

SCHEIBER V. DOLBY LABORATORIES, INC.

By Kelly Hershey

Peter Scheiber, inventor of the “surround sound” stereo technology, agreed to license use of his patents to Dolby Laboratories, Inc., at a low royalty rate over a long period of time, rather than a higher rate for a shorter period of time. Even though this entailed royalty payments extending beyond expiration of some of the licensed patents, Dolby suggested this arrangement in hopes of passing the more palatable royalty rate along to its customers. However, Dolby later refused to pay the royalties on patents that expired. In *Scheiber v. Dolby Laboratories, Inc.*,¹ the Seventh Circuit held that the patent licensing contract, spreading Dolby’s cheaper royalty payments over a period extending beyond the term of some of Scheiber’s patents, constituted patent misuse,² following *Brulotte v. Thys Co.*³

Despite its own holding, the *Scheiber* opinion invited the Supreme Court to overturn their prior controlling precedent by repeating an argument made in the *Brulotte* dissent, as well as subsequent lower court opinions and law review articles. In *Scheiber*, Judge Posner opined that the *Brulotte* holding was based not on patent law, but on “a free-floating product of a misplaced fear of monopoly . . . that was not even tied to one of the antitrust statutes.”⁴

Scheiber highlights the tension at the interface of our patent and anti-trust laws. The patent system grants monopoly rights of limited duration to inventors,⁵ whereas the antitrust laws define and regulate illegal monopolies. The limit on the duration of the monopoly right under the patent is fundamental to the compromise between the goal of providing economic incentives for inventors to invent and the social desire to have useful inventions accessible to the people. Though the patent and antitrust laws are in some tension based on the limited monopoly right vested in a patentee,

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1. 293 F.3d 1014 (7th Cir. 2002).

2. *Scheiber*, 293 F.3d at 1016.

3. 379 U.S. 29, 33-34 (1964) (holding that post-expiration royalty payments are per se illegal extensions of the patent monopoly).

4. *Scheiber*, 293 F.3d at 1018.

5. The power to regulate the patent system stems from the Constitution: “The Congress shall have the power . . . to promote the Progress of Science and useful Arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” U.S. CONST. art. I, § 8, cl. 8.

the ultimate goal of each is to increase the long-term economic welfare of the public.

This Note examines the arguments raised in *Scheiber*, and evaluates the strength of the *Brulotte* precedent in the context of recent changes in patent law and antitrust enforcement guidelines. Part I discusses the complexity of the interplay between patent and antitrust laws, including a summary of how this complexity played out in *Brulotte*. Part II describes the *Scheiber* holding. Part III analyzes *Brulotte* in the contemporary context, and ultimately concludes that the per se rule against post-expiration royalties should be replaced with a rule of reason approach.

I. BACKGROUND

A. The Interface Between Patent and Antitrust Laws

Because the patent system grants a monopoly right to inventors,⁶ it is potentially in tension with antitrust laws. The act of possessing a monopoly is not inherently unlawful;⁷ however the Sherman Act outlaws monopolies gained through anticompetitive practices, and monopolists with market power who engage in anticompetitive activities designed to expand that power.⁸ Achieving a monopoly through a patent is not unlawfully anticompetitive, but some uses of the patent monopoly may constitute improper expansions of that monopoly power.

Despite seemingly opposite approaches, the antitrust and patent laws have the common goal of increasing the economic welfare of the public.⁹ The limited monopoly granted to the patentee is envisioned as promoting the long-term competitiveness of innovation in the market. The patent system encourages investment in the creation of a good that otherwise would not be on the market by allowing monopoly control for a period of years. Antitrust analyses compare consumer welfare under monopoly control versus competitive conditions. Thus, the patent and antitrust laws handle

6. *Id.*

7. *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 432 (2d Cir. 1945).

8. The Sherman Act provides: "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." 15 U.S.C. § 2 (2000). A firm that can raise prices above competitive levels without losing customers to competitors in the relevant market is deemed to have a monopoly. ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 1102-03 (2d ed. 2000).

9. See PHILLIP AREEDA & LOUIS KAPLOW, *ANTITRUST ANALYSIS* 415 (5th ed. 1997) ("The two regimes are in substantial harmony. Both ultimately seek to benefit the public—one through technological progress and the other through competition.").

two different market phases, so to speak: patent law facilitates entry of new products into the market, and antitrust law advocates a competitive environment for production of a good once the inventor has been sufficiently rewarded for her invention.

It can be challenging for the courts to maintain the balance between patent and antitrust laws. Neither patent nor antitrust laws wholly “trump” one another—despite the monopoly right conferred to the patentee, the patentee does not have the right to violate antitrust laws.¹⁰ For example, antitrust laws limit the patentee’s power to license under certain conditions.¹¹

Professor Kaplow has noted:

Most formulations that seek to mediate the patent-antitrust conflict begin by asking whether the restrictive practice in question results in excessive profits to the patentee or merely permits the patentee to realize part of the reward appropriate to the patent. Thus, although the premise has never been fully explicit, courts and commentators appear to have thought that patent-antitrust doctrine should be determined by reference to a specific level of aggregate reward.¹²

As determination of the appropriate level of aggregate reward is challenging, it is difficult for the courts to evaluate whether a given practice, questionable under antitrust law, should be allowed as a reasonable reward to a patentee.

B. Patent Misuse

The patent misuse doctrine was developed to regulate the intersection of the patent and antitrust laws. Under this equitable defense, a court may refuse to enforce a licensing term if, though the restriction itself may not violate antitrust law, it draws “anticompetitive strength from the patent right, and thus [is] deemed to be contrary to public policy.”¹³ The patent misuse doctrine tries to limit two basic behaviors: (1) expansion of patent rights beyond their statutorily granted scope, and (2) use of the patent to

10. *See, e.g.,* United States v. Line Material Co., 333 U.S. 287, 308 (1948) (noting that it is “well settled that the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly.”).

11. AREEDA & KAPLOW, *supra* note 9, at 417. *See also infra* Part II.C.

12. Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813, 1818 (1984).

13. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992).

undermine competition.¹⁴ These limitations are important in maintaining the “integrity of the patent system.”¹⁵

Patent misuse is inextricably linked to antitrust law, and draws heavily on its philosophy. Behaviors constituting patent misuse often violate antitrust laws as well.¹⁶ Alternatively, a finding of an antitrust violation has in many cases been grounds for a patent misuse holding.¹⁷ However, the two doctrines are not coextensive. Patent misuse may penalize conduct falling short of an antitrust violation; therefore, the analyses are not interchangeable.¹⁸ Not every element of an antitrust violation is required for a finding of patent misuse. For instance, a party alleging patent misuse need not have standing based on a showing of personal harm, whereas a party bringing an antitrust suit must.¹⁹

It is difficult for a patentee to know which behaviors patent misuse will punish that antitrust law will not. Under patent misuse analysis, practices may (1) be *per se* legal, (2) require balancing of their pro-competitive benefits and anticompetitive potential under the rule of reason rubric, or (3) be *per se* illegal. The Supreme Court has held that under the rule of reason,

the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature and effect.²⁰

Where the behavior is within the scope of the patent grant, and not unreasonably anticompetitive, the behavior does not constitute patent misuse.²¹

Patent licensing terms are often at issue in patent misuse cases. A patentee has the right to grant an exclusive or non-exclusive license to practice her invention.²² Licensing is generally considered pro-competitive, as

14. HERBERT HOVENKAMP ET AL., *INTELLECTUAL PROPERTY & ANTITRUST* 3-7 (2002).

15. *Id.* at 3-8.

16. *Id.* at 3-2.

17. *Id.*

18. *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 512 (1982) (noting that “one still finds plenty of statements in judicial opinions that less evidence of anticompetitive effect is required in a misuse case than in an antitrust case”).

19. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 494 (1942).

20. *State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997) (citing *Arizona v. Maricopa County Med. Soc.*, 457 U.S. 332, 343 & n.13 (1982)).

21. *Mallinckrodt*, 976 F.2d at 706.

22. 35 U.S.C. § 261 (2000).

it affords some competition in producing an otherwise exclusive product. However, certain conditions attached by the patentee to the licensing agreements may constitute patent misuse. Part I.C *infra* discusses patent misuse in the context of patent licensing.

Per se legal licensing practices include non-use of, and refusal to license, the patented technology.²³ Questionable practices include tying where the patentee does not have market power in the tying product's market,²⁴ package licenses and non-metered royalties, grantback clauses, field-of-use restrictions, horizontal arrangements (including patent pools and cross licenses), and price discrimination.²⁵ Per se illegal behaviors include most price-fixing, tying arrangements where the patentee has market power in the tying product market (here, the tying product is the patented product), and arrangements involving post-patent expiration royalties.²⁶

C. Tying and the Presumption of Market Power in the Patentee

"Tying is by far the most common basis for a patent misuse allegation."²⁷ In the patent licensing arena, tying occurs when a patentee licenses one product (the "tying product") contingent upon the licensing of another product (the "tied product"). There are many tying scenarios: tying can occur with patented or unpatented products; the tied product can be for use with or without the tying product; the licensor may or may not have market power in the tying or tied product market; and the licensee may or may not want the tied product.²⁸

When a patentee has market power in the tying product (the patented product), economists are leery, because traditional leveraging theory suggests that the patentee's market power in the tying product may be used to improperly increase, or "leverage," her patent monopoly power in the market of the tied product.²⁹ Such leveraging would disrupt the natural flow of competition otherwise prevailing in the tied product market, potentially leading to decreased consumer welfare.

23. 35 U.S.C. § 271(d)(4) (2000) (instructing courts not to withhold remedies for patent infringement because a patentee has "refused to license or use any rights to the patent").

24. For an explanation of tying terms, see *infra* Part I.C.

25. HOVENKAMP ET AL., *supra* note 14, at 3-12 to 3-34.

26. *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964); *Va. Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 869 (1997).

27. HOVENKAMP ET AL., *supra* note 14, at 3-12.

28. AREEDA & KAPLOW, *supra* note 9, at 686.

29. Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515, 515 (1985).

The validity of the notion that tying allows one to “leverage” her way into a new market has been a subject of heated debate. The “Chicago School” view of tying is that a monopolist has a fixed amount of power, and the way in which that power is expended will usually not change the fixed amount of power gained through the tying product.³⁰ Indeed, Judge Posner argues, in *Scheiber*, that “the idea that you can use tying to lever your way to a second . . . monopoly is economic nonsense.”³¹ Nonetheless, when a patentee has market power in the patented-product market, tying remains per se patent misuse.

Tying is at heart an antitrust inquiry. To establish per se unlawful tying under the Sherman Act, it must be shown that: (1) the tying and tied products are distinct; (2) purchase of the tying product is contingent upon purchase of the tied product; (3) the tying product's market power appreciably restrains free competition in the tied product's market; and (4) a “not insubstantial” amount of commerce in the tied product is affected.³²

As for factor three, the Court has reasoned that a patent holder is inherently a monopolist in the patented-product market, as the patent gives the patentee the right to exclude others from practicing her invention.³³ This reasoning results in a presumption of the patentee's market power in the patented product. The judicially created presumption of market power has been criticized almost unanimously by commentators,³⁴ partly because, “[m]ost patents cover . . . products which are only a small subset of a product market Only where an innovation creates an entirely new market, or represents a quantum advance in an old one, is the patent likely to confer an economic monopoly.”³⁵ In line with this criticism some district courts, as well as the Court of Appeals for the Federal Circuit, which has exclusive appellate jurisdiction over patent cases,³⁶ have hesitated to presume a patentee's market power in their patented-product markets.

30. *Id.* at 515-18 (1985) (describing the Chicago School position).

31. *Scheiber v. Dolby Labs. Licensing Corp.*, 293 F.3d 1014, 1020 (7th Cir. 2002). For a rebuttal to the argument that leveraging theory is dead, see Louis Kaplow, *supra* note 29.

32. *See* *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958).

33. *See, e.g., United States v. Loew's, Inc.*, 371 U.S. 38, 45-46 (1962) (“The requisite economic power is presumed when the tying product is patented or copyrighted. This principle grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent.”) (citations omitted).

34. *See, e.g., MERGES ET AL.*, *supra* note 8, at 1111.

35. *Id.* at 1110.

36. *See, e.g., Abbot Labs. v. Brennan*, 952 F.2d 1346, 1354-55 (Fed. Cir. 1991) (noting that “a patent does not of itself establish a presumption of market power in the

Additionally, a 1988 amendment to 35 U.S.C. § 271(d) requires market power in the tying market before patent misuse can be used as a defense in a patent infringement case. Section 271(d) now provides:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . . (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, *unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.*³⁷

By requiring exploration into the facts to see whether the patentee has market power, the amendment implicitly overrules the presumption of a patentee's market power in the patented product.

Another powerful recent move away from the presumption of market power is in the 1995 United States Antitrust Guidelines for the Licensing and Acquisition of Intellectual Property. These guidelines were issued jointly by the Federal Trade Commission and the Antitrust Division of the Department of Justice, the enforcers of the antitrust laws. The guidelines provide:

The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the *specific* product . . . there will often be sufficient . . . close substitutes for such product . . . to prevent the exercise of market power.³⁸

The patent misuse doctrine is based in large part on concerns about anticompetitive powers arising out of rights conferred on a patentee by virtue of her patent. The analysis of anticompetitive behavior is primarily

antitrust sense"), *cert denied*, 505 U.S. 1205 (1992); *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986) (holding that "we reject any absolute presumption of market power for copyright or patented product"); *Mitsubishi Elec. Corp. v. IMS Tech. Inc.*, No. 96 C 499, 1997 U.S. Dist. LEXIS 15350, at *16 (N.D. Ill. Sept. 29, 1997) (holding that "a patent is not sufficient, by itself, to indicate market power").

37. 35 U.S.C. § 271(d)(5) (2000) (emphasis added).

38. *Antitrust Guidelines for the Licensing of Intellectual Property*, at 4, available at <http://www.usdoj.gov/atr/public/guidelines/ipguide.pdf> (Apr. 6, 1995).

an antitrust analysis. If those enforcing the antitrust laws do not consider tying, where the patentee does not have market power, inherently anti-competitive, then it makes sense that the patent misuse analysis also should not consider such behavior inherently anticompetitive.

If a tying arrangement is not per se illegal, antitrust law requires application of the rule of reason test to determine whether the arrangement is an unreasonable restraint on competition.³⁹ As noted earlier, the patent misuse doctrine is based in large part on concerns about a patentee's use of her patent to undermine competition.⁴⁰ Therefore, the central inquiry should be whether competitors are foreclosed from the market due to tying arrangements. In the rule of reason analysis, the pro-competitive benefits are compared with anticompetitive harms, to determine whether or not to preclude the behavior.⁴¹ In *Brulotte*, the Court fielded the complex interface between antitrust principles and patent rights.

D. *Brulotte v. Thys Co.*

In *Brulotte*, relying on a tying analogy, the Court held that post-expiration royalties accruing, for post-expiration use of a patent, expanded the monopoly power of the patentee beyond that rightfully conveyed by the patent; thus, the royalty provision was per se illegal.⁴²

Brulotte sold a number of hop-picking machines to the defendants, and licensed their use. The license included a fixed royalty payment per season of use. The term of the license was not limited to the terms of the patents, thus payment of the royalties would extend beyond the expiration of all seven patents incorporated in the invention, if the licensee continued to use the machines after the patents expired. The United States Supreme Court rejected the lower court's finding that the extended period was merely "a reasonable amount of time over which to spread the payments for the use of the patent,"⁴³ holding instead that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se."⁴⁴ The Court noted that the purchase price for the machines was a flat sum, and there was no difference in the amount of per-season royalty payments or other constraints in the licensing agreement

39. See 10 PHILLIP E. AREEDA ET AL., ANTITRUST LAW ¶ 1741b (1996); See also, e.g., HOVENKAMP ET AL., *supra* note 14, at 3-10 to 3-11.

40. See *supra* note 14 and accompanying text.

41. HOVENKAMP ET AL., *supra* note 14, at 3-11.

42. *Brulotte v. Thys Co.*, 379 U.S. 29, 31 (1964).

43. *Id.* at 32. (quoting *Thys Co. v. Brulotte*, 62 Wash. 2d 284, 291 (1963)).

44. *Id.* at 32.

before, relative to after, expiration of the patents at issue.⁴⁵ It held that a license agreement term that “allows royalties to be collected which accrued after the last of the patents . . . [has] expired” is illegal.⁴⁶ The Court reasoned that “[t]he royalty payments due for the post-expiration period [were] by their terms for use during that period, and [were] not deferred payments for use during the pre-expiration period.”⁴⁷ Though *Brulotte* did not reference the patent misuse doctrine, post-expiration royalties have been “accepted into the canon of patent misuse.”⁴⁸

Importantly, in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, the Court noted that in *Brulotte* it “[r]ecogniz[ed] that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time.”⁴⁹ Thus, according to the Court, they held in *Brulotte* that to continue extracting royalties based on use of the patented technology after the patent’s expiration was a per se illegal extension of the patent monopoly, but not that the patentee was prohibited from collecting money from its licensees after expiration of the patent.

The *Brulotte* Court relied primarily on a tying analogy for its holding,⁵⁰ but did not elaborate on or explain the analogy. Presumably the extended royalty payment expanded the patentee’s monopoly power beyond the monopoly period (the “tying product”) to a post-expiration market (the “tied product”), where the patentee otherwise could not exert power.⁵¹

II. CASE SUMMARY

Peter Scheiber licensed to Dolby the rights under a number of patents claiming the “surround sound” technology, as part of a settlement agreement resulting from a prior infringement suit. In negotiating the royalty rate, Dolby suggested that in exchange for a lower royalty rate, it would rather pay royalties on all licensed patents until the expiration of the last patent. In this way Dolby could pass the lower royalty expense to its sublicensees. Scheiber accepted this arrangement,⁵² and Dolby subsequently refused to pay royalties on patents that had expired, precipitating this suit.

45. *Id.* at 31-32.

46. *Id.* at 30, 33-34.

47. *Id.* at 31.

48. HOVENKAMP ET AL., *supra* note 14, at 3-24.

49. 395 U.S. 100, 136 (1969).

50. *Brulotte*, 379 U.S. at 33.

51. See discussion *infra* Part III.

52. *Scheiber v. Dolby Labs. Licensing Corp.*, 293 F.3d 1014, 1016 (7th Cir. 2002).

Relying on *Brulotte*, the trial court granted summary judgment to Dolby. Scheiber appealed to the Seventh Circuit.

Judge Posner upheld the trial court's summary judgment against Scheiber under the *Brulotte* precedent, describing *Brulotte* as "indistinguishable" from the case at issue.⁵³ As *Brulotte* had been neither explicitly nor implicitly overruled, he noted that the Seventh Circuit could not disregard a Supreme Court decision "no matter how dubious its reasoning."⁵⁴ Posner argued, however, that post-expiration royalty payments did not extend the patent term, as the patentee no longer had the right to exclude others from making or using the product, and therefore logically should not be held as patent misuse.⁵⁵ "[I]t is a detail whether [the patentee] extracts [royalties] at a higher rate over a shorter period of time or a lower rate over a longer period of time."⁵⁶

Judge Posner also questioned the logic of *Brulotte's* reasoning. *Brulotte* either assumed that the parties were not aware of the effect of a patent's expiration, thereby rendering them incapable of valuing this factor in negotiations for licensing terms, or that they had unequal bargaining power. Judge Posner was more inclined to consider the parties sufficiently sophisticated to incorporate knowledge of expiration of the patent(s) at issue into negotiations surrounding the licensing agreement.⁵⁷

53. *Id.* at 1017.

54. *Id.* at 1018.

55. *Id.* At 1017

56. *Id.*

57. Judge Posner rejected Scheiber's reliance on the amendment to § 271(d), *see supra* Part II.C., as a defense to patent misuse in licensing cases because the statute on its face applies only to infringement claims, rather than breaches of patent licensing contracts. *Scheiber*, 293 F.3d at 1019-20.

Judge Posner also rejected Scheiber's attempted use of the "unclean hands" defense against Dolby's patent misuse counterclaim. Scheiber argued that, since it had been Dolby's idea to have the longer-term, lower royalty rate, Dolby should not be allowed to claim patent misuse based on this term. *Id.* at 1021. Judge Posner reasoned that to allow the unclean hands defense would undermine the policy of the patent misuse doctrine. *Id.* at 1022.

Interestingly, Judge Posner offered an alternative theory of the case under which he proposed that the plaintiff might have recovered the post-expiration royalties: contract restitution. *Id.* at 1022-23. Though it is an appealing solution under contract law, it seems likely that the Court, using the same reasoning Judge Posner applied in the preceding paragraph, would also suborn contract law to the patent misuse doctrine.

III. DISCUSSION

Posner could have reasoned in favor of Scheiber, if he interpreted the rate schedule as reflecting post-expiration collection of pre-expiration use, and relied upon discussions in *Brulotte* and *Hazeltine* where the Court explicitly recognized the patentee's right to postpone collection of royalties, which had accrued while the patent was valid, until after the patent's expiration.⁵⁸ Under the reasoning in *Brulotte*, later reiterated in *Hazeltine*, such an arrangement would have been legal. Indeed, that is just what a district court in Delaware recently found.⁵⁹ Instead, Posner's opinion directly challenges the Supreme Court's reasoning in *Brulotte*.

Posner's arguments encompass a broader right than postponement of collection of royalties, however, he argues for the patentee's right to have post-expiration royalties in general, provided they survive the rule of reason analysis. As post-expiration royalties are within the domain of patent misuse, and the patent misuse doctrine is concerned with both anticompetitive harm and the appropriate aggregate reward under patent law, this Note analyzes that the patentee's right to exact post-expiration royalties under both areas of the law.

In *Brulotte*, the Court relied on a tying analogy in holding that post-expiration royalties are per se illegal.⁶⁰ Following *Brulotte*, lower courts have held post-expiration royalties to be per se patent misuse.⁶¹ However, post-expiration royalties should instead be subject to a rule of reason analysis. First, under *Brulotte*'s tying analogy, whether post-expiration royalties are patent misuse should be subject to a rule of reason analysis, particularly as recent developments in patent law suggest that a patentee is no longer presumed to have market power in the patented-product market. Second, post-expiration royalty arrangements do not inherently undermine competition. Third, there is no inevitable extension of the patent monopoly when post-expiration royalties accrue, therefore such arrangements should not constitute per se patent misuse.

58. *Brulotte v. Thys Co.*, 379 U.S. 29, 30-31 (1964); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969). See *supra* notes 46-49 and accompanying text.

59. *Bayer AG v. Housey Pharm., Inc.*, 228 F. Supp. 2d 456, 472-73 (D. Del. 2002).

60. *Brulotte*, 379 U.S. at 33.

61. See, e.g., *Scheiber*, 293 F.3d at 1017.

A. When a Patentee Does Not Have Market Power in the Patented Product, Post-Expiration Royalties Are Not Per Se Illegal Under a Tying Analogy

If viewed as a tying practice, *Scheiber's* post-expiration royalties are not per se anticompetitive under the antitrust rubric.⁶² First, the tying and tied products are not separate products—they are physically the *self-same* product. Second, purchase of the tying, pre-expiration product is not contingent upon purchase of the tied product, which was the same product in the post-expiration market. Dolby could have taken higher royalties for a shorter period of time, instead of lower royalties for a period extending beyond the patent term, and yet Dolby itself requested the term entailing post-expiration royalties.⁶³ It cannot be compellingly argued that Dolby was coerced into this agreement, or that Dolby had to accept the tied product along with the tying product. Third, the § 271(d) amendment makes clear that a patentee will not be presumed to have market power in the patented-product market, an argument that was not considered in *Scheiber*.⁶⁴ Fourth, whether the post-expiration royalty arrangement has an effect on a substantial amount of commerce in the tied product market requires case-by-case analysis, which was also not addressed in *Scheiber*.

Where an arrangement is not a per se unlawful tying, a rule of reason analysis is undertaken to resolve whether or not a licensing term is an unreasonable restraint on trade.⁶⁵ Rule of reason analyses must consider the

62. See text accompanying note 32, *supra*, for the elements of per se unlawful tying.

63. *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 1 n.4 (1958) (“Of course where the buyer is free to take either product by itself there is no tying problem even though the seller may also offer the two items as a unit at a single price.”); see AREEDA & KAPLOW, *supra* note 9, at 706 (“It should be obvious that nothing in antitrust law or policy forbids a person from purchasing two products from a single supplier. Nor is the supplier forbidden from offering two products to a single customer or from normal persuasion.”).

64. See note 37 and accompanying text.

65. See AREEDA ET AL., *supra* note 39, at ¶ 1742b:

Normally when an element of per se tying is unproven, the rule of reason remains available in reserve . . . For the separate products element, the implications are not so clear cut. The rule-of-reason backstop is unavailable at least in the sense that no tying claim can be made out if the allegedly bundled items constitute a single product under the rule of reason. In such a case the defendant, even if he has monopoly power, has not tied two products together but has simply sold some quantity of a single product at a given price. Nonetheless, often an arrangement that escapes tying scrutiny will constitute exclusive dealing or some other agreement that triggers rule-of-reason scrutiny. (emphasis and references removed).

pro-competitive benefits relative to anticompetitive harms of a practice in determining whether or not to allow it.

B. Post-Expiration Royalties Do Not Necessarily Undermine Competition

Under the weighing of the relative benefits and harms in the rule of reason analysis, three pro-competitive benefits spring to mind. First, as the licensee in *Scheiber* recognized, a lower royalty rate over a longer period of time allows a company to charge more competitive prices, thereby attracting its customers from competing technologies in the pre-expiration market. Second, a lower price may allow more businesses to afford to license and use the technology, thereby increasing competition for the same product in the pre-expiration market. Third, after expiration of the patent, higher prices from licensees bound by the continued royalty obligation may encourage entry into the market by new firms, thereby increasing competition for the same product in the post-expiration market.⁶⁶

Perhaps the most intuitive anticompetitive harm is that licensees having to pay continued royalties may be locked into an old technology after the patent expires, if they are unable to *also* afford to license newer technologies.⁶⁷ Yet, is a firm not responsible for forecasting its costs and profits based on business deals voluntarily undertaken? The goal of the anti-trust laws is to have producers competing for customers, such that customers have a choice in the market, thereby forcing competitors to be more efficient and keep prices low. The goal is not to keep all possible competitors in the market, regardless of whether they make fiscally irresponsible decisions. Companies do not have an inherent right to continue to exist. Companies falling prey to the potential “lock-in” harm will be an inspiration to future firms, who will consider this outcome in their negotiations with patentees. It is for the market to decide the reasonable reward due a patentee for her invention.⁶⁸

Though I agree with the above analysis, the *Brulotte* Court did analogize post-expiration royalties to tying, and, as such, a rule of reason analysis should be considered here.

66. Note that this assumes no substantial barriers to entry into the market other than the existence of the patent.

67. See HOVENKAMP ET AL., *supra* note 14, at 3-26 to 3-27.

68. Beyond a tying analysis, per se illegal rules in antitrust law are reserved for situations in which there is no conceivable situation in which there could be a pro-competitive benefit. See *Broad. Music v. Columbia Broad. Sys.*, 441 U.S. 1, 8 (1979). The remaining antitrust question would therefore be: Is there a situation where there could be pro-competitive benefits for a royalties accruing after expiration of a patent? Some potential benefits have been described above.

In short, there are pro-competitive justifications for allowing post-expiration royalties, especially where they accrued during pre-expiration use. Though there are potential anticompetitive harms, courts should apply a balancing test under the rule of reason, rather than *Brulotte's* per se rule.

C. There is No Inevitable Extension of the Patent Monopoly, and Therefore No Per Se Patent Misuse

Even if post-expiration royalties fail to be a violation under the tying analogy, the patent misuse doctrine can reach farther than antitrust laws. As mentioned previously, classic patent misuse cases involve use of the patented product to gain an extension of the monopoly granted by the patent over another market. The first case applying the principle of patent misuse was *Motion Picture Patents Co. v. Universal Film Manufacturing Company*.⁶⁹ In *Motion Picture Patents*, the patentee tied use of their patented movie projector (the tying product) with the requirement that licensees only use film manufactured by the patentee (the tied product) in the projector for as long as the projector was in use, regardless of the patent term.⁷⁰ The Court found the attempt to expand the patent monopoly into the film market to be illegal.⁷¹

Patent misuse findings like *Motion Picture Patents*, where the patentee ties the use of a patented movie projector with the use of non-patented film, for a period extending in perpetuity, make some sense. Allowing such a licensing term would allow the patentee to use the patent to gain an advantage in another product market—one potentially extending in perpetuity, beyond the patent term for the projector. However, the abovementioned situation differs from post-expiration royalties, which are not anti-competitive in the sense of extending power into another market. Additionally, as Judge Posner noted, post-expiration royalties do not allow the patentee to prolong her constitutionally granted right to exclude others from making, using or selling the claimed invention.⁷² While true, this may not fully embrace the patent misuse doctrine's concern over use of a patent to undermine competition.⁷³

69. 243 U.S. 502 (1917).

70. *Id.* at 506.

71. *Id.* at 515.

72. *Scheiber v. Dolby Labs. Licensing Corp.*, 293 F.3d 1014, 1017 (7th Cir. 2002).

73. The patent misuse doctrine tries to limit two basic behaviors: (1) expansion of patent rights beyond their statutorily granted scope, and (2) use of the patent to undermine competition. HOVENKAMP ET AL., *supra* note 14, at 3-8.

For instance, use of the patent to undermine competition has traditionally been analyzed under the leveraging theory.⁷⁴ Leveraging theory has been battered and torn since *Brulotte* was decided. Critics of leveraging theory, such as the Chicago School, argue that a firm's power is a fixed sum to be extracted in one way or another; however, regardless of the manner of extraction, the amount is fixed. Therefore, a possessor of market power in one market will not be able to extract any "extra" power other than that already warranted. Some note that, "in almost every instance where the Supreme Court found patent misuse in these older [tying] cases, more recent scholarship suggests a legitimate reason for the licensing term that led to the finding of misuse."⁷⁵

Kaplow, a supporter of leveraging theory, counters that this argument is deceiving, as the repercussions of a fixed amount of power can be different in different situations. He analogizes leveraging to a person with a stick of dynamite, who will cause more or less damage depending upon where the dynamite is employed.⁷⁶ Perhaps a variation on Kaplow's criticism is that our models of the reasonable benefit to the patentee are based largely on "one-shot patents," and fail to embrace continued, cumulative innovation (or acquisition of rights to such innovation) by an entity, resulting in control of the industry, and additional barriers to entry into the market.⁷⁷

Though both criticisms are troubling, the effect of practices on barriers to entry is a part of the rule of reason analysis, and the rule of reason analysis remains an appropriate tool for determining the anticompetitive effects of post-expiration royalties. The *per se* rule assumes that the person has the stick of dynamite somewhere critical, whereas this is not always the case. The rule of reason inquiry is more fair to the patentee, more in keeping with modern commentators about the way markets work, and more in keeping with the changes in our laws.

IV. CONCLUSION

Commentators, some lower courts, the Federal Trade Commission and the Antitrust Division of the Department of Justice, have moved away

74. See discussion *supra* Part III.C.

75. ROBERT MERGES & JOHN DUFFY, *PATENT LAW AND POLICY: CASES AND MATERIALS* 1359 (3d ed. 2002).

76. Kaplow, *supra* note 29, at 515-16.

77. See Peter S. Menell, *Intellectual Property: General Theories*, in 2 *ENCYCLOPEDIA OF LAW & ECONOMICS* 129, 140-141 (Boudewijn Bouckaert & Gerrit de Geest eds., 2000).

from a presumption of market power in the patentee.⁷⁸ Moreover, with the § 271(d)(5) amendment, a tying arrangement where the tying product is patented is no longer a bar to recovery in an infringement suit, except where the patentee has market power in the tying product market.⁷⁹ If Congress intended to presume a patentee's market power in the market of the patented product, § 271(d)(5) would be rendered superfluous.⁸⁰ Limiting the statutory defense to infringement suits would curtail the statute's helpfulness to plaintiffs such as Scheiber, who will usually be suing under a contract theory rather than patent infringement.⁸¹ However, as the presumption of market power in a patentee is judicially created, in light of the signal from Congress, courts should also require a showing of market power in the patentee before holding post-expiration royalties to be per se patent misuse. As lower courts are both allowing and not allowing post-expiration royalties, the Supreme Court needs to resolve the issue, and hopefully replace *Brulotte's* per se rule with a rule of reason approach.

78. See *supra* notes 16-19 and accompanying text.

79. See *supra* note 37 and accompanying text.

80. Judges will have to be guided by antitrust standards pertaining to the concept of market power in the patent misuse setting, as the patent statute does not discuss it. See Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: Blessed Be the Tie?* 4 HARV. J. L. & TECH. 1, 26 (1991). The author states:

[M]arket power in the market for the tying patented product or process must be shown before the patent may be held unenforceable due to a tying license. This standard, which is adapted from antitrust law, is by express direction of Congress not confined to any particular definition found in antitrust precedent, but is essentially openended. Based on the refusal of the House to accept the Senate proposal for a full antitrust standard, and case law establishing that patent misuse may be found in the absence of an antitrust violation, it is clear that the amendments establish an intermediate requirement between the former per se rule and the elements required for an antitrust tying violation.

Id. at 23.

81. One might speculate that, where a licensee refuses to pay royalties on a single expired patent, and where multiple patents were licensed, some of which still within their statutory lifespan, the statutory defense may be of help. Courts are split as to whether or not this practice constitutes patent misuse prior to expiration of the last patent at issue. HOVENKAMP ET AL., *supra* note 14, at 3-25.