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PERSPECTIVE

Which Opinion in *Princo* Best Applies Recent Supreme Court Lessons?

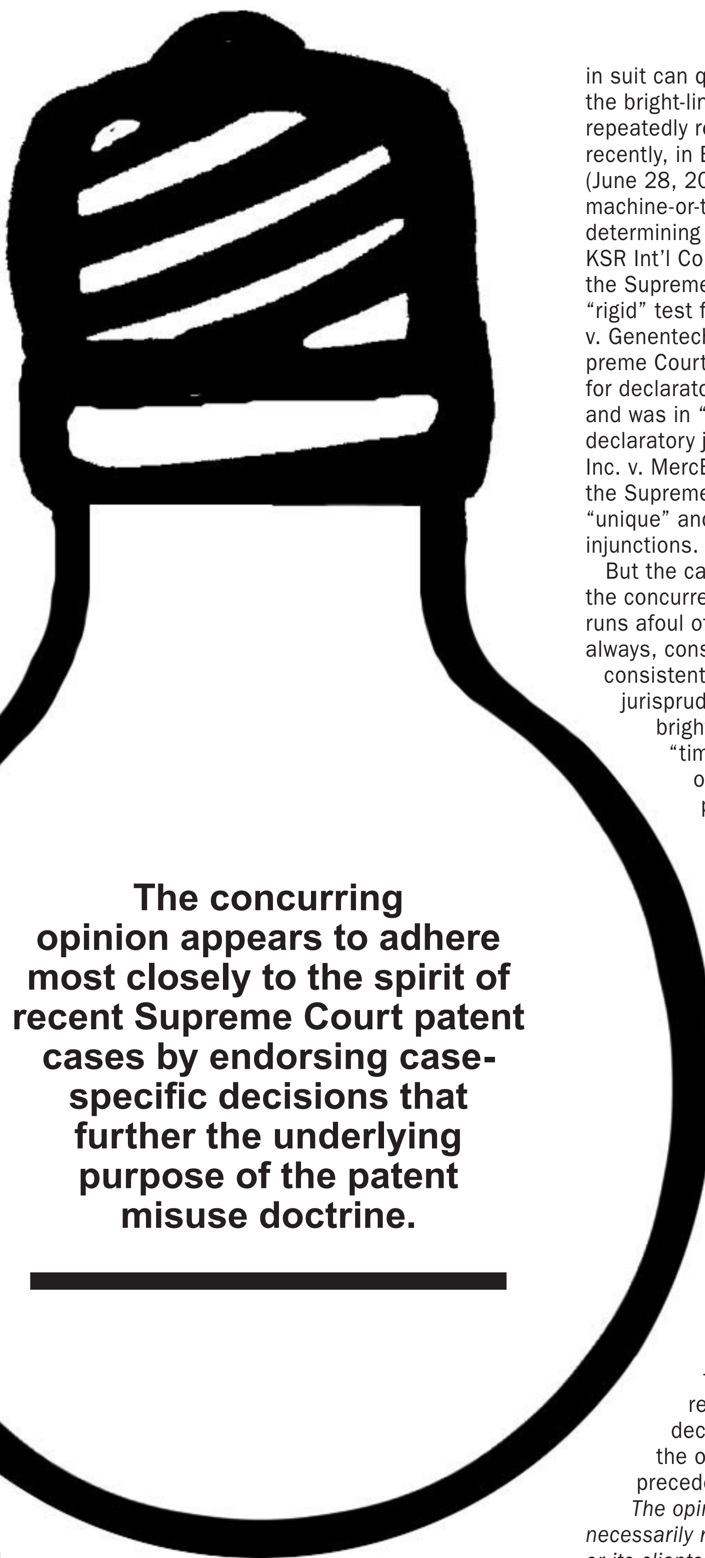
By Darin Snyder and Susan Roeder

The majority in the Federal Circuit's Aug. 30 en banc decision in *Princo Corp. v. ITC* narrowed the patent misuse doctrine to a bright-line, two-part test. A vigorous dissent defended a different, but equally categorical, test. A concurring opinion, by contrast, suggested that the court should not predefine the types of patentee conduct that might constitute patent misuse. All three opinions claimed support in Supreme Court precedent. But the majority and dissenting opinions set forth categorical tests of the type that have been repeatedly overturned by the Supreme Court. The concurring opinion appears to adhere most closely to the spirit of recent Supreme Court patent cases by endorsing case-specific decisions that further the underlying purpose of the patent misuse doctrine.

The underlying facts in *Princo* relate to the standards used for CD storage technology. During the course of jointly developing CD storage technology and the corresponding "Orange Book" standards, Philips and Sony proposed different solutions for a certain technical problem. Philips' approach was set forth in the "Raymaakers patents," while Sony memorialized its approach in the "Lagadec patent." Philips and Sony ultimately agreed to use the Raymaakers approach in the Orange Book standard. Philips and Sony jointly offered licenses to a package of patents that included both the Raymaakers and Lagadec patents. The package licenses contained a field of use restriction limiting use of the licensed patents only to producing discs according to the Orange Book standard. Philips later brought an ITC action against Princo for infringement of the Raymaakers patents. Princo asserted that the suit was barred by the doctrine of patent misuse because the Philips and Sony package license restricted the use of the Lagadec patent in ways that would compete with the Orange Book standard.

The six-judge majority led by Judge William Bryson construed the patent misuse doctrine narrowly. After tracing the history of the doctrine through Supreme Court and Federal Circuit precedent, it held that the doctrine applies only in situations where the patentee has impermissibly broadened the physical or temporal scope of the patent grant and has done so in a manner that has anticompetitive effects. In analyzing the first prong, the majority stated that "[w]hat patent misuse is about, in short, is 'patent leverage'" and that only "a handful of specific practices" involving the specific patent in suit may qualify as patent misuse. In the majority's view, only "anticompetitve terms going beyond the scope of the patent grant" — such as licensing terms that require the licensee to purchase unpatented products as a condition to obtaining a license to the patent in suit, or a requirement for the payment of license fees after expiration of the patent — would satisfy the first prong of its misuse test. The majority concluded that any agreement between Philips and Sony not to license the Lagadec patent for uses that would compete with the Raymaakers patents "would not have the effect of increasing the physical or temporal scope" of the patents in suit (in this case, the Raymaakers patents) and thus did not constitute misuse. The majority held that Princo had also failed to satisfy the second prong (anticompetitive effects) of its patent misuse test because Princo had not demonstrated a reasonable probability that the Lagadec technology would have matured into a competitive force in the storage technology market.

Although it rejected Princo's patent misuse defense, the majority did not consider Princo entirely without a remedy. The majority acknowledged that the alleged Philips-Sony agreement might constitute an antitrust violation and asserted that antitrust law provides "robust remedies." But the majority attempted to disentangle the patent misuse doctrine from antitrust law: "While proof of an antitrust violation shows that the patentee has committed wrongful conduct having anticompetitive effects, that does not establish misuse of the patent in suit unless the conduct in question restricts the use of that patent and does so in one of the specific ways that have been held to be outside the otherwise broad scope of the patent grant."



In a muscular dissent, Judges Timothy Dyk and Arthur Gajarsa accused the majority of "emasculating" the patent misuse doctrine "so that it will not provide a meaningful obstacle to patent enforcement." The dissent characterized the majority's holding as directly contrary to the Supreme Court's 2006 decision in *Illinois Tool Works*, 547 U.S. 28, which stated that it would be "absurd to assume that Congress intended to provide that the use of a patent that merited punishment" under the antitrust laws "would not constitute 'misuse.'" Just as the majority claimed that its test was supported by Supreme Court precedent, the dissent cited a number of Supreme Court cases to argue for a much broader test that would not depend on "the particular form or method" by which the patentee sought to extend its patent monopoly. Although the dissent would not limit the doctrine of patent misuse to the particular types of conduct identified by the majority, it arguably also set forth a categorical rule — one that would classify most if not all antitrust violations involving patents as patent misuse.

In contrast to the majority and dissenting opinions, the concurring opinion authored by Judge Sharon Prost and joined by Judge Haldane Robert Mayer suggested that the types of patentee conduct that might constitute misuse should not be predefined. The concurrence acknowledged the "uneasy intersection of antitrust and patent law" and disagreed with the majority's suggestion that the two doctrines can be unwound as they relate to licensing agreements. These judges would have held open the possibility that a finding of patent misuse could be based at least in part on a violation of the antitrust laws. But they also expressed doubt that the patent misuse doctrine is as expansive as the dissent suggested. In this case, the concurring judges would have rejected Princo's patent misuse defense because of Princo's failure to demonstrate anticompetitive effects, and they would not have reached the issue of "the precise metes and bounds of the patent misuse doctrine."

The majority's holding that only predefined, limited types of "leveraging" of the specific patent in suit can qualify as patent misuse is akin to the bright-line tests that the Supreme Court has repeatedly rejected in the last few years. Most recently, in Bilski v. Kappos, 2010 DJDAR 9848 (June 28, 2010), the Supreme Court rejected the machine-or-transformation test as the sole test for determining which processes are patentable. In KSR Int'l Co. v. Teleflex Inc., 550 U.S. 398 (2007), the Supreme Court rejected the Federal Circuit's "rigid" test for obviousness. In MedImmune Inc. v. Genentech Inc., 549 U.S. 118 (2007), the Supreme Court found that the Federal Circuit's test for declaratory judgment jurisdiction "conflicted" and was in "tension" with the Supreme Court's declaratory judgment jurisprudence. And in eBay Inc. v. MercExchange LLC., 547 U.S. 388 (2006), the Supreme Court disavowed the Federal Circuit's "unique" and "categorical" test for permanent injunctions.

But the case-specific approach endorsed by the concurrence — under which conduct that runs afoul of the antitrust laws may, but will not always, constitute patent misuse — appears most consistent with recent Supreme Court patent jurisprudence. The Supreme Court has rejected bright-line rules in the patent area because "times change" and "[t]echnology and other innovations progress in unexpected ways." *Bilski*, Slip Op. at 8. By the same logic, patentees may in the future employ surprising strategies to "broaden the physical or temporal scope" of their patents, which is another reason not to define in advance what conduct does and does not constitute misuse. By suggesting that *Princo* could be decided solely on the absence of proof of "anticompetitive effects," without the need to reach the question of impermissible broadening, the concurrence showed it was in tune with the Supreme Court directive that "[r]ather than adopting categorical rules that might have wide-ranging and unforeseen impacts," cases should be decided narrowly. *Bilski*, Slip Op. at 13.

The next step, of course, is up to the Supreme Court. If it decides to review the Federal Circuit's en banc decision, it will hopefully clarify which of the opinions best follows the high court's precedent.

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