

04-1361

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

**NEW YORK INTELLECTUAL PROPERTY
LAW ASSOCIATION'S REPLY BRIEF
AS AMICUS CURIAE
IN SUPPORT OF APPELLANT U.S. PHILIPS**

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:

John D. Murnane, *President*
New York Intellectual Property
Law Association
Fitzpatrick, Cella, Harper & Scinto
30 Rockefeller Plaza
New York, NY 10112-3801
(212) 218-2100

David F. Ryan, *Counsel of Record*
Matthew S. Seidner
Joseph B. Divinagracia
Fitzpatrick, Cella, Harper & Scinto
30 Rockefeller Plaza
New York, NY 10112-3801
(212) 218-2100

Dated: November 18, 2004

David F. Ryan
Attorney for *Amicus Curiae*

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INTRODUCTION

The New York Intellectual Property Law Association (the “NYIPLA”) submits this reply brief *amicus curiae* to support the appeal of U.S. Philips Corporation (“Philips”), and to assist this Court in distilling and evaluating the controlling principles drawn from the decisions of this Court and the Supreme Court of the United States which mandate reversal of the judgment reflected in the public version of the Commission Opinion served April 8, 2004 (the “Opinion”).

As explained in its initial brief *amicus curiae* (NYIPLA Br. at 11), the NYIPLA supports Philips’ position that no rule of *per se* or presumptive misuse can be invoked to proscribe the packages of nonexclusive patent licenses that Philips offers, and respectfully submits that the judgment should be reversed and remanded in its entirety.¹

As set forth in the motion for leave submitted herewith, the responsive briefs of the appellee International Trade Commission (the “ITC” or the “Commission”) and intervenors in large measure simply ignore the dispositive NYIPLA arguments. To the extent the responsive briefs deal with those

¹ As also explained in the NYIPLA’s original *amicus curiae* filing (NYIPLA Br. at 11), the NYIPLA is unable to comment directly on the Opinion’s treatment of the rule of reason due to the extensive redactions appearing in the public version thereof.

arguments, moreover, they rely upon *obiter dicta* from (a) cases involving “ties” between patents and products,² (b) cases involving “ties” between more and less desirable copyrighted films,³ and (c) case law which deals neither with patents, or with any other form of intellectual property.⁴ The principles of the cited decisions simply cannot be extrapolated to the packages of nonexclusive patent licenses at issue on this appeal.

² The cases of this nature cited in the responsive briefs and the Opinion are *International Salt Co. v. United States*, 332 U.S. 392 (1947) (“*Int’l Salt*”); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (“*Morton Salt*”); and *IBM Corp. v. United States*, 298 U.S. 131 (1936) (“*IBM Punchcards*”).

³ The cases of this nature cited in the responsive briefs and the Opinion are *United States v. Loew’s, Inc.*, 371 U.S. 38 (1962) (“*Loew’s*”); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948) (“*Paramount*”).

⁴ The cases of this nature cited in the responsive briefs and the Opinion include *Verizon Communications, Inc. v. Law Office of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004) (“*Trinko*”); *State Oil Co. v. Khan*, 522 U.S. 3 (1997) (“*State Oil*”); *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992) (“*Eastman Kodak*”); *FTC v. Superior Court Trial Lawyers Ass’n*, 493 U.S. 411 (1990) (“*Superior Court Lawyers*”); *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985) (“*Aspen Skiing*”); *NCAA v. Bd. of Regents of the University of Oklahoma*, 468 U.S. 85 (1984) (“*Oklahoma Regents*”); *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984) (“*Jefferson Parish*”); *Arizona v. Maricopa County Medical Society*, 457 U.S. 332 (1982) (“*Maricopa County*”); *National Society of Prof’l Eng’rs v. United States*, 435 U.S. 679 (1978) (“*Professional Engineers*”); *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977) (“*GTE Sylvania*”); *N. Pac. Railway Co. v. United States*, 356 U.S. 1 (1958) (“*Northern Pacific*”); *Times-Picayune Publ’g Co. v. United States*, 345 U.S. 594 (1953) (“*Times-Picayune*”); and *Bd. of Trade of Chicago v. United States*, 246 U.S. 231 (1918) (“*Chicago Board of Trade*”).

Due primarily to the Constitutional dimensions of the patent grant, an extremely specialized jurisprudence controls the manner in which the competing policy considerations must be balanced at the interface between the patent and antitrust laws. The proper application of the “misuse” doctrine represents an important portion of this specialized jurisprudence.

Since its establishment in 1982, this Court frequently has interpreted its Congressional mandate to promote uniformity and predictability as extending to the patent-antitrust interface and, more specifically, to the misuse doctrine.⁵ There is nothing in *Holmes v. Vornado*⁶ which suggests that this mandate has been in any way circumscribed in cases such as this which arise under 28 U.S.C. § 1295(a)(6).

⁵ See, e.g., *Monsanto Co. v. McFarling*, 363 F.3d 1336 (Fed. Cir. 2004) (“*McFarling*”); *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998) (“*C.R. Bard*”); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997) (“*Virginia Panel*”); *Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736 (Fed. Cir. 1990) (“*Aerojet-General*”); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986) (“*Senza-Gel*”); and *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986) (“*Windsurfing*”).

⁶ *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002). Indeed, the interface decisions of this Court remain as “persuasive authority” even though no longer controlling in antitrust cases arising within the regional Circuits. *Telecom Technical Services, Inc. v. Rolm Co.*, No. 02-14131, WL 2360293, slip op. at 3 (11th Cir. Oct. 21, 2004).

OUTLINE OF ARGUMENT

Intervenors chide the NYIPLA for citing “none of the seminal Supreme Court cases on tying” (Int. Br. at 32, n.13), but this is **not** a tying case. Rather, it is a case which requires construction of a package of nonexclusive patent licenses whose legality is governed by entirely different cases, and involves different factual inquiries and different controlling legal principles. What intervenors and the ITC fail to recognize is that:

1. The Supreme Court has never found a patent unenforceable for misuse on a tying theory in a case involving anything other than an alleged tie of a patent to some physical product, commodity or article of commerce (*see* Point A of the Argument);

2. In *Automatic Radio*,⁷ the Supreme Court explicitly found that application of a product tying analysis to a package of nonexclusive patent licenses would represent a “contorted” approach (*see* Point B of the Argument);

3. Although counsel for the ITC now attempt to retract a fundamental concession explicitly made by the Commission in its opinion, the

⁷ *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950).

“block booking” cases of the Supreme Court provide no justification whatsoever for any such retraction (*see* Point C of the Argument);

4. In the three pre-*Lear*⁸ cases in which the Supreme Court considered packages of nonexclusive patent licenses,⁹ the rule of reason analysis examined the potential for a temporal expansion of the patent monopoly arising from licensee estoppel – and not from any subject matter expansion and consequent unreasonable foreclosure of competition in some allegedly tied market (*see* Point D of the Argument);

5. The two pre-*Lear* court of appeals package licensing decisions cited by the Commission are not controlling.¹⁰ Although they do make some unfocused references to “tying”, neither made any foreclosure analysis of the type necessary to sustain a product tying charge based upon expansion of the product monopoly under the rule of reason. To the contrary, both appellate courts limited

⁸ *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

⁹ In *Automatic Radio*, the package of nonexclusive patent licenses was sustained under the rule of reason. In *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) (“*Zenith v. Hazeltine*”), and *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) (“*Brulotte*”), the arrangements were proscribed under the same standard.

¹⁰ *Int’l Mfg. Co. v. Landon, Inc.*, 336 F.2d 723 (9th Cir. 1964) (“*Landon*”); *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769 (3d Cir. 1959) (“*Shatterproof Glass*”).

their findings to the temporal expansion arising from the “estoppel effect” to either support (as in *Shatterproof Glass*) or preclude (as in *Landon*) application of the Supreme Court’s *Automatic Radio* rule (see Point E of the Argument);

6. The paradigm shift of *Lear v. Adkins* effectively eradicated any potential justification for proscription of non-exclusive package licenses as *per se* misuse under the reasoning of *Automatic Radio* or its progeny¹¹ (see Point F of the Argument); and

7. Since there is no Supreme Court decision applying a *per se* rule of misuse to a license of the type at issue here, the Commission’s determination must be reversed under the rule of *Windsurfing* (see Point G of the Argument).

¹¹ As set forth in the NYIPLA’s initial submission (NYIPLA Br. at 25, n.20), a package of nonexclusive licenses still could run afoul of the prohibition against misuse under the rule of reason. The focus of such an inquiry, however, cannot rest upon some putative competitive foreclosure in an allegedly “tied” market. Rather, a rule of reason misuse finding necessarily would have to rest upon a factual determination that some estoppel effect persisted despite the rule of *Lear v. Adkins*. Manifestly, the ITC made no such finding.

ARGUMENT

A. The Supreme Court's Proscription Of Tying As *Per Se* Misuse Has Never Been Extended To "Ties" Between Nonexclusive Patent Licenses, But Rather Has Been Limited To "Ties" Involving Products

None of the Supreme Court patent tying cases cited in the Opinion or the responsive briefs involved anything other than a tied product -- salt in the case of *Int'l Salt* and *Morton Salt*, and punchcards in the case of *IBM Punchcards*.

The ITC appears to suggest that no Supreme Court authority is necessary in view of the "license to rights in another patent" language of 35 U.S.C. § 271(d)(5) (ITC Br. at 19). This argument is a red herring, since all the quoted language denotes is that the market power requirement for the misuse of tying also must be satisfied before enforcement of a patent can be denied on mandatory package licensing grounds as well. There is no suggestion in this language from Section 271(d)(5) that Congress either meant to enact a *per se* prohibition of package licenses or that it believed the Supreme Court already had done so.

Since the Supreme Court has never applied a tying theory to a package of nonexclusive patent licenses, there was no warrant for the ITC's application of principles drawn from either the Supreme Court non-patent tying

cases such as *Northern Pacific* or the tying cases from this Court such as *Senza-Gel*.

B. In *Automatic Radio* The Supreme Court Itself Explicitly Refused To Extend The *Per Se* Misuse Rule Of Product Tying To Non-Exclusive Package Licenses

Intervenors fail to even discuss the Supreme Court’s authoritative pre-*Lear* discussion of packages of nonexclusive patent licenses in *Automatic Radio*. The ITC purports to address the *Automatic Radio* argument set forth in Point II of the original NYIPLA submission (ITC Br. at 22-23), but its putative rebuttal is predicated upon a single isolated and misleading snippet from Justice Minton’s opinion.¹²

Moreover, the ITC completely ignores the Supreme Court’s conclusion in *Automatic Radio* that the principles of the “tie-in” cases – including those expressed in *Paramount* – “cannot be contorted to circumscribe the instant situation” (339 U.S. at 832-33) (*see* NYIPLA Br. at 23). A clearer statement that

¹² As discussed in more detail in Point D of this Argument, Justice Minton’s reference to “another and different license” in *Automatic Radio*’s discussion of *Paramount* must be read in context. 339 U.S. at 831. Whether or not some of the specific individual block booking arrangements at issue may have been characterized as copyright licenses by their progenitors, their effect was to compel exhibitors to accept and show “B” westerns if they hoped to show “Casablanca”. By way of contrast, the U.S. Philips licensees were never compelled to employ any “nonessential” licensed technology in preference to a substitute that the licensee might have judged more desirable.

the principles of the tying cases cannot be applied to the packages at issue here would be difficult to imagine.

C. The “Block Booking” Cases Provide No Support For Counsel’s Attempted Retraction Of A Fundamental Concession Made In The ITC’s Opinion

After implicitly recognizing that the critical portion of the *Windsurfing* decision controlled (Opinion at 12, n.9), the Commission explicitly and frankly conceded that:

We recognize that the particular facts in the patent misuse cases [of the Supreme Court] involve a tying patent and a tied *product*, rather than a tying patent and a tied *patent*.

Id. at 13 (emphasis in original).

Apparently recognizing that this frank concession mandates reversal under *Windsurfing*, counsel now suggests for the first time that:

The Supreme Court has *twice* held the practice of mandatory package licensing of intellectual property to be a tying arrangement that is illegal *per se*.

ITC Br. at 21 (emphasis in original) (citations omitted).¹³

Counsel attempts to ground the ITC’s about face upon two of the so-called “block booking” decisions of the Supreme Court – *Paramount* and

¹³ The ITC’s brief failed to inform this Court that its new stance represented an argument that had not been adopted by the Commission’s Opinion.

Loew's.¹⁴ Those cases, however, represent merely another species of product tying. Since the tied **films** in the block booking cases clearly represented actual **products** rather than mere non-exclusive copyright licenses, these decisions do nothing to undermine the correctness of the Commission's earlier admission.¹⁵

D. The Supreme Court's Pre-*Lear* Analyses Of Mandatory Package Licensing Were Predicted Upon Licensee Estoppel Rather Than Upon Competitive Foreclosure In Any "Tied" Market

In *Automatic Radio*, the package of non-exclusive licenses was characterized as "a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties" (339 U.S. at 833). This arrangement was sustained by the majority because "there is in this royalty provision no inherent extension of the monopoly of the patent" (339 U.S. at 834).

In *Brulotte*, however, royalties under a similar package of nonexclusive licenses were denied after expiration of the last patent actually used

¹⁴ Intervenors also cite *MCA T.V. Ltd. v. Public Interest Corp.*, 171 F.3d 1265, 1276-79 (11th Cir. 1999), which merely illustrates another analog of the block booking cases – television shows possess physical characteristics like films and the fact that they may be copyrighted does not suggest that they should be analyzed as tied licenses rather than tied products (Int. Br. at 33, n.13).

¹⁵ As a matter of *a priori* logic, of course, the fact that a product may be patented or copyrighted does not make it any the less a product.

in the licensed hop-picking machines. Manifestly, this post-expiration royalty obligation represented an “inherent [temporal] extension of the monopoly” within the rubric of *Automatic Radio*.

Finally, in *Zenith v. Hazeltine*, decided just before the licensee estoppel doctrine was abrogated in *Lear v. Adkins*, the same result was reached by virtue of a finding that the licensee had been compelled to pay royalties on unpatented products. Whether this holding is deemed to arise from a temporal or product expansion of the monopoly, it plainly cannot be invoked to protect former licensees who are currently infringing no less than 29 claims of six separate patents.

None of the three seminal pre-*Lear* Supreme Court decisions that considered packages of nonexclusive patent licenses either employed a tying analysis or even suggested that a finding of misuse could be predicated upon some competitive foreclosure in an economically meaningful tied market.

**E. *Neither Shatterproof Glass Nor Landon*
Can Affect The Appropriate Disposition Of This Appeal**

Intervenors simply ignore the unpalatable fact that, as pointed out in the NYIPLA’s initial submission (NYIPLA Br. at 13-16), the two pre-*Lear* package licensing decisions from the regional circuits cited in the Opinion both

involved temporal expansions of the monopoly. Instead, they accuse the NYIPLA of being “committed to promoting intellectual property rights against the *per se* rules in antitrust law” (Int. Br. at 32, n.13).¹⁶

The ITC’s response likewise provides no substantive argument to undermine the NYIPLA’s reading of *Landon*. As to *Shatterproof Glass*, the ITC bases its challenge solely upon the alleged fact that the passage in question “concerns an alternative ground for finding patent misuse and is not the part of the opinion upon which the ALJ relied” (ITC Br. at 28, n.16).¹⁷

F. The Paradigm Shift Of *Lear v. Adkins* Effectively Eradicated The Alleged Justification Employed By Some Lower Courts To Proscribe Non-Exclusive Package Licenses As *Per Se* Misuse

The ITC concedes that the licensee estoppel doctrine was abrogated in *Lear v. Adkins* (ITC Br. at 23, n.14), but neither responsive brief ever comes to grips with the effect of this development on the rule of *Automatic Radio* – that under the rule announced in *Lear v. Adkins*, any theoretical justification for *per se*

¹⁶ The actual statement was that the NYIPLA’s position here “accords with positions the NYIPLA previously has taken against **unwarranted** extensions of *per se* rules” at the intellectual property-antitrust interface (Motion at 4; emphasis supplied).

¹⁷ Moreover, neither responsive brief attempts to deal with the NYIPLA’s equally significant discussion of *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.*, 367 F.2d 678, 681 (6th Cir. 1966) (NYIPLA Br. at 16-17).

proscription of mandatory packages of nonexclusive patent licenses by the courts of appeals was effectively vitiated (*see* NYIPLA Br. at 18-22).

This does not mean that a court may not find misuse under the rule of reason based upon appropriate trial proofs sufficient to demonstrate some chilling effect on validity challenges which might arise from the package (*see* NYIPLA Br. at 25, n.20). Such proofs, of course, were not submitted below.

G. No Cogent Justification Has Been Advanced To Withhold Reversal As Mandated By The Settled Rule Of *Windsurfing*

With the exception of the ITC's belated and unavailing citation of the block booking cases (which must be analyzed as product ties), neither responsive brief even attempts to suggest that the Supreme Court ever proscribed packages of nonexclusive patent licenses as *per se* unlawful. Under those circumstances, reversal plainly is required under the rule of *Windsurfing*:

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 restrict competition unlawfully in an appropriately defined relevant market.

782 F.2d at 1001-02 (footnote omitted).

CONCLUSION

No matter how many times the ITC and intervenors may protest to the contrary, the Supreme Court has never held that a tying analysis can be applied to a package of nonexclusive patent licenses. *A fortiori*, the ITC and intervenors can point to no Supreme Court case holding that the patents licensed under such an arrangement are *per se* unenforceable for misuse.

Windsurfing therefore precludes application of a *per se* rule, and neither the product tying or block booking cases, nor the cases which do not deal at all with the intellectual property-antitrust interface, are relevant to the issue of whether the patents licensed by Philips are enforceable.

Respectfully submitted,

John D. Murnane, *President*
New York Intellectual Property
Law Association
Fitzpatrick, Cella, Harper & Scinto
30 Rockefeller Plaza
New York, NY 10112-3801
(212) 218-2100

David F. Ryan, *Counsel of Record*
Matthew S. Seidner
Joseph B. Divinagracia
Fitzpatrick, Cella, Harper & Scinto
30 Rockefeller Plaza
New York, NY 10112-3801
(212) 218-2100

Dated: November 18, 2004

David F. Ryan
Attorney for *Amicus Curiae*

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

I hereby certify that this brief was produced using Times New Roman 14 point typeface and contains 3,180 words, not including the certificate of interest, table of contents and table of authorities.

David F. Ryan
Attorney for *Amicus Curiae*

PROOF OF SERVICE

The undersigned hereby certifies that two copies of the foregoing
**REPLY BRIEF OF *AMICUS CURIAE* NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION IN SUPPORT OF APPELLANT** and one
copy of the foregoing **ENTRY OF APPEARANCE OF JOSEPH B.**

DIVINAGRACIA, have been sent federal express to:

Attorneys for Appellant:

A. Douglas Melamed
William J. Kolasky
Edward C. DuMont
Jonathan G. Cedarbaum
Barbara R. Blank
Wilmer Cutler Pickering
Hale and Door LLP
2445 M Street, N.W.
Washington, D.C. 20037

Attorneys for Intervenors:

Alan D. Smith
Tina M. Chappell
Fish & Richardson P.C.
225 Franklin Street
Boston, MA 02110-2804

Attorneys for Appellee:

Wayne Herrington
Clara Kuehn
Office of the General Counsel
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

Attorneys for *Amicus Curiae* IPO:

John DeQ. Briggs
Howrey Simon Arnold & White LLP
1299 Pennsylvania Ave., N.W.
Washington, D.C. 20004

on this 18th day of November, 2004

Joseph B. Divinagracia