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Setting A Lower Patent Misuse Standard?

Law360, New York (June 26, 2009) -- In remanding part of U.S. Philips Corp.'s long-running infringement suit against Princo Corp., the U.S. Court of Appeals for Federal Circuit has asked the International Trade Commission (ITC) to articulate appropriate — and perhaps lower — standards for proving patent misuse if two companies agreed not to license separately from a package license technology potentially competitive with the pooled technology.

The court also announced an objective test for determining whether a patent comprises technology “necessary” to practice a technical standard to assess, in turn, allegations of patent misuse by alleged patent-to-patent tying. *Princo Corp. v. ITC*, Case No. 07-1386 (Fed. Cir., Apr. 20, 2009) (Dyk, J.; Bryson, J., dissenting-in-part).

Philips administers a patent pool including technology necessary to make recordable and rewritable compact discs that are compliant with the Orange Book technical standard. Philips sued Princo for infringing these patents, resulting in several ITC and Federal Circuit decisions.

In its most recent decision, the ITC rejected Princo's patent misuse defenses on two grounds: that Philips and Sony agreed not to license separately from the pool technology (the Lagadec patent) that was potentially competitive to the pooled technology and that, through its package licensing, Philips conditioned licenses to an allegedly non-essential patent (again, the Lagadec patent) to licenses for patents essential for making compact discs compliant with the Orange Book standard.

The Federal Circuit vacated the ITC's decision and remanded the first issue and affirmed the second.

A New Misuse Standard?

Since *Windsurfing International Inc. v. AMF Inc.*, a successful patent misuse defense has required an accused infringer to show that the misuse conduct “tends to restrain

competition unlawfully in an appropriately defined relevant market,” except in cases in which the Supreme Court has concluded that the licensing arrangement was per se unlawful (e.g., price-fixing).

Applied to Princo’s first patent misuse argument, it would seem impossible for Princo to meet this standard. No one used the Lagadec patent to commercialize a competitive alternative to products made by practicing the other Philips pooled patents.

But the Federal Circuit concluded horizontal competitors cannot “insulate themselves from misuse ... by agreeing to suppress competing technologies before they are fully developed.”

The Federal Circuit concluded that the ITC should determine “appropriate standard [for misuse] under the rule of reason.”

Infringers might not have to satisfy the traditional market analysis given the four “pertinent considerations” identified by the Federal Circuit to inform the appropriate standard: competing technologies “typically need further development before they can be commercialized; proving commercial viability may be “difficult absent market incentives; even “faulty technology can be competitive; suppressing potentially competing technology” lacks any benefit.

The Federal Circuit concluded that proof that the suppressed technology was commercially viable “would be sufficient” to establish patent misuse. But the patent misuse defense would fail, the Federal Circuit added, if it was certain that the technology two horizontal competitors agreed not to license separately could not be viable.

The Federal Circuit then left “for consideration in the first instance by the Commission” where on the continuum of viability “the appropriate standard lies.”

An Objective Test for 'Necessary' Technology

Like the ITC, the Federal Circuit rejected Princo’s patent misuse theory based on alleged tying by Philips of a license to the Lagadec patent, technology allegedly not essential to comply with the Orange Book standard, with undisputedly necessary technology.

In a 2005 decision in this same case, the Federal Circuit concluded that patent-to-patent tying could not occur if the two patents are part of a “unified” product,” e.g., where a “group of patents [was] essential to practice a particular technology or standard.”

In its most recent decision, the Federal Circuit held that separate technology is “necessary” — and therefore part of the unified product incapable of being “tied” — if “an objective manufacturer would be believe reasonably [that the technology] might be necessary to practice the technology at issue.”

Because the Lagadec patent satisfied this standard, the Federal Circuit concluded that the Philips package license lacked any “tied” technology. To hold otherwise, the Court reasoned, would undermine one of the salient precompetitive virtues of package licensing: the “avoidance of uncertainty and costly litigation.”

Such litigation, the Court added, would only add to the delay in commercializing pooled technology.

Practice Note: The latest Federal Circuit *Princo* decision reinforces the lessons of its earlier ones: Patent holders that contribute technology to patent pools should ensure the same patents are available for separate, individual licensing. Such alternative licensing options will minimize the risk of patent misuse defenses and potential antitrust liability.

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