2007-1386

United States Court of Appeals

FOR THE FEDERAL CIRCUIT

PRINCO CORPORATION and PRINCO AMERICA CORPORATION,

Appellants,

v.

INTERNATIONAL TRADE COMMISSION,

Appellee,

and

U.S. PHILIPS CORPORATION,

Intervenor.

On Appeal from the United States International Trade Commission in Investigation No. 337-TA-474

BRIEF OF *AMICUS CURIAE* NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION ON REHEARING *EN BANC* IN SUPPORT OF INTERVENOR U.S. PHILIPS CORPORATION IN FAVOR OF AFFIRMANCE OF THE UNDERLYING ITC DECISION

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CERTIFICATE OF INTEREST

In accordance with Fed. Cir. R. 29(a) and 47.4, the undersigned counsel of record for amicus curiae New York Intellectual Property Law Association hereby certifies the following:

1. The name of every party or amicus curiae represented by me or by the other below-identified attorneys in connection with this proceeding is: New York Intellectual Property Law Association.

2. The name of the real party in interest (if such party is not named in the caption of this brief) is: New York Intellectual Property Law Association.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party represented by me are: None.

4. The names of all law firms and partners or associates that appeared for the parties or *amici* now represented by me in the lower tribunal or who are expected to appear in this Court are:

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<u>STATEMENT OF INTEREST OF *AMICUS CURIAE*</u>

The New York Intellectual Property Law Association (the "NYIPLA" or the "Association") is a bar association of more than 1600 attorneys whose professional interests and practices lie principally in the areas of patents, copyrights, trademarks, trade secrets and other forms of intellectual property. Since its founding in 1922, the NYIPLA has committed itself to maintaining the integrity of the United States patent law and to the proper application of that law and the related bodies of contract and trade regulation law to commercial transactions involving patents.

As can be seen from the Association's website, over the past decade, the NYIPLA has filed a number of briefs *amicus curiae* in actions involving the interface between the law of patents and the antitrust laws and misuse doctrine. Beginning with the brief *amicus curiae* filed by the Association in the *Xerox (ISO)* litigation, the Association has consistently opposed the unwarranted expansion of both *per se* antitrust theories and the inappropriate application of the defense of unenforceability for patent misuse as putative bars to the enforcement of valid and infringed patents.[1]

The NYIPLA respectfully submits that the theories adopted by the panel majority, as set forth in Section II of the Court's April 20, 2009 opinion

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[1] *See In re Independent Service Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000) ("*Xerox(ISO)*").

("Op."), are without foundation with respect to the vertical arrangement between Sony and Philips concerning freedom from suit under Sony's Lagadec patent. Adoption of these flawed theories will introduce confusion at the patent-antitrust interface and impede development of industry standards promulgated by standard setting organizations ("SSOs"), which are important areas of the Nation's economy and critical to future growth.

The rational and considered application of patent law at its interface with antitrust law and patent misuse doctrine is critically important to future economic growth in the burgeoning area of industry pooling and SSOs. The agreements under which patents which threaten adoption of such industry standards are made available for licensing on reasonable and non-discriminatory ("RAND") terms are inherently pro-competitive. Their use should be encouraged as a policy matter and the Court should protect those agreements from frivolous antitrust and misuse challenges.

The NYIPLA and its undersigned counsel represent that they have authored this brief *amicus curiae*, that no party or counsel for a party in this proceeding authored any part of this brief, and that no person other than the NYIPLA, its members or its counsel, including any party or counsel for a party, made any monetary contribution intended to fund the preparation or submission of this brief. The arguments set forth in this brief *amicus curiae* were approved on or about December 4, 2009 by an absolute majority of the total number of officers and members of the Board of Directors of the NYIPLA (including such officers and Board members who did not vote for any reason including recusal), but may not necessarily reflect the views of a majority of the members of the NYIPLA or of the organizations with which those members are affiliated. After reasonable investigation, the NYIPLA believes that no officer, or member of its Board or Amicus Committee who voted in favor of this brief, or any attorney in the law firm or corporation of such officer, Board or Committee member, or attorney who aided in the preparation of this brief represents a party in this litigation. Some officers, Board or Committee members or other attorneys in their respective law firms or corporations may represent entities, including other *amici curiae*, which have an interest in other matters that may be affected by the outcome of this proceeding.

The Court's October 13, 2009 Order granting Intervenor Philips's petition for rehearing *en banc* states that briefs of *amici curiae* will be entertained and any such amicus briefs may be filed without leave of court. In a July 8, 2009 Order, the Court previously granted the NYIPLA's motion for leave to file an *amicus curiae* brief in support of Philips' and in opposition to Princo Corporation, et al.'s petition for rehearing *en banc*.

INTRODUCTION

Pursuant to the authorization set forth in the Court's *en banc* Order, the NYIPLA submits this brief *amicus curiae* to address the flawed theories of illegality adopted in Section II of the panel's April 20, 2009 opinion.[2] The Association supports the position of intervenor Philips that a second remand for the ITC to address the incorrect theories of the panel opinion is unwarranted.

The Ruling Of The Panel Majority

Princo asserts that the six Philips patents it was found to have infringed are unenforceable for misuse. These assertions are predicated upon the alleged or postulated terms of the arrangements under which Sony authorized Philips to include the Lagadec patent as part of the package of patents under which licensees were granted freedom from suit on reasonable and nondiscriminatory terms to manufacture recordable ("CD/R") and re-writable ("CD/RW") data storage discs under the Orange Book standard.[3]

The panel majority remanded the action for the ITC to make three separate determinations concerning Princo's defense of "patent misuse by

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[2] As the *en banc* Order notes, the Court previously granted the NYIPLA's motion for leave to file an amicus brief in support of Philips's petition for rehearing and in opposition to Princo's petition for rehearing.

[3] The actual terms of the arrangements between Sony and Philips regarding the Lagadec patent cannot be discerned from the public record. *See* Op. at 33-38. For purposes of this brief *amicus curiae*, however, the terms of those arrangements as posited by Princo can be accepted as accurate – since those terms do not violate the antitrust laws as a matter of law.

horizontal price fixing": (a) whether the record supports the existence of some horizontal agreement between Sony and Philips "to prevent Lagadec from being licensed as a competing technology" (Op. at 22, 33-36); (b) where on the "continuum" of potential commercial viability the standard for the putative misuse of horizontal suppression of alternative technology should be placed (Op. at 32); and, (c) whether the record establishes that this standard was met with respect to those claims of Lagadec, other than claim 6, which presumably do not apply to Orange Book compliant discs (Op. at 32).

Although the panel majority states that its analysis is based on the rule of reason (Op. at 23, n.11), it: (a) did not define the product market within which the alleged horizontal restraint is said to operate; (b) suggested that the nature of the alleged restraint is such that anticompetitive effects within that undefined market may be presumed (Op. at 26); and (c) concluded that "[s]uch agreements are not within the rights granted to a patent holder" (Op. at 27). In his dissent from the panel majority's ruling in Section II, Judge Bryson noted:

> the Commission's findings of fact and legal conclusions provide a sufficient ground for upholding the Commission's ruling that Princo has failed to satisfy its burden of showing patent misuse through a horizontal price-fixing agreement.

(Bryson, J., Dissenting Op. at 4).

The NYIPLA agrees with Judge Bryson.

What Should The Court Decide

Arguably, the Court could dispose of this appeal *en banc* on the ground that the theories accepted by the panel majority were not raised before the ITC – as both Philips and the ITC argued in their submissions on the motions *en banc*.

Alternatively, the appeal could be rejected *en banc* on the sole ground that Princo failed to carry its burden under *Windsurfing* of establishing an anticompetitive effect proximately caused by the allegedly unlawful provisions of the Lagadec patent arrangements between Sony and Philips.

Because the panel majority suggested that the arrangements between Sony and Philips relating to the Lagadec patent could be treated as naked horizontal agreements not to compete, however, the Court should consider whether the Patent Bar requires further guidance as to (a) whether the agreements should be treated as horizontal or vertical, and (b) whether the royalty division provisions, field of use restrictions and covenants not to engage in contributory infringement should be treated as legitimate ancillary restraints to a pro-competitive arrangement designed to obviate a potential infringement problem in connection with the Orange Book licenses. While a disposition of the appeal on narrower grounds could certainly yield the legally correct result, i.e., affirmance of the ITC's judgment that Princo did not prove the asserted patents were unenforceable, the

Association respectfully submits that the *en banc* Court should consider and reject the theories of the panel majority because of the importance of this issue to the Patent Bar.

<u>The Positions Of The NYIPLA</u>

First, the Association respectfully submits that the arrangements between Sony and Philips regarding the Lagadec patent must be analyzed as both pro-competitive and vertical. Therefore, the ancillary provisions of the Sony and Philips arrangements—including the royalty division provisions, the field of use restrictions, and the covenants not to engage in contributory infringement—are all presumptively lawful.

Second, the Association respectfully submits that Princo failed to discharge its burden under *Windsurfing* to establish that the complained of arrangements created a cognizable anticompetitive effect in a relevant product market. Indeed, the facts of record suggest that alternative platforms using discs manufactured with Lagadec's patented technology would be competitively disadvantageous because the discs would not be backwards compatible with the installed capacity of Orange Book recorders and computer drive units manufactured to employ the analog Raaymakers technology.

STATEMENT OF FACTS

The Association has reviewed and endorses the "Statement Of Facts" set forth in the "Brief For Intervenor U.S. Philips Corporation On Rehearing En Banc" filed on November 30, 2009 ("Philips Br."). The following narratives highlight the procedural, technical and market facts which the Association believes are most germane to the appropriate resolution of this appeal.

A. Procedural Background Facts

This is the second appeal from a final determination of the ITC before the Court. In the first ITC decision of March 25, 2004 ("the 2004 ITC Decision"), the ITC affirmed the ALJ's ID, finding twenty-nine claims of the six asserted Philips patents infringed by Princo and not invalid.[4] Relief was nevertheless withheld by the ITC on the theory that the six "essential" Philips patents asserted against Princo were unenforceable for misuse because they had been packaged in licenses issued by Philips along with four allegedly "nonessential" patents.

On the first appeal to the Court, Princo and the ITC argued that the ITC's ruling should be affirmed because the Philips package licenses (1) are *per se*

[4] Redacted versions of both the 2004 ITC Decision and the Initial Decision ("ID") of the Administrative Law Judge ("ALJ") are available as part of Pub. No. 3686 on the ITC website (www.usitc.gov).

unlawful by analogy with (a) product tying cases,[5] and (b) block-booking cases,[6] and (2) are also unlawful under the rule of reason. Those arguments were squarely rejected in *U.S. Philips Corp. v. Int'l Trade Comm'n*, 424 F.3d 1179 (Fed. Cir. 2005) ("*Philips I*").

The NYIPLA submitted a brief *amicus curiae* in *Philips I* that supported Philips and addressed the arguments by Princo and the ITC. In rejecting the ITC's finding that the Orange Book licenses contained unlawful package licensing provisions, the *Philips I* opinion accepted two arguments made in NYIPLA's brief:

1. That because a "nonexclusive patent license is simply a promise not to sue for infringement," the "conveyance of such a license does not obligate the licensee to do anything; it simply provides the licensee with a guarantee that it will not be sued for engaging in conduct that would infringe the patent in question" (*Philips I*, 424 F.3d at 1189) (citations omitted);[7] and

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5 *Int'l Salt Co., Inc. v. United States*, 332 U.S. 392 (1947); *Morton Salt Co. v. G.S. Suppiger Co*., 314 U.S. 488 (1942); *IBM Corp. v. United States*, 298 U.S. 131 (1936).

6 *United States v. Loew's Inc*., 371 U.S. 38 (1962); *United States v. Paramount Pictures, Inc*., 334 U.S. 131 (1948).

7 This principle was recently reaffirmed in *Transcore, LP v. Elec. Transaction Consultants Corp*., 563 F.3d 1271 (Fed. Cir. 2009).

2. That "[t]he effect of a nonexclusive license was different before the Supreme Court" in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), "abolished the doctrine of licensee estoppel," since

> Before *Lear*, a nonexclusive license had a legal effect that made it more than a mere covenant by the licensee not to sue. Acceptance of the license barred the licensee from challenging the validity of the patent. Some of the early decisions regarding patent-to-patent tying arrangements appear to have been based, at least in part, on that feature of pre-*Lear* patent licenses . . . In the post-*Lear* era, the "acceptance" of a license has no such restrictive effect on the licensee's freedom.

(*Philips I*, 424 F.3d at 1190) (citations omitted).

The Court remanded the action for the ITC to resolve outstanding alleged misuse defenses through possible further proceedings.[8] On remand, Princo focused its arguments upon putative misuse defenses allegedly arising from inclusion of the Lagadec patent in the Orange Book licenses. The ITC squarely rejected those arguments in the 2007 ITC Ruling.

The panel majority's April 20, 2009 opinion reversing the 2007 ITC Ruling and the Court's *en banc* Order vacating the April 20, 2009 opinion have already been discussed.

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8 "Because the Commission did not address all of the issues presented by the administrative law judge's decision under both the *per se* and rule of reason analysis, further proceedings before the Commission may be necessary with respect to whether Philips's patents are enforceable and, if so, whether Philips is entitled to any relief from the Commission" (*Philips I*, 424 F.3d at 1198).

B. Technical Background Facts

1. The Orange Book Standards And The Philips Licenses

This action involves two very successful licensing programs of Philips under the "Orange Book" industry standards for recordable (CD-R) and re-writeable (CD-RW) compact discs. The technology for those standards was developed jointly by Philips and Sony as part of a decades-long collaborative research effort directed to the development of digital storage technology. The Orange Book standards were authored by Philips to reflect the product of the research joint venture to which both Sony and Philips made important technological contributions.

It was always contemplated that any patents generated in connection with the technological contributions of the research joint venturers would be licensed on RAND terms to those CD manufacturers who elected to take an Orange Book license. Prosecution of those patents, however, was left entirely to the party who had developed the respective technology, and ownership of such patents remained with the originating party.[9] Eventually, patent rights were contributed via license for use under the Orange Book licensing program by Philips, Sony and two other firms.

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9 For that reason, it would be technically incorrect to refer to the Orange Book licensing program as a "patent pool," since there was no "pooling" of the underlying patents under the ownership of a single licensing entity.

A CD-R compact disc is a recordable compact disc upon which information can be written once in a CD-R recorder or computer drive, and read or played back on a CD-player or CD-ROM drive. CD-R compact discs can be used for both audio and data recording. All blank CD-R compact discs conform to Orange Book Part II (CD-R) specifications and should work in all recorders and computer drives manufactured under the Orange Book CD-R or CD-RW standards.

A CD-RW compact disc is a recordable compact disc upon which information may be written, erased, overwritten and read. CD-RW compact discs can be used for both audio and data recording. A CD-RW compact disc, once recorded, must be read or played back on either a CD-RW drive or a player designed to read lower reflectivity compact discs.

All blank CD-RW compact discs conform to Orange Book Part III (CD-RW) specifications and should be compatible with all recorders and computer drives manufactured under the Orange Book CD-RW standard.

The six Philips patents at issue in this action are broadly licensed to the industry by Philips on a nonexclusive basis for the manufacture and sale of such CD-R and CD-RW compact discs that comply with the Recordable CD-R and Rewritable CD-RW Orange Book standards.

2. Analog ATIP And The Raaymakers And Lagadec Patents

Two of the six Philips patents at issue in this action, the Raaymakers patents,[10] relate to an analog method by which a CD-R or CD-RW recorder or computer drive can determine where its laser is positioned along the spiral pre-groove track of the compact disc. The Philips analog method, known as the "Absolute Time In Pre-groove" or "ATIP" method, built upon the preexisting wobble signal technology already used to supply velocity control.[11]

The Lagadec patent claimed a digital method for accomplishing the same objective. As the panel decision states, "there is no dispute that a disc made using one technological approach would not work in a CD recorder designed to read position data using the other" (Op. at 8). As the Court also found, however, claim 6 of Lagadec was sufficiently broad to read upon the CD-R and CD-RW compact discs using the Raaymakers technology which complied with the CD-R and CD-RW standards (Op. at 17-20).

The Lagadec approach does not represent an "improvement" on the Raaymakers technology, but rather a contemporaneously developed alternative approach that was rejected by the two joint venturers on technological grounds. Indeed, the Lagadec patent expired before either of the two Raaymakers patents.

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10 United States Patent 4,999,825 (the "Raaymakers '825 patent") expired on November 1, 2008. United States Patent 5,023,856 (the "Raaymakers '856 patent") expired on June 11, 2008.

11 *See* Op. at 7-8.

3. Interchangeability And Installed Capacity Considerations

Once Philips and Sony agreed to employ the Raaymakers approach rather than that of Lagadec for the two Orange Book standards, every recorder or computer drive unit that was manufactured and sold under those standards could be considered a part of an installed base that would not be available as part of the potential market for compact discs manufactured and sold under some hypothetical competing compact disc standard that would employ digital Lagadec rather than analog Raaymakers technology.

Unless a new type of recordable or re-writeable compact disc is backwards compatible with recorder and computer drive units already installed in the marketplace, it would not be expected to compete effectively for incremental market share unless the new generation of recorders and computer drives represents a generational paradigm shift – such as the change from vinyl to the CD-RA standard of the Red Book.[12]

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12 The more common setting for such an improved second generation standard is typified by the Blu-Ray DVD players which are capable of playing first generation DVDs in addition to the new high definition Blu-Ray discs.

OUTLINE OF ARGUMENT

The panel's majority opinion represents a case of first impression. No case law was invoked to support the majority's remand determination, and no court has previously ruled that an allegedly horizontal agreement to suppress licensing competition can be inferred from an agreement between a technology provider and a pool administrator regarding the permissible scope of the licenses the administrator is authorized to grant under patents owned by the provider.

The panel majority frames the Section II issue as whether "Philips allegedly agreed with Sony not to license the Lagadec patent as competing technology to the Orange Book" (Op. at 2). Whether such an agreement can or should be proscribed is critical because the determination must be made in every situation where an industry standard setting organization attempts to convey freedom from suit under patent rights held by more than one inventive entity.

NYIPLA's first argument is directed to the presumptive lawfulness of the terms of the arrangement between Sony and Philips regarding the Lagadec patent, as postulated by Princo. The terms of the arrangement between Sony and Philips are vertical and pro-competitive; not a horizontal naked restraint. Moreover, the three specific ancillary restraints at issue – the division of royalties, the field of use limitation, and the agreement not to engage in contributory infringement – are each sanctioned under existing precedent.

NYIPLA's second argument is directed to Princo's failure to establish that the Lagadec patent arrangements generated any cognizable anti-competitive effect in any properly defined relevant product market. Although the panel majority suggests that a second remand is required despite Princo's failure to discharge its burden under *Windsurfing*, the panel failed to address the economic facts that contradict the majority's conclusion.

ARGUMENT

POINT I
THE TERMS OF THE AGREEMENT POSTULATED BY PRINCO ARE PRESUMPTIVELY LAWFUL UNDER PERSUASIVE CASE LAW

A. The Arrangements Regarding Lagadec Must Be Treated As Vertical

Because Sony owned the Lagadec patent which it had prosecuted, it was necessary to negotiate an arrangement with Philips to enable Philips to offer rights under Lagadec as part of the nonexclusive Orange Book licenses. The panel majority incorrectly determined that such an arrangement could be characterized as horizontal—apparently because the joint venture contemplated cooperative research and development. However, since the parties prosecuted patents on their own respective developments separately, the relationship between Sony and Philips in respect of the Lagadec patent was vertical rather than horizontal.

B. The Arrangements Regarding Lagadec Are Pro-Competitive

The panel unanimously and correctly found that claim 6 of Lagadec was "essential" or "blocking" with respect to the analog ATIP system incorporated into the Orange Book standard (Op. at 14-20). The unanimous panel also found that inclusion of the nonexclusive Lagadec license in the Philips Orange Book licensing portfolio was necessary in order to foreclose potential patent disputes before the Lagadec patent expired on September 28, 2007.

As the Court recently reaffirmed in a different context, long-standing public policy considerations favor settlements of patent litigation.[13] A necessary corollary of that policy is that mechanisms designed to obviate patent disputes before they arise should likewise be favored. SSOs and patent pools which license broadly and non-exclusively on reasonable and non-discriminatory terms represent important examples of such mechanisms.

The Lagadec arrangements between Sony and Philips satisfy these public policy consideration by preemptively resolving patent controversy between Sony and Philips. For that reason, the panel majority was wrong to treat the ancillary provisions of those arrangements as naked restraints.

C. <u>The Ancillary Restraints Regarding Lagadec Are Presumptively Lawful</u>

1. <u>The Division Of Royalties</u>

In its unsuccessful *en banc* challenge to Section I of the panel's opinion, Princo attempted to rely upon the Supreme Court's *Gasoline Cracking* case, and the *Landon* and *Carpet Seaming* cases from the Ninth Circuit.[14] Rather than supporting Princo's challenge to Section I, the primary thrust of *Gasoline Cracking* actually supports the challenge of Philips to Section II of the panel

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[13] *In re Ciprofloxacin Hydrate Antitrust Litig.*, 544 F.3d 1323 (Fed. Cir. 2008) ("*Cipro*").

[14] *Standard Oil Co. (Ind.) v. United States*, 283 U.S. 163 (1931) ("*Gasoline Cracking*"); *Int'l Mfg. Co. v. Landon, Inc.*, 336 F.2d 723 (9th Cir. 1964) ("*Landon*"); *Carpet Seaming Tape Licensing Corp. v. Best Seam Inc.*, 694 F.2d 570 (9th Cir. 1982) ("*Carpet Seaming*").

majority opinion. In fact, the *Gasoline Cracking* excerpt cited by Princo squarely holds that:

> An interchange of patent rights and a division of royalties according to the value attributed by the parties to their respective patent claims is frequently necessary if technical advancement is not to be blocked by threatened litigation.

(283 U.S. at 171).

Moreover, footnote 5 of *Gasoline Cracking*, also cited by Princo, implies that the justification for pooling and cross-licensing arrangements can extend well beyond "essential" patents because "frequently, the cost of litigation to a patentee is greater than the value of a patent for a **minor improvement**" (emphasis supplied).

There is nothing in *Carpet Seaming* or *Philips I* which conflicts with the principles of *Gasoline Cracking*, As Judge Bryson pointed out in *Philips I*, moreover, both *Landon* and *Shatterproof*[15] (which *Landon* cites in the portion quoted by Princo) "appear to have been based, at least in part," upon the pre-*Lear* estoppel paradigm (424 F.3d at 1190 n.3).

The only limitation which the case law appears to impose upon royalty sharing arrangements is that the royalties may not be fixed at levels which are tantamount to price. The leading precedent is *Yarn Processing*,[16] a case cited

15 *Am. Securit Co. v. Shatterproof Glass Corp*., 268 F.2d 769 (3rd Cir. 1959) ("*Shatterproof*").

16 *In re Yarn Processing Patent Validity Litig*., 541 F.2d 1127 (5th Cir. 1977) ("*Yarn Processing*").

by all parties on the present appeal, and whose continuing vitality is reflected by its citation to the Supreme Court by the Solicitor General in *McFarling*. There a number of former use licensees (yarn processors known as "throwsters") brought suit against a textile machinery manufacturer that held a number of patents containing process claims directed to the use of its machinery.

In *Yarn Processing*, there had been a factual showing that the use royalties were set at levels which over time could amount to 2 to 6 times the selling price of the machinery (541 F.2d at 1134). On that basis the Fifth Circuit found that "Leesona guaranteed income to the manufacturers and effectively fixed the price of the machinery" (541 F.2d at 1136). The only limitation placed on the horizontal agreements at issue before the Fifth Circuit in *Yarn Processing* was that the royalties charged to the throwsters could not be fixed at levels tantamount to the selling price of the machines upon which the licensed processes were carried out. Princo cannot make any comparable assertion here.

2. <u>The Field Of Use Limitation</u>

The field of use limitation to the Orange Book analog applications in the Sony license under Lagadec was also entirely appropriate. A patentee can unilaterally determine whether, to whom and upon what terms he wishes to license, and can refuse to license entirely. *See Xerox (ISO)*, 203 F.3d at 1327. Moreover, the right to unilaterally suppress can be exercised for any economically pertinent reason. *See Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405 (1908) ("*Paper Bag*"); *Special Equip. Co. v. Coe*, 324 U.S. 370 (1945) ("*Special Equipment*").

Indeed, in assessing the legality of a joint venture under Section 1 of the Sherman Act and Section 7 of the Clayton Act, the Supreme Court presumes that the parties will elect not to compete with the joint venture they have established. *See United States v. Penn-Olin Chem. Co.*, 378 U.S. 158, 168 (1964) ("*Penn-Olin*") ("Realistically, the parents would not compete with their progeny"); *Texaco Inc. v. Dagher*, 547 U.S. 1, 5-6 (2006) ("*Dagher*") (Oil companies' operations in a market limited to joint participation "through their investments" in a joint venture").

3. Agreement Not To Engage In Contributory Infringement

Finally, even if the terms of the arrangement with Sony obligated Philips not to license Lagadec for non-Orange Book applications, Section 1 of the Sherman Act would not be violated – even if the license from Sony to Philips were exclusive for the Orange Book-compliant field of use as Princo suggests, and even if the promise of Philips not to license outside this field of use were phrased affirmatively rather than inferred from a field of use limitation on the grant of the license under Lagadec.

The leading case is again *Yarn Processing* where, in the wake of *Lear v. Adkins*, former use licensees sued a textile machinery manufacturer who had granted licenses to competing manufacturers in which each agreed not to sell machinery to any throwster customer who refused to execute the royalty-bearing use license. Under the pre-*Lear* estoppel paradigm, this meant that any throwster customer who was forced to take the use license to purchase the machinery would be estopped from contesting the underlying patents.

When the former licensees challenged the prohibition on sales to non-licensees, however, the Fifth Circuit upheld that provision:

> We fail to see how this is an illegal extension of the patent monopoly . . . . Absent the restriction on sales to unlicensed throwsters, manufacturers who knowingly sold machinery to unlicensed throwsters would be liable for contributory infringement . . .

541 F.2d at 1135.

* * * * *

Once Sony accepted the practical and economic superiority of ATIP, it would have been logical for it to determine unilaterally that it did not have any interest in licensing out the digital claims of Lagadec – which might theoretically facilitate development by some third party of an alternative technological platform – which, in turn might eventually compete with the Orange Book licensing program. This was permissible under *Xerox (ISO)*, as well as under *Paper Bag* and *Special Equipment* – irrespective of what Sony's internal rationale for that decision may have been. Indeed, the *Penn-Olin* line of cases suggests that a hypothetical rationale predicated upon a desire by Sony not to facilitate competition with the licensing joint venture could be presumed.

The arrangements between Sony and Philips regarding Lagadec were vertical rather than horizontal because Sony retained ownership of the Lagadec patent which it had prosecuted internally. By virtue of such ownership, it was permissible for Sony to determine unilaterally that it wished to license only claim 6 exclusively to Philips for sublicensing to CD manufacturers under the nonexclusive Orange Book license. If Sony did in fact choose to extract a promise from Philips not to engage in contributory infringement by purporting to license outside the scope of the grant – that is, not to license the digital claims – that was squarely within its rights under *Yarn Processing*.

POINT II
PRINCO FAILED TO DISCHARGE ITS BURDEN OF ESTABLISHING THAT THE LAGADEC AGREEMENT GENERATED ANY COGNIZABLE ANTICOMPETITIVE EFFECT

SSOs often depend on patent licensing arrangements and the enforceability of these arrangements when implementing new standards. Actions and precedent undermining the enforceability of any such arrangements that do not produce cognizable anticompetitive effects will stifle innovation and impede economic growth while providing no economic benefits. In fact, in *Windsurfing*

Int'l, Inc. v. AMF, Inc., 782 F.2d 995, 1001-02 (Fed. Cir. 1986) ("*Windsurfing*"), the Court held that:

> To sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market (footnote omitted).

Numerous panels of the Court have followed this rule.[17] The Second Circuit, in a decision cited by the Federal Circuit in *Cipro*, has held that speculation, hypothesis or conjecture should never be permitted to substitute for the factual showings required under the principles of *Windsurfing*.[18]

During the proceedings before the ITC, Princo failed to produce any evidence of anticompetitive effects proximately caused by the alleged exploitation of the Lagadec patent in "the technology market for recordable and rewritable

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17 *See, e.g.*, *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1341 (Fed. Cir. 2004); *C. R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997).

18 In *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 56 (2d Cir. 1997), the Court outlined the three-step rule of reason process as follows:

> First, the plaintiff bears the initial burden of showing that the challenged action has had an actual adverse effect on competition as a whole in the relevant market. Then, if the plaintiff succeeds, the burden shifts to the defendant to establish the pro-competitive redeeming values of the action. Should the defendant carry this burden, the plaintiff must then show that the same pro-competitive effect could be achieved through an alternate means that is less restrictive of competition (emphasis in original).

compact discs" which it now asserts. The rule of *Windsurfing* assigned that burden to Princo, and Princo failed to discharge it. The ITC so found and Judge Bryson would have affirmed on that ground alone.

Princo could not point to a single request for a license under the digital claims of Lagadec, and made no attempt whatsoever to prove that such a license would have been useful to someone who might have contemplated developing a new standard platform to compete with the Orange Book. Most importantly, Princo did not attempt to prove that Lagadec might have any technical or economic advantages over the Raaymakers technology.

The majority opinion appears to ignore the virtually insuperable economic difficulties which would militate against a potential role for digital Lagadec in any putative competitive licensing program. It is undisputed that the "digital" systems of Lagadec are "fundamentally incompatible" with the Orange Book standard as the Panel Decision found (Op. at 8). Since any putative Lagadec system would not be backwards compatible with the installed Orange Book capacity, the chances for commercialization of such a system would be virtually nonexistent.

CONCLUSION

For all the foregoing reasons, the Association respectfully submits that the Court should explicitly reject the theories of illegality set forth by the panel majority in Section II of the Court's April 20, 2009 opinion, and affirm the final determination issued by the ITC on February 5, 2007.

Dated: December 7, 2009

Respectfully submitted,

NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION

By: Charles A. Weiss
CHARLES A. WEISS
Chair, Amicus Committee

United States Court of Appeals for the Federal Circuit

Princo Corporation v ITC, 2007-1386

DECLARATION OF AUTHORITY PURSUANT TO 28 U.S.C. § 1746 AND FEDERAL CIRCUIT RULE 47.3(d)

I, John C. Kruesi, Jr., being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

Counsel Press was retained by Charles A. Weiss, Attorney for Amicus Curiae New York Intellectual Property Law Association, to print this document. I am an employee of Counsel Press.

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December 7, 2009

John C. Kruesi, Jr.

CERTIFICATE OF SERVICE

Princo Corporation v ITC, 2007-1386

I, John C. Kruesi, Jr., being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

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