The Legality of Patent Liscensing Schemes Under the Antitrust Laws

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The patent monopoly has been under antitrust suspicion since it came into being nearly four hundred years ago.[1] Antitrust challenges to the patent monopoly are generally brought as counterclaims to patent infringement suits, enforcement actions by the United States Department of Justice or the Federal Trade Commission (hereinafter "the enforcement agencies"), or as private actions against a refusal to deal. While many antitrust claimants have challenged the monopoly power of a patentee by alleging improper exploitation of the exclusive grant, few have succeeded.[2]

The patent laws expressly grant inventors a legal monopoly over their inventions for a period of twenty (20) years from the patent application date.[3] During this legal monopoly period, patentees are free to exclude others from making, using, selling, or offering to sell their inventions throughout the United States.[4] Accompanying this power is the right to transfer the exclusive grant to another party.[5] While there is no express right to license the use of a patent, courts have looked to common law to affirm this right.[6]

Traditionally, patent laws and antitrust laws were viewed as being in conflict,[7] with the former creating monopolies and the latter condemning them. Forty years ago, the United States Supreme Court resolved the conflict in favor of patentees. In *Simpson v. United Oil of California*,[8] the Court declared that patent laws control in the event of a conflict. More recently, the two sets of laws have been pronounced complementary laws because both are aimed at "encouraging innovation, industry and competition."[9] Consequently, it is unclear

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1 See Statute of Monopolies (1623) (England); Glynn S. Lunney, Jr., *Patent Law, the Federal Circuit, and the Supreme Court: A Quiet Revolution*, 11 S. Ct. Econ. Rev. 1, 47-48 (2004) (noting that the U.S. Supreme Court in *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966), declared that the Patent and Copyright Clause of the United States Constitution "was written against the backdrop of the practices—eventually curtailed by the Statute of Monopolies—of the Crown in granting monopolies to court favorites in goods or businesses which had long before been enjoyed by the public."); Zorina Khan, *Symposium on Antitrust and Intellectual Property: Federal Antitrust Agencies and Public Policy Toward Antitrust and Intellectual Property*, 9 Cornell J.L. & Pub. Pol'y 133 (1999) (citing the 1623 Statute of Monopolies as marking the beginning of the interplay between intellectual property laws and antitrust laws).

2 This update summarizes the recent developments in the antitrust laws concerning one mode of exploitation, patent licensing. It is a sequel to Mr. Carlton Varner's 1999 update on the same topic for the Antitrust Counselor publication. Carlton Varner, *Antitrust Aspects of Patent Licenses*, 52 Antitrust Counselor 8, Business Laws, Inc. (April 1999).

3 U.S. Constitution, Art. 1, § 8, cl. 8; 35 U.S.C. § 1 et seq.

4 35 U.S.C. § 154(a)(2).

5 35 U.S.C. § 261; see also *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 949 (Fed. Cir. 1993).

6 David A. Balto & Andrew M. Wolman, *Intellectual Property and Antitrust: General Principles*, 43 IDEA 395, 409 (2003).

7 See, e.g., *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981).

8 377 U.S. 13, 24 (1964) ("The patent laws … are in pari materia with the antitrust laws and modify them pro tanto.).

9 See, e.g., *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990).

what role the *Simpson* resolution plays in the modern interplay between patent and antitrust laws. Commentators have suggested that *Simpson* is still controlling law and that it is even the "mainstream principle" many courts have followed when faced with such a conflict in the laws.[10] The same commentators went on to say that the majority view is that "intellectual property rights trump the antitrust laws if a conflict arises between them."[11] The Federal Circuit, which has jurisdiction over claims arising under the Patent Act, is a visible defender of this principle, as demonstrated by the court's consistent rulings in favor of patentees who were faced with antitrust challenges.[12]

Contemporary antitrust challenges to patent licensing schemes are subjected to traditional antitrust review under the appropriate antitrust law. In recognition of the procompetitive effects of licensing arrangements, the enforcement agencies have developed three general principles for examining the antitrust aspects of intellectual property licensing.[13] The first principle is to treat intellectual property like any other tangible or intangible property.[14] The second is to presume that intellectual property rights do not confer market power.[15] The third is to presume that intellectual property licensing is generally procompetitive.[16] To this end, the agencies will not challenge any licensing arrangement that is not facially anticompetitive and that implicates a market share of less than twenty percent or that involves a technology market with four or more potential rivals.[17]

Recent developments in the law further tip the traditional antitrust analyses in favor of the patentees. Rarely have the courts or the enforcement agencies deemed a patent licensing scheme per se illegal because there is a presumption that a licensing agreement is not, by itself, anticompetitive.[18] Only horizontal licensing agreements without any procompetitive effects or that exceed the scope of the patent monopoly have been

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10 Peter M. Boyle; Penelope M. Lister; J. Clayton Everett, Jr., *Symposium: The Federal Circuit and Antitrust: Antitrust Law at the Federal Circuit: Red Light or Green Light at the IP-Antitrust Intersection?*, 69 Antitrust L.J. 739, n.53 (2002) (citing *In re Independent Serv. Orgs. Antitrust Litig.*, 989 F. Supp. 1131, 1137-39 (D. Kan. 1997) (citing *Miller Insituform, Inc. v. Insituform of N. Am.*, 830 F.2d 606, 609 (6th Cir. 1987), aff'd, 203 F.3d 1322 (Fed. Cir. 2000) (Xerox), cert. denied, 531 U.S. 1143 (2001); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 646-47 (9th Cir. 1981); *SCM Corp.*, 645 F.2d at 1206; *Zervicetrends, Inc. v. Siemens Med. Sys., Inc.*, 870 F. Supp. 1042, 1056 (N.D. Ga. 1994); *Lightwave Tech., Inc. v. Corning Glass Works*, No. 86-759(KC), 1991 WL 4737, at *7, 1991 U.S. Dist. LEXIS 543, at *19-20 (S.D.N.Y. 1991); *Chisholm-Ryder Co., Inc. v. Mecca Bros., Inc.*, 217 U.S.P.Q. 1322, at *58-61 (W.D.N.Y. 1983), aff'd, 746 F.2d 1489 (Fed. Cir. 1984); *GAF Corp. v. Eastman Kodak Co.*, 519 F. Supp. 1203, 1233 (S.D.N.Y. 1981)).

11 *Id.*

12 See, e.g., *Monsanto Co. v. McFarling*, 363 F.3d 1336 (Fed. Cir. 2004); *CSU, L.L.C. v. Xerox Corp. (In re Independent Serv. Orgs. Antitrust Litig.)*, 203 F.3d 1322 (Fed. Cir. 2000), cert. denied, 2001 U.S. LEXIS 1102 (February 20, 2001); *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999); *Schlafly v. Caro-Kann Corp.*, 1998-1 Trade Cas. (CCH) P72,138 (Fed. Cir. 1998) (unpublished opinion).

13 U.S. Dep't Of Justice & Federal Trade Comm'n, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995) [hereinafter "1995 Guidelines"] § 2.0; see also ABA Section of Antitrust Law, THE FEDERAL ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY: ORIGINS AND APPLICATIONS (2nd ed. 2002) [hereinafter "2002 ABA on Guidelines"], p. 18-27.

14 1995 Guidelines § 2.1.

15 *Id.* § 2.2.

16 *Id.* § 2.3.

17 *Id.* § 4.3; see also 2002 ABA on Guidelines, p. 56-59.

18 2002 ABA on Guidelines, p. 43-49.

subjected to the per se rule.[19] Of these, the enforcement agencies have challenged only those involving "pernicious conduct," such as group boycotts, price fixing, agreements to reduce output, and allocation of markets.[20] Examples of these rare instances are provided in the relevant sections below. On a few occasions, vertical restraints unrelated to the licensor's "legitimate interests" in the license have also been subjected to the per se rule.[21]

The vast majority of the restrictions in patent licenses are subjected to a rule of reason review.[22] The most frequently challenged license provisions concern exclusive licensing and dealing rights, royalty rates, territorial and customer restraints, fields of use, resale price maintenance, and tying and packaging arrangements. Challenges to provisions that require a licensee to grant the licensor the right to exploit any improvement made to the patented technology—that is, grant-back requirements—also arise. Both the courts and the agencies are especially suspicious of license restrictions that accompany tying or packaging arrangements, cross-licenses, or patent pools.[23] The following sections survey licensing schemes that have recently raised antitrust concerns and summarize the antitrust analysis that was applied to each scheme.

Unilateral Refusal to License: The Federal Circuit has declared that the antitrust laws do not require patentees to license their inventions to anyone.[24] The Ninth Circuit has indicated, however, that a patentee that unilaterally refuses to license an invention could trigger liability under the antitrust laws.[25]

Both the Ninth Circuit and the Federal Circuit have recently been faced with the task of determining whether naked refusals to license violate antitrust laws. The case before each court involved a major photocopier manufacturer's refusal to sell patented products to any independent service organization (ISO) that was not an end-user of its copiers.[26] The

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19 *Id.*; see also *Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 17 (1913) (patent licensing agreement in which the licensor fixed the price of sale to wholesalers, distributors, retailers, and the public fell outside the protective bounds of the patent monopoly and was deemed per se illegal); *Straus v. Victor Talking Machine Co.*, 243 U.S. 490, 501 (1917) (same); *Boston Store of Chi. v. Am. Graphophone Co.*, 246 U.S. 8, 25 (1918) (same); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 508-519 (1917) (patent-enforced tie-in deemed per se illegal); *United States v. New Wrinkle, Inc.*, 342 U.S. 371, 377 (1952) (pooling and price-fixing deemed per se illegal).

20 2002 ABA on Guidelines, p. 44.

21 See, e.g., *United States v. General Elec. Co.*, No. CV-96-121-M-CCL, 1997 U.S. Dist. LEXIS 5089, at *6 (D. Mont. Mar. 18, 1997); see also 2002 ABA on Guidelines, p. 46.

22 1995 Guidelines § 3.4.

23 2002 ABA on Guidelines, p. 81-85 (accounting for antitrust claims based on allegations of improper cross-licensing, patent pooling, and tying); *Matsushita Elec. Indus. Co. v. Cinram Int'l, Inc.*, 309 F. Supp. 2d 293, 298 (D. Conn. 2004) (cross-licensing and pooling); *United States v. Microsoft Corp.*, 253 F.3d 34, 84-97 (D.C. Cir. 2001, cert. Denied, 122 S. Ct. 350 (2001) (tying); *Indep. Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1165 (C.D. Cal. 2002) (tying); *Orion Elec. Co. v. Funai Elec. Co.*, 2002 U.S. Dist. LEXIS 3928, at *19-20 (S.D.N.Y. 2002) (tying); *Jac USA, Inc. v. Precision Coated Prod., Inc.*, 2003 U.S. Dist. LEXIS 4782 (N.D.Ill. March 25, 2003) (tying); *Applera Corp. v. MJ Research Inc.*, 309 F. Supp. 2d 293, 298 (D. Conn. 2004) (tying). In *Xerox*, the Federal Circuit in dicta identified tying claims as one of three legitimate antitrust challenges to an exclusive patent grant. 203 F.3d at 1327. The other two are (1) enforcement of an invalid patent and (2) sham litigation. *Id.* at 1326. Nonetheless, the court has never found against a patentee based on allegations of illegal tying in violation of antitrust laws.

24 See *Xerox*, 203 F.3d 1322, 1325-27.

25 See *Image Technical Service v. Eastman Kodak*, 125 F.3d 1195, 1212 (9th Cir. 1997).

26 *Kodak*, 125 F.3d 1195; *Xerox*, 203 F.3d 1322.

ISOs sued the manufacturers under Section 2 of the Sherman Act.[27] Although the two cases arrived in court under identical circumstances, they emerged from court as stark opposites.

The Ninth Circuit in *Image Technical Serv. v. Eastman Kodak*[28] affirmed a jury verdict that Kodak had monopolized by refusing to license the use of its parts, some of which were patented. While the Ninth Circuit found that the trial court abused its discretion by failing to give a jury instruction to the effect that Kodak's desire to protect its intellectual property rights was a legitimate justification for its refusal to deal, it held that the error was harmless under the circumstances of the case.[29] Central to the court's decision was Kodak's inability to proffer a legitimate business justification for its refusal.[30] The court explained that while there is a rebuttable presumption that a valid business reason lies behind every refusal, such a presumption could be overcome by probing the patentee's subjective motivation for the refusal.[31] It further held that if the motivation for the restriction was not the protection of the patentee's intellectual property rights, the court could find that a unilateral refusal to deal was unreasonable and a basis for antitrust liability.[32] The court derived its emphasis on the patentee's motivation primarily from the Supreme Court's leading decision on refusals to deal, *Aspen Skiing Co. v. Aspen Highlands Skiing Corp*.[33]

However, the Supreme Court recently limited the scope of *Aspen Skiing* in *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko*.[34] The Court held that "*Aspen Skiing* is at or near the outer boundary of § 2 liability" because it applies only to refusals to deal that were calculated to monopolize a product that is otherwise available to the public.[35] As such, the Ninth Circuit's application of Aspen Skiing to refusals involving patented products, which are ordinarily not available to the public, is ripe for challenge. Before *Trinko*, the Federal Circuit in *In re Independent Service Organization Antitrust Litigation (Xerox)* rejected the Ninth Circuit's subjective motivation test outright, without mentioning *Aspen Skiing*.[36] The court noted that it applies its own law, and not that of the circuit in which the case arises, in deciding a matter.[37] Applying both patent and antitrust laws, the court held that a naked refusal to license a lawfully acquired patent does not violate any antitrust law.[38] In reaching this conclusion, the court appeared to give great deference to the patentee's exclusive rights under the patent laws.[39]

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27 *Id*.

28 125 F.3d at 1212.

29 *Id*. at 1218-20.

30 *Id*.

31 *Id*.

32 *Id*. at 1214-20.

33 *Id*. at 1209, 1218.

34 ____ U.S. _____, 124 S. Ct. 872, 157 L. Ed. 2d 823 (2004).

35 *Id*. at 879-80.

36 *Xerox*, 203 F.3d at 1327. Note also that the Ninth Circuit took its rule from a First Circuit case that held that "exclusionary conduct can include a monopolist's unilateral refusal to license a copyright…." *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994).

37 *Id*. at 1325

38 *Id*. at 1325-27.

39 Boyle, Lister, & Everett, *supra* note 10.

Commentators have suggested that the Ninth Circuit holding is an outlier.[40] Several district courts have rejected outright antitrust challenges to naked refusals to license.[41] In construing a predecessor patent statute, the courts, including the Supreme Court, have held that the right to refuse to license stems from the right to exclude others from using, making, or selling the patented invention.[42] Although the enforcement agencies have suggested that naked refusals to license are not always lawful, recent enforcement activities do not shed light on the circumstances under which the agencies would view such refusals as unlawful.[43]

The Supreme Court kept this split in authority alive by denying the ISO's petition for certiorari in *Xerox*.[44] Only the Ninth Circuit has suggested that patentees' unilateral withholding of their patented inventions from the world can constitute an antitrust violation. As noted above, the Supreme Court's decision in *Trinko* casts doubt on the continuing vitality of *Kodak*. Concerted refusals to deal, however, remain at risk under antitrust laws.[45] The same is true for refusals to deal that are linked to a broader non-compete scheme.[46]

Exclusive Licensing and Exclusive Dealing: The Patent Act expressly allows a patent owner to convey his or her monopoly interest to others.[47] Courts have liberally construed this express grant to include the right to enter into exclusive licensing and exclusive dealing arrangements.[48] Under an exclusive license, a licensee can prevent the licensor from granting further licenses to any other party or require the licensor to relinquish his or her right to use the patent itself;[49] exclusive dealing restricts a licensee's right to license, sell, distribute, and use competing technologies.[50]

These arrangements are examined under a rule of reason standard.[51] A licensing agreement that contains both an exclusive licensing provision and an exclusive dealing provision may raise two separate antitrust challenges, according to the enforcement agencies.[52] Thus, they are discussed separately below.

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40 *See Id.*; see also 2002 ABA on Guidelines, p. 66.

41 *Crucible, Inc. v. Stora Kopparbergs Bergslags AB*, 701 F.Supp. 1157, 1162 (W.D. Pa. 1988) (refusals to license are permissible under patent laws); *GAF Corp. v. Eastman Kodak Co.*, 519 F.Supp. 1203, 1233 (S.D.N.Y. 1981) (refusals to license do not trigger any liability under antitrust laws).

42 *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 456-57 (1940); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1204 (2d Cir. 1981) (unilateral refusal to license expressly permitted under the patent laws); *Serv. & Training, Inc. v. Data Gen. Corp.*, 963 F.2d 680, 686 (4th Cir. 1992).

43 2002 ABA on Guidelines, p. 60-69.

44 *Xerox*, 531 U.S. 1143 (2001).

45 See, e.g., *Primetime 24 Joint Venture v. NBC*, 219 F.3d 92, 102-103 (2d Cir. 2000).

46 See *United States v. Gen. Elec. Co.*, 1997-1 Trade Cas. (CCH) P 71,765 (D. Mont. 1997); *United States v. Gen. Elec. Co.*, 1999-1 Trade Cas. (CCH) P 72,399 (D. Mont. 1999) (final judgment against GE).

47 35 U.S.C. § 261.

48 2002 ABA on Guidelines, p. 76-81(citing *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 949 (Fed. Cir. 1993) ("the grant of an exclusive license is a lawful incident of the right to exclude provided by the Patent Act.")).

49 *Id.*

50 2002 ABA on Guidelines, p. 78.

51 1995 Guidelines § 5.4; 2002 ABA on Guidelines, p. 76.

52 *Id.*

Exclusive licensing arrangements usually do not raise antitrust concerns.[53] Arrangements that have raised antitrust concerns have had the following combination of restrictions: (1) foreclosing both the licensor's right to grant further licenses and the licensee's right to grant sublicenses,[54] or (2) requiring the licensor to relinquish his or her right to use the patent and the licensee to give up his or her right to grant sublicenses.[55] Such arrangements appear to permit the licensor and licensee to boycott an undesirable prospective licensee through concerted action.[56] Likewise, exclusive licensing arrangements between parties in a horizontal relationship[57] or between patent pooling participants[58] have been subjected to antitrust scrutiny.

Recently, the Seventh Circuit in *Baxter Int'l Inc. v. Abbott Labs*[59] was presented with the question of whether the antitrust laws preclude the holder of an exclusive license to prevent the licensor from competing with the licensee/sublicensee. Baxter granted the licensee an exclusive worldwide license to sell its patented process.[60] Abbott obtained a sublicense to sell the process in the United States.[61] Before the patent expired, Baxter's competitor developed a rival process and planned to introduce the process into the market after getting a "me too" approval from the FDA.[62] Before that happened, Baxter acquired its rival and introduced the process itself, prompting Abbott to sue Baxter to enforce the exclusive license.[63] The parties submitted to arbitration in which Abbott prevailed.[64]

The Seventh Circuit affirmed the judgment against Baxter as a matter of arbitration law, but refused to further address the underlying issue concerning the scope of the parties' exclusive license.[65] The court held that parties to arbitration are bound by the arbitrator's holding, even if the arbitrator was wrong.[66] Specifically, the court noted the very limited question before it: "The arbitral tribunal in this case 'took cognizance of the antitrust claims and actually decided them.' Ensuring this is as far as our review legitimately goes."[67]

Although arbitration decisions have no precedential value, the Baxter holding is worth noting here. The *Baxter* arbitrator appeared to hold that antitrust laws do not trump an exclusive license agreement.[68] The Seventh Circuit's dissent suggested that this holding amounted to an instruction to horizontally allocate the market that should have been robustly reviewed by the court in spite of the public policy favoring arbitration.[69]

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53 *Id.*

54 *Id.* (citing *Bement v. National Harrow Co.*, 186 U.S. 70, 94 (1902)).

55 *Id.* at 77 (citing *Moraine Prods. v. ICI Am., Inc.*, 538 F.2d 134, 138-45 (7th Cir. 1976)).

56 *Moraine*, 538 F.2d at 141 (citing R. Nordhaus & E. Jurow, PATENT-ANTITRUST LAW, § 122 AT 434-35 (2d ed. Rev. 1972)).

57 2002 ABA on Guidelines, p. 77.

58 *Id.*; *Hartford-Empire*, 323 U.S. at 403-07 (patent pool); *Singer*, 374 U.S. at 190 (cross-licensing).

59 *Baxter Int'l Inc. v. Abbott Labs.*, 315 F.3d 829 (7th Cir. 2003).

60 *Id.* at 830.

61 *Id.* at 829.

62 *Id.*

63 *Id.* at 829.

64 *Id.* at 831.

65 *Id.* at 833.

66 *Id.* at 832.

67 *Id.*

68 *Id.* at 831.

69 *Id.* at 834.

Exclusive dealing provisions in patent licenses raise other antitrust concerns. Forty years ago, in *Tampa Electric Co. v. Nashville Coal Co.*,[70] the Supreme Court provided a framework for analyzing the competitive nature of exclusive dealing provisions in the general case, which courts later adopted in addressing exclusive dealing arrangements involving intellectual property.[71]

The Court in *Tampa Electric* weighed the probable effect of the exclusive dealing contract on competition against the probable and future effects of the preemption on competition.[72] In applying this balancing test, both the courts and the enforcement agencies have looked to factors such as purpose of the arrangement, duration and terminability of the agreement, degree of foreclosure, ease of entry, market concentration, and availability of less restrictive alternatives.[73] Recently, at least one court has held that short duration and terminability are not controlling, especially when there is no practical way to terminate the arrangement.[74] In contrast, another court denied summary judgment on the issue of terminability after finding that terminability was a question of fact.[75]

Frequently Used Restrictions: Courts have given patent owners great freedom in safeguarding their exclusive rights through the use of license restrictions. License restrictions that do not extend the patentee's monopoly power beyond the patent grant generally do not raise antitrust concerns.[76] A restriction deemed proper in one court could, however, constitute an improper mode of exploitation in another. Below is a survey of recently challenged restrictions and the antitrust analyses to which they have been subjected. Most of the recent antitrust challenges to license restrictions have focused on tying and packaging schemes and on cross-licensing and pooling agreements.

Royalty Requirements: "A patent empowers the owner to extract royalties as high as he can negotiate with the leverage of that monopoly," according to the Supreme Court in *Brulotte v. Thys Co.*[77] As such, few royalty provisions have been struck. Courts have upheld royalty calculations that are based on the use or sale of a patented product.[78] They have even upheld differential royalty calculations in licenses that do not involve the sale of goods.[79]

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70 365 U.S. 320 (1961).

71 See, e.g., *Susser v. Carvel Corp.*, 332 F.2d 505, 516-17 (2d Cir. 1964); *Preformed Line Products Co. v. Fanner Mfg. Co.*, 328 F.2d 265, 276 (6th Cir. 1964); *Warriner Hermetics, Inc. v. Copeland Refrigeration Corp.*, 463 F.2d 1002, 1011 (5th Cir. 1972); *Murphy Tugboat Co. v. Shipowners & Merchants Towboat Co.*, 467 F.Supp. 841, 861 (N.D. Cal. 1979); *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1353 (Fed. Cir. 1999).

72 365 U.S. 320, 329 (1961).

73 2002 ABA on Guidelines, p. 80.

74 *United States v. Dentsply, Inc.*, 2001-1 Trade Cas (CCH) P 73,247, at 90,139-41 (D. Del. 2001).

75 *Minnesota Mining & Mfg. Co. v. Appleton Papers, Inc.*, 35 F.Supp. 2d 1138 (D. Minn. 1999).

76 See *Mallinckrodt*, 976 F.2d at 703 (citing various Supreme Court rulings on the enforceability of licensing restrictions).

77 *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964); see also *Independent Serv. Org. Antitrust Litig.*, 964 F. Supp. 1479, 1490-91 (D. Kan. 1997) (patentees have considerable freedom to determine the amount and terms of royalty payments).

78 See, e.g., *USM Corp. v. SPS Tech*, 694 F.2d 505, 514 (8th Cir. 1982).

79 See *La Salle St. Press, Inc. v. McCormick & Henderson, Inc.*, 293 F. Supp. 1004, 1005 (N.D. Ill. 1968) (differential royalties are not subject to the Robinson-Patman Act, which bans price discrimination), aff'd in part and rev'd in part, 445 F.2d 84 (7th Cir. 1971).

The Seventh Circuit has affirmed a lower court ruling that licensing royalties are not subject to the Robinson-Patman Act, which bans price discrimination, even if commodities might be transferred in the same transaction.[80] However, royalty payments that bear no relationship to the use of the patent may raise antitrust concerns.[81] Royalty requirements that do not raise any antitrust concern may form the basis for a patent misuse defense to a patent infringement or other enforcement action.[82] Patent misuse is an equitable remedy analogous to the unclean hands defense of tort and contract laws. It allows the defendants in an infringement action to claim that the patentee is not entitled to the requested relief because the patentee has overreached his or her monopoly power, or that a license restriction is unenforceable because it falls outside the patent grant.[83] The Supreme Court in *Brulotte*, has deemed the following royalty requirements to be patent misuse: (1) setting royalty rates based on sales of non-patented end products that contain a patented item,[84] and (2) requiring licensees to pay royalty beyond the patent term.[85] The Court there held that the imposition of a royalty requirement beyond the patent term was an improper extension of the patent monopoly.[86]

Two recent cases have reiterated this holding, but they limited it to apply only in the patent misuse context.[87] A decision written by Judge Posner of the Seventh Circuit even criticized the *Brulotte* holding as a product of "dubious" reasoning.[88] In particular, that decision suggested "charging royalties beyond the term of the patent does not lengthen the patentee's monopoly; it merely alters the timing of the royalty payments."[89] After finding no authority to overrule *Brulotte*, the court accepted it under protest.[90] In the alternative, the court suggested that an extended royalty obligation could be voidable as an illegal contract term.[91]

Territorial and Customer Restraints: There have not been many cases decided in this area recently. Courts generally construe 35 U.S.C. § 261 as allowing patentees to carve up their monopoly territory as they see fit.[92] Patentees may also restrict a foreign licensee from importing to the United States[93] and a domestic licensee from exporting the patented item.[94] Territorial restraints bearing evidence of a conspiracy to eliminate a competitor, however, have been struck down.[95]

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80 *La Salle*, 293 F.Supp. at 1005.

81 *United States v. Microsoft*, 56 F.3d 1448 (D.C. Cir. 1995), rev'd, 159 F.R.D. 318 (D.D.C. 1995) (reinstating a consent decree prohibiting Microsoft's requirement that computer manufacturers pay a license fee each time any computer was shipped regardless of whether the computer contained the Microsoft operating system).82 Note that a restriction that does not amount to a patent misuse cannot support an antitrust challenge under the Sherman Act, according to the Federal Circuit. See *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 873 (Fed. Cir. 1997); *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1343 (Fed. Cir. 2004).

83 *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703-708 (Fed. Cir. 1992).

84 *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969).

85 *Brulotte*, 379 U.S. at 33.

86 *Id*.

87 *Scheiber v. Dolby Labs, Inc.*, 293 F.3d 1014, 1016-18 (7th Cir. 2003), cert. denied, 537 U.S. 1109 (2003); *Von Essen, Inc. v. Marnac, Inc.*, 2002 U.S. Dist. LEXIS 34, at *14 (N.D. Tx. 2002).

88 293 F.3d at 1017-18.

89 *Id*. at 1018.

90 *Id*. at 1019.

91 *Id*. at 1021-23.

92 *Ethyl Gasoline*, 309 U.S. at 456.

93 *United States v. Westinghouse*, 648 F.2d 642, 647-649 (9th Cir. 1981).

94 *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 128-129 (9th Cir. 1954); Atari, 897 F.2d at 1578.

95 See, e.g., *Int'l Wood Processors v. Power Dry, Inc.*, 792 F.2d 416, 421-422, 428-429 (4th Cir. 1986).

Within reason, patentees may also limit their licensee's customer base[96] and the quantity produced by a licensee.[97] There is a split in authority on the propriety of patent licenses that restrict the production quantity of non-patented products.[98]

Ultimately, the freedom to impose territorial restrictions and the like disappears following the first sale of the patented product.[99]

Field of Use Restrictions: A "field of use" provision restricts the licensee's use to one or more particular fields.[100] A patentee's exclusive rights encompass the right to restrict the license's field of use.[101] "Field of use" provisions that do not extend the scope of the patent monopoly are generally upheld.[102] Antitrust challenges to "field of use" restrictions are subjected to a rule of reason review.[103]

Recently, the Federal Circuit suggested that a one-time use restriction is not a "field of use" restriction.[104] In *Monsanto Co. v. McFarling*, the licensor owned a patent for genetically modified soybeans.[105] It granted the licensee the right to plant its patented soybean seeds for one season.[106] During the next season, the licensee planted seeds generated from the patented seeds without obtaining another license and thus allegedly infringed the licensor's patent.[107] The court found that Monsanto was not trying to enforce a "field of use" restriction, and it granted summary judgment for Monsanto on the ground that the restriction was neither patent misuse nor tying.[108]

Resale Price Restrictions: Resale price restrictions generally arise in the context of a license to manufacture a patented product.[109] Patentees have retained control over their inventions upon granting a license to manufacture by imposing price restrictions on the first sale of the patented product and on the resale of those products.[110] Case law on point provides more uncertainty than clarity on the circumstances under which such price restrictions are considered antitrust violations.[111]

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96 *In Re Yarn Processing Patent Validity Litig.*, 541 F.2d 1127, 1135 (5th Cir. 1976).

97 *United States v. Parker-Rust-Proof*, 61 F.Supp. 805, 812 (E.D. Mich. 1945).

98 *Compare Am. Equip. Co., v. Tuthill Bldg. Material Co.*, 69 F.2d 406, 409 (7th Cir. 1934), with *Q-Tips, Inc. v. Johnson & Johnson*, 109 F.Supp 657, 660 (D.N.J. 1951), modified, 207 F.2d 509 (3rd Cir. 1953).

99 See, e.g., *Adams v. Burke*, 84 U.S. 453, 455-57 (1873) (explaining the application of the exhaustion doctrine); *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942) (same).

100 Balto & Wolman, *supra* note 6, at 439.

101 *United States v. Westinghouse Elec. Corp.*, 471 F.Supp. 532, 541 (N.D. Cal. 1978), aff'd, 648 F.2d 642 (9th Cir. 1981).

102 *Gen. Talking Pictures v. Western Elec. Co.*, 304 U.S. 175, 181 (1938);Va. *Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 871-874 (Fed. Cir. 1997) (an use restriction that does not constitute a patent misuse cannot constitute an antitrust violation).

103 Balto & Wolman, *supra* note 6.

104 *Monsanto*, 363 F.3d at 1343.

105 *Id.* 1338-40.

106 *Id.*

107 *Id.*

108 *Id.* at 1352.

109 2002 ABA on Guidelines, p. 69.

110 *Id.*

111 Balto & Wolman, *supra* note 6, at 439 n.278 (citing William C. Holmes, INTELLECTUAL PROPERTY AND ANTITRUST vol. 1, § 2.01, 2-2 (West 2002)).

In 1926, the Supreme Court held in *United States v. General Elec. Co*. that first-sale price fixing is not per se illegal.[112] The enforcement agencies disagree and have since tried to overturn *General Electric*, but to no avail.[113] On two occasions, the Supreme upheld the lower courts' decision against the agencies by an evenly divided court.[114] While the Court has not overruled its *General Electric* holding, it has limited its scope by treating certain price restrictions in patent licenses as per se illegal.[115] The Court's subsequent rulings have done little to settle this area of law.[116] Thus, commentators suggest that practitioners exercise caution before advising clients to agree to a price restriction in an intellectual property licensing agreement, even one comparable to that in *General Electric*.[117] The *General Electric* patentee granted only licenses in which it could fix the first sale price of the patented product.[118]

It is equally unclear how price restrictions on the resale of patented products are treated under antitrust laws. Outside the patent context, the Supreme Court in *State Oil Co. v. Khan* reiterated that minimum resale price restrictions are per se illegal, but held that maximum resale price restrictions are given a rule of reason review.[119] The enforcement agencies have interpreted two subsequent Supreme Court cases as applying the per se rule to resale price restrictions in the patent context, and thus, have challenged such restrictions accordingly.[120]

Grant-Back Provisions: There has been little movement in this area recently. A grant-back gives the licensor the right to exploit the improvements that the licensee makes using the patented technology.[121] Grant-back provisions are generally upheld following a rule of reason review.[122] Recently, the Department of Justice approved a set of grant-back provisions that accompanied three patent pools created for the purpose of monitoring standard compliance.[123] The Department found no basis on which to object to the provisions because they were limited to "essential" improvements.[124] Note, however, that grant-back provisions that serve to extend a dominant firm's market power by granting that firm exclusive rights to improvements, especially non-essential improvements, will likely raise antitrust concerns.[125]

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112 272 U.S. 476 (1926).

113 2002 ABA on Guidelines, p. 70.

114 See *United States v. Line Material Co.*, 333 U.S. 287, 291-304 (1948); *United States v. Huck Mfg. Co.*, 382 U.S. 197 (1965).

115 *Line Material*, 333 U.S. at 303 (cross licenses and price fixing provisions); *Newburg Moire Co. v. Superior Moire Co.*, 237 F.2d 283, 291-94 (3d Cir. 1956); *United States v. Vehicular Parking*, 54 F. Supp. 828, 834, modified, 56 F. Supp. 297 (D. Del. 1944), modified, 61 F. Supp. 656 (D. Del. 1945); *Ansul Co. v. Uniroyal, Inc.*, 306 F. Supp. 541, 558-59 (S.D.N.Y. 1969).

116 2002 ABA on Guidelines, p. 69-70.

117 *Id*.

118 272 U.S. 476.

119 522 U.S. 3, 15-18 (1997).

120 1995 Guidelines § 5.2 (citing *Ethyl Gasoline*, 309 U.S. 436; *Univis Lens Co.*, 316 U.S. 241).

121 2002 ABA on Guidelines, p. 86.

122 2002 ABA on Guidelines, p. 86; 1995 Guidelines § 5.6; *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 642-647 (1947); *Santa Fe-Pomeroy, Inc. v. P&Z Co., Inc.*, 569 F.2d 1084, 1101-02 (9th Cir. 1984).

123 2002 ABA on Guidelines, p. 86.

124 *Id*.

125 *Id*. at 86-87.

Tying and Packaging Arrangements: Antitrust challenges to licenses that tie or package patented products with non-patented products have been keeping the courts busy. "Tying" or "tie-in" or "tied sale" occurs when a patentee conditions the license to use, make, or sell the desired patented product (the "tying" product) on the purchase of an unwanted product (the "tied" product).[126] Tying may also arise from a "package license" for a group of patented products or for a mixed bag of patented and non-patented products.[127]

Like the tying of non-patented products or services, a tying arrangement involving intellectual property violates Section 1 of the Sherman Act when the following four circumstances are present: 1) the tying and tied products or services are distinct; 2) the license to use, make, or sell the tying product is conditioned on the purchase of the tied product; 3) the licensor has market power in the relevant market for the tying product; and 4) the tied product involves a "not insubstantial" amount of interstate commerce.[128]

Outside the context of intellectual property, if the licensor has market power in the tying product, then the tying arrangement is deemed per se unlawful.[129] However, the enforcement agencies have expressed a willingness to mine for procompetitive effects of "tie-ins" involving intellectual property.[130] Recently, the D.C. Circuit in *United States v. Microsoft Corp*. held that the per se rule is inapplicable to platform software markets.[131]

Recent developments suggest that, of the four requirements for establishing a tying claim, the two biggest hurdles for challengers of patent tie-ins are establishing market power and distinguishing the products.[132] Disagreements in case law on whether a patent grant confers market power muddy the traditional antitrust analysis on tying. The agencies presume that a patent grant does not confer market power.[133] Although the courts have been at odds on this issue,[134] the current view in the lower courts appears to be in line with that of the agencies.[135] In *Jefferson Parish Hospital v. Hyde*, the 5-4 majority of the Supreme Court said that it is "fair to presume" that a patent gives the seller market power, [136] but the lower courts have since expressed considerable doubt about the viability of this observation.[137] In *Abbott Laboratories v. Brennan*, the Federal Circuit pointed out that there is no market power where there are close substitutes for the patented product.[138] In *Image*

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126 See *International Salt v. United States*, 332 U.S. 392 (1947); *SystemCare Inc. v. Wang Lab. Corp.*, 117 F.3d 1137, 1139 (10th Cir. 1997) (citing definition of tying provided in *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958)).

127 See *SystemCare*, 117 F.3d 1137.

128 *Jefferson Parish Hosp. v. Hyde*, 466 U.S. 2, 12-18 (1984).

129 *U.S. Steel Corp. v. Fortner Enter., Inc.*, 429 U.S. 610, 620 (1977).

130 2002 ABA on Guidelines, p. 73.

131 253 F.3d 34, 84-97 (D.C. Cir. 2001, cert. denied, 122 S. Ct. 350 (2001).

132 *Jefferson Parish*, 466 U.S. at 18-21.

133 1995 Guidelines §§ 2.2 and 5.3.

134 See, e.g., *Jefferson Parish*, 466 US at 16 (a patent grant creates a presumption of market power); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1355 (Fed. Cir. 1991) (a patent grant creates no presumption of market power); *Kodak*, 125 F.3d 1195, 1208 (9th Cir. 1997) (viewed patents as entry barriers that permit a finding of monopoly power).

135 *Indep. Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1165 (C.D. Cal. 2002); *Orion Elec. Co. v. Funai Elec. Co.*, 2002 U.S. Dist. LEXIS 3928, at *19-20 (S.D.N.Y. 2002).

136 *Jefferson Parish*, 466 U.S. at 11.

137 *Indep. Ink*, 210 F. Supp. 2d at 1165, n9 (discussing disagreement with the *Jefferson Parish* market power presumption).

138 *Abbott*, 952 F.2d at 1355.

Technical Service v. Eastman Kodak, the Ninth Circuit, on remand from a Supreme Court decision finding market power, found that the entry barrier of patents supported a finding of market power.[139] Recently, at least two lower courts have dismissed a tying claim based on lack of evidence of market power.[140]

The Federal Circuit and at least two lower courts have recently had the opportunity to evaluate a tying claim on the basis of the strength of the evidence on separateness of the products in question. In April 2004, the Federal Circuit in *Monsanto Co. v. McFarling* held that soybean seeds generated from the planting of patented seeds are "nearly identical" to the patented seeds.[141] Consequently, the licensor's ban on the unlicensed planting of second-generation seeds did not amount to an illegal tying.[142] The Federal Circuit further complicated the tying analysis by ruling that a tying arrangement must at least constitute a misuse to form the basis for an antitrust claim.[143]

The lower courts, however, have held in favor of licensees on separateness issues. In *Jac United States v. Precision Coated Products*,[144] a district court looked to whether the tied product was a staple or non-staple product in resolving the issue of separateness. A staple product is one "that was not specifically designed for use with the patented process and has substantial, efficient and feasible uses outside of the patent."[145] In contrast, a non-staple product is "one which was designed to carry out the patented process and has little or no utility outside the patented process."[146] Generally, patentees cannot tie the purchase of a staple product to a patent license.[147] Because the tied product in question had been sold for purposes unrelated to the patented product, the court denied the licensee's motion for summary judgment on the issue of tying.[148]

In *Applera Corp. v. MJ Research Inc.*,[149] a district court denied a licensor's motion in limine to preclude evidence that it had packaged or tied rights to various patented processes. The licensor argued that there was no basis for a tying challenge, given that it had offered the licensee the rights to the two sets of patents separately.[150] In response, the licensee asserted that the separate offer was valid only for suppliers who purchased licenses for the process patent rights.[151] Furthermore, the licensee argued, even if the licensor offered licenses for the two sets of patent rights separately, suppliers (including the suing licensee) were coerced into purchasing the entire package.[152] After reviewing the fee schedules for the separate licenses and for the package licenses, the court ruled that the differences in fees,

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139 *Kodak*, 125 F.3d at 1208.

140 *Id*.

141 *Monsanto*, 363 F.3d at 1343.

142 *Id*.

143 *Id*.

144 *Jac*, 2003 U.S. Dist. LEXIS 4782, at *45-47 (N.D.Ill. Mar. 25, 2003) (citing *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 200-201 (1980)).

145 *Id*. at 47.

146 *Id*.

147 *Id*. at 45.

148 *Id*. at 51.

149 309 F. Supp. 2d 293, 298 (D. Conn. 2004).

150 *Id*. at 294.

151 *Id*. at 296.

152 *Id*. at 296-98.

among other things, demonstrated a sufficient factual dispute on whether the licensor coerced its licensee into taking the package deal to allow the evidence to be introduced.[153]

Although the Federal Circuit has suggested that tying is among the most viable antitrust challenges to the exclusive rights conferred by a patent grant, it has never ruled against a patentee in antitrust claims on the basis of illegal tying.[154] The court's tying analysis is considered "consistent with the law of other circuits," however.[155] Unlike the Federal Circuit, the Ninth Circuit has shown a willingness to find against a patentee faced with a tying challenge.[156] Outside the Ninth Circuit, however, it appears that tying claims involving patentees are regarded with suspicion.

Cross-Licensing and Patent Pooling: Cross-licensing and patent pooling are agreements among owners of different patents to license one another or third parties, respectively.[157] These agreements are subjected to a rule of reason analysis,[158] unless they involve competitors[159] or amount to naked price fixing[160] or market division agreements.[161] Horizontal agreements that involve "blocking patents," however, are subjected to a rule of reason review.[162] A "blocking patent" is a patent that renders another patent useless because it "covers a vitally related feature" of the patented process.[163] The Supreme Court has long recognized that the exchange of blocking patents is a legitimate purpose of a pooling agreement.[164]

An examination of the enforcement agencies' recent antitrust analysis of pooling arrangements shows that patent pools with the following characteristics will likely escape liability under the antitrust laws: (1) are non-exclusive in nature, (2) involve only "blocking patents" or patent processes that are "essential" to complying with an industry standard, (3) provide for equal access to third parties, or (4) have procompetitive justifications.[165] The Department of Justice recently approved three patent pools involving the MPEG-2 standard or DVD-ROM and DVD-video standards because some or all of the above features were built into the pools.[166] The court in *Matsushita Electrical Industrial Co. v. Cinram International, Inc.* relied on this DOJ approval to dismiss an antitrust counterclaim against one of the pooling participants.[167]

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153 *Id*. at 299.

154 See generally *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986); *Xeta, Inc. v. Atex, Inc.*, 852 F.2d 1280 (Fed. Cir. 1988); *Virginia Panel*, 133 F.3d at 870-71; *Schlafly v. Public Key Partners*, 1998 WL 205766 (Fed. Cir. April 28, 1998); *Ricoh Co., Ltd. v. Nashua Corp.*, 1999 WL 88969 (Fed. Cir. Feb. 18, 1999) (unpublished opinion).

155 See Boyle, Lister, & Everett, *supra* note 10.

156 See *Datagate v. Hewlett-Packard Co.*, 60 F.3d 1421, 1423-24 (9th Cir. 1995) (applying per se principles to tying); see also *Caldera, Inc. v. Microsoft Corp.*, 72 F. Supp. 2d 1295, 1321-28 (D. Utah 1999) (denying summary judgment to Microsoft on plaintiff's per se tying claim).

157 2002 ABA on Guidelines, p. 81.

158 *Id*.

159 See *Standard Oil* (Ind.), 283 U.S. at 168-69; *Hartford-Empire*, 323 U.S. at 401-02; *Singer*, 374 U.S. at 189-90.

160 *Line Material*, 333 U.S. at 306-08; *New Wrinkle*, 342 U.S. 371, 377 (1952).

161 1995 Guidelines § 5.5.

162 *Carpet Seaming Tape Licensing Corp. v. Best Steam, Inc.*, 616 F.2d 113, 1142 (9th Cir. 1980).

163 *Id*.; see also *Standard Oil (Ind.)*, 283 U.S. at 171, n.5.

164 *Id*.; see also *Carpet Seaming*, 616 F.2d at 1142 (citing Standard Oil (Ind.) for the proposition that the exchange of blocking patents is a legitimate purpose of patent pooling).

165 2002 ABA on Guidelines, p. 84-85; see also 1995 Guidelines § 5.5.

166 2002 ABA on Guidelines, p. 84.

167 299 F.Supp. 2d 370, 378-79 (D. Del. 2004).

In contrast, the FTC filed a complaint against *Summit Technology, Inc.* and VISX because their pool lacked many of the basic features described above.[168] Both patentees held rights in a laser eye surgery equipment and, under the terms of their pooling arrangement, neither could license its own technology outside of the pool without the approval of the other.[169] The FTC alleged that, since the parties would have competed against each other absent their pool, the arrangement eliminated the competition that would have existed for the laser eye surgery equipment markets.[170]

Accordingly, cross-licensing and pooling arrangements that are equipped with procompetitive features, such as the basic features identified by the agencies, will likely escape antitrust challenges. When in doubt, pooling participants should seek an enforcement review of their arrangement to determine how best to prevent potential antitrust challenges to their pool.

Conclusion: Recent developments in antitrust laws show that patent licensing schemes deemed procompetitive in one court can be found anticompetitive in another. Antitrust challenges to patent licensing schemes before the Federal Circuit have been consistently struck down in deference to the patent laws. Commentators have suggested that the Federal Circuit's antitrust approach is consistent with the approach taken by most courts. The Ninth Circuit, however, remains more suspicious of patentees' antitrust motives and, as a result, appears to be subjecting patentees to more rigorous antitrust scrutiny.

168 2002 ABA on Guidelines, p. 85.

169 *Id*.

170 *Id*.