No. 10-898 JAN 5 - 2011

In The Supreme Court of the United States

PRINCO CORPORATION AND
PRINCO AMERICA CORPORATION,

Petitioners,

v.

INTERNATIONAL TRADE COMMISSION
AND U.S. PHILIPS CORPORATION,

Respondents.

**On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit**

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Patent misuse is an equitable defense to patent infringement based on "[t]he idea that a patentee should be denied relief against infringers if he has attempted illegally to extend the scope of his patent monopoly." *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 180 (1980). "[T]he particular form or method by which the monopoly is sought to be extended is immaterial." *United States v. Univis Lens Co.*, 316 U.S. 241, 251-52 (1942); *Dawson*, 448 U.S. at 196-97 (same). Despite that admonition to equitable flexibility, a sharply divided *en banc* Federal Circuit has held that there can be no finding of misuse unless, in addition to extension of the patent grant, there is "leveraging" of the asserted patent, in one of the specific ways that have been held to be outside the otherwise broad scope of the patent grant in a previous case. Over a strongly worded dissent, the Federal Circuit held that an agreement between patent owners to suppress the technology embodied in one's patent in exchange for a share of the monopoly profits from licensing the other's patent on a substitute technology "is not the type of conduct that could give rise to the defense of patent misuse," even if it rises to the level of an antitrust violation. The question presented is:

> Should the equitable doctrine of patent misuse remain a flexible doctrine to be applied when a patent holder has impermissibly attempted to extend the scope of his patent, or, as a divided Federal Circuit has held, be conditioned on a showing of "leveraging," "with anticompetitive effects" and in a manner previously "held to be outside ... the patent grant"?

RULE 29.6 STATEMENT

Petitioner Princo Corporation is a publicly traded corporation. No other publicly held corporation owns more than 10% of the stock of Princo Corporation. Petitioner Princo America Corporation is a wholly owned subsidiary of Princo Corporation.

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PETITION FOR A WRIT OF CERTIORARI

OPINIONS BELOW

The opinion of the *en banc* Federal Circuit (App. 1a-47a) is reported at 616 F.3d 1318 (2010), along with concurring (App. 48a-51a) and dissenting (App. 52a-88a) opinions. The vacated panel opinion (App. 1b-47b) is reported at 563 F.3d 1301 (2009), along with a dissenting opinion (App. 48b-59b). The opinion of the International Trade Commission (App. 1c-159c) is available at 2007 WL 1256290 and 2007 ITC LEXIS 1483. The Federal Circuit's decision on an earlier appeal (App. 1d-42d) is reported at 424 F.3d 1179 (2005). The decision of the International Trade Commission leading to the earlier appeal (App. 1e-89e) is available at 2004 WL 1435791 and 2004 ITC LEXIS 990. The original decision of the administrative law judge (excerpts at App. 1*l*-8*l*) is not reported.

JURISDICTION

The judgment of the *en banc* Federal Circuit on rehearing was entered on August 30, 2010. App. 1a. On November 1, 2010, the Chief Justice extended the time to petition for a writ of certiorari to and including December 29, 2010. On December 20, 2010, the Chief Justice extended the time to petition for a writ of certiorari to and including January 5, 2011. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Article I, section 8, clause 8 of the Constitution provides that "[t]he Congress shall have Power ... To promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

Patent misuse is an equitable doctrine developed by this Court. Congress has modified that doctrine only in 35 U.S.C. § 271(d), which provides, in relevant part:

> 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: ... (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

STATEMENT

This case involves a patent owner's use of its patents to suppress a potentially competing patented technology. The patent owner, respondent Philips, secured the agreement of Sony to suppress Sony's patents on recordable/rewritable compact disc (CD-R/RW) technology in return for a share of the proceeds from the licensing of Philips' rival patents. A panel of the Federal Circuit held that Sony and Philips' conduct could constitute patent misuse rendering Philips' patents unenforceable in litigation against petitioners ("Princo"). The Federal Circuit then reheard the case *en banc* and held that the doctrine of patent misuse categorically cannot apply to such an agreement not to compete, even if it constitutes an antitrust violation, "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." App. 21a-22a.

That holding is contrary to this Court's repeated admonition that "the particular form or method by which the monopoly is sought to be extended is immaterial." *United States v. Univis Lens Co.*, 316 U.S. 241, 251-52 (1942). As the dissent below pointed out, App. 53a, it also contravenes this Court's pronouncement that "[i]t would be absurd to assume that Congress intended to provide that the use of a patent that merited punishment as a felony [under the Sherman Act] would not constitute 'misuse.'" *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42 (2006).

A. Factual Background

1. Philips' Role in the Development of the Technology and the Patent Pool

This case involves recordable/rewritable compact disc technology (CD-R/RW), which Philips developed, beginning in the mid-1980s and continuing into the 1990s. App. 5b-6b, 1j-3j, 1k-9k. Philips obtained patents on its technology and created a private standard dubbed the "Orange Book." App. 5a. Although Sony had secured numerous patents in the CD-R/RW field and it collaborated with Philips in developing the Orange Book standard, Sony did not contribute any technology necessary to practice the Orange Book standard. App. 59a-60a (dissent), 4h-5h. Sony and others did, however, join Philips in forming an Orange Book patent pool to serve as the sole licensor of the CD-R/RW-related patents of all pool members. Since the mid-1990s, Philips has exclusively administered the Orange Book patent pool with the agreement of Sony and other pool members. App. 57a (dissent).

As both the ITC and the Federal Circuit recognized, Philips has "the market power of an absolute monopoly" in the United States market for licensing U.S. patents essential for the manufacture of Orange Book-compliant CD-Rs and CD-RWs. App. 5*l*, *aff'd*, App. 35e, 13d. "No competitive alternative to either the CD-R or CD-RW disc has been developed" and commercialized. App. 58a (dissent). Accordingly, "'[n]o one can manufacture or sell CD-R or CD-RW discs legally in the United States without taking a license'" from Philips. *Id.* (quoting App. 3*l*). "Every CD-R or CD-RW disc now manufactured is produced according to the Orange Book standard." App. 57a (citing App. 4*l*).

The royalty Philips charges to companies licensing the Orange Book patents "has ranged from one-half to two-thirds the manufacturers' selling price for the discs," App. 57a (dissent), in contrast to industry norms of 5% or less, App. 8i-10i. As a result, Philips and the other members of the patent pool have enjoyed "hundreds of millions, if not billions, of dollars in revenue from the sale of those discs." App. 57a (dissent).

2. The Suppressed Sony Patented Technology

One Sony technology was considered for use as part of the Orange Book but rejected in 1987. Sony employee Roger Lagadec developed a method for digitally encoding position information on the disc. Philips and Sony agreed that instead of Lagadec's *digital* method for encoding position information on the disc, the Orange Book would incorporate Philips' separately developed *analog* method for performing the same function, embodied in Philips' "Raaymakers patents." App. 5a-6a, 58a-59a (dissent). Once one of the methods of encoding position data was chosen (Raaymakers) and incorporated into the Orange Book specifications, the alternative method (Lagadec) was rendered incompatible with and, therefore, unusable in an Orange Book-compliant disc. App. 11a.

3. The Philips-Sony Agreements

Despite Sony's slight contributions to the Orange Book standard and patent pool, Sony and Philips agreed to give Sony a large share of the revenue Philips collected from the CD-R/RW pools (*e.g.*, 36% of the revenue from the CD-RW pool) in return for Sony's promise not to separately license any of its CD-R/RW patents. App. 60a (dissent). Philips and Sony thus agreed to share in Philips' monopoly patent licensing profits while suppressing Sony's alternative patented technology. This non-compete agreement was made in 1993, long after the end of any Philips-Sony technical collaboration and before the launch of Philips' Orange Book licensing program. App. 84a (dissent).

In sum, "[a]lthough the parties recognized that the Lagadec patented digital method had the potential to compete with the patented Raaymakers technology, Philips and Sony determined not to license the Lagadec patent as an alternative to the Raaymakers patents." App. 59a (dissent). In addition, the standard license agreement for the Orange Book patent pool, which included the Lagadec patent, prohibited licensees (CD manufacturers) from using any of the patents for non-Orange Book purposes, thus precluding the licensees from developing alternatives to the Orange Book. App. 84a (dissent). "The effect of these agreements was to protect the Philips Raaymakers technology from any actual or potential competition" from Sony and to foreclose entirely the Lagadec technology. App. 60a (dissent). "As no one could license the Lagadec patent outside of the Orange Book patent pool, the patent was rendered useless as an alternative technology." *Id.*

B. The Proceedings Below

1. The International Trade Commission

Princo is a manufacturer of CD-R/RW discs and was formerly licensed by Philips under the Orange Book package license. This litigation began when Philips terminated the license for non-payment and filed a complaint with the International Trade Commission ("ITC") seeking to exclude Princo discs from the United States under 19 U.S.C. § 1337 on the ground that they infringed Philips' patents. App. 2e, 5d. Among Princo's defenses was that Philips had engaged in patent misuse.

The administrative law judge ("ALJ") issued a lengthy initial determination ("ID") finding the patents unenforceable due to patent misuse. ID provided separately. The ITC affirmed the misuse finding on grounds that Philips had tied four patents not essential to the Orange Book standard to essential patents. App. 1e-89e. The Federal Circuit reversed that decision and remanded for further consideration of the ALJ's alternative grounds for finding misuse. App. 1d-42d.

In the ID, the ALJ had found that "Philips and Sony are horizontal competitors in the patent licensing market," App. 3*l*, that the CD-R/RW "patent pools constitute horizontal agreements among competitors to control the royalty rate for U.S. patents that are essential" to practice the Orange Book standard, App. 4*l*-5*l*, and that Sony's Lagadec patent represents "alternative technology" and "its inclusion in the pool appears to be an attempt to forestall digital approaches to achieving what the Philips analog technology has achieved" that "unreasonably forecloses competition," App. 7*l*. On remand, the ITC declined to adopt those findings, and rejected Princo's arguments (also advanced by ITC staff) that Philips had included the Lagadec patent in the pool to "prevent[] ... Sony[] from competing with Philips," App. 98c, and had "combined with its 'most likely' horizontal competitors to restrain competition," App. 34c. The ITC concluded that there was "no showing that the Lagadec '565 patent competes with another patent in the pool" because it cannot be used to practice the Orange Book standard, App. 31c, and no showing that Philips and Sony "would have competed in the technology licensing market absent the" pooling arrangement, App. 31c-32c, and thus no showing of anticompetitive effect, App. 34c-36c, 141c-142c.

2. The Federal Circuit Panel Majority

A Federal Circuit panel reversed and remanded,[1] holding that the ITC had erred in evaluating the Philips-Sony arrangement under the standard for a potential competition merger by requiring a showing that Sony "'would probably have entered the market within a reasonable period of time' and 'would have entered and survived to become a significant competitive force.'" App. 33b-34b (quoting App. 142c). Unlike a merger, the Philips-Sony agreements offered no "potential countervailing efficiencies that offset potential harms to future competition." *Id.* Notably, Philips had never advanced any sort of joint-venture theory in response to arguments that it had acted improperly to eliminate Sony as a competitor. When asked at oral argument before the panel if there was any procompetitive justification for the horizontal restraint, Philips' counsel conceded that he could think of none. *See* App. 83a-84a (dissent) (citing Oral Arg. 26:10-26:25, *available at* http://oralarguments.cafc.uscourts.gov/Audiomp3/2007-1386.mp3 (Oct. 6, 2008)); App. 32b.

[1] The remand was for the ITC to determine, primarily, whether Philips and Sony had actually agreed that Sony would not license its patents in competition with the Orange Book. Both the majority and the dissent assumed such an agreement at the *en banc* stage, and Philips has not denied it. *See* App. 54a (dissent).

3. The *En Banc* Federal Circuit Majority

The Federal Circuit voted to rehear the case *en banc*. The six-judge majority held that an agreement by Philips and Sony to suppress the Lagadec technology could not constitute patent misuse—categorically and as a matter of law. Judges Prost and Mayer disagreed with the majority's categorical legal analysis, but concurred in the result on narrower grounds. Judges Dyk and Gajarsa dissented.

The majority concluded that, even if Philips and Sony's agreement effectively suppressed Sony's rival technology, "patent misuse" could not have occurred because Philips did not use the "leverage" of its patents to accomplish that end. App. 27a; *see also* App. 32a ("[T]his is not a case in which conditions have been placed in patent licenses to require licensees to agree to anticompetitive terms going beyond the scope of the patent grant."). The majority questioned the need for a misuse doctrine at all and limited the doctrine's application to scenarios declared to be misuse in prior cases. App. 21a-22a & n.2.

In an alternative holding, the majority also declared that an antitrust violation (a net anticompetitive effect) is necessary but not sufficient for a patent misuse finding. App. 22a n.2, 29a. In this case, the majority saw no anticompetitive effects. Contrary to the views of the Federal Trade Commission, which filed an *amicus* brief and described the Philips-Sony agreement as "inherently suspect," the majority declined to apply a *per se* or "quick look" approach to the horizontal restraint. Although Philips had not argued any kind of joint venture theory to the ITC or to the panel, and the ITC had not made any particularized finding of procompetitive effects, App. 142c, the majority held that "an agreement among joint venturers not to compete against the joint venture is not a naked restraint," App. 34a.

The majority made its own appellate finding of fact to support its holding. The majority determined that the Lagadec patent was the product of a Sony-Philips joint venture to produce CD-R/RW technology. App. 38a n.7. The majority relied on a statement in the panel opinion that "'[t]he Lagadec and Raaymakers patents stem from the joint efforts of Philips and Sony engineers to develop recordable CDs in the late 1980s.'" *Id.* (quoting App. 10b). The quoted language was part of a synopsis of the facts, and was not the resolution of a disputed issue. The agency fact-finder had made no finding to this effect, and Philips never argued it before the *en banc* stage. On the contrary, Philips stated in a Dutch proceeding relating to the CD-R/RW licensing program: "It is important to stress that the pure CD-R patents [of which Lagadec is one] do *not* embody the result of joint research and development ('R&D') of Philips, Sony and Taiyo Yuden.... There is, therefore, no question of any joint Philips and Sony patents ...." App. 2m-3m (emphasis in original).

4. The *En Banc* Federal Circuit Concurring Opinion

Judge Prost, joined by Judge Mayer, concurred in the result, but rejected the majority's approach to the doctrine of patent misuse. App. 48a-51a.

The concurring judges disagreed with the majority that antitrust considerations are a "different issue" from patent misuse. In their view, whether an antitrust violation has occurred is probative of patent misuse, and a finding of patent misuse may be based in part on an antitrust violation. Moreover, they questioned the majority's "leveraging" requirement:

> By asking only whether the Raaymakers patents [have] been "leveraged," ... the majority may have unnecessarily narrowed the patent misuse inquiry—particularly when one can readily argue that the combined effect of an agreement to license the Raaymakers patents, but not the Lagadec patent, enabled Philips to obtain the type of "market benefit beyond that which inheres in the statutory patent right" of either patent, amounting to misuse.

App. 51a.

Judges Prost and Mayer concurred in the result, however, because they believed that Princo had failed to make a factual showing of anticompetitive effects. App. 48a-49a.

5. The *En Banc* Federal Circuit Dissenting Opinion

Judge Dyk, joined by Judge Gajarsa, vigorously dissented, noting that the majority's holding was "in contravention of ... Supreme Court authority." App. 53a. In the dissenters' view, an agreement to suppress an alternative technology and protect a patented technology from competition is an antitrust violation and also constitutes patent misuse. The majority's contrary holding, they argued, conflicted with this Court's decision in *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 42 (2006), which recognized that "[i]t would be absurd to assume that Congress intended to provide that the use of a patent that merited punishment as a felony [under the Sherman Act] would not constitute 'misuse.'" App. 52a-53a. The dissenters read this Court's case law and congressional ratification thereof as "supporting a vigorous misuse defense, clearly applicable to agreements to suppress an alternative technology," and they accused the majority of "emasculat[ing] the doctrine so that it will not provide a meaningful obstacle to patent enforcement." App. 53a (further observing that antitrust enforcement would be "inadequate to the task" of preventing abuse of patent monopolies). The dissenters noted the considerable case law and scholarly authority for finding agreements not to compete in the licensing or development of technology to be patent misuse. App. 63a-71a.

The dissenters also noted that, "even under the rule of reason, agreements between competitors not to compete are classic antitrust violations." App. 77a. In their view, Princo satisfied its burden by showing a horizontal agreement to suppress competitive technology because anticompetitive effects are presumed under the "quick look" approach to rule-of-reason analysis and Philips offered no pro-competitive justification. App. 79a-82a. The dissenters argued that the majority had violated settled antitrust principles by placing the burden on Princo to show probable commercial viability, and noted that "the amicus brief for the FTC makes clear" that "the probable commercial viability test itself finds no support in the case law or antitrust policy, [and] has been explicitly rejected in antitrust cases and misuse cases as well." App. 85a-86a.

The dissenters concluded that "[t]he majority's strict standard fails to provide adequate protection against the suppression of nascent technology, and allows patent holders free rein to prevent the development of potentially competitive technologies except in the most extreme and unlikely circumstances." App. 88a.

REASONS FOR GRANTING CERTIORARI

Certiorari should be granted because the decision below conflicts with this Court's precedents and Congress's decrees regarding patent misuse, because the question presented is of great practical as well as legal importance, and because this case is an appropriate vehicle for deciding that question.

A. The Federal Circuit's Decision Conflicts with This Court's Precedent and Congress's Instructions

The decision below squarely contradicts several decisions of this Court as well as Congress's direction.

1. The New "Leverage" Requirement Mandated by the Federal Circuit Contravenes This Court's Precedent

Contrary to the precedents of this Court and the will of Congress, the *en banc* majority has engrafted an entirely new "leverage" requirement onto the patent misuse defense and further limited the defense to scenarios previously "held to be outside the otherwise broad scope of the patent grant." App. 22a. Such a narrow, static, and rigid formula is flatly inconsistent with this Court's broad characterization of patent misuse as simply "[t]he idea that a patentee should be denied relief against infringers if he has attempted illegally to extend the scope of his patent monopoly." *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 180 (1980). Furthermore, this Court has long recognized that "the particular form or method by which the monopoly is sought to be extended is immaterial." *Univis Lens*, 316 U.S. at 251-52; *Dawson*, 448 U.S. at 197 (same); *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 344 (1971) (same).

The flexibility of the patent misuse doctrine stems from its roots in equity: "courts ... may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest," namely, to "subvert" the "public policy" reasons for which patents are granted. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492, 494 (1942). The maxim that those who seek equitable relief must come to court with clean hands "necessarily gives wide range to the equity court's use of discretion ... not bound by formula." *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 815 (1945) (internal quotation marks omitted). "[W]here a suit in equity concerns the public interest as well as the private interests of the litigants this doctrine assumes even wider and more significant proportions." *Id.*

The majority below disregarded that precedent. As the dissenting judges pointed out, the presence of leveraging in past misuse cases simply reflected that the corresponding antitrust violation in those cases (tying) happened to require it. App. 70a-71a. Neither this Court's misuse cases nor the lower court decisions discussed by the dissent rest on a finding of leveraging. App. 65a-68a. Those cases certainly lend no support to the extraordinarily restrictive leveraging requirement announced by the *en banc* majority: The foreclosure here was achieved partly by conditioning disc manufacturers' licenses to the Philips patents on non-use of the Sony patent, and partly by a separate agreement that paid Sony a large share of Philips' patent royalties not to license its patents in competition with the Philips patents. Yet the majority somehow saw "no connection" between the Philips patents and the misconduct at issue. App. 27a.

The decision below also conflicts with *United States v. U.S. Gypsum Co.*, 333 U.S. 364 (1948), which recognized that any arrangement that improperly expands the patent monopoly constitutes patent misuse. In that case, this Court held that U.S. Gypsum and other patent holders and manufacturers had, among other things, suppressed the sale of competing non-patented gypsum by means of "an understanding, if not a formal agreement, that only patented board would be sold." *Id.* at 397. "Such an arrangement," this Court held, "in purpose and effect *increased the area of the patent monopoly* and is invalid." *Id.* (emphasis added), *cited in* App. 64a (dissent), 50a-51a (concurrence).[2]

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[2] Although the Court's original *U.S. Gypsum* opinion did not employ the term "misuse," this Court in a subsequent opinion left no doubt that it had found misuse. *U.S. Gypsum Co. v. Nat'l Gypsum Co.*, 352 U.S. 457, 465 (1957) (patents

Similarly, in *Hartford-Empire Co. v. United States*, 323 U.S. 386, 399-400, 411, 415 (1945), this Court held that patent owners that pooled their patents on glassware, eliminated competition between them, fixed prices as to patented glassware, and suppressed competition as to unpatented glassware were not entitled to collect patent royalties. Again, misuse was found based on use of patents to suppress competition, regardless of whether it formally involved "leveraging." *See also Compton v. Metal Prods., Inc.*, 453 F.2d 38 (4th Cir. 1971) (patentee's agreement not to compete with licensee even as to products not covered by patent was misuse); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1204 (2d Cir. 1981) ("While ... a concerted refusal to license patents is no less unlawful than other concerted refusals to deal, in such cases [where the parties act in concert] the patent holder abuses his patent by attempting to enlarge his monopoly beyond the scope of the patent granted him.").

The leading scholarly treatises on patent law and on the intersection of patent and antitrust law concur that a horizontal agreement to suppress alternative technology constitutes misuse—there is no additional requirement of "leveraging." 6 Donald S. Chisum, *Chisum on Patents* §§ 19.04[3], 19.04[3][b], at 19-451, 19-463 (2010) ("prohibiting production or sale of competing goods" is a "classic act[] of misuse," citing 13 decisions from the Third, Fourth, Sixth, Seventh, Ninth and Tenth Circuits); Herbert Hovenkamp et al., *IP and Antitrust* § 3.3g, at 3-42 to -43

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unenforceable if "the original misuse found in the antitrust litigation remained unpurged," referring to 1948 *Gypsum* case), *cited in* App. 50a-51a (concurrence).

(2010) (viewing original panel opinion finding misuse in this case as "standing for the unexceptional proposition that patent licensing schemes are illegal where they are used as part of a broader effort to fix prices and restrict competition").

Remarkably, the *en banc* majority held that, without "leveraging," "an agreement to suppress an alternative technology designed to protect a patented technology from competition," App. 53a (dissent), cannot constitute misuse even if proven to be an "antitrust violation" (i.e., "the patentee has committed wrongful conduct having anticompetitive effects"), App. 21a-22a. Yet as the dissenters pointed out, App. 53a, this is "directly contrary" to *Illinois Tool Works*, where the Court noted that "[i]t would be absurd to assume that Congress intended to provide that the use of a patent that merited punishment as a felony [under the Sherman Act] would not constitute 'misuse.'" *Illinois Tool Works*, 547 U.S. at 42; *see also Hartford-Empire*, 323 U.S. at 415 ("[S]o long as the patent owner is using his patent in violation of the antitrust laws, he cannot restrain infringement of it by others.").

The Federal Circuit majority's basis for imposing the "leveraging" requirement was that there must be a connection between the patent and the wrongful act: "the patent in suit must 'itself significantly contribute[] to the practice under attack.'" App. 27a (citation omitted). Because patent misuse is an application of the equitable doctrine of unclean hands, *Morton Salt*, 314 U.S. at 492, the Federal Circuit's leveraging requirement must derive from the required nexus between the misconduct and the right asserted by the plaintiff. *See, e.g., Precision*

Instrument, 324 U.S. at 814 (clean hands maxim "closes the doors of a court of equity to one tainted with inequitableness or bad faith *relative to the matter in which he seeks relief*") (emphasis added).

The Federal Circuit, however, construed the nexus requirement far more strictly and rigidly than this Court has. Under this Court's cases, the nexus is present if the assertion of the patent is "a *contributing factor* in thwarting the public policy underlying the grant of the patent" by extending the patent monopoly. *Morton Salt*, 314 U.S. at 493 (emphasis added). A patent is plainly a "contributing factor" to a scheme whose motivating purpose—and effect—is to exploit that patent. The public and private impacts of the scheme in this case—expanding the effective scope of the Philips patents, foreclosing a rival technology, and reaping the resulting increased profits from the Philips patents—all depend on the Philips patents. Accordingly, the criteria for applying the unclean hands principle are met: "[A]n equity court properly uses the [clean hands] maxim to withhold its assistance ... [when] it not only prevents a wrongdoer from enjoying the fruits of his transgression but averts an injury to the public." *Precision Instrument*, 324 U.S. at 815.

The *en banc* majority also attempted to justify curtailing the misuse defense by asserting that misuse is "a judge-made doctrine that is in derogation of statutory patent rights against infringement," App. 4a, and by relying on Section 271(d) of the Patent Act, App. 25a. Its reasoning was erroneous on both points.

This Court first recognized the patent misuse doctrine in 1917, *Motion Picture Patents Co. v.*

Universal Film Manufacturing Co., 243 U.S. 502, 519, and gave it its modern form in 1942, *Morton Salt*, 314 U.S. at 492-94, before the codification of modern patent law in 1952, *Illinois Tool Works*, 547 U.S. at 41 ("Shortly thereafter [after the 1944 *Mercoid* case], Congress codified the patent laws for the first time," citing the 1952 Patent Act). Thus, the misuse doctrine is not in derogation of statutory rights under the Patent Act of 1952. Instead, the Patent Act of 1952 was enacted against the common law background of the misuse defense, which remained in force to the extent unaltered by the statute. *See United States v. Texas*, 507 U.S. 529, 534 (1993) ("Congress does not write upon a clean slate. In order to abrogate a common-law principle, the statute must 'speak directly' to the question addressed by the common law.") (citations omitted). *See* 35 U.S.C. § 282 (making "unenforceability"—which is the consequence of patent misuse—a defense to patent infringement); P.J. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc'y 161, 215 (1993) (reprinted from 35 U.S.C.A. (1954 ed.)) ("unenforceability" in Section 282 included "unclean hands").

Congress narrowed the patent misuse doctrine only to a very limited degree in the original Section 271(d) of the 1952 Act—only to the extent necessary to allow contributory infringement liability for transactions involving non-staple articles. In the Court's most recent case analyzing patent misuse, *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980), the Court discussed the legislative history of Section 271(d) in a way that cannot be squared with the reading of the *en banc* majority. The Court recognized the "controversiality of the proposal" to expand contributory infringement liability at the expense of patent misuse. *Id.* at 210. At hearings on the bill that became Section 271(d), the Antitrust Division of the Department of Justice warned that "this provision 'would have the effect of wiping out a good deal of the law relating to misuse of patents, particularly with reference to tying-in clauses.'" *Id.* at 211. Giles Rich, a leading drafter of the 1952 Act, assured the committee that the statute would neither eliminate patent misuse nor change the rule that tying of unpatented staple articles to a patent license was misuse. *Id.* at 210-11 (citing *Carbice Corp. v. Am. Patents Dev. Corp.*, 283 U.S. 27 (1931)). This Court in *Dawson Chemical* quoted Rich's testimony that "'to put any measure of contributory infringement into law you must, *to that extent and to that extent only*, specifically make exceptions to the misuse doctrine.'" *Id.* at 211 (emphasis added) (citation omitted). This Court concluded that its review "amply demonstrate[d that] the intended scope of the statute" was to exclude nonstaple goods from the misuse defense while otherwise preserving the doctrine as it then stood. *Id.* at 213, 214 n.20. This was "the line that Congress drew." *Id.* at 214.

This Court's recognition that, in the 1952 Patent Act, Congress approved this Court's doctrine of patent misuse shows the error in the holding below that misuse is a disfavored doctrine that persists only on the grudging sufferance of Congress. *See Astoria Fed. Sav. & Loan Ass'n v. Solimino*, 501 U.S. 104, 108 (1991) ("[W]here a common-law principle is well established, ... courts may take it as given that Congress has legislated with an expectation that the principle will apply except when a statutory purpose to the contrary is evident.") (citation and internal quotation marks omitted).

The 1988 amendment to Section 271(d) likewise did not impose any leverage requirement. Indeed, the *en banc* majority acknowledged that no such requirement appears anywhere in the statute. App. 25a. The majority instead purported to find the leverage requirement in the legislative history. App. 23a-25a. This method of statutory construction—using free-floating legislative history, unanchored in the statutory text, to create an additional misuse exception—would be improper even if the common law did not speak to the issue. Legislative history alone cannot possibly satisfy the criterion that "the statute must 'speak directly'" in order "to abrogate a common-law principle." *United States v. Texas*, 507 U.S. at 534 (citation omitted).

In any event, the *en banc* majority misread the legislative history, which identified covenants not to compete as a form of misuse. App. 74a (dissent) (citing 134 Cong. Rec. 32,294-95 (1988)). Thus, even if courts could use legislative history to annex new provisions to statutes, this legislative history would not support the decision below.

2. The Federal Circuit's Alternative Holding That an Anticompetitive Effect Is Required to Show Patent Misuse Also Controverts This Court's Precedent and the Will of Congress

As an alternative basis for its decision, the Federal Circuit articulated a second categorical limitation on the misuse doctrine, which is also at odds with this Court's precedents—a requirement of "anticompetitive effect." The majority concluded that Princo had not met that standard because it had not shown that the suppressed Lagadec patent was "anything more than a theoretical solution, or that the unavailability of a separate license to Lagadec for non-Orange-Book purposes" due to the alleged agreement to suppress it, "resulted in some realistic foreclosure of competition" in the relevant market. App. 42a. As discussed in more detail below, this standard misstates the applicable principles even if antitrust were the measure of patent misuse, which it is not. As Judge Dyk observed, quoting the *amicus* brief of the Federal Trade Commission:

> [H]ere Princo need not prove that a licensee attempting to develop new technology using the Lagadec methodology actually would have succeeded in creating a technically and commercially viable technology that could have competed successfully against Philips' and Sony's Orange Book standard. Such a "showing ... is not an essential step in establishing that the [defendants'] attempt to thwart its achievement ... was an unreasonable restraint of trade."

App. 85a n.20 (citing FTC *Amicus* Br. at 23 (quoting *FTC v. Ind. Fed'n of Dentists*, 476 U.S. 447, 461 (1986))). It suffices that Philips and Sony agreed to suppress Sony's nascent rival technology, and that Philips has failed to advance (much less establish) any countervailing procompetitive justification. *See supra* p. 8, *infra* pp. 35-36.

Although the anticompetitive effect requirement is met here, this Court should nonetheless take the opportunity presented by this case to correct a long-standing Federal Circuit error that improperly narrows patent policy. As the *en banc* majority noted, App. 33a, the "anticompetitive effects" requirement originated in *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986), and has become an oft-repeated mantra in Federal Circuit case law. It requires "a factual determination ... that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market." 782 F.2d at 1001-02. In announcing this standard, however, *Windsurfing* purported to rely on *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 343 (1971), which contained no such requirement. In fact, *Blonder-Tongue* reiterated this Court's longstanding condemnation of "attempts to broaden the physical or temporal scope of the patent monopoly" because "[t]he patent is a privilege ... conditioned by a public purpose" and "limited to the invention which it defines." 402 U.S. at 343-44. Patent misuse has always been a distinct infraction. *Morton Salt*, 314 U.S. at 493-94 (inquiry is whether patentee is "thwarting the public policy underlying the grant of the patent"; "unnecessary to decide" whether there was an antitrust violation); *Zenith Radio Corp v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969) ("[I]f there was such patent misuse, it does not necessarily follow that the misuse embodies the ingredients of a violation of either s 1 or s 2 of the Sherman Act ....").

The 1988 amendments to Section 271(d) confirm that—contra the *en banc* majority, App. 34a—

Congress has not altered this fundamental premise of misuse doctrine. In 1987, a year after *Windsurfing* was decided, Congress expressly considered and rejected a bill that, in place of the limited exceptions now found in subsections 271(d)(4)-(5), would have made an antitrust violation the standard for misuse. S. Rep. 100-83, 1987 WL 967478, at *5. "'Few principles of statutory construction are more compelling than the proposition that Congress does not intend *sub silentio* to enact statutory language that it has earlier discarded in favor of other language.'" *INS v. Cardoza-Fonseca*, 480 U.S. 421, 442-43 (1987) (citation omitted).

3. The Sister Doctrine of Copyright Misuse Does Not Consider Anticompetitive Effect

Five courts of appeals have rejected the Federal Circuit's approach in the context of copyright misuse, holding that the defense does *not* require any kind of antitrust showing. The leading case is *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990), where the court analogized to patent misuse, relied on *Morton Salt* and concluded that antitrust law's "rule of reason" was not the standard governing copyright misuse. 911 F.2d at 977-78. "The question," the court held, "is not whether the copyright is being used in a manner violative of antitrust law (such as whether the licensing agreement is 'reasonable'), but whether the copyright is being used in a manner *violative of the public policy embodied in the grant of a copyright*." *Id.* at 978 (emphasis added). The plaintiff there had used its copyright to require a licensee not to develop competing software.

The court observed that the copyright grant's public policy was contained in the Intellectual Property Clause of the Constitution, which states that Congress may promote the progress of science by securing to authors exclusive rights to their original work for a limited time, and that this public policy counsels against enforcement that would retard rather than promote the progress of science. *Id.* at 977 (citing *Morton Salt*).

The Third, Fifth, and Ninth Circuits have followed *Lasercomb*. *See Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191, 204-06 (3d Cir. 2003) (following *Lasercomb*'s analogy to *Morton Salt* and recognizing copyright misuse as not limited to anticompetitive concerns but instead rooted in "copyright's policy goal to encourage the creation and dissemination to the public of creative activity"); *DSC Commc'ns Corp. v. DGI Techs., Inc.*, 81 F.3d 597, 601 (5th Cir. 1996); *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516, 520-21 (9th Cir. 1997). The Seventh Circuit, speaking through Judge Posner, has agreed that both copyright and patent misuse have been "cut ... free from antitrust," recognizing that "confined to antitrust the doctrine would be redundant." *Assessment Techs. of WI, LLC v. WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003).

B. A Robust Misuse Doctrine Is Essential to Remove the Incentive for Collusive Agreements to Suppress Alternative Technology and to Safeguard the Public Policy of the Patent Laws

Correcting the decision below is urgent because patents are powerful legal monopolies. Misused patents can eliminate competitors, alter the technological landscape for generations, and stifle the very innovation the patent system is supposed to advance. A flexible misuse defense is the only effective check on patent owners' creative efforts to extend the power of their patents beyond the statutory grant, including collusive agreements to eliminate inventive (and economic) competition by strangling alternative technologies in the cradle. Because of its relaxed standing requirement and its concern with the policy of the patent laws, the misuse defense represents an essential safeguard. If allowed to stand, the Federal Circuit's effective elimination of the misuse defense with respect to all but a handful of practices already recognized as such, and in particular with respect to collusive behavior to suppress competitive technologies, will have a broad impact on the inventive activity that is "the very lifeblood of a competitive economy." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

A robust misuse defense is essential to remove the incentive for collusive agreements to suppress alternative technology and to safeguard the public policy of the patent laws. By "emasculat[ing]" the misuse defense with a catalog of restrictions, the Federal Circuit has strayed far from this Court's characterization of the patent as "a privilege which is conditioned by a public purpose," *Blonder-Tongue*, 402 U.S. at 344, a privilege that a court will refuse to enforce when the patent is used to subvert the policy behind the grant, *Morton Salt*, 314 U.S. at 494. The *en banc* majority perceived the doctrine as a relic having little or no function not already adequately provided by the antitrust laws. App. 22a n.2. This is wrong not only as a matter of doctrine, but also as a matter of patent policy—a "vigorous misuse defense, clearly applicable to agreements to suppress alternative technology," App. 53a (dissent), is needed to secure the patent system's core purposes of promoting innovation and the technological competition that spurs it.

This Court has consistently recognized that the policies of the patent system reflect the express constitutional condition on the grant, promoting invention. *Dawson*, 448 U.S. at 221 ("The policy of free competition ... underlies ... the doctrine of patent misuse ... [b]ut the policy of stimulating invention that underlies the entire patent system runs no less deep."); *Bonito Boats*, 489 U.S. at 146 ("[F]ederal patent laws ... embod[y] a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.").

A growing scholarly consensus recognizes that the Federal Circuit's reduction of the patent misuse defense to at most an extension of antitrust is inadequate to safeguard patent law policies and that the *en banc* majority's decision in this case exemplifies this problem and poses a broad threat to innovation. For example, Professor Herbert Hovenkamp and a colleague have criticized the Federal Circuit's holding here, on the ground that "[b]lanket legality for concerted refusals to license patents, and unused patents in particular, would have serious implications for competition and innovation" because it would enable firms or groups of firms to "purchase exclusive rights in patents developed by a nascent rival and ... protect[] their own technology from competitive entry." Christina Bohannan & Herbert Hovenkamp, *Concerted Refusals to License Intellectual Property Rights*, __ Harv. Bus. L. Rev. Online __ (forthcoming 2011), *available at* http://ssrn.com/abstract=1710531, at 3 (Dec. 2010).

Elsewhere, Professor Hovenkamp's co-author has argued that the *Princo* decision "highlights the problem with basing misuse exclusively on [an antitrust-style] foreclosure of competition [requirement] and failing to consider foreclosure of innovation as a potential basis for IP misuse." Christina Bohannan, *IP Misuse as Foreclosure*, 96 Iowa L. Rev. 475, 514 (forthcoming Jan. 2011). With respect to technology not yet ready for market, "it would be difficult to prove that it would ever obtain a substantial share of the relevant market, as defined by antitrust law, such that foreclosure of it would effectively foreclose competition." *Id.* Yet, Professor Bohannan points out, "[t]he IP concern for encouraging innovation is sufficiently strong to find that such conduct constitutes misuse, provided that a court finds that some appreciable harm to innovation is possible and that the conduct is not justified by offsetting efficiencies." *Id.* at 514-15. Her argument is consistent with the patent system's policy of fostering invention even with respect to nascent technologies whose commercial viability is unknown. *E.g.*, *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) (*en banc*) ("The patent laws promote the progress in different ways, prominent among which are by protecting the investment of capital in the development and working of a new invention from ruinous competition till the investment becomes remunerative"); Bohannan, *IP Misuse*, *supra*, at 515 ("The path of innovation is unpredictable, and often the value of technology is underappreciated until an improver uses it to make something new."). The foreclosure of the alternative technology also removes competitive pressure that would spur ongoing improvement of the chosen technology, retarding technological competition, another policy advanced by the patent laws. *E.g.*, *Potts v. Coe*, 145 F.2d 27, 31 (D.C. Cir. 1944) ("The patent law is designed to encourage competition among inventors by giving a patent to the ingenious individual who wins in a race for discovery.").

Numerous recent scholarly articles similarly recognize that the patent misuse doctrine should be anchored in patent policy. Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399 (2003) (arguing that Federal Circuit's adoption of antitrust standard for misuse is inconsistent with applicable Supreme Court case law and inadequate to protect patent policy of promoting invention); Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. High Tech. L. 142 (2010); Robert J. Hoerner, *The Decline (and Fall?) of the Patent Misuse Doctrine in the Federal Circuit*, 69 Antitrust L.J. 669 (2001); Janice M. Mueller, *Patent Misuse Through the Capture of Industry Standards*, 17 Berkeley Tech. L.J. 623, 669-83 (Spring 2002); Brett

Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 Berkeley Tech. L.J. 865, 927-30 (2000) (positing that the misuse doctrine should be used to remedy restraints on innovation that might not constitute antitrust violations).

Others share the concern that the Federal Circuit's holding—that the patent misuse defense cannot apply to agreements to suppress technology—will harm innovation and technological competition. Indeed, both this Court and numerous scholars have recognized harm to innovation as the gravest threat posed by patent pools and private standard-setting. *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500-01 (1988) (members of standard-setting organizations "often have economic incentives to restrain competition and ... the product standards set by such associations have a serious potential for anticompetitive harm"); Richard J. Gilbert, *Antitrust for Patent Pools: A Century of Policy Evolution*, 2004 Stan. Tech. L. Rev. 3, 43, 95, 105, 118-19 (2004) (whether a pool collects competing patents should be the single most important determinant of whether the pool is anticompetitive); Steven C. Carlson, *Patent Pools and the Antitrust Dilemma*, 16 Yale J. on Reg. 359, 388, 392 (1999) (greatest threat posed by patent pools is "bringing horizontal competitors into collusion"; risk especially high "when firms hold patents to competing processes or products," and still more so "in standard-dependent technologies [where] there is essentially no choice but to deal with the patent pool"); Roger B. Andewelt, *Analysis of Patent Pools Under the Antitrust Laws*, 53 Antitrust L.J. 611, 622 (1985).

After the *Princo* decision, standard-setting organizations will come under intense pressure to relax the policies they have put in place to prevent patent capture of industry standards. *See* Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889, 1904-05 (2002) (all but a handful of small, industry-specific SSOs found to have an IP policy). That is so because it will become far more attractive for companies to do exactly what Philips and Sony did here—use the rubric of "private standard-setting," without any of the constraints that both this Court and Congress have recognized as essential to procompetitive standards development, as a cover for collusion. *See Allied Tube*, 486 U.S. at 501; 15 U.S.C. § 4301(a)(8).

1. Antitrust Enforcement Cannot Adequately Address the Harms Here at Issue

Antitrust law will not deter the misconduct the Federal Circuit has invited, for at least three reasons. First, as just discussed, substantive antitrust law may not capture suppression of nascent, unproven technology, and antitrust litigation is a procedurally cumbersome tool. *See* App. 71a-73a (dissent). Second, due to the stringent standing requirements for an antitrust claim, the difficulty of proving causation and damages from an agreement to suppress nascent technology, and the complete unavailability of an antitrust counterclaim in the increasingly important ITC forum (*see* 19 U.S.C. § 1337(c)), the antitrust laws provide only minimal deterrence in this setting. And third, the Federal Circuit has compounded the existing, formidable obstacles with a sweeping rewrite of antitrust principles in this area.

As to the last, the *en banc* majority declared that it will apply full-blown rule-of-reason analysis to any agreement among joint venturers not to compete against the venture, regardless of whether the agreement is ancillary to the venture. App. 45a ("an agreement among joint venturers not to compete against the joint venture is not a naked restraint" and thus not subject to quick-look analysis). This Court's cases, however, expressly provide for a "quick look" in at least some such circumstances. *NCAA v. Bd. of Regents*, 468 U.S. 85, 99-100, 110 (1984) (condemning as naked restraint joint-venture television broadcast plan with which member institutions could not compete); *Cal. Dental Ass'n v. FTC*, 526 U.S. 756, 781 (1999); *Am. Needle, Inc. v. Nat'l Football League*, 130 S. Ct. 2201, 2216-17 (2010); *see also PolyGram Holding, Inc. v. FTC*, 416 F.3d 29 (D.C. Cir. 2005) (condemning under "quick look" analysis agreement not to compete with joint venture by selling products not resulting from the joint venture).

The *en banc* majority further held that the *Penn-Olin* standard for analyzing potential-competition mergers, which requires the plaintiff to show a "reasonable probability" that the alternative technology, "if available for licensing, would have matured into a competitive force in the [relevant] technology market," governs the rule-of-reason analysis. App. 48a (citing *United States v. Penn-Olin Chem. Co.*, 378 U.S. 158, 175-76 (1964)). Yet *Penn-Olin* did not involve an agreement not to compete in licensing patents, but a merger of two companies. As noted in the panel opinion, this differs from the present scenario in that it offers "potential countervailing efficiencies that offset potential harms to future competition … [such as] socially desirable resource savings through improved economies of scale and improved allocation of capital." App. 34b. Although the *en banc* majority cited the D.C. Circuit's widely noted *Microsoft* opinion as supporting its application of *Penn-Olin*, *see* App. 42a, that decision rightly described the *Penn-Olin* standard as toothless ("edentulous") in the context of nascent technology:

> To require that § 2 liability turn on a plaintiff's ability or inability to reconstruct the hypothetical marketplace absent a defendant's anticompetitive conduct would only encourage monopolists to take more and earlier anticompetitive action.
>
> We may infer causation when exclusionary conduct is aimed at producers of nascent competitive technologies as well as when it is aimed at producers of established substitutes. … [N]either plaintiffs nor the court can confidently reconstruct a product's hypothetical technological development in a world absent the defendant's exclusionary conduct. To some degree, "the defendant is made to suffer the uncertain consequences of its own undesirable conduct."

United States v. Microsoft Corp., 253 F.3d 34, 79 (D.C. Cir. 2001) (*en banc*) (quoting 3 Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 651c, at 78

(1996)); *see also* App. 37b-38b (panel majority). In short, the *Penn-Olin* standard is tantamount to systematic non-enforcement of the antitrust laws against agreements to suppress early-stage patented technology.

In its *amicus* submission to the *en banc* Federal Circuit, the Federal Trade Commission argued that where "the gravamen of the claimed restraint is that it has squelched development of a nascent, alternative technology ... stringent proof of actual anticompetitive effects that would be required under the standard set forth in Philips' briefs [i.e., the *Penn-Olin* standard] would be fundamentally inconsistent with the goal of promoting opportunities for innovation." FTC *Amicus* Br. at 23-24. "[A]n agreement between patent holders not to compete in licensing" should be deemed "inherently suspect," and summarily condemned absent "a colorable showing that the agreement was reasonably necessary to further the development of new technologies or other procompetitive ends." *Id.* at 25-26. The *en banc* majority disagreed without any sufficient reason for doing so.

Finally, the vast majority of antitrust claims involving patent pools will be heard by the Federal Circuit, because they will be brought as counterclaims in patent infringement suits against those refusing to take licenses at monopoly rates; potential consumers of an alternative product based on the suppressed patent will lack standing to sue. *See generally Ill. Brick Co. v. Illinois*, 431 U.S. 720, 728-29 (1977) (prohibiting an indirect purchaser from suing a manufacturer to recover gains the manufacturer obtained by violating the antitrust laws).

Thus, unless this Court intervenes, the legal regime of this case will immediately become the national law of antitrust as well as patent misuse.

2. The Federal Circuit's Misstatement of the Facts Should Not Defeat Review

The *en banc* majority made an alternative holding resting on a factual premise that the record unequivocally refutes. That erroneous premise should not shield the important legal holdings discussed above from review by this Court.

The majority stated that the Lagadec patent was a joint-venture asset, requiring full rule-of-reason scrutiny of the agreement to suppress it, and placing the burden on Princo to show an anticompetitive effect. App. 38a. The majority relied on the panel opinion, where the question was not in issue. Referring to Princo's argument that the Lagadec technology was not a product of the joint venture, the *en banc* majority stated that the panel "rejected that argument, noting that '[t]he Lagadec and Raaymakers patents stem from the joint efforts of Philips and Sony engineers.'" *Id.* This is simply false. Neither Princo nor Philips "argued" this point before the panel because Philips did not advance the joint-venture theory until the *en banc* rehearing stage; the *en banc* majority was characterizing the panel's shorthand (and imprecise) summary on a point not then contested by the parties as a weighing of the record in light of party argument. In fact, Philips stated in a court filing in another proceeding that "[i]t is important to stress that the pure CD-R patents [of which Lagadec is one] do *not* embody the result of joint research and development ... of Philips

[and] Sony .... There is, therefore, no question of any joint Philips and Sony patents ...." App. 2m-3m (emphasis in original).

Second, as the *en banc* dissent noted, "the apparent agreement in 1993 to suppress Lagadec came well after the development of the Lagadec technology and its rejection for the Orange Book in 1987." App. 84a. This was long after any joint technological venture had ended, when only commercialization remained. *Id.* "There was, in short, no showing that suppression of Lagadec was necessary to achieve the joint venture's legitimate goals." *Id.*

C. This Case Is an Appropriate Vehicle to Resolve the Important Question Presented

The Federal Circuit's decision to rehear this case *en banc* confirmed not only the importance of the issues presented, but also the appropriateness of this case as a vehicle to decide them. Both the majority and the dissenters below noted that this case put in issue the scope of the patent misuse defense, App. 4a, 52a (dissent), and the *en banc* court of appeals squarely decided that issue (albeit wrongly). The record is well developed, and the case is now final because the court of appeals has affirmed the ITC's disposition of the case. Moreover, the Federal Circuit has exclusive nationwide jurisdiction over patent cases, *see* 28 U.S.C. § 1295(a)(1) & (a)(6), so the issues will not "percolate" any further: patent misuse defenses simply will not be asserted in cases like this.

Review of this case is the only solution.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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