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In *Princo Corp. v. Int'l Trade Comm'n*,[1] the Court of Appeals for the Federal Circuit held that an agreement between two members of a joint venture to suppress one patented technology in order to promote an alternative patented technology could not support a charge of patent misuse.[2] Continuing its trend of limiting the patent misuse doctrine, the court adopted a narrowed view of misuse that is likely to have significant consequences for future litigants who wish to raise the patent misuse defense. First, the court found that the misuse defense is only available in situations that involve "leveraging" of the patent in suit.[3] The effect is that some anticompetitive practices previously thought to constitute patent misuse are now outside the scope of the misuse defense.[4] Second, the court set a higher threshold for establishing anticompetitive effect in the group venture context.[5] For instance, by failing to adopt the "quick look" analysis for assessing anticompetitive effect, the burden remains on the defendant to show but-for competitive harm.[6]

I. The Case

A. Factual Background

Throughout the 1980s, Philips Corp. ("Philips") and Sony Corp. ("Sony") worked together as the principal developers of recordable ("CD-R") and rewritable ("CD-

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1. Princo Corp. v. Int'l Trade Comm'n, 616 F.3d 1318 (Fed. Cir. 2010) (en banc), *cert. denied*, 131 S. Ct. 2480 (2011).
2. *Id.* at 1340.
3. *See infra* Part IV.A.
4. *Id.*
5. *See infra* Part IV.B.
6. *Id.*

RW") compact discs.[7] The CD-R/RW discs were based on the same principal as conventional compact discs ("CDs"),[8] that a digital signal could be represented on the surface of an optically reactive material through a series of small impressions, or "pits," and that the signal could then be read back using a laser.[9] However, forming the impressions into regular CDs involved heating the polycarbonate disc to a near melting point and then stamping the pits into the disc with a hardened die.[10] In contrast, writing to the CD-R/RW discs could be done easily, at home, with a CD-R recording drive.[11] Rather than heating and stamping the entire disk, the CD-R/RW recording drives used a laser to individually burn the pits into a light-absorbent layer in the discs.[12]

One of the key objectives in designing the CD-R/RW discs was that they be compatible with both existing CD hardware and CD recorders made by different manufacturers.[13] This was achieved through standards setting with regards to optical signal characteristics, physical arrangement, writing methods, and testing conditions.[14] While the CD-R discs could only be written to once, they were widely compatible with existing CD players and CD recorders that adhered to the established standards.[15] The CD-RW discs had the additional feature of being able to be erased and re-written to repeatedly, but they were less reflective and therefore were not compatible with all existing CD players.[16] Ultimately, Philips and Sony collected all of the technical standards that characterized the CD-R/RW discs into two publications, informally known as Part II and Part III of the "Orange Book."[17]

One of the technical problems faced during the development of the CD-R/RW technology was determining how to monitor the laser's position while burning pits

7. Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474, USITC Pub. 3686, 356 (Oct. 24, 2003) (Preliminary).

8. *Id.* at 7. *See generally* LEE PURCELL, CD-R/DVD: DISC RECORDING DEMYSTIFIED 1–8 (2000) (tracing the development of compact disc formats). Here, "CDs" refers more specifically to CD-DA and CD-ROM format compact discs, which predate the CD-R and CD-RW disc formats, and which continue to be the standard format for audio and data discs, respectively. *See id.* at 60–67 (discussing the relevant standards for audio and data compact discs).

9. PURCELL, *supra* note 8, at 25.

10. *Id.* at 27.

11. *See id.* at 123 (discussing how most personal computers are sufficient for compact disc recording).

12. Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474, USITC Pub. 3686, 6 (Oct. 24, 2003) (Preliminary).

13. *Id.* at 356.

14. *Id.* at 358.

15. *Id.* at 6–7.

16. *Id.* The CD-RW discs required CD players with enhanced optical pickup capabilities suitable for reading discs with lower reflectivity. *Id.*

17. *Id.* at 357–58. The "Orange Book" was the informal name given to sections of "Recordable CD Standard," a collaborative effort between Philips and Sony that was first published in 1990. *Id.* at 358. The publication eventually came to include all of the technical specifications relevant to CD-R/RW discs. *Id.* However, not all Orange Book "standards" were strictly necessary for the production of compliant CD-R/RW discs. *Id.* at 359. For instance, manufactures could exclude certain "recommended" characteristics while maintaining Orange Book compatibility. *Id.*

into the discs.[18] Although they were working in collaboration, Philips and Sony developed independent solutions to this "position encoding" problem.[19] Both solutions involved methods of writing position information into the pre-existing grooves of the CD-R/RW discs.[20] Philips disclosed its method, referred to as the "ATIP" method, in two United States patents (the "Raaymakers"[21] patents).[22] Sony disclosed an alternative method in a third United States patent (the "Lagadec"[23] patent).[24] Both companies' engineers agreed that Philips's ATIP method was the technically superior solution to the position encoding problem.[25] Consequently, Philips's ATIP method was adopted as the Orange Book compatible method for position encoding in CD-R/RW technology.[26]

In the early 1990s, Philips, Sony, and other CD-R/RW patent owners established a patent pool related to the Orange Book patents.[27] Acting as the administrator of the patent pool, Philips began granting licenses to the Orange Book patents for the limited purpose of producing Orange Book compliant discs.[28] Rather than licensing the patents individually, Philips offered a variety of pre-sorted package licenses, including CD-R and CD-RW specific packages, and variants of each that contained only those patents that Philips owned.[29] Licensees could also choose to license only those patents that Philips categorized as "essential" for the manufacture of Orange Book compliant discs, or they could obtain a license that extended to additional "non-essential" patents.[30] Both Sony's Lagadec and Philips's Raaymakers patents were included in the group of patents determined to be essential for the manufacture of CD-R/RW discs.[31]

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18. *See* Princo Corp. v. Int'l Trade Comm'n, 563 F.3d 1301, 1305 (Fed. Cir. 2009) ("Sony and Philips found that it was necessary to develop means for a CD-R/RW recorder to determine where along the spiral pregroove track the recorder's laser was positioned at any given time, or 'absolute time' position data.").

19. *Id.*

20. *Id.* The solutions, however, were incompatible with each other. *See id*. at 1305–06 (differentiating Sony's solution, which involved a digital encoding method, from Philips's method, which involved an analog encoding method).

21. U.S. Patent No. 4,999,825 (filed Nov. 1, 1988) and U.S. Patent No. 5,023,856 (filed Mar. 28, 1990).

22. *Princo*, 563 F.3d at 1305. "ATIP" stood for "Absolute Time in Pre-groove." *Id.*

23. U.S. Patent No. 4,942,565 (filed Jul. 28, 1989).

24. *Princo*, 563 F.3d at 1305–06.

25. *Id.* at 1306.

26. *Id.*

27. Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474, USITC Pub. 3686, 362 (Oct. 24, 2003) (Preliminary).

28. *See id.* at 363 (describing how the other patent owners authorized Philips to grant licenses relating to CD-R/RW technology on their behalf); *see also id*. at 370 ("All of Philips's CD-R and CD-RW licenses contain a field of use provision limiting the license grant to the use of the patents to manufacture . . . CD-R or CD-RW discs that comply with the Orange Book Standard.").

29. *See id.* at 368 (describing the four basic types of licenses that Philips made available to manufactures interested in producing the CD-R/RW).

30. *Id.* at 366.

31. *See id.* at 197 (discussing the evaluative process by which Sony's Lagadec patent was classified as essential); *see also* Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474, USITC Pub. 3686, 24 n.17 (Apr. 8, 2004) (Final) (recognizing that the essentiality of the Raaymakers patents was not challenged).

Princo Corp. ("Princo") began manufacturing CD-R and CD-RW discs in 1995 and 1998, respectively.[32] In 1997, Princo entered into a license agreement with Philips, but Princo quickly stopped paying royalties.[33] In 2002, Philips filed an industry wide complaint with the United States International Trade Commission (the "ITC"), alleging widespread infringement of its CD-R/RW related patents in violation of Section 337(a)(1)(b) of the Tariff Act of 1930.[34] In addition to other affirmative defenses, Princo and its co-respondents argued that the patents at issue were unenforceable under the doctrine of patent misuse.[35]

B. Procedural History

On October 24, 2003, Administrative Law Judge ("ALJ") Sidney Harris determined that Philips's patents, while valid and infringed, were unenforceable due to patent misuse.[36] The ALJ found numerous grounds for patent misuse, including the inclusion of the Lagadec and other allegedly non-essential patents in the essential licensing package.[37] The ALJ found that Philips had unreasonably foreclosed competition by including non-essential patents in the package of supposedly essential patents,[38] had injured the free market economy through price fixing[39] and price discrimination,[40] and had placed an unreasonable restraint on trade.[41]

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32. *Id.* at 396.

33. *Id.* at 397, 399. Princo asserted that it stopped paying royalties because some of its competitors were not paying royalties. *Id.* at 400.

34. *See* Complaint of U.S. Philips Corporation Under Section 337 of the Tariff Act of 1930, As Amended, Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474 (Jun. 24, 2002) (No. 02-469), 2002 WL 34575378. Section 337 of the Tariff Act of 1930 makes it unlawful to import any article into the United States that infringes a valid and enforceable United States patent. *See generally* A LAWYER'S GUIDE TO SECTION 337 INVESTIGATIONS BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION 1–16 (Tom M. Schaumberg ed., 2010) (discussing the differences between Section 337 investigations and regular infringement actions). The patents asserted in the complaint include the Raaymakers patents in addition to four other Orange Book related patents owned by Philips. *See* Complaint of U.S. Philips Corporation, Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474 (No. 02-469) at 23–27 (listing the patents-in-suit). Princo was not among the original defendants listed in complaint, but was added later through its own intervention. Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474, USITC Pub. 3686, 2 (Oct. 24, 2003) (Preliminary).

35. *See*, *e.g.*, Response of Princo Corporation to the Complaint and Notice of Investigation Under Section 337 of the Tarrif Act of 1930, As Amended at 37–38, Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474 (Sept. 24, 2002), 2002 WL 34580724 at *17 (asserting four theories of patent misuse against Philips's Orange Book patents).

36. Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474, USITC Pub. 3686, 220 (Oct. 24, 2003) (Preliminary).

37. *See id.* at 155–220 (applying multiple theories of patent misuse). The ALJ determined the Lagadec patent was non-essential to manufacturing Orange Book compliant discs, and that the overall effect of including it in the pool was to unreasonably foreclose competition. *Id.* at 200–01.

38. *Id.* at 196–213.

39. *Id.* at 176–79.

40. *Id.* at 180–82.

41. *Id.* at 213–19.

On petition by Philips, the Commission reviewed and affirmed the ALJ's initial determination that Philips's patents were unenforceable for patent misuse.[42] However, the Commission based its affirmance on the alternate grounds that the practice of including non-essential patents in the essential package license was an illegal tying arrangement.[43] The Commission did not, however, take a position on the merits of the ALJ's original grounds for finding patent misuse.[44]

Philips appealed, and the Federal Circuit reversed the Commission's finding of patent misuse due to tying.[45] First, the court distinguished Philips's package license arrangements from illegal patent-to-product tying arrangements because Philips's package licenses involved tying patents to other patents.[46] Further, the court pointed to the lack of evidence that inclusion of the allegedly non-essential patents in the essential package license had any anticompetitive effect on the CD-R/RW market.[47] Finally, the court faulted the Commission for not considering the pro-competitive effects of group licensing in its determination of whether the arrangement constituted patent misuse.[48] Specifically, the court said that the Commission failed to "acknowledge the problems with licensing patents individually, such as the transaction costs associated with making individual patent-by-patent royalty determinations and monitoring possible infringement of patents that particular licensees choose not to license."[49] However, the Federal Circuit remanded the case back to the Commission to consider the ALJ's unaddressed theories of patent misuse.[50]

On remand, the Commission held in favor of Philips, rejecting the remaining theories of patent misuse originally advanced by the ALJ.[51] First, the Commission

42. Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474, USITC Pub. 3686, 4 (Apr. 8, 2004) (Final). In proceedings before the ITC, the ALJ's decisions are subject to review by the Commission, a six-member panel of presidentially appointed commissioners who oversee aspects of ITC adjudication. *See* A Lawyer's Guide to Section 337 Investigations Before the U.S. International Trade Commission, *supra* note 34, at 29–31 (discussing the process of Commission review).

43. *Id.* at 4–5.

44. *Id.* at 5 nn.3–4.

45. U.S. Philips Corp. v. Int'l Trade Comm'n, 424 F.3d 1179, 1182 (Fed. Cir. 2005).

46. *Id.* at 1189–90. The court reasoned that unlike product-to-patent tying arrangements, which compel customers to purchase a separate product that they might have otherwise purchased from a competitor, package licensing does not impose any requirements on the licensee or foreclose a competitor from licensing his alternative technology. *Id.*

47. *Id.* at 1191–96. For instance, the court noted that there was no evidence that the inclusion of the non-essential patents increased the overall cost of licensing the essential patents. *Id.* at 1191. Additionally, the court pointed to the lack of evidence that the allegedly non-essential patents had any commercial potential. *See id.* at 1194 ("If there are no commercially practicable alternatives to the alleged nonessential patents, packaging those patents together with so-called essential patents can have no anticompetitive effect in the marketplace, because no competition for a viable alternative product is foreclosed.").

48. *Id.* at 1197–98.

49. *Id.* at 1198.

50. *Id.* at 1198–99. Princo filed a petition for certiorari, which was denied. *See* Princo Corp. v. Philips Corp., 547 U.S. 1207 (2006) (denying Princo's petition for certiorari).

51. Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474, 9 (Feb. 5, 2007) (Final). As a consequence, the Commission issued a cease and desist order against Princo and the remaining co-defendants. *Id.* at 1.

rejected the price fixing theory of patent misuse that Philips combined with its competitors through the formation of the patent pool in order to fix the prices of CD-R/RW licenses.[52] The Commission determined that the package licenses lacked the necessary quality of containing "substitute" technologies in order to sustain a charge of price fixing.[53] In addition, there was no evidence that Philips's package licenses produced higher prices in the CD-R/RW market than would have otherwise existed if manufacturers had to license each patent separately.[54] Second, the Commission rejected the price discrimination theory of patent misuse that Philips injured competition by charging some manufactures preferred royalty rates.[55] Last, the Commission rejected the ALJ's foreclosure of competition theory of patent misuse that Philips included non-essential patents in the package of essential patents in order "lock up" its horizontal competitors.[56] The Commission repeatedly pointed to the lack of sufficient evidence that the inclusion of the disputed patents had any effect on the commercialization of new technologies.[57]

Princo appealed the Commission's determination on remand and brought the case in front of the Federal Circuit for a second time.[58] Princo advanced two arguments on appeal, both specific to the inclusion of Sony's Lagadec patent in the package license of essential Orange Book patents.[59] First, Princo reasserted its theory of patent misuse due to tying, arguing that Philips forced licensees to pay for the unwanted and unneeded Lagadec technology in order to access the rest of the Orange Book patents.[60] A three-judge panel rejected this assertion on a finding that the Lagadec patent could reasonably be interpreted as essential for the manufacture of Orange Book compliant discs.[61] Second, Princo asserted that Philips engaged in patent misuse by entering into an agreement with Sony that resulted in the suppression of the potentially competitive Lagadec technology.[62] Sympathetic to this argument, the panel found that such an agreement could support a finding of patent misuse and that the Commission should have considered whether such an agreement existed.[63] Therefore, the panel remanded the case back to the

52. *Id.* at 21.

53. *Id.* at 26.

54. *Id.* at 59. The court made this determination in rejecting the price fixing theory of misuse on alternate grounds, that it lacked any anticompetitive effect. *Id.* at 56.

55. *Id.* at 63–64.

56. *Id.* at 78.

57. *See id.* at 81 (recognizing that Princo and its co-respondents failed to identify evidence demonstrating that absent the pooling arrangement, the pool licensors would have competed with each other in the technology licensing market); *see also id.* at 93–98 (reasoning that the inclusion of the Lagadec patent could not have had the effect of adversely impacting competition because "no portion of the market which would otherwise have been available to other sellers has been foreclosed") (citing Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 16 (1984)).

58. Princo Corp. v. Int'l Trade Comm'n, 563 F.3d 1301 (Fed. Cir. 2009).

59. *Id.* at 1307.

60. *Id.* at 1307–12.

61. *Id.* at 1312–13.

62. *See id.* at 1313 ("Princo argues that Philips and Sony agreed not to license Lagadec in a way that would allow a competitor 'to develop, use or license the [Lagadec] technology to create a competing product.'").

63. *Id.* at 1313–14.

Commission to determine whether an agreement existed between Philips and Sony to suppress the Lagadec technology, and whether the Lagadec technology was a viable alterative to the Raaymakers patents that could have competed independently in the CD-R/RW market.[64]

Rather than allow the case to be remanded, the Federal Circuit granted Philips's request for rehearing en banc.[65] In its petition for rehearing, Philips argued that even if they had entered into an agreement with Sony to suppress the Lagadec technology as a possible alternative to the Raaymakers patents, it would not constitute misuse of the Orange Book patents.[66] The Federal Circuit agreed to address the question en banc of whether a hypothetical agreement between Philips and Sony to suppress the Lagadec technology could support a claim of patent misuse.[67]

II. Legal Background

Patent misuse is an affirmative defense to patent infringement that arose as an application of the equitable doctrine of "unclean hands."[68] In a series of early 20th century cases, the Supreme Court developed the patent misuse doctrine as a response to patent owners trying to extend the economic benefit of their patents.[69] The misuse doctrine provided the Court with a tool to restrain practices that, while not illegal, resulted in an unfair commercial advantage to the patent holder.[70] More recently, the Federal Circuit has applied the doctrine of patent misuse to find patents unenforceable when the patent holder impermissibly broadened the physical or temporal scope of the patent grant with anticompetitive effect.[71]

64. *Id.* at 1321.

65. *See* Princo Corp. v. Int'l Trade Comm'n, 583 F.3d 1380 (Fed. Cir. 2009) (granting Philips's petition for rehearing en banc).

66. U.S. Philips Corporation's Petition for Rehearing En Banc, Certain Recordable Compact Discs & Rewritable Compact Discs, Inv. No. 337-TA-474 (Jun. 18, 2009), 2009 WL 1974577.

67. *Princo*, 583 F.3d at 1381.

68. *See* Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 492 (1942) ("It is a principle of general application that courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest."); *see also* C.R. Bard, Inc. v. M3 Systems, Inc., 157 F.3d 1340, 1372 (Fed. Cir. 1998) ("The defense of patent misuse arises from the equitable doctrine of unclean hands, and relates generally to the use of patent rights to obtain or to coerce an unfair commercial advantage.").

69. *C.R. Bard*, 157 F.3d at 1372 ("Patent misuse relates primarily to a patentee's actions that affect competition in unpatented goods or that otherwise extend the economic effect beyond the scope of the patent grant.").

70. *See* Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 704 (Fed. Cir. 1992) ("The concept of patent misuse arose to restrain practices that did not in themselves violate any law, but that draw anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy.").

71. *See* Windsurfing Int'l Inc. v. AMF, Inc., 782 F.2d 995, 1001 (Fed. Cir. 1986).

A. Early Supreme Court Cases and the Development of Patent Misuse

At the start of the 20th century, patent misuse had yet to be recognized as a valid defense to patent infringement.[72] In fact, courts recognized only few exceptions to the general rule that a patent holder enjoyed absolute freedom in the ability to use or sell the rights under the patent.[73] An example of this deferential approach is the Supreme Court's decision in *Henry v. A. B. Dick Co.*,[74] which upheld the lawfulness of a tying arrangement between a patented "Rotary Mimeograph" stencil-duplicating machine and the unpatented supplies that the machine needed.[75] The Court reasoned that since a patent owner may lawfully withhold a patented technology from the market entirely, it is also reasonable that the patent owner should be able to make the technology available for some uses while unavailable for others.[76] Here, the "use" for which the patent owner wished to make the technology available was use in conjunction with a specific kind of ink.[77] Therefore, the Court reasoned that any use of the patented technology in conjunction with unauthorized ink corresponded to a "use" that the holder had reserved for himself.[78]

However, in the decade that followed, the Supreme Court began an about face as to the general rule that a patent owner was free to condition a patent license on any qualification with respect to time, place, manner, or purpose.[79] For instance, in *Bauer & Cie. v. O'Donnell*,[80] the Court declined to enforce a price-fixing provision in a patent license that prohibited the resale of the patented good at a price less than one dollar.[81] Rather than extending the rationale of *A. B. Dick Co.*, which equated patents with property rights and focused on the patent holder's freedom of contract, the Court in *Bauer* recognized that the patent holder's rights were derived solely from and limited by the patent statute.[82] While the patent statute does grant patentees the exclusive right to sell the patented article, the Court recognized that it does not grant patentees the right to dictate resale prices.[83]

72. *See, e.g.*, E. Bement & Sons v. National Harrow Co., 186 U.S. 70 (1902) (upholding a price fixing provision in a patent licenses).

73. *See id.* at 755 ("The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts.").

74. 224 U.S. 1 (1912), *overruled by* Motion Picture Patents Co. v. Universal Film Mfg. Corp., 243 U.S. 502 (1917).

75. *Id.*

76. *Id.* at 24–26.

77. *Id.* at 26.

78. *Id.*

79. *See id.* at 17 ("That a patentee may effectually restrict the time, place, or manner of using a patented machine, so that a prohibited use will constitute an infringement of the patent, is fully conceded.").

80. 229 U.S. 1 (1913).

81. *Id.*

82. *See id.* at 16 ("The real question is whether, in the exclusive right secured by statute to 'vend' a patented article, there is included the right, by notice, to dictate the price at which subsequent sales of the article may be made.").

83. *Id.* at 17.

Four years later, in *Motion Picture Patents Co. v. Universal Film Mfg. Corp.*,[84] the Supreme Court extended the rationale of *Bauer* and refused to enforce the same tying arrangement that was upheld in the *A. B. Dick Co*.[85] The plaintiff, Motion Picture Patents, sold its patented film projectors subject to the restriction that they be used only with authorized films.[86] After a re-purchaser of one of the projectors began playing unauthorized films, Motion Picture Patents alleged direct infringement against the re-purchaser and contributory infringement against the manufacturer of the unauthorized films.[87] Explicitly reversing *A. B. Dick Co.*, the Court held that the tying restriction could not be enforced.[88] As it did in *Bauer*, the Court emphasized that the purpose of patent law was to promote public welfare, not to protect the property rights of inventors.[89] In addition, the Court established as guiding principles that a patent holder's rights included only those authorized in the patent statute, and that those rights extend only as far as the subject matter of the invention.[90] Finally, recognizing that the patent statutes provided no authority for the holder of a patent pertaining to film projectors to affect a monopoly in the film market, the Court dismissed the claim of infringement.[91]

Any uncertainty about the validity of tying provisions following *Motion Picture Patents* was extinguished by the Supreme Court's subsequent decision in *Carbice Corp. of America v. American Patents Dev. Corp.*,[92] which clearly established the invalidity and unenforceability of tying provisions.[93] The patent in *Carbice* was a method patent directed to building an enclosure around a block of dry ice.[94] The patent holder, the Dry Ice Corp., sold its dry ice subject to the restriction that only its brand of dry ice could be used in conjunction with their patented enclosure.[95] Dry Ice alleged that Carbice, also a dry ice manufacturer, contributed to infringement of the method patent because Carbice sold its own dry ice with the knowledge that it was being used in conjunction with Dry Ice's patented enclosures.[96] Rejecting the claim for contributory infringement, the Court held that Dry Ice misused the method patent by attempting to restrain competition in the

84. 243 U.S. 502 (1917).

85. *Id.* at 517–19.

86. *Id.* at 506–07.

87. *Id.* at 508.

88. *See id.* at 518 (explicitly overruling *Henry v. A. B. Dick Co*., 224 U.S. 1 (1912)).

89. *Id.* at 511.

90. *Id.* at 510.

91. *Id.* at 519.

92. 283 U.S. 27 (1931).

93. *Id.* at 31–34. There was considerable uncertainty, for instance, whether the holding in *Motion Picture Patents* applied only to re-purchasers who had never dealt with the patent owner directly. *See* 6 R. Carl Moy, Moy's Walker on Patents § 18:15 (4th ed. 2011) (recognizing that following the Supreme Court's decision in *Motion Picture Patents*, "determined patent owners could still . . . contend that enforceability still extended to some contracts that restricted use, particularly those that were between the patent owner and the first purchaser.").

94. *Id.* at 29.

95. *Id.* at 30.

96. *Id.*

sale of unpatented dry ice.[97] Clearly spelling out the prohibition on patent-to-product tying, the Court held that a patent holder may not condition a patent license on the use of an unpatented good.[98]

The Court's most significant application of the patent misuse doctrine in the tying context came ten years later in *Morton Salt Co. v. G. S. Suppiger Co.*[99] While it was already clear that tying provisions were unenforceable and unable to support claims of contributory infringement, *Morton Salt* established that patent misuse could render the otherwise valid part of the patent unenforceable, even in cases of direct infringement.[100] In *Morton Salt*, Suppiger sold its patented salt depositing machines subject to the condition that they only be used with Suppiger brand salt tablets.[101] Suppiger brought an action against Morton Salt for manufacturing and leasing infringing salt depositing machines.[102] Although it acknowledged that there may have been direct infringement, the Court denied Suppiger relief on account of their practice of using the depositing machine patent to restrain competition in the salt tablet market.[103] Also significant, the Court held that that holding would have been the same even if Morton Salt had not also competed in the salt tablet market.[104] Therefore, the Court established that a patent that is used as a means of restraining competition in the sale of an unpatented product is unenforceable, even against a direct infringer who is unharmed by the illegal restraint.[105]

In addition to patent-to-product tying, the Supreme Court found that the improper scheduling of royalty payments might also constitute patent misuse. For instance, in *Brulotte v. Thys Co.*,[106] the Court held that an attempt to extend the statutory length of a patent by requiring post-expiration royalties constitutes patent misuse.[107] The defendant, Mr. Brulotte, entered into a license agreement with the

97. *Id.* at 33–34.

98. *See id.* at 31 ("[The patentee] may not exact as the condition of a license that unpatented materials used in connection with the invention shall be purchased only from the licensor; and if it does so, relief against one who supplies such unpatented materials will be denied.").

99. 314 U.S. 488 (1942).

100. *See id.* at 492–94.

101. *Id.* at 491.

102. *Id.* at 489.

103. *Id.* at 494.

104. *Id.* at 491. In previous cases identified as patent misuse, the alleged infringer was also a competitor in the secondary market in which the patent holder was trying to unlawfully restrain competition. For instance, in *Carbice*, the Dry Ice Corp. was trying to restrict competition in the unpatented dry ice market, in which Carbice Corp. was a competitor. *See* Carbice Corp. of America v. American Patents Dev. Corp., 283 U.S. 27, 30 (1931). However, the Court's decision makes it clear that this is not a necessary element of patent misuse. *Morton Salt*, 314 U.S. at 493.

105. *See id.* ("Where the patent is used as a means of restraining competition with the patentee's sale of an unpatented product, the successful prosecution of an infringement suit even against one who is not a competitor in such sale is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent. . . . Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated.").

106. 379 U.S. 29 (1964).

107. *Id.* at 30.

Thys Co. for various patents related to a hop-picking machine.[108] When Mr. Brulotte discovered that he was scheduled to pay royalties beyond the expiration date of the patents, he ceased royalty payments all together, even though all the patents had not yet expired.[109] The Court held that to project royalty payments beyond the life of the patent is analogous to patent-to-product tying in that it is an attempt to enlarge the scope of the monopoly, and that the agreement is therefore unenforceable.[110]

Similarly, in *Zenith Radio Corp. v. Hazeltine Research, Inc.*,[111] the Court held that it constituted patent misuse for a patent holder to condition the right to license a patent on the licensee's agreement to pay royalties as a function of his total sales, when total sales includes other products not embodying the licensed patents.[112] In *Zenith*, plaintiff Hazeltine Research, Inc. insisted on licensing its numerous patents related to radios and televisions as a package, and required licensees to pay a percentage of their total radio and television sales as a royalty.[113] In finding Hazeltine's patents unenforceable for patent misuse, the Court made clear that just as a patent may not be used to "extract from the licensee a commitment to purchase, use, or sell other products according to the desires of the patentee, neither can that leverage be used to garner as royalties a percentage share of the licensee's receipts from sales of other products."[114]

B. The Modernization of Patent Misuse and the Anticompetitive Effect Requirement

Following the Supreme Court's decisions in *Morton Salt*, *Brulotte* and *Zenith*, the task of interpreting and applying the patent misuse doctrine fell primarily to the Court of Appeals for the Federal Circuit.[115] In *Windsurfing Int'l Inc. v. AMF, Inc*,[116] the Federal Circuit recited what has come to be the modern statement of patent misuse.[117] The court held that to establish patent misuse, the infringer must show

108. *Id.* at 29.

109. *Id.* at 30.

110. *Id.* at 33–34.

111. 395 U.S. 100 (1969).

112. *Id.* at 135.

113. *Id.* at 134.

114. *Id.* at 136.

115. The Unites States Court of Appeals for the Federal Circuit was established in 1982, and was given exclusive jurisdiction over appeals in patent cases arising from the federal district courts. *See generally* United States Judicial Conference Committee on the Bicentennial of the Constitution of the United States, The United States Court of Appeals for the Federal Circuit (1991). The impetus behind the creation of the Federal Circuit was the need increase uniformity in the application of the patent laws. *Id.* at 11.

116. 782 F.2d 995 (Fed. Cir. 1986). In *Windsufing*, the patent holder licensed its patent related to the sport of "sailboarding" subject to the provision that the licensee agrees not to use the patent holder's trademarks, including "Windsurfer," "Windsurfing" and "Wind Surf." *Id.* at 1001. The district court concluded that these marks were generic, and that the licensing provision constituted misuse by extending the patent to include a monopoly over the generic marks. *Id.* The Federal Circuit reversed, finding that the licensing provision did not have the requisite anticompetitive effect to support the finding of patent misuse. *Id.* at 1002.

117. *See, e.g.*, Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 706 (Fed. Cir. 1992) (citing *Windsurfing* for the general statement of patent misuse).

that the patentee has impermissibly broadened the physical or temporal scope of the patent grant, and that doing so had an anticompetitive effect.[118]

In addition to adding the anticompetitive effect requirement, the *Windsurfing* court gave some guidance for determining whether a particular licensing practice is anticompetitive.[119] If a licensing agreement is one of those already identified by the Supreme Court to be patent misuse, the court held the practice is patent misuse per se and requires no additional market analysis.[120] However, if the licensing arrangement is not one of those already established by the Supreme Court to constitute misuse, the court held that a factual determination must show that the overall effect of the license tends to "restrain competition unlawfully in an appropriately relevant market."[121] In applying this standard, the *Windsurfing* court held that the patent holder's practice of requiring licensees to agree to respect its ultimately invalid "Windsurfer" and "Wind Surf" trademarks did not constitute misuse of the licensed patent.[122] The court reasoned that even though the patent holder may have attempted to leverage its patent to prevent its rights in the "Windsurfer" mark from being challenged, the defendant was unable to establish that the restriction had any actual anticompetitive effects.[123]

In analyzing the anticompetitive effect requirement established in *Windsurfing*, the Federal Circuit has consistently utilized the "rule of reason" framework, requiring the party asserting misuse to establish an adverse effect on competition.[124] For instance, in *Mallinckrodt, Inc. v. Medipart, Inc.*,[125] the Federal Circuit held that the district court improperly found that a post-sale "single-use" licensing restriction was per se anticompetitive, and instead should have analyzed the restriction under the rule of reason.[126] The court made it clear that the per se prohibitions against price-fixing and tying restrictions do not extend to all forms of license restrictions, and that some may be valid and enforceable if they can be justified.[127] The court clarified the *Windsurfing* rule, finding that the key inquiry is whether the patentee

118. *Windsurfing*, 782 F.2d at 1001.

119. *See id.* at 1001–02.

120. *Id.*

121. *Id.*

122. *Id.* at 1002.

123. *Id.* The court reasoned that trademarks are generally associated with pro-competitive effects, and therefore that only in a rare circumstance could the assertion of trademarks rights form the basis for a claim of patent misuse. *Id.*

124. *See generally* Standard Oil Co. of New Jersey v. United States, 221 U.S. 1 (1911) (endorsing the "rule of reason" framework for determining whether a combination or restraint violates the antitrust laws).

125. 976 F.2d 700 (Fed. Cir. 1992).

126. *See id.* at 706 ("where an anticompetitive effect is asserted, the rule of reason is the basis of determining the legality of the provision"); *see also id.* at 708 ("[a]nticompetitive effects that are not per se violations of law are reviewed in accordance with the rule of reason"). The restriction at issue was a "single use" restriction placed on medical nebulizers manufactured by Mallinckrodt. *Id.* at 702. Mallinckrodt included an insert in the device's packaging that instructed the hospital consumer to discarded the product after a single use. Rather than discarding the spent device, some hospitals sent them to Medipart, who reconditioned and returned the nebulizers so that they could be used again. *Id.*

127. *See id.* at 706 ("The prohibition against price-fixing and tying did not make all other restrictions *per se* invalid and unenforceable.").

extended the patent monopoly "beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason."[128]

In addition to adding the anticompetitive effect requirement and relying on antitrust laws for its framework, the Federal Circuit has also taken steps to cabin applications of the misuse doctrine. For instance, in *B. Braun Medical v. Abbot Labs*,[129] the Federal Circuit rejected a district court's jury instruction that suggested that a patent holder could not place any post-sale restriction in a license agreement that would inhibit the resale of the patented product. [130] The court explained that express conditions accompanying the sale of a license for a patented product are generally upheld, based on the assumption that the parties included the condition as a factor at the negotiating table.[131] Remanding the case, the Federal Circuit instructed the district court to determine if the post-sale restriction was justified under the rule of reason.[132]

Similarly, in *C.R. Bard, Inc. v. M3 Systems, Inc.*,[133] the Federal Circuit rejected a district court's jury instruction that suggested that patent misuse could be premised on the notion that the patent was used wrongfully.[134] The court established that patent misuse does not extend to a general notion of "wrongful use" or wrongful patent-supported commercial activity.[135] Rather, the court held that patent misuse was a doctrine with defined boundaries that need not be enlarged into "an open ended pitfall for patent-supported commerce."[136]

C. Congressional Response to the Doctrine of Patent Misuse

The only statutory treatment of patent misuse appears in 35 U.S.C. § 271(d).[137] However, Section 271(d) does not actually define patent misuse.[138] Rather, Section 271(d) is a safe harbor provision that exempts five specific licensing practices from

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128. *Id.* at 708.

129. 124 F.3d 1419 (Fed. Cir. 1997).

130. *Id.* at 1426. The district court delivered the following instructions to the jury:

> [A] patent holder is not allowed to place restrictions on customers which prohibit resale of the patented product, or allow the customer to resell the patented products only in connection with certain products…If you find, by a preponderance of the evidence, that Braun placed such restrictions on its customers, including Abbott, you must find that Braun is guilty of patent misuse.

Id.

131. *Id.*

132. *Id.* at 1426–27.

133. 157 F.3d 1340 (Fed. Cir. 1998).

134. *Id.* at 1372–74. The jury instructions stated that "[e]ven if an antitrust violation has not been proven, you may still find that the patents have been misused if you conclude that the patents have been used wrongfully." *Id.* at 1373.

135. *Id.* at 1373.

136. *Id.*

137. *See* 6 R. Carl Moy, Moy's Walker on Patents § 18:1 (4th ed. 2011) (recognizing 35 U.S.C. § 271(d) as the only statutory provision directly related to patent misuse).

138. *See id.* ("The only relevant statutory provision, paragraph (d) of section 271 of the patent statute, does not state a positive definition of prescribed conduct, but instead operates in the negative, by listing various activities that cannot form misuse.").

claims of patent misuse.[139] The first thee exemptions, 35 U.S.C. § 271(d)(1)–(3), were a result of the Patent Act of 1952, and are related to the enforcement of patent rights against contributory infringers.[140] The final two exemptions, 35 U.S.C. § 271(d)(4)–(5), were added by amendment as a result of the 1988 Patent Misuse Reform Act.[141] Most relevant to the present case, 35 U.S.C. § 271(d)(5) immunizes tying restrictions from claims of patent misuse unless the patent holder has market power in the relevant market of either the patented or the tied-in product.[142]

III. The Court's Reasoning

Sitting en banc, the Federal Circuit held that an alleged agreement between Philips and Sony to suppress the Lagadec technology as a possible alternative to the Raaymakers technology could not support a finding of misuse of Philips's Orange Book patents.[143] First, the court determined that even if such an agreement took place, it would not constitute patent misuse because it would not entail an impermissible physical or temporal broadening of the patent in suit.[144] Second, the court determined that the alleged agreement would not be unjustified under the rule of reason.[145]

A. The Alleged Agreement Did Not Involve the Kind of Patent Leveraging That Has Been Found In Previous Instances of Patent Misuse

The court held that the alleged agreement could not support a finding of patent misuse because it lacked the factual scenario present in all other cases identified by the Supreme Court as an "impermissible physical or temporal broadening" of the patent grant.[146] In other words, the court found it dispositive that the method by which Philips allegedly broadened the scope of the Raaymakers patents was not one

139. 35 U.S.C. § 271(d)(1)–(5) (2006). *See generally* Tom Arnold & Louis Riley, *Contributory Infringement and Patent Misuse: The Enactment of § 271 and its Subsequent Amendments*, 76 J. PAT. & TRADEMARK OFF. SOC'Y 357 (1994) (tracing the history of 35 U.S.C. § 271(d)).

140. *See* Act to Revise and Codify the Patent Laws, 66 Stat. 792, 811 (1952) (enacting 35 U.S.C. § 271(d)); *see also* 6 R. CARL MOY, MOY'S WALKER ON PATENTS § 18:18 (4th ed. 2011) (discussing the enactment of 35 U.S.C. § 271(d)).

141. *See* Pub. Law. No. 100-703, 102 Stat. 4676 (1988) (amending § 271(d)); *see also* 6 R. CARL MOY, MOY'S WALKER ON PATENTS § 18:23 (4th ed. 2011) (discussing the addition of 35 U.S.C. § 271(d)(4)–(5)).

142. *See* 35 U.S.C. § 271(d)(5) (2006) ("No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following . . . conditioned the license on 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.").

143. Princo Corp. v. Int'l Trade Comm'n, 616 F.3d 1318, 1326 (Fed. Cir. 2010) (en banc). Judge Bryson delivered the opinion of the court, in which Chief Judge Rader and Judges Louie, Linn, and Moore joined. Judge Prost filed a concurring opinion, in which Judge Mayer joined-in-part. Judge Dyk filed a dissenting opinion, in which Judge Gajarasa joined.

144. *Id.* at 1331–34.

145. *Id.* 1334–40.

146. *See id.* at 1331 ("This case presents a completely different scenario from the cases previously identified by the Supreme Court and by this court as implicating the doctrine of patent misuse.").

of those ways previously identified by the Supreme Court to be impermissible.[147] Additionally, the majority held that it would be contrary to congressional intent to extend the patent misuse doctrine to include the present case.[148]

The court first analyzed previous cases in which the Supreme Court found patent misuse, and then distilled those cases to the common factual scenario of "patent leveraging."[149] Patent leveraging, as the court described it, involves using the patent power to impose overbroad conditions on the use of that same patent.[150] The court held that, at the very least, leveraging requires that the patent-in-suit significantly contribute to the allegedly illegal licensing practice. [151] For example, in *Morton Salt* and *Brulotte*, the patent owners used their right withhold licenses to their patented canning and hop-picking machines to negotiate and impose overbroad conditions on the use of the canning and hop-picking machines.[152]

Applying this interpretation of Supreme Court precedent, the majority determined that the alleged agreement between Philips and Sony to suppress the Lagadec technology could not support a finding of patent misuse because it lacked the feature of patent leveraging.[153] The alleged factual scenario was not one where Philips forced licensees into restrictive agreements that effectively enlarge the scope of the Orange Book patents.[154] Rather, the allegedly illegal agreement was one between Sony and Philips, two supposed co-conspirators.[155] In addition, the patent that was at the center of the alleged impermissible agreement was the Lagadec patent, not the patent-in-suit.[156] Philips's alleged behavior was simply to persuade Sony, an effective third party, not to license a separate, competitive technology.[157] Consequently, the court held that the link between the Raaymakers patents and the alleged agreement between Philips and Sony to suppress the Lagadec technology

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147. *Id.*

148. *See id.* at 1329–31 (determining that the legislative history of 35 U.S.C. 271(d)(4)–(5) evidenced congressional intent that the patent misuse doctrine not be extended).

149. *See id.* at 1326–29 (tracing the Supreme Court's development of patent misuse and identifying patent leveraging as a common factor).

150. *See id.* at 1331 ("What patent misuse is about, in short, is 'patent leveraging,' i.e., the use of the patent power to impose over-broad conditions on the use of the patent-in-suit that are 'not within the reach of the monopoly granted by the Government.'") (citing Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 136–38 (1969)).

151. *See id.* ("Patent misuse will not be found when there is 'no connection' between the patent right and the misconduct in question, or no 'use' of the patent.") (internal citations omitted).

152. *See* Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488 (1942) (finding patent misuse where the patent owner required that his patented canning machines be used with his own salt tables, thereby impermissibly increasing the scope of the canning machine patent); *see also* Brulotte v. Thys Co., 379 U.S. 29 (1964) (finding patent misuse where the patent owner required that licensees of his patented hop picking machine pay royalties beyond the statutory length of the patent, thereby impermissibly increasing the temporal scope of the hop-picking patent).

153. *Princo*, 616 F.3d at 1334.

154. *Id.* at 1331.

155. *Id.*

156. *Id.*

157. *Id.*

was too attenuated to sustain a finding that Philips misused the Raaymakers patents.[158]

The court found additional support for declining to extend the patent misuse doctrine beyond the traditional leveraging scenario in the legislative history of 35 U.S.C. § 271(d).[159] Although the court found that the statute itself was inapplicable to the alleged agreement between Philips and Sony,[160] it did find that the legislative history revealed a congressional aversion to an open-ended misuse defense.[161] In fact, the court found that the 1988 amendment to Section 271(d) was the result of an active effort by congress to limit the scope of the patent misuse defense to anticompetitive conduct by patentees who leverage their patents to obtain unauthorized economic benefits.[162] Therefore, the court determined that it would have been contrary to congressional intent to extend the patent misuse doctrine to include the alleged agreement between Philips and Sony to suppress a potentially competitive technology.[163]

B. The Alleged Agreement To Suppress The Lagadec Technology May Have Been Justified By The Pro-Competitive Benefits of Joint Ventures

In the alternative, the court held that the alleged agreement between Philips and Sony could not support a finding of patent misuse because Princo failed to establish that the agreement had the requisite anticompetitive effect.[164] In fact, the court held that the alleged agreement might actually have been justified under the rule of reason.[165] For instance, Philips and Sony may have acted legitimately by choosing not to compete with each other, and there was insufficient evidence that the Lagadec technology could have actually competed in the marketplace.[166] Regardless, Princo had the burden to establish that the alleged agreement to suppress the Lagadec technology had the necessary anticompetitive effect, and the court found that Princo failed to meet that burden.[167]

First, the court determined that an agreement between Philips and Sony to suppress potentially competitive technology might have been justified under the rule of reason because of the pro-competitive features of joint ventures.[168] The court recognized that joint ventures are associated with significant economic

158. *Id.* at 1332.

159. *Id.* at 1329–31.

160. *See id.* at 1331 ("Section 271(d) is not directly implicated in this case because the conduct here at issue does not fall within any of the five statutorily defined categories.").

161. *Id.*

162. *Id.* at 1330.

163. *Id.* at 1331.

164. *Id.* at 1334.

165. *See id.* at 1334–40 (analyzing the effect of the alleged agreement under the rule of reason and finding support for the proposition that the alleged agreement had a competitive justification).

166. *Id.* at 1334–38.

167. *See id.* at 1338–40 (rejecting the quick look analysis that would switch the burden of proof).

168. *Id.* at 1334.

benefits, including economies of scale and the ability to distribute risk among group participants.[169] The court found the potential for pro-competitive collaboration particularly relevant because the alleged agreement arose in the context of developing an industry wide standard.[170] In the standards setting context, suppression of technology might save the market from having to absorb the cost of developing the same technologies twice.[171] Worse, in the absence of joint ventures, standards setting efforts could result in the "Tower of Babel" effect, leading to increased costs, reduced utility, and frustrated consumers.[172] Therefore, because agreements in joint ventures are not viewed in isolation, but rather in conjunction with their collateral benefits, the court found that an agreement to suppress technology in the context of a joint venture might actually be justifiable under the rule of reason.[173]

Next, the court found additional support for asserting that the alleged agreement may have been justified under the rule of reason by the lack of evidence that the Lagadec technology had any commercial potential.[174] The court pointed to the investigation made by the Commission, which repeatedly found that the Lagadec technology was inferior to Philips's ATIP method, and that the Lagadec technology simply did not work well.[175] The court relied on statements made by Philips's expert in front of the ALJ that the Lagadec technology had a "real problem," and that "you could just see that this is not a good solution."[176] More so, the court pointed to the lack of evidence that Sony would have commercialized the Lagadec technology but-for the alleged suppression.[177] In fact, it was far from clear that the allegedly suppressed technology ever had any chance of entering the market as a potential competitor to the Orange Book standard.[178]

Lastly, the court held that regardless of the pro-competitive features of joint ventures, Princo failed to meet its burden of establishing that the alleged agreement to suppress the Laadec technology had an anticompetitive effect not justified under

169. *Id.* at 1335 ("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 efforts and assets, and share risks that no individual member would be willing to undertake along, thereby 'promot[ing] rather than hinder[ing] competition.'").

170. *Id.*

171. *Id.*

172. *Id.* The Tower of Babel effect refers to the compatibility and efficiency issues that arise in environments where multiple forms of communication are used. *See, e.g.*, Brief for the Computer and Communications Industry Association as Amicus Curiae Supporting Petition for Writ of Certiorari, Federal Trade Comm'n v. Rambus Inc., 522 F.3d. 456 (2008) (No. 08-694), 2008 WL 5433368 (explaining the Tower of Babel effect). "Competition among incompatible standards can lead to a technological tower of Babel where many products speak many languages and none understand one another. Where incompatible standards proliferate, there is less interoperability, and less competition." *Id.*

173. *Princo*, 616 F.3d at 1336.

174. *Id.* at 1337–38.

175. *Id.* at 1337.

176. *Id.*

177. *Id.* at 1338.

178. *Id.*

the rule of reason.[179] The court rejected an invitation from the dissent to adopt a "quick look" analysis, which flips the burden of proof to the defendant to establish the absence of an anticompetitive effect in cases of naked restraints on price and output.[180] The court declined to apply the quick look analysis because it determined that agreements between joint venturers not to compete against the joint venture are neither naked restraints nor plainly anticompetitive.[181] Rather, agreements not to compete assure that "the resources invested by one joint venturer will not be undermined or competitively exploited to the sole benefit of the other."[182] Therefore, absent a showing of a "sham" venture, the court held that the quick look analysis is not appropriate in the joint venture context.[183] In this case, the unsatisfied burden of proof remained with Princo.[184]

C. Concurrence: Antitrust Violations are Probative in Considerations of Misuse

In a brief concurrence, Judge Prost agreed with the court's holding that Princo had failed to meet its burden of establishing that the alleged agreement was anticompetitive, and therefore that a finding of misuse was unwarranted.[185] However, Judge Prost argued that the patent misuse doctrine is unlikely as narrow as the majority suggested.[186] Judge Prost disagreed that Supreme Court precedent limits patent misuse to instances of traditional patent leveraging, arguing instead that a finding of misuse could be based at least in part on an antitrust violation.[187]

179. *See id.* ("Princo had the burden of showing that the hypothezied agreement had an actual adverse effect on competition in the relevant market."); *see also id.* at 1340 ("Princo has failed to show that the putative agreement between Sony and Philips not to license the Lagadec technology for non-Orange book purposes had any market effect at all-actual or prospective.").

180. *Id.* at 1339. The "quick look" is an abbreviated form of the rule of reason analysis applicable in cases where a practice has obvious anticompetitive effects. *See* California Dental Ass'n v. FTC, 526 U.S. 806 (1999) (explaining that the quick look analysis applies in cases where "an observer with even a rudimentary understanding of economics could conclude that the arrangements in question would have an anticompetitive effect on customers and markets"). Once it is established that the quick look is the appropriate analysis, the burden of proof shifts to the defendant to show empirical evidence of pro-competitive effects. *See id.* at 776 n.12 (recognizing that the quick look analysis requires the defendant to provide pro-competitive justification for the allegedly illegal practice).

181. *Id.*

182. *Id.*

183. *Id.* The court explicitly rejected the theory that the joint venture was a sham. *Id.*

184. *Id.* at 1340.

185. *Id.* at 1340–41 (Prost, J., concurring).

186. *Id.* at 1340.

187. *See id.* at 1341 ("Whether use off a patent runs afoul of antitrust law seems in itself probative of whether the patent owner has also abused, or misused, the limited monopoly granted by Congress.") (internal citations omitted); *see also id.* ("Moreover, I do not read Supreme Court precedent as necessarily foreclosing a finding of patent misuse based at least in part on finding an antitrust violation.").

D. Dissent: No Requirement of Patent Leveraging; Burden Should Have Been on Philips to Show Competitive Justification

In a strongly worded dissent, Judge Dyk argued against both main points advanced by the majority.[188] First, Judge Dyk cited *United States v. United States Gypsum*[189] for the proposition that patent misuse can be found in the absence of patent leveraging, despite the majority's assertion that *Gypsum* was an antitrust case with no direct relevance to patent misuse.[190] In the alternative, even if the majority insisted that patent leveraging was a necessary element of patent misuse, Judge Dyk argued that Philips did in fact leverage the Raaymakers patents.[191] For instance, Philips used the profits derived from the Raaymakers and other Orange Book patents to pay Sony to suppress the Lagadec technology, thereby ensuring that the Orange Book's market dominance remained unchallenged.[192]

Second, Judge Dyk argued that the court's analysis of whether the alleged agreement was sufficiently anticompetitive was flawed, because the burden of proof should have rested with Philips to establish a competitive justification for suppressing the Lagadec technology.[193] Judge Dyk argued that in modern antitrust law, agreements between competitors not to compete with each other are analyzed under the abbreviated "quick look" rule of reason analysis.[194] If the condemned agreement is one that is clearly likely to impair competition, then anticompetitive harm is presumed without the need for a lengthy market analysis.[195] The burden of proof then switches to the defendant to show some competitive justification for the restraint.[196] Therefore, in the agreement between Philips and Sony, the agreement to suppress the nascent Lagadec technology should be presumed anticompetitive, and the burden of proof should fall to Philips to show otherwise.[197] Finishing this point, Judge Dyk dispensed with the majority's argument that the Lagadec technology would not have been competitive anyway by stressing the importance of protecting nascent technologies.[198]

IV. Analysis

In holding that a hypothetical agreement between Philips and Sony to suppress the Lagadec technology would not constitute misuse of Philips's Orange Book patents, the Federal Circuit narrowed the scope of the misuse doctrine with significant

188. *Id.* at 1341–57 (Dyk, J., dissenting).
189. 333 U.S. 364 (1948).
190. *Princo*, 616 F.3d at 1346–49 (Dyk, J., dissenting).
191. *Id.* at 1349–50.
192. *Id.*
193. *Id.* at 1351–57.
194. *Id.* at 1353.
195. *Id.*
196. *Id.* at 1354.
197. *Id.*
198. *Id.* at 1356.

consequences for future litigants. First, the court found that the misuse defense only applies in instances that involve "leveraging" of the patent-in-suit.[199] This added element finds questionable support in Supreme Court precedent and has the effect of shielding highly anticompetitive practices from the scrutiny of the misuse doctrine.[200] For instance, patent supported antitrust violations, previously thought to be per se patent misuse, are now outside the scope of the patent misuse doctrine unless they involve leveraging of the patent-in-suit.[201] Second, the court's holding will make it harder for defendants to establish patent misuse against members of joint ventures. The court's failure to adopt the quick look analysis means that in the group venture context, the burden will almost always fall to the party raising the misuse defense to show actual competitive harm.[202] In addition, the court's holding sets a high "but-for" standard for establishing that agreements between joint venturers are anticompetitive.[203]

A. The Court's Decision Significantly Narrows the Scope of the Patent Misuse Defense by Requiring "Leveraging" of the Patent-in-Suit

The majority in *Princo* held that patent misuse requires "leveraging" of the patent-in-suit.[204] Leveraging, as the court described it, requires that the patent being asserted have at least "significantly contributed" to the licensing practice under attack.[205] However, the court rejected Princo's argument that Philips leveraged the Orange Book patents by using their royalties to secure Sony's complicity in suppressing the Lagadec technology.[206] Therefore, the standard does not seem to be merely that the patent-in-suit have significantly contributed to the practice under attack.[207] Rather, the court's decision suggests that for the leveraging requirement to be met, the availability of the patent-in-suit must have been directly conditioned on the licensee's submission to the allegedly illegal practice.[208]

First, the leveraging requirement conflicts with statements made by the Supreme Court, because it entails that antitrust violations alone cannot support a finding of

199. *See infra* Part IV.A.

200. *Id.*

201. *Id.*

202. *See infra* Part IV.B.

203. *Id.*

204. Princo Corp. v. Int'l Trade Comm'n, 616 F.3d 1318, 1331 (Fed. Cir. 2010).

205. *Id.*

206. *Id.* at 1332.

207. *See* Saami Zain, *Misuse of Misuse: Princo Corp. v. International Trade Commission and the Federal Circuit's Misguided Patent Misuse Jurisprudence*, 13 N.C. J.L. & TECH. 95, 132–133 (2011) (suggesting that the holding in *Princo* seems to require a "tight nexus between the patent and the conduct" for a finding of patent misuse).

208. *See* Richard Li-dar Wang, *Deviated, Unsound, and Self-Retreating: A Critical Assessment of the Princo v. ITC En Banc Decision*, 16 MARQ. INTELL. PROP. L. REV. 51 (2012) (recognizing that following the court's decision in *Princo*, only restrictions on the use of patents by the licensees would give rise to patent misuse).

patent misuse.[209] Courts have regularly expressed the understanding that if a patent holder uses a patent in a way that violates the antitrust laws, that patent is also "misused" for the purpose of the patent misuse doctrine. For example, in *Hartford-Empire Co. v. United States*,[210] the Supreme Court characterized its own decision in *Morton Salt* as holding that a patent is unenforceable as long as it is being used in violation of the antitrust laws.[211] In *Carter-Wallace v. United States*,[212] the Court of Claims expressed the same understanding, citing *Morton Salt* for the "well settled" proposition that a patent being used to violate the antitrust laws could not be enforced.[213] There, the court said:

> *It is settled that the courts will not aid a patentee in infringement litigation if the patentee, in dealing with the patent by licenses or product sales, engages in conduct violative of the antitrust laws or the principles of equity. Such conduct has come to be called patent misuse and is an application of the equitable doctrine that he who seeks equity must come into the court with clean hands.*[214]

More recently, in a passage cited persuasively by the dissenting opinion, the Supreme Court in *Illinois Tool Works v. Independent Ink*[215] said that it would be "absurd to assume that Congress intended to provide that the use of a patent that merited punishment as a felony would not constitute 'misuse.'"[216] Commentators have also repeatedly expressed the understanding that use of a patent to violate the antitrust laws is sufficient in itself to support a charge of patent misuse.[217] However, the court's decision in *Princo* rejects this common understanding, finding that antitrust violations without patent leveraging cannot support a claim of patent misuse.[218]

209. *See Princo*, 616 F.3d at 1329 (explicitly recognizing this effect of the leveraging requirement) ("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 the 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.").

210. 323 U.S. 386 (1945).

211. *See id.* at 415 (characterizing its decision in *Morton Salt* as "merely apply[ing] the doctrine that so long as the patent owner is using his patent in violation of the antitrust laws, he cannot restrain infringement of it by others").

212. 449 F.2d 1374 (Ct. Cl. 1971).

213. *Id.* at 1377.

214. *Id.*

215. 547 U.S. 28 (2006).

216. *Id.* at 42.

217. *See* 6 Donald S. Chisum, Chisum on Patents § 19.04[2] at 19-442 (2012) ("Use of a patent to violate the antitrust laws will constitute misuse."); *see also* Katherine E. White, *A Rule for Determining When Patent Misuse Should be Applied*, 11 Fordham Intell. Prop., Media & Ent. L.J. (2001) ("While an antitrust violation involving a patent always constitutes misuse, one can have misuse without an antitrust violation.").

218. *See* Geoffrey D. Oliver, *Princo v. International Trade Commission: Antitrust Law and the Patent Misuse Doctrine Part Company*, 25 Antitrust, no. 2, 2011, at 65, (recognizing that the court's decision opens up the possibility that a patent holder's conduct may violate the antirust laws but not constitute patent misuse).

Second, the court's decision narrows the scope of the patent misuse defense beyond the policy-based boundaries offered by the Supreme Court. In developing the patent misuse doctrine, the Court focused less on the precise method by which patent owners attempted to extend their monopoly and more on whether enforcement of the patent would be antithetical to the public policy goals of the patent system: to "promote the progress of science and useful arts."[219] For instance, in refusing to enforce the tying restriction in *Motion Picture Patents*, the Court reasoned that because the purpose of the patent laws is to promote the public's interest, they should not be applied in a way that would injure it.[220] In *Morton Salt*, the Court extended the doctrine of patent misuse to render an otherwise valid patent unenforceable by reasoning that enforcing the patent would permit the patentee to subvert the public policy of the patent laws.[221] Finally, although the Supreme Court's misuse cases were largely limited to traditional leveraging scenarios, there is no indication that the Court intended for the misuse doctrine to be so limited. In fact, in *Mercoid Corp. v. Mid-Continent Inv. Co.*,[222] the Court expressed that "the method by which the monopoly is sought to be extended is immaterial."[223]

Despite the indication that the patent misuse doctrine was intended to apply to all anticompetitive patent practices that undermine the policy goals of the patent system, many anticompetitive practices that do so are now outside of its bounds. With the addition of the leveraging requirement, anticompetitive restraints not placed directly on the licensee are not implicated in the misuse doctrine. This means that virtually no horizontal agreement between joint venturers can support a charge of patent misuse, even if the express purpose of the agreement is anticompetitive. For instance, as established in *Princo*, agreements between joint venturers to suppress one potentially competitive technology in order to promote an alternative patented technology cannot sustain a charge of misuse.[224] Further, horizontal agreements between joint venturers that involve market and customer division cannot support charges of misuse, because they do not require the licensee to accept any restrictive conditions.[225] Finally, joint venturers may enter into agreements that limit research and development expenditures, or that require members to grant each other licensees to subsequently awarded improvement

219. U.S CONST. art I, § 8, cl. 8.

220. Motion Picture Patents Co. v. Universal Film Mfg. Corp., 243 U.S. 502, 519 (1917) ("[I]f sustained, [the tying restriction] would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes.").

221. Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 494 (1942) ("The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy.").

222. 320 U.S. 661 (1944).

223. *Id.* at 666.

224. *See* Princo v. Int'l Trade Comm'n, 616 F.3d 1318, 1340 (Fed. Cir. 2010).

225. *See* U.S. DEP'T OF JUSTICE AND FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 5.5 (1995) (recognizing the competitive harm of pooling arrangements that accomplish market division).

patents at little or no cost.[226] While all of these agreements have the potential to thwart the policy goals of the patent laws, not one of them is able support a charge of patent misuse.[227]

B. The Court's Failure to Adopt the Quick Look Analysis Means that in the Group Venture Context, the Burden of Proof Will Remain on the Defendant to Show Actual Anticompetitive Harm

In analyzing whether a licensing agreement has the requisite anticompetitive effect for the purpose of establishing patent misuse, the Federal Circuit has frequently applied the framework of the antitrust laws. However, in *Princo*, the majority declined to adopt the quick look analysis in analyzing the alleged agreement between Philips and Sony.[228] The quick look analysis is a truncated form of the rule of reason analysis, applied in situations where an extensive market analysis is unnecessary to establish that the agreement is anticompetitive.[229] Suspect agreements include naked restraints on price and output.[230] If an agreement is deemed suspect and thus analyzed under the quick look analysis, the burden switches to the party involved in the questionably illegal arrangement to provide a pro-competitive justification for the restriction.[231] In the case of patent misuse, the patent owner alleging infringement would have to show that the licensing restriction has a legitimate competitive purpose.[232]

In declining to apply the quick look analysis, the court found that the alleged agreement between Philips and Sony was not plainly anticompetitive.[233] The court relied on the pro-competitive collateral benefits of joint ventures, and the fact that suppressing technology is a necessary consequence of the standards setting process.[234] Instead, the court applied the traditional rule of reason analysis, finding that Princo failed to meet its burden of establishing that the alleged agreement to suppress the Lagadec technology lacked a competitive justification.[235] Specifically, the court relied on the fact that Princo failed to establish that but-for the alleged suppression, the Lagadec technology would have been a commercially viable alternative to the Raaymakers technology.[236]

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226. *See id.* (recognizing the competitive harm of pooling arrangements that limit research and development expenditures).

227. *See* Zain, *supra* note 207, at 132–36 (further arguing that the narrowing of the patent misuse doctrine as a result of the leveraging requirement announced in *Princo* is contrary to Supreme Court precedent).

228. *Princo*, 616 F.3d at 1339 (rejecting the quick look analysis).

229. California Dental Ass'n v. FTC, 526 U.S. 756, 769 (1999).

230. *See id.* at 769–71.

231. *Id.*

232. *Id.* at 776 n.12.

233. *Princo*, 616 F.3d at 1339.

234. *Id.*

235. *Id.* at 1334–38.

236. *Id.* at 1337–38.

The court's decision suggests that at least in the group venture context, the party asserting patent misuse will almost always have the burden of establishing actual competitive harm. As a result, it will be easier for joint venturers to assert their patents without having to demonstrate a pro-competitive justification for anticompetitive agreements. While the court did highlight two scenarios that would justify shifting the burden to the patent holder to provide competitive justification for the allegedly illegal licensing agreement, neither is particularly compelling.[237] First, if the group venture could be shown to be a sham, it would then be up to the venturer to establish a competitive justification for the questionable restriction.[238] However, the court did not indicate how a litigant might establish that a joint venture was a sham.[239] Second, if the alleged agreement could be shown to be not reasonably necessary to achieve the pro-competitive effects of the joint venture, the burden would also fall to the venturer.[240] However, this scenario is only questionably plausible, because following the court's reasoning, virtually any agreement that has the effect of limiting competition between joint venturers can be justified as reasonably necessary to bringing about the venture's pro-competitive benefits.[241] Therefore, the party asserting the misuse defense is unlikely to avoid having the burden to establish that the allegedly illegal agreement was unjustified under the rule of reason.

More so, the court's decision sets a high threshold for establishing that an agreement to suppress technology is anticompetitive. The court's decision suggests that in order to establish patent misuse based on an agreement to suppress technology, a defendant must show but-for competitive harm.[242] Therefore, a defendant must be able to demonstrate that the suppressed technology would have been competitive had it entered the market.[243] This standard of proof exceeds even what is required to establish liability under the antitrust laws.[244]

This heightened threshold for establishing the anticompetitive effect of suppressing technology is particularly worrisome for the development of nascent technology. Requiring defendants to establish actual commercial potential may frequently be impossible when the technology being suppressed is so new or

237. *Id.* at 1339.

238. *Id.*

239. *Id.*

240. *Id.*

241. *See id.* (recognizing that agreements not to compete with each other are necessary to ensure that "resources invested by one joint venturer will not undermined or exploited to the sole benefit of the other").

242. *See id.* at 1337 (rejecting Princo's theory of patent misuse based on the Commission's finding that the Lagadec technology would not have been a commercially viable alternative to the Orange Book standard).

243. *See* Zain, *supra* note 207, at 143 (recognizing the increased evidentiary burden of establishing anticompetitive harm following the *Princo* decision); *see also* Wang, *supra* note 208, at 54 ("The majority concluded that for a misuse defense to prevail based on [an] agreement to suppress nascent technologies, the defendant has to prove that absent this suppress-and-non-compete agreement, the nascent technologies should have enjoyed reasonable probabilities to turn into technically and commercially viable alternatives to the patented inventions.").

244. *See* Zain, *supra* note 207, at 143 ("Princo creates the rather odd possibility that it may be more difficult to successfully assert misuse – an equitable defense – than an affirmative treble damages antitrust claim.").

experimental that its market value cannot be demonstrated.[245] More so, suppressing emergent and unproven technology may be even more harmful than suppressing technology with a demonstrated commercial value, particularly in fast moving industries characterized by frequent "paradigm shifts."[246] However, the court's opinion sends the opposite message, that suppressing nascent and unproven technology without a clear market potential does not have the requisite anticompetitive effect necessary to establish patent misuse.

V. Conclusion

In *Princo v. Int'l Trade Comm'n*,[247] the Federal Circuit held that even if there had been an agreement between Philips and Sony to suppress Sony's Lagadec technology in order to prevent competition against the Orange Book patents, that agreement would not constitute misuse of Philips's Orange Book patents.[248] In doing so, the Federal Circuit limited the doctrine of patent misuse in the context of concerted action and antitrust violations, holding that patent misuse requires "leveraging" of the patent-in-suit and that patent supported antitrust violations without more do not constitute patent misuse.[249] More so, the court established a higher threshold for showing that agreements to suppress technology are anticompetitive.[250] The overall effect of the *Princo* decision will likely be that courts will become increasingly unable to discourage anticompetitive joint venture activity. Group ventures rarely fit into the precise factual "leveraging" framework, even though they are exceedingly capable of anticompetitive practices that disrupt the "progress of science and useful arts."[251]

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245. *See* Christina Bohannan, *IP Misuse as Foreclosure*, 96 Iowa L. Rev. 475, 514 (2011) (recognizing that in the context of antitrust suits based on the suppression of nascent technology, rival producers are often unable to satisfy the standing requirement because they cannot show that the "new product or technology would have come to fruition and would have been commercially successful but for the IP holder's restraint").

246. *See Princo*, 616 F.3d at 1356 (Dyk, J., dissenting) (recognizing the importance of protecting nascent technology). The dissent remarked:

> There is great difficulty in predicting commercial viability in the early stages of technological development, and indeed the patent system itself recognizes the importance of protecting technologies that have not yet reached the state of commercial viability. There are numerous examples of technology that in the early stages of development were thought likely to fail but which eventually matured into successful commercial applications, including the electric light bulb, telephone, radio, telegraph, and television.

Id. A paradigm shift refers to the changing of the fundamental assumptions that ground particular scientific theories. *See generally* Thomas S. Kuhn, The Structure of Scientific Revolutions (3d ed. 1996).

247. 616 F.3d 1318 (2010).

248. *Id.* at 1340.

249. *See supra* Part IV.A.

250. *See supra* Part IV.B.

251. U.S Const. art I, § 8, cl. 8.