FEDERAL CIRCUIT PATENT LAW CASE UPDATE

U.S. Philips Corp. v. ITC, 04-1361 (Fed. Cir. Sept. 21, 2005) (Bryson, J.)

The court reversed and remanded the Commission's determination that six Philips patents were unenforceable due to misuse for package-license arrangements the Commission deemed impermissible tying. It was not per ser misuse, or misuse under the rule of reason, for Philips to license a package of patents for a single price, and refuse to license individual patents.

The patents at issue relate to recordable CD technology.

> Philips owns patents to technology for manufacturing recordable compact discs ("CD-Rs") and rewritable compact discs ("CD-RWs") in accordance with the technical standards . . . jointly authored by Philips and Sony Corporation. . . .
>
> Philips specified that the same royalty was due for each disc manufactured by the licensee using patents included in the package, regardless of how many of the patents were used. Potential licensees . . . were not allowed to license those patents individually and were not offered a lower royalty rate for licenses to fewer than all the patents in a package.

Initially Philips used four patent packages or pools, but later went to two, called the essential and nonessential pools. The ITC determined that Philips used the essential pool to tie licensing of the nonessential pool in "per se patent misuse because Philips did not give prospective licensees the option of licensing individual patents (presumably for a lower fee) rather than licensing one or more of the patent packages as a whole."

> According to the Commission, the Farla and Iwasaki patents were not essential because there was an economically viable alternative method of writing information to discs that did not require the producer to practice those patents; the Yamamoto patent was not essential because there was a potential alternative method of creating master discs that did not require the producer to practice that patent; and the Lokhoff patent was not essential because there were alternative possible methods of accomplishing copy protection that did not require the producer to practice that patent. Based on those findings, the Commission concluded that the four "nonessential" patents constituted separate products from the patents that were essential to the manufacture of the subject discs.

Besides its per se analysis, the ITC alternatively gave a rule of reason analysis for its conclusion of patent misuse based on tying.

> While the doctrine of patent misuse closely tracks antitrust law principles in many respects, Congress has declared certain practices not to be patent misuse even though those practices might otherwise be subject to scrutiny under antitrust law principles. In 35 U.S.C. § 271(d), Congress designated several specific practices as not constituting patent misuse. The designated practices include "condition[ing] 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 for the patent or patented product on which the license or sale is conditioned."

The court agreed with the commission that because Philips could not show a lack of market power, 35 U.S.C. Section "271(d)(5) does not provide Philips a statutory safe haven from the judicially created defense of patent misuse."

However, the court disagreed that block-booking movies, a per se antitrust violation, was sufficiently analogous to Philips' package patent licensing that such licensing was per se patent misuse. Nor was the package licensing akin to requiring purchase of a staple article of commerce with a patent because of the fundamental differences between a product and a patent license.

The court also disagreed with the commission on the characterization of the nonessential patents.

> There was thus insufficient evidence that including the four "nonessential" patents in the Philips patent packages had an actual anticompetitive effect. That is, the evidence did not show that there were commercially viable substitutes for those four "nonessential" patents that disc manufacturers wished to use in making compact discs compliant with the Orange Book standards.

Without alternatives, there is no anticompetitive effect even if the patents are not licensed individually. This undermined both the Commission's per se determination, and its rule of reason determination of anticompetitive effect. The court emphasized various efficiencies of package licensing to a greater degree than the Commission in overturning the rule of reason analysis.

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