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Princo Corp., et al. v. International Trade Commission and U.S. Philips Corp.
No. 2007-1386 (Fed. Cir., August 30, 2010) (*en banc*)

Federal Circuit *En Banc* Decision Limits Patent Misuse Defense

The Federal Circuit, sitting *en banc*, issued an opinion on August 30, 2010 in which a majority held that the equitable doctrine of patent misuse should be only narrowly applied as a defense to infringement charges.

The *Princo* case has a lengthy procedural history, and had gone up and down between the ITC and the Federal Circuit more than once. The alleged patent misuse involved a patent pool between Philips, Sony and others covering recordable and rewritable compact disc technology (CD-R/RW). Philips was responsible for administering and licensing that patent pool, which included the Raaymaker patents owned by Philips - which cover an analog method for encoding position information on compact discs - as well as a Sony patent covering a potential alternative (digital) method to encode such information ("the Lagadec patent"). Philips and Sony had led the effort to draft and develop industry-wide standards for recordable CDs ("the Orange Book"), and chose to incorporate the Raaymaker method into the standard. In the agreement establishing the terms for the licensing of the patent pool, Philips and Sony agreed not to license those patents for uses which did not comply with Orange Book standards. The patents Philips asserted against Princo before the ITC included the Raaymaker patents. Princo argued that the agreement creating the patent pool effectively prohibited the licensing of the Lagadec method, was a horizontal restraint on trade which suppressed alternative technology, and thus constituted patent misuse which should render the Raaymaker patents unenforceable.

The sole issue addressed by the *Princo* court was whether, assuming that Philips and Sony had agreed to suppress the Lagadec method, that agreement could be misuse of the Raaymaker patents. In other words, when a patentee offers to license a patent is it patent misuse for it to induce a third party not to license its separate competing technology?

A six judge majority held that antitrust and patent misuse are separate doctrines which have in common only the requirement that the misconduct have an anticompetitive impact. The doctrine of patent misuse involves only the patent(s)-in-suit, and the inquiry is whether the patentee has tried to extend the patent beyond its lawful scope. Such conduct standing alone may - or may not - be an antitrust violation. Antitrust, by contrast, covers the entire conduct of the person holding the patent - including, as in this case, a concerted refusal to allow anyone to license the second patent. Using this analysis, the majority ruled that there could be no patent misuse here both because: (a) the alleged agreement suppressing Sony's Lagadec patent did not broaden the physical or temporal scope of Philips' patents-in-suit; and (b) Princo had presented no evidence that the alleged agreement had an anticompetitive effect. The majority emphasized that patent misuse is a narrow defense, and is not available in every case allegedly involving patent-related wrongdoing.

In a concurring opinion, two judges agreed that there could be no finding of patent misuse because Princo had failed to meet its burden to show that any agreement regarding the Lagadec patent had anticompetitive effects. The concurrence expressed no opinion on "the precise metes and bounds" of patent misuse, viewing that issue as unnecessary to the decision. It did, however, expressly "part ways with the majority and dissent...over the other contours of the patent misuse doctrine," expressing "doubt that the doctrine is as narrow or expansive as each respectively suggests."

The two judge dissent took a distinctly different view of both the evidence and the law of patent misuse, arguing that the alleged agreement was part of the same course of conduct as the licensing of the patents-in-suit, that the suppression of alternative technology did improperly extend the patent monopoly, and the burden should be on Philips to prove that such an improper agreement did not have anticompetitive effects.

While this opinion is of academic and historic interest, as a practical matter the decision may not have much impact. Patent misuse is a defense against infringement claims; that defense has rarely been successful, serving more as a defensive irritant than a bar to enforcement of the patent. Anticompetitive conduct by a patent holder that is outside the patent misuse doctrine may still be challenged in antitrust and unfair competition counterclaims. Conceivably, some of the conduct at issue in this decision might also figure into a court's decision to deny injunctive relief under "unclean hands" theories.

The decision may call for more creative licensing negotiations. The decision makes it clear that patent misuse may occur when a patentee asks for royalties beyond the expiration date of the patent. So a

patent owner should be careful not to seek royalties for periods after the expiration of the patent. This might lead perhaps to more lump sum royalties. But what happens if the patentee gives the licensee an opportunity to pay the lump sum over time? Query whether a fully paid up royalty negotiation, with extended terms for payment, would constitute misuse - extending the economic return on the patent beyond its expiration date? This is a complex area, and patent licensing discussions must include consideration of antitrust and patent misuse concerns.

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