

## Limitations on the Patent Monopoly Right: The Patent Misuse Doctrine

In the important recent decision *Princo Corp. v. Int'l Trade Comm.*, narrowly construing the patent misuse doctrine, the Federal Circuit, sitting en banc, held that the patent misuse defense did not bar infringement claims in which two competitors joined forces to develop a standard technology, then pooled their patented technology and made it available to the industry via a package license.<sup>1</sup> The doctrine of patent misuse, which lies at the intersection of patent law and antitrust law, is an affirmative defense to acts of infringement and breach of license agreements and is available when the patent holder has exceeded the scope of the monopoly right granted by his or her patent.



Patent misuse is a complex doctrine that is essential to understand when negotiating licensing agreements. Most frequently, patent misuse arises in instances when the patent holder has “require[d] the purchase of unpatented goods for use with patented

apparatus or processes, prohibit[ed] production or sale of competing goods, or condition[ed] the grant of a license under one patent upon the acceptance of another and different license.”<sup>2</sup> The first patent misuse cases related to patentees who, through licensing arrangements, had improperly conditioned the use of their patented equipment on the purchase of some unpatented material to be used with the machine.<sup>3</sup> These types of arrangements

are referred to as improper “tying” of unpatented materials to patented equipment or methods. When a patent holder enters into such an arrangement, his or her patent is unenforceable. The patent holder’s rights are restored by abandoning the abusive practice and dissipating its harmful consequences.<sup>4</sup>

It is the third scenario that is the focus of the *Princo* case, which involved improper licensing arrangements—a form of tying. A patent owner is not misusing the patent merely by packaging it with other patents for licensing; however, generally, the patent holder cannot use the existence of one patent to coerce the licensee into licensing another.<sup>5</sup>

In many instances when the licensed technology is covered by several patents, package licenses are necessary in order to avoid infringement. Indeed, in today’s world of complex, quickly changing technology and in light of the high cost of patent litigation, licensees may desire package licenses, because they remove the uncertainty associated with selecting only certain patents for a license for a new technology.<sup>6</sup> Perhaps recognizing this need, Congress provided in the Patent Misuse Act of 1988 that the misuse defense cannot be used to avoid infringement when the patent owner has

conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.<sup>7</sup>

That brings us to *Princo*. U.S. Philips Corporation and Sony Corporation, as part of a joint venture, developed the majority of the technology related to recordable and rewriteable compact discs (hereinafter referred to as CD-R/RW technology). This technology included patents owned by Philips, Sony, and others. In order to ensure that these compact discs would be compatible with all machines available to read these discs, Philips and Sony published the CD-R/RW technology as a group of standards for all manufacturers of this type of equipment to follow in a publication known as the “Orange Book.” Philips and Sony offered several different package licenses to the CD-R/RW technology, which enabled the licensee to produce discs in accordance with the standards.

Several of the patents covered the technology needed to encode a disc so that a CD reader or writer could maintain its position when writing data to a disc. Philips owns the Raaymakers patents, which offered one solution; Sony owns the Lagadec patent, which offered an alternative approach. The two entities decided that the method in the Lagadec patent would be difficult to implement and prone to error, therefore, they selected the solution in the Raaymakers patents and established that technology as the CD-R/RW standard to be included in the



“Orange Book.” Both the Raaymakers and Lagadec patents are included in the CD-R/RW technology package licenses offered to licensees.<sup>8</sup> Princo Corporation, which manufactured discs using the CD-R/RW technology, entered into a package license for the technology but stopped paying the licensing fees. Philips, as administrator of the package licenses, filed suit for infringement of the Raaymakers patents.

Princo’s remaining contention in this case on appeal is that Philips misused its patents by agreeing with Sony to suppress the competing Lagadec method.<sup>9</sup> Noting the narrow scope of the patent misuse doctrine, the Federal Circuit commented that wrongful commercial conduct by the patentee does not equate to patent misuse, even if the conduct has an anticompetitive effect.<sup>10</sup>

Rather, more specifically, patent misuse occurs when the patentee impermissibly broadens the “physical or temporal scope” of the patent in suit in a way that has an anticompetitive effect.<sup>11</sup> Here, Princo does not complain about the patent in suit or the package license. Its complaint relates to a third party agreement between Phillips and Sony and the Lagadec patent, a patent that Phillips does not allege it infringes. It complains that Phillips uses the license fees from the lawful package licenses to fund its alleged unlawful agreement with Sony, but this is not patent misuse. This conduct does not increase the physical or temporal scope of the Raaymakers patents. The patents in suit, the Raaymakers patents, do not “significantly contribute to the practice under attack;” therefore, absent a link between the patent right and the misconduct, there can be no patent misuse.<sup>12</sup> Additionally, the court found no anti-competitive effect. Philips and Sony chose not to compete against their own joint venture—conduct that is “legitimate” under both antitrust and patent misuse theories.<sup>13</sup>

The majority of the court applied the patent misuse doctrine, as it was established, as an affirmative defense. In its view, the doctrine is narrowly applied to render an offender’s patent unenforceable. In this instance, Philips and Sony were not acting as competitors to suppress a patent and broaden their patent rights. Rather, they were acting for the good of their joint venture by choosing the more developed technology that their designers felt was more likely to accomplish their design objectives. Under this precedent, licensing arrangements should be evaluated for the effect on the patent at issue in the suit. Larger issues with possible anti-competitive effects—issues that are ancillary to the patent in question—should be examined under antitrust law. **TFL**

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## Endnotes

<sup>1</sup>*Princo Corp. v. Int’l Trade Comm.*, 2010 WL 3385953 (Fed. Cir. Aug. 30, 2010).

<sup>2</sup>Donald S. Chisum, CHISUM ON PATENTS § 19.04[3] (Matthew Bender).

<sup>3</sup>See *Motion Picture Patents Co. v. Universal Film Manufacturing Corp.*, 243 U.S. 502 (1917) (A patentee cannot restrict the purchaser of a patented film projector to showing only certain films when its patent rights are limited to the machine.); *Carbice Corp. of America v. American Patents Development Corp.*, 283 U.S. 27 (1931) (Conditioning a license for a patent on refrigerating transportation patents on the use of patentee’s unpatented dry ice is improper.); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 418 (1942) (Conditioning a lease of a patented canner on the leasee purchasing unpatented salt tablets for use with the canner from the patentee is improper.).

<sup>4</sup>Chisum, *supra*, note 2.

<sup>5</sup>See *American Security Co. v. Shatterproof Glass Corp.*, 268 F.2d 777 (3d Cir. 1959), *cert. denied*, 361 U.S. 902 (1959) (holding that a package license constituted impermissible tying where the licensor offered the same royalty rate for its package license as for a license to only four of the patents within the package).

<sup>6</sup>See *Princo supra*, note 1 at \*4.

<sup>7</sup>35 U.S.C. § 271(d)(5).

<sup>8</sup>In the proceedings below, the court found that the Lagadec patent was necessary to the technology included in the “Orange Book”; therefore, there was no impermissible tying in grouping it with the other “Orange Book” patents in a package license. *Princo supra*, note 1 at \*4.

<sup>9</sup>*Id.* at \*10.

<sup>10</sup>*Id.* at \*8.

<sup>11</sup>*Id.* at \*7.

<sup>12</sup>*Id.* at \*10.

<sup>13</sup>*Id.* at \*12.

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