

## PATENT MISUSE: PORTENTS FOR THE 1990s

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The problem we are addressing has been described as follows: "The doctrine of patent misuse is today one of the most important and unsettled aspects of patent law. This has been brought about by inconsistent decisional law and statutory enactment." That quotation does not, however, come from a Justice Department official of the Reagan era, from a Chicago School economist, or from a judge on the Court of Appeals for the Federal Circuit. It was written by the Ninth Circuit some thirty-three years ago in *Stearns v. Tinker & Razor*.<sup>1</sup> Accordingly, the question whether the doctrine of patent misuse is justified and, if so, what its scope should be, is not a new one.

The current wonderment over the question is but a continuation of a long debate. Way stations in that debate include the emergence of the doctrine of contributory infringement in *Wallace v. Holmes*;<sup>2</sup> its full flowering in *Henry v. A.B. Dick Co.*;<sup>3</sup> the overruling of *A.B. Dick* in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*;<sup>4</sup> the beginning of the doctrine of patent misuse in *Morton Salt Co. v. G.S. Suppiger Co.*;<sup>5</sup> the zenith of what came to be called the *Carbice Doctrine*,<sup>6</sup> in *Mercoide Corp. v. Mid-Continent Investment Co.*;<sup>7</sup> congressional response in 1952 to *Mercoide* in 35 U.S.C. § 271 as subsequently construed in *Dawson Chemical Co. v. Rohm & Haas Co.*;<sup>8</sup> the recently expressed antipathy to the doctrine by the Antitrust Division of the United States Department of Justice;<sup>9</sup> Judge

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<sup>1</sup> 252 F.2d 589, 600 (9th Cir. 1957).

<sup>2</sup> 29 Fed. Cas. 74, 80 (C.C. Conn. 1871; No. 17100).

<sup>3</sup> 224 U.S. 1 (1912).

<sup>4</sup> 243 U.S. 502 (1917).

<sup>5</sup> 314 U.S. 488 (1942).

<sup>6</sup> *Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931).

<sup>7</sup> 320 U.S. 661 (1944).

<sup>8</sup> 448 U.S. 176 (1980).

<sup>9</sup> Andewelt, Competition Policy and the Patent Misuse Doctrine, Remarks before the Bar Association for the District of Columbia, Patent, Trademark, and Copyright Section,

Posner's attack on the doctrine in *USM Corp. v. SPS Technologies, Inc.*,<sup>10</sup> the remarkable (but later repudiated)<sup>11</sup> footnote 9 and accompanying text by Chief Judge Markey in *Windsurfing International, Inc. v. AMF, Inc.*,<sup>12</sup> where the court said, in the very teeth of the Supreme Court holding to the contrary in *Morton Salt*,<sup>13</sup> that "[t]o sustain a misuse defense involving a licensing arrangement . . . a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market,"<sup>14</sup> and, finally, Title II of Public Law No. 100-703, 102 Stat. 4674, 4676, approved on November 19, 1988, and incorporated into Title 35 as §§ 271(d)(4) and (d)(5).<sup>15</sup> Other commentators doubtless will find other way stations to be equally significant but the above list is representative.

There are two types of patent misuse. First is a violation of the antitrust laws<sup>16</sup> to which the patent in suit significantly contributed.<sup>17</sup> Second is patent misuse of the "extension of the monopoly" type, where the patentee has sought to obtain more than the claims of the patent, together with applicable law, whether by way of geographical scope, temporal scope, channels of distribution beyond the first authorized sale, or scope beyond the coverage of the claims.<sup>18</sup>

Patent misuse is an affirmative defense,<sup>19</sup> which must be pleaded.<sup>20</sup> The effect of a finding of patent misuse is to hold the patent unenforce-

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Washington, D.C., reported at 25 Pat. Trademark & Copyright J. (BNA) No. 604, at 41 (Nov. 3, 1982).

<sup>10</sup> 694 F.2d 505, 510-12 (7th Cir. 1982), cert. denied, 462 U.S. 1107 (1983).

<sup>11</sup> See *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 665 n.5 (Fed. Cir. 1986) (Markey, C.J.).

<sup>12</sup> 782 F.2d 995, 1001-02 (Fed. Cir.), cert. denied, 477 U.S. 905 (1986).

<sup>13</sup> 314 U.S. 488 (1942).

<sup>14</sup> 782 F.2d at 1001-02. See AIPLA BULL., Mar.-May 1986, at 123-25.

<sup>15</sup> See Hoerner, *Patent Misuse: The Law Changes*, 1 J. PROPRIETARY RIGHTS 10 (Feb. 1989); Sussman & Krentzman, *Congressional Reform of Patent Misuse Doctrine Benefits High Technology Innovators*, 8 COMPUTER LAWYER (Dec. 1988); Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act . . .*, 38 DRAKE L. REV. 175 (1988-89); Kobak, *The New Patent Misuse Law*, 71 J. PAT. & TRADEMARK OFF. SOC'Y 859 (Nov. 1989).

<sup>16</sup> See, e.g., *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415, 419 (1945).

<sup>17</sup> See, e.g., *F.C. Russell Co. v. Consumers Insulation Co.*, 226 F.2d 373, 376 (3d Cir. 1955); *Ansul Co. v. Uniroyal, Inc.*, 448 F.2d 872, 879-80 (2d Cir. 1971), cert. denied, 404 U.S. 1018 (1972).

<sup>18</sup> See Hoerner, *Patent Misuse*, 53 ANTITRUST L.J. 641 (1985).

<sup>19</sup> See *Transitron Electronic Corp. v. Hughes Aircraft Co.*, 487 F. Supp. 885, 893 (D. Mass. 1980), aff'd, 649 F.2d 871 (1st Cir. 1981); *Foseco Inc. v. Consolidated Aluminum Corp.*, 10 U.S.P.Q. 2d 1632, 1633 (E.D. Mo. 1988). See also *Erie Resistor Corp. v. United States*, 299 F.2d 950 (Ct. Cl. 1962).

<sup>20</sup> *Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.*, 739 F.2d 604, 617-18 (Fed. Cir.), cert. denied, 469 U.S. 1038 (1984); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986).

able, but not void, until there has been a purge.<sup>21</sup> Patent misuse can be asserted not only in defense against a suit for patent infringement but also against a suit for royalties due on a license agreement.<sup>22</sup> Accordingly, the regional circuits and, indeed, state courts, as well as the Federal Circuit, will have a hand in shaping the future of the doctrine of patent misuse, subject, of course, to existing relevant United States Supreme Court holdings and ongoing supervision by the United States Supreme Court by way of the grant, or not, of petitions for a writ of certiorari.

Nevertheless, the future contours of the patent misuse doctrine will most likely be sculpted by the Court of Appeals for the Federal Circuit (CAFC), and prediction of those contours requires an examination of the Court of Claims cases which serve as precedent in the CAFC as well as the decisions to date of the CAFC itself. First, however, a detour to examine the choice of law principles which the CAFC will apply in this area is relevant and compulsory if we are to undertake any meaningful prognosis.

### I. CHOICE OF LAW CONSIDERATIONS

"Extension of the monopoly"-type patent misuse, as stated, is solely a defense to a patent infringement action or a suit for royalties.<sup>23</sup> Accordingly, its efficacy is necessarily limited to patent cases, and so would seem to represent the type of issue as to which the CAFC would apply its own law. Although patent misuse can be asserted in state court suits for royalties, state patent misuse cases typically quote federal precedents,<sup>24</sup> and without any doubt, the substantive source of "extension of the monopoly"-type patent misuse law is Article I, Section 8, Clause 8 of the Constitution and Title 35 of the United States Code. Since state law in the area of patent misuse is derived from federal patent policy, and since "one of the primary objectives of enabling legislation is to bring about uniformity in the area of patent law," as the CAFC said in *Panduit*,<sup>25</sup> it is predictable that the CAFC will apply its own precedents (United States Supreme Court, CAFC, Court of Claims, and CCPA) in resolving the requirements for "extension of monopoly"-type patent misuse defenses.

Somewhat different contours emerge when considering antitrust violation-type patent misuse defenses. The CAFC has repeatedly held that it

<sup>21</sup> See Hoerner, *supra* note 18, at 641, 646.

<sup>22</sup> *E.g.*, *Stewart v. Motrim, Inc.*, 192 U.S.P.Q. 410 (S.D. Ohio 1975).

<sup>23</sup> See note 19, *supra*.

<sup>24</sup> *E.g.*, *Cohn v. Compax Corp.*, 87 App. Div. 2d 364, 451 N.Y.S. 2d 171 (2d Dep't 1982).

<sup>25</sup> *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574 (Fed. Cir. 1984).

will be guided by the law which would be applied by the regional circuit to which the case would be appealed, but for 28 U.S.C. § 1295(a)(1), in passing on an antitrust issue.<sup>26</sup> Where a patent misuse defense is predicated on an antitrust violation, the CAFC would similarly seem to be required to look to regional circuit law to determine whether there was an antitrust violation which could be a predicate for a patent misuse defense. It would be intolerable, for example, for the CAFC to hold, on an identical factual record, based on, say, Third Circuit law, that an antitrust violation existed for purposes of an antitrust counterclaim to a patent infringement suit, but that, based on its own law, such a violation did not exist as a predicate for a patent misuse defense.

The answer should be different, however, when looking at the adjectival law associated with the question whether an antitrust violation constitutes a patent misuse.<sup>27</sup> Such questions would include, by way of example: whether the antitrust violation involved the patent in suit; if so, whether it was sufficiently implicated so that a misuse defense could be predicated on the violation; whether misuse should follow if the illegal agreement had never been enforced; whether misuse arising out of an antitrust violation would have to have injured the infringer; whether any misuse arising out of the violation had been purged, etc. All of these adjectival questions solely concern whether an antitrust violation can validly be pleaded and proved as a misuse defense to a patent suit and all should be resolved consistently from case to case. Accordingly, it would seem that the CAFC could, should, and would resolve them under its own precedents, and not consider itself bound by the decision of any regional circuit.

There are, of course, other routine issues which can be implicated in a patent misuse defense, such as whether a late pleading will be allowed, whether relevant documents are privileged, whether attorneys are disqualified for conflict of interest, and the like. These are in no way unique to a misuse defense and so, under *Panduit*,<sup>28</sup> will doubtless continue to be resolved under regional circuit law.

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<sup>26</sup> *E.g.*, *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350 (Fed. Cir.), *cert. denied*, 469 U.S. 821 (1984); *Technicon Instruments Corp. v. Alpkem Corp.*, 866 F.2d 417 (Fed. Cir. 1989).

<sup>27</sup> See the discussion of such points in Hoerner, *supra* note 18, at 646-48.

<sup>28</sup> *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574 (Fed. Cir. 1984); *see also Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1550 (Fed. Cir. 1987); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 666 (Fed. Cir. 1986).

## II. COURT OF CLAIMS PRECEDENT

The CAFC has declared that the decisions of the Court of Claims and Court of Customs and Patent Appeals are binding precedents for it. Not surprisingly, no CCPA cases on patent misuse were found. There appear to be three relevant Court of Claims cases. The first two provide an interesting contrast.

*Urquhart v. United States*<sup>29</sup> was a suit against the United States under 28 U.S.C. § 1498 for unauthorized use of two patents, one on a method, and the other on a mechanism, for producing nonchemical foam for use in fire fighting. An unpatented foam forming material called a "stabilizer" was utilized. The patent owners entered into three licenses on their patents under which a fifteen percent royalty was paid on the licensees' sales of the stabilizers. A label license appeared on the gallon cans of stabilizer authorizing purchasers to practice the inventions of the patents in suit. Given the price at which the gallon cans of stabilizer were sold, the royalty included in the purchase price worked out to be a cost of between 57 and 67.5 cents per gallon to the user. A direct user license was also available at 10 cents per pound of stabilizer, from whomever purchased, which amounted to a 94 cents per gallon royalty.

On this state of facts, the Court of Claims dismissed the petition "[b]ecause of misuse of the patents,"<sup>30</sup> unanimously holding:

By their two licensing plans involving different royalty rates, the Urquharts have created two different classes of customers, one favored over the other in the purchase of unpatented materials, and have enlarged the monopoly of the patents beyond their legal scope by channeling trade in unpatented materials through their appointed manufacturers. At no time under the direct consumer license would it have been possible for a purchaser who desired to buy unpatented stabilizer from a competitor of the Urquharts' appointed manufacturers to do so except on royalty terms less favorable to him.<sup>31</sup>

*Calhoun v. United States*<sup>32</sup> differed from *Urquhart* in that the unpatented O-rings used in the patented packing construction were licensed at the same royalty, whether purchased from a patentee's licensed sellers or whether purchased from a buyer of licensee's choice pursuant to a license that was freely available. Thus, licensed sellers of O-rings for use in patented constructions collected a 25-cent royalty from users for the right to make the patented construction. Users also had the option of

<sup>29</sup> 109 F. Supp. 409 (Ct. Cl. 1953).

<sup>30</sup> *Id.* at 414.

<sup>31</sup> *Id.* at 412.

<sup>32</sup> 339 F.2d 665 (Ct. Cl. 1964); *new trial on patent misuse denied*, 186 Ct. Cl. 950 (1968); *on accounting*, 453 F.2d 1385 (Ct. Cl. 1972).

being "licensed . . . at a royalty of 0.25 cent for each O-ring used in an infringing structure. . . . Many licenses were so granted. . . ."<sup>33</sup>

Commissioner Lane, whose opinion the court adopted, distinguished *Urquhart* as follows:

The case at bar is clearly distinguishable from the *Urquhart* case, in that both the consumer license and the manufacturer license specify the same license rate. The consumer who desires to purchase the unpatented O-ring from an independent source and take a direct license may do so and still pay the same royalty that he would be required to pay through the licensed manufacturer. Thus the licensing policy used with the Christensen patent does not have the effect of controlling trade in the unpatented O-rings.<sup>34</sup>

In the course of his opinion, he also said: "The mere fact that patent royalties are based on the price of an unpatented material does not in and of itself constitute patent misuse."<sup>35</sup>

*Carter-Wallace v. United States*<sup>36</sup> provides a rich lode. Judge Davis wrote the opinion for Judges Cowen, Laramore, Durfee, Collins, and Skelton. Judge Nichols concurred with a provocative thought. The patent in suit covered meprobamate, sold under trademarks that included "Miltown" and "Equanil." Plaintiff had licensed Cyanamid and Merck to resell meprobamate purchased from plaintiff, but only in combination with certain other drugs. Defendant United States had earlier brought an antitrust suit against plaintiff, which was settled by consent decree. In the decree, plaintiff was ordered to sell meprobamate to all customers without restriction at an indexed price of twenty dollars per pound, which was more than Cyanamid and Merck paid under their restricted licenses, which were allowed to continue in effect.

After plaintiff filed its suit under 28 U.S.C. § 1498, defendant filed an amended answer asserting misuse, in paragraphs 25 through 33. Plaintiff moved to strike the paragraphs, or, in the alternative, for summary judgment.

The court first described generally the patent misuse doctrine:

It is settled that courts will not aid a patentee in infringement litigation if the patentee, in dealing with the patent by licenses or product sales, engages in conduct violative of the antitrust laws or the principles of equity. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 315 U.S. 788, 62 S. Ct. 402, 86 L. Ed. 363 (1942). Such conduct has come to be called patent misuse and is an application of the equitable doctrine that he

<sup>33</sup> 453 F.2d at 1394.

<sup>34</sup> 339 F.2d at 669.

<sup>35</sup> *Id.* at 668.

<sup>36</sup> 449 F.2d 1374 (Ct. Cl. 1971).

who seeks equity must come into court with clean hands. When patent misuse and its consequences have been dissipated, however, the patentee is once again free to pursue his statutory remedy against infringers. *Metals Disintegrating Co. v. Reynolds Metals Co.*, 228 F.2d 885, 889 (C.A. 3, 1956); Kins, *Dissipation of Patent Misuse*, 1968 Wis. L. Rev. 918.<sup>37</sup>

The court then addressed the government's contention that the resale restrictions in the Cyanamid and Merck licenses constituted patent misuse because they were an antitrust violation pertaining to the patent, under *United States v. Arnold, Schwinn & Co.*,<sup>38</sup> which was then still good law, and *United States v. Univis Lens Co.*<sup>39</sup> The court held that those cases did not apply because Merck and Cyanamid were restricted to reselling meproamate in combination only if they bought at their preferential price. Neither they nor anyone else was restricted if they paid the indexed twenty dollars per pound price, which the court found "fair and viable."<sup>40</sup> It distinguished certain other cases the United States relied on as involving "absolute and unavoidable restrictions on use, not a special price differential if the product is used for a particular purpose, with the purchaser free to buy and use the commodity for any end if he pays the higher general price paid by other buyers."<sup>41</sup> The court went on to hold that, looking at the question afresh, the rule of reason should be applied in determining the legality of the restriction.<sup>42</sup> Since the United States had stated that it would not offer any evidence on the effect of the restriction,<sup>43</sup> the court was confirmed in its view that the United States had "not [shown] . . . a proper defense of antitrust violation or restraint of competition."<sup>44</sup> This rule of reason aspect of *Carter-Wallace* was cited with approval by the Supreme Court in *Continental T.V., Inc. v. GTE Sylvania Inc.*,<sup>45</sup> which overruled *Schwinn*.

The court next dealt with a contention that plaintiff had misused its patent by charging "unreasonably high, exorbitant and oppressive prices for bulk meproamate."<sup>46</sup> The court rejected this contention, citing *Bru-*

<sup>37</sup> *Id.* at 1377.

<sup>38</sup> 388 U.S. 365 (1967).

<sup>39</sup> 316 U.S. 241 (1942).

<sup>40</sup> 449 F.2d at 1378. *Followed*, *Akzo N.V. v. USITC*, 808 F.2d 1471, 1488-89 (Fed. Cir. 1986), *cert. denied*, 482 U.S. 909 (1987) (as to duPont's "value-in-use pricing program").

<sup>41</sup> 449 F.2d at 1380.

<sup>42</sup> *Id.* at 1380-81. *Followed*, *Hunt v. Mobil Oil Co.*, 465 F. Supp. 195, 221 n.64 (S.D.N.Y. 1978), *aff'd mem.*, 610 F.2d 806 (2d Cir. 1979). *See* *Paddington Corp. v. Major Brands, Inc.*, 359 F. Supp. 1244, 1249-50 (W.D. Okla. 1973).

<sup>43</sup> 449 F.2d at 1382.

<sup>44</sup> *Id.*

<sup>45</sup> 433 U.S. 36, 58 (1977).

<sup>46</sup> 449 F.2d at 1382-83.

*lotte v. Thys Co.*,<sup>47</sup> *Stearns v. Tinker & Razor*,<sup>48</sup> and *Norwich Pharmacal Co. v. United States*,<sup>49</sup> stating that "as a general rule and absent any overriding unlawful conduct, patentees can charge for their patented products and licenses whatever the market will bear."<sup>50</sup>

The United States contended that a "no contest" clause found in a license to plaintiff was a "misuse of the meprobamate patent."<sup>51</sup> The court rejected this contention as a matter of law, saying that "[m]isuse defenses must be directed to the patent or patents alleged to be infringed."<sup>52</sup> The court applied the same rationale in rejecting a misuse contention based on another license to plaintiff on the licensor's tridihexethyl iodide patent.<sup>53</sup>

The United States also relied on a license to American Cyanamid on plaintiff's foreign meprobamate patents which precluded sale in certain countries where plaintiff had no patent coverage. The court again found for plaintiff, stating that: "[P]atent misuse defenses must stem from illegal or inequitable conduct under the patent or patents in litigation. Clearly, the agreements here in dispute relate in no way to the United States meprobamate patent, but rather deal only with foreign patents."<sup>54</sup>

The court then passed on to the contention that the lower price given to American Cyanamid and Merck on meprobamate purchases, which were subject to the limitation that resales be in combination with other drugs, was a Robinson-Patman, 15 U.S.C. § 13(a), violation when compared with the twenty dollar unrestricted price. The United States cited "*Laitram Corp. v. King Crab, Inc.*, 244 F. Supp. 9 (D. Alaska), *modified*, 245 F. Supp. 1019 (D. Alaska 1965), which held, among other things, that discriminatory and unjustified royalty rates between different lessees of patented machines, made and leased by the patentee, amounted to patent misuse."<sup>55</sup> The United States said it would present evidence on the effect of the discrimination.<sup>56</sup>

<sup>47</sup> 379 U.S. 29 (1964).

<sup>48</sup> 252 F.2d 589, 600 (9th Cir. 1957).

<sup>49</sup> 164 U.S.P.Q. 91 (Cl. Cl. Comm'r 1968), *aff'd by unreported order* (Dec. 6, 1968).

<sup>50</sup> 449 F.2d at 1383. *Followed*, *E.I. duPont de Nemours & Co. v. Shell Oil Co.*, 498 A.2d 1108, 1116 (Del. 1985); *W.L. Gore Assocs., Inc. v. Carlisle Corp.*, 529 F.2d 614, 622-24 (3d Cir. 1976).

<sup>51</sup> 449 F.2d at 1383.

<sup>52</sup> *Id.* at 1384.

<sup>53</sup> *Id.*

<sup>54</sup> *Id.* at 1386. *Followed*, *Western Elec. Co. v. Milgo Electronic Corp.*, 450 F. Supp. 835, 838-39 (S.D. Fla. 1978).

<sup>55</sup> 449 F.2d at 1386.

<sup>56</sup> *Id.*

The court held that the United States "should have the right to go forward,"<sup>57</sup> in view of the colorable support lent to its contention by *Laitram* and the other "Shrimp Peeler" cases,<sup>58</sup> but also said that it "intimate[s] no views at all on the merits of the defense. . . . [A] triable issue has been raised and [we] refuse to strike down the defense at this early stage when we have insufficient information as to the relevant facts and circumstances."<sup>59</sup>

Plaintiff had contracted with six parties to make meprobamate "solely for plaintiff." Those contracts provided "that the suppliers maintain in confidence all 'confidential technical information' made known to them by plaintiff,"<sup>60</sup> "regardless, apparently, of whether such information constitutes a trade secret or is in the public domain."<sup>61</sup> Stating that "it is impermissible for a patentee to restrict, or attempt to restrict, the dissemination of information which is within the public domain,"<sup>62</sup> the court held that "a triable issue" was raised "whether the restrictions are confined to true confidential data or whether non-secret information is also being suppressed."<sup>63</sup> The permissibility of a two-year post-employment non-disclosure restraint on employees of four of the six meprobamate suppliers, "even though such information should go into the public domain,"<sup>64</sup> was also preserved for trial.

In an interesting concurrence, Judge Nichols raised the question whether patent misuse could ever be a viable defense to a Section 1498 action, which is based on eminent domain concepts. He asked:

[C]an the doctrine that the infringer can have the use of the patent free of charge if the patentee has abused the patent, whether or not to the infringer's detriment . . . , be incorporated bodily into a suit such as this to maintain a constitutional right when the United States is a taker, not an infringer?<sup>65</sup>

### III. CAFC PRECEDENTS

The nine years of the existence of the CAFC have produced only three significant patent misuse precedents, only one of which resulted in

<sup>57</sup> *Id.* at 1387.

<sup>58</sup> *LaPeyre v. FTC*, 366 F.2d 117, 118-121 (5th Cir. 1966); *Peelers Co. v. Wendt*, 260 F. Supp. 193 (W.D. Wash. 1966).

<sup>59</sup> 449 F.2d at 1388.

<sup>60</sup> *Id.*

<sup>61</sup> *Id.* at 1389-90.

<sup>62</sup> *Id.* at 1389.

<sup>63</sup> *Id.* at 1390.

<sup>64</sup> *Id.*, quoting language from the challenged contracts.

<sup>65</sup> *Id.* at 1390-91. See *Motorola, Inc. v. United States*, 729 F.2d 765 (Fed. Cir. 1984).

affirmance of a misuse finding. This relative paucity of cases suggests that patent misuse may not be the blight on the face of Title 35 which its detractors regularly suggest.

The first of the three cases is *Windsurfing International, Inc. v. AMF, Inc.*<sup>66</sup> The case did not fit into any usual patent misuse cubbyholes. The district judge held that Windsurfing International, Inc. (WII) had misused its patent by requiring eleven licensees (not apparently including any of the three defendants in this consolidated appeal) to acknowledge that its WINDSURFING trademarks were valid and by precluding them from using those trademarks. The district judge held that those marks had become generic and that WII had improperly used the leverage of its patents to keep the licensees from utilizing terminology which was in the public domain. Despite the finding of patent misuse, however, it nevertheless enjoined two of the three defendants and determined that the effect of the misuse would be evaluated in the damage phase of the case.<sup>67</sup>

The CAFC began its opinion on misuse by making the following pronouncement with respect to the doctrine:

The doctrine of patent misuse is an affirmative defense to a suit for patent infringement, *see Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.* . . . and requires that the alleged infringer show that the patentee has impermissibly broadened the "physical or temporal scope" of the patent grant with anticompetitive effect. *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 343 (1971).

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To sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court,<sup>9</sup> a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market.

<sup>9</sup> Recent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive. *See, e.g., USM Corp. v. SPS Technologies, Inc.* . . . *Competition Policy and the Patent Misuse Doctrine*, Remarks by Roger B. Andewelt, Chief, Intellectual Property Section, Antitrust Division, Department of Justice, Before the Bar Association for the District of Columbia, Patent, Trademark & Copyright Section, 25 Pat. Trademark & Copyright J. (BNA) No. 604 at 41, 44-45 (Nov. 11, 1982); *cf. Continental TV, Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (changing the per se prohibition on vertical restrictions to a rule of reason approach).<sup>68</sup>

<sup>66</sup> 782 F.2d 995, 1001-02 (Fed. Cir.), *cert. denied*, 477 U.S. 905 (1986).

<sup>67</sup> *Windsurfing Int'l, Inc. v. Fred Ostermann GmbH*, 613 F. Supp. 933, 953 (S.D.N.Y. 1985).

<sup>68</sup> 782 F.2d at 1001-02 (citations omitted).

This was a genuinely startling pronouncement<sup>69</sup> because existing case law, including controlling Supreme Court precedent,<sup>70</sup> had never held that a relevant market finding or a finding of an anticompetitive effect had been required to support a finding of extension of the monopoly-type patent misuse. (Of course, if antitrust-type misuse were to be found, then the elements required to make out an antitrust violation had to be present, which, depending on the nature of the antitrust violation, could well have required the finding of a relevant market and either an anticompetitive effect or a tendency to restrain competition.)

The holding of the CAFC was that it was not a misuse to require a licensee to respect the patent owning licensor's trademarks, even if they were subsequently found to be generic and, therefore, invalid.<sup>71</sup> While the CAFC noted that there was no finding showing that Windsurfing knew at the time it brought suit that its trademarks had become generic,<sup>72</sup> neither is there a suggestion that this would have made any difference.<sup>73</sup>

The lesson to be learned from *Windsurfing* is probably that prohibitions in license agreements are rarely, if ever, held to be misuse unless they have the effect of constituting patent-like restrictions on the ability of the licensee to make, use, or sell a product or process, which prohibition goes beyond either the scope of the claims or the scope of the rights granted by Title 35.

Certainly, *Windsurfing* can be taken to have answered the question which the Court of Claims left open in *Carter-Wallace*, namely, whether a prohibition on disclosing confidential information even after it entered the public domain could be a patent misuse. If preventing the use of generic terminology is not a misuse, then surely preventing the disclosure of public information could not be a misuse. Precluding a person from disclosing information that is already public is a particularly ineffectual prohibition which hardly warrants sanction.

In *Senza-Gel Corp. v. Seiffhart*,<sup>74</sup> the CAFC thought better of its pronouncement in *Windsurfing*, for its footnote 5 read as follows:

<sup>69</sup> See AIPLA BULL., Mar.-May 1986, at 123-25.

<sup>70</sup> See *Morton Salt v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

<sup>71</sup> 782 F.2d at 1001-02.

<sup>72</sup> *Id.* at 1002.

<sup>73</sup> Even if it be assumed that WINDSURFER was the sole name under which sailboards could be marketed, at worst, the prohibition would have the effect of negating the license, but since Windsurfing had a right to refuse to license in the first place, *e.g.*, *Minnesota Mining & Mfg. Co. v. Research Medical, Inc.*, 679 F. Supp. 1037, 1065-66 (D. Utah 1987), it is difficult to see how prohibition on use of a trademark, even if reasonably believed to have become generic, could constitute a misuse.

<sup>74</sup> 803 F.2d 661 (Fed. Cir. 1986).

<sup>5</sup> Commentators and courts have questioned the rationale appearing in Supreme Court opinions dealing with misuse in view of recent economic theory and Supreme Court decisions in non-misuse contexts. *See Wind-surfing International v. AMF, Inc.* . . . We are bound, however, to adhere to existing Supreme Court guidance in the area until otherwise directed by Congress or by the Supreme Court.<sup>75</sup>

Accordingly, therefore, we may assume that the CAFC has returned the doctrine of patent misuse to its previous status.

In *Senza-Gel*, the patent in suit was on a method for producing a whole boneless ham, which involved using a machine called a macerator. The evidence showed that Senza-Gel would only license its method patent to those who leased its macerator. While its macerator was separately patented, Senza-Gel did not put the validity of that patent in issue and the district court found that the macerator was a staple article of commerce capable of substantial non-infringing uses. In view of that finding the district court found that plaintiff was guilty of extension of the monopoly-type patent misuse by reason of its having tied licenses on its method patent to leases of its unpatented macerator, although it found that there had been no tying-type antitrust violation. It was unsure of its conclusion, however, and certified a number of questions, including the following:

1. Is the proper mode for analysis of a claim of patent misuse in a tying context the three step analysis undertaken by this court, namely:  
*First:* Determine whether there are two things tied, i.e., whether there are separable or inseparable items; if so  
*Second:* Determine whether the "thing" which is assertedly tied to the patented item is a staple or a non-staple item in commerce; if staple  
*Third:* Determine whether in fact they are tied.<sup>76</sup>

Chief Judge Markey in his opinion for the court was extremely critical of counsel for both parties for not specifically addressing each of the certified questions. As a result, the court did not answer any of them except the first, quoted above, as to which it said:

While cautioning that we are not here explicating all of the analytical parameters that may be applicable to patent misuse questions in future cases, we find no impropriety in the district court's employment of the three-step analysis it set forth in its certified question No. 1, in light of the record before it in this case. We therefore answer certified question No. 1 in the affirmative.<sup>77</sup>

It found that the factual questions which Senza-Gel wished to raise had not been properly raised before the district court and so refused to

<sup>75</sup> *Id.* at 665 (citations omitted).

<sup>76</sup> *Id.* at 664.

<sup>77</sup> *Id.* at 665.

consider them.<sup>78</sup>

On the cross appeal, the court held that a finding of tying-type patent misuse did not equate to a finding of a tying-type antitrust violation, and said that under Ninth Circuit law, the question whether two products were involved, rather than just one, turned on an analysis of consumer demand.<sup>79</sup> It, therefore, affirmed the district court's refusal to grant defendants' motion for summary judgment on their antitrust counterclaim for the reason that there were disputed issues of material fact.<sup>80</sup>

*Hodosh v. Block Drug Co.*<sup>81</sup> dealt with the narrow issue, under 35 U.S.C. § 271(d)(1) when read with § 271(c), whether an article sold by the patent owner should be determined a "staple article or commodity of commerce suitable for substantial non-infringing use" based on the characterization of the product sold or, instead, of the ingredients within the products sold. The facts were that the patent covered a method of desensitizing hypersensitive teeth by applying toothpaste containing potassium nitrate. The patent owner sold the toothpaste containing the potassium nitrate which, apparently, had no other substantial use than in practicing the patented method, but it was conceded that potassium nitrate, by itself, was a staple. The CAFC held that for purposes of § 271(d), which refers back to (c), the determination whether a staple is involved turns on the characterization of the product sold and not the ingredients of the

<sup>78</sup> *Id.* at 668:

Thus we will not consider Senza-Gel's arguments that: consideration must be limited to use of its machine in the ham processing industry; the machine cannot be a staple article because it is patented; Goehring's cases are inapt because they deal with misuse of a product patent; there can be no tie until a lessee uses the machine and performs the process; there can be no tie because its process and machine patents are "blocking" and can therefore be legally "leased" together; and the district court failed to make findings on whether the process could be practiced without the machine, and on whether there is a separate market demand for the machine.

<sup>79</sup> 803 F.2d at 669-71. In a footnote, the court said:

The law of patent misuse in licensing need not look to consumer demand (which may be non-existent) but need look only to the nature of the claimed invention as the basis for determining whether a product is a necessary concomitant of the invention or an entirely separate product. The law of antitrust violation, tailored for situations that may or may not involve a patent, looks to a consumer demand test for determining product separability.

*Id.* at 670-71 no. 14.

<sup>80</sup> Senior Circuit Judge Bennett filed a vigorous dissent, 803 F.2d at 671-76, objecting to the district court's allowing defendants belatedly to raise their misuse defense some six months after the jury had found Senza-Gel's patent valid and infringed pursuant to pleadings in which no misuse defense had been raised.

<sup>81</sup> 833 F.2d 1575 (Fed. Cir. 1987), *cert. denied*, 485 U.S. 1007 (1988). See Brewer, *Contributory Infringement Focus of Staple/NonStaple Inquiry Under 35 U.S.C. §271(c) Misplaced in Tie-Licensing*, J. PAT. & TRADEMARK OFF. SOC'Y 150 (Feb. 1991).

products sold. Accordingly, the court so answered the certified question which had the effect of affirming the district court's denial of defendant's motion for summary judgment.

In light of this background, three questions should be considered: first, any erosion which is likely to occur in the doctrine of patent misuse generally and regardless of the particular type of misuse involved; second, any erosion which might be expected in specific types of "extension of the monopoly"-type misuse; and third, consideration of questions of proof.

#### IV. POSSIBLE GENERAL MODIFICATIONS OF THE PATENT MISUSE DOCTRINE

There are some possible modifications of the patent misuse doctrine:

(1) Elsewhere this writer has argued that there is a principled basis for abolishing the doctrine of patent misuse altogether.<sup>82</sup> Patents are a form of property, 35 U.S.C. § 261, and except for forfeiture of personal property which is the instrumentality or fruit of a crime, even a convicted felon ordinarily retains ownership of his property and the right to exclude others from trespassing on it. It would, therefore, seem that (with the possible exception of patents utilized in a criminal antitrust violation) patent holders should retain their right to exclude, or at least to recover legal damages for an infringer's trespass, even if they could be thought to have misused their patent. Under this analysis, restrictions on patent exploitation should be limited to civil decrees obtained by the Federal Trade Commission, the Department of Justice, or infringers with standing under 15 U.S.C. § 26.<sup>83</sup> It is doubtful, however, that we shall soon see such a sweeping overhaul of patent misuse doctrine.

(2) The Department of Justice, recently, has consistently urged that all patent antitrust questions should be considered under the rule of reason.<sup>84</sup> Even when a patent license is granted by one competitor to another, the licensing arrangement can be analyzed as a vertical relationship.<sup>85</sup> To the extent this is correct, then under *GTE Sylvania*,<sup>86</sup> a rule of reason analysis would be required even apart from any statutory amendments.<sup>87</sup>

<sup>82</sup> Hoerner, *supra* note 18, at 655-57.

<sup>83</sup> See *California v. American Stores Co.*, 110 S. Ct. 1853 (1990).

<sup>84</sup> See the Department-sponsored legislation discussed in Hoerner, *supra* note 18, at 659-60 n.114, and Hoerner, *supra* note 15, at 10 & 16 n.4.

<sup>85</sup> See *AB Iro v. Otex, Inc.*, 566 F. Supp. 419, 464 (D.S.C. 1983). See also *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1129-130 (D.C. Cir. 1981).

<sup>86</sup> 433 U.S. 36 (1977).

<sup>87</sup> See *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122 (D.C. Cir. 1981).

While perhaps it is too strong to say that such a trend is discernible, certainly the Seventh Circuit in *Moraine Products v. ICI America, Inc.*,<sup>88</sup> citing *Carter-Wallace*,<sup>89</sup> approved a rule of reason analysis with respect to an agreement which required licensee approval before further licenses could be granted, although under United States Supreme Court cases, such as *Besser Manufacturing Co. v. United States*<sup>90</sup> and *Krasnov v. United States*,<sup>91</sup> a per se analysis would have been possible.<sup>92</sup>

The conclusion is that it is quite possible that patent license restrictions may only be condemned under the antitrust laws if they are found an unreasonable restraint of trade following a rule of reason analysis. If so, then misuse arising out of violation of the antitrust laws will be limited to those situations where, on all the facts, the patent license restriction was unreasonable. The facts which might convince a court that it is dealing with a cartel, in which patent licenses were ancillary to an underlying intent to divide world markets, will continue to produce a holding of illegality, but typically a full economic analysis is required to show that restraint of trade and not lawful technology licensing was the parties' underlying motivation, so the cartel cases are not really an exception to the above conclusion.

(3) With respect to price restrictions in patent licenses, it must be recalled that *United States v. General Electric Co.*<sup>93</sup> still lives. It has been narrowed to the point of invisibility<sup>94</sup> and more than once has survived only by an equally divided four-to-four vote of Justices of the Supreme Court,<sup>95</sup> but it has never formally been overruled.<sup>96</sup> Since price-fixing is the prototypical per se offense, if price-fixing in patent licenses remains permissible because reasonably within the reward to which the patentee is entitled, then all alleged patent-related antitrust offenses should similarly be examined for reasonableness.

The main theme of such an analysis would, of course, be that the licensee would not be able to compete at all without the license and that

<sup>88</sup> 538 F.2d 134 (7th Cir.), *cert. denied*, 429 U.S. 941 (1976).

<sup>89</sup> 538 F.2d at 144.

<sup>90</sup> 343 U.S. 444 (1952), *aff'g* 96 F. Supp. 304 (E.D. Mich. 1951).

<sup>91</sup> 355 U.S. 5 (1957), *aff'g* 143 F. Supp. 184 (E.D. Pa. 1956).

<sup>92</sup> *See also* *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642 (9th Cir. 1981).

<sup>93</sup> 272 U.S. 476 (1926).

<sup>94</sup> *E.g.*, *United States v. Line Material Co.*, 333 U.S. 287 (1948); *United States v. Gypsum Co.*, 333 U.S. 364 (1948); *see also* *Newburgh Moire Co. v. Superior Moire Co.*, 237 F.2d 283 (3d Cir. 1956).

<sup>95</sup> *United States v. Line Material Co.*, 333 U.S. 287 (1948); *United States v. Huck Mfg. Co.*, 382 U.S. 197 (1965).

<sup>96</sup> *See* Taylor, *Analyzing Licensee-Licensor Relationships: The Methodology Revisited*, 53 ANTI-TRUST L.J. 577, 581-92 (1985).

competition by the licensee, albeit at prices fixed by the licensor, or subject to other restrictive clauses, is better than a complete absence of competition.

(4) A special comment is warranted on tying as an antitrust-type patent misuse defense. Under *United States v. Loew's Inc.*,<sup>97</sup> endorsed by a dictum in *Jefferson Parish Hospital District No. 2 v. Hyde*,<sup>98</sup> a patent is presumed to give market power in suits under the antitrust laws. The presumption was changed as to tying asserted as a patent misuse defense in Title II, Patent Misuse Reform, of Public Law No. 100-703 approved November 19, 1988 and now incorporated as subparagraph (5) of 35 U.S.C. § 271(d). It is there provided that no patent owner "shall be denied relief or deemed guilty of misuse or illegal extension of the patent right" by reason of tying "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."

Does that section also apply to antitrust actions? This writer believes so. Congress could not possibly have intended that in evaluating an *extension of the monopoly-type tying patent misuse defense*, a relevant market and market power in that market would have to be proved, while an antitrust tying violation could be proved using the presumption of *Jefferson Parish*, which would then be the basis for an *antitrust-type misuse defense*. It seems probable that Sections 271(d)(4) and (5) will be held to have application to antitrust claims as well as misuse defenses. At least one case supports that prognostication.<sup>99</sup>

(5) Turning now to extension of the monopoly-type misuse defense, one very possible means of eliminating the harshness of the doctrine is to hold the offending clause in a license agreement unenforceable rather

<sup>97</sup> 371 U.S. 38, 45-47 (1962).

<sup>98</sup> 466 U.S. 2, 16-17 (1984):

[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power. *United States v. Loew's Inc.*, 371 U.S. at 45-47. Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer make all his purchases of a separate tied product from the patentee is unlawful. See *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 156-59 (1948); *International Salt*, 332 U.S. at 395-96; *International Business Machines Corp. v. United States*, 298 U.S. 131 (1936).

<sup>99</sup> *Rohm & Haas Co. v. Dawson Chem. Co.*, 557 F. Supp. 739, 835, conclusion 96 (S.D. Tex. 1983), *rev'd on other grounds sub nom. Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556 (Fed. Cir. 1983), *cert. denied*, 469 U.S. 851 (1984). *Accord Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc.*, 616 F.2d 1133, 1143 (9th Cir. 1980), *appeal after remand*, 694 F.2d 570 (9th Cir. 1982), *cert. denied*, 464 U.S. 818 (1983).

than holding the patent unenforceable. This is already the rule with respect to "no contest" clauses, which were invalidated by *Lear, Inc. v. Adkins*.<sup>100</sup> The Second Circuit has used this approach in dealing with a license clause requiring payment of royalties after the patent expired.<sup>101</sup> It is reasonable to believe that this approach will find increased use in the future.<sup>102</sup>

(6) *Polysius Corp. v. Fuller Co.*,<sup>103</sup> decided last year by Judge Cahn sitting in the Eastern District of Pennsylvania, suggests a different route to alleviate the harshness of the misuse doctrine.

In that case plaintiff had entered into a license agreement under which it agreed that it would not issue additional licenses unless the licensees concurred. The court stated that there was authority that such license clauses "are undesirable and should not be encouraged,"<sup>104</sup> citing *Besser*,<sup>105</sup> *Mannington Mills*,<sup>106</sup> and *Krasnov*.<sup>107</sup> Judge Cahn utilized the presence of such a license clause to support his refusal of an injunction against future infringement. It would, of course, have been possible to have held that the cited cases showed the clause to be illegal under the antitrust laws, and that the patent should have been unenforceable for antitrust-type patent misuse.

Generalizing from Judge Cahn's approach leads to the possibility that courts in the future, instead of holding a patent unenforceable because of patent misuse, would hold only that equitable relief was denied. It should be recalled that the equitable doctrine of unclean hands was a principal basis underlying the Supreme Court's decision in *Morton Salt*.<sup>108</sup> Under such approach a patentee guilty of misuse could have legal relief, but not equitable relief, which would have the effect of giving infringers

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<sup>100</sup> 395 U.S. 653 (1969). *E.g.*, *Panther Pumps & Equip. Co. v. Hydrocraft, Inc.*, 468 F.2d 225, 232 (7th Cir. 1972), *cert. denied*, 411 U.S. 965 (1973); *Congoleum Indus., Inc. v. Armstrong Cork Co.*, 366 F. Supp. 220, 233 (E.D. Pa. 1973), *aff'd*, 510 F.2d 334 (3d Cir.), *cert. denied*, 421 U.S. 988 (1975).

<sup>101</sup> *Modrey v. American Gage & Mach. Co.*, 478 F.2d 470, 474-75 (2d Cir. 1973).

<sup>102</sup> See Judge Wright's imaginative approach in *Ethyl Corp. v. Hercules Powder Co.*, 232 F. Supp. 453 (D. Del. 1963), *criticized in* *Robintech, Inc. v. Chemidus Wavin, Ltd.*, 197 U.S.P.Q. 657 (D.D.C.), *opinion on purge*, 450 F. Supp. 823, 834 (D.D.C. 1978), *aff'd on misuse issue*, 628 F.2d 142, 147 (D.C. Cir. 1980). See also *Mallinckrodt Inc. v. Medipart Inc.*, 15 U.S.P.Q. 2d 1113 (N.D. Ill. 1990), where a post-sale restriction on reuse was found unenforceable, but the patent was not found misused.

<sup>103</sup> 709 F. Supp. 560 (E.D. Pa.), *aff'd mem.*, 889 F.2d 1100 (Fed. Cir. 1989).

<sup>104</sup> 709 F. Supp. at 577.

<sup>105</sup> 343 U.S. 444 (1952), *affirming* 96 F. Supp. 304 (E.D. Mich. 1951).

<sup>106</sup> *Mannington Mills, Inc. v. Congoleum Indus.*, 610 F.2d 1059, 1072 (3d Cir. 1979).

<sup>107</sup> 355 U.S. 5 (1957), *affirming* 143 F. Supp. 184 (E.D. Pa. 1956).

<sup>108</sup> See 314 U.S. 488 (1942).

a compulsory license until purge. If I may be permitted a pun—one Cahn-dor does not a summer make—but it is predictable that Judge Cahn's approach will be given thoughtful consideration by courts in the future.

(7) It is possible that courts would engraft onto the extension of the monopoly misuse defense a requirement that the underlying conduct or offending license clause be shown to restrain competition unreasonably, as was suggested in *Windsurfing*, but it is difficult to see how any court other than the United States Supreme Court could take such action in view of the square contrary holding in *Morton Salt*.

(8) It is also possible, although improbable, that courts might begin to import antitrust standing analysis into the requirements for proving a misuse defense, despite currently accepted law that misuse of the patent is a good defense even though the misuse had no effect on the alleged infringer at all. Certainly, antitrust standing concepts are commonly utilized in patent antitrust cases.<sup>109</sup>

#### V. THE LIKELY FUTURE OF TYPICAL EXTENSION OF THE MONOPOLY-TYPE MISUSE DEFENSES

One or more of the techniques set out above for ameliorating the patent of misuse may come to be utilized. If so, then the application of the doctrine to specific conduct or license clauses would be pro tanto affected. Assuming, however, that there is no generalized change in the contours of the doctrine, the question arises as to what changes can be expected when we look at specific conduct or license clauses which have been held to be patent misuse in the past. This section deals with that question.

(1) *Requiring the licensee not to compete with the patented technology that is licensed.*<sup>110</sup> Except where the licensor has granted an exclusive license and is dependent upon the good faith, best efforts of the licensee to obtain income from his patent,<sup>111</sup> it has been and probably will continue to be a patent misuse for the patent owner to forbid a non-exclusive licensee from utilizing competitive non-patented technology.<sup>112</sup>

<sup>109</sup> *E.g.*, *Axis SpA v. Micafil, Inc.*, 870 F.2d 1105 (6th Cir.), *cert. denied*, 110 S. Ct. 83 (1989).

<sup>110</sup> *See Hoerner, supra* note 18, at 649.

<sup>111</sup> *Id.* at 662 n.115.

<sup>112</sup> *Id.* at 661-62.

(2) *Requiring royalties beyond the patent expiration date.*<sup>113</sup> It is reasonably predictable that future courts will, as the Second Circuit has done,<sup>114</sup> adopt the technique of holding such a clause unenforceable rather than holding the patent unenforceable. Indeed, careful reading of *Brulotte*<sup>115</sup> suggests that it was not a patent misuse case at all, but was itself simply a case which held a clause requiring payments beyond the life of the licensed patent to be unenforceable.<sup>116</sup>

Moreover, while there is perhaps some appeal to the thought that a patentee should not be permitted to use the leverage of his patent to require payment of royalties after his patent expired, there is also force to the notions that parties should be allowed to contract freely and that their negotiated agreement under which the licensee pays royalties for a period longer than the life of the patent, presumably in the consideration of a lower rate, should be enforceable.

Special mention should be made here of hybrid know-how/patent licenses where the rate does not diminish and the royalty base does not change as the licensed patents expire (or the license application(s) fail to result in issued patent(s)). The courts in recent years have uniformly found such royalty arrangements to be unenforceable after the patents expire,<sup>117</sup> perhaps because it is impossible for them to rewrite the agreement to determine what the "right" rate is for the know-how when the patent(s) disappear from the picture as valid consideration. This problem yields itself to careful drafting, however, and it is very probable that a court would uphold a hybrid agreement where the know-how was licensed at, say, four percent, with the royalty obligation to continue for

<sup>113</sup> *Id.* at 649.

<sup>114</sup> *Modrey v. American Gage & Mach. Co.*, 478 F.2d 470, 474-75 (2d Cir. 1973). *See also Congoleum Indus., Inc. v. Armstrong Cork Co.*, 366 F. Supp. 220, 235-37 (E.D. Pa. 1973), *aff'd*, 510 F.2d 334 (3d Cir.), *cert. denied*, 421 U.S. 988 (1975).

<sup>115</sup> 379 U.S. 29 (1964).

<sup>116</sup> "Petitioners refused to make royalty payments both before and after the expiration of the patents," 379 U.S. at 30, and "one defense was misuse of the patents through extension of the license agreements beyond the expiration date of the patents." *Id.* Judgment for both pre- and post-expiration royalties was given below to the patent owner. The Court's holding was "that the judgment below must be reversed *insofar as it allows royalties to be collected which accrued after the last of the patents incorporated into the machine had expired.*" *Id.* (emphasis added). The Court's conclusion was "that an attempt to project it [the "patent monopoly"] into another term by continuation of the licensing agreement is *unenforceable.*" *Id.* at 34 (emphasis added). Had the Court found the patent misused, it presumably would have allowed no recovery of royalties, either pre- or post-expiration.

<sup>117</sup> *Boggild v. Kenner Prods.*, 776 F.2d 1315 (6th Cir. 1985), *rev'g* 576 F. Supp. 533, *adhered to*, 853 F.2d 465 (6th Cir. 1988); *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365 (11th Cir.), *cert. denied*, 464 U.S. 893 (1983); *Meehan v. PPG Industries, Inc.*, 802 F.2d 881 (7th Cir. 1986), *cert. denied*, 479 U.S. 1091 (1987).

so long as the license continued using the know-how,<sup>118</sup> and with the patent (or application) licensed at, say, eight percent until it expired (or, say, five years had passed and the application had still not ripened into a patent) but with the royalty due under the know-how license creditable against the royalty due under the patent license.

(3) *Compulsory Package Licensing.*<sup>119</sup> Compulsory package licensing is clearly covered by 35 U.S.C. § 231(d)(5) and could not be held a patent misuse unless the patent(s) in the package which gave the patent owner the leverage to demand a package license was/were found to constitute a relevant market in which the patent owner had market power.<sup>120</sup>

Apart from this new statutory provision, compulsory packaging licensing should no longer be held to be a patent misuse. Ever since *Lear*,<sup>121</sup> a licensee has had the option to renounce his license on the basis that the

<sup>118</sup> See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979); *Warner-Lambert Pharmaceutical Co. v. Reynolds, Inc.*, 178 F. Supp. 655 (S.D.N.Y. 1959), *aff'd mem.*, 280 F.2d 197 (2d Cir. 1960).

<sup>119</sup> See Hoerner, *supra* note 18, at 649-50.

<sup>120</sup> See Hoerner, *supra* note 15, at 15.

<sup>121</sup> *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

There is little question but that the licensee estoppel doctrine's preclusion of a licensee from challenging the validity of the unwanted, tied patents was a principal reason for the holding that compulsory package licensing could be a patent misuse. See *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723, 731 (9th Cir. 1964), *cert. denied*, 379 U.S. 988 (1965) and the dissent of Justice Douglas in *Automatic Radio Mfg. Co. v. Hazeltine Research Inc.*, 339 U.S. 827, 838-40 (1950). Unless that was the principal reason licensors sought to force a patent package onto a licensee, how else can the practice of licensing a package at a lower royalty than various subgroups of the package be explained? See *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 388 F.2d 25, 33 (7th Cir. 1967). In reversing and remanding the Seventh Circuit's affirmance of an award of an antitrust injunction in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140-41 (1969), the Supreme Court made clear that package patent licensing was not a per se antitrust violation.

This seems sound, at least in the absence of other restrictive clauses, because the royalty agreed upon can be presumed to be no higher than what the licensee would have been willing to pay on the desired patents alone, and because the licensee is not required to buy any tangible product which it does not want nor are competitors of the licensor precluded from selling to the licensee any products the licensee does want. Nor is the licensee precluded from designing around the unwanted, tied patents or from taking licenses on patents of others covering competing technology. (Were the licensee precluded by additional restrictive clauses from doing so, then a patent misuse finding, at least, would be warranted under the principles of *National Lockwasher Co. v. George K. Garrett Co.*, 137 F.2d 255 (3d Cir. 1943) and *McCullough v. Kammerer Corp.*, 166 F.2d 759 (9th Cir.) *cert. denied*, 355 U.S. 813 (1948). Compulsory package licensing has been found to cause legal problems principally where, because of the insertion of unwanted, tied patents into the license, the royalty paying period has been extended beyond that which would have been permitted under *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), had the desired patents only been licensed. See, e.g., *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.*, 367 F.2d 678 (6th Cir. 1966). As stated in the text, the ability under *Lear* to excise unwanted, tied patents should eliminate the problem and remove any legal taint from compulsory package patent licensing absent restrictive ancillary clauses.

licensed patent is invalid. No case has come to this writer's attention which prevents him from doing so on a patent-by-patent basis. If this is correct, then the licensee has a self-help remedy for compulsory package licensing, at least if the royalty base is defined to be the coverage of the claims of licensed patents. He can simply renounce the license as being inapplicable to unwanted patents or patents believed to be invalid. The licensor can then bring suit against the licensee on such of the renounced patents as he believes are valid and infringed. With the disappearance of the doctrine of licensee estoppel in *Lear*, the licensee can assert his invalidity defenses. At least one district court decision suggests this analysis.<sup>122</sup>

(4) *Tying*.<sup>123</sup> Tying is, of course, covered by 35 U.S.C. § 271(d)(5), as well as 35 U.S.C. §§ 271(d)(1), (2), and (3) when read with § 271(c).<sup>124</sup>

A finer analysis is necessary, however, because tying misuse defenses are of three different types. New subparagraph 5 will apply to contractual tying when the licensee is required to purchase unpatented inputs from the licensor. What, however, of implied tying and discriminatory royalty tying, both of which have been held to be misuse?

In implied tying the patent owner typically merely sells an unpatented input and does not sue those that buy and use it in practicing his patent, but does sue those who infringe his patent but do not buy the unpatented input from him.<sup>125</sup> Both *Calhoun*,<sup>126</sup> and *Hall Laboratories, Inc. v. Springs Cotton Mills, Inc.*<sup>127</sup> tell us, however, that there is nothing wrong with that manner of doing business if the patent owner is willing to license this patent on the same terms when the licensee does not buy the unpatented inputs from him. Yet 35 U.S.C. § 271(d)(4), added to § 271(d) on November 19, 1988, at the same time subparagraph (5) was added, provides that a patent owner shall not be deemed guilty of misuse by reasons of his having "refused to license or use any rights to the patent." There is no market power limitation to (d)(4), so has implied tying disappeared since it rests on a refusal to license which is now protected under (d)(4)?

The proper construction of Section 271(d)(4) raises a large and very important question. Is it intended to protect the patent owner who wishes

<sup>122</sup> *Gates Learjet Corp. v. Magnasync Craig Corp.*, 339 F. Supp. 587, 601 (D. Colo. 1972).

<sup>123</sup> See Hoerner, *supra* note 18, at 650-51, 661; and Hoerner, *supra* note 15.

<sup>124</sup> See *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980).

<sup>125</sup> *E.g.*, *B.B. Chemical Co. v. Ellis*, 314 U.S. 495 (1942); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938).

<sup>126</sup> 339 F.2d 665 (Ct. Cl. 1964); *new trial on patent misuse denied*, 186 Ct. Cl. 950 (1968); *on accounting*, 453 F.2d 1385 (Ct. Cl. 1972).

<sup>127</sup> 112 F. Supp. 29 (W.D.S.C. 1953), *aff'd*, 208 F.2d 500 (4th Cir. 1953).

to keep his invention solely for himself and not to license anyone?<sup>128</sup> Does it also extend to protect a patent owner who has licensed one or more parties, perhaps as a second source at the demand of a customer, and refuses to license more parties on any terms?<sup>129</sup> The answer to both of those questions is surely "yes." Does it also protect a patent owner who refuses to license his patent unless the licensee agrees to restrictive terms, such as a royalty base broader than the coverage of the claims of the licensed patent, the price at which the licensed product will be sold, etc? If it can be read so broadly, then Section (d)(4) will come close to swallowing up the entirety of the patent misuse defense, for a patent owner can always say that it was exercising its (d)(4) right to refuse to license unless the licensee agreed to the challenged clause.

The language of Justice Douglas in *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*<sup>130</sup> has some bearing on the answer to this question: "The fact that a patentee has the power to refuse a license does not mean that he has the power to grant a license on such conditions as he may choose.

Discriminatory royalty tying—charging more for a license if the licensee does not buy the unpatented input from the patentee than is charged if he does—arguably does not involve a "conditioned" license. That is, the patentee will license the patent whether or not the licensee buys unpatented inputs from the patentee, but if he does not, the patentee will charge him more for the license. Remember that *Carter-Wallace* said that resale restrictions are not misuse if, by paying more, you have unrestricted rights.<sup>131</sup> If it be assumed that Section 271(d)(5) can be read to say that there is no tying unless there is also conditioning, then an argument exists that discriminatory royalty tying has disappeared as a species of misuse (unless the discriminatory rate is so high as to be pretensive).

If this argument is not successful, then discriminatory royalty tying will probably continue as a species of misuse, in view of *Urquhart*,<sup>132</sup> and

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<sup>128</sup> The answer to this question is surely "yes." *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-30 (1908) and *Special Equip. Co. v. Coe*, 324 U.S. 370, 379 (1945), have been codified.

<sup>129</sup> The answer to this question is surely "yes" also. *Extractol Process Ltd. v. Hiram Walker & Sons, Inc.*, 153 F.2d 264, 268 (7th Cir. 1946) and *Minnesota Mining & Mfg. Co. v. Research Medical, Inc.*, 679 F. Supp. 1037 (D. Utah 1987), have also been codified, while *Allied Research Prods., Inc. v. Heatbath Corp.*, 300 F. Supp. 656 (N.D. Ill. 1969), has been rejected.

<sup>130</sup> 329 U.S. 637, 643 (1947).

<sup>131</sup> See *supra* notes 40 & 41.

<sup>132</sup> 109 F. Supp. 409 (Ct. Cl. 1953).

a number of other cases.<sup>133</sup> Indeed, except for defenses that can be constructed from one or another of the subsections of Section 271(d), it seems likely that tying will continue with us as a patent misuse.

(5) *Using a royalty base broader than the patent.*<sup>134</sup> While there is superficial appeal in the argument that it is improper to use the leverage of your patent to obtain a base broader than the coverage of your patent's claims, the argument does not withstand analysis. Such a clause does not prevent your licensee from making, using, or selling compositions not covered by the claims and, in the end, solely concerns how much money should be paid as royalty. A royalty is the product of a rate times a base, and if the base is broadened, it is reasonable to assume that the rate will go down. Indeed, if the licensor and licensee, after legal advice and not being under restraint, agreed that the royalty would be the product of the number of ships which traversed the Panama Canal in a given year times the regular weekday price of admission to Disney World in that year, it is hard to find a reason why that agreement should not be enforced.

The law in this area is derived from the two *Hazeltine* cases,<sup>135</sup> and when they are analyzed carefully the following principles emerge: Minimum royalties are permitted; a bargained-for agreement to use any or all of a group of patents is permitted even if none is used; a base broader than the coverage of the claims is proper if the licensee accepts it for his convenience. It also appears that a base broader than the claim of a licensed patent may be used if included in that base are components which would infringe the patent(s) licensed, but for the license. Surely, a patentee could bargain for a base which he would be entitled to use in seeking damages under the "convoyed sales" doctrine<sup>136</sup> or the "entire value" rule<sup>137</sup> if he were forced to litigate and won.

While existing Supreme Court precedent would condemn forcing a base on a licensee which does not include any products covered by the claim licensed, it is reasonable to expect that in due course even this rule will fade, for it cannot be supported in principle.

<sup>133</sup> *E.g.*, *Dehydrators, Ltd. v. Petrolite Corp.*, 117 F.2d 183 (9th Cir. 1941); *National Foam System, Inc. v. Urquhart*, 202 F.2d 659, 662-64 (3d Cir. 1953); *Oxford Varnish Corp. v. Ault & Wiborg Corp.*, 83 F.2d 764 (6th Cir. 1936).

<sup>134</sup> *See* Hoerner, *supra* note 18, at 651-52.

<sup>135</sup> *See* *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *Automatic Radio Co. v. Hazeltine*, 339 U.S. 827 (1950).

<sup>136</sup> *Deere & Co. v. International Harvester Co.*, 710 F.2d 1551, 1558-59 (Fed. Cir. 1983).

<sup>137</sup> *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 901 (Fed. Cir.), *cert. denied*, 479 U.S. 852 (1986); *compare* *Signode Corp. v. Weld-Loc Systems, Inc.*, 700 F.2d 1108, 1113-14 (7th Cir. 1983).

(6) *Resale Restrictions*.<sup>138</sup> Resale restrictions, as a patent misuse, are likely to have some staying power for they are rooted in patent law doctrine laid down before the antitrust laws were passed, *Adams v. Burke*<sup>139</sup> and *Bloomer v. McQuewan*.<sup>140</sup> They cannot, however, be supported as antitrust-type misuses, since *GTE Sylvania*<sup>141</sup> has supplanted *Schwinn*,<sup>142</sup> unless they fail a rule of reason analysis.<sup>143</sup> At the same time, it is of some significance that a restriction on sale of an unpatented product made by a patented process which was upheld by the D.C. Circuit against an antitrust attack in *Studiengesellschaft Kohle* was found to be a patent misuse of the "extension of the monopoly"-type, also by the D.C. Circuit, in a decision handed down only a year earlier, *Robintech, Inc. v. Chemidus Wavin, Ltd.*<sup>144</sup> This writer suspects that patent misuse based on resale restrictions will be with us for as long as "extension of the monopoly"-type misuse remains viable.

(7) *Exorbitant Royalties*.<sup>145</sup> *Carter-Wallace*<sup>146</sup> and *Brulotte*,<sup>147</sup> as well as several other cases,<sup>148</sup> all say that "exorbitant" royalties are not a misuse. This writer agrees. The lesson here is (or should be) broader, however. A license clause which has no effect other than arguably increasing the amount of royalties which the patent-owning licensor receives should be held proper, whatever the amount.

(8) *Grant-backs*.<sup>149</sup> The literal language of Section 271(d)(5) precisely fits license-backs,<sup>150</sup> and they can no longer be a misuse unless the relevant market and market power findings required by Section 271(d)(5) are met. The *Transparent-Wrap* analysis<sup>151</sup> also does not make it easy to find grant-backs a misuse, although a misuse was found in *Duplan Corp. v.*

<sup>138</sup> See Hoerner, *supra* note 18, at 652, 661; *Mallinckrodt Inc. v. Medipart Inc.*, 15 U.S.P.Q.2d 1113 (N.D. Ill. 1990).

<sup>139</sup> 84 U.S. (17 Wall.) 453 (1873).

<sup>140</sup> 14 How. (55 U.S.) 539 (1852).

<sup>141</sup> 433 U.S. 36 (1977).

<sup>142</sup> 388 U.S. 365 (1967).

<sup>143</sup> See *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122 (D.C. Cir. 1981).

<sup>144</sup> 197 U.S.P.Q. 657 (D.D.C.), *opinion on purge*, 450 F. Supp. 823 (D.D.C. 1978), *aff'd on misuse issue*, 628 F.2d 142 (D.C. Cir. 1980).

<sup>145</sup> See Hoerner, *supra* note 18, at 652-53.

<sup>146</sup> 449 F.2d 1374 (Ct. Cl. 1971).

<sup>147</sup> 379 U.S. at 33.

<sup>148</sup> *E.g.*, *W.L. Gore & Assocs. v. Carlisle Corp.*, 529 F.2d 614, 622-23 (3d Cir. 1976); *Stearns v. Tinker & Razor*, 252 F.2d at 604-05.

<sup>149</sup> See Hoerner, *supra* note 18, at 653.

<sup>150</sup> See Hoerner, *supra* note 15, at 15.

<sup>151</sup> 329 U.S. 637 (1947).

*Deering Milliken, Inc.*,<sup>152</sup> where the grant-back clause was considerably broader in scope than the scope of the claims of the licensed patent on which the grant-back was based.

(9) “*No contest*” clauses.<sup>153</sup> “No contest” clauses have been held unenforceable,<sup>154</sup> but not misuse.

(10) *Discriminatory Royalties*.<sup>155</sup> Although *Carter-Wallace* retained a discriminatory royalty claim for trial,<sup>156</sup> and although the “Shrimp Peeler” cases variously found discriminatory royalties a patent misuse,<sup>157</sup> a Section 2 violation,<sup>158</sup> and an FTC Act Section 5 violation,<sup>159</sup> this writer predicts that discriminatory royalties will not again be the basis for a finding of patent misuse (unless the discrimination is found to be an element of a Section 2 violation, in which case an antitrust-type misuse holding would be possible). Charging one licensee more than another does not extend the “monopoly” of the licensed patent; only the dollar amount of royalties is at issue. No reason appears why the patent owner has any more duty to put his licensees on a competitively equal footing with each other than he has to put them on a competitively equal footing with himself. The disfavored licensee can practice the full scope of the patent without restraint; as a disfavored licensee, he has more rights than if he were not a licensee at all. Royalty discrimination does not violate the Robinson-Patman Act<sup>160</sup> and the FTC Act is not one of the antitrust laws.<sup>161</sup> The Supreme Court has never found royalty discrimination to be a patent misuse and it is to be doubted that the CAFC ever will either.<sup>162</sup>

<sup>152</sup> 444 F. Supp. 648, 699–700 (D.S.C. 1977), *modified on other grounds*, 594 F.2d 979 (4th Cir. 1979), *cert. denied*, 444 U.S. 1015 (1980).

<sup>153</sup> See Hoerner, *supra* note 18, at 654.

<sup>154</sup> See cases cited *supra* note 100.

<sup>155</sup> See Hoerner, *supra* note 18, at 653–54.

<sup>156</sup> See *supra* notes 57–59 and accompanying text.

<sup>157</sup> See text accompanying note 55, *supra*.

<sup>158</sup> *Peelers Co. v. Wendt*, 260 F. Supp. 193 (W.D. Wash. 1966).

<sup>159</sup> *La Peyre v. FTC*, 366 F.2d 117 (5th Cir. 1966).

<sup>160</sup> *LaSalle St. Press, Inc. v. McCormick & Henderson, Inc.*, 293 F. Supp. 1004 (N.D. Ill. 1968), *modified on other grounds*, 445 F.2d 84 (7th Cir. 1971); *Allen Archery v. Browning Mfg. Co.*, 226 U.S.P.Q. 315 (D. Utah 1982), *aff'd*, 819 F.2d 1087 (Fed. Cir. 1987).

<sup>161</sup> 15 U.S.C. § 12.

<sup>162</sup> See, e.g., *USM Corp. v. SPS Technologies*, 694 F.2d at 512–14; *Congoleum Indus., Inc. v. Armstrong Cork Co.*, 366 F. Supp. 220, 231–32 (E.D. Pa. 1973), *aff'd*, 510 F.2d 334 (3d Cir.), *cert. denied*, 421 U.S. 988 (1975).

## VI. PROOF OF PATENT MISUSE

The infringer has the burden of proving patent misuse by clear and convincing evidence. Generalizing about the proofs required is difficult.

A substantial part of the reason why the doctrine of patent misuse has always been under attack, which attack has intensified in recent years, is that it is a "juiceless" defense. There typically is not a "smoking gun"; there typically is not even a body. No effect on competition need be proved. The misuse need not have affected, or even have been directed at, the alleged infringer. The alleged infringer need not show antitrust standing nor need he show any standing at all, other than that he has been sued under a patent which has allegedly been misused. His defense is good until there has been a purge, but a purge involves more than cessation of the offensive activities or cancellation of the offensive license provisions; it requires that the effects of the misuse be proved by the patent owner to have dissipated. Since the doctrine does not require there to be any effects, proving that non-existent effects no longer exist can present a puzzlement. It is not necessarily required that an offensive clause have been enforced for there to be misuse,<sup>163</sup> and one case has even gone so far as to hold that a clause insisted on by the licensee constituted a misuse rendering the licensor's patent unenforceable.<sup>164</sup>

What all this says to this writer is that the alleged patent infringer, at least in a case with a lot of dollars at stake, who wishes to establish a patent misuse defense, should consider putting in proofs beyond what existing law requires. For a misuse defense based on an antitrust violation, an antitrust violation would have to be proved, of course. Even for extension of the monopoly-type misuse, where no effect on competition need be proved, this writer's recommendation would be that the defendant should hire a competent and experienced forensic antitrust economist<sup>165</sup> and put in such evidence as exists on relevant market, effect on competition, injury to the alleged infringer, etc.

To the extent helpful evidence is available, questions such as the following should be addressed: Do the claims of the patent in suit define a

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<sup>163</sup> Consider *Berlenbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782, 784-85 (9th Cir.), *cert. denied*, 379 U.S. 830 (1964). See Hoerner, *supra* note 18, 648 n.53.

<sup>164</sup> *Stewart v. Motrim, Inc.*, 192 U.S.P.Q. 410 (S.D. Ohio 1975).

<sup>165</sup> It is almost invariably easier for an industrial organization economist with knowledge of antitrust principles to learn the industry than it is for an industry expert to learn antitrust economics. Good antitrust economists can provide a wealth of insights which may lead to fruitful lines of evidentiary inquiry. The economist will, for example, be conversant with relevant market proofs under the Merger Guidelines of the Department of Justice.

relevant market? Apart from the claims, does the patent-owning plaintiff have market power in a relevant market? Has the patent in suit contributed to that power? Does the patent owner refuse to license, so that whatever market power he has is not shared with others? Has the patentee attempted to enforce any offensive clauses in his license agreement(s)? Are any offensive clauses in his license agreements such that the licensee's voluntary compliance with them would have an adverse effect on competition? Were any of the patents in the patent owner's portfolio acquired from others as opposed to being the results of research by his own employees? Has the patent owner refused to license his patent apart from the purchase of unpatented inputs? If so, are the unpatented inputs staples? Have others asked for licenses apart from purchase of unpatented inputs? Have they been refused? Does the patent owner have form license agreements which it will enter into apart from the purchase of unpatented inputs? Is the patented product sold together with another product? Does the patent owner refuse to sell it separately? Is the price, if the two products are sold separately, greater than the combination price? Does the patent owner attempt to put resale restrictions on patented products? If there is no specific attempt to control the resale of patented products, are patented products nevertheless included within a general distribution scheme which contains resale restrictions? Does the patent owner put restrictions on sale of the unpatented output of a patented machine or process?

Has the alleged infringer requested a license? If so, has it been refused? Has the alleged infringer requested a license and been refused unless he agreed to restrictive terms? Has the alleged infringer lost sales to the patent owner? Has the alleged infringer lost sales to licensees of the patent owner? Is any restriction which the patent owner would place on a license unreasonable under the circumstances? Can it be argued that a restriction which a patent owner would place in a license agreement is not reasonably ancillary to a lawful business transaction? Can the license or conduct at issue be plausibly argued to be part of an attempt to monopolize, a monopolization scheme, or a program of world cartelization? Has the patent owner acquired the patents of others beyond the need to protect his own products? Does a challenged clause have an impact beyond the seventeen-year patent term? Beyond the coverage of the claims? Beyond the geographic scope where a United States patent is effective, having in mind 353 U.S.C. §§ 271(f) and (g)? Beyond the first authorized sale? See also the questions which the CAFC refused to let the patent owner raise in *Senza-Gel*.<sup>166</sup>

<sup>166</sup> See note 78, *supra*.

The questions set out above are not remotely exhaustive. Any given state of facts will surely suggest numerous others. Affirmative answers to many of the questions set out above would not necessarily be controlling or even very relevant. The point being made, however, is that an alleged infringer in a patent case of financial importance should have a record to stand on which goes beyond the narrow requirements of extension of the monopoly-type patent misuse. If he does not, he may risk denial of his defense by a judge not familiar with the doctrine, who feels he is overreaching. He could, instead, face a knowledgeable judge who would take the bull by the horns and abolish the doctrine in his courtroom until a higher court said him "nay." Such a judge, without any record showing alleged harm, could reason that the doctrine unfairly diminishes the rights of patentees, rights which are crucial in our world battle for competitiveness, which include a constant struggle to keep American jobs in America.

Such a strategy is not without risks, however, for to the extent an alleged infringer tries to prove more than the law requires, a court might hold that the law requires the infringer to prove everything he attempts to prove. Conversely, a court might refuse to admit evidence which it considered to be irrelevant. Moreover, some of the inquiries set out above would clearly require third-party discovery. Third-party discovery is not always allowed and can be expensive and burdensome to obtain.<sup>167</sup>

## VII. CONCLUSION

In the 1980s, it was often said that United States world competitiveness depended upon respect for valid patents. The patent misuse doctrine came under attack as being an unprincipled impediment to the enforcement of valid patents. Even so, the only legislative results were 35 U.S.C. §§ 271(d)(4) and (5), which fell considerably short of being an entire solution to the "problem," assuming the problem is the very existence of the doctrine. In fairness, it should also be noted that subsections (f) and (g) of Section 271 enlarged the patentee's rights in areas where attempts to achieve those same results by agreement might have been regarded as patent misuse.

In the courts, Chief Judge Markey's trial balloon in *Windsurfing*, if that is what it was, was punctured that very same year, also by Chief Judge Markey, in *Senza-Gel*. This writer speculates that most trial judges are not vastly knowledgeable or strongly opinionated on questions concerning

<sup>167</sup> See and compare *Micro Motion, Inc. v. Kane Steel Co.*, 894 F.2d 1318 (Fed. Cir. 1990); *Truswal Sys. Corp. v. Hydro-Air Eng'g, Inc.*, 813 F.2d 1207 (Fed. Cir. 1987); *Heat & Control, Inc. v. Hester Indus., Inc.*, 785 F.2d 1017 (Fed. Cir. 1986).

patent misuse. They will likely attempt conscientiously to apply the precedents which the lawyers appearing before them urge with reason to be controlling; most are not likely to be innovators. The United States Supreme Court, while it produced *Dawson*, which narrowly (5-4) confirmed an expansive reading of Section 271(d), also produced the dictum in *Jefferson Parish*, again by a narrow majority (5-4), which endorsed the conventional view that patents must be presumed to create market power. For those of you who enjoy counting Supreme Court noses, the fact is that, with Justice Brennan's retirement, four of the five Justices who put their names to the *Jefferson Parish* dictum are still on the Court, while only two are left of the four who stated in concurrence that it was a "misconception" that "a patent . . . suffices to demonstrate market power."<sup>168</sup>

All of the above suggests that, unless Congress acts (and a Reagan Administration, more dedicated to patent misuse "reform" than the current administration, was unable to secure dramatic action) or unless the United States Supreme Court changes the law in important ways, the patent misuse doctrine will continue with us into the next century.

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<sup>168</sup> 466 U.S. at 37-38 n.7.