3 Patent Antitrust, Misuse, and Inequitable Conduct

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I. [3.1] OVERVIEW

This chapter addresses activities that step outside the bounds of legitimate conduct by patentees (*i.e.,* the persons who control patent rights). The consequences from improperly acquiring, maintaining, or using patent rights range from the loss of these rights to civil damages and criminal penalties. There are three basic areas of law that address and regulate a patentee's conduct: antitrust law; the doctrine of patent misuse; and the doctrine of inequitable conduct.

Patent antitrust issues arise when a patentee extends the scope of a patent beyond that which the law allows in conjunction with other factors, such as antitrust injury and market power. These issues create an independent cause of action against the patentee by private litigants as well as state and federal agencies. Antitrust violations can result in patent unenforceability, civil damages, and criminal penalties.

Patent misuse issues arise when a patentee extends the scope of a patent beyond that which the law allows. These issues can be used only as a defense to an infringement action. They do not give rise to an independent cause of action against a patentee. Misuse violations can result in a finding of patent unenforceability. All antitrust violations will necessarily give rise to patent misuse. On the other hand, because the additional factors for an antitrust violation are not required for the defense of misuse, all patent misuse issues will not necessarily give rise to an antitrust violation.

Inequitable conduct issues arise when a patentee or its predecessor in interest improperly obtained the patent from the United States Patent and Trademark Office (USPTO). Inequitable conduct is only a defense to patent infringement; it does not give rise to a separate cause of action. In extreme cases of fraud, however, improper conduct before the USPTO can form the basis for an antitrust violation. A finding of inequitable conduct renders the patent unenforceable.

In addition to the harsh consequences from an ultimate finding of liability under any of these doctrines, there is a further consideration that should guide a patentee in these matters. The conduct that gives rise to an antitrust, misuse, or inequitable conduct allegation usually took place years before the value for the patented technology had materialized. Excluding those persons who set out with a knowing or reckless disregard for the rules, usually the conduct that gives rise to one of these issues involves activity that comes a little close to the line either intentionally or unintentionally coupled with the rationalization that an opponent would "never be able to prove up a violation."

PRACTICE POINTER

✓ By coming close to the line, a patentee can give an infringer a potential defense when it otherwise would have had none. Thus, it is not enough just to position a patentee to win on an antitrust, misuse, or inequitable conduct charge; instead, the patentee should be positioned so that these charges are not raised in the first place.

These rationalizations ignore the reality of patent enforcement and litigation and play into the hands of an infringer, giving the infringer a potential defense that can enable the infringer to delay the litigation, increase the complexity of the litigation, and perhaps have an offensive position, thus resulting in delayed settlements, increased litigation costs, and lower settlement values. Defending an antitrust charge can easily increase litigation cost for a patentee by several million dollars. Defeating an inequitable conduct charge can easily increase the cost of litigation by hundreds of thousands of dollars. Thus, a patentee should be positioned so that these charges either cannot be raised or, if raised, can be dealt with in a summary manner.

II. [3.2] INTRODUCTION TO PATENT ANTITRUST

There is perhaps no more unique, confusing, and interesting area of the law than the interplay between patent and antitrust laws. A patent is a constitutionally mandated right to exclude others from making, using, selling, offering for sale, or importing the patented invention. U.S.CONST. art. I, §8; 35 U.S.C. §271. Accordingly, the patent right is at times referred to as a "monopoly." It is perhaps the only tool that allows a company to legally stop competition. Antitrust laws, on the other hand, are intended to foster competition and create a fair playing field on which one competitor cannot overtly stop another from competing. As is often said, the antitrust laws protect competition, not competitors.

Thus, there has always been a tension between these two bodies of law and their underlying policies. This tension has developed into anything but a bright line between conduct expressly permitted and encouraged by the patent laws and conduct expressly prohibited, and in fact criminalized, by the antitrust laws.

Historically, this area of the law has seen its greatest activity and refinement when new technologies have moved from the workbench or lab into mainstream commerce. Perhaps it is the combination of new technology, new wealth, and the bright, aggressive individuals who make this technology profitable that gives rise to the situations in which the line between patent and antitrust laws is more readily tested. Perhaps it is a belief that the old rules, developed from old technology, no longer apply that creates the mistaken belief that there is nothing to worry about from the antitrust laws. Regardless, if history provides any guidance, as the areas of biotechnology, biopharmaceuticals, software, and e-commerce move from the lab and desktop to the marketplace, they will become embroiled in the turbulent waters where the patent and antitrust laws meet.

To understand this area of law, it is important to have a basic understanding of both patent and antitrust law. There is one key test to apply in determining whether antitrust red flags should be raised in evaluating a patentee's conduct. A patent provides an exclusionary right, that is, the right to exclude another from doing something. If the agreement or the conduct of the patent extends beyond what the patentee can exclude under the patent, antitrust warning signs should go up. This is not to say that this conduct would violate the antitrust law, only to say that once the agreement or conduct extends beyond what the patent excludes, careful scrutiny should be used because at that point the potential for an antitrust issue is present.

In order to understand how to apply this key test, one needs to first understand what a patent excludes. Chapters 1 and 2 of this handbook address in detail what is patentable and how a patent's right to exclude is enforced through infringement actions. Thus, this chapter only briefly addresses these issues and from a competition standpoint. See §§3.3 – 3.5 below.

PRACTICE POINTER

✓ Antitrust warning flags should go up anytime an agreement or a patentee's conduct extends to activities that the patent rights could not exclude others from doing. In other words, if the patentee could have prohibited particular conduct of a competitor under the patent, contracts or agreements that do nothing more than permit this conduct to take place should pass antitrust scrutiny.

III. PATENT LAW FROM AN ANTITRUST PERSPECTIVE

A. [3.3] The Patent "Monopoly" Defined

Typically, a patent is defined as providing a right of exclusion, which does not confer any rights to practice the patented invention. Thus, the patent provides the ability for the patentee to exclude others from making, using, selling, offering for sale, or importing the claimed invention. 35 U.S.C. §271(a). There are, however, other definitions of a patent that are perhaps more artfully expressed. For example, Thomas Jefferson stated the following:

> **If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea. . . . Its peculiar character, too, is that no one possesses the less, because every other possesses the whole of it. He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. . . . Inventions then cannot, in nature, be a subject of property. Society may give an exclusive right to the profits arising from them, as an encouragement to men to pursue ideas which may produce utility.** *Graham v. John Deere Company of Kansas City,* 383 U.S. 1, 15 L.Ed.2d 545, 86 S.Ct. 684, 689 n.2 (1966), quoting VI WRITINGS OF THOMAS JEFFERSON, pp. 180 – 181 (Washington ed. 1907).

However, Supreme Court Justice Black, dissenting, took a harsher view of patents:

> **Those who strive to produce and distribute goods in a system of free competitive enterprise should not be handicapped by patents based on a "shadow of a shade of an idea."** ***Atlantic Works v. Brady,*** **107 U.S. 192, [**27 L.Ed. 428, 2 S.Ct. 225, 231 (1883)**]. . . . It is impossible for me to believe that Congress intended to grant monopoly privileges to persons who do no more than apply knowledge which has for centuries been the universal possession of all the earth's people — even those of the most primitive civilizations.** *Goodyear Tire & Rubber Co. v. Ray-O-Vac Co.,* 321 U.S. 275, 88 L.Ed. 721, 64 S.Ct. 593, 595 – 596 (1944).

These two diverging definitions illustrate the swing from pro-patent to anti-patent sentiments that has occurred several times over the past years. This swing will likely occur at least once during the next 20 years (*i.e.,* during the life of a patent) and will also directly influence the antitrust implications of a patentee's conduct.

Relying heavily on the right-to-exclude definition of a patent, the Court of Appeals for the Federal Circuit has attempted to cleanse the patent lexicon of the term "patent monopoly":

> **Nortron begins its file wrapper estoppel argument with "Patents are an exception to the general rule against monopolies . . .". A patent, under the statute, is property. 35 U.S.C. §261. Nowhere in any statute is a patent described as a monopoly. The patent right is but the right to exclude others, the very definition of "property." That the property right represented by a patent, like other property rights, may be *used* in a scheme violative of antitrust laws creates no "conflict" between laws establishing any of those property rights and the antitrust laws. The antitrust laws, enacted long after the original patent laws, deal with appropriation of what should belong to others. A valid patent gives the public what it did not earlier have. Patents are valid or invalid under the statute, 35 U.S.C. It is but an obfuscation to refer to a patent as "the patent monopoly" or to describe a patent as an "exception to the general rule against monopolies." That description, moreover, is irrelevant when considering patent questions, including the question of estoppel predicated on prosecution history. [**Emphasis in original.**]** *Carl Schenck, A.G. v. Nortron Corp.,* 713 F.2d 782, 786 n.3 (Fed.Cir. 1983).

The Federal Circuit's effort at eliminating the use of the term "patent monopoly" has been rejected by the Supreme Court, which has consistently used and referred to patent rights in the context of a "monopoly":

> **A patent by its very nature is affected with a public interest. [**It**]** ***is an exception to the general rule against monopolies*** **and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that** ***patent monopolies*** **spring from backgrounds free from fraud or other inequitable conduct and that** ***such monopolies*** **are kept within their legitimate scope. [**Emphasis added.**]** *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.,* 324 U.S. 806, 89 L.Ed. 1381, 65 S.Ct. 993, 998 (1945).

See also Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722, 152 L.Ed.2d 944, 122 S.Ct. 1831, 1835 (2002) ("we appreciated that by extending protection beyond the literal terms in a patent the doctrine of equivalents can create substantial uncertainty about where the *patent monopoly* ends" [emphasis added]), citing *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.,* 520 U.S. 17, 137 L.Ed.2d 146, 117 S.Ct. 1040, 1049 (1997); *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank,* 527 U.S. 627, 144 L.Ed.2d 575, 119 S.Ct. 2199, 2218 (1999) ("The Patent Remedy Act merely puts States in the same position as all private users of the patent system, and in virtually the same posture as the United States. 'When Congress grants an exclusive right or *monopoly,* its effects are pervasive; no citizen or State may escape its reach.' *Goldstein v. California,* 412 U.S. 546, 560, 37 L.Ed.2d 163, 93 S.Ct. 2303 (1973) (analyzing Copyright Clause [of U.S. Constitution])." [Emphasis added.]). In *Pfaff v. Wells Electronics, Inc.,* 525 U.S. 55, 142 L.Ed.2d 261, 119 S.Ct. 304, 310 (1998), the Court, quoting *Elizabeth v. Pavement Co.,* 97 U.S. (7 Otto) 126, 137, 24 L.Ed. 1000 (1878), stated:

> **It is sometimes said that an inventor acquires an undue advantage over the public by delaying to take out a patent, inasmuch as he thereby preserves the monopoly to himself for a longer period than is allowed by the policy of the law; but this cannot be said with justice when the delay is occasioned by a *bona fide* effort to bring his invention to perfection, or to ascertain whether it will answer the purpose intended. His monopoly only continues for the allotted period, in any event; and it is the interest of the public, as well as himself, that the invention should be perfect and properly tested, before a patent is granted for it.**

Setting aside the debate over the propriety of using the term "patent monopoly," it should not be disputed that a patent provides economic power, pure and simple. A patent is the only legal way to stop a competitor from competing and to punish the competitor for competing.

To illustrate this point, consider the often-used example of a patent directed to a pencil. A patent with a claim covering a wood shaft, graphite, and an eraser would give the patentee the right to stop anyone from using a pencil (at least a wood pencil) with an eraser on it. This patent, however, would not give the patentee the right to use such a pencil. For example, if someone else had earlier obtained a patent on a pencil comprising a shaft and graphite, that patent would preclude the patentee of the eraser pencil from practicing its invention. Carrying this example further, although the patentee of the pencil could sell a pencil without an eraser, it could not sell an eraser pencil because of the eraser pencil patent.

Thus, in this pencil example, there is a blocking patent — the pencil patent — that keeps all market participants except the patentee out of the market. There is an improvement patent — the eraser pencil — that keeps all market participants except the eraser pencil patentee from offering the only commercially acceptable product to the market — the pencil with an eraser. The eraser pencil patentee, however, is blocked from the market because of the pencil patent. Thus, under this scenario, the only way for the public to obtain the product it wants is for some sort of licensing or cross-licensing arrangement to be entered into. See §3.21 below, discussing patent pooling arrangements.

As seen in the eraser example, the amount of economic power that is associated with a patent, however, can vary from minimal to substantial and can be contingent on other facts. Thus, depending on the scope of the patent claims, the success of the commercial embodiment of the invention, and the competitors in the industry, a patent either can have little to no economic power or can create a powerful monopoly.

A few examples further illustrate this point. In the 1960s a very broad patent on a slide rule would have had substantial economic power because it would have provided an exclusionary right over a product that had substantial market demand. On the other hand, such a patent would have little to no economic power today because there is no market demand or need for the commercial embodiment of such a patent. Conversely, a relatively narrow patent on its face, which nevertheless covers a feature of a product that consumers demand, would create substantial economic power for the patent and a monopoly for the product. The monopoly would arise because the patent would prevent any competitor from having the feature that consumers demand and thus effectively entering the market.

Taking this latter example to the next step, innovative and well-funded competitors might design around the patent. In doing so, they might develop a new feature that consumers would prefer over the patented feature. This new feature, or more accurately the market demand for this feature, would neutralize the prior patent's economic power and break the patent monopoly on the market. *See London v. Carson Pirie Scott & Co.,* 946 F.2d 1534, 1538 (Fed.Cir. 1991) ("[patent] claims must be 'particular' and 'distinct,' as required by 35 U.S.C. §112, so that the public has fair notice [which] permits other parties to avoid actions which infringe the patent and to design around the patent"). Moreover, the competitor may obtain a patent on this new feature and thus obtain its own monopoly, at least until the next design around occurs.

B. [3.4] Patent Infringement

The extent to which a patent provides a legal monopoly, and thus the extent to which a patentee's conduct is protected from antitrust scrutiny, is directly tied to the patent's exclusionary rights. These exclusionary rights in turn are defined by the scope of what the patents protect (*i.e.,* what infringes the patent). Infringement is addressed in detail in Chapter 2 of this handbook and thus is only briefly addressed here.

A patentee has the right to prevent conduct that is directly or indirectly related to the patent's exclusionary rights. Conduct that is directly related to the patent's exclusionary rights is known as "direct infringement." Direct infringement occurs whenever anyone makes, uses, sells, offers for sale, or imports into the United States a process or product that is covered by the claims of a patent. 35 U.S.C. §271(a). Direct infringement requires no intent or knowledge of the patent. It is a strict liability offense. Thus, returning to the pencil and eraser example from §3.3 above, a store that sold eraser pencils would be a direct infringer of the patent on the eraser pencil and would also be a direct infringer of the blocking patent on the pencil.

Conduct that does not directly relate to the patentee's rights (*i.e.,* the conduct itself is not infringing) but that causes another to infringe can still be prevented by the patentee. This conduct is known as "indirect infringement" and can take two forms: inducement (35 U.S.C. §271(b)); and contributory infringement (35 U.S.C. §271(c)).

"Whoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. §271(b). Unlike direct infringement, which has no knowledge requirement, inducement requires knowledge of the patent and active steps to cause the actions that give rise to a direct infringement. In order to find that one has induced infringement, the inducement must be successful; that is, there must be a direct infringement. *Hewlett-Packard Co. v. Bausch & Lomb Inc.,* 909 F.2d 1464, 1469 (Fed.Cir. 1990). Thus, applying the pencil and eraser example, if a manufacturer made pencils and erasers separately but did not combine them, it would not be a direct infringer of the eraser pencil patent (but would still directly infringe the pencil patent). If this pencil manufacturer then provided these pencils to the store but did nothing more, it would not be liable for inducing infringement. If, however, the pencil manufacturer (1) had knowledge of the eraser pencil patent and (2) gave the store instructions on how to attach the erasers to the pencil, it would be liable for inducing infringement.

Contributory infringement, like inducement, requires knowledge of the patent and a direct infringement. Contributory infringement occurs when goods are sold to another and these goods basically can be used only to infringe the patent. Specifically, 35 U.S.C. §271(c) prohibits the sale of "a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use." *See generally Aro Manufacturing Co. v. Convertible Top Replacement Co.,* 365 U.S. 336, 5 L.Ed.2d 592, 81 S.Ct. 599 (1961). The sale of a good that has both infringing and non-infringing uses will not give rise to liability for contributory infringement, provided the suggested non-infringing uses are not far-fetched, illusory, or impractical. *Preemption Devices Inc. v. Minnesota Mining & Manufacturing Co.,* 630 F.Supp. 463, 471 n.10 (E.D.Pa. 1985), *aff'd in pertinent part, vacated in part on other grounds,* 803 F.2d 1170 (Fed.Cir. 1986). Thus, using the eraser example, presume that the pencil manufacturer knows about the eraser pencil patent and is providing pencils and erasers separately to the store. If the pencils and the erasers are made to fit easily together and the erasers are too small to be useful without being attached to the pencils, the manufacturer would be liable for contributory infringement.

A unique situation regarding contributory infringement occurs in the pharmaceutical and medical device fields as a result of 35 U.S.C. §287(c), which provides that the remedies against patent infringement shall not apply to medical practitioners and related health entities for performance of a medical activity. The exception applies only to damages available for the infringement of a surgical or medical technique and applies only to the doctor or technician performing the technique. The exception, however, does not apply to manufacturers of equipment required to perform the medical activity. Because the statute does not exempt a medical technique from infringement but, rather, nullifies the patent holder's right to obtain damages, a direct infringement of a patent may still occur. Thus, although the patent holder cannot sue the surgeon performing the technique for damages, the patent holder may sue the manufacturer of the equipment for contributory infringement and collect damages from the manufacturer.

Contracts and agreements that touch on activities relating to inducement and contributory infringement issues can raise very complicated antitrust and misuse issues. As discussed in §3.5 below, the patent statute expressly authorizes the patentee to regulate activity that would constitute inducement and contributory infringement. Nevertheless, because these activities are, by their very nature, outside the direct protection of the patent, greater scrutiny will be applied to provisions restricting them, and greater care should be taken in drafting these provisions.

C. [3.5] Transferability of the Patent's Exclusionary Rights

As discussed in §3.3 above, patent rights can give rise to a limited and legal monopoly that can have substantial economic power. Patent rights and their associated economic power can be transferred in whole or in part. Specifically, 35 U.S.C. §261 provides:

> **Subject to the provisions of this title, patents shall have the attributes of personal property.**
>
> **Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.**

This provision expressly authorizes patentees to divide their patent rights (and thus markets) horizontally, vertically, geographically, and along fields of use. For example, again using the eraser pencil example from §§3.3 and 3.4 above, the patentee could grant a license to make the eraser pencils to an East Coast manufacturer and no others. In this way, the patentee keeps the central part of the country and the West Coast markets for itself. Similarly, the patentee could grant a license to a maker of high-end mechanical pencils (*i.e.,* a field of use) and keep all other rights regarding other types of pencils to itself or for future licensing. All of these type of transactions are expressly permitted under §261. Thus, absent other factors, these provisions in an agreement should not give rise to an antitrust violation or patent misuse.

In 1988, the patent statute was amended by Pub.L. No. 100-703, 102 Stat. 4674, Title II of which is popularly known as the Patent Misuse Reform Act, to expand the conduct by a patentee that is considered presumptively permissible and will not in and of itself give rise to an antitrust violation or patent misuse. Specifically, 35 U.S.C. §271(d) provides:

> **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 his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) 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.**

IV. [3.6] ANTITRUST LAW IN GENERAL

There are three basic statutory provisions that address a patentee's action with regard to antitrust laws: the Sherman Anti-Trust Act, 15 U.S.C. §1, *et seq.,* the Clayton Act, 15 U.S.C. §12, *et seq.,* and the Federal Trade Commission Act, 15 U.S.C. §41, *et seq.* See also 16 C.F.R. pts. 1 – 16, relating to FTC procedures and regulations.

The Sherman Anti-Trust Act was first adopted into law in 1890 in response to the economic power that the railroads had amassed. Section 1 of the Act, 15 U.S.C. §1, requires concerted action, that is, two or more actors who engage in conduct that decreases competition. Section 2 of the Act, 15 U.S.C. §2, focuses on monopolization, which can involve a single actor or a group of actors whose conduct decreases competition in an unreasonable manner. The Sherman Anti-Trust Act applies to both goods and services.

The Clayton Act was first adopted into law in 1914 and prohibits price discrimination between purchasers and sellers of goods. In the patent context, the Clayton Act is principally used to address tying agreements. Unlike the Sherman Anti-Trust Act, the Clayton Act is applicable only to goods and does not apply to services.

The Sherman Anti-Trust Act and the Clayton Act can be enforced by private litigants through civil actions, by the Department of Justice through civil and criminal actions, by the FTC, and by state attorneys general. Civil remedies for a violation of these Acts include injunctive relief, treble damages, and awards of attorneys' fees. Specifically, with regard to patents, a violation of their antitrust provisions can mean the loss of patent rights for the patentee, with a finding that the patents that were involved in the antitrust violations are unenforceable.

The Federal Trade Commission Act established the FTC and gave it very broad authority to investigate, comment on, and take action against unfair methods of competition and deceptive trade practices, which would include violations of the Sherman Anti-Trust Act and the Clayton Act. The FTC can obtain injunctive relief but, in general, does not have the ability to assess civil damages. The FTC has interjected itself into all aspects of patent prosecution, enforcement, and licensing.

Section 4(a) of the Clayton Act provides that "any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor . . . and shall recover threefold the damages by him sustained." 15 U.S.C. §15(a). The court in *Disenos Artisticos E Industriales, S.A. v. Work,* 676 F.Supp. 1254, 1276 (E.D.N.Y. 1987), noted:

> **This expansive language has been construed to require a showing that the alleged loss is "of the type the antitrust laws were intended to prevent and that flows from that which makes [a defendant's] acts unlawful."** ***Brunswick Corp. v. Pueblo Bowl-O-Mat,*** **429 U.S. 477, 489, 50 L.Ed.2d 701, 97 S.Ct. 690 (1977). Thus, a plaintiff must show not only that there is an antitrust violation, but also that there is a causal connection between the violation and the alleged injury and that the defendant's activities had the effect of stifling competition.**

PRACTICE POINTER

✓ Antitrust laws protect competition — not competitors.

Thus, courts have required plaintiffs to establish what is known as "antitrust injury." *See Atlantic Richfield Co. v. USA Petroleum Co.,* 495 U.S. 328, 109 L.Ed.2d 333, 110 S.Ct. 1884, 1889 (1990); *Brunswick, supra,* 97 S.Ct. at 698. *See also Axis, S.P.A. v. Micafil, Inc.,* 870 F.2d 1105, 1108 – 1109 (6th Cir. 1989). To satisfy the requirement of an antitrust injury, the party must allege and prove "injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful." *Brunswick, supra,* 97 S.Ct. at 697. The purpose of the antitrust injury requirement is to ensure that the harm for which the plaintiff seeks compensation corresponds to the rationale for finding a violation of the antitrust laws in the first place. *See Atlantic Richfield, supra,* 110 S.Ct. at 1893 – 1894. This antitrust injury requirement further ensures that plaintiffs recover only if the loss is the result of "a competition-reducing aspect or effect of the defendant's behavior," rather than a competition-increasing or competition-neutral aspect of that behavior. 110 S.Ct. at 1894. Thus, to establish antitrust injury, a plaintiff must show that the claimed injury reflects either the anticompetitive effects of the alleged violation or the effects of anticompetitive acts made possible by the alleged violation. *See HyPoint Technology, Inc. v. Hewlett-Packard Co.,* 949 F.2d 874, 877 (6th Cir. 1991), citing *Brunswick, supra.*

In addition to showing antitrust injury (*i.e.,* harm to competition), a plaintiff must have antitrust standing to bring a suit. The antitrust standing analysis focuses on who is the proper plaintiff from among those classes of persons who have suffered antitrust injury. *See, e.g., Associated General Contractors of California, Inc. v. California State Council of Carpenters,* 459 U.S. 519, 74 L.Ed.2d 723, 103 S.Ct. 897 (1983); *Blue Shield of Virginia v. McCready,* 457 U.S. 465, 73 L.Ed.2d 149, 102 S.Ct. 2540 (1982); William H. Page, *The Scope of Liability for Antitrust Violations,* 37 Stan.L.Rev. 1445, 1484 (1985). In *Associated General Contractors,* the Court set forth a number of factors to be considered in determining whether a plaintiff has standing: (a) whether there is a causal connection between the antitrust violation and the plaintiff's harm; (b) whether the defendants intended to cause this harm; (c) whether the injury is of the type intended to be prevented within the meaning of *Brunswick;* (d) whether the injury is direct or indirect; (e) whether the claim of damages is too speculative; and (f) whether there is a risk of duplicative recoveries and a danger of complex apportionment. 103 S.Ct. at 908 – 912.

A. [3.7] Sherman Anti-Trust Act §1

Section 1 of the Sherman Anti-Trust Act prohibits "[e]very contract, combination . . . or conspiracy, in restraint of trade or commerce." 15 U.S.C. §1. In addition to civil remedies, including treble damages, §1 provides for criminal fines for corporations up to $100 million, criminal fines for individuals up to $1 million, and prison sentences up to ten years.

Commercial contracts inherently bind the parties to the contract and so restrain trade to some extent. Accordingly, the broad prohibition of §1 has been construed to apply only to those agreements that "unreasonably" restrain trade. *See, e.g., Board of Trade of City of Chicago v. United States,* 246 U.S. 231, 62 L.Ed. 683, 38 S.Ct. 242, 244 (1918). A claim under §1 requires a plaintiff to establish that (1) the defendants entered into a contract, combination, or conspiracy and (2) this conduct effected an unreasonable restraint on trade. 15 U.S.C. §1; *Standard Oil Company of New Jersey v. United States,* 221 U.S. 1, 55 L.Ed. 619, 31 S.Ct. 502 (1911); *International Distribution Centers, Inc. v. Walsh Trucking Co.,* 812 F.2d 786, 793 (2d Cir. 1987).

The focus of this provision of the antitrust laws is the existence of a contract, combination, or conspiracy (*i.e.,* concerted action). *National Society of Professional Engineers v. United States,* 435 U.S. 679, 55 L.Ed.2d 637, 98 S.Ct. 1355, 1364 – 1365 (1978); *Standard Oil, supra,* 31 S.Ct. at 517 – 518. The concerted action may be explicit (*United States v. Trenton Potteries Co.,* 273 U.S. 392, 71 L.Ed. 700, 47 S.Ct. 377 (1927)) or inferred. Merely coincidental behavior that can be explained on legitimate business grounds does not in itself establish a conspiracy if it is equally indicative of a series of unilateral actions. *Monsanto Co. v. Spray-Rite Service Corp.,* 465 U.S. 752, 79 L.Ed.2d 775, 104 S.Ct. 1464 (1984). Thus, §1 of the Sherman Anti-Trust Act has been used to strike down agreements or conduct that amounted to horizontal price-fixing; vertical price-fixing; horizontal allocations of territories or customers among actual or potential competitors; vertical allocations of territories, customers, or other non-price restraints involving firms at different levels of the market hierarchy; competitively motivated group boycotts or concerted refusals to deal; tying agreements; and exclusive dealing arrangements in which a supplier agrees to supply only a designated purchaser or a purchaser agrees to buy exclusively from a particular supplier. See William C. Holmes, ANTITRUST LAW HANDBOOK §2:2 (2008).

Two approaches are used in analyzing agreements under §1 of the Sherman Anti-Trust Act: the per se approach and the rule-of-reason analysis. Under the per se approach, certain types of conduct are deemed conclusively unreasonable, and, thus, evidence of any alleged pro-competitive effects of this conduct is irrelevant. Under the rule-of-reason analysis, the court will take a detailed look at the accused conduct's impact on the market and the pro-competitive justifications of the conduct.

The Supreme Court has long recognized certain restraints to be per se violations of §1. "[B]ecause of their pernicious effect on competition and lack of any redeeming virtue [these restraints] are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use." *Northern Pacific Ry. v. United States,* 356 U.S. 1, 2 L.Ed.2d 545, 78 S.Ct. 514, 518 (1958). Thus, the Court has found horizontal price-fixing, vertical minimum price-fixing, horizontal market division, horizontal division of customers, horizontal group boycotts, and horizontal restrictions on output to be per se violations.

The complexity of patent antitrust law is illustrated by the fact that horizontal territorial allocations are per se illegal, yet these agreements, if limited to patent rights, are expressly authorized under the patent laws. See §3.5 above. Guidance to resolve this conflict is provided in §§3.18 – 3.24 below.

"Horizontal price-fixing," which is defined as any agreement between competitors who are at the same level in the market that affects price, can take many forms, all of which are per se illegal:

1. agreement among creditors to eliminate short-term free credit to customers (*Catalano, Inc. v. Target Sales, Inc.,* 446 U.S. 643, 64 L.Ed.2d 580, 100 S.Ct. 1925 (1980));

2. agreement among doctors setting maximum fees (*Arizona v. Maricopa County Medical Society,* 457 U.S. 332, 73 L.Ed.2d 48, 102 S.Ct. 2466 (1982)); and

3. agreement among dealers and their distributors to terminate competing dealers to maintain minimum price (*see generally Monsanto, supra; Business Electronics Corp. v. Sharp Electronics Corp.,* 485 U.S. 717, 99 L.Ed.2d 808, 108 S.Ct. 1515 (1988)).

PRACTICE POINTER

✓ Sherman Anti-Trust Act §1 — per se approach (conclusively unreasonable) —

- requires plaintiff only to show that practice occurred
- does not require plaintiff to show anticompetitive effect
- precludes defendant from attempting to justify the restraint

Per se violations include

- horizontal price-fixing
- vertical minimum price-fixing
- horizontal market division
- horizontal division of customers
- horizontal group boycotts
- horizontal restriction on output

If an agreement is not per se illegal, it will be evaluated under the rule-of-reason analysis. Under a rule-of-reason analysis, "the fact-finding weighs all of the circumstances of a case in deciding whether a restrictive practice should be prohibited as imposing an unreasonable restraint on competition." *Continental T.V., Inc. v. GTE Sylvania Inc.,* 433 U.S. 36, 53 L.Ed.2d 568, 97 S.Ct. 2549, 2557 (1977). To determine whether an agreement is an unreasonable restraint on trade under the rule of reason, the fact-finder must weigh all the circumstances of the case (*id.*) and must analyze whether the agreement is anticompetitive in purpose or effect (*Oreck Corp. v. Whirlpool Corp.,* 579 F.2d 126, 133 (2d Cir. 1978)). This analysis "focuses directly on the challenged restraint's impact on competitive conditions." *National Society of Professional Engineers, supra,* 98 S.Ct. at 1363. Accordingly, a plaintiff must prove not only an injury to itself, but also that competition in the relevant market was harmed. *Hayden Publishing Co. v. Cox Broadcasting Corp.,* 730 F.2d 64, 69 – 70 (2d Cir. 1984) ("Proof that the defendant's activities had an impact upon competition in a relevant market is an absolutely essential element of the rule of reason case." Quoting *Kaplan v. Burroughs Corp.,* 611 F.2d 286, 291 (9th Cir. 1979).).

The threshold issue in any rule-of-reason analysis is the definition of the relevant market. *See Topps Chewing Gum, Inc. v. Major League Baseball Players Ass'n,* 641 F.Supp. 1179, 1189 (S.D.N.Y. 1986). *See also Ralph C. Wilson Industries, Inc. v. Chronicle Broadcasting Co.,* 794 F.2d 1359, 1363 (9th Cir. 1986). Any culpable conduct under the antitrust laws must affect the relevant product market, that is, the " 'area of effective competition' in which competitors generally are willing to compete for the consumer potential." *American Key Corp. v. Cole National Corp.,* 762 F.2d 1569, 1581 (11th Cir. 1985), quoting *Tampa Electric Co. v. Nashville Coal Co.,* 365 U.S. 320, 5 L.Ed.2d 580, 81 S.Ct. 623, 628 (1961). *See also AD/SAT, Division of Skylight, Inc. v. Associated Press,* 181 F.3d 216, 227 (2d Cir. 1999) ("The relevant market for purposes of antitrust litigation is the 'area of effective competition' within which the defendant operates.").

In *Brown Shoe Co. v. United States,* 370 U.S. 294, 8 L.Ed.2d 510, 82 S.Ct. 1502, 1523 (1962), the Court summarized that the relevant market has two dimensions: first, the relevant product market, which identifies the products or services that compete with each other, and second, the geographic market, which may be relevant when the competition is geographically confined. Thus, "[t]he 'market' which one must study to determine when a producer has monopoly power will vary with the part of commerce under consideration." *United States v. E.I. du Pont de Nemours & Co.,* 351 U.S. 377, 100 L.Ed. 1264, 76 S.Ct. 994, 1012 (1956).

PRACTICE POINTER

✓ Sherman Anti-Trust Act §1 — rule-of-reason approach —

- looks at impact on market and pro-competitive justifications of arrangement
- looks to market factors
- can allow defendants to justify actions as pro-competitive
- requires complex and expensive proofs

B. [3.8] Sherman Anti-Trust Act §2

Section 2 of the Sherman Anti-Trust Act provides:

> **Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine . . . or by imprisonment.** 15 U.S.C. §2.

Section 2 is subject to the same enforcement mechanism and remedies as §1. Under §2, defendants have been found liable for "actual" monopolization in which a firm acquires or retains actual monopoly power through competitively unreasonable practices, attempted monopolization, joint monopolization, conspiracies to monopolize, leveraging of monopoly power, and predatory pricing. Thus, §2 of the Act reaches both individual conduct and collective action.

In *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.,* 472 U.S. 585, 86 L.Ed.2d 467, 105 S.Ct. 2847, 28 (1985), the Court, quoting *United States v. Grinnell Corp.,* 384 U.S. 563, 16 L.Ed.2d 778, 86 S.Ct. 1698, 1704 (1966), explained that "[t]he offense of monopoly under §2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." Naturally, these proofs play out in what will be defined as the "relevant market," the definition of which provides a key to understand the rationale of the case.

The elements for attempted monopolization are "(1) anticompetitive or exclusionary conduct; (2) specific intent to monopolize; and (3) a 'dangerous probability' that the attempt will succeed." *International Distribution Centers, Inc. v. Walsh Trucking Co.,* 812 F.2d 786, 790 (2d Cir. 1987), quoting *Northeastern Telephone Co. v. American Telephone & Telegraph Co.,* 651 F.2d 76, 85 (2d Cir. 1981).

The elements for conspiracy to monopolize are (1) conspiracy, (2) specific intent, and (3) overt acts in furtherance of the conspiracy. Monopoly power or a dangerous probability of success is not needed, only a showing that the conduct will have an appreciable effect on interstate commerce. *See United States of America v. Consolidated Laundries Corp.,* 291 F.2d 563 (2d Cir. 1961).

C. [3.9] The Clayton Act

The Clayton Act addresses price discrimination, tying arrangements, exclusive dealing agreements, requirement contracts, and output contracts. In the patent-antitrust context, §3 of the Clayton Act is most pertinent:

> **It shall be unlawful . . . to lease or make a sale or contract for sale of goods . . . or other commodities, whether patented or unpatented . . . on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods . . . of a competitor . . . where the effect . . . may be to substantially lessen competition or tend to create a monopoly in any line of commerce.** 15 U.S.C. §14.

Section 7 of the Clayton Act addresses mergers and acquisitions, specifically prohibiting this activity when "the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly." 15 U.S.C. §18. Thus, §7 has been viewed as addressing "monopolistic tendencies in their incipiency and well before they have attained such effects as would justify a Sherman Act proceeding." *Cargill, Inc. v. Monfort of Colorado, Inc.,* 479 U.S. 104, 93 L.Ed.2d 427, 107 S.Ct. 484, 496 (1986) (Stevens, J., dissenting), quoting S.Rep. No. 1775, 81st Cong., 2d Sess. 4 – 5 (1950).

D. [3.10] The Federal Trade Commission Act

As noted in §3.6 above, the Federal Trade Commission Act established the FTC. The FTC has broad very broad powers. Section 5(a)(2) of the Federal Trade Commission Act provides that the FTC can prohibit any "[u]nfair methods of competition in or affecting commerce and unfair and deceptive acts or practices in or affecting commerce." 15 U.S.C. §45(a)(2). This has been interpreted to give the FTC the power to investigate and prohibit antitrust violations, incipient antitrust violations, violations of basic policies underlying the antitrust laws, and anticompetitive practices that substantially injure competitors or are inherently unfair.

The FTC has become very active in the patent antitrust area. It forced the breakup of the Pillar Point Partners patent pool, which involved a large number of patents in the laser eye surgery area. It also unsuccessfully tried to invalidate one of the patents in the pool. The FTC has also been quite active in standard-setting activities, which involve the conduct of companies that participate in the establishment of industry standards and then later try to sue for infringement of their patents when someone adopts the standard that the patent owner helped to develop. See §3.28 below.

The FTC has moved beyond the anticipative effects of improperly using a patent to comment on the inner workings of the United States Patent and Trademark Office, the patent law, and the patent system. The FTC's position is essentially anti-patent.

The FTC has an excellent Web site, located at www.ftc.gov, that provides a full and clear picture into its actions and policy positions regarding patents.

E. [3.11] Types of Conduct Subject to Antitrust Scrutiny

In analyzing agreements under the antitrust law, they are generally characterized into four types: (1) horizontal agreements; (2) vertical agreements; (3) agreements that effect price; and (4) agreements that have no effect on price (*i.e.,* non-price agreements). Horizontal agreements arise when the parties are at the same level in the market. For example, an agreement between the suppliers of a raw material would be a horizontal agreement. Vertical agreements arise when the parties are at different levels in the chain of distribution. For example, an agreement between a retail seller and a manufacturer would be a vertical agreement.

This difference between these agreements is important in determining the level of scrutiny that will be applied to the restraint. The difference between these types of agreements, however, frequently becomes blurred and often become a central issue in the case. For example, in the patent licensing context it is not unusual for the patent licensor and licensee both to be at multiple levels in the chain of distribution (*i.e.,* they are both manufacturers and sellers). Would a license agreement between them be a horizontal or vertical agreement? This is a difficult question to answer, and the answer will depend on the facts underlying the agreement, as well as the scope of the patent that was licensed.

1. [3.12] Horizontal Agreements

Horizontal price-fixing occurs when firms at the same level of the market agree to fix or otherwise stabilize the prices that they will charge for their products or services. Horizontal price-fixing is illegal per se. The courts do not care about the reasonableness of these types of agreements. Per se illegality applies to agreements fixing either minimum or maximum prices. *United States v. Trenton Potteries Co.,* 273 U.S. 392, 71 L.Ed. 700, 47 S.Ct. 377 (1927). Horizontal agreements can be proved by direct or circumstantial evidence, and they will be held to encompass more than express agreement to set a price. For example, the exchange of price information in a highly concentrated market has been held to be per se illegal. *United States v. Container Corporation of America,* 393 U.S. 333, 21 L.Ed.2d 526, 89 S.Ct. 510 (1969). Additionally, plaintiffs do not need to prove an express agreement in order to prove a horizontal price-fixing agreement. *Interstate Circuit, Inc. v. United States,* 306 U.S. 208, 83 L.Ed. 610, 59 S.Ct. 467 (1939).

Unlike vertical non-price restraints, which are generally afforded a rule-of-reason analysis, horizontal non-price restraints are still generally subject to a per se illegality analysis. *Timken Roller Bearing Co. v. United States,* 341 U.S. 593, 95 L.Ed. 1199, 71 S.Ct. 971 (1951), *overruled in part by Copperweld Corp. v. Independence Tube Corp.,* 467 U.S. 752, 81 L.Ed.2d 628, 104 S.Ct. 2731 (1984). The distinction between using a per se or rule-of-reason analysis often can be critical to the legality of a restraint. If a court uses a per se analysis, no consideration will be given to justifications or efficiencies that may result from the agreement. Market share does not have to be proved, and an automatic illegal label will attach as soon as the activity is found to fall into this category. The rule-of-reason analysis, on the other hand, allows the defendant to present efficiencies and justifications and prove market share or lack of market power in defense of the allegations.

2. [3.13] Vertical Agreements

Vertical price-fixing is a restraint that occurs when prices are fixed between firms at different levels of the market structure. This agreement may be to fix prices at one or both market levels, at a set amount, or within a prescribed range. In general, these types of agreements are considered per se illegal. *California Retail Liquor Dealers Ass'n v. Midcal Aluminum, Inc.,* 445 U.S. 97, 63 L.Ed.2d 233, 100 S.Ct. 937, 941 – 942 (1980). Vertical maximum price-fixing (*i.e.,* agreement that the price shall be no greater than a specified amount), however, is evaluated under the rule of reason. *State Oil Co. v. Khan,* 522 U.S. 3, 139 L.Ed.2d 199, 118 S.Ct. 275 (1997). A court using a rule-of-reason analysis will look to justifications for the allegedly anticompetitive act and balance the pro-competitive against the anticompetitive effects of the action.

The distinction between vertical price and non-price restraints is important to the legal analysis. In general, vertical non-price restraints will be examined under the rule-of-reason analysis. Courts have recognized that vertical non-price restraints can serve legitimate business objectives and, therefore, will be accorded greater judicial tolerance. The balance of competitive justifications with the competitive harm will be focused mainly on inter-brand competition as opposed to intra-brand competition. *Continental T.V., Inc. v. GTE Sylvania Inc.,* 433 U.S. 36, 53 L.Ed.2d 568, 97 S.Ct. 2549 (1977). Examples of vertical non-price restraints include territorial or customer limitations imposed by a manufacturer on its dealers, assignment to areas of primary responsibility or location clauses, and agreements providing for exclusive dealerships.

In terms of vertical restraints, a court will generally determine first what is the specific restraint at issue. Then, it will consider the likely anticompetitive effects and the offsetting pro-competitive effects. Finally, the court will look at whether the parties have sufficient market power to effect competition in the market. *California Dental Ass'n v. Federal Trade Commission,* 526 U.S. 756, 143 L.Ed.2d 935, 119 S.Ct. 1604, 1618 (1999) (Breyer, J., dissenting). When dealing with vertical restraints, it is advisable, though not imperative, to avoid express agreements that specifically deal with price. While courts are very hesitant to impose per se illegality on vertical restraints, they will do so if presented with explicit evidence.

3. [3.14] Tying Arrangements

A tying arrangement occurs when the purchase of one item is conditioned on the purchase of another (*i.e.,* tie-in) or the purchase of one item is conditioned on refusal to buy a competitor's product (*i.e.,* tie-out). *See generally Eastman Kodak Co. v. Image Technical Services, Inc.,* 504 U.S. 451, 119 L.Ed.2d 265, 112 S.Ct. 2072 (1992). Thus, using the pencil and eraser example from §§3.3 – 3.5 above, if the manufacturer of pencils also required a retailer to buy the manufacturer's note paper in order to get the pencils, there would be a tying agreement. The purchase of the tying product (the pencil) is conditioned on the purchase of the tied product (the paper). Tying agreements are subject to scrutiny under §1 (and at times §2) of the Sherman Anti-Trust Act, 15 U.S.C. §§1 and 2, and §3 of the Clayton Act, 15 U.S.C. §14. They are subjected to a watered-down per se analysis.

Although tying arrangements may result in significant anticompetitive effects, these arrangements can also result in market efficiencies and pro-competitive benefits. *See Jefferson Parish Hospital District No. 2 v. Hyde,* 466 U.S. 2, 80 L.Ed.2d 2, 104 S.Ct. 1551 (1984). For a tying agreement to violate the antitrust laws, the following elements must be present:

a. The tied item must be separate from the tying item.

b. The purchase of one item must be conditioned on the purchase of another.

c. There must be sufficient economic power in the tying item to appreciably restrain free competition in the tied item's market.

d. There must be a substantial effect on interstate commerce in the tied market.

Even if these four elements are present, the defendant can still make competitive reasonableness and business necessity defenses.

4. [3.15] Group Boycotts and Refusals To Deal

Group boycotts and refusals to deal come within a changing area of the law. They are also of particular significance to patent antitrust issues because of the superficial similarities between an exclusive license and discriminatory nonexclusive licensing practice by a patentee, which practices should not violate the antitrust laws. *See, e.g., In re Independent Service Organizations Antitrust Litigation,* 203 F.3d 1322, 1327 – 1328 (Fed.Cir. 2000); *Mallinckrodt, Inc. v. Medipart, Inc.,* 976 F.2d 700, 708 (Fed.Cir. 1992).

Certain group boycotts or concerted refusals to deal have been deemed to fall within the class of restraints meriting per se treatment under §1 of the Sherman Anti-Trust Act, 15 U.S.C. §1. *See Northwest Wholesale Stationers, Inc. v. Pacific Stationery & Printing Co.,* 472 U.S. 284, 86 L.Ed.2d 202, 105 S.Ct. 2613 (1985). The types of concerted refusals to deal that are deemed to be per se violations have been limited by the courts in various ways. The Second Circuit, for instance, has determined that vertical restraints do not fall within the traditional category of group boycott cases characterized as per se violations. *See Oreck Corp. v. Whirlpool Corp.,* 579 F.2d 126, 131 (2d Cir.), *cert. denied,* 99 S.Ct. 340 (1978). Other circuits have agreed with this conclusion. *See, e.g., Lomar Wholesale Grocery, Inc. v. Dieter's Gourmet Foods, Inc.,* 824 F.2d 582 (8th Cir. 1987). *See also Disenos Artisticos E Industriales, S.A. v. Work,* 676 F.Supp. 1254 (E.D.N.Y. 1987). In *Northwest Wholesale, supra,* the Supreme Court further limited the kinds of refusals to deal that are deemed to be per se illegal, holding that absent a threshold showing that a defendant "possesses market power or exclusive access to an element essential to effective competition," a restraint should be judged under the rule of reason. 105 S.Ct. at 2620 – 2621. *Accord Federal Trade Commission v. Indiana Federation of Dentists,* 476 U.S. 447, 90 L.Ed.2d 445, 106 S.Ct. 2009, 2018 (1986) ("the category of restraints classed as group boycotts is not to be expanded indiscriminately, and the *per se* approach has generally been limited to cases in which firms with market power boycott suppliers or customers in order to discourage them from doing business with a competitor").

5. [3.16] Joint Ventures

Research joint ventures have greater protection from antitrust scrutiny than other agreements between competitors. Firms may enter into joint ventures for any of a variety of business reasons, for example, to pool resources for product research and development, to jointly manufacture an already developed product, or to share resources in the marketing or distribution of products. See the National Cooperative Research and Production Act of 1993, 15 U.S.C. §4301, *et seq.* These types of agreements will be afforded a broad rule-of-reason analysis, balancing the desirability of the joint venture and prohibiting those joint ventures that unreasonably restrict or threaten competition. Generally, the purpose of the venture, the industry structure and relative competitive positions of the venture participants, the scope and duration of the venture, efficiencies and other purported justifications, the impact of the venture on outside competitors, and the nature of any restraints collateral to the venture will be considered when analyzing the antitrust ramifications of a joint venture. *United States v. Penn-Olin Chemical Co.,* 378 U.S. 158, 12 L.Ed.2d 775, 84 S.Ct. 1710 (1964); *Berkey Photo, Inc. v. Eastman Kodak Co.,* 603 F.2d 263 (2d Cir. 1979).

V. [3.17] THE INTERACTION OF PATENT AND ANTITRUST LAW

The fact that patents are in essence legal monopolies should not subject them to either greater or lesser antitrust scrutiny. The patentee has the legal right to exclude all others from practicing the claimed invention. Thus, exercising this right to exclude, either in total or by any less restrictive actions, should not violate the antitrust laws. In fact, any restrictive actions that are less restrictive than total exclusion by the patentee should have pro-competitive effects. It is only when the patentee's restrictive actions extend beyond that which it is entitled to exclude under the patent that the risk of an antitrust violation arises. As provided by the Federal Circuit:

> **Should the restriction be found to be reasonably within the patent grant, *i.e.,* that it relates to subject matter within the scope of the patent claims, *that ends the inquiry.* However, should such inquiry lead to the conclusion that there are anticompetitive effects extending beyond the patentee's statutory right to exclude, these effects do not automatically impeach the restriction. Anticompetitive effects that are not *per se* violations of law are reviewed in accordance with the rule of reason. Patent owners should not be in a worse position, by virtue of the patent right to exclude, than owners of other property used in trade. [**Emphasis added.**]** *Mallinckrodt, Inc. v. Medipart, Inc.,* 976 F.2d 700, 708 (Fed.Cir. 1992).

This test explains and reconciles the vast majority of cases and provides an important tool for analyzing licensing agreements and other conduct by the patentee. If the patentee could not prevent the conduct through an infringement action, then red flags should go up if it is placing restrictions or conditions on this conduct through an agreement. As discussed in §3.29 below, this same general test is applicable to avoiding misuse issues.

These red flags signal a need for further analysis of the proposed conduct, not that an antitrust violation will necessarily result. As noted in §3.1 above, even if the conduct extends beyond the scope of the patent's exclusionary rights, all of the other elements of an antitrust violation, such as market power and antitrust injury, must be present before liability could occur.

There is certain conduct by the patentee that in and of itself should not give rise to an antitrust violation. Having successful and productive research activities that give rise to a large body of patents that have significant exclusionary power is not an antitrust violation. Refusing to license a patent is not an antitrust violation. Granting a nonexclusive license is not an antitrust violation. *See generally In re Independent Service Organizations Antitrust Litigation,* 203 F.3d 1322 (Fed.Cir. 2000); *Mallinckrodt, supra.* On the other hand, conduct that extends beyond the patent's legitimate exclusionary rights, including the improper assertion of a patent, can give rise to antitrust violations.

PRACTICE POINTERS

✓ Success is not an antitrust violation.

✓ Obtaining patents for one's own work is not an antitrust violation.

✓ Refusing to license is not an antitrust violation.

✓ Granting a nonexclusive license is not an antitrust violation.

A. [3.18] Patent Licensing Activity

Patent licenses by their very nature are agreements that relate to a monopoly and affect trade and commerce. Thus, they can fall under the scrutiny of both the Sherman Anti-Trust Act and the Clayton Act, as well as the Federal Trade Commission. There are several types of licensing practices that raise red flags from antitrust and misuse concerns. Patent misuse is discussed in greater detail in §3.29 below. Although these restrictions are not in and of themselves antitrust violations, their presence will subject the agreement to greater scrutiny during litigation and increases the risk that the agreement may violate the antitrust laws. Thus, a careful analysis, both for the legal and business aspects, should be made before entering into these licensing practices.

1. [3.19] Territory and Field-of-Use Restrictions

As discussed in §3.5 above, the patent statute expressly authorizes field-of-use restrictions and territory restrictions. Provided these restrictions are limited to the patent's exclusionary rights, they will not violate the antitrust laws and will not be patent misuse.

To continue with the pencil and eraser patents example from §§3.3 – 3.5 above, the patentee who owned the patent on just the pencil could grant a license to the manufacturer of the eraser pencil to make and sell them in New York, leaving the rest of the country to the patentee. This would be a territorial restriction, and it would not violate the antitrust laws or be considered patent misuse because the territorial restriction is squarely within the exclusionary rights of the patent since the patentee could totally stop the manufacture and sale of eraser pencils. *See, e.g., Brownell v. Ketcham Wire & Manufacturing Co.,* 211 F.2d 121, 128 (9th Cir. 1954).

Similarly, the patentee who owned the patent on just the pencil could grant a license to a manufacturer of pencils to make and sell pencils that are shorter than four inches (*i.e.,* the little pencils used to score golf). This would be a field-of-use restriction and would not violate the antitrust laws or be considered patent misuse. *See, e.g., General Talking Pictures Corp. v. Western Electric Co.,* 305 U.S. 124, 83 L.Ed. 81, 59 S.Ct. 116 (1938); *B. Braun Medical Inc. v. Abbott Laboratories,* 124 F.3d 1419 (Fed.Cir. 1997).

On the other hand, if the patentee who owned the eraser pencil patent granted a license to a manufacturer of pencils and limited this manufacturer's ability to make and sell pencils without erasers to New York, serious antitrust and misuse issues would arise. In this situation, the patentee has extended a territory restriction to products that are outside the scope of its exclusionary rights. The territorial restriction applies to pencils without erasers, but the patent can exclude only pencils with erasers. Thus, this agreement is beyond the protection afforded by the patent and the patent statute. This is not to say that there is necessarily an antitrust violation. Monopolization, market power, antitrust injury, and the other elements of an antitrust violation must still be present for a violation to occur. Nevertheless, in the latter situation, these antitrust factors would need to be evaluated. In the earlier situation, they are meaningless because the conduct is protected from antitrust and misuse scrutiny by the patent and the patent laws.

2. [3.20] Package License Agreements

Package licensing occurs when more than one patent is grouped together in a license agreement. The benchmark test for analyzing this licensing activity is whether the package license was compulsory or for the convenience of the parties. If it is compulsory, serious antitrust issue may arise.

For example, assume that a patentee has a large patent portfolio covering many aspects and components of a consumer electronics product. Further, assume that the licensee did not want to pay a royalty on a product-by-product, patent-by-patent basis, that is, on which patent was used in which product, because of accounting or other difficulties. In this situation, the parties could agree to a flat rate for all products sold, regardless of whether they used none, one, or a hundred of the licensed patents. *See generally Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.,* 339 U.S. 827, 94 L.Ed. 1312, 70 S.Ct. 894 (1950), *overruled by Lear, Inc. v. Adkins,* 395 U.S. 653, 23 L.Ed.2d 610, 89 S.Ct. 1902 (1969); *Zenith Radio Corp. v. Hazeltine Research, Inc.,* 395 U.S. 100, 23 L.Ed.2d 129, 89 S.Ct. 1562 (1969). Such an agreement would not violate the antitrust laws or give rise to patent misuse.

The duration of the royalty obligation under package licenses is another important consideration. To avoid misuse and antitrust issues, the obligation to pay royalties should expire proportionally with the value of the patents as they expire. In general, however, if for the convenience of the parties it is agreed that the royalty obligations will expire with the last-to-expire patent in the package, the agreement will not be considered an antitrust violation or patent misuse. *See generally Brulotte v. Thys Co.,* 379 U.S. 29, 13 L.Ed.2d 99, 85 S.Ct. 176 (1964).

3. [3.21] Patent Pooling Agreements

Patent pooling agreements involve a group of patentees who bring their patents together and agree to particular conduct with respect to this collection or “pool” of patents. Patent pools usually involve competitors at the same level in the market. Thus, they are generally viewed as horizontal agreements and are subject to greater scrutiny under the antitrust laws. Additionally, the Federal Trade Commission has shown considerable interest in these types of agreements. For example, as noted in §3.10 above, the FTC successfully forced the breakup of Pillar Point Partners, a patent pool that related to the very popular refractive laser eye surgery. The FTC also investigated and approved a patent pool relating to DVD technology. These cases and the FTC’s rational behind them are explained in detail on the FTC’s Web site at www.ftc.gov.

Depending on conditions placed on the pool and the criteria for compiling the pool, these agreements can be either very pro-competitive and able to survive all antitrust and misuse scrutiny or no more than a horizontal price-fixing scheme and per se illegal. Pooling agreements can be very pro-competitive and at times essential for the commercialization of new technologies. If each entrant into a market for a new technology had to avoid and litigate patent issues that arise from the other potential market participants’ patents, the market might be viewed by all as too difficult and risky to enter. Thus, the chilling effect of a large number of patents held by several potential market participants might prevent the market from obtaining the critical mass necessary for the new technology to be accepted by the consuming public. On the other hand, if a patent pool provides all market entrants with the ability to obtain nonexclusive, reasonable, nondiscriminatory licenses, this barrier to the market's development is removed.

As a general rule, patent pooling agreements will be more likely to pass antitrust and misuse scrutiny if the following apply:

a. They contain patents on complementary and blocking technologies rather than patents on competing technologies.

b. The patents for the pool were selected by independent experts in the field based on what was essential technology to enter the market.

c. They are opened to all potential participants in the market.

d. They provide for the licensing of individual patents, as well as the entire pool.

e. They provide for reasonable, nondiscriminatory royalty rates.

f. They do not fix the price or place other restrictions on licensed products.

4. [3.22] Grantback Agreements

Grantback agreements occur when the licensee or the licensor places restrictions on future improvements. Typically, the grantback agreement requires the licensee to grant rights on improvements to the licensed technology back to the licensor. If the licensee is required to grant back to the licensor only a nonexclusive license for improvements that directly relate to the originally licensed technology, the grant provision should pass antitrust and misuse scrutiny. Such a grantback clause essentially assures that the licensee will not be able to keep the licensor out of the market by preventing the licensor from using the licensee's improvements, which may be the only commercially viable form of the invention. In this situation, the scope of the grantback rights is no broader than the original licensed patent rights. In this sense, the improvements could not have been made without the originally licensed technology first having been practiced, so, again, there is no improper extension of these patent rights through the grantback clause. *See generally Transparent-Wrap Machine Corp. v. Stokes & Smith Co.,* 329 U.S. 637, 91 L.Ed. 563, 67 S.Ct. 610 (1947).

On the other hand, if the grantback clause required assignment of all improvements or if it required the granting of rights on improvements that were unrelated to the originally licensed technology, red flags should go up. Such an agreement is extending the scope of the originally licensed patent well beyond its boundaries and may not survive antitrust or misuse scrutiny, depending on what other facts are present.

5. [3.23] Tying Agreements

As discussed in §3.14 above, a tying agreement occurs when the sale of one item is conditioned on the purchase of another. Using again the pencil and eraser example from §§3.3 – 3.5 above, by tying the sale of the pencil to the purchase of the paper, the manufacturer has created a tying agreement. The fact that the pencil is patented can have a significant impact on the third element of a tying analysis, whether there is sufficient economic power in the tying item (the patented pencil) to appreciably restrain free competing in the tied item's market.

In the antitrust context, the Supreme Court has maintained that there is a presumption of market power if the tying item is patented. *Jefferson Parish Hospital District No. 2 v. Hyde,* 466 U.S. 2, 80 L.Ed.2d 2, 104 S.Ct. 1551, 1560 (1984). This, however, must be contrasted with patent misuse, in which the presumption of market power has been legislatively overruled. 35 U.S.C. §271(d)(5). See §3.5 above. Additionally, the Federal Circuit has refused to find that a patent creates a presumption of market power for the patented product. *See C.R. Bard, Inc. v. M3 Systems, Inc.,* 157 F.3d 1340, 1368 (Fed.Cir. 1998) ("It is not presumed that the patent-based right to exclude necessarily establishes market power in antitrust terms."); *Abbott Laboratories v. Brennan,* 952 F.2d 1346, 1354 (Fed.Cir. 1991) ("A patent does not of itself establish a presumption of market power in the antitrust sense."). Section 2.2 of the *Antitrust Guidelines for the Licensing of Intellectual Property* (Apr. 6, 1995) (available online at www.justice.gov/atr/public/guidelines/0558.htm) issued by the Department of Justice and the FTC provides that the agencies will not presume that a patent, copyright, or trade secret necessarily confers market power on its owner.

Although misuse and antitrust scrutiny of tying agreements have relaxed, these agreements should nevertheless be avoided. The presence of a tying provision in a license agreement gives a willful infringer a potential defense when none would otherwise have existed. It can create a very costly and problematic sideshow with substantial downside risk. At the same time, it is rare that such a provision is commercially necessary for the deal to go through.

6. [3.24] Price Restrictions

As a general rule, patent license agreements that dictate the price of a licensed product should be avoided. Price-setting agreements are problematic, will inevitably attract antitrust scrutiny, and rarely have legitimate commercial justifications.

The Supreme Court, however, has held that a licensing agreement by which the licensee agreed to sell patented products at a certain price did not violate the antitrust laws. *United States v. General Electric Co.,* 272 U.S. 476, 71 L.Ed. 362, 47 S.Ct. 192, 197 (1926), citing *Bement v. National Harrow Co.,* 186 U.S. 70, 46 L.Ed. 1058, 22 S.Ct. 747 (1902). The *General Electric* Court found that the reasoning of the *Bement* Court had not been overruled and was still applicable in the case before it. Furthermore, the *General Electric* Court stated:

> **The very object of [**the patent**] laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this**

kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal. 47 S.Ct. at 197, quoting *Bement, supra,* 22 S.Ct. at 755.

This holding has been limited to the facts before the court. *See generally United States v. Line Material Co.,* 333 U.S. 287, 92 L.Ed. 701, 68 S.Ct. 550 (1948); *United States v. United States Gypsum Co.,* 333 U.S. 364, 92 L.Ed. 746, 68 S.Ct. 525 (1948). It is also questionable whether the Supreme Court would follow this holding if presented with the same facts today. Thus, a prudent licensor should not include such a provision in its patent licenses.

B. [3.25] *Walker Process* Fraud on the United States Patent and Trademark Office

Enforcement of a patent that was obtained through fraud on the United States Patent and Trademark Office can give rise to an antitrust violation. *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.,* 382 U.S. 172, 15 L.Ed.2d 247, 86 S.Ct. 347 (1965). The issue in *Walker Process* was whether the maintenance and enforcement of a patent obtained by fraud on the USPTO provides the basis for an action under §2 of the Sherman Anti-Trust Act, 15 U.S.C. §2. See §3.8 above for a discussion of §2. Additionally, the *Walker Process* Court considered whether a patentee could be subject to a treble damage claim by an injured party under the Clayton Act. The Court held that the enforcement of a patent procured by fraud on the USPTO may violate §2 of the Sherman Anti-Trust Act, provided the other elements necessary for a §2 case are present. The Court also held that if the patentee had violated §2, the patentee would be subject to treble damages under the Clayton Act. 86 S.Ct. at 349. Inequitable conduct, discussed in §3.30 below, is insufficient for an antitrust violation. Rather, common-law fraud must be established.

In *Nobelpharma AB v. Implant Innovations, Inc.,* 141 F.3d 1059 (Fed.Cir. 1998), the Federal Circuit addressed the relationship between *Noerr-Pennington* immunity and a *Walker Process* claim. *Noerr-Pennington* immunity protects a party's right to petition the government and to take action in the courts without having this conduct subjected to antitrust scrutiny. *See Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.,* 365 U.S. 127, 5 L.Ed.2d 464, 81 S.Ct. 523 (1961); *United Mine Workers of America v. Pennington,* 381 U.S. 657, 14 L.Ed.2d 626, 85 S.Ct. 1585 (1965). Thus, unless this conduct is an objectively baseless sham, it will be immune from antitrust liability. *See Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.,* 508 U.S. 49, 123 L.Ed.2d 611, 113 S.Ct. 1920 (1993). In *Nobelpharma,* the Federal Circuit held that *Noerr-Pennington* immunity did not apply to *Walker Process* fraud in the USPTO claims. 141 F.3d at 1071 – 1072. *See also Glass Equipment Development, Inc. v. Besten, Inc.,* 174 F.3d 1337, 1343 (Fed.Cir. 1999).

C. [3.26] Enforcement of a Patent Known To Be Invalid or a Non-Infringed Patent

The enforcement of a patent that is known to be invalid or a non-infringed patent can give rise to antitrust liability, provided the other elements of an antitrust claim are established. *See generally Handgards, Inc. v. Ethicon, Inc.,* 743 F.2d 1282 (9th Cir. 1984). These claims, however, unlike a *Walker Process* claim, are subject to *Noerr-Pennington* immunity. See the discussion of *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.,* 382 U.S. 172, 15 L.Ed.2d 247, 86 S.Ct. 347 (1965), *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.,* 365 U.S. 127, 5 L.Ed.2d 464, 81 S.Ct. 523 (1961), and *United Mine Workers of America v. Pennington,* 381 U.S. 657, 14 L.Ed.2d 626, 85 S.Ct. 1585 (1965), in §3.25 above. Thus, it is not enough that the asserted patent is found to be invalid, unenforceable, or non-infringed. Rather, the bringing of the infringement lawsuit in the first instance must have been an objectively baseless sham. *See C.R. Bard, Inc. v. M3 Systems, Inc.,* 157 F.3d 1340, 1368 – 1369 (Fed.Cir. 1998); *Glass Equipment Development, Inc. v. Besten, Inc.,* 174 F.3d 1337, 1343 (Fed.Cir. 1999).

The tests and requirements for establishing sham litigation to circumvent *Noerr-Pennigton* immunity were further refined by the Supreme Court in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.,* 508 U.S. 49, 123 L.Ed.2d 611, 113 S.Ct. 1920, 1928 (1993). Thus, in *Professional Real Estate Investors* the Court held that sham litigation requires both an objective and a subjective component. 113 S.Ct. at 1927.

The *Professional Real Estate Investors* Court then set out a two-part test for determining whether sham litigation or conduct was present and thus whether *Noerr-Pennigton* immunity was circumvented. First, the underlying activity must be objectively baseless in the sense that no reasonable person could reasonably expect to win the suit. Second, and only after this threshold level of objective unreasonableness is established, a court will look to the subjective intent of the actor. Under this second prong of the test, a court looks to see if the actor had a subjective intent to interfere directly with the business relationship of a competitor. Only if both of these factors are met will a court then find that the subject activity was a sham, waive *Noerr-Pennigton* immunity, and permit the antitrust action based on the underlying activity to proceed. 113 S.Ct. at 1928 n.5.

These types of cases are very difficult to bring successfully against a patentee as noted by the Federal Circuit:

> **Neither the bringing of an unsuccessful suit to enforce patent rights, nor the effort to enforce a patent that falls to invalidity, subjects the suitor to antitrust liability. . . .The law recognizes a presumption that the assertion of a duly granted patent is made in good faith. [**Citations omitted.**]** *C.R. Bard, supra,* 157 F.3d at 1369.

D. [3.27] Improper Acquisition of Patents

Patents have the attributes of personal property. 35 U.S.C. §261. They are also property that can have significant economic power. See §3.3 above. Thus, their improper acquisition through purchase or merger could give rise to antitrust liability, provided the other elements of an antitrust claim are established. *See, e.g., Rex Chainbelt Inc. v. Harco Products, Inc.,* 512 F.2d 993 (9th Cir. 1975); *Kobe, Inc. v. Dempsey Pump Co.,* 198 F.2d 416 (10th Cir. 1952). *See also Eastman Kodak Co. v. Goodyear Tire & Rubber Co.,* 114 F.3d 1547, 1556 – 1558 (Fed.Cir. 1997), *overruled in part on other grounds by Cybor Corp. v. FAS Technologies, Inc.,* 138 F.3d 1448, 1454 (Fed.Cir. 1998). In this context, care should be taken that a grantback provision is not viewed as a means to improperly acquire patent rights. See §3.22 above.

E. [3.28] Standard-Setting Activity and Its Effect on Patent Rights

The intersection of standard-setting activity and patent strategies can result in the loss of rights in a patent or even antitrust liability for the patent owner. Standard-setting organizations are usually groups of competitors who join together to develop technical standards for their industry in an attempt to develop the market for their technology and provide benefits to consumers. In simple terms, standard-setting organizations are the reasons why our electronic devices communicate with each other and we have moved away from a world of incompatible technologies, such as Beta and VHS video of the 1980s. Examples of such groups are the American National Standards Institute (ANSI), which developed standards for magnetic tape, and the Joint Electron Devices Engineering Counsel (JEDEC), now the JEDEC Solid State Technology Association, which developed standards for single in-line memory modules (SIMMS) and for dynamic random access memory (DRAM). Although the majority of the caselaw in this area has been in the electronics industry, there is no reason that these doctrines would not apply to other business segments, such as accounting and tax. *See generally Rambus Inc. v. Federal Trade Commission,* 522 F.3d 456 (D.C.Cir. 2008).

PRACTICE POINTER

✓ Openness is the best policy in dealing with standard-setting organizations

Standard-setting issues arise when a patent owner is a member of a standard-setting organization and that organization develops standards that relate to the patent owner's patents and pending patent applications. Depending on the degree of involvement of the patent owner in the creation of the standards, the closeness of the standards to the patents, and the rules of the standard-setting organization, the patent owner will have to identify relevant patents and potentially agree to license these patents under reasonable and nondiscriminatory (RAND) terms. The caselaw in this area addresses the situation in which patent owners fail to disclose patents and patent applications to a standard-setting organization with which they are associated. *Id.*

The concern and potential harm that flow from a failure to identify patents are that the patent owner, through its efforts in shaping a particular standard, could drive an entire industry to infringe its patents. Some courts have referred to this as a "patent hold-up" or "patent ambush." *Hynix Semiconductor, Inc. v. Rambus Inc.,* 527 F.Supp.2d 1084, 1098 (N.D.Cal. 2007). Liability for the patent in this situation flows from well-established legal doctrines such as equitable estoppel, implied license, fraud, federal antitrust laws, and Federal Trade Commission law. A review of some of these cases shows the substantial risks facing patent owners when they participate in these organizations.

The standard-setting patent body of law traces its origins to *Potter Instrument Co. v. Storage Technology Corp.,* 207 U.S.P.Q. (BNA) 763 (E.D.Va. 1980), *aff'd on other grounds,* 641 F.2d 190 (4th Cir. 1981). In *Potter,* the standard at issue was proposed by IBM, which did not own the patent, but only had a license under it. The patent owner, Potter, did not propose the standard and did not advocate for its adoption. Potter, however, did have a representative at one of the subcommittee meetings when the standard was discussed. 207 U.S.P.Q. (BNA) at 766. On these facts, the court found that Potter, the patent owner, was estopped from bringing an infringement action against a defendant that was practicing the standard:

> **Potter actively participated with the ANSI Subcommittee in developing GCR as the industry standard — it intentionally failed to bring its ownership of the '685 patent to the committee's attention notwithstanding the committee's policy to the contrary. By so doing, Potter has gained a monopoly on the GCR industry standard without any obligation to make its use available on reasonable terms to competitors in the industry.** 207 U.S.P.Q. (BNA) at 769.

In *Stambler v. Diebold Inc.,* 11 U.S.P.Q.2d (BNA) 1709 (E.D.N.Y. 1988), the patent owner had no involvement in the development of the standard and did not in any way influence the committee into proposing this particular standard. The patent owner, however, believed that practicing the proposed standard would infringe its patent but did not disclose this belief or the identity of its patent to the committee. The patent owner then left the committee before the standard was formally adopted. 11 U.S.P.Q.2d (BNA) at 1715. Under these facts, the court, using an equitable estoppel theory, held that the patent was unenforceable:

> **Under these circumstances, plaintiff had a duty to speak out and call attention to his patent. . . . Plaintiff could not remain silent while an entire industry implemented the proposed standard and then when the standards were adopted assert that his patent covered what manufacturers believed to be an open and available standard.** *Id.*

Lucas Aerospace, Ltd. v. Unison Industries, L.P., 899 F.Supp. 1268 (D.Del. 1995), is not a national standard-setting case. Rather, in *Lucas* the patent owner had encouraged a customer to adopt an internal standard that made the customer infringe. In this situation, the court declined to extend the rationale of the national standard-setting cases, such as *Potter* and *Stambler,* to solely private activity. 899 F.Supp. at 1294 – 1295.

In *Wang Laboratories, Inc. v. Mitsubishi Electronics America, Inc.,* 103 F.3d 1571 (Fed.Cir. 1997), a customer "coaxed" a supplier into the SIMMs market. The customer then had these SIMMs, which were covered by the customer's patent, designated as a JEDEC standard. 103 F.3d at 1575 – 1576. Thus, the customer-patent owner used its patents and the standard to capture a supplier. Under this scenario, the court did not find that equitable estoppel prevented the customer-patent owner from enforcing its patent against the supplier. 103 F.3d at 1581. Rather, the court found that an implied license existed between the customer and supplier. 103 F.3d at 1582.

The primary difference between an estoppel analysis and an implied-license analysis is that in an implied-license analysis the focus is on whether the patent owner provided an affirmative grant of consent or permission to use the invention. An equitable-estoppel analysis, on the other hand, focuses on whether through misleading conduct the patent owner suggested that it would not enforce its patent. 103 F.3d at 1581.

The distinction between a finding of equitable estoppel and implied license is not insignificant. Under an estoppel theory, the patent owner in *Wang* would have been barred from enforcing its patent against anyone who practiced the JEDEC standard. Under an implied-license theory, the patent owner was barred from enforcing its patents only against the particular supplier that it had induced into making the SIMMs. Thus, the patent owner was free to enforce its patent against anyone else who sold SIMMs meeting the JEDEC standard that also infringed. 103 F.3d at 1581 – 1582.

PRACTICE POINTERS

- ✓ Obtain and understand the patent policy of the standard-setting organization.
- ✓ Educate the employees who participate in the standard-setting organization about its patent policy.
- ✓ Have internal review procedures in place to evaluate compliance with any patent policy.
- ✓ Fully disclose to the standard-setting organization your understanding of patent policy.
- ✓ Fully disclose what you will and will not license under that policy.

Townshend v. Rockwell International Corp., 55 U.S.P.Q.2d (BNA) 1011 (N.D.Cal. 2000), illustrates the importance of open and full disclosure to the standard-setting body. In this case, the patent owner identified that it had pending patent applications that related to its proposed standard and expressly provided to the standard body the terms under which it would license these applications should they issue as patents. 55 U.S.P.Q.2d (BNA) at 1018. These terms were very favorable to Townshend, requiring that the licensee pay relatively high royalties and grant licenses back on any improvements to the technology. *Id.*

Under these facts, the court rejected the infringer's arguments that the patents were unenforceable. *Id.* Thus, the issuance of the standard was at a minimum an acknowledgement that the terms and conditions of the license were reasonable. Moreover, full disclosure, such as this, to the standard-setting body prevents any of the legal theories that are used to find the patents unenforceable from being applicable.

VI. [3.29] PATENT MISUSE

Misuse developed as a common-law equitable defense to accusations of patent infringement. Misuse is only a defense to an infringement charge; it does not give rise to an independent cause of action and does not give rise to damages. The sanction for a finding of misuse is that the patent is rendered unenforceable until such time as the misuse has been cured. *B. Braun Medical Inc. v. Abbott Laboratories,* 124 F.3d 1419, 1427 (Fed.Cir. 1997).

Misuse was developed by courts to address situations in which a patentee improperly extended its patent rights to gain an unfair anticompetitive advantage. Misuse covers conduct far broader than that which gives rise to an antitrust violation. However, the licensing practices discussed in §§3.11 – 3.16 and §§3.18 – 3.24 above that raise antitrust issues also raise misuse issues. In particular, a licensing practice may avoid antitrust liability because the other elements of an antitrust case are absent yet still render the patent unenforceable for misuse. *See generally Mallinckrodt, Inc. v. Medipart, Inc.,* 976 F.2d 700, 704 – 705 (Fed.Cir. 1992).

The same general test for antitrust scrutiny, however, applies to misuse. An agreement should not give rise to misuse provided any restrictions in the agreement fall within the scope of the patent's exclusive rights.

PRACTICE POINTERS

✓ Contractual restrictions within the scope of exclusive rights should not give rise to patent misuse.

✓ The time of the agreement should not extend beyond the last-to-expire patent.

✓ The goods and services covered should not extend beyond the scope of the claim.

✓ Non-coerced provisions extending rights for the mutual convenience of the parties should not constitute misuse.

In 1988, Congress passed Pub.L. No. 100-703, 102 Stat. 4674, Title II of which is popularly known as the Patent Misuse Reform Act, which identified types of conduct that cannot be deemed misuse. The Act specifically provides that a patentee can refuse to license its patent or any of its individual rights associated with the patent. 35 U.S.C. §271(d)(4). It also allows a patentee to condition the license or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product. 35 U.S.C. §271(d)(5). However, the approval of this conduct is contingent on whether the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned. *Id.* If the patentee is shown to have market power in one of these areas, the patentee may still be subject to a finding of misuse.

Thus, in *Country Materials Corp. v. Allan Block Corp.,* 502 F.3d 730, 734 – 735 (7th Cir. 2007), the court summarized the law of misuse as follows:

> **While at one time this argument might have had traction, in certain circumstances, it is at least disfavored today, if not entirely rejected. Today, the concept of patent misuse is cabined first by statute, 35 U.S.C. §271(d), which essentially eliminates from the field of "patent misuse" claims based on tying and refusals to deal, unless the patent owner has market power, and second by case law. As the Federal Circuit explained in *Virginia Panel Corp. v. MAC Panel Co.,* 133 F.3d 860 (Fed.Cir. 1997),**

there are certain practices that court identified as "constituting *per se* patent misuse," including "arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties." *Id.* at 869; see also *Brulotte v. Thys Co.,* 379 U.S. 29, 32, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964) (holding that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*"). The practices identified in §271(d), in contrast, may not be branded "misuse." *Va. Panel Corp.,* 133 F.3d at 869.

If a practice is not *per se* unlawful nor specifically excluded from a misuse analysis by §271(d)

> **a court must determine if that practice is reasonably within the patent grant, *i.e.,* that it relates to subject matter within the scope of the patent claims. If so, the practice does not have the effect of broadening the scope of the patent claims and thus cannot constitute patent misuse. If, on the other hand, the practice has the effect of extending the patentee's statutory rights and does so with an anti-competitive effect, that practice must then be analyzed in accordance with the rule of reason. Under the rule of reason, the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature, and effect.**

***Id.* (internal citations and quotation marks omitted).**

The remedy resulting from a finding of misuse is unenforceability of the patent. Thus, a court of equity in a patent infringement suit may refuse to grant damages or an injunction to the patentee. Misuse of a patent, however, can be cured. Misuse merely suspends the owner's right to recover for infringement of a patent. *Senza-Gel Corp. v. Seiffhart,* 803 F.2d 661, 668 n.10 (Fed.Cir. 1986). In order to cure, the misuse of the improper practice must be fully abandoned and the consequences of this practice must have been fully dissipated. *Morton Salt Co. v. G.S. Suppiger Co.,* 314 U.S. 488, 86 L.Ed. 363, 62 S.Ct. 402 (1942).

VII. [3.30] INEQUITABLE CONDUCT

All persons associated with an inventor who is seeking to obtain a patent are under an uncompromising duty of candor and good faith to the United States Patent and Trademark Office. 37 C.F.R. §1.56 sets forth this duty:

(a) A patent by its very nature is affected with a public interest. The public interest is best served, and the most effective patent examination occurs when, at the time an application is being examined, the Office is aware of and evaluates the teaching of all information material to patentability. Each individual associated with

the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability. . . .

(b) [I**]nformation is material to patentability when . . .**

(1) It establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim; or

(2) It refutes, or is inconsistent with, a position the applicant takes [before the Office**].**

PRACTICE POINTER

✓ All persons have an uncompromising duty to disclose material information to the USPTO. The rule of thumb in dealing with this duty is *if in doubt, disclose it.*

Failing to meet this duty will give rise to a finding of inequitable conduct, which renders the entire patent unenforceable. Of equal importance, coming close to the line in this area will provide an infringer with a potential defense when it might otherwise have had none. Defending an inequitable conduct charge, even a meritless one, can be very time consuming, stressful, and costly. Thus, in dealing with the duty of candor, the rule of thumb should always be "if in doubt, disclose it to the USPTO."

Inequitable conduct is broader and more inclusive than common-law fraud. Inequitable conduct requires a showing by clear and convincing evidence of two separate and distinct elements:

a. a misrepresentation or omission of material fact; and

b. an intent to deceive the USPTO.

The court then balances these two elements to determine whether inequitable conduct has occurred. A finding of inequitable conduct renders the entire patent unenforceable and, in rare situations, may render an entire portfolio of patents unenforceable. *See, e.g., Keystone Driller Co. v. General Excavator Co.,* 290 U.S. 240, 78 L.Ed. 293, 54 S.Ct. 146 (1933). Unlike a *Walker Process* claim, inequitable conduct is only a defense to a claim of infringement and not an affirmative cause of action. See the discussion of *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.,* 382 U.S. 172, 15 L.Ed.2d 247, 86 S.Ct. 347 (1965), in §3.25 above. However, a finding of inequitable conduct can form a basis for an award of attorneys' fees against the patentee.

Applying this test, courts have found inequitable conduct in a wide array of factual scenarios. The following summary of these scenarios in which inequitable conduct occurred provides guidance as to how courts will apply this rule:

a. Failure to name a co-inventor gave rise to inequitable conduct in *Frank's Casing Crew & Rental Tools, Inc. v. PMR Technologies, Ltd.,* 292 F.3d 1363 (Fed.Cir. 2002).

b. Writing prophetic (hypothetical) examples in the past tense was found to be inequitable conduct in *Hoffman-La Roche, Inc. v. Promega Corp.,* 323 F.3d 1354 (Fed.Cir. 2003).

c. Providing only a partial translation of a prior art reference met the materiality element of inequitable conduct in *LNP Engineering Plastics, Inc. v. Miller Waste Mills, Inc.,* 275 F.3d 1347 (Fed.Cir. 2001). However, there was no finding of inequitable conduct because of a total absence of intent.

d. Submitting false affidavits to establish small entity status for the purpose of paying lower maintenance fees was found to meet the materiality element of inequitable conduct even though the activity occurred after the patent issued. *Ulead Systems, Inc. v. Lex Computer & Management Corp.,* 351 F.3d 1139 (Fed.Cir. 2003).

e. Failure to disclose references that cast doubt on the enablement of the invention gave rise to inequitable conduct in *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.,* 326 F.3d 1226 (Fed.Cir. 2003).

f. Failure to cite an examiner's rejection in one case to the examiner in a different case that involved the same issues and art met the materiality element of inequitable conduct in *Dayco Products, Inc. v. Total Containment, Inc.,* 329 F.3d 1358 (Fed.Cir. 2003).

g. Failure to disclose a material prior art reference gave rise to inequitable conduct in *Driscoll v. Cebalo,* 731 F.2d 878 (Fed.Cir. 1984), and *J.P. Stevens & Co. v. Lex Tex Ltd.,* 747 F.2d 1553 (Fed.Cir. 1984).

h. Failure to disclose the patentee's own sales and use of the invention, which occurred more than a year before the filing date, gave rise to inequitable conduct in *Gardco Manufacturing, Inc. v. Herst Lighting Co.,* 820 F.2d 1209 (Fed.Cir. 1987).

i. Falsely stating in a "petition to make special" that a patent search was conducted gave rise to inequitable conduct in *General Electro Music Corp. v. Samick Music Corp.,* 19 F.3d 1405 (Fed.Cir. 1994).