

MISUSE OF MISUSE: *PRINCO CORP. V. INTERNATIONAL TRADE COMMISSION* AND THE FEDERAL CIRCUIT'S MISGUIDED PATENT MISUSE JURISPRUDENCE

*Saami Zain**

*The equitable doctrine of patent misuse is best known for prohibiting patentees from exploiting the rights and benefits that arise from the grant of a patent. Despite a long history of favorable Supreme Court cases, over the past twenty-five years the U.S. Court of Appeals for the Federal Circuit has substantially narrowed the patent misuse doctrine. Most recently, in *Princo Corp. v. International Trade Commission*, the Federal Circuit seems to have further curtailed the doctrine by suggesting that additional, burdensome requirements may be necessary for a successful misuse defense. Specifically, the *Princo* decision seems to impose a stringent evidentiary burden on those asserting misuse, including demonstrating a direct and substantial nexus between the challenged conduct and the asserted anticompetitive effects, and intimating a higher threshold for proving anticompetitive effects. The opinion also further entangles patent misuse jurisprudence with antitrust concepts. The Federal Circuit's *Princo* decision is not only inconsistent with Supreme Court precedent, but also substantially hinders the policy goals of preventing inequitable, abusive, and anticompetitive conduct by patent holders. Rather than weakening it, the Federal Circuit should focus on creating a better-defined, vigorous misuse doctrine, independent of antitrust principles, to uphold these worthy goals.*

*J.D., L.L.M (Antitrust). Assistant Attorney General, Antitrust Bureau, New York State Office of the Attorney General. The views expressed here are those of the author and do not reflect those of the New York State Department of Law, the New York State Attorney General's Office, or the Antitrust Bureau.

I. INTRODUCTION

The doctrine of patent misuse is an equitable defense that proscribes certain conduct by patentees that is inconsistent with the goals and policies underlying patent law. Patent misuse thereby prohibits patentees from leveraging rights and benefits obtained from their patent(s) to adversely affect competition in other markets or in a manner that otherwise improperly exploits those rights or benefits. The doctrine has a long and rich history. Nevertheless, misuse has been criticized as being too vague and lacking coherence in both application and policy, as well as unfairly providing a windfall to infringing parties. Moreover, because misuse is often pled alongside an antitrust counterclaim, the two doctrines have become somewhat conjoined. Consequently, some have argued that misuse has become superfluous and should be subsumed by antitrust law, or even abandoned entirely.

The U.S. Court of Appeals for the Federal Circuit, which has exclusive appellate jurisdiction over patent cases, has been critical of misuse for many years. In a line of cases spanning over twenty-five years, it has substantially narrowed the doctrine while at the same time further entangling misuse with antitrust. For example, Federal Circuit cases have long required that a successful misuse defense prove anticompetitive effects resulting from the challenged conduct. In *Princo Corp. v. International Trade Commission*,¹ the Federal Circuit's most recent patent misuse case, the Court further curtailed the doctrine. First, the opinion appears to establish an extremely high threshold for demonstrating anticompetitive effects. Second, it suggests that a successful misuse defense may require a direct and substantial nexus between the challenged conduct and the asserted anticompetitive effects. This article criticizes the Federal Circuit's misuse jurisprudence, up to and including *Princo*, as unsupported by Supreme Court precedent and as bad policy. The article not only questions the substantial evidentiary burdens *Princo* seems to impose on misuse claims, but also contends that Federal Circuit misuse cases have improperly incorporated antitrust principles into misuse. Part II provides a

¹ 616 F.3d 1318 (Fed. Cir. 2010).

background on the misuse doctrine, including a summary of the major Supreme Court and Federal Circuit cases. Part III summarizes the *Princo* case. Part IV provides an analysis of the *Princo* decision and its potential implications. Finally, Part V provides a short conclusion.

II. BACKGROUND

Patent misuse is an equitable doctrine that arose during the early twentieth century in response to conduct involving patents that courts found to be either anticompetitive, inequitable, and/or inconsistent with patent law's underlying policies and privileges. Although misuse lacks a specific and precise definition, it is typically referred to as conduct that impermissibly extends beyond the scope of the patent.² Patent misuse arose out of the "unclean hands" common law doctrine and was based on the policy that a patentee should not be able to abuse privileges conferred by a patent, or otherwise improperly obtain benefits not within the scope of the patent grant.³ It is an affirmative defense and does not permit damages.⁴ Rather, the typical remedy for misuse is that the courts will not enforce a patent until the misuse has been "purged."⁵

² *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 492 (1942) ("[T]he public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which is contrary to public policy to grant."); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510 (1917) (invalidating a restriction that was not within the scope of the patent); ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS* 505–08 (1st ed. 2003).

³ *Morton Salt*, 314 U.S. at 492 (noting that a patent is a special privilege and the exclusive rights it provides are limited by the public policy for its purpose).

⁴ HERBERT HOVENKAMP ET AL., *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* 3-71 to -76 (2nd ed. 2001).

⁵ *Morton Salt*, 314 U.S. at 488; HOVENKAMP, *supra* note 4, at 3-71 to -72; 6 DONALD CHISUM, *CHISUM ON PATENTS* § 19.04 (2000).

Conduct that has traditionally been found to constitute misuse is often referred to as “misuse per se.”⁶ This conduct includes certain types of ties and exclusive dealing arrangements involving patents, licenses restricting the use of competing goods, and license provisions extending royalties beyond the term of the patent. As misuse is a flexible, equitable doctrine, other types of conduct have also been found to constitute misuse, including certain patent pools and grant-back licenses.⁷ As discussed *infra*, in more recent years, courts have tended to more carefully scrutinize practices that are not misuse per se, making it more difficult to successfully assert a misuse defense.⁸

Over the years, courts evaluating misuse claims have increasingly referenced and incorporated principles from antitrust law into misuse. Antitrust is concerned primarily with protecting unfettered competition in markets for the purpose of benefitting consumers by lowering prices and/or increasing output, as well as providing incentives to innovate.⁹ Antitrust thereby proscribes

⁶ See CHISUM, *supra* note 5, at § 19.04[3] (listing various types of conduct held to be misuse). According to Chisum, “[t]he three classic acts of misuse are (1) requiring the purchase of unpatented goods for use with patented apparatus or processes, (2) prohibiting production or sale of competing goods, and (3) conditioning the granting of a license under one patent upon the acceptance of another and different license.” *Id.*

⁷ HOVENKAMP, *supra* note 4, at 3-23, -29, -34, -37 (listing acts of misuse); CHISUM, *supra* note 5, at § 19.04[3] (listing acts of misuse); see also U.S. DEP’T OF JUSTICE & FTC, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 5.5 (1995), available at <http://www.justice.gov/atr/public/guidelines/0558.htm> (discussing potential anticompetitive effects of pooling arrangements).

⁸ See *infra* Part II.C.

⁹ *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 4 (1958) (“The Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade. It rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic political and social institutions. But even were that premise open to question, the policy unequivocally laid down by the Act is competition.”); LAWRENCE A. SULLIVAN & WARREN S. GRIMES, *THE LAW OF ANTITRUST: AN INTEGRATED HANDBOOK* § 1.5(b) (1st ed. 2000).

conduct that harms, or is likely to harm, competition or the competitive process. While antitrust and misuse share certain policy goals (e.g., innovation, preventing abuses of patent power to harm competition), their goals and concerns are not entirely coextensive.¹⁰ Nevertheless, it is not uncommon for defendants in infringement actions to assert both antitrust and misuse claims. In cases where both claims are asserted, courts have often either applied the same analysis to both claims, or failed to clarify the distinctions.¹¹ This has had the unfortunate effect of blurring the distinction between antitrust and misuse, and, as a result, some have claimed that these two areas of law have become “hopelessly entangled.”¹² In recent years, the relationship between the doctrines has become even more intertwined with courts often directly and explicitly applying antitrust principles and analysis to misuse, causing some to argue that the two doctrines are, or should

¹⁰ Christina Bohannon, *IP Misuse As Foreclosure*, 96 IOWA L. REV. 475, 497–500 (2011) (patent policy goals include incentives to innovate and provide access to the public domain); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L. J. 399, 436 (2003) (“[A]lthough patents are designed to promote the public interest through the advancement of science, the patent system creates negative effects as well. These include the anticompetitive effects of increased prices and reduced supply. They also include effects separate from anticompetitive effects, such as encouraging wasteful and duplicative activities and creating disincentives to future inventors. Limiting the time and scope of the patent grant serves to limit the detrimental effects of the patent system. Thus, any test to determine whether a behavior improperly extends these limits must be designed to reflect the concerns embodied in these limits. Antitrust rules are unlikely to detect many of the types of concerns embodied in limiting the patent grant.”); Joe Potenza et al., *Patent Misuse—The Critical Balance, A Patent Lawyer’s View*, 15 FED. CIR. B. J. 69, 97–100 (2005) (discussing the different policies underlying antitrust versus misuse).

¹¹ See, e.g., *Mallinckrodt v. Medipart*, 976 F.2d 700, 706 (Fed. Cir. 1992).

¹² Feldman, *supra* note 10, at 399 (misuse has become “hopelessly entangled” with antitrust); HOVENKAMP, *supra* note 4, at 3-2 (“In many cases a finding of an antitrust violation has also occasioned a finding of misuse.”); HOVENKAMP, *supra* note 4, at § 21.3f (noting that much of tying law is confusing because it is based on misuse and with little analysis); see also CHISUM, *supra* note 5, at § 19.04[2] (noting the complex relationship between misuse and antitrust).

be, largely coterminous.¹³ Further confusing matters is how a violation of one law will affect a finding of liability on the other. Because misuse has been held to be broader than antitrust, conduct found to be misuse does not necessarily amount to an antitrust violation, whereas conduct that falls short of an antitrust violation may nevertheless constitute misuse.¹⁴ As discussed *infra*,¹⁵ recent case law, including *Princo*, will likely further exacerbate the confusion.

A. Principle Supreme Court Cases

The misuse doctrine was first defined and established by the Supreme Court in *Morton Salt Co. v. G.S. Suppiger Co.*¹⁶ *Morton*

¹³ *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 512 (7th Cir. 1982) (criticizing misuse and suggesting it is superfluous to antitrust); HOVENKAMP, *supra* note 4, at 3-11 (“Generally speaking, patent misuse doctrine is largely coextensive with antitrust doctrine.”).

¹⁴ *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 494 (1942); CHISUM, *supra* note 5, at § 19.04[2]. *But see* *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998) (upholding jury verdict on antitrust liability while vacating a jury verdict on misuse).

¹⁵ *See infra* Part IV.D.

¹⁶ 314 U.S. at 494. Prior to *Morton Salt*, the Supreme Court decided a handful of cases that, although not based on misuse, referred to many of the same policy considerations that were used by the *Morton Salt* court. The first of these was *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502, 510 (1917), wherein the Court held as unenforceable various restrictions in license agreements involving (and affixed to) patented motion picture machines. *Id.* at 502. Included in the restrictions was a restriction that projectors could only be used to display films covered by the patentee’s separate film patents. *Id.* at 503. The patentee sought to enforce that restriction even after the films’ patents expired. *Id.* at 518. Holding the restrictions invalid, the Court cited policy justifications, noting that “the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is ‘to promote the progress of science and useful arts.’” *Id.* at 511. Similarly, in *Carbice Corp. of America v. American Patents Development Corp.*, 283 U.S. 27 (1931), the plaintiff sold a patented refrigerated transportation device that used unpatented dry ice. *Id.* at 29–30. The plaintiff, who granted licenses to the patented product only to those who purchased dry ice from it, sued another seller of dry ice for contributory infringement. *Id.* at 28. Relying on *Motion Picture Patents*, the Court found this to be an unlawful attempt to “exact, as the condition of a license, that unpatented materials used in connection with the invention shall be purchased only from himself.” *Id.* at 31. Finally, *Leitch Manufacturing Co. v.*

Salt involved a manufacturer of patented machines for salt tablets.¹⁷ The machines were leased to canneries for the purpose of adding salt to canned goods.¹⁸ The lease included a license to use the patented machine on the condition that licensees purchase all of their (unpatented) salt tablets from the manufacturer's subsidiary.¹⁹ The manufacturer sued a competitor of similar machines for infringement.²⁰ Based on the public policy behind granting patents,²¹ the Supreme Court held that the patentee misused the privileges granted to it by suppressing competition outside of the patent's scope.²² Significantly, in creating the equitable defense of misuse, the Supreme Court expressly rejected the lower court's conclusion that conduct could not support a misuse defense if it did

Barber Co., 302 U.S. 458 (1938), involved a manufacturer of bituminous emulsion, a staple good used by builders of certain roads, including concrete roads. *Id.* at 460. The manufacturer obtained a patent on a process for curing concrete by spraying bituminous emulsion, and sued a competing manufacturer for contributory infringement. *Id.* at 461. Citing *Carbice*, the Court held that it was an unlawful attempt to restrain competition in unpatented goods. *Id.* at 462–63.

¹⁷ *Morton Salt*, 314 U.S. at 489.

¹⁸ *Id.*

¹⁹ *Id.* at 490–91.

²⁰ *Id.*

²¹ *Id.* at 492 (“The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adopted by the Constitution and laws of the United States, ‘to promote the Progress of Science and the useful Arts, by securing for limited Times to . . . Inventors the exclusive Right . . .’ to their ‘new and useful’ inventions. United States Constitution, Art. I, § 8, cl. 8; 35 U.S.C. § 31. But the public policy, which includes inventions within the granted monopoly, excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.”).

²² *Id.* at 489–93 (“It thus appears that respondent is making use of its patent monopoly to restrain competition in the marketing of unpatented articles, salt tablets, for use with the patented machines, and is aiding in the creation of a limited monopoly in the tablets not within that granted by the patent. A patent operates to create and grant to the patentee an exclusive right to make, use and vend the particular device described and claimed in the patent. But a patent affords no immunity for a monopoly not within the grant, and the use of it to suppress competition in the sale of an unpatented article may deprive the patentee of the aid of a court of equity to restrain an alleged infringement by one who is a competitor.” (citation omitted)).

not also violate the antitrust laws.²³ As for the remedy, the Court deemed that the patents could not be enforced until the effects of its' unlawful conduct were purged.²⁴ The Court also held that the misuse defense was available regardless of whether the party asserting misuse was able to show harm to itself resulting from the alleged unlawful conduct.²⁵

²³ *Id.* at 490 (“The Clayton Act authorizes those injured by violations tending to monopoly to maintain suit for treble damages and for an injunction in appropriate cases. 15 U.S.C. §§ 1, 2, 14, 15, 26. But the present suit is for infringement of a patent. The question we must decide is not necessarily whether respondent has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article.”); *see also id.* at 494 (“It is unnecessary to decide whether the respondent has violated the Clayton Act, for we conclude that in any event the maintenance of the present suit to restrain petitioner’s manufacture or sale of the alleged infringing machines is contrary to public policy and that the district court rightly dismissed the complaint for want of equity.”).

²⁴ *Id.* It was actually in a companion case, *B. B. Chemical Co. v. Ellis*, 314 U.S. 495 (1942), that the Court specifically held that misuse could only be cured by purging the effects of the conduct: “[P]etitioner suggests that it is entitled to relief because it is now willing to give unconditional licenses to manufacturers on a royalty basis, which it offers to do. It will be appropriate to consider petitioner’s right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated.” *B. B. Chem.*, 314 U.S. at 497–98. *B.B. Chemical* involved a method patent for reinforcing insoles in shoe manufacture. *Id.* at 496. The patentee licensed this patent as well as patents on machines that it leased and used to reinforce shoe insoles. *Id.* at 497. Patentee also supplied shoe manufacturers with certain unpatented supplies used to reinforce insoles and only permitted use of the method patent with unpatented material that it sold. *Id.* at 496. Patentee sued a seller of unpatented goods for contributory infringement, and based on the same rule laid out in *Morton Salt*, the Supreme Court found misuse. *Id.* at 497-98.

²⁵ *Morton Salt*, 314 U.S. at 493–94 (“Where the patent is used as a means of restraining competition with the patentee’s sale of an unpatented product, the successful prosecution of an infringement suit *even against one who is not a competitor in such sale* is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent. Maintenance and enlargement of the attempted monopoly of the unpatented article are dependent to some extent upon persuading the public of the validity of the patent, which the infringement suit is intended to establish. Equity may rightly withhold its

The next misuse case decided by the Supreme Court was *Mercoïd Corp. v. Mid-Continent Investment Co.*²⁶ *Mercoïd* involved a combination patent for a domestic heating system comprised of various unpatented components.²⁷ The patentee set royalties based on sales of one of the components, and licenses to the patent were only granted when that component was used in the system.²⁸ Concluding that the license was improperly used to control the sale of unpatented components, the Court held that the restriction constituted both misuse and an antitrust violation.²⁹ *Mercoïd* was controversial and ultimately resulted in legislation limiting its application and force.³⁰

assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated It is the adverse effect upon the public interest of a successful infringement suit, in conjunction with the patentee's course of conduct, which disqualifies him to maintain the suit, regardless of whether the particular defendant has suffered from the misuse of the patent.” (emphasis added)).

²⁶ 320 U.S. 661 (1944).

²⁷ *Id.* at 662.

²⁸ *Id.* at 664.

²⁹ *Id.* at 666–67 (“The patent in question embraces furnace assemblies which neither the patentee nor the licensee makes or vends. The struggle is not over a combination patent and the right to make or vend it. The contest is solely over unpatented wares which go into the patented product. Respondents point out that the royalties under the license are measured by the number of unpatented controls which are sold and that no royalty is paid unless a furnace covered by the patent has been installed. But the fact remains that the competition which is sought to be controlled is not competition in the sale of the patented assembly but merely competition in the sale of the unpatented thermostatic controls. The patent is employed to protect the market for a device on which no patent has been granted. But for the patent such restraint on trade would plainly run afoul of the anti-trust laws.”).

³⁰ There is general consensus that Section 271(d) was enacted in response to *Mercoïd*. See, e.g., HOVENKAMP, *supra* note 4, at 3–5; James Kobak, *A Sensible Doctrine of Misuse for Intellectual Property Cases*, 2 ALB. L.J. SCI. & TECH. 1, 11 (1992). There is much less agreement, however, over just how (and to what extent) 271(d) altered misuse jurisprudence. *Id.*; see also *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 203–12, 235–36 (1980) (White, J., dissenting) (discussing the legislative history of the 1952 Act).

After *Mercoïd*, the Supreme Court's next principal misuse case was *Zenith Radio Corp. v. Hazeltine*³¹ more than two decades later.³² *Zenith Radio* involved various interrelated misuse and antitrust allegations involving patent pools and conspiracies to deter entry in various markets.³³ Hazeltine Corporation and its subsidiary Hazeltine Research, Inc. (collectively referred to as "Hazeltine") held numerous domestic patents relating to radios and televisions.³⁴ Hazeltine licensed many of these together in a patent pool.³⁵ Zenith manufactured radios and televisions in the United States and had a license from Hazeltine.³⁶ Subsequently, Zenith declined to renew its license, leading to an infringement action by Hazeltine.³⁷ In response, Zenith contended that Hazeltine

³¹ 395 U.S. 100 (1969) (Though this case was later superseded by statute, *in re* Recombinant DNA Tech. Patent & Contract Litigation, 850 F. Supp. 769 (1994), it remains relevant for other purposes and is still often cited in antitrust cases today.). The Supreme Court decided three significant (if not "principal") misuse cases prior to *Zenith*. First was *U.S. Gypsum v. National Gypsum*, 352 U.S. 457 (1957), wherein the issue was whether earlier misuse was purged. *Id.* at 462. While the Court reaffirmed the misuse doctrine, it remanded the case for factual and legal determinations concerning whether misuse was purged. *Id.* at 476. Second was *Transparent-Wrap Machine Corp. v. Stokes & Smith*, 329 U.S. 637 (1947), wherein the Court held that the grant-back license at issue was lawful and not misuse. *Id.* at 646. While the Court recognized that patent pools may be anticompetitive, it found such concerns were not applicable in the case. *Id.* at 647–48. Third was *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), wherein the Court concluded that the licensing terms being challenged, which required royalty payments extending beyond the expiration date of all relevant patents, was misuse. *Id.* at 33–34. While the Court did not hold that all royalty payments that extend beyond expiration of all patents were misuse, the Court believed that the facts showed it was misuse in that case, *e.g.*, the purchase price of each machine was a flat sum, annual payments were not part of the purchase price but instead were royalties for use of each machine during that year, royalty payments due for the post-expiration period were for use during that period, and royalty payments were the same for the post-expiration period as they were for the period of the patent. *Id.* at 31.

³² *Zenith* was not decided until 1969, fifteen years after the Supreme Court decided *Mercoïd* in 1944.

³³ *Zenith*, 395 U.S. at 104–05.

³⁴ *Id.* at 104.

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.*

committed both misuse and antitrust violations by, inter alia, conspiring with foreign manufacturers to create patent pools and refusing to license pooled patents in certain markets for the purpose of restraining competition.³⁸ The Court concluded that, if proven, the allegations could support both antitrust and misuse claims.³⁹ The Court also recognized the distinction between antitrust and misuse:

[I]f there was such patent misuse, it does not necessarily follow that the misuse embodies the ingredients of a violation of either § 1 or § 2 of the Sherman [Antitrust] Act, or that Zenith was threatened by a violation so as to entitle it to an injunction under § 16 of the Clayton Act.⁴⁰

B. *Legislation and Dawson*

In 1952, Congress amended the Patent Act (“1952 Act”) and for the first time enacted legislation on misuse.⁴¹ Rather than defining misuse or providing substantive guidance, the provision on misuse—Section 271(d)—is written in the negative, delineating conduct that does *not* constitute misuse. Section 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

³⁸ *Id.* at 104–05.

³⁹ *Id.* at 139–41.

⁴⁰ *Id.* at 140. Zenith also challenged Hazeltine’s pooling arrangement, which it contended forced Zenith to pay royalties on a patent pool of over 500 patents, rather than à la carte for those it wanted, and basing royalties on Zenith’s sales irrespective of which patents were used. *Id.* at 134–35. The Court agreed that the royalty scheme was misuse because it had the effect of forcing payment of royalties for numerous unwanted patents. *Id.* at 138–41.

⁴¹ Patent Act of 1952, Pub. L. No. 593, 66 Stat. 792 (codified at 35 U.S.C. § 271 (2006)).

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.⁴²

In 1980, the Supreme Court issued its last misuse case to date, *Dawson Chemical Co. v. Rohm & Haas Co.*,⁴³ wherein the Court interpreted Section 271(d).⁴⁴ *Dawson* involved efforts to patent propanil, a chemical compound long known and used.⁴⁵ Because it was discovered years before, propanil was not patentable.⁴⁶ However, Rohm & Haas was successful in obtaining a method patent for using propanil as an herbicide.⁴⁷ After the patent issued, Rohm & Haas sued a competitor, Dawson Chemical Company, asserting that the directions on Dawson's propanil herbicide infringed the method patent.⁴⁸ While Dawson did not contest infringement,⁴⁹ it contended that because propanil itself was unpatented and was not "suitable for substantial noninfringing use" (i.e., other than as an herbicide), Rohm & Haas' refusal to license

⁴² 35 U.S.C. § 271(d) (2006). As discussed *infra*, Sections 271(d)(4) and (d)(5) were not part of the 1952 Act, but were added to the statute in 1988. See discussion *infra* note 45. It is worth pointing out that the 1952 Act was drafted substantially by Giles Rich, who would later sit on the Federal Circuit and was critical of the misuse defense. See Giles S. Rich, *Misuse, A New Frontier*, 14 FED. CIR. B.J. 113 (2004) (reprinting a 1952 article wherein Judge Rich criticizes the misuse doctrine).

⁴³ 448 U.S. 176 (1980).

⁴⁴ *Id.* at 200–223.

⁴⁵ *Id.* at 181.

⁴⁶ *Id.* at 182.

⁴⁷ *Id.* at 182–83.

⁴⁸ *Id.* at 183.

⁴⁹ *Id.* at 185–86. Specifically, Dawson did not contest that the directions that accompanied its propanil read on Rohm & Haas' method patent. *Id.* Dawson apparently conceded that propanil constituted "a material part of [Rohm & Haas'] invention" and was "especially made or especially adapted for use in an infringement of [the] patent." *Id.* Dawson also conceded that propanil is "not a staple article or commodity of commerce suitable for substantial noninfringing use" as defined under Section 271(c). *Id.*

essentially “tied” its patent rights to sales of unpatented propanil, which Dawson maintained was misuse.⁵⁰

In a 5-4 controversial decision, the Supreme Court sided with Rohm & Haas.⁵¹ Based on its interpretation of the statute,⁵² the legislative history,⁵³ the “juxtaposed,” “antiethical,” and “interrelated” principles and underpinnings between contributory infringement and misuse,⁵⁴ and skepticism towards misuse,⁵⁵ the

⁵⁰ *Id.* at 186–87. A purchaser of propanil from Rohm & Haas did not get an express license for the patent, but rather an “implied license,” so that the purchaser was without fear of being sued for infringement. *Id.* at 186.

⁵¹ *See id.* at 223.

⁵² *Id.* at 200–01 (“[W]e believe that the language and structure of the statute lend significant support to Rohm & Haas’ contention that, because § 271(d) immunizes its conduct from the charge of patent misuse, it should not be barred from seeking relief.”).

⁵³ *Id.* at 213 (“It is the consistent theme of the legislative history that the statute was designed to accomplish a good deal more than mere clarification. It significantly changed existing law, and the change moved in the direction of expanding the statutory protection enjoyed by patentees.”); *see also id.* at 221 (“In this instance, as we have already stated, Congress chose a compromise between competing policy interests. The policy of free competition runs deep in our law. It underlies both the doctrine of patent misuse and the general principle that the boundary of a patent monopoly is to be limited by the literal scope of the patent claims. But the policy of stimulating invention that underlies the entire patent system runs no less deep.”).

⁵⁴ *Id.* at 179–80 (“The doctrines of contributory infringement and patent misuse have long and interrelated histories The two concepts, contributory infringement and patent misuse, often are juxtaposed, because both concern the relationship between a patented invention and unpatented articles or elements that are needed for the invention to be practiced.”); *id.* at 197–98 (“[W]e agree with the Court of Appeals that the concepts of contributory infringement and patent misuse ‘rest on antiethical underpinnings’ Proponents of contributory infringement defend this result on the grounds that it is necessary for the protection of the patent right, and that the market for the unpatented article flows from the patentee’s invention. They also observe that in many instances the article is ‘unpatented’ only because of the technical rules of patent claiming, which require the placement of an invention in its context. Yet suppression of competition in unpatented goods is precisely what the opponents of patent misuse decry. If both the patent misuse and contributory infringement doctrines are to coexist, then, each must have some separate sphere of operation with which the other does not interfere.”).

⁵⁵ *Id.* at 198 (“Second, we find that the majority of cases in which the patent misuse doctrine was developed involved undoing the damage thought to have

majority held that Section 271(d) was intended “to cut back on the doctrine of patent misuse.”⁵⁶ Specifically, the Court held that 271(d) essentially immunized “non-staple”⁵⁷ goods from misuse liability.⁵⁸ In contrast, the dissenting opinion read the 1952 Act,⁵⁹ legislative history,⁶⁰ and its intended purpose and effect as continuing to support a vibrant misuse defense.⁶¹ *Post-Dawson*,

been done by *A.B. Dick*. The desire to extend patent protection to control of staple articles of commerce died slowly, and the ghost of the expansive contributory infringement era continued to haunt the courts.”).

⁵⁶ *Id.* at 184, 200–01.

⁵⁷ The Court defines “non-staple” as “a component as defined in 271(c) to which the unlicensed sale would constitute contributory infringement.” *Id.* at 186 n.6.

⁵⁸ *Id.* at 201 (“In our view, the provisions of § 271(d) effectively confer upon the patentee, as a lawful adjunct of his patent rights, a limited power to exclude others from competition in nonstaple goods. A patentee may sell a nonstaple article himself while enjoining others from marketing that same good without his authorization. By doing so, he is able to eliminate competitors and thereby to control the market for that product. Moreover, his power to demand royalties from others for the privilege of selling the nonstaple item itself implies that the patentee may control the market for the nonstaple good, otherwise, his ‘right’ to sell licenses for the marketing of the nonstaple good would be meaningless, since no one would be willing to pay him for a superfluous authorization.”).

⁵⁹ *Id.* at 232–33 (White, J., dissenting) (“The plain language of § 271 (d) indicates that respondent's conduct is not immunized from application of the patent misuse doctrine. The statute merely states that respondent may (1) derive revenue from sales of unpatented propanil, (2) license others to sell propanil, and (3) sue unauthorized sellers of propanil. While none of these acts can be deemed patent misuse if respondent is ‘otherwise entitled to relief,’ the statute does not state that respondent may exclude all competitors from the propanil market by refusing to license all those who do not purchase propanil from it. This is the very conduct that constitutes patent misuse under the traditional doctrine, thus the fact that respondent may have engaged in one or more of the acts enumerated in § 271 (d) does not preclude its conduct from being deemed patent misuse.”).

⁶⁰ *Id.* at 235 (“Nor does the legislative history of § 271 (d) indicate to me that Congress intended to exempt respondent's conduct from application of the patent misuse doctrine [T]he impetus for enactment of § 271 was this Court's decisions in the *Mercoïd* cases.”).

⁶¹ *Id.* at 238 (“§ 271 overturned *Mercoïd* and intended to arm the patentee with the power to sue unlicensed contributory infringers selling nonstaple components used in connection with the patented process. But I do not understand the Committee witnesses, when pressed in the 1951 Hearings, to

debates concerning the extent to which Section 271(d) altered misuse continued, culminating into the Patent Misuse Reform Act of 1988, which added Sections 271(d)(4) and (5).⁶²

C. *The Federal Circuit's Misuse Jurisprudence*

The U.S. Court of Appeals for the Federal Circuit was created in 1982, shortly after *Dawson* was decided.⁶³ It has exclusive appellate jurisdiction over patent cases.⁶⁴ During a span of over twenty-five years, the Federal Circuit has been critical and even hostile to misuse, issuing several opinions with the effect of substantially curtailing the defense.

suggest that § 271 (d) authorized the patentee to condition the use of his process on purchasing the unpatented material from him and to exclude from the market all other manufacturers or sellers even though they would be willing to pay a reasonable royalty to the patent owner.”); *see also id.* at 240 (“The Court offers reasons of policy for its obvious extension of patent monopoly, but whether to stimulate research and development in the chemical field it is necessary to give patentees monopoly control over articles not covered by their patents is a question for Congress to decide, and I would wait for that body to speak more clearly than it has.”).

⁶² Pub L. No. 100-703, § 201, 102 Stat. 4674, 4676 (1988) (codified at 35 U.S.C. § 271(d)(4)–(5) (2006)). Notwithstanding the 1988 Act, there continues to be substantial debate over the purpose and effect of the 1988 Act, and on misuse generally. While proponents of misuse argue that the 1988 Act should be construed narrowly as only applying to the specific conduct identified in Sections 271(d)(4) and (5), critics maintain that the 1988 Act was intended to cabin misuse. Compare Feldman, *supra* note 10, at 423–24, and Kobak, *supra* note 30, at 24 (“The statute only liberalizes misuse in the context of ties and refusals to license.”), and Joel Bennett, *Patent Misuse: Must an Alleged Infringer Prove an Antitrust Violation?* 17 AIPLA Q.J. 1, 5–6 (1989), with Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 MAR. INTEL. PROP. L. REV 1, 22 (2011) (broadly interpreting the 1988 Act).

⁶³ *See Court Jurisdiction*, U.S. CT. OF APPEALS FOR THE FED. CIRCUIT, <http://www.cafc.uscourts.gov/the-court/court-jurisdiction.html>. *Dawson* was decided in 1980, just two years before the Court came into existence on October 1, 1982.

⁶⁴ *See id.* The Federal Circuit has exclusive appellate jurisdiction in patent cases. 28 U.S.C. § 1295(a) (2006). This jurisdiction includes all patent cases in which district court jurisdiction was based on 28 U.S.C. § 1338, including those with antitrust counterclaims arising under 28 U.S.C. § 1337. *See Xeta, Inc. v. Atex, Inc.*, 852 F.2d 1280, 1282 (Fed. Cir. 1988); *Argus Chem. Corp. v. Fibre Glass-Evercoat Co.*, 812 F.2d 1381, 1384 (Fed. Cir. 1987).

*Windsurfing International, Inc. v. AMF Inc.*⁶⁵ was the Federal Circuit's first substantive misuse case.⁶⁶ *Windsurfing* held patents and trademarks on windsurfing boards and required patent licensees to agree to the validity of its trademarks.⁶⁷ In litigation against *Windsurfing*, a competitor alleged that several of *Windsurfing's* trademarks were "generic" as defined under trademark law, and thus requiring patent licensees to agree to their validity constituted patent misuse.⁶⁸ Finding the trademarks were "generic," the district court agreed.⁶⁹ The Federal Circuit reversed, explaining that the competitor failed to prove that *Windsurfing* enforced its rights in the marks with knowledge that they were (or had become) generic.⁷⁰ Moreover, according to the court, license provisions enforcing trademarks were "not uncommon," were potentially procompetitive, and "cannot possibly restrain competition unlawfully."⁷¹ Most importantly, *Windsurfing* established a new prerequisite for a party asserting a misuse defense—demonstrating that the alleged conduct had anticompetitive effects:

To sustain a misuse defense involving a licensing arrangement not held to have been *per se* anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market.⁷²

⁶⁵ 782 F.2d 995 (Fed. Cir. 1986).

⁶⁶ While the Federal Circuit did mention misuse in *Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.*, 739 F.2d 604 (Fed. Cir. 1984), it only mentioned in passing that it was an affirmative defense, with no substantive analysis.

⁶⁷ *Windsurfing*, 782 F.2d at 997, 1001.

⁶⁸ *Id.* at 1001.

⁶⁹ *Id.*

⁷⁰ *Id.* at 1002.

⁷¹ *Id.*

⁷² *Id.* at 1001–02. A subsequent case, *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986), was an infringement action for a patented process involving a "macerator," a machine used in cutting meat for a particular purpose. *Id.* at 663. In response to the infringement claim, the defendant asserted both misuse and antitrust claims, alleging that the patentee was tying its patented process to the lease of its unpatented machine. *Id.* The district court denied summary judgment on the antitrust claims, but granted summary judgment for misuse, finding that the machine was a staple good that could be used for non-infringing purposes, and that the patentee committed misuse by

Next, the Federal Circuit decided *Mallinckrodt v. Medipart*.⁷³ *Mallinckrodt* involved a patented “apparatus for delivery of radioactive or therapeutic material in aerosol mist form to the lungs of a patient, for diagnosis and treatment of pulmonary disease.”⁷⁴ The apparatus, which was sold to hospitals, had a “Single Use Only” restriction.⁷⁵ Instead of discarding it after use, however, hospitals sent the apparatus to defendant, which sterilized it and sent it back for reuse.⁷⁶ The patentee sued defendant for inducing infringement on the part of hospitals.⁷⁷ Although the district court deemed the restriction unenforceable under the first sale doctrine, the Federal Circuit reversed, holding that the restriction was not subject to the first sale doctrine.⁷⁸ Thereafter, relying on *Windsurfing*, the Federal Circuit concluded that the restriction was not misuse because it found the restriction to be reasonably within the patent grant and because there was insufficient evidence of anticompetitive effects.⁷⁹ In evaluating misuse, *Mallinckrodt* explicitly referenced the “rule of reason”—antitrust law’s method

refusing to license the patented process without also leasing the unpatented product. *Id.* The Federal Circuit affirmed, noting that a “patentee’s act may constitute misuse without rising to level of an antitrust violation.” *Id.* Thus, summary judgment on misuse was not inconsistent with denial of summary judgment on antitrust. *Id.*

⁷³ 976 F.2d 700 (Fed. Cir. 1992).

⁷⁴ *Id.* at 701.

⁷⁵ *Id.* at 702.

⁷⁶ *Id.*

⁷⁷ *Id.*

⁷⁸ *Id.* at 703, 706 (“The principle of exhaustion of the patent right did not turn a conditional sale into an unconditional one.”). The first sale doctrine, also referred to as “patent exhaustion,” limits the ability of a patentee to control the use or sale of an article that embodies its patented invention once the article has been lawfully transferred. *See, e.g.,* Motion Picture Patents Co. v. Universal Film Mfg., 243 U.S. 502 (1917); *see also* Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109 (2008); United States v. Univis Lens Co., 316 U.S. 241 (1942). For an analysis of the first sale doctrine, see Saami Zain, *Quanta Leap or Much Ado About Nothing? An Analysis On The Effect Of Quanta vs. LG Electronics*, 20 ALB. L.J. SCI. & TECH. 67, 101–02 (2010). The Federal Circuit recently reaffirmed *Mallinckrodt*. *See* Monsanto v. Bowman, 657 F.3d 1341, 1347 (Fed. Cir. 2011).

⁷⁹ *Mallinckrodt*, 976 F.2d at 706, 707–08.

for evaluating whether conduct is anticompetitive.⁸⁰ While the opinion was somewhat ambiguous as to whether the Court required antitrust principles to be incorporated into misuse, shortly after, in *Virginia Panel Corp. v. Mac Panel Co.*,⁸¹ the Federal Circuit made it clear that a rule of reason was necessary to evaluate misuse claims.⁸²

⁸⁰ *Id.* at 706; *see also id.* at 708 (“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.”).

⁸¹ 133 F.3d 860 (1997). *Virginia Panel* involved patent litigation between the only two manufacturers of a particular type of Automatic Test Equipment “used for the diagnostic testing of systems having thousands of electronic connections, such as airplane black boxes.” *Id.* at 862. In response to patent litigation, the defendant filed several counter claims, including misuse and antitrust, asserting that patentee engaged in various unlawful conduct in attempting to persuade the defendant’s customers to switch, including sending “cease and desist” letters, making false allegations, and proposing exclusive dealings. *Id.* at 863–64. Although a jury found for the defendant on both the misuse and antitrust claims, the Federal Circuit reversed on the grounds that the jury failed to properly apply misuse precedent requiring that: (i) the conduct impermissibly broaden the scope of the patent; (ii) the conduct has anticompetitive effects, and (iii) those anticompetitive effects must be evaluated under the rule of reason. *Id.* at 868–69, 73.

⁸² Prior to *Virginia Panel*, the Federal Circuit decided *B. Braun Medical, Inc. v. Abbott Laboratories*, 124 F.3d 1419 (Fed. Cir. 1997). *Braun* involved a patent on a particular reflux valve that attached to an intravenous line, permitting injections or aspirations of fluids via needleless syringe. *Id.* at 1421. The valves were sold with use and resale restrictions. *Id.* at 1422. The patentee sued a competitor of similar valves for infringement, who, citing the use and resale restrictions, asserted a misuse defense. *Id.* A jury found non-infringement and misuse. *Id.* The Federal Circuit vacated the jury’s verdict and reversed, citing *Mallinckrodt* for the proposition that such restrictions are typically lawful unless they violate the rule of reason. *Id.* at 1426–27. Interestingly, however, the Federal Circuit distinguished between misuse and antitrust: “The patent misuse doctrine, born from the equitable doctrine of unclean hands, is a method of limiting abuse of patent rights separate from the antitrust laws.” *Id.* at 1426. Misuse was also discussed minimally in *Engle Industries, Inc. v. Lockformer Co.*, 96 F.3d 1398 (Fed. Cir. 1996), which rejected the misuse defense, holding that “royalties may be based on unpatented

The Federal Circuit's next misuse case, *C.R. Bard v. M3 Systems*,⁸³ involved C.R. Bard's patented biopsy gun, which was used to take tissue samples.⁸⁴ When M3 Systems marketed a competing biopsy gun, it was sued for patent infringement.⁸⁵ In response, M3 Systems asserted several claims, including misuse and antitrust.⁸⁶ Central to these claims were allegations that the gun was redesigned to thwart competitors' efforts to sell compatible parts, which was alleged to be unlawful under both antitrust and misuse.⁸⁷ Although a jury returned a verdict for M3 Systems on both misuse and antitrust,⁸⁸ the Federal Circuit disagreed, concluding that while there was sufficient evidence to support the antitrust verdict, there was insufficient evidence to support the misuse verdict.⁸⁹ While the Federal Circuit again recognized antitrust and misuse as legally distinct, even acknowledging that "[p]atent misuse is viewed as a broader wrong than antitrust violation," it nonetheless reversed and vacated the jury's finding of misuse.⁹⁰

The Federal Circuit's most recent noteworthy misuse decisions were two factually similar cases pertaining to patents on self-replicating seeds: *Monsanto v. McFarling*⁹¹ and *Monsanto v. Scruggs*.⁹² These cases concerned Monsanto's popular ROUNDUP herbicide, a glyphosate herbicide that kills certain weeds, as well

components if that provides a convenient means for measuring the value of the license." *Id.* at 1408 (citing *Automatic Radio Mfg. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950) and *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969)).

⁸³ 157 F.3d 1340 (Fed. Cir. 1998).

⁸⁴ *Id.* at 1346.

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ *Id.* at 1372–73, 1382. In the first generation of Bard's gun, Bard did not design the needles, but used unpatented needles designed by a third party. *Id.* at 1347. It was not until the second-generation gun that Bard designed its own needles and patented the needle/gun combination. *Id.* at 1347–48.

⁸⁸ The jury found the patents were invalid, that Bard committed fraud on the patent office, and that it was liable for both misuse and antitrust. *Id.* at 1346.

⁸⁹ *Id.* at 1372–73, 1382–83.

⁹⁰ *Id.* at 1372.

⁹¹ 363 F.3d 1336 (Fed. Cir. 2004).

⁹² 459 F.3d 1328 (Fed. Cir. 2006).

as ROUNDUP READY genetic-modification technology, which is used to manufacture seeds that are resistant to ROUNDUP herbicide.⁹³ Using Monsanto's patented technology results in crops that are resistant to ROUNDUP herbicide.⁹⁴ The technology is covered by various patents, including "[a] method of producing genetically transformed plants which are tolerant toward glyphosate herbicide."⁹⁵

The central dispute in these two cases focused on various licensing restrictions on purchasers of ROUNDUP READY seeds. Monsanto licensed the patented gene to seed companies to develop herbicide-tolerant seeds, which were sold to farmers who were required to agree to license the patented technology from Monsanto.⁹⁶ The agreements between farmers and Monsanto restricted the former's use of the seeds in various ways, including a prohibition against replanting second-generation seeds.⁹⁷ Defendants in both cases were farmers that had purchased the seeds, used them to grow crops, and then replanted the second-

⁹³ *McFarling*, 363 F.3d at 1338.

⁹⁴ *Id.* at 1336.

⁹⁵ *Id.* at 1339 (citing U.S. Patent No. 5,633,435 (filed May 27, 1997)).

⁹⁶ The terms of the license are as follows:

[S]eed companies obtained the right to insert the genetic trait into the germplasm of their own seeds (which can differ from seed company to seed company), and Monsanto receives the right to a royalty or 'technology fee' of \$6.50 for every 50-pound bag of seed containing the ROUNDUP READY technology sold by the seed company.

Id. at 1339. In addition, Monsanto "owns several subsidiary seed companies that comprise approximately 20 percent of the market for ROUNDUP READY soybeans." *Id.* The license also required manufacturers to execute licenses to farmers, rather than execute unconditional sales of the seeds. *Id.*

⁹⁷ For example, the 1998 version of the agreement included the following restrictions:

To use the seed containing Monsanto gene technologies for planting a commercial crop only in a single season[;] [t]o not supply any of this seed to any other person or entity for planting, and to not save any crop produced from this seed for replanting, or supply saved seed to anyone for replanting[;] [t]o not use this seed or provide it to anyone for crop breeding, research, generation of herbicide registration data or seed production.

Id.

generation seeds in violation of the license.⁹⁸ When sued for infringement, defendants plead various claims and defenses, including misuse and antitrust.⁹⁹ Although numerous arguments were made in support of the misuse defense, the central issue pertained to the single-use restriction.¹⁰⁰ Acknowledging the novel issues posed by self-replicating technology, the Federal Circuit upheld the restrictions as within the scope of the patent.¹⁰¹ Finding that the restriction did not unlawfully extend the patentee's rights, the Court held that there could be no misuse.¹⁰² Using similar reasoning, the Court rejected antitrust liability.¹⁰³

⁹⁸ One significant factual difference between *Scruggs* and *McFarling* involves these licenses. The defendants in *Scruggs* never signed the license agreement, while the defendant in *McFarling* did. Compare *Monsanto v. Scruggs*, 459 F.3d, 1328, 1333 (Fed. Cir. 2006), with *McFarling*, 363 F.3d at 1339.

⁹⁹ *McFarling*, 363 F.3d at 1340.

¹⁰⁰ See *id.* at 1341.

¹⁰¹ *Id.* at 1342–43 (“Based on the record before us, McFarling plants and grows the first-generation seed in an identical fashion whether he intends to sell the second-generation seed as a commercial crop for consumption or whether he intends to replant it. Thus, the Technology Agreement does not impose a restriction on the use of the product purchased under license but rather imposes a restriction on the use of the goods made by the licensed product. Our case law has not addressed in general terms the status of such restrictions placed on goods made by, yet not incorporating, the licensed good under the patent misuse doctrine. However, the Technology Agreement presents a unique set of facts in which licensing restrictions on the use of goods produced by the licensed product are not beyond the scope of the patent grant at issue: The licensed and patented product (the first-generation seeds) and the good made by the licensed product (the second-generation seeds) are nearly identical copies. Thus, given that we must presume that Monsanto's '435 patent reads on the first-generation seeds, it also reads on the second-generation seeds. See '435 patent, col. 165, l. 12 (claiming '[a] seed of a glyphosate-tolerant plant'). Because the '435 patent would read on all generations of soybeans produced, we hold that the restrictions in the Technology Agreement prohibiting the replanting of the second generation of ROUNDUP READY soybeans do not extend Monsanto's rights under the patent statute.”); see also *Scruggs*, 459 F.3d at 1340–42.

¹⁰² *McFarling*, 363 F.3d at 1342–43.

¹⁰³ *Id.* at 1343 (“McFarling next repackages his tying patent-misuse defense as a tying antitrust counterclaim. However, because we have found McFarling's allegations insufficient to present a genuine issue of material fact concerning whether Monsanto's licensing restrictions went beyond the boundaries of its patent grant, McFarling's antitrust counterclaim also fails.”).

A secondary misuse argument, only raised in the latter of the seed cases, *Scruggs*, concerned a provision in the license that required a grower to use ROUNDUP if a farmer chose to use *any* glyphosate herbicide in connection with ROUNDUP READY seeds.¹⁰⁴ Rather than offer a bona fide procompetitive or pro-innovation justification for the restriction, Monsanto argued “no harm, no foul,” *i.e.*, that at the time of the restriction, Roundup was the only glyphosate herbicide approved by the Environmental Protection Agency for “over-the-top” application, and thus, the restriction resulted in no anticompetitive effects.¹⁰⁵ Citing with approval its precedent requiring a showing of anticompetitive effects, the Federal Circuit agreed and ruled that the restriction did not constitute misuse.¹⁰⁶ A strong dissent criticized the result, opining that the restriction may have deterred entry and potential competition.¹⁰⁷

¹⁰⁴ *Scruggs*, 459 F.3d at 1333.

¹⁰⁵ *Id.* at 1339–41. According to Monsanto, once competitors’ products came on the market, this restriction was taken out. *Id.*

¹⁰⁶ *Id.* at 1341 (“In this case, Monsanto does not argue that it should escape a finding of patent misuse because its contract provisions protected the public or furthered EPA policy; rather, Monsanto’s argument is that its contract provisions lacked any anticompetitive effect because EPA’s regulations prohibited growers from using competing glyphosate herbicides for over-the-top application. Therefore, even if growers elected to use such herbicides for over-the-top application, they would not be legally free to use competing brands. As the trial court noted, the record supports Monsanto’s argument; *Scruggs* has not pointed to any evidence to the contrary. The record shows that Monsanto’s competitors sought and obtained regulatory approval and that when they did, Monsanto modified its contracts accordingly. In this unusual setting, the rule of reason applies to the defense of patent misuse based on the alleged tying arrangement, and under the rule of reason, *Scruggs* is required to show that the challenged contracts had an actual adverse effect on competition *Scruggs* did not do so and therefore cannot use the challenged contract provisions as a defense against Monsanto’s patent infringement claims. Therefore, Monsanto’s behavior did not constitute patent misuse.” (citation omitted)).

¹⁰⁷ *Id.* at 1343–44 (Dyk, J., dissenting) (“There was evidence that manufacturers produced products that could have been used ‘over the top,’ and that all that was lacking was regulatory approval. In other words, Monsanto’s tying arrangements here did no more than enforce a regulatory requirement. Substantial competitive risks inhere in such an arrangement. Potential competitors are potentially discouraged from seeking regulatory approval or

III. THE *PRINCO* DECISION

The Federal Circuit's decision in *Princo* ended a long dispute that started in the International Trade Commission ("ITC"), and resulted in three Federal Circuit opinions.¹⁰⁸ The dispute began as a complaint filed by Philips in the ITC alleging that certain manufacturers were violating Section 337 of the Tariff Act of 1930 ("Section 337")¹⁰⁹ by importing products that infringed several of Philips's patents, as well as patents belonging to a collaboration to which Philips belonged (and for which it administered licensing rights).¹¹⁰ The litigation involved numerous factual and legal disputes, and as the case went back and forth between the ITC and the Federal Circuit, various claims and legal theories were amended and altered, making the case somewhat difficult to understand.¹¹¹ Nevertheless, summarized below are the essential facts, as set forth by the Federal Circuit opinions.

A. *Background*

The dispute concerned technology for recordable compact discs ("CD-Rs") and rewritable compact discs ("CD-RWs").¹¹²

attempting to have the regulation modified or eliminated. To the extent that such efforts are discouraged, the proponent of the tie has succeeded in eliminating competition. Moreover, in this connection it is highly significant that Monsanto's grower license agreements did not simply require the use of a government-approved herbicide; they explicitly required the use of 'Roundup branded herbicide.' A potential herbicide competitor thus would be concerned that, even if it secured government approval of its product, use of the approved herbicide would still be barred under the contracts. The elimination of such potential competition is not permissible under the antitrust laws.").

¹⁰⁸ In addition, a related action was filed in the Southern District of New York, U.S. Philips v. Princo Corp. and Princo America Corp., Civil Action No. 02-0246 (S.D.N.Y.), which was stayed pending resolution of certain issues by the Federal Circuit pursuant to 28 U.S.C. § 1659 (1994) and an order granting Princo's writ of mandamus.

¹⁰⁹ 19 U.S.C. § 1337 (2006).

¹¹⁰ *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1323 (2010).

¹¹¹ *See id.* at 1322–26 (discussing the procedural history and various claims of the case between the ITC and the Federal Circuit); *see also infra* Part III.B-C (discussing the focal dispute regarding patent misuse between the ITC and the Federal Circuit).

¹¹² *Princo*, 616 F.3d at 1322.

While audio and read-only compact discs (“CDs”) were commercialized in the 1970s and 1980s, discs that were recordable and rewritable, as well as compatible with prior generations of CD players, were not developed until the mid-1990s.¹¹³ The endeavor to create CD-R/RW technology was done by a handful of firms, led by Philips and Sony.¹¹⁴

Numerous technical issues needed to be solved during the creation of the CD-R/RW technology. Relevant for the purpose of the litigation was the particular problem of how to encode position information onto CD-R/RW discs so that the CD player could maintain proper positioning while writing data to the disc.¹¹⁵ “Philips and Sony proposed different solutions to that problem.”¹¹⁶ Philips proposed an analog method, which encoded the position data by modulating the frequency of the “groove” on the disc to add location codes to the disc.¹¹⁷ Philips later disclosed this

¹¹³ *Id.*

¹¹⁴ *Id.* The other firms involved were Taiyo Yuden, Yamaha, and Ricoh. *Id.* at 1343 (Dyk, J., dissenting). A factual issue of considerable dispute is how much Sony assisted in the development of the CD-R/RW technology and technical standards for the Orange Book. While the majority found that these were jointly developed by Sony and Philips, the dissent was more skeptical, suggesting that it was principally Phillips. *Id.* at 1322 (majority opinion); *id.* at 1343 (Dyk, J., dissenting). In its brief to the panel, Philips notes that although *Princo* argued that Sony contributed very little to the creation of the CD-R/RW technology, both the ALJ and the ITC found otherwise. *See* Brief for Intervenor at 8 n.1, *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (2010) (No. 337-TA-474).

¹¹⁵ *See* Brief for Intervenor, *supra* note 114, at 9 n.2. (“CD-R/RW recorders use a laser to write data onto the disc surface. The laser is guided by a spiral ‘pregroove’ track, which is stamped into the blank disc by the manufacturer. The pregroove is ‘wobbled’ very slightly with periodic undulations. This wobble is modulated by a frequency as a means of controlling the velocity at which the disc rotates. The disc recorder uses a time code to determine the laser’s exact position on the disc at any particular time as it writes data to the disc. The time codes, mapped by a table of contents incorporated into the pregroove of the disc, are used to read the recorded data in the correct order. The Orange Book refers to this process as storing ‘Absolute Time in Pregroove’ or ‘ATIP’ because it is expressed in terms of the time required to scan from the beginning of the track to that position.”).

¹¹⁶ *Princo*, 616 F.3d at 1322.

¹¹⁷ *Id.*

method in two patent applications, U.S. Patent Nos. 4,999,825 and 5,023,856 (collectively, the “Raaymakers patents”).¹¹⁸ In contrast, Sony proposed a digital method to encode location codes into the disc groove, subsequently disclosed in U.S. Patent No. 4, 942,565 (referred to as the “Lagadec patent”).¹¹⁹

After developing the CD-R/RW technology, technical standards were established to ensure that discs made by different manufacturers would be compatible, as well as playable, on machines that were designed to read prior generations of discs (i.e., read-only).¹²⁰ These standards were collected together in a publication entitled “Recordable CD Standard,” informally known as the “Orange Book.”¹²¹ At some point in the development of the technology, Philips and Sony, as the two firms leading this endeavor, agreed that in regards to creating a standard for solving the aforementioned positioning problem, they would use the Raaymakers (or analog) approach rather than the Lagadec (or digital) approach.¹²² Philips and Sony incorporated the Raaymakers approach into the Orange Book standard for manufacturing CD-R/RWs.¹²³ Thereafter, the companies created a “patent pool” of all patents they contended were potentially or reasonably necessary to create Orange Book compliant products.¹²⁴ The pool included a license to the Lagadec patent, despite the fact that it was undisputed that a CD-R/RW created with the Lagadec method would neither be Orange Book compliant nor be

¹¹⁸ *Id.*

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *Id.*; see also *Princo Corp. v. Int’l Trade Comm’n*, 563 F.3d 1301, 1312 (2009), *rev’d on other grounds*, 616 F.3d 1318 (2010) (“At the time the package licenses at issue were executed it appeared that Lagadec reasonably might be necessary to manufacture Orange Book compact discs.”). Throughout the course of the litigation, *Princo* challenged the lawfulness of the patent pool under various grounds, including unlawful tying of essential to non-essential patents, price fixing and price discrimination. See *Princo*, 616 F.3d at 1323–25 (discussing procedural history, including various claims made throughout).

compatible with Orange Book compliant products.¹²⁵ Throughout the 1990s and up to the time of the litigation, Philips offered various licenses to the pool.¹²⁶

Of particular importance to the litigation was that licensees to the patent pool were only permitted to use the patents to develop Orange Book compliant products (“Restriction”).¹²⁷ According to Princo, because the pool included the Lagadec patent, the Restriction had the purpose and effect of prohibiting licensees from using the Lagadec method to develop products to compete with the Orange Book standard.¹²⁸ Moreover, Princo alleged that the Restriction was an integral part of an overall agreement between Philips and Sony to foreclose potential competition to the Orange Book standard (“Agreement”).¹²⁹

¹²⁵ See *Princo*, 616 F.3d at 1324. The ITC determined that at the time the pool was created, it was reasonable to place the Lagadec patent in the pool, even though it could not be used to produce Orange Book standard products. *Id.* According to the ITC, this is because Claim 6 of the patent arguably covered a portion of the Orange Book standard, and thus it was reasonable to include it in a patent pool intended to pool all patents necessary to create Orange Book complaint products. *Id.* While Princo disputed this reasoning, the Federal Circuit affirmed. *Id.* at 1325.

¹²⁶ *Id.* at 1322. There is some dispute as to which license packages were offered to which manufacturers during various time periods. After 2001, Philips apparently offered additional licensing packages as well. *Id.* at 1322–23; see also Brief for Intervenor, *supra* note 114, at 10–13 (discussing availability of limited licenses for patents in the pool).

¹²⁷ Philips denied the existence of the Restriction. Brief for Intervenor, *supra* note 114, at 20–21. Nevertheless, the en banc majority concluded that “[t]he package licenses contained a ‘field of use’ restriction, limiting the licensees to using the licensed patents to produce discs according to the Orange Book standards.” *Princo*, 616 F.3d at 1322.

¹²⁸ *Princo*, 616 F.3d at 1345 (Dyk, J., dissenting).

¹²⁹ *Id.* As evidence of this, Princo asserts that Sony was substantially compensated at about 36% of royalties, despite contributing very little to the pool (given that Philips and Sony agreed to use the Raaymakers approach rather than the Lagadec approach, and that the Lagadec patent was included in the pool despite the fact that it could not be used to make Orange Book compliant products). *Id.* at 1344–45 (citing J.A. 1830 (testimony of Dr. Jacques Heemskerk)).

B. Procedural History

In June 2002, Philips filed a Complaint with the ITC, alleging that various companies were violating Section 337 by importing products into the United States that infringed its patents.¹³⁰ Princo denied infringement and asserted various defenses, including misuse.¹³¹ The ITC found, *inter alia*, that Philips committed misuse by requiring companies to acquire licenses to a patent pool, which included non-essential patents (rather than *à la carte*).¹³²

In September 2005, the Federal Circuit reversed the ITC decision, finding that there were precompetitive justifications for the pool, and that at the time the pool was created, it was reasonable to include all the patents in the pool.¹³³ On remand, the ITC dismissed Princo's remaining misuse claims, including its contention that because the Lagadec patent could not be used to develop Orange Book compliant products, its inclusion in the pool was unlawful.¹³⁴ The ITC rejected as speculative Princo's argument that the pool was an attempt by Sony and Philips to fix prices of competing products by agreeing to foreclose competition.¹³⁵ In making this determination, the ITC did not make

¹³⁰ See Certain Recordable Compact Discs and Rewritable Compact Discs, Inv. No. 337-TA-474, 2002 ITC LEXIS 381 (July 22, 2002) (Preliminary) (Princo was not one of the 19 named defendants, but subsequently, the ALJ permitted Princo to intervene in the litigation).

¹³¹ *Princo*, 616 F.3d at 1323.

¹³² Certain Recordable Compact Discs and Rewritable Compact Discs, Inv. No. 337-TA-474, 2002 ITC LEXIS 381 (July 22, 2002) (Preliminary); see also *Princo Corp. v. Int'l Trade Comm'n*, 563 F.3d 1301, 1304 (2009), *rev'd on other grounds*, 616 F.3d 1318 (2010). The ITC's misuse determination was limited to four patents that it found were non-essential.

¹³³ *Princo*, 616 F.3d at 1323–24.

¹³⁴ *Id.* at 1324. According to the ITC, regardless of whether Philips could justify including the Lagadec patent in the pool, its inclusion could not be misuse. *Id.* Moreover, it also determined that that because Claim 6 of the Lagadec patent arguably read on the Orange Book, it was not unreasonable to include it in pool. *Id.* Alternatively, even if the Lagadec patent did not read on the Orange Book, because the Court found that there was no evidence that it competed with any patent in the pool, its inclusion was not anticompetitive and thereby could not be misuse. *Id.*

¹³⁵ *Id.* at 1325 (asserting that charging a set price for all products in a pool forecloses competition among competition products). The ITC also rejected the

a factual finding on whether there was such an agreement, but concluded that such an agreement would not support a finding of misuse.¹³⁶ In April 2009, a panel of the Federal Circuit affirmed the ITC's decision, except for the ITC's conclusion that the Agreement and Restriction, if proven, could not constitute patent misuse.¹³⁷

C. *The En Banc Princo Opinion*

Sitting en banc, the Federal Circuit agreed with the ITC's determination that Princo's allegations would not support a misuse defense.¹³⁸ The opinion made two determinations that may have wide-ranging implications for the future of misuse. First, the

argument, made by the ITC's independent investigating attorney, that the Lagadec patent discouraged Sony from innovating to compete against the Orange Book standard, as "speculation" and unsupported by evidence. *Princo*, 563 F.3d at 1314.

¹³⁶ See *Princo*, 563 F.3d at 1313–14 ("Because the 'patents have not been shown to be competing,' the Commission ruled, the pool royalty rate set by Philips and its co-licensors was not 'a pricing agreement between competing entities with respect to their competing products.'") (quoting *Texaco, Inc. v. Dagher*, 547 U.S. 1, 6 (2006); *In re Certain Recordable Compact Discs & Rewritable Compact Discs*, No. 337-TA-474, slip op. at 22 (Int'l Trade Comm'n Feb. 5, 2007)); see also *Princo*, 616 F.3d at 1337.

¹³⁷ *Princo*, 563 F.3d at 1317–18 ("To the extent that Philips contends that the Lagadec technology must already have been developed to the point of commercial viability before misuse could be found, it is incorrect. The thrust of Princo's argument is that by agreement Lagadec was effectively suppressed; the result of that suppression was that the technology could not become a viable competitor. It cannot be the case that horizontal competitors can insulate themselves from misuse liability simply by agreeing to suppress competing technologies before they are fully developed. If that were the rule, then patentees engaging in such suppression of potential alternative technologies could never be called to account. In short, because standardization of technology and the development of patent pools are likely to occur early in the development of a given technology market, requiring stringent proof of the destruction of future competition, with its accompanying imponderables, would effectively immunize from misuse manufacturers who agree to suppress competition from alternative technologies." (citation omitted)).

¹³⁸ See *Princo*, 616 F.3d at 1321–22 ("[W]e sustain the decision of the International Trade Commission that the doctrine of patent misuse does not bar the intervenor, U.S. Philips Corporation, from enforcing its patents rights against the appellants Princo Corporation and Princo America Corporation.").

majority reasoned that while an antitrust violation involving patents may also constitute misuse, a determination of misuse liability may require significant additional findings of fact.¹³⁹ Specifically, the opinion suggests that for an antitrust violation to support a misuse defense, the following may be required: (i) the exclusionary conduct (forming the basis of the antitrust violation) must impermissibly broaden the physical or temporal scope of the patent; (ii) the conduct must cause anticompetitive effects;¹⁴⁰ and (iii) there must be a substantial nexus between the patent and the antitrust violation, such as enforcement or use of the patent as part of the exclusionary conduct.¹⁴¹ As applied in *Princo*, the majority concluded that *even if* the Agreement and Restriction were done for the explicit purpose of suppressing potential competition, it would nonetheless not constitute misuse.¹⁴² Rather, according to the en banc majority, such conduct was at most “collateral” and “unrelated” to the alleged antitrust violation.¹⁴³

Second, the majority reaffirmed and bolstered its precedent mandating anticompetitive effects for misuse, even suggesting that substantial evidence of anticompetitive effects may be required.¹⁴⁴ Specifically, the majority appears to conclude that even if the evidence demonstrates that the Agreement was done for the purpose of foreclosing competition to the Orange Book standard, there could be no misuse because the evidence of potential

¹³⁹ *Id.* at 1329.

¹⁴⁰ While one might assume that, as the basis of an antitrust violation, the conduct could be assumed to be anticompetitive (as the dissent argues), *Princo* suggests this may not be so. In particular, *Princo* appears to require evidence that the conduct is anticompetitive, even in cases when antitrust law may not require this. See discussion *infra* Parts IV.D.

¹⁴¹ *Princo*, 616 F.3d at 1327–28.

¹⁴² *Id.* at 1332–33.

¹⁴³ *Id.*; see also *id.* at 1331 (“What patent misuse is about, in short, is ‘patent leverage,’ i.e., the use of the patent power to impose overbroad conditions on the use of the patent in suit that are ‘not within the reach of the monopoly granted by the Government.’ What that requires, at minimum, is that the patent in suit must ‘itself significantly contribute[] to the practice under attack.’ Patent misuse will not be found when there is ‘no connection’ between the patent right and the misconduct in question, or no ‘use’ of the patent.” (citations omitted)).

¹⁴⁴ *Id.* at 1337–38.

foreclosure was too speculative.¹⁴⁵ According to the majority, because the evidence indicated that at the time the patent pool was created, the Lagadec patent was neither technically nor commercially viable, there could be no foreclosure of competition, and thus, no anticompetitive effects.¹⁴⁶ Finally, the majority concluded that Princo failed to demonstrate that had the patent pool not been created, Sony or potential licensees would have developed competing technology using the Lagadec patent.¹⁴⁷ A harsh dissent was issued by the two judges that issued the (now vacated) panel opinion, criticizing the majority as being overly protective of patent holders and contrary to Supreme Court precedent.¹⁴⁸

IV. ANALYSIS

While it is premature to all but speculate how the opinion will be interpreted by lower courts, the likely effect of *Princo* will be to substantially curtail the misuse defense. Only time will tell how much it does so, and whether it truly “emasculates” the defense (as the *Princo* dissent claims).¹⁴⁹ If applied expansively, however, the en banc opinion may have the effect of making it extremely

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* at 1338; *see also id.* at 1329 (“Recognizing the narrow scope of the doctrine, we have emphasized that the defense of patent misuse is not available to a presumptive infringer simply because a patentee engages in some kind of wrongful commercial conduct, even conduct that may have anticompetitive effects.”).

¹⁴⁸ *Id.* at 1342 (Dyk, J., dissenting) (“Evidently the majority thinks it appropriate to emasculate the doctrine so that it will not provide a meaningful obstacle to patent enforcement. Outside of unlawful tying arrangements and agreements extending the patent term, the majority would hold that antitrust violations are not patent misuse and would leave to private and government antitrust proceedings the task of preventing abuse of patent monopolies, enforcement that is likely inadequate to the task. Indeed, the majority goes so far as to suggest that the misuse doctrine be eliminated entirely. I read the relevant Supreme Court cases and congressional legislation as supporting a vigorous misuse defense, clearly applicable to agreements to suppress alternative technology. The majority cabins the doctrine in contravention of this Supreme Court authority. I respectfully dissent.” (citation omitted)).

¹⁴⁹ *Id.* at 1342.

difficult to successfully assert a misuse defense outside of traditional misuse per se contexts. Moreover, the decision raises even more questions about the relationship between misuse and antitrust.

A. *Understanding Princo: Factual, Legal, and Policy Controversies Underlying the Decision*

As with many opinions, to fully appreciate and understand *Princo*, one must consider underlying issues that, while may not have been addressed in the opinion, influenced the outcome considerably. In *Princo*, central to understanding both the majority and dissenting opinions are underlying policy, legal, and factual issues.

1. *Policy: Continued Need for a Vibrant Misuse Defense?*

A significant area of dispute between the majority and dissent in *Princo* appears to be differing views concerning the continued need for an independent, robust misuse doctrine.¹⁵⁰ There has been a longstanding debate concerning the need for an independent misuse doctrine and its proper scope. Because misuse is predicated on patent policy and addresses other policy issues besides just competition, some argue that antitrust is insufficient, thereby requiring a vibrant misuse defense.¹⁵¹ In contrast, because

¹⁵⁰ Compare *id.* at 1333 (supporting a robust misuse defense), with *id.* at 1350 (Dyk, J., dissenting) (discrediting the need for a such a misuse defense).

¹⁵¹ Bohannon, *supra* note 10, at 478; Feldman, *supra* note 10, at 431–37; Robert Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. PAT. & TRADEMARK OFF. SOC'Y 793, 793–94 (1988) (arguing against relying exclusively on the antitrust rule of reason for evaluating patent misuse); Potenza, *supra* note 10, at 97–100 (stating antitrust rule of reason is a starting place but not sufficient); see also Bennett, *supra* note 62, at 19 (arguing that Supreme Court decisions and the 1988 Act leave a vibrant and distinct misuse doctrine); Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175, 187 (1989) (“The strongest argument which can be made for refusing to treat patent misuse and the antitrust laws as coterminous is based on the underlying policies of each. The antitrust laws are intended to foreclose unreasonable restraints of trade and illegal monopolies, and perpetrators are severely punished for violating those laws. The ‘policy underlying the misuse doctrine is designed to prevent a patentee from projecting

the doctrine is ambiguous and because conduct traditionally found to be misuse has often been found to violate antitrust as well, others support limiting or even abolishing the misuse defense.¹⁵² This policy tension is apparent in the *Princo* opinions, where the dissent agrees with the view supporting a “vigorous” misuse defense,¹⁵³ and the majority favors the latter, more skeptical view.¹⁵⁴

the *economic* effect of his admittedly valid grant beyond the limits of his legal monopoly.’ Such an economic effect can occur regardless of whether the defendant in a patent infringement action is injured or a monopoly in trade and commerce results. The full weight of the antitrust laws is not required to carry out that policy.” (footnote omitted)).

¹⁵² See HOVENKAMP, *supra* note 4, at § 3.2d, § 21.3f (arguing that “[g]enerally speaking, patent misuse doctrine is largely coextensive with antitrust” although may be useful to pursue “marginally anticompetitive” conduct); Chiappetta, *supra* note 62, at 58 (2011) (arguing that misuse should be eliminated); Thomas Cotter, *Misuse*, 44 HOUS. L. REV. 901, 903, 934–38 (2007–2008) (arguing for a “limited” misuse doctrine, to essentially fill in the gaps of antitrust where there is speculative harm to competition); Kobak, *supra* note 30, at 35–44 (criticizing the broad standing rule for misuse and proposing to allow certain procompetitive justifications in responding to misuse allegations); Mark Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CALIF. L. REV. 1599, 1620 (1990) (discussing the lack of “utility” of the misuse doctrine).

¹⁵³ See *Princo*, 616 F.3d at 1350 (Dyk, J., dissenting) (“The antitrust laws also provide no adequate remedy for the suppression of competition. Private enforcement of the antitrust laws in this context is virtually impossible. Potential purchasers of the alternative product have no remedy. The ability of even a competitor to sue for damages is highly problematic given the early stage of development of the Lagadec technology. And injunctive relief at the request of a competitor is unlikely to take effect in a time frame that would allow for the development of an alternative technology given likely litigation delays. The difficulty of securing a misuse determination with respect to the suppressed patent or traditional antitrust relief underscores the importance of applying the doctrine of patent misuse to the protected patents. Unless the protected patents are held unenforceable, there will be no adverse consequence to the patent holder for its misconduct nor will the patent misuse be remedied.” (footnote omitted)); see also *id.* at 1342 (“I read the relevant Supreme Court cases and congressional legislation as supporting a vigorous misuse defense . . .”).

¹⁵⁴ See *id.* at 1333 n.6 (majority opinion) (“The dissenters argue that antitrust law is not adequate to protect victims of anticompetitive conduct by patentees and that the doctrine of patent misuse must be interpreted expansively to fill that gap. Antitrust law, however, provides robust remedies including both public and private enforcement. An accused infringer can raise a Sherman Act claim as

2. *Law: Effect of the 1988 Act*

Not unlike the controversy that surrounded the 1952 Act, there continues to be significant dispute over the purpose and effect of the 1988 Act: some assert that it broadly supports incorporating antitrust analysis into misuse jurisprudence, while others read the statute narrowly to only impose antitrust analysis to conduct specifically delineated in the statute.¹⁵⁵ As is evident from the *Princo* opinions, the majority favors a more expansive interpretation of the legislation,¹⁵⁶ while the dissent favors a narrower view.¹⁵⁷ Given Federal Circuit case law, its views on the effects of the 1988 Act on misuse are not particularly surprising. Nevertheless, it is somewhat inconsistent with the Court's own post-1988 Act cases, which recognize that patent misuse and antitrust are distinct.¹⁵⁸

a counterclaim in an infringement action or as an affirmative claim, and is eligible for treble damages and attorney's fees. As to the doctrinal limitations that apply to antitrust plaintiffs generally, such as the standing requirement, there is no reason to believe those limitations are inappropriate simply because a party is seeking relief against a patentee.”)

¹⁵⁵ See *supra* note 62 (discussing the 1988 Act).

¹⁵⁶ See *Princo*, 616 F.3d at 1329–30 (“Importantly, Congress enacted section 271(d) not to broaden the doctrine of patent misuse, but to cabin it. The 1988 amendment in particular was designed to confine patent misuse, with respect to certain licensing practices, to conduct having anticompetitive effects.” (citations omitted)).

¹⁵⁷ See *id.* at 1350–51 (Dyk, J., dissenting) (“Contrary to the majority, the enactment of amendments to 35 U.S.C. § 271 in 1988 does not support the majority's position. While the majority is correct that the legislation was designed to cabin the misuse doctrine, it did so only by making clear that some practices that did not constitute antitrust violations did not amount to misuse. The legislation did not remotely suggest that antitrust violations did not constitute misuse.” (footnote omitted)); see also *id.* at 1351 (discussing remarks by Congressman Kastenmeir on the purpose of the 1988 Act).

¹⁵⁸ See *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1339 (Fed. Cir. 2006) (“Patent misuse may be found even where there is no antitrust violation, because ‘[p]atent misuse is . . . a broader wrong than [an] antitrust violation.’” (citing *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d, 1340, 1372 (Fed. Cir. 1998))); *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997) (Patent misuse is a separate “method of limiting abuse of patent rights separate from antitrust law[.]”); *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 872

3. *Facts: Procompetitive or Naked Restraint?*

The most glaring factual dispute between the majority and the dissenting opinions in *Princo* was how the pooling arrangement was viewed.¹⁵⁹ According to the majority, it was a legitimate, efficient means of solving a common problem and developing and commercializing new standards.¹⁶⁰ Similarly, the majority found that the Restriction was a procompetitive ancillary restraint.¹⁶¹ In contrast, the dissent (and panel) considered the Restriction to be tantamount to an agreement not to compete, with little procompetitive justification.¹⁶² Concluding that it was at best “inherently suspect,” if not an outright naked restraint, the dissent did not even believe a thorough evaluation of the Restriction was necessary.¹⁶³ Moreover, the dissent considered as pure fantasy the

(Fed. Cir. 1997) (“[V]iolation of the antitrust laws . . . requires more exacting proof than suffices to demonstrate patent misuse.”).

¹⁵⁹ The differing factual views between the panel and en banc opinion concerning the purpose and effect of the pooling arrangement is somewhat similar to the differing views concerning joint ventures between Texaco, Inc. and Shell Oil Co. to jointly refine and market gasoline in the United States decided by the United States Supreme Court not long ago. While the Court of Appeals for the 9th Circuit appeared to agree with the plaintiffs that the ventures were essentially an effort to fix prices and restrain competition (and thereby unlawful), the Supreme Court reversed, finding that the ventures were a legitimate efficiency-enhancing enterprise. *Compare* *Dagher v. Saudi Refining, Inc.*, 369 F.3d 1108 (2004), *rev'd*, 547 U.S. 1 (2006), *with* *Texaco v. Dagher*, 547 U.S. 1 (2006).

¹⁶⁰ *See Princo*, 616 F.3d at 1334.

¹⁶¹ *See id.* (“Whether viewed as a matter of patent misuse or in light of general antitrust principles, *Princo*’s claim regarding the alleged agreement fails because Philips and Sony acted legitimately in choosing not to compete against their own joint venture.”); *see also id.* at 1339 (“[A]n agreement among joint venturers not to compete against the joint venture is not a naked restraint, because it provides assurances that the resources invested by one joint venturer will not be undermined or competitively exploited to the sole benefit of the other.”).

¹⁶² *See id.* at 1352–53 (Dyk, J., dissenting).

¹⁶³ *Id.* at 1353 (“Where an agreement is considered ‘inherently suspect,’ courts apply a ‘quick look’ rule of reason analysis ‘[A]n agreement not to compete in terms of price or output’ is inherently suspect. The agreement to suppress the Lagadec patent, a competing technology, surely falls within this category.” (citation omitted)). The panel decision (written and joined by the dissent), went even further, suggesting that such an agreement was a naked restraint with no procompetitive justification:

majority's view that the Restriction was "collateral" and "unrelated" to the patent pool.¹⁶⁴ Rather, according to the dissent, taking Princo's allegations as true, the Agreement and Restriction were part of the same scheme to prevent the Lagadec patent from being developed to compete with the Orange Book standard,¹⁶⁵ thereby tainting the Raaymakers patents as well.¹⁶⁶

Princo contends that Philips and Sony agreed from the outset to license Lagadec, a potential competitor to the Raaymakers pool patents, in a way that would necessarily prevent it from ever becoming a commercially viable alternative technology that might compete with the Orange Book standard. The essential nature of the Lagadec patent to the Orange Book standard cannot justify the refusal to allow it to be licensed for non-Orange Book purposes. It is one thing to offer a pooled license to competing technologies; it is quite another to refuse to license the competing technologies on any other basis. In contrast to tying arrangements, there are no benefits to be obtained from an agreement between patent holders to forego separate licensing of competing technologies, as counsel for Philips conceded at oral argument.

Princo Corp. v. Int'l Trade Comm'n, 563 F.3d 1301, 1315 (Fed. Cir. 2009), *rev'd*, 616 F.3d 1318 (2010) (footnote omitted) (citations omitted).

¹⁶⁴ Princo, 616 F.3d at 1346 (Dyk, J., dissenting).

¹⁶⁵ Compare *id.* at 1332, 1334 (majority opinion), with *id.* at 1345–46 (Dyk, J., dissenting).

¹⁶⁶ See *id.* at 1348–49 (Dyk, J., dissenting) ("What the majority ignores is that the non-compete agreements here, as in *Gypsum* and the court of appeals misuse cases, are part and parcel of the agreements governing the asserted patents (here, the Raaymakers patents). The agreement between Philips and Sony with respect to the suppression of the Lagadec technology appears in the same letter agreement between Philips and Sony that provided for the pooling of their patents, including the Raaymakers patents, and the division of royalties. The agreement between Philips and its licensees not to use the Lagadec technology in competition with the Raaymakers technology appears in the agreements licensing the Raaymakers technology. The overall effect of the two agreements was to prevent competitors from utilizing the alternative Lagadec technology and to protect the licensed Raaymakers patents from competition with the Lagadec technology Thus, the agreement to promote the Raaymakers patents cannot be separated from the agreement to suppress the Lagadec patent. This misconduct renders both the Raaymakers and Lagadec patents unenforceable." (footnotes omitted)).

B. *The Decision Suggests a Very High Threshold for Proving Anticompetitive Effects*

At first blush, given Federal Circuit misuse precedent, *Princo* is not particularly surprising. Although requiring anticompetitive effects for misuse is contrary to Supreme Court precedent, it has been cited by Federal Circuit cases going back to *Windsurfing*.¹⁶⁷ Rather, what makes *Princo* so startling is that it appears to establish a very high evidentiary threshold for proving anticompetitive effects—particularly as both the majority and dissenting opinions assumed an agreement between Philips and Sony to include the Lagadec patent in the pool and to restrict its use.¹⁶⁸

While the dissent concluded that the Restriction and Agreement were together sufficient evidence of anticompetitive effects, the majority required more.¹⁶⁹ According to the majority, for *Princo* to have proffered sufficient evidence of anticompetitive effects, it had to demonstrate that absent (or “but for”) the Agreement, there was a “reasonable probability” that technology incorporating the Lagadec patent would have been developed.¹⁷⁰ This is a difficult task to accomplish, and as the dissent

¹⁶⁷ *Windsurfing Int’l, Inc. v. AMF Inc.*, 782 F.2d 995, 1001–02 (Fed. Cir. 1986) (“To sustain a misuse defense involving a licensing arrangement not held to have been *per se* anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully . . .”).

¹⁶⁸ See *Princo*, 616 F.3d at 1331, 1337 (majority opinion); see also *id.* at 1344 n.5 (Dyk, J., dissenting).

¹⁶⁹ *Id.* at 1342 (Dyk, J., dissenting); see also *id.* at 1343 (“The majority’s second holding—that there is no misuse unless the accused infringer shows that the technology was, or would probably have become, commercially viable—is contrary to established patent misuse doctrine. That doctrine recognizes that antitrust violations may constitute misuse; that a presumption of anticompetitive effect flows from an agreement not to compete; and that the burden rests on the patent holder to justify such an agreement. Philips did not even attempt to make the required showing here.”).

¹⁷⁰ Specifically, the majority pointed to evidence that the Lagadec patent was neither technologically nor commercially viable, that neither Sony nor anyone else would have developed the Lagadec patent but for the agreement, and that there was no demand for the Lagadec patent. *Id.* at 1338–39 (majority opinion).

emphasizes, is not consistent with precedent.¹⁷¹ Moreover, requiring such an exacting test for misuse seems perverse. “But for” analysis is commonly applied to calculate *damages* in antitrust cases.¹⁷² However, not even an antitrust plaintiff seeking treble damages and an injunction is required to prove as an element of *liability* that “but for” the unlawful conduct, plaintiff would not have suffered any harm.¹⁷³ Rather, an antitrust plaintiff need only demonstrate that the anticompetitive conduct was a “material cause” of its asserted injury.¹⁷⁴ To require such a substantial evidentiary showing to successfully prove an equitable defense seems excessive and contrary to the public policy arguments set forth in Supreme Court misuse cases.

Princo exemplifies just how bizarre and onerous it would be to require such a showing for misuse as the majority opinion suggests. According to the majority, even assuming that the purpose of the Agreement and Restriction were to stifle the development of a competing technology (a seemingly naked restraint), for Princo to succeed on its misuse defense, it would

¹⁷¹ See *id.* at 1344 n.5 (Dyk, J., dissenting).

¹⁷² A.B.A. SEC. OF ANTITRUST LAW, PROVING ANTITRUST DAMAGES: LEGAL AND ECONOMIC ISSUES 53 (2nd ed. 2010).

¹⁷³ Specifically, while an antitrust plaintiff must show proof of injury for liability, that does not require “but for” analysis. “Injury” is defined here to mean harm caused by the unlawful conduct, often referred to as “injury,” “impact,” or “fact of damage” in antitrust parlance. *Id.* at 5. This is in contrast to “proof of damages” which requires an antitrust plaintiff to calculate his damages as a result of the unlawful conduct. *Id.* at 55–56.

¹⁷⁴ Another way of putting it is that an antitrust plaintiff need not show that the challenged conduct was the sole cause of its injuries. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 114 n.9 (1969); see also A.B.A. SEC. OF ANTITRUST LAW, *supra* note 172, at 7–9 (“Once the plaintiff has defined its injury, the next step is to link that injury to the asserted violation. The prevailing test of antitrust causation is ‘material cause,’ expressed by some courts in the tort language of ‘substantial factor’ or ‘proximate cause.’ It is routinely held that the violation does not have to be the sole cause of the asserted injury, but formulations of what it means to be ‘material’ vary *Unlawful conduct may be a material cause of an asserted injury without being the but-for cause of the entire injury.* This basic distinction is evident in the difference between how courts address fact of damage, decided under the material cause standard, and the amount of damages, where the but-for standard prevails.” (emphasis added) (footnotes omitted)).

have to provide sufficient evidence that there was a “reasonable probability” that absent the Agreement and Restriction, a technologically and commercially viable alternative would have been developed.¹⁷⁵ Yet, as the dissent and panel decision point out, because of the difficulty of the task, the result may essentially immunize liability in certain cases.¹⁷⁶ Consequently, *Princo* may go beyond *Scruggs*’ “no harm, no foul” rule, to potentially grant patentees misuse immunity for potentially anticompetitive conduct in cases where evidence of the anticompetitive effects may be extremely difficult to obtain—possibly due to the success of the very conduct being challenged.

C. *The Decision May Limit Misuse to Cases When a Patent is Directly Involved in the Challenged Conduct*

Another troubling interpretation of the majority decision is that it appears to imply that misuse be limited to cases where there is a direct, substantial nexus between the challenged conduct and a patent.¹⁷⁷ *Princo* suggests that, at a minimum, the patent must

¹⁷⁵ *Princo*, 616 F.3d at 1338.

¹⁷⁶ *See Princo Corp. v. Int’l Trade Comm’n*, 563 F.3d 1301, 1317–18 (Fed. Cir. 2009), *rev’d*, 616 F.3d 1318 (2010) (“The thrust of *Princo*’s argument is that by agreement Lagadec was effectively suppressed; the result of that suppression was that the technology could not become a viable competitor. It cannot be the case that horizontal competitors can insulate themselves from misuse liability simply by agreeing to suppress competing technologies before they are fully developed. If that were the rule, then patentees engaging in such suppression of potential alternative technologies could never be called to account.”); *see also Princo*, 616 F.3d at 1341–57.

¹⁷⁷ *See Princo*, 616 F.3d at 1331–33 (“Philips is not imposing restrictive conditions on the use of the Raaymakers patents to enlarge the physical or temporal scope of those patents. Instead, the alleged act of patent misuse that the panel focused on was the claimed horizontal agreement between Philips and Sony to restrict the availability of the Lagadec patent—an entirely different patent that was never asserted in the infringement action against *Princo*. Even if such an agreement were shown to exist, and even if it were shown to have anticompetitive effects, a horizontal agreement restricting the availability of Sony’s Lagadec patent would not constitute misuse of Philips’s Raaymakers patents or any of Philips’s other patents in suit.”); *see also id.* at 1333 n.5 (“The dissent suggests in passing that the Sony-Philips agreement also constitutes misuse of the Lagadec patent. How a patent that is not enforced can be misused

“significantly contribute” to the challenged conduct.¹⁷⁸ While this may be a reasonable proposition as stated, as applied, *Princo* seems to require a fairly tight nexus between the patent and the conduct—even suggesting that the patent may have to be used or enforced.¹⁷⁹ Specifically, the majority reasoned that even if proven, the Agreement was too “collateral” to the patents to constitute misuse.¹⁸⁰ Moreover, it opined that, even if the Agreement and Restriction could somehow result in the Lagadec patents being held unenforceable, there could be no misuse of the Raaymakers patents because, although included in the pool, the Lagadec patents were never used or enforced.¹⁸¹

Prescribing that a patent be used or enforced for misuse liability is contrary to Supreme Court precedent. While older Supreme Court misuse cases may not be entirely clear, they do not

is not explained, nor is it clear why misuse of the Lagadec patent should be a defense against infringement of different patents.”).

¹⁷⁸ *Id.* at 1331.

¹⁷⁹ *See id.* at 1331.

¹⁸⁰ *Id.* at 1331, 1333 (“What [patent misuse] requires, at a minimum, is that the patent in suit must ‘itself significantly contribute[] to the practice under attack.’ Patent misuse will not be found when there is ‘no connection’ between the patent right and the misconduct in question, or no ‘use’ of the patent If the purported agreement between Philips and Sony not to license the Lagadec technology is unlawful, that can only be under antitrust law, not patent misuse law; nothing about that agreement, if it exists, constitutes an exploitation of the Raaymakers patents against Philips’s licensees.” (citations omitted)); *see also id.* at 1332 (“That [Philip-Sony] agreement might be vulnerable to challenge under the antitrust laws, but it could not reasonably be characterized as misuse of the Raaymakers patents.”).

¹⁸¹ *Id.* at 1331 (“Philips is not imposing restrictive conditions on the use of the Raaymakers patents to enlarge the physical or temporal scope of those patents. Instead, the alleged act of patent misuse that the panel focused on was the claimed horizontal agreement between Philips and Sony to restrict the availability of the Lagadec patent—an entirely different patent that was never asserted in the infringement action against Princo. Even if such an agreement were shown to exist, and even if it were shown to have anticompetitive effects, a horizontal agreement restricting the availability of Sony’s Lagadec patent would not constitute misuse of Philips’s Raaymakers patents or any of Philips’s other patents in suit.”); *see also id.* at 1333 n.5 (“How a patent that is not enforced can be misused is not explained, nor is it clear why misuse of the Lagadec patent should be a defense against infringement of different patents.”).

require use or enforcement of a patent as an element of misuse. For example, *Zenith* involved concerted activities among manufacturers in various countries to pool patents and refuse licenses to the pool for the purpose of suppressing competition.¹⁸² While patents were enforced in the United States via infringement actions, it is not clear from the opinion that those suits included each and every patent in the pool. More importantly, the Supreme Court's decision did not even mention the enforcement of the patent as a significant (much less necessary) factor for purposes of misuse or antitrust liability. Similarly, as the dissent notes, *United States v. U.S. Gypsum*¹⁸³ involved a conspiracy between competitors of gypsum-based products to acquire and pool patents for the purpose of fixing prices and suppressing competition on certain gypsum products.¹⁸⁴ As in *Zenith*, while patents were enforced via litigation among the defendants, the litigation does not appear to be a significant factor in the Court's decision.¹⁸⁵ Other Supreme Court cases also support misuse liability even if a patent is not enforced or does not directly relate to the challenged conduct.¹⁸⁶

¹⁸² See *supra* Part II.A.

¹⁸³ 333 U.S. 364 (1947).

¹⁸⁴ *Princo*, 616 F.3d at 1346–47 (Dyk, J., dissenting) (discussing Gypsum). In discussing *Gypsum*, while the en banc panel focuses on price fixing conspiracy—particularly the terms in the licenses allowing U.S. Gypsum to fix the minimum prices of certain gypsum products—the *Gypsum* court also found sufficient evidence that the defendants agreed to stop manufacturing certain (“open-edge”) gypsum board “in order to protect the patented board from competition.” *Gypsum*, 333 U.S. at 384–85, 397.

¹⁸⁵ Although the en banc majority distinguishes *Zenith* and *Gypsum* as antitrust cases, both cases involved misuse claims either directly or indirectly. In *Zenith*, the Supreme Court, on instructions for remand, expressly stated that depending on the factual findings, misuse may be found whether or not an antitrust violation is found. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1968). While the *Gypsum* decision did not directly address misuse, in a subsequent private action before the Supreme Court, the issue was whether misuse based on the lawful conduct found in the 1947 case was purged. *U.S. Gypsum v. Nat'l Gypsum*, 352 U.S. 457 (1957). Also, as the dissent notes, subsequent cases and leading treatises cite *Gypsum* as dealing with conduct that may constitute misuse. *Princo*, 616 F.3d at 1347 (Dyk, J., dissenting).

¹⁸⁶ Bennett, *supra* note 62, at 15–17 (citing cases to argue that “[i]t is not necessary, to establish the defense of patent misuse, that the conduct pertain

Mandating use or enforcement of a patent as an element of misuse, as *Princo* suggests, would also be bad policy.¹⁸⁷ While not every wrong involving a patent will justify a finding of misuse, limiting misuse to situations where a patent was used or enforced would substantially dilute its effectiveness in deterring inequitable and anticompetitive conduct involving patents. A patent may be part of an anticompetitive and/or inequitable scheme without being used or enforced. For example, the *Princo* majority rejected misuse outright, notwithstanding at least plausible evidence suggesting that the Agreement and Restriction were part of a per se illegal anticompetitive scheme to suppress competition.¹⁸⁸ While it may be argued that in many such cases, misuse may be unnecessary because an antitrust violation may also be proven, there are a host of problems in relying on antitrust.¹⁸⁹ Moreover,

solely to the patent at issue. The misuse doctrine is applied even though the abusive behavior was not *directly* related to the patent, but merely to the sale of goods which were covered by the patents.”); *see also* *United States v. New Wrinkle*, 342 U.S. 371 (1952).

¹⁸⁷ *Princo*, 616 F.3d at 1331–32 (“What patent misuse is about, in short, is ‘patent leverage,’ i.e., the use of the patent power to impose overbroad conditions on the use of the patent in suit that are ‘not within the reach of the monopoly granted by the Government.’ What that requires, at minimum, is that the patent in suit must ‘itself significantly contribute[] to the practice under attack.’ Patent misuse will not be found when there is ‘no connection’ between the patent right and the misconduct in question, or no ‘use’ of the patent. In this case, there is no such link between the putative misconduct and the Raaymakers patents.” (citations omitted)); *see also id.* at 1329 (“While proof of an antitrust violation shows that the patentee has committed wrongful conduct having anticompetitive effects, that does not establish misuse of the patent in suit unless the conduct in question restricts the use of that patent and does so in one of the specific ways that have been held to be outside the otherwise broad scope of the patent grant.”).

¹⁸⁸ *Id.* at 1349. By “outright,” I mean that the majority rejected the misuse claims without remanding to determine whether there was sufficient evidence of an agreement to suppress competition and whether the Restriction was part of such an agreement.

¹⁸⁹ For example, stricter injury and standing requirements may make asserting an antitrust counterclaim difficult. *See, e.g., Brunswick Corp. v. Pueblo Bowl-O-Mat*, 429 U.S. 477 (1977); *see also Assoc. Gen. Contractors of Cal. v. Cal. State Council of Carpenters*, 459 U.S. 519 (1983) (discussing antitrust injury and standing); *Blue Shield of Va. v. McCready*, 457 U.S. 465 (1982). In addition,

relying on antitrust goes against the whole purpose and policy behind having a separate, independent misuse defense.

D. *Misuse v. Antitrust: Princo Exacerbates the Ambiguity*

In patent infringement cases, misuse is commonly pleaded alongside antitrust counterclaims. And with recent misuse cases directly applying antitrust principles, it is not surprising that misuse and antitrust have become somewhat befuddled, if not “hopelessly entangled”¹⁹⁰ or “schizophrenic.”¹⁹¹ Indeed, this may be one reason why some have argued for making the two doctrines coextensive, hoping that joining them may at least clarify the law. This section summarizes how antitrust evaluates whether conduct is anticompetitive and how courts have increasingly been applying antitrust analysis to misuse jurisprudence.

1. *Applying the Rule of Reason to Misuse Cases*

The purpose of the antitrust laws is to protect competition and consumers.¹⁹² The Sherman Act¹⁹³ is the cornerstone of these laws and has been evaluating whether conduct is anticompetitive for well over a hundred years. It proscribes both agreements that “unreasonably” restrain trade¹⁹⁴ and “monopolization.”¹⁹⁵ In

antitrust counterclaims cannot be brought in Section 337 actions before the ITC. 19 U.S.C. § 1337(c).

¹⁹⁰ Feldman, *supra* note 10, at 399.

¹⁹¹ Cotter, *supra* note 152, at 932.

¹⁹² See *supra* Part II.

¹⁹³ 15 U.S.C. § 1.

¹⁹⁴ Section 1 of the Sherman Act prohibits certain joint conduct that harms competition, providing in part: “Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal.” Despite its broad, prohibitive terms, it has long been held that Section 1 only condemns “unreasonable” restraints. See, e.g., *Standard Oil Co. of N.J. v. United States*, 221 U.S. 1 (1910).

¹⁹⁵ Section 2 of the Sherman Act provides in part: “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” Monopolization 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

examining whether conduct is “unreasonable” for antitrust purposes, courts typically determine whether the challenged conduct is on the whole anticompetitive, by evaluating and balancing all anticompetitive effects against procompetitive justifications.¹⁹⁶ Because this analysis, referred to as the “rule of reason” in antitrust parlance, is extensive and often very time consuming, courts have articulated circumstances when the analysis may be truncated or even obviated.¹⁹⁷ In the context of a joint venture, it may be necessary to apply this analysis to specific restrictions or conduct as well as to the joint venture as a whole.¹⁹⁸

product, business acumen, or historic accident.” *United States v. Grinnell Corp.*, 384 U.S. 563, 570–71 (1966).

¹⁹⁶ The classic description of this analysis is provided in *Board of Trade of the City of Chicago v. United States*, 246 U.S. 231, 238 (1918):

The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts.

Id.

¹⁹⁷ For example, it has long been held that certain types of conduct are believed to be so likely to be harmful to competition and to have no significant procompetitive benefit, that such conduct may be condemned outright and held to be per se illegal, without any assessment of its particular effects: “[T]here are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without any elaborate inquiry as to the precise harm they have caused or the business excuse for their use.” *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 5 (1958). Alternatively, conduct that is not deemed per se illegal, but nevertheless “appears likely, absent an efficiency justification, to restrict competition and decrease output,” may be presumed to be “unreasonable” without an extensive analysis, although the presumption is rebuttable upon plausible and legally cognizable pro-competitive justification(s). *Polygram Holding Inc. v. FTC*, 416 F.3d 29, 32–33 (D.C. Cir. 2005). This type of analysis is generally termed a “quick look” analysis. *See Cal. Dental Ass’n v. FTC*, 526 U.S. 756 (1998); *FTC v. Ind. Fed’n of Dentists*, 476 U.S. 447 (1986).

¹⁹⁸ Given their potential for both procompetitive and anticompetitive effects, joint ventures have long been a difficult area for antitrust. *See A.B.A. SEC. OF*

Under the rule of reason, there are two means by which one may ascertain whether a challenged restraint is anticompetitive. First, a plaintiff may provide direct evidence of actual anticompetitive effects.¹⁹⁹ Second, and more common, an antitrust plaintiff may demonstrate that the defendant has “market power”²⁰⁰ in a “relevant market,”²⁰¹ that the restraint is likely to contribute to

ANTITRUST LAW, ANTITRUST LAW DEVELOPMENTS 433–81 (6th ed. 2007); Saami Zain, *Suppression of Innovation or Collaborative Efficiencies? An Antitrust Analysis of a Research & Development Collaboration That Led to the Shelving of a Promising Drug*, 5 J. MARSHALL REV. INTELL. PROP. L. 348, 361–63 (2006).

¹⁹⁹ *Ind. Fed’n of Dentists*, 476 U.S. at 460–61 (“Since the purpose of the inquiries into market definition and market power is to determine whether an arrangement has the potential for genuine adverse effects on competition, ‘proof of actual detrimental effect, such as a reduction of output,’ can obviate the need for an inquiry into market power, which is but a ‘surrogate for detrimental effect.’ ”); *Pepsico v. Coca-Cola*, 315 F.3d 101, 107 (2d Cir. 2002); *Toys “R” Us v. FTC*, 221 F.3d 928, 937 (7th Cir. 2000).

²⁰⁰ “Market power” has been defined as “the power to control prices or exclude competition” or to “profitably raise prices substantially above the competitive level.” *See United States v. E.I. Du Pont de Nemours & Co.*, 351 U.S. 377, 391 (1955); *United States v. Microsoft*, 253 F.3d 34, 51 (D.C. Cir. 2001). The purpose for evaluating a firm’s market power is to prevent misguided and overly aggressive antitrust enforcement that may benefit competitors rather than consumers. That is, absent sufficient market power, conduct will not likely have an adverse effect on competition:

Antitrust is concerned with the power of market participants to distort the competitive process. This distortion can misallocate resources, transfer wealth from consumers and other protected groups to market participants with power, or stifle new entry or innovation and commercialization. Without power, a market participant can do none of these things but is, instead, itself subject to the discipline of competition.

SULLIVAN & GRIMES, *supra* note 9, at 21.

²⁰¹ *Southeast Mo. Hosp. v. C.R. Bard, Inc.*, 642 F.3d 608, 613 (8th Cir. 2011) (“ ‘Antitrust claims often rise or fall on the definition of a relevant market.’ ” (citation omitted)); *Behrend v. Comcast Corp.*, No. 10-2865, 2011 WL 3678805, at *7 (3rd Cir. Aug. 23, 2011); *see also* A.B.A. SEC. OF ANTITRUST LAW, MARKET POWER HANDBOOK 54 (2005) (“The purpose of defining a relevant market is to identify its participant: the group of firms which impose competitive constraints upon a particular firm or combination of firms Relevant markets are defined with respect to both the products or services included in the market and the geographic scope of competition. The relevant

the exercise of market power (typically via increased prices or reduced output), and that the likely anticompetitive effects of the restraint outweigh any genuine procompetitive benefits.²⁰²

While Federal Circuit misuse cases since *Windsurfing* have referenced a “rule of reason,” it is not evident whether the “rule of reason” referenced in these cases is commensurate with antitrust’s version.²⁰³ Despite the same nomenclature, there may be significant procedural and substantive distinctions. First, because misuse is broader than antitrust and based on additional policy considerations (other than only competition), it has been suggested that the misuse rule of reason may be more expansive to include an evaluation of factors not traditionally considered by antitrust.²⁰⁴ By comparison, copyright misuse—which derived from patent misuse—has not been so limited by antitrust, relying on copyright

product market includes all products that substantially constrain the pricing of the product being studied, while the relevant geographic market includes all geographic areas where firms are located whose output substantially constrains the pricing of the firm (or firms) being studied.”).

²⁰² A.B.A. SEC. OF ANTITRUST LAW, MONOGRAPH NO. 23, THE RULE OF REASON 133–35 (1999); see also *Ind. Fed’n of Dentists*, 476 U.S. at 460 (“[T]he purpose of the inquiries into market definition and market power is to determine whether an arrangement has the potential for genuine adverse effects on competition”); *Realcomp II, Ltd. v. FTC*, 635 F.3d 815, 827 (6th Cir. 2011) (rejecting assertions that the FTC must show actual adverse anticompetitive effects of the restraint: “Applying the rule of reason, we first look to see ‘whether [the] FTC has demonstrated actual detrimental effects or the potential for genuine adverse effects on competition.’ Market power and the anticompetitive nature of the restraint are sufficient to show the potential for anticompetitive effects under a rule-of-reason analysis, and once this showing has been made, *Realcomp* must offer procompetitive justifications.” (citation omitted) (internal quotation marks omitted)).

²⁰³ *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir. 1997); *Virginia Panel v. Mac Panel*, 133 F.3d 860 (1997); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

²⁰⁴ See, e.g., *Potenza*, *supra* note 10, at 99 (“[C]ases such as *Mallinckrodt* and *Bard* and the recent ITC investigations clearly suggest that the antitrust rule of reason analysis is but a starting point for the patent misuse rule of reason analysis. The patent misuse rule of reason analysis uses factors that are in addition to the factors in an antitrust rule of reason analysis, as the antitrust analysis does not take into account the policies that are the basis of the patent system, nor does it use factors that consider the market of innovation that the patent system is designed to foster.”).

and first amendment principles in support of a broad, robust copyright misuse doctrine.²⁰⁵ Second, are lingering questions pertaining to the application of the misuse rule of reason. For example, recent Federal Circuit cases appear to suggest that it is only applied *after* a determination is made that the restraint both exceeds the scope of the patent and has anticompetitive effects.²⁰⁶ Third, is the significance of the relevant market(s) and market power.²⁰⁷ In antitrust, ascertaining the relevant market(s) is typically central to determining whether there is market power, and indeed, is often outcome determinative.²⁰⁸ Given different underlying policies, and that misuse provides only limited remedies, it has been argued that misuse need not be as concerned

²⁰⁵ See, e.g., *Video Pipeline v. Buena Vista*, 342 F.3d 191 (3rd Cir. 2003); *Assessment Techs. of Wis., LLC v. Wiredata*, 350 F.3d 640 (7th Cir. 2003); *Practice Mgmt. Info. v. Am. Med. Ass'n*, 121 F.3d 516 (9th Cir. 1997), *op. amended*, 133 F.3d 1140 (9th Cir. 1998); *DSC Commc'ns Corp. v. DGI Techs., Inc.*, 81 F.3d 597 (5th Cir. 1996); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990); see also HOVENKAMP, *supra* note 4, at 3–57 (“[T]he trend in copyright misuse has departed rather markedly from antitrust principles. In particular, most of the cases that have found copyright misuse have done so by asserting copyright policy, not antitrust policy, as their rationale.” (footnote omitted)). Of course, this ignores the issue of whether it is sound policy to have such a broad, ambiguous copyright misuse doctrine.

²⁰⁶ See *Virginia Panel*, 133 F.3d at 869; *Mallinckrodt*, 976 F.2d at 708.

²⁰⁷ Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: “Blessed Be The Tie?”*, 4 HARV. J.L. & TECH. 1, 101 n.618 (1991) (citing *Senza-Gel* as support that misuse need not look to consumer demand in determining relevant market).

²⁰⁸ A.B.A. SEC. OF ANTITRUST LAW, *supra* note 201, at 54 (“Relevant market definition is in most circumstances a ‘necessary predicate’ to assessing a firm’s ‘market power’ and indeed market definition is outcome determinative in many antitrust cases. In particular, whether a firm is likely to have market power will vary depending on the scope of the likely relevant market.”).

with such market assessments.²⁰⁹ Some have even questioned whether market power should be a prerequisite for misuse at all.²¹⁰

The majority in *Princo* focused on “the market for ‘licensing of United States patents essential for production and/or sale of CD-R and CD-RW discs, respectively.’”²¹¹ In concluding that there were no anticompetitive effects of either the pooling arrangement, the Agreement, or the Restriction, the Court appeared to be concerned primarily with this market.²¹² However, an antitrust rule of reason will often evaluate the effects of a licensing restraint in various markets, particularly in “technology markets”²¹³ and “innovation

²⁰⁹ Burchfiel, *supra* note 207, at 101 n.619 (discussing market power analysis in patent misuse cases, and noting that it need not be same as in antitrust); Feldman, *supra* note 10, at 438; Kobak, *supra* note 30, at 45 (arguing that the burden on showing market power should be on patentee); James Kobak, *The Misuse Defense and Intellectual Property Litigation*, 1 B.U. J. SCI. & TECH. L. 2 para. 19 (1995) (claiming the standard for showing market power appears to be less in misuse than antitrust).

²¹⁰ Bohannon, *supra* note 10, at 497–500; Feldman, *supra* note 10, at 436. According to these commentators, in certain scenarios, harm to innovation, competition and/or public domain may occur absent market power, and thereby requiring market power will immunize such conduct. *See also* Calkins, *supra* note 151, at 187 (“The ‘policy underlying the misuse doctrine is designed to prevent a patentee from projecting the *economic* effect of his admittedly valid grant beyond the limits of his legal monopoly.’ Such an economic effect can occur regardless of whether the defendant in a patent infringement action is injured or a monopoly in trade and commerce results. The full weight of the antitrust laws is not required to carry out that policy.”).

²¹¹ Brief for Intervenor at 10, *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (2010) (No. 2007-1386) (citation omitted). Because the Lagadec patent could not be used to develop Orange Book complaint products, the majority found that the Raaymakers and Lagadec patents were not in the same relevant market.

²¹² *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1337–38 (Fed. Cir. 2010) (noting that the ITC found that the Lagadec patent does not work well according to Orange Book standards, that there was no evidence that it was a “commercially viable technology alternative” to the Raaymakers patents, and no evidence that but for the patent pool, either Sony or licensees would have developed competing technology).

²¹³ ANTITRUST GUIDELINES, *supra* note 7, at 8–10 (“Technology markets consist of the intellectual property that is licensed (the ‘licensed technology’) and its close substitutes—that is, the technologies or goods that are close enough substitutes significantly to constrain the exercise of market power with respect

markets.”²¹⁴ For example, in addressing potential anticompetitive concerns of licensing, the joint guidelines issued by the Federal Trade Commission and Antitrust Division of the United States Department of Justice evaluates harm to potential, as well as actual competitors.²¹⁵ Yet, *Princo* appeared to give little consideration of competitive effects that the pooling arrangement, Agreement, and/or Restriction may have on the market for research and development of potential substitutes for Orange Book compliant products.²¹⁶ Thus, at least as applied by the *Princo* majority, it does not appear that the rule of reason is identical for misuse and antitrust.

2. *Anticompetitive Effects and Misuse*

In rejecting the misuse defense in *Princo*, the Federal Circuit relied on its own precedent mandating anticompetitive effects.²¹⁷ While effects on competition have certainly been significant factors in misuse cases over the years, the Supreme Court has never made anticompetitive effects an element of misuse. Moreover, by imposing a rule of reason analysis on misuse, this suggests not only that anticompetitive effects are required, but that those effects must outweigh procompetitive justifications. While this may be appropriate for antitrust liability, it seems rather

to the intellectual property that is licensed. When rights to intellectual property are marketed separately from the products in which they are used, the Agencies may rely on technology markets to analyze the competitive effects of a licensing agreement.”).

²¹⁴ *Id.* at 11 (“An innovation market consists of the research and development directed to particular new or improved goods or processes, and the close substitutes for that research and development. The close substitutes are research and development efforts, technologies, and goods that significantly constrain the exercise of market power with respect to the relevant research and development, for example by limiting the ability and incentive of a hypothetical monopolist to retard the pace of research and development.”).

²¹⁵ *Id.* at 6 (“Example 1”).

²¹⁶ See generally Brief for F.T.C. as Amicus Curiae, *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (Fed. Cir. 2010) (No. 2007-1386), 2010 WL 804423 (raising various concerns about the Federal Circuit’s analysis in *Princo*). To be fair, it does not appear that any party raised these issues in the ITC or on appeal. It is also possible that there was no such market.

²¹⁷ *Princo*, 616 F.3d at 1334.

stringent for an equitable defense, as well as inconsistent with case law holding that misuse is broader than antitrust. So how did the Federal Circuit establish this prerequisite? Most likely, already being in favor of strong patent rights, it took advantage of the controversy surrounding the 1988 Act, and specifically, efforts to impose antitrust analysis onto misuse. In addition, the Supreme Court's opinion in *Dawson*, though a 5-4 split and far from a model of clarity, included language evidencing skepticism of misuse, arguably suggesting tacit approval for the Federal Circuit's efforts to "cabin" misuse.²¹⁸

At a more substantive level, *Princo*'s anticompetitive effects mandate is disconcerting and perplexing. First, it appears to establish a very high threshold for a successful misuse defense.²¹⁹ Requiring as substantial an evidentiary showing of anticompetitive effects as *Princo* suggests seems contrary to the flexible nature and purpose of the defense. Second, to the extent the result is explained by seeking to harmonize antitrust and misuse (assuming harmonization is desirable), it falls short even of that. As noted *supra*, an antitrust violation does not always require thorough evidence of anticompetitive effects.²²⁰ Even where substantial evidence of anticompetitive effects is necessary, it is typically not demonstrated via direct effects, but rather indirectly via exclusionary conduct (such as an agreement to suppress competition) by a firm with market power.²²¹ Consequently, rather than harmonizing these doctrines, *Princo* creates the rather odd possibility that it may be more difficult to successfully assert misuse—an equitable defense—than an affirmative treble damages antitrust claim. By positing the existence of agreement to suppress competition and yet nevertheless concluding that there was no misuse, *Princo* makes clear that this is not just an academic, improbable result.²²²

²¹⁸ *Id.* at 1329–30 (“Congress enacted section 271(d) not to broaden the doctrine of patent misuse, but to cabin it.”).

²¹⁹ *See supra* Part IV.B.

²²⁰ *See supra* Part IV.D.

²²¹ *Id.*

²²² *Princo*, 616 F.3d at 1333.

V. CONCLUSION

Misuse has a long, robust history. It is based on various worthy policy goals, including preventing inequitable, abusive, and anticompetitive conduct by patent holders. While misuse shares several goals and concerns with antitrust, the laws are not coextensive. This article has put forth an argument why *Princo*, and indeed all Federal Circuit misuse cases, are inconsistent with Supreme Court precedent and bad policy. Hopefully *Princo's* holdings will be limited to the uncontroversial proposition that an antitrust violation need not also constitute misuse, and to the factual context of a collaborative R&D joint venture.²²³

While this article supports a vibrant misuse doctrine, it is neither oblivious nor unsympathetic to many of the concerns and issues raised by critics of the doctrine. Misuse lacks clear elements and definition. It grants a great deal of discretion to courts, which could certainly use more guidance on which types of conduct constitute misuse as well as a better analytic framework for evaluating misuse claims. Indeed, one reason why the Federal Circuit may have incorporated antitrust principles into misuse is to provide a more rigorous framework and discipline to misuse jurisprudence. While these are valid concerns and criticisms, in the end, not one makes an ultimately convincing argument that misuse should be eliminated, subsumed in antitrust, or limited to conduct traditionally found as misuse per se. Instead, this article proposes that the legal and policy grounds for misuse are strong enough to warrant attempting to resolve these problems rather than throwing in the towel. As some have noted, there is a certain amount of irony in applying the antitrust rule of reason as the panacea for misuse.²²⁴ While the analytic framework of the rule of

²²³ Indeed, once the majority determined that the Restriction and pooling arrangement were procompetitive, its conclusions as to misuse essentially became a *fait accompli*. When limited to the context of a procompetitive joint venture (as found by the majority), the conclusion becomes both narrow and unassuming.

²²⁴ Feldman, *supra* note 10, at 423 (noting that Chief Judge Posner even once remarked that the rule of reason is essentially a “euphemism for nonliability [sic]”).

reason is relatively clear, its application is far from the model of clarity and, indeed, has had its fair share of criticism.²²⁵

It does not appear likely that the Supreme Court or Congress will provide any guidance on misuse in the near future. Rather than eviscerate the doctrine or attempt to merge it with antitrust, however, there may be methods of modifying the doctrine to remedy the most problematic concerns. For example, it has been suggested that using procedural devices such as presumptions and burdens may alleviate some of the aforementioned concerns.²²⁶ Another possibility may be to permit flexibility in fashioning the appropriate remedy. Thus, a court might consider the extent of harm, the type of harm, and whether infringement was willful. The remedy could then vary from holding the patent unenforceable against the world, to unenforceable against a limited group or for a limited time period, to merely voiding a restriction. While a flexible remedy may not be entirely consistent with Supreme Court misuse cases, it would not be entirely contrary either. Indeed, in *Motion Picture Patents*,²²⁷ the case generally considered the nascent beginning of misuse, the Supreme Court merely held a restriction void, rather than holding the patent unenforceable. A more aggressive proposal for altering misuse has been made by Professor Bohannon, who contends that current misuse jurisprudence is improperly focused. Rather than focus solely on anticompetitive effects and the scope of the patent(s) at issue, she contends that the proper inquiry should be whether the conduct

²²⁵ See, e.g., Terry Cavali, *Some Thoughts on the Rule of Reason*, 2001 E.C.L.R. 201; Frank Easterbook, *The Limits of Antitrust*, 63 TEX. L. REV. 1, 9–10 (1984) (discussing problems with the “empty” rule of reason); see also Einer Elhauge, *Defining Better Monopolization Standards*, 56 STAN. L. REV. 253, 253 (2003) (criticizing the “vacuous standards and conclusory labels” in monopolization’s analysis of exclusionary conduct—which is similar to the rule of reason); ANTITRUST MODERNIZATION COMMISSION, REPORT AND RECOMMENDATIONS 91–94 (2007) (discussing various proposed standards for evaluating whether conduct is exclusionary), available at http://govinfo.library.unt.edu/amc/report_recommendation/amc_final_report.pdf.

²²⁶ Cotter, *supra* note 152, at 943, 946–48. Under this method, certain conduct, such as those likely to be procompetitive or innovative, could be presumed valid, while other conduct presumed suspect.

²²⁷ 243 U.S. 502 (1917).

leads to foreclosure of markets, innovation, or public access rights.²²⁸

The purpose and scope of this article is not to proffer a solution or even proposal for amending misuse. Rather, it is to argue in favor of a vigorous misuse doctrine that is independent of antitrust, and to contend that the Federal Circuit's incorporation of antitrust analysis into misuse is problematic and not the solution to the legitimate concerns raised about the doctrine.

²²⁸ Bohannon, *supra* note 10, at 500 (“I also attempt to develop a more coherent theory of misuse based on harm to IP policy due to foreclosure or exclusion. Under this view, IP misuse consists of practices (mainly involving licensing) that foreclose others from (1) competing in a particular market; (2) producing technology that they are otherwise lawfully entitled to develop (i.e., restraints on innovation); or (3) accessing information or technology that rightfully belongs in the public domain. In the course of developing this theory, I will also analyze how particular practices can raise foreclosure concerns.”).