
PATENT MISUSE AND INNOVATION

Marshall Leaffer*

Cite as 10 J. HIGH TECH. L. 142 (2010)

I. Introduction

Economists often make the distinction between innovation and invention. Innovation involves a multifaceted effort: the discovery, development, improvement and commercialization of new processes and products. Innovation therefore differs from invention.¹ It includes not only the initial discovery or the creation of potential new products or processes, but also their subsequent development and commercialization.² Since Schumpeter, the consensus among economists is that innovation is the most important factor in the growth of the economy.³ The patent system, whose principal purpose is to promote innovation by giving incentives to inventors, is a prominent method that society utilizes to encourage innovation.

This policy goal is rooted in the original Constitutional language that provides for legislation “[t]o promote the Progress of Science and the useful Arts, by securing for limited times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”⁴ In this way, the Constitution does

* Professor, Indiana University, Maurer School of Law

1. See RICHARD R. NELSON & SIDNEY G. WINTER, AN EVOLUTIONARY THEORY OF ECONOMIC CHANGE 263, (Belknap Press 1985) (1982) (critiquing neoclassical economics and analyzing firm dynamics and technological change).

2. See *id.* This distinction is attributed to Joseph Schumpeter. *Id.* at 39-40.

3. See generally NELSON & WINTER *supra* note 1, at 263 (discussing innovation as factor in economic growth).

4. U.S. CONST. art. I, § 8, cl. 8.

more than empower Congress to grant patents, it grants that power specifically to promote the progress of science.⁵ When viewed from its 150 year existence, the goal expressed in the Constitutional provision has come to fruition.⁶ Despite a dearth of empirical support for the patent system,⁷ the consensus remains that in certain industries, it has played a positive role in the evolution of the United States becoming the paramount technological innovator in the world.⁸

Today, however, the patent system is viewed with increasing skepticism and scholarly literature is unsparing in pointing out its deficiencies.⁹ Many commentators view the patent system as a hindrance rather than a stimulus to innovation.¹⁰ The criticism follows a familiar pattern.¹¹ An increase in patent applications and weakened standards for examining patents has led to a dramatic increase in the number of patents granted in the U.S., roughly tripling between 1983 and 2002.¹² During this same period, the Court of Appeals for the

5. *See id.*

6. *See* Josh Lerner, *The Economics of Technology and Innovation: 150 Years of Patent Protection* 221-224 (2002) (exploring the economic strength, political conditions and legal traditions surrounding the one hundred and fifty year period of patents).

7. *See* Sir Arnold Plant, *The Economic Theory Concerning Patents for Inventions*, in *SELECTED ECONOMIC ESSAYS AND ADDRESSES* 35, 47 (1974) (discussing the economic effects of allowing intellectual property rights); *see also* JOHN PALMER, *RESEARCH IN LAW AND ECONOMICS: THE ECONOMICS OF PATENTS AND COPYRIGHTS*, 3-4 (John P. Palmer & Richard O. Zebe, Jr. eds., 1986).

8. *See* Robert W. Hahn, *The Economics of Patent Protection: Policy Implications from the Literature*, Oct. 30, 2003, archived at <http://www.webcitation.org/5fuRx2fyH>.

9. *See* JAMES BESSEN & MICHAEL J. MEURER, *PATENT FAILURE: HOW JUDGES, BUREAUCRATS AND LAWYERS PUT INNOVATION AT RISK* 1-25 (2008) (analyzing the current breakdown of patents and surge in litigation).

10. *See* ADAM B. JAFFE & JOSH LERNER, *INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT* 6, 50 (2004) *see also* BESSEN & MEURER, *supra* note 9, at 5 9. "By the late 1990's, the costs that patents imposed on public firms outweighed the benefits." *Id.*

11. *See* JAFFE & LERNER, *supra* note 10, at 6.

12. *See* JAFFE & LERNER, *supra* note 10, at 6.

Federal Circuit (CAFC) made it easier to enforce the rights conferred by the acquisition of a patent and has extended those rights by doctrines such as the doctrine of equivalents.¹³ It is hardly surprising that patent litigation has swelled, nurtured by a progressive escalation in monetary awards.¹⁴ Single company acquisition of a dense web of overlapping patents—patent thickets¹⁵—may create a seemingly impenetrable web which a company must hack its way through in order to commercialize new technology.¹⁶ As the number of issued patents skyrocket, companies more frequently enter into arrangements with competitors “not only to recover their investment from creating patented products but also to avoid the patent landmines that line the path of innovation.”¹⁷ Companies strategically use patent litigation as a means to protect their competitive position.¹⁸ Even though a company might believe that it is not infringing, it is often better to settle than fight.¹⁹ The risk of liability is

13. See *Warner-Jenkinson Co., Inc. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 21 (1997). Under the doctrine of equivalents, “a product or process that does not literally infringe upon the express terms of a patent claim may nonetheless be found to infringe if there is “equivalence” between the elements of the accused product or process and the claimed elements of the patented invention. See *id.* at 21 (citing *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 609 (1950)).

14. See Joseph P. Cook, *On Understanding the Increase in U.S. Patent Litigation*, 9 AM. L. & ECON. REV. 48, 48-49, (2007) (explaining favorable court outcomes factor into increased patent litigation).

15. *Proctor & Gamble, Co. v. Paragon Trade Brands, Inc.*, 15 F. Supp. 2d 406, 414 (D. Del. 1998). The term “patent thicket” first appeared in this case. *Id.* at 414, n.6.

16. See *id.*

17. Michael A. Carrier, *Resolving the Patent-Antitrust Paradox Through Tripartite Innovation*, 56 VAND. L. REV. 1047, 1048 (2003) (analyzing the paradox between patent law and antitrust law).

18. See Daniel J. McFeely, Comment, *An Argument for Restricting the Patent Rights of Those Who Misuse the U.S. Patent System to Earn Money Through Litigation*, 40 ARIZ. ST. L.J. 289, 289-90 (2008) (discussing when corporations use patents not to market an invention or process, but merely to engage in patent litigation).

19. See Bob Sullivan, *Patent Piracy, or Goliath's Comeuppance? Small Firms Often Targeted in Obscure Infringement Cases*, MSNBC, Apr. 30, 2004, archived at <http://www.webcitation.org/5fuSLOmIp> (discussing patent litigation between large corporations and small companies).

particularly harsh on small firms who are forced to accept license agreements and pay compensation for past royalties because they are unable to finance litigation.²⁰

The omnipresent threat of litigation may result in agreements suspect in their effect on competition and their harmony with patent policy.²¹ Armed with the imprimatur of the patent grant, patentees are adept at imposing various forms of licensing agreements on third parties as well as forming arrangements between competing patentees through patent pools.²² These arrangements often serve a pro-competitive purpose, but in some instances may hamper competition and reduce optimal investment in R&D.²³ One may conclude that these post-grant activities in litigation and licensing suggest that the current patent system too often reduces incentives to innovate, while encouraging wasteful duplication of effort.²⁴

In sum, the patent system creates obstacles for those who would otherwise contribute to subsequent phases in technological development.²⁵ In areas of science such as biotechnology and digital technologies, where innovation is often evolutionary, incremental, and collaborative, overlapping patents and threats of litigation impede innovation.²⁶ Thus, the broad rights granted to those who contribute to the initial phases of

20. *See id.*

21. *See* McFeely, *supra* note 18, at 290.

22. *See* Michael A. Lavine, Note, *Ripples in the Patent Pool: The Impact and Implication of the Evolving Essentiality Analysis*, 4 N.Y.U. J.L. & BUS. 605, 607 (2008) (explaining how the current essentiality standard and tying could have anti-competitive effects).

23. *Id.* at 609-10.

24. *See* McFeely, *supra* note 18, at 306 (noting that fear of litigation may result in businesses using resources to ensure that products are litigation proof instead of using that money toward innovation).

25. *See* BESSEN & MEURER, *supra* note 9, at 2-5.

26. Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 CAL. L. REV. 1, 40-42 (2001) (explaining issues posed by the incremental nature of software law). Similar issues that arise in patent industry also apply to other industries which revolve around sequential innovation. *Id.*

invention can obstruct the advancement of subsequent phases of technological inquiry, thereby reducing the benefits to society as a basis for future innovation.²⁷

Comprehensive patent reform provides the solution to the perverse consequences of the current patent system.²⁸ As a principal mode of reform, there seems to be a general agreement that, above all, patent quality must be improved.²⁹ In effect, patents should be more difficult to obtain, resulting in the issuance of patents that are truly novel and nonobvious.³⁰ Unfortunately, we have a one-size-fits-all patent system irrespective of the technology involved, leading some to suggest that we modify our patent laws to accommodate the different fields of technological inquiry.³¹ Proper administration, among other steps, will necessitate a significant increase in the funds allocated to the Patent Office.³² In addition, enhanced post-grant procedures to weed out “bad” patents would be an excellent accompaniment to enhanced examination procedures.³³

Unfortunately, beneficial patent reform in the current context will probably not take place in the near future. In the meantime, is there a way to level the judicial playing field? Can we tailor rules so that they create optimal incentives to inventors while also tempering side effects of the system which is more

27. See *id.* at 40-42 (deeming the pattern of sequential innovation to be a risk for infringement litigation).

28. See Jay P. Kesan & Andres A. Gallo, *Why “Bad” Patents Survive in the Market and How Should We Change? The Private and Social Costs of Patents*, 55 EMORY L.J. 61, 123 (2006) (discussing the prevalence of bad patents and the need to improve the quality of the patent granting process).

29. See *id.* at 123 (suggesting that the improvement of patent quality would increase the efficiency of the court process).

30. See *id.* (proposing an administrative opposition system whereby the number of “bad” patents surviving without challenge would be reduced).

31. See Peter S. Menell, *Patents and Diversity in Innovation Policy Conference: A Method for Reforming the Patent System*, 13 MICH. TELECOMM. & TECH. L. REV. 487, 489 (2007) (discussing possible reforms that can be implemented to settle the surge in patent misuse and litigation).

32. See BESSEN & MEURER, *supra* note 9, at 223-24.

33. See BESSEN & MEURER, *supra* note 9, at 223-25.

crucial in today's technological environment? For this purpose, I propose a reconsideration of the doctrine of patent misuse, a defense to patent infringement, in which the patentee has attempted to enforce his patent contrary to proper contours of patent policy.

II. What is Patent Misuse?

The origin of patent misuse lies 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."³⁴ The misuse doctrine is designed to curb practices that generate "anticompetitive effect" from the patent grant.³⁵ Through the years, courts have found patent misuse in a relatively limited number of specific acts of the patent owner, often in the context of patent licensing.³⁶ As the CAFC has stated, the fundamental inquiry is whether, by imposing a challenged condition, the patent owner has improperly expanded the physical or temporal scope of the patent grant with anticompetitive effect.³⁷ If the alleged infringer can demonstrate that the patent owner engaged in prohibited conduct, the patent is rendered unenforceable despite its validity.³⁸ In this respect, patent misuse is similar to the doctrine of inequitable conduct, which also results in making the patent unenforceable.³⁹ A defendant claiming patent misuse is not required to show that he/she was personally harmed by the misuse.⁴⁰ This broad interpretation of standing to assert patent misuse allows any person harmed by the practice to use

34. *B. Braun Med., Inc. v. Abbot Laboratories*, 124 F.3d 1419, 1427 (Fed. Cir. 1997).

35. *See, e.g., Windsurfing Int'l Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986).

36. *See, e.g., id.* at 995.

37. *See id.* at 1001 n.8 (citing *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971)).

38. *See id.* at 1001-02.

39. *See Eugene R. Quinn, Jr., Abusing Intellectual Property Rights in Cyberspace: Patent Misuse Revisited*, 28 WM. & MARY L. REV. 955, 988-89 (2002).

40. *See The Harvard Law Review Association, Note, Is the Patent Misuse Doctrine Obsolete?* 110 HARV. L. REV. 1922, 1924 (1997).

the defense, even despite that person's past transactions with the patentee.⁴¹ In contrast with contract-based defenses such as equitable estoppel and implied license, the patent misuse defense is not restricted to those who had negotiated with the patentee.⁴²

Patent misuse is an elusive doctrine that has waxed and waned through the years while viewed favorably by some and reviled by others.⁴³ Despite its checkered history, the doctrine has been applied as a means to restrain a patent owner's abuse of a broad patent grant deemed contrary to patent policy.⁴⁴ In applying patent misuse, the courts have focused on the anticompetitive effect resulting from the practice.⁴⁵ In so doing, they have naturally gravitated to antitrust law to determine when the misuse doctrine should be applied.⁴⁶ As explained below, I argue that patent misuse should transcend the contours of traditional antitrust law and should concern itself with policy of patent law and the effect on innovation. Before I discuss the interplay of patent misuse and antitrust I would like to provide a brief historical overview of the doctrine.

III. Patent Misuse: A Ninety Year History

Patent misuse is a court-made doctrine that first appeared in the 1917 Supreme Court decision known as the Motion Picture Patents case.⁴⁷ In that case, the plaintiff owned a patent on a mechanism for threading film into a movie projector.⁴⁸ The patentee licensed the patent covering this mechanism on the condition that all movie projectors contain a notice precluding the use of any film not manufactured by the patentee.⁴⁹ The

41. *Id.* at 1924.

42. *Id.*

43. See discussion *infra* Part III.

44. *Is the Patent Misuse Doctrine Obsolete?*, *supra* note 40, at 1923.

45. *Is the Patent Misuse Doctrine Obsolete?*, *supra* note 40, at 1925.

46. *Is the Patent Misuse Doctrine Obsolete?*, *supra* note 40, at 1926.

47. Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 502 (1917).

48. *Id.* at 505.

49. *Id.* at 506-07.

Court held that the restriction violated patent policy, by imposing a license restriction falling outside the scope of the patent.⁵⁰ Despite the pro-competitive focus of the case, the Court based its decision on the principles of patent policy, nowhere mentioning the following antitrust law:

A restriction which would give to the plaintiff such a potential power for evil over an industry, which must be recognized as an important element in the amusement life of the nation, under the conclusions we have stated in this opinion, is plainly void, because [it is] wholly without the scope and purpose of our patent laws . . .⁵¹

The Motion Picture Patents case not only established the misuse doctrine as a fixture of patent policy, but it also set the stage for the doctrine's preoccupation with "extension" of the patent monopoly in general and tying in particular.⁵² Through the 1940's the Court made abundant use of the patent misuse doctrine, striking down a variety of restrictive license agreements, particularly those that involved tying agreements, that is linking the sales of one product to another.⁵³ Allegations of patent misuse usually involved either licensing or sale practices by the patent holder.⁵⁴ The expansion of the patent misuse doctrine occurred mostly before the 1970's, a time when the courts held a more critical view of monopolies in general, and of the rights accrued to inventors in particular.⁵⁵ This has led some scholars to contend that the doctrine is an "anachronism" that can only be explained by the particular jurisprudential

50. *Id.* at 516.

51. *Id.* at 519.

52. *Id.* at 516-18.

53. See J. Dianne Brinson, *Patent Misuse: Time for a Change*, 16 RUTGERS COMPUTER & TECH. L.J. 357, 365-66 (1990) (discussing the patent bar's surprised reaction to the Supreme Court denying a patentee relief for infringement based on the patentee's use of tying restrictions).

54. *Id.* at 365-66.

55. *Id.* at 367-69.

setting in which it arose, at a time that antitrust was in its formative years.⁵⁶

The heyday of patent misuse began to wane in the 1980's and the doctrine was almost terminated in late 1988 by legislation which prohibited a finding of patent misuse unless the patentee's practices violated the antitrust laws.⁵⁷ The ultimate version of this legislation produced a compromise amendment to the patent law.⁵⁸ The Patent Misuse Reform Act incorporated the rule of reason analysis for misuse when the patentee refuses to license a patent or conditions the license of the patent on the licensee's purchase of another product.⁵⁹ With this amendment, drafted in response to persistent criticism of this judge-made equitable defense to patent infringement, the very existence of the doctrine of patent misuse—independent of antitrust law—was viewed as being of questionable validity.⁶⁰

Even before the passage of the 1988 amendments, the creation of the CAFC in 1982 diminished the importance of the patent misuse doctrine. In a series of cases, the CAFC cut back on the scope of patent misuse, imposing new hurdles on defendants

56. *Id.* at 360.

57. See Intellectual Property Antitrust Protection Act, S. Res. 1595 100th Cong. §438 (1st Sess. 1988); Joel R. Bennett, *Patent Misuse: Must an Alleged Infringer Prove an Antitrust Violation?* 17 AIPLA Q.J. 1, 3, 5 (1989).

58. See Patent Misuse Reform Act of 1988, 35 U.S.C. § 271 (1988) (amended 2003).

59. See *id.* § 271(d)(4)-(5). Section 271(d) states: (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following . . . (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned. *Id.*

60. See Jere M. Webb & Lawrence A. Locke, *Intellectual Property Misuses: Developments in the Misuse Doctrine*, 4 HARV. J.L. & TECH. 257, 266-67 (1991) (discussing the misuse doctrine and different restrictions for a license agreement versus a distribution agreement).

asserting misuse.⁶¹ The CAFC limited findings of misuse to conduct that also had anticompetitive effects.⁶² The Federal Circuit has found misuse on only one occasion,⁶³ while rejecting the defense in a number of others.⁶⁴ Whittled away by the CAFC and directly modified by amendment, the patent misuse doctrine seemed of dubious validity by the end of the 1980's. Still, the patent misuse doctrine has been affirmed more than twelve times by the Supreme Court. Although there has been a general drift away from the doctrine during the last thirty years, the Supreme Court has never addressed the Federal Circuit's ambiguously hostile, yet inconsistent, pronouncements on the doctrine of patent misuse.⁶⁵ Even the Federal Circuit has progressively backed away from its initial negative attitude toward the defense.⁶⁶

61. See, e.g., *In re Independent Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000); *Virginia Panel Corp. v. MAC Panel Corp.*, 133 F.3d 860, 869 (Fed. Cir. 1997); *B. Braun Medical Inc. v. Abbott Laboratories.*, 124 F.3d 1419, 1427 (Fed. Cir. 1997); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992); *Windsurfing Int'l Inc. v. AMF, Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986).

62. *Mallinckrodt*, 976 F.2d at 708; *Windsurfing*, 782 F.2d at 1001-02. Anticompetitive effects are not "*per se* violations" but are evaluated according to the "rule of reason." *Mallinckrodt*, 976 F.2d at 708.

63. *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 664-65 (Fed. Cir. 1986) (finding patent misuse where plaintiff tied licenses on its patented method to leases of its unpatented machinery).

64. See, e.g., *In re Independent*, 203 F.3d at 1328; *Virginia Panel*, 133 F.3d at 869; *B. Braun Med.*, 124 F.3d at 1427; *Windsurfing*, 782 F.2d at 1002.

65. Cf. Sean Michael Aylward, *Copyright Law: The Fourth Circuit's Extension of the Misuse Doctrine to the Area of Copyright: A Misuse of the Misuse Doctrine?*—*Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990), 17 U. DAYTON L. REV. 661, 675 (1992) (examining the development of the copyright misuse doctrine created in *Reynolds*). "[T]he issue of copyright misuse has created much confusion and the lower courts remain divided . . . *Id.*

66. See, e.g., *Windsurfing*, 782 F.2d at 1001-02. The court in *Windsurfing*, held that "to sustain a misuse defense involving a licensing arrangement not held to have been *per se* anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined market." *Id.* Since *Windsurfing*, the CAFC seems to have backed off its draconian statement; more recent Federal Circuit cases appear to suggest that the rule of reason analysis must also include considerations of the policies underlying the patent system.

The main point of controversy is the relationship between patent misuse and antitrust law. The doctrine of patent misuse arose at a time when antitrust principles were in their relative infancy. Today, by comparison, our understanding of competition and the role of antitrust is much elaborated, and the question arises: Is there a continuing need for a misuse doctrine that, in many ways, overlaps antitrust law? Despite the obvious overlap between patent misuse and antitrust, I maintain that the doctrine of patent misuse serves policy goals that differ from antitrust.

IV. How Misuse Differs from Antitrust

Whether patent misuse should exist independently from the antitrust inquiry is a question of vigorous debate. As the above discussion demonstrates, this issue has been enthusiastically debated on both sides, where Congress and particularly the Federal Circuit have called into question the misuse doctrine's independent existence.⁶⁷ I take the position that there is a strong rationale to maintain the separate defense of patent misuse as an alternative to antitrust for reasons of sound patent law policy. This justification is more pronounced in the litigation-charged environment in which we live. First, I would like to briefly outline the certain essential differences

See Mallinckrodt, 976 F.2d at 700, 708 (stating "[t]he appropriate criterion is whether Mallinckrodt's restriction is reasonably within the patent grant"); *see also B. Braun Med.*, 124 F.3d at 1426 (stating "[t]he key inquiry [is whether] the patentee has 'impermissibly broadened the 'physical or temporal scope' of the patent grant with anticompetitive effect'" (quoting *Windsurfing*, 782 F.2d at 1001-02); *Virginia Panel*, 133 F.3d at 869 (implying that the rule of reason analysis should include factors beyond such a strictly antitrust analysis); *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1373 (Fed. Cir. 1998). "[P]atent misuse is viewed as a broader wrong than antitrust violation because of the economic power that may be derived from the patentee's right to exclude." *Id.*

67. Cf. Ilan Charnelle, *The Justification and Scope of the Copyright Misuse Doctrine and its Independence of the Antitrust Laws*, 9 UCLA ENT. L. REV. 167, 167 (2002) (discussing the independent copyright doctrine and its relation to antitrust law). "Strong debate arises whether it exists independently of the antitrust laws or is just a mere extension of the antitrust laws." *Id.*

between the antitrust law and the patent misuse doctrine and the policies underlying each.

At its broadest level, antitrust law seeks to protect competition and prevent the improper use and creation of monopolies which result in anticompetitive effects in the marketplace. The fundamental antitrust test is a balancing test known as the rule of reason that centers on one issue: the impact on competition.⁶⁸ In the practical application of the rule of reason, the antitrust court looks for market power, anticompetitive effects, and proof that the anticompetitive effects outweigh the pro-competitive benefits.⁶⁹ These elements, particularly that of market power, are often so difficult to establish that some have called the rule of reason a euphemism for non-liability.⁷⁰ In addition, the rule of reason does not adequately consider how licensing and other practices affect innovation.⁷¹

By contrast, the patent misuse doctrine has several attributes that differentiate it from antitrust laws. First, patent misuse is only available as an affirmative defense to patent infringement or breach of a license agreement, while federal antitrust constitutes a federal cause of action.⁷² Second, a defendant asserting patent misuse has a significantly less strict

68. WILLIAM C. HOLMES, ANTITRUST LAW HANDBOOK § 2:10 (2008). *See also* Nat'l Soc'y. of Prof'l Eng'rs v. U.S., 435 U.S. 679, 688 (1978). "[T]he Rule does not open the field of antitrust inquiry to any argument in favor of a challenged restraint that may fall within the realm of reason, instead, it focuses directly on the challenged restraint's impact on competitive conditions." *Id.* *See also* Robin Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 422 (2003). "[A]ntitrust rule of reason focuses on one particular issue: the impact on competition. . . ." *Id.*

69. *See* HOLMES, *supra* note 68, at § 2:10.

70. *See* HOLMES, *supra* note 68, at § 2:10.

71. *See* HOLMES, *supra* note 68, at § 2:10.

72. ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 902 (8th ed. 2009). The successful assertion of patent misuse as a defense requires that the alleged infringer show that the patentee has impermissibly broadened the physical or temporal scope of the patent grant with anticompetitive effect. *Id.*

standing requirement than antitrust.⁷³ Alternatively, an antitrust plaintiff must prove antitrust injury to sustain a cause of action.⁷⁴ Third, the remedy for patent misuse is essentially equitable in nature.⁷⁵ Antitrust and patent misuses differ significantly regarding the nature of available remedies.⁷⁶ On finding patent misuse, a court will not enforce the patent against the alleged infringer.⁷⁷ Antitrust laws grant treble damages and attorney's fees in addition to injunctive relief whereas only injunctive, not monetary, relief is available for the equitable defense of patent misuse.⁷⁸

As stated above, the patent misuse doctrine has received harsh criticism from both commentators and industry groups which call for its abolishment or argue that it should simply be folded into antitrust law and deprived of independent doctrinal significance.⁷⁹ Because the misuse doctrine is based on indistinct principles that overlap antitrust law, it is argued that the misuse doctrine reduces the incentive to innovate while discouraging pro-competitive licensing practices that disseminate patented technology.⁸⁰ The view that patent misuse be made coextensive

73. *Id.* at 902.

74. HOLMES, *supra* note 68, at § 9:8. "Antitrust injury' . . . must be of a type that the antitrust laws were meant to discourage . . . [a]nd . . . the plaintiff's injury must have been proximately caused by the defendant's antitrust violation. . . ." HOLMES, *supra* note 68, at § 9:8.

75. HARMON, *supra* note 72, at 902.

76. HARMON, *supra* note 72, at 902.

77. HARMON, *supra* note 72, at 902.

78. HOLMES, *supra* note 68, at §§ 9:26–9:29 (discussing the antitrust principles governing the recovery of damages and injunctive relief). *See also* BNA-PATENTS AND THE FEDERAL CIRCUIT § 16.1 (8th ed. 2009) (discussing the availability of injunctive relief for patent infringement).

79. William J. Nicoson, *Misuse of the Misuse Doctrine in Infringement Suits*, 9 UCLA L. REV. 76 (1962).

80. *See generally* Byron Bilicki, *Standard Antitrust Analysis and the Doctrine of Patent Misuse: A Unification Under the Rule of Reason*, 46 U. PITT. L. REV. 209, 235-38 (1984) (discussing the importance of addressing the economic detriments and benefits of patent arrangements prior to inquiring about creativity); Richard Stitt, *Copyright Self-Help Protection as Copyright Misuse: Finally the Other Shoe Drops*, 57 UMKC L. REV. 899 (1989); Thomas M. Susman, *Tying, Refusals to License, and Copyright Misuse: The Patent Misuse Model*, 36 J.

with antitrust law has a logical appeal, given that antitrust law is a larger and more fully developed body of law than patent misuse.⁸¹ “Applying antitrust rules could provide greater clarity in patent misuse doctrine and eliminate a source of confusion at the junction of patent and antitrust law.”⁸² The thinking is that antitrust has evolved a “precise” methodology for determining when improper market leverage is being used by a patentee. In comparison, the relatively imprecise “equitable” doctrine of misuse only adds confusion and uncertainty.⁸³ This sentiment was expressed by Judge Posner who stated that “[i]f misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty.”⁸⁴

V. Why Patent Misuse Should Not Be Coextensive with Antitrust Law

Those who advocate for the convergence of patent misuse and antitrust point out that the courts, in applying misuse, have invariably implicated antitrust principles. But this dependence has not always been the case, and at its inception misuse did not take its cue from antitrust.⁸⁵ For example, Robert Merges asserts that an equitable doctrine preventing unfair extensions of patents, such as the misuse doctrine, offsets other pro-patentee doctrines that effectively extend patents, such as the doctrine of equivalents.⁸⁶ In other words, a doctrine such as patent misuse is

COPYRIGHT LAW SOC'Y 300 (1989).

81. Feldman, *supra* note 68, at 400.

82. Feldman, *supra* note 68, at 400.

83. See Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. PAT. & TRADEMARK OFF. SOC'Y 793, 795 (1988).

84. USM Corp. v. SPS Tech., Inc., 694 F.2d 505, 512 (7th Cir. 1982), *cert. denied*, 462 U.S. 1107 (1983).

85. See *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493-94 (1942) (holding license provision that tied purchase of unpatented salt tablets to lease of a patented machine that used tablets is unenforceable).

86. See Merges, *supra* note 83, at 793.

needed to mitigate the inherent tendency of patent owners for unduly extending the boundaries of their highly exclusionary governmental grant and would provide a modest means to leveling the litigation playing field currently skewed in favor of the patentee.

There are good reasons why patent misuse should not be made coextensive with antitrust law. Antitrust law is “designed to address only particular types of harm and it cannot reach everything that patent policy addresses.”⁸⁷ Displacing patent misuse by antitrust would not take into account fundamental concerns of patent policy.⁸⁸ As a basic proposition, patent policy allows the grant of exclusive rights only under certain circumstances and only within a limited scope.⁸⁹ Thus, patent policy is violated when the patentee attempts to expand that scope and circumvent the limitations of patent law through the coercive use of a government granted legal right.⁹⁰

Antitrust law, however, does not as a matter of course focus on questions that specifically affect these patent policy considerations. Rather, antitrust law concentrates on measuring the acquisition and use of market power.⁹¹ The rationale is that lacking market power, a firm is hard put to raise prices or limit supply, which results in the kind of competitive harm recognized under antitrust law.⁹² Thus, where no market power exists, antitrust is generally unconcerned by other forms of firm behavior.⁹³ This is particularly true for the rule of reason, which invariably necessitates the finding of market power.⁹⁴ The

87. Feldman, *supra* note 68, at 400.

88. See Feldman, *supra* note 68, at 400.

89. See Feldman, *supra* note 69, at 400 (discussing alteration of limits on time and scope of patents upsets balance of patent system).

90. 1 HEBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW § 3-2b (Supp.2008).

91. *Id.* at §3.2c.

92. *Id.*

93. *Id.* at §3.3a.

94. *Id.*

problem is that a patent does not necessarily result in market power.⁹⁵ As Robert Merges has stated, “the often very limited (or thin) markets for patented technology make it difficult to apply antitrust law’s consumer-demand definition of the relevant market.”⁹⁶ Thus, applying antitrust standards to determine whether a firm has engaged in behavior that improperly expands the temporal or physical scope of a patent will only prevent extensions by firms that have market power.⁹⁷ Patent policy, however, concerns itself with broader considerations than with firms that enjoy market power.⁹⁸

The patent misuse doctrine with its greater scope and flexibility may produce benefits by providing for increased judicial scrutiny of patent practices.⁹⁹ Of course equitable doctrines, like patent misuse, are messy by their very nature.¹⁰⁰ However, they do allow for a needed flexibility for judicial determination.¹⁰¹ Even if a patent owner does enjoy market power, antitrust still may be inadequate to encompass the broad array of patent policy concerns.¹⁰² Patent policy is involved with expansions of patent rights that impede system-wide innovation; even if those expansions do not create the kind of consequences that the antitrust law takes into account.¹⁰³ The basic problem is that antitrust focuses on competition in defined markets and in so doing tends to disregard, and may even be blind to, activities that undermine the overall effectiveness of the patent system.¹⁰⁴

95. *Id.*

96. Merges, *supra* note 83, at 793.

97. HOVENKAMP ET AL., *supra* note 90, at § 3.3b.

98. HOVENKAMP ET AL., *supra* note 90, at § 3.3a.

99. *See* HOVENKAMP ET AL., *supra* note 90, at § 3.3a (comparing cases to show the need for flexibility during judicial scrutiny of patent practices).

100. HOVENKAMP ET AL., *supra* note 90, at § 3.3a.

101. HOVENKAMP ET AL., *supra* note 90, at § 3.3a.

102. HOVENKAMP ET AL., *supra* note 90, at § 3.3a.

103. HOVENKAMP ET AL., *supra* note 90, at § 3.3a.

104. *See* Carrier, *supra* note 17, at 1048. Michael Carrier conceptualizes the tension between patents and antitrust as the patent antitrust paradox. Carrier, *supra* note 17, at 1048. “The patent and antitrust systems promote welfare in different, often conflicting, ways: the patent system is based on exclusion, while antitrust law focuses on competition.” Carrier, *supra* note 17, at 1048.

In contrast to antitrust, patent misuse is not limited by taking into account what might constitute optimal incentives for innovation.¹⁰⁵ Requiring parties to show antitrust injury would dramatically restrict judicial inspection of patent practices.¹⁰⁶ “Arguments about innovation are, by necessity, more concerned with competitor’s future actions than with the traditional indicia of competition—price, output, and quality—because there are often no products yet to evaluate in considering how a patent restriction affects innovation.”¹⁰⁷ Robin Feldman has summarized these non-antitrust concerns as: first, prevention of the economic loss that occurs in defensive research activities in circumventing a patent; second, a concern with the burden on innovation caused by an excess of patent rights; and third, the impediments to innovation resulting from awarding the patent grant to early-stage inventors to the detriment of late-stage inventors.¹⁰⁸ This list of concerns is not exhaustive, but the effect on innovation should be the focus of patent policy.¹⁰⁹ Antitrust has engaged in analysis of innovation markets but has not had a particularly good track record in its application.¹¹⁰ It is not hard to see why. Innovation market definition is a speculative venture that often defies precision where one is forced to define relevant assets and close substitutes with limited information.¹¹¹

It is my conclusion that antitrust law has become too permissive, enabling those who abuse licensing practices to escape liability. The reason is that it is exceptionally difficult, if

“Since exclusion-based acts often restrict competition, courts are left to reconcile two systems for promoting welfare without any compass to guide them.” Carrier, *supra* note 17, at 1048.

105. See Feldman, *supra* note 68, at 400.

106. See Feldman, *supra* note 68, at 400.

107. See *Is the Patent Misuse Doctrine Obsolete?*, *supra* note 40, at 1939.

108. See Feldman, *supra* note 68, at 400.

109. See Feldman, *supra* note 68, at 400.

110. See Feldman, *supra* note 68, at 401-02.

111. See Alvin R. Chin, *The Misapplication of Innovation Market Analysis to Biotechnology Mergers*, 3 B.U. J. SCI. & TECH. L. 6, 28 (1997) (discussing how defining an innovation market is difficult because of lack of information).

not impossible, to prove that a patent holder possesses market power at an early stage in the evolution of a market that the holder is nonetheless destined ultimately to control.¹¹² In addition, antitrust is not sensitive to situations where a patent holder has leveraged its power into neighboring markets and where those acts would not constitute an antitrust violation, such as attempted monopolization.¹¹³

So what standard should be applied in determining whether patent misuse has occurred; that is in assessing an undue extension of patent rights in order to discourage the strategic, anticompetitive uses for which patents were not intended? One might begin with the question of whether the licensing condition or a practice involving use of a patent on the balance enhances or suppresses innovation by expanding the scope and temporal aspects of a patent. Most often such practices will involve the imposition of licensing terms, but also may encompass various strategic uses of patents that have a detrimental effect on innovation.¹¹⁴ Once patent misuse has been proven, the burden should shift to the patent owner to demonstrate a business justification for having insisted on the restrictive licensing practice, or as the case may be, a strategic use of the patent grant exceeding its scope and contrary to patent policy.¹¹⁵

With these principles in mind I will now discuss the three situations in which application of the patent misuse doctrine would be appropriate. My focus on grant-back licenses, package licensing, and use of patents in standard settings is a very short list involving attempts of the patent owners to maximize their profits. The list is hardly exhaustive but is used to illustrate the

112. *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 459 (1993).

113. *See, e.g., id.* at 459-60 (holding intent to monopolize not sufficient to justify finding of "dangerous probability of success" without showing of defendant's economic power in that market).

114. *See* George Gordon and Robert J. Hoerner, *Chapter 1: Overview and Historical Development of the Misuse Doctrine*, in *INTELLECTUAL PROPERTY MISUSE: LICENSING AND LITIGATION* 29-30 (ABA Sec. of Antitrust Law, 2000).

115. *Id.*

kind of issues that merit scrutiny under the doctrine of patent misuse, a doctrine that should evolve over time to take into account the ever changing technological landscape as mediated by the patent system and the efforts of patentees to manipulate that landscape in their favor.

VI. Grant-Backs, Package Licenses, and Standard Setting

A. Grand-back Clauses

As a condition to a license agreement, a patentee will sometimes require the licensee to grant it rights to any "improvement" patents or other new technology that the licensee develops while using the patented technology.¹¹⁶ The imposition of such a licensing restriction is called a "grant-back."¹¹⁷ Grant-backs may have, depending on the circumstances, both pro-competitive and anticompetitive consequences.¹¹⁸ As to their pro-competitive effects, grant-backs may allow the licensor and licensee to share the risks and rewards of subsequent innovation.¹¹⁹ In markets in which standardization is important, grant-back clauses can increase competition by ensuring that all licensees of the original patent get the benefit of improvements, and therefore that the standard is not split by incompatible changes in subsequent product generations.¹²⁰

"Grant-backs can have pro-competitive effects, especially if they are nonexclusive."¹²¹ "Such arrangements provide a

116. Jay Pil Choi, *A Dynamic Analysis of Licensing "Boomerang" Effect and Grant-Back Clauses*, International Economics Review (1999), at 1-2 *archived at* <http://www.webcitation.org/5k86DUGfV>.

117. *Id.* at 2.

118. *Id.*

119. U.S. DEPT. OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 5.6, at 30 (1995), *archived at* <http://www.webcitation.org/5fuSwKI7Q> [hereinafter *Antitrust Guidelines*].

120. See Choi, *supra* note 116, at 2 (demonstrating how consideration of future competition distorts licensing relationship and how grant-back clause can mitigate this distortion).

121. Antitrust Guidelines, *supra* note 119, at 30. See also *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 671-72, 700 (D. S.C. 1977) (holding

means for the licensee and the licensor to share risks and reward” of their investment in innovation.¹²² They also encourage the licensor to make further innovation based on the licensed technology.¹²³ In sum, grant-backs may promote innovation and its dissemination.

Grant-back clauses, however, may adversely affect competition. For one, they may reduce the licensee’s incentive to engage in research and development thereby limiting rivalry in innovation markets.¹²⁴ A licensee who is unable to recoup the research and development expenses required in developing the new invention will lose his competitive advantage in the marketplace.¹²⁵ Why should an inventor invest in research and development if he is insulated by the patent grant to recover those expenses against those who could free ride on the invention? Here, I would propose that grant-back licenses should be scrutinized in their effect on innovation, particularly those that impose exclusive grant-back licenses.

The exclusivity of a license agreement, particularly a pattern of exclusive licenses in patent-pooling arrangements undermines the incentive to innovate even for non-licensees as well as potential innovators in the same technological field.¹²⁶ It may discourage non-licensees from remaining in the technological field, much less their continued investment in

mandatory assignment of improvements did not violate antitrust laws, but did constitute patent misuse), *aff’d*, 594 F.2d 979 (4th Cir. 1979).

122. Antitrust Guidelines, *supra* note 119, at 30.

123. See Antitrust Guidelines, *supra* note 119, at 30.

124. See Antitrust Guidelines, *supra* note 119, at 30. Grant-back clauses will be evaluated “under the rule of reason,” focusing on “whether the licensor has market power in a relevant technology or innovation market,” whether the grant-back provision “is likely to reduce significantly licensees’ incentives to invest in improving the licensed technology,” and “the extent to which the grant-back provision has offsetting pro-competitive effects. . .” See *id.*

125. See Antitrust Guidelines, *supra* note 119, at 30.

126. See Roger B. Andewelt, *Practical Problems in Counseling and Litigating: Analysis of Patent Pools Under the Antitrust Laws*, 53 ANTITRUST L.J. 611, 611-14 (1985); Steven C. Carlson, *Patent Pools and the Antitrust Dilemma*, 16 YALE J. ON REG. 359, 367-72 (1999).

innovation.¹²⁷ This occurs with greater force when the number of patents in a pool increases.¹²⁸ Facing an accumulated set of pooled patents, and bolstered by exclusive grant-back agreements, the cost of remaining outside the pool increases with the omnipresent threat of litigation.¹²⁹ In sum, grant-backs in a patent pool context not only create disincentives to innovate by licensees, they may equally have a negative impact on third parties in the same technological field and both active participants and potential innovators who experience increased barriers to entry.¹³⁰

For this reason, grant-back clauses bear directly on patent policy and its scrutiny under the doctrine of patent misuse. Grant-back clauses are often found in the context of patent and are joined with various other provisions that allow third parties to join the pool, such as package licensing agreements.¹³¹ Package grant-backs can both have pro-competitive and anticompetitive results, sometimes encouraging or suppressing incentives to innovate.¹³² As such, package licensing agreements are appropriate for scrutiny under the doctrine of patent misuse.¹³³

B. Coercive Package Licensing that Raise Rivals Costs¹³⁴

A firm with a large patent portfolio can offer to license patents in a single package, either by requiring a group purchase or by devising a royalty stream that is not metered by the use of

127. See Antitrust Guidelines, *supra* note 119, at 29.

128. See Antitrust Guidelines *supra* note 119, at 29.

129. See Carlson, *supra* note 126 at 386-87.

130. See Carlson, *supra* note 126, at 369-72.

131. See Carlson, *supra* note 126, at 369-72.

132. See Antitrust Guidelines, *supra* note 119, at 30.

133. See Webb & Locke, *supra* note 60, at 265.

134. Daniel L. Rubinfeld & Robert Maness, *The Strategic Use of Patents: Implications for Antitrust*, (2004), in ANTITRUST, PATENTS AND COPYRIGHT: EU AND US PERSPECTIVES, at 88-89 (Francois Leveque & Howard Shelanski eds., Edward Elgar Publishing Ltd. (2005), *archived at* <http://www.webcitation.org/5fWeubExU>.

each patent.¹³⁵ Package patent licensing can produce efficiencies that could not be achieved through licensing of individual patents.¹³⁶ Alternatively, package licenses may well have anticompetitive effects and from the perspective of patent policy may well harm incentives to innovate.¹³⁷ A prospective licensee may not have a need for a license that includes the entire package, what might be termed a bundle of essential and non-essential patents, some of which may be of dubious validity.¹³⁸ “If the patent holder refuses to license, the competition is faced with the choice of litigating and/or designing around all of the patents.”¹³⁹ The economic literature has shown that the patent holder will be able to obtain a license fee for the package that is greater than it could obtain from licensing patents individually.¹⁴⁰ And, of course, the very risks of litigation may command a license fee that does not otherwise accurately reflect the value of individual patents in the portfolio.¹⁴¹ A firm with a large patent portfolio enveloping a competitor’s key technologies—one that could be termed a “patent thicket”—has the potential to use it to suppress competition in the ultimate goods market.¹⁴² As stated above, patent thickets may encompass patents of dubious merit.¹⁴³ Unfortunately, it is costly to innovate around assertions of infringement.¹⁴⁴ This creates a situation in which the costs of innovation are increased simply when the owner of the patent thicket threatens to assert their patent rights against the competitor’s products or against his customers.¹⁴⁵

135. *See id.* at 89.

136. *See id.* at 90.

137. *See id.* at 90-91.

138. *See id.* at 88.

139. *Id.* at 88.

140. *See* Daniel L. Rubinfeld & Robert Maness, *The Strategic Use of Patents: Implications for Antitrust*, (2004), in *ANTITRUST, PATENTS AND COPYRIGHT: EU AND US PERSPECTIVES*, at 90 (Francois Leveque & Howard Shelanski eds., Edward Elgar Publishing Ltd. (2005), archived at <http://www.webcitation.org/5fWeubExU>.

141. *See id.* at 89.

142. *See id.* at 88.

143. *See id.*

144. *See id.*

145. *See* Daniel L. Rubinfeld & Robert Maness, *The Strategic Use of Patents:*

The Supreme Court has held that mandatory package licensing may constitute patent misuse.¹⁴⁶ One important consideration in the case law is whether the licensee voluntarily entered into the agreement as a “convenient means for measuring the value of the license” or whether the licensee has been coerced.¹⁴⁷ In its most recent treatment of the issue, the Federal Circuit, in *U.S. Philips Corp. v. International Trade Commission*,¹⁴⁸ reversed an International Trade Commission (ITC) decision, applying an approach of *per se* illegality to package licensing.¹⁴⁹ In *Phillips*, the patentee offered non-exclusive licenses for a package of patents reading on the CD-R and CD-RW standards, even if the package included patents that were essential and non-essential to the practice of those standards.¹⁵⁰ The Federal Circuit held that the ITC’s ruling was not factually supported because the evidence did not show that there were commercially viable alternatives to the “non-essential” patents in the package.¹⁵¹ Thus, it included those patents that had no anticompetitive effect of foreclosing competition.¹⁵² In addition, the ITC failed to acknowledge the pro-competitive efficiencies that package licensing may produce including the reduction of transaction costs in making individual patent royalty determinations and resolving in advance all potential patent disputes between the licensor and licensee.¹⁵³

The decision suggests that, in most circumstances, package licenses will not be invalidated simply because one or

Implications for Antitrust, (2004), in ANTITRUST, PATENTS AND COPYRIGHT: EU AND US PERSPECTIVES, at 88 (Francois Leveque & Howard Shelanski eds., Edward Elgar Publishing Ltd. (2005), archived at <http://www.webcitation.org/5fWeubExU>.

146. *Zenith Radio Corp. v. Haseltine Research, Inc.*, 395 U.S. 100, 136 (1969).

147. *Engel Indus. v. Lockformer*, 96 F.3d 1398, 1408 (Fed. Cir. 1996).

148. 424 F.3d 1179, 1193 (Fed. Cir. 2005).

149. *Id.*

150. *Id.* at 1182.

151. *Id.* at 1198.

152. *Id.*

153. *Id.*

more of the patents included in a package is non-essential.¹⁵⁴ But I do not think that the challenger must show that alternatives to the non-essential patent exist and that licensees were actually deterred from using those alternatives.¹⁵⁵ What is pertinent is whether, on the whole, the package license would tend to have a negative effect on the incentive to innovate on the part of competitors.¹⁵⁶ Here, in applying patent misuse principles, the court must take into account both market structure and effect.¹⁵⁷ This would require a showing of some degree of effective market power in the use of those essential patents that make up the package.¹⁵⁸

C. Standard Setting

My third example where the doctrine of patent misuse is pertinent occurs in the realm of standard setting arrangements. Technical standards, such as interface protocols or file formats, are extremely important in software and other “network industries.”¹⁵⁹ In the end, consumer market standards that ensure the interoperability of products facilitate the sharing of information among purchasers of products from competing manufacturers, thereby enhancing the utility of all products.¹⁶⁰ Thus, patent law policy should encourage the development of reliable open standards while retaining incentives for innovation.¹⁶¹

When parties in standard setting organizations participate in good faith the organization can make rational decisions about costs and benefits before an industry comes locked into a

154. U.S. Philips Corp. v. Int’l Trade Commission, 424 F.3d 1179, 1198 (Fed. Cir. 2005).

155. See *id.* at 1198-1199.

156. *Id.* at 1198.

157. *Id.*

158. *Id.* at 1187.

159. Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CAL. L. REV. 1889, 1896 (2002).

160. See *id.* at 1896.

161. See *id.* at 1962.

standard.¹⁶² Under certain circumstances, the assertion of patent rights against established industry standards can seriously disrupt these beneficial arrangements in two situations.¹⁶³ First, a patentee may encourage the adoption of standard related patents by offering them royalty free only to enforce its patents against adopters when the standard has gone into extensive use.¹⁶⁴ In the second situation, which could be termed “patent hold-up,” a standard setting organization completes its lengthy process of evaluating technologies and adopting a new standard, only to discover that certain technologies essential to implementing the standard are patented.¹⁶⁵ To avoid patent hold-up, standard-setting organizations often have rules requiring participants to disclose patents related to technologies under consideration for the standard.¹⁶⁶ But sometimes, as in *Broadcom Corp. v. Qualcomm Inc.*,¹⁶⁷ patentees may hide the existence of patents in order to assert them against industry members who became locked into the standards to extract increased royalties.¹⁶⁸ Deception such as these in a consensus driven private standard-setting environment harms the competitive process.¹⁶⁹

In this setting, the application of patent misuse doctrine, rendering the misused patent unenforceable, is particularly apposite given the problems of proving antitrust injury under the antitrust laws. Robert Merges and Jeffrey Khun have argued that patent misuse is not entirely suitable to remedy abusive practices by patentees in the standard-setting context.¹⁷⁰ They point out that patent misuse has been traditionally applied in cases of “antitrust-like” abuses in licensing, often involving instances of

162. *See id.* at 1898-1901.

163. Robert P. Merges & Jeffrey M. Khun, *An Estoppel Doctrine for Patented Standards*, 97 CAL. L. REV. 1, 1 (2009) (identifying the bait and switch strategy).

164. *Id.* at 1.

165. *Id.* at 10, 14-15.

166. *Id.* at 11-12.

167. *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297 (3rd Cir. 2007).

168. *See id.* at 318.

169. *See Merges & Khun, supra* note 163, at 11.

170. *See Merges & Khun, supra* note 163, at 38.

market power and in tying arrangements.¹⁷¹ As an alternative, they propose the use of a standards estoppels doctrine to fill the gap.¹⁷² The merits of their position could be argued but what they propose is a subset of patent misuse. No matter what you call it—patent misuse or standards estoppels—the beneficial result is much the same.

VII. Conclusion

Because a patent is a privilege which is conditioned by the public purpose of promoting innovation,¹⁷³ courts should retain at least some form of the patent misuse doctrine. It is one tool that courts use to maximize net social welfare by invalidating inefficient restrictions through which patent holders earn rewards that are incommensurate with the patent grant and suppress technological progress. Of course, no one doctrine is a panacea. But we need a method that is able to evaluate various licensing techniques and other uses of the patent grant that abuse the patent system by expanding the scope and temporal aspects of governmental conferred monopoly contrary to patent policy. As novel techniques emerge, particularly in the areas of patent accumulation and licensing, there is a need for a broad equitable doctrine—one that can evolve with the times—to curtail forms of patentee behavior that abuse the patent system and have a detrimental effect on innovation.

171. See *Merges & Khun*, *supra* note 163, at 38.

172. *Merges & Khun*, *supra* note 163, at 38.

173. See *Mercoird Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 666 (1944).