No. 2007-1386

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PRINCO CORPORATION AND PRINCO AMERICA CORPORATION,

Appellants,

v.

INTERNATIONAL TRADE COMMISSION,

Appellee,

and

U.S. PHILIPS CORPORATION,

Intervenor.

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

BRIEF OF *AMICUS CURIAE* AMERICAN ANTITRUST INSTITUTE ON REHEARING *EN BANC* IN SUPPORT OF APPELLANTS AND REVERSAL OF UNDERLYING ITC DECISION

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INTEREST OF AMICUS CURIAE

The American Antitrust Institute ("AAI") is an independent non-profit education, research, and advocacy organization devoted to advancing the role of competition in the economy, protecting consumers, and sustaining the vitality of the antitrust laws. The AAI has often submitted amicus briefs on patent law issues because a proper understanding of the intersection of patent and antitrust law is critical in promoting the innovation that both the patent system and antitrust law seek to maintain. The AAI is particularly concerned that patent misuse doctrine is interpreted so as not to allow private standard-setting activity to be used to suppress potentially competing technologies and standards. The AAI is managed by its Board of Directors, with the guidance of an Advisory Board that consists of over 100 prominent antitrust lawyers, law professors, economists, and business leaders. *See* http://www.antitrustinstitute.org. The AAI's Board of Directors alone has approved the filing of this brief; the individual views of members of the Advisory Board may differ from AAI's positions.[1]

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[1] No counsel for a party has authored this brief in whole or in part, and no person or entity other than AAI or its counsel has made a monetary contribution to the preparation or submission of this brief.

STATEMENT OF THE CASE

On April 20, 2009, in the now vacated decision presently the subject of this *en banc* rehearing, the panel majority reversed the finding of the International Trade Commission ("ITC," or "Commission") against Princo Corporation and Princo America Corporation (collectively, "Princo"). *Princo Corp. v. Int'l Trade Comm'n*, 563 F. 3d 1301 (Fed. Cir. 2009) (hereinafter "Op."), *vacated and en banc rehearing granted*, 583 F. 3d 1380 (Fed. Cir. 2009). The Commission had found no violation of § 337 on the grounds of patent misuse based on a variety of legal claims and theories, including tying, price fixing, price discrimination, and unlawful vertical restraints, reversing the initial decision ("ID") of an ITC Administrative Law Judge ("ALJ") in favor of Princo.

In Section I of the vacated opinion, the panel agreed with the ITC that no tying-based misuse defense had been established. Op. at 1304-5 (citing *U.S. Philips Corp. v. Int'l Trade Comm'n*, 424 F.3d 1179 (Fed. Cir. 2005) ("*Philips I*")). But, a majority of the panel in Section II remanded the case back to the ITC for further findings on whether Philips and Sony had committed conduct characterized as a "classic antitrust violation[]," Op. at 1315, by agreeing, in effect, to suppress competition between patents owned by Philips and a patent owned by Sony, inhibiting the possible development of any non-Orange Book standard.

On October 13, 2009, this court directed the parties "to file new briefs addressing primarily those issues originally decided in Section II of the court's April 20, 2009 opinion," 583 F.3d at 1381, and invited *amici curiae* to file briefs "without leave of court," the opportunity for which the AAI appreciates.

SUMMARY OF THE ARGUMENT

The panel majority correctly summarized the Federal Circuit law of the equitable defense of patent misuse, which it then applied in Section II of the opinion to a claim of patent misuse by concerted action properly before it. The antitrust principles governing the conduct at issue are well-settled and were correctly applied by the panel majority with one exception. The panel majority's reasoning hews closely to accepted principles of patent misuse and antitrust doctrine and does not expand the applicability of the misuse defense beyond its present limits.

The Commission should be reversed on the defense of patent misuse by concerted action. However, a structured rule of reason approach, which orders the inquiry by shifting the burden of going forward through the use of rebuttable presumptions, is the most appropriate means of resolving the competition issues raised by the conduct in this case. Under a structured rule of reason, a facially anticompetitive or "inherently suspect" agreement is not *per se* unreasonable; rather the proponents of the restraint are invited to show a legitimate justification for the restriction on competition. If no good justification is offered, no further analysis is required. If the restraint is shown to be reasonably necessary to achieve pro-competitive objectives, then the burden shifts to the challenger to demonstrate actual anticompetitive effects that outweigh the pro-competitive justification.

The agreement between horizontal competitors Philips and Sony not to license their patents outside the pool is facially anticompetitive and inherently suspect under the teaching of *Broadcast Music* and other precedent. Accordingly, the panel majority appropriately determined it was presumptively unlawful absent some pro-competitive justification.

The panel majority erred however by directing the Commission on remand to inquire into the commercial viability of the potentially competing invention in the Lagadec patent, because whether that factual inquiry is undertaken depends on whether an appropriate rebuttal is proffered against the presumption. Only if an appropriate justification has been offered is there any need to examine the competitive effect of a presumptively unreasonable agreement. If no appropriate justification is offered, no further inquiry is necessary.

Intervenor, U.S. Philips Corp. ("Philips"), has failed to identify any efficiency of patent pool licensing or joint standard setting that could not have been achieved without a restriction on separate licensing. Thus, Philips failed to rebut the presumptive unreasonableness of the exclusive restriction. Accordingly, the Commission's decision of no misuse must be reversed.

ARGUMENT

I. THE APPLICABLE PRINCIPLES OF PATENT MISUSE AND ANTITRUST ARE WELL-SETTLED AND WERE PROPERLY APPLIED IN SUBSTANCE IN SECTION II OF THE VACATED MAJORITY OPINION

A. Existing Federal Circuit law of patent misuse, correctly summarized in the panel majority opinion, should not be revised

The applicable principles of patent misuse and antitrust that govern this case are well-settled, and the AAI does not align itself with the position that patent misuse defenses of the type presented in this case can or should be decided independently from antitrust considerations, as argued by Princo, nor with view that the vacated opinion was an unorthodox or expansive interpretation of the law of patent misuse or incorrectly applied antitrust principles, as argued by Philips.

The panel majority correctly summarized existing misuse case law in the Federal Circuit, *i.e*., *Windsurfing Int'l, Inc. v. AMF, Inc*. 782 F.2d 995 (Fed. Cir. 1986), *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997) and *C.R. Bard Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), and the earlier decision in this case, *Philips I*.

The panel majority correctly defined patent misuse as follows: "Patent misuse is an equitable defense to patent infringement" in which the "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." Op. at 1307 (internal quotation marks omitted).

An affirmative defense of patent misuse based on concerted action or collusion is clearly cognizable. Settled authority, such as *United States v. United States Gypsum Co*., 333 U.S. 364 (1948) and *U.S. Gypsum Co. v. National Gypsum Co*., 352 U.S. 457 (1957), recognize the "unexceptional proposition" that patent licensing schemes constitute misuse when part of "a broader effort to fix prices and restrict competition." 1 Herbert Hovenkamp, Mark D. Janis & Mark A. Lemley, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* § 3.3g, at 3-42-43 (2010).

B. Issues of the kind decided by the panel majority in Section II of the vacated opinion should rely on sound economic analysis and accepted antitrust doctrine

To promote the orderly judicial development of the doctrine of patent misuse as an effective component of U.S. competition law, the issues reached in Section II of the vacated opinion should be decided by relying on sound economic reasoning and conventional antitrust analysis.

In *Windsurfing,* Judge Markey remarked that "[r]ecent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive," citing cases and commentary that, in 1986, when *Windsurfing* was decided, were "recent," including "*Continental TV, Inc. v. GTE Sylvania, Inc*., 433 U.S. 36 . . . (1977) (changing the *per se* prohibition on vertical restraints to a rule of reason approach)." *Windsurfing,* 782 F.2d at 1001-02 n. 9.

However, in the intervening decades, antitrust practice and procedure has evolved beyond the binary choice between *per se* and rule of reason standards. As the Supreme Court famously observed with respect to rule of reason analysis, "[w]hat is required, rather, is an enquiry meet for the case, looking to the circumstances, details, and logic of a restraint." *California Dental Ass'n v. FTC*, 526 U.S. 756, 781 (1999). This suggests in the present context that the extent to which the anticompetitive effects of the challenged practice deserve empirical analysis should depend on the nature of, and the experience of competition law with, the particular restraint involved.

The use of sound economics and established antitrust doctrine to decide cases of patent misuse represents good public policy. *See* U.S. Department of Justice & Federal Trade Commission, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* at 117 n.12 (Apr. 2007), http://www.justice.gov/atr/public/hearings/ip/222655.pdf (recognizing that patent misuse doctrine and antitrust doctrine have become more "coextensive"). Moreover, antitrust provides a well-developed framework for the analysis of the competition issues raised here. Accordingly, the court should strive to fashion a rule regarding restrictions on separate licensing in connection with patent misuse that follows well-settled principles of antitrust law, including in particular the teaching of *Broadcast Music, Inc. v. Columbia Broad. Sys. Inc.*, 441 U.S. 1 (1979).

The facts of this case present a range of collaborative activities between competitors that is encouraged by competition law (such a patent pooling and standard setting) that must be distinguished from other concerted action by the same parties that may be prohibited, or even *per se* unlawful, such as price fixing or market allocation. The U.S. Department of

Justice and the Federal Trade Commission's *Antitrust Guidelines for the Licensing of Intellectual Property* ("*IP Guidelines*"), which address the analysis of intellectual property licensing in general and patent pool arrangements in particular, recognize that pooling arrangements "may provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation," *IP Guidelines* § 5.5 (April 6, 1995), http://www.justice.gov/atr/public/guidelines/0558.pdf, but they can also be "mechanisms to accomplish naked price fixing or market division," or "diminish competition among entities that would have been actual or likely potential competitors in a relevant market." *Id*. The Federal Circuit should avoid any rule by which merely calling a patent pool a "joint venture" could preclude a finding of patent misuse where a broader effort to fix prices and restrict competition is afoot. *See* Hovenkamp et al., *IP and Antitrust*, § 3.3g at 3-42-43 ("The misuse inquiry should focus on whether a blocking patent's situation has been used as a cover for a broader cartel").

Finally, due respect must be paid the enormous value as well as the anticompetitive potential of collaborative standard setting. Especially where patented technology is involved and interoperability and network effects are important dimensions of commercial markets, the choices made in the standard frequently will determine commercial viability. The significant potential anticompetitive effect of standard setting is reflected in the teachings of cases such as *Allied Tube & Conduit Corp. v. Indian Head*, *Inc.*, 486 U.S. 492 (1988) (antitrust liability for "packing" meeting of National Fire Protection Association to influence standard in national Electrical Code), *American Soc. Of Mech. Engin'rs v. Hydrolevel Corp*., 456 U.S. 556, 571 (1982) (trade association liable in antitrust for permitting member to hijack organization's standardization activity for member's private competitive advantage, observing that "a standard-setting organization . . . can be rife with opportunities for anticompetitive activity"), and *In re American Society of Sanitary Engineering*, 106 F.T.C. 324 (1985) (standard-setting organization liable for excluding a particular patented technology). These cases arose in the context of some kind of organized standard setting forum or standard setting organization. An additional concern in the present case is that no standard setting organization oversaw the creation of the Orange Book specifications or provided due process procedures for choosing the technologies to be included.

C. An unjustified restriction on separate licensing by horizontal competitors engaged in concerted licensing is inherently suspect

Restrictions on separate licensing in connection with concerted licensing by competitors – even those engaged in a legitimate joint venture – fall into a category of restraints that are "inherently suspect," that is, "are likely, absent countervailing procompetitive justifications, to have anticompetitive effects – i.e., lead to higher prices or reduced output." *In re Polygram Holding, Inc.*, 136 F.T.C. 310, 352 (2003), *aff'd*, *Polygram Holding, Inc. v. Fed. Trade Comm'n*, 426 F.3d 29 (D.C. Cir. 2005); *accord N. Texas Specialty Physicians v. Fed. Trade Comm'n*, 528 F.3d 346, 360-61 (5th Cir. 2008) (upholding the use of "inherently suspect" paradigm as a form of "quick look" rule of reason analysis countenanced by Supreme Court precedent).

The principal authority for considering exclusive horizontal package licensing in this category is *Broadcast Music, Inc. v. Columbia Broad. Sys. Inc.*, 441 U.S. 1, 23 (1979), in which the Supreme Court held that although blanket licensing of performance rights to musical compositions by competing composers involves price "not set by competition among individual . . . owners," concerted package pricing may nonetheless be permitted "where the agreement on price is necessary to market the product at all."

The *Broadcast Music* Court recognized that "the blanket license involves 'price fixing' in the literal sense," *id.* at 8, but it was unwilling to characterize the blanket license as a *per se* unreasonable agreement to fix prices. The Court was uncertain whether the practice on its face had the effect of restraining competition, reasoning that "[a] middleman with a blanket license was an obvious necessity if the thousands of individual negotiations, a virtual impossibility, were to be avoided." *Id.* at 20.

Central to the Court's decision to permit "price fixing" in *Broadcast Music* was that the individual composers retained the right to license and price their works outside of the blanket licensing arrangement, without which the practice would have been highly anticompetitive. *Id.* at 24 (explaining that there was no impediment to CBS's obtaining individual licenses); *see* Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 2043 (2d ed. 2005) (noting that competitive concerns in *Broadcast Music* were obviated by the fact that all relevant license were non-exclusive); *see also NCAA v. Bd. of Regents*, 468 U.S. 85, 114 n.54 (1984) ("Ensuring that individual members of a joint venture are free to increase output has been viewed as central in evaluating the competitive character of joint ventures.").

It is well-settled that where the individual owners of intellectual property rights relinquish independent freedom to license their intellectual property to whom and at the price they see fit outside of a concerted package licensing arrangement, competition in the market in which the individuals compete is likely to be harmed. Thus, for example, in *In re: Summit Technology Inc. and VISX*, *Inc.*, Decision and Order, Dkt. No. 9286, 1999 LEXIS 23 (Feb. 23 1999), the Federal Trade Commission ("FTC") successfully challenged a patent pool created by two joint venturers engaged in competition in licensing technology related to photorefractive keratectomy ("PRK") laser eye surgery. The parties agreed to license their patents through the pool exclusively, a practice the FTC found would lead to "an anticompetitive effect in the market for PRK technology licensing," observing that "only [the pool] can license to third parties the PRK patents contributed by VISX and Summit, but VISX and Summit each retain a veto power over licensing of any of the patents in the pool." Analysis of Proposed Consent Order to Aid Public Comment, http://www.ftc.gov/os/1998/08/d09286ana.htm. "Whereas prior to the pool, each firm could have licensed its own patents unilaterally, after the pool no patent could be licensed without the consent of both companies." *Id*. The FTC's final Order enjoined any agreement between the two parties that restricted one another's right "to sell or license any product, device, method, patent, intellectual property, or technology." Decision and Order, 1999 Lexis 23.

II. THE COMMISSION'S DECISION ON PATENT MISUSE BY CONCERTED ACTION SHOULD BE REVERSED

A. Agreements by horizontal competitors to pool patents and package licenses frequently may be pro-competitive, but the panel majority correctly held that joint licensing is presumptively unreasonable if separate licensing by competitors is thereby restrained

As a consequence of the law of patent misuse and well-settled antitrust doctrine, the presumption identified by the panel majority against restrictions on separate licenses by competitors engaged in package licensing is a sound and uncontroversial holding based on accepted antitrust legal and procedural principles. As the panel majority clearly recognized, "there are no benefits to be obtained from an agreement between patent holders to forego separate licensing of competing technologies." Op. at 1315. Accordingly, the panel majority was correct to presume this type of restraint to be unreasonable, absent rebuttal by the parties identifying a related efficiency that cannot otherwise be achieved without the restraint.

Contrary to the view of some of the parties and *amici* critical of this holding, the panel majority's presumption of misuse conforms well to current antitrust development. For example, the Supreme Court in *Leegin*

Creative Leather Products v. PSKS, Inc., 551 U.S. 877, 898-99 (2007) recently invited the courts to "devise rules . . . for offering proof, or even presumptions" in their effort to make the "rule of reason a fair and efficient way to prohibit anticompetitive restraints and to promote procompetitive ones."

In *Polygram Holding, Inc. v. Fed. Trade Comm'n*, 416 F.3d 29 (D.C. Cir. 2005), the D.C. Circuit held that an agreement between two companies in a joint venture not to compete was "inherently suspect" and, as a consequence, "presumptively unlawful." And when the United States was asked for its views on "reverse payments" in settlement of branded-generic patent litigation, the Department of Justice followed the FTC's earlier recommendation to the Second Circuit to adopt a rule that "settlements involving a payment in exchange for an agreement to withdraw a validity challenge and limit competition are presumptively unlawful." Brief for the United States in Response to the Court's Invitation, *Arkansas Carpenters Health and Welfare Fund v. Bayer*, AG, No. 05-2852-cv at 21, *available at* http://www.justice.gov/atr/cases/f247700/247708.pdf. Indeed, empirical analysis demonstrates that even the full-fledged Rule of Reason involves a burden-shifting, rather than balancing, approach. *See* Michael A. Carrier, *The Real Rule of Reason: Bridging the Disconnect*, 1999 B.Y.U. L. Rev.

1265 (finding that courts applying the Rule of Reason engaged in a four-stage burden-shifting analysis, balancing in only 4% of cases).

The use of a presumption to truncate the analysis of the type of inherently suspect conduct involved in the present case is "meet for the case" and a well supported approach entirely consistent with modern developments under the rule of reason.

B. The panel majority incorrectly held in Section II that proof of "commercial non-viability" negates misuse where horizontal competitors unreasonably agree to exclusive package licensing

Having correctly identified an inherently suspect practice and appropriately treated it as presumptively unreasonable, however, the panel majority then erred by directing the Commission to determine "whether, absent agreement to the contrary, Lagadec could have been developed as part of an alternative technological platform." Op. at 1317. AAI submits that the portion of the panel majority's vacated opinion that "proof that a suppressed technology could not have been viable would be sufficient to negate a charge of misuse," Op. at 1318-19, is incorrect as a matter of law, for several reasons.

First, under a structured rule of reason approach, enquiry into the anticompetitive effect of the challenged restraint on a relevant market does not begin until the after the burden of going forward with the evidence shifts to the patentee to offer an economically sensible efficiency justification that rebuts the presumption. To hold otherwise defeats the purpose of the presumption, which is to truncate the analysis where no adequate justification for an inherently suspect restraint can be shown. As long as the pooled patents at issue involve potentially competing technologies, the agreement not to separately license must be shown to be reasonably necessary to achieve procompetitive ends.

A second weakness of a commercial viability requirement is that it assigns no weight to the competitive constraint and innovative spur made possible by the availability of a technology license. The mere potential for competition to the patent pool may constrain the ability of the pool to exercise market power.[2] Perhaps nobody would ever want to separately license the technology taught in the Lagadec patent for an Orange Book alternative or for any other purpose, but perhaps they would. The only certainty about the potential for competition is that no one will try if the license is not available. If someone does try and succeeds, the result is increased output, a plus for the economy.

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[2] *See generally* John E. Kwoka, Jr. & Lawrence J. White, *The Antitrust Revolution: Economics, Competition and Policy* 116-142 (3rd ed. 1998).

The harm to competition that occurs in "innovation markets," *see IP Guidelines*, at § 3.2.3, or "technology markets," *see* id. at § 3.2.2, is harm to dynamic competition and the conditions that affect the emergence of innovation and nascent and potential competition. In *U.S. v. Microsoft*, 253 F.3d 34 (D.C. Cir. 2001), where the defendant was charged with maintaining a monopoly on PC operating systems by conduct that restrained innovative developments in an adjacent market, the court reasoned,

> We may infer causation when exclusionary conduct is aimed at producers of nascent competitive technologies as well as when it is aimed at producers of established substitutes. Admittedly, in the former case there is added uncertainty, inasmuch as nascent threats are merely potential substitutes. But the underlying proof problem is the same—neither plaintiffs nor the court can confidently reconstruct a product's hypothetical technological development in a world absent the defendant's exclusionary conduct. To some degree, 'the defendant is made to suffer the uncertain consequences of its own undesirable conduct.' 3 Areeda & Hovenkamp, ANTITRUST LAW ¶ 651c, at 78.

Microsoft, 253 F.3d at 79. The *Microsoft* court was referring to the standard of proof for unilateral conduct under § 2; *a fortiori*, the standard should not be higher for concerted action, which the Supreme Court has deemed to be significantly more suspect. *See Verizon Commn's Inc. v. Law Ofcs. of Curtis V. Trinko, LLP*, 540 U.S. 398, 410 (2004) ("*concerted* action . . . presents greater anticompetitive concerns").

C. Philips failed to rebut the presumption that an exclusive package license with Sony restricting separate licensing is unreasonable

Philips has failed in its briefs and arguments to draw any nexus between a promise by Sony to withhold competing technology from use in a potentially competing standard and the legitimate purposes of joint research, promoting a collaborative technical standard, or forming a patent pool. Contrary to the patentee's efforts to portray it as such, the exclusive package license agreement was not ancillary to any separate legitimate joint activity, including the joint drafting of the Orange Book specifications.

To be sure, pro-competitive collaborative standard setting involves discussion of functionalities, product attributes, technology comparisons (including *ex ante* consideration of royalty rates[3]) and is permissible in spite of the participation of horizontal competitors.[4] However, Philips failed to

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[3] *See* Hon. Deborah Platt Majoras, Chairman, Federal Trade Commission, "Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting," Remarks to Standardization and the Law: Developing the Golden Mean for Global Trade, Stanford University (Sept. 23, 2005).

[4] Not all standards are created equal. *De jure* standards are promulgated by standard setting organizations that typically follow procedures to ensure that the standard setting process is as competitively neutral as possible. In the present case, however, Philips and Sony chose to proceed as private actors to try to establish a *de facto* standard, that is, a standard which "arises spontaneously due to marketplace success." Janice M. Mueller, *Potential Antitrust Liability Based on a Patent Owner's Manipulation of Industry*

explain how an agreement with Sony to prevent licensing outside the pool was reasonably necessary to achieve any recognized efficiency. *See* Federal Trade Commission & U.S. Department of Justice *Antitrust Guidelines for Collaborations Among Competitors* § 3.2 (April 2000), *available at* http://www.ftc.gov/os/2000/04/ftcdojguidelines.pdf (restraints "reasonably necessary to achieve . . . procompetitive benefits" of efficiency-enhancing integration analyzed under the rule of reason); Robert H. Bork, *The Antitrust Paradox* 266 (1978) (the law of ancillary restraints "requires that the agreement eliminating competition be no broader than the need it serves").

Philips and its *amici* argue that a non-compete agreement is common practice in a joint venture to ensure that the venturers devote their energies to the venture and are willing to share confidential information. Princo persuasively shows, however, that the agreement here was entered into well after the Orange Book standard was adopted, so that the agreement could not have been reasonably necessary for the success of the venture. *See* Brief for

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Standard Setting 19-20, ABA Section on Antitrust Law, Spring Meeting 2003 (Feb. 23, 2003), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1417942. In the *de facto* case, of course, the standard is not promulgated with any formality and procedural safeguards are not offered to the manufacturers who will have to implement the standard. In this case the need for antitrust scrutiny of package patent licensing by the promoters of the standard is all the more clear.

Appellants on Rehearing En Banc 27-29. Even if the patents are blocking, the pro-competitive benefits of the pool can be achieved by the less restrictive means of nonexclusive package licensing.[5] Philips fails to explain how separate licensing by members of a legitimate patent pool, customary practice after *Broadcast Music*, conceivably could undermine the focus or confidentiality needed to operate the pool or to bring Orange Book-standardized technology to market.

D. Any rule of reason enquiry that a successful rebuttal of the presumption would entail requires establishing harm to competition, not the "commercial viability" of the restricted patent license

Arguendo, if the presumption could be rebutted, the "commercial viability" requirement would arise at the stage of a structured rule of reason proceedings at which a court must balance between the justification successfully offered and the anticompetitive effect shown. The requirement begs the question, however, of the appropriate standard to be applied to proof of anticompetitive effect, which, as the previous discussion suggests, implicates assessment of potential competition. To be sure, the difficulty of fashioning the correct showing for commercial viability in a rule of reason

[5] In this case, the suggestion has been made that the Lagadec patent is included in the pool because of its possible blocking effect on the other pool patents; no suggestion has been made that Lagadec infringes the pool patents.

enquiry was recognized and discussed by the panel majority, but not resolved. Op. at 30-31.

The requirement also, however, generates confusion over the appropriate market definition to be used in the event of a further rule of reason enquiry. A requirement that the *technology in the Lagadec patent* should be shown to have been commercially viable is logical, but it distracts from the main subject of the rule of reason enquiry. To see this requires recognizing the important distinction between the technology in the patent and the product utilizing or embodying the patented technology. In the present case, the "product" embodying the patented technology is a "package of standardized technology," a set of standard specifications coupled with a license to the intellectual property needed for its non-infringing practice. The theory of misuse by collusion put forward by Princo is predicated on harm to competition in this "product" market, *i.e.*, standardized technology for the manufacture of recordable/re-writable CDs. This is the market in which Princo claims that manufacturers have been deprived of choice and made to pay supra-competitive fees. The panel majority clearly recognized the distinction, because it framed the issue as "whether, absent agreement to the contrary, Lagadec could have been developed as part of an alternative *technological platform*." Op. at 30. (emphasis supplied).

Thus, the anticompetitive effect to be shown if the restraint can be justified occurs in the market for the packages of licenses comprising alternative standardized technologies. One implication of the distinction is that a restraint in the market for patent licenses would have harmed competition in the market for standardized technology, a collusive outcome in one market accomplished, at least in part, through a restraint in a separate market for licensing individual patents. This situation is not uncommon in high-technology markets, and is directly analogous to the impermissible restraint imposed on the middleware market to maintain monopoly in the operating system market that occurred in *Microsoft*.[6]

The panel majority's commercial viability requirement is already subsumed under the need to make a showing of anticompetitive effect, albeit in the market for the "product." In the event it is determined that a presumption of illegality has been rebutted with a sufficient justification, a

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[6] *U.S. v. Microsoft*, 253 F.3d 34 (D.C. Cir. 2001) (firm with monopoly power in market for PC operating systems can harm competition in that market by engaging in conduct harming the development of products that are not yet in that market ("middleware," such as JAVA and Netscape's Navigator) but which, if developed, could potentially weaken the monopolist's market power in the operating system market.).

rule of reason enquiry should focus on the anticompetitive effect in this market rather than the commercial viability of the Lagadec technology as a separate factual issue for determination.

CONCLUSION

The Commission's decision on patent misuse by concerted action should be reversed, the presumptive unreasonableness of the exclusive package licensing agreement should be adopted, and the court or the Commission on remand, as the case may be, should proceed according to a structured rule of reason analysis.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE UNDER RULE 32(a)(7)(C)

This amicus brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B) because it contains 4662 words, excluding the parts of the brief exempted by the rule. It complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6) because it has been prepared in proportionally spaced typeface using Microsoft Word for Mac 2008 in 14 point Times New Roman font.

s/_________________

Richard M. Brunell

Dated: January 22, 2009