

## Four Questionable Rationales for the Patent Misuse Doctrine

Thomas F. Cotter\*

### I. INTRODUCTION

In a series of cases dating from the middle of the twentieth century the United States Supreme Court held that if a patent infringement defendant could demonstrate that the patent owner had misused its patent, the patent would be rendered unenforceable unless and until the misuse was purged.<sup>1</sup> The Court has never clearly defined the term “misuse,” however.<sup>2</sup> Nor has it presented a coherent articulation of the policies that underlie the doctrine, though in some cases it has drawn on competition and patent exhaustion principles,<sup>3</sup> and it has analogized the doctrine to the equitable doctrine of unclean hands.<sup>4</sup> Notwithstanding the relation of misuse to competition policy, however, the Court also has intimated that misuse and

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\* Briggs and Morgan Professor of Law, University of Minnesota Law School. I prepared this essay for presentation at the Antitrust and Innovation Symposium, Stanford School of Law, Stanford, California, in May 2010, and presented a revised version of the essay at the University of Wisconsin Law School in February 2011. I thank Nicholas Tymoczko for research assistance and conference/workshop participants for useful comments and critique. Any errors that remain are mine.

1. See, e.g., *Mercoird Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 670 (1944); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491–94 (1942), *abrogated in part on other grounds by* *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006).

2. It has, for example, referred to misuse as “attempts to broaden the physical or temporal scope of the patent monopoly,” *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971), but as discussed below definitions that refer to patent scope raise as many questions as they answer.

3. See Herbert J. Hovenkamp, *Post-Sale Restraints and Competitive Harm*, 67 N.Y.U. ANN. SURV. AM. L. 101, 120–23 (2011).

4. See *Morton Salt*, 314 U.S. at 492–93.

substantive antitrust law are not necessarily coextensive;<sup>5</sup> and misuse clearly departs from antitrust in terms of both remedy (unenforceability of the misused patent, instead of treble damages)<sup>6</sup> and standing (any patent defendant may assert the misuse defense, even if he or she is not a victim of the misuse).<sup>7</sup> In recent years, most of the significant misuse cases have come from the United States Court of Appeals for the Federal Circuit, which defines patent misuse as the “impermissibly broaden[ing of] the ‘physical or temporal scope’ of a patent with anticompetitive effect.”<sup>8</sup> Like the Supreme Court precedents, this definition too suggests a connection between misuse and competition policy but leaves many of the details unclear. In addition, a few other courts have extended the misuse concept to copyright law, with varying definitions and articulations of policy.<sup>9</sup>

Scholars who have written about misuse, including Christina Bohannon,<sup>10</sup> John Cross and Peter Yu,<sup>11</sup> Robin Feldman,<sup>12</sup> and me,<sup>13</sup> have identified (or in some instances have inspired me to imagine) various policies that *might* be advanced by the patent and copyright misuse doctrines. Limiting the present discussion to patent misuse in particular, it is useful to distinguish four different rationales that

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5. See *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969); *Morton Salt*, 314 U.S. at 490, 494.

6. See *Morton Salt*, 314 U.S. at 493.

7. See *id.* at 494.

8. *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986) (citing *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971)). The court reaffirmed this definition in *Princo Corp. v. Int'l Trade Comm'n (Princo II)*, 616 F.3d 1318, 1328 (Fed. Cir. 2010), *petition for cert. filed*, 79 U.S.L.W. 3435 (U.S. Jan. 5, 2011) (No. 10-898).

9. See, e.g., *Assessment Techs. of Wis., LLC v. WIREdata, Inc.*, 350 F.3d 640, 646–47 (7th Cir. 2003) (*dicta*); *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191, 204–06 (3d Cir. 2003); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976–77 (4th Cir. 1990).

10. See Christina Bohannon, *IP Misuse as Foreclosure*, 96 IOWA L. REV. 475 (2011).

11. See John T. Cross & Peter K. Yu, *Competition Law and Copyright Misuse*, 56 DRAKE L. REV. 427 (2008).

12. Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399 (2003).

13. See Thomas F. Cotter, *Misuse*, 44 HOUS. L. REV. 901 (2007) [hereinafter Cotter, *Misuse*]; Thomas F. Cotter, *The Procompetitive Interest in Intellectual Property Law*, 48 WM. & MARY L. REV. 483, 498–506, 539–41 (2006) [hereinafter Cotter, *Procompetitive*].

plausibly could support a patent misuse doctrine. The first rationale proposes that, to the extent misuse is coextensive with substantive antitrust law, it serves the legitimate purpose of discouraging antitrust violations that otherwise might go undetected or unenforced. I will refer to this rationale as the “optimal deterrence of substantive antitrust violations” rationale, or “optimal antitrust deterrence” for short. A second possible rationale is that misuse doctrine constrains intellectual property (IP) owners from engaging in certain types of conduct that, on balance, threaten to impose greater social costs than social benefits, but that neither antitrust nor other IP doctrines otherwise would forbid. I will refer to this as the “social welfare” rationale. The third rationale in a sense combines the first two by positing that courts can employ the misuse doctrine to discourage conduct (1) that threatens anticompetitive harm (for example, by reducing the dynamic efficiency gains from future innovation) that may be too tenuous or speculative for antitrust purposes; and (2) the toleration of which is unlikely to have adequate offsetting positive effects on the patent incentive scheme. In other words, perhaps in some instances involving patent-related conduct, the expected harm from “false negatives” (wrongly exonerating anticompetitive conduct) outweighs the expected harm from “false positives” (wrongly condemning procompetitive or competitively neutral conduct); if antitrust is not designed to handle such cases very well, then perhaps IP law can address them by characterizing the conduct at issue as, in appropriate circumstances, misuse. I will refer to this rationale as the “optimal deterrence of anticompetitive conduct that lies beyond the reach of antitrust” rationale, or “beyond antitrust” for short. The fourth rationale casts the misuse doctrine as a tool for preventing IP owners from using the threat of litigation to encroach upon the public domain. In theory, this “public domain”<sup>14</sup> rationale could apply to some exercises of patent, as well as copyright, rights.

To cut to the chase, I remain skeptical of the first rationale as a justification for a misuse standard that does nothing more

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14. I will use the same the term used by Professor Bohannon for this rationale, although she appears to confine this rationale to the realm of copyright misuse. *See* Bohannon, *supra* note 10, at 497–500. She also applies this rationale to licensing and technological restrictions on the public domain, not just to encroachments resulting from the threat of litigation, *see id.*, but I will confine my discussion to the latter. *See infra* Part V.

than mirror substantive antitrust law. Although the second and third rationales may have merit in some specific instances, for the most part I think it would be a mistake to adopt a misuse standard that is substantially more expansive than the parallel antitrust standards. The fourth rationale provides a plausible reason for classifying a subset of copyright owner behavior as misuse but probably should not be extended to the patent realm. Notwithstanding the efforts of gifted scholars to justify the patent misuse doctrine, the doctrine's theoretical foundations remain shaky.

Parts II through V discuss each of the four rationales sketched out above. Part VI concludes.

## II. OPTIMAL DETERRENCE OF SUBSTANTIVE ANTITRUST VIOLATIONS

In some cases, offenses that constitute misuse also constitute violations of substantive antitrust law. The most obvious example is tying, which is sometimes an antitrust offense<sup>15</sup> and sometimes an act of patent misuse as well.<sup>16</sup> To be sure, under current law, it is not entirely clear that misuse-by-tying and tying as an antitrust offense are identical.<sup>17</sup>

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15. See, e.g., *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984), *abrogated in part on other grounds* by *Ill. Tool Works, Inc. v. Indep. Ink., Inc.*, 547 U.S. 28 (2006).

16. See, e.g., *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491–94 (1942), *abrogated in part on other grounds* by *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006).

17. For tying to constitute a “per se” violation of the Sherman Act, the plaintiff must prove (1) market power in the market for the tied good; (2) that the tying and tied goods are separate products, meaning that there is separate consumer demand for the two; (3) that consumers are coerced into buying the tied product with the tying product; and (4) foreclosure of a substantial volume of commerce in the market for the tied good. See *United States v. Microsoft Corp.*, 253 F.3d 34, 85 (D.C. Cir. 2001). Some courts have required proof of additional elements, such as anticompetitive effect in the market for the tied good, see, e.g., *United Farmers Agents Ass’n v. Farmers Ins. Exch.*, 89 F.3d 233, 235 n.2 (5th Cir. 1996); *Gonzalez v. St. Margaret’s House Hous. Dev. Fund Corp.*, 880 F.2d 1514, 1516–17 (2d Cir. 1989) (citing *Yentsch v. Texaco, Inc.*, 630 F.2d 46, 56–57 (2d Cir. 1980)), or that the defendant has an economic interest in the market for the tied product. See, e.g., *Reifert v. S. Cent. Wis. MLS Corp.*, 450 F.3d 312, 316–17 (7th Cir. 2006); see also *Microsoft*, 253 F.3d at 89–97 (applying a rule of reason analysis to allegations that Microsoft illegally tied its operating system and browser). The defendant also may assert as a defense the procompetitive benefits of the tie. See *Jefferson Parish*, 466 U.S. at 34 n.1 (O’Connor, J., concurring) (citing *United States v. Jerrold Elecs. Corp.*, 187 F. Supp. 545, 559–60 (E.D. Pa. 1960), *aff’d*, 365 U.S. 567 (1961) (per

Moreover, under current law some conduct that rarely would violate the antitrust laws constitutes misuse; extracting a promise to pay patent royalties after the expiration of a patent is the leading example.<sup>18</sup> There also remains considerable

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curiam)); *Little Caesar Enters. v. Smith*, 34 F. Supp. 2d 459, 470 n.16 (E.D. Mich. 1998). Moreover, although patents and copyrights were at one time presumed to confer market power, that is no longer the case in antitrust tying cases since *Illinois Tool Works*, 547 U.S. at 45–46. Note also that, although I have used the words “goods,” “products,” and “purchase” in the preceding sentences, tying law can come into play regardless of whether the defendant tied services or patents, *see, e.g.*, *U.S. Philips Corp. v. Int’l Trade Comm’n*, 424 F.3d 1179 (Fed. Cir. 2005) (considering legality, under the patent misuse doctrine, of patent-to-patent tying), or whether the defendant used sales or other transactional forms to effect the tie. Clayton Act § 3, for example, though it applies only to ties of “commodities,” specifically refers to leases as well as sales and to both patented and unpatented commodities. *See* 15 U.S.C. § 14 (2006). Although some courts have stated that it may be easier to prove a violation of Clayton Act § 3 than of Sherman Act § 1, *see, e.g.*, *Allied Orthopedic Appliances Inc. v. Tyco Health Care Grp. LP*, 592 F.3d 991, 996 n.1 (9th Cir. 2010) (discussing exclusive dealing claims), the dominant view is that the substantive standards for tying claims under the two statutes is identical. *See, e.g.*, *De Jesus v. Sears, Roebuck & Co.*, 87 F.3d 65, 70 (2d Cir. 1996).

Since the passage of the Patent Misuse Reform Act of 1988, for tying to constitute patent misuse the infringement defendant similarly has had to prove market power in the market for the tying product or patent. *See* Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified as amended at 35 U.S.C. § 271(d)(5) (2006)). Although one court appears to have concluded that, in enacting the Reform Act, Congress intended for patent misuse by tying to be evaluated under the rule of reason, *see In re Recombinant DNA Tech. Patent & Contract Litig.*, 850 F. Supp. 769, 777 (S.D. Ind. 1994), the Federal Circuit has yet to consider this argument. *See U.S. Philips*, 424 F.3d at 1186 n.1. Moreover, although some Federal Circuit case law characterizes the elements of patent misuse by tying as being distinct from the elements of tying as an antitrust violation, the court’s decision in *U.S. Philips* appears largely to equate the two—or perhaps to make misuse by tying *more* difficult to prove than antitrust tying by expressly requiring proof of anticompetitive effect in the market for the tied patent. *Compare Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 670 n.14 (Fed. Cir. 1986) (noting that antitrust tying law requires a determination of whether two separate goods, as defined by consumer demand, are being tied, whereas the law of misuse “need not look to consumer demand (which may be non-existent) but need look only to the nature of the claimed invention as the basis for determining whether a product is a necessary concomitant of the invention or an entirely separate product”), *with U.S. Philips*, 424 F.3d at 1193–94; Cotter, *Misuse*, *supra* note 13, at 920. At the same time, there remain some species of conduct that constitute per se misuse that do not violate the antitrust laws, and vice versa. *See infra* notes 18–19 and accompanying text.

18. *See Brulotte v. Thys Co.*, 379 U.S. 29, 30–34 (1964); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997). *Brulotte* has been widely, and justly, criticized as resting on flawed economic reasoning. *See, e.g.*, 1 HERBERT HOVENKAMP ET AL., IP AND ANTITRUST § 3.3c1, at 3-30 to -31 (2d ed. 2010); WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC

uncertainty concerning just how much patent-related conduct that violates the antitrust laws constitutes patent misuse as well.<sup>19</sup> Nevertheless, under the Federal Circuit's general framework for evaluating alleged misuse, if the challenged conduct is neither per se legal nor per se illegal, and if it is not "reasonably within the patent grant," then the legality of the practice is determined under a rule of reason inquiry borrowed directly from antitrust.<sup>20</sup> In any event, one surely could envision a world in which *only* patent-related conduct that violates the antitrust laws *could* be characterized as misuse. Under this standard, conduct that is lawful under the antitrust laws could never constitute misuse.<sup>21</sup>

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STRUCTURE OF INTELLECTUAL PROPERTY LAW 380–81, 417–18 (2003).

19. See *U.S. Philips*, 424 F.3d at 1185–86 ("[By enacting 35 U.S.C. § 271(d),] Congress has declared certain practices not to be patent misuse even though those practices might otherwise be subject to scrutiny under antitrust law principles."); accord *Princo Corp. v. Int'l Trade Comm'n (Princo II)*, 616 F.3d 1318, 1330 n.3 (Fed. Cir. 2010), *petition for cert. filed*, 79 U.S.L.W. 3435 (U.S. Jan. 5, 2011) (No. 10-898). A possible, though rare, example might be a unilateral refusal to license a patent. Compare 35 U.S.C. § 271(d)(4) (2006) (stating that a refusal to license a patent does not constitute misuse), with *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325–28 (Fed. Cir. 2000) (holding that in rare cases a unilateral refusal to license a patent may violate Sherman Act § 2). Similarly, in *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), the court affirmed a jury verdict that a design change that made it more difficult for purchasers to obtain spare parts from anyone other than the patentee constituted a violation of Sherman Act § 2, in light of evidence that the patentee had market power for the replacement part and that the design change actually reduced the product's technical functionality. *Id.* at 1381–83. The court nevertheless reversed a finding that the patentee had committed misuse on the grounds that (1) the jury instruction on misuse was too vague, and (2) the patentee's conduct was not per se misuse and fell reasonably within the scope of the patent grant. See *id.* at 1372–73.

20. *Va. Panel Corp.*, 133 F.3d at 869 (quoting *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.3d 700, 708 (Fed. Cir. 1992)).

21. Indeed, one might argue that under an "optimal antitrust deterrence" rationale it would make sense to characterize any patent-related conduct in violation of the antitrust laws as patent misuse. In practice, however, conduct that violates the antitrust laws does not always equate with misuse. See *supra* note 19. Arguably a common theme in misuse cases is that the patentee allegedly used the patent to obtain something *qualitatively* different from that to which the patent entitled him (for example, the patent enabled him to exert control over nonpatented subject matter or to inhibit competition from noninfringing products), and not simply to charge a monopoly price as a consequence of, say, patent-related price fixing or market allocation. Perhaps this distinction is what the Federal Circuit is getting at when it asks whether the practice allegedly constituting misuse is "reasonably within the grant." Alternatively, perhaps the misuse doctrine should not render a patent unenforceable where the anticompetitive conduct arises out of a collateral

Equating misuse with violations of substantive antitrust law nevertheless raises the obvious question of why a misuse doctrine (so construed) would be necessary, given the existence of substantive antitrust law. One possible answer would be that misuse doctrine could promote the optimal enforcement of antitrust standards. Perhaps in the absence of a patent misuse doctrine many patent-related antitrust violations would go unremedied; or perhaps the social costs of litigating such violations as misuse are lower than the costs of litigating them as antitrust violations.<sup>22</sup> To illustrate, consider the facts of case recently decided by the en banc Federal Circuit, *Princo Corp. v. International Trade Commission (Princo II)*.<sup>23</sup> The dispute centers around a cross-licensing arrangement or patent pool involving various patents relating to “Orange Book” compliant recordable compact discs (CD-Rs) and rewritable compact discs (CD-RWs).<sup>24</sup> Philips, Sony, and other patent owners established the pool in the 1990s.<sup>25</sup> As part of the arrangement, Philips was authorized to grant nonexclusive package licenses to any firms wishing to make Orange Book compliant discs.<sup>26</sup>

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agreement between the patentee and others. This was the position advanced by U.S. Philips in the *Princo II* matter discussed in the text above, see Brief for Intervenor U.S. Philips Corp. on Rehearing en Banc, *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (Fed. Cir. 2010), *petition for cert. filed*, 79 U.S.L.W. 3435 (U.S. Jan. 5, 2011) (No. 10-898) (No. 2007-1386), and adopted by the en banc court. See *Princo II*, 616 F.3d at 1334. If some such limitation did not exist, the risk of overdeterrence I flag in the text above might be even greater: would all of the patents in a patent pool potentially be rendered unenforceable if the pool enables illegal price fixing or (as alleged in the *Princo II* case discussed above) technology suppression?

As for the other part of the Federal Circuit’s definition—requiring that the broadening be “with anticompetitive effect”—not *all* broadening of patent scope is unlawful. The doctrine of equivalents, when it applies, results in a broadening of literal patent scope, but it does so lawfully. See *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 37 (1997).

22. See, e.g., *Cross & Yu*, *supra* note 11, at 454–55 (discussing copyright misuse in particular).

23. 616 F.3d 1318. See also *Princo Corp. v. Int’l Trade Comm’n (Princo I)*, 563 F.3d 1301 (Fed. Cir. 2009), *vacated*, 583 F.3d 1380 (en banc) (per curiam). *Princo I & II* are the same case as *U.S. Philips*. The pending en banc appeal involves certain issues that were left unresolved by the initial International Trade Commission (ITC) proceeding and the first Federal Circuit appeal. See *U.S. Philips*, 424 F.3d at 1198–99 (remanding for ITC consideration of these issues).

24. *Princo II*, 616 F.3d at 1322; *Princo I*, 563 F.3d at 1303; *U.S. Philips*, 424 F.3d at 1182.

25. See *Princo II*, 616 F.3d at 1322.

26. *Princo I*, 563 F.3d at 1303 & n.1 (“Philips made available a joint license to the pooled CD-R patents held by Philips, Sony, and Taiyo Yuden and

Philips was not authorized, however, to license any of the patents on an individual basis.<sup>27</sup> Among the patents included in the pool are Philips's Raaymakers patents, which teach and claim an analog modulation method for solving a particular technical problem relating to compact discs.<sup>28</sup> Another patent included in the pool, Sony's Lagadec patent, principally teaches and claims a digital solution to the same problem, although Claim 6 of Lagadec arguably reads on both digital and analog methods.<sup>29</sup> Orange Book compliant discs employ the analog method, and these discs would not work in a CD recorder made for use with discs produced using the digital method.<sup>30</sup> Certain CD makers charged with patent infringement asserted that the agreement between Philips and Sony to include the Lagadec patent in the pool effectively amounts to an agreement to suppress a potential rival (digital) technology and thus amounts to misuse of the Lagadec patent.<sup>31</sup> A panel of the Federal Circuit reversed the International Trade Commission's (ITC) entry of judgment for Philips and remanded the case for further consideration of whether Sony and Philips agreed to

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a joint license to the pooled CD-RW patents held by Philips, Sony, and Ricoh," as well as a Philips-only license in 2000 and "packages including only patents that Philips deemed 'essential' to the manufacture of Orange Book compliant compact discs" in 2001).

27. *Id.* at 1303.

28. *Id.* at 1305-06.

29. *Id.* at 1305-06, 1309-10 ("Philips maintains that Claim 6 is broadly written to cover recordable compact discs containing a wobbled pregroove formed by 'a first signal . . . that has been modulated by a second signal that contains coded information,' and does not require the use of any particular type of modulation (for example, digital modulation).") (alteration in original).

30. *Id.* at 1310.

31. *Id.* at 1313 ("Princo argues that Philips and Sony agreed not to license Lagadec in a way that would allow a competitor 'to develop, use or license the [Lagadec] technology to create a competing product.'") (alteration in original); see also *Princo Corp. v. Int'l Trade Comm'n (Princo II)*, 616 F.3d 1318, 1323 (Fed. Cir. 2010) ("In the course of proceedings before an administrative law judge, Princo raised the affirmative defense of patent misuse."), *petition for cert. filed*, 79 U.S.L.W. 3435 (U.S. Jan. 5, 2011) (No. 10-898). Assuming the theory is valid, is it correct to say that Philips misused Lagadec (which Sony owns and Philips licenses), or did Philips only misuse the two Raaymakers patents (which Philips owns)? Did Philips misuse all of the licensed patents it owns? All the patents it licenses? During the en banc oral argument, Judge Moore expressed concern that Princo's theory implies that *all* of the pooled patents were misused. Oral Argument at 12:05, *Princo II*, 616 F.3d 1318 (No. 2007-1386-2), available at <http://oralararguments.cafc.uscourts.gov/mp3/2007-1386-2.mp3>.



suppress the rival technology taught by Lagadec.<sup>32</sup> The Federal Circuit thereafter decided to rehear the case en banc, however, and in August 2010, the en banc court affirmed the ITC.<sup>33</sup>

In affirming the ITC, the en banc court concluded that (1) patent misuse can arise only from leveraging a patent to impose conditions of use that extend the scope of the grant and have anticompetitive effect, and not from “collateral” agreements; (2) because Philips did not leverage the Raaymakers patents, it did not commit misuse; and (3) Princo did not establish that the alleged agreement between Philips and Sony had anticompetitive effects, that is, “a ‘reasonable probability’ that the Lagadec technology, if available for licensing, would have matured into a competitive force in the storage technology market.”<sup>34</sup> To illustrate my argument about misuse and antitrust deterrence, however, suppose that the evidence in *Princo II* was clear that Sony and Philips had agreed to suppress a rival technology, out of concern that that technology would in time enable competition against the technology incorporated in the Orange Book standard.<sup>35</sup> Such an agreement could be a violation of the Sherman Act, insofar as two competitors would be agreeing not to compete in (what I shall assume is) a properly-defined product market. (On the other hand, it is conceivable that the agreement could be lawful under the rule of reason, to the extent that Sony and Philips

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32. *Princo I*, 563 F.3d at 1321 (“We vacate and remand for the limited purposes of determining . . . whether Princo has established that Sony and Philips agreed that Lagadec would not be licensed in a manner allowing its development as competitive technology.”).

33. *Princo II*, 616 F.3d 1318. The en banc court reinstated portions of the panel opinion that had rejected other arguments Princo had raised on appeal. *See id.* at 1326 n.1.

34. *See id.* at 1328–38. Judge Prost, joined by Judge Mayer, concurred on the issue of absence of anticompetitive effects while “reserv[ing] judgment on the precise metes and bounds of the patent misuse doctrine.” *See id.* at 1340–41 (Prost, J., concurring in part). Judge Dyk, joined by Judge Gajarsa, dissented. *See id.* at 1341–57 (Dyk, J., dissenting).

35. The court explicitly did not reach this issue. *See id.* at 1338. Another possible example—albeit one on which I offer no opinion at present, and which might possibly be more appropriate for consideration in connection with the rationales discussed in Parts III and IV below—is whether a drug company’s alleged improper listing in the FDA’s Orange Book for the purpose of fending off generic competition otherwise permitted under the Hatch-Waxman Act could constitute a type of patent misuse. *See Novo Nordisk A/S v. Caraco Pharm. Labs.*, 601 F.3d 1359, 1367 (Fed. Cir. 2010) (declining to address the issue); *Eli Lilly & Co. v. Wockhardt, Ltd.*, No. 1:08-cv-1547-WTL-TAB, 2010 WL 2605855, at \*2 (S.D. Ind. June 22, 2010) (permitting leave to amend to assert a misuse argument).

were engaged in a joint venture to develop the Orange Book standard, and an agreement not to undercut the venture by competing against it could be viewed as ancillary to the venture's purpose.<sup>36</sup> For present purposes, I express no view on which outcome would have been correct on the facts, had the court found such an agreement to have been present.) Even so, the agreement might otherwise evade antitrust scrutiny for a variety of reasons. Neither the Department of Justice nor the Federal Trade Commission might consider the matter worth the investment of their time and effort. Private parties as well might not find it in their interest to commence an antitrust action if the expected damages recovery is small, as it might be here. Even if one could prove an anticompetitive agreement between Sony and Philips, it might be very difficult to quantify with sufficient certainty the lost profits flowing from the nondevelopment of the rival technological solution.<sup>37</sup> In a case like *Princo II*, then, maybe misuse does fill a gap in antitrust coverage by providing an incentive to challenge anticompetitive conduct that otherwise would go unchallenged.<sup>38</sup> In a similar

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36. See *Princo II*, 616 F.3d at 1338–40 (noting that the “suppression of nascent threats can be construed as anticompetitive behavior under certain circumstances,” but concluding that *Princo* bore the burden of proving, and had failed to prove, more than just a “speculative possibility” of anticompetitive harm).

37. Perhaps such a rival solution would have pressured the contributors to the patent pool to reduce the price of their package license, but only if the rival solution would have become a viable competitor. The success of the rival solution but for the agreement to suppress it might be hard to prove, however; indeed, the harm to any individual licensee or prospective licensee may well be too speculative to satisfy current standards relating to antitrust injury and antitrust standing. See *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977) (stating that a private antitrust “[p]laintiff[] must prove *antitrust* injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants’ acts unlawful.”); see also *Associated Gen. Contractors of Cal. v. Cal. State Council of Carpenters*, 459 U.S. 519, 540–45 (1983) (discussing additional factors, including the “directness or indirectness of the asserted injury,” the speculative nature of any damages sought, and the potential for duplicative recoveries, to consider in evaluating whether a private plaintiff has “antitrust standing”). And yet the agreement to suppress could be anticompetitive nonetheless, if it is unnecessary to the success of the joint venture.

38. *Princo II*, 616 F.3d at 1350 (Dyk, J., dissenting) (“The majority suggests that asserting a patent misuse defense against the patent covering the suppressed technology (here, Lagadec) or an antitrust suit would provide a remedy for anticompetitive behavior. The clear ineffectiveness of both of these remedies demonstrates the importance of a misuse defense against the protected patents (here, the Raaymakers patents). There is no realistic

vein, perhaps one could argue that current antitrust standing doctrine screens out too many otherwise valid antitrust claims. If so, then misuse doctrine (unconstrained as it is by a standing requirement) could be a step towards achieving optimal antitrust enforcement and deterrence.

That said, I remain skeptical. While it is possible that, in the absence of a misuse doctrine that is coextensive with antitrust, some patent-related antitrust cases would go undetected and un-remedied, there may be no way of knowing how serious and how many such offenses there are. If the misuse doctrine would bring only a small number of such offenses to light, the administrative costs and the risk of false positives may outweigh any possible benefits. More generally, if antitrust standing rules are too strict (or other obstacles preclude optimal antitrust enforcement), the more direct solution to the problem would be to modify those aspects of antitrust law.<sup>39</sup> Moreover, antitrust as it currently exists already poses at least some risk of *over-*, as opposed to *under-*, deterrence, given such features as the availability of treble damages and attorneys' fees to prevailing plaintiffs and the possibility of indirect purchaser suits under state law.<sup>40</sup> To be sure, none of this proves that some additional increment of antitrust enforcement would be a bad thing; but it does call into question the use of the misuse doctrine to accomplish that purpose. By doing away with any standing requirement and rendering misused patents unenforceable in their entirety,<sup>41</sup>

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prospect of securing a misuse determination with respect to the suppressed patent. . . . because there is no need for Philips to assert the Lagadec patent and open itself to a misuse defense.") (citations omitted). To be sure, even in the absence of a misuse doctrine, infringement defendants like the ones in *Princo II* often might have an incentive to assert an antitrust claim or counterclaim once the patentee has initiated litigation. *See id.* at 1333–34 n.6 (arguing, contra the dissenting judges, that antitrust law is adequate to the task). But they may encounter serious problems in establishing antitrust standing under current law. *See Brunswick Corp.*, 429 U.S. at 489; *Associated Gen. Contractors of Cal.*, 459 U.S. at 40–45.

39. *See Cotter, Misuse, supra* note 13, at 935. Having special rules for patent cases suggests that patent-related antitrust offenses are more likely to escape detection, or to cause greater harm, than other forms of antitrust misconduct. Perhaps this is so, but I'm not aware of any evidence that supports it.

40. *See Cotter, Procompetitive, supra* note 13, at 526–27.

41. As noted above, unenforceability only lasts until the misuse is "purged." But the cases are surprisingly opaque on the question of what constitutes purgation, as I discuss in Part VI below. If purgation requires the patentee not only to cease the offending practice but to pay back any licensing

the misuse doctrine risks overdetering procompetitive or neutral conduct that might be difficult to distinguish from anticompetitive conduct.<sup>42</sup>

In sum, a misuse standard that mirrors antitrust at best facilitates the detection and enforcement of some antitrust offenses that otherwise would go unremedied. How many such offenses there are—and whether they are worth the administrative and error costs of a misuse doctrine—remain unknown. This analysis, if correct, hardly provides a ringing endorsement of the optimal antitrust deterrence rationale.

### III. THE SOCIAL WELFARE RATIONALE

In contrast to the optimal antitrust deterrence rationale, a social welfare rationale might classify as misuse a broader range of conduct that threatens to generate a surplus of social costs over social benefits. In a sense, this rationale would turn the misuse doctrine into something analogous to copyright's fair use doctrine, which can be thought of as a means for constraining the exercise of copyright rights that otherwise would threaten to reduce social welfare by, for example, prohibiting Pareto optimal uses of copyrighted materials or inhibiting positive externality-generating uses.<sup>43</sup> Some scholars have argued that patent law would benefit from something like

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revenue derived therefrom, it may in some instances approximate (and therefore be subsumed within) an antitrust damages award relating to the same offense. In others, however (such as *Princo II*) the penalty for misuse may exceed any provable antitrust damages. This is a good thing only if antitrust damages are systematically under-compensatory, which is hardly an uncontested premise.

42. See Cotter, *Procompetitive*, *supra* note 13, at 539–40; Mark A. Lemley, Comment, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CAL. L. REV. 1599, 1616–17 (1990); cf. Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 152 n.188 (1999) (“[T]here may be circumstances in which rules peculiar to patent law make it appropriate to apply the misuse doctrine but do not warrant invocation of antitrust law. . . . [But t]he application of the patent (or copyright) misuse doctrines . . . should be coupled with a reasonable mechanism to link the harm charged with the remedy administered . . .”).

43. See Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1276–83 (2008) (discussing a model of fair use that assumes, generally, that copyright produces “net social benefits . . . by encouraging the production and distribution of new works of authorship or by conferring social recognition upon the labor and artistic judgment that goes into the act of authorship . . .”).

a fair use doctrine,<sup>44</sup> or at the very least a more robust experimental use defense,<sup>45</sup> that would free up some unauthorized uses that might lead to improvements on patented technologies. Both of these ideas may well have merit; an experimental use defense in particular is widely accepted in other patent systems.<sup>46</sup> Whether patent misuse could evolve into something like a fair use doctrine, or even a more limited experimental use defense, however, is far from clear. Doctrinally, misuse involves more than simply refusing to license one's patent;<sup>47</sup> nor does insisting that the user pay or refrain from using a valid patent necessarily threaten to broaden the patent's scope.<sup>48</sup> Moreover, fair use (in copyright)<sup>49</sup> and experimental use (in other countries' patent systems)<sup>50</sup> are usually characterized as privileges residing with the user. If U.S. patent law were to recognize a fair or experimental use doctrine, then perhaps a patentee's refusal to acquiesce in the face of a valid assertion of fair or experimental use rights could be thought of as a type of misuse along the lines suggested in Part V below. Such a characterization, however, would appear to be logically dependent on the preexistence of a fair or experimental use privilege, rather than the *source* of such a privilege.<sup>51</sup> In addition, the penalty for misuse also presumably

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44. See Maureen A. O'Rourke, *Toward a Doctrine of Fair Use in Patent Law*, 100 COLUM. L. REV. 1177, 1177 (2000) ("[T]o ensure that patent law achieves its constitutional goals, it should, like copyright law, use a fair use defense to address problems of market failure. . . . such a defense that, while modeled on copyright doctrine, accounts for and protects patent law's particular incentive scheme.").

45. See, e.g., Katherine J. Strandburg, *What Does the Public Get? Experimental Use and the Patent Bargain*, 2004 WIS. L. REV. 81, 82 ("Patents are intended to provide incentives to invest in research and development," but this is made difficult because "the research and development process for a new invention requires the practice of a prior patent." . . . [and] prior patentees may be unwilling to license the experimental use of their inventions on reasonable terms to potential competitors. . . . [Thus a]n experimental-use exemption from infringement liability might be used to skirt such prior patentee reluctance . . .").

46. See *id.* at 89 ("Such a broad exemption for 'experimenting on' patented inventions is already available in many countries, including Germany, the United Kingdom, and Japan.").

47. See 35 U.S.C. § 271(d)(4) (2006).

48. See Cotter, *Misuse*, *supra* note 13, at 914–15.

49. See 17 U.S.C. § 107 (2006).

50. See Strandburg, *supra* note 45, at 89–90.

51. Put another way, the word "misuse" seems to imply some sort of affirmative conduct on the part of the patentee rather than a privilege on the part of the user. Semantics may not be entirely irrelevant. See 35 U.S.C.

would have to change if misuse somehow morphed into a fair or experimental use doctrine. A valid exercise of fair or experimental use rights should have no more bearing on the general enforceability of the underlying patent than does a valid exercise of fair use rights in copyright on the general enforceability of the author's rights under copyright law.

A more limited version of the social welfare rationale would define misuse to include affirmative conduct on the part of the patentee that otherwise would be lawful<sup>52</sup> but that threatens a surfeit of social costs over benefits. In a sense, this rationale could be viewed as grounded in the concept of "broadening the scope": a practice characterized as misuse is one that broadens the patent's scope beyond its optimal reach. So stated, of course, the criterion presents a host of practical problems.<sup>53</sup> How would courts know when that optimal reach has been exceeded? How could they ensure consistency and predictability in the application of such a standard? Perhaps if patents actually had some readily definable "scope," courts could presume that efforts to extend that scope reduce social welfare by altering the implicit cost/benefit tradeoff reflected in the patent grant. The problem is that, in the misuse context, when courts talk about "extending the scope" of the grant they are not necessarily talking about *claim* scope (whether the patent claims read on Embodiment X), a question that is posed in most patent infringement cases and that is, if not always easy to answer, at least answerable in concrete situations. Rather, what they often are talking about is whether the patent grant should be construed as permitting the patentee to

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§ 271(d)(3) (2006) ("No patent owner otherwise entitled to relief for infringement . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . sought to enforce his patent rights against infringement . . .").

52. Patentee practices that also violate the antitrust laws presumably could still constitute misuse as well. The focus of the social welfare approach would be on otherwise lawful practices, however.

53. For reasons of this sort, I have expressed doubt over the feasibility of Professor Feldman's proposal for a patent misuse doctrine that would account for harms such as "(1) the social 'waste that can occur with defensive research or inventing around a patent, (2) the burden on innovation that can result from an overproliferation of patent rights, and (3) the disincentives to innovation that can result from allocating reward to early-stage inventors over late-stage inventors.'" See Cotter, *Misuse*, *supra* note 13, at 942-43 n.179 (quoting Feldman, *supra* note 12, at 400).

impose condition Y on a purchaser or licensee.<sup>54</sup> Back in the days when courts believed that monopoly leveraging was pervasive, the distinction between these two meanings of the word “scope” may not have mattered much. One could envision the tie at issue in *Morton Salt*, for example, as enabling the patentee to expand its domain from salt machines to salt tablets, which tablets were clearly *dehors* the patent claims. Nowadays, however, courts and commentators realize that many such ties do not enable patentees to expand their domains in economically significant ways;<sup>55</sup> Morton may have used the leverage of its patent to sell some quantity of unpatented salt, but it never stood a realistic chance of monopolizing the market for salt tablets. The right way to phrase the “scope” question today, then, is to ask whether allowing the patentee to impose condition Y threatens too many negative consequences in comparison with the positive, where the positive includes the marginal increase, if any, in the perceived value of patent rights and the resulting inducement to invent and disclose.

Unfortunately, once we decide to consider harms other than competitive harms (or “public domain” harms, as discussed in Part V) the question of determining the appropriate “scope” of the patent is still, in my view, largely an unanswerable one. Does the ownership of a patent entitle me to impose post-sale conditions on the use of the patented article, for example? The Supreme Court’s decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*<sup>56</sup> arguably suggests that a use in violation of such conditions would not constitute patent infringement<sup>57</sup> (contrary to Federal Circuit precedent such as

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54. See Cotter, *Misuse*, *supra* note 13, at 936.

55. There is, to be sure, a lively debate on just how often such leveraging may be feasible. Compare Einer Elhauge, *Tying, Bundled Discounts, and the Death of the Single Monopoly Profit Theory*, 123 HARV. L. REV. 397, 410 (2009) (arguing that monopoly leveraging is more common than the Chicago School analysis suggests), with Paul Seabright, *The Undead? A Comment on Tying, Bundled Discounts, and the Death of the Single Monopoly Profit by Einer Elhauge*, COMPETITION POLY INT’L, Autumn 2009, at 243, 243–50 (challenging Elhauge’s analysis), available at <https://www.competitionpolicyinternational.com/file/view/6166>.

56. 553 U.S. 617 (2008).

57. See *Static Control Components, Inc. v. Lexmark Int’l, Inc.*, 615 F. Supp. 2d 575, 585–88 (E.D. Ky. 2009) (interpreting *Quanta* in this manner); Hovenkamp, *supra* note 3, at 106. I find the actual holding of the case to be somewhat opaque, turning as it does on the Supreme Court’s interpretation of the two agreements at issue as not forbidding Intel from selling parts to

*Mallinckrodt, Inc. v. Medipart, Inc.*<sup>58</sup>), but that the immediate purchaser might be liable for breach of contract.<sup>59</sup> The Court did not intimate that a contract purporting to impose such conditions would constitute misuse, however, and it would probably be a mistake to conclude otherwise absent proof that a particular post-sale condition threatened some sort of competitive harm. Even assuming that the first-sale doctrine promotes some social benefits other than merely competitive benefits,<sup>60</sup> it is hard to see why an effort to curtail those benefits should result in the unenforceability of the patent; the penalty would seem disproportionate to the offense.

The more limited version of the social welfare rationale nevertheless might make sense in some specific instances. An exercise of patent rights that would undermine one or more of the generally accepted purposes of the patent system, for example, could be classified as misuse on the theory that in such a case the social costs *presumptively* outweigh the social benefits. One possible application of this theory is suggested in a recent paper by Brenda Simon, who argues that the assertion of patent rights to prevent researchers from engaging in quality assessments of patented inventions undermines a key purpose of patent law, namely encouraging scientific progress.<sup>61</sup>

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Quanta for Quanta to combine with non-Intel parts. *See Quanta*, 553 U.S. at 630–31. Nevertheless, the Court's citation with approval of both *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938), and *United States v. Unis Lens Co.*, 316 U.S. 241, 250–51 (1942), may lend support to *Static Controls'* interpretation. *Quanta*, 553 U.S. at 631, 636.

58. 976 F.2d 700, 709 (Fed. Cir. 1992) (holding that if a sale is validly conditioned under other law and the restriction on reuse is within the scope of the patent or otherwise justified, violation of the condition is actionable patent infringement).

59. *See Quanta*, 553 U.S. at 637 n.7.

60. In copyright, maybe it does; among other things, it makes public libraries possible. *See Cotter, Procompetitive*, *supra* note 13, at 548–49.

61. *See* Brenda M. Simon, *Patent Cover-Up*, 47 HOUS. L. REV. 1299, 1302 (2011). As Simon notes, given the importance of testing to the scientific enterprise, licensing restrictions that prohibit testing for purposes of quality assessment can be viewed as undermining the patent system's purpose of promoting the progress of the useful arts. *See id.* at 1314–17. By analogy, copyright's fair use doctrine permits unauthorized uses of copyrighted materials for purposes of critique and commentary because a contrary result would undermine the purpose of promoting the progress of learning. *See, e.g.*, Thomas F. Cotter, *Transformative Use and Cognizable Harm*, 12 VAND. J. ENTER. & TECH. L. 701, 739 (2010); *see also* Michael Steven Green, *Copyrighting Facts*, 78 IND. L.J. 919, 955–57 (2003) (arguing that the exclusion of scientific theories from the scope of copyright protection rightly



Standing alone, however, the misuse doctrine would provide no defense against a patent infringement claim premised on an unlicensed party's unauthorized use of the patented invention for purposes of quality assessment; for that, something more akin to a fair use or experimental use privilege would be necessary.<sup>62</sup> Similarly, perhaps efforts to constrain purchasers from certain other practices such as reverse engineering should be deemed sufficiently egregious to constitute misuse, because such constraints inhibit the flow of information and thus on balance do pose a net social loss.<sup>63</sup> As Glen Robinson has

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encourages others to test those theories). As Simon also notes, however, construing such restrictions as misuse would require the Federal Circuit to overrule *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1340 (Fed. Cir. 2006), which specifically states that a "no research policy is a field of use restriction and is also within the protection of the patent laws."

Bohannan's proposal that misuse doctrine should target innovation harms, Bohannan, *supra* note 10, at 478, as well as Daryl Lim's suggestion that misuse might encompass deceptive conduct on the part of standard setting organization members, Daryl Lim, *Misconduct in Standard Setting: The Case for Patent Misuse* (unpublished manuscript) (on file with the International Association for the Advancement of Teaching and Research in Intellectual Property), available at <http://www.atrip.org/Content/Essays/Daryl%20Lim.pdf>, arguably also could be viewed as falling within the more limited version of the social welfare rationale sketched out above. See *infra* Part IV (discussing Bohannan's proposal in the context of the "beyond antitrust" rationale, but suggesting that that rationale can be viewed as a special case of the optimal antitrust deterrence and social welfare rationales). As discussed herein, however, I believe that any such extensions of the misuse doctrine should be approached with caution.

62. See Simon, *supra* note 61, at 1336, 1342–52. To the extent an unlicensed party's unauthorized use of a patented invention for purposes of quality assessment is not privileged under current law, one might argue that a license restricting the licensee from engaging in this type of use logically cannot equate to misuse. The logic of the argument, however, would suggest that tying arrangements could never constitute misuse either, because the patentee could have chosen not to sell or license the patented tying article at all. Courts nevertheless have clearly rejected the greater-includes-the-lesser argument as it applies to tying (and many other activities). See, e.g., *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 514–15 (1917) (rejecting the greater-includes-the-lesser argument); ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, *PATENT LAW AND POLICY: CASES AND MATERIALS* 1259 (4th ed. 2007) (noting that "the argument . . . is often false," insofar as "[t]he law frequently permits a greater power but denies lesser ones"). Even so, in the absence of a fair or experimental use defense the misuse doctrine would have only a limited scope if it would target only license restrictions.

63. See Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 *YALE L.J.* 1575, 1621 (2002) (arguing that, in general, reverse engineering probably generates a surplus of social benefits over costs).

observed, however, restrictions on reverse engineering probably have had the most impact in relation to software-related patents, due to the opacity with which such patents often are drafted;<sup>64</sup> as a general matter, reverse engineering of patented inventions should be unnecessary as long as the written description is adequate. To the extent, if any, software patents become less significant in a post-*Bilski* world,<sup>65</sup> the problem may be self-correcting even without the intervention of the misuse doctrine. In copyright, by contrast, the fair use doctrine often permits the intermediate copying of software for the purpose of reverse engineering,<sup>66</sup> thus obviating the need for the misuse doctrine in that context as well.

#### IV. OPTIMAL DETERRENCE OF ANTICOMPETITIVE CONDUCT THAT LIES BEYOND REACH OF ANTITRUST

The “beyond antitrust” rationale would provide a broader role for misuse than would the “optimal antitrust deterrence” rationale (though not as broad as the social welfare rationale) by characterizing as misuse certain practices that threaten anticompetitive harm that falls below the radar of antitrust. In a sense, then, it combines (or can be thought of as a special case) of the first and second rationales; and it is, I think, identical to Professor Bohannon’s proposed “innovation harm” rationale.<sup>67</sup> In previous work, I have suggested some reasons

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64. See Glen O. Robinson, *Personal Property Servitudes*, 71 U. CHI. L. REV. 1449, 1510 n.219 (2004).

65. See *Bilski v. Kappos*, 130 S. Ct. 3218, 3225–31 (2010) (holding that abstract ideas are not patentable subject matter, but declining to hold that business methods or software-related inventions are per se patent-ineligible).

66. See *Sony Computer Entm’t, Inc. v. Connectix Corp.*, 203 F.3d 596, 599, 602–08 (9th Cir. 2000); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1514, 1517 (9th Cir. 1993).

67. See Bohannon, *supra* note 10, at 511–15. Although Professor Bohannon distinguishes this sort of harm from competitive harm as defined by antitrust law, *see id.* at 497–98, I am not sure that the concepts are qualitatively different. To be sure, innovation harm principally threatens dynamic, not static, efficiency. But why else would the plaintiff foreclose future innovation if not to deflect the competitive threat it may pose in the future?

To elaborate on this point just a bit, it is surely true that much of patent and other IP doctrine can be thought of (ideally) as attempts to attain a maximum surplus of social benefits over social costs. Rules relating to patent term and scope, for example, can be imagined as efforts, however imperfect, to attain such a goal. In a similar vein, the various rules relating to subject matter, novelty, nonobviousness, disclosure, remedies, and so on also can be

why this might be a sensible policy, while urging caution in its application.<sup>68</sup> I will briefly repeat those arguments here and explain why I believe caution is still warranted, Bohannon's (and others')<sup>69</sup> arguments for a more robust misuse defense notwithstanding.

The argument in favor of an expanded role for misuse in policing more tenuous harms than antitrust typically addresses, including possible (but difficult to prove) harms to future innovation, runs like this. Because innovation promises increasing returns, harms to innovation (dynamic efficiency

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envisioned as attempts optimally to balance both the social benefits of the patent system (invention, innovation, disclosure, and the like) and its social costs (transaction costs, monopoly costs, and the like). Modifying any of these rules thus may stimulate or inhibit innovation. Because the goals themselves may sometimes be contradictory, however, and the optimal methods for attaining them fraught with uncertainty, predicting the consequences of any given modification is unlikely ever to be an exact science. See John M. Golden, *Principles for Patent Remedies*, 88 TEX. L. REV. 505, 528–29 (2010). More to the point, the standards of proof that antitrust requires may not always be a good fit for shaping IP policy. It may not be demonstrably clear, to cite one patent reform proposal that has attracted much discussion over the years, whether introducing a post-grant opposition procedure similar to that employed in other countries would improve or reduce U.S. innovation; policymakers nevertheless must make a choice, based on the best evidence available, whether the possible benefits of such an experiment are worth the potential risk.

So what does all this have to do with misuse? As I see it, the type of conduct most commonly characterized as possible misuse—tying, package licensing, and so on—surely *can* harm innovation in some instances, and the risk of such harms surely *could* be evaluated using standards that depart from antitrust. An IP policy designed to avoid false negatives at any cost, for example, would be very different from standard antitrust policy. The question I pose in the text above is whether there is any warrant for applying markedly different standards. Given what I perceive to be a nontrivial risk of substantial false positives flowing from wrongly condemning patentee conduct as threatening innovation, I suspect the answer is, generally, no—though I will concede there may be some special cases in which false positive risks are small enough to warrant *some* departure from an antitrust-based policy.

68. See Cotter, *Misuse*, *supra* note 13, at 957; Cotter, *Procompetitive*, *supra* note 13, at 527–37, 539–40.

69. See, e.g., Julie E. Cohen, *Reverse Engineering and the Rise of Electronic Vigilantism: Intellectual Property Implications of "Lock-Out" Programs*, 68 S. CAL. L. REV. 1091, 1192–94 (1995) (arguing that the misuse doctrine may be preferable to antitrust for addressing harm to innovation); Brett Frischmann & Dan Moynan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 927–30 (2000); Lim, *supra* note 61; Ramsey Hanna, Note, *Misusing Antitrust: The Search for Functional Copyright Misuse Standards*, 46 STAN. L. REV. 401, 423–24 (1994); Note, *Is the Patent Misuse Doctrine Obsolete?*, 110 HARV. L. REV. 1922, 1934–36 (1997).

harms) potentially dwarf any potential harms from short-term monopoly pricing (static efficiency harms).<sup>70</sup> On this view, a competition policy that focuses on static losses while ignoring harms to dynamic efficiency would be perverse; and of course modern-day antitrust law does concern itself with dynamic as well as static harms, in a variety of ways.<sup>71</sup> The problem nevertheless remains that dynamic harms are much more difficult to predict and quantify; antitrust still has not figured out how best to deal with this type of problem. Even efforts to resolve the Arrow-Schumpeter debate (whether tolerating monopolies in the short run is more or less likely to lead to innovation in the long run) remain inconclusive.<sup>72</sup> With these caveats in mind, however, one might nevertheless posit a role for misuse that would extend the contours of the doctrine beyond conventional antitrust law, while not envisioning the sort of free-for-all inherent to a broad social welfare rationale. The argument would be that certain practices carry a relatively low probability of causing harms to future innovation, *but if they do cause such harms* the harms will be severe. The expected cost of a “false negative,” in other words, taking into account not only the risk that such a harm will occur (which may be low in a probabilistic sense), but also the magnitude of any such harm (which may be high) may be, on balance, unacceptably large. At the same time, curtailing the practices that could give rise to such harms may reduce the patentee’s expected profit by some amount, and thus could reduce to some extent others’ incentives to invent and disclose. Curtailing those practices also could give rise to more conventional false positive harms (for example, by undermining the procompetitive benefits of a legitimate joint venture that is supported by the restraint at issue). But perhaps these risks of false positives are simply not present (or otherwise are acceptable) in some instances, such as when the patent has already generated increasing returns on investment or other

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70. See Herbert Hovenkamp, *Restraints on Innovation*, 29 CARDOZO L. REV. 247, 253–54 (2007); see also MICHAEL A. CARRIER, INNOVATION FOR THE 21ST CENTURY: HARNESSING THE POWER OF INTELLECTUAL PROPERTY AND ANTITRUST LAW 3 (2009) (“[I]nnovation should be favored in the inevitable tradeoffs that confront IP and antitrust law.”).

71. See Cotter, *Procompetitive*, *supra* note 13, at 525–26.

72. See, e.g., Michael L. Katz & Howard A. Shelanski, *Mergers and Innovation*, 74 ANTITRUST L.J. 1, 17–18 (2007).

incentive schemes are also at work.<sup>73</sup> Thus, in some IP-related contexts, the reluctance to incur false positives that seems to explain much of contemporary antitrust law could be counterproductive. Put another way, a competition policy that takes into account the potential harms from lost innovation opportunities may cast a more suspicious eye on patentee conduct that *probably* will not cause long-run harm, but that carries some nontrivial risk of causing *substantial* long-run harm.

Of course, even if one agrees that competition policy should focus more than it currently does on long-run harms to innovation, the question still remains whether an expanded patent misuse doctrine is a useful tool for accomplishing this goal; the alternative would be to invigorate antitrust scrutiny in such instances. To be sure, many commentators (such as the members of the Antitrust Modernization Commission) have cautioned against radically revising antitrust law in response to new technologies; but they have done so precisely because, in their view, antitrust is already sufficiently flexible and adaptable to deal with “new economy” industries.<sup>74</sup> If current

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73. See Cotter, *Procompetitive*, *supra* note 13, at 530–37. It may be the patent system provides only a minimal additional incentive to invent or disclose outside of a few select industries, such as pharmaceuticals. See Thomas F. Cotter, *Market Fundamentalism and the TRIPs Agreement*, 22 CARDOZO ARTS & ENTER. L.J. 307, 323 n.38 (2004) (citing Wesley M. Cohen et al., *Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)*, NBER Working Paper No. 7552 (Feb. 2000), at tbl. 1, available at <http://www.nber.org/papers/w7552.pdf>), for the proposition that “firms often rank patents below other reasons for engaging in research and development, but that patents may be relatively more effective at inducing research and development in some industries, including pharmaceuticals, than in others.” For a recent paper arguing that, in the context of damages calculations, courts sometimes can evaluate the benefits and costs arising from patent protection on a case-by-case basis to a greater degree than I generally have assumed in my scholarship, see Ted Sichelman, *Purging Patent Law of “Private Law” Remedies 28–29* (unpublished manuscript) (on file with the Stanford Program in Law, Science & Technology), available at [http://www.law.stanford.edu/display/images/dynamic/events\\_media/Ted%20Sichelman%20-%20Purging%20Patent%20Law%20of%20Private%20Law%20Remedies.pdf](http://www.law.stanford.edu/display/images/dynamic/events_media/Ted%20Sichelman%20-%20Purging%20Patent%20Law%20of%20Private%20Law%20Remedies.pdf).

74. See ANTITRUST MODERNIZATION COMM’N, REPORT AND RECOMMENDATIONS 31–46 (2007), available at [http://govinfo.library.unt.edu/amc/report\\_recommendation/amc\\_final\\_report.pdf](http://govinfo.library.unt.edu/amc/report_recommendation/amc_final_report.pdf); see also Thomas F. Cotter, *Reflections on the Antitrust Modernization Commission’s Report and Recommendations Relating to the Antitrust/IP Interface*, 53 ANTITRUST BULL. 745, 753–54 & n.21 (2008) (noting agreement with the commission’s position among other scholars).

antitrust law is deficient in practice, economists may need to devise better tools and courts to develop a deeper understanding of the economics of innovation. But the rationale for applying a broader definition of “harm” in the context of patent misuse alone remains unclear.<sup>75</sup>

In her paper, Bohannon suggests that the misuse doctrine nevertheless may have a comparative advantage over antitrust in addressing innovation harms because “the IP concern for encouraging innovation is sufficiently strong to find . . . misuse” in certain cases involving foreclosure of nascent technology, whereas antitrust would require a stronger showing “that the new product or technology would have come to fruition and would have been successful but for the IP holder’s restraint.”<sup>76</sup> On this reasoning, an antitrust court might condone a package license that includes nonessential patents on the ground that no commerce is demonstrably foreclosed in the market in which the nonessential patents compete; whereas the same conduct might constitute patent misuse on the theory that (1) even a minimal risk of foreclosure is serious and (2) condemning the arrangement will not do much damage to the patent incentive scheme.<sup>77</sup>

The theory is coherent, but several considerations counsel caution in its application. First, there is nothing inherent to antitrust law that prevents courts from considering consequences such as the harm to the patent (or copyright) incentive scheme when evaluating a practice under some version of the rule of reason. Indeed, antitrust courts may well refer to such considerations in some recurring settings (for example, grantbacks,<sup>78</sup> reach-through royalties,<sup>79</sup> and reverse

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75. Perhaps one reason would be that patent courts can be more creative, as it were, in discerning innovation harm than can antitrust courts, because the penalty for a finding of misuse is “only” unenforceability and not treble damages; hence the cost of false positives is lower in the misuse context than in antitrust. At the same time, however, the misuse doctrine’s lack of standing requirement undercuts to some extent the argument that the risk of false positives is significantly lower than in antitrust. *See also infra* text accompanying note 81 (discussing other possible justifications for a divergence between patent and antitrust approaches).

76. *See* Bohannon, *supra* note 10, at 514.

77. *See id.* at 508–10.

78. *See* U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 5.6 (1995), available at <http://www.justice.gov/atr/public/guidelines/0558.pdf> (stating that, in accordance with *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*,

payment settlements<sup>80</sup>). If the facts so warrant, it is unclear why courts could not take such effects into account in a broader range of antitrust cases.<sup>81</sup> Second, the “false positive” cost of wrongly condemning procompetitive conduct sometimes may exist just as much in the misuse context as it does in the antitrust context, even ignoring the harm (or lack thereof) to the patent incentive scheme. In the context of package licenses and patent pools in particular, a rule precluding pool contributors from including nonexclusive licenses to nonessential patents may increase transaction and search costs. A misuse doctrine that too readily condemns such practices may not give sufficient weight to the potential loss of

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329 U.S. 637, 645–48 (1947), the agencies will evaluate grantbacks under the rule of reason and that analysis should consider both the procompetitive benefits of encouraging initial invention and disclosure as well as the potential anticompetitive harm of discouraging licensee-generated innovation).

79. See Bohannon, *supra* note 10, at 518–26 (arguing that reach-through royalties may have procompetitive benefits and therefore should be evaluated under the rule of reason); Feldman, *supra* note 12, at 447 (noting that the IP Guidelines “provide[] insight into the way in which antitrust principles would be applied to Reach-Through Royalties.”).

80. See, e.g., *Valley Drug Co. v. Geneva Pharms., Inc.*, 344 F.3d 1294, 1311 & n.27 (11th Cir. 2003) (adopting a standard that focuses on “the extent to which antitrust liability might undermine the encouragement of innovation and disclosure, or the extent to which the patent laws prevent antitrust liability for such exclusionary effects.”).

81. Though perhaps the response would be that, if antitrust courts were to start recognizing nascent harms to innovation markets as a form of antitrust injury, there is no telling where they would stop. It may be important for antitrust not to weaken the causal chain too much, lest it set bad precedent that might wind up being applied in a non-IP setting. (The Federal Trade Commission’s recently settled complaint against Intel raised similar questions over how aggressively antitrust law should seek to prevent harms to innovation, including harms that are merely “incipient.” Complaint, *In re Intel Corp.*, No. 9341 (F.T.C. Dec. 16, 2009), available at <http://www.ftc.gov/os/adjpro/d9341/091216intelcmt.pdf>.) As I have argued before, it may be preferable to apply IP doctrine (though not necessarily misuse doctrine) to reduce some of the social costs of IP rights, “rather than trying to stretch antitrust law to deal with perceived excesses in the exercise of IPRs.” Cotter, *Misuse*, *supra* note 13, at 942 n.179. One might also argue that courts in IP cases consider incentive/access tradeoffs on a more frequent basis than in antitrust cases, notwithstanding the antitrust counterexamples noted above. Applying misuse doctrine to inchoate technology may seem less troubling than applying antitrust law to the same facts. For some initial thoughts on whether a patent misuse doctrine so understood would be analogous to common law standards requiring courts to subject employee noncompete agreements to heightened judicial scrutiny, notwithstanding those agreements’ usual lack of anticompetitive harm in the antitrust sense, see Thomas F. Cotter, Response, *IP Misuse and Innovation Harm*, 96 IOWA L. REV. BULL. 52, 57 n.30 (2011).

these efficiencies, if for example, package licensing of the type at issue in *Philips* were to constitute misuse. Third, even if it makes sense in theory to have two distinct sources of competition policy as it relates to long-run innovation—antitrust and IP law—in practice a proliferation of legal standards may succeed only in making a complicated area of the law yet more complicated. If one will do, why have two?

Of course, even if one were to adopt the “beyond antitrust” rationale as a source for misuse law it may not wind up applying in a broad swath of cases. Even under this rationale, the decision in *Brulotte v. Thys Co.*<sup>82</sup> would be hard to defend, as would some of the older case law on package licensing.<sup>83</sup> As antitrust courts become better attuned to risks to future innovation, perhaps any remaining differences between substantive antitrust standards and misuse will disappear.

## V. THE PUBLIC DOMAIN RATIONALE

In *Assessment Technologies of Wisconsin, LLC v. WIREdata, Inc.*,<sup>84</sup> Judge Posner suggested in dictum that a threat to file a spurious copyright infringement suit against someone for using public domain materials could be viewed as a type of copyright misuse.<sup>85</sup> Consistent with this rationale,

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82. 379 U.S. 29 (1964).

83. See, e.g., *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 134–38 (1969) (holding that package licensing under which licensee paid royalties based on total sales, regardless of whether licensed patents were used, constituted per se misuse, unless entered into for the convenience of the parties); *Engel Indus., Inc. v. Lockformer Co.*, 96 F.3d 1398, 1408 (Fed. Cir. 1996) (following *Zenith*); see also *United States v. Loew's, Inc.*, 371 U.S. 38 (1962) (holding that block booking of films violates Sherman Act § 1), *abrogated by* *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948) (similar). The Federal Circuit's analysis of package licensing in *U.S. Philips* is difficult to square with the approach found in these cases, though it may be an improvement as a policy matter. 424 F.3d 1179 (Fed. Cir. 2005); see Cotter, *Misuse*, *supra* note 13, at 920–23. *But see* TIM WU, *THE MASTER SWITCH: THE RISE AND FALL OF INFORMATION EMPIRES* 95–97 (2011) (arguing that block booking may be undesirable because of its impact on culture and free expression).

84. 350 F.3d 640, 647 (7th Cir. 2003).

85. The argument for applying copyright misuse beyond the bounds of antitrust, besides the fact that confined to antitrust the doctrine would be redundant, is that for a copyright owner to use an infringement suit to obtain property protection, here in data, that copyright law clearly does not confer, hoping to force a settlement or even achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist



Bohannon,<sup>86</sup> David Olson,<sup>87</sup> and I<sup>88</sup> (among others) all have argued that assertions of copyright rights to leverage control over facts or ideas plausibly could be characterized as a type of misuse. The harm in such a case would not necessarily be competitive harm but rather would be the distortion of the balance that copyright law has drawn between protectable expression, selection, or arrangement, on the one hand, and unprotectable ideas and facts, on the other. Ensuring that these elements remain in the public domain, in turn, may help to prevent copyright from encroaching upon constitutional free speech guarantees.<sup>89</sup>

The question posed here is whether a public domain rationale could provide a foundation for some applications of *patent* misuse doctrine as well. Could a spurious claim of patent infringement be viewed as an effort to leverage control over subject matter that lies beyond the patent's scope, and thus as a type of patent misuse regardless of its impact on competition? Although such "misuse" of patent rights (if that is how one should refer to it), unlike some instances of copyright misuse, typically would not risk undermining freedom of speech,<sup>90</sup> it nevertheless could be viewed as undermining

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effectively, is an abuse of process.

*See id.* at 647.

86. *See* Bohannon, *supra* note 10, at 523–25.

87. *See* David S. Olson, *First Amendment Based Copyright Misuse*, 52 WM. & MARY L. REV. 544–54 (2010) (arguing for a more expansive version of copyright misuse than I have advocated, citing the lack of any other effective deterrent against exaggerated claims of copyright infringement).

88. *See* Cotter, *Misuse*, *supra* note 13, at 903, 962 (suggesting that abusive assertions of either copyright or patent rights might amount to "litigation misuse"); Cotter, *supra* note 43, at 1301–03.

89. *See* Olson, *supra* note 87, at 605–06. In a sense, this rationale could be viewed as a variation on the social welfare rationale discussed above, insofar as the encroachment upon noncopyrighted facts and ideas could be viewed as presumptively generating a surplus of costs over benefits.

90. It is possible that *some* assertions of patent rights risk interfering with speech, liberty, or other constitutionally significant interests. I and others have argued, however, that limitations on patentable subject matter may be one way of addressing this set of problems. *See* Kevin Emerson Collins, *Constructive Nonvolition in Patent Law and the Problem of Insufficient Thought Control*, 2007 WIS. L. REV. 759, 765–90 (2007); Kevin Emerson Collins, *Propertizing Thought*, 60 SMU L. REV. 317, 354–60 (2007); Thomas F. Cotter, *A Burkean Perspective on Patent Eligibility, Part II: Reflections on the (Counter)Revolution in Patent Law*, 11 MINN. J. L. SCI. & TECH. 365, 373–77 (2010); John R. Thomas, *Liberty and Property in the Patent Law*, 39 HOUS. L. REV. 569, 580–92 (2002); *see also* Ass'n for Molecular Pathology v. U.S. Pat. & Trademark Office, 702 F. Supp. 2d 181, 232 (S.D.N.Y. 2010) (invalidating

federal patent policy by excluding others from having access to nonpatented, public domain subject matter.<sup>91</sup>

Extending the patent misuse doctrine in this fashion,

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patents on isolated human gene sequences, as being indistinguishable from products of nature). Alternatively, scholars who oppose narrowing the scope of patentable subject matter have argued that other patent doctrines (including claim definiteness, nonobviousness, and inherency, to say nothing of existing subject matter exclusions for abstract ideas, laws of nature, and naturally occurring phenomena) may do much of the work of screening out patents that would invade the public domain. *See, e.g.*, Brief of 20 Law and Business Professors as Amici Curiae in Support of Neither Party at 25–30, *Bilski v. Doll*, 129 S. Ct. 2735 (2009) (No. 08-964). In any event, given these other options, misuse doctrine is probably not a necessary or desirable tool for addressing concerns that some patents might read on constitutionally-protected subject matter.

91. *Cf. Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 168 (1989) (invalidating state unfair competition law as in effect conferring patent-like rights on unpatentable subject matter); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231–32 (1964) (invalidating state unfair competition law as in effect conferring patent-like rights on an advance too insignificant to be patentable); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237–38 (1964) (invalidating a state unfair competition law that prohibited the copying of an unpatentable design). To be sure, the law of contributory infringement sometimes allows patentees to control the sale of nonpatented parts, but that is an intentional choice on the part of Congress. *See Cotter, Misuse, supra* note 13, at 910 n.37.

To the extent misuse doctrine can be viewed as a tool for preserving the public domain, does this public domain rationale suggest as well that license terms and technological restrictions that restrict access to the public domain should be unenforceable too? *See Bohannon, supra* note 10, at 518–20 (arguing that, at least in the copyright context, it sometimes should); *Olson, supra* note 87, at 599. But I'm not so sure that that argument holds up well in the patent context. If the license or other restriction enables the patentee to exercise its rights in some way that offends competition policy (rationales one and three) or threatens significantly more costs than benefits (rationale two), there is at least an argument (whether persuasive or not) in favor of condemning the restraint as misuse. To argue that the restraint encroaches on the public domain merely because it supposedly expands the scope of the patent grant, however, assumes the existence of a baseline separating the scope of that grant from the public domain. I have argued above that where that baseline lies is not always self-evident, however, and needs to be defended on the basis of consequences, not fiat. When, by contrast, a patentee asserts nonexistent property rights against a defendant's noninfringing product, it may be plausible to characterize the patentee's conduct as a type of abuse even if that conduct threatens no competitive or other harm to anyone other than the accused infringer. Assuming the requisite degree of bad faith on the part of the patentee, there is nothing even plausibly of social benefit inherent in the conduct. (Whether it is worth classifying the conduct as a type of misuse is another question.) This is the distinction I have tried to draw in previous work between transactional misuse, on the one hand, and litigation misuse, on the other. *See Cotter, Misuse, supra* note 13, at 962–63.

however, most likely would trigger application of the *Noerr-Pennington* doctrine.<sup>92</sup> In order to overcome *Noerr-Pennington* immunity, a plaintiff asserting an antitrust claim premised on the defendant's having engaged in an unlawful attempt to monopolize by participating in "sham" patent or copyright litigation must prove, by clear and convincing evidence,<sup>93</sup> that the patentee's assertion of a claim of infringement was both "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits," and subjectively baseless in the sense that the lawsuit "conceals 'an attempt to interfere *directly* with the business relationships of a competitor,' through the 'use [of] the governmental *process*—as opposed to the *outcome* of that process—as an anticompetitive weapon.'"<sup>94</sup> The Federal Circuit has extended *Noerr-Pennington* immunity to claims asserting that the defendant's bad faith assertion of patent rights violates unfair competition (e.g., commercial disparagement) law.<sup>95</sup> Thus, to

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92. The U.S. Supreme Court has held that the First Amendment right to petition the government provides a qualified immunity from antitrust liability. See *United Mine Workers of America v. Pennington*, 381 U.S. 657, 669–72 (1965); *E. R.R. Presidents Conference v. Noerr Motor Freight Inc.*, 365 U.S. 127, 138 (1961). Subsequent cases extended the so-called *Noerr-Pennington* doctrine to petitions directed at administrative agencies and courts in addition to the legislative and executive branches. See *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 510–11 (1972). As a general matter, then, it is not an antitrust violation to procure a patent (even though the end result may be that the patent confers monopoly power) or to assert (or threaten to assert) a claim for patent infringement. An exception to this rule applies, however, where the petitioning entity or entities engage in so-called "sham" petitioning, that is, where "persons use the governmental *process*—as opposed to the *outcome* of that process—as an anticompetitive weapon." *City of Columbia v. Omni Outdoor Adver., Inc.*, 499 U.S. 365, 380 (1991).

93. See *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 876–77 (Fed. Cir. 1985), *overruled on other grounds by Nobelpharma AB v. Implant Innovators, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998).

94. *Profl Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60–61 (1993) (alteration in original) (citations omitted); see also *Nobelpharma AB*, 141 F.3d at 1071–72 ("[A] sham suit must be both subjectively brought in bad faith and based on a theory of either infringement or validity that is objectively baseless . . . [or the] antitrust defendant's subjective motivation is immaterial.").

95. See *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367, 1375–77 (Fed. Cir. 2004) (holding that, for the prelitigation communication of infringement of patent rights to constitute actionable disparagement under state law, both the First Amendment and principles of patent preemption require that the communication be both objectively and subjectively baseless); *Golan v. Pingel Enter.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002); see also *IGEN Int'l, Inc. v. Roche Diagnostics GmbH*, 335 F.3d 303, 310 (4th Cir. 2003) (citing *Cheminor Drugs, Ltd. v. Ethyl Corp.*, 168 F.3d 119, 128–

prevail on a sham litigation-based antitrust claim or an analogous unfair competition claim, the plaintiff not only must succeed in stripping the defendant of *Noerr-Pennington* immunity but also must prove the substantive elements of the antitrust or unfair competition claim. Given these obstacles, it is not surprising that both types of claims appear rarely to succeed.

Although the matter may not be entirely free from doubt,<sup>96</sup> it is difficult to perceive why a misuse defense premised on what is alleged to be a sham assertion of patent rights would not similarly be subject to the *Noerr-Pennington* framework. After all, the constitutional right to petition the government could be undermined by a judgment of patent unenforceability just as much as it could be undermined by a judgment for treble damages. Consistent with this reasoning, the Federal Circuit has held that when the misuse defense is premised on the alleged wrongful enforcement of a patent it is subject to the *Noerr-Pennington* framework.<sup>97</sup> Given these prior decisions, a

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29 (3d Cir. 1999), for the proposition that the *Noerr-Pennington* doctrine “applies to common law claims of malicious prosecution, tortious interference with contract, tortious interference with prospective economic advantage, and unfair competition”).

96. Contrary to the case law cited *supra* note 95, a few courts have declined to extend *Noerr-Pennington* immunity to non-antitrust claims. See 1 HOVENKAMP ET AL., *supra* note 18, at § 11.3b5, at 11-34 to -35 (citing cases). Given the doctrine’s constitutional basis, however, the dominant (and better) view is that *Noerr-Pennington* applies to any claim premised on sham litigation. See *id.* If so, it is difficult to see why a misuse defense premised on sham or abusive litigation should not also be subject to *Noerr-Pennington*. Curiously, only a few discussions relating to whether abusive copyright litigation can constitute copyright misuse explicitly mention the *Noerr-Pennington* issue. See Meg Dolan, *Misusing Misuse: Why Copyright Misuse Is Unnecessary*, 17 DEPAUL-LCA J. ART & ENT. L. & POL’Y 207, 233 (2007) (citing G. Gervaise Davis III, *The Affirmative Defense of Copyright Misuse and Efforts to Establish Trademark Misuse, and Fraud on the Copyright Office: Establishing Limitations on the Scope of Copyright Owners Rights Based on Several Theories*, 867 PLI/PAT 103, 138 (2006)); see also *Int’l Motor Contest Ass’n v. Staley*, 434 F. Supp. 2d 650, 663 (D. Iowa, 2006) (“[T]he *Noerr-Pennington* doctrine does not bar these defenses to the extent that these defenses are *not* based on the filing of IMCA’s lawsuit as the inequitable or wrongful conduct.”) (emphasis added).

97. See *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1373 (Fed. Cir. 1998) (“The conduct to which the jury instruction on misuse generally refers, that is, ‘wrongful’ enforcement of patents, is activity protected under *Noerr* and *California Motor*, and is not subject to collateral attack as a new ground of ‘misuse.’”); *ERBE Electromedizin GmbH v. Canady Technology LLC*, 529 F. Supp. 2d 577, 587 n.4, 597 (W.D. Pa. 2007), *aff’d*, 629 F.3d 1278 (Fed. Cir.

patent misuse defense arising from the sham or abusive assertion of patent rights probably would apply in only a small number of cases; as noted above, antitrust and unfair competition cases in which plaintiffs have succeeded in overcoming *Noerr-Pennington* immunity appear to be uncommon. Moreover, the potential availability of an antitrust or unfair competition claim in a case in which the plaintiff *can* overcome *Noerr-Pennington* immunity reduces the need for a misuse defense to cover the same ground. To be fair, a misuse defense arising from abusive litigation could still pack some punch in a case in which the infringement defendant could prove the abuse but not the substantive elements needed to succeed on an antitrust or unfair competition-based claim. Thus, by rendering the patent unenforceable the prospect of a successful misuse defense might provide some additional deterrence against abusive assertions of patent rights. Even in such a case, however, the infringement defendant would not be without any remedy absent a misuse defense. The Patent Act would permit the awarding of attorneys' fees,<sup>98</sup> and with appropriate facts the infringement defendant might be able to assert a common-law claim for abuse of process as well. Finally, extending the misuse doctrine to cover such cases could invite infringement defendants to assert sham misuse defenses to gain added leverage in settlement negotiations.

On balance, and in light of other existing alternatives, it seems doubtful that the marginal benefits of extending the patent misuse defense to cover abusive litigation as such would outweigh the costs. Thus, while the public domain rationale may provide a justification for some nontraditional applications of a copyright misuse doctrine, it is difficult to foresee that

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2010); *see also* 35 U.S.C. § 271(d) (2006) ("No patent owner otherwise entitled to relief for infringement . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . sought to enforce his patent rights against infringement . . ."). Indeed, *C.R. Bard* appears flatly to reject the argument that asserting a claim of patent infringement against products the patentee knows to be noninfringing constitutes misuse, unless (perhaps) it also amounts to a sham litigation antitrust violation. *C.R. Bard*, 157 F.3d at 1373.

98. The act authorizes awards of attorneys' fees in "exceptional cases." 35 U.S.C. § 285 (2006). Among the circumstances that "warrant a finding of exceptionality in a patent case [are]: 'inequitable conduct before the PTO; litigation misconduct; vexatious, unjustified, and otherwise bad faith litigation; a frivolous suit or willful infringement.'" *Wedgetail, Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1304 (Fed. Cir. 2009) (citation omitted).

rationale supplying much weight for an expanded doctrine of patent misuse.

## VI. SOME CONCLUDING THOUGHTS

The analysis presented above calls into question the need for *any* patent misuse doctrine, even if some version of the doctrine is necessary in copyright to police the boundaries between ideas and facts, on the one hand, and expression on the other. Patent misuse doctrine may not do much harm if misuse comprises only some set of substantive antitrust violations; and in theory there could be a role for some limited applications of misuse beyond the scope of antitrust, though I believe that such instances are likely to be rare. If the patent misuse doctrine cannot be scrapped altogether, however, it could be reformed in some marginally helpful ways. Imposing a standing doctrine would be a step in the right direction,<sup>99</sup> as would clarifying exactly how a patentee goes about purging misuse.<sup>100</sup> One could (largely) discard the characterization of

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99. See Cotter, *Misuse*, *supra* note 13, at 959–60.

100. As others have observed, “[t]here are no set standards for determining when purge has occurred.” James B. Kobak, Jr., *The Misuse Defense and Intellectual Property Litigation*, 1 B.U. J. SCI. & TECH. L. 2, ¶ 8 (1995). What little black-letter there is can be summarized as follows. To demonstrate that the misuse has been purged, the patentee must prove two elements: (1) that it has abandoned the conduct constituting misuse, and (2) that the consequences of the misuse have fully dissipated. See, e.g., *U.S. Gypsum Co. v. Nat’l Gypsum Co.*, 352 U.S. 457, 465 (1957); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493 (1942), *abrogated in part on other grounds by* *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006); *Preformed Line Prods. Co. v. Fanner Mfg. Co.*, 328 F.2d 265, 278 (6th Cir. 1964); *In re Yarn Processing Patent Validity Litig.*, 472 F. Supp. 170, 172 (S.D. Fla. 1979). Whether the misuse has been purged is a question of fact. *U.S. Gypsum Co.*, 352 U.S. at 465. Proving the first element can be relatively straightforward. See, e.g., *Preformed Line Prods. Co.*, 328 F.2d at 278 (concluding that misuse had been purged when, as a matter of corporate policy, the patentee officially ceased the improper tie, notified customers that they were free to buy the tied product from any supplier, and the effects of the anticompetitive conduct had dissipated). Proving “the date when the consequences of . . . [the illegal] acts are dissipated,” *id.* at 279, on the other hand, may be more difficult. See, e.g., *U.S. Gypsum Co.*, 352 U.S. at 473 (suggesting that absent specific evidence of continuing effects, an extended lapse of time following abandonment of the misuse may suffice to survive a defendant’s motion for summary judgment); *Analytichem Int’l, Inc. v. Har-Len Assocs., Inc.*, 490 F. Supp. 271, 275 (W.D. Pa. 1980) (declining to enter summary judgment for defendant on defense of misuse where plaintiff had stopped the improper conduct because “[f]urther development of the record might show what impact” plaintiff’s corrective measures had had in dissipating the effects of the misuse). Some courts also

the doctrine as being equitable in nature and recognize that, despite the historic analogy between misuse and the equitable doctrine of unclean hands, under contemporary practice the misuse doctrine (like other doctrines sometimes referred to as being “equitable” in nature, such as the doctrine of equivalents<sup>101</sup> and the fair use doctrine<sup>102</sup>) is a mixed question of fact and law (mostly law).<sup>103</sup> One also could clarify that the

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have held that the dissipation requirement need not be satisfied where the party asserting misuse did not prove anticompetitive consequences. *See White Cap Co. v. Owens-Ill. Glass Co.*, 203 F.2d 694, 698 (6th Cir. 1953); *see also Altmayer-Pizzorno v. L-Soft Int’l, Inc.*, 302 F. App’x 148, 157 (4th Cir. 2008) (adopting this rule for copyright misuse).

101. *See Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1521 (Fed. Cir. 1995) (en banc) (per curiam) (noting that infringement by equivalents is a question of fact, notwithstanding occasional characterizations of the doctrine as “equitable”), *rev’d and remanded on other grounds* by 520 U.S. 17 (1997); *see also Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 493 F.3d 1368, 1374–75 (Fed. Cir. 2007) (noting that infringement under the doctrine of equivalents is a question of fact, but that presumption of surrender is a question of law).

102. *See, e.g., Gaylord v. United States*, 595 F.3d 1364, 1372 (Fed. Cir. 2010) (describing the fair use doctrine as presenting “a mixed question of law and fact,” but also noting the doctrine’s sometime characterization as an “equitable rule of reason”).

103. Recall that, under the Federal Circuit’s three-step framework, the first question involves determining whether the challenged conduct is either per se misuse or per se lawful. *See Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997). If it is neither, analysis proceeds to the second question of whether the “practice is ‘reasonably within the patent grant, i.e., that it relates to subject matter within the scope of the patent claims.’” *Id.* (quoting *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992)). If the practice is not reasonably within the scope of the patent grant, the practice must then be analyzed in accordance with the “rule of reason.” Under the rule of reason, “the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature, and effect.”

*Id.* (citation omitted) (quoting *State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997)).

Whether the practice at issue is per se lawful or unlawful surely must be a question of law; so too the question whether the practice is within the “scope of the patentee’s rights,” given that claim construction is a question of law. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996). Application of the rule of reason in antitrust, however, as the reference to “finder of fact” in the Supreme Court’s (antitrust) opinion in *Khan* suggests, is a question of fact. 522 U.S. at 10. Perhaps none of this matters much, if the misuse defense (including its factual underpinnings) is understood as being a matter for the court alone to decide. As I read it, however, the case law remains unclear on the question of whether the matter is *entirely* one for the court. *See C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372–73 (Fed. Cir. 1998) (reviewing jury determination of misuse); *Va. Panel*, 133 F.3d at 868

infringement defendant is required to prove the predicate facts comprising misuse by only a preponderance of the evidence, and that a finding of misuse has preclusive effect. Authority in support of these last propositions exists but, like the law on purgation, is surprisingly meager.<sup>104</sup>

Regardless of how these subsidiary questions are resolved, the case for having a patent misuse doctrine at all remains relatively weak. Uncertain in its application, potentially far-reaching in its consequences, and unnecessary to the extent it duplicates antitrust, patent misuse is a doctrine the rationale

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(“When reviewing a jury finding on an equitable issue normally reserved for the court such as patent misuse, we will first presume that the jury resolved the underlying factual disputes in favor of the verdict winner and leave those presumed findings undisturbed if they are supported by substantial evidence. Then, in a manner analogous to our review of legal conclusions, we examine the conclusion *de novo* to see whether it is correct in light of the jury fact findings.”) (citation omitted); *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997) (noting, though not necessarily approving, submission of misuse issue to the jury); *Structural Rubber Prods. Co. v. Park Rubber Co.*, 749 F.2d 707, 720 n.13 (Fed. Cir. 1984) (noting, apparently with approval, the process used in *Yarn Processing*, 472 F. Supp. at 173–74, whereby “bench trials were conducted on purge of patent misuse and on equitable defenses, and separate jury trials were conducted on validity under §§ 102 and 103” thus “properly reserving equitable matters to the court”); *Maxwell v. Angel-Etts of Cal.*, No. CV9910516DT(AJWX), 2001 WL 34133507, at \*2 (C.D. Cal. July 9, 2001) (reporting jury verdict on misuse). I thank Richard Stern for calling the discussion of this issue in *Va. Panel, Structural Rubber Products*, and *Yarn Processing* to my attention.

The one respect in which the doctrine appears to remain grounded in equity relates to its remedy: unenforceability, as opposed to invalidity, and only until the misuse is purged. *See Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004, 1025–26 (Fed. Cir. 2008).

104. *See, e.g., Minebea Co. v. Papst*, 444 F. Supp. 2d 68, 220–21 (D.D.C. 2006) (applying, without citation of authority, preponderance standard); *GFI, Inc. v. Franklin Corp.*, 88 F. Supp. 2d 619, 639 (N.D. Miss. 2000) (same). Similarly, while a finding of unenforceability generally has preclusive effect, *see General Electro Music Corp. v. Samick Music Corp.*, 19 F.3d 1405, 1413 (Fed. Cir. 1994), and commentators agree that a finding of misuse, like a finding of invalidity, should have preclusive effect, *see Kobak, supra* note 100, at ¶ 21, there appears to be no case law squarely on point. Assuming there is preclusive effect, however, then by analogy to case law on the preclusive effect of invalidity it would appear that other licensees could cease paying royalties at least as of the date on which the judgment of misuse is entered. *See PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 708 (6th Cir. 1976); *see also Hartley v. Mentor Corp.*, 869 F.2d 1469, 1471 (Fed. Cir. 1989). Would they be entitled to recover payments made after the date on which the misuse began? Would they have to resume paying once the misuse is purged? Are these potential headaches worth the benefits, such as they are, of having a misuse doctrine?



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*QUESTIONABLE RATIONALES*

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for which remains largely elusive.