

Balancing Acts: Using a Mixed Test to Ensure Better Results in Rule of Reason Patent Misuse Analysis within Section 337

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**Balancing Acts: Using a Mixed Test to Ensure Better
Results in Rule of Reason Patent Misuse Analysis
within Section 337**

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INTRODUCTION

“[I]ntellectual property laws and the antitrust laws share [a] common purpose[] of promoting innovation and enhancing consumer welfare.”¹ Patent laws grant exclusive rights to inventors in exchange for the disclosure of their creations into mainstream society.² On the other hand, antitrust laws allow for reasonable consumer access to such discoveries by preventing inventors from unfairly exploiting their creations.³ Although patent and antitrust laws promote similar goals, they do so in contention with each other. “Because a patent is a special grant of power to exclude competition, and exclusionary power has historically been scrutinized strictly under the antitrust laws, the patent and antitrust laws have historically coexisted in tension with one another.”⁴ “[T]here is tension between the patent and the antitrust laws that flows naturally from the need for courts and the antitrust enforcement agencies to determine the circumstances in which the principles underlying one body of law will prevail over those of the other.”⁵

The balancing act described above is exactly what occurs at the International Trade Commission (ITC) when it reviews § 337 claims. The ITC has two functions under § 337: (1) to protect domestic industry and (2) to enforce domestic patents.⁶ Respondents subject to § 337 claims likely will assert that the patent is invalid, turning to patent law, or that the patent is misused, relying on antitrust to justify its behavior.⁷ In some cases where the latter is asserted, the ITC is forced to make a choice between protecting domestic industry and enforcing a domestic patent. The assertion of a patent misuse defense also presents interesting issues on appeal, especially those decisions appealed to the Court of Appeals for the Federal Circuit. The Federal Circuit’s jurisdiction and expertise is based in patent law, which leads to the

1. 4 VON KALINOWSKI ET AL., ANTITRUST LAWS AND TRADE REGULATION § 72.02[4] (Matthew Bender 2d ed. 2010) (quoting 1995 Intellectual Property Guidelines § 1). *See also* SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1203 (2d Cir. 1981).

2. SCM v. Xerox Corp., 645 F.2d 1195, 1203 (2d Cir. 1981).

3. *See id.*

4. SECTION OF ANTITRUST LAW, AM. BAR ASSOC., THE ANTITRUST COUNTERATTACK IN PATENT INFRINGEMENT LITIGATION 47 (1994).

5. VON KALINOWSKI, *supra* note 1.

6. *See* Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 547–48 (2009).

7. *See e.g.*, C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1346 (Fed. Cir. 1998) (In a non-§ 337 context, alleged infringer argued that patent was invalid, or that antitrust justified infringing actions).

question of how antitrust issues are handled within our highest patent court.

This Comment, then, addresses the tensions faced by the Federal Circuit in reviewing the ITC's patent misuse decisions that address § 337 claims. Patent misuse is the only antitrust-related doctrine that the Federal Circuit court has addressed in a § 337 appeal. There are two types of patent misuse: per se misuse and the rule of reason misuse.

First, this Comment provides relevant background information by explaining § 337 itself, the administrative power and function of the ITC under § 337, and the Federal Circuit's jurisdiction and deferential stance to the ITC regarding § 337 appeals. Subsequently, this Comment examines both per se and rule of reason patent misuse defenses, within the context of ITC appeals to the Federal Circuit of § 337 claims, by laying out their doctrinal frameworks as set out by the Federal Circuit in *U.S. Phillips Corp. v. ITC*.⁸ With the preface that patent misuse jurisprudence is rather limited within the spectrum of ITC cases appealed to the Federal Circuit under § 337, this Comment analyzes the Federal Circuit's treatment of patent misuse defenses by considering the court's holdings in *U.S. Phillips Corp.* This analysis finds that while the Federal Circuit's result in *Phillips* was well reasoned, the test set out for patent misuse under the rule of reason is problematic under the § 337 framework. The rule of reason test balances procompetitive benefits against anticompetitive effects, focusing solely on antitrust; § 337 is a patent-antitrust statute and defenses asserted under it should be evaluated by both patent and antitrust policy. This problem does not arise within the per se patent misuse doctrine. There, Congress has already considered the patent and antitrust justifications and decided what specific circumstances the doctrine encapsulates. Accordingly, this Comment proposes that patent misuse analysis, under the rule of reason doctrine and in the context of § 337 appeals, should involve a mixed test that will balance patent and antitrust policy, in order to keep both considerations in sight.

I. SECTION 337, THE ITC, AND THE FEDERAL CIRCUIT

This part of the Comment will discuss § 337 by examining (1) the statute, the capacity, and function of its governing agency; (2) the ITC under § 337; and (3) the jurisdiction of the Federal Circuit to hear appeals regarding § 337 matters from ITC final decisions.

8. 424 F.3d 1179 (Fed. Cir. 2005).

A. What is Section 337?

Section 337 of the Tariff act of 1930, as amended, is the authorizing statute of the ITC. It gives the agency the power “to conduct investigations into allegations of unfair practices in import trade”⁹ that adversely affect the U.S. economy. The statute makes unlawful “[u]nfair methods of competition and unfair acts in the importation of articles . . . into the United States, or in the sale of such articles by the owner, importer or consignee, the threat or effect of which is (i) to destroy or substantially injure an industry in the United States”¹⁰ Section 337 also deems that it is illegal to import into “the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that (i) infringe a valid and enforceable United States patent”¹¹ To bring a patent infringement complaint before the ITC under § 337, “there [must] be importation of infringing articles. . . . [and] the complainant [must] demonstrate that a domestic industry in articles practicing a claim of the patent in suit ‘exists or is in the process of being established.’”¹² Although this Comment focuses on patent litigation, § 337 also protects other intellectual property rights such as copyrights and trademarks.¹³

B. Section 337: The International Trade Commission and Patent Litigation

Section 337 provides two initial requirements for patent complaints: (1) the establishment of domestic industry and (2) jurisdiction. As mentioned above, the domestic industry element is satisfied by showing that a domestic industry exists or is in the process of being established, which is related to the articles protected by the patent.¹⁴ The domestic industry requirement is then furthered divided into two prongs, one where the ITC reviews technical considerations and another where they consider economic considerations.¹⁵ A complainant satisfies the technical prong by showing that “it or its licensees or ‘practices at least

9. G. Brian Busey, *An Introduction to Section 337 and the U.S. International Trade Commission*, in PATENT LITIGATION 2008 3 (PLI 2008).

10. 19 U.S.C. § 1337(a)(1)(A) (1988) (amended 2009).

11. 19 U.S.C. § 1337(a)(1)(B)(i).

12. Busey, *supra* note 9, at 7 (quoting 19 U.S.C. § 1337(a)(2)).

13. 19 U.S.C. §§ 1337(a)(1)(B)(i), (a)(1)(C) (1988) (amended 2009).

14. *Supra* Part I.A. See also 19 U.S.C. § 1337(a)(1)(A)(i)–(iii).

15. Kumar, *supra* note 6, at 534 (citing *In re Male Prophylactic Devices*, USITC Inv. No. 337-TA-546, 2007 ITC LEXIS 860, at *60 (Aug. 1, 2007)).

one claim of the asserted patents[.]”¹⁶ The economic prong is satisfied by a showing of “domestic activities, with respect to the patent or patented article, that involve: (A) significant investment in plant and equipment; (B) significant employment of labor or capital; or (C) substantial investment in [its] exploitation, including engineering, research and development, or licensing.”¹⁷ Whether the prongs are met is a subjective determination by the ITC;¹⁸ however, these initial requirements are usually easy to meet.¹⁹

The jurisdiction element of the initial requirements is generally also easily met. In a potential proceeding, the ITC will exercise in rem jurisdiction over the allegedly infringing product.²⁰ Accordingly, the ITC does not need personal jurisdiction over the manufacturers or importers of the product, which provides an easy way to gain jurisdiction in matters that involve foreign defendants.²¹ Despite the way in which jurisdiction attaches, the manufacturers or importers are not foreclosed from participating in the proceedings. These parties are “given [the] opportunity to participate in the proceeding . . . [and] may raise any equitable or legal defense, such as patent invalidity.”²²

Once the initial requirements are deemed satisfied within a complaint, “the ITC [] decide[s] if action is merited. If [the ITC] chooses to proceed, it will open an investigation.”²³ After the investigation is opened, it will be assigned to one of six ALJs [Administrative Law Judges], that ALJ will then conduct an evidentiary hearing.²⁴ Also at this point, “the ITC’s office of Unfair Import Investigations assigns a staff attorney to represent the public interest [in the case], and the attorney will serve as an [active] party in the investigation. . . . The attorney . . . can influence the outcome of the

16. *Id.* (alterations in original).

17. *See id.* (citing 19 U.S.C. § 1337(a)(3) (1988) (amended (2006))).

18. *See id.* at 535.

19. *See generally id.*

20. Kumar, *supra* note 6 at 535.

21. *See id.* at 535.

22. *See id.* (citing Walter J. Blenko, *When Does Patent Infringement Become Unfair Competition?*, JOM, Oct. 1990, at 55, available at <http://www.tms.org/pubs/journals/JOM/matters/matters-9010.html> and 19 U.S.C. § 1337(c) (2006)).

23. *See id.* at 536; 19 C.F.R. § 210.58 (2008). (This stipulates a 35-day waiting period during where the ITC reviews the complaint for sufficiency. The waiting period may be extended by the agency or at the request of a party).

24. Kumar, *supra* note 6, at 536 (citing U.S. INT’L TRADE COMM’N, SECTION 337 INVESTIGATIONS: ANSWERS TO FREQUENTLY ASKED QUESTIONS 2 (2004)).

case.”²⁵ A short discovery period will follow, and “[t]ypically after six or seven months, the ALJ will hold a formal evidentiary hearing[.]”²⁶ The evidentiary hearing will result in an Initial Determination, “which is certified to the ITC with the evidentiary record.”²⁷ “The decision then automatically goes up to the ITC’s six-member Commission, who have the option to decline review . . . (allowing it to become final), review and adopt it, modify it, or reverse it.”²⁸ “The Commission’s order [will go] into effect after sixty days, except [for] the rare event that the President disapproves of [the order] on policy grounds under § 3379(j).”²⁹ This entire proceeding will move rather quickly; most § 337 investigations are completed within fifteen months.³⁰

Prevailing complainants in § 337 litigation generally receive some form of exclusion order.³¹ Exclusion orders may be limited or general.³² “Limited exclusion orders instruct the U.S. Customs and Border Protection (Customs) [agency] to exclude from entry all articles that are covered by the patent at issue and that originate from a named respondent in the investigation.”³³ General exclusion orders, in contrast direct Customs “to exclude all infringing articles, without regard to source.”³⁴ An additional penalty the ITC may grant is an exclusion order covering downstream products.³⁵ Downstream products are those

25. See *id.* (citing Russell E. Levine, *The Benefits of Using the ITC*, MANAGING INTELL. PROP. 25, 27 (Sept. 2004)).

26. *Id.* (citing 5 U.S.C. § 556(b)(3) (2006)).

27. *Id.* (citing U.S. INT’L TRADE COMM’N, SECTION 337 INVESTIGATIONS: ANSWERS TO FREQUENTLY ASKED QUESTIONS 2 (2004)).

28. *Id.* at 537 (citing U.S. INT’L TRADE COMM’N, SECTION 337 INVESTIGATIONS: ANSWERS TO FREQUENTLY ASKED QUESTIONS 21 (2004), available at http://www.usitc.gov/trade_remedy/int_prop/pub3708.pdf).

29. Kumar, *supra* note 6, at 537 (citing Press Release, Broadcom Corp., Broadcom Urges Administration Orders to Let ITC Patent Action Stand (July 5, 2007), available at <http://www.broadcom.com/press/release.php?id=1023034>).

30. See Busey, *supra* note 9, at 15 (citing a target completion date of 15 months). See also Kumar *supra* note 6, at 537 ((citing U.S. INT’L TRADE COMM’N, PERFORMANCE AND ACCOUNTABILITY REPORT: FISCAL YEAR 2007 70, available at http://www.usitc.gov/ext_relations/about_itc/USITC_PAR_2007.pdf (citing 17-month completion dates)).

31. See Kumar, *supra* note 6, at 537 (citing 19 U.S.C. § 1337(d)(1) (2006)).

32. *Id.*

33. *Id.* at 537–38 (citing U.S. INT’L TRADE COMM’N, SECTION 337 INVESTIGATIONS: ANSWERS TO FREQUENTLY ASKED QUESTIONS 22 (2004), available at http://www.usitc.gov/trade_remedy/int_prop/pub3708.pdf)).

34. *Id.* at 538 (citing U.S. INT’L TRADE COMM’N, SECTION 337 INVESTIGATIONS: ANSWERS TO FREQUENTLY ASKED QUESTIONS 22 (2004), available at http://www.usitc.gov/trade_remedy/int_prop/pub3708.pdf).

35. See Busey, *supra* note 9, at 22.

that contain the infringing product as a component.³⁶ The ITC applies a balancing test to determine whether the inclusion of a downstream product is proper; this test “weighs the complainant’s interest in obtaining complete relief against the possible disruption of legitimate trade of products that were not themselves found to violate Section 337.”³⁷ The ITC must consider the policy implications of an exclusion order before it issues one.

The ITC can decline to issue an exclusion order, or can narrow it, if after considering the effect of such exclusion order, or can narrow it, if “after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, [the ITC] finds that such articles should not be excluded from entry” or such an order should not be issued.³⁸

Lastly, the ITC also has the option of “issu[ing] a cease-and-desist order in addition to or in place of an exclusion order.”³⁹ These orders prevent those found violating the statute from engaging in unfair methods, or acts,⁴⁰ namely “selling ‘commercially significant’ domestic inventories of infringing goods.”⁴¹

C. Section 337 Appeals and the Federal Circuit

Pursuant to § 337(c), “Any person adversely affected by a final determination of the Commission . . . may appeal such determination, within 60 days after the determination becomes final, to the United States Court of Appeals for the Federal Circuit.” The Federal Circuit reviews legal determinations of the ITC de novo.⁴² This means the court reviews the legal conclusion without deference, while “review[ing] the

36. *Id.*

37. *Id.*

38. Kumar, *supra* note 6, at 538 (quoting 19 U.S.C. § 1337 (d)(1)).

39. *Id.* (citing *Fuji Photo Film Co. v. U.S. Int’l Trade Comm’n*, 386 F.3d 1095, 1107 (Fed. Cir. 2007); 19 U.S.C. § 1337(f)(1)).

40. 19 U.S.C. § 1337(f)(1) (2009).

41. Kumar, *supra* note 6, at 538 (citing *Fuji Photo Film Co.* 386 F.3d 1095, 1107 (Fed. Cir. 2007)).

42. *Checkpoint Sys., Inc., v. ITC*, 54 F.3d 756, 760 (Fed. Cir. 1995)).

factual findings of the Commission under the substantial evidence standard.”⁴³ However, the Federal Circuit must give ITC some deference in certain situations. The Federal Circuit has held that the ITC is entitled to a certain amount of deference to the extent that it is interpreting its own statute that it is administering.⁴⁴

II. PATENT MISUSE IN SECTION 337 APPEALS

This Section of the Comment examines case law regarding the patent misuse defense within § 337 appeals. The Federal Circuit’s most recent and settled case on this topic, *U.S. Phillips v. ITC*,⁴⁵ will be used to facilitate the discussion as to what the present patent misuse doctrines are within the context of § 337 appeals. Part A will lay out the basic framework of the patent misuse doctrine. The basic framework will be followed by a discussion of the two types of patent misuse. Per se patent misuse will be explained in Part B, followed by patent misuse under the rule of reason in Part C.

A. Patent Misuse

“Patent misuse is an equitable defense to patent infringement.”⁴⁶ In *U.S. Phillips*, Princo Corporation and Princo America (hereinafter referred to as Princo collectively), the respondents, asserted the patent misuse defense against U.S. Phillips, asserting that they could not be liable for importing products that infringed several of U.S. Phillips’ patents because the patents were being used in an anticompetitive manner.⁴⁷

43. *Bourdeau Bros., Inc. v. ITC*, 444 F.3d 1317, 1320 (Fed. Cir. 2006).

44. *See Kyocera Wireless Corp. v. ITC*, 545 F.3d 1340, 1355 (Fed. Cir. 2008). There, the court stated the following:

This court conducts statutory interpretations in accordance with the framework established by *Chevron U.S.A. Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984). Under *Chevron*, “a reviewing court must first ask ‘whether Congress has directly spoken to the precise question at issue.’” *FDA v. Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 132 (2000) (quoting *Chevron, U.S.A.*, 467 U.S. at 842). “If Congress has done so, the inquiry is at an end; the court ‘must give effect to the unambiguously expressed intent of Congress.’” However, if “the statute in question is ambiguous and the agency’s interpretation is reasonable,” “a court must defer to an agency’s construction of a statute governing agency conduct.” *Cathedral Candle Co. v. ITC*, 400 F.3d 1352, 1361 (Fed. Cir. 2005).

45. 424 F.3d 1179 (Fed. Cir. 2005).

46. *Id.* at 1184.

47. *See id.* at 1183–84.

The purpose of the patent misuse defense “[is to] prevent a patentee from using the patent to obtain market benefit beyond that which inheres in the statutory patent right.”⁴⁸ As the Supreme Court has explained, the doctrine of patent misuse bars a patentee from using the ‘patent’s leverage’ to “extend the monopoly of his patent to derive a benefit not attributable to the use of the patent’s teachings,” such as requiring a licensee to pay a royalty on products that do not use the teaching of the patent.⁴⁹ The “key inquiry is whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect.”⁵⁰

In *U.S. Phillips*, “Phillips own[ed] patents to technology for manufacturing recordable compact discs (CD-Rs) and rewritable compact discs (CD-RWs) that it licensed only through package licenses.”⁵¹ There were several options as to the group of patents one could license; within the licensing options were groupings that were essential and nonessential to producing compact disc compliant with certain technical standards.⁵² Princo asserted that this practice amounted to patent misuse because:

Phillips [was] improperly forc[ing] them, as a condition of licensing patents that were necessary to manufacture CD-Rs or CD-RWs, to take licenses to other patents that were not necessary to manufacture those products. In particular Princo argued that a number of the patents included in the category of ‘essential’ patents were actually not essential for manufacturing compact discs.⁵³

48. *Id.* at 1184 (citing *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992)).

49. *U.S. Phillips Corp. v. I.T.C.*, 424 F.3d 1179, 1184 (Fed. Cir. 2005) (citing *Zenith Radio Corp. v. Hazeltine Res., Inc.*, 395 U.S. 100, 135–36 (1969)).

50. *Id.* at 1184–85 (citing *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998)); *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986)).

51. *Id.* at 1182.

52. *See id.* at 1182.

53. *U.S. Phillips Corp. v. ITC*, 424 F.3d 1179, 1183 (Fed. Cir. 2005).

The ALJ, at the ITC, concluded that Princo had infringed various claims of Phillips' patents covering the CD-R and CD-RW technologies.⁵⁴ However, the ALJ also found that Phillips' "patents were unenforceable by reason of patent misuse";⁵⁵ more specifically the judge held that "the package licensing arrangements constituted tying arrangements that were illegal under analogous antitrust law principles and thus rendered the subject patents unenforceable."⁵⁶ Phillips petitioned the ITC for review, and "[t]he Commission ruled that Phillips's patent packaging licensing arrangement constituted per se patent misuse because Phillips did not give prospective licensees the option of licensing individual patents . . . rather than licensing one or more of the patent packages as a whole."⁵⁷ In the alternative, "the Commission [held] that even if Phillips's patent package licensing practice was not per se patent misuse, it constituted patent misuse under the rule of reason."⁵⁸ The Commission reasoned "the anticompetitive effects of including nonessential patents in the packages of so-called essential patents outweighed the procompetitive effects of that practice."⁵⁹

In reversing the ITC, the Federal Circuit proceeded through the per se and rule of reason patent misuse doctrines, explaining why Phillips' patent packaging practice did not amount to either form of patent misuse.

B. Per Se Patent Misuse

A certain specific act must be committed in order to come under the per se patent misuse doctrine.⁶⁰

[P]ractices . . . identified as constituting per se patent misuse, 'include[] . . . 'tying' arrangements in which a patentee conditions a license under the patent on the purchase of a separable, staple good, and arrangements in which a patentee effectively extends the term of its

54. *Id.*

55. *Id.*

56. *Id.*

57. *Id.* at 1184.

58. *U.S. Phillips Corp. v. ITC*, 424 F.3d 1179, 1184 (Fed. Cir. 2005).

59. *Id.*

60. *Id.* at 1185 ("The court noted that certain specific practices have been identified as constituting per se patent misuse . . .")

patent by requiring post-expiration royalties.⁶¹

“In 35 U.S.C. § 271(d), Congress designated several specific practices that do not constitute patent misuse. [These] include “condition[ing] 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.”⁶² However, these practices become patent misuse if “the patent owner ‘has market power for the patent or patented product on which the license or sale is conditioned.’”⁶³ The Federal Circuit gives this provision a narrow reading, finding it to “exclude[] such conditional licenses in which the patent owner lacks market power from the category of arrangements that may be found to constitute patent misuse.”⁶⁴ “If [a] particular licensing arrangement . . . [does not fit within] one of those specific [enumerated] practices, . . . it will be analyzed under the rule of reason.”⁶⁵

In *Phillips*, the court held that Phillips had market power in the relevant market; and therefore, it could not find refuge in § 271(d)(5).⁶⁶ Despite this, the Federal Circuit ultimately held that Phillips’ patent packaging practice did not meet the threshold of per se patent misuse.⁶⁷ The court reasoned that Phillips’ practice differed vastly from a tying arrangement, where the “patent owner uses the market power conferred by the patent to compel customers to purchase a product in a separate market”⁶⁸ In *Phillips*, the situation differed because “a package licensing agreement that includes both essential and nonessential patents does not impose any requirement on the licensee;” the customer is not compelled to use the patentee’s technology.⁶⁹ Also, the court found that the inclusion of nonessential patents within a licensing package could not be inferred to increase the price of the package.⁷⁰ “A patent that is nonessential because it covers technology that can be fully

61. *Id.* at 1185 (citing *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868–69 (Fed. Cir. 1997)).

62. *U.S. Phillips Corp. v. ITC*, 424 F.3d 1179, 1186 (Fed. Cir. 2005).

63. *Id.* at 1186 (citing 35 U.S.C. § 271(d)(5)).

64. *See id.*

65. *Id.* at 1185.

66. *U.S. Phillips Corp. v. ITC*, 424 F.3d 1179, 1186 (Fed. Cir. 2005).

67. *Id.* at 1197.

68. *See id.* at 1189 (citing *United States v. U.S. Gypsum Co.*, 333 U.S. 364, 400 (1948)).

69. *Id.* at 1190.

70. *Id.* at 1191.

replaced by alternative technology that is available for free is essentially valueless;⁷¹ thus, their inclusion cannot reasonably have an impact on the overall package cost and presumably do not create an incentive to buy the essential patents separately.

Finding that Phillips' conduct could not be conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry, the court turned to rule of reason analysis.

C. Patent Misuse Under the Rule of Reason

[Under the rule of reason,] “the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature and effect.”⁷²

To charge a patentee with patent misuse, the practice at issue must be within the patent grant and must broaden the scope of the patent, “either in terms of covered subject matter or temporality.”⁷³ There must also be a finding that the potential anticompetitive effects outweigh the potential procompetitive effects of the behavior.⁷⁴

In *Phillips*, the court held that Phillips' patent packaging practice did not constitute patent misuse under the rule of reason.⁷⁵ The court reasoned that offering the nonessential patents did not amount to an anticompetitive effect; the patent packages did not have a negative impact on commercially available technology,⁷⁶ and did not “[force] customers to purchase a product in a separate market that the customer might otherwise purchase from a competitor.”⁷⁷ Rather, the court found that package licensing has procompetitive effects in that it “provides the parties a way of ensuring that a single licensing fee will cover all the patents needed to practice a particular technology.”⁷⁸ The Federal

71. U.S. Phillips Corp. v. ITC, 424 F.3d 1179, 1191 (Fed. Cir. 2005).

72. *Id.* at 1197 (citing Virginia Panel Corp. v. MAC Panel Co., 133 F.3d 860, 869 (1997)).

73. *Id.* (citing Virginia Panel Corp. v. MAC Panel Co., 133 F.3d 860, 869 (1997)).

74. *See id.* at 1198.

75. *See id.*

76. *See* U.S. Philips Corp. v. ITC, 424 F.3d 1179, 1198 (Fed. Cir. 2005).

77. *Id.* at 1189 (citing United States v. U.S. Gypsum Co., 333 U.S. 364, 400 (1948)).

78. *Id.* at 1193.

Circuit further found that “grouping licenses in a package allows the parties to price the package based on their estimate of what it is worth to practice a particular technology, which is typically much easier to calculate than determining the marginal benefit provided by a license to each individual patent.”⁷⁹ “In short, [the court found] package licensing [to have many] procompetitive effect[s] [associated with] reducing the degree of uncertainty involved with investment decisions.”⁸⁰

III. PRESCRIPTIVE MODEL: PATENT MISUSE UNDER THE RULE OF REASON ANALYSIS CAN KEEP A BETTER BALANCE OF ANTITRUST AND PATENT POLICY WITH A MIXED TEST

The Federal Circuit’s decision in *Phillips* is well reasoned and lays out the doctrinal framework of patent misuse under § 337 quite well. Analysis of the patent misuse framework set out in that decision brings to light several issues regarding antitrust law and how it is fairing at the Federal Circuit in § 337 appeals. This Section of the Comment lays out those issues, particularly those that arise with the rule of reason analysis of patent misuse, and poses a potential solution. Part A of this Section will discuss why the rule of reason analysis and not the per se doctrine of patent misuse causes concerns for both antitrust and patent policy within the context of § 337. The primary issue is that the current analysis applies antitrust to patent law, which could cause the court to overlook patent and antitrust violations. Part B posits that this problem could be resolved by using a mixed test that will promote the court to consider antitrust and patent violations separately.

A. *The Problem with the Rule of Reason Analysis*

Section 337 is very much a mixed statute in that it promotes both patent and antitrust policies. The doctrine foremost seeks to protect the monopoly of domestic patents by preventing the importation of goods that infringe upon them.⁸¹ The statute also promotes fair competition within the domestic market by eliminating unfair acts of international competition.⁸² Lastly, the application of the patent misuse doctrine within § 337 promotes the proper use of patents by taking away the right to prevent the importation of infringing products.⁸³

79. *Id.*

80. *See id.*

81. *See* 19 U.S.C. § 1337(a)(1)(B)(i) (2009).

82. *See generally* 19 U.S.C. § 1337 (2009).

83. *See* 19 U.S.C. § 1337(f)–(i) (1994).

A proper patent misuse analysis, then, should take into account both the patent and antitrust aspects of § 337. This goal is achieved with the per se patent misuse doctrine. There, Congress has already considered the patent and antitrust justifications and decided what specific circumstances the doctrine applies to.⁸⁴ However, the current function of the rule of reason patent misuse doctrine does not require the court to specifically address the patent and antitrust issues at hand.

“[T]he rule of reason [analysis] focuses on one particular issue: the impact on competition, rather than all possible equitable considerations.”⁸⁵ The test solely looks to whether the anticompetitive effects are outweighed by procompetitive benefits.⁸⁶ Within the context of § 337, the doctrine applies antitrust law to patent law to discover whether a patent is in violation of antitrust law. This can be detrimental for merited patent misuse claims because these elements are extremely difficult to meet,⁸⁷ and as a result, a court may not find misuse in an action that is indeed unjustifiably anticompetitive. Also, the application of antitrust to patent law is a difficult fit because of the contentious relationship between patent and antitrust law.⁸⁸

B. Resolving the Rule of Reason Problem with a Mixed Analysis

It is imperative that neither a valid antitrust or patent law claim be missed in a patent misuse case. Patent misuse claims brought under § 337 mandate this even more so because the statute functions on both antitrust and patent justifications; missing a policy issue on either side could lead to the wrong result in a case. A mixed test for the rule of reason could ensure that antitrust and patent issues are both being considered in a patent misuse analysis.

Under a mixed analysis, a patent misuse claim is examined separately for patent and antitrust violations and then weighed for procompetitive and anticompetitive effects.⁸⁹ The separate steps ensure that a court has addressed both issues in arriving at its decision.⁹⁰ A similar test has been proposed for general analysis of the patent misuse

84. See 35 U.S.C. § 271(d) (2009).

85. Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 422 (2003–2004).

86. *Id.* (citing PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 100a 345–46).

87. See *id.*

88. See generally *id.*

89. See *id.* generally at 428–29.

90. See generally Feldman, *supra* note 85, at 428–29.

doctrine under the rule of reason.⁹¹ Adopting a mixed test for § 337 patent misuse claims is even more so justified because of the abundance of patent and antitrust policies the statute seeks to promote. Furthermore, within the context of appeals of ITC decisions on patent misuse claims to the Federal Circuit, a mixed analysis will assist the court in allotting the correct amount of deference to the ITC's decisions under § 337. As its authorizing statute, § 337 empowers the ITC to make patent and antitrust determinations for which they should be accorded *Chevron*⁹² deference.

CONCLUSION

To answer the question posed earlier, examination of § 337 patent misuse appeals to the Federal Circuit shows that antitrust claims are being grouped with patent law and, at least in *Phillips*, losing. A case involving the same players and the same technology, *Princo Corp. v. ITC*, was vacated on April 20, 2009 and remanded for a rehearing en banc because the Commission had not addressed all the grounds on which the ALJ had based his ruling.⁹³ In *Princo Corp.*, Princo asserted patent misuse as a defense to Phillips's accusations of patent infringement.⁹⁴

As in *Phillips*,⁹⁵ Princo's argument failed. There, the Commission held that the doctrine of patent misuse did not bar Phillips from enforcing its patent rights against Princo.⁹⁶ Here, the Commission reasoned that even if Phillip's blanket licensing agreement constituted a pooling arrangement, Princo failed to show that the pool of licensors would have competed in the technology absent the pooling arrangement.⁹⁷ Also, the Commission found no showing of anticompetitive effect as required by the patent misuse rule of reason analysis.⁹⁸ The Commission did not consider per se patent misuse because Princo's claim did not pertain to an act which would trigger the per se doctrine.⁹⁹

91. *Id.* at 429.

92. *See supra* note 45.

93. *Princo Corp. v. ITC*, 563 F.3d 1301, 1301, 1321 (Fed. Cir. 2009).

94. *Id.* at 1305.

95. *U.S. Phillips Corp. v. ITC*, 424 F.3d 1179 (Fed. Cir. 2005).

96. *See id.*

97. *See Princo Corp.*, at 1314–15.

98. *See id.* at 1308–09.

99. Behaviors that trigger the per se patent misuse doctrine include: 1) tying arrangements in which a patentee conditions a license under the patent on the purchase of a

En banc, the Federal Circuit affirmed the ITC's decision, finding that Phillips's behavior did not give rise to patent misuse.¹⁰⁰ There, the majority refused to extend the patent misuse doctrine to accommodate the argument made by Princo.¹⁰¹ The majority supported its opinion with *USM Corp. v. SPS Techs., Inc.*¹⁰² *USM* states that patent misuse should be reserved to circumstances where the patentee attempts to extend his patent grant beyond its statutory limits.¹⁰³ The majority also suggested that antitrust law adequately addresses patent misuse claims.¹⁰⁴

Princo Corp. truly exhibits the spectrum of opinions on the patent misuse doctrine. The concurring judges splintered because of their disagreement with "the majority's apparent view that antitrust considerations are an entirely 'different issue,' separate and apart from the question of whether there has been patent misuse."¹⁰⁵ Instead, the judges found that the lines of the patent misuse doctrine should be drawn less narrowly than the majority suggested and less expansively than the dissent suggested.¹⁰⁶ In opposition to the majority and the concurrence, the dissenting judges argued that the majority's standard was too strict "and allow[ed] patent holders free rein to prevent the development of potentially competitive technologies except in the most extreme and unlikely circumstances."¹⁰⁷

In regards to the rule of reason patent misuse doctrine, *Princo* exemplifies many of the same issues presented by *Phillips*.¹⁰⁸ Both cases bring to light the blurriness of the rule of reason analysis and substantiate the argument for including a mixed test, which will ensure both patent and antitrust justifications are weighed. It will be interesting to see how this area of the law develops, especially in a case

separable, staple good, and arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties; and 2) other behaviors in which the patent holder uses the market power conferred by the patent to compel customers to purchase a product in a separate market. *U.S. Phillips Corp. v. ITC*, 424 F.3d 1179, 1185 (Fed. Cir. 2005) (citing *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868–69 (Fed. Cir. 1997)).

100. *Princo Corp. v. ITC*, 616 F.3d 1318, 1321–22, (Fed. Cir. 2010).

101. *See id.* at 1329.

102. 694 F.2d 505, 510 (7th Cir. 1982). (There, the court stated that patent misuse "has largely been confined to a handful of specific practices by which the patentee seemed to be trying to 'extend' his patent grant beyond its statutory limits.").

103. *See id.*

104. *See Princo Corp. v. ITC*, 616 F.3d 1318, 1332 (Fed. Cir. 2010).

105. *See id.* at 1340 (Prost, J., concurring) (citing majority opinion at 1332).

106. *See id.* at 1340–41 (Prost, J. concurring).

107. *See id.* at 1357 (Dyk, J. dissenting).

108. *See U.S. Phillips Corp. v. ITC*, 424 F.3d 1179 (Fed. Cir. 2005).

with new players.

Through the guide of the Federal Circuit's *Phillips* decision, this Comment sought to reveal that the mixed nature of § 337, grounded in both patent and antitrust justifications, is only further complicated by the patent misuse doctrine; therefore, requiring that both patent and antitrust policies be considered to ensure results that are consistent with § 337's aims and goals. While the current per se patent misuse doctrine meets the burden of addressing both patent and antitrust justifications, it is not clear that the rule of reason doctrine does. This goal would be better served under the rule of reason doctrine if a mixed analysis were used before the weighing of procompetitive and anticompetitive effects. A mixed test will ensure that both antitrust and patent justifications are considered in resolving patent misuse claims. This is essential for patent misuse generally and, even more so, within the context of § 337 and § 337 appeals to the Federal Circuit.

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* Graduate of Marquette University Law School, 2010. My interest in Intellectual Property Law and its policy implications were initially sparked by my work as a research assistant, I am truly thankful for that opportunity. I am also appreciative of the support of my family, mentor and friends. I would also like to thank the staff of the Marquette Intellectual Property Law Review for their patience and helpful editing. Lastly, to my nephew Marcus, thank you for showing me that perseverance is possible over anything.