

**United States Court of Appeals
for the Federal Circuit**

PRINCO CORPORATION and PRINCO AMERICA CORPORATION,
Appellants,

v.

INTERNATIONAL TRADE COMMISSION,
Appellee,

and

U.S. PHILIPS CORPORATION,
Intervenor.

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

**BRIEF OF *AMICUS CURIAE* INTELLECTUAL PROPERTY
OWNERS ASSOCIATION ON *EN BANC* REHEARING IN
SUPPORT OF INTERVENOR U.S. PHILIPS**

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Princo Corp. and Princo America Corp. v. ITC and U.S. Philips Corp.

2007-1386

CERTIFICATE OF INTEREST

Counsel for the *Amicus Curiae* Intellectual Property Owners Association certifies the following:

1. The full names of every party or amicus represented by me is:
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2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is: **NONE**
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of *amicus curiae* represented by me are: **NONE**
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Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting* (“prices can be well above monopoly levels if multiple firms have critical patents, all of which read on a single product”) in 1 Adam B. Jaffe *et al.*, *Innovation Policy and the Economy* 119, 149 (Nat’l Bur. of Econ. Res. 2002).24

United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (1995)23

Pursuant to Fed. R. App. P. 29(a) and Rule 29(a) of this Circuit, Intellectual Property Owners Association (“IPO”) files this brief *amicus curiae* to address some important policy implications of the panel majority decision in *Princo Corp., et. al. v. Int’l Trade Comm’n and U.S. Philips Corp.*, 563 F.3d 1301 (Fed. Cir. 2009) (“*Princo II*”), and to urge affirmance of the ITC’s General Exclusion Order. Princo Corporation and U.S. Philips Corporation have consented to the filing of this brief. U.S. International Trade Commission has not responded to a request for consent.

INTEREST OF AMICUS CURIAE

Amicus curiae IPO is a non-profit, tax-exempt, national organization of over 200 companies and more than 11,000 individuals involved through their companies or as inventor, author, executive, law firm or attorney members. Founded in 1972, IPO represents the interests of all owners of intellectual property as well as a broad range of interests in such ownership, including manufacturers, parties to licenses and similar agreements, and those generally interested in patents, trademarks, copyrights and trade secrets. The members of IPO’s Board of Directors, which

approved the filing of this brief, are listed in the appendix.¹ The association adheres to a policy of submitting *amicus* briefs on significant issues affecting the value of ownership that attaches to an intellectual property right or the ability of owners of intellectual property rights to obtain redress effectively and efficiently for infringement or threatened infringement of those rights.

INTRODUCTION

Preliminarily, we urge the Court to keep clearly in mind how the ultimate decision in this case is likely to be understood by the thousands of companies that rely on the strength and integrity of their patents to justify decisions to invest in developing new products. The technology at issue here represents a significant advance over previous methods of recording music and data, an advance achieved only through large investments of money and effort by Philips, Sony and others, and despite the ever-present risk of technological obsolescence that could materialize at any moment and without notice. CD-RW technology has proven to be extremely successful and has achieved widespread industrial and residential usage worldwide, but that fact should not be allowed, in retrospect, to obscure the risks that were willingly accepted by the developers at the outset and that overhang

¹ Intervenor Philips' parent corporation, Koninklijke Philips Electronics N.V., is a corporate member represented on IPO's Board of Directors. Neither the parent nor Philips took part in the decision of IPO to submit this *amicus* brief and neither participated in the preparation of this brief.

every significant commitment of resources to the creation of new products by any company, large or small.

The patents protecting the CD-RW technology are strong ones and exemplify the purpose and operation of the U.S. patent system. Any issues that ever existed as to the validity or infringement of such patents have been resolved. Nearly 100 companies have taken licenses from the CD-RW pool and dozens of these companies have participated in the making and selling of products that implement the technology. Appellants, by contrast, have chosen to infringe the CD-RW patents for nearly a decade, holding out for the possibility that one of the contributors to the pool possibly did something that might allow Appellants to avoid any reckoning for the infringement. Such an unearned windfall for infringers is not, we submit, how the patent system should be allowed to operate.

SUMMARY OF ARGUMENT

We have focused this brief on two primary points. First, even if Appellants could prove an unlawful agreement between Sony and Philips to suppress competition, the patent misuse doctrine is not the proper way to redress it. The misuse defense to an action for patent infringement can effectively eviscerate the economic value of a patent. Consequently, this defense has been allowed – without exception so far as we are aware – only in situations where the patent

owner has used the exclusionary power of the particular patent-in-suit to impose license or sales restrictions not falling within the terms of the patent grant, including the issued claims.² The accepted legal definition of misuse is an impermissible broadening of “the ‘physical or temporal scope’ of the patent grant with anticompetitive effect.” *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986).

That is not the situation in this case. Neither the panel majority nor Appellants have even tried to show how the exclusionary power of the Philips patents on which the ITC based its findings of infringement was used improperly or had anything whatsoever to do with conduct by Sony. Irrespective of whether

² See, e.g., *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1341 (Fed. Cir. 2004) (“The policy of the patent misuse doctrine is ‘to prevent a patentee from using the patent to obtain market benefit beyond that which inures in the statutory patent right’ Therefore, in evaluating a patent-misuse defense, ‘[t]he key inquiry is whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect.’”) (citations omitted).

And, as noted by the Sixth Circuit in *Kolene Corp. v. Motor City Metal Treating, Inc.*, 440 F.2d 77, 84 (6th Cir. 1971):

We know of no authority suggesting that there can be a defense to a patent infringement suit based on ‘misuse in the air.’ ... The misuse must be of the patent-in-suit An antitrust offense does not necessarily amount to misuse merely because it involves patented products or products which are the subject of a patented process. (citations omitted).

there may have been some kind of side agreement between Philips and Sony, without a showing that it was brought about through the coercive exercise of the exclusionary power of the Philips patents, *i.e.*, a broadening of their physical or temporal scope with anticompetitive effect, the misuse doctrine cannot apply. We believe it would be unwise for this Court to expand the misuse doctrine to address conduct to which it has not been applied before.

The equitable defense of “patent misuse” originated in an era before antitrust law began to embrace sound economics and consumer welfare as its primary points of reference. Over the last three decades, the Supreme Court has come to recognize that providing powerful antitrust remedies based on poorly understood business practices is as likely to injure competition as to foster it.³ Although the Supreme Court has never overruled the line of cases that created the misuse

³ See, *e.g.*, *Leegin Creative Leather Prods. v. PSKS, Inc.*, 551 U.S. 877, 895 (2007) (observing that *per se* rules “increase the total cost of the antitrust system by prohibiting procompetitive conduct the antitrust laws should encourage.”); *Nynex Corp. v. Discon, Inc.*, 525 U.S. 128, 137 (1998) (“business morality” should not be the basis for categorical antitrust liability); *United States v. U.S. Gypsum Co.*, 438 U.S. 422, 441-42 (1978) (noting that overly severe antitrust penalties can chill legitimate and procompetitive business behavior).

doctrine, neither has the Court shown any inclination in recent years to expand it.⁴ This is understandable, because the doctrine itself is inherently unprincipled, at least to the extent that it penalizes conduct that offends the general spirit of the antitrust laws without actually violating any law.⁵

This Court has applied the patent misuse doctrine when the challenged practice was similar to those historically found by the Supreme Court to be misuse, but this Court has not been willing to expand the doctrine to other situations without a clear showing of anticompetitive effects arising from use of the patent-

⁴ In *Dawson Chemical Company v. Rohm & Haas Company*, 448 U.S. 176 (1980), for example, the Supreme Court held that it was not patent misuse to require users of a patented process for controlling weeds in a rice field to purchase unpatented herbicide from the patent owner, where the herbicide had no substantial noninfringing uses. In so holding, the Court rejected the rote application of the “extension of monopoly” abstraction, noting the need for striking a balance between principles of competition and the objectives of the patent system:

The policy of free competition runs deep in our law. It underlies both the doctrine of patent misuse and the general principle that the boundary of a patent monopoly is to be limited by the literal scope of the patent claims. But the policy of stimulating invention that underlies the entire patent system runs no less deep. *Id.* at 221.

⁵ See, e.g., *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 510 (7th Cir. 1982) (“The doctrine of patent misuse has been described as an equitable concept designed to prevent a patent owner from using the patent in a manner contrary to public policy This is too vague a formulation to be useful; taken seriously it would put all patent rights at hazard”) (Posner, J.).

in-suit.⁶ To apply the doctrine based upon Appellants' allegations here, as the panel majority seems willing to do, would be a novel application of the misuse doctrine.

We have found no cases in which the patent misuse doctrine has ever been applied to a situation similar or even analogous to the one before this Court, where the infringer contended that an unlawful side agreement between two of the parties to a patent pool should disable enforcement of patents owned by the pool itself. It is difficult to see how vague assertions of an antitrust conspiracy advanced by Appellants can be linked to an impermissible broadening of the physical or temporal scope of the specific Philips patents-in-suit. It is equally difficult to see how the exclusionary power of those patents could have been used by Philips to compel Sony to do anything. Individual patents were included in the pool because they were deemed essential by the pool managers for practicing the CD-RW standard, and that included the Philips patents-in-suit. *Princo II*, 563 F.3d at 1305. Licenses were available to all who wanted them, and apart from the obligation to pay royalties, use of the patents for Orange Book-compliant products was not restricted. *U.S. Philips Corp. v. ITC*, 424 F.3d 1179, 1190 (Fed. Cir. 2005)

⁶ See, e.g., *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1373 (Fed. Cir. 1998) (“Although the law should not condone wrongful commercial activity, the body of misuse law and precedent need not be enlarged into an open-ended pitfall for patent-supported commerce”).

(“*Princo I*”). Neither Appellants nor the panel majority point to anything in the licensing of the patents-in-suit that even vaguely resembles patent misuse.

Second, we believe that if the Court were to extend the misuse doctrine to cover the situation alleged by Appellants, the ruling would have a negative impact on the willingness of companies to participate in standard setting at all. Part I of the panel decision recognized that inclusion of Sony’s Lagadec patent within the Orange Book standard was a reasonable and procompetitive act. The panel unanimously held that the breadth of Claim 6 made it desirable to include the Lagadec patent within the CD-RW pool. *Princo II*, 563 F.3d at 1311-12. The panel also recognized that creation of the Orange Book, in order to define a standard that would enable competing manufacturers to create discs and devices that would operate compatibly, required the selection of **either** the analog ATIP designed by Philips **or** the digital technology designed by Sony for position tracking. “[T]here is no dispute that a disc made using one technological approach would not work in [a] CD recorder designed to read position data using the other.” *Id.* at 1306. Thus, there was no way that users of the standard could be offered a choice as to which approach they preferred. To arrive at the Orange Book as an industry standard, there had to be an “agreement” between Sony and Philips to employ one of the two alternative technologies, and they chose Philips’ Raaymakers over Sony’s Lagadec.

Given these settled facts, which are now incontestable, there are strong policy reasons for not inquiring further, under the banner of “misuse,” into the agreement between Sony and Philips to adopt ATIP as the position tracking technology for the Orange Book standard. Confronted with such an “either/or” choice in connection with the development of a standard, participants collectively must reach agreement on which one to select. Only by making such a choice can a workable standard emerge in the marketplace. To subject this type of decision to post hoc accusations of conspiratorial wrongdoing, to be adjudicated as patent misuse in an enforcement proceeding, would unnecessarily discourage participation by patent owners in all standard setting activities. Standard setting already carries significant risks to the integrity of the intellectual property of the companies that choose to participate, and standard setting participants are already justifiably concerned about the application of antitrust principles to their activities. These concerns should not be exacerbated by the added specter of patent misuse.

Notably, the misuse doctrine is not the only form of relief available to one actually injured by anticompetitive conspiracies. Powerful remedies are available under the antitrust laws to redress any legitimate claim of injury arising from an unlawful agreement between Sony and Philips to suppress the competition presented by new technology. Thus, if Appellants are able to show that Sony’s digital technology was truly a viable alternative to ATIP, that an agreement was

entered into between Sony and Philips to suppress non-Orange Book competition from that technology, and that Appellants were injured by that agreement, Section 4 of the Clayton Act mandates treble damages, costs and lawyer fees. For nearly a century, Section 4 has provided a demonstrably strong incentive for injured parties to pursue recompense for such conduct.

ARGUMENT

I. The Misuse Doctrine Does Not Provide Redress for the Conspiratorial Conduct Alleged by Appellants.

Assuming for the sake of argument that Appellants' allegations of an unlawful agreement between Philips and Sony to suppress the competitive development of the Lagadec technology could be supported by substantial evidence, the doctrine of patent misuse should not be used to address it. This Court has consistently defined patent misuse as requiring a showing by the accused infringer "that the patentee has impermissibly broadened the 'physical or temporal scope' of the patent grant with anticompetitive effect." *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986). Neither Appellants nor the panel majority in Parts II and III of the *Princo II* opinion has even tried to show how inclusion of the Lagadec patent in the Orange Book pool (or any other aspect of the relationship between Sony and Philips for that matter) has "broadened the physical

or temporal scope” of the Philips patents that form the basis for the Exclusion Order.⁷ The scope of the Philips patents has nothing to do with the inclusion of Lagadec in the pool. The patents included in the pool were selected solely based on their claims and the corollary determination that each is essential for implementing the Orange Book standard. Thus, irrespective of whether there might have been an illegal side agreement between Philips and Sony, for this Court now to hold that such conduct constituted “misuse” of the Philips patents would result in an unprecedented expansion of the misuse doctrine beyond its historically recognized application by the Supreme Court and by this Court.

A. Application of the misuse doctrine in this context is not supported by the doctrine’s historical role.

The patent misuse doctrine began as a judicial response to situations in which patent owners and their licensees based claims of contributory infringement on the sale of unpatented goods by competitors. Thus, in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502 (1917), the patent owner sold movie projectors with a patented mechanism for feeding film through the projector. Each projector included a label license requiring that the projector be

⁷ Nor do Appellants or the panel majority show any lessening of competition resulting from any effort to broaden the claims of the patents-in-suit, but the Court need not reach that issue. The absence of any “broadening” in and of itself ends the misuse inquiry.

used only with film purchased from the licensee. In a lawsuit charging as contributory infringement the sale and use of film from other sources, the Supreme Court held that the licensee was not allowed to condition the sale of its patented machines upon an agreement that they be used only with its own films, since those films were not part of the patented mechanism and were not themselves patented. *Id.* at 508.

Based in major part upon the then recently enacted Clayton Act (15 U.S.C. §§ 12-27), the Court declared the license restriction to be “plainly void.” *Motion Picture*, 243 U.S. at 519. The ruling focused on conduct by the patent owner that the Court perceived to be overreaching in view of the exclusionary scope of the very patent it was trying to enforce.

In *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27 (1931), the patent at issue covered a double walled cardboard box designed to hold dry ice as a refrigerant for the transportation of food. The patent was licensed to a company that sold dry ice. The patent owner and licensee charged Carbice Corporation with contributory infringement based on its sale of dry ice with “knowledge that the [dry ice] is to be used by the purchaser in transportation packages like those described in the patent.” *Id.* at 30. A unanimous Supreme Court held that the patent owner could not, as a “condition of a license [require] that unpatented materials used in connection with the invention [] be purchased

only from the licensor.” *Id.* at 31. Further, the Court held that “if it does so, relief against one who supplies such unpatented materials will be denied.” *Id.*

As with *Motion Picture*, the ruling in *Carbice* resulted from the fact that the patent owner used the very patent it was trying to enforce to control products not covered by the claims of that patent:

Control over the supply of such unpatented material is beyond the scope of the patentee’s monopoly ... the attempt to **use the patent** [sued upon] unreasonably to restrain commerce is not only beyond the scope of the grant, but also a direct violation of the Anti-Trust Acts. *Id.* at 33, 34 & n.4 (emphasis supplied).⁸

Both *Motion Picture* and *Carbice* involved only contributory infringement claims leveled against sellers of unpatented staple products. As a result, the full scope of the misuse doctrine was not entirely clear until the Court decided *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942). There, the owner of a patent on a machine used in the canning industry for adding salt to the contents of canned

⁸ In *Leitch Manufacturing Co. v. Barber Co.*, 302 U.S. 458 (1938), the Court made clear that the misuse doctrine also applied to efforts to tie the use of a patented process to the purchase of unpatented materials used in the process. “[T]he suit could not be maintained, even if the patent were valid, because to do so would give a limited monopoly of an unpatented staple article of commerce.” *Id.* at 460.

foods leased its machines to commercial canners on condition that they use salt tablets purchased from the patent owner. *Id.* at 490. The patent owner sued Morton Salt for making and leasing machines that allegedly infringed its patent.⁹ *Id.* The Supreme Court, based on its rulings in *Carbice* and *Leitch*, held that the patent was not enforceable. “[M]aking use of its patent monopoly to restrain competition in the marketing of unpatented articles, salt tablets, for use with the patented machines” was improper. *Id.* at 491. Such conduct, said the Court, was a species of unclean hands and “may deprive the patentee of the aid of a court of equity to restrain an alleged infringement by one who is a competitor.” *Id.* at 492.¹⁰

Morton Salt, Carbice, Leitch and *Motion Picture* form the foundation of the misuse doctrine. All involved situations in which it was the patent-in-suit that provided the instrument for affecting commerce beyond its own scope. The

⁹ There is no “standing” requirement for misuse. The alleged infringer, Morton Salt, also happened to make and sell salt tablets, but the Court stated that “nothing turns on the fact that petitioner also competes with respondent in the sale of the tablets, and we may assume for purposes of this case that petitioner is doing no more than making and leasing the alleged infringing machines.” *Morton Salt*, 314 U.S. at 491. In short, it did not matter whether the infringer was affected by the conduct or even knew about it. Patent misuse was based solely on conduct by the patent owner.

Supreme Court has never suggested that the misuse doctrine has the broader scope that the panel majority erroneously assumed.¹¹

Numerous subsequent cases in the lower courts have applied the patent misuse doctrine to a variety of situations in which either a patent license or the sale of patented goods was accompanied by contractual restrictions requiring the licensee or purchaser to engage in or refrain from conduct specified by the patent owner, but all such cases involved use of the patents sought to be enforced to

¹⁰ Because the denial of relief was based on conduct contrary to patent policy and principles of equity, the Court found it unnecessary to examine whether the challenged conduct would also violate the antitrust laws. *Morton Salt*, 314 U.S. at 494.

¹¹ *E.g.*, *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969) (“just as the patent’s leverage may not be used to extract from the licensee a commitment to purchase ... other products according to the desires of the patentee, neither can that leverage be used to garner as royalties a percentage share of the licensee’s receipts from sales of other products; in either case, the patentee seeks to extend the monopoly of his patent to derive a benefit not attributable to use of the patent’s teachings”); *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964) (holding that leveraging the patent monopoly “to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tying [sic] the sale or use of the patented article to the purchase or use of unpatented ones”); *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 833 (1950) (concluding that “[t]his royalty provision does not create another monopoly; it creates no restraint of competition beyond the legitimate grant of the patent”).

control commerce beyond their own scope.¹² We are unaware of any misuse case wherein a court refused to enforce a patent based on conduct that did not involve this sort of overreaching with respect to the patent that was being enforced.

Indeed, a number of decisions have emphasized that for misuse to be a viable defense, it must be of the patent-in-suit.¹³

¹² See, e.g., *Stearns v. Tinker & Razor*, 252 F.2d 589, 603-04 (9th Cir. 1957) (patent misuse affirmed based on leasing and sales practices involving patented product); *Ansul Co. v. Uniroyal*, 448 F.2d 872, 879-80 (2d Cir. 1971) (patent misuse affirmed where patentee used “annual sales contracts” to enforce territory restrictions and “suggested” retail prices for the patented product); *Baldwin-Lima-Hamilton v. Tatnall Measuring Systems Co.*, 169 F.Supp. 1, 30-31 (E.D. Pa. 1958), *aff’d in part and rev’d in part*, 268 F.2d 395 (3d Cir. 1959) (patent misuse affirmed arising from patentee’s contractual requirement that the patented product could only be used by licensees and purchasers in a product that was itself purchased from patentee).

¹³ See, e.g., *Morton Salt*, 314 U.S. at 492-93; *Kolene Corp.*, 440 F.2d at 84 (“The misuse must be of the patent-in-suit.”); *McCullough Tool Co. v. Well Surveys, Inc.*, 395 F.2d 230, 238-39 (10th Cir. 1968) (“This principle has been applied in patent cases by allowing the defense of patent misuse only where there had been a misuse of the patent-in-suit”); *Republic Molding Corp. v. B. W. Photo Utils.*, 319 F.2d 347, 349 (9th Cir. 1963) (“misconduct in the abstract unrelated to the claim against which it is asserted as a defense, does not constitute unclean hands”); *Sperry Prods. v. Aluminum Co. of Am.*, 171 F. Supp. 901, 940 (N.D. Ohio 1959) (“the defense of misuse is available only where there has been a misuse of the patents-in-suit”); *Carter-Wallace, Inc. v. United States*, 449 F.2d 1374, 1385-86 (Ct. Cl. 1971) (agreements relating to foreign patents do not render U.S. patents unenforceable); *Hazeltine Research, Inc. v. Automatic Radio Mfg. Co.*, 77 F.Supp. 493, 498 (D.Mass. 1948) (“[a]n antitrust offense does not necessarily amount to misuse merely because it involves patented products or products which are the subject of a patented process”).

B. Appellants' view of the misuse doctrine would conflict with this Court's precedent.

Despite a great deal of economic evidence and commentary by legal scholars and academics that the misuse doctrine is anachronistic, this Court has nevertheless treated prior Supreme Court precedent as binding unless it understood the Supreme Court or Congress to have instructed otherwise. Thus, in *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986), this Court found misuse arising from the patent owner's policy of refusing to license the process of the patent-in-suit separate and apart from a machine used in this process, thus making it economically unfeasible to use the process with a different machine:

Commentators and courts have questioned the rationale appearing in Supreme Court opinions dealing with misuse in view of recent economic theory and Supreme Court decisions in non-misuse contexts. [Citation omitted.] We are bound, however, to adhere to existing Supreme

CourtGuidance in the area until otherwise directed by Congress or by the Supreme Court. *Id.* at 665 n.5.¹⁴

Notwithstanding its willingness to apply the misuse doctrine in a proper case this Court has steadfastly limited application of the doctrine to conduct that has been shown to broaden the physical or temporal scope of the patent-in-suit with anticompetitive effect. *See, e.g., Windsurfing*, 782 F.2d at 1002 (no misuse because, “[a] provision in a patent license agreement requiring the licensee to acknowledge the validity of registered trademarks, and to avoid their use, cannot possibly restrain competition unlawfully”); *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1343 (Fed. Cir. 2004) (no misuse “because ... restrictions in the Technology Agreement prohibiting the replanting of the ... soybeans do not extend Monsanto’s rights under the patent statute”); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997)

¹⁴ At least one other court has expressed frustration with the older misuse precedents. In *Scheiber v. Dolby Laboratories*, 293 F. 3d 1014 (7th Cir. 2002), the Seventh Circuit held that post-expiration royalties were uncollectible, even though two competent parties at arms-length had agreed otherwise. In a strongly worded opinion, Judge Posner was critical of the antitrust rationale behind an earlier Supreme Court misuse case, *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which the Seventh Circuit regarded as controlling precedent. The court concluded reluctantly that it was required to deny recovery of the contractual royalties, even though the court regarded the rationale for *Brulotte* as “economic nonsense, imputing systematic irrationality to businessmen.” *Id.* at 1020. Despite Judge Posner’s plea that it consider the case, the Supreme Court declined the opportunity to do so.

(“VP’s practices did not constitute patent misuse because they did not broaden the scope of its patent, either in terms of covered subject matter or temporally”). By anchoring the doctrine to the requirement of an impermissible broadening of patent scope, this Court’s definition of patent misuse comports entirely with Supreme Court precedent.

There is much precedent in this Court for adhering to a narrow definition of patent misuse, as first articulated in *Windsurfing*, and for refusing to expand it as Appellants here ask this Court to do. The Court recognized in *Virginia Panel* that application of the misuse doctrine “has largely been confined to a handful of specific practices by which the patentee seemed to be trying to ‘extend’ his patent grant beyond its statutory limits.” 133 F.3d at 868. Subsequently, in *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1373 (Fed. Cir. 1998), the Court observed that “[a]lthough the defense of patent misuse ... evolved to protect against ‘wrongful’ use of patents, the catalog of practices labeled ‘patent misuse’ does not include a general notion of ‘wrongful’ use.” This Court has been properly concerned with the danger of turning the enormously powerful misuse doctrine into a panacea for all wrongful commercial behavior, as long as patents were somehow involved. *Id.* (“Although the law should not condone wrongful commercial activity, the body of misuse law and precedent need not be enlarged into an open-ended pitfall for patent-supported commerce”).

C. The panel majority did not link any side agreement involving Lagadec to an impermissible expansion or broadening of Philips' patents.

In Part II of *Princo II*, the panel majority noted “[t]he very thrust of Princo’s misuse argument is that the alleged agreement to offer Lagadec only through the joint licenses harms competition *because* Lagadec is non-Orange Book technology and could have been a competitive alternative to Orange Book technology.”

Princo II, 563 F.3d at 1316-17. This statement is difficult to reconcile with the unanimous panel decision in Part I, which found that Lagadec was “essential” to the Orange Book standard. *Id.* at 1311-12. Irrespective of whether Lagadec might have supplied a technological alternative to the Orange Book under other circumstances, the patent clearly was included in the Orange Book pool because one of its claims was deemed sufficiently broad to cover products implementing the Orange Book standard. *Id.*

It may be true, as the panel majority states, that an agreement “preventing patent licensing of competing technologies” would constitute a “classic antitrust violation,” but that does not mean the conduct would also constitute misuse of the Philips patents-in-suit. *Princo II*, 563 F.3d at 1315. Wholly absent from the panel’s analysis is any effort to show how such an unlawful agreement relates to a

physical or temporal broadening of the claims that are infringed.¹⁵ Suppression of Lagadec as competing non-Orange Book technology does not impermissibly broaden the physical or temporal scope of Philips’ patents. The scope of those patents is defined by their respective claims and they are included in the Orange Book pool because of that. The panel majority acknowledged that “[t]he Raaymakers patents are undeniably essential to the manufacture of Orange Book compliant discs” and “Princo now admits that its products are within the scope of Philips’s patents.” *Id.* at 1304, 1305. Neither of these findings is linked in any way to an alleged agreement involving Lagadec.

In summary, Appellants’ misuse theory misses its mark. Instead of challenging the lawfulness of Philips’ use of the patents-in-suit, Appellants appear to be questioning the lawfulness of the Orange Book standard itself. That question, however weighty and substantial, is a matter for the antitrust laws to redress, not the misuse doctrine. As noted in *Bard*, 157 F.3d at 1373, “the body of misuse law

¹⁵ At the outset of its opinion, the panel describes Appellants’ misuse arguments on remand as “relating to one particular pool patent, Sony’s U.S. Patent No. 4,942,565 (the ‘Lagadec patent’ or ‘565 Patent’)[.]” *Princo II*, 563 F.3d at 1305. An alleged misuse of Lagadec, however, does not and cannot yield the desired relief, because it is not Lagadec that is being enforced against Respondents. The only way for an alleged misuse of Lagadec to provide any relief to Respondents would be for the Court to hold, without any precedent, that misuse of one patent in the pool renders other patents in the same pool unenforceable.

and precedent need not be enlarged into an open-ended pitfall for patent-supported commerce.”

II. Expansion of the Misuse Doctrine As Appellants Urge Will Discourage Participation in Standard Setting.

A. Standard setting and the use of patent pools are procompetitive and should be encouraged.

The unanimous panel for Part I was correct in its underlying determination that standard setting and patent pools can and often do serve a highly useful and procompetitive purpose in a number of ways. *Princo II*, 563 F.3d at 1198. The Orange Book standard is but one of many interoperability standards prevalent in the modern world of information technologies. A close look at the vast array of optical, electronic and software products available today reveals a remarkably complex fabric of interconnected computers, cameras, printers, telephones and other wireless devices, and numerous peripheral components, all of which must communicate with one or more other components for these various systems to interoperate. Without precisely defined interfaces on both sides of each such interconnection, these industries would resemble a tower of Babel, with little or no cross-utility among products and many proprietary stand-alone systems. Equally significant for purposes here is that the need to define such interfaces is growing rapidly, as ever increasing numbers of products develop the capability to compete

with what previously were unrelated devices.¹⁶ Given this economic environment, the creation of standards comparable to the Orange Book is not only procompetitive, it is essential for the preservation of competition. Interoperability increases consumer welfare by increasing the number of consumer choices that are available and thus lowering the costs of the products.¹⁷ Sound antitrust and patent policy must accommodate this growing need.

Patent pools are also procompetitive and desirable, because they reduce the transaction costs of trying to license multiple patents that may be necessary for making complex products. Both the courts and the antitrust enforcement agencies have recognized the inherently procompetitive nature of patent pools. As noted in Part 5.5 of the Antitrust Guidelines for the Licensing of Intellectual Property, issued jointly by the United States Department of Justice and Federal Trade Commission in 1995 (“Guidelines”):

¹⁶ Exemplary is the mobile telephone that has evolved in recent years from being merely a telephone to being a small computer with telephone capability, a camera, internet access and significant processing capabilities. Similar examples abound.

¹⁷ This principle is well established and accepted by the enforcement agencies. *E.g.*, Report of the FTC Staff, *Competition Policy in the New High-Tech, Global Marketplace*, Ch. 9 (“Networks and Standards”), May 1996.

Cross-licensing and pooling arrangements . . . may provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation.

See also Princo I, 424 F.3d at 1192-93.

One of the primary benefits of package licensing is that it often lowers the overall price of a license compared to what individual licenses might cost. Quite apart from the higher transaction costs associated with individual licensing, which themselves can be significant,¹⁸ where multiple companies have essential patents, they may set royalties that in the aggregate exceed what a monopolist would charge for the same patents.¹⁹

¹⁸ In *Broadcast Music Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1, 24 (1979), the Supreme Court held that a package license to a large number of competing copyrights at a single price was not unlawful under Section 1 or Section 2 of the Sherman Act, in major part because the license obviated the inconvenience and transaction costs that would have been associated with trying to license the same number of transactions individually.

¹⁹ *See*, Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting* ("prices can be well above monopoly levels if multiple firms have critical patents, all of which read on a single product") in 1 Adam B. Jaffe *et al.*, *Innovation Policy and the Economy* 119, 149 (Nat'l Bur. of Econ. Res. 2002).

B. There are always agreements reached during standard setting that select one design over another.

By ordering remand to consider the issues raised in Parts II and III of the opinion, the panel majority necessarily subscribes to a view of the misuse doctrine that is far broader than the precedential support for the doctrine. The remand order can be sustained only if this *en banc* Court were to expand the doctrine to cover situations the doctrine has not addressed before. Such an expansion, we believe, would have a seriously adverse effect on patent enforcement generally and on standard setting activities in particular.

Inherent in the establishment of standards of any kind is that the participants must make choices. The reason we need standards in the first place is that multiple paths often exist to accomplish the same functionality or operation in the design of products and systems. Virtually every aspect of a complex interface must be designed in considerable detail for these systems to operate, and that necessarily means that the participants in the standard setting process are required to agree on which approaches to use and which not to use for the standard. It would be a significant deterrent to participation in such processes for this Court to allow an infringer, long after the fact, to twist this type of essential decision making into some vaguely defined assertion of conspiracy. “When they selected X,” so the argument would go, “they did that to suppress competition from Y and Z and that

is misuse.” Allowing this argument is problematic because every standard setting process must go through the same kind of decision making that Philips and Sony engaged in here. Moreover, there is always likely to be a rich source of internal documentation within each individual participating company in which the engineers who developed the unselected technology praise the merits of their own work and express disappointment and disagreement with the choices made, thus lending just enough credibility to the “suppression” argument to allow skillful trial lawyers to take the misuse issue to a jury. Needless to say, that prospect greatly compounds what is already a highly unpredictable outcome for infringement litigation. To subject the selection processes that occur in all standard setting to scrutiny under the misuse doctrine as a conspiracy to suppress the unselected technology will discourage many companies that otherwise might be willing to participate in standard setting and many companies that might otherwise agree to license their patents as part of a pool.

C. Ample opportunities exist to deal with anticompetitive conduct without expanding the misuse doctrine.

To whatever extent there is legitimacy in Appellants’ allegations of conspiracy to suppress competition, there is no need or reason to expand the misuse doctrine to address it. The panel majority labeled the alleged agreement a “classic antitrust violation,” *Princo II*, 563 F.3d at 1315, and that is how such

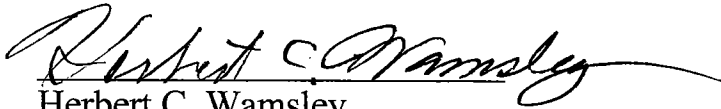
conduct, assuming it actually occurred, should be dealt with by the enforcement agencies and the courts. Both the U.S. Department of Justice and the Federal Trade Commission have active investigatory staffs with broad information gathering powers. The Federal Trade Commission, in particular, has a great deal of experience with standard setting, having brought several enforcement actions in recent years.²⁰

In addition, Section 4 of the Clayton Act, 15 U.S.C. § 15, provides that any entity injured in its business or property by a violation of the antitrust laws may recover three times its actual damages plus its lawyers' fees plus its costs. This code provision creates powerful incentives for the private ordering of the consequences of anticompetitive conduct and has proven to be remarkably efficient as a deterrent to unlawful behavior. If Appellants are injured in some way by the unlawful conduct they allege, Section 4 provides ample opportunity for them to be made whole.

²⁰ *In re Rambus*, F.T.C. Dkt. No. 9302, Opinion of the Commission (2006) available at <http://www.ftc.gov/os/adjpro/d9302/060802commissionopinion.pdf>; *rev'd, Rambus Inc. v. Federal Trade Commission*, 522 F.3d 456, 468 (D.C. Cir. 2008); *In re Negotiated Data Solutions, LLC*, F.T.C. Dkt. No. 051-0094, Decision and Order (2007) available at <http://www.ftc.gov/os/caselist/0510094/index.shtm>; *Matter of Dell Computer Corp.*, 121 F.T.C. 616 (1996).

CONCLUSION

For the reasons stated above, IPO urges the Court to reject Parts II and III of the panel decision and to affirm the ITC.



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APPENDIX¹

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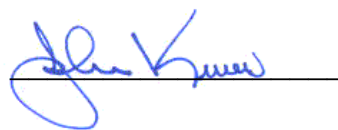
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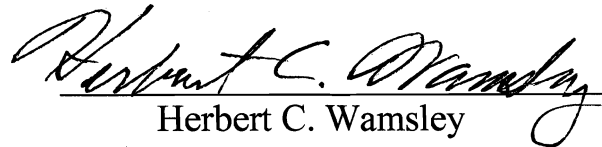
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