Patent Misuse: What University Licensors Need to Know to Avoid Falling into the Patent Misuse Trap

By Julia Siripurapu
Juris Doctorate candidate
Franklin Pierce Law Center

Article I, Section 8, Clause 8 of the U.S. Constitution grants American inventors and authors exclusive rights to their intellectual property for a limited period of time, for the purpose of promoting "the progress of science and useful arts." Patents confer upon rights holders the exclusive right to make, use, copy, sell or import the invention[1] for a period of twenty years.[2] This temporary monopolistic type grant, however, is limited by the "misuse doctrine."

The misuse doctrine is an affirmative defense to intellectual property infringement claims developed by the U.S. Supreme Court for two primary reasons: (1) to prevent the improper expansion of the scope of the monopoly grant beyond the prescribed legal boundaries, and (2) to preserve the public policy underlying intellectual property law.[3] While misuse does not invalidate a patent, it does render it unenforceable for the duration

---

[1] 35 U.S.C. § 154(a) (1) (2002).
[2] 35 U.S.C. § 154(a) (2) (2002).
[3] *See e.g. Motion Picture Patents Co. v. Universal Film Manufacturing*, 243 U.S. 502 (1917) (holding that a licensing agreement whereby patentee conditioned the licensing of its patented movie projector upon the licensee's purchase of unpatented film solely from patentee constituted misuse because it undermined the public interest underlying the patent law); *see also Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931) (holding that patentee's conditioning of license to use patented combination for a refrigerating transportation package upon the purchase of an unpatented dry ice component was an improper extension of the patent monopoly constituting patent misuse).

of the misuse and leaves rights holders who would otherwise be able to seek relief and enforce their rights without any remedy until the misuse is purged.

The misuse doctrine was initially applied in patent infringement cases, but has expanded to other forms of intellectual property, specifically copyrights. The doctrine emerged from the equitable doctrine of "unclean hands," which bars a plaintiff from equitable relief if he or she behaved inequitably with respect to the subject of the complaint and harmed the infringer.[4] However, the misuse doctrine is broader in scope than the doctrine of unclean hands and is recognized by courts as a separate defense as it may be invoked by defendants even in cases where the plaintiff's misconduct is not directly related to the matter before the court and the infringer has not been harmed by the alleged misconduct of the rights holder.[5]

Misuse is defined rather broadly. In essence, a court may find any conduct that impermissibly expands the scope of one's intellectual property rights and unreasonably restrains trade to constitute misuse. The Supreme Court has established that three particular practices constitute "per se misuse" patent misuse: (1) tying arrangements in which a patentee conditions the license of his patent upon the licensee's purchase of other

[4] *See Morton Salt Co. v. G.S. Suppinger Co.*, 314 U.S. 488, 493 (1942) (holding that the patentee's leasing of its patented machines on the condition that the licensees purchase unpatented salt tablets for use with the machines from the patentee constituted misuse as it restrained competition in the market of the unpatented articles and subverted the public policy underlying the patent laws).
[5] *See Id.* at 494.

products from the patentee,[6] (2) arrangements requiring payment of royalties after the expiration of the patent,[7] and (3) price fixing. [8]

By contrast, Congress has established that certain acts do not constitute misuse with respect to patents. Pursuant to the 1988 Patent Misuse Reform Act[9] (the "Patent Misuse Reform Act"); which amended Section 271 (d) of the Patent Act, a patent owner will not be found guilty of misuse if he or she, among other things "...(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 sale is conditioned."[10]

The Patent Misuse Reform Act is a congressionally created limitation on the patent misuse defense, enacted for the purpose of cutting back the use of the defense and offering greater protection to patentees. Although the Act leaves it to the courts to determine the scope of the misuse, it requires that the infringer claiming misuse prove that the patentee has market power [11], and does not allow courts to presume that the

---

[6] *See Id.* at 491.
[7] *See Brulotte v. Thys Co.*, 379 U.S. 29 (1964) (holding that a provision of a license agreement requiring payment of royalties after the expiration of the patent constitutes patent misuse).
[8] See *Bauer & Cie. v. O'Donnell,* 229 U.S. 1 (1913) (holding that fixing resale prices constituted patent misuse).
[9] *See* Patent Misuse Reform Act of 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4675 (codified as 35 U.S.C. § 271(d) (4)-(5) (1994)).
[10] *See* 35 U.S.C. § 271(d) (4).
[11] Black's Law Dictionary defines market power as "the ability to reduce output and raise prices above the competitive level -- specifically, above marginal cost -- for a sustained period, and to make a profit by doing so." Black's Law Dictionary (8th ed. 2004).

patent automatically confers such power on the patent holder. It should be noted, however, that the scope of the Patent Misuse Reform Act is rather narrow, as it places limitations on the finding of patent misuse only in tying and package licensing arrangements and in situations where the patentee refuses to use or license its patent.

It is more difficult to categorize conduct that neither falls under one of the categories of "per se misuse" nor is not statutorily exempted. Legal authorities disagree over what acts constitute misuse. Their views have evolved over time into two camps: the "traditional" view and the "antitrust" view. According to the "traditional" view, any patent licensing arrangement that has even a minor anticompetitive effect, without providing benefits to the public is an act of misuse. Thus, the traditionalists argue that licensing arrangements with anticompetitive effects[12] may undermine the public policy underlying intellectual property law and thus constitute misuse even when the anticompetitive effects do not violate antitrust law. [13]

On the other hand, supporters of the "antitrust" view contend that misconduct must rise to the level of an antitrust violation to constitute misuse. The standard of

---

[12] While there is no set definition of "anticompetitive effects", anticompetitive effects have been described by courts as increase in price above competitive levels (*See Generac Corp. v. Caterpillar Inc.*, 172 F.3d 971, 978 (7th Cir. 1999)), deterioration in the quality of goods and services (*See Id.*), reduction of output or choice (*See Id.*), impeding consumer free choice (*See Wilk v. Am. Med. Assoc.*, 895 F.2d 352, 360-62 (7th Cir. 1990)), slowed innovation (*See* McFalls, "The Role and Assessment of Classical Market Power in Joint Venture Analysis" (October 1997) available at <http://www.ftc.gov/opp/jointvent/classic8.htm> (accessed 3 December 2006)), and unreasonable restraint on trade (*See Id.*). Anticompetitive effects result from anticompetitive conduct, which is defined by Black's Law Dictionary as "an act that harms or seeks to harm the market or the process of competition among businesses, and that has no legitimate business purpose." *See* Black's Law Dictionary (8th ed. 2004).

[13] *See Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *see also Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990).

determining misuse under the antitrust view is based on the Clayton and Sherman Acts. Under Section 3 of the Clayton Act, conditioning the sale of goods on an agreement by the purchaser not to use or deal in competing goods is prohibited where the effect is to substantially lessen competition or to create a monopoly.[14] The Sherman Act prohibits contracts, combinations, and conspiracies that restrain trade, monopolization, attempts to monopolize, and combinations or conspiracies to monopolize.[15] Thus, the threshold imposed by the "antitrust" view is much higher than that imposed by the "traditional" view since only conduct that violates the Clayton or Sherman Act constitutes misuse.

In 1995, the Department of Justice and the Federal Trade Commission issued antitrust guidelines for the licensing of intellectual property. [16] This document provides guidance on how federal agencies should evaluate whether licensing restraints violate antitrust laws, and sets forth two methods of analyzing licensing restraints: (1) the "rule of reason", and (2) the "per se" rule of illegality. [17] To determine whether a licensing restraint is examined under the "rule of reason" or the "per se" rule of illegality, the agencies must assess whether the restraint can be expected to contribute to an efficiency-enhancing integration of economic activity. If the answer is yes, agencies must apply the "rule of reason" analysis, and if the answer is no agencies must apply the "per se" rule of illegality analysis.

---

[14] 15 U.S.C.A. § 14.
[15] 15 U.S.C.A. §§ 1, 2.
[16] *See* Antitrust Guidelines for the Licensing of Intellectual Property, Issued by the U.S. Department of Justice and the Federal Trade Commission, April 6, 1995, available at < http://www.usdoj.gov/atr/public/guidelines/0558.htm> (accessed 10 October 2006).
[17] See Antitrust Guidelines for the Licensing of Intellectual Property § 3.3.4.

The "rule of reason" analysis examines whether the licensing restraint has anticompetitive effects and if so, whether the restraint is reasonably necessary to achieve pro-competitive benefits that outweigh the anticompetitive effects. The competitive effect of the agreement is "evaluated by analyzing facts peculiar to business, history of restraint, and reasons why it was opposed." [18] With respect to the "per se" rule of illegality analysis, agreements are considered "illegal per se" when their "nature and necessary effect are so plainly anticompetitive that no elaborate study of industry is needed to establish their illegality."[19] The Supreme Court has identified the following practices as per se violations of antitrust law: (1) naked price fixing arrangements, [20] (2) output restraints, [21] (3), market division among horizontal competitors, [22] (4) resale price maintenance, [23] and (5) certain competitively motivated group boycotts. [24]

While federal agencies have an established framework for evaluating licensing restraints, courts remain divided regarding which of the two views, the "traditional" or the "antitrust" view should be followed when determining whether licensing practices constitute patent misuse. For example, the First Circuit has followed the traditional view

---

[18] *See National Soc. of Professional Engineers v. U. S.*, 435 U.S. 679, 692 (1978).
[19] *See Id.*
[20] *See Straus v. Victor Talking Mach. Co.*, 243 U.S. 490 (1917); *see also Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8 (1918).
[21] *See National Collegiate Athletic Ass'n v. Board of Regents of University of Oklahoma and University of Georgia Athletic Association, 468 U.S. 85 (1984); Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*,441 U.S. 1 (1979).
[22] *See U.S. v. Topco Associates, Inc.*, 405 U.S. 596, 608 (1972) (holding that a horizontal agreement to divide territories constitutes a per se violation of the Sherman Antirust Act); *see also White Motor Co. v. U.S.*, 372 U.S. 253, 263 (1963) (holding that "horizontal territorial limitations . . . are naked restraints of trade with no purpose except stifling of competition.")
[23] *See 324 Liquor Corp. v. Duffy*, 479 U.S. 335, 343 (1987) (stating that "resale price maintenance has long been regarded as a per se antitrust violation"); *see also Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 404-408 (1911); *see also Rice v. Norman Williams Co.*, 458 U.S. 654, 659 (1982).
[24] *See Federal Trade Commission v. Superior Court Trial Lawyers Association,* 493 U.S. 411 (1990).

and so far held that conduct need not rise to the level of an antitrust violation to constitute patent or copyright misuse, and that a showing of a violation of the public policy underlying the patent or copyright grant is sufficient to prove misuse. [25] Conversely, the Second Circuit has followed the "antitrust" view and held that misconduct must rise to the level of an antitrust violation to constitute misuse. [26]

As patent owners and licensors of patented inventions, universities should be aware of this division of authority and keep in mind the limitations set by both views when licensing their patented inventions to third parties. Universities should also be well aware of the draconian consequences of the misuse doctrine on their business dealings. While misuse does not invalidate patents, if a licensor is found to have misused its patent rights, it is essentially rendered powerless when trying to prevent infringement by third parties until the misuse is purged. As licensors, universities should therefore exercise caution and avoid certain practices summarized below that have been scrutinized by courts under the misuse doctrine.

---

[25] *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 1186-1187 (1994 C.A.1 Mass.); *Automatic Radio Mfg. Co. v. Hazeltine Research*, 176 F.2d 799, 805 (C.A.1 1949).

[26] *Ansul Co. v. Uniroyal, Inc.*, 448 F.2d 872, 880 (C.A.2, 1971); *Applera Corp. v. MJ Research, Inc.*, 349 F. Supp. 2d 338 (D. Conn. 2004);

Tying arrangements

Tying arrangements, whereby a licensee is required to buy or license other goods as a condition for licensing or purchasing the goods she wants to license or buy, have been widely criticized by courts and categorized as "per se" patent misuse.[27]

Some courts have held that a tying arrangement is per se illegal when the following four elements are present: (1) the tying arrangement covers two separate products; (2) there is a conditioning of licensing or sale of one product on purchase of another, (3) the licensor or seller has sufficient economic power in the tied product market, and (4) a substantial volume of commerce is affected in the tied product market.[28] Other courts have enumerated the following five elements as necessary for the existence of an illegal per se tying arrangement: (1) there must be "a tying and a tied product", (2) "evidence of actual coercion by the seller that in fact forced the buyer to accept the tied product", (3) "sufficient economic power in the tying product market to coerce purchaser acceptance of the tied product", (4) "anticompetitive effects in the tied market", and (5) there must be "involvement of a 'not insubstantial' amount of interstate commerce in the tied product market .... ." [29] A tying arrangement that does not meet all of the elements of

---

[27] *See e.g. Morton Salt,* 314 U.S. 488; B.B. Chemical Co. v. Ellis, 314 U.S. 495 (1942); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 181 (1948). *United States v. Microsoft Corp.*, 87 F. Supp. 2d 30,57 (D.D.C. 2000); *Applera Corp. v. MJ Research, Inc.*, 309 F. Supp. 2d 293 (D. Conn. 2004) (holding that evidence that owner was effectively tying licenses was admissible as relevant to defendant's antitrust counterclaim and patent misuse defense); *Biogen Idec MA Inc. v. Trustees of Columbia University in City of New York*, 332 F. Supp. 2d 286, 298 (D. Mass. 2004) (stating that "in some circumstances, a 'tying' arrangement that requires plaintiffs to pay royalties on a patent they believe is invalid in order to preserve the option to practice another patent may be something that a court of equity should not permit.").

[28] *See e.g. Multistate Legal Studies, Inc. v. Harcourt Brace Jovanovich Legal and Professional Publications, Inc.*, 63 F.3d 1540 (10th Cir. 1995); *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680 (4th Cir. 1992).

[29] *Yentsch v. Texaco, Inc.*, 630 F.2d 46, 56, 57 (2d Cir. 1980).

a per se violation may still be considered as an unreasonable restraint on trade and thus unlawful under the "rule of reason" standard.

However, licensors should know that under the safeguard provision of the Patent Misuse Reform Act, tying does not constitute misuse when the patentee does not have market power in the tied market to enable it to restrain competition in the tied product.[30] Furthermore, the U.S. Supreme Court has recently held in *Illinois Tool Works Inc. v. Independent Ink, Inc.* that ownership of a patent does not automatically confer market power upon the patentee and that "in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product." [31]

While as licensors universities should be aware of the fact that patent misuse may arise from the use of tying arrangements and that such arrangements constitute per se violations of antitrust law, universities are not usually in a position where they can get themselves into tying arrangements. It should be further noted that there are currently no reported cases that mention to what extent might a university be responsible for downstream tying that a licensee enters into when it markets under a licensed patent and it ties the sublicenses or sales of the licensed products to its sales or licenses or that discuss the potential liability of a licensor on account of the activity of its licensee.

Compulsory package licensing

Package licensing refers to the conditioning of the grant of one license on the purchase of another license, thereby granting a license for more than one patent to the

[30] 35 U.S.C. §271(d) (5).
[31] *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 126 S.Ct. 1281 (2006).

same licensee. Package licensing has been upheld and viewed favorably by courts when the patents in the package compliment each other or one cannot be practiced without infringing another, since such arrangements are made for the convenience of both parties.[32] Courts have, however, struck down such arrangements and found patent misuse where the licensee if essentially forced to accept a license of unwanted patents in order to obtain a license for the desired patent. [33]

Nevertheless, under the safeguard provision of the Patent Misuse Reform Act, patent owners are free to engage in package licensing without fear of misuse so long as they do not have market power in the "relevant market for the patent or patented product on which the license or sale is conditioned."[34] Again, as in the case of tying arrangements, a licensor university is not usually in a position to engage in compulsory package licensing and there are currently no reported cases discussing whether activity on the part of the licensee, downstream, could cause a problem for the university as the licensor or holding that a licensor university is culpable for compulsory licensing activity involving its licensed patent engaged in by its licensees.

Patent pooling

Patent pooling refers to an arrangement whereby several patentees pool their patents together for the purpose of collectively licensing their patents to third parties and/or cross-licensing each other. Such arrangements are evaluated under the antitrust

[32] See *U.S. Phillips Corp. v. International Trade Commission*, 424 F.3d 1179 (Fed. Cir. 2005) (holding that package licensing agreements did not constitute patent misuse under "rule of reason" analysis).
[33] *See Zenith Radio*, 395 U.S. 100 (1969).
[34] *See Id.*

rule of reason, based on the following factors: (1) the collective market power of the participants; (2) the type of relationship between the participants, whether horizontal or vertical; and (3) the existence of anticompetitive licensing restrictions.

Pooling arrangements have been enforced by courts and viewed as procompetitive when used as a means of settling infringement litigation or involving patents that are complimentary or blocking (*i.e.* cannot practice one patent without infringing the other)[35], however, these arrangements have been struck down and viewed as anticompetitive when the participants had monopoly power and the purpose of the agreement was to keep competitors out of the market.[36]

Universities that consider entering into pooling arrangements should therefore exercise caution and avoid arrangements that may possibly be viewed as anticompetitive by courts. Specifically, universities should avoid pooling arrangements that discourage further research and development through requirement to grant licenses to future developments at minimal cost.

---

[35] *See e.g. Standard Oil Co. v. United States*, 283 U.S. 163, 170-77 (1931); *Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc.*, 616 F.2d 1133 (9th Cir. 1980); *Duplan Corp. v. Deering Milliken, Inc.*, 540 F.2d 1215 (4th Cir. 1976); *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723, 729 (9th Cir. 1964); *U.S. Phillips Corp. v. International Trade Commission*, 424 F.3d 1179 (Fed. Cir. 2005).

[36] *See e.g. United States v. Krasnov,* 143 F.Supp. 184 (E.D. Pa. 1956), aff'd per curiam, 355 U.S. 5 (1957) (holding that "where two cross-licensees fixed prices, controlled key patents in industry, and neither granted rights under such patents to any third parties until they found it necessary to do so, and then did so by mutual consent and shared cost of infringement suits brought merely to harass competitors and not prosecuted to point of determining validity of patents and patentee who reserved royalties contributed to legal expenses involved in harassing suit, patentee and cross-licensees unreasonably restrained trade and monopolized trade and used patents suits unlawfully in violation of Sherman Anti-Trust Act.") ; *see also Brulotte.*, 379 U.S. 29 (1964).

Covenants not to produce, sell or buy competing goods

Provisions in license agreements which prohibit licensees from making, selling or buying competing goods have been found by courts to be intellectual property misuse and are generally unenforceable.[37] Such licensing restrictions may also violate antitrust laws.[38]

Covenants not to compete fall in the category of "exclusive dealing arrangements" [39] and are judged under the ""rule of reason" " antitrust standard,[40] according to the following factors[41]: (1) the term of the agreement[42]; (2) the type of the licensed product; (3) the nature of the licensee; (4) ease of termination of the agreement[43]; (5) the general competitive environment in the market; (6) use of exclusive dealing arrangements by competitors[44]; (7) availability of other distribution channels[45];

---

[37] *See e.g. Bulenbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782 (9th Cir. 1964) (holding that a license agreement prohibiting licensee from making and selling any form of the patented product during the term of the agreement was patent misuse); *see also Compton v. Metal Products, Inc.* 453 F.2d 38 (1971, CA4 W Va) (holding that provision in license agreement prohibiting licensee from engaging in any business or activity related to the manufacture or sale of the type of the licensed equipment for a period of 20 years constituted patent misuse); *see also Lasercomb,* 911 F.2d 970 (holding that licensing agreement prohibiting licensee from creating software of the type licensed for a period of 100 years constituted copyright misuse, although the defendant was not a party to the agreement).

[38] *United States v. United States Gypsum Co.*, 333 U.S. 364 (1948).

[39] Exclusive dealing arrangements are subject to scrutiny under § 1 and § 2 of the Sherman Antitrust Act and § 3 of the Clayton Act.

[40] *See Keystone Retaining Walls Sys., Inc. v. Westrock, Inc.*, 792 F. Supp. 1552, 1559-1560 (D. Ore. 1991) (holding that license provision that prohibited licensee from dealing in goods competing with those covered by the patent was akin to an exclusive dealing arrangement which antitrust law analyzes under the "rule of reason" ;).

[41] Cantor, "Tying, Exclusive Dealing and Franchising Issues," 30th Annual Antitrust Law Institute, Vol 1 (PLI 1989).

[42] Shorter agreements are more likely to be found reasonable. *Compare Lasercomb,* 911 F.2d 970 (holding that an agreement that lasted for a period of 100 years was unreasonable) *with Barry Wright Corp. v. ITT Grinnell Corp.*, 724 F.2d 227 (1983, CA1 Mass) (holding that a 2 year restriction was reasonable).

[43] Agreement found reasonable when the parties were allowed to terminate it without cause on reasonable notice. *Roland Machinery Co. v. Dresser Industries, Inc.*, 749 F.2d 380 (1984, CA7 Ill); *Satellite Financial Planning Corp. v. First Nat'l Bank*, 633 F. Supp 386 (1986, DC Del).

[44] *See Tampa Electric Co. v. Nashville Coal Co.*, 365 U.S. 320 (1961) (exclusive dealing arrangements may be viewed negatively when widespread in a particular industry).

(8) barriers to entry[46]; (9) the percentage of the market foreclosed[47]; and (10) the business justifications for the exclusive dealing arrangement.[48] Universities that license their patented inventions must therefore strategically craft covenants not to produce, sell or buy competing goods according to these guidelines in order to avoid a finding of intellectual property misuse and/or antitrust violations.

Royalties based on total sales and post expiration royalties

Several courts have found that a licensor's attempt to collects royalties based on the licensee's total sales, regardless of use, as opposed to the licensee's actual use of the licensed patented product constitutes intellectual property misuse, unless such an arrangement was voluntarily accepted by the licensee.[49] Agreements requiring payment of royalties after the expiration of the intellectual property rights have also been found by courts to constitute misuse. [50] However, one court has held that continuation of royalty

---

[45] *See Refrigeration Engineering Corp. v. Frick Co.*, 370 F. Supp 702 (1974, WD Tex) (exclusive dealing arrangements are less likely to be found unreasonable if goods from competitors can reach the market through other channels).

[46] *See Interface Group, Inc. v. Massachusetts Port Authority*, 816 F.2d 9, 11 (1987, CA1 Mass) ("higher entry barriers make it easier for existing firms to exploit whatever power they have to raise prices above the competitive level because they have less to fear from potential new entrants.")

[47] *See United States v. Aluminum Co. of America*, 148 F.2d 416, 424 (1945, CA2 NY) (holding that over 90 percent of a market is sufficient to constitute a monopoly, 60 to 64 percent is doubtful and 33 percent is not sufficient); *see also Jefferson Parish Hospital Dist. No. 2 v. Hyde,* 466 U.S. 2, 46-47 (1984) (holding that a 30 percent market share was insufficient to establish market power).

[48] *See Tampa Electric Co.*, 365 U.S. 320 at 334 (upheld exclusive dealing arrangement in the coal market justified by public interest).

[49] *See e.g. Zenith Radio Corp.*, 395 U.S. at 139 ("...patent misuse inheres in a patentee's insistence on a percentage-of-sales royalty, regardless of use, and his rejection of licensee proposals to pay only for actual use"); *Automatic Radio Mfg. Co. v. Hazeltine Research*, 339 U.S. 827 (agreement to collect royalties based on total sales was upheld where licensee voluntarily accepted the arrangement).

[50] In *Brulotte,*, 379 U.S. 29 (1964), the Supreme Court found a provision of a license agreement requiring payment of royalties after the expiration of the patent to be patent misuse and held the provision unenforceable.

payments after some but not all the patents licensed under a package license expired did not constitute misuse.[51]

Universities should be aware of the differing views of the courts and prepare their license agreements accordingly. Consideration should be given to the following factors when drafting royalty provisions to maximize the possibility of enforcement of such clauses and avoid a finding of misuse: (1) contract for payment beyond the expiration of the patent as "post expiration obligations" to be paid in the form of a lump sum over a period of time, not as post expiration royalties; [52] (2) document that the payment plan has been set up for the mutual benefit and convenience of both parties or to stretch out consideration; (3) give licensee the right to terminate one or more of the patents unilaterally (but in this case require payment of minimum annual royalty during the life of all patents in the package); and (4) show good faith negotiations.

Price fixing

Price fixing arrangements, whether vertical or horizontal, constitute unreasonable restraints of trade and are a per se violation of antitrust laws.[53] Price fixing by a patentee is generally found to constitute patent misuse[54], however, the Supreme Court has held

[51] *See McCullough Tool Co. v Well Surveys, Inc.*, 343 F.2d 381 (1965, CA10 Okla); *see also Bayer v. Housey Pharmaceuticals, 228 F. Supp. 2d 467 (2002).*

[52] For example, in *Bayer*, Bayer wanted a license from Housey to use four patents and they negotiated two licenses. The parties set up a royalty payment plan whereby one royalty was to be paid for the use of one patent and a lump sum was to be paid over a period of 25 years, which exceeded the 17 year patent term. The Court upheld the royalty payment plan and held that it is permissible to contract for payments beyond the expiration of the patent term as long as it is done to stretch out consideration or for the convenience of the parties. The Court further noted that these were not post expiration royalties, but post expiration obligations.

[53] Sherman Anti-Trust Act § 1, 15 U.S.C.A. § 1.

[54] *See Bauer & Cie.*, 229 U.S. 1 (1913).

that a patent owner may fix the prices at which licensees sell products incorporating the patent for the first sale of the patented products by the licensees.[55]

Universities should take this restriction into consideration when licensing their rights to third parties and draft the license agreements accordingly. Price fixing may arise in the context of university licensing when a university grants an exclusive license with a right to sublicense and is asked to include a clause in the license agreement stating that the licensee cannot sell the patented invention below a certain price. This practice essentially constitutes price fixing and universities should deny such requests to avoid a finding of patent misuse.

Territorial and field of use limitations

A patent owner has the exclusive right to make, use and sell its invention for any purpose and anywhere in the United States. The Patent Act further provides that a patentee has the right to restrict a licensee's use of the patented invention "to the whole or any specified part of the United States." [56] Having these prescribed rights, a licensor university may wish to restrict the licensed product to a particular use and/or to limit the geographic area in which the licensed products may be sold.

However, universities should be aware that territorial as well as field of use restrictions are only allowed for the first sale of the licensed product and may give rise to intellectual property misuse if otherwise incorporated in licensing agreements.[57]

---

[55] *See U.S. v. General Electric, Co.*, 272 U.S. 476 (1926); *see also* Chisum, Patents § 19.04[3] [g] (2006).
[56] 35 §U.S.C. 261
[57] *See Adams v. Burke*, 84 U.S. 453 (1873); *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938); *see also* Chisum, Patents § 19.04 [3][h][i] (2006).

Nevertheless, universities should also be aware of the fact that the Federal Circuit has held that provisions limiting the field of use of a licensed product do not constitute misuse if the restrictions are reasonably within the patent grant or if they pass muster under the "rule of reason" antitrust standard.[58] Universities should therefore be strategic and structure their license agreements accordingly in order to avoid a finding of patent misuse.

Grant backs

A grant back provision in a license agreement requires the licensee to grant back to the licensor any rights that the licensee may develop or acquire.[59] While such clauses do not constitute per se misuse,[60] exclusive grant backs or provisions that allow the intellectual property owner to dominate the market may violate antitrust laws.[61] It should be noted, however, that one court has upheld a grant back provision which required the grant back of a royalty free license to the licensor.[62]

Since a university is an academic institution whose primary scope is research and education and not commercial activity, a licensor university is certainly not in a position to dominate any market and thus violate antitrust law. Nevertheless, universities must

---

[58] *See Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (1992, CAFC) ("Should the restriction be found to be reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims, that ends the inquiry. However, should such inquiry lead to the conclusion that there are anticompetitive effects extending beyond the patentee's statutory right to exclude, these effects do not automatically impeach the restriction. Anticompetitive effects that are not *per se* violations of law are reviewed in accordance with the "rule of reason" . Patent owners should not be in a worse position, by virtue of the patent right to exclude, than owners of other property used in trade.")

[59] *See* Chisum, Patents § 19.04[3][j] (2006).

[60] *See Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947).

[61] *See Id.* at 646-647; *see also United States v General Electric Co.*, 82 F. Supp 753 (1949, DC NJ) (holding that GE's licensing of technology on the condition that licensee grant back to GE any new related patents was a violation of § 2 of the Sherman Act).

[62] *See Old Dominion Box Co. v. Continental Can Co.*, 273 F. Supp. 550, 569-572 (S.D.N.Y. 1967).

exercise caution when including grant back clauses in their licensing agreements in order to avoid a finding of patent misuse under the traditional view.

Conclusion

Patent misuse has become an increasingly important weapon in intellectual property disputes. An act of misuse not only renders a patent unenforceable until the misuse is purged, but also allows infringers to use intellectual property rights free of cost during the period of such misuse. As patent holders and licensors, universities should be aware of the practices that would constitute misuse and of the severe consequences of such acts on their business dealings. Therefore, in order to use and enforce their intellectual property rights to the fullest extent possible, universities should keep in mind the limitations set by both the traditional and antitrust views and craft their licensing agreements accordingly.