



TECHNOLOGY LAW UPDATE

*U.S. Philips Corp.
v.
Int'l Trade Comm'n*

No. 04-1361

Federal Circuit
Sept. 21, 2005

A package license is in effect a promise by the patentee not to sue his customer for infringing any patents on whatever technology the customer employs in making commercial use of the licensed patent [and thus is] not anticompetitive in the way that a compelled purchase of a tied product would be.

**Schwartz
Sung &
Webster**

*an intellectual property
law firm*

On September 21, 2005, the Federal Circuit reversed and remanded the ITC's order holding six of Philips's patents for the manufacture of compact discs to be unenforceable due to patent misuse because Philips had employed an impermissible tying arrangement by requiring prospective licensees to license packages of patents rather than allowing them to choose which individual patents they wished to license and making the licensing fee correspond to the particular patents designated by the licensees. The Federal Circuit stated:

[T]he doctrine of patent misuse bars a patentee from using the "patent's leverage" to "extend the monopoly of his patent to derive a benefit not attributable to the use of the patent's teachings," such as requiring a licensee to pay a royalty on products that do not use the teaching of the patent. The "key inquiry is whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect." [D]epending on the circumstances, tying arrangements can be viewed as per se patent misuse or can be analyzed under the rule of reason. [U]nder the rule of reason, a practice is impermissible only if its effect is to restrain competition in a relevant market. . . .

Philips gives its licensees the option of using any of the patents in the package, at the licensee's option [and] charges a uniform licensing fee to manufacture discs covered by its patented technology, regardless of which, or how many, of the patents in the package the licensee chooses to use in its manufacturing process. [The] package licenses do not require that licensees actually use the technology covered by any of the patents that the Commission characterized as nonessential. [T]he royalty rate . . . depended on the number of discs the manufacturer produced under the authority of the license, not the number of individual patents the manufacturer used to produce those discs [and] did not vary depending on whether the licensees used only the essential patents or used all of the patents in the package. . . .

Because a license to the essential patent is, by definition, a prerequisite to practice the technology in question, the patentee can charge whatever maximum amount a willing licensee is able to pay to practice the technology in question. If the patentee allocates royalty fees between its essential and nonessential patents, it runs the risk that licensees will take a license to the essential patent but not to the nonessential patents. The effect of that choice will be that the patentee will not be able to obtain the full royalty value of the essential patent. For the patentee in this situation to offer its nonessential patents as part of a package with the essential patent at no additional charge is no more anticompetitive than if it had surrendered the nonessential patents or had simply announced a policy that it would not enforce them against persons who licensed the essential patent. In either case, those offering technology that competed with the nonessential patents would be unhappy, because they would be competing against free technology. But the patentee would not be using his essential patent to obtain power in the market for the technology covered by the nonessential patents. This package licensing arrangement cannot fairly be characterized as an exploitation of power in one market to obtain a competitive advantage in another. [T]he analysis that led the Commission to apply the rule of per se illegality to Philips's package licensing agreements was legally flawed.