

Legal Updates & News

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Risks of Agreeing Not to License a Pooled Patent

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Patent owners that participate in a patent pool should pay close attention to an *en banc* hearing that will take place in *Princo Corporation v. International Trade Commission* in 2010.^[1] At present, the parties, the NYIPLA, and the AIPLA are preparing briefs on patent misuse issues that the Federal Circuit specifically identified in its October 13, 2009 order granting *en banc* review.^[2] In this case, the Federal Circuit may decide whether it is patent misuse for patent owners to agree among themselves *not* to license a pooled patent for a potentially competing technology outside of the pool.^[3]

Background

The root of the patent misuse issues in *Princo* started in the late 1980s and early 1990s, when U.S. Philips Corporation and Sony Corporation jointly developed the technical industry standards (called the “Orange Book”) for the production of CD-R and CD-RW discs. Philips developed and patented an analog method for encoding position data on a blank disk to determine position (“Raaymakers patent”). Sony developed and patented a digital method for doing the same (“Lagadec patent”). Philips and Sony, nevertheless, chose to define the Orange Book standard using only Philips’s analog approach. However, when Philips and Sony and two other companies agreed to pool their patents that covered the Orange Book standard, they also included Sony’s Lagadec patent in the patent pool’s joint license, even though this patent did not cover the chosen Philips analog approach described in the Orange Book. Though Princo Corporation and Princo American Corporation originally took a license to the Orange Book pooled patents, they later stopped paying royalties, and this resulted in Philips filing a complaint against them before the International Trade Commission. In response to the complaint, Princo asserted that Philips and Sony had agreed not to license the Lagadec patent, and that this was patent misuse because that agreement prevented the development of a technology that competed with the Orange Book technology.^[4]

On April 20, 2009, a Federal Circuit panel issued a decision after reviewing an International Trade Commission ruling in *Princo*. The Panel Decision rejected Princo’s argument that the Lagadec patent was not necessary to practice the technology of the Orange Book standard,^[5] but it also remanded to the Commission for further fact finding on whether Sony and Philips had agreed not to license the

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Lagadec patent.^[6] In its *en banc* order, the Federal Circuit vacated its Panel Decision, granted the petitions for rehearing *en banc* filed by Philips and the Commission, and reinstated the appeal filed by Princo.^[7] Princo's reinstated appeal will now be decided by the Federal Circuit sitting *en banc*, after the parties file new briefs primarily addressing Section II of the Panel Decision.^[8]

Arguments Raised by Section II of the Princo 2009 Panel Decision

Generally, Section II of the Panel Decision addressed whether the Lagadec patent was a viable alternative to the technology licensed through the Orange Book patent pool, and whether Philips and Sony agreed not to license the Lagadec patent in a way that would allow a competitor to develop, use, or license the Lagadec patent's technology to create a competing technology.

Thus, in its *en banc* decision, the Federal Circuit will likely address whether and when the patent misuse doctrine applies to pooling arrangements in which participants agree not to license a patent outside of the pool. If the Federal Circuit concludes the relationship between Sony and Philips was vertical (*i.e.*, one involving complementary patents), the court will likely apply a rule of reason analysis, which balances the procompetitive and anticompetitive effects of the restriction. However, if the Federal Circuit views the relationship between Sony and Philips as horizontal (*i.e.*, one that involved competing patents), there is the potential that the court would find the agreement to be *per se* patent misuse. The fundamental question the court must answer is whether procompetitive benefits of the patent pool potentially justify an agreement not to license outside of the pool. If so, the court would apply a rule of reason analysis even though the relationship is horizontal. If not, the court could apply a *per se* analysis.

If it concludes that the purported agreement between Philips and Sony is subject to a rule of reason analysis, the Federal Circuit may also have to determine the relevant market in which to evaluate the effects of the purported agreement and whether there is market power. How the Federal Circuit would make this evaluation is unclear. For example, the relevant market could be defined in several ways. It could be the market for the licensing of the technology covered by the Lagadec patent, the market for the technology of the Raaymakers patents, or even the market for the products covered by the patent pool. In addition, the range of parties that must be included in the market power analysis is also unclear. The range of parties could arguably range from all of the pool participants, to only the market power retained by Philips, or anywhere in between.

Therefore, this decision could have a significant impact on the kinds of agreements that patent owners forming a pool may enter into with each other. If the Federal Circuit decides the agreement in *Princo* was *per se* patent misuse, pool participants will not be able to agree not to license pooled patents that arguably involve substitutable technologies outside of the pool without fear that they will violate the patent misuse doctrine. If, on the other hand, the Federal Circuit decides that the rule of reason applies to such agreements, patent owners should continue to carefully analyze potential competitive effects before entering into such an agreement. Until the Federal Circuit issues its *en banc* decision in *Princo*, patent owners should closely scrutinize agreements they may be entering into with other patent owners, particularly any agreements that restrict access to patents.

Footnotes

^[1] 563 F.3d 1301 (Fed. Cir. 2009) (the "Panel Decision").

^[2] *Princo Corp. v. International Trade Comm'n*, 583 F.3d 1380 (Fed. Cir. 2009) (per curiam). At present, the court has extended the deadlines for briefing. Princo's and the Commission's briefs are due on 1/15/2010; Philips's brief is due on 2/5/2010.

^[3] Though it previously held that a patent owner was under no obligation to license a patent, *Intergraph Corporation v. Intel Corporation*, 195 F.3d 1346, 1362 (Fed. Cir. 1999) (the antitrust laws do not negate the patentee's right to exclude others from patent property) (citing *Cygnus Therapeutic Sys. v. ALZA Corp.*, 92 F.3d 1153, 1160 (Fed. Cir. 1996)), in *Princo* the question is addressed to whether patent owners can agree among themselves to withhold a license to a patent.

[4] *Princo*, 563 F.3d at 1302.

[5] 563 F.3d at 1311-12.

[6] 563 F.3d at 1310.

[7] 583 F.3d at 1380-81.

[8] 583 F.3d at 1381.