law permits only assignments that are not found to be anticompetitive.<sup>214</sup>

As a matter of judicial rulemaking, the Court's view has the force of logic behind it. Former foes in a patent trial are now allies in the antitrust

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Now-Subject-to-Antitrust-Scrutiny-But-Lower-Courts-Left-to-Fill-in-the-Blanks.aspx ("The big opportunity for brands and generics wishing to settle claims is to develop the idea that payments to a generic for services (or for anything else, for that matter) may legitimately be made in connection with settlement, even if unrelated to the product at issue. The agreements in such cases would have to be commercially reasonable and negotiated at arm's length, but perhaps there would be no other requirement."); see also Glynn S. Lunney, Jr., *FTC v. Actavis: The Patent-Antitrust Intersection Revisited* 54 (Tulane Univ. Sch. of Law Pub. Law and Legal Theory Working Paper Series, Paper No. 13-19, 2013), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2348075](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2348075) (warning of more agreements delaying generic entry to the last six months of the patent term. This would indicate that "generics are not seriously challenging weak patents, but simply settling for the guarantee of 180-day generic exclusivity the settlement ensures, rather than risk losing the generic exclusivity altogether in litigation").

210. *Palmer v. BRG of Ga. Inc.*, 498 U.S. 46, 49–50 (1990) (agreement that potential entrant would stay out of competitor's market unlawful *per se*). *Palmer* was cited with approval in *Actavis*. In addition, both the 2010 Horizontal Merger Guidelines and the DOJ/FTC Antitrust Guidelines for the Licensing of Intellectual Property treat firms as potential competitors to the incumbent as long as their entry is reasonably probable. See DEP'T OF JUSTICE & FED. TRADE COMM'N, HORIZONTAL MERGER GUIDELINES § 9.2 (2010), available at <http://www.justice.gov/atr/public/guidelines/hmg-2010.html> ("Entry is likely if it would be profitable, accounting for the assets, capabilities, and capital needed and the risks involved, including the need for the entrant to incur costs that would not be recovered if the entrant later exits."); U.S. JUSTICE DEP'T AND THE FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY GUIDELINES § 3.1 n.14 (1995) ("A firm will be treated as a likely potential competitor if there is evidence that entry by that firm is reasonably probable in the absence of the licensing arrangement.").

211. *United States v. Singer Mfg. Co.*, 374 U.S. 174, 200 (1963) ("[S]uch collusion to secure a monopoly grant runs afoul of the Sherman Act's prohibitions against conspiracies in restraint of trade\*—if not bad *per se*, then such agreements are at least presumptively bad.").

212. 35 U.S.C. § 211 (2012).

213. Karen Bokar, *Reverse-Payment Settlement Agreements Roundtable*, ANTITRUST HEALTH CARE CHRON. 11, 21 (2013), available at <http://ssrn.com/abstract=2246466>.

214. 35 U.S.C. § 261.

trial. They control the evidence relevant to the patent trial and have every incentive to defeat the antitrust plaintiff they now face together. The settling parties are best situated to provide and substantiate the settlement and should be made to do so.<sup>215</sup> At the same time, keeping the ultimate burden of proof on the antitrust plaintiff, the rebuttable presumption avoids condemning agreements with net competitive benefits since in these cases the court will find for the settling parties.

As a practical matter, patentees can continue to settle litigation disputes with generic drug companies as long as the payment has “offsetting or redeeming virtues” which “may amount to no more than a rough approximation of the litigation expenses saved through the settlement.”<sup>216</sup> Patentees can also show that the payment reflects “compensation for other services that the generic has promised to perform—such as distributing the patented item or helping to develop a market for that item.”<sup>217</sup> Allowing settlements to divide

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215. Thomas Cotter, *FTC v. Actavis: An Analysis*, LEXOLOGY, (Feb 25 2013), <http://www.lexology.com/library/detail.aspx?g=ca4c07f7-6258-4f3c-afd8-6acedb3d7681> (“Other relevant evidence may include the presence of other agreements between the settling parties (for example, authorizing the defendant to market an authorized generic drug, or licensing the defendant other intellectual property rights), which should be taken into account for the limited purpose of accurately estimating the value of the consideration flowing from plaintiff to defendant; whether the generic is ‘cash-strapped,’ and therefore willing to accept a later entry date to remain in business; whether the patent owner sought, and succeeded in obtaining, a preliminary injunction against the generic manufacturer; whether the generic manufacturer agrees to waive its 180-day exclusivity, thus removing the risk of a bottleneck potentially blocking other ANDA applicants; and whether the patent in suit has withstood other validity challenges arising after the filing of the settled action.”).

216. *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223, 2236 (2013). One possibility for a redeeming virtue mentioned by the Third Circuit in *In re K-Dur Antitrust Litigation*, 686 F.3d 197, 218 (3d Cir. 2012) was a payment enabling “a cash-starved generic manufacturer to avoid bankruptcy and begin marketing a generic drug.” However, Glynn S Lunney, Jr. warned against adopting this because “we will end up with thinly capitalized generics specifically established to pursue just one case, so that the avoid bankruptcy argument would always be available.” Lunney, Jr., *supra* note 209, at 34 n.130; *see also* Thomas F. Cotter, *Antitrust Implications of Patent Settlements Involving Reverse Payments: Defending a Rebuttable Presumption of Illegality in Light of Some Recent Scholarship*, 71 ANTITRUST L.J. 1069, 1073-74 (2004) (arguing that reverse payments may be made for reducing other risks, such as the defendant’s potential insolvency, or could reflect the parties’ different toleration for risk or asymmetric information in evaluating the likelihood of success at trial).

217. *Actavis*, 133 S. Ct. at 2236. *But see* Lunney, *supra* note 209, at 33-34 (arguing that policing the line in the first instance “seems reasonably straightforward”, but the latter “is likely to prove far more difficult”). Lunney predicts that this licensed entry model “will become the preferred method for insulating weak patents from generic challenge” explaining that “[w]hile different in form, such a settlement structure essentially duplicates the anticompetitive effects of a reverse payment settlement, except the reverse payment comes in the form of a division of expected rent.” *Id.* at 53; *see also id.* at 35 (“While a traditional percentage of revenue royalty license would leave the generic with an incentive to cheat and sell the generic drug at a lower price in order to maximize its own profits, the patent holder can discourage such cheating by: (i) setting an appropriate per-dose license fee, so that the license fee plus the marginal cost of the drug equaled the drug’s profit-maximizing price; (ii) restricting the quantity of the generic drug that the licensee may sell; or (iii) setting a minimum resale price for the

the remaining patent term without compensation to the generic would reflect the strength of the parties' arguments at trial.<sup>218</sup>

The *Actavis* dissent preferred the Eleventh Circuit's view that patents essentially create an antitrust-free zone within their scope.<sup>219</sup> Under this view, only in narrow instances such as sham litigation and fraudulent patent procurement would antitrust scrutiny be warranted.<sup>220</sup> The dissent's reticence toward allowing antitrust scrutiny echoes the Court's earlier position in *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*.<sup>221</sup> Writing for the *Verizon* majority, Justice Scalia declined to apply antitrust law where sector-specific rules regulated conditions for access to a telephone network. Like Chief Justice Roberts, whom he joined in the *Actavis* dissent, he was concerned about the costs of false convictions<sup>222</sup> and doubted the Court's ability to fashion a satisfactory remedy.<sup>223</sup> That level of caution may have explained *Trinko*'s feeble agnosticism toward the essential facilities doc-

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generic drug in the license."'). The proper response is that the legal form of such agreements do not alter their economic reality. See *In re K-Dur*, 686 F.3d at 218 (requiring antitrust analysis to be "based on the economic realities of the reverse payment settlement rather than labels applied by the settling parties"); *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 58-59 (1977) (requiring that antitrust analysis "be based upon demonstrable economic effect rather than . . . upon formalistic line drawing").

218. Andrew D. Regan & Charles E. Miller, *Hatch-Waxman Litigation Post-Actavis: Crafting a Pro-Competitive Settlement Agreement*, 6 *LANDSLIDE* 52, 53 (2013) ("[T]he formulation of a patent-term split provides flexibility during negotiations. The split ratio can be rationally based on the strengths and weaknesses of the respective positions in the underlying patent litigation."); see also *id.* at 4 ("By having the brand name exchange payment for services such as research, clinical testing, manufacturing, sales, marketing, or other services, and receiving an abatement of the generic's patent challenge in return, the underlying interests of all parties can be addressed. At minimum, the brand name protects current sales and maintains market share. Ideally, market share is increased through enhanced market penetration (*e.g.*, generic promotes patented drug), increased sales due to reduced price (*e.g.*, generic produces patented drug at a lower cost), or FDA approval for different indications (*e.g.*, generic conducts additional clinical testing of patented drug). On the other side, the generic gains the certainty of an earlier market entry, safety from infringement liability for "at risk" entry, and payment for services that involve the cultivation of necessary commercial skills."').

219. *Actavis*, 133 S. Ct. at 2239 (Roberts, C.J., dissenting) (suggesting that "a patent carves out an exception to the applicability of antitrust laws").

220. *Id.*

221. 540 U.S. 398 (2004); see Nicolas Petit & Alfonso Lamadrid de Pablo, *Reverse Payments (Pay for Delay Settlements) in EU and US Antitrust Law (Part I)*, *CHILLIN' COMPETITION* (Jul 2, 2013), <http://chillingcompetition.com/2013/07/02/> ("[Actavis] appears to be at odds with the principles governing the interface between sector-specific regulation and antitrust established in *Trinko*."').

222. *Verizon Commc'ns*, 540 U.S. at 414 ("Against the slight benefits of antitrust intervention here, we must weigh a realistic assessment of its costs. . . . Mistaken inferences and the resulting false condemnations 'are especially costly, because they chill the very conduct the antitrust laws are designed to protect.'").

223. *Id.* at 414-15 ("Effective remediation of violations of regulatory sharing requirements will ordinarily require continuing supervision of a highly detailed decree. We think that Professor Areeda got it exactly right: 'No court should impose a duty to deal that it cannot explain or adequately and reasonably supervise. The problem should be deemed irremedia[ble]

trine.<sup>224</sup> Chief Justice Roberts was concerned that lower courts would be caught up in a web of “turducken” trials. These trials required issues of validity and infringement must be litigated as intermediate steps to assess whether a settlement.<sup>225</sup>

However, there are several reasons why the dissent’s approach is flawed. First, although it has the appeal of simplicity, the “scope of the patent” approach assumes away the issues of validity and scope central to the Hatch-Waxman challenge.<sup>226</sup> The “scope of the patent” test has the potential to render every reverse payment within a patent term *per se* legal. As a matter of record, “no court applying the scope of the patent test has ever permitted a reverse payment antitrust case to go to trial.”<sup>227</sup>

An FTC study showed at least 73% of generics prevailed in paragraph IV challenges between 1992 and 2000.<sup>228</sup> The scope of the patent test impedes such challenges and allows patent owners to exploit poor quality or invalid patents. Jefferson earlier warned that a disproportionate legal monopoly was “more an embarrassment than an advantage to society.”<sup>229</sup> Allowing a patent owner to buy off the rival most interested in mounting that challenge creates a *prima facie* impediment to the sort of technological progress demanded by the Constitution in return for that monopoly.

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by antitrust law when compulsory access requires the court to assume the day-to-day controls characteristic of a regulatory agency.”).

224. *Id.* at 411 (“We have never recognized such a doctrine, and we find no need either to recognize it or to repudiate it here.”) (citation omitted).

225. *Actavis*, 133 S. Ct. at 2476 (citing *Bell Atl. Corp. v. Twombly*, 550 U.S. 544 (2007)) (noting that antitrust’s rule of reason “[S]ubject[s] basic questions of patent law to an unbounded inquiry under antitrust law, with its treble damages and famously burdensome discovery.”).

226. *See In re K-Dur Antitrust Litigation*, 686 F.3d 197 (3d. Cir. 2012); *see also* Bokan, *supra* note 213, at 17 (“The current focus of the Second, Eleventh and Federal Circuits on the scope-of-the patent test grants undue deference to patent rights and diminishes the value of competition in our economy. These courts assume too readily that the patents at issue are valid and infringed. They lose sight of the fact that the patent holder bears the burden of proving infringement and that, while there is an assumption of validity, a large percentage of cases, more than half, are won by generic companies challenging the validity of patents.”); Mark R. Patterson, *Leveraging Information About Patents: Settlements, Portfolios, and Holdups*, 50 *Hous. L. Rev.* 483, 500 (2012) (“[T]he scope argument in this context is entirely circular. If the patent is valid, an agreement that delays entry of a competitor that uses the patented technology is within the scope of the patent, but validity is exactly the issue on which legality of the agreement turns, so relying on scope is assuming the result of the argument. As suggested above, the courts here fail to appreciate that the uncertainty that the patentee is exploiting is neither within nor without the scope of the patent, but makes it impossible to know whether the patent is legally valid, i.e., whether it even makes sense to talk of the patent’s scope.”) (footnote omitted).

227. *In re K-Dur*, 686 F.3d at 214.

228. FED. TRADE COMM’N, *GENERIC DRUG ENTRY PRIOR TO PATENT EXPIRATION: AN FTC STUDY 16* (2002), available at [http://www.ftc.gov/sites/default/files/documents/reports/generic-drug-entry-prior-patent-expiration-ftc-study/genericdrugstudy\\_0.pdf](http://www.ftc.gov/sites/default/files/documents/reports/generic-drug-entry-prior-patent-expiration-ftc-study/genericdrugstudy_0.pdf).

229. *See* Letter from Thomas Jefferson to Isaac McPherson, *supra* note 90.



Second, the “scope of the patent” test encourages rent-seeking by the settling parties. Einer Elhauge and Alex Krueger warn that settling parties “maximize joint profits with settlements that declare the validity of whichever patent ends last, even if the other patent is actually more likely to be valid.” Settling parties could create

a stream of weak (but non-sham) patents precisely for the purpose of enabling these last-to-expire settlements that preclude competition as long as possible. Such a stream could even allow horizontal competitors to create a chain of reverse payment settlements that span multiple patent periods, trading the monopoly power back and forth between each other and splitting the profits with their counterpart throughout.<sup>230</sup>

Looking ahead, both antitrust and patent attorneys agree that *Actavis* will ripple beyond the Hatch-Waxman context.<sup>231</sup> Christine C. Levin and Irene Ayzenberg-Lyman suggest that patent licensing agreements will become more vulnerable as they are “often viewed as anticipatory settlements, for they are commonly entered into to avoid or resolve patent disputes,” and therefore “an antitrust plaintiff, following the rationale of *Actavis*, may try to challenge a patent licensing agreement by arguing that the consideration involved does not reflect the value of the patent rights granted under the agreement, and instead includes a premium not to compete with full force.”<sup>232</sup> Mark J. Botti *et al.* concur, noting that field of use restrictions will face greater scrutiny because “under *Actavis*, the question needs to be asked now

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230. Einer Elhauge & Alex Krueger, *Solving the Patent Settlement Puzzle*, 91 TEX. L. REV. 283, 290 (2012); *see also* Cotter, *supra* note 215 (noting that the “scope of patent test” “make[s] it virtually impossible to condemn reverse payment settlements resulting in generic exclusion unless the parties overreach by agreeing to restraints on the sales of collateral products . . . notwithstanding the statutory presumption of validity; and in any event that presumption has nothing to do with the separate question of infringement, the burden of proving which always rests with the patent owner.”).

231. *See, e.g.*, Christine Levin & Irene Ayzenberg-Lyman, *U.S. Supreme Court Rejection of the “Scope of the Patent” Test in FTC v. Actavis has Wide-Ranging Implications*, DECHERT LLP (Jun. 20, 2013), [http://sites.edechert.com/10/1446/june-2013/final-onpoint-and-live-analysis—how-will-scotus-decision-in-ftc-v.-actavis-impact-you-\(1\)\(1\)\(2\).asp?intEmailSentId=1361&intRecipientId=100300](http://sites.edechert.com/10/1446/june-2013/final-onpoint-and-live-analysis—how-will-scotus-decision-in-ftc-v.-actavis-impact-you-(1)(1)(2).asp?intEmailSentId=1361&intRecipientId=100300) (“Antitrust plaintiffs may attempt to use the *Actavis* decision outside of the Hatch-Waxman context.”); *see also* Mark J. Botti *et al.*, *Redefining the Border Between Intellectual Property and Antitrust: Implications of FTC v. Actavis*, SQUIRE SANDERS LLP (Jun. 27, 2013), <http://www.squiresanders.com/files/Publication/e175e111-1f90-4a14-b70d-3fabd626041a/Presentation/PublicationAttachment/0340eb51-3f36-45bf-88ed-400b4f4962f6/Redefining-the-Border-Between-Intellectual-Property-and-Antitrust-Implications-of-FTC-v-Actavis.pdf> (“Both the majority and the dissent relied and shed new light on older antitrust decisions involving patents, making clear that the *Actavis* decision would apply to patent pools, cross-licensing arrangements, and more routine patent licensing decisions.”).

232. Levin & Ayzenberg-Lyman, *supra* note 231.



whether a field of use restriction ‘within the scope of the patent’ raises significant antitrust concerns in particular circumstances.”<sup>233</sup>

More fundamentally, the shift in *Actavis* stems from more than a changing view of patent rights. It also signals a shift in the Court’s view of antitrust law itself. The precedents cited by the Court to support its interventionist position were from the 1960s and earlier, before the advent of the Chicago School.<sup>234</sup> Separately, Crane observed that “[o]ver the past few decades the Supreme Court has shown relatively little interest in antitrust cases . . . refus[ing] to review a number of controversial pro-plaintiff lower court decisions, thus allowing a body of post-Chicago lower court law to incubate.”<sup>235</sup> However, according to Crane, the Chicago School’s “intellectual edifice is in a state of neglect. Its erstwhile paladins are largely dead, bored with the field, or complacent. Some, like Posner and Easterbrook, continue to offer the occasional, infrequent antitrust intervention, but without the zeal of their earlier years.”<sup>236</sup> In contrast, Crane notes that “post-Chicago is lean, hungry, and spoiling for a fight.”<sup>237</sup>

Professors Andrew Gavil, William Kovacic and Jonathan Baker explain that the post-Chicago school places a greater emphasis on strategic considerations and use tools such as game theory to explain interdependent behavior.<sup>238</sup> More recently, behavioral economics has evolved into an important pillar of antitrust analysis.<sup>239</sup> Post-Chicago jurisprudence “tend[s] to be more interventionist,” and “question[s] Chicago views that markets commonly self-correct, entry is commonly easy, firms cannot successfully coordinate and government intervention can rarely succeed.”<sup>240</sup>

As Gavil *et al.* put it, “[a]ntitrust will always be a product of the prevailing economic and political thinking of the times.”<sup>241</sup> In this regard, Crane notes that “judges, politicians, academics, and enforcers—are increasingly being exposed to post-Chicago views without much of a current Chicago

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233. Botti *et al.*, *supra* note 231 (“While one would expect that traditional antitrust principles would protect various terms and conditions used in licensing agreements from antitrust review, the opinion may well be read to suggest that such standard clauses in patent licensing agreements as ‘field of use’ restrictions will face greater scrutiny.”).

234. *See e.g.*, *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965); *U.S. Gypsum Co. v. Nat’l Gypsum Co.*, 352 U.S. 457 (1957); *United States v. New Wrinkle, Inc.*, 342 U.S. 371 (1952); *Standard Oil Co. (Ind.) v. United States*, 283 U.S. 163 (1931).

235. Crane, *supra* note 154, at 1930.

236. *Id.*

237. *Id.*

238. *See* GAVIL ET AL., *supra* note 152, at 69.

239. *See e.g.*, Avishalom Tor, *Understanding Behavioral Antitrust*, 92 TEX. L. REV. 573 (2014).

240. GAVIL ET AL., *supra* note 152, at 70.

241. *Id.* at 72.

counterpunch.”<sup>242</sup> Under these circumstances, “Chicago is likely to find a world increasingly disinclined to accept its articles of faith.”<sup>243</sup>

The 2008 financial crisis has only hastened this pivot, as even the most faithful adherents placing trust in markets find themselves hard-pressed to make their faith attractive to those burned by the ensuing fallout.<sup>244</sup> Another development that same year, the election of President Obama, who campaigned on a platform of increased antitrust enforcement and more affordable healthcare, now has the FTC’s victory in *Actavis* as his trophy.<sup>245</sup>

The most significant aspect of *Actavis* is the Court’s views on the patent-antitrust interface, and the implications of those views on patent misuse.<sup>246</sup> *Post-Actavis*, antitrust law challenges will feature with greater prominence in future patent infringement cases. The Court held that “patent and antitrust policies are both relevant in determining the ‘scope of the patent monopoly,’”<sup>247</sup> and that “whether a particular restraint lies ‘beyond the limits of the patent monopoly’ is a conclusion that flows from that analysis and not . . . its starting point.”<sup>248</sup> The Court also found important that “the public interest in granting patent monopolies’ exists only to the extent that ‘the public is given a novel and useful invention’ in consideration for its grant.”<sup>249</sup> Where this interest is violated, “the Court has struck down overly restrictive patent licensing agreements—irrespective of whether those agreements produced supra-patent-permitted revenues.”<sup>250</sup>

With the orthodoxy of the “scope of the patent” rubric shattered, the correctness of *Windsurfing* and its progeny must be scrutinized. Just as the Eleventh Circuit was wrong to omit antitrust policy in determining patent scope from its antitrust analysis, the Federal Circuit was wrong to omit patent policy from its patent misuse analysis. *Actavis* questions the Federal Circuit jurisprudence echoing the dissent’s view that patents were subject to

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242. Crane, *supra* note 154, at 1930.

243. *Id.* at 1932.

244. *See id.*

245. *See id.* at 1933; *see also* Jeff Mason, *Obama Eyes Media with Promise of Antitrust Push*, REUTERS (May 18, 2008), available at [http://www.enn.com/top\\_stories/article/36508](http://www.enn.com/top_stories/article/36508) (reporting that presidential candidate Obama stated on the campaign trail: “We’re going to have an antitrust division in the Justice Department that actually believes in antitrust law. We haven’t had that for the last seven, eight years.”); Robert Laszweski, *A Detailed Analysis of Barack Obama’s Health Care Reform Plan*, THE HEALTH CARE BLOG (Mar 21, 2008) <http://thehealthcareblog.com/blog/2008/03/21/a-detailed-analysis-of-barack-obamas-health-care-reform-plan/>.

246. Botti & Hoke, *supra* note 4 (“The *Actavis* decision would be noteworthy for its intended impact alone on reverse-payment settlement agreements in the pharmaceuticals industry, making those settlements more open to antitrust challenge. The opinion has broader implications, however, for the basic intersection of intellectual property law and antitrust.”).

247. F.T.C. v. *Actavis, Inc.*, 133 S. Ct. 2223, 2225 (2013).

248. *Id.* at 2231–32.

249. *Id.* at 2241 (citation omitted).

250. *Id.* at 2232.

antitrust scrutiny only in the case of *Walker Process* fraud or sham litigation,<sup>251</sup> and calls into question the circumstances under which royalty payments beyond the duration of a patent can be patent misuse. This was the question the Ninth Circuit had to answer in *Kimble*.

### B. *Kimble: What if Brulotte Was Right?*

An enterprising attorney named Stephen Kimble invented a toy that allowed its user to shoot foam-string, and subsequently obtained a patent for it (see Figure 13 below).<sup>252</sup> When Marvel began making “Web Blaster” Spider-Man toys, Kimble sued Marvel for patent infringement.<sup>253</sup> The district court awarded Kimble 3.5% of net product sales on the Web Blaster.<sup>254</sup> The parties eventually settled the case, with Marvel agreeing to pay \$500,000 and 3% of “net product sales” to Kimble for a bundle of intellectual property rights, of which the patent license was one component. The settlement provided no end date for the royalty payments indefinitely. Over the years, Kimble earned more than six million dollars in royalties.<sup>255</sup> Cordial relations broke down when Kimble sought royalties over the purchase price of newer toys when the invention “was only one-fifth of the functionality of the toy.”<sup>256</sup> In response, Marvel sought a declaration that it was not obligated to pay Kimble following the patent’s expiration.<sup>257</sup>

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251. *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1326 (Fed. Cir. 2000) (“As we recently observed in *Glass Equipment Development Inc. v. Besten, Inc.*, a patent owner who brings suit to enforce the statutory right to exclude others from making, using, or selling the claimed invention is exempt from the antitrust laws, even though such a suit may have an anticompetitive effect, unless the infringement defendant proves one of two conditions. First, he may prove that the asserted patent was obtained through knowing and willful [*Walker Process*] fraud. . . . Or he may demonstrate that the infringement suit was a mere sham to cover what is actually no more than an attempt to interfere directly with the business relationships of a competitor.”) (citations omitted).

252. U.S. Patent No. 5,072,856 (filed May 25, 1990) (issued Dec. 17, 1991); Tim Hull, *Marvel Fights Spider-Man Toy Royalty Issue*, COURTHOUSE NEWS SERV. (Dec. 10, 2012), <http://www.courthousenews.com/2012/12/10/52991.htm>.

253. *Kimble v. Marvel Enters. Inc.*, 727 F.3d 856, 858 (9th Cir. 2013) (“The Web Blaster allowed that toy’s user to shoot foam string from a can mounted on the user’s wrist by activating a trigger in the user’s hand. Like Kimble’s toy, the Web Blaster was packaged with a glove, but unlike Kimble’s toy, the Web Blaster glove was purely cosmetic—a Web Blaster user did not need the glove in order to shoot foam string.”).

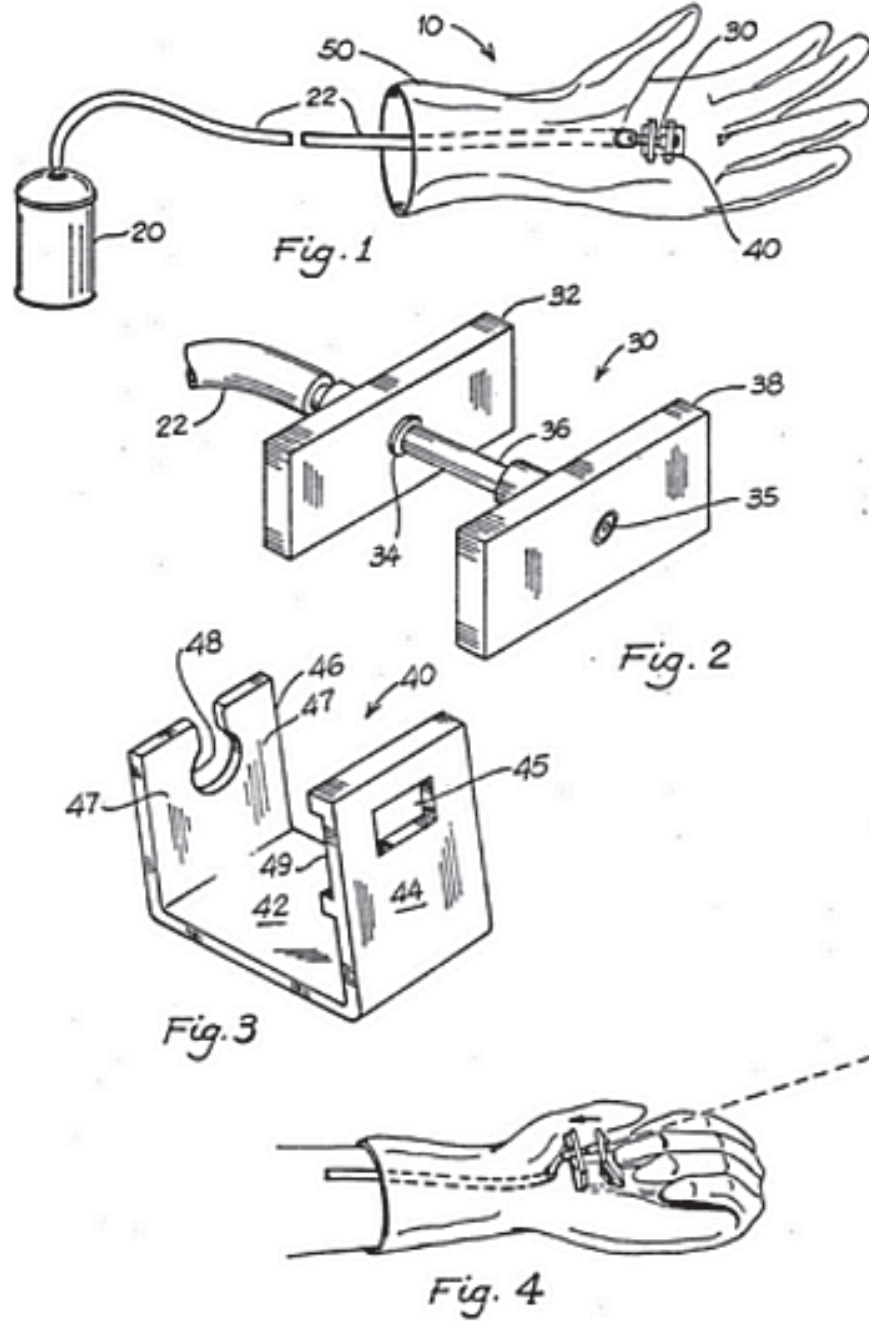
254. *Id.*

255. *Id.* at 859.

256. Hull, *supra* note 252.

257. *Kimble*, 727 F.3d at 859.

FIGURE 13. TOY WEB-SHOOTING GLOVE<sup>258</sup>



258. U.S. Patent No. 5,072,856 (filed May 25, 1990).

Writing for a unanimous Ninth Circuit panel, Judge Callahan affirmed the district court, holding that the hybrid licensing agreement “encompassing inseparable patent and non-patent rights [was] unenforceable beyond the expiration date of the underlying patent, unless the agreement provides a discounted rate for the non-patent rights or some other clear indication that the royalty at issue was in no way subject to patent leverage.”<sup>259</sup>

The court found that “the agreement plainly involved one royalty rate for both patent and Web Blaster rights, with no discount or other clear indication that the Web Blaster royalties were not subject to patent leverage.”<sup>260</sup> It also noted that the agreement “did not include a discounted rate for the alleged non-patent rights,”<sup>261</sup> and it explained that “the point of requiring a discount from the patent-protected rate is that it shows that the royalty at issue was not subject to patent leverage.”<sup>262</sup>

The court also found that at the time of the negotiations, Kimble “was challenging the district court’s decision and likely derived some amount of leverage from his patent infringement appeal.” Even if this patent leverage was significantly less than the leverage that Kimble derived from the jury verdict on his contract claim, *Brulotte* applied because it was impossible to tell “what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage.”<sup>263</sup>

The *Kimble* court’s invocation of *Brulotte* merits a brief explanation. *Brulotte v. Thys Co.* concerned hop-picking machines that were sold for a flat fee along with licenses requiring seasonal royalty payments for their use to be paid indefinitely.<sup>264</sup> The licenses prohibited buyers from assigning the licenses or using the machines outside Yakima County in the State of Washington. The Supreme Court found “a patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se.”<sup>265</sup>

Although recognizing the legitimacy of using the patent as leverage to exact royalties as high as possible during the life of the patent, the Court

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259. *Id.* at 857.

260. *Id.* at 864.

261. *Id.*

262. *Id.* See also *id.* at 865 (The Ninth Circuit dismissed Kimble’s argument that the 3% rate represented a “discount” from the district court judgment’s 3½% rate because “[t]he rates in the agreement at issue are what matters, not the rates in the long-since vacated judgment. . . . Moreover, where a first rate is higher and is not subject to patent leverage that does not show that a second, lower rate encompassing both patent-protected and non-patent protected rights was not subject to patent leverage. The ‘discount’ from the rate in the judgment to the Settlement Agreement reflected the fact that Kimble might not prevail on appeal, not that the rights at issue were not subject to patent leverage.”).

263. *Id.* at 866.

264. *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

265. *Id.* at 32.

deemed it improper to use that same leverage to exact lower royalties for a term extending beyond the life of the patent.<sup>266</sup> The Court drew on the fact that the Constitution prescribed exclusive rights to inventors for “limited times,” as well as Section 154 of the Patent Act which provided a fixed period, which at that time was seventeen years.<sup>267</sup> Once the patent expired, those once exclusive rights “become public property,”<sup>268</sup> and extending the patent monopoly post-expiration “runs counter to the policy and purpose of the patent laws” regardless of the “legal device” employed.<sup>269</sup>

The *Brulotte* Court was not merely concerned about private rights but also the public interest. It analogized the term extension to tying, and pointed out that the license was an attempt to “leverage” the patent tie to the period after the period had expired.<sup>270</sup> The Court concluded that the post-expiration payments were neither “deferred payments for use during the pre-expiration period”<sup>271</sup> nor metered royalties which would have “present[ed] wholly different considerations.”<sup>272</sup>

As with *Morton Salt*, the Court was concerned that the patentee was abusing the patent system to encumber commerce and marketplace competition through withholding from use what is in the public domain.<sup>273</sup> This concern was reiterated by the Court in *Brulotte* in *Aronson v. Quick Pencil Co.* more than a decade later, when it stated that post-expiration royalty agreements that did “not withdraw any idea from the public domain” would be enforceable.<sup>274</sup> Like *Brulotte*, the agreement in *Aronson* provided for royalty payments indefinitely. Unlike *Brulotte*, it provided a reduced royalty figure in the event the patent did not issue.<sup>275</sup>

Judge Callahan was not content with simply applying *Brulotte* to the facts, however. She described *Brulotte* as a “frequently-criticized decision,” and wrote that it was “counterintuitive and its rationale is arguably uncon-

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266. *Id.* at 33.

267. *Id.* at 30.

268. *Id.* at 31.

269. *Id.* (quoting *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)).

270. *Id.* at 33 (“But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tying the sale or use of the patented article to the purchase or use of unpatented ones.”); *see also id.* at 33–34. (“[A]fter expiration of the last of the patents incorporated in the machines, ‘the grant of a patent monopoly was spent’ and that an attempt to project it into another term by continuation of the licensing agreement is unenforceable.”).

271. *Id.* at 31.

272. *Id.* at 31–32.

273. *Id.* at 32–33. (“If that device were available to patentees, the free market visualized for the post-expiration period would be subject to monopoly influences that have no proper place there.”).

274. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262–63 (1979).

275. *Id.* at 259 (providing for a reduction from five percent to two and one half percent of sales.).

vincing.”<sup>276</sup> The point of contention was the agreement to pay royalties on a hybrid agreement indefinitely—“a technical detail that both parties regarded as insignificant at the time of the agreement.”<sup>277</sup>

Judge Callahan cited Judge Posner’s opinion in *Scheiber v. Dolby Labs., Inc.*, another patent misuse case, for support of her position.<sup>278</sup> In *Scheiber*, Judge Posner argued that “[f]or a licensee in accordance with a provision in the license agreement to go on paying royalties after the patent expires does not extend the duration of the patent either technically or practically, because . . . if the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower.”<sup>279</sup> He added that “[t]he duration of the patent fixes the limit of the patentee’s power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time.”<sup>280</sup> In a statement that seemed laden with resignation, Judge Callahan “reluctantly” applied *Brulotte* because the Ninth Circuit was “bound by Supreme Court authority and the strong interest in maintaining national uniformity on patent law issues.”<sup>281</sup>

Judge Callahan’s almost emotional protestations in an otherwise measured and methodical analysis are remarkable. More importantly, it invites the question of whether the Supreme Court in *Brulotte* was truly misguided. The key objection articulated in *Scheiber* and echoed in *Kimble* was that licensees should not be allowed to wriggle their way out of a deal they had agreed to when it became inconvenient to continue paying royalties simply because those royalties exceeded the patent term. That objection to unfairness is unfounded and misconstrues both the rule in *Brulotte* and the cases that have applied it.

The *Aronson* Court was fully aware that the licensee was attempting to relieve itself of a contract that encumbered it in the race against widespread copying by competitors who did not have to pay royalties.<sup>282</sup> Affirming *Brulotte*, the *Aronson* Court stated that had the royalty rate remained fixed, it would have limited payment to the patent term.<sup>283</sup> It found no patent leverage but rather that the agreement “merely require[d] [the licensee] to pay the consideration which it promised in return for use of the novel device which

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276. *Kimble v. Marvel Enters. Inc.*, 727 F.3d 856, 857 (9th Cir. 2013).

277. *Id.* at 866.

278. *Id.* (citing *Scheiber v. Dolby Labs. Inc.*, 293 F.3d 1014 (7th Cir. 2002)).

279. *Scheiber*, 293 F.3d at 1017 (alteration in original).

280. *Id.*

281. *Kimble*, 727 F.3d, at 857; *see also Scheiber*, 293 F.3d at 1018 (“[W]e have no authority to overrule a Supreme Court decision no matter how dubious its reasoning strikes us, or even how out of touch with the Supreme Court’s current thinking the decision seems.”).

282. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 260 (1979).

283. *Id.* at 263-64 (stating that she would have received “a 5% royalty only on keyholders sold during the 17-year life of the patent”).



enabled it to pre-empt the market.”<sup>284</sup> It reasoned that, despite “some additional bargaining power” accrued from the then-pending patent application, the proviso for a diminished royalty rate triggered by its non-issuance removed that concern.”<sup>285</sup>

Similarly, the *Brulotte* Court did not preclude installment payments for machines leased or sold by the patentee that continued beyond patent term.<sup>286</sup> *Brulotte* recognized that parties were free to allocate their risks and rewards based on metering of usage, but that the binding force of those agreements should not come from patent leverage.<sup>287</sup> Justice Harlan, who alone dissented in *Brulotte*, pointed out that the agreement would have passed muster if it had required installments for the sale or lease of the hop-picking machines.<sup>288</sup> Because licensees care only about the total value and total price, it would have been a minor detail without economic significance.

Spreading royalties over a longer period helps the licensee defer costs while allowing the licensor to obtain royalty revenue it might not otherwise have if the licensee did not take the license. As John W. Schlicher explained, the royalty reduction is reflected in the “difference between the cost and demand during the term. . . . [T]he patent owner gains the potential to restrict quantity during the postexpiration period only to the extent it permits quantity to expand in the earlier period.”<sup>289</sup> Schlicher points out that “market power existing during the term patent can only be exploited once. Even if output is restricted in the post-expiration period, there is an offsetting ben-

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284. *Id.* at 264; *see also id.* at 264–65 (“[T]he reduced royalty which is challenged, far from being negotiated ‘with the leverage’ of a patent, rested on the contingency that no patent would issue within five years.”).

285. *Id.* at 265 (“It is clear that whatever role the pending application played in the negotiation of the 5% royalty, it played no part in the contract to pay the 2½% royalty indefinitely.”); *see also id.* at 266 (noting that the agreement was “freely undertaken in arm’s-length negotiation and with no fixed reliance on a patent or probable patent grant.”).

286. *See Brulotte v. Thys Co.*, 379 U.S. 29, 31–32 (1964); *see also* 2 ECKSTROM’S LICENSING IN FOREIGN & DOMESTIC OPERATIONS § 8E:14 (2014) (“In its decision, the Court distinguished post-expiration royalties from a package license arrangement, voluntarily agreed to by the parties, with a non-diminishing royalty rate that continues until the last of the licensed patents has expired.”).

287. *Brulotte*, 379 U.S. at 31–32.

288. *Id.* at 36 (Harlan, J., dissenting).

289. 2 JOHN W. SCHLICHER, PATENT LAW, LEGAL AND ECONOMIC PRINCIPLES § 13:218 (2d ed. 2012) (“After the term, all others will be able to use the invention freely in competition with those licensees. Unless that license provides them some additional benefit, the rate must be lowered to induce the licensees to agree to pay over the longer period.”).

efit in that output has been greater during the patent term.”<sup>290</sup> Once the patent expires, the value of the license diminishes.<sup>291</sup>

One reason why courts find against post-expiration royalty agreements is because “it is impossible for them to rewrite the agreement to determine what the ‘right’ rate is for the know-how when the patent(s) disappear from the picture as valid consideration.”<sup>292</sup>

In facilitating the transaction, the patent right had done its job. To leverage on patent remedies rather than rely on applicable remedies for breach of contract would be precisely the sort of overreaching that patent policy should be concerned about. In contrast, if there the patent owner could show that it had conducted itself equitably, the post-expiration royalties would be upheld. Thus, the district court in *Cordance Corp. v. Amazon.com, Inc.* did not read *Brulotte* as dictating that post-expiration royalties automatically rendered the patent unenforceable, as long there was no coercive patent leverage.<sup>293</sup>

The arrangement served Kimble well—to the tune of six million dollars in royalties—and became an issue only when he sought to claim royalties over an end-product where his invention formed an increasingly small component.

Commercialization of scientific research has progressed unimpeded by the rule in *Brulotte*. Running royalties have “increased by 30% in fiscal year 2012 over 2011, to \$1.9 billion.”<sup>294</sup> Research institutions and companies have been able to structure payments using a combination of payment terms to

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290. *Id.* Other benefits Schlicher identified include reduction in compliance and enforcement costs for a patent portfolio license with patents that expire at different times, and allowing parties to allocate risks based on a subsequent invalidity ruling. According to Schlicher, *Brulotte* favors manufacturing patentees over their non-manufacturing counterparts because the latter does not have the vehicle of a product or service to attach installment payments to. *Id.* While that may be true, that discrimination is an issue separate from whether post-expiration royalties can be rendered unenforceable under patent misuse.

291. Craig J. Madson, *Patent Misuse in Franchise Agreements: A Ripple on the Waters of Franchise Law*, 20 *FRANCHISE L.J.* 107, 109 (2001) (“When the patents expire, the value of the agreement has diminished, and the courts will probably continue to assume that an unreduced royalty payment is tantamount to an unlawful extension of the patent period.”); *see also id.* (“To avoid the defense of patent misuse, franchisors should build into their agreements a method for decreasing royalties after their patents expire, and an express allocation of royalties paid in consideration of patent rights and nonpatent rights.”).

292. Hoerner, *supra* note 63, at 705.

293. *Cordance Corp. v. Amazon.com, Inc.*, 727 F. Supp. 2d 310, 336-37 (D. Del. 2010) (“[E]ven assuming that Cordance’s contractual agreements did constitute patent misuse per se under *Brulotte*, it does not follow that the court need render the ’710 patent unenforceable in its entirety. The court might invalidate only the post-expiration passive royalties. And here, any final extension that would put the GSP Agreement beyond the term of the ’710 patent has not yet been and might never be exercised.”).

294. Brief of Memorial Sloan-Kettering Cancer Center, *supra* note 8, at \*8 (quoting Association of University Technology Managers, AUTM Licensing Activity Survey 2012 14 (2013)).

“accommodate[ ] the licensee’s desire both to conserve its current financial resources and shift some of the risk of failure to the licensor, which may be especially desirable if the licensee seeks continuing assistance of the licensor’s scientific staff to overcome technical hurdles during development.”<sup>295</sup> Contrary to those concerned that *Brulotte* imposes an “unjustified constraint”<sup>296</sup> on licenses, flexible agreements involving “transfer of biological materials that have intrinsic value as personal property, provision of its scientists’ know-how, or an offer of patients’ data generated through clinical trials”<sup>297</sup> have continued despite the rule being the law since 1964.

As a practical matter, the rule in *Brulotte* can be avoided by providing for step-down royalties post-expiration and distinguishing between royalties for patent and non-patent rights.<sup>298</sup> Alternatively, because royalties in a trade secret or know-how license that extend beyond the term of actual secrecy are ordinarily permissible, inventors are free to use them rather than patents. It would fly in the face of justice for courts to rewrite contracts simply because parties were unaware of a rule against perpetual royalties and one party later found it an inconvenient truth in its quest for greater financial gain. *Brulotte* was therefore right in refusing to conjecture what the parties’ bargaining position would have been and what agreement might have resulted had post-expiration royalties been separated from the patent.

As a matter of equity, patents owners in *Kimble*’s position are not left without remedy. In a separate but related case, the Ninth Circuit ruled that *Kimble* could pursue his breach of contract claim against *Marvel* on the theory that “much like a *quantum meruit* plaintiff, *Kimble* is essentially asking to be placed in the position that he would have occupied had the Settlement Agreement never been made. Like the Seventh Circuit, we do not read *Brulotte* to preclude such a claim.”<sup>299</sup>

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295. *Id.* at \*6 (“Research institutions and companies generally structure payments under these license agreements using a combination of payment terms, including: (i) a lump-sum license issuance fee; (ii) milestone payments to be paid upon the occurrence of events during development, e.g., the start or finish of different phases of clinical trials; (iii) annual fees for the use of technology; and (iv) running royalties for a fixed period of time based on commercial sales if the resulting product is approved by the Food and Drug Administration for use by the public.”).

296. *Id.* at \*18.

297. *Id.*

298. Tonya Gisselberg, *Hybrid Licensing Agreement Unenforceable Beyond the Patent Expiration Date*, SEATTLE COPYRIGHT WATCH (July 19, 2013), <http://www.seattlecopyrightwatch.com/licensing/hybrid-licensing-agreement-unenforceable-beyond-the-patent-expiration-date/> (noting that the result in *Kimble* could have been avoided by “separating license grants by the type of intellectual property right granted and clearly identifying the royalty rates and rights associated with a particular type of IP.”); see also Madson, *supra* note 291, at 109 (“[B]ecause courts have consistently found that single royalty payments consistently found that single royalty payments constitute misuse, franchisors should clearly demarcate the value of the trademark, know-how, and trade secret rights from the patent rights.”).

299. *Meier v. Colvin*, 727 F.3d 867, 867 n.8 (9th Cir. 2013).

It was unfortunate that the *Brulotte* Court included the words “per se.” No antitrust violation had been alleged. Those words were not only a distraction, but they provided a convenient latch for later courts and commentators preferring to bottle patent misuse within the antitrust decanter.<sup>300</sup>

But the point that both *Scheiber* and *Kimble* miss is this: courts that found misuse were targeting harm caused by an abuse of the patent system.<sup>301</sup> The *Brulotte* court was applying patent misuse as conceived by the Supreme Court in *Morton Salt*, and not as later reformulated by the Seventh Circuit in *USM* or the Federal Circuit in *Windsurfing*.<sup>302</sup> It is a matter of detail rather than necessity that market competition, and certainly market competition in the antitrust sense, is affected.<sup>303</sup> The Patent Act itself methodically first states those exclusive rights and immediately proceeds to temporally circumscribe them.<sup>304</sup> In framing its approach to patent misuse, the Supreme Court wrote that

[t]he necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use.<sup>305</sup>

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300. See, e.g., Brief of Memorial Sloan-Kettering Cancer Center, *supra* note 8, at \*13 (“The demise of *Brulotte* would leave the task of policing anti-competitive licensing agreements where it belongs: with the federal antitrust laws.”); see also Brief of the Intellectual Property Law Association of Chicago, *supra* note 8, at \*3-5 (arguing that *Brulotte* should be reconsidered in light of changes to economic analysis of antitrust law.).

301. See *Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 885 (7th Cir. 1986) (“What plaintiff fails to recognize is that *Brulotte* is not concerned with restrictions on the sale of patent rights but rather the impact of such arrangements on the policies and purposes of the federal patent laws.”).

302. See also *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 139 (1969) (finding that coercive package licenses compelling licensees to pay royalties on upatented as well as patented products, and that there were dictated by the patentee’s “patent power” rather than “convenience of the parties,” could be patent misuse whether or not there were antitrust violations).

303. See 1 HOVENKAMP ET AL., *supra* note 6, § 3.2d (“Judge Posner’s concerns are legitimate from an economic standpoint. They do not fully reflect the law today, however. In part this is because patent misuse is not only about ‘monopolistic abuse,’ but also serves as an internal constraint on efforts to expand the patent system beyond its bounds. One might question whether the patent law needs such a constraint, but it seems clear that the courts intend to apply misuse doctrine to at least some sorts of conduct antitrust law would not reach.”).

304. 35 U.S.C. § 154(a)(1) (2012) (“Every patent shall contain . . . a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention. . . .”); *id.* § 154(a)(2) (“[S]uch grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed. . . .”).

305. *Mercoide Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 666 (1944); see also *Meehan*, 802 F.2d at 883 (“Thus for a limited time the inventor may profit exclusively from the invention on condition that the invention goes public after 17 years. Even this limited monopoly right has extensive social and economic consequences for the public and therefore

The *Brulotte* Court used the post-expiration date as a proxy for what would be considered illegal extensions of the patent right, much in the same way that the *Actavis* Court used the quantum of payment relative to litigation costs as a proxy to determine an antitrust violation. Should parties wish to allocate their rights in a more sophisticated manner, they are no more burdened in splitting up those rights than copyright owners who have had to parse out a bundle of rights—an uncontroversial proposition.<sup>306</sup>

Like *Kimble*, *Actavis* was concerned about patentees extending the period of exclusivity beyond the term of the patent. Whether the reverse payment agreements resulted in the generic entering the market before patent expired was probative to its assessment of whether the agreement was outside the patent scope.<sup>307</sup> The *Actavis* Court recognized that although the Patent Act confers exclusive rights for a limited term, it does not justify using reverse payments to do so.<sup>308</sup> This informed the Court's inquiry into whether "the patent statute specifically gives a right to restrain competition in the manner challenged,"<sup>309</sup> and its conclusion that it did "not identify any patent statute that it understands to grant such a right to a patentee, whether expressly or by fair implication."<sup>310</sup>

In *Scheiber*, Judge Posner conceded that his criticisms of *Brulotte* would be unjustified had *Brulotte* relied on the Constitution or statute rather than a "misplaced fear of monopoly."<sup>311</sup> His objections were economic—competition would not be affected since the restrictions placed on the licensee did not prevent others from exploiting once-patented ideas post-expiry.<sup>312</sup> Whether and to what extent competition is affected by the fettered licensee requires a case-specific market inquiry. The Supreme Court denied the licen-

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the courts are ever watchful of the possibility that patent monopolies will overstep their bounds.").

306. See 17 U.S.C. § 106 (2012).

307. *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223, 2237 (2013) (observing that parties could settle by "allowing the generic manufacturer to enter the patentee's market prior to the patent's expiration.").

308. *Id.* at 2234 ("The payment in effect amounts to a purchase by the patentee of the exclusive right to sell its product, a right it already claims but would lose if the patent litigation were to continue and the patent were held invalid or not infringed by the generic product.").

309. *Id.* at 2231 (citing *United States v. Line Material*, 333 U.S. 287, 310-11 (1948)).

310. *Actavis*, 133 S. Ct. at 2233.

311. *Scheiber*, 293 F.3d at 1018.

312. Harold See & Frank M. Caprio, *The Trouble with Brulotte: The Patent Royalty Term and Patent Monopoly Extension*, 1990 UTAH L. REV. 813, 814 (1990) ("The *Brulotte* rule incorrectly assumes that a patent license has significance after the patent terminates. When the patent term ends, the exclusive right to make, use or sell the licensed invention also ends. Because the invention is available to the world, the license in fact ceases to have value. Presumably, licensees know this when they enter into a licensing agreement. If the licensing agreement calls for royalty payments beyond the patent term, the parties base those payments on the licensees' assessment of the value of the license during the patent period. These payments, therefore, do not represent an extension in time of the patent monopoly.").

sor's petition for certiorari in *Scheiber*, implicitly endorsing the result in *Brulotte* despite Judge Posner's earlier criticism.<sup>313</sup>

In *Sears, Roebuck & Co. v. Stiffel Co.*, the Supreme Court noted that patent rights awarded to encourage invention were to be balanced against the "rights and welfare of the community," with limitations strictly enforced.<sup>314</sup> Thus, "when the patent expires the monopoly created by it expires" and the right to make the article passes to the public.<sup>315</sup> Seemingly anticipating *Scheiber's* objection, the Court presciently acknowledged that "[a]n unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so." Leverage was at the heart of the objection.<sup>316</sup>

### C. A Pause for Thought

*Actavis* ushered in an age of more vigorous antitrust scrutiny of patent rights. Even a valid and infringed patent did not give the patentee *carte blanche* to do as it pleased. Antitrust law could limit the exercise of patent rights if it harmed market competition and consumer welfare. To support its conclusions, the Court dusted off its older decisions from the 1940s to the 1970s.<sup>317</sup> The view that patent rights were vulnerable to antitrust scrutiny was a view accepted by courts as recently as the turn of the millennium.<sup>318</sup> Although the *Actavis* dissent accused the majority of "announc[ing] a new rule,"<sup>319</sup> this more qualified view of patents echoes the Court's recent deci-

313. *Scheiber*, 293 F.3d at 1016.

314. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229-30 (1964).

315. *Id.* at 225.

316. *Princo Corp. v. Int'l Trade Comm'n.*, 616 F.3d 1318, 1331 (Fed. Cir. 2010) ("What patent misuse is about, in short, is 'patent leverage,' i.e., the use of the patent power to impose overbroad conditions on the use of the patent in suit that are 'not within the reach of the monopoly granted by the Government.'").

317. *See, e.g.*, *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965) (antitrust liability for patent-based fraud); *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963) (patent-related settlement agreements can violate the antitrust laws.); *United States v. Line Material Co.*, 333 U.S. 287 (1948) (improper use of patent rights circumscribed by antitrust law); *United States v. U.S. Gypsum Co.*, 333 U.S. 364 (1948) (patent rights must be balanced against antitrust policies).

318. *See, e.g.*, *United States v. Microsoft Corp.*, 253 F.3d 34, 63 (D.C. Cir. 2001) ("The company claims an absolute and unfettered right to use its intellectual property as it wishes: '[I]f intellectual property rights have been lawfully acquired,' it says, then 'their subsequent exercise cannot give rise to antitrust liability.' That is no more correct than the proposition that use of one's personal property, such as a baseball bat, cannot give rise to tort liability.") (alteration in original) (citation omitted); *see also In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (2000) ("Intellectual property rights do not confer a privilege to violate the antitrust laws.").

319. *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223, 2239 (2013); *see also id.* at 2242 ("The majority points to no case where a patent settlement was subject to antitrust scrutiny merely because the validity of the patent was uncertain. Not one. It is remarkable, and surely worth something, that in the 123 years since the Sherman Act was passed, we have never let antitrust law cross that Rubicon.").



sion in *eBay v. MercExchange*, where it held that patents do not confer an automatic right to exclude but instead needs to be considered in the context of broader equities and concerns.<sup>320</sup>

*Actavis* also stood out from recent antitrust decisions favoring defendants.<sup>321</sup> The Court noted that, although “avoided litigation costs or fair value for services” may indicate that settlements should survive a rule of reason scrutiny, defendants may have less success with motions to dismiss going forward.<sup>322</sup> Settling parties may point to co-marketing arrangements as a justification for the reverse payment, but they are unlikely to win their case on summary judgment.<sup>323</sup> Parties on both sides will be compelled to marshal robust economic valuations to support or oppose the challenged payments.<sup>324</sup>

However, there are also two risks involved in increased antitrust scrutiny—first, that patentees may be less willing to invest in new drugs, and second, that generics may be less willing to mount patent challenges because the likelihood of obtaining a settlement needs to be further discounted post-*Actavis*.<sup>325</sup> Even supporters of the majority’s decision must concede that it

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320. *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006) (“We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”).

321. *See, e.g., Pac. Bell Tel. Co. v. Linkline Commc’ns, Inc.*, 555 U.S. 438 (2009) (restricting the reach of Section 2 of the Sherman Act for monopolization cases involving “price-squeezes.”); *Bell Atl. Corp. v. Twombly*, 550 U.S. 544 (2007) (antitrust complaint requires enough factual matter, taken as true, to suggest that an agreement was made.).

322. *See, e.g., Cooper et al., supra note 209* (“[T]he *Actavis* decision is a break from a line of recent Supreme Court decisions in antitrust that have sought to reduce uncertainty and litigation costs and to strengthen the tools available for dismissing non-meritorious suits early.”).

323. Levin & Ayzenberg-Lyman, *supra note 231* (“Because the Court’s rule of reason analysis shifts the burden to the defendants to justify the reverse payment involved in a settlement agreement, the decision makes it very difficult for defendants to prevail on a motion to dismiss. And because discovery is time consuming and expensive, *Actavis* increases significantly the costs of settling patent infringement lawsuits. In settling a patent infringement lawsuit, parties must now also consider the potential costs of discovery should their settlement agreement be challenged under the antitrust laws. Furthermore, it also remains to be seen how courts will apply the ‘amorphous rule’ announced in *Actavis* on summary judgment in terms of the ease with which an antitrust plaintiff could create a disputed issue of fact. This uncertainty further raises the cost of settling patent disputes.”); *see also Cooper et al., supra note 209* (“Challenges to reverse payment settlements will thus seemingly be able to breeze through the motion to dismiss stage; industry participants hoping for clarity and finality after all these years of litigation and controversy will likely be disappointed.”).

324. Peter Todaro et al., *Client Alert: Applying the Supreme Court’s Decision in Actavis*, KING & SPALDING (July 24, 2013), available at <http://www.kslaw.com/imageserver/KSPublic/library/publication/ca072413.pdf> (including “(a) employing a special master; (b) inviting the FTC to participate in the proceedings; and (c) utilizing some other proxy or procedure designed to represent the public interest.”).

325. Kevin E. Noonan, *IMS Study Shows Pro-Competitive Effects of Reverse Payment Settlement Agreements in ANDA Litigation*, PATENT DOCS (July 18, 2013) <http://www.patentdocs.org/2013/07/ims-study-shows-pro-competitive-effects-of-reverse-payment-settle->



carries its own hefty price, and without any guarantee that it will achieve its intended results. Described by Robin Feldman as “ground zero” for pharmaceutical development and sales, the impact of *Actavis* on drug prices and innovation—for better or worse—will be felt in the United States and far beyond.

In short, *Actavis* has reactivated antitrust scrutiny of patent rights. Courts will see more antitrust challenges within the Hatch-Waxman context and with patent matters more generally. This will in turn generate more debate about how innovation and competition policies are balanced in the exercise of patent rights. In time, this debate will spill-over to patent misuse. The defense lies at crossroads of patent and antitrust law, and a revitalization of antitrust scrutiny should cause more misuse cases, such as those in *Kimble*, to be brought as well.

No one is immune to a change of heart. In 2003, Judge Posner became an unlikely advocate of misuse. In *SmithKline Beecham Corp. v. Apotex Corp.*, he concluded it would be a “travesty of equity” to permit the plaintiff an extension of its patent beyond the patent term.<sup>326</sup> In so doing, he acknowledged that was effectively reaching the same result as if he had found misuse and refused to enforce the patent against Apotex because it had already expired.<sup>327</sup> If one of the Chicago School’s best-known personalities is prepared to look beyond antitrust policy and invoke its equitable basis, a new dawn may yet come to those hoping for a measured revitalization of patent misuse.

While one judge interviewed emphasized that there was no judicial hostility toward misuse, it was difficult for him to “sense vigor beyond antitrust case law.”<sup>328</sup> Litigants have added that “[n]or is there any reason to expand the misuse defense to reach alleged collateral anticompetitive conduct, when the antitrust laws already provide any party that suffers competitive injury

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ment-agreements-in-anda-litigation.html (“[S]ettlements of ANDA litigation in 33 different drug molecules resulted in a savings to consumers of \$25.5 billion from 2005-2012, and are projected to provide an additional \$61.7 billion through patent expiry for patents listed in the Orange Book for these drugs. About one third (\$8.3 billion) of the 2005-2012 total were savings to the Federal government.”).

326. *SmithKline Beecham Corp. v. Apotex Corp.*, 247 F. Supp. 2d 1011, 1045-47 (N.D. Ill. 2003).

327. *Id.* at 1046 (“Another way to explain SmithKline’s disentitlement to an injunction is in terms of the doctrine, classically equitable—an aspect of the historic doctrine of ‘unclean hands’—of patent misuse.”).

328. LIM, *supra* note 11, at 385 (“The important point that I want to be clear about—if people assume that judges on this court or any court are hostile to the patent misuse defense, I think that’s quite wrong. If people assume that judges on the court are just dying to expand it greatly, I think that’s also wrong. . . . Given the right facts and the right evidence, we might be expected to reverse a finding of no misuse or to affirm a finding of misuse where that’s made in a strong, clear case. I don’t think the doctrine is dead or totally redundant of antitrust case law. But, on the other hand, it’s hard to have any sense of how much vigor it might have, beyond antitrust case law.”).

with powerful means of redress.”<sup>329</sup> Other interviewees noted that patent misuse should not become a free-floating ‘get out of jail free’ card.<sup>330</sup> In light of these concerns, the first step to any revitalization of patent misuse must be to answer these and other key concerns.

## V. ANSWERING THE CRITICS

Criticisms of patent misuse doctrine center on three areas.<sup>331</sup> First, critics argue that the vagueness of misuse detracts from commercial certainty needed by businesses and innovators. Misuse should not become “an open-ended pitfall for patent-supported commerce.”<sup>332</sup> Second, they oppose lax standing requirements that allow those unharmed by the patentee’s misconduct to invoke the aid of courts to render the patent unenforceable. Third, they believe that unenforceability of an entire patent due to an offending claim or related patents due to an offending patent is too harsh of a consequence for a finding of misuse. These concerns are addressed below.

### A. “An Open-Ended Pitfall for Commerce”

Operationalizing policy goals can be difficult. One judge interviewed explained that patent policy was a vague navigational tool for judicial decision making.<sup>333</sup> He said that judges were aware of policies as they were articulated in case law and statutes, but that the work of a judge is to implement policy and not to sit as patent policy reformer, since to do so would infuse too much subjectivity into the process.<sup>334</sup>

As William Ridgway noted, the discretionary nature of misuse “essentially invites judges to implement their own, often idiosyncratic, appraisal of the intellectual property system.”<sup>335</sup> According to Ridgway, this results in “a jumbled mix of platitudes and reprimands” and “encourages critics to attack

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329. Brief for Intervenor U.S. Philips Corporation on Rehearing En Banc, *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (Fed. Cir. 2010) (No. 2007-1386).

330. LIM, *supra* note 11, at 156.

331. *See id.* at 155-201.

332. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1373 (Fed. Cir. 1998); *see also* Joseph P. Bauer, *Refusals to Deal with Competitors by Owners of Patents and Copyrights: Reflections on the Image Technical and Xerox Decisions*, 55 DEPAUL L. REV. 1211, 1235 (2006).

333. LIM, *supra* note 11, at 158 n.12.

334. *Id.* at 158 n.13 (“I’m supposed to implement the policies that are handed to me in authority, whether it’s amendment to the statute or case-law development. I have to follow precedent. I have to follow authority. I don’t really consider myself much of a patent policymaker. So I’m wary of an approach that talks about ‘Well, we’ve got to make the case law conform to good, coherent patent policies,’ because a hundred people in a room would have a hundred different views of what good, coherent patent policy is. What kind of a guide is that? It’s way too subjective, way too indefinite, in a lot of instances.”).

335. William E. Ridgway, *Revitalizing the Doctrine of Trademark Misuse*, 21 BERKELEY TECH. L.J. 1547, 1566 (2006).

the doctrine for lacking coherence and predictability, which, they charge, ultimately undermines the value of intellectual property rights.”<sup>336</sup>

And some courts agree. Recently in *Control Components, Inc. v. Lexmark International, Inc.*, a district court was faced with the novel question of whether patentees whose patents covered single-use toner cartridges could restrict the use of any given cartridge after the exhaustion of its patent rights in that cartridge, even without licensing agreements containing post-sale reuse restrictions.<sup>337</sup> The court observed that “[t]he Supreme Court has never addressed a situation like this”,<sup>338</sup> and, without adequate guidance on how to proceed, it found that there was no anticompetitive effect of the kind required under *Windsurfing*. The court could not find misuse as a “matter of law,” even though it agreed that Lexmark was “doing something ‘wrong’ in a vague sense.”<sup>339</sup>

Patentees face a similar challenge staying on the right side of the law. Roger Arar argued that operationalizing policy through patent misuse creates “an undesirable *in terrorem* effect” because patentees have to assess their conduct or licensing agreements for their potential for subverting “ill-defined policy.”<sup>340</sup> As an alternative, Judge Posner and other advocates of an antitrust-based form of misuse point to the more precise, economics-informed framework it offers.<sup>341</sup> Its advocates argue that the antitrust rule of reason analysis is supple enough to take into consideration innovation policy concerns.<sup>342</sup> The countervailing view—that the vagueness inherent in patent misuse is both justified and administrable—may be presented in two parts.

### 1. The Surprising Benefits of Vagueness

A number of interviewees, notably judges, observed that they had no problems with the inherent vagueness of patent misuse. One judge noted that there was no way that case law or statutes could cover every factual situation

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336. *Id.*

337. *Static Control Components, Inc. v. Lexmark Int’l, Inc.*, 487 F. Supp. 2d 830, 854 (E.D. Ky. 2007).

338. *Id.*; see also *Kolene Corp. v. Motor City Metal Treating, Inc.*, 440 F.2d 77, 84 (6th Cir. 1971).

339. *Lexmark Int’l*, 487 F. Supp. 2d at 854-55.

340. Arar, *supra* note 12, at 1310-11.

341. See Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. PAT. & TRADEMARK OFF. SOC’Y 793, 795 (1988) (pointing out that “antitrust has evolved a ‘precise’ methodology for ascertaining when improper market leverage is being used by a patentee,” and that “the relatively imprecise ‘equitable’ doctrine of misuse only adds confusion and uncertainty to the scene.”).

342. See Note, *supra* note 80, at 1922. According to Professor Feldman, advocates of an antitrust-centered misuse defense point to “a larger and more fully developed body of law than patent misuse” in their argument that “[a]pplying antitrust rules could provide greater clarity in patent misuse doctrine and eliminate a source of confusion at the intersection of patent and antitrust law.” Feldman, *supra* note 104, at 400.

where there might be abuse.<sup>343</sup> As another judge emphatically put it, it was an empirical question whether the vagueness has impaired the rights of patentees, and the burden was on those making the claim to prove it.<sup>344</sup> Marshall Leaffer wrote that “[o]f course equitable doctrines, like patent misuse, are messy by their very nature. However, they do allow for a needed flexibility for judicial determination.”<sup>345</sup>

A survey of patent law reveals that judges routinely deal with doctrines that are at least as murky as patent misuse. In the Federal Circuit’s *en banc* decision in *Therasense, Inc. v. Becton, Dickinson and Co.*, concerning inequitable conduct, Judge Kathleen O’Malley noted in her concurrence that “clear guidelines,” although practical, are sometimes inappropriate “when dealing with the application of equitable principles and remedies [where] the law is imprecise by design.”<sup>346</sup> In achieving the right balance, Supreme Court precedent is clear that it is the flexibility to “mold each decree to the necessities of the particular case” that allows equity which provides the fine-tuning to the broad brush of legislation and governmental policy.<sup>347</sup>

Another example is a favorite in the patentee’s arsenal—the doctrine of equivalents. It seems no easier to determine the existence of non-literal infringement under the doctrine of equivalents than whether the limitations on the doctrine of equivalents apply. One such limitation is prosecution history estoppel, where a patentee who had previously allowed the narrowing of his claim could nonetheless succeed in ensnaring the accused product within its claims.<sup>348</sup>

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343. LIM, *supra* note 11, at 160 n.26 (“Q: Does it bother you, though, that the doctrine is as vague as it is, and even if it comes before the court, it’s hard, really, for the court to get a handle on defining with certainty where the boundaries of the doctrine lie, how it should be applied? A: No. Because it’s meant to cover unusual, egregious situations, which can’t be defined in advance. It’s necessarily vague. I’m not bothered by its vagueness because it’s unavoidably vague. I don’t see any way it could be made more specific.”).

344. *Id.* at 161 n.26 (“The question, though, I think, is an empirical question. Unless he can show me data where it has actually impaired patentees, then he’s simply making an intuitive judgment about whether that’s true or not.”).

345. Leaffer, *supra*, note 52, at 157.

346. *Therasense, Inc. v. Becton, Dickinson and Co.*, 649 F.3d 1276, 1296 (Fed. Cir. 2011) (*en banc*) (O’Malley, J., concurring) (“Patent practitioners regularly call on this court to provide clear guidelines. They seek to know under precisely what circumstances governing principles will be applied, and precisely how they will be applied. While precision may be in the nature of what patent practitioners do, and the desire for defining rules in the scientific world understandable, the law does not always lend itself to such precision.”).

347. See, e.g., *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) (citations omitted).

348. Prosecution history estoppel requires that the claims of a patent be interpreted in light of the proceedings in the PTO during the application process. *Schriber-Schroth Co. v. Cleveland Trust Co.*, 311 U.S. 211, 220-21 (1940) (explaining that estoppel is a “rule of patent construction” that ensures that claims are interpreted by reference to those “that have been cancelled or rejected.”).

In *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, the Supreme Court acknowledged the Federal Circuit's concern over uncertainty but went on to observe that "[e]ach time the Court has considered the doctrine, it has acknowledged this uncertainty as the price of ensuring the appropriate incentives for innovation, and it has affirmed the doctrine over dissents that urged a more certain rule."<sup>349</sup> Presaging *Actavis*, the Court wrote that the right balance between the two was struck by placing the burden on the patentee to show that the previously-surrendered patent scope was unforeseeable at the time of application.<sup>350</sup>

The *Actavis* Court also recognized the merit of burden shifting in reducing uncertainty when it effectively shifted the burden to the settling parties if the value of the settlement exceeded expected litigation costs.<sup>351</sup> Large and unexplained payments could be used as a proxy for market power and anticompetitive harm, sparing lower courts the need for complex, costly and time-consuming inquiries into issues of patent validity and infringement.<sup>352</sup> The settling parties nonetheless have the opportunity to exculpate themselves with a reasonable explanation of the terms of their settlement.

Recently, the Supreme Court again underscored this point in *Medtronic, Inc. v. Mirowski Family Ventures, LLC*.<sup>353</sup> In a unanimous opinion, the Court reversed the Federal Circuit and held that patentees have the burden of proving infringement even in declaratory judgment actions by licensees.<sup>354</sup> In reaching its conclusion, the Court noted that "[a] patent holder is in a better position than an alleged infringer to know, and to be able to point out, just where, how, and why a product (or process) infringes a claim of that patent. Until he does so, however, the alleged infringer may have to work in the dark, seeking, in his declaratory judgment complaint, to negate every conceivable infringement theory."<sup>355</sup>

In the same way, could some of the sting from patent misuse's openedness be mitigated by placing a burden on the defendant? One approach is to require the patent defendant to show cognizable harm either to the competitive process or to incentives to innovation under the general analysis that animates patent law cases. Once defendants successfully do this, Leaffer

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349. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 732 (2002).

350. *See id.* at 740.

351. *See F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223, 2236 (2013) ("An unexplained large reverse payment itself would normally suggest that the patentee has serious doubts about the patent's survival . . . provid[ing] a workable surrogate for a patent's weakness, all without forcing a court to conduct a detailed exploration of the validity of the patent itself.").

352. *See Hovenkamp, supra* note 4, at 17-18 ("In these cases, the size of the settlement payment is undoubtedly a more reliable indicator of the parties' own assessment of likely litigation outcomes than is any conclusion that can be drawn from the fact of settlement itself.").

353. 134 S. Ct. 843 (2014).

354. *Id.* at 846.

355. *Id.* at 850.

proposes that “the burden should shift to the patent owner to demonstrate a business justification for having insisted on the restrictive licensing practice, or as the case may be, a strategic use of the patent grant exceeding its scope and contrary to patent policy.”<sup>356</sup>

This burden shifting makes sense. The party best able to produce information to explain the situation to the court should be made to bear the burden. Sometimes it will be the defendant. Other times, it will be the patentee. If a licensing clause appears onerous on its face, or if a lawsuit by the patentee appears vexatious, patentees should be made to explain why they nonetheless have good reason to prevail.

Another important reason for some vagueness in the patent misuse doctrine lies in its equitable roots.<sup>357</sup> The *Morton Salt* Court noted that “[e]quity may *rightly* withhold its assistance from such a use of the patent by declining to entertain a suit for infringement.”<sup>358</sup> The Court’s use of the word “rightly” suggests that patent misuse doctrine is guided by more than sterile economic analysis. But that invites the jurisprudential question of why the law should concern itself with barring patentees from “wrongful” gains, unless there is also some measure of what is “rightful”? Yet equity is an emotive and almost spiritual concept.

The lack of sharply defined boundaries may deter those with a penchant for rationality or commercial certainty from buying into reinvigorating patent misuse as a robust defense. Reluctance to rely on equity may reflect a post-Enlightenment preference for rationality rather than a more visceral sense of right or wrong.<sup>359</sup> The English jurist Lord Alfred Denning suggests an answer. He starts with the premise that legal positivism cannot be an end in itself:

The judge says with calm detachment that the law is an end in itself. They regard law as a series of commands issued by a sovereign telling the people what to do or what not to do: they regard it as a piece of social engineering designed to keep the community in good order. Lawyers with this cast of thought draw a clear and absolute

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356. Leaffer, *supra* note 52, at 159.

357. See *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1021 (7th Cir. 2002) (citations omitted) (“The doctrine of ‘unclean hands’—colorfully named, equitable in origin, and reflecting, in its name at least, the moralistic background of equity in the decrees of the clerics who filled the office of lord chancellor of England during the middle ages, nowadays just means that equitable relief will be refused if it would give the plaintiff a wrongful gain.”).

358. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493 (1942) (emphasis added).

359. *But see* POSNER, *supra* note 22, at 110 (“At every stage the judge’s reasoning process is primarily intuitive. Given the constraints of time, it could not be otherwise; for intuition is a great economizer on conscious attention. The role of the unconscious judge in judicial decision making is obscured by the convention that requires a judge to explain his decision in an opinion. The judicial opinion can best be understood as an attempt to explain how the decision, even if (as is most likely) arrived at on the basis of intuition, could have been arrived at on the basis of logical, step-by-step reasoning.”).

line between law and morals, or what is nearly the same thing, between law and justice. Judges and advocates are, to their minds, not concerned with the morality or justice of the law but only with the interpretation of it and its enforcement.

That is a great mistake. It overlooks the reason why people obey the law. . . . People will respect rules which are intrinsically right and just and will expect their neighbours to obey them, as well as obey the rules themselves: but they will not feel the same about rules which are unrighteous or unjust.<sup>360</sup>

What is “unrighteous or unjust” appears starker to the observer in cases involving criminal law matters. The loss of life or liberty is more viscerally felt than infringement of an abstract right framed by obtuse technical jargon. Yet justice remains the overarching goal in the outcome of each case.<sup>361</sup>

Courts desiring to reclaim the heart of equity in patent misuse cases should require fair play.<sup>362</sup> Equity looks beyond the form of a misuse to its effects. A judge interviewed noted that patent misuse plays a valuable role because it “appeals to our sense of right and wrong,” and exists to arrest misconduct not made illegal under existing laws “even at the cost of more vagueness in the doctrine.”<sup>363</sup> Patent misuse thus serves as an insurance policy against unanticipated roguish behavior from patentees. The ingenuity of patentees to devise ways of abusing their patent rights is matched only by the potential malleability of patent misuse. Though rare, when courts found patentees acted in bad faith, the result was decisively in the defendants’ favor.<sup>364</sup>

360. ALFRED DENNING, *THE ROAD TO JUSTICE* 2–3 (1955).

361. 28 U.S.C. § 453 (2012) (Federal judges pledge to administer justice “without respect to persons, and do equal right to the poor and to the rich, and that I will faithfully and impartially discharge and perform all the duties incumbent . . . under the Constitution and laws of the United States.”); *The Court and Constitutional Interpretation*, SUP. CT. U.S., <http://www.supremecourt.gov/about/constitutional.aspx> (last visited Feb. 6, 2014). (“EQUAL JUSTICE UNDER LAW”—These words, written above the main entrance to the Supreme Court Building, express the ultimate responsibility of the Supreme Court of the United States. . . . As the final arbiter of the law, the Court is charged with ensuring the American people the promise of equal justice under law. . . .”).

362. See LIM, *supra* note 11, at 168, n.62 (“There are aspects of the patent arena that are such that a government-granted right to exclude might be a powerful enough tool that it warrants somewhat broader control by the courts, since the capacity of people to come up with ways to misuse things is probably endless and extends to the limits of the creativity of man. The principles of equity that originally gave rise to the patent misuse doctrine probably warranted being given a little greater flexibility, even at the cost of more vagueness in the doctrine.”).

363. *Id.* at 423 (“[B]ad faith played a decisive role in patent misuse litigation. . . . [W]here the court made a finding that a patentee displayed bad faith, the outcome was in the defendant’s favor.”).

364. See, e.g., *Koratron Co. v. Lion Unif., Inc.*, 409 F. Supp. 1019, 1022 (N.D. Cal. 1976) (holding that “[t]he patentee must itself maintain high standards of conduct and candor



Patent misuse may find its second wind in the wake of controversial practices by patent assertion entities (PAEs) such as Innovatio IP Ventures, who sued customers to “hold-up” manufacturers providing devices complying with the Wi-Fi standard.<sup>365</sup> Another prominent PAE is Intellectual Ventures, which was recently accused of targeting the market for “technology-enabling business processes common throughout the commercial banking industry in the United States.”<sup>366</sup>

The defendant, Capital One, accused Intellectual Ventures of patent misuse and antitrust violations for using 2,000 shell companies owning 80,000 patents of dubious quality to force companies into settling patent infringement lawsuits at inflated royalties.<sup>367</sup> The district court dismissed Capital One’s claims on dubious grounds. As an initial matter, the court cited *Actavis* as explaining patent misuse.<sup>368</sup> *Actavis* did not even mention, much less explain misuse. Second, the kind of privateering conduct that PAEs such as Intellectual Ventures undertake on behalf of their sponsors has been empirically found not to promote innovation.<sup>369</sup> This over-reaching through an abuse of the patent system is arguably the sort of conduct that Justice Stone

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if it is to use its patent properly.” and failing to do so meant that it was barred from enforcing its patent.); *see also* *Barry Wright Corp. v. ITT Grinnell Corp.*, No. 78-485-S, 1981 U.S. Dist. LEXIS 9432, at \*29 (D. Mass. Feb. 26, 1981) (finding that the threatened litigation gave rise to a finding of bad faith, particularly in light of other exclusionary activities including contractual interference, a preferential discounting scheme and tie-in agreements).

365. *See* Fiona Scott Morton & Carl Shapiro, *Strategic Patent Acquisitions*, 7 n.21. (July 2, 2013) (unpublished manuscript), *available at* <http://faculty.haas.berkeley.edu/shapiro/pae.pdf> (“This tactic can also take the form of nuisance suits filed against customers, which also can lead to an outside threat. A prominent recent example of a PAE employing this tactic is Innovatio IP Ventures, which has reportedly send some 8,000 demand letters to commercial users of WiFi, such as restaurants, coffee shops, and hotels, for infringing WiFi SEPs Innovatio purchased from Broadcom.”).

366. *Intellectual Ventures I LLC v. Capital One Fin. Corp.*, No. 1:13-CV-00740 (AJT/TRJ), 2013 WL 6682981 (E.D. Va. Dec. 18, 2013).

367. *Id.* at \*1; *see also id.* at \*11 (“[I]ts patent misuse defense, like its antitrust claims, essentially rests on its allegation that IV credibly threatens to enforce, in piecemeal fashion, “thousands of patents in a never-ending series of costly and disruptive patent infringement law suits.”).

368. *Id.* at \*10 (citing *F.T.C v. Actavis, Inc.*, 133 S. Ct. at 2231) (“[Patent misuse] has been explained by the Federal Circuit or the U.S. Supreme Court.”).

369. *See* Morton & Shapiro, *supra* note 365 (“Transferring funds using a very leaky bucket is only beneficial if the marginal impact of greater funds on innovation is far larger for those receiving the funds (here, patentees) than for those providing the funds (here, downstream firms). However, we have seen no evidence indicating that the R&D investments by patentees are far more responsive to future royalty income received via PAEs than the R&D investments made by downstream firms are to the costs PAE impose upon them. Nor have we seen evidence indicating that the investments undertaken by patentees whose patents are later sold to PAEs are far more beneficial to consumers than are the investments undertaken by the firms targeted by those PAEs.”). For a discussion of patent misuse in the context of standard essential patents, *see* Daryl Lim, *Standard Essential Patents: Triangulating the End Game*, 119 PENN ST. L. REV. (forthcoming 2014) (on file with author) (analyzing the *Intellectual Ventures* case in the context of patent misuse).

was concerned about in *Morton Salt*. Similarly, owners of standard essential patents who transfer their portfolios to PAEs in order to avoid licensing commitments should also expect to face sanctions under patent or antitrust law,<sup>370</sup> including patent misuse.

## 2. Is Antitrust Really Less Vague?

The prevailing zeitgeist favors certainty. Until the Supreme Court decides to speak further on misuse, *Windsurfing* will remain the controlling precedent on the law of misuse in the lower courts. The Federal Circuit should explain why *Windsurfing*'s formulation makes sense and how its antitrust scaffold will provide better guidance to stakeholders,

Antitrust law has moved in recent years from a *per se* to a rule of reason analysis.<sup>371</sup> But Chief Justice Roberts in *Actavis* warned that antitrust law's rule of reason was "amorphous", going so far as to write "[g]ood luck to the district courts that must, when faced with a patent settlement, weigh the 'likely anticompetitive effects, redeeming virtues, market power, and potentially offsetting legal considerations present in the circumstances.'"<sup>372</sup>

Alan Greenspan suggests that one reason for the vagueness of antitrust law stems from the economics underpinning it. Commenting on the state of antitrust policy in the 1960s, he observed that "[t]he entire structure of antitrust statutes in this country is a jumble of economic irrationality and ignorance. It is the product of (a) a gross interpretation of history, and (b) of rather naïve, and certainly unrealistic, economic theories."<sup>373</sup> This observation may have arisen because, although the articulated goal of modern antitrust is the promotion of market efficiency, the antitrust laws were used for socio-political goals such as promoting small business interests.<sup>374</sup>

Another reason for that vagueness is the lack of statutory guidance. One judge interviewed noted that, whereas patent law was bound more strictly by detailed statutory provisions, antitrust law gave judges more room to maneuver because antitrust legislation was extremely vague and terse.<sup>375</sup> Antitrust

370. See Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 BERKELEY TECH. L.J. 1135, 1159 (2013) ("Just as a mendacious patentee can't whitewash inequitable conduct by selling the patent to someone who didn't lie to the patent office, a patentee that has promised that a patent will not be enforced by means of an injunction can't wipe away that commitment by finding a buyer who didn't make that promise.").

371. See, e.g., *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007) (overruling *per se* approach to price restraints); see also *Cont'l T. V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (overruling *per se* approach to non-price restraints).

372. *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223, 2245 (2013).

373. Alan Greenspan, *Antitrust, in CAPITALISM: THE UNKNOWN IDEAL* 57, 63 (Signet 1986).

374. See Bohannon & Hovenkamp, *supra* note 49, at 906.

375. LIM, *supra* note 11, at 171 n.75 ("The antitrust field developed very differently. Over the decades, judges made all sorts of antitrust law— just made it up out of nowhere. The Robinson-Patman Act, the Clayton Act, the Sherman Act are extremely vague, extremely

statutes are vague because “Congress apparently did not want to get involved in articulating a specific definition of competition or in determining which practices might promote or undermine it. Rather it enacted a few general principles derived from the common law, and left it largely to the courts to determine what practices violate them.”<sup>376</sup>

Commenting on the rule of reason, Merges observed that: “[n]ot only is [it] a notoriously difficult standard for an antitrust plaintiff to meet, it is also a standard that is very difficult to apply. Thus, it is ironic that advocates of greater certainty in the law of patent misuse would propose a unified rule of reason approach when this is arguably one of the least certain legal rules ever propounded.”<sup>377</sup> Congress twice considered and rejected revisions to a patent misuse law that would have required a successful showing of an antitrust violation, despite the law’s proponents arguing that antitrust law provided greater certainty.<sup>378</sup>

The tributaries of antitrust law are carved out and filled in by the ideologies flowing from the wellspring deep within the recesses of the judge’s own views of patents, economic monopolies, and market competition in general.<sup>379</sup> Although people generally agree that a competitive market structure

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terse. The courts just made it up. . . . Patent law hasn’t developed in that kind of freewheeling way, where the law is basically being written, not by the Congress, but by appellate judges. The patent law has been, in my view, a little more modest—a lot more modest. It has tried to carefully follow the policies that are discernibly embedded in the statute and in amendments to the statute and, of course, in Supreme Court authority, which, of course, we have to follow and we do follow.”).

376. Bohannon & Hovenkamp, *supra* note 49, at 920 (footnote omitted).

377. See Merges, *supra* note 341, at 794 (citation omitted).

378. See The Patent Misuse Reform Act of 1988, Pub. L. No. 100-703, § 201(a), 102 Stat. 4676 (patent ownership is not presumptive of market power); S. 1200, 100th Cong. (1987) (“[N]o patent owner . . . shall be . . . deemed guilty of misuse . . . unless such practices . . . violate the antitrust laws”); Merges, *supra* note 341, at 793 (S. 1200 tests “all alleged patent misuse offenses under antitrust standards”); see also Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: “Blessed Be the Tie?”*, 4 HARV. J.L. & TECH. 1, 25–26 (1991) (“It is equally clear that the House rejected any suggestion of a ‘rule of reason’ analysis in patent misuse determinations. Representative Fish explained that in response to concerns raised about the breadth of the original Senate bill, the amended version of S. 438 eliminated the detrebling provisions and does not require ‘the application of the rule of reason to intellectual property arrangements.’ Even the stronger Senate provision rejected by the House would have preserved the per se rule once market power was shown, avoiding consideration of the tying arrangement under the rule of reason. Furthermore, permitting business justification defenses would eliminate any cogent distinction between the ‘threshold’ market power requirement inserted by the House and the ‘antitrust’ standard for misuse which the House rejected.”) (footnotes omitted).

379. Douglas H. Ginsburg & Joshua D. Wright, *Antitrust Settlements: The Culture of Consent*, in 1 WILLIAM E. KOVACIC: AN ANTITRUST TRIBUTE LIBER AMICORUM 181 (Nicolas Charbit ed. 2012) (“[T]he goals of antitrust law . . . have been subject to notoriously broad and changing interpretations, more so than any other body of law. Although it is now generally understood that the sole appropriate goal of antitrust law enforcement is to enhance consumer welfare, that goal can be (and in our view should be) understood narrowly to justify only remedial steps that clearly thwart efforts to restrict competition. The antitrust laws are still,

fosters competition in product markets, “[t]here is not yet a universally accepted consensus as to the kind of market structure that best facilitates innovation.”<sup>380</sup>

Those favoring visible competition from rivals advocate antitrust intervention to dilute the patentees’ influence on the relevant market, whereas those who favor protecting the incentives of patentees resist the incursion of antitrust law’s reliance on the market and internal regulation to correct any imbalances. Modern antitrust may be grounded in economic theory, but the chain of succession from the Harvard to Chicago to post-Chicago Schools of antitrust over the years nonetheless makes the assertion that antitrust provides a clearer and more stable vehicle than misuse suspect. Similarly, those advocating the *Windsurfing* formulation of misuse will find themselves dealing with an equally amorphous framework.

### 3. An Identity Crisis

The main reason why patent misuse is difficult to define and operationalize may be what Hovenkamp and Bohannan refer to as its “identity crisis.”<sup>381</sup> They note that this identity crisis stems from a lack of a “coherent basis in IP policy” because misuse “lacks unifying principles for determining which practices should be condemned and why.”<sup>382</sup> Those principles, they suggest, should be concerned about safeguarding against “unreasonable foreclosure of competition, innovation, or access to the public domain.”<sup>383</sup>

Once the defendant has established a *prima facie* case, the burden shifts to the patentee to show “good reason for the challenged practice and the absence of less restrictive alternatives.”<sup>384</sup> The remedy, they conclude, should be “tailored to the wrong,” with the court opting to find unenforceability when foreclosure has happened or is likely—or, when foreclosure is less likely, to refrain from making an order of unenforceability and also to simply refuse to invalidate a particular license or infringement action.<sup>385</sup>

In other words, misuse is concerned with patent abuses that both impair competition as well as those endogenous to patent policy discussed in Part II

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however, understood by some enforcement agencies, as reflected in the cases discussed above and epitomized in the Appendix to this article, to include a variety of other interventions that are not relevant to enhancing competition, or that may even tend to frustrate it, notwithstanding their appearance of aiding consumers.”).

380. Ronald W. Davis, *Innovation Markets and Merger Enforcement: Current Practice in Perspective*, 71 ANTITRUST L.J. 677, 681 (2003) (footnote omitted).

381. HOVENKAMP & BOHANNAN, *supra* note 81, at 258 (“Unfortunately, IP misuse doctrine is suffering from an identity crisis.”).

382. 6A DONALD S. CHISUM, CHISUM ON PATENTS § 8.01 (2013), available at LexisNexis (observing that predictability of misuse is hindered because “courts have failed to adopt a general theory as to the proper limitations on the exploitation of the patent monopoly.”).

383. HOVENKAMP & BOHANNAN, *supra* note 81, at 288.

384. *Id.* at 289.

385. *See id.* at 288-89.

of the Article. That patent policy-focus can be seen as a counterbalance to pro-patent doctrines such as the doctrine of equivalents. And, as the earlier discussion in this Section shows, once the defendant has demonstrated harm to competition or the integrity of the patent system, the burden should shift to the patentee to show why its conduct is nonetheless justified.

In light of the criticism over antitrust law's rule of reason, any proposal incorporating a balancing test seems counterintuitive. Bruce Abramson concurs that "[t]he very nature of a balancing test creates uncertainty," but that over time cases will provide market participants with "data with which to gauge the propriety or impropriety of their behavior."<sup>386</sup> While the same might be said about the antitrust law's rule of reason,<sup>387</sup> the point remains that misuse need not be less certain and is capable of the same growth pattern as antitrust law in offering more guidance as long as courts remain committed to its development.

### B. Disarming "Private Attorney Generals"

The second criticism of patent misuse, and one raised by Judge Posner in *Scheiber*, is that individuals can act as "private attorney generals," invoking misuse where they have not been harmed by any misconduct.<sup>388</sup> Commentators criticize misuse's apparently lax standing requirement as giving rise to "fishing expeditions" and encouraging infringement.<sup>389</sup> Others go further, arguing that misuse "pays the sanction as a windfall to an unrelated third party, thereby encouraging infringement while failing to compensate those actually injured."<sup>390</sup>

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386. See BRUCE D. ABRAMSON, *THE SECRET CIRCUIT: THE LITTLE-KNOWN COURT WHERE THE RULES OF THE INFORMATION AGE UNFOLD* 311 (2007).

387. The Supreme Court acknowledged as much in *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, where it noted that the uncertainties associated with an antitrust rule of reason analysis could also be made more certain through future case law. See, e.g., *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 898-99 (2007) ("As courts gain experience considering the effects of these restraints by applying the rule of reason over the course of decisions, they can establish the litigation structure to ensure the rule operates to eliminate anticompetitive restraints from the market and to provide more guidance to businesses. Courts can, for example, devise rules over time for offering proof, or even presumptions where justified, to make the rule of reason a fair and efficient way to prohibit anticompetitive restraints and to promote procompetitive ones.").

388. *Scheiber v. Dolby Labs. Inc.*, 293 F.3d 1014, 1021 (7th Cir. 2002) ("Dolby is in effect a private attorney general, charged by *Brulotte* with preventing Scheiber from seeking to 'extend' his patent and being rewarded for this service to the law by getting out of a freely negotiated royalty obligation.").

389. See Cotter, *supra* note 114, at 963.

390. Lemley, *supra* note 105, at 1600; see also Madson, *supra* note 291, at 108 ("Consequently, if the defendant franchisee can show that the patentee franchisor misused patent A in any agreement, the patentee franchisor may not enforce his or her rights under patent A, including any agreements licensing rights to patent A that do not contain provisions of patent misuse. Therefore, patent misuse has a potentially broad reach and may render provisions in

Such concerns have led opponents of misuse to argue that its standing requirements should be circumscribed.<sup>391</sup> One judge when interviewed was concerned that “misuse was the only area in patent law where the patentee loses all possibility of redress against the infringer because he or she may have harmed some third party with no relation to the underlying suit.”<sup>392</sup> However, this Section shows that such concerns are refuted by both empirical data and case law.

### 1. Empirical Observations

One attorney interviewed remarked that he had not “seen patent misuse really raised except in conjunction with the infringed patent, and [that] the courts have been fairly skeptical of standing rights to raise arguments, unless they are directly affected by the conduct at issue.”<sup>393</sup> Empirical data supports this observation. Defendants invoking misuse were mostly either competitors, licensees, or both. Forty-two percent were competitors and forty seven percent were licensees (see Figure 14 below). Only in two percent of the cases was the defendant an unrelated third party, and misuse was not found in these cases (see Figure 15 below).

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many licensing agreements unenforceable, or entire agreements unenforceable, until the misuse is purged.”) (footnote omitted).

391. See Katherine E. White, *A Rule for Determining When Patent Misuse Should be Applied*, 11 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 671, 679 n.56 (2001) (“Patent misuse is a doctrine that could benefit from having a standing requirement that the misuse must directly affect the party raising the affirmative defense. Historically, there has been no standing requirement. . . .”) (citation omitted).

392. LIM, *supra* note 11, at 185.

393. *Id.* at 186-87.

FIGURE 14. RELATIONSHIP BETWEEN PLAINTIFF AND DEFENDANT  
(1953 – 2013)

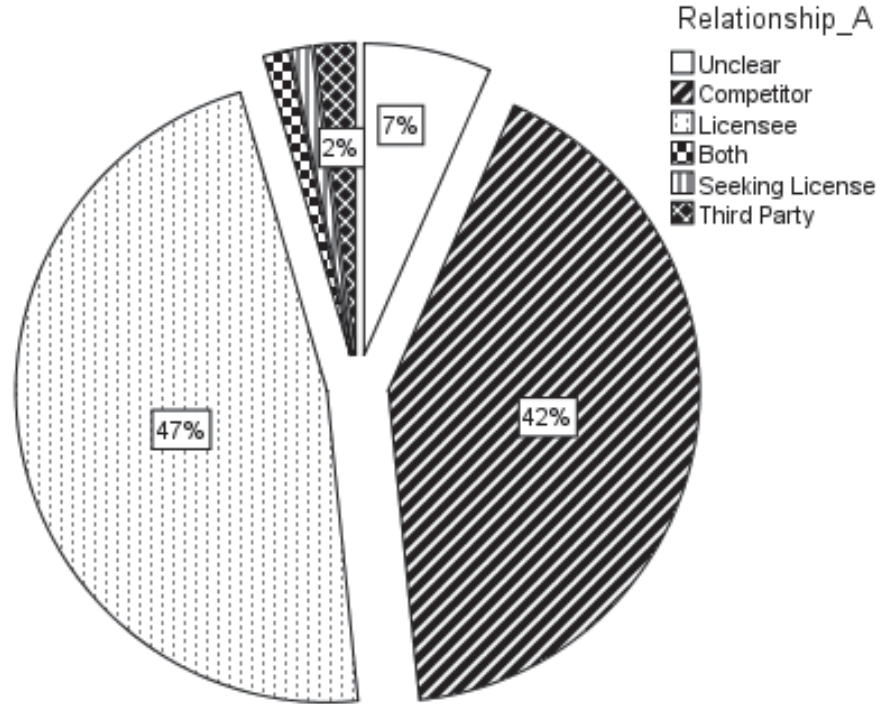
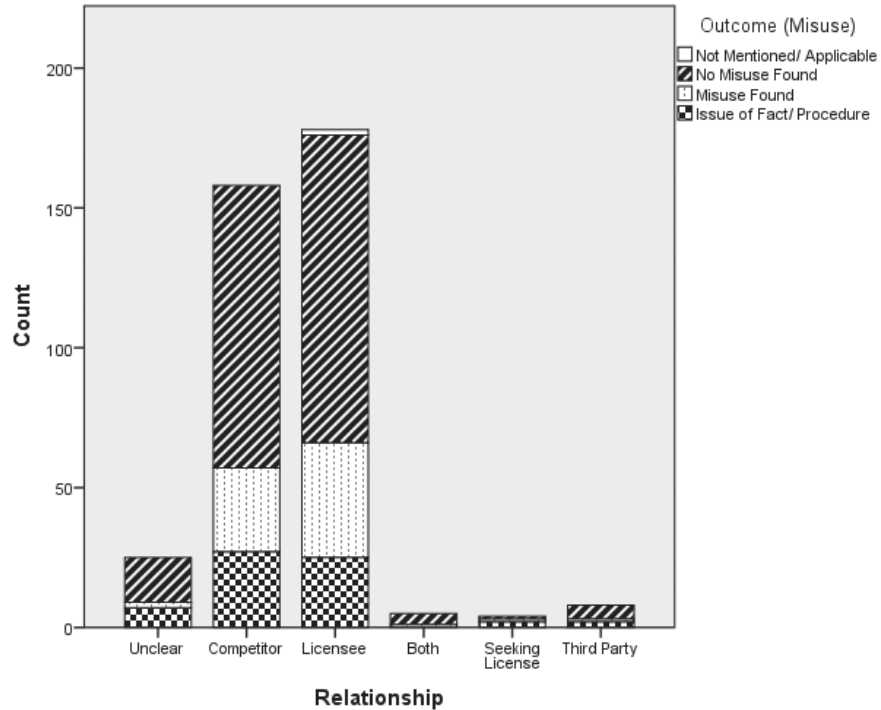




FIGURE 15. RELATIONSHIPS AND OUTCOMES (1953 – 2013)



For example, in *Senza-Gel Corp. v. Seiffhart*, the patentee Senza-Gel sued Goehring Meat for patent infringement over a process for producing whole boneless hams.<sup>394</sup> OHI, Inc. was included as co-defendant because it supplied Goehring Meat with a machine using that process. John Seiffhart was an employee of Goehring Meat, and he was named as a defendant because the company used the machine at his suggestion. The Federal Circuit found that Senza-Gel tied its process patent with a staple article, but held “that there can be no tie until a lessee uses the machine and performs the process; there can be no tie because its process and machine patents are ‘blocking’ and can therefore be legally ‘leased’ together.”<sup>395</sup>

As will be seen below, case law from patent misuse and other areas teach that evidence of direct harm to the complainant appearing the court is a secondary factor in determining the issue of standing. They serve a more important role—a bugler alerting the court to wrongdoing so that the public interest may be protected.

394. *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 672 (Fed. Cir. 1986).

395. *Id.* at 668.

## 2. Protecting the Public Interest

From the earliest days, the Supreme Court favored the promotion of the public interest over the private fortunes of those involved on both sides of the infringement suit.<sup>396</sup> It is not to some unidentifiable class of busybodies that patent misuse extends a flirtatious hand, inviting mischief. Rather, like the unclean hands doctrine it is, as the Tenth Circuit put it:

[B]ased upon conscience and good faith, and is confined to misconduct in relation to or in all events connected with the matter in litigation so that it in some manner affects the equitable relations of the parties to the suit. It does not extend to misconduct which is unconnected with the matter in litigation, and with which the party who asserts the maxim as a defense to his wrong has no concern.<sup>397</sup>

This policy rationale prompted the district court in *Petersen v. Fee International, Ltd.*, to find that “[i]t is not material that Plaintiffs were not a party to any of the various agreements and assignments. . . . In their ‘ball of wax’ is patent misuse with an adverse effect upon the public which disqualifies Defendants from claiming infringement of [the patent].”<sup>398</sup>

In *Multimedia Patent Trust v. Apple Inc.*, a recent case involving standard-setting organizations, the district court denied the patentee’s motion for summary judgment, accepting misuse as a plausible defense against infringement claims by a holder of a standard essential patent.<sup>399</sup> Although the defendants were neither licensees nor competitors, the court implicitly accepted that misconduct in the standards-setting process warranted further scrutiny, pointing to the use of misuse as a type of system integrity check to

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396. *See* *Mazer v. Stein*, 347 U.S. 201, 219 (1954) (“The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of the authors and inventors in ‘Science and useful Arts.’ Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.”); *see also* *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 519 (1917) (refusing to enforce the patent against contributory infringers because “it would be gravely injurious to [the] public interest,” which it deemed “more a favorite of the law than is the promotion of private fortunes”).

397. *McCullough Tool Co. v. Well Surveys, Inc.*, 395 F.2d 230, 238 (10th Cir. 1968).

398. *Petersen v. Fee Int’l, Ltd.*, 381 F. Supp. 1071, 1081 (W.D. Okla. 1974).

399. *Multimedia Patent Trust v. Apple Inc.*, No. 10–CV–2618–H (KSC), 2012 U.S. Dist. LEXIS 167479, at \*80 (S.D. Cal. Nov. 9, 2012). The Court found that the defendants, Apple and LG, presented plausible evidence that the patentee’s “predecessors-in-interest were members of the standards setting bodies . . . [and] . . . promised these standards bodies that they would license the patents-in-suit on RAND terms, and that MPT’s damages request might violate its RAND obligations.” *Id.* For a discussion of patent misuse in the context of standard essential patents, see generally Lim, *supra* note 369, at 17 (describing standard essential patents as those which implementers of technology standards necessarily infringe if used without permission).

ensure that the mechanism Congress had put in place to promote innovation and competition is not compromised.<sup>400</sup>

In *Compton v. Metal Products, Inc.*, the license over a method of manufacturing screw conveyors used in coal mining extended beyond the patent term.<sup>401</sup> Metal Products was a competitor who used a similar method that infringed Compton's patents.<sup>402</sup> Metal Products argued that the license prevented the licensee from manufacturing or selling equipment "of the type licensed."<sup>403</sup> The Fourth Circuit concluded that the agreement amounted to misuse.<sup>404</sup> It did not matter that Metal Products was not a party to the agreement. The important issue was that "[t]he public, in a system of free competition, is entitled to have the competition of other devices with a patented device and here it is against that public's interest to use the patent to suppress such competition."<sup>405</sup> This decision resonated with both district and appellate courts.<sup>406</sup>

Similarly in *Procter & Gamble Co. v. CAO Grp., Inc.*, in refusing to dismiss a misuse counterclaim, the district court recognized that "Defendant 'represents not only [it]self, but, in a sense, also the public which is likewise excluded from the field of monopoly' that an in-force patent grants to the holder. Thus, Defendant's patent misuse counterclaim enables it to pursue the remedy of a declaratory judgment that the patents-in-suit are unenforceable on behalf of itself and the public, regardless of whether the underlying patent infringement suit is unilaterally dropped by P & G."<sup>407</sup> In sum, it is the adverse effect upon the public interest that disqualifies patentees from maintaining the suit, regardless of whether the particular defendant has suffered from the misuse of the patent.<sup>408</sup>

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400. See *id.* at \*21.

401. *Compton v. Metal Prods., Inc.*, 453 F.2d 38, 44–45 (4th Cir. 1971).

402. *Id.* at 40–41.

403. See *id.* at 44.

404. *Id.*

405. *Id.* at 45 (citing *Mccullough v. Kammerer Corp.*, 166 F.2d 759, 762 (9th Cir. 1948)).

406. *Kolene Corp. v. Motor City Metal Treating, Inc.*, 440 F.2d 77, 84 (6th Cir. 1971) (stating that misuse should be actionable even by "one who is not a competitor" because an infringement suit "is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent."); see also *Touchett v. E Z Paints Corp.*, 150 F. Supp. 384, 388 (E.D. Wis. 1957) (holding that "[t]he doctrine of misuse of patents involves public policy. It involves more than the contracting parties. It is for the protection of the public.").

407. *Procter & Gamble Co. v. CAO Grp., Inc.*, No. 1:13-CV-337, 2013 WL 5353281 (S.D. Ohio Sept. 24, 2013) (alteration in original) (citation omitted).

408. *Petersen v. Fee Int'l, Ltd.*, 381 F. Supp. 1071, 1081 (W.D. Okla. 1974) ("It is not material that Plaintiffs were not a party to any of the various agreements and assignments between Space Tool, Colquitt and Defendants. In their 'ball of wax' is patent misuse with an adverse effect upon the public which disqualifies Defendants from claiming infringement of [the patent]."); see also *Touchett*, 150 F. Supp. at 388 ("The doctrine of misuse of patents involves public policy. It involves more than the contracting parties. It is for the protection of

Antitrust law also allows those not directly harmed to bring antitrust suits, “even against an infringer who is not harmed by the abusive practice.”<sup>409</sup> Competitors are proxies for consumer harm, since consumers “do not realize they are victims of monopolistic practices, or if they do may lack incentives to bring suit because the harm to an individual consumer may be tiny even though the aggregate harm is immense.”<sup>410</sup> In *Ritz Camera Image LLC v. Sandisk Corp.*, the Federal Circuit recently recognized that a party not threatened with an infringement suit had standing to bring an antitrust claim against the patentee.<sup>411</sup> A retailer of patented flash memory chips brought an antitrust action against the patentee, alleging it had fraudulently procured its patents.<sup>412</sup> Even though the retailer faced not threat of an infringement lawsuit, the Federal Circuit found that it had standing.<sup>413</sup> Notably, it also rejected the patentee’s assertion “that granting standing to direct purchasers would trigger a flood of litigation and stem innovation.”<sup>414</sup>

More generally, the Supreme Court recognized in *United States v. Students Challenging Regulatory Agency Procedures* that the wrong alleged by an interested party “was shared in equal measure by other members of the community at large, thereby demonstrating that public values can be the concern of the individual litigant; indeed the case all but suggests that a ‘private attorney-general’ can maintain an action to vindicate the public interest.”<sup>415</sup> Thus, granting standing to non-injured parties is not a feature peculiar to misuse or antitrust law.

A judicial interviewee explained that even a rogue infringer does the public a service by exposing a patentee’s egregious conduct. He remarked that “it’s different from antitrust law, because it’s not purely competitive behavior of a private party. It’s somebody who has received something from the government and they are doing something wrong with it. We should be happy to know about it and stop it.”<sup>416</sup> Broad standing allows the court—as

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the public”); Marcello D. De Frenza, *Vertical Territorial Restrictions as Patent Misuse*, 61 S. CAL. L. REV. 215, 219 (1987) (“Since the patent misuse doctrine protects the public at large, an accused infringer need not prove individual harm from the plaintiff’s misuse”).

409. 6 CHISUM, *supra* note 382, § 19.01.

410. *Brunswick Corp. v. Riegel Textile Corp.*, 752 F.2d 261, 266–67 (7th Cir. 1984).

411. *Ritz Camera & Image, LLC v. SanDisk Corp.*, 700 F.3d 503, 508 (Fed. Cir. 2012).

412. *Id.* at 505.

413. *Id.*

414. *Id.* at 508 (“As the Court explained, *Walker Process* claims ‘deal only with a special class of patents, *i.e.*, those procured by intentional fraud,’ *id.*, and ‘cannot well be thought to impinge upon the policy of the patent laws to encourage inventions and their disclosure,’ *id.* at 180, 86 S. Ct. 347 (Harlan, J., concurring). Particularly in light of the demanding proof requirements of a *Walker Process* claim, we are not persuaded by SanDisk’s ‘flood of litigation’ argument”).

415. *Id.* at 90 (quoting *United States v. Students Challenging Regulatory Agency Procedures*, 412 U.S. 669 (1973)).

416. LIM, *supra* note 11, at 191 (“People aren’t just running around bringing actions for patent issues. Nobody has the time or inclination to do that that I know of. The only time you

the proxy of the public interest—to consider and reject frivolous allegations of misuse brought mostly by competitors or licensees while extending their equitable jurisdiction to arrest abuses of the patent right in appropriate cases. Broad standing is allowed under misuse for good reason.

### C. Punitive Disproportionality

The final key objection to patent misuse is that it disproportionately penalizes patentees. There are a number of facets to this objection. First, a successful antitrust plaintiff recovers damages related to the injury sustained.<sup>417</sup> In contrast, once a defendant proves misuse, the remedy of unenforceability is “set without regard for injury to the infringer or to society.”<sup>418</sup> A single offending license clause could render the entire patent or families of patents unenforceable.<sup>419</sup>

Second, allowing the misuse defense to exist separately from the antitrust laws affords the infringer a dual recovery. Defendants who successfully assert misuse are theoretically entitled to file an antitrust counterclaim. Thus, “[a]ny benefit an infringer receives from proving patent misuse and blocking an infringement action would be in addition to its antitrust remedies based on injury.”<sup>420</sup> As a result, “the cost of a false positive then becomes very high.”<sup>421</sup> Critics are concerned that judges have no discretion to calibrate the remedy once misuse has been found.<sup>422</sup> An academic interviewed concurred

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ever see it is as a distraction from an infringement battle, in my limited experience. There are real incentives to bring in—the fact that maybe when it’s raised, it’s often not a—‘often’ is the wrong word to use here—it’s sometimes not raised properly. It’s sort of a throw-everything-against-the-wall-and-see-what-sticks approach by some infringer scrambling to avoid liability. Sometimes you get an infringer who is actually doing the public a service by pointing out a genuine patent misuse. In those circumstances the fact that maybe the infringer has its own issues—there’s not an unclean hands defense to patent misuse, as far as I know. That reflects an understanding that if we know somebody is using a grant from the government and using it wrongfully, we should be happy to know about it.”; *see also id.* at 191-92 (noting agreement by other judges interviewed).

417. 15 U.S.C. § 15 (2012) (“[A]ny person who shall be injured . . . by reason of anything forbidden in the antitrust laws . . . shall recover threefold the damages by him sustained. . .”).

418. *See* Lemley, *supra* note 81, at 1617.

419. Joe Lutzker, *Patent Misuse Defence Clarified*, ASIALAW (May 2006) available at <http://www.asialaw.com/Article/1971381/Patent-Misuse-Defence-Clarified.html?Print=true&Single=true> (“Misuse defences, if sustained, are especially powerful since they can render unenforceable an entire family of patents.”).

420. *See* Lemley, *supra* note 81, at 1617.

421. Cotter, *supra* note 114, at 959.

422. Lemley, *supra* note 105, at 1618 n.121 (“[D]espite its roots, the patent misuse doctrine is not one of ‘equitable discretion’; indeed, it does not involve judicial discretion at all. An infringer who proves misuse is entitled to have the court refuse to aid the patentee. Thus, any ‘discretion’ the court may possess is only in finding the misuse.”) (citations omitted).

with the observation that judges were unwilling to find misuse in marginal cases because of the perceived harshness of the doctrine.<sup>423</sup>

Third, critics argue that “because the bar on infringement suits continues until the wrongful consequences have been dissipated fully, a finding of misuse essentially gives a green light to infringers of that patent for the foreseeable future.”<sup>424</sup> Although the unenforceability is lifted upon a purging of the relevant misuse, critics maintain that the burden of purging the misuse may well be greater than the benefits of pursuing the infringement, and it will thus deter patentees from enforcing legitimate rights.<sup>425</sup> Vincent Chiappetta warned that “by putting patent owners at a disadvantage relative to other market participants (who would only be subject to antitrust constraints), misuse unnecessarily undermines the value of patents and the innovation policies pursued by the regime.”<sup>426</sup>

### 1. Patent Misuse is about Deterrence

Those arguing for penalizing patentees, with the aim of restoring defendants to a position where they would have been “but for” the misuse, miss the point. Patent misuse was designed to have a deterrent effect, and it is less concerned with reversing an improperly accrued market benefit.<sup>427</sup> Judge Giles Rich noted that “[t]he misuse doctrine was a special form of punishment devised for over-reaching patentees who were using their patents to monopolize something other than the invention.”<sup>428</sup> A judge interviewed remarked:

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423. LIM, *supra* note 11, at 195.

424. See Lemley, *supra* note 105, at 1619–20 (“Overdeterrence imposes substantial costs on protected activity that might mistakenly be construed as misuse, both because of uncertainty over the exact scope of the law and because of risk aversion.”).

425. See Sean Michael Aylward, *Copyright Law: The Fourth Circuit’s Extension of the Misuse Doctrine to the Area of Copyright: A Misuse of The Misuse Doctrine?*—*Lasercomb America, Inc. v. Reynolds*, 17 U. DAYTON L. REV. 661, 694 (1992) (“[I]n many cases the burden of purging the misuse will be greater than recovering for the infringement.”); Cotter, *supra* note 114, at 960 (noting the possible negative effects of nonenforceability: “one likely effect is that IPRs will become less valuable and IP owners less willing to ‘push the envelope’ by extracting borderline concessions.”).

426. Vincent Chiappetta, *Living With Patents: Insights from Patent Misuse*, 15 MARQ. INTELL. PROP. L. REV. 1, 37 (2011).

427. *Syndicate Sales, Inc. v. Floral Innovations, Inc.*, No. 1:11-cv-00465-SEB-DK, 2012 WL 4477691, at \*5-6 (S.D. Ind. Sept. 28, 2012) (noting that there is no need for patentees to “actually obtain an improper market benefit for there to be actionable patent misuse claim.”). Distinguishing the rule under antitrust law that “an improper market benefit is a prerequisite to the success of a rule of reason analysis under antitrust law”, the court found “no such holding in a non-antitrust case” and concluded that “as a matter of law, actual improper benefit is not a prerequisite to a claim of patent misuse.” *Id.*

428. Giles S. Rich, *Infringement under Section 271 of the Patent Act of 1952*, 14 FED. CIR. B.J. 117, 133 (2005).

I don't think that the doctrine is without use, because at the very least it would be a way of punishing patentees who engaged in egregiously bad behavior that might not be covered by all the other defenses, like invalidity or inequitable conduct, in front of the panel. So it gives the court one more instrument for preventing serious injustice or serious abuse. I think that's very useful. There's no way that rules from case law or rules derived from the statute can cover every factual situation. That's the value of equity-based doctrines like patent misuse.<sup>429</sup>

These observations are consistent with the role of equity in general, for it was noted long ago that “[a] country can put up with laws that are harsh or unjust so long as they are administered by just judges who can mitigate their harshness or alleviate their unfairness.”<sup>430</sup> Notwithstanding this, courts do apply some degree of proportionality in their application of patent misuse.

## 2. Judicial Sensitivity

Judges tailor the penalty for misuse according to the justice required by the individual case. At least one appellate court has cited *Morton Salt* for the proposition that the misuse defense “is not to be taken as dogmatic and its application automatic.”<sup>431</sup> It explained that denying the successful patentee its remedies “is a harsh remedy, a species of forfeiture.” Another court attributed this judicial calibration to the fact that a court applying the misuse defense “sits in equity and is vested with considerable discretion in evaluating the actions of the patentee.”<sup>432</sup> In this way, equity acts as a fair arbiter, conferring grace upon both patentee and defendant as justice calls for it.

Courts also look to how the patentee treated other actual or potential licensees in determining if the patentee's conduct was justified.<sup>433</sup> If its conduct did not involve improper use, courts will take that into account in determining whether the patent should be rendered unenforceable.<sup>434</sup> In addition, courts are sensitive to common-sense arguments for restrictions alleged to be misuse. In *Marks v. Polaroid Corp.*, the First Circuit found the license restrictions justified because “reuse by the public generally might spread eye infection for which perhaps it might be held liable, and in the case of the

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429. LIM, *supra* note 11, at 194.

430. DENNING, *supra* note 360, at 7.

431. *Kolene Corp. v. Motor City Metal Treating, Inc.*, 307 F. Supp. 1251, 1270 (E.D. Mich. 1969) *aff'd*, 440 F.2d 77 (6th Cir. 1971).

432. *Koratron Co. v. Lion Unif., Inc.*, 409 F. Supp. 1019, 1022 (N.D. Cal. 1976).

433. See, e.g., *Kolene Corp.*, 440 F.2d at 85.

434. *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1331 (Fed. Cir. 2010) (“What that requires, at minimum, is that the patent in suit must ‘itself significantly contribute[ ] to the practice under attack.’”) (alteration in original).



temporary viewers, that after one use they were likely to become bent or dirty and hence lose some of their effectiveness.”<sup>435</sup>

Surprisingly, courts have exercised their discretion—even upon finding misuse—not to impose the remedy of unenforceability where the impact would be “too drastic.”<sup>436</sup> One court recently regarded unenforceability as too harsh in close cases and factored the misuse into the balancing test in determining whether to grant an injunction instead.<sup>437</sup> Another was willing to sever the offending clause from the rest of the patent.<sup>438</sup> This last result in effect implemented Thomas Cotter’s proposal that cases should distinguish between “transactional and litigation misuse,” with the patent being rendered unenforceable only in the latter case, while the former case results only in the unenforceability for the offending contractual provision.<sup>439</sup>

Regarding the concern over double recovery, courts retain their full discretion in determining whether to allow a compounding of patent misuse and antitrust against the patentee. In *Ansul Co. v. Uniroyal, Inc.*, the Second Circuit found that denying the patentee “recovery on the ground of misuse is a sufficient vindication of antitrust policy, at least where the patentee is no

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435. *Marks v. Polaroid Corp.*, 237 F.2d 428, 436 (1st Cir. 1956).

436. *Ethyl Corp. v. Hercules Powder Co.*, 232 F. Supp. 453, 458 (D. Del. 1963) (“Although Ziegler attempted to do that which he was incapable of legitimately doing, the application of the doctrine of misuse is too drastic.”).

437. *Mallinckrodt Inc. v. Masimo Corp.*, No. 00-6506 MRP (AJWx), 2004 U.S. Dist. LEXIS 28518, at \*106 n.34 (C.D. Cal. July 12, 2004) (“Courts have frequently denied injunctions in cases of patent misuse, because granting the injunction would give the patent holder a monopoly that extends beyond the scope of the patent. Patent misuse has not been alleged in this case and this Court does not assume that any misuse has occurred. Nevertheless, this case is analogous to patent misuse cases in that the injunction Masimo proposes would, because of the nature of the oximetry market, expand its monopoly beyond the monopoly to which its patents give Masimo a right.”) (citation omitted).

438. *Cordance Corp. v. Amazon.com, Inc.*, 727 F. Supp. 2d 310, 336-37 (D. Del. 2010) (“[E]ven assuming that Cordance’s contractual agreements did constitute patent misuse per se under *Brulotte*, it does not follow that the court need render the ’710 patent unenforceable in its entirety. The court might invalidate only the post-expiration passive royalties. And here, any final extension that would put the GSP Agreement beyond the term of the ’710 patent has not yet been and might never be exercised.”); see also BOHANNAN & HOVENKAMP, *supra* note 78, at 279 (“[M]isuse is an equitable judge-made doctrine that can have a suitably tailored judge-made remedy. . . . If the misuse remedy is limited to nonenforcement of offensive provisions that do not have a good efficiency explanation, then an error in estimating foreclosure will not be exclusively costly.”).

439. Cotter, *supra* note 114, at 903 (“Only [litigation misuse] should result in unenforceability of the patent or copyright for the duration of the misuse; [transactional misuse] should result only in unenforceability of the offending contractual provision—and whatever other sanctions, if any, are appropriate as a matter of antitrust or other law.”); see also *id.* at 963-64 (“[I]n cases involving transactional misuse, the penalty should be limited to nonenforceability of the challenged provision; this reform would impose a standing requirement that is, by most accounts, absent from the current system and would in effect merge misuse with preemption analysis. For litigation misuse . . . the unenforceability penalty may continue to be one, though perhaps not the only, option available to deter abusive litigation. So reformed, misuse would continue to play a modest, but useful, role in copyright and patent litigation.”).

longer actively engaging in antitrust violations at the time he brings his suit.”<sup>440</sup> On the facts, although the *effects* of the patentee’s violations had not been dissipated, it had ceased “actively engaging in at least its most objectionable antitrust violations.”<sup>441</sup> Under those circumstances, the infringer was denied treble damages for the costs of defending the patentee’s suit.<sup>442</sup> A judge interviewed confirmed this, noting that the consequences of misuse and antitrust are different.<sup>443</sup>

Patent misuse is an affirmative defense. This prevents it from becoming a tool of unscrupulous third parties masquerading as roving avengers of the public interest.<sup>444</sup> While misuse may be invoked by declaratory judgments, it featured in only about 7% of misuse cases between 1953 and 2012, compared to 8% in litigated patent cases generally.<sup>445</sup> Recent scholarship has noted that infringers may choose to settle and pay royalties rather than defend an infringement suit and challenge the validity of the patent.<sup>446</sup>

Those worried about the floodgates argument should be mollified by the chorus of judges interviewed, who note that the only people to use the defense are those who have been sued for infringement, or are at risk of being sued. Both the scope of unenforceability as well as the discretion the judge has in deciding whether patent misuse exists, should serve as a check against frivolous claims. As a matter of judicial economy, one commentator noted that parties were “always already in court” in a misuse case.<sup>447</sup> It follows that “adjudicating such a defense should add incrementally less,” and “courts can dismiss unmeritorious misuse defenses early in the litigation . . . [and] should help to prevent parties from illegitimately holding up their competitors via the misuse defense.”<sup>448</sup>

Finally, unenforceability is temporary. Once patentees purge their misuse, they regain all rights to enforce their patents.<sup>449</sup> If the conduct or con-

440. *Ansul Co. v. Uniroyal, Inc.*, 448 F.2d 872, 883 (2d Cir. 1971).

441. *Id.*

442. *Id.*

443. LIM, *supra* note 11, at 197 (“If you’re suing somebody for infringement and they counterclaim, they might defend on patent misuse and they might also counterclaim saying that it’s an antitrust violation. If they succeed on the patent misuse, they will win on the infringement. If they succeed on antitrust, they will get treble damages. I don’t see that as getting hit twice. It’s getting hit for two different things. One gives you a defense to infringement. The other gives you a remedy for a violation of a statute.”).

444. Chiappetta, *supra* note 426, at 18 (“Neither those whose actions have not been challenged by the patent owner nor the government have standing to affirmatively attack possible patent owner over-reaching.”).

445. LIM, *supra* note 11, at 313.

446. See Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won’t Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 BERKELEY TECH. L.J. 943, 954-55 (2004).

447. See Note, *supra* note 70, at 1938.

448. *Id.* at 1938-39.

449. See, e.g., *Preformed Line Prods. Co. v. Fanner Mfg. Co.*, 328 F.2d 265, 278 (6th Cir. 1964); see also *Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp.*, 443 F.2d 867,

tractual provision were improper, its cancellation before suit qualifies the plaintiffs to maintain their lawsuits.<sup>450</sup> Given that the doctrine itself is sound, what more can judges and attorneys do?

## VI. WHAT JUDGES AND ATTORNEYS CAN DO

Early on in 1968, the Tenth Circuit recognized that the success or failure of patent misuse lay with the courts. In *McCullough Tool Co. v. Well Surveys, Inc.*, it analogized misuse to antitrust defenses and cited with approval a report by the Attorney General's National Committee to study the Antitrust Laws which noted that antitrust law was "basically a problem of judicial control," and recommended "that the courts should make full use of their powers to curb such attempts to defeat justice."<sup>451</sup> Judges interviewed remarked that they were open to finding misuse where the circumstances warranted it.

"It's all a question of what the litigators present," one judge commented. "If it's well tried, with evidentiary support below, it will be taken seriously. If it's not well tried below and well presented on appeal, it probably won't get much traction." To him, it was "entirely the choice and ability of the litigators," and "not some attitudinal posture by one or more judges."<sup>452</sup> Unfortunately, he noted that "'misuse is routinely and carelessly alleged in a lot of cases and then not seriously pursued."<sup>453</sup> If this is representative of a wider phenomenon, then litigators need to develop a more thoughtful basis for their misuse arguments.

Litigators should also be mindful of forum selection. As a judge interviewed noted, this "has as much a role to play in determining the future shape of patent misuse as any other factor—for example, a forum that recognizes that patentees are self-interested individuals with incentives to sue even on shaky grounds, and that acknowledges the limited capabilities of the U.S. Patent Office, will be more receptive to expanding patent misuse."<sup>454</sup> Conversely, a forum that believes robust patent rights are necessary would be less receptive to misuse allegations.<sup>455</sup>

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883 (2d Cir. 1971); *Virginia Panel Corp. v. Mac Panel Co.*, No. 93-0006-H, 1996 WL 335381 (W.D. Va. May 29, 1996).

450. See *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 493 (1942) ("Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated.").

451. *McCullough Tool Co. v. Well Surveys, Inc.*, 395 F.2d 230, 240 (10th Cir. 1968). See also *Marbury v. Madison*, 5 U.S. 137, 177 (1803) ("It is emphatically the province and duty of the judicial department to say what the law is. Those who apply the rule to particular cases must, of necessity expound and interpret the rule.").

452. *LIM*, *supra* note 11, at 200.

453. *Id.*

454. *Id.* at 87.

455. *Id.* at 87-88.

An interviewee noted that even with the Federal Circuit's dominance, "the district court's ability to broker a settlement remains potent."<sup>456</sup> This gives misuse more vitality that may seem apparent. In particular, respect judges could leverage a colorable misuse case to push parties toward settlement by making risk-adverse patentees choose to settle on terms it has more control over and the risk of losing on appeal.<sup>457</sup> These settlements, he suggested, may be favorable to defendants. Conceivably, such outcomes could leave defendants better off than they would be given the calibration of rights dictated under current precedent.

Cases from the Ninth Circuit like *Kimble* highlight the potential of other circuits in shaping the boundaries of patent misuse in licensing disputes, which make up most of the patent misuse cases studied.<sup>458</sup> At the same time, despite recent challenges to the Federal Circuit's exclusive jurisdiction over patent appeals,<sup>459</sup> it is unlikely that its dominant influence will wane in the foreseeable future. As the nation's patent court, the Federal Circuit is best placed to coordinate the revival of misuse in a controlled manner. That revival is timely, given widespread concern about litigation abuses by some patentees.<sup>460</sup>

The Federal Circuit is the only specialist patent court in America, and one of few in the world staffed by judges whose decisions are informed by the work of law clerks who have at least college-level technical back-

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456. *Id.* at 166 n.50 ("Even if you have a Federal Circuit, which is strong and has these other things, there's room for a district court judge to manoeuvre, wiggle room, to talk the talk in a way that could lead to a settlement, rather than have—because they get it wrong—I mean, right now I have this little guy . . . But they'll get him out of the picture, because yes, the chances are that the Federal Circuit is going to go my way, but who knows what panel will be in the Federal Circuit, what they can do?").

457. *Id.* at 166 n.51 ("It doesn't need a lot of decided cases. As long as it's there and judges say those words—'to me, Mr Jones, this looks like a patent misuse case. That's the way I'm going here. I just want you to know that. And I'm going to allow even more discovery into that aspect of the case'—those words are going to be, I would say, nine out of ten times, leading to a settlement that's much better for that party in a way that they are going to do all right. We don't see that in just-decided cases. So that has that vitality.").

458. See LIM, *supra* note 11, at 370 fig.6.64 (showing tying, licensing restrictions, royalty-related misuse and time extensions as four of the five most frequently adjudicated types of misuse).

459. See Diane P. Wood, *Is it Time to Abolish the Federal Circuit's Exclusive Jurisdiction in Patent Cases?*, 13 CHI.-KENT J. INTELL. PROP. 1, 9 (2013); see also Edward Reines, *In Defense of the Federal Circuit: A Response to Judge Wood*, PATENT DOCS (Oct 7, 2013), <http://www.patentdocs.org/2013/10/in-defense-of-the-federal-circuit-a-response-to-judge-wood.html>.

460. See, e.g., Innovation Act, H.R. 3309, 113th Cong. (2013) (intended to address patent infringement litigation abuse.); Gene Quinn, *Chief Judge Rader Speaks Out about Patent Litigation Abuse*, IP WATCHDOG (Feb 28, 2013), <http://www.ipwatchdog.com/2013/02/28/chief-judge-rader-speaks-out-about-patent-litigation-abuse/id=36252/> (Chief Judge Randall Rader of the Federal Circuit acknowledging "there is a litigation abuse problem.").

grounds.<sup>461</sup> At least in theory, a good understanding of the technology allows practitioners and law clerks to brief the panel on the sector-specific technological landscape in a thoughtful manner. This informed explanation thus enables the panel to appreciate more fully both whether the conduct question crosses the misuse threshold as well as the potential consequences of finding misuse. It is a common-sense measure to restore the primacy of patent policy familiar to these stakeholders, rather than to encumber patent litigation with unfamiliar and costly antitrust analysis.

*Actavis* has made it clear that both patent and antitrust policies are relevant in determining patent scope. For patent misuse, this means the rule of reason-type analysis will continue to feature in its jurisprudence, and so should patent policy. Writing before *Actavis* and *Kimble*, Mark Lemley noted that “[s]ince the patent misuse doctrine has a policy foundation separate from the antitrust laws, there is no theoretical bar to the creation of non-antitrust classes of patent misuse.”<sup>462</sup>

Patent policy remains a rich, untapped vein in patent misuse despite its Supreme Court pedigree in *Morton Salt*. The ultimate goal of the patent system is to promote the public good by providing a proper incentive to innovate and disclose their inventions. The antitrust laws, in contrast, are aimed at fostering competition in a free market society by preventing monopolies and unreasonable restraints of trade. If patent misuse is seen as being predicated on a finding of antitrust policy alone, its potential as a policy lever would be much diminished and there would never be a role for patent misuse. Once antitrust fails, so too would a misuse doctrine that is coupled to antitrust.

At the lower level, district judges would likely be more comfortable with patent policy than antitrust policy. This is so even though the theoretical distinctions within antitrust law may be more settled, such as those relating to price effects. Both as an equitable doctrine and a defense to patent infringement, it is more familiar and more easily administrable by district judges, who would likely welcome the opportunity to avoid having to contend with complex economic considerations under the antitrust matrix, in addition to those inherent in any patent infringement trial. It is worth noting Judge Walker’s advice that because many generalist judges lack training in

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461. One survey of patent attorneys, for example, showed that more than 30 percent of patent attorneys in the biological field had a PhD, while more than 25 percent of those in the chemical field had a PhD. See Dennis Crouch, *Preliminary Results on Patent Law Survey*, PATENTLY-O (August 25, 2010), available at <http://patentlyo.com/patent/2010/08/preliminary-results-on-patent-law-survey.html>. Even in the electrical, mechanical and computer engineering fields, where the number of PhDs is significantly lower, practitioners had technical undergraduate degrees. *Id.*

462. See Lemley, *supra* note 105, at 1611–12 (footnote omitted).

economic analysis, evidence should be comprehensibly communicated to a generalist in a manner consistent with other evidence.<sup>463</sup>

Like every tool, patent misuse may itself be misused. Its flexibility can devolve into debilitating uncertainty. Its overlap with antitrust law can become a flimsy cantilever, and as its distinct mission to safeguard patent policy vanishes, so will it. Punitively applied, it will realize its detractors' worst fears. Prudently applied, it may yet prove itself to be a keen and incisive scalpel capable of complimenting the rougher cuts of the antitrust laws. The vitality of patent misuse ultimately depends on those it was created by and for—the judges themselves. If the reinvigoration of patent misuse takes place, it will likely be a compromise: balancing innovation and fairness in dealing with competitors and consumers with commercial certainty and robust exclusionary rights and, thus, encourage the continued production and exploitation of inventions that enrich our daily lives.

## VII. CONCLUSION

*Actavis* suggests that the pendulum is swinging toward a post-Chicagoan era of greater intervention under the antitrust laws. The true legacy of *Actavis* lies in the promise of catalyzing those from the patent and antitrust spheres into moving towards a realistic compromise on how the rules that affect them both should look like and function.<sup>464</sup> A measured revitalization may bring relief to antitrust defendants. Courts, wary of the treble damages and private litigation under antitrust laws, may prefer a more graduated response of temporary unenforceability under patent misuse.

*Kimble* shows the Chicago School of antitrust continues to be very much part of the conventional wisdom on patent misuse. Advocates of a more balanced analysis that also includes patent policy would do well to follow the majority's example in *Actavis* and reexamine cases applying that policy to the facts before them. Indeed, patent misuse quintessentially represents the patent-antitrust interface. Although its past is rooted in patent law, its present is intertwined with the antitrust laws.

We have come a long way in developing a better understanding of both patent misuse and the patent-antitrust interface. But we should regard the present not as a pinnacle of achievement, but as a base to scale new

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463. See generally Vaughn R. Walker, *Merger Trials: Looking for the Third Dimension*, 5 COMPETITION POL'Y INT'L 35 (2009).

464. Shubha Ghosh, *Convergence?*, 15 MINN. J.L. SCI. & TECH. 95, 104 (2014) (“What keeps the opinion from perhaps being a great one there was [that there was] no consideration of the competing policies with an attempt to reconcile them. While the dissent takes for granted the opposing policies of patent and antitrust, the majority states that this tension is an assumption rather than a reasoned conclusion.”).

heights.<sup>465</sup> Through debate, experimentation, and refinement innate in the common law, future cases can craft pieces that will form a coherent analytical framework for the interface between the patent and antitrust laws. The effort must be supported by clear-headed constituents who look beyond the rhetoric and translate economic insights into workable legal rules.

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465. Goh Keng Swee, *A Holy Order to Scale New Heights*, in GOH KENG SWEE: A LEGACY OF PUBLIC SERVICE 311, 316 (Emrys Myles Khean Aun Chew and Chong Guan Kwa eds., 2013), available at [http://www.worldscientific.com/doi/pdf/10.1142/9789814390767\\_bmatter](http://www.worldscientific.com/doi/pdf/10.1142/9789814390767_bmatter).



