Federal Circuit Issues Major Opinion on Patent Misuse Doctrine In *Princo Corp.*

On August 30, 2010, in its *en banc* decision issued in *Princo Corp. v. International Trade Commission*, the Federal Circuit arguably narrowed the application of the judicially created doctrine of patent misuse in the licensing context. A finding of patent misuse by the patentee makes the patents-at-issue unenforceable, thus immunizing otherwise infringing conduct. Addressing the question — whether a patentee that offers to license a patent misuses that patent by inducing a third party not to license its own patented, separate, competitive technology — the Court concluded that such conduct did not constitute patent misuse. At issue was Philips' licensing of a package of patents held by various entities, including patents to Philips' disc-writing technology and a Sony patent related to a separate disc-writing technology. Philips and Sony (and other industry entities) had agreed that the industry standard for creating writable CD-R/RW discs would incorporate the Philips technology, Philips would administer the patent pool license that would be restricted to only implement this standard (the "Orange Book" standard), and allegedly agreed that the alternative Sony technology would not be licensed outside the patent pool, thus preventing development of a potentially competing technology to Philips' patented technology.

Judge Bryson, writing for the majority, stated that in the licensing context, "the key inquiry under the patentee misuse doctrine is whether, by imposing the condition in question, the patentee has impermissibly broadened the physical or temporal scope of the patent grant and has done so in a manner that has anticompetitive effects." Where the patentee's actions do not attempt to broaden the scope of the patent, it is not patent misuse "simply because a patentee engages in some kind of wrongful commercial conduct, even conduct that may have anticompetitive effects."

According to the Court, the alleged horizontal agreement between Philips and Sony to, in effect, restrict availability of the Sony-patented technology, even if it has anticompetitive effect, does not rise to the level of patent misuse because it does not physically or temporally expand the scope of the Philips CD-R/RW patents. In other words, when a patentee (Philips) offers to license a patent, there is no patent misuse by inducing a third party (Sony) not to license its separate, competitive technology. Key to the Court's reasoning was that there was not a sufficient connection between the use of the Philips patents by offering to license them as part of a package that includes the Sony patent, and the alleged anticompetitive act of inducing Sony to not license its patent independently. In essence, according to the majority, Princo's argument is that the agreement between Philips and Sony is anticompetitive, not that the terms of the Philips license itself are anticompetitive misuse. The Philips-Sony agreement could very well have been made even if Philips did not own or offer to license its own patents on CD-R/RW technology; thus the Court found the agreement "does not leverage the power of a patent to exact concessions from a licensee that are not fairly within the ambit of the patent right."

In its ruling, the Court made other significant findings. For example, in rejecting an argument by Princo that Philips was "leveraging" its patent rights by using proceeds from the patent package to pay royalties

to Sony, which induced Sony to include its patent in the pool and not separately license it, the Court held that "the use of funds from a lawful licensing program to support other, anticompetitive behavior" is not patent misuse. After finding that an alleged agreement to prevent access to a third party's patent is not misuse of the patentee's own licensed patents, the Court also affirmed the Commission's factual findings that Princo failed to establish that such an agreement even existed in this case, or that it had anticompetitive effect in that Philips failed to establish that the competing Sony technology was or could have become commercially viable.

It should be noted that the Court reiterated that certain conduct may not be patent misuse because, for example, it doesn't seek to expand the scope of the licensed patents *per se*, but could still be anticompetitive and could still be an antitrust violation. The *en banc Princo* decision deals with patent misuse, but other areas of law, particularly antitrust law, could potentially be impacted by specific conduct. In a partially concurring opinion, Judge Prost disagreed with the majority's view that anticompetitive behavior, or even antitrust violations that do not expand the scope of the applicable patent rights, cannot be patent misuse, finding the doctrine less restrictive without articulating a standard. She based her concurrence on the failure of Princo to factually establish an agreement between Philips and Sony or any anticompetitive effect of that agreement. Judge Dyk, in a lengthy dissent, made clear that he has a more expansive view of what constitutes patent misuse, and held that "it is clearly misuse where [an] agreement involves the suppression of one patented technology to protect another patented technology from competition." Disagreeing with the majority, Judge Dyk did not see the alleged agreement between Philips and Sony (to prevent independent licensing of the Sony patent), and the patent pool license offer as "separate or collateral agreements," but as "part and parcel of the same course of conduct designed to protect [Philips'] patents from competition from the alternative [Sony] technology," which "constitutes misuse of the [Philips] patents."

The practical import of the Federal Circuit's *en banc Princo* decision is that the majority of the Federal Circuit take a restrictive view of the doctrine of patent misuse. Where allegedly anticompetitive acts, such as an agreement between parties that makes one of their patented technologies unavailable for independent licensing, have no bearing on the physical or temporal scope of the patents-in-suit, there is no patent misuse. The attempted expansion of the rights granted to a patentee, and *its* connection to an anticompetitive effect, is the key determinant for patent misuse under the Federal Circuit's *Princo* decision.

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