**Keywords:** **blocking patent, commercial viability, patent misuse, price fixing, tying agreement**

**General:** **Patent misuse is a non-statutory defense to claims of patent infringement, and Congress has enacted 35 U.S.C. § 271(d) to limit its application. To be found guilty of patent misuse, the patentee must act to impermissibly broaden the physical or temporal scope of the patent grant with anti-competitive effect. Further, the misuse must be of the patent-in-suit.**

***Princo Corp. v. International Trade Commission***
96 U.S.P.Q.2d 1233 (Fed. Cir. 2010)
Decided August 30, 1020

## I. Facts

In the late 1980's and early 1990's, Philips and Sony jointly developed the "Orange Book," a technical standard ensuring compliance of CD-R and CD-RW discs with CD players and CD-ROM drives that have also been manufactured to the standard. In the early 1990's, Philips, Sony, Taiyo Yuden, and Ricoh agreed to pool their Orange Book-related patents. Philips would administer the pool and the other companies would receive a share of the royalties. Philips offered a joint license to the pooled CD-R patents and a joint license to the pooled CD-RW patents and did not offer licenses to individual patents. The licenses required a per-disc royalty on each disc produced using at least one licensed patent. The royalty was a set amount and did not vary depending on how many of the patents in the pool were actually used.

While developing the Orange Book standard, a need arose to encode position data on discs using the existing wobbled pregroove, and doing so in a manner backwards-compatible with existing CD players. Philips developed an analog approach known as "Absolute Time in Pregroove" or "ATIP," covered by Philips's U.S. Patent Nos. 4,999,825 and 5,023,856 (hereinafter, the "Raaymakers patents"). Sony developed a digital approach covered by Sony's U.S. Patent No. 4,942,565 (hereinafter, the "Lagadec patent"). Although the two methods solve the same basic problem, they are fundamentally incompatible with each other (i.e., not interchangeable). The Orange Book standard ultimately used the analog Raaymakers ATIP approach.

Philips brought suit against companies for infringement of patents within the pool. Princo was not one of the respondents, but moved to intervene and asserted a patent misuse defense. The ITC found for Princo on very narrow grounds and Philips appealed. On appeal, the Federal Circuit reversed and remanded back to the ITC for further consideration of Princo's remaining arguments.

On remand, Princo claimed, among other things, patent misuse regarding the Lagadec patent. Under a tying theory, Princo alleged the Lagadec patent was nonessential to the production of Orange Book compliant discs and was unlawfully tied to essential patents. Under a price-fixing theory, Princo alleged both the Lagadec and Raaymakers patents covered potentially competing technologies and Philips and Sony agreeing to only make the patents available as a package foreclosed any potential competition between the technologies and was thus a form of price-fixing. The ITC found for Philips and said no patent misuse occurred. Princo appealed with regards to these Lagadec arguments.

In this second appeal, a divided panel of the Federal Circuit affirmed that the Lagadec patent was essential to the Orange Book standard, and thus, was not improperly tied. However, with regard to Princo's allegation that Phillips and Sony engaged in price fixing and agreed to suppress potentially competitive technologies, the Federal Circuit remanded for further proceedings. Phillips, Princo, and the ITC all filed petitions for rehearing *en banc*, and the Federal Circuit granted petitions by Phillips and the ITC.

## II. Issues

A. Did either Phillips or Sony misuse the Raaymakers or Lagadec patents?

B. Even if there was an agreement between Phillips and Sony, did Princo prove that it had any anticompetitive effects?

## III. Discussion

A. No. The Federal Circuit reviewed several Supreme Court cases dealing with patent misuse and found that, in each case where a patent was misused, the patentee had acted to broaden impermissibly the physical or temporal scope of the patent grant with anti-competitive effect. In other words, the patentee had either attempted to condition the right to use the patent on another article of commerce that was not within the scope of the patent monopoly, or had required payment of licensing fees after the expiration of the licensed patent to effectively extend the life of the patent beyond the statutory period. Further, the Federal Circuit found that defense of patent misuse is not available simply because the patentee engages in some kind of conduct, even if such conduct may have anti-competitive effects. The misuse must be of the patent-in-suit, and an antitrust violation does not necessarily amount to patent misuse merely because it involves patented products or products that are the subject of a patented process. Further, the Federal Circuit found that Congress had enacted 35 U.S.C. § 271(d) to narrow the scope of the patent misuse doctrine, although none of the five statutorily defined categories in Section 271(d) were implicated in the present case.

The Federal Circuit distinguished the facts of the present case from its precedent and from Supreme Court precedent as being directed to "a completely different scenario." Here, the alleged act of patent misuse is focused on the alleged horizontal agreement between Phillips and Sony to restrict the availability of the Lagadec patent, which was never asserted in the infringement action against Princo. Hence, even if such an agreement were shown to exist, and even if it were shown to anti-competitive effects, a horizontal agreement restricting the use of Sony's Lagadec patent would not constitute misuse of Phillip's Raaymakers patents.

In an effort to bring the case within the scope of the traditional patent misuse doctrine, Princo first contended that Phillips leveraged its patents and used the proceeds of its licensing program to give Sony the incentive to suppress the Lagadec patent. However, the Federal Circuit found that even if this action was deemed to be misconduct, it does place any conditions on the availability of the Phillips patents to any potential licensees, so it is not the power of the Phillips patents that is being misused. Princo secondly argued that the Raaymakers patents were misused because the Lagadec patent was not made available for non-Orange Book uses. However, the Federal Circuit found that this was not patent misuse under any court's definition of the term. In sum, the Federal Circuit found that this is not a case in which conditions have been placed in patent licenses to require licensees to agree to anti-competitive terms going beyond the scope of the patent grant, but rather this is a case where the alleged misuse arises instead from an alleged collateral agreement between Sony and Phillips. In such a setting, the doctrine of patent misuse does not immunize Princo from its acts of infringement.

B. No. The Federal Circuit first noted that Princo asked it to overturn its line of authority holding that patent misuse requires a showing that the patentee's conduct had anti-competitive effects, but the Federal Circuit declined to do so. Next, Princo contended that the hypothesized agreement between Phillips and Sony not to license the Lagadec technology for non-Orange Book was a naked restraint of trade and that such conduct should render its Orange Book patents unenforceable. In other words, Princo asked the Federal Circuit to consider the joint venture between Phillips and Sony, as well as its cooperation on the Orange Book standard, as a *per se* antitrust violation which would

shift the burden of proof from Princo to Phllips. Again, the Federal Circuit declined to do so, instead noting that while joint ventures are subject to antitrust scrutiny, research joint ventures such as the one between Phillips and Sony can have significant pro-competitive features and that such agreements are analyzed under the rule of reason. Indeed, the Federal Circuit noted that collaboration for the purpose of developing and commercializing new technology can result in economies of scale and integrations of complementary capacities that reduce costs, facilitate innovation, eliminate duplication of effort and assets, and share risks that no individual member would be willing to undertake alone, thereby promoting rather than hindering competition. Furthermore, the Federal Circuit noted that ancillary restraints that are often important to collaborative ventures, such as agreements not to compete against each their joint venture, are also assessed under the rule of reason.

Here, Princo's proofs failed. The ITC found that even if there was such an agreement between Phillips and Sony, it did not have the effect of suppressing potentially viable technology that could have competed with the Orange Book standards. Rather, the ITC found that the Lagadec approach was fraught with problems that would make it unsuitable as a competitive technology. Thus, Princo failed to demonstrate that there was a reasonable probability that he Lagadec technology, if available for licensing, would have matured into a competitive force. Hence, the Federal Circuit found that even if Phillips and Sony had engaged in an agreement to not license the Lagadec patent for non-Orange Book purposes, it did not have any anti-competitive effects.

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