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PATENTS AND MONOPOLIZATION: THE ROLE OF PATENTS UNDER SECTION TWO OF THE SHERMAN ACT

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Section Two of the Sherman Act\(^1\) proscribes monopolization, a broad, ambiguous term that is susceptible of myriads of diverse interpretations in the complex world of business competition. Perceptions of monopolization as unlawful, anticompetitive behavior vary widely, depending upon the various competitive methods utilized to achieve the monopolization. Some of these methods, such as the patent grant, are explicitly sanctioned by statutes and are therefore not unlawful. The patent grant, which is ostensibly a legal monopoly,\(^2\) can be forged by its owner into a most powerful anticompetitive weapon that may be used to transcend the legal limits of its use. In numerous ways it may become a principal actor in the monopolization that is prohibited by Section Two. In active business competition, the patent is a forceful commodity which, if not exploited with great care, can serve only to transform legal aggressive market rivalry into illegal anticompetitive conduct. The economic progress of an expanding enterprise can thereby be unnecessarily obstructed by threatened antitrust litigation under the Sherman Act.

Business persons frequently labor under misapprehension at each end of the wide spectrum of permissible patent utilization. At one extreme there may be unnecessary underuse of patent protection. Hesitancy in full utilization of the legal limits of the patent grant may result in denying the public the benefit of a valuable economic asset.\(^3\) At the other end of the spectrum, however, the patent may be used to exert anticompetitive pressures in areas not contemplated by the statutory

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2. See infra note 18 and accompanying text.
grant. In those instances, unanticipated collisions with the prohibitions of the antitrust statutes harvest a plethora of harsh penalties.\(^4\)

Certain types of patent utilization are particularly problematic when evaluated under Section Two. The quantity and quality of patent accumulation, pooling agreements between multiple patent owners, and various intricate patent licensing and conveyancing schemes are examples of types of patent utilization that are carefully scrutinized by the courts in determining whether Section Two has been violated. Extraordinary patent utilization in a monopolized relevant market receives much well-deserved judicial attention in antitrust cases.

Many patent-antitrust cases involve allegations of violations of both Sections One and Two of the Sherman Act. Business conduct that results in an antitrust violation cannot be as clearly defined under Section Two as is possible under Section One. This article will focus primarily on Section Two and its application to patent utilization. The article will attempt to trace the boundary line separating permissible use of patents and impermissible uses, violative of Section Two.

I. MONOPOLIZATION UNDER SECTION TWO OF THE SHERMAN ACT

A. Monopoly Power

On its face, Section Two of the Sherman Act prohibits three distinct offenses: (1) monopolization, (2) attempts to monopolize, and (3) combination or conspiracy to monopolize.\(^5\) In most reported cases, the courts do not attempt to separate the three offenses. Instead, the prohibitions are merged into a general monopolization discussion. Specifi-


\(^5\) 15 U.S.C. § 2 reads:

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.
cally, monopolization is the actual achieving or maintaining of monopoly power in a relevant market. To be guilty of monopolization, a defendant need only exhibit a general intent or deliberateness in obtaining or maintaining monopoly power. To be guilty of attempting, combining or conspiring to monopolize, a defendant need not have achieved monopolization as long as there is a dangerous probability that it could have been achieved. However, proof is needed to show a specific intent to accomplish an unlawful result. Unlike Section One of the Sherman Act, which requires at least two separate entities to contract or combine to unreasonably restrain trade, Section Two can be violated by a single business competitor.

Section Two outlaws the acquisition of monopoly power. Monopoly power is the power to fix prices or exclude or restrict competition in a relevant market, the power need not actually be exercised. The relevant market is defined both geographically and by the product or service marketed by the monopolist. The relevant product or service market is determined by the substitutability (i.e., the cross-elasticity of demand) of other products or services for that allegedly monopolized. Because a patented product is, by definition, novel and is frequently quite unique, it can sometimes consti-


The offense of monopoly under § 2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.


8. Aluminum Co., 148 F.2d at 432; Griffith, 334 U.S. at 105.


tute the entire relevant market itself in the absence of substitutable other products.

The exclusive rights granted under a patent should not be equated with those acquired through an illegal monopoly, at least not the traditional kind of monopoly that precipitated the first English patent law. The classical monopoly excluded the public from an economic good that was theretofore available to it. A modern patent, on the other hand, is granted only if the invention is not obvious to one skilled in that technical art. Therefore the patent grant takes nothing from the public that had been available to it, but merely recognizes an invention that was not previously known. The patent allows the inventor to monopolize the limited fruits of intellectual endeavor. Moreover, the patent is granted only upon the condition that the inventor fully disclose the particular means for reproducing the invention.

In the practical application of Section Two of the Sherman Act, a patent grant, although not a traditional monopoly, appears to partake of a species of power that quite closely resembles the monopoly power addressed by the statute. The

14. A good example of this is playing cards. In the 16th century, Queen Elizabeth granted a monopoly in playing cards to one Darcy. The English aristocracy was enraged and the monopoly thereby overshadowed the prior monopolies granted in soap, alum and saltpeter, and was a factor which precipitated the Statute of Monopolies. Darcy v. Allen, 77 Eng. Rep. 1260 (K.B. 1602).
16. Chief Justice White, in Standard Oil Co. of N.J. v. United States, 221 U.S. 1 (1911), quoted Lord Coke in holding that only unreasonable restraints were to be outlawed by the Sherman Act. Lord Coke had defined monopoly as an institution or Regal grant that restrained any freedom of manufacturing or trading which any person had before the grant. Id. at 51.
18. The United States Supreme Court has long recognized the patent grant as a "legal monopoly." See, e.g., Bement v. National Harrow Co., 186 U.S. 70, 91 (1902)("The very object of [the patent] laws is monopoly. . . ."); United States v. Univis Lens Co., 316 U.S. 241, 250 (1942)("The declared purpose of the patent law is to promote the progress of science and the useful arts by granting to the investor a limited monopoly. . . ."); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964)("The grant of a patent is the grant of a statutory monopoly. . . ."); Blonder-Tongue Laboratories, Inc. v. University of Ill. Found., 402 U.S. 313, 343 (1971)("Although recognizing the patent system's desirable stimulus to invention, we have also viewed the patent as a monopoly which, although sanctioned by law, has the economic consequence attending other monopolies"). See generally Sony Corp. of Am. v. Universal City Studios, Inc., 104 S. Ct. 774, 782 (1984); Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176
owner of the patent has the right to exclude others from mak-

(1980); Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944). Perhaps a better way to describe a patent was given by Justice Stevens in his dissent in Broadcast Music, Inc. v. Columbia Broadcasting, 441 U.S. 1, 28 (1979) (Stevens, J., dissenting): "[a] patent is a statutory grant of monopoly privileges."

In a speech delivered to the Seminar Services International Conference on U.S. Patent Practice, Assistant Attorney General J. Paul McGrath criticized the Supreme Court's "traditional, though ill-conceived, notion" that patent laws create "monopolies" which conflict with the procompetitive policies underlying antitrust laws. McGrath, Patent Licensing: A Fresh Look at Antitrust Principles in a Changing Economic Environment, 27 PAT., TRADEMARK & COPYRIGHT J. (BNA) 624, 626 (1984). In particular McGrath criticized the language used by the Supreme Court in its recent decision, Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 104 S. Ct. 1551 (1984). Though not a patent case, the Court explained in dictum that "if the government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." Id. at 1560. McGrath takes exception to this conclusion, explaining that, in reality, the "patents rarely give their owners anything approaching a monopoly." McGrath, Patent Licensing, at 626.

The United States Supreme Court has also stated that, because the patent grant is a legal monopoly, it is thus "an exception to the general rule against monopolies and to the right to access to a free and open market." Precision Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806, 816 (1945). See also Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 177 (1965) ("Proof of [fraudulent patent procurement] would be sufficient to strip Food Machinery of its exemption from the Antitrust Laws"); Robb Container Corp. v. Sho-Me Co., 566 F. Supp. 1143, 1156 (N.D. Ill. 1983) ("Actions within the scope of a patent grant are thus in certain respects exempt from federal antitrust laws"); United States v. Westinghouse Elec. Corp., 648 F.2d 642, 642-47 (9th Cir. 1981) ("There is an obvious tension between the patent laws and antitrust laws. One body of law creates and protects monopoly power while the other seeks to proscribe it."). See also L. SULLIVAN, supra note 3, at 505 ("Let there be no pretense that the patent system is not in potential collision with antitrust; it clearly is."). But see Standard Sanitary Mfg. Co. v. United States, 226 U.S. 20, 25 (1912) ("The Sherman Act and the patent laws were passed under separate grants of constitutional power and do not affect each other.").

Two federal circuit cases have recently expressed disagreement with this characterization of the role between patent and antitrust law. In American Hoist & Derrick Co. v. Sow & Sons, Inc., 725 F.2d 1350 (Fed. Cir. 1984) the court, answering an argument that a fraudulent procurement of a patent should be a per se violation of Section Two of the Sherman Act, explained, "[T]he patent system which antedated the Sherman Act by a century, is not an 'exception' to the antitrust laws, and patent rights are not legal monopolies in the antitrust sense of that word." Id. at 1367. The court in Schenck v. Nortron Corp., 713 F.2d 782 (Fed. Cir. 1983), in a footnote, elaborated further:

A patent, under the statute, is property. 35 U.S.C. § 261. Nowhere in any statute is a patent described as a monopoly. The patent right is but the right to exclude others, the very definition of "property." That the property right represented by a patent, like other property rights, may be used in a scheme violative of antitrust laws creates no 'conflict' between laws establishing any of those property rights and the antitrust laws. A valid patent gives the public what it did not have earlier. Patents are presumed valid under the statute. 35 U.S.C. § 282. It is but an obfuscation to refer to a patent as "the patent monopoly" or to describe a patent as an "exception to the general rule against monopolies."
ing, using or selling the patented invention for seventeen years. Thus, there is power to exclude competition — power that happens also to be a key ingredient in Section Two violations. Consequently, it is necessary to forge a compromise between the conflicting policies of rewarding the inventor for the voluntary public disclosure of the invention while protecting the public from untoward intrusions into the domain of a free and open competitive market in which all competitors can participate without unreasonable restraints.

B. The Monopolized Market

When Section Two is called upon to stem monopolization, the first step is to ascertain the existing monopoly

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Id. at 786 n.3 (emphasis in original).

The argument concerning the relationship between patent law and antitrust law may be more theoretical than real. Although patent grants are not classical monopolies, the fact that the patent owner has the right to exclude others from making, using or selling an economic good is equivalent to having a monopoly in the good. The more unusual the new invention or discovery, the more market power the patent owner has. Also, to say that the patent grant is not an exception to antitrust law because patent law preceded antitrust law by a century is to ignore the origins of American patent and antitrust law. Both areas of law originated in The Statute of Monopolies, enacted in England in 1623. Section I of the Statute forbids monopolies. Section VI creates an exception for "letters patents" to the "true and first inventor" so long as the patent "be not contrary to the law, nor mischievous to the state, by raising prices of commodities at home, or hurt of trade, or generally inconvenient." Thus the statute itself acknowledged the inherent conflict between patent and antitrust law. This tension between patent and antitrust law is still very real. See W. Bowman, Patent and Antitrust Law, 1-14 (1973). For a history of patent law see The Encyclopedia of Patent Practice & Invention Management, 384-404 (R. Calvert ed. 1964).


20. Section Two prohibits monopolization because it interferes with a basic tenet of antitrust law — free and healthy competition. In seeking to promote competition, the Supreme Court has exercised special care in protecting the small competitor. See, e.g., United States v. Topco Assoc., Inc., 405 U.S. 596 (1972), aff'd, 414 U.S. 801 (1973) where the Court explains:

Antitrust laws in general, and the Sherman Act in particular, are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free-enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms. And the freedom guaranteed each and every business, no matter how small, is the freedom to compete - to assert with vigor, imagination, devotion, and ingenuity whatever economic muscle it can muster.

Id. at 610. See also Brown Shoe Co. v. United States, 370 U.S. 294, 344 (1962). Some authorities are critical of this approach and believe that the antitrust laws should not be so protective of small competitors to the detriment of large competitors. See, e.g., Bork & Bowman, The Crisis in Antitrust, 65 Colum. L. Rev. 363, 369-70 (1965). See also
power in carefully defined relevant product and geographic markets. The degree of competition prevalent in a given relevant market can vary considerably. The highest degree of fair competition is called "pure competition." "Pure competition" in the market for a completely homogeneous commodity could exist if there were many competing firms selling identical commodities and the share of each individual firm was so small that no single firm could influence price significantly by varying its output quantity. Pure competition can exist only in the rarest of markets. The direct antithesis of pure competition is the "pure monopoly." In a "pure monopoly" a single firm controls the entire supply of a commodity and no other firm can market a suitable substitute. There is no competition. Most markets fall somewhere between these two extremes. A patented product market is closer to a pure monopoly.

The market with which Section Two of the Sherman Act is concerned is characterized either by the dominance of a few firms, i.e., an oligopoly, or by the dominance of a single firm that controls a substantial share of the market. Such concentrated industries as the oil and automobile industries are examples of oligopolistic markets that have generated important antitrust litigation because of the anticompetitive practices that have abounded. It is the concentration of monopoly power in the hands of a few that kindles the spark of illegal monopolization.

A firm need not dominate a national market in order for it to violate Section Two. The relevant market is defined geographically and, if the geographical market is defined narrowly enough, it is possible for a firm of moderate size to

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United States v. Philadelphia Nat'l Bank, 374 U.S. 321, 371 (1963). Most of the reported cases involve large competitors; the Justice Department and the Federal Trade Commission are not often troubled by the antitrust violations of small firms. However, often it is only the large firms that can avail themselves of the most efficient production and marketing techniques and thereby attain the lowest marginal costs. By the same token, small firms may monopolize small markets and, because of their lower efficiencies, greater public harm thereby results.

22. Id. at ¶ 403.
monopolize. Relevant markets may be defined locally, regionally, or nationally. The relevant geographic market may be determined by the location of a number of competitors in a particular industry or by customer recognition of a separate geographical area of competition, taking into consideration costs of transportation or situational features that attract certain producers. The relevant geographic market may be a state, a city, or even a number of cities of a particular size.

Similarly, the relevant product market is capable of being defined in a number of ways, depending upon the substitutability of the product of various competitors. Determination of the market depends upon how different the offered products are in character, function, or use as well as to what extent buyers will readily substitute one product for another. It is in this step of the monopolization analysis that the existence of a patented product assumes major significance. The more unique the product, the more inelastic will be the cross-elasticity of demand with other products. A basic patent protecting a pioneering product may allow the consumer no alternative at all. Such a basic patent thereby protects a complete monopoly of the relevant product market. This monopoly does not, however, result in a violation of Section Two if other condemning circumstances are absent. Illegal monopolization depends upon the relative market dominance of the patent and the manner in which the patent is utilized to control other markets or unduly restrict other competitors.

23. In United States v. Phillipsburg Nat'l Bank, 399 U.S. 350 (1970), the defendant banks ranked 1346th and 2429th nationally among U.S. banks with trust powers. The Court held that a proposed merger of the two would violate Section 7 of the Clayton Act because there would be a substantial lessening of competition. Id. at 353. There was already undue concentration of banking services in the relevant geographic market, which was an area having a population of about 60,500.


C. Dominance as a Factor in Monopolization

When extensive patent power is coupled with dominant market size, the opportunity for violation of Section Two increases geometrically. The dominant firm must tread the market carefully so as to avoid any competitive conduct that may be viewed as an attempt to exclude other competitors from a fair share of the market. Any conduct suggestive of market control by the dominant firm will be suspect. Thus, market dominance by itself does not indict the powerful competitor. Size does, however, provide an opportunity for abuse that courts do not ignore when the competitor has a history of anticompetitive behavior. 28

What is meant by dominance, of course, is a commanding share of the relevant product or service market. There is no particular percentage of the market to which one can point as a line of demarcation separating monopolization from non-monopolization. Control of as little as 60% of a market in one case was held to be a monopoly. 29 In another case, however, control of as much as 64% of a market did not constitute monopoly power. 30 The proportion of a market controlled is therefore not always the determinative factor in monopolization.

The larger, dominant manufacturing firm frequently acquires a strong patent position as a direct result of its research and development operations. Vigorous acquisition of patents or aggressive prosecution of patent rights against competitors is an important factor in the determination of the intent necessary to show a violation of Section Two. The use of the patent grant that brings the competitor within the ambit of Section Two has been aptly termed "exclusionary conduct." 31 The term defines the legal limits of patent use which are permissible. For example, if a dominant firm uses its patent position to exclude competition in products not covered by its patents, Section Two is obviously violated. If a dominant firm confines

its exclusionary activity to those products protected by its patents, no violation normally results. The thorny problem faced by the dominant firm is that almost any aggressive sales promotion aimed at competing firms can be viewed as exclusionary in nature. Courts are quite willing to find anticompetitive intent even in those business operations that would be characterized by a business person as vigorously competitive.

II. UTILIZATION AS EXCLUSIONARY CONDUCT

In the context of Section Two of the Sherman Act, exclusionary conduct may be defined as competitive behavior that not only unnecessarily impairs the competitive opportunities of rival firms but also does not compete on the qualitative merits of the product. To increase the share of the market, and thereby reduce other competitors' shares does no violence to the policy underlying the Sherman Act if the quality of the product is superior to that of the other competitors. However, to use a dominant market position unfairly so as to exclude rivals from healthy and meaningful competition can violate Section Two, depending upon the particular means used. Patent ownership can be one such means.

The patent grant bestows a number of competitive advantages that would transgress the Sherman Act, were it not for the patent. For example, patent licensors are permitted to fix the prices to be charged by licensees. Licensors may divide market territorial rights between competitors who desire to make, use, or sell the patented products. This may be done by a license, or by the grant of an assignment. Most importantly, of course, deliberate monopolization of a market

32. P. Areeda & D. Turner, supra note 11, at 78-79.
through the patent grant is the very reward that the patent statutes are designed to protect.\textsuperscript{36}

\textbf{A. Exclusive Licensing}

A patent owner is permitted to negotiate any number of licenses with licensees who compete with each other in a given geographical territory. Alternatively, the patent owner may license but a single licensee in a given territory. The patent owner may be able to maximize profits by granting numerous licenses and allowing the licensees to compete freely without restrictions. However, there are instances in which exclusive licensing will produce greater net profits in the long run.

Three situations provide a patent owner with a profitable opportunity to license exclusively. First, in a new product market, the profit maximizing license royalty might be incalculable. This is a situation of doubtful importance that would exist for only a short period of time.\textsuperscript{37} Second, few licensees may be willing to risk the necessary capital investment if they must compete with other licensees. Moreover, the patent owner might be unable to finance the exploitation of the patent in all markets. Third, the exclusive license can be used as a device to fix prices or divide markets.\textsuperscript{38} Exclusive licensing is the only fair solution to the second problem and should be freely allowed by the courts.\textsuperscript{39} In the third situation, there is high probability for a Sherman Act violation and exclusive licensing must be exercised with great care. The exclusive licensee has a practical monopoly and, if the licensor has divided territories or has separated fields of use, the licensor has created a restraint of trade between horizontally competing licensees.\textsuperscript{40} Many of such restraints have been declared to


\textsuperscript{37} In this situation the patent owner shares the monopoly with the single licensee, who then shares the revenues and profits with the patent owner. P. \textsc{Areeda}, Anti-Trust Analysis 585 (3d ed. 1981).

\textsuperscript{38} These three possibilities are discussed in P. \textsc{Areeda}. Id.

\textsuperscript{39} Id. See SCM Corp. v. Xerox Corp., 645 F.2d 1195 (2d Cir. 1981), cert. denied, 455 U.S. 1016 (1982).

be unreasonable per se under Section One of the Sherman Act.41

The grant of an exclusive license, standing alone, is not a violation of the antitrust laws because such licenses are clearly within the contemplation of the patent statutes.42 Restrictions in patent licenses are upheld if they can be construed to be ancillary to the statutory patent grant.43 In one case, a provision which would terminate an exclusive license if the licensee's use of the patents fell below a prescribed level was upheld because the licensee was not required to use the licensed products to the exclusion of all other products.44

To provide a licensee with the exclusive rights within a field of use or territory is to exclude even the licensor from the practice of the invention, unless the licensor expressly reserves such right. Where the licensor and the licensee have previously been competitors, problems under Section One of the Sherman Act may arise if the mutual restraints are deemed unreasonable.45 As contrasted with a nonexclusive license, the exclusive license usually provides for a high royalty rate and a minimum annual royalty. The exclusive licensee is willing to agree to this in return for the exclusion of competition and the isolation of the licensee's share of the market.

The resulting consequences under Section Two of the Sherman Act depend upon the licensee's market dominance and other exclusionary conduct, if any.46 The exclusive li-

41. See id. at 129-30 for examples of such violations.
46. See, e.g., L.G. Balfour Co. v. FTC., 442 F.2d 1 (7th Cir. 1971) (seller already in possession of monopoly power over a market accumulated exclusive dealing contracts with buyers and with suppliers; such contracts were a "prerequisite for participation" in the market); Western Geophysical Co. of Am. v. Bolt Assoc., Inc., 305 F. Supp. 1248 (D. Conn. 1969) (exclusive license to key technology acquired by a dominant firm); Munsters Corp. v. Burgess Indus., Inc., 450 F. Supp. 1195 (S.D.N.Y. 1977) (protection of the patent cannot be stretched so far as to continue the monopoly after the sale of the product nor will the patent on a component element protect essentially unpatentable machines employing the patented element); Chandler v. Stern Dental Laboratory Co., 335 F. Supp. 580 (S.D. Tex. 1971) (allegation that defendant used exclusive license to conspire to monopolize by suppressing sales of patent product and promoting sales of
license permits the licensee to sue infringers and may even require it to do so. Where there had been a prior pattern of patent enforcement by the licensee, and market dominance has been attained, the exclusive license becomes but one more highly visible factor in the determination of the deliberateness or intent with which the licensee has maintained its monopoly or attempt to monopolize.\textsuperscript{47}

Exclusive licenses usually contain clauses providing that the licensor may convert the license to a nonexclusive one if royalties fall below a specified minimum. Because the licensor has become locked into the exclusive arrangement, such conversion clauses are necessary to protect against the possibility that the patent owner may be frozen out of the legitimate reward due. However, these clauses may offer further opportunity for manipulation of the competitive scheme because of the options available to the licensor. While a change from exclusive licensing to nonexclusive licensing will usually enhance competition, the ultimate effect depends upon the character of the newly admitted competitors. If the exclusive license has allowed a moderately sized firm to compete, replacement by a dominant firm, which could even be the licensor itself, may further concentrate monopoly power in the dominant firm.

\textit{B. Territorial Allocation Of Markets}

Agreements between horizontal competitors to allocate territories are per se illegal under Section One of the Sherman Act.\textsuperscript{48} In an oligopolistic market, territorial allocation between firms would also violate Section Two. Competing firms sometimes achieve a simpler and fairer method of market allo-

\textsuperscript{47} See Kobe, Inc. v. Dempsey Pump Co., 198 F.2d 416 (10th Cir. 1952), cert. denied, 344 U.S. 837 (1952).

cation by allocating customers and refusing to deal with each other’s customers.49

The Sherman Act can also be violated by a single firm if it has the power to allocate sales territories for competitors at a lower level of product distribution.50 A common method of territorial allocation is through the franchise of a trademark or service mark.51 The exclusive common law right to the use of a trademark is licensed through franchises and the franchisor may impose numerous types of restraints on the franchisees. Franchise licenses are quite similar in effect to patent licenses and identical goals are frequently sought. Territorial allocation is the most frequent goal of franchise arrangements.

The patent franchise, or, the patent grant, operates on a broader plane of power than the trademark franchise. The patent grant confers greater power because of its greater exclusivity. Unlike the trademark, the statutory patent grant allows its owner to exclude others from making, using or selling the invention even in markets where the owner has yet to make any inroads and may never intend to do so. Although it is true that federal registration of a trademark constitutes notice throughout the United States of the ownership and use of a mark,52 the test for infringement of a trademark, which is one of “confusing similarity,”53 and the “concurrent use” doctrine,54 both operate to limit the power to preclude others from using the mark. The patent grant is not so limited. This is one reason that territorial allocations through patent licensing can be devastating in excluding competition.

49. In such cases it is not necessary to prove monopoly power in a relevant market. Rather, it is enough to prove that there was a specific intent to monopolize. United States v. Consolidated Laundries Corp., 291 F.2d 563 (2d Cir. 1961). If the conduct is ambiguous, i.e., it is not clear that there was a specific intent to allocate customers, then market power must be proved. See Hunt-Wesson Foods, Inc. v. Ragu Foods, Inc., 627 F.2d 919, 926-27 (9th Cir. 1980), cert. denied, 450 U.S. 921 (1981).
50. Topco, 405 U.S. 596.
51. Id.
54. The first use doctrine precludes a trademark registrant from exercising rights bestowed by the ownership of a registered mark upon another who began using the same mark upon goods of the same class before the registrant but in a completely separate geographic market. 15 U.S.C. § 1062(a)(1982). See E. KINTNER & J. LAHR, AN INTELLECTUAL PROPERTY LAW PRIMER 265-66 (2d ed. 1982).
Section 261 of the Patent Code specifically provides: "The applicant, patentee, or his assigns or legal representatives may in like manner (i.e., by a written instrument) grant and convey an exclusive right under this application for patent, or patents, to the whole or any specified part of the United States." Thus, when the patent owner creates exclusive territories for individual licensees, the patent owner is acting within the scope of the patent grant and does not violate the antitrust laws. However, the antitrust laws may come into play if there are complications due to a concentration of market power other than that of the patent itself. Exclusive territories are created for the purpose of eliminating competition, not increasing it, and are, thus, carefully scrutinized. When there is monopoly power in the hands of either the licensor or a licensee, the scene is ripe for a Sherman Act violation.

The licensor in possession of monopoly power may license exclusive territories in one of two situations. First, the licensor may wish to allow exploitation of the patent in another territory while excluding competition from the licensor's own territory. Second, where the licensor does not compete with any licensee, territorial allocation may be used to foster the licensor's monopoly power in other product markets.

When the licensor sells at the same market distribution level as that of the licensee, the license may enable the licensee to compete more effectively against competitors who are also competing against the licensor in related product markets. The competitive strength of the licensor is not reduced by allocating a distant territory to the licensee and may in fact be considerably aided. If the licensor and the licensee have common competitors, the licensor has achieved a happy result, indeed: the licensor may succeed in cutting into the competitor's market shares by means of the licensee's efforts without the need of undue expenditure of the licensor's own resources. The patent licensor has thus succeeded in effectuating a horizontal allocation of territories that gains a substan-

57. L. Sullivan, supra note 3, at 524.
tial competitive advantage over sellers of related products. The patent grant makes this a lawful possibility.

The utilization of the exclusive territorial license to strengthen a competitor in another market and exclude that licensee from the patent owner's own territory is not the type of conduct for which the antitrust lawyer should have great concern. However, once the condition of a monopolized market or a highly concentrated market is overlaid upon such conduct, serious Section Two questions arise. If, by the means of the exclusive license, the licensor and the license seek to maintain already acquired monopoly power in a relevant market, Section Two is violated.\(^8\) Similarly, if the license is an attempt to acquire monopoly power, Section Two is also violated.\(^9\)

When a licensor does not compete with the territorial licensees, there are two possibilities for antitrust violations. First, if a combination of conspiracy between the licensees is found, Section One of the Sherman Act may be violated.\(^6\) Second, even without such a combination, the licensor may violate Section Two if monopolization is the goal. There are a number of market conditions which permit successful application of Section Two to exclusive territorial licenses.

A patent owner having monopoly power in a relevant product market can take steps to maintain that power by selectively assisting firms that compete against the patent owner's substantial competitors. Business competitors usually offer a variety of related products or services. Depending upon the emphasis a firm places on certain of its products, its profits may vary considerably. The strength of potential competition determines those product markets that the firm will emphasize. The tactics of competition suggest that a firm should attempt inroads into those markets that offer the least resistance, \textit{i.e.}, where the competition is at a palatable level. But the ability to compete is directly proportional to the total resources of a firm; inroads into new markets are impossible

\(^{58}\) See generally Hartford-Empire Co. v. United States, 323 U.S. 386 (1945).
\(^{59}\) L. SULLIVAN, \textit{supra} note 3, at 524.
without the necessary resources. This is where selective territorial licensing can be used most effectively.

The patent owner with a product monopoly who has the ingenuity to license firms that compete with its strongest competitors can thereby serve the patent owner's own interests. Exclusive territories can be carefully drawn so as to maximize the damage to the competitor's market shares and minimize any damage to the patent owner's position. Competitors can be injured in this way even when the patent owner's monopoly power covers products that are not patented. For example, where a firm has a patented process for making a nonpatented product, selective territorial licensing of weaker firms who compete with the licensor's strongest competitors can severly impair the ability of the stronger firms to compete if the patented process is more cost-efficient than the process used by the strong competitors. The licensees can price the product lower than that of those competitors. Thus, the licensor can attack the market shares of its competitors, even in those territories where the licensor does not itself compete. This is clearly the deliberateness in maintaining a monopoly that violates Section Two.

C. Field Of Use Restrictions

A patent owner may wish to restrict the licensee's field of use and may even license a given field of use exclusively to a single licensee. By use of this method competitors may thereby be insulated from each other in much the same way that competitors are separated by means of territorial allocations. For example, one licensee may be limited to sales of the patented invention for commercial use, while another licensee may be permitted to sell for private home use only.

61. See, e.g., United States v. Westinghouse Elec. Corp., 648 F.2d 642 (9th Cir. 1981). In Westinghouse the defendant licensed its foreign patents to Mitsubishi for use only outside of the United States. The government argued that this agreement was intended to help Mitsubishi grow into a large corporation like Westinghouse while insulating Westinghouse and the United States market from Mitsubishi's competition in violation of the antitrust laws. Id. at 645-46. The government conceded that Westinghouse's agreement was technically within the law but that the effect of the agreement unreasonably limited competition in the United States. Id. The court rejected the government's argument because Westinghouse's actions were clearly protected by the patent laws. Westinghouse merely employed means "normally and reasonably adapted to secure pecuniary reward for the patent monopoly." Id. at 647.
A number of reasons may dictate field of use restrictions. Although most court decisions involving field of use restrictions are analyzed as Section One violations, such restrictions offer potential for violation of Section Two of the Sherman Act as well. For example, the patent owner may wish to preserve a field of use for itself and still profit from other uses that the owner is unable to exploit. Another reason may be the need to charge different royalty rates for different uses.

The case law on use restrictions is not well developed. Precedents are few and there is scant judicial analysis of antitrust issues. With this warning in mind, the foray into use restrictions must begin with the first sale doctrine: a patented article, once sold, passes outside of the patent monopoly. After the first sale, any restrictions on the use of the patented item are unenforceable. The first sale doctrine applies even where the purchaser buys the patented product in a territory licensed to one licensee and then resells the product in another territory that is allocated to a different licensee. The rule is based upon the rationale that the patentee received the full and just reward when the license royalty was paid.

The proposition that a patentee need not convey full title of the patent, and that a restrictive patent license is not necessarily unlawful was set forth in dicta in a much-criticized case, United States v. General Electric Co. The Court stated that "[t]he patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." Although the Court never explicitly mentioned field of use restrictions, this language was quoted with approval and used as a starting point in the leading case of field of use restrictions.

62. P. Areeda, supra note 37, at 604.
65. See Univis Lens Co., 316 U.S. at 251-52.
67. Id. at 489.
In the leading case, General Talking Pictures Corp. v. Western Electric Co., American Telephone and Telegraph and several other companies formed a patent pool which contained patents on vacuum tube amplifiers. The patent owners subdivided the market into two sections. The first was the "commercial" field which included sound reproduction systems for motion picture theaters. Exploitation of the patents within this field was reserved exclusively for the patent owners. The second was the "home" field, which embraced amplifiers for radio broadcast and amateur radio reception. Individual amplifiers were physically interchangeable between the two fields of use.

American Transformer Co. was one of 50 companies given non-exclusive licenses to manufacture and sell the amplifiers for "home" use. Pursuant to the license, a notice was attached to each amplifier, warning that it could be used only for "home" use. American Transformer sold an amplifier to General Talking Pictures, a manufacturer of equipment for theaters. Both parties were aware that the sale was outside of the scope of the license. The patent owners sued General Talking Pictures to enjoin use of the infringing amplifiers.

The defendants argued that the owner of a patent may not restrict the use to be made of a device manufactured under the patent after the device has passed into the hands of a purchaser in the ordinary channels of trade and full consideration has been paid. The Supreme Court rejected the defendant's argument, finding the first sale doctrine inapplicable. The licensee's sale was not within the limits of its license and there was no purchase in the ordinary channels of trade because the purchaser, General Talking Pictures, knew that the license did not permit such a sale. Upon a rehearing, Justice Brandeis reiterated these reasons. He noted that the practice of granting licenses with use restrictions was an old one, the legality of which was never questioned. The decision implies that the use restriction was upheld simply because it was an accepted practice which had gone unquestioned for many years.

68. 304 U.S. 175 (1938), reaff'd on rehearing, 305 U.S. 124 (1938).
69. Id. at 180.
70. Id. at 180-81.
71. 305 U.S. at 127 (citing Rubber Co. v. Goodyear, 9 Wall. 788, 799-800); Gamewell Five-Alarm Telegraph Co. v. Brooklyn, 14 F. 255 (E.D.N.Y. 1882).
Although the Court never explicitly considered the validity of the use restriction, the holding necessarily implies this conclusion. In any event, the case is widely cited as standing for the proposition that use restrictions are valid.\textsuperscript{72}

To avoid a Sherman Act violation, a patent owner wishing to restrict the licensee's field of use must know when ownership of the patented item has been parted with under the first sale doctrine. Although dealing more with price restrictions than with use restrictions, the Supreme Court's decision in \textit{United States v. Univis Lens Co.}\textsuperscript{73} has been cited along with the decision in \textit{General Talking Pictures} as establishing the rule concerning field of use restrictions and the first sale doctrine.\textsuperscript{74} The Court in \textit{Univis} held that when a patent owner has parted with ownership, restrictions placed upon the use or resale of the item are invalid under the first sale doctrine.\textsuperscript{75}


\textsuperscript{73} 316 U.S. 241 (1942).


\textsuperscript{75} \textit{Univis}, 316 U.S. at 251. Univis Lens Co. owned patents on the manufacture of multifocal eyeglass lenses. The patents were fully practiced only after the eyeglass blanks were ground and polished into usable lenses. Univis manufactured the lens blanks and sold them to designated licensees of the corporation at a royalty of 50 cents per pair. The corporation licensed three classes of licensees: wholesalers, finishing retailers, and prescription retailers. The first two classes of licensees ground and polished the blanks. Each of the three classes of licensees were required to sell the lenses at prices fixed by the licensor. No additional royalties were extracted from any of the licensees. \textit{Id.} at 243-45. The Supreme Court held that by the first sale of the blanks, Univis had conferred to the buyer the right to fully practice and patent, \textit{i.e.}, to grind and polish the blanks. All the license restraints after the first sale were illegal; thus, Univis could not control retail prices, \textit{Id.} at 249-52.
The Court reasoned that upon the sale of the patented item the patent owner realizes the reward contemplated by the patent laws.\textsuperscript{76}

*General Talking Pictures* is distinguishable from *Univis*. In *General Talking Pictures* the patent owner granted to the licensee a license to manufacture and sell the patented item. In *Univis* the patent owner manufactured the patented item, and granted the licensee a license to finish the item and sell it. The Court held that this was, in effect, a sale of the patented item rather than a license because the patent owner produced the item and received a royalty upon transferring the item to the licensee.\textsuperscript{77} Thus, the rule that is drawn from these cases is that, when a patent owner manufactures and sells the patented item, the patent owner can exercise no further control over the purchaser's use of the item. But when the patent owner grants a license to one to manufacture and sell the patented item, the patent owner may restrict the licensee in the use or sale of that item.\textsuperscript{78} With this rule in mind, it will be helpful to divide field of use restrictions into three separate categories and analyze each separately.\textsuperscript{79}

The first classification, known as Class A restrictions, are those restrictions placed on the patented product after it has

\textsuperscript{76} Id. at 250-51.
\textsuperscript{77} Id. at 248-50.
\textsuperscript{78} Munters, 450 F. Supp. at 1204. The Munters decision provides a good analysis of the *General Talking Pictures* and *Univis* decisions. Munters Corp owned the U.S. patent rights to a packing material known as "Munters fill" used in the cooling mechanism for gas turbines. Munters sold the fill and also licensed its use. Munters granted to Buffalo Forge the "exclusive right and sublicense" to use the fill in its manufacture of turbines of at least 500 h.p. Burgess, the principal competitor of Buffalo Forge and a user of Munters fill, objected to the restrictions placed on its use of the product. The court noted that no royalties were extracted and that the entire consideration paid for use of the fill was the purchase price paid to Munters. The court cited *Univis* and held that the restrictions, though in a "license," were unenforceable. The agreement was in substance a contract for sale and, having disposed of ownership over the patented fill, Munters could no longer control its use. *Munters*, 450 F. Supp. at 1201. The decision in this case was in part based upon United States v. Arnold, Schwinn and Co., 388 U.S. 365 (1967). Since the *Schwinn* case was overruled by Continental Television, Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977), right after the first opinion in *Munters*, the court decided to reexamine the case using a rule of reason analysis. However the outcome was identical. *Munters*, 201 U.S.P.Q. 756 (S.D.N.Y. 1978), aff'd on rehearing, 450 F. Supp. 1195 (S.D.N.Y. 1977).

\textsuperscript{79} This technique was utilized in Note, *Patent Use Restrictions*, 75 HARV. L. REV. 602 (1962).
been manufactured and sold. An example of this type of restriction is found in *United States v. The Consolidated Car-Heating Co.* The defendant owned a patent on a metal alloy and a furnace used to melt it. It "licensed" dental laboratories to use the patented alloy only in the manufacture of dentures. The district court held the license restrictions invalid, stating that the patentee received his reward upon the sale of the patented product to his licensee. *General Electric, General Talking Pictures* and *Univis* were cited as support. In light of this precedent, the decision seems sound and appears to represent the trend in the law on this point. There are decisions holding otherwise, however.

A second classification of patent use restrictions are Class B restrictions. Class B restrictions are those placed on a licensee who manufactures a patented product. The restrictions may include the types of products the licensee may produce under a patent covering a component device, or the persons to whom the product may be sold. *General Talking Pictures* is an example of this type. In that case, it will be recalled, the Supreme Court implicitly upheld use restrictions placed on the manufacturing licensee of patented amplifiers. As one

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81. Id. at 22-23.
82. Id. at 23. In Note, *Patent Use Restrictions, supra* note 80, the author classified this case under "B" restrictions, apparently because the alloy was manufactured into dentures with the aid of the patented furnace. This author believes it is properly classified as an "A" restriction since the patent was fully practiced when the alloy was sold to dental labs.
83. See, e.g., Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Sys. Co., 268 F.2d 395 (3d Cir. 1958), cert. denied, 361 U.S. 894 (1959), aff'd, 169 F. Supp. 1 (E.D. Pa. 1958), which involved a patented strain gauge that had two uses: expandable member and permanent component. Sales were made on the condition that the gauges were to be used in expandable form only. *See also* Hensley Equip. Co. v. Esco Corp., 383 F.2d 252 (5th Cir. 1967)(use restrictions on patented excavating teeth purchased from manufacturer is *per se* illegal under the Sherman Act) and *Munters*, 450 F. Supp. 1195 (use of patented coding tower packing material restricted after sale was misuse).
84. See, e.g., Chemario Corp. v. Universal Chem. Co., 244 F. Supp. 486 (E.D. Tex. 1965) (plaintiff's agricultural chemical sold in 10 per cent concentration to commercial growers with notice prohibiting dilution to 2 percent concentration which plaintiff sells to home gardeners; restriction upheld); Sperry Prods., Inc. v. Aluminum Co. of Am., 171 F. Supp. 901 (N.D. Ohio 1959), *rev'd in part but aff'd on this issue*, 285 F.2d 928 (6th Cir. 1960) (device used to detect flaws in metal leased to railroads on condition they be used to inspect rolling stock and not rails; restriction upheld even though purged in 1955).
might expect, this case has, for the most part, determined the law regarding these restrictions.

A similar factual situation arose in Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.\textsuperscript{85} Hazeltine owned patents on several hundred radio and television circuits. Automatic Radio was licensed to manufacture receivers employing the patents for educational, and private non-commercial use. Notices to that effect were required on all apparatus manufactured. Automatic Radio defended a suit for royalties, claiming the restrictive notice constituted patent misuse. Both the District Court and the First Circuit upheld the restrictions on the basis of General Talking Pictures.\textsuperscript{86} The Supreme Court affirmed the lower court decisions, but found the legality of the restrictive notice to be a moot issue.\textsuperscript{87} Prior to the decision, the restrictive notice provision was eliminated.

Another example of this type of restriction is found in Westinghouse Electric Corp. v. Bulldog Electric Products Co.\textsuperscript{88} Westinghouse licensed Bulldog to manufacture its patented circuit breakers, provided that they were incorporated into larger industrial assemblies. The district court found the restrictions proper even though the license restriction had been purged.\textsuperscript{89} The court of appeals affirmed. Other cases simi-

\textsuperscript{85} 339 U.S. 827 (1950).
\textsuperscript{87} Automatic Radio, 339 U.S. at 835.
\textsuperscript{89} 106 F. Supp. at 879.
larly uphold Class B restrictions.\textsuperscript{90} There are, however, cases in which restrictions of this type have been found invalid.\textsuperscript{91}

The final classification of patent use restrictions, Class C, are those placed on a licensee of a patented process or machine which is used to produce an end product which is not itself patented. A process patent owner can exclude others from using the process or machine, but cannot exclude others from making, using or selling the unpatented end product.\textsuperscript{92} Class C restrictions have been upheld by courts so long as the restriction is on the use of the process or machine and not the unpatented end product. In \textit{Turner Glass Corp. v. Hartford-Empire Co.}, 173 F.2d 49 (7th Cir. 1949)(patented glassware producing machinery leased upon the condition that only certain types of glassware be manufactured); \textit{Vulcan Mfg. Co. v. Maytag Co.}, 73 F.2d 136 (8th Cir. 1934) (license to manufacture and sell patented wringers only on certain types of washing machines valid); \textit{Bela Seating Co. v. Poloin Prods. Inc.}, 297 F. Supp. 489 (N.D. Ill. 1968), \textit{aff'd}, 438 F.2d 733 (7th Cir. 1971), \textit{cert. denied}, 403 U.S. 922 (1971)(manufacturing licensee of a tablet arm design incorporating into folding chairs restricted including arm in chairs similiar to those it previously manufactured; restriction upheld); \textit{Perbal v. Dazor Mfg. Corp.}, 161 U.S.P.Q. (BNA) 169 (Mo. 1968)(license to manufacture and sell lamps and other devices embodying the patented swivel joint does not include license to sell swivel joints separately); \textit{Benger Laboratories, Ltd. v. R.K. Laros Co.}, 209 F. Supp. 639 (E.D. Pa. 1962), \textit{aff'd per curiam}, 317 F.2d 455 (3d Cir.), \textit{cert. denied}, 375 U.S. 833 (1963) (owner of patented preparation for treatment of a licensed company to manufacture and sell in the veterinary field and another company to manufacture and sell in the human field; restrictions valid); \textit{Harte & Co. v. L.E. Carpenter & Co.}, 138 U.S.P.Q. (BNA) 578 (S.D.N.Y. 1963)(license to manufacture and sell embodying patented surface ornamentation restricted to designs not in competition with those of patent owner are valid); \textit{United States v. Huck Mfg. Co.}, 227 F. Supp. 791 (E.D. Mich. 1964), \textit{aff'd}, 382 U.S. 197 (1965) (license to manufacture and sell specific types of patented lockbolts valid); \textit{Atlas Imperial Diesel Engine Co. v. Lanova Corp.}, 79 F. Supp. 102 (D. Del. 1948)(license to manufacture and sell under patent engines "limited to stationary marine, industrial and automotive engines with piston displacement of not more than 1000 cubic inches, aeroplane and passenger car engines excepted" found valid).

\textsuperscript{90} Westinghouse Elec. Corp. v. Bulldog Elec. Prod. Co., 206 F.2d at 574 (4th Cir. 1953). \textit{See, e.g., In re Yarn Processing Patent Validity Litig.}, 541 F.2d 1127 (5th Cir. 1976)(manufacturing licensees of patented yarn producing machines restricted to selling to specific yarn producers; restriction upheld); \textit{Turner Glass Corp. v. Hartford-Empire Co.}, 173 F.2d 49 (7th Cir. 1949)(patented glassware producing machinery leased upon the condition that only certain types of glassware be manufactured); \textit{Vulcan Mfg. Co. v. Maytag Co.}, 73 F.2d 136 (8th Cir. 1934) (license to manufacture and sell patented wringers only on certain types of washing machines valid); \textit{Bela Seating Co. v. Poloin Prods. Inc.}, 297 F. Supp. 489 (N.D. Ill. 1968), \textit{aff'd}, 438 F.2d 733 (7th Cir. 1971), \textit{cert. denied}, 403 U.S. 922 (1971)(manufacturing licensee of a tablet arm design incorporating into folding chairs restricted including arm in chairs similiar to those it previously manufactured; restriction upheld); \textit{Perbal v. Dazor Mfg. Corp.}, 161 U.S.P.Q. (BNA) 169 (Mo. 1968)(license to manufacture and sell lamps and other devices embodying the patented swivel joint does not include license to sell swivel joints separately); \textit{Benger Laboratories, Ltd. v. R.K. Laros Co.}, 209 F. Supp. 639 (E.D. Pa. 1962), \textit{aff'd per curiam}, 317 F.2d 455 (3d Cir.), \textit{cert. denied}, 375 U.S. 833 (1963) (owner of patented preparation for treatment of a licensed company to manufacture and sell in the veterinary field and another company to manufacture and sell in the human field; restrictions valid); \textit{Harte & Co. v. L.E. Carpenter & Co.}, 138 U.S.P.Q. (BNA) 578 (S.D.N.Y. 1963)(license to manufacture and sell embodying patented surface ornamentation restricted to designs not in competition with those of patent owner are valid); \textit{United States v. Huck Mfg. Co.}, 227 F. Supp. 791 (E.D. Mich. 1964), \textit{aff'd}, 382 U.S. 197 (1965) (license to manufacture and sell specific types of patented lockbolts valid); \textit{Atlas Imperial Diesel Engine Co. v. Lanova Corp.}, 79 F. Supp. 102 (D. Del. 1948)(license to manufacture and sell under patent engines "limited to stationary marine, industrial and automotive engines with piston displacement of not more than 1000 cubic inches, aeroplane and passenger car engines excepted" found valid).

\textsuperscript{91} See, e.g., \textit{Prestole Corp. v. Tinnerman Prods., Inc.}, 271 F.2d 146 (6th Cir. 1959), \textit{cert. denied}, 361 U.S. 964 (1960) (manufacturing licensee of patented sheet metal fasteners prohibited from manufacturing fasteners covered by four patents, one of which had expired; restriction invalid); \textit{Eversharp, Inc. v. Fisher Pen Co., Inc.}, 204 F. Supp. 649 (N.D. Ill. 1961) (license to manufacture and sell patented ball point pens may have a higher royalty fee if no limitation as to licensee's name or trademark is imposed). Some of these restrictions have been the basis of Sherman Act violations.

\textsuperscript{92} See \textit{In re Amtorg Trading Corp.}, 75 F.2d 826, 832 (C.C.P.A.), \textit{cert. denied}, 296 U.S. 576 (1935).
Empire Co.,93 the defendant, owner of patents on glassware manufacturing equipment, leased machines to the plaintiff, subject to the restriction that only certain types of glassware were to be manufactured.94 The court upheld the restriction because it is fully within the prerogative of the patent owner.95 The license, the court carefully pointed out, did not fix prices, or limit the output of the plaintiff or the markets in which the glassware could be sold.96 Such restrictions would be an attempt to extend the patent owner's monopoly of the process for making a product into a monopoly of the unpatented product,97 a clear violation of Section Two.

93. 173 F.2d 49 (7th Cir. 1949).
94. Id. at 53.
95. Id. But see Vitamin Technologists, Inc. v. Wisconsin Alumni Research Found., 146 F.2d 941 (9th Cir. 1945), cert. denied, 325 U.S. 876 (1945), where a use restriction on a patented process is severely criticized. In Vitamin the plaintiff had a patent on an irradiation process for producing vitamin D and licensed the process to various food producers. The license contained a restriction which prohibited the licensees from using the process on certain foods, one of which was oleomargarine. When the plaintiff brought an infringement suit, the Ninth Circuit Court of Appeals criticized this use restriction because it denied many poor people the availability of a much needed health aid. Id. at 943-44. The court, however, reversed the judgment for the plaintiff on the ground that the patents were invalid.
96. Id. These restrictions have been the basis of Sherman Act violations. See Cummer-Graham Co. v. Straight Side Basket Corp., 142 F.2d 646 (5th Cir.), cert. denied, 323 U.S. 726 (1944) and American Equip. Co. v. Tuthill, 69 F.2d 406 (7th Cir. 1934). The Tuthill court cited Motion Picture Patents Co. v. Universal Film Co., 243 U.S. 502, 512-13 (1917), for the rule that a process patent owner may not fix the price of the unpatented product of the process. Tuthill, 69 F.2d at 409. In Tuthill, the licensor granted to the plaintiff a license to use patented brick-loading machines and restricted the plaintiff's output to 5 percent of the total amount of brick by the licensees. The agreement also provided that any licensee that manufactured more than its share of bricks would be subject to a royalty penalty. The court concluded that, because brick is an unpatented article, any agreement which restricted the amount of brick a licensee could make was a violation of the Sherman Act. Although the court did not characterize the agreement as a Section One or Two violation, it did say that the inevitable result of the agreement caused an "unreasonable restraint of commerce and creation of a monopoly," suggesting that both sections were violated. Id. In Cummer-Graham, the patent owner owned a patent in an attachment for basket-making machines. The license agreement restricted the price for which the licensee could sell the baskets. The patent owner brought an action for breach of oral promises by the licensee to maintain a uniform price fixed by the patent owner. Cummer-Graham, 142 F.2d at 646. The court affirmed the lower court's decision to dismiss the case because of violations of Sections One and Two of the Sherman Act, for the same reason given by the courts in Tuthill and Motion Picture Co. Id. at 647.
97. This is the reason given by the courts for the rule against such restrictions. See supra note 96. However, a recent case out of the Federal Circuit rejected this rationale. In United States v. Studiengesellschaft Kohle, 670 F.2d 1122 (D.C. Cir. 1981), the de-
Although much case law supports the validity of field of use restrictions, courts will carefully scrutinize them. The potential for a Section Two violation is clearly present.

III. PATENT ACCUMULATION AND POOLING

A. Patent Accumulation

Vigorous research and development produce innovations having varying degrees of marketability. Patent protection for inventions generated by such expensive research is to be expected, even required. In any given field, it is usual for the research efforts to produce a number of patents relating specifically to that particular field. This is especially true if the firm concentrates its research, development and marketing into a narrow variety of products.

Ownership of patents in a particular field of technology begets further ownership of other patents in that field. Many patents are improvements over existing patented inventions and cannot be utilized without the permission of the owner of the basic patent. Moreover, an improvement patent may be of such worth as to render the basic patent obsolete. Therefore,
the ownership of patents motivates the owner to acquire the improvement patents granted to others. In addition, independent inventors quite naturally seek to sell or license their patents to those firms having established positions in a product market.

The mere accumulation of patents, no matter how many, is not, in and of itself, a violation of the Sherman Act. But a competitor having some dominance in a relevant market should not feel free to acquire an unlimited number of related patents and expect to do so with impunity. In United States v. United Shoe Machinery Corp., more than 2,000 shoe machinery patents were accumulated. Only about five percent of these had been acquired from outsiders by United Shoe to protect itself from infringement suits, to keep certain avenues of development open and to settle patent controversies that had arisen. The court found no violation of the Sherman Act but issued a clear warning that "[m]ost of these purposes could have been served by non-exclusive licenses. Taking the further step of acquiring the patents . . . buttressed United's market power. In some instances . . . the acquisitions made it less likely that United would have competition."

No more flagrant abuse of monopoly power can be found than that which was present in United States v. Hartford-Empire Co. Hartford had succeeded in tying up virtually the entire glass container industry by purchasing and internally developing all of the important patents relating to the glass


99. Surely, a § 2 violation will have occurred where, for example, the dominant competitor in a market acquires a patent covering a substantial share of the same market that he knows when added to his existing share will afford him monopoly power. . . . That the asset acquired is a patent is irrelevant; in such a case the patented invention already has been commercialized successfully, and the magnitude of the transgression of the antitrust laws' proscription against willful aggregations of market power outweighs substantially the negative effect that the elimination of that class of purchasers for commercialized patents places upon the patent system.

SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1205 (2d Cir. 1981).


101. Id. at 333.

container processes and machines. Hartford continually pressed its dominance in the glass container market by ardent patent enforcement against competitors, numerous cross-licenses and persistent solicitation of licensees, who were artfully saddled with field of use and other restrictions. In holding that there were deliberate violations of Sections One and Two of the Sherman Act, the district court found that Hartford had not only tied up the industry, but also conveniently divided it up by lines of containers and territory.103

An interesting case involving patent acquisitions came down recently in the Second Circuit. In *SCM Corp. v. Xerox Corp.*,104 SCM claimed that Xerox, by obtaining the exclusive rights to all the patents relating to xerography and refusing to grant license for plain-paper copying, willfully acquired monopoly power in a relevant market and purposely excluded SCM from that market in violation of Section Two.105 With these exclusive licenses, Xerox was able to dominate the plain-paper copier industry for its first ten years.106 The court held that no Section Two violation was established because there was no market power at the time of the acquisition, the patents were acquired four years prior to the production of the first plain-paper copier and eight years prior to the appearance of the relevant product market.107 The court reasoned that "[t]he patent system would be seriously undermined, however, were the threat of potential antitrust liability to attach upon the acquisition of a patent at a time prior to the existence of the relevant market and, even more disconcerting, at a time prior to the commercialization of the patented art."108 The court also stated that, in determining the legality of the acquisition of patents under Section Two, "the focus should be upon the market power that will be conferred by the patents

103. *Id.* at 553. Judge Kloeb, obviously disgusted by the defendant's conduct, stated, "I am convinced that this violation of the laws was as deliberate as any that I can find in a review of anti-trust cases. The evidence is so conclusive that I can arrive at no other conclusion." *Id.* at 552-53.
105. *Id.* at 1203.
106. *Id.* at 1198.
107. *Id.* at 1208.
108. *Id.* at 1206.
in relation to the market position then occupied by the acquiring party." 109

In rejecting SCM’s claim that Xerox engaged in exclusionary conduct violative of Section Two by refusing to license its patents, the court explained that “such conduct is expressly permitted by the patent laws” and that “a patent holder is permitted to maintain his patent monopoly through conduct permissible under the patent laws.” 110 Thus, when a patent owner lawfully acquires a patent, or series of patents, which evolves into an economic monopoly, the patent owner does not violate Section Two simply by refusing to license the patent or patents to its competitors. However, a patent owner contemplating such action should bear in mind that the Xerox decision involved a unique situation which may be limited to its facts in future cases.

B. Patent Pooling

Patent pools are usually created by cross-licensing agreements between competing firms. The purpose of pooling is to

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109. Id. at 1208. (emphasis in original). The court cites Professors Areeda and Turner for the proposition that placing limitations on the patent rights of an acquiring party depends upon the extent of power it already possesses in the relevant market into which the patented products enter. Id. See P. AREEDA & D. TURNER, ANTITRUST LAW ¶ 819 (1978).

110. 645 F.2d at 1204 (emphasis in original). The court explained further that “[n]o court has ever held that the antitrust laws require a patent holder to forfeit the exclusionary power inherent in his patent the instant his patent monopoly affords him monopoly power over a relevant product market.” Id. The court then cited United States v. Grinnell Corp., 384 U.S. 563, 570-71 (1966), which set forth the elements of a Section Two violation:

The offense of monopoly under § 2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.

Xerox, 645 F.2d at 1205 (emphasis in original). The Xerox court said that the inventor of xerography process, Chester Carlson, made 18 attempts between 1940 and 1944 to find a commercial backer for his invention. Finally, in 1944, Battelle, a non-profit research organization agreed to become Carlson’s exclusive licensing agent. When Battelle experienced financial difficulty it approached 36 companies to secure financial backing. Finally, the Harold Company of Rochester, New York (later named Xerox), agreed to assist in the commercialization of xerography. Id. at 1198. The commercial success of plain paper copying was doubted by many. This is evidenced by the fact that Xerox considered the possibility of having IBM manufacture the 914 model, the first automatic plain-paper copier, but IBM declined because they thought it was a bad business risk. Id. at 1207.
provide prospective licensees with convenient access to multiple related patents and consequent sharing of royalties between patent owners. The pool also widens the spectrum of patents available to individual patent owners themselves.

The courts have also created patent pools to limit the monopoly power of a dominant firm in the industry. In the court decree approving the breakup of American Telephone and Telegraph,111 the court ordered AT&T to provide to the operating companies royalty-free licenses of all patents from the pool of AT&T patents and of all patents issued to AT&T within the next five years.112 The court also ordered that the operating companies be able to sublicense those patents to others.113 Both AT&T and the Justice Department argued against such order. AT&T argued that to permit such would require it to "give away its technology." The Justice Department argued that to allow such licensing and sublicensing would permit the operating companies to enter fields prohibited by the decree and, thereby, result in anticompetitive efforts. The court found that the technology was as much the operating companies' as AT&T's because they helped finance it. Furthermore, such licensing and sublicensing would be procompetitive rather than anticompetitive because it would allow the operating companies to search for competitive prices providing an "effective counterbalance to AT&T's market strength."114

In the absence of monopoly power and concentration of market shares, patent pools do not violate the antitrust laws.115 However, if the pooling patent owners effectively dominate an industry, the power to fix and maintain royalties is tantamount to the power to fix prices,116 and they must exercise caution in drafting the cross-licenses and imposing license restrictions on nonmembers of the pool. In Kobe, Inc. v.

112. Id. at 1085-86.
113. Id. at 1086.
114. Id. at 1088.
Dempsey Pump Co.,\textsuperscript{117} an infringement suit, more than 70 patents were acquired and pooled by the plaintiffs. They had a complete monopoly of the business relating to hydraulic pumps for oil wells, and in fact, provided in the pooling agreement that its purpose was to acquire patents relating to hydraulic pumps and to do everything reasonably within its power to "build up and maintain its patent monopoly."\textsuperscript{118} Every important patent relating to hydraulic oil well pumps found its way into the pool, even though never used.\textsuperscript{119} The court awarded the defendants treble damages on their cross-complaint for violation of Section One and Two of the Sherman Act.\textsuperscript{120}

Where the patent pooling arrangement constitutes a basis for an allegation of an attempt or a conspiracy to monopolize, the courts look to the activities of the interchanges for evidence of intent underlying the formation of the agreement.\textsuperscript{121} In the absence of restrictive practices, the courts will likely find a lack of improper intent.\textsuperscript{122}

One would expect that large concentrations of patent monopoly power into pools would precipitate suspicion on the part of a court faced with Sherman Act attacks on such pools. Unless adequate reasons for the pool can be advanced, the tremendous leverage available to owners of the pool cannot be defended where the owners have some dominance in the relevant market. To pyramid patent upon patent is to invite Sherman Act allegations whenever the patent owners seek to enforce them against infringers. The wisest path is to license all applicants, charging reasonable royalties and keeping the license restrictions to a minimum. An alternative would be

\begin{enumerate}
\item \textsuperscript{117} 198 F.2d 416 (10th Cir.), \textit{cert. denied}, 344 U.S. 837 (1952).
\item \textsuperscript{118} \textit{Id.} at 420.
\item \textsuperscript{119} \textit{Id.} at 423.
\item \textsuperscript{120} \textit{Id.} at 424-25.
\item \textsuperscript{122} \textit{See} Cutter Laboratories v. Lyophile-Cryochem Corp., 179 F.2d 80, 83 (9th Cir. 1949) (where patent pooling is an alleged attempt or conspiracy to monopolize, a specific intent must be shown). \textit{See also} Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc., 694 F.2d 570 (9th Cir. 1982), \textit{cert. denied}, 104 S. Ct. 78 (1983), where it was recognized that a basic patent may block an improvement patent, and therefore, the exchange of blocking patents is a reasonable purpose for a pooling agreement.
\end{enumerate}
selective cross-licensing between patent owners, as necessary, and avoidance of a large pooling arrangement.

C. Blanket Licensing

Closely related to pooling is the practice of blanket licensing, in which the licensee is required to accept licenses for a package of patents, even though there may be a desire to obtain licenses for only certain individual patents. This practice received the approval of the Supreme Court in *Automatic Radio Manufacturing v. Hazeltine Research, Inc.*,\(^{123}\) a case in which a nonexclusive patent license agreement covered a group of 570 patents and 200 patent applications. The Court held that there was no patent misuse,\(^{124}\) carefully noting that the lower court had sustained the agreement as a convenient mode of operation in a situation where the licensee wished to avoid the necessity of determining whether each type of its product embodied any of the numerous patents licensed.\(^{125}\)

Although dealing with an allegation of price-fixing under Section One of the Sherman Act, the Supreme Court's deci-

125. *Automatic Radio*, 339 U.S. at 833. Automatic Radio, a manufacturer of broadcasting receivers, had entered into an agreement with Hazeltine Research, a radio research organization, that did not manufacture but merely licensed its patents. The agreement allowed Automatic Radio to use any of Hazeltine's 570 patents in the manufacture of its home products. Royalties were based upon a small percentage of Automatic Radio's selling price of complete radio broadcasting receivers, whether they used the patents or not. *Id.* at 829. The major contention asserted by Automatic Radio was that because the agreement called for royalties to be based upon its total sales of complete radio broadcasting receivers, patent misuse occurred because royalties were paid for products not using the patents. Automatic Radio argued that this agreement was identical in principle to a tying agreement whereby the sale of a patented product is conditioned upon the purchase of an unpatented product. *Id.* at 830-32. The Court dismissed this contention because the evil in tying cases—the extension of a monopoly of the patent to create another monopoly—is not present in this case: "This royalty provision does not create another monopoly; it creates no restraint of competition beyond the legitimate grant of the patent. The right to a patent includes the right to market the use of the patent at a reasonable return." *Id.* at 832-33. The Court carefully pointed out that the record did not present the question whether the blanket license
sion in *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*\(^{126}\) is also important in confirming the legality of blanket licensing. In *Broadcast Music*, the Court held that ASCAP's granting of a blanket license for copyright musical compositions to CBS was not a per se violation of Section One.\(^{127}\) Blanket copyright licenses and blanket patent licenses are analogous.\(^{128}\) On remand, the court of appeals determined that the blanket licenses did not restrain trade in violation of Section One under the rule of reason test because licenses for individual compositions were fully available from the individual composers.\(^{129}\) The blanket license merely provided a flexible, cost-efficient alternative to individual negotiations with each seller.\(^{130}\)

Thus, courts will uphold a blanket licensing agreement as long as individual licensing was an available alternative. Courts will find patent misuse if there is any evidence that the licensor conditioned or coerced the licensee to accept the terms of the agreement.\(^{131}\) To determine if there was such

\(^{126}\) See *Broadcast Music*, 441 U.S. at 20 (Stevens, J., dissenting).

\(^{127}\) See *CBS v. Columbia Broadcasting System, Inc.*, 395 U.S. 1 (1969). The Supreme Court held that conditioning the grant of a patent license upon the payment of royalties on products which do not use the patent amounts to patent misuse. However, as the Court explained, "[i]f convenience of the parties rather than patent power dictates the total-sales royalty provision, there are no misuse of the patents. . . ." This was precisely the situation in *Automatic Radio: the percentage royalty was an acceptable alternative to a lump-sum payment for the privilege to use the patents. The Zenith Court warned that misuse occurs when the patent owner insists on a percentage-of-sales royalty, regardless of use, and rejects the licensee's offer to pay only for use.


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conditioning or coercion, a court will look to whether the license condition was a result of good faith bargaining between the parties or was imposed on the licensee by the patent holder and whether the licensee raised objections that were overridden by the licensor.  

IV. GRANT-BACK PROVISIONS IN LICENSES

A grant-back provision in a patent license agreement requires the licensee to assign any discoveries or improvements back to the licensor. Usually the grant-back provision is limited to the time period of the license. With the inclusion of this provision in the patent license agreement, the licensor's hold is strengthened on the technology in the field and the licensee is further subordinated. Grant-back provisions have been defended upon the tenuous ground that without such provisions, the patent owner's position will be weakened once an improvement patent is granted. In the absence of a grant-back provision the patent owner would be deprived of access to those inventions that naturally flow from practicing the original invention. This argument may or may not have validity, depending upon the extent to which the licensed invention is a major advance in the art.

In Transparent-Wrap Machine Corp. v. Stokes & Smith, the Supreme Court held that the inclusion in a patent license of a provision requiring the licensee to assign improvement patents back to the licensor is not, in and of itself, illegal and unenforceable. This case has stood for much more in the view of the patent bar. Justice Douglas, never one to admit to

Kodak had never imposed such a condition. Furthermore, the court dismissed the claim by GAF that it was coerced into accepting the patent package due to Kodak's economic power and possession of numerous patents because GAF never protested the terms of the agreement nor produced evidence that demands for something less than the package would have been rejected. Id. at 1237.

133. Id. at 648. The Court said that such a provision is not per se illegal and unenforceable. This suggests that the illegality of the grant-back provision was being considered under Section One of the Sherman Act. The case, however, was not brought under Section One but involved a declaratory judgment for determining the legality and enforceability of the provision. The Court never mentioned Section One specifically but only spoke of the antitrust laws in general. In addition, the Court rejected the court of
the value of the United States patent system, served the following caveat in the majority opinion:

Conceivably the (grant-back) device could be employed with the purpose or effect of violating the anti-trust laws. He who acquires two patents acquires a double monopoly. As patents are added to patents a whole industry may be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and an industrial monopoly perfected and maintained. Through the use of patent pools or multiple licensing agreements the fruits of invention of an entire industry might be systematically funneled into the hands of the original patentee.\textsuperscript{135}

Justice Douglas may have had the \textit{Hartford-Empire} case in mind when he described the wretched state of affairs to which an entire industry might degenerate if a single grant-back provision was allowed to exist unchecked.\textsuperscript{136} That the grant-back device might serve some useful and legitimate purpose was implicit in the holding of the \textit{Transparent-Wrap} case, if not in the tenor of the quoted passage. In any event, \textit{Transparent-Wrap} is at once both a precedent for appropriate employment of the grant-back and a warning as to the consequences of misuse.

\textit{Transparent-Wrap} and subsequent decisions do offer some guidelines for drafting grant-back provisions in patent licensing agreements. The courts have employed a standard of overall reasonableness that has focused on several relevant factors. One of the most important factors identified by the courts is the market position of the licensor imposing the restriction. Grant-backs imposed by dominant firms are especially vulnerable to antitrust or patent misuse challenges if they tend to further entrench the patentee's existing market dominance.\textsuperscript{137} Another factor is whether there is an evidence

\begin{footnotes}
\footnote{appeals' contention that a grant-back provision would allow the patent owner to extend the patent monopoly into unpatented areas, a clear Section Two violation. \textit{Id.} at 644.}
\footnote{\textit{Id.} at 646-47 (footnotes omitted).}
\footnote{See \textit{id.} at 648. See also supra notes 102-04 and accompanying text.}
\footnote{This would clearly be a Section Two violation. See \textit{United States v. General Elec. Co.}, 82 F. Supp. 753, 815-16 (D.N.J. 1949). See also \textit{Westgo Indus., Inc. v. W.J. King Co.}, 213 U.S.P.Q. (BNA) 416 (D.N.D. 1981); \textit{Van Dyk Research Corp. v. Xerox Corp.} 478 F. Supp. 1268, 1324-25 (D.N.J. 1979) (the court found that the use of the grant-back provisions were not violative of the antitrust laws even though such use
}
of the misuse of the grant-back provisions to facilitate illegal cartel behavior. A third factor concerns whether the grant-back provisions provide a possible disincentive effect of the arrangement upon the licensee's innovative activity. Fourth is the factor of to what extent the licensee and other firms have been foreclosed from use of the technology subject to the grant-back. Within this factor is the concern of the scope of the particular restriction and the duration of the restriction.

V. FRAUD IN THE PROCUREMENT OF THE PATENT GRANT

In *Walker Process Equip. Inc. v. Food Mach. & Chem. Corp.*, the Supreme Court held that the maintenance and enforcement of a patent obtained by fraud on the Patent and Trademark Office may be the basis of an action under Section Two of the Sherman Act, and, therefore, may be subject to a treble damages claim by an injured party under Section Four of the Clayton Act. It was alleged that the patentee had

aided Xerox in achieving monopoly power because the grant-back provisions were not implemented to maintain dominance but were intended to protect the patent owner against the competition copying of its products and to insure that it would not be blocked from the use of inventions which might prove useful in the future). *See supra text accompanying note 136.*


142. *See Associated Patents, 134 F. Supp. at 83. But see Santa Fe, 569 F.2d at 1099; Old Dominion Box Co., 273 F. Supp. 550.*

143. 382 U.S. 172 (1965).

144. *Id. at 174; Clayton Act, 15 U.S.C. § 4 (1914). Prior to the decision in Walker Process, fraudulent procurement of a patent had never been recognized as the basis for
knowingly and willfully misrepresented facts to the Patent Office. The Court held that this would be sufficient to strip the patentee of its exemption from the antitrust laws.\textsuperscript{145}

Fraud on the Patent and Trademark Office is established when the applicant fails to disclose a fact material to the application.\textsuperscript{146} A material fact is one in which there is a substantial likelihood that a reasonable examiner would consider important enough to affect the issuance of the patent.\textsuperscript{147} The court in \textit{Pfizer, Inc. v. International Rectifier Corp.},\textsuperscript{148} explained that false statements or omissions are material, and thus fraudulent, when such statements or omissions were a "substantial cause" or a "crucial factor" in obtaining the patent.\textsuperscript{149}

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\textsuperscript{145} \textit{Walker Process}, 382 U.S. at 177. Fraud on the Patent Office requires a showing of clear, unequivocal, and convincing evidence of intentional misrepresentation or withholding of material fact. Mere evidence of simple negligence, or oversight or erroneous judgment made in good faith not to disclose prior art, is not sufficient to render a patent unenforceable. \textit{Orthopedic Equip. Co. v. All Orthopedic Appliances, Inc.}, 217 U.S.P.Q. (BNA) 1281 (Fed. Cir. 1983). \textit{See also} \textit{Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc.}, 694 F.2d 570 (9th Cir. 1982) (fraud requires an element of subjective culpability in the form of bad faith or at least gross negligence, and proof of that element must be clear and convincing); \textit{United States v. Pfizer, Inc.}, 216 U.S.P.Q. (BNA) 1056 (3d Cir. 1982) (government must prove that the applicant had a specific intent to defraud the Patent Office).


\textsuperscript{147} \textit{Kimberly-Clark}, 219 U.S.P.Q. at 218.

\textsuperscript{148} 217 U.S.P.Q. (BNA) 39 (9th Cir. 1982).

\textsuperscript{149} \textit{Id.} at 40-41. The court further explained that "[t]he proper focus in determining the materiality of information misrepresented to or withheld from the patent office is on the effect of the misrepresentation or withholding upon the subjective considerations of the patent examiner." \textit{Id.} at 41 (emphasis in original). The importance of disclosure was stressed in \textit{United States Indus. Inc. v. Norton Co.}, 210 U.S.P.Q. (BNA) 94 (N.D.N.Y. 1980):

[A] relationship of trust exists between the applicant and the Patent Office. (citation omitted). The trust relationship is essential to a workable patent system because the Patent Office is compelled to rely on the applicants for disclosure of many of the facts upon which its decision are based. (citation omitted). Conse-
However, fraudulent procurement, and enforcing or attempting to enforce the resulting patent, is not a per se violation of the antitrust laws. There is no violation of Section Two of the Sherman Act unless the attempted enforcement substantially restrains trade in the relevant market.

To violate Section Two, it must be shown, in a fraudulent procurement case, that the patentee had a sufficient share of the relevant market to achieve monopolization or that there was an adequate probability of a successful attempt. In United States Industries, Inc. v. Norton Co., the patentee had failed to disclose pertinent prior art during the procurement of the patent, although the art was well-known to the patent attorney. The court held that there was fraud in the procurement, but Section Two was not violated because there was no showing of sufficient market power.

A firm with substantial monopoly power in a relevant market must be extremely careful, in applying for a patent, to disclose all material facts to the Patent Office. Once a firm has substantial monopoly power in a relevant market, almost any type of conduct to maintain that monopoly power, even if well within the bounds of the law, may result in a Section Two violation. A fraudulent procurement of a patent by a firm that already possesses a stable of patents relating to a specific

quently, the highest standards of honesty, good faith and candor by the applicants is required.

Id. at 107.

150. Walker Process, 382 U.S. at 177-78.

151. Christen Inc. v. BNS Indus., Inc., 216 U.S.P.Q. (BNA) 928, 930 (S.D.N.Y. 1981). The Christen court quoted the Supreme Court in Walker Process: To establish monopolization or attempt to monopolize a part of trade or commerce under Sec. 2 of the Sherman Act, it would then be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved. With-out a definition of that market there is no way to measure Food Machinery's ability to lessen or destroy competition. It may be that the device - knee-action swing diffusers - used in sewage treatment systems does not compromise a relevant market. There may be effective substitutes for the device which do not infringe the patent.

Christen, 216 U.S.P.Q. at 930. See also Smith, supra note 144, at 425-31.


153. Id.

154. Id. at 117-18.

155. See supra notes 7, 28 and accompanying text.
process or industry, may itself be enough to invite litigation under Section Two.

The requirement that the patent applicant disclose all known pertinent art during the prosecution of the application before the Patent and Trademark Office thus imposes a substantial burden upon the patent attorney when the owner of the application controls a dominant share of the market. The danger of a future claim under Section Two and possible treble damages loom on the horizon. Even without the possibility that all elements of a Section Two violation can be proven, the equitable remedies that attend fraudulent procurement are substantial.

VI. CONCLUSION

Section Two of the Sherman Act, the antimonopolization statute, stands in polar opposition to the monopoly granted by the Patent Act. The latter is an exception to the former and is, therefore, in many instances narrowly construed. Complicating this, the patent grant carries with it certain ancillary rights that are necessary to protect the reward guaranteed by the Patent Act. It is in the aggressive extension of these ancillary rights that the patent owner frequently transgresses the Sherman Act.

Patent licensing must be permitted if the patent owner is to fully realize the profit attainable by the patent. Direct exploitation of the patent by the owner may not be possible. Thus, to fully benefit the public during the patent term, licensing may be the only feasible alternative. It is through licensing restrictions and other conditions that Section Two of the Sherman Act may be transgressed.

156. This burden is equally as burdensome on foreign attorneys. In Gemveto Jewelry Co. v. Lambert Bros., Inc., 542 F. Supp. 933 (S.D.N.Y. 1982), the court held that a foreign attorney's failure to disclosure prior art to local counsel causes invalidation of the client's U.S. patent for fraud: "Foreign patent attorneys representing applicants for U.S. patents through local correspondent firms surely must be held to the same standards of conduct which apply to their American counterparts . . . ." Id. at 943.

157. See, e.g., CMI Corp. v. Barber-Greene Co., 217 U.S.P.Q. 456 (7th Cir. 1982) (patentee's failure to disclose prior art items that were more relevant than the cited art constitutes fraud and justifies an award of attorney's fees under "exceptional case provision of 35 U.S.C. § 285").
In order to determine whether a Section Two violation exists, the relevant product market and geographical market must be identified. Monopoly power in each of these markets is the power to affect prices or exclude competition, whether the power is exercised or not. The patented invention itself could constitute a relevant market or, at the very least, be a pivotal factor in describing the relevant market in monopolization under Section Two. Where there is a specific intent to achieve that power, overt conduct violates Section Two, even if such power has not yet been acquired.

Patent licensing practices which carve out exclusive geographical territories or isolate individual fields of use may violate Section Two when they are used to maintain a monopoly. The monopoly may be that of the patent owner or a licensee. In an oligopolistic market the monopoly will be shared but creative licensing techniques are still sometimes used to preserve the dominance of the firms in control and to restrain further competition.

Patent accumulation and pooling offer additional opportunities for the monopolist to maintain its competitive position. While accumulated and licensed patents do not in themselves constitute an earmark of antitrust violation, it is a key factor in finding a violation.

In sum, the possession and use of the patent grant in the hands of the business competitor who dominates a relevant market must be exercised with an extraordinary degree of care. The limitations imposed by the Sherman Act are strict, and the sanctions for exceeding those limitations are strict.