

Proper Use of Patent Misuse Doctrine

An antitrust defense to patent infringement actions in need of rational reform

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The United States patent system, modeled after others predating it by centuries, was created to serve the laudable constitutional objectives of advancing the public well-being by promoting "the progress of science and useful arts."¹ Even the most casual examination, however, readily reveals a vast array of deficiencies, each hampering the system's ability to live up to its constitutional mandate.

Congressional and judicial leaders have wasted few words in condemning the evils which they perceive in this ancient system. One Congressman recently charged that the patent bar's proposals for change "have been retrogressive, seeking to lower the standard of invention and create barriers to effective evaluation and elimination of improper or fraudulently procured patents."² Courts also have conspicuously voiced their criticisms. As former Supreme Court Justice Abe Fortas stated, judges "approach patents with the kind of suspicion and hostility that a city-bred boy feels when he must traverse a jungle full of snakes."³

So pervasive are the problems plaguing the patent system that even cataloging them in a single paper would be difficult. These shortcomings result in various injustices to inventors, patentees, infringers, and the public. The problems include standards of patentability which fail to award patents for meaningful contributions but sometimes grant patents on trivia. Patent application procedures are ill equipped to ferret out fraudulent conduct. The frequent jest that the massive financial and time burdens of complex patent litigation result in everybody's loss except the lawyers may not be far from the truth. These and countless other thorns in the side of the Constitution's patent clause are discussed at length in a number of thoughtful articles.⁴ Accordingly, this paper is deliberately limited to one vitally important aspect of the complex system designed "to promote the progress of science and useful arts." Specifically, we shall consider possible reform of the "patent misuse" defense to infringement actions.

The patent misuse defense is available to an infringer if he can demonstrate improper conduct by the patentee, frequently, but not necessarily, conduct in the nature of an antitrust violation. Surprisingly, the defense is often avail-

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able even if the patentee's misconduct has no impact on the infringer or, for that matter, even if the challenged conduct fails to injure anyone. Suggested reforms of the patent misuse defense will be discussed after a brief review of the historical evolution of the doctrine and its status in the courts today.

SUMMARY OF THE PATENT MISUSE DOCTRINE

Historical Background

Initially there was no patent misuse doctrine. Courts permitted, and in fact aided, patentees in expanding the scope of their lawful monopoly to include unpatented product. For example, in *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*,⁵ a supplier of unpatented wire staples suitable for use in the patented button-fastener machine was held liable as a contributory infringer for his sales to purchasers of the invention who had previously agreed to buy the staples only from the patentee. Similarly, *Henry v. A. B. Dick Co.*⁶ approved the patentee's sale of his patented mimeograph machines conditioned on the purchaser's agreement to buy unpatented paper and ink only from the patentee. Thus, it was held that a supplier of unpatented ink to a mimeograph machine purchaser was liable as a contributory infringer. The rationale seems to have been that since the patentee could exclude others entirely, he could therefore license them on any terms he chose.

But the Court soon retracted from its policy of aiding patentees in securing additional monopolies through the leverage of their patent monopolies. In *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*,⁷ the Court expressly overruled *A. B. Dick* and refused to enforce the patentee's contractual provision that the purchaser of the patented movie projector also purchase unpatented film from the patentee. Although recognizing that the Clayton Act policy would achieve the same result, the Court based its holding on patent law principles, since no infringement was involved in the purchase or sale of unpatented materials. Similarly, the Court in *Carbice Corp. of America v. American Patents Development Corp.*⁸ refused to hold the supplier of unpatented dry ice liable as a contributory infringer when he sold it to a purchaser of a patented refrigerated transportation package which had been licensed only for use with the patentee's supplies of dry ice.

A slightly different situation arose in *Leitch Manufacturing Co. v. Barber Co.*⁹ In *Leitch*, the patent covered the process of using an unpatented emulsion in certain paving operations. The patentee's method of obtaining his monopoly reward was to give an implied license for the use of the patented process with his sales of the unpatented emulsion. The defendant was a supplier of the unpatented emulsion. This emulsion apparently could also be used for

nonpatented processes. The Court refused to hold the defendant liable for contributory infringement because the patentee was seeking "by its method of doing business to extend the monopoly to unpatented material used in practicing the invention."¹⁰

Although *Motion Picture Patents*, *Carbice*, and *Leitch* refused to enforce contractual attempts to create nonpatent monopolies, these cases did not go so far as to hold that the patentee's misconduct in attempting to expand his monopoly would be a defense in cases of actual infringement of the patent.¹¹

Birth Of Patent Misuse As A Defense And Subsequent Developments

The misuse defense came into being with *Morton Salt Co. v. G. S. Suppiger Co.*¹² Morton's patent covered a machine for depositing predetermined amounts of salt tablets in canning operations. Morton leased the patented machines on the express condition that unpatented salt tablets having a peculiar configuration rendering them capable of convenient use in the patented machine be purchased only from Morton. The defendant in *Morton Salt* was charged with infringement because it made and leased similar machines and also supplied the specially shaped unpatented salt tablets to use with the machines.

The Supreme Court noted that

[t]he question we must decide is not necessarily whether [the patentee] has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article.¹³

The Court determined that the patentee was

making use of its patent monopoly to restrain competition in the marketing of unpatented articles, salt tablets, for use with the patented machines, and is aiding in the creation of a limited monopoly in the tablets not within that granted by the patent.¹⁴

Citing *Motion Picture Patents*, the Court observed that a patentee "may not restrain as a contributory infringer one who sells to the licensee like materials for like use."¹⁵ Referring to the constitutional grant as the source of our patent laws, the Court held that

the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.¹⁶

Thus, it concluded that "[i]t is a principle of general application that courts, and especially courts of equity, may appropriately withhold their aid where a plaintiff is using the right asserted contrary to the public interest."¹⁷ The Court then brushed aside the assertion that this doctrine was limited to those cases where the patentee sought to restrain a *contributory* infringer in the sale of unpatented articles.¹⁸

Similarly rejected was the assertion that to deny enforcement of the patent, the misconduct must directly concern the particular act or transaction sought to be enjoined:

It is the adverse effect upon the public interest of a successful infringement suit, in conjunction with the patentee's course of conduct, which disqualifies him to maintain the suit, regardless of whether the particular defendant has suffered from the misuse of the patent.¹⁹

Some confusion exists as to the philosophy underlying the defense. It has been alternatively referred to as based on "patent policy" and "antitrust policy."²⁰ In any event, regardless of whether the misuse doctrine is based on "patent policy" or "antitrust policy" — if there is in fact really any conflict — the defense has enabled infringers to avoid liability, at least until the effects of improper conduct are "purged,"²¹ in a variety of patent abuse situations.²²

The Misuse Doctrine Today

Now the doctrine is asserted when patent licenses include provisions setting the price of licensee's sales,²³ specifying the territories licensed,²⁴ defining the "fields of use" within which the licensee may practice the invention,²⁵ or requiring the improper grant back of improvement inventions.²⁶ Similarly, misuse can arise in connection with irregularities in patent procurement²⁷ or misconduct in Patent Office interference proceedings.²⁸ Each of these situations requires careful factual and legal analysis to determine whether a misuse has occurred.

Extreme applications of the defense have been reported. For example, in *F. C. Russell Co. v. Consumers Insulation Co.*,²⁹ the patentee was denied the right to recover any damages from the infringer. In that case, the patentee manufactured the patented storm windows and distributed them under contracts in which the distributor agreed "not to merchandise or offer for sale any merchandise which could be competitive" with those manufactured by the patentee. The patentee's argument that there should be no misuse since there was no evidence that it enforced the challenged restriction was rejected. Misuse was found in the "inchoate threat which these circumstances engender[ed]. . . ." ³⁰

A similar exclusive dealing provision was held to constitute misuse and deprive the patentee of infringement damages in *Berlenbach v. Anderson & Thompson Ski Co.*³¹ This result was reached even though there was no "proof of substantial lessening of competition" and despite the apparently uncontroverted assertion that the offending provision in the patentee's dealership contract was never enforced.³²

In each case, if misuse is found, it is an absolute defense to any liability under a patent even where validity and infringement are established. The following characteristics of the misuse doctrine raise interesting questions as to the soundness of the doctrine as it has now evolved:

- (1) Although frequently involving an antitrust violation, it is not necessary that the patentee's improper conduct include all the elements of a violation of the antitrust laws to constitute a misuse defense;³³
- (2) it is not necessary that the patentee's improper conduct directly concern the transaction or activity which is alleged to be an infringement of the patent;³⁴
- (3) it is not necessary that the infringer raising the misuse defense be a victim of or in any way be affected by the alleged misuse;³⁵ and
- (4) The patentee's improper activity need not affect anything at the time the defense is raised, *i.e.*, the

misuse can be of an incipient nature such as with unenforced, but improper, provisions in patent licenses.³⁶

Not only is the misuse doctrine available as a defense in each different circumstance listed above, but in each the result is the *same* — total disability of the patent (at least until a purge has been shown), precluding the recovery of any royalties and precluding injunctive relief. Once the misuse is found, there is often no inquiry into the seriousness of the patentee's impropriety, the impact of such impropriety on the infringer or the public, or the amount of royalties at issue in the suit. Thus, the doctrine formulated by *Morton Salt* in the context of a flagrant attempt to monopolize unpatented products has resulted in application of the same harsh Draconian remedy in countless dissimilar situations.

A POSSIBLE APPROACH TO RATIONAL REFORM OF THE MISUSE DOCTRINE

In lamenting over curious results created by application of the misuse defense, one learned commentator observed that "[t]hieves are ingenious scoundrels" and "the modern invention thief" is seizing on a technicality "in the hope of escaping liability."³⁷

Various theories have been advanced to explain the situation which patentees find themselves in as a result of perceived misuses of the misuse doctrine. A simplistic explanation is that courts and legislators are prejudiced against inventors and cannot appreciate the complexities involved in such matters. But to the extent such prejudice exists, it may be more of a symptom than a cause.

More plausible perhaps, is that the anomalies have arisen from the evolution of the doctrine itself. It was formulated by the Supreme Court in *Morton Salt* in the context of a patentee's use of the leverage of its monopoly to also monopolize unpatented commodities — a practice which today is considered to be a per se tie-in restriction. Faced with this flagrant anticompetitive practice, the Supreme Court formulated a rule which may well have been just under the circumstances which faced the Court *in that case*.

Subsequently, courts were faced with a variety of patent abuses, many far less obnoxious than the one giving birth to the misuse doctrine. Even if we assume that these less offensive practices warranted *some* judicial scrutiny, it does not necessarily follow that the remedy should have been identical to that imposed in the first case involving the more flagrant violation. Nevertheless, the courts, with little or no analysis, did apply the same *Morton Salt* remedy, i.e., total disability of the patent once any kind of misuse was found.

One is compelled to ask, why have patentees and leaders of the bar not been successful in their extensive attempts to reform the system? One explanation is that most advocates for reform seek too much. At one end of the spectrum there are undoubtedly those who believe the patent misuse remedy with its Draconian results should not only be preserved, but perhaps expanded. At the other extremity there are those who advocate that "antitrust issues should be excluded from infringement suits."³⁸ The patent bar's proposals for licensing legislation have been

described by Justice Department representatives as "contrary to the public interest," and possibly allowing a patentee "to impose price-fixing, tie-ins, and other such anticompetitive arrangements upon his licensees... [He could] engage in various types of conduct which traditionally have been regarded as involving antitrust violations."³⁹

With so many of the advocates for reform seeking complete abolition or drastic curtailment of the misuse doctrine we have found that no reform has come about. To seek complete immunity from the strictures of the antitrust laws and the long established principle that patentees should not engage in restrictive conduct beyond the scope of their lawful grants is unrealistic and simply asking too much.

It is suggested that a rational program for reform of the patent misuse doctrine would have two objectives. First, establish criteria for when patent misuse could be a defense. Patent misuse would remain a defense in patent infringement actions, but it would be strictly limited to those situations where the conduct of the patentee is either intended to be anticompetitive, in fact is anticompetitive, or in some way injures the infringer, the public, or some third party. Second, there should be a reformulation of the remedy to be applied where there is a finding of patent misuse. Rather than automatically deprive the patentee of all his royalty and injunctive rights regardless of the impact of the impropriety and regardless of the amount of royalties in dispute, the remedy should be formulated to fit the abuse in a particular case.⁴⁰ For example, rather than deprive the patentee of all infringement damages, the injured infringer could be allowed a credit to compensate for any injury caused to the infringer. If it is a third party or the public at large that is injured, then an appropriate figure could be deducted from the infringement damage award.

To be sure, what is proposed here will not satisfy the wishes of those patent advocates who seek wholesale immunities from antitrust principles for patent activities. But, it is hoped that these suggestions for more moderate reformations will form the basis for a rational dialogue and ultimate improvement of the patent system.

NOTES

1. U.S. CONST. art. I, §8, cl.8.
2. 119 CONG. REC. 2865-66 (daily ed. April 17, 1973) (remarks of Congressman Owens, D.Utah).
3. Fortas, *The Patent System in Distress*, 14 IDEA 571 (1971).
4. Without attempting to be comprehensive, the following is perhaps representative. Regarding the concept of a patent-type system as a proper vehicle for rewarding and encouraging innovation, see Turner, *The Patent System and Competitive Policy*, 44 N.Y.U.L. REV. 450 (1969); Turner, *Patents, Antitrust and Innovation*, 28 U. PITT. L. REV. 151 (1966); Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267 (1966).
In the field of constitutional standards for patentability, see Irons and Sears, *The Constitutional Standard of Invention — The Touchstone for Patent Reform*, 4 UTAH L. REV. 653 (1973).
5. Regarding the proper interfacing between federal statutory patent protection and trade secrets protected under state law, see Macdonald, *Know-How Licensing and the Antitrust Laws*, 62 MICH. L. REV. 351 (1964); Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432 (1967); Note, *Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards of Patentability*, 87 HARV. L. REV. 807 (1974).
6. 77 F. 288 (6th Cir. 1896).
7. 224 U.S. 1 (1912).

7. 243 U.S. 502 (1917).
8. 283 U.S. 27 (1931).
9. 302 U.S. 458 (1938).
10. *Id.* at 463.
11. At least one lower court, however, allowed the infringer to assert the patentee's misconduct as a defense to the infringement charge where the *infringer was the victim* of the misconduct. *American Lecithin Co. v. Warfield Co.*, 105 F.2d 207 (7th Cir.), *cert. denied*, 308 U.S. 609 (1939).
12. 314 U.S. 488 (1942).
13. *Id.* at 490.
14. *Id.* at 491.
15. *Id.*
16. *Id.* at 492.
17. *Id.*
18. *Id.* at 492-93.
19. *Id.* at 494.
20. *Compare Morton Salt with Mercoid Corp. v. Minneapolis Honeywell Regulator Co.*, 320 U.S. 680, 684 (1974). See also the dictum of Mr. Justice Douglas in *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 641 (1947):
Though control of the unpatented article or device falls short of a prohibited restraint of trade or monopoly, it will not be sanctioned.
... For it is the tendency in that direction which condemns the practice ...
21. With the birth of the patent misuse defense came the concept that the defense was only temporary, *i.e.*, it could be avoided by the patentee's purging itself of the improper conduct and its concomitant effects. As the Court stated in *Morton Salt*:
Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and *should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated.* 314 U.S. at 493 (emphasis added).
- In the companion case to *Morton Salt*, *B.B. Chem. Co. v. Ellis*, 314 U.S. 495, 498 (1942), the Court also reiterated the possibility of purge, but in slightly stronger terms:
It will be appropriate to consider petitioner's right to relief when it is able to show that it has *fully abandoned* its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been *fully dissipated.* (Emphasis added.)
22. See generally ABA ANTITRUST LAW DEVELOPMENTS 327-53 (1975).
23. Gibbons, *Price Fixing in Patent Licenses and the Antitrust Laws*, 51 VA. L. REV. 273 (1965).
24. Gibbons, *Domestic Territorial Restrictions in Patent Transactions and the Antitrust Laws*, 34 GEO. WASH. L. REV. 893 (1966).
25. Gibbons, *Field Restrictions in Patent Transactions: Economic Discrimination and Restraint of Competition*, 66 COLUM. L. REV. 423 (1966).
26. Chevigny, *The Validity of Grant-Back Agreements Under the Antitrust Laws*, 34 FORDHAM L. REV. 569 (1966).

27. Stedman, *Acquisition of Patents and Know-How by Grant, Fraud, Purchase and Grant-Back*, 28 U. PITT. L. REV. 161 (1966).
28. *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963).
29. 266 F.2d 373 (3d Cir. 1955).
30. *Id.* at 375-76.
31. 329 F.2d 782 (9th Cir.), *cert. denied*, 379 U.S. 830 (1964).
32. *Id.* at 784.
33. *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 641 (1947).
34. 314 U.S. at 494. Of course, the misuse must somehow be casually related to the patent activity. See ABA ANTITRUST LAW DEVELOPMENTS 327-31 (1975); see also *Ansul Co. v. Uniroyal, Inc.*, 306 F. Supp. 541 (S.D.N.Y. 1969), *modified*, 448 F.2d 872 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018 (1972); *W.L. Gore & Associates, Inc. v. Carlisle Corp.*, 381 F. Supp. 680 (D. Del. 1974).
35. *E.g.*, *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 494 (1942); *Berlenbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782 (9th Cir.), *cert. denied*, 379 U.S. 830 (1964); *F.C. Russell Co. v. Consumers Insulation Co.*, 226 F.2d 373 (3d Cir. 1955); *Anderson Co. v. Trico Prods. Corp.*, 237 F. Supp. 834 (W.D.N.Y. 1964).
36. *F.C. Russell Co. v. Consumers Insulation Co.*, 226 F.2d 373 (3d Cir. 1955); *Berlenbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782 (9th Cir.), *cert. denied*, 379 U.S. 830 (1964). In *Anderson Co. v. Trico Prods. Corp.*, 237 F. Supp. 834 (W.D.N.Y. 1964), the patentee, a supplier of patented windshield wiper blades and related equipment, entered into an agreement with its principal customer, Chrysler, which provided that Chrysler would standardize its car design in a manner which forced the use of the patented invention on Chrysler cars. The patentee argued that this misuse had been purged by Chrysler's ignoring the provision and redesigning to facilitate competing wipers. The court rejected this argument, stating that "as long as the inchoate threat exists under its agreement with Chrysler, the fact that Anco presently elects to pursue a different course does not call for a different result." *Id.* at 838. To the same effect, see *Hensley Equip. Co. v. Esco Corp.*, 383 F.2d 252, 261 (5th Cir. 1967) ("Where a contract clause forms the basis for a misuse defense a mere showing that the clause is not enforced has been held insufficient to dissipate the misuse ...").
37. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 7 J. PAT. OFF. SOC'Y 476, 485 (1953).
38. Nicoson, *Misuse of the Misuse Doctrine in Infringement Suits*, 77 U.C.L.A. REV. 76, 107 (1962).
39. *Hearings Before the Subcomm. on Patents, Trademarks and Copyrights of the Comm. on the Judiciary United States Senate*, 92d Cong., 1st Sess., pt. 1, at 272-73 (1971).
40. To be sure, there have already been a few hints at this approach in analogous areas. In the copyright field, at least one case has held that the infringer's "piracy is unmistakably clear, while the plaintiffs' infraction of the antitrust laws is doubtful and at most marginal, we think the enforcement of the first policy should outweigh enforcement of the second." *Alfred Bell & Co. v. Catalda Fine Arts, Inc.*, 191 F.2d 99, 106 (2d Cir. 1951). Even in the patent field a few courts are shying away from invoking the misuse defense where the "misuse is in the air." See cases cited at note 34, *supra*. Cf. discussion of comparative negligence in *W. PROSSER & Y. SMITH, CASES AND MATERIALS ON TORTS* 570-75 (4th ed. 1967).