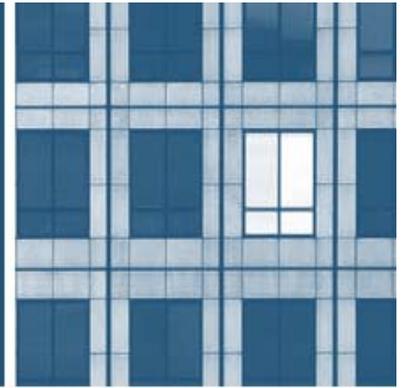


On the Subject



Antitrust & Competition

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The U.S. Court of Appeals for the Federal Circuit recently decided agreements between horizontal competitors to license potentially competing, patented technologies exclusively through a patent pool does not support a patent misuse defense. However, the majority decision may not be the final word on this issue.

En Banc Federal Circuit Addresses Patent Misuse

In an *en banc* decision issued August 30, 2010, the U.S. Court of Appeals for the Federal Circuit concluded that agreements between allegedly horizontal competitors to license potentially competing, patented technologies exclusively through a patent pool—and refusing to license those technologies separately—does not support a patent misuse defense (*Princo Corp. v. Int'l Trade Comm'n*, Case No. 07-1386 [Fed. Cir. Aug. 30, 2010]). The decision apparently narrows the type of conduct that could constitute patent misuse and reaffirms the two elements the Federal Circuit requires an accused infringer to prove to establish the defense: (1) that the misuse conduct expands the patent's physical or temporal scope (2) with an anticompetitive effect. Yet the fissures among the *en banc*, concurring and dissenting opinions suggest the majority decision will not be the last word on this issue.

Background

In the United States, Philips and Sony developed technology necessary to make recordable compact discs (CD-Rs) and rewritable compact discs (CD-RWs). Philips and Sony licensed this technology through a patent pool that became known as the "Orange Book." Princo, a licensee, stopped paying its fees and thus invited an infringement suit. Philips, the patent pool's administrator, subsequently filed suit at the International Trade Commission (ITC) when Princo attempted to import infringing CD-Rs and CD-RWs into the United States. At the trial level, the administrative law judge found that Princo infringed claims of the

six patents Philips asserted. Subsequent proceedings before the ITC and the Federal Circuit have focused almost solely on Princo's patent misuse defenses.

In its August 30 decision, a divided *en banc* panel Federal Circuit rejected Princo's last remaining patent misuse theory—that Philips (which developed the Raaymakers patents necessary to satisfy Orange Book standards) and Sony (which developed the Lagadec patent technology that was potentially competitive with Raaymakers) agreed not to license the Lagadec patent separate of the pool license to insulate the Raaymakers patents from competition.

In rejecting this patent misuse theory, the majority held:

Even if such an agreement [between horizontal competitors] were shown to exist, and even if it were shown to have anticompetitive effects, a horizontal agreement restricting the availability of Sony's Lagadec patent would not constitute misuse of Philips's Raaymakers patents or any of Philips's other patents in suit.

The majority decision relied on three separate concepts in reaching this result.

Federal Circuit precedent

The majority emphasized that the rationale for the patent misuse doctrine is to limit impermissible "leverage"—namely, using the statutory rights conferred by a patent to increase the patentholder's power to "obtain a market benefit beyond that which inheres in the statutory patent right." According to the majority, promoting this principle requires consistent application of both prongs that the Federal Circuit announced in its 1986 *Windsurfing* decision to assess patent misuse allegations. An accused infringer can successfully invoke the patent misuse defense only by showing that the patentholder "[1] impermissibly broadened the 'physical or temporal scope' of the patent grant with [2] anticompetitive effect." The majority concluded that there was no evidence to satisfy either of these standards.

A “judge-made” doctrine

The majority emphasized its reluctance to endorse *Princo*’s misuse theory, even if *Princo* had produced supporting evidence, for three reasons. First, the majority construed the defense narrowly as a “judge-made doctrine that is in derogation of statutory patent rights against infringement.” Second, the majority twice referred to Judge Posner’s 1982 decision in *USM v. SPS Technologies*, characterizing patent misuse as limited to “a handful of specific practices” and perhaps unnecessary given antitrust remedies for “every practice that could impair competition substantially.” Third, the majority cited 35 U.S.C. § 271(d)(5) as justification for shrinking the types of conduct supporting the patent misuse defense.

Patent pools as procompetitive joint ventures

Finally, the majority compared patent pools to joint ventures, identifying the efficiencies expected of joint venture conduct and noting the procompetitive characteristics of such ventures that typically justify imposing full blown, antitrust rule-of-reason analysis to any challenge that the joint venture has engaged in anticompetitive conduct. As a result, the majority concluded the same analytical framework should govern patent misuse claims.

The Future of the Patent Misuse Doctrine

Some commentators have hailed the majority opinion in *Princo* as providing clearer instructions to patent pool administrators about how to structure their licensing activity, but the opinion has three important limitations.

First, the majority announced a bright-line rule of law disarming accused infringers of a single patent misuse theory that failed on the facts. Even if the Federal Circuit had embraced the theory *Princo* advocated, *Princo* lacked the evidence to prove it, either as a patent misuse defense or as an affirmative antitrust claim. It is conceivable that an accused infringer with a more substantial factual record might be able to prove some enlargement of the patent scope and an anticompetitive effect under traditional antitrust rule-of-reason analysis based on the same alleged conduct. This appears to be one reason why Judges Prost and Mayer concurred with the majority’s result, but not its reasoning.

Second, the majority expressly noted the invalidation of this single patent misuse theory would not insulate patent-holders from affirmative antitrust claims predicated on the same alleged conduct. But both the concurring and dissenting opinions criticized the *en banc* decision for assuming that conduct could support an affirmative antitrust claim, yet fail to constitute patent misuse. The debate among the majority, concurring and

dissenting opinions is almost academic as applied to *Princo*, whose patent misuse claim failed as a matter of fact. Yet other litigants might make this academic debate more practical and concrete by litigating the same issues on different, and more substantial, factual records.

Third, the issuance of three opinions in *Princo* by the *en banc* panel underscores tension between the Federal Circuit and the Supreme Court about an accused infringer’s burden to prove patent misuse as well as the doctrine’s vitality. A majority of the Federal Circuit appears to be increasingly suspicious of the doctrine’s vitality and, regardless, will apparently require evidence on both of the elements of the patent misuse defense in every case. By contrast, several Supreme Court precedents (as well as decisions from other circuit courts) suggest standards to prove patent misuse are more relaxed than those necessary to prove affirmative antitrust violations.

For these reasons, the majority opinion ultimately underscores the same lesson taught by the three-judge panel decision it overruled. Participants in patent pools that want to minimize the risk of potential antitrust liability should offer to separately license patented technology even if they have focused their licensing efforts on pool licensing

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