

In the
United States Court of Appeals
for the
Federal Circuit

U.S. PHILIPS CORPORATION,

Appellant,

- v. -

INTERNATIONAL TRADE COMMISSION,

Appellee,

and

PRINCO CORPORATION, PRINCO AMERICA CORPORATION,
GIGASTORAGE CORPORATION TAIWAN, GIGASTORAGE
CORPORATION USA, and LINBERG ENTERPRISE INC,

Intervenors.

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
IN SUPPORT OF APPELLANT**

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AUGUST 27, 2004

CERTIFICATE OF INTEREST

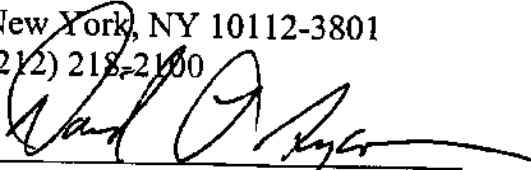
Counsel of record for the *amicus curiae* New York Intellectual Property Law Association certifies the following:

1. The full name of every party or *amicus* represented by me is:
New York Intellectual Property Law Association.
2. The party represented by me as *amicus curiae* is the real party in interest.
3. The parent companies, subsidiaries (except wholly owned subsidiaries), and affiliates that have issued shares to the public, of the party or *amicus* represented by me are: None.
4. The names of all law firms and partners or associates that appeared for the parties now represented by me in the trial court or agency or are expected to appear in this court are:

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

This brief is submitted on behalf of the New York Intellectual Property Law Association (the “NYIPLA” or the “Association”), a professional association of more than 1,300 attorneys whose interests and practices lie in the area of patent, copyright, trademark, trade secret and other intellectual property law. The Association’s members include in-house attorneys working for businesses owning patents as well as attorneys in private practice who represent both patent owners and accused infringers. NYIPLA members represent both plaintiffs and defendants and also regularly participate in proceedings before the United States Patent and Trademark Office (“PTO”), including representation of interference parties and *ex parte* applicants for patents.

A substantial percentage of NYIPLA members participate actively in patent license negotiation and enforcement activities on behalf of both licensors and licensees. The principles governing the licensing of intellectual property rights are just as important to our members as the laws governing the underlying intellectual property rights themselves.

Since its founding in 1922, the NYIPLA has committed itself to maintaining the integrity of United States patent law, and to the proper application of that law and those related bodies of contract and trade regulation law applicable

to licensing. Nowhere is the rational and considered application of the patent laws more important to the economy of the United States than at the interface between the patent and licensing laws and the rules and principles embodied in the antitrust laws and the patent misuse doctrine.

STATEMENT OF FACTS

In the "Notice Of Commission Determination Of No Violation Of Section 337" issued March 11, 2004 ("Notice"), as confirmed in the public version of the Commission Opinion served April 8, 2004 ("Opinion"), the International Trade Commission (the "ITC", the "Commission" or "appellee") "adopted" the determination of the Administrative Law Judge ("ALJ") that 29 claims of six patents owned by appellant U.S. Philips Corporation ("Philips") were both not invalid and infringed by intervenors and other importers into the United States of the CD-R and CD-RW data storage devices popularly known as "discs". The Commission nevertheless denied relief to Philips under 19 U.S.C. § 1337 on the ground that those patents were unenforceable by reason of their "misuse" in

connection with the “package licenses” offered by Philips to the industry.¹ The ITC held:

We affirm the ALJ’s conclusion that the asserted patents are unenforceable for patent misuse *per se*, but on the ground, discussed below, that **complainant’s [Philips’] practice of mandatory package licensing constitutes patent misuse *per se* as a tying arrangement between (1) licenses to patents that are essential to manufacture CD-Rs or CD-RWs according to Orange Book standards and (2) licenses to other patents that are not essential to that activity.** We also adopt the ALJ’s conclusion that the asserted patents are unenforceable for patent misuse under a rule of reason standard based on the ALJ’s analysis of and findings as to the tying arrangements.

Opinion at 4-5 (footnotes omitted) (emphasis supplied).

In summary, the ITC affirmed the ALJ’s finding of *per se* misuse because in its view the Philips licenses had unlawfully “tied” patents that were “not essential” to patents which the Commission conceded were “essential” to practice the CD-R and CD-RW technologies. In reaching this conclusion, the ITC completely ignored the respective expiration dates of the “essential” and “not

¹ Although the Commission’s analysis of “blocking patents” sometimes appears to confuse the issues of “patent pools and package licenses” (Opinion at 11), its misuse analysis purports to focus solely upon the alleged “mandatory package licensing” issue (Opinion at 4). Accordingly, for purposes of this appeal it is irrelevant that the nonexclusive “package licenses” offered by Philips included rights to patents developed by one or more other members of two “patent pools” formed to facilitate manufacture of the CD-R and CD-RW devices, respectively.

essential” patents,² and the temporal terms of the underlying licenses.³

In making the determination that the six valid and infringed Philips patents were unenforceable for misuse, the Commission first rejected Philips’ reliance upon this Court’s statement in *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986), 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

² It is both significant and undisputed, for example, that upon the expiration on March 31, 2013 of the last to issue of the “essential” patents, United States Patent No. 5,418,764 to Philips (“the Roth patent” or “the ‘764 patent”), only one of the four patents the Commission found “not essential”, United States Patent No. 5,740,149 to Ricoh (“the Iwasaki patent” or “the ‘149 patent”), would remain unexpired. Additionally, the Association understands that the licenses contain provisions under which any remaining royalty obligations will terminate with the last surviving licensed patent.

³ The Opinion contains no discussion as to when the outstanding licenses will expire by their terms, and whether those respective expiration dates will antedate or postdate March 31, 2013. Indeed, only the 1999 GigaStorage joint CD-RW license would appear subject to the ITC’s putative “package” analysis in the first instance, since no rights to the Iwasaki patent are granted in either the joint or Philips CD-R package licenses or the Philips CD-RW license (Opinion at 23-25). The Association understands that the 1999 license by its terms would have expired in 2009 and, in any event, was repudiated by GigaStorage (Opinion at 12-13).

restrict competition unlawfully in an appropriately defined relevant market (footnote omitted).⁴

Instead, the ITC elected to substitute its own unsupported conclusion that, by analogy to the pertinent Supreme Court decisions, any “package license” offered to the industry by Philips should be subjected to the same *per se* or presumptive prohibition under the misuse doctrine as a product tie. Although expressly conceding that none of the pertinent Supreme Court cases involved “a tied *patent*”, the Commission nevertheless opined that “finding a patent misuse based on a tying arrangement between patents in a mandatory package is a reasonable application of Supreme Court precedent” (Opinion at 13).

While substituting its own novel rule for the teaching of *Windsurfing*, and ignoring the authoritative precedents of the United States Supreme Court rejecting extension of the *per se* tying rule to package licenses, the Commission ostensibly paid lip service to the three-pronged test for a “tying” misuse as announced by this Court in *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir.

⁴ The license provision at issue in *Windsurfing* involved the licensee’s promise not to infringe the presumptively valid trademarks of the licensor. The Federal Circuit found this provision “but a matter of business prudence” which “in no manner misuses the patent right” (782 F.2d at 1002), and reversed the district court’s misuse determination.

1986) (Opinion at 17-18).⁵ Here, however, the ITC elected to defer to a Ninth Circuit precedent that it considered more compelling and made a determination that Philips could not bring itself within what the Commission perceived as the rule of *Int'l Mfg. Co., Inc. v. Landon, Inc.*, 336 F.2d 723 (9th Cir. 1964) (Opinion at 21-23).⁶ According to the Commission, because it was able to conclude (with the benefit of hindsight) that four of the patents licensed broadly to the industry by Philips were “not essential”, those patents could not therefore by definition be “blocking” (Opinion at 23-25). In the ITC’s view, this was enough to completely satisfy the “separability” prong of this Court’s tripartite test and proscribe the licenses in their entirety (Opinion at 38-39).

Here the Commission failed to grasp the principle that nonexclusive licenses represent mere promises not to sue and, for purposes of the “separability”

⁵ In *Senza-Gel*, a license under the “tying” process patent had been conditioned upon acceptance of a royalty-bearing lease covering the machine sold by the patentee to practice the patented process (803 F.2d at 663).

⁶ The “blocking” situation addressed by the Court of Appeals in *Landon* exemplifies only a single narrow and particularized species of a host of generic reasons for refusing to impose a *per se* rule proscribing mandatory package licensing under the misuse doctrine. The ITC’s conclusion that blocking patents represent the only available justification for a package license was clearly erroneous. In any event the *Landon* decision is “not binding precedent”, as the ITC itself conceded (Opinion at 21).

analysis, cannot be analogized either to products or to assignments or exclusive licenses.⁷ The Commission later repeated this same mistake when it analyzed the putative “anticompetitive effects of including nonessential patents in the list of so-called essential patents” (Opinion at 5, n.4).⁸ An outright purchase or assignment of a patent or an exclusive license thereunder might have the effect of foreclosing access to some claimed alternative technology, particularly if the pertinent agreement contained a best efforts clause. A mere nonexclusive license could never generate such an effect.

The Commission also found that the “necessary” and “unnecessary” patents in the nonexclusive package licenses offered by Philips were “tied in fact” as the third prong of the *Senza-Gel* test requires. This finding apparently was

⁷ Patents and copyrights themselves and exclusive licenses thereunder can be characterized as separable “assets” both for purposes of the misuse analysis and for the analyses under Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act. *See, e.g., SCM Corp. v. Xerox Corp.*, 463 F. Supp. 983, 1000-01 (D. Conn. 1978), *remanded on other grounds*, 599 F.2d 32 (2nd Cir. 1979); *In re Yarn Processing Patent Validity & Antitrust Litig.*, 398 F. Supp. 31, 35 (S.D. Fla. 1974), *rev'd in part on other grounds*, 541 F.2d 1127 (5th Cir. 1976); *United States v. Lever Bros. Co.*, 216 F. Supp. 887, 889 (S.D.N.Y. 1963); *United States v. Columbia Pictures Corp.*, 189 F. Supp. 153, 181-82 (S.D.N.Y. 1960). This rule, however, has never been extended to nonexclusive licenses.

⁸ Laymen often erroneously believe that a patent secures to an inventor the right to practice his invention. As appears clearly from the cases discussing “blocking” patents, however, a patent actually secures to the inventor only the right to sue for an injunction preventing another from practicing the claimed invention.

based upon a discussion, significantly redacted in the public version of the Opinion, which concluded that the facts before the ALJ were sufficient to establish that the nonexclusive licenses under the “essential” patents had been “conditioned” upon acceptance of nonexclusive licenses under the four patents that the Commission determined were “not essential” – that is, Philips had not offered the industry any economically viable alternative to the standard packages (Opinion at 27-38). In this discussion, however, the Commission provided no analytical, economic or legal support whatsoever to justify its central factual conclusion.⁹

As will be discussed, the Commission failed to recognize that the “tied in fact” inquiry must answer two separate questions and determine **both** (a) whether any meaningful restraint arises from the license itself **and** (b) whether that license was coercively imposed or “conditioned”. Quite plainly, the ITC never made the first of the two necessary inquiries and never even attempted to define the nature of the underlying extension of the patent grant that the package licenses at issue allegedly generated.

⁹ To be sure, the record before the ALJ is replete with economic testimony and the Commission’s Opinion is peppered with references to fine and arcane distinctions made in that testimony as between, for example “technically essential” patents and patents which are “essential as a practical matter” or “commercially essential” (Opinion at 58, n.39). The Commission, however, quite plainly missed the forest for the trees.

The Commission simply ignored the fundamental question of whether any **temporal expansion** of the grant of the “essential” patents inevitably would result from the putative tie – the issue upon which all the leading lower court cases had relied in establishing a rule of *per se* or presumptive unenforceability of a coercively imposed package after the Supreme Court’s decision in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950). By ignoring the rationale of the cases upon which it purported to rely, the ITC never was forced to deal with the fact that those lower court cases were all grounded upon the doctrine of licensee estoppel which was abrogated by the Supreme Court in June 1969 in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

The Commission also purported to pay lip service to this Court’s more generalized test for misuse as announced in *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (Opinion at 7-8).¹⁰ In attempting to apply that test later in its opinion, however, the sole rationale advanced by the ITC for the “potential harm” that must be presumed to arise inevitably from inclusion of “an extra patent license that is not necessary” was “the suppression of emerging

¹⁰ As Philips already has pointed out to the Court (Br. at 18), the most recent authoritative formulation for the generalized misuse test is set forth in *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1341 (Fed. Cir. 2004).

technologies that compete with the technology covered by the extra patent license” (Opinion at 16).

Although the Commission claimed to find that this alleged rationale for *per se* illegality was “widely recognized” (*id.*), it referenced no supporting case law and elected to cite only one isolated section from a single non-precedental Department of Justice (“DOJ”) business review letter (Opinion at 16 n. 11).¹¹

Finally, in making the alternative rule of reason analysis that the case law unquestionably requires, the ITC refused to credit (a) the broad acceptance of the package licenses by the industry as reflected in the more than 100 licenses executed through the end of 2003; (b) the increased industry capacity which has resulted in an increase in CD-R disc output from 300 million in 1997 to nearly 8

¹¹ No decision supporting the Commission’s theory was referred to in any of the three DOJ business review letters, although the MPEG-2 letter does purport to find solace in the *Microsoft* and *Pilkington* consent decrees – which, of course, are themselves non-precedental. Indeed, to the extent that the portion of the MPEG-2 letter quoted by the Commission may be read to suggest that a nonexclusive license under a nonessential patent might “require” licensees to “use” that patent and thereby “foreclose competition from technological alternatives” (Opinion at 16, n.11), that suggestion appears flatly inconsistent with the DOJ’s treatment of nonexclusive grantbacks elsewhere in that letter. It is the foreclosure by agreement or “shelving” of the rights to competitive technologies that usually provides the alleged justification for a “suppression” claim – not its facilitation by the broad grant of non-exclusive licenses. See, e.g., *Special Equipment Co. v. Coe*, 324 U.S. 370 (1945); *United States v. LSL Biotechnologies, Inc.*, Case No. CV-00-529-TUC-RCC (D. Ariz. Sept. 15, 2000) (Complaint).

billion in 2002; and the concomitant consumer benefits resulting from price decreases which have seen wholesale disc prices plummet from \$4.75 per disc in 1996 to as low as \$0.12 per disc in 2003 (Philips Br. at 11). When these unchallenged industry benefits are counterbalanced against the Commission's unsupported speculation regarding putative foreclosure of some alleged alternative technology, the competitive legitimacy of the program becomes compellingly self-apparent.

SUMMARY OF THE ARGUMENT

The Association supports the position Philips has taken that no rule of *per se* or presumptive misuse may be invoked to proscribe package licenses of the type at issue here (Philips Br. at 19). The Association also believes that the judgment reflected in the Commission's Opinion should be reversed and remanded in its entirety. As already set forth in respect of the Commission's analysis of the "tied in fact" question, however, the NYIPLA is unable to comment directly on the ITC's application of the rule of reason because of the extensive redactions that appear in the public version of the Opinion.

The NYIPLA will restrict its arguments to three areas in which it is hoped that its views may be of assistance to the Court. Every effort has been made to avoid duplicating the arguments already submitted by Philips.

1. Point I sets forth an argument not heretofore made by Philips to the effect that, in the wake of the Supreme Court's abrogation of the doctrine of licensee estoppel in *Lear v. Adkins*, the rule of *per se* or presumptive misuse adopted by some lower federal courts after *Automatic Radio* can no longer legitimately be applied to package licenses – even those that may have been “conditioned” or coercively imposed.

2. Philips already has argued that the Commission's misuse determination contravenes the decisions of this Court which preclude extension of existing Supreme Court rules of *per se* or presumptive misuse. Point II supplements that showing with a different and separate showing that the Commission's new rule also contravenes the Supreme Court's own explicit refusal to extend its product tying misuse analysis to cover package licenses.

3. Point III argues that any hindsight determination that a particular packaged patent is “not essential” must be made both under the “clear and convincing” standard of proof and under some reviewable non-subjective criterion such as the “objectively baseless” test set forth by the Supreme Court in *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993) (“*PRE*”).

ARGUMENT

POINT I

IN THE WAKE OF *LEAR v. ADKINS*, A RULE OF *PER SE* OR PRESUMPTIVE MISUSE CAN NO LONGER BE APPLIED TO PACKAGE LICENSES – EVEN WHERE SUCH LICENSES WERE “CONDITIONED” OR “COERCIVELY IMPOSED”

A. The Historical Antecedents That Support Invoking A Rule Of *Per Se* Misuse For Mandatory Package Licenses All Were Predicated Upon The Doctrine Of Licensee Estoppel

The Association believes that the Commission was either unaware or failed to comprehend the significance of the fundamental basis upon which some lower federal courts between 1950 and June 1969 applied a *per se* misuse rule of presumptive unenforceability to so-called mandatory package licensing. In the leading case of *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769 (3d Cir. 1959), a case upon which the Commission placed great reliance (Opinion at 22, 53-54), the Court of Appeals concluded that mandatory package licensing represented *per se* misuse, and explicitly grounded its decision upon the doctrine of licensee estoppel which the Supreme Court had reaffirmed nine years earlier in *Automatic Radio*:

We deem it unnecessary to discuss at length the application of the doctrine of licensee estoppel. It is sufficient to say here that this factor alone in our opinion is

enough to render mandatory package licensing a patent misuse.

268 F.2d at 777 (citing *Automatic Radio*).¹²

The Court of Appeals in *Shatterproof Glass* thereupon went on to characterize the perceived vice represented by coercively imposed package licensing as a **temporal expansion** of the legitimate exclusionary power of a valid patent claim -- not a **subject matter expansion** as the briefs below and the ITC decision incorrectly assumed. In proscribing a provision of the license at issue which provided that the agreement should continue “in full force and effect to the expiration of the last to expire of any” of the licensed patents, the Third Circuit ruled that the provision:

constitutes a patent misuse for it extends the payment of royalties . . . under patents which may expire to the expiration date of the patent most recently granted to Securit.

Id.

¹² The Court of Appeals was correct in concluding that in *Automatic Radio* the Supreme Court’s willingness to entertain the notion that a “conditioned” package license could represent a misuse rested squarely upon the continuing vitality of the doctrine of licensee estoppel. As discussed in Point II, the dissent authored by Justice Douglas highlights the fact that the misuse of conditioned package licensing is inextricably intertwined with and dependent upon the doctrine of licensee estoppel.

Under the theory applied by the Third Circuit in *Shatterproof Glass*, the leverage of a “tying” patent could be employed to compel licenses under “tied” patents with later expiration dates and thus perpetuate the royalty obligation beyond the expiration date of the “tying” patent.¹³ Some courts also perceived a second but related vice which might arise even more directly from the estoppel doctrine – insulation of weak packaged patents from validity challenges.¹⁴ This theory was explicitly considered by the Court of Appeals in *Landon*, another case upon which the Commission repeatedly relied (Opinion at 15, 21, 39, 54):

Appellees further argue that the result we reach is undesirable because it may bring about mandatory package licensing of patents, all of which appear to be interlocking but which are not all valid. The prospective licensee, in being compelled to accept licenses under all of the patents,

¹³ As discussed in Point II, the Supreme Court adopted a similar theory of *per se* or presumptive illegality in an analogous context five years later when it condemned post-expiration royalties in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). The *Brulotte* rule of *per se* illegality, however, was never extended by the Supreme Court to mandatory packages which included unexpired patents – despite a clear opportunity to do so five years later in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

¹⁴ As discussed in Point II, the dissent of Justice Douglas in *Automatic Radio* stressed the “toll” on the public weal that “invalid or expired” (or “stale and specious”) patents represent (339 U.S. at 840). Indeed, in *Lear v. Adkins* itself, Justice Harlan echoed that original concern by invoking the fact that licensees are “often the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery” as one important reason for abrogating the estoppel doctrine (395 U.S. at 370).

would arguably be prevented [by the doctrine of licensee estoppel] from ever successfully challenging the invalid patents.

336 F.2d at 731.

But for the licensee estoppel doctrine as it existed for the *Shatterproof Glass* and *Landon* courts, a licensee theoretically would have been free to repudiate her package license upon expiration of any tying patent and avoid the payment of further royalties. The very notion that patents could be “tied in fact” depended directly upon the licensee estoppel doctrine. As the law developed prior to *Lear v. Adkins*, moreover, avoidance of the estoppel effect could be achieved contractually and the presumptive illegality of the mandatory package could be avoided by the skilled draftsman in either of two ways.

First, as *Shatterproof Glass* itself strongly suggests by its focus upon Securit’s refusal “to set a value on each individual patent” (268 F.2d at 774), misuse could be avoided by obviating the prospect of an undiminished total royalty after expiration of a tying patent by assigning different royalty levels to each of the separate components of the package. As an alternative to such individual valuation of all elements of a licensed package, the “estoppel effect” could be vitiated by granting the licensee the power to terminate the license upon expiration or invalidity of any component of the licensed package. The Court of Appeals

combined these two concepts into a single rule in *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.*, 367 F.2d 678, 681 (6th Cir. 1966). There, in affirming the district court's holding that a mandatory package license which contained neither of the two exculpatory alternatives rendered the licensed patents unenforceable, the Court said:

We believe such a contract, when it contains no diminution of license fee at the expiration of the most important patent and contains no termination clause at the will of the licensee, constitutes, in effect, an effort to continue to collect royalties on an expired patent.

Citing Brulotte and Shatterproof Glass (emphasis supplied).

Prior to the Supreme Court's abrogation of the licensee estoppel doctrine in *Lear v. Adkins*, therefore, the determination of whether a package had been coercively imposed necessarily would involve a two-step investigation. First, determination of whether the license itself provided for either individual valuation of the packaged components or the power to terminate (that is, whether the "essential" and "nonessential" patents had been "tied in fact"). Then, if the estoppel effect had not been contractually obviated, a determination of whether "conditioning" had occurred in that the licensor had not offered any "economically viable alternative".

If the licensee had been afforded a **contractual** alternative to the payment of undiminished royalties upon expiration of the “tying” patents in the package, the license would be upheld against a charge of *per se* or presumptive misuse and there would be no need for further inquiry as to whether the license had been “conditioned” or “coercively imposed” in the sense that no alternatives to the actual license were available.

B. Some Lower Courts Have Failed To Appreciate That Any Justification For Characterizing A Coercively Imposed Package License As A Presumptive Or *Per Se* Misuse Necessarily Disappeared Along With The Doctrine Of Licensee Estoppel In The Supreme Court’s Lear v. Adkins Ruling

With the abrogation of the licensee estoppel doctrine by the Supreme Court in June 1969, every licensee under a package necessarily was afforded a **legal** alternative to the payment of undiminished royalties, irrespective of whether or not the license itself had granted a **contractual** right to terminate – repudiation of the license and, if necessary, initiation of an action seeking a declaratory judgment of invalidity or non-infringement. Unfortunately, few courts have perceived this analytical solution to the conundrum, and even fewer have seized upon it to obviate the confusion which still reigns in the lower courts – since from time to time infringers inevitably have continued their attempts to escape liability

by asserting the *per se* unenforceability of patents which have been licensed in a package.

Some lower courts, although advised of the importance of the estoppel doctrine as an underpinning for the original proscription of mandatory package licenses, nevertheless have refused to enforce patents licensed in such a package even after June 1969. In *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 696 (D.S.C. 1977), *aff'd in pertinent part*, 594 F.2d 979 (4th Cir. 1979), for example, the district court proscribed a package licensing system involving a "level royalty rate charged" on the authority of *Shatterproof Glass*. The district court in *Duplan* commented that:

The court has the unmistakable impression that the package license plan employed by defendants was designed to require payment of royalties by the plaintiffs on patents not used in the machines they purchased and **to shield from attack under the law as it then existed many weak and unwanted patents**. This constituted patent misuse.

444 F. Supp. at 699 (citation omitted) (emphasis supplied). Thus, despite its recognition that the estoppel doctrine had been abrogated some years previously,

the district court determined that the underlying patents still should be held unenforceable.¹⁵

Elsewhere, despite refusing to find package licenses unlawful, the lower courts have struggled to muster any analytical justification for the eminently correct conclusion that the earlier cases like *Shatterproof Glass* should no longer be followed. A good example of such a case is *Texas Instruments, Inc. v. Hyundai Electronics Indus.*, 49 F. Supp. 2d 893 (E.D. Tex. 1999).

Indeed, even a scholar of the stature of Judge Posner of the Court of Appeals for the Seventh Circuit seems to have overlooked the implications of *Lear v. Adkins* for package licenses. In *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014 (7th Cir. 2002), Judge Posner reviewed the extensive economic criticism to which the *Brulotte* rule has been subjected by courts and commentators, but failed to suggest that the rationale for the decision also had been completely undermined by

¹⁵ The *Duplan* court could have struck down the broad industry-wide package licensing program under the rule of reason based upon its anticompetitive effects. Alternatively, the court could have concluded that the effects of the pre-*Lear* misuse under review had not been fully dissipated. Despite its recognition that the doctrine which had shielded “many weak and unwanted patents” from “attack under the law as it then existed” had been abrogated in 1969, the district court adopted neither alternative, thus making yet another contribution to the confusion surrounding the package licensing misuse which persists in the lower courts and agencies to this very day.

the Supreme Court's own decision in *Lear v. Adkins*.¹⁶

Given the confusion that allegations of mandatory package licensing continue to engender in the lower courts and agencies such as the ITC, this Court should exercise its historical Congressional mandate to clarify the law and announce that the principle of *per se* or presumptive misuse heretofore applied by some lower courts to mandatory package licenses was effectively expunged along with the licensee estoppel doctrine from which it was derived. See *Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736, 744 (Fed. Cir. 1990).

In its *Lear v. Adkins* decision in 1969, the Supreme Court finally accorded that “decent public burial” to the licensee estoppel doctrine which Justice Frankfurter had recommended some 22 years earlier. *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402, 416 (1947). Thirty-five years later, the

¹⁶ Judge Posner concluded that only the Supreme Court itself could overturn the *Brulotte* rule and, indeed, suggested that the Court should do so – a suggestion that unfortunately was mooted with the denial of *certiorari*. The Association does not necessarily agree, since it can be argued that *Lear v. Adkins* should be read to overrule *Brulotte* as well as to abrogate the estoppel doctrine which formed the basis for the Court's consideration of misuse arising from package licenses in *Automatic Radio* and *Zenith v. Hazeltine*. In any event, the narrower rule of *Brulotte* cannot be applied to this case for any number of separate reasons.

Association respectfully submits that it is time for this Court to do the same and foreclose any residual tendencies in the lower federal courts and agencies to erroneously apply a *per se* rule of illegality to mandatory package licenses.

POINT II
THE ITC'S DETERMINATION CONTRAVENED
THE SUPREME COURT'S OWN EXPLICIT REFUSAL
TO EXTEND THE *PER SE* ANALYSIS OF PRODUCT TYING
TO COVER MANDATORY PACKAGE LICENSING AS WELL

The Commission concluded that it was free to extend the rule of presumptive illegality of product ties to mandatory package licenses (Opinion at 13).¹⁷ This determination contravened not only the cautionary admonitions of this Court,¹⁸ but also the express reasoning of the Supreme Court itself in the leading cases on package licensing that antedated *Lear v. Adkins*.

A. Automatic Radio

In *Automatic Radio* itself, the Supreme Court squarely rejected the notion of doing what the Commission felt it was still free to do 54 years later –

¹⁷ Although the Commission asserts its awareness of the absence of any *per se* proscription of mandatory package licensing by the Supreme Court, it curiously fails to discuss the three seminal Supreme Court package licensing cases anywhere in its 63-page opinion.

¹⁸ The ITC's decision to proceed in the face of *Windsurfing* and the other decisions of this Court eschewing the creation of new *per se* rules has been discussed fully by Philips (Philips Br. at 21-34).

extend the *per se* rule of product tying to package licenses. There Justice Minton noted that:

Petitioner directs our attention to the “Tie-in” cases. These cases have condemned schemes requiring the purchase of unpatented goods for use with patented apparatus or processes, prohibiting production or sale of competing goods, and conditioning the granting of a license under one license upon the acceptance of another and different license. Petitioner apparently concedes that these cases do not, on their facts, control the instant situation. It is obvious that they do not.

339 U.S. at 830-31 (footnotes omitted).¹⁹ The Court continued:

That which is condemned as against public policy by the “Tie-in” cases is the extension of the monopoly of the patent to create another monopoly or restraint of competition – a restraint not countenanced by the patent grant. **The principle of those cases cannot be contorted to circumscribe the current situation.**

339 U.S. at 832-33 (citations omitted) (emphasis supplied). Thus, on the basis of the very same cases that had been reviewed by Justice Minton, the ITC made the very same extension of the *per se* misuse rule to package licenses that the Supreme Court had rejected as a contortion 54 years ago.

¹⁹ Among the cases cited in the Supreme Court’s footnotes to this passage were *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942); and *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917) – three of the very same cases which convinced the Commission that it was free to extend the tying rule to mandatory package licenses (Opinion at 12-13).

The *Automatic Radio* licenses granted manufacturers freedom from suit under any or all of some 570 patents and 200 applications (339 U.S. at 829), of which the dissent authored by Justice Douglas indicated that “at most 10” were used in the radios of the defendant licensee (339 U.S. at 838).

The dissent of Justice Douglas in *Automatic Radio* was predicated upon the notion that “the patent owner” had “used the patents to bludgeon his way into a partnership with this licensee [Automatic Radio] collecting royalties on unpatented as well as patented articles” (339 U.S. at 838). For that reason, Justice Douglas believed that the licensee estoppel doctrine should be abrogated because:

It is only right and just that the licensee be allowed to challenge the validity of the patents. A great pooling of patents is made; and whole industries are knit together . . . One who wants the use of one patent may have to take hundreds. The whole package may contain many patents that have been foisted on the public. No other person than the licensee will be interested enough to challenge them. He alone will be apt to see and understand the basis of their illegality.

The licensee protects the public interest in exposing invalid or expired patents and freeing the public of their toll. He should be allowed that privilege. He would be allowed it if were the public interest considered the dominant one. Ridding the public of stale or specious patents is one way of serving the end of the progress of science.

339 U.S. at 840 (citations omitted). For Justice Douglas, therefore, removal of the

estoppel impediment would be sufficient to cure the perceived problem of the coercively imposed package even when hundreds of patents had been licensed.

Irrespective of the views of Justice Douglas, the Court's rejection of the generalized *per se* proscription of the tying cases in *Automatic Radio* and its later abrogation of the doctrine of licensee estoppel in *Lear v. Adkins* do not necessarily require that every package license will pass muster under the rule of reason. Some such licenses, by the very weight of numbers of the "tied" or "nonessential" patents included, could represent a significant obstacle to a decision by a licensee to terminate royalty payments.²⁰ In determining whether to terminate any continuing obligation to pay royalties, the licensee must evaluate her own "economic incentive" against the prospect for litigation success in the fashion anticipated by Justice Harlan in *Lear v. Adkins* (395 U.S. at 670-71).

²⁰ Indeed, if the licenses at issue in *Automatic Radio* in 1950 were found "conditioned" or coercively imposed today, it is entirely possible that the licensed patents might be held unenforceable under the rule of reason. Under such hypothetical circumstances, and irrespective of the fact that the licensee estoppel doctrine no longer would represent a legal impediment to an action seeking declaratory judgments of invalidity and non-infringement, a court might conclude that a licensee nevertheless might find the practical prospect of initiating a declaratory challenge overly daunting.

B. Other Pre-Lear Package Licensing Cases

In *Brulotte*, the second of the three seminal Supreme Court package licensing cases, the licenses granted not the blanket freedom from suit reviewed in *Automatic Radio*, but the right to operate specific hop-picking machines of a known design. Justice Douglas, this time writing for the majority, found that only seven of the 12 licensed patents actually covered the hop-picking machines or their operation and those had all expired (379 U.S. at 30). Because “a projection of the patent monopoly after the patent expires is not enforceable” (379 U.S. at 32), Justice Douglas concluded that:

the judgment below must be reversed insofar as it allows royalties to be collected which accrued after the last of the patents incorporated into the machines had expired.

379 U.S. at 30.²¹

Automatic Radio was distinguished by Justice Douglas on the ground that, although “some of the patents under that license apparently had expired, the royalties claimed were not for a period when all of them had expired” (379 U.S. at 33). However, there is little logical difference between royalties continuing

²¹ Because the doctrine of licensee estoppel had not yet been overruled, and because the Court was “unable to conjecture what the bargaining position of the parties might have been”, Justice Douglas also held that the “patentee’s use of a royalty agreement that projects beyond the expiration date of the patent” was “unlawful *per se*” (379 U.S. at 32).

undiminished for the convenience of the parties before and after expiration of all patents in the package. If the parties agree to a lower royalty paid over a greater period of time, some of which happens to be post-expiration, how is the monopoly expanded or the public harmed – at least so long as the licensee is not precluded by estoppel from making the claim that the arrangement was “conditioned” rather than consensual.

Zenith v. Hazeltine, the last seminal Supreme Court package licensing case, was decided only a month before *Lear v. Adkins* and involved the same licenses that had been upheld 19 years earlier in *Automatic Radio*. This time the argument that the licenses had been “conditioned”, rejected in *Automatic Radio* for failure of “competent” affidavit proof under Rule 56 (339 U.S. at 831), was accepted by the Court (395 U.S. at 133-34).

To summarize the three seminal cases, the expansion of the tying rule endorsed by the Commission was explicitly rejected in *Automatic Radio*, and there is nothing in *Brulotte* or *Zenith v. Hazeltine* which suggests that the Supreme Court ever entertained the notion of departing from that result. Here the Court is asked to review a package where only a single “nonessential” patent will survive expiration of the “essential” patents – perhaps as far removed from the facts of *Automatic Radio* on the spectrum of presumptive reasonableness as it may be possible to

envision. However the Court may choose to make the rule of reason analysis, the logistics for mounting a challenge to a single patent manifestly are far different from those for challenging 570.

POINT III
ANY HINDSIGHT DETERMINATION THAT
A PACKAGED PATENT IS “UNNECESSARY”
SHOULD BE MADE BY CLEAR AND CONVINCING
EVIDENCE UNDER SOME NON-SUBJECTIVE CRITERION
SUCH AS THE “OBJECTIVELY BASELESS” TEST OF *PRE*

Finally, the Court should address what is perhaps the most egregious aspect of the Commission’s Opinion – its willingness to conclude, through the wisdom of hindsight and unfettered by any restrictive proof standard or objective guidance from this Court, that Philips had made a mistake many years previously when it concluded that the Iwasaki ‘149 patent should be included in the license.

A patent is presumed valid under 35 U.S.C. § 282 and the Commission has “adopted” as its own the ALJ’s determination that the six Philips patents at issue below are infringed and not invalid (Opinion at 4). Under such circumstances, this Court has observed that:

Conduct that requires forfeiture of all patent rights must be deliberate, and proved by clear and convincing evidence.

Scripps Clinic & Res. Found. v. Genentech, Inc., 927 F. 2d 1565, 1574 (Fed. Cir. 1991). The conduct of Philips here was neither.

Although *Scripps v. Genentech* involved an assertion of unenforceability for inequitable prosecution conduct, its logic applies equally to every defense of “unenforceability” under Section 282(1). Indeed, the monetary forfeiture that the Commission’s determination would wreak here if not reversed would be far greater, while the alleged conduct of Philips was to a certainty far less reprehensible than that considered in *Scripps v. Genentech*.

Philips’ joinder of a single patent found “nonessential” with the valid and infringed patents that the Commission concedes are “essential” must be sustained as presumptively lawful. When Philips created the package it had no idea whether or how some trier of fact might evaluate its determination of what patents were “essential” or “nonessential”, and it certainly could not anticipate that if an honest error were made its patents would be held unenforceable.

When attempting to articulate the standards that should control a similar hindsight determination in *PRE*, the Supreme Court concluded that the prior conduct would have to be proved “objectively baseless” before it could be proscribed (508 U.S. at 60). This Court is charged with a similar duty of setting forth a standard for the retroactive assessment of a presumptively innocent choice made many years ago.

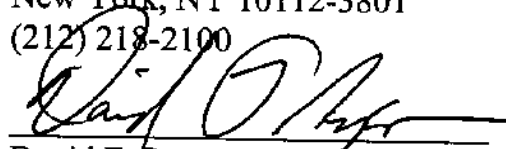
The Association respectfully suggests that the *PRE* standard might usefully be invoked as a template, in which case the standard might be established broadly along the following lines: whether, at the time the package was originally offered to the industry, a reasonable and skilled interpreter of patent claims would have found Philips' determination that the Iwasaki '149 patent was essential to practice the Orange Book standard "objectively baseless", in the sense that such a skilled person necessarily, inevitably and invariably would have concluded that the '149 patent was "not essential".

CONCLUSION

For all the foregoing reasons, the Court should reverse the Commission's judgment of unenforceability for *per se* misuse and remand the action for entry of an appropriate order under 19 U.S.C. § 1337(d).

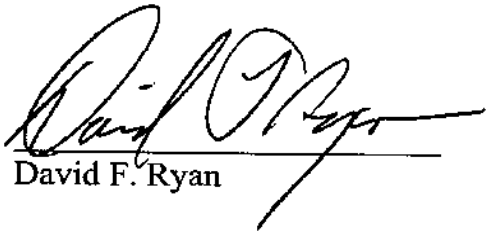
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**CERTIFICATE OF COMPLIANCE WITH FEDERAL RULES
OF APPELLATE PROCEDURE 29(d) AND 32(A)(7)**

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David F. Ryan