Daryl Lim

Patent Misuse and Antitrust Law

EMPIRICAL, DOCTRINAL AND POLICY PERSPECTIVES

WITH FOREWORD BY
William E. Kovacic

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Daryl Lim

The John Marshall Law School, USA

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Patent Misuse and Antitrust Law

To my parents

Foreword

For much of the 20th century, the systems of U.S. antitrust law and patent law resided in largely separate domains. Academics, public officials, and practitioners formed two distinct communities, each with its own professional culture and training (many patent lawyers are engineers or scientists, and many antitrust lawyers regard mathematics and science with bewilderment). Individuals with deep knowledge of both the antitrust and patent regimes were rare. The absence of a widely shared interdisciplinary perspective obscured conceptual connections between the two disciplines and impeded recognition of complementarities between the antitrust and patent systems.

At times, outright antagonism reinforced the separation. From the 1940s through the 1970s, many expressions of U.S. antitrust policy regarded patents with suspicion. Antitrust lawyers developed the common habit of speaking of "the patent monopoly," as though the issuance of a patent automatically conferred substantial market power upon its owner. Antitrust courts and public enforcement agencies skeptically examined restrictions embodied in licensing agreements. Monopolization cases served as tools to resist what antitrust agencies regarded as overreaching by the patent system.

This gloomy history has taken a decided turn for the better. The past twenty years have witnessed an encouraging realignment of the relationship between U.S. antitrust law and patent law. Public enforcement policy has abandoned the former hostility to patents and patent licensing. Courts and enforcement agencies increasingly emphasize the complementary roles that competition and patent rights can play in promoting innovation that improves economic performance. The work of academics and professional societies reflects the need for a truly interdisciplinary approach to understanding the origins and content of antitrust and patent institutions and to facilitate the development of coherent doctrine and policy between the two fields.

Daryl Lim exemplifies the new generation of scholars whose work is dismantling barriers between the antitrust and patent regimes and spurring a transformation in the relationship between the two bodies of law and policy. In this volume, he not only provides the best study to date of the

patent misuse doctrine, but he also sets a valuable foundation for integrating the study of antitrust law and patent law, generally.

Three major contributions stand out. First, *Patent Misuse and Antitrust Law* illustrates as well as any other work how to bridge the study of antitrust law and patent law, for Professor Lim displays mastery of both the technical details and broader policy considerations of the patent misuse doctrine and traces its origins in patent and antitrust law. In doing so, he reveals how concepts of antitrust policy informed judicial development of the patent misuse doctrine. Only a scholar proficient in both fields could illuminate important interactions between the two fields.

A second and related feature is Professor Lim's excellent use of historical narratives to show how patent misuse concepts have developed over time. He places doctrinal developments in their historical context and relates them to changes in law and policy. By this approach, he highlights the historical and intellectual forces that have shaped misuse principles over time. This provides a useful basis for anticipating how the law might unfold in the future, and what distinctive contributions misuse doctrine might make to resolve tensions that arise in determining which mix of policies are best suited to stimulate innovation.

A third impressive dimension of *Patent Misuse and Antitrust Law* is its powerful empirical orientation. Professor Lim is faithful to the cause of theory, and he skillfully sets out the conceptual framework for misuse doctrine. What he does next makes this volume special. Professor Lim combines a comprehensive examination of misuse cases with extensive interviews to demonstrate how theory meets practice. Painstaking empirical study, not mere theory-based intuition, supports Professor Lim's inquiry. He provides an unprecedented view of the jurisprudence and the forces that have determined outcomes in individual cases. The interviews supply rich interpretations of the cases and broader trends, as well as valuable insights about possible future directions for law and policy.

In these respects and others, *Patent Misuse and Antitrust Law* broadens and extends the emerging path of a refreshing new scholarship that links antitrust and patent law. Professor Lim supplies a model for future work, not only in what he has done but in how he has done it. In the years to come, as we benefit from the deeper intellectual integration of antitrust and patent law and policy, we will look back with gratitude at *Patent Misuse and Antitrust Law* for showing us the way.

William E. Kovacic
Global Competition Professor of Law and Policy
George Washington University Law School
Washington, D.C.
27 March 2013

Preface and acknowledgements

This study is testament to the marvel of technology and to the profound impact it has had on legal research. Twenty years ago, a study examining every reported case in a field of the law could scarcely have been imaginable. It would have taken many hundreds of hours of laborious searching, photocopying and indexing to even consolidate a body of cases to commence the research. To hunt down the literature perused in this study would likely have taken as long. Today, many processes, from searching to cross-referencing are nearly instantaneous. Technology has facilitated the statistical analysis of legal data and narrowed the socio-legal research gap. While there will always be an important place for doctrine and policy, empirical work like this reflects the kind of practical scholarship our increasingly complex and sophisticated society demands from those who research and teach the law.

Technology has also connected the world in a way previously unimaginable. It has reduced the opportunity cost of travel and telecommunications, making many of the interviews conducted for this study possible today in a way that simply could not otherwise have been done between other professional commitments. The interviews were at once the most demanding and rewarding aspect of this study. Interviews are a two-way process, and I have learnt that interviewers can be expected to contribute much more to the content of the discussion than merely asking the "right" questions. But done well, interviews provide a rich and stirring interaction that breathes life into dry numbers and doctrine. It was a great privilege to be able to speak with a most remarkable group of interviewees, who gave most generously of both their time and thoughts. Because the interviews were conducted on the condition of confidentiality, references to their contributions do not appear. The purpose of the interviews was to capture the perceptions of stakeholders of patent misuse in practice, both in relation to, as well as apart from my findings. The interviews are not meant to be a representative survey of all constituents.

This book is an invitation to join my journey to understand the contours of patent misuse and how it relates to antitrust law. Readers will quickly see that this book features more verbatim quotes than they may be used to seeing in a legal publication such as this. More like a photographer and

less like a painter, I have tried to capture snapshots of how misuse has featured in real life into a scrapbook rather than present a projection of my own reality. The verbatim text as they left the minds of judges who wrote the opinions and the interviewees and commentators discussing them best represent the state of the world as they see it with as little distortion from my paraphrasing as possible. Those with even a passing knowledge of patent law or antitrust law will hear the echoes of many great minds who have given thought to issues intricately woven around each other to form and inform the doctrine of misuse within these pages.

The value of this enterprise revealed itself through the many interview sessions and subsequent presentation of my findings to experts in the field who were informed, engaged and entertained by the findings and how perceptions in practice deviated from case law and/or conventional wisdom. Indeed, the best moments came when one of them would remark—"Oh that's interesting, I didn't know this!" The study began in 2008 and was completed in 2012. The interviews were based on preliminary results whose trends remained the same over time. My hope as you read this book is that it will do for you what it has done for me and those I have shared snippets of it with—expanding your mind to look beyond conventional wisdom. Readers will also note the limited scope of this book. When it comes to an equitable doctrine like misuse, any book will reach its limits long before it exhausts its topic. This book is intended to be comprehensive but not exhaustive, and to be both exploratory and practical. With that said – welcome.

The pleasure of thanking those who have helped the writing process is a sweet one. I am grateful to Professor Hugh C. Hansen, Professor of Law, Director of the Fordham IP Law Institute and "IP provocateur", for his friendship, guidance and the many opportunities he made possible. He also generously shared his thoughts on improving the study. This book blossomed while I served as the Institute's inaugural Microsoft Teaching and Research Fellow. Teaching courses in patent law, copyright law and EU IP law refined the observations made in the book. I am also grateful to my supervisors at Stanford Law School: Professor Mark Lemley, Professor Deborah Hensler and Dr Moria Paz who guided the writing of my thesis on which this book is based. While at Stanford, I also benefitted from the guidance of Visiting Professor Barton Beebe, whose seminal work on fair use in copyright law provided the inspiration for the case content analysis model used in this book, as well as Professor David Victor, whose thoughts helped refine my empirical analysis. The journey started at Stanford but moved through a number of places as I interviewed people and wrote and presented the work along the way. It has finally settled at the John Marshall Law School, my new academic home. Here,

I take pleasure in thanking Deans John Corkery and Ralph Ruebner for their steadfast support for my scholarship. I also thank the faculty and staff of John Marshall for many hours of edifying conversations which helped make this work better, including Professors Doris Long, Bill Ford, Arthur Yuan and Ben Liu as well as Research Librarian Raizel Liebler. I would like to thank Nick Bartelt, Research and Conference Fellow at the Fordham IP Institute, for his careful comments on my draft manuscript. Mention must also be made of Jason Lunardi, Research Fellow at the Fordham IP Institute as well as Kimberly Reagan and Ali Abid, Research Fellows at the John Marshall Law School. In addition I would like to thank my Research Assistants Joseph Noferi, Michael Sullivan and William Gros and Adam Sussman who ably and cheerfully provided much assistance, and Sandra Sherman of the Fordham IP Center who helped bring this work to fruition.

Many individuals carefully read my draft and provided many insightful comments along the way. They have helped bring my scholarship to the very center of applied research—where theory is only as good as the insights it brings to practice. Naturally, any errors that remain are my responsibility alone.

This study would also not have been possible without the following people, who have individually and collectively inspired me along the path of patent misuse and antitrust scholarship with their thoughtful insights and personal encouragement: from the judiciary: Chief Judge Randall R. Rader (Court of Appeals for the Federal Circuit) (May 31, 2010–present), Chief Judge Paul Michel (Court of Appeals for the Federal Circuit) (December 25, 2004–May 31, 2010), Judge Richard Posner (Court of Appeals for the Seventh Circuit), Judge Kent Jordan (Court of Appeals for the Third Circuit), Judge T.S. Ellis III (District Court, Eastern District of Virginia), Judge Ronald M. Whyte (District Court, Northern District of California); from the government: Commissioner William E. Kovacic (U.S. Federal Trade Commission), Hon. Stanford McCoy (U.S. Trade Representative's Office) and James Toupin (U.S. Patent and Trademark Office); from academia: Professors Lawrence Friedman, Paul Goldstein, David Victor (Stanford Law School), Barton Beebe (Benjamin N. Cardozo School of Law), Herb Hovenkamp (University of Iowa College of Law), Hugh C. Hansen (Fordham University School of Law), Thomas Cotter (University of Minnesota Law School), Larry Franklin (Hong Kong University of Science and Technology Business School) and Joshua Walker (Stanford IP Litigation Clearinghouse); from legal practice: Nick Groombridge, Alan Weinschel and Jason Kipnis (Weil, Gotshal & Manges LLP), Robert Lipstein (Crowell & Moring) and John Richards (Ladas & Parry). The patient and enthusiastic assistance of members of

the Stanford Law School's staff, particularly Lucy LaPier, Sonia Moss and George Wilson, as well as the friendship, advice and assistance of Lee Jyh-An and Stuart Loh are gladly acknowledged.

At Edward Elgar Publishing, many pairs of hands helped me make this journey from manuscript to print possible. It is to Elgar's credit that it has been able to attract such fine professionals. I am grateful to Tim Williams and his team which include Jane Bayliss, Rosemary Campbell, Tara Gorvine, Emma Gribbon and Laura Mann.

Economic theory teaches that the price one pays should reflect its market worth. It can only be hoped that the net present value of this work represents a fair return on its backers' investments. In this regard, I have been blessed to have received the Franklin Family Fellowship for my studies at Stanford Law School and the Ewing Marion Kauffman Foundation funding for my field research. The Law School also kindly supported me in attending the Fordham IP Conference at Cambridge University, UK, where the findings of this study was presented to the international IP community. I am also grateful to the Emily C. and John E. Hansen IP Institute and to the John Marshall Law School for their financial and administrative support. Finally, a book is always written at the expense of those closest to the author. They know who they are, and I thank them for their resigned but gracious tolerance.

The law is described as it appeared to me on December 31, 2012.

Prologue

This book explores the doctrine of patent misuse which was created and exists today to make sure patents are used in ways that are consistent with the purpose and intent of the law. There is probably more general debate about the purpose and intent of patent law now than there has ever been. A study of patent misuse, therefore, not only elucidates an important doctrine but also contributes to the ongoing debate about the role of patents.

This book looks at patent misuse through an historical and empirical lens. It discusses important doctrinal and policy issues. It also looks at patent misuse through the eyes of practitioners, judges and academics. This has never been done before. Hopefully, it will provide a resource for the curious, the expert and all those who are engaged in deciding what patent misuse means and should mean today.

Contents

Introduction

I. "THE METAPHYSICS OF PATENT LAW"

On April 18, 1951, Congressman Joseph R. Bryson of South Carolina introduced a new patent bill, the most significant revision of patent law in more than a century.[1] Like the start-up company Google nearly half a century later, the Patent Act of 1952 largely sprung from the ingenuity of two men—Pasquale Joseph Federico, Chief Examiner of the U.S. Patent Office, and Giles Sutherland Rich, patent attorney and President of the New York Patent Law Association.[2] Rich would become Chief Judge of the Court of Customs and Patent Appeals, and then later a judge of the newly created Court of Appeals for the Federal Circuit, the nation's patent court. Judge Rich was widely regarded as being one of the most influential individuals in patent law.[3] He remarked that if patent law was "the metaphysics" of the law, then patent misuse is the "metaphysics of patent law."[4]

Patent misuse finds its origins in the equitable doctrine of unclean hands, "whereby a court of equity will not lend its support to enforcement of a patent that has been misused."[5] In invoking the defense of misuse,

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[1] H.R. 3760, 82nd Cong. § 1 *et seq.* (1951).

[2] *Giles Sutherland Rich*, WIKIPEDIA, http://en.wikipedia.org/wiki/Giles_Sutherland_Rich.

[3] Jon Thurber, *Judge Giles Rich; Patent Law Authority*, LOS ANGELES TIMES, June 14, 1999, http://articles.latimes.com/1999/jun/14/news/mn-46460 (noting that Judge Rich was "widely regarded as the century's preeminent lawyer, jurist and scholar in the patent field").

[4] See *Rohm & Haas Co. v. Dawson Chem. Co.*, 599 F.2d 685, 706 (5th Cir. 1979) *aff'd*, 448 U.S. 176 (1980) ("[P]atent cases are the only cases argued by professionals and decided by amateurs. We take some comfort in noting that any shortcomings of our effort can safely be laid to the difficulty of the subject matter. Mr. Giles S. Rich observed on several occasions during the hearings on section 271 that patent law is 'the metaphysics' of the law and that contributory infringement/patent misuse issues are the metaphysics of patent law"). Google was founded by Sergey Brin and Larry Page in 1998. Management Team, GOOGLE, http://www.google.com/about/company/facts/management/.

[5] See *B. Braun Med., Inc. v. Abbot Labs.*, 124 F.3d 1419, 1427 (Fed. Cir. 1997).

defendants accept that they have infringed another's patents whether by breach of a license agreement or some other form. At the same time, these defendants temerariously argue that justice requires the courts to aid them by tempering the letter of the law, because the patentees had by their own conduct reached beyond the boundaries of their patent grant in a manner contrary to public policy.[6] Patentees found guilty of misuse are punished by having the patent or patents in question rendered unenforceable until the effects of the misuse have been purged.[7] In policing patent misconduct, misuse therefore delineates the metaphysical boundary beyond which the patent grant, according to Thomas Jefferson, becomes "more embarrassment than advantage to society."[8] It acts as a public injunction against abuses of the privilege granted under patent law, and balances public and private interests.[9]

At the heart of misuse lies a delicate balance. The patent grant is based upon a constitutional privilege to "promote the Progress of Science and the useful Arts."[10] To fulfill this mandate, Congress allows patentees to exclude others, earn royalties, and set the terms of access for those benefitting from the use of technology protected by patents. This limited monopoly rewards innovators who take risks and invest in innovation and the commercialization of their inventions, incentivizing them to develop and market inventions that may not have been realized otherwise.[11] The

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[6] See *Mallinkrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992).

[7] *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942) ("Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated").

[8] Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813), available at: http://press-pubs.uchicago.edu/founders/documents/a1_8_8s12.html.

[9] *Syndicate Sales, Inc. v. Floral Innovations, Inc.*, 2012 U.S. Dist. LEXIS 140345, at *6–7 (S.D. Ind. Sept. 28, 2012) ("A patent is, therefore, appropriately viewed as a contract between the patentee and the public. Patent misuse occurs when the scope of an otherwise valid patent monopoly extends beyond the prescribed boundaries of the patentee's control," citing *Zenith Radio Corp. v. Hazeltine Res., Inc.*, 395 U.S. 100, 136, 89 S. Ct. 1562, 23 L. Ed. 2d 129 (1969)). *SmithKline Beecham Corp. v. Apotex Corp.*, 247 F. Supp. 2d 1011, 1046 (N.D. Ill. 2003). ("The core of that doctrine is the proposition that a patent may not be used to obtain more protection from competition than patent law contemplates").

[10] U.S. CONST. art. I, § 8, cl. 8. The Intellectual Property Clause of the Constitution gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries," ibid.

[11] It is worth mentioning at this early stage that such legal monopolies do not necessarily translate into economic monopolies which concern the antitrust laws.

lure of exclusive rights also attracts others into the inventive enterprise. It feeds into a virtuous ecosystem of innovation where each successive generation "stand[s] on the shoulders of Giants"[12] as new entrants, licensees, and competitors are enabled to build upon the patent owner's technology, which is disclosed in return for the monopoly protection.[13] When patent owners are overcompensated for their contributions, it disrupts the incentive system and results in inefficiency and reduced technological output.

Misuse typically arises in the context of licensing agreements, and is commonly associated with tying arrangements, where patentees sell one product (the tying product) but only on condition that the buyer also purchases a different (or tied) product, or in cases where patentees attempt to extend the life of the royalty period due under their patents through contracts. Agreements and conduct which offend competition policy invoke the other great theme of this book—the antitrust laws. Patentees may engage in conduct which amounts to antitrust violations and will not be able to restrain infringement by others, even if the patent is valid, because "[e]ven constitutionally protected property rights such as patents may not be used as levers for obtaining objectives proscribed by the antitrust laws."[14]

Misuse is not restricted to a closed category of "wrongful" practices, but "appl[ies] to whatever the form of the suit by the patent owner may be."[15]

As Judge Richard Posner explained "[a] patent confers a monopoly in the sense of a right to exclude others from selling the patented product. But if there are close substitutes for the patented product, the patent 'monopoly' is not a monopoly in a sense relevant to antitrust law." This important distinction has now formed a settled part of the IP-Antitrust canon. Thomas F. Maffei, *The Patent Misuse Doctrine: A Balance of Patent Rights and the Public Interest*, 11 B.C.L. REV. 46 (1969), available at: http://lawdigitalcommons.bc.edu/bclr/vol11/iss1/4 ("The term 'monopoly', however, must be used carefully in the antitrust and patent contexts because of its changing connotation"); Kevin J. Arquit, *Patent Abuse and the Antitrust Laws*, 59 ANTITRUST L.J. 739, 740 (1991) ("An often-neglected point, though critical, is that a patent monopoly does not invariably translate into a monopoly in what an antitrust lawyer would describe as a relevant market").

[12] Letter from Isaac Newton to Robert Hooke (1676) ("What Descartes did was a good step. You have added much several ways, and especially in taking the colours of thin plates into philosophical consideration. If I have seen a little further it is by standing on the shoulders of Giants").

[13] See 35 U.S.C. § 112, cl. 1 (1952) (requiring the patent applicant be fully in possession of the invention claimed and to disclose his invention in a manner which enables a person ordinarily skilled in the art to make and use the invention).

[14] Joel R. Bennett, *Patent Misuse: Must an Alleged Infringer Prove an Antitrust Violation?*, 17 AIPLA Q.J. 1, 8 (1989).

[15] *United States v. United States Gypsum Co.*, 124 F. Supp. 573, 594–95 (D.D.C. 1954).

Patentees guilty of misuse must purge their misconduct to the satisfaction of the court if they wish to realize the remedies they seek.[16] Purging requires patentees to show that they have completely abandoned the misconduct, and that their "baleful effects" have dissipated.[17] What amounts to a successful dissipation depends on the nature and extent of the misuse. Cancellation of an offending licensing clause may be sufficient.[18] Where the conduct involves a price-fixing conspiracy, the violation is presumed to continue until some affirmative act of termination or withdrawal is shown.[19] However, where misuse consists of "extensive and aggravated misconduct over several years," which "substantially rigidified the price structure of an entire market and suppressed competition over a wide area, affirmative action may be essential to effectively dispel the consequences of the unlawful conduct."[20] Abandonment may occur at any time, even after the filing of the suit in which the question of misuse is raised. If the misuse is in the terms of licenses, the patentee may simply cancel the licenses. The standard is an objective one, and the abandonment need not take the particular form desired by the defendant.[21] At the same time, "[t]here is no set time period for purging; the time will vary with the facts of each case," since "whether a purge has been accomplished is a factual matter and is 'largely discretionary with the trial court.'"[22] Additionally, successful defendants may recover expenses in defending the action in an award for damages.[23]

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[16] See *In re Yarn Processing Patent Validity*, 472 F. Supp. 180, 183 (S.D. Fla. 1979) (noting that since the doctrine of misuse was developed based on "the strong public policy against allowing one who wrongfully uses a patent to enforce it during the misuse, the remedy of purge has developed, requiring that there be a showing that a dissipation or purge of the misuse has occurred, before the patentee may enforce his patent").

[17] *U. S. Gypsum*, 124 F. Supp. at 594–95 ("Because of the nature of patent grants and because of the nature of this equity doctrine, such owner may, as to *future* protection of his rights and after the baleful effects of the misuse have been fully dissipated, relieve himself of this impediment by ceasing the unlawful use. This is the doctrine of 'purge'").

[18] See *Berlenbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782, 785 (9th Cir. 1964).

[19] *United States v. Consolidated Laundries, Corp.*, 291 F.2d 563, 573 (2d Cir. 1961).

[20] *Ansul Co. v. Uniroyal, Inc.*, 306 F. Supp. 541, 560 (S.D.N.Y. 1969) (citing *Preformed Line Prod. Co. v. Fanner Mfg. Co.*, 328 F.2d 265, 279 (6th Cir. 1964), cert. denied, 379 U.S. 846 (1964)).

[21] See *B. B. Chemical Co. v. Ellis*, 314 U.S. 495 (1942).

[22] *Jack Winter, Inc. v. Koratron Co., Inc.*, 375 F. Supp. 1, 71 (N.D. Cal. 1974) (quoting *Preformed Line Prod.*, 328 F.2d at 279).

[23] *Kearney & Trecker Corp. v. Cincinnati Milacron Inc.*, 562 F.2d 365, 374 (6th Cir. 1977) ("one who has established or is attempting to establish an illegal monop-