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Patents and Section 7 of the Clayton Act: The Significance of Patents in Corporate Acquisitions

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I. Introduction

A patent grant constitutes a unique monopoly which is condoned under the antitrust laws despite its inherently anticompetitive nature.[1] When coupled with anticompetitive purpose not contemplated by the patent statutes and dominant market position, however, a permissable patent monopoly may violate section 7 of the Clayton Act.[2] For example, the acquisition of a corporation having a substantial patent position in a particular line of commerce by an acquiring corporation which can utilize the patents to frustrate marketing efforts of competitors who sell unpatented products or use unpatented processes or methods can substantially lessen competition.[3] The same result can be achieved where a corporation ac-

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1. Section 7 of the Clayton Act, 15 U.S.C. § 18 (1976), was intended to check anticompetitive tendencies in their incipiency, before they reached the point at which the Sherman Act comes into play. Brown Shoe Co. v. United States, 370 U.S. 294, 317, 322, 323, (1962); United States v. E.I. duPont de Nemours & Co., 353 U.S. 586, 589 (1957).

2. 15 U.S.C. § 18 (1978). Section 7 of the Clayton Act provides, in pertinent part:

> [That] no corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another corporation engaged also in commerce, where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.

3. This could occur where dramatic progress has been made in an industry through the implementation of patented products or processes and blocking patents have been purposely acquired by one or two competitors in order to specifically exclude other competitors. *See, e.g.*, Hartford Empire Co. v. United States, 323 U.S. 386 (1945); United States v. Aluminum Co. of America, 148 F.2d 416 (2d Cir. 1945). In *Hartford,*

> [t]he [d]istrict [c]ourt found that invention of glassmaking machinery had been discouraged, that competition in the manufacture and sale or licensing of such machinery had been suppressed, and that the system of restricted licensing had been employed to suppress competition in the manufacture of unpatented glassware and to maintain prices of the manufactured product.

323 U.S. at 400. *See also* text Section III(C) *infra*.

quires all or part of another corporation's assets, including important patent rights.[4]

This article is intended to provide an analysis of the factors which should be considered when section 7 challenges to mergers[5] and other acquisitions involve patents. After a review of the courts' strict approach to challenges of patent acquisitions under the Sherman Act and the more flexible approach contemplated by section 7 of the Clayton Act, the characteristics of various types of patent holdings which signal danger in asset acquisition will be analyzed. A discussion of the potential anticompetitive use of patents acquired in corporate mergers will follow. Finally, a method of analysis of patent acquisitions will be suggested to enable the practitioner to more accurately predict the section 7 implications of patent acquisition.[6]

II. Patents Under the Sherman and Clayton Acts

A. *Patents under the Sherman Act*

Patents are unique commodities in the arena of antitrust law. The patent is a legal monopoly.[7] Although this monopoly power in the hands of the patent owner ascends geometrically when coupled with other patents related to the same art, naked accretion of the monopoly power engendered wholly by patent grants themselves

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4. Patents have been held to be assets for the purpose of § 7. Dole Valve Co. v. Perfection Bar Equipment, Inc., 311 F. Supp. 459, 463 (N.D. Ill. 1970); United States v. Lever Bros. Co., 216 F. Supp. 887, 889 (S.D.N.Y. 1963). Therefore, § 7 can be used to thwart anticompetitive intent based on a dominant patent position if that position is achieved through acquisitions which otherwise qualify under § 7. *See* text accompanying notes 27 to 43 *infra*.

5. As used in this article, the term "merger" will include all transactions which bring multiple enterprises under permanent unitary control, whether this is technically a merger, a consolidation, or an acquisition of effective control through the holding company mechanism.

6. To suggest standards for evaluating the legal consequences of acquiring patent rights is to invite immediate criticism from many quarters. Antitrust lawyers will argue that the significance of assets pales when compared with a macro-view of the entire competitive scene. Patent lawyers will argue that no other assets are comparable to patent acquisitions, because the degree of monopoly power generated by creative patent licensing and vigorous patent enforcement is incapable of evaluation over any lengthy period of time. The economists will argue that the patent grant must assume its appropriate place in the market place and must partake of the economic forces and laws that govern the acquisition of less esoteric assets. Nevertheless, this article offers some observations of the patent phenomenon in the context of the § 7 acquisition.

7. The courts have recognized that the very object of the patent laws is to create monopolies. Bement v. National Harrow Co., 186 U.S. 70 (1902); SCM Corp. v. Xerox Corp., 463 F. Supp. 983 (D. Conn. 1978).

does not result in a violation of the antitrust laws. Thirty years ago the Supreme Court acknowledged that "[t]he mere accumulation of patents, no matter how many, is not in itself illegal."[8] Whatever monopoly power the patent owner achieves beyond that produced by "the mere accumulation of patents," however, is viewed by the courts with well-deserved suspicion.

Prior to the enactment of the Clayton Act in 1914,[9] the anticompetitive effect of patent acquisitions in corporate mergers could be attacked only under the Sherman Act.[10] The fact that market dominance might be achieved through the merger of corporations having powerful patent positions did not call for a stricter test than mergers involving other factors, even when the surviving corporation appeared to attain a commanding advantage. In *United States v. Winslow*,[11] the United Shoe Company was created through the merger of three corporations, each of which was dominant in different types of shoe machinery. The shoe machines were patented, thus allowing Justice Holmes to observe that they constituted "a monopoly in any case."[12] Becuase the three groups of patented machines did not directly compete with each other, it was difficult for Justice Holmes "to see why the collective business should be any worse than its component parts."[13] He could "see no greater objection to one corporation manufacturing 70 percent of three noncompeting groups of patented machines collectively used for making a single product than to three corporations making the same proportion of one group each."[14] The merger was therefore held not violative of section 1 of the Sherman Act.[15]

A Sherman Act violation was found to exist, however, and was affirmed *per curiam* by the Supreme Court in *United States v. United Shoe Machinery Corp.*[16] In that case, more than 2,000 shoe

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8. Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc., 339 U.S. 827, 834 (1950). *See also* Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947).
9. 38 Stat. 731 (1914) (currently codified at 15 U.S.C. § 18 (1976)).
10. 15 U.S.C. §§ 1-11 (1976).
11. 227 U.S. 202 (1913).
12. *Id.* at 217.
13. *Id.*
14. *Id.*
15. The result in *Winslow* could have differed markedly had § 7 been available at that time. Although the patents were non-competing, they were complementary and they were utilized by United Shoe in achieving and maintaining its market dominance, which was some 70 percent of the market.
16. 110 F. Supp. 295 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954).

machinery patents had been acquired, about five percent of them from sources outside of the corporation. Although the district court did not rely on the defendant's patent power to find a violation of section 2 of the Sherman Act, it did reject totally the defendant's arguments that the patent accumulation was of business necessity (1) to protect against infringement suits, (2) to avoid blocking desirable developments, or (3) to settle patent controversies. The court instead turned these arguments against United Shoe: "[M]ost of these purposes could have been served by non-exclusive licenses. Taking the further step of acquiring the patents . . . buttressed United's marketing power. In some instances . . . the acquisitions made it less likely that United would have competition."[17] Thus, the patent owner may violate section 2 of the Sherman Act when (a) the manner of patent accumulation suggests anticompetitive intent, (b) the quantity of patents accumulated exceeds normal needs, or (c) the accumulated patents are used as entry barriers against potential competitors.

B. *Enactment of the Clayton Act*

The Clayton Act was the congressional answer to the apparent leniency of the courts in evaluating mergers under the Sherman Act.[18] The 1914 Act addressed the acquisition of stock where the effect was to substantially lessen competition between the acquiring and acquired corporations, or to tend to create a monopoly.[19] The acquisition of assets, however, was not included in the first version of the statute and presumably was not of paramount importance to Congress.[20] This meant that, under a straightforward interpretation of the statute, a corporation could buy the patents of another corporation with impunity, even if those patents com-

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17. 110 F. Supp. 295, 333 (D. Mass. 1953).

18. Prior to the enactment of the Clayton Act in 1914, mergers enjoyed singular success when attacked under the Sherman Act. The Supreme Court's "rule of reason" approach seemed to encourage the tide of mergers which characterized many industries before World War I. The Supreme Court initially held that all mergers between directly competing firms violated § 1 of the Sherman Act. United States v. Union Pacific R.R. Co., 226 U.S. 61 (1912); Northern Sec. Co. v. United States, 193 U.S. 197 (1904). With the advent of the "rule of reason" in Standard Oil Co. of N.J. v. United States, 221 U.S. 1 (1911), mergers began to be tested under a less stringent rule. In United States v. U.S. Steel Corp., 251 U.S. 417 (1920), the Court held that a consolidation of 80 percent to 90 percent of steel-production capacity violated neither § 1 nor § 2 of the Sherman Act.

19. 38 Stat. 731 (1914) (current version at 15 U.S.C. § 18 (1976)).

20. Arrow-Hart & Hegeman Elec. Co. v. F.T.C., 291 U.S. 587 (1934), held that asset acquisitions were not covered by the original Act.

prised the major assets of a patent holding company and the acquisition gave the buyer complete dominance in a particular market.

A further loophole in the coverage of the original section 7 was the failure to reach vertical acquisitions, despite the proportion of a market which could thereby be foreclosed to competitors. Although it is unlikely that the patents held by corporations at different levels of the chain of distribution of a product or service would be directly competing, if the corporate survivor of such a merger owns a key patent in a raw material production process or a manufacturing machine, substantial leverage could then be exerted at more than one level of distribution. In this way, the accumulation of a number of patents could confer greater monpoly power than the simple additive sum of the power of the patents. If patents owned at one level of the distribution chain relate to products or methods of another level, monopoly power could be further magnified.

To close these gaps in section 7 coverage, Congress amended section 7 by the enactment of the Celler-Kefauver Antimerger Act of 1950.[21] The acquisition of assets was added to the proscribed acts[22] under the statute, and the requirement that the substantial lessening of competition had to be between the acquired and acquiring corporations was deleted.[23] The present language of section 7 thus affords a much stronger weapon with which to challenge mergers involving patent acquisition.[24] Under the Sherman Act, an antitrust violation can arise only after the acquiring corporation actu-

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21. Act of Dec. 29, 1950, Pub. L. No. 81-899, ch. 1184, 64 Stat. 1125.

22. In adding acquisition of assets to § 7 by the Celler-Kefauver Act, Congress intended to expand the coverage of § 7 to include direct acquisitions of assets, as well as indirect acquisitions, as through a subsidiary or otherwise. *See* H.R. Rep. No. 1191, 81st Cong., 1st Sess. 8-9 (1949).

23. The Supreme Court later thought this deletion unnecessary. United States v. E.I. duPont de Nemours & Co., 353 U.S. 586 (1957). The Court held that:

> any acquisition by one corporation of all or any part of the stock of another corporation, competitor or not, is within the reach of the section whenever the reasonable likelihood appears that the acquisition will result in a restraint of commerce or in the creation of a monopoly of any line of commerce.

Id. at 592.

24. The grand design of the original § 7, as to stock acquisitions, as well as the Cellar-Kefauver Amendment, as to the acquisition of assets, was to arrest incipient threats to competition which the Sherman Act did not ordinarily reach. It follows that actual restraints need not be proved. The requirements of the amendment are satisfied when a "tendency" toward monopoly or the "reasonable likelihood" of a substantial lessening of competition in the relevant market is shown.

United States v. Penn-Olin Chemical Co., 378 U.S. 158, 170-71 (1964).

ally uses the acquired patents to bring about an anticompetitive effect.[25] Section 7, on the other hand, is concerned with *potential* anticompetitive effect.[26] The role of patents and the question of monopoly power under section 7 is, therefore, much more sensitive. There is far greater potential for anticompetitive abuse of patents, which are inherent monopolies, than there is for other assets. Patents should therefore be prime targets for merger analysis under section 7.

C. *Patents As Assets Under Section 7*

Patent acquisitions are subject to section 7 because they are personal property[27] and thus are assets within the meaning of the statute.[28] The key question in a section 7 violation is the degree to which patents may increase the likelihood of a lessening of competition or of creation of a monopoly in the merger process. Because the courts thus far have not addressed this question, no guidelines have been established to assess the likelihood of anticompetitive effect in a merger involving significant patent interests. Analogies can be drawn, however, from cases involving other kinds of assets.

It is not difficult to find ample Supreme Court precedent for the importance of considering assets in challenged mergers. The quantity of assets owned by the principal corporations is a decided influence in these decisions. For example, in *United States v. Phila-*

25. Under the Sherman Act, a stable of patents is of little consequence when monopoly power is "thrust upon" the monopolist. The "thrust upon" defense to an allegation of monopolization originated in Judge Learned Hand's opinion in United States v. Aluminum Co. of America, 148 F.2d 416, 429 (2d Cir. 1945): "It does not follow because 'Alcoa' had such a monopoly, that it 'monopolized' the ingot market: . . . monopoly may have been thrust upon it." Immediately upon the utilization of patents for anticompetitive effect beyond what was intended by the Patent Act, 35 U.S.C. §§ 1-376 (1976), however, the monopoly power becomes tainted, whether or not there is a direct exercise of that monopoly power.

26. *See* note 23 *supra*.

27. Dole Valve Co. v. Perfection Bar Equipment, Inc., 311 F. Supp. 459 (N.D. Ill. 1970). *Cf.* Transparent-Wrap Machinery Co. v. Stokes & Smith Co., 329 U.S. 637, 645 (1947); Wilson v. Rousseau, 45 U.S. 646 (1846); United States v. Lever Brothers, 216 F. Supp. 887 (S.D.N.Y. 1963).

28. *See* Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 104 (1969); Dole Valve Co. v. Perfection Bar Equipment, Inc., 311 F. Supp. 459, 463 (N.D. Ill. 1970). *See also* Automated Building Components, Inc. v. Trueline Truss Co., 318 F. Supp. 1252 (D. Ore. 1970) (patent application); Smith-Corona Marchant Inc. v. American Photocopy Equipment Co., 217 F. Supp. 39 (S.D.N.Y. 1963) (trademark); United States v. Columbia Pictures Corp., 189 F. Supp. 153 (S.D.N.Y. 1960) (exhibition rights); Farm Journal Inc., 53 F.T.C. 26 (1956). Even "know-how" may be an "asset" within Clayton § 7. *See* United States v. Allied Chemical Corp. [1964] Trade Cas. (CCH) ¶ 71,193; United States v. CIBA Corp., [1970] Trade Cas. (CCH) ¶ 73,269.

delphia National Bank,[29] the second and third largest banks of forty-two commercial banks in the Philadelphia metropolitan area, proposed to merge. After the merger, the surviving bank and the next largest bank would have had, between them, 59% of the total assets of all banks in the area; the four largest banks would have had 78% of the total local assets.[30] The Court held that section 7 forbade the merger. Although the opinion of the Court emphasized the proportion of the relevant market that would be foreclosed by the merger, the significance of the amount of assets controlled was not ignored by the Court.

A further example of the primacy of quantity of assets in a section 7 case is demonstrated in *United States v. Phillipsburg National Bank and Trust Co.*.[31] There, the defendant banks respectively ranked 1,346th and 2,429th nationally among United States banks with trust powers.[32] The proposed merger would have resulted in the second largest bank in the relevant geographical area with 19.3% of the total assets.[33] The three largest banks in the area would then have increased their holdings from 60% to 68%. This concentration of assets was sufficient for the Supreme Court to hold that this could constitute a violation of section 7.[34]

Analogous reasoning would apply in a strictly quantitative view of patent assets in a proposed merger. It is not necessary, to be subject to section 7, for the merging corporations to own massive quantities of assets if the relevant geographical market is sufficiently restricted. Patent assets frequently form the basis for a highly restricted product market. Significant monopoly power can be readily concentrated in a few firms controlling basic patent rights in a particular technology.

In these section 7 cases, the Supreme Court invariably dwells upon the *quantity* of assets held by the merging corporations. The *quality* of the assets receives little attention. One rare example of attention to the character of the accumulated assets is the Court's opinion in *United States v. Penn-Olin Chemical Co.*.[35] Two corpo-

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29. 374 U.S. 321 (1963).

30. *Id.* at 331.

31. 399 U.S. 350 (1970).

32. *See* Justice Harlan's "wonderment" that the Justice Department should bother to sue such small banks. *Id.* at 373.

33. *Id.* at 357.

34. The case was remanded to determine the convenience and needs issue under the merger approval section of the Bank Merger Act of 1966, 12 U.S.C. § 1828 (c)(5)(B) (1976).

35. 378 U.S. 158 (1964).

rations which owned assets of $860 million and $100 million, respectively, entered into a joint venture by forming a third corporation to produce and sell sodium chlorate in the southeastern United States. One of the parent corporations, Olin Mathieson Chemical Corporation, owned valuable patent rights, while the other parent, Pennsalt Chemical Corporation, for years had engaged in sodium chlorate production. The joint venture corporation was formed to enter a relevant market that was already monopolized by two other producing companies having assets of almost $200 million and $100 million, respectively.

The Court's decision is replete with references to the accumulation of assets and the production capacities of the competitors.[36] In holding that the lower court erred in dismissing the complaint, the Court pointed out that Olin Mathieson and Pennsalt each had sufficient resources to enter the southeastern United States market alone without the necessity of the joint venture.[37] The test that the lower court should have applied was whether *either* corporation, given these great resources, would have entered the market by building a plant, not whether both of them would have built a plant in the relevant market area.[38] The case stands for the proposition that the character of assets, as well as their quantity, may be determinative of the final result under section 7.

Overall, however, the Court's primary focus has been upon the quantity, and not the quality, of assets. This is understandable when readily liquifiable pecuniary assets are in issue. The Court can easily translate the acquisition of such assets into anticompetitive power. Readily liquifiable, pecuniary assets offer the means by which valuable resources can be controlled and predatory market practices supported. Thus, the quantity of these assets properly is the measure of potential anticompetitive effect.

Singular attention to the quantity of assets is inappropriate, however, when the acquisition involves non-pecuniary assets. Non-pecuniary assets are not readily liquifiable and their acquisition cannot be easily translated into potential anticompetitive effect. It is often the quality or nature of non-pecuniary assets, and not their quantity, that will potentially lessen competition or create a monopoly. The quantification of likely anticompetitive effect is often impossible. For example, the goodwill that a corporation has

36. *Id.* at 162-66, 172, 175.
37. *Id.* at 175.
38. *Id.* at 175-76.

developed through judicious trademark advertising may be worth millions of dollars, but quantification of that value may be impossible. Similarly, an advantageous geographical location gives a corporation a distinct advantage over competitors, but the pecuniary value of the location defies numerical assessment.

As a non-pecuniary asset, intellectual property (patents, trade secrets, trademarks and copyrights) is similarly incapable of precise assessment in terms of competitive advantage, particularly if the property has yet to be exploited. The myriad of ways that dynamic property rights in ideas can be exploited offer numerous opportunities to artificially disrupt the normal patterns of supply and demand. It is for this reason that intellectual property deserves special attention under section 7. Patents, as the most exclusive kind of intellectual property, must be given careful examination in the merger situation because the potential for anticompetitive misuse may substantially transcend whatever pecuniary value has been assigned to them.

III. Acquisition of Patent Rights Under Section 7

The patent grant is a unique monopoly which allows its owner to exclude others from making, using, or selling an inventive idea. Its character is not directly comparable with other forms of property. The right to exclude others from making, using, or selling an invention can be, in the case of a major advance in the art, the right to exclude all other competitors from the market if the invention completely supplants whatever preceded it.[39] In terms of intrinsic value, patents differ immeasurably. A major advance in a particular field of technology warrants a strong patent with broad claims.[40] If a landmark invention generates a patent,[41] the Patent Office will issue a patent having fewer elements in the claims and the elements themselves will be broadly defined in the specification.[42] It will not be easy for competitors to "invent around" such a patent or to make or sell strongly competing products or processes

39. Such exclusions existed for a time in photocopying technology. *See* SCM Corp. v. Xerox Corp., 463 F. Supp. 983, 991-94 (D. Conn. 1978), and for the Polaroid camera.

40. "Claims" are the numbered paragraphs at the end of the patent specification which particularly define the scope of the invention protection. They are the predicates of a sentence that may begin, "What I claim as my invention is . . . ." *See* 35 U.S.C. § 112 (1976).

41. An example is the patent awarded for the first photocopy machine. *See* note 39, *supra*.

42. *I.e.*, the description of the invention and how it is used or produced. *See* 35 U.S.C. § 112 (1976).

without infringing one or more of the claims. Most patents, however, are not of this nature. The average patent is an improvement over an existing article of manufacture, a machine, or a process and relatively narrow claims are allowed by the Patent Office. Many patents may be easily "invented around" by devising a product or process which will be as economically attractive as the patented item, but which will not infringe the patent claims.

It is significant to section 7 analysis whether or not patents are acquired by merger or through asset acquisition. Patents acquired through merger are usually coupled with other assets, except where a pure patent holding company is acquired. It is the ultimate purpose or effect of the merger in its entirety that interests the court. The singular importance of the patent assets may be lost in the judicial analysis of the proportion of the market that is controlled through the merger or the quantity of total assets controlled by the surviving corporation. In non-merger patent acquisitions, it is likely that much closer attention will be given to the underlying reasons for acquiring the particular patent rights. The character of the patent right will assume greater importance and should lead to a scrutiny of the strength of the patent, *i.e.*, the degree to which it is a major advance in its technology, thus allowing the domination of one or more markets.

In either case, however, the courts should focus not only upon the quantity of the patents acquired, but upon the quality of the patent rights as well. The courts' analysis should be directed to the nature of the patent right, whether the patent claims are strong or weak, as well as the state of the technical art in which the patents have been granted. Of these factors, the nature of the patent rights, which ranges from complete and full ownership to only a limited license,[43] is especially important to meaningful analysis. Patent licensing, in particular, lends itself to a number of creative means for stifling competition which may precipitate a section 7 violation.

A. Patent Licenses

Merchantable property rights in most forms of intellectual property are *sui generis* because business competitors can utilize the property effectively without exclusive possession of the complete

43. Outright and complete ownership of a patent grant clearly constitutes an "asset" under § 7. *See* cases cited in note 28 *supra*. Whether all other forms of patent rights are assets under § 7 is debatable.

property right. Unlike most forms of personal property, a patent or trademark can be rented, *i.e.*, licensed, to a number of business competitors without a noticeable decline in pecuniary value. Multiple licenses of a patent may even increase the patent's value if new competitors find it necessary to acquire a license to enter the market. The value of intellectual property declines if the property becomes freely available to all competitors. This occurs when a trademark has become the generic term for a product or when an antitrust defendant is ordered to offer royalty-free licenses of a patent to all of its competitors to correct previous misuse of the patent.

Thus, the value of intellectual property is tied to the degree of exclusivity controlled by its users. The degree of exclusivity in the use of patents varies widely because of the myriad ways licenses can be used to control the marketing efforts of licensees. Licenses may be exclusive or non-exclusive. The geographical area of the license may be wide or narrow. The license may contain one or more of a number of rights or restrictions having direct bearing on the capability of either the licensee or the licensor to compete in a given relevant market. Extremely complex problems of evaluation flow from such variables. Exclusivity of rights, whether related to type of product, field of use, class of customers, or geographical area, directly affects the degree to which the license may lessen competition or create a monopoly. A single, non-exclusive license may be innocuous by itself, but when coupled with a substantial number of additional licenses in the same field, it may give the licensee dominant monopoly power in a particular market.

Whether or not a patent license, as opposed to patent ownership, constitutes an acquisition under section 7 is less than clear. An exclusive license is undoubtedly an acquisition in most instances, but a non-exclusive license, if sufficiently restricted, may not constitute an acquisition under section 7. The term "acquisition" is broad and it would follow that *most* licenses do constitute acquisitions.[44] Some licenses, however, may not. The acquisition of a narrow, non-exclusive license granting the right to only a limited use of a patented article, but not the right to make or sell it, may be an acquisition of virtually nothing. There is a point at which the recipient of a patent right does not acquire anything, within the meaning of an acquisition under section 7, if the restrictions imposed so limit

44. That Congress intended the term "acquisition" to be broadly interpreted is borne out by the legislative history. *See* H.R. REP. No. 1191, 81st Cong., 1st Sess. 8-9 (1949).

the use of the right such that little or no potential value flows to the recipient.

It has been argued that most non-exclusive patent licenses are not assets under section 7 because they are merely contractual promises to refrain from suing for infringement.[45] It has been alternatively argued that such licenses are assets because the licensee has purchased a valuable and practical right to make, use, or sell an invention for competitive advantage.[46] A non-exclusive license is not an acquisition of the entire bundle of patent rights, but it is a property right, created by contract, which seems to be within the contemplation of the section 7 terminology.[47]

In adjudicating cases under section 7, the courts may frequently resolve the issue of asset acquisition not by dissecting the characteristics of the patent or the type of grant, but by applying the ultimate test in the statute. Only those acquisitions that may substantially lessen competition or tend to create a monopoly are proscribed by section 7. The magnitude of the right acquired and the quality and strength of the licensed patent determine the anticompetitive possibilities. There is no need to stop to analyze whether or not an asset exists, or whether there has been a clear-cut acquisition, if the anticompetitive effect is obvious. If anticompetitive purpose or effect is found, then any argument that there was no asset acquisition fails because the anticompetitive effect itself is evidence that there was an asset acquisition of some value. If no anticompetitive effect is possible, it is immaterial that an asset or acquisition exists. Even when a court is prognosticating future anticompetitive effect, such effect must be premised on whatever practical use can be made of the license by the defendant, whether or not it is an "asset" and whether or not there has been an "acquisition".[48]

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45. *See* Davis, *Patent Licensing and the Anti-Trust Laws: Some Recent Developments*, 46 J. PAT. OFF. SOC'Y 12, 30-31 (1964); Weinstein, *The Application of Section 7 of the Clayton Act to Patents, Copyrights, and Trademarks*, 5 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 328, 333-34 (1961).

46. *See* Murchison, *Patent Acquisitions and the Antitrust Laws*, 45 TEX. L. REV. 663, 692-93 (1967) [hereinafter cited as Murchison]. *See also* U.C.C. § 1-201 (32) (1972 version): a "purchase" includes "any . . . voluntary transaction creating an interest in property."

47. *See* United States v. Columbia Pictures Corp., 189 F. Supp. 153, 181-82 (S.D.N.Y. 1960). This case contains an excellent discussion of the meaning of the terms "acquire" and "assets". The case involved a nonassignable license of copyrighted feature films for television.

48. This analysis is, of course, less appropriate for a corporate merger which involves the acquisition of numerous, different assets. In such a merger, it will be difficult to ascertain

B. *Grant-Back Provisions*

An extraordinarily anticompetitive tool frequently used in patent licensing is the grant-back provision. The licensee agrees to grant any improvement patents or related patents back to the licensor when these are developed by the licensee during the term of the license. The ostensible justification for the grant-back provision is to protect the patent owner from erosion of the original patent's value due to possible technical improvements by the licensee to the licensed invention. Improvements are generally physical additions to, or changes in, the patented article or process. Generally, once such improvements are developed, the original invention is no longer marketable without the improvements. These improvements, moreover, cannot be separately exploited because they are an integral part of the patented article or process.[49] Without a grant-back provision, the original invention belongs to the patent owner while the improvements belong to the licensee. This creates an impasse: the owner of the improvements cannot practice them without permission from the patent owner while the patent owner has no right to practice the improvements without the permission of the licensee.

The grant-back provision usually extends to all improvements, whether or not patentable,[50] and even amorphous "know-how" frequently is included within the provision.[51] The grant-back can be an exclusive or non-exclusive license. It can even provide for the conveyance of any patents on the improvements obtained by the licensee. It might cover only improvements to the licensed invention or might include all inventions in a given technical field, not necessarily only those related to the licensed invention.[52] This re-

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whether the potential anticompetitive effect would arise from the use of the non-exclusive license or from some other acquired asset. Such a determination would have to be made at the remedy stage of the proceedings.

49. Although the improvement attaches to the patented invention, the improvement may be sufficiently inventive to be eligible for a patent itself. Even if the improvement is so obvious as not to warrant a patent grant, trade secret protection might be available to the owner of the improvement.

50. *See* note 49 *supra*.

51. "Know-how" usually constitutes a trade secret, which is an asset within the scope of § 7. United States v. ITT Continental Baking Co., [1972] Trade Cas. (CCH) ¶ 73,993 (customer lists and sales routes).

52. *See Antitrust Subcommittee B, Grant-Back Patent Licensing,* A.P.L.A. BULL., Sept. 1966, at 387-402. *See also* ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS 227 (1955); Dunne, *Anti-Competitive Considerations of Patent Accumulation by Licensee Grant-Back Provisions,* 57 J. PAT. OFF. SOC'Y 124, 128 (1975).

quirement has the effect of solidifying the licensor's position in the technical art related to the patent. The licensee is firmly locked into a continuing relationship with the licensor because, although the grant-back provision is effective only during the term of license, the grant-back normally is a conveyance of rights which survives the term of the license, as in the case of a patented improvement. Sometimes an alternative provision requires the developer of the improvement to grant only a non-exclusive license. If the term of this license is of sufficient length, however, the competitive advantage gained by the beneficiary of the grant-back can be as valuable as a full conveyance of the complete property right.

Although grant-back provisions facilitate exploitation of improved inventions, they often provide the original patent owner with excessive control over the improved article or process. If the grant-back is a right ancillary and complementary to the patent licensing right, it should not, to be justifiable, extend the patent monopoly beyond the scope of protection contemplated by the patent statute. The statutory protection allows the patentee to take what steps are necessary in order to prevent any diminution of the fair return to which he is entitled.[53] If the patent license is employed, this often takes the form of a reasonable royalty. To assure a fair return, courts even permit the licensor to fix the price of the patented article if a percentage royalty is based upon the article's total sales.[54]

Still, the practical effect of the grant-back provision is to reach far beyond the protection of the patentee's fair return. The grant-back allows the patentee to acquire other inventions not initially included in the patent license and not invented by the patentee. Furthermore, although a patentee cannot license his invention for any term beyond the expiration date of the patent,[55] the grant-back provision often extends the licensor's monopoly beyond the seventeen-year patent term because the grant-back always is of inventions subsequent to the licensed patent. To avoid this, grant-

53. *See Antitrust Subcommittee B., Grant-Back Patent Licensing,* A.P.L.A. BULL., Sept. 1966, at 387-402. Another reason given by the courts is that the grant-back provision will do no harm. *See* Turner, *Antiturst Enforcement Policy,* 29 A.B.A. ANTITRUST SECT. 187, 188 (1965) [hereinafter cited as Turner]. *See also* Stedman, *Acquisition of Patents and Know-How by Grant, Fraud, Purchase and Grant-Back,* 28 U. PITT. L. REV. 161, 170-71 (1966).

54. *See, e.g.,* United States v. Huck Mfg. Co., 227 F. Supp. 791 (E.D. Mich. 1964), *aff'd by an equally divided court,* 382 U.S. 197 (1965).

55. *See* Brulotte v. Thys Co., 379 U.S. 29 (1964).

back rights should expire simultaneously with the original patent rights.

It is therefore clear that the acquisition of patent licenses containing grant-back provisions deserves special consideration under section 7. To properly evaluate the degree to which the acquisition of such licenses is anticompetitive, a thorough analysis of the state of the technical art is essential. The specific inclusiveness of the grant-back language must be examined to determine the scope of the restraint on the licensee. A long-term license requiring full conveyance of all of the licensee's patent developments, trade secrets, and knowhow constitutes a serious threat to other competitors because the licensor's monopoly is appreciably expanded. On the other hand, a grant-back provision in the license of a weak patent with narrow claims would not be a serious threat to competition if the patented invention represented only a nominal advance in the pertinent art and the improvements could not enhance the strength of the patented invention.

Grant-back provisions have not been unfavorably received by the courts. In *Transparent Wrap Machine Corp. v. Stokes & Smith Co.*,[56] the licensee was required to assign all improvements patents back to the licensor with no further consideration. The Supreme Court held, 5 to 4, that the provision was not *per se* illegal. On remand, the Court of Appeals found no antitrust violation.[57] The case was decided on a narrow set of facts, however, and the court observed that grant-backs could conceivably violate the antitrust laws. In a subsequent case, a district court distinguished *Transparent Wrap* on its facts and reached a contrary holding. In *United States v. General Electric Co.*,[58] all dominating patents in the "hard metals" art were owned by G.E. and its position was strengthened by grant-backs in all of its licenses. The district court found this to be a *per se* violation of the Sherman Act and distinguished *Transparent Wrap* as being only a controversy between two small companies without extensive market control.[59]

No clear path is obvious to the practitioner faced with grant-

56. 329 U.S. 637 (1947).
57. Stokes & Smith v. Transparent-Wrap Mach. Corp., 161 F.2d 565 (2d Cir. 1947).
58. 80 F. Supp. 989 (S.D.N.Y. 1948).
59. A similar result and similar reasoning obtained in United States v. General Elec. Co., 82 F. Supp. 753 (1949), which involved G.E.'s control of incandescent lamp patents. *See also* United States v. Aluminum Co. of America, 91 F. Supp. 333 (S.D.N.Y. 1950), which involved the basic dominant patents for the manufacture of alumina, licensed by a dominant corporate power.

back patent rights which may raise antitrust problems. Some cases follow *Transparent Wrap* and find grant-backs do not *per se* violate section 7.[60] The Justice Department, however, considers license grant-backs to be *per se* violations,[61] and has negotiated consent decrees prohibiting grant-backs.[62] The Department's major objection to grant-backs is their tendency to reduce the incentive to invent and thus frustrate the major purpose of the patent laws.[63]

C. *Pooling and Cross-licensing of Blocking and Complementary Patents*

Another anti-competitive use of patent rights is the pooling of multiple patents in a particular industrial art. The exclusive benefits of such pooling are usually extracted through careful licensing and sublicensing, and the antitrust laws are often violated in the process. One use of pooling is to acquire complementary patents. Patents are complementary when each patent covers a closely related but separate facet of a process or product. The strength of the interrelationship of complementary patents exceeds the aggregate strength of the individual patents. The value of the group is measured by analyzing the entire process or product which is controlled and the offensive strength of the body of patents vis-à-vis other competitors who do not have the patented inventions.

Patents may also be used defensively. One competitor in an industry can use blocking patents to prevent other competitors from achieving technological progress in the industry. Blocking patents most frequently exist when step-by-step progress in a particular technology is marked by patented inventions at each step. One competitor can acquire numerous patents along this chain of progress, not for the purpose of practicing these patents, but simply to exclude competitors. By refusing to license the acquired patents, the competitor can effectively block other competitors. Alterna-

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60. *See, e.g.* Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 281 F.2d 252 (7th Cir. 1960); Swofford v. B. & W., Inc., 251 F. Supp. 811 (S.D. Tex. 1966); Sperry Products, Inc., v. Aluminum Co. of America, 171 F. Supp. 901 (N.D. Ohio 1959); International Nickel Co., v. Ford Motor Co., 166 F. Supp. 551 (S.D.N.Y. 1958).

61. Turner, *supra* note 53, at 188, 192.

62. *See* United States v. Wis. Alumni Research Foundation, [1970] Trade Cas. (CCH) ¶ 73,015 (W.D. Wis. 1970).

63. *See* Address by Richard H. Stern, Chief of Antitrust Division, Patent Unit of the Department of Justice, *reprinted in* [1971] PATENT, TRADEMARK & COPYRIGHT J. (BNA) no. 47, D-2.

tively, the owner of a basic patent can block the production of improved articles by refusing to license his patent to the owner of the improvement patent, and vice versa. Each patent blocks the other competitor from the improved invention.

To achieve the strength of complementary patents and avoid the stalemate caused by blocking patents, patent owners will often pool their patents and license the rights to use all the patents in the pool. These pools can sometimes contain hundreds of patents. Another method to achieve this result is cross-licensing of patents where individual owners of complementary and blocking patents license to each other the rights to use their respective patents. Pooling and cross-licensing are quite similar in effect and are frequently used interchangeably. A series of cross-licensing agreements is sometimes termed a patent pool by the courts.

The acquisition of a pool of patents or a series of cross-licensing agreements necessitates careful consideration under section 7. Patent pooling is, by its very nature, highly anticompetitive in effect and usually is embraced for that very purpose. Competitors attempt to justify pooling in terms of convenience, arguing that by this means a large number of licenses need not be individually negotiated. It must be recognized, however, that the patent pool is an aggregation of monopolies of inventions and its potential for lessening competition or creating a monopoly is substantial.

Sound policy considerations, however, militate against blanket condemnation of all forms of pooling and cross-licensing. The Supreme Court approved the principle of patent pooling as "necessary if technical advancement is not to be blocked by threatened litigation" in *Standard Oil Co. (Indiana) v. United States*.[64] The Court found, in commenting on the permissability of patent pooling, that "[i]f the available advantages are open on reasonable terms to all manufacturers desiring to participate, such interchange may promote rather than restrain competition."[65] Subsequent decisions also have cited the public interest as a factor supporting cross-licensing, particularly as a means to prevent blocking patents.[66] The positive role of patent interchanges has been sum-

64. 283 U.S. 163, 171 (1931). The defendants had control of petroleum cracking processes by means of seventy-nine patent contracts. The Court held there was no violation of §§ 1 or 2 of the Sherman Act.

65. 283 U.S. at 171. In an earlier case, United States v. Winslow, 227 U.S. 202 (1913), the Court stated that the pooling of complementary patents had no adverse effect at all and consequently could not be viewed as a violation of the antitrust laws. *Id.* at 217.

66. *See, e.g.*, United States v. Birdsboro Steel Foundry and Machine Co., 139 F. Supp.

marized as follows:

> The technological interdependence of a vast number of patents and their legal mutual exclusiveness frequently necessitates exchange or waiver of patent rights. Patent interchanges may help resolve patent conflicts and thus make the assembled patents available to others. They may facilitate patent licensing of a multiplicity of patents, or make possible the use of mutually dependent or blocking patents. Patent interchange may thus promote rather than restrain competition.[67]

Nevertheless, a word of caution is in order, lest the practitioner become overconfident in assessing a possible violation of section 7. The same public interest that necessitates public access to blocking or complementary patents stands in the way of any merger which, in the name of public interest, concentrates undue domination of a particular technology. To fuse complementary or blocking patents into convenient packages for the purpose of making licenses reasonably available to competitors may at first blush appear to promote competition. If there is a probability that such licenses may not be forthcoming, however, the potential for monopolization may overcome the public interest in the fusion. The result of a section 7 challenge then would be dictated not by public interest, but by the fundamental antitrust policy of preventing any lessening of competition. Simply touting the public interest in the advantages of combining complementary or blocking patents does not end the section 7 inquiry. The patent pool still may obstruct competition if improperly utilized. Because section 7 applies where the *potential* for monopolization exists, the possibility of perversion of the positive aspects of the patent pool must be taken into consideration.[68]

IV. Potentially Anticompetitive Utilization of Patent Rights

The patent grant is no ordinary asset and the range of patent rights requires careful analysis in the application of section 7 of the Clayton Act. The interface between section 7 and its antithesis,

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244, 259 (W.D. Pa. 1956); International Mfg. Co. v. Landon, Inc., 336 F.2d 723, 730 (9th Cir. 1964).

67. Attorney General's National Committee to Study the Antitrust Laws, 242-43 (1955).

68. *See* Murchison, *supra* note 46; Turner, *supra* note 53, at 156.

patent law, is complex and fraught with pitfalls.[69] The prophylactic nature of section 7 permits a more flexible analysis than is possible under other antitrust statutes.[70] This permits the courts some leeway in dissecting the patent aspect of a merger.[71] It is difficult to predict precisely how the analysis will proceed, however, because patent rights rarely have been the focus of section 7 challenges, particularly where they are merely one of many assets in a merger. Two areas of antitrust case law may be useful in suggesting some general guidelines for patent asset analysis: (1) decisions involving scarce resources; and (2) decisions scrutinizing a course of business conduct. Most antitrust cases involving patents are under sections 1 and 2 of the Sherman Act or section 5 of the Federal Trade Commission Act, but they are to some extent applicable to section 7 cases because the tests of substantial lessening of competition and tendency to create a monopoly are also used under those statutes. In addition to this case law, a framework of analysis for patents may be helpful in isolating the unique characteristics of patents which merit consideration under section 7 analysis.

A. *Analogous Antitrust Caselaw*

Unique and limited resources are qualitatively similar to patent assets and therefore merger cases involving such resources may be drawn upon for guidance in assessing mergers involving patents. It has been held that where a limited resource is acquired in an amount which exceeds reasonable need, monopolization may be found. For example, the corporate acquisition of the largest U.S. producer of potash was held to violate section 7 where potash reserves were in short supply and the potash industry was highly concentrated.[72] In another case, a finding of monopolization was

69. *See* W. Bowman, Patent and Antitrust Law (1973).

70. 15 U.S.C.A. § 45 (1976). *See, e.g.*, United States v. General Dynamics Corp., 415 U.S. 486 (1974); United States v. Pabst Brewing Co., 384 U.S. 546 (1966); United States v. Von's Grocery Co., 384 U.S. 270 (1966); United States v. Aluminum Co. of America, 377 U.S. 271 (1964).

71. A clear purpose of the 1950 amendment was to substantially strengthen § 7:

> The purpose of the proposed legislation is to prevent corporations from acquiring another corporation by means of the acquisition of its assets, whereunder (sic) the present law it is prohibited from acquiring the stock of said corporation. Since the acquisition of stock is significant chiefly because it is likely to result in control of the underlying assets, failure to prohibit direct purchase of the same assets has been inconsistent and paradoxical as to the overall effect of existing law.

S. Rep. No. 1775, 81st Cong., 2d Sess. 2 (1950).

72. United States v. Standard Oil Co. (New Jersey), 253 F. Supp. 196 (D.N.J. 1966).

based on a company's deliberate pre-emption of bauxite and water-power resources by acquisitions beyond normal future supply needs.[73]

It should be emphasized that a section 7 violation occurs when a *degree* of exclusionary power is attained that will permit a substantial lessening of competition and when an exercise of that power is possible. The question in patent asset acquisitions, as in the case of scarce resources, is whether the accumulation of patents has exceeded current or reasonably foreseeable needs. For a corporation to vigorously outbid all other competitors in acquiring every patent even remotely related to its technology is to absolutely foreclose entry to a wide market. The patent statutes contemplate vesting of monopoly power but they were not intended to allow the patent owner, by pyramiding monopoly power, to control unpatented areas closely related to the patented products.[74]

The parallel between scarce resources and patent assets is most evident in cases involving blocking patents or patent misuse. Deliberate enforcement of blocking patents to prevent potential entry of competitors into a market has the same effect as the hoarding of scarce resources.[75] In *United States v. Singer Mfg. Co.*,[76] a classic blocking patent case brought under the Sherman Act, a patent application for a zig-zag sewing machine was acquired to exclude Japanese machines from the U.S. market. The Court found this to be an unlawful conspiracy. The same result would obtain if the same patent assets were acquired in a merger.[77] A section 7 violation indeed has been found where a patent application was acquired from a failing company for the purpose of excluding competition.[78] Similarly, it has been held that the acquisition of a patent solely for the purpose of asserting it against another, and the continued assertion of the patent in litigation, constituted patent misuse.[79] Acquisition

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73. United States v. Aluminum Co. of America, 148 F.2d 416, 432-33 (2d Cir. 1945). *See* L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST § 179 (1977).

74. *See* L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST § 179 at 509 (1977) and cases cited therein.

75. *See* Section III(C) *supra.*

76. 374 U.S. 174 (1963).

77. *See* Van Cise, *Antitrust Laws and Patents,* 52 J. PAT. OFF. SOC'Y 776 (1970) [hereinafter cited as Van Cise]. *See also* R. NORDHAUS, PATENT ANTITRUST LAW §§ 10-4 to 10-6.

78. Automated Building Components, Inc. v. Trueline Truss Co., 318 F. Supp. 1252 (D. Ore. 1970). *See also* R. NORDHAUS, PATENT ANTITRUST LAW §§ 10-7 to 10-9.

79. Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648, 757 (D.S.C. 1977). The leading case on patent misuse is Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488 (1942). Patent misuse is a broader doctrine than patent antitrust violation. Some conduct classed as

of patents in a merger for a similar purpose could be a violation of section 7.

A second line of case law useful to section 7 patent analysis involves those decisions utilizing the judicial technique of examining specific business conduct with which the defendant either achieved or maintained market domination.[80] The greater the proportion of the market monopolized, the greater is the importance of those acts which brought about or perpetuated the monopolization. Moreover, business conduct during the period in which the monopoly was being created assumes major importance, even though that conduct could be described as merely the exercise of good business judgment at the time.[81]

This judicial technique for analyzing exclusionary conduct, originating in Sherman Act cases, is also well-suited to section 7 patent cases. Where a corporation acquires a homogeneous group of patents that encompass a definitive market area, the court need only determine the degree to which possession of the group hampers competition or constitutes a serious barrier to entry by new competitors. If the corporation is equipped to produce the patented articles of manufacture, then the traditional tests for degree of market control will indicate the new accretion of market power. If production facilities of the corporation do not permit it to use the inventions, the court must question whether the acquisition is for negative, anticompetitive purposes. Although subsequent conduct by the corporation may exonerate the corporation,[82] the court in a section 7 action must address the question of *potential* anticompetitive effect or purpose at the time the acquisition is contemplated or undertaken.

A court should have little difficulty in finding a section 7 viola-

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patent misuse may not be an antitrust violation, although remedies imposed are quite similar. Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917). A special remedy used in patent misuse is a requirement that the fruits of the misuse be fully dissipated before the patent can again be enforced against infringers.

80. Judge Learned Hand's opinion in United States v. Aluminum Co. of America, 148 F.2d 416 (2d Cir. 1945) has been the model for this technique for over 35 years. The business decisions of the monopolist are suspected of being exclusionary in purpose.

81. The "rule of reason," however, permits some justification of those decisions if the proportion of the relevant market controlled has not reached a critical level. Standard Oil Co. of N.J. v. United States, 221 U.S. 1 (1911).

82. If subsequent to the acquisition, the corporation brings only a few, isolated infringement suits after requesting the infringers to pay a reasonable royalty under licenses, then the anticompetitive purpose or effect is not as apparent and a "rule of reason" approach may exonerate the acquisition.

tion when a patent holding company is involved and the patents, although not directly relating to the business of the acquiring corporation, do relate to the activity of a competitor. The acquisition of a patent holding company quite easily can violate section 7,[83] especially if the holding company's patent pool includes a substantial number of important patents in a field of technology.[84] Monopolization of the key patents in a defined market cannot help but chill the capability of others to compete with products produced under those patents.

Acquisitions of patents for the purpose of suppression also deserve special attention. The motive of a patent owner becomes suspect when he acquires a patent with no intention of utilizing or licensing the invention. A common reason for suppressing a patent is that the patent owner is tooled-up for the production of a competing product and it is not feasible to produce the patented invention. If the royalties which could be obtained from licensing the patent to competitors would not make up for the reduction in sales of the competing product, the patent owner maximizes his gross receipts by suppression of the patent. If this suppression has the purpose or effect of substantially lessening competition, then the acquisition violates section 7.

Suppression of a patent is an untoward perversion of the lawful patent monopoly. Although the Patent Act requires only full and complete disclosure of the patented invention,[85] the progress of the "useful arts" requires production and utilization of the invention. Patent suppression has been found violative of the Sherman Act[86]

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83. *See* Smith-Corona Marchant, Inc. v. American Photocopying Equip. Co., 142 U.S.P.Q. 439 (S.D.N.Y. 1964).

84. *See* Kobe, Inc. v. Dempsey Pump Co., 198 F.2d 416, 423 (10th Cir. 1952).

85. 35 U.S.C. §§ 1-376 (1976). The primary consideration the public receives for conferring patent monopoly power upon the patent owner is the full and complete disclosure of the invention in the publication of the "specification". This permits the invention to be freely made and sold at the expiration of the 17 year term. To view the purpose of the Patent Act so narrowly, however, is to misconstrue the true meaning of the constitutional provision which authorized the Act. U.S. CONST. art. I, § 8, par. 8:

> The Congress shall have 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.

86. An attempt to make profit out of letters patent by suppressing the invention covered thereby is outside the patent grant, and is so far removed from the spirit and intent of the patent law that the mere fact that an inventor may make a profit by suppressing his invention is not a sufficient reason for holding the Sherman act inapplicable to agreements affecting patented articles.

Blount Mfg. Co. v. Yale & Towne Mfg. Co., 166 F. 555, 560 (D. Mass. 1909).

and the same considerations dictate a violation under section 7 of the Clayton Act.[87] Here again, however, there is the problem of determining, at the time of acquisition, whether there will be future suppression. In some instances, this may be obvious, as where it would be impossible for the acquiring corporation to make or use the invention because of resource limitations or lack of access to essential raw materials. In other circumstances, the likelihood of suppression may not be so clear.

B. *A Framework for Section 7 Patent Analysis: The Murchison Approach*

Most courts, in adjudicating section 7 cases, find no need to investigate the possibility of patent suppression, patent misuse, or the specific species of patent use that may result in substantial lessening of competition or monopolization. The courts appear to believe that if a merger results in a powerful patent position, that position itself is evidence of anticompetitive purpose or effect.[88] Although this may attain a correct result, it leaves much to be desired in terms of analysis of patent assets. One scholar, John L. Murchison, Jr., has suggested a practical answer to the knotty problem of the application of section 7 to specific patent acquisitions.[89] Murchison sees two primary questions in section 7 analysis: first, when are there likely to be anticompetitive effects, and second, what considerations should be taken into account in framing rules to stop undesirable acquisitions.[90]

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87. *See* Van Cise, *supra* note 77, at 785-86.

88. In A.G. Spalding and Bros., Inc. v. F.T.C., 301 F.2d 585 (3d Cir. 1962), the merged corporation, formerly Spalding and Rawlings, held significant patent rights in sporting equipment, generally, and lines of baseballs, specifically. The Federal Trade Commission's order of divestiture was upheld because of the § 7 violation. Rawlings had been one of the four largest of 200 firms engaged in the manufacture of athletic goods and held patent rights to eighty inventions, although none for baseballs. Patents were found to be a primary factor in Spalding's substantial lead in the baseball market, *id.* at 618, even though Spalding asserted that it licensed applicants under all of its patents. *Id.* at 619. The court observed that four of the largest manufacturers of athletic goods had active research and development departments and regularly filed a generous number of patent applications. This factor, the court noted, loomed large in giving these companies their respective leading positions in the athletic goods industry. This concentration was determinative in the court's decision to affirm and enforce the F.T.C. order of divestiture. *Id.* at 620. Cases such as *Spalding* teach that patents lend themselves quite easily to numerous exclusionary practices and show that accumulations of patents by the monopolist are rarely overlooked by the courts. On the role of patents in exclusionary practices, *see* 3 P. AREEDA & D. TURNER, ANTITRUST LAW ch. 7B (1978).

89. *See* Murchison, *supra* note 46.

90. *Id.* at 697.

Murchison focuses his inquiry by differentiating between acquisitions of unexploited and commercially exploited patents. Patents are further divided into those that may be practiced without infringing others and those that would infringe others. In the latter group are improvement patents and overlapping patents, *i.e.*, patented inventions which must be practiced simultaneously in a particular art and which are complementary to each other.[91]

Murchison would condemn the exclusive acquisition of unexploited patents if the acquisition would create or further expand market power. Alternatively, only those exclusive acquisitions by a dominant firm in the relevant market would be prohibited. In either case, the exclusive acquisition of patents equivalent or inferior to existing patents of the acquiring corporation also would be prohibited.[92] Murchsion admits that it is difficult to determine whether a patent may confer market power.[93] This is not an insurmountable obstacle, however, if it is kept in mind that every patent confers market power and only market power resulting in a substantial lessening of competition is to be condemned.

In the case of the acquisition of patents that have already been commercially exploited, the analysis would be much simpler.[94] The share of the market controlled by the patent is known. The court has but to combine the market shares controlled by the merging corporations and compare the total with that controlled by other firms in the relevant market. It should not be difficult to assign a portion of the market to a particular patent. The indirect effect that the patent has on potential competition, however, would be much more difficult to ascertain. Competitors do not enter a market controlled by patented products or processes unless adequate licenses can be obtained at reasonable royalty rates. Lacking such licenses, potential competitors might attempt to "invent around" the patents and devise economical substitutes. This is a speculative decision, however, and the research and development costs are often prohibitive.

For the purposes of section 7, it is reasonable to divide patent acquisitions, as Murchison suggests, into commercially exploited and unexploited patents. Pecuniary values for the former are easily calculated. Evaluation of the latter is wholly conjectural and they

91. *Id.* at 698.
92. *Id.* at 698-705.
93. *Id.* at 701, 718.
94. *Id.* at 726-31. *See* United States v. Philadelphia Nat'l Bank, 374 U.S. 321, 363 (1963).

should not be analyzed in the same way as exploited patents. Moreover, patent licenses require additional analysis because, unless the licensee has begun production under the license, the anticompetitive effect on the market cannot be measured. This is true even if the patent has been practiced by others because it is the market power of the licensee which will determine the degree of anticompetitive effect once production under the license is begun.

Furthermore, improvement and overlapping patents should be distinguished from patents that may be practiced without infringement. The acquisition of a series of improvement or overlapping patents confers substantially greater monopoly power than a series of independent patents. Independent patents sometimes can be avoided by creative alternative invention or can be directly attacked in declaratory judgment suits. A web of improvement or overlapping patents is not as susceptible to such measures because, as one or two patents fall, others are immediately available to further trouble competitors.

Additionally, when applying section 7, a comparison should be made between the market strength of the patents to be acquired and the strength of patents in the possession of other competitiors. The patents to be acquired may be equally as strong, *i.e.*, they may command an equal share of the market as attractive alternatives. On the other hand, they may command a lesser share of the product market. If process or machine patents are involved and identical products are marketed by all competitors, then the strength of the patent is determined by the saving in material costs, labor, or time when the patent is practiced. A merger or acquisition which strengthens the patent position of the surviving corporation enhances competition when powerful patents are held by competitors. If the patents to be acquired have already been exploited, the competitive picture after the proposed acquisition will be readily discernible. Unexploited patents pose a difficult problem, but market strength can to some extent be estimated by examining the state of the technology and analyzing the breadth of the patent claims that have been awarded.

VI. Conclusion

No single approach to the question of patent acquisition can be a panacea to cure the difficulty in evaluating these assets under section 7. Judicial standards may be as diverse and varied as the myriad of techniques that artistic lawyers have devised to extend the power of the patent grant into peripheral, unpatented areas. The time-honored tests for lessening of competition and monopolization will serve well, however, if the intricacies of the patent positions of the merging corporations are carefully dissected and individually examined. More is required than a nodding acquaintance with the exclusionary power of the patent grant and a passing glance at the quantity of patents involved in the merger. The special monopoly power of the patent grant must be fully understood if the anticompetitive potential of patent assets are to be appreciated.