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

NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION'S BRIEF *AMICUS CURIAE* IN SUPPORT OF PHILIPS' MOTION FOR REHEARING *EN BANC* AND IN OPPOSITION TO PRINCO'S MOTION FOR REHEARING *EN BANC*

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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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I. STATEMENT OF INTEREST OF AMICUS CURIAE

The New York Intellectual Property Law Association ("NYIPLA" or "the Association") is a bar association of more than 1,600 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, NYIPLA has committed to maintaining the integrity of the U.S. 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.

II. INTRODUCTION

NYIPLA respectfully submits this brief *amicus curiae* (i) in opposition to the petition for rehearing by appellants (collectively "Princo "), and (ii) in support of the petition for rehearing by intervenor ("Philips"). The Philips and Princo petitions address separate portions of the decision in *Princo Corp. v. Int'l Trade Comm'n*, 563 F.3d 1301, 1321 (Fed. Cir. 2009) ("*Princo I*"):

1. Princo seeks rehearing of the panel's affirmance of the ITC's rejection of the defense of patent misuse predicated on the allegation that Philips bundled its patents with Sony's U.S. Patent 4,942,565 ("Lagadec," which expired in September 2007) in an unlawful mandatory package license, which both Princo and the panel decision refer to as "tying." On this issue, Judge Gajarsa joined in the opinion of Judge Dyk and Judge Bryson concurred, writing "that the majority's

ground for decision is also correct and offers a satisfactory alternative rationale for affirming the Commission's determination on that issue." *Princo I*, 563 F.3d at 1321.

2. Philips seeks rehearing of the panel's decision to remand to the ITC for three separate determinations in respect of Princo's defense of "patent misuse by horizontal price fixing:" (i) whether the record supports the existence of some horizontal agreement between Sony and Philips "to prevent Langadec from being licensed as a competing technology" (*id.* at 1313, 1319-21); (ii) where on the "continuum" of potential commercial viability the standard for the putative misuse of suppression of alternative technology should be placed (*id.* at 1319); and (iii) 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 (*id.* at 1319 n.14). The panel decision refers to the rule of reason (*id.* at 1314 n.11); never defines the product market within which the alleged horizontal restraint is said to operate; suggests that the nature of the restraint is such that anticompetitive effects within that undefined market may be presumed (*id.* at 1315-16); and concludes that "[s]uch agreements are not within the rights granted to a patent holder." (*Id.* at 1316). On this issue, Judge Bryson dissented, writing that the ITC'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." (*Id.* at 1323).

III. ARGUMENT

A. The Princo Petition Should Be Denied (1) Because *Princo I* Correctly Held That Lagadec Was "Essential" Or "Blocking" And (2) Because Princo Either Ignores Or Seeks To Reargue Issues Already Decided Adversely By *Philips I* And By The 2007 Commission Ruling

The panel unanimously found that claim 6 of Lagadec is "essential" or "blocking" in respect of the analog ATIP system incorporated into the Orange Book program. (*Id.* at 1309-12). Before Lagadec expired in September 2007, therefore, the nonexclusive Philips licenses could not be challenged as unlawful package licenses merely because they might have included rights under Lagadec.

It is also undisputed that Lagadec contains a number of "digital" claims that are "fundamentally incompatible" with the Orange Book standard. (*Id.* at 1305-06). However, because claim 6 of Lagadec was sufficiently broad to read on ATIP, and for additional reasons recognized in the 2007 Commission Ruling and *Philips I*, the presence of those digital claims cannot support Princo's package licensing or "tying" defense of misuse.

1. Princo's Challenges To The Panel Decision Lack Substance

Princo argues that the test articulated in *Princo I* conflicts with the Supreme Court's *Gasoline Cracking* case,[1] with *Landon* and *Carpet Seaming* from the Ninth Circuit,[2] and with *Philips I*.[3] These cases do not support Princo's position.

Indeed, the primary thrust of *Gasoline Cracking* supports Philips's challenge to Parts II and III of *Princo I* rather than Princo's challenge to Part I:

> 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. 163, 171). Moreover, footnote 5 which Princo also cites clearly implies that the justification for pooling extends 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." (*Id.* at n.5).

There is nothing in *Carpet Seaming* or *Philips I* which conflicts with *Gasoline Cracking* or *Princo I*. As pointed out in *Philips I,* however, both *Landon*

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1 *Standard Oil Co. (Ind.) v. U.S.*, 283 U.S. 163 (1931) ("*Gasoline Cracking*").

2 *Int'l Mfg. Co. v. Landon, Inc.*, 336 F.2d 723 (9th Cir. 1964); *Carpet Seaming Tape Licensing Corp. v. Best Seam Inc.*, 694 F.2d 570 (9th Cir. 1982).

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

and *Shatterproof*[4] "appear to have been based, at least in part," upon the pre-*Lear* estoppel paradigm, and their continuing vitality is therefore suspect. *Philips I*, 424 F.3d at 1190.

Moreover, Princo suggests no adequate reason to limit the policy favoring resolution of potential patent disputes at the earliest possible stage.

Finally, Princo's suggestion that *Princo I* should have conducted a full-blown infringement inquiry is a red herring. The *Chenery* and *Nazomi* cases[5] do not support an argument that the Court should revisit technical arguments the Commission already rejected.

2. Princo Cannot Avoid The *Windsurfing* Rule

Princo asserts that the *Princo I* panel failed to conduct the rule-of-reason analysis contemplated by *Philips I*. Before the Commission, however, Princo had not adduced any evidence of any actual anticompetitive effect proximately caused by the alleged tie of Lagadec in "the technology market for recordable and rewritable compact discs." *Windsurfing*[6] assigned that burden to Princo, and

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[4] *Am. Sec. Co. v. Shatterproof Glass Corp.*, 268 F.2d 769 (3rd Cir. 1959). The portion of *Landon* Princo quotes cites *Shatterproof*.

[5] *Sec. & Exch. Comm'n v. Chenery Corp.*, 332 U.S. 194 (1947); *Sec. & Exch. Comm'n v. Chenery Corp.*, 318 U.S. 80 (1943); *Nazomi Commc'ns, Inc. v. Arm Holdings, PLC*, 403 F.3d 1364 (Fed. Cir. 2005).

[6] *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986).

Princo failed to carry it. The Commission so found, and the dissent correctly 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 did not prove that such a license would have been useful to someone who might have developed a new standard for recordable and re-writable compact discs to compete with the Orange Book. Princo also did not prove that Lagadec might have possessed any technical or economic advantages over the Raaymakers technology.

3. Princo Cannot Avoid The Ramifications Of *Philips I*

Philips I squarely rejected Princo's attempts to argue that the packages were per se unlawful under either the product tying cases or the block-booking cases. It also suggested with considerable force that the grant of non-exclusive rights could never be equated with the compulsion necessary to establish a tie in fact.

Arguably, Princo's petition would not be colorable were it not for the truncated approach to the holdings of *Philips I*. As Judge Bryson's separate opinion in *Princo I* points out, the majority's focus on its own correct but narrow theory represented only an alternative to the 2007 Commission Ruling, which in turn had followed *Philips I*. 563 F.3d at 1321.

B. Philips's Petition Should Be Granted Under Important Legal Principles, Because Of The Practical Impossibility Of Marketing A System Employing The Digital Claims Of Lagadec To Compete With The Orange Book System, Because Princo Did Not Carry Its *Windsurfing* Burden, And Because Lagadec is Expired

Princo I represents a case of first impression. 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 the provider's patents.[7]

Thus, the panel frames Parts II and III as whether "Philips allegedly agreed with Sony not to license the Lagadec patent as competing technology to the Orange Book." *Princo I*, 563 F.3d at 1302. This issue is important, since it will necessarily arise when an industry standard setting organization attempts to clear rights to patents held by more than one inventive entity. It appears from the opinion, however, that several aspects of the applicable economic framework which would affect the potential role of Lagadec in any putative competitive licensing program were overlooked.

[7] As the NYIPLA pointed out in its *Philips I* amicus brief (Aug. 27, 2004 Br. at n.11), the consent decrees cited in the Initial Determination and Commission Ruling are non-precedential and represent merely enforcement attitudes and private agreements. There is no authoritative decision on point.

1. Important Legal Principles Militate Against The Remand

(a) *Gasoline Cracking*. *See* discussion *supra* p.8.

(b) *Xerox(ISO)*. A patentee can unilaterally determine whether, to whom, and for how much he wishes to license, and can refuse to license entirely. *See In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1327 (Fed. Cir. 2000) ("*Xerox(ISO)*"). As *Paper Bag* and *Special Equipment*[8] teach, moreover, the right to unilaterally suppress can be exercised for any economically pertinent reason.

(c) *Penn-Olin*. 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. *U.S. v. Penn-Olin Chem. Co.*, 378 U.S. 158, 168 (1964) ("Realistically, the parents would not compete with their progeny"); *see also Texaco Inc. v. Dagher*, 547 U.S. 1, 5-6 (2006) (Oil companies' operations in a market limited to joint participation "through their investments" in a joint venture.).

(d) *In re Yarn Processing*.

(i) Covenant Not To Contributorily Infringe. Even should the Commission find on remand that the terms of the 1993 agreement with Sony

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8 *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).

obligated Philips not to license Lagadec for non-Orange Book applications, that should not necessarily lead to a conclusion that the agreement violated Section 1 of the Sherman Act.[9] This would be true 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 merely inferred from the field-of-use limitation on the grant.

The leading case is *Yarn Processing*,[10] a case cited by all parties on the present appeal. There, in the wake of *Lear*, former use licensees sued a textile machinery manufacturer who held patents to methods of using its machinery. The patent holder granted licenses to competing manufacturers in which each agreed not to sell machinery to any customer who refused to execute the use license with the patentee. Under the pre-*Lear* estoppel paradigm, this meant that any customer who was forced to take the use license to purchase the machinery would be estopped from contesting the underlying patents.

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9 The terms of that agreement cannot be discerned from the public record.

10 *In re Yarn Processing Patent Validity Litig.*, 541 F.2d 1127 (5th Cir. 1977). The continuing vitality of *Yarn Processing* is reflected by the Solicitor General's citation of this case to the Supreme Court in *McFarling*. *See* Brief for the United States As *Amicus Curiae* in *McFarling v. Monsanto Co.*, No. 04-31 (May 2005).

The former licensees challenged the provisions of the manufacturing licenses which prohibited sales to non-licensees. The Fifth Circuit upheld that aspect of the agreements, however:

> 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.

(ii) Royalty Division. *Gasoline Cracking* sanctioned royalty division between patentees who contributed to a pool of essential patents. In *Yarn Processing*, the Fifth Circuit extended the presumptive legality of royalty sharing to venturers who contributed manufacturing and distribution services rather than patents. 541 F.2d 1127.

(iii) Royalties Equivalent To Price. In *Yarn Processing*, there had been a factual showing that the use royalties were set at levels which could over time amount to 2 to 6 times the selling price of the machinery. (*Id.* at 1134). On that basis, the Fifth Circuit found that "Leesona guaranteed income to the manufacturers and effectively fixed the price of the machinery." (*Id.* at 1136). In short, the only limitation placed on the horizontal agreements 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 has not suggested that a comparable assertion could be made here.

(e) *Philips I*. Parts II and III of *Princo I* also overlook that the Orange Book Licenses are non-exclusive and are thus merely covenants not to sue under any of the licensed patents. As stated in *Philips I*, "[t]he conveyance of such a license does not obligate the licensee to do anything." *Philips I*, 424 F.3d at 1189.

* * *

Once Sony accepted the practical and economic superiority of ATIP and contributed freedom from suit under claim 6 of Lagadec to the Orange Book package, it would have been logical for it to unilaterally determine not to license the digital claims of Lagadec in competition with the Orange Book. This was permissible under *Xerox(ISO)*, *Paper Bag*, and *Special Equipment*, irrespective of what Sony's internal rationale may have been. Indeed, *Penn-Olin* and *Dagher* suggest that a hypothetical rationale predicated on Sony's desire not to facilitate competition with the licensing joint venture could be presumed.

The 1993 Sony agreement, moreover, could be analyzed as more vertical than horizontal. Although Philips and Sony were no longer potentially competing licensors as to CD-R and CD-RW, their relationship in respect of Orange Book licensing of Lagadec was purely vertical. Accordingly, it was permissible for Sony to license only claim 6 exclusively to Philips for sublicensing to CD manufacturers under the nonexclusive Orange Book license. If Sony chose to extract a promise from Philips not to engage in contributory infringement by purporting to license outside the scope of the grant (i.e., the digital claims), that was within its rights under *Yarn Processing*.

2. The Practical Impossibility Of Marketing A System Which Would Employ The Digital Claims Of Lagadec To Compete With The Orange Book Raaymakers System Militates Against Remand

Princo I is predicated on a tacit presumption that Lagadec represented an improvement. Indeed, such an approach was necessary to parallel *Gasoline Cracking* and the hypotheticals of the secondary source texts. The realities in the marketplace are quite different.

3. Princo Did Not Carry Its Burden Under *Windsurfing* Before The Commission, Militating Against Remand

Princo failed to establish several elements necessary to prove a Sherman Act violation. *Princo I* does not guide the Commission as to how to determine whether the elements of the applicable rule of reason inquiry can be satisfied.[11]

[11] *Windsurfing* held that where an alleged species of misuse has not previously been held per se impermissible by the Supreme Court, all the elements of a Sherman Act violation must be established before the misuse defense will be recognized. 782 F.2d at 1001-02.

There was insufficient support for a remand on the nature of the agreement between Philips and Sony, and no support for the suggestion that Philips and Sony may have agreed "**not**" to license Lagadec in a way that would allow a competitor" to use it in connection with some hypothetical competing standard. *See Princo I*, 563 F.3d at 1313 (emphasis added).

There has been no showing of the nature or dimensions of any anticompetitive effect in any relevant market. Indeed, Princo cannot establish that anyone ever even asked for a license under the digital claims of Lagadec – and there has been no suggestion that anyone ever contemplated sublicensing those claims as part of a competing industry standard.

The panel opinion, moreover, provides insufficient guidance for the Commission as to the factors which must be assessed in order to resolve the issue of first impression raised by this novel theory.

4. The Expiration Of Lagadec Was Not Addressed

Lagadec expired more than six months before the Panel Decision was issued – a fact not mentioned in the *Princo I* panel opinion. Under such circumstances, remand for the type of full-blown rule-of-reason consideration of this new theory, which *Windsurfing* and its progeny clearly require, does not seem an appropriate use of the Commission's resources. NYIPLA respectfully suggests that withdrawal of the panel decision and affirmance of the 2007 Commission Ruling constitutes appropriate alternative relief.

IV. <u>CONCLUSION</u>

For the foregoing reasons, Princo's motion for rehearing *en banc* should be denied and Philips motion for rehearing *en banc* should be granted. Alternatively, the panel decision should be withdrawn and the 2007 Commission Ruling should be affirmed.

Respectfully submitted,
New York Intellectual Property Law Association

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Charles A. Weiss
Mark J. Abate
David F. Ryan

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2007-1386

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

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

I, Douglas E. Ringel, Esq., state:

I am member of Kenyon & Kenyon LLP in the Washington, D.C. office. My partner Charles A. Weiss, Esq. of Kenyon & Kenyon's New York office, is Counsel of Record for amicus curiae New York Intellectual Property Law Association ("NYIPLA") in the above-captioned appeal.

The attached (i) Motion by NYIPLA for Leave to File Brief Amicus Curiae in Support of Philips' Motion for Rehearing *En Banc* and in Opposition to Princo's Motion for Rehearing *En Banc*, and Motion for Leave to File Overlength Brief, and (ii) Brief Amicus Curiae by NYIPLA in Support of Philips' Motion for Rehearing *En Banc* and in Opposition to Princo's Motion for Rehearing *En Banc*, were submitted electronically to Counsel Press in Washington, D.C. by Mr. Weiss to be printed and bound in compliance with the Court's rules. Because of time constraints and the distance between counsel of record and Kenyon & Kenyon in Washington D.C., counsel of record is unavailable to provide an original signature in ink, to be bound in the motion and brief. Pursuant to 28 U.S.C. § 1746 and Federal Circuit Rule 47.3(d), I have signed the documents for Charles A. Weiss, with actual authority on his behalf as counsel of record appearing for amicus curiae.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on July 2, 2009

Douglas E. Ringel

Douglas E. Ringel

CERTIFICATE OF SERVICE

I hereby certify that on July 2, 2009, I served the foregoing *New York Intellectual Property Law Association's Brief Amicus Curiae in Support of Philips' Motion for Rehearing En Banc and in Opposition to Princo's Motion for Rehearing En Banc* on all parties by causing two copies thereof to be delivered by overnight courier to counsel for each as follows:

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CERTIFICATE OF COMPLIANCE

The undersigned hereby certifies that, subject to its Motion for Leave to File Brief Amicus Curiae in Support of Philips' Motion for Rehearing En Banc And in Opposition to Princo's Motion for Rehearing En Banc, And Motion for Leave to File Overlength Brief, this brief complies with the type-volume limitation of Fed. R. App. 29(d) and 32(a)(7)(B)(i). The brief was prepared using Microsoft Word 2003, using a proportional 14-point typeface and contains 2,957 words. As permitted by Fed. R. App. P. 32(a)(7)(C), the undersigned has relied upon the word count of this word processing system.

DATED: July 2, 2009

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