

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.

FILED
U.S. COURT OF APPEALS FOR
THE FEDERAL CIRCUIT

JAN 12 2010

JAN HORBALY
CLERK

ON APPEAL FROM THE UNITED STATES INTERNATIONAL TRADE COMMISSION IN
INVESTIGATION NO. 337-TA-474.

NONCONFIDENTIAL BRIEF OF APPELLEE INTERNATIONAL TRADE
COMMISSION ON REHEARING EN BANC

CLARA KUEHN
Attorney for Appellee
Office of the General Counsel
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436
Telephone (202) 205-3012

JAMES M. LYONS
General Counsel
Telephone (202) 205-3101

WAYNE W. HERRINGTON
Assistant General Counsel
Telephone (202) 205-3090

Material has been deleted from pages 23 and 58 of the Commission's confidential brief because the material is deemed confidential business information pursuant to 19 U.S.C. § 1337(n); *see also* 19 C.F.R. § 210.5. The material omitted from those pages contains confidential information relating to the identification of the accused products and business information concerning certain product decisional and marketing strategies.

TABLE OF CONTENTS

	PAGE
STATEMENT OF JURISDICTION	1
ISSUES PRESENTED ON REHEARING EN BANC	1
STATEMENT OF THE CASE	2
A. The Commission's Original Investigation	4
B. The Commission's Original Final Determination	5
C. The <i>Philips I</i> Appeal and Commission Proceedings on Remand	7
D. The Present Appeal	8
STATEMENT OF FACTS	10
A. The ALJ's Initial Determination	11
B. The Commission's Original Final Determination	14
C. <i>Philips I</i>	16
D. The Commission's Final Determination on Remand	17

TABLE OF CONTENTS CONT'D

E. The Present Appeal 29

F. The Panel Opinion 30

G. The Petitions for Rehearing 32

H. The En Banc Order 33

SUMMARY OF ARGUMENT 33

ARGUMENT 34

I. Standard of Review 34

**II. Princo Never Argued to the Commission that Philips and Sony
Agreed Not to License the Lagadec Patent as Competitive
Technology to the Orange Book 35**

**A. Princo's General Assertions that Philips, Sony, Taiyo
Yuden, and Ricoh Agreed to License Their CD-R/RW
Patents as a Mandatory Package Are Not an Argument
that Sony and Philips Agreed Not to License the Lagadec
Patent as Competitive Technology to the Orange Book 37**

**B. Princo's Argument that Philips and Sony "Joined Forces"
Is Not an Argument that Philips and Sony Agreed Not to
License the Lagadec Patent as Competitive Technology to
the Orange Book 40**

**C. Princo's Supposed "Technology Suppression" Arguments
Are Not Arguments that Philips and Sony Agreed Not to
License the Lagadec Patent as Competitive Technology to
the Orange Book 46**

TABLE OF CONTENTS CONT'D

D. The Commission Did Not Consider Princo's Unraised, Unpresented Argument that Philips and Sony Agreed Not to License the Lagadec Patent as Competitive Technology to the Orange Book 48

III. On the Record Before the Commission, Princo Cannot Show That the Supposed Agreement Between Philips and Sony Could Have Had the Result Hypothesized by the Panel Majority, Namely, Preventing the Lagadec Technology from Becoming a Viable Competitor to the Orange Book 52

A. The Panel Majority Incorrectly Concluded that the Commission Failed to Determine Whether Lagadec Was a Potentially Workable Alternative to the Orange Book Technology 54

B. Substantial Evidence Supports the Commission's Finding 56

CONCLUSION 60

TABLE OF AUTHORITIES

FEDERAL CASES

	PAGE
<i>Checkpoint System v. U.S. International Trade Commission</i> , 54 F.3d 756 (Fed. Cir. 1995)	36
<i>Corning Glass Works v. U.S. International Trade Commission</i> , 799 F.2d 1559 (Fed. Cir. 1986)	34
<i>Jefferson Parish Hospital District No. 2 v. Hyde</i> , 466 U.S. 2 (1984)	24
<i>Murakami v. United States</i> , 398 F.3d 1342 (Fed. Cir. 2005)	36
<i>Texaco Inc. v. Dagher</i> , 547 U.S. 1 (2006)	18
<i>U.S. Philips Corp. v. U.S. International Trade Commission</i> , 424 F.3d 1179 (Fed. Cir. 2005)	<i>passim</i>
<i>United States v. L.A. Tucker Truck Lines, Inc.</i> , 344 U.S. 33 (1952)	33, 35
<i>United States v. Sargent Electric Co.</i> , 785 F.2d 1123 (3d Cir. 1986)	51
<i>Wallace v. Dep't of the Air Force</i> , 879 F.2d 829 (Fed. Cir. 1989)	36
<i>Zenith Radio Corp. v. Hazeltine Research, Inc.</i> , 395 U.S. 100 (1969) ...	8, 9, 29, 30

FEDERAL STATUTES

19 U.S.C. § 1337	1, 2
19 U.S.C. § 1337(c)	2
28 U.S.C. § 1295(a)(6)	1

TABLE OF AUTHORITIES CONT'D

CODE OF FEDERAL REGULATIONS

19 C.F.R. § 210.43(b)(2) 14
19 C.F.R. §§ 210.43(b)(2), (4) 57
19 C.F.R. § 210.43(b)(4) 14
19 C.F.R. § 210.44 14

FEDERAL REGISTER NOTICES

67 Fed. Reg. 48948 (July 26, 2002) 4
68 Fed. Reg. 70036 (Dec. 16, 2003) 5, 14
69 Fed. Reg. 12711 (Mar. 17, 2004) 5
72 Fed. Reg. 6286 (Feb. 9, 2007) 3

MISCELLANEOUS

IX Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law, An Analysis of Antitrust Principles and Their Application* (2d ed. 2004) 23
U.S. Dep't of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (1995) 18

STATEMENT OF RELATED CASES

An appeal from the same proceeding was before this Court in *U.S. Philips Corp. v. International Trade Commission*, Appeal No. 04-1361. That appeal was decided on September 21, 2005, by a panel of this Court consisting of Judges Bryson, Gajarsa, and Linn. The Court's opinion is reported at 424 F.3d 1179. Appellants Princo Corporation and Princo America Corporation (collectively, "Princo") and Intervenor U.S. Philips Corporation ("Philips") have stated that this Court's decision in the present appeal may have a direct effect on an action pending in the United States District Court for the Southern District of New York, identified as *U.S. Philips v. Princo Corporation and Princo America Corporation*, Civil Action No. 02-0246.

STATEMENT OF JURISDICTION

The United States International Trade Commission (“the Commission”) had jurisdiction over Investigation No. 337-TA-474, *Certain Recordable Compact Discs and Rewritable Compact Discs*, under section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337 (“section 337”). On February 5, 2007, following a remand by this Court, the Commission issued a final determination finding Appellants and certain other firms in violation of section 337. The Commission issued remedial orders and notified the United States Trade Representative (“USTR”) of its determination and orders. The USTR did not disapprove the Commission’s determination and orders, which then became final for purpose of appeal. This Court has exclusive jurisdiction over final determinations of the Commission made under 19 U.S.C. § 1337. *See* 28 U.S.C. § 1295(a)(6); 19 U.S.C. § 1337(c). Princo timely filed its notice of appeal on June 4, 2007.

ISSUES PRESENTED ON REHEARING EN BANC

In the October 13, 2009, order granting the petitions for rehearing en banc of the Commission and Philips and vacating the April 20, 2009, panel opinion, the Court ordered the parties “to file new briefs addressing primarily those issues originally decided in Section II” of the April 20, 2009, opinion. From the point of view of the Commission, the questions presented on rehearing are:

1. Whether Princo argued to the Commission that Philips and Sony Corporation ("Sony") had agreed not to license the Lagadec patent as a competitor to the Orange Book.

2. Whether, on the record in this case, the supposed agreement between Philips and Sony not to license the Lagadec patent as a competitor to the Orange Book could have had the result of preventing the Lagadec technology from becoming a viable competitor to the Orange Book.

The foregoing issues correspond to issues the Commission raised in its petition for rehearing and to some of the issues raised by Philips in its petition for rehearing and its opening brief on rehearing. Some issues raised by Philips go beyond the scope of the Commission's opinion. The Commission does not take a position on these issues.

STATEMENT OF THE CASE

This appeal is from the Commission's final determination on remand in Investigation No. 337-TA-474, *Certain Recordable Compact Discs and Rewritable Compact Discs*, a proceeding the Commission conducted under section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337 ("section 337"). In that final determination, the Commission concluded that Princo and certain other firms had

violated section 337.¹ 72 *Fed. Reg.* 6286-88 (Feb. 9, 2007). In finding a violation of section 337, the Commission rejected numerous theories of patent misuse argued by Princo and other parties. On appeal, Princo abandoned all of its patent misuse theories, except for certain arguments based on the Lagadec patent, including tying and horizontal price-fixing.

On April 20, 2009, a panel of this Court unanimously rejected Princo's tying arguments. However, in Section II of its opinion, the panel majority concluded that the Commission erred in inadequately addressing whether Sony and Philips had agreed not to license Sony's Lagadec patent in a manner that would allow its development as competitive technology, an argument it believed Princo had raised before the Commission. The panel majority would have remanded the case to the Commission to consider Princo's supposed argument.

All parties sought rehearing. On October 13, 2009, the Court granted the petitions of the Commission and Philips, ordering rehearing en banc and supplemental briefing "addressing primarily those issues originally decided in Section II" of the panel opinion. The Court denied Princo's petition.

¹ Infringement and invalidity of the asserted patents were no longer in dispute as of the remand determination.

A. The Commission's Original Investigation

The Commission instituted this section 337 investigation on July 26, 2002, in response to a complaint filed by Intervenor U.S. Philips Corporation ("Philips"). 67 *Fed. Reg.* 48948 (July 26, 2002). The complaint, as supplemented, alleged violations of section 337 in the importation into the United States, the sale for importation, and the sale within the United States after importation of certain recordable compact discs ("CD-Rs") and rewritable compact discs ("CD-RWs") by reason of infringement of claims of six U.S. patents asserted by Philips (collectively, "the Philips patents"), including U.S. Patent Nos. 5,023,856 and 4,999,825 ("the '856 and '825 patents," respectively).²

In an October 24, 2003, final initial determination ("ID") (A00148-A00606) issued after a full evidentiary hearing, the Commission's administrative law judge ("ALJ") determined that (1) the accused products infringe the claims in issue of the Philips patents, (2) the domestic industry requirement of section 337 has been satisfied, and (3) none of the claims in issue of the Philips patents are invalid. Nonetheless, the ALJ found no violation of section 337 because he concluded that the Philips patents were unenforceable by reason of patent misuse. A00292-

² The Commission understands that all but one of the asserted patents have expired, the remaining, unexpired patent being U.S. Patent No. 5,418,764.

A00373 (ID 139-220), A00509-A00600 (ID 356-447). Specifically, the ALJ determined that the Philips patents were unenforceable for patent misuse per se on theories of price fixing and price discrimination. A00308-A00335 (ID 155-182). He also found patent misuse under a rule-of-reason standard. A00335-A00373 (ID 182-220).

On November 5, 2003, Philips petitioned the Commission for review of the portion of the ID that found the asserted patents unenforceable due to patent misuse. 68 *Fed. Reg.* 70036 (Dec. 16, 2003). No party petitioned for review of the ID's resolution of any other issues. Thus, there was no longer any dispute that the patents were infringed and not invalid.

On December 10, 2003, the Commission determined to review all of the ID's findings of fact and conclusions of law concerning patent misuse. 68 *Fed. Reg.* 70036-37 (Dec. 16, 2003). The Commission determined not to review, and thereby adopted, the remainder of the ID. *Id.*

B. The Commission's Original Final Determination

On March 11, 2004, the Commission issued its original final determination of no violation of section 337, and issued its opinion on March 25, 2004. 69 *Fed. Reg.* 12711-12 (Mar. 17, 2004); A6525-A6588 (Comm'n 2004 Opn.). The Commission found no violation of section 337 because it concluded that the

Philips patents were unenforceable for patent misuse per se, on the ground that Philips' practice of mandatory package licensing constituted a tying arrangement between licenses to patents that are essential to manufacture CD-Rs or CD-RWs according to Orange Book standards³ and licenses to four other patents that the Commission found were not essential to that activity.⁴ A6528-A6529 (Comm'n 2004 Opn. 4-5). The Commission also adopted the ALJ's conclusion that Philips' patents are unenforceable for patent misuse under the rule of reason based on the ALJ's analysis and findings on the tying arrangement. A6528-A6529 (Comm'n 2004 Opn. 4-5). The Commission took no position on the ALJ's conclusions that (1) the asserted patents were unenforceable for patent misuse per se based on theories of price fixing and price discrimination and (2) the royalty rate structure

³ The Orange Book, which is jointly issued by Philips and Sony, sets out the technical standards for the manufacture of CD-Rs and CD-RWs. A0292-A0293 (ID 139-140).

⁴ The Commission determined that U.S. Patent Nos. 5,001,692 (Philips' "Farla patent"); 5,060,219 (Philips' "Lockhoff '219 patent"); 5,740,149 (Ricoh's "Iwasaki '149 patent"); and Re. 34,719 (Sony's "Yamamoto '719 patent"), which were included in the CD-R or CD-RW package licenses, were non-essential. A6547-A6549 (Comm'n 2004 Opn. 23-25). The ID identified a total of twelve patents included in the CD-R or CD-RW package licenses as non-essential to manufacture CD-Rs or CD-RWs according to Orange Book standards. A00349-A00366 (ID 196-213). The Commission took no position on the ID's analysis of eight of those patents, including U.S. Patent Nos. 4,942,565 (Sony's "Lagadec patent") and 5,126,994 (Sony's "Ogawa '994 patent"). A06574-A06575 (Comm'n 2004 Opn. 50-51).

of the CD-R/RW patent pools was an unreasonable restraint of trade. A6529 (Comm'n 2004 Opn. 5 nn.3 and 4), A6575 (Comm'n 2004 Opn. 51).

C. The *Philips I* Appeal and Commission Proceedings on Remand

Philips appealed, and this Court reversed and remanded. *U.S. Philips Corp. v. U.S. Int'l Trade Comm'n*, 424 F.3d 1179, 1198 (Fed. Cir. 2005) ("*Philips I*").

On remand, the Commission requested briefing from the parties as to how to proceed on remand. A7032-A7035. All parties responded with submissions to the Commission. No party argued to the Commission that Philips and Sony had agreed not to license the Lagadec patent as competitive technology to the Orange Book.

On February 5, 2007, the Commission issued its final determination and opinion on remand, reversing the ALJ's findings of patent misuse per se on theories of price fixing and price discrimination. A0051-A0081 (Comm'n Opn. 14-44) (per se price-fixing theories), A0081-A0085 (Comm'n Opn. 44-48) (per se price discrimination theories). In so doing, the Commission rejected each of the per se theories advanced by any party.

The Commission also reversed the ALJ's findings of anti-competitive effect flowing from Philips' licensing practices, and thus reversed the ALJ's findings of patent misuse under the rule of reason. A0090-A0135 (Comm'n Opn. 53-98). In

so doing, the Commission rejected each of the various theories of anti-competitive effect advanced by the parties. A0090-A0122 (Comm'n Opn. 53-85) (discussing anti-competitive effects alleged by Princo); A0122-A0135 (Comm'n Opn. 85-98) (discussing anti-competitive effects alleged by the Commission investigative attorney ("IA")). The Commission specifically rejected as insufficient the IA's and Princo's arguments concerning the anti-competitive effects of including the "non-essential" Lagadec patent in the package licenses. A0115-A0118 (Comm'n Opn. 78-81) (rejecting Princo's argument), A0130-A0135 (Comm'n Opn. 93-98) (rejecting the IA's argument).

Since the issues of invalidity and infringement were no longer disputed, the Commission found a violation of section 337 and issued remedial orders.

D. The Present Appeal

On appeal, Princo abandoned all of its patent misuse theories, except for certain arguments based on the Lagadec patent. Specifically, Princo appealed the Commission's remand final determination on three grounds: (1) the Commission erred in not finding that inclusion of the Lagadec patent in the CD-R/RW pool is an unlawful tying arrangement; (2) the Commission erred in not finding that inclusion of the Lagadec patent constitutes misuse per se under *Zenith Radio Corp. v Hazeltine Research, Inc.*, 395 U.S. 100 (1969); and (3) the Commission

in not finding that inclusion of the Lagadec patent in the CD-R/RW pool with Philips' '856 and '825 patents constitutes a horizontal price fixing agreement is illegal per se and under the rule of reason.

On April 20, 2009, a panel of this Court unanimously affirmed the Commission's rejection of Princo's tying argument, although on a ground not adopted by the Commission.⁵ Op. at 16-20 (Section I.A); Dissent at 1-3. The panel unanimously rejected Princo's *Zenith* argument, without reaching the Commission's (and Philips') argument that Princo had waived its *Zenith* argument by failing to present it to the Commission. Op. at 20-21 (Section I.B); Dissent at 3-4. However, in Section II of its opinion, the panel majority concluded that the Commission erred in failing to adequately address whether Sony and Philips had agreed not to license Sony's Lagadec patent in a manner that would allow its development as competitive technology, an argument the panel believed Princo had made to the Commission. Op. at 21-22. The panel majority further found that "[t]he Commission did not determine that Lagadec was fundamentally incapable of being commercialized as part of an alternative standard, but merely that it was not workable within the context of existing Orange Book technology." Op. at 29.

⁵ The dissent also found the Commission's decision on the tying claim "to be both clear and sufficient to reject Princo's argument of patent misuse based on tying." Dissent at 1.

Panel majority would have remanded the case to the Commission “for the purposes of determining (1) whether Lagadec was a potentially workable alternative to the Orange Book technology and (2) whether Princo has established that Sony and Philips agreed that Lagadec would not be licensed in a manner allowing its development as competitive technology.” Op. at 36. The dissent disagreed with the majority’s analysis, and would have affirmed the Commission’s final determination. Dissent at 4-10.

On June 18, 2009, the Commission petitioned for rehearing and rehearing en banc. On the same day, Philips petitioned for rehearing en banc. Princo also petitioned for rehearing en banc of the panel’s unanimous rejection of Princo’s tying argument.

On October 13, 2009, this Court denied Princo’s petition and granted the petitions for rehearing en banc of Philips and the Commission. The Court prescribed a sequence and schedule for supplemental briefing, “addressing primarily those issues originally decided in Section II” of the panel opinion.

On November 30, 2009, Philips filed its opening supplemental brief.

STATEMENT OF FACTS

The en banc order requested briefing on Section II of the panel majority’s opinion, which is premised on Princo’s supposed argument that Philips and Sony

ed not to license the Lagadec patent in a manner that would permit its development as competitive technology.⁶ As discussed below, Princo never presented that argument to the Commission.⁷ Further, the panel majority's conclusion that the Commission determined "merely that [Lagadec] was not workable within the context of existing Orange Book technology" (Op. at 29) is based on a misapprehension of the issues presented to the Commission and the Commission's final determination. Contrary to the majority's conclusion, the Commission did not limit its findings on the viability of the Lagadec patent to the context of the Orange Book.

A. The ALJ's Initial Determination

In the original investigation, Princo and the other then-remaining active respondents (collectively, "respondents") did not mention the Lagadec patent in the patent misuse arguments that they presented to the ALJ.^{8 9} Although the IA

⁶ As Princo's petition for rehearing was denied, its arguments regarding tying and *Zenith*, unanimously rejected by the panel, are not before the en banc Court.

⁷ As requested by the Court's en banc order, in this paper, the Commission addresses the issues originally decided in Section II of the panel majority's opinion. In its February 25, 2008, response brief, the Commission responded to all of the arguments that Princo presented to the panel.

⁸ The five remaining active respondents included Appellants Princo Corp. and Princo America Corp. The other three active respondents (*Gigastorage Corp.*

asserted patent misuse under the rule-of-reason standard based on Philips' inclusion of Sony's Lagadec (and Philips' Farla patent) in the pools, respondents did not include Lagadec in the list of eleven (11) so-called "non-essential" patents that they alleged Philips had improperly included in the pools. A00349-A00350 (ID 196-197). Respondents argued to the ALJ that certain of Philips' asserted patent claims were invalid as anticipated or made obvious by the Lagadec patent. A00270-A00277 (ID 117-124).

In his final ID, the ALJ determined that none of the claims in issue of the Philips patents were invalid, rejecting respondents' invalidity arguments. As to the Lagadec patent specifically, the ALJ rejected respondents' argument that the asserted claims of the '825 patent were invalid as anticipated by Sony's Lagadec patent or invalid as made obvious by the Lagadec patent in combination with other prior art.^{10 11} A00270-A00277 (ID 117-122). In so doing, the ALJ found that

Taiwan, Gigastorage Corp. USA, and Linberg Enterprise Inc.) are not or are no longer parties to this appeal. *See* A00156 (ID 3).

⁹ There is no mention of the Lagadec patent in respondents' post-hearing brief on patent misuse or in respondents' proposed findings of fact and conclusions of law on patent misuse.

¹⁰ Princo's invalidity arguments were opposed by the IA and Philips. A00272 (ID 119).

¹¹ In construing the asserted claims to an "optically readable inscribable record carrier" the ALJ stated that "the claimed invention has a periodic track

“The Lagadec patent’s disclosure in fact exhibits several problems that the analog frequency modulation method disclosed in the ‘825 patent was designed to solve.”

A00274 (ID 121). The ALJ found that –

[i]n addition to expert testimony, the record also contains evidence of actual industry concerns about the prior art methods. Philips and Sony considered, and rejected, the digital method as disclosed in Lagadec because it requires a high bandwidth signal that interferes with the low frequency servo signal from the pregroove as well as the information later recorded on the disc. Mons Tr. 396-397, 407-409 [A00941-A00942, A00944-A00945]. It is [not] possible to filter out these interfering frequency components completely because the low frequencies also carry the position information. Hesselink Tr. 2584 [A01729]. Lagadec’s digital method has the additional shortcoming that it leaves no room for ‘error detection encoding’ in the system and, as a result, is ‘very prone to errors.’ Hesselink Tr. 2581-82 [A01728]; *see also* CX-619C, ‘825 Slide 4; RX-177 [A00818-A00830].”

A00274-A00275 (ID 121 n.87); *accord* A00470-A00471 (FF93-FF97).

Although the ALJ rejected respondents’ invalidity defenses, he found no violation of section 337 because he concluded that Philips’ asserted patents were unenforceable for patent misuse. As stated above, Philips petitioned for

modulation with a *modulation frequency* indicative of a position-information signal, and that no part of that limitation can be avoided.” A00268 (ID 115) (emphasis in ID). The ALJ framed the issue as whether “prior art that does not use a carrier frequency discloses frequency modulation, and alone or in combination with other art renders invalid the asserted claims of the ‘825 patent.” *Id.*; *see also* A00272-A00274 (ID 119-121). He found that “Lagadec does not employ analog frequency modulation or any means that can be described as frequency modulation in any conventional way.” A00274 (ID 121).

Commission review of the ID's patent misuse determinations, but no party petitioned for review of the ID's resolution of any invalidity or infringement issues.¹² The Commission determined to review the ALJ's determination as to patent misuse. 68 *Fed. Reg.* 70036-37 (Dec. 16, 2003). The Commission determined not to review, and thereby adopted, the remainder of the ID, including the ID's findings of fact and conclusions of law on invalidity and infringement.

Id.

B. The Commission's Original Final Determination

As stated above, in its original final determination of 2004, the Commission concluded that Philips' patents were unenforceable for patent misuse per se based on a tying arrangement in Philips' pool licenses between licenses to patents that are essential to manufacture CD-Rs or CD-RWs according to Orange Book standards and licenses to four other patents that the Commission concluded were not essential to that activity.

¹² Commission rule 210.43(b)(4) provides that "[a] party's failure to file a petition for review of an initial determination shall constitute abandonment of all issues decided adversely to that party in the initial determination." 19 C.F.R. § 210.43(b)(4). Commission rule 210.43(b)(2) provides that "[a]ny issue not raised in a petition for review will be deemed to have been abandoned by the petitioning party and may be disregarded by the Commission in reviewing the initial determination (unless the Commission chooses to review the issue on its own initiative under [19 C.F.R.] § 210.44)." 19 C.F.R. § 210.43(b)(2).

In reaching this conclusion, the Commission identified the “relevant market for analyzing market power” as “the United States market for licensing the essential U.S. patents for the manufacture of CD-R/RW discs in compliance with Orange Book standards.” A6550 (Comm’n 2004 Opn. 26). The Commission further found that –

Philips has market power in the United States market for licensing essential U.S. patents for the manufacture of CD-R/RWs according to Orange Book standards because, as the ALJ found, there are no close substitutes for CD-R/RWs (ID at 160-64) [A313-A317]; the relevant market for licensing essential CD-R/RW patents is coextensive with the relevant product market for CD-R/RWs because “manufacturers are constrained to enter into those licenses in order to make such unique products” (ID at 166-67) [A319-A320]; and licenses to at least some of the Philips patents are essential to the manufacture of CD-R/RWs (ID at 173) [A326].

A6551 (Comm’n 2004 Opn. 27). However, although the Commission adopted the ALJ’s market definition and market power analysis, the Commission took no position on the ID’s statements in the course of that analysis that “Philips, Sony, Taiyo Yuden, and Ricoh are horizontal competitors in the patent licensing market” (A326 (ID 173)) and “the Philips CD-R and CD-RW patent pools constitute horizontal agreements among competitors” to control royalty rates (A328 (ID 175)). A6550 (Comm’n 2004 Opn. 26 n.19).

The Commission also adopted the ALJ's conclusion that Philips' patents are unenforceable for patent misuse under the rule of reason based on the ALJ's analysis and findings on the tying arrangement. A6528-A6529 (Comm'n 2004 Opn. 4-5).

C. *Philips I*

Philips appealed, and this Court reversed and remanded. *U.S. Philips Corp. v. U.S. Int'l Trade Comm'n*, 424 F.3d 1179, 1198 (Fed. Cir. 2005). However, the Court rejected Philips' argument that it lacked market power in the relevant market (*viz.*, "the market for the tying product") in the late 1990s.¹³ *Id.* at 1186.

¹³ The Court stated that "Philips contends that at the time Philips and Sony first created their package license arrangements, CDs had significant competition among computer data storage devices and thus Philips lacked market power in the market for computer data storage discs." 424 F.3d at 1186. The Court noted that the ALJ determined that "the patent package arrangements were instituted in the early 1990s," while "Princo did not enter its agreement until June of 1997." *Id.* The Court concluded that –

any lack of market power that Philips and its colicensors may have had in the early 1990s is irrelevant to the situation in the late 1990s, when the parties entered into the agreements at issue in this case. At that time, according to the administrative law judge's well-supported finding, compact discs had become "unique products [with] no close practice substitutes."

Id.

D. The Commission's Final Determination on Remand

On remand, the Commission requested briefing from the parties as to how to proceed on remand, including how to proceed with those portions of the ALJ's initial determination of patent misuse upon which the Commission did not take a position. A7032-A7035. In response, Princo filed a lengthy brief presenting numerous patent misuse theories.¹⁴ No party argued to the Commission that Philips and Sony had agreed not to license the Lagadec patent as competitive technology to the Orange Book.

In its final determination on remand, the Commission reversed the ID's determinations of patent misuse per se on theories of price fixing and price discrimination, and rejected each of the per se theories advanced by respondents in support of the ID. A00051-A00085 (Comm'n Opn. 14-48). The Commission also reversed the ID's determinations of patent misuse under the rule-of-reason standard, and rejected each of the theories of anti-competitive effect advanced by respondents and the IA. A00090-A00135 (Comm'n Opn. 53-98).

¹⁴ A6801-A6964 (Response of Respondents Princo Corp., Princo America Corp., Gigastorage Corp. Taiwan, Gigastorage Corp. USA, and Linberg Enterprise Inc. to the Commission's Order Dated January 17, 2006) ("Princo submission") (Feb. 21, 2006).

Specifically, the Commission rejected respondents' argument that Philips committed patent misuse per se by combining with its horizontal competitors to fix the price of patent licenses in the relevant markets (*i.e.*, the markets for licensing essential CD-R and CD-RW U.S. patents) at anti-competitive levels.

A00058. The Commission found no evidence in the record that the patents in the joint licenses (*i.e.*, the pool licenses that include licenses to patents owned by each of the pool licensors¹⁵) "cover technologies that are close substitutes." A00059 (quoting *Antitrust Guidelines* § 5.1 (example 9)). Consequently, the Commission found that "the joint package licenses have not been shown to be 'the joint marketing of competing patent rights' that 'constitute[] horizontal price fixing and could be challenged as a per se unlawful horizontal restraint of trade.'" *Id.* (quoting the *Antitrust Guidelines* § 5.1 (example 9)) (emphasis added by the Commission). The Commission concluded that "[b]ecause the patents have not been shown to be competing, the pool royalty rate set by Philips and its co-licensors is not a 'pricing agreement between competing entities with respect to their competing products.'" *Id.* (quoting *Texaco*, 547 U.S. at 6).

¹⁵ The CD-R pool includes the patents of Philips, Sony, and Taiyo Yuden. The CD-RW pool includes the patents of Philips, Sony, and Ricoh. A00515-A00516 (FF49, 54-57). Only Philips was a party to the Commission investigation.

With regard to the Lagadec patent, the Commission concluded that “the record in this investigation does not support a finding that the Lagadec ‘565 patent competes with the ‘825 or ‘856 patents.” A00061 (Comm’n Opn. 24). The Commission noted that the ALJ had credited testimony that the Lagadec approach is prone to errors and “did not provide a scheme that would work and was reliable.” A00061 (Comm’n Opn. 24 n.19). The Commission found that “even if Lagadec is a substitute technology for the ATIP standard, it is not a substitute technology that can be used to manufacture Orange Book compliant CD-R/RW discs.” A00061 (Comm’n Opn. 24). Further, the Commission noted that “[r]espondents have pointed to no evidence that the Lagadec approach is a commercially viable technological alternative to the technology of Philips’ ‘825 or ‘856 patents. Moreover, the commercial viability of a method that is prone to errors, unreliable, and unworkable is doubtful.” A00061 (Comm’n Opn. 24 n.20).

The Commission also rejected respondents’ contentions that Philips and Sony were potential horizontal competitors who “chose not to compete.” A00061-A00063 (Comm’n Opn. 24-26). The Commission stated that respondents had “not pointed to evidence that establishes that, absent the pooling arrangement, the pool licensors would have competed in the technology licensing market.” A00063 (Comm’n Opn. 26). As discussed below, Princo and the other respondents did not

argue to the Commission that Philips and Sony agreed not to license the Lagadec patent as competitive technology to the Orange Book; rather, respondents argued that Philips and Sony chose to work together on CD-R/RWs for the purpose of avoiding competition. A006858-A006859 (Princo submission 49-50). In rejecting Princo's argument for lack of evidence, the Commission discussed an earlier "joining forces" argument that Princo had made in 2004. The Commission noted that Princo's arguments relied on deposition testimony concerning discussions regarding a non-Orange Book specification. The Commission also noted evidence in the record that Philips and Sony decided to work together for technical reasons. A00062 (Comm'n Opn. 25 n.21).

As stated above, the Commission reversed the ALJ's findings of anti-competitive effect flowing from Philips' licensing practices.^{16 17} The Commission rejected the anti-competitive effects alleged by the IA as flowing from the inclusion of the Lagadec patent in the pools. A122-A135 (Comm'n Opn. 85-98). The Commission also rejected each of the theories of anti-competitive effect

¹⁶ As detailed in the Commission's appeal brief, the Commission reversed the ALJ's determination that the royalty rate structure of the CD-R/RW patent pools constitutes patent misuse under the rule of reason based on a price-fixing theory because the record evidence did not establish the requisite anti-competitive effect in a relevant market. Comm'n appeal brief 13-14 (Feb. 25, 2008) (discussing A00093-A00094 (Comm'n Opn. 56-57) (rejecting ALJ's first rationale, viz., that the royalty rate was higher than industry norms)); Comm'n appeal brief 14-15 n.14 (discussing A00094-A0096 (Comm'n Opn. 57-59) (rejecting respondents' argument to the Commission on remand and the ALJ's second rationale, viz., that the royalty rate for the pool was higher than the sum of the royalties under separate licenses from each of the licensors)); Comm'n appeal brief 15 n.15 (discussing A00096-A00097 (Comm'n Opn. 59-60) (rejecting respondents' alleged anti-competitive effects in the product market)).

¹⁷ The Commission also reversed the ALJ's findings that the inclusion of twelve nonessential patents in Philips' licenses had the anti-competitive effect of foreclosing competition from alternative technologies that compete with the technology covered by a nonessential patent. A00115-A00116 (Comm'n Opn. 78-79). The Commission found that the record evidence of anti-competitive effects did not meet the standard articulated by this Court in *Philips I. Id.*

advanced by respondents,¹⁸ including those premised on the inclusion of the Lagadec patent in the CD-R/RW pools. A00090-A00122 (Comm'n Opn. 53-85).

Specifically, the Commission rejected the IA's argument that the inclusion of the Lagadec patent in the pools constitutes patent misuse under the rule-of-reason standard, because the record evidence did not support the anti-competitive effects alleged by the IA. A00130-A00135 (Comm'n Opn. 93-98). The

¹⁸ Respondents had alleged the following anti-competitive effects in its submission to the Commission on remand: (1) evidence of price fixing (A06886-A06889 (Princo submission at 77-80)), (2) foreclosing competition by tying non-essential patents into the CD-R/RW pool licenses (A06892-A06897 (Princo submission at 83-88); A06897-A06910 (Princo submission at 88-101) (focusing on Sony's Ogawa '994 and Lagadec patents, and Taiyo Yuden's Hamada '009 and Hamada '388 patents)), (3) discriminatory pricing that allowed "preferred manufacturers (who don't pay royalties)" to double their market share (A06889-A06890 (Princo submission at 80-81)), (4) contractually obligating licensees to pay royalties for patents after the patents expire (A06890-A06891 (Princo submission at 81-82)), and (5) "prevent[ing licensees] from improving or competing with the patents in the patent pool" through a narrow license grant that restricts licensees to use the subject patents to practice the Orange Book standard (A06892 (Princo submission at 83)). The Commission's rejection of Princo's anti-competitive effects based on price-fixing (A00091-A00097 (Comm'n Opn. 54-60) and tying (A00105-A00122 (Comm'n Opn. 68-85)) are discussed *infra*. In its final determination, the Commission also found that Princo failed to establish the alleged anti-competitive effects of price discrimination (*see* A00097-A00101 (Comm'n Opn. 60-64)), collecting royalties for expired patents (*see* A00101-A00103 (Comm'n Opn. 64-66)), and preventing licensees from improving or competing with the patents in the pool through a narrow grant (*see* A00104-A00105 (Comm'n Opn. 67-68)). As noted in the Commission's appeal brief, Princo did not challenge the Commission's rejection of those three theories of anti-competitive effect in this appeal. Comm'n appeal brief 17 n.16.

Commission rejected the IA's theory that tying the Lagadec patent caused anti-competitive royalties (*i.e.*, that the price for the pool license was allegedly higher than the combined prices the pool licensors were able to obtain when each licensor offered his own patents).¹⁹ The Commission agreed with Philips that including an unwanted patent in the package would not allow the seller to increase the royalty for the package above the profit-maximizing price for the tying patents, noting that the treatise cited by Philips supported its argument. A00131 (Comm'n Opn. 94 (citing IX Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law, An Analysis of Antitrust Principles and Their Application*, ¶ 1706b2 at 64 (2d ed. 2004))).

The Commission further found that "the premise of the IA's argument, *viz.*, that the Lagadec '565 patent cannot be used to make an Orange Book compliant CD, is fatal to his rule of reason tying claim." A00131 (Comm'n Opn. 94). The Commission identified the inclusion of the Lagadec patent as a zero-foreclosure

¹⁹ The IA argued that respondents had demonstrated this allegedly market-wide anti-competitive effect, but in its analysis of the anti-competitive effects of price fixing, the Commission found the evidence in the record insufficient to support the anti-competitive effects argued by respondents. *See* A00094-A00096 (Comm'n Opn. 57-59). The Commission found that the record evidence of the

[[
]] and therefore was insufficient to establish the requisite market-wide anti-competitive effect. *Id.* As noted in the Commission's appeal brief, Princo did not challenge that finding in this appeal. Comm'n appeal brief 24-25 n.21.

tie that cannot support a rule-of-reason tying claim. A00131-A00132 (Comm'n Opn. 94-95). See *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 16 (1984) ("When a purchaser is 'forced' to buy a product he would not have otherwise bought even from another seller in the tied product market, there can be no adverse impact on competition because no portion of the market which would otherwise have been available to other sellers has been foreclosed"). Philips' market power is in the market for licensing essential patents for the manufacture of Orange Book-compliant discs. A06550-A06551 (Comm'n 2004 Opn. 26-27); see *Philips I*, 424 F.3d at 1186-87. As detailed in the Commission's appeal brief, Philips' use of this market power to "force" a licensee to take (in addition to the essential "tying" patents) a license under a patent (like Lagadec) that cannot be used to manufacture Orange Book-compliant discs cannot result in the displacement of another seller in the "tied" market because the "forced" licensees would not be present as buyers in the "tied" market (absent the tie).

The Commission also rejected the IA's theory that tying the Lagadec patent foreclosed competition from Sony.²⁰ A00133-A00135 (Comm'n Opn. 96-98). The IA's argument was that "the inclusion of Lagadec [in the pools] stands as the

²⁰ The Commission also rejected the IA's theory that tying the Lagadec patent caused reduced output. A00132-A00133 (Comm'n Opn. 95-96).

lifeline for the royalty payments to Sony for CD-R/RWs sold in the United States” and “thus secured Sony’s adherence to the CD-R/RW system and the Orange Book standard.” A6758, A6765; *see generally* A6735-6776, A122-125. The IA did not argue that Philips and Sony had agreed not to license the Lagadec technology as competitive technology to the Orange Book. *Id.* The Commission characterized the IA’s argument broadly (“[t]he IA’s theory is that Philips included the Lagadec patent to forestall competition from Sony” (A00133)), and rejected it because the IA failed to identify record evidence to support it.²¹ A00133-A00135 (Comm’n Opn. 96-98); A00134 (Comm’n Opn.97 n.63) (cited testimony provides “inadequate support for the IA’s inference that ‘Philips included Sony in the pool not because Sony brought anything necessary to the CD-R/RW technology, but rather because Sony is a major player in the industry, whose cooperation Philips wanted’”); A00133 (Comm’n Opn. 96 n.62) (noting that “the ALJ failed to articulate any basis for his remark that the inclusion of the Lagadec patent ‘in the pool appears to be an attempt to forestall digital approaches to achieving what the

²¹ The Commission rejected the IA’s argument for lack of evidentiary support under each legal standard advanced by the IA. A00133-A00134 (Comm’n Opn. 96-97) (finding IA’s speculation was not an analysis under joint venture standard); A00134 (Comm’n Opn. 97 n.63) (finding “inadequate support” for IA’s inference of intent or unlawful purpose); *see* A6765-A6766 (IA’s submission identifying legal standards).

Philips analog technology has achieved' (ID at 200 n.120 [A353-354])”
(emphasis added); A00060 (Comm’n Opn. 23 n.18) (same); A000134 (Comm’n
Opn. 97) (speculative); *compare* A6735, A6765-6766 (cross-referencing A6965,
A7005-7007, A372) (IA’s argument to Commission) *with* A00133-A00135
(Comm’n Opn. 96-98, nn. 62-63).

The Commission also rejected respondents’ argument that by including the
Lagadec patent in the pools with the ‘825 and ‘856 patents, Philips prevented
competition from Sony. A00117-A00118 (Comm’n Opn. 80-81). The
Commission rejected respondents’ argument that “by tying” Sony’s “non-
essential” Ogawa ‘994 and Lagadec patents “into the CD-R Pool License, Philips
enabled Sony to collect vast royalties, thereby ensuring that Sony would not
develop an alternative, competing product with its non-essential patents” (A6910),
because respondents had “not identified evidence establishing that, if Sony’s
Ogawa ‘994 and Lagadec ‘565 patents were not included in the licenses, Sony
likely would have developed technologies that competed against the Orange Book
standard in a relevant market.” A00118 (Comm’n Opn. 81 and n.51).

In rejecting respondents’ argument, the Commission also cross-referenced
its discussion of “the IA’s closely related argument.” A00118 (Comm’n Opn. at
81) (cross-referencing subsection III.B.7 of the Commission opinion [A00122-

A00135]). As discussed above, the IA argued to the Commission that the “non-essential” Lagadec patent was included to give a share of the pool royalties to Sony and secure Sony’s loyalty to the Orange Book standard, and the Commission rejected that argument because the IA failed to identify record evidence to support it.²²

In support of their argument that Philips tied non-essential patents of Sony and Taiyo Yuden into the pools and prevented Sony and Taiyo Yuden from competing with it, respondents quoted a portion of a business review letter issued by the Antitrust Division of the Department of Justice that concerned price-fixing. A00118 (Comm’n Opn. 81) (discussing A6900 (Princo submission at 91) (quoting CX-358 at 9 [A03468-A03483, A03476])). The Commission cross-referenced its earlier rejection of respondents’ price-fixing theories concerning the Lagadec patent and reiterated that “the record does not support a finding that the Lagadec ‘565 patent competes with the ‘825 or ‘856 patents.”²³ *Id.* The Commission

²² The Commission also rejected Princo’s argument that the ‘825 and ‘856 patents satisfy the “commercially feasible alternative” standard under *Philips I*. A00117 (Comm’n Opn. at 80); *see also* Comm’n appeal brief § IV.C.

²³ The Commission noted elsewhere in its opinion that respondents had not identified any patents included in the CD-R pool licenses as allegedly competing with Sony’s Ogawa ‘994 patent, or with either of Taiyo Yuden’s Hamada patents. A00118, A00121 (Comm’n Opn. 81 n.51, 84). Taiyo Yuden did not participate in the CD-RW pool. A00515-A00516 (FF 49, 54-57). Princo did not argue that the

further stated that “[r]espondents also failed to identify evidence demonstrating that, absent the pooling arrangements, the pool licensors would have competed in the technology licensing market.” *Id.*

As noted above, the Commission also reversed the ALJ’s determination that the royalty rate structure of the CD-R/RW patent pools constitutes patent misuse under the rule of reason based on a price-fixing theory for failure to establish the requisite anti-competitive effect in a relevant market. *See supra* note 16; A00093-A00096 (Comm’n Opn. 56-59). In so doing, the Commission comprehensively rejected the alleged anti-competitive effects based on price-fixing that Princo presented to the Commission on remand. *See* A6886-A6887 (Princo submission at 77-78) (alleged anti-competitive effects of CD-R/RW pool license included royalty rates “substantially higher than industry norms”); A6888-A6889 (Princo submission at 79-80) (arguing that Philips fixed prices in the product market). Thus, the Commission found that the record evidence did not support respondents’ argument that royalty rates under the CD-R/RW pool licenses “were substantially higher than industry norms (ID at 401-402 (FF337, 343) [A554-A555]), and higher than the total rate that could have been charged for separate licenses to the

Ogawa ‘994 was included in the CD-RW pool. *See, e.g.*, A6898 (Princo submission at 89).

respective CD-R/RW patents of the pool members (ID at 372, 443-444 (F111, 578, 581-582) [A525, A596-A597]).” See A06886-A06887 (Princo submission at 77-78); A00091, A00093-A00096 (Comm’n Opn. 54, 56-59). The Commission also found that the record did not support the anti-competitive effects in the product market alleged by respondents (e.g., setting a price floor for CD-R/RWs prices).²⁴ A00096-A00097 (Comm’n Opn. 59-60). The Commission found that the record lacked evidentiary support for the market-wide anti-competitive effects based on price-fixing that respondents presented to the Commission on remand. *Id.*

E. The Present Appeal

On appeal, Princo abandoned all of its patent misuse theories, except for certain arguments based on the Lagadec patent. Specifically, Princo appealed the Commission’s remand final determination on three grounds: (1) the Commission erred in not finding that inclusion of the Lagadec patent in the CD-R/RW pool is an unlawful tying arrangement; (2) the Commission erred in not finding that inclusion of the Lagadec patent constitutes misuse per se under *Zenith Radio Corp. v Hazeltine Research, Inc.*, 395 U.S. 100 (1969); and (3) the Commission erred in not finding that inclusion of the Lagadec patent in the CD-R/RW pool

²⁴ As noted in the Commission’s appeal brief, Princo did not challenge the Commission’s rejection of those theories in this appeal. Comm’n appeal brief 15 n.15.

with Philips' '856 and '825 patents constitutes a horizontal price fixing agreement that is illegal per se and under the rule of reason.

F. The Panel Opinion

On April 20, 2009, the panel unanimously affirmed the Commission's rejection of Princo's tying argument, although on a ground not adopted by the Commission.²⁵ Op. at 16-20; Dissent at 1. In Subsection I.A of its opinion, the panel concluded that "inclusion of the Lagadec patent in the patent pool did not give rise to an illegal tying arrangement, because Claim 6 reasonably might be necessary as a blocking patent to the Orange Book standard." Op. at 18-19. The panel stated that, in the context of patent misuse through unlawful tying, "a blocking patent is one that at the time of the license an objective manufacturer would believe reasonably might be necessary to practice the technology at issue." Op. at 17. In Subsection I.B of its opinion, the panel rejected Princo's *Zenith* argument on the same reasoning. Op. at 21; Dissent at 3.²⁶

²⁵ As noted above, the dissent would also have affirmed the Commission's decision on the tying claim on grounds adopted by the Commission. Dissent at 1-3; *see supra* note 5.

²⁶ The dissent also rejected Princo's *Zenith* argument on the alternative, independent ground that the price of the joint license at issue "does not depend on whether the package also includes unwanted patents." Dissent at 4.

However, in Section II of its opinion, the panel majority concluded that the Commission erred in failing to adequately address whether Sony and Philips had agreed not to license Sony's Lagadec patent in a manner that would allow its development as competitive technology, "apparently concluding instead that no misuse could exist regardless of any such agreement."²⁷ Op. at 21-22. The panel majority also concluded that the Commission failed to determine whether "Lagadec was fundamentally incapable of being commercialized as part of an alternative standard." Op. at 29. The panel majority would have remanded to the Commission to determine "in the first instance" (1) the legal standard for invoking patent misuse in these circumstances, viz., "where on the continuum between 'certainly would have been viable' and 'certainly could not have been viable' the appropriate standard [to invoke the patent misuse defense] lies" and (2) whether the evidence satisfies the standard. Op. at 32. In Section III of its opinion, the panel majority concluded that a remand was also necessary for the Commission to determine "whether there was in fact an agreement between Philips and Sony to prevent the licensing of Lagadec as a competitor to the Orange Book." Op. At 33-

²⁷ As detailed in the Commission's Combined Petition for Rehearing and Rehearing En Banc, the panel majority's conclusion stems from a misapprehension of what Princo argued to the Commission and what the Commission decided.

38. The dissent disagreed with the majority's analysis, and would have affirmed the Commission's final determination. Dissent at 4-10.

G. The Petitions for Rehearing

On June 18, 2009, the Commission petitioned for rehearing and rehearing en banc. The Commission stated that Princo never argued to the Commission that Philips and Sony had agreed not to license the Lagadec patent as competitive technology to the Orange Book, and therefore, the Commission did not err in not considering issues that were never presented. The Commission also argued that the panel majority's instruction to the Commission to determine on remand the appropriate viability standard under the rule of reason was unclear in that it did not address the definition of the relevant market in which the adverse effect on competition as a whole is to be shown. The Commission further argued that the panel majority's conclusion that the Commission failed to determine whether Lagadec was a potentially workable alternative to the Orange Book standard was based on a misapprehension of the Commission's final determination.

On the same day, Philips petitioned for rehearing en banc on three grounds:

(1) the Court should not remand for consideration of arguments not previously made to the Commission; (2) the panel majority's analysis departed from

established misuse and antitrust law; and (3) the panel majority's analysis substantially expanded the reach of patent misuse doctrine.

Princo petitioned for rehearing en banc of the panel's unanimous rejection of Princo's tying argument.²⁸

H. The En Banc Order

On October 13, 2009, the Court denied Princo's petition and granted the petitions for rehearing en banc of Philips and the Commission. The Court established a sequence for supplemental briefing, "addressing primarily those issues originally decided in Section II" of the panel opinion.

SUMMARY OF ARGUMENT

In its final determination on remand, the Commission correctly concluded that Princo had failed to establish its defense of patent misuse and that there was a violation of section 337. Princo never argued to the Commission that Philips and Sony agreed not to license the Lagadec patent as competitive technology to the Orange Book. The Commission thus did not err in not considering issues that were never presented to it. *United States v. L.A. Tucker Truck Lines, Inc.*, 344 U.S. 33, 37 (1952).

²⁸ Princo filed a corrected petition on June 24, 2009.

Even if Princo had raised the issue of the supposed agreement before the Commission, the Commission's findings of fact and Princo's admissions and omissions in this investigation establish that Princo could not show, on the record before the Commission, that any such agreement could have had the result hypothesized by the panel majority, viz., preventing the Lagadec technology from becoming a viable competitor to the Orange Book. The panel majority's incorrect conclusion that it is an open question whether Lagadec was a potentially workable alternative to the Orange Book technology is based on a misapprehension of the record and the Commission's final determination.

Accordingly, the full Court should affirm the Commission's final determination.

ARGUMENT

I. Standard of Review

This Court reviews the Commission's legal determinations *de novo*; it reviews the Commission's factual findings for substantial evidence. *Corning Glass Works v. U.S. Int'l Trade Comm'n*, 799 F.2d 1559, 1565 (Fed. Cir. 1986).

II. Princo Never Argued to the Commission that Philips and Sony Agreed Not to License the Lagadec Patent as Competitive Technology to the Orange Book

In Section II of its opinion, the panel majority misunderstood the Commission's final determination as having rejected an argument that Princo had not presented to the Commission, *viz.*, Princo's supposed argument "that Philips and Sony agreed not to license Lagadec in a way that would allow a competitor 'to develop, use or license the [Lagadec] technology to create a competing product.'" Op. at 21-22 (quoting Appellants' Reply Br. 1). Although the panel majority recognized that "[t]he Commission did not directly address whether there was an agreement to prevent Lagadec from being licensed as a competing technology," as detailed in part III.A of the Commission's petition for rehearing, the panel majority referred to a portion of the Commission's rejection of arguments that Princo did raise, but misapprehended it as a rejection of Princo's supposed argument, an argument that Princo had not presented. The Commission did not err in not considering issues that were never presented to it. *L.A. Tucker Truck Lines*, 344 U.S. at 37 ("[O]rderly procedure and good administration require that

objections to the proceedings of an administrative agency be made while it has opportunity for correction in order to raise issues reviewable by the courts.”²⁹

Princo has not identified any point in its 102-page submission to the Commission on remand where Princo presented the argument that Philips and Sony agreed not to license the Lagadec point as competitive technology to the *Orange Book*. Instead, in response to the Commission’s petition, Princo contended that that argument was somehow implicit in, as a “component of,” various theories that it actually did present to the Commission on remand. For the reasons discussed below, Princo’s reliance on those other arguments is misplaced.

Furthermore, Princo’s very reliance on such “component” arguments is further evidence that Princo waived its argument by failing to present it to the Commission. Princo is reduced to such arguments because it cannot point to any section of its submission to the Commission on remand that actually presents its supposed argument that Philips and Sony agreed not to license the Lagadec patent as competitive technology. If Princo had actually presented its argument to the Commission, Princo would have identified to the Commission the legal standard

²⁹ See also *Checkpoint Sys. v. U.S. Int’l Trade Comm’n*, 54 F.3d 756, 760 (Fed. Cir. 1995); *Wallace v. Dep’t of the Air Force*, 879 F.2d 829, 832 (Fed. Cir. 1989) (“issue must be raised with sufficient specificity and clarity that the tribunal is aware that it must decide the issue, and in sufficient time that the agency can do so”); *Murakami v. United States*, 398 F.3d 1342, 1354 (Fed. Cir. 2005).

under which the supposed agreement would constitute patent misuse. It did not. The fact that the panel majority found it necessary to instruct the Commission to determine the appropriate legal standard on remand evidences Princo's failure. If Princo had raised its supposed argument before the Commission, the question of the appropriate standard would also have been argued by Princo and developed below for consideration on appeal.

Further, if Princo had presented its argument to the Commission, it would have attempted to support its argument by identifying record evidence of the supposed agreement between Philips and Sony not to license the Lagadec patent as competitive technology to the Orange Book and record evidence that the Lagadec patent was a potentially workable alternative to the Orange Book technology. It did not.

A. Princo's General Assertions that Philips, Sony, Taiyo Yuden, and Ricoh Agreed to License Their CD-R/RW Patents as a Mandatory Package Are Not an Argument that Sony and Philips Agreed Not to License the Lagadec Patent as Competitive Technology to the Orange Book

Princo contends that it "argued" to the Commission that "Philips and Sony had agreed not to license the Lagadec patent separately from the package license, at all." Princo Corporation and Princo America Corporation's Response to International Trade Commission's Petition for Rehearing En Banc at 2 ("Princo

response”) (July 23, 2009). In support of that assertion, Princo relies primarily on a paragraph from the “Factual Background” section of its brief to the Commission on remand. See Princo response 2 (citing A06819). Princo also cites other isolated statements in the same “Factual Background” section to the effect that the pool licenses were mandatory package licenses. See Princo response 2 (citing A06820, A06826, A06832). Even if the Commission were required to construe statements in the “Factual Background” section as raising an “argument,” the assertion that all of the pool licensors agreed to offer a patent pool on an all-or-nothing basis as a mandatory package license for purposes of making Orange Book compliant CD-R/RW discs is not an argument that two of the pool licensors (Sony and Philips) agreed that a particular patent contained in the pool (*viz.*, Lagadec) would not be licensed as a basis for some other technology to compete against the Orange Book.

Relying primarily on section VII.A of its brief to the Commission on remand,³⁰ Princo asserted that it argued that “Philips’ and Sony’s agreement to combine their patents in a single pool and not to license them individually was a

³⁰ Section VII.A of Princo’s brief to the Commission on remand is entitled “Philips Used Its Market Power And Combination With Its Horizontal Competitors Sony, Taiyo Yuden And Ricoh To Unreasonably Restrain Competition.” A6858.

combination between horizontal competitors, which enabled them to prevent the emergence of ‘a competing alternative to the CD-R and CD-RW disc.’”³¹ Princo response 3 (citing A06858, A6864³²). But the general argument that Princo actually made to the Commission about the pool licensors’ (Philips, Sony, Taiyo Yuden, and Ricoh) decision to form “one non-negotiable, mandatory patent pool license” (A6858) is not an argument that Philips and Sony agreed not to license

³¹ Princo’s quotation is drawn from the following paragraph:

When Philips decided to commercialize its recordable CD technology and patents, it could have—and should have—licensed its patents individually. Instead, Philips chose to combine with its most likely competitors. Judge Harris found that Philips combined its patents with the patents of its horizontal competitors Sony, Taiyo Yuden and Ricoh. (ID at 175-178 [A328-A331].) With Philips’ market power, Philips’ patents, and its horizontal competitors’ patents locked up in one non-negotiable, mandatory patent pool license; remaining competitors never stood a chance. History has shown that competition was unable to develop *a competing alternative to the CD-R and CD-RW disc*. These products are so dominant that they constitute their own relevant market. (ID at 385-393 (FF188-240) [A538-A546].)

A6858 (emphasis added).

³² Princo’s second citation (A6864) appears to be a reference to the statement that “Philips was able to achieve its anti-competitive price by creating the patent pool and combining with its horizontal competitors.” A6864. None of the above-cited material from Princo’s brief to the Commission on remand concerns an agreement specific to Philips and Sony, or an agreement not to license the Lagadec patent as a competitor to the Orange Book.

the Lagadec patent in a manner that would prevent the emergence of a competing alternative technology. Further, Princo's selective quotation suggests that Princo argued to the Commission that an agreement between Philips and Sony not to license their patents individually enabled Philips and Sony to prevent the emergence of a "competing alternative to the CD-R and CD-RW disc." But Princo only argued that "History has shown that competition was unable to develop a competing alternative to the CD-R and CD-RW disc." A6858.

B. Princo's Argument that Philips and Sony "Joined Forces" Is Not an Argument that Philips and Sony Agreed Not to License the Lagadec Patent as Competitive Technology to the Orange Book

Princo argued that its brief to the Commission on remand elaborated that (1) "Philips and Sony joined forces . . . rather than competing with each other by developing separate, competing technologies" and "agreed to jointly license their patents in a single, non-negotiable, mandatory pool license," and (2) "through the power obtained by combining patent rights, Philips established control over the market for recordable CD technology." Princo response 3 (quoting A6859). But Princo's selective quotation from its brief to the Commission on remand distorts the "join[ing] forces" argument that it actually presented to the Commission. Rather than arguing to the Commission that Philips and Sony agreed not to license the Lagadec as competitive technology to the Orange Book, Princo argued that

“Philips and Sony *joined forces to develop recordable CD technology*, rather than competing with each other by developing separate, competing technologies.”

A6859 (emphasis added) (citation omitted).

Princo’s brief to the Commission on remand states as follows:

Philips and Sony joined forces to develop recordable CD technology, rather than competing with each other by developing separate, competing technologies. (ID at 356-57 (FF1-8) [A509-A510].) Philips and Sony developed CD-R/RW formats around their patented technologies, and codified mandatory use of their patents in the Orange Book. Philips and Sony agreed to jointly license their patents in a single, non-negotiable, mandatory pool license. *Philips*, 424 F.3d at 1182. Licensees were forced to take a license under patents they did not want – and did not need. (ID at 407 (FF376) [A560].)

A6859. The above-cited paragraph does not refer to an agreement between Philips and Sony *not* to license the Lagadec patent (or any other patent) as a competitor to the Orange Book. Rather, Princo argued that “Philips and Sony developed CD-R/RW formats around *their* patented technologies, and codified mandatory *use of their patents* in the Orange Book,” “agreed to jointly license *their patents*” in a single, mandatory pool and “[l]icensees were *forced to take a license under patents* they did not want – and did not need.” A6859 (emphasis added).

Obviously, this is not an argument that Philips and Sony somehow agreed not to license the Lagadec patent as a competing technology to the Orange Book. As

discussed further below,³³ Princo's argument to the Commission was that Philips and Sony "joined forces" to work together on CD-R/RWs in order to avoid competition (A6858-A6859 (citing Heemskerk deposition)), an argument that the Commission correctly rejected.³⁴

As to Princo's other "elaboration" (viz, that "by combining patent rights" Philips "established control over the market"³⁵), Princo appears to rely on one- or two-sentence excerpts from its arguments that (a) the minimum royalty rate for the pool license and the price for CD-R/RWs were "fixed" by Philips at anti-competitive rates (A6859-A6860), (b) the minimum pool royalty set a floor on the

³³ See discussion *infra* pages 48-51 (addressing arguments raised in part II of Princo's July 23, 2009, response to the Commission's petition for rehearing).

³⁴ As detailed in the Commission's petition for rehearing, the Commission rejected the testimony cited by Princo as support for its "joining forces" assertions because that testimony related to discussions between Philips and Sony regarding the CD-DA specification, not the Orange Book. Comm'n petition 7 n.4; A63 (Comm'n Opn. 26). The Commission also noted the evidence in the record that Philips and Sony decided to work together for technical reasons. A62 (Comm'n Opn. 25 n.21)

³⁵ The source of Princo's quotation is the following: "Judge Harris found that through the power obtained by combining patent rights, Philips established control over the market for recordable CD technology. (ID at 390-393 (FF220-240) [A00543-A00546])." The cited findings of fact (FF220-240) also do not mention the Lagadec patent.

price of CD-R/RW discs in the product market (A6869),³⁶ and (c) the anti-competitive effects of the pool licenses included pool royalty rates that “were substantially higher than industry norms” and “higher than the total rate that could have been charged for separate licenses to the respective CD-R/RW patents of the pool members” (A6886-A6887) (citations omitted).³⁷ See Princo response 3

³⁶ Princo’s citation (A6869) is to a portion of section VII.B.3 of Princo’s brief to the Commission on remand. Section VII.B.3 is entitled “Philips Fixed CD-R/RW Disc Prices By Charging An Anti-Competitive Minimum Royalty.” A06869. That section includes the statement: “Judge Harris found that obtaining control over the patents of Sony, Taiyo Yuden and Ricoh allowed Philips to ‘fix prices at higher than competitive levels’ on the sales price of CD-R/RW discs. (ID at 178.)” A6869.

³⁷ Princo had argued to the Commission as follows:

The record clearly supports [the ALJ’s] findings of patent misuse under the rule of reason. Philips used the CD-R/RW licenses to obtain market power and combined with its horizontal competitors to fix higher royalty rates than would have been possible without the leverage of the CD-R/RW Pool License. The royalty rates under these licenses were substantially higher than industry norms (ID at 401-402 (FF337, 343) [A00554-A00555], and higher than the total rate that could have been charged for separate licenses to the respective CD-R/RW patents of the pool members. (ID at 372, 443-444 (FF111, 578, 581-582) [A00525, A00596-A00597].) This higher royalty rate was made possible by the CD-R/RW Pool Licenses which enabled Philips’ dominant market power over CD-R/RW technology, and enabled Philips to gain control over the CD-R/RW patents of Sony, Taiyo Yuden and Ricoh. Philips’ CD-R/RW Pool License program allowed it to maintain these high royalty rates in the face of sweeping market changes (i.e., dramatically falling CD-R/RW prices). Philips even used the pool to charge for non-existent Sony

(citing A6859, A6886-87, A6869).³⁸ Notably, the material cited by Princo refers to conduct among the pool licensors generally, rather than to specific conduct between Philips and Sony, and to supposed anti-competitive effects on prices in the product and licensing markets for Orange Book CD-R/RWs, rather than in

patents in Taiwan. (ID at 404 (FF355) [A00557]). Philips further harmed competition by burdening manufacturers with those high royalty rates, and effectively setting a price floor for sales of CD-R/RW discs. Even when the pool was ruled illegal and Philips began offering Philips Only Licenses, the misuse was not purged [footnote omitted] because Philips used its power to charge an even more unreasonable and anti-competitive royalty rate.

A06886-A06887. The cited findings of fact (FF111, 337, 343, 355, 578, 581-582) also do not mention the Lagadec patent.

³⁸ Princo also attempts to rely on its April 18, 2006, submission to the Commission responding to Philips' February 21, 2006, submission to the Commission on remand. Princo response 3 (citing A7750-51). Princo cannot remedy its failure to present an argument to the Commission that it could have presented in its 102-page submission of February 21, 2006, by presenting that argument in its April 18, 2006, submission in response to Philips' submission. In any event, in that submission Princo argued that—

Philips' patent tying was also anti-competitive because it induced Sony and Taiyo Yuden to combine with Philips (in exchange for a very large royalty stream), rather than act as horizontal competitors and compete against Philips. The combined power of these horizontal competitors created a patent thicket so dense that competitors could not compete.

A7750-7751. There is no argument here that Philips and Sony agreed not to license the Lagadec patent as a competitor to the Orange Book.

some other market. There is no mention of any agreement not to license the Lagadec patent as competing technology to the Orange Book; indeed the cited material does not mention the Lagadec patent.

Furthermore, in its brief to the Commission on remand, Princo asserted that the Commission's finding that Philips had market power in the relevant market was the "law of the case." A06818; *accord* A6858. However, although the Commission found that Philips had market power in the relevant market (and specifically identified the relevant market as "the United States market for licensing the essential U.S. patents for the manufacture of CD-R/RW discs in compliance with Orange Book standards"), the Commission did not find that Philips' market power was acquired by combining the patents of horizontal competitors. *See* A00051 (Comm'n Opn. 14 n.12); A06550-A06551 (Comm'n 2004 Opn. 26-27).³⁹

³⁹ Furthermore, the Commission elsewhere stated that Princo made no showing and did not point to evidence establishing that "the pool licensors would have competed in the technology licensing market absent the pooling arrangement." A00060, A00063, A00118 (Comm'n Opn. 23, 26, 81).

C. Princo's Supposed "Technology Suppression" Arguments Are Not Arguments that Philips and Sony Agreed Not to License the Lagadec Patent as Competitive Technology to the Orange Book

In its response to the Commission's petition, Princo tried and failed to recast certain tying arguments that it presented to the Commission in its submission on remand as a "technology-suppression theory with respect to the Lagadec patent."⁴⁰

See Princo response 3-4 (citing A6898-A6900, A6901-A6903, A6887-A6888).

But Princo never argued that Philips and Sony agreed not to license the Lagadec patent as competing technology to the Orange Book. Rather, Princo argued to the Commission that, unless Sony's "non-essential" patents were included in the CD-

⁴⁰ Princo relies on two subsections of that portion (VIII.B) of its submission to the Commission on remand alleging anti-competitive effects sufficient to support a finding of patent misuse under the rule of reason. A6886-A6888. Subsections VIII.B.4.b and VIII.B.4.c are entitled "Philips Tied Sony and Taiyo Yuden Non-Essential Patents Into the Pools to Restrain Competition" (A6897-A6900) and "Philips Tied Non-Essential Patents To The Licensing Of Essential Patents, Thereby Hurting Competition" (A6900-A6903). Princo also relies on selective quotations from another tying discussion in the same portion of its submission to the Commission on remand (*i.e.*, VIII.B), which reads as follows:

Tying non-essential patents was crucial to Philips' anti-competitive scheme, because if, for example, there were no Sony patents in the CD-R or CD-RW Pool License, Sony would have been free to compete with Philips. In fact, if Sony (or Taiyo Yuden or Ricoh) were not in the pool, their economic incentive would have been to compete with Philips, instead of combining with Philips. Thus, tying non-essential patents negatively affected competition.

A6887-A6888.

R/RW pools (the Lagadec and Ogawa '994 patents in the CD-R pool and the Lagadec patent in the CD-RW pool), Sony would not share in the pool royalties. A6898-A6899, A6903. Princo argued that by tying "non-essential" patents into the pools, Philips gave Sony an economic incentive not to compete with Philips. A6887-A6888; A6898; A6903. Princo argued at length that the Lagadec and Ogawa '994 patents are "non-essential," because establishing that fact was necessary (but not sufficient) to prove its theory of anti-competitive effect.⁴¹ A6898-6899, A6901-A6903, A6908-A6910. In contrast, Princo did not allege and did not attempt to prove an agreement between Philips and Sony not to license the

⁴¹ Princo could have presented argument and evidence to the Commission to establish that, if Sony's "non-essential" Lagadec patent was not included in the CD-RW pool or if Sony's "non-essential" Lagadec and Ogawa '994 patents were not included in the CD-R pool, Sony could and would have competed with Philips in some market. It did not. The Commission found that respondents failed to identify evidence demonstrating that, absent the pooling arrangements, the pool licensors would have competed in the technology licensing market. A118 (Comm'n Opn. at 81). Princo's conclusory assertion that the "vast royalties" from the CD-R pool licenses available to Sony because of the tied nonessential patents "ensur[ed] that Sony would not develop an alternative, competing product with its non-essential patents" (A6910; *see also* A6898) was rejected by the Commission for lack of evidentiary support. A118 (Comm'n Opn. 81 n.51). The Commission correctly found that respondents "ha[d] not identified evidence establishing that, if Sony's Ogawa '994 and Lagadec '565 patents were not included in the licenses, Sony likely would have developed technologies that competed against the Orange Book standard in a relevant market." *Id.*

Lagadec patent (or the Ogawa '994 patent) as competing technology to the Orange Book.

Princo also attempts to rely on the argument that it presented to the Commission on remand concerning the restrictive use provision in the licenses. *See* Princo response 4-5 (citing A06892). First, although respondents there argued to the Commission that “[a]ccording to the license grant, licensees may not use . . . [the CD-R/RW pool patents] for a product outside the scope of the Orange Book” (A06892), the argument presented to the Commission did not mention an agreement with Sony or the Lagadec patent. *See* A06892. Moreover, Princo fails to inform the Court that the Commission specifically rejected respondents’ restrictive use argument because, although respondents raised the argument before the ALJ, the Commission concluded that Princo waived the argument by failing to present it to the Commission on review. A00104-A00105 (Comm’n Opn. 67-68); *see* Respondents’ submission on review (Jan. 9, 2004).

D. The Commission Did Not Consider Princo’s Unraised, Unpresented Argument that Philips and Sony Agreed Not to License the Lagadec Patent as Competitive Technology to the Orange Book

Contrary to Princo’s contention in part II of its July 23, 2009, response to the Commission’s petition, the Commission did not address Princo’s unraised,

unpresented argument in its opinion. Princo response at 5-7 (citing A00061-A00063). There is no ambiguity in the Commission's rejection of Princo's "joining forces" argument: "Respondents' argument is not persuasive because respondents have not pointed to evidence that establishes that, absent the pooling arrangements, the pool licensors would have competed in the technology licensing market. Respondents again rely on deposition testimony (*Heemskerk*) relating to discussions between Philips and Sony regarding the CD-DA specification, not the *Orange Book*. See *Heemskerk Dep. Trans.* at 126:4-127:20." A00063 (Comm'n Opn. 26) (emphasis added). The Commission found the deposition testimony cited by Princo did not support the inference that Philips and Sony somehow chose to work together to avoid competition, particularly in view of the record evidence identified by the Commission that Philips and Sony worked together for technical reasons.

Thus, as discussed previously, Princo never argued to the Commission that Philips and Sony had agreed not to license the Lagadec patent as a competitor to the *Orange Book*. See A06858-A06860 (Princo submission 49-51 (§ VII.A)). Relying on certain deposition testimony, Princo argued that Philips decided to work with Sony on CD-R/RWs for the purpose of avoiding competition. A06858-A06859 (Princo submission 49-50). The Commission declined to infer from

deposition testimony concerning discussions about non-Orange Book technical standards that Philips and Sony were “potential horizontal competitors” who had chosen to work together on CD-R/RW technology rather than to compete.

A00061-A00063 (Comm’n Opn. 24-26). The Commission addressed Princo’s argument and an earlier argument -- presented by Princo in a 2004 submission -- that also relied on deposition testimony concerning a non-Orange Book specification from the same deponent. A00061-A00063 (Comm’n Opn. 24-26). The Commission rejected both of Princo’s arguments because the deposition testimony offered in support of each of the arguments concerned other technical specifications – not the Orange Book specification. A00062-A00063 (Comm’n Opn. 25-26). Moreover, the Commission specifically pointed out evidence in the record that Philips and Sony decided to work together for technical reasons.⁴²

A00062 (Comm’n Opn. 25 n.21); *see also* A00134 (Comm’n Opn. 97 n.63). The

⁴² The very findings of fact cited by Princo in support of its argument that Philips and Sony joined forces to avoid competition (A06859 (Princo submission at 50) (citing ID 356-57 (FF1-8) [A00509-A00510])), record testimony cited by the ALJ in support of those findings, and additional record testimony (*viz.*, A00988-A00989 (Trans. (Mons) 464-66, 468)), were cited by the Commission in support of its finding that “Mons took the position that Philips partnered with Sony for technical reasons.” *See* A00062 (Comm’n Opn. 25 n.21); A00134 (Comm’n Opn. 97 n.63 (“Mons took the position that Philips partnered with Sony for technical reasons”). (In footnote 63, the cross-reference to “note 22” should read “note 21.”))

Commission comprehensively rejected Princo's argument that Philips and Sony were potential horizontal competitors who chose to work together for the purpose of avoiding competition.

Nor can the Commission's summation and quotation from the case law be understood as suggesting that the Commission considered a purported agreement between Philips and Sony not to license the Lagadec patent in competition with the Orange Book. Contrary to Princo's contention, there is no such suggestion in the Commission's summation. See Princo response at 7 (citing A00063 (Comm'n Opn. 26)). The Commission's summation reads:

In sum, because there has been no showing that the patents in the pool are substitutable, *the agreement between the licensors to set a fixed royalty for joint licenses under the pool* is not price fixing per se in the market for licensing CD-R/RW patents. "An agreement among persons who are not actual or potential competitors in a relevant market is for Sherman Act purposes *brutum fulmen* [an empty threat]." *United States v. Sargent Elec. Co.*, 785 F.2d 1123, 1127 (3d Cir. 1986) (bid rigging conspiracy).

A00063 (Comm'n Opn. 26) (emphasis added). In making its argument, Princo disingenuously ignores the fact that the Commission specifically identified the "agreement between the licensors" as the agreement to set a fixed royalty for the joint licenses. Princo did not present to the Commission, and the Commission did

not consider, an agreement between Philips and Sony not to license the Lagadec patent in competition with the Orange Book.

III. On the Record Before the Commission, Princo Cannot Show That the Supposed Agreement Between Philips and Sony Could Have Had the Result Hypothesized by the Panel Majority, Namely, Preventing the Lagadec Technology from Becoming a Viable Competitor to the Orange Book

The panel majority found it unnecessary to analyze the supposed agreement under the per se rule, because the panel majority concluded that “if proven” the supposed agreement between Philips and Sony not to license the Lagadec patent as competing technology to the Orange Book would violate the rule of reason.⁴³ Op. at 23 n.11. The panel majority stated that “[t]he thrust of Princo’s argument is that by agreement Lagadec was effectively suppressed; the result of that suppression was that the technology could not become a viable competitor.” Op. at 30 (emphasis added). Rather than “requiring stringent proof of the destruction of future competition, with its accompanying imponderables,” the panel majority would have directed the Commission to identify on remand the viability standard for an allegedly suppressed technology that would ineluctably lead to a rule of

⁴³ The panel majority elsewhere stated that if there were no such agreement, there would be no misuse under Princo’s theory. Op. at 36.

reason violation – if the Commission were also to conclude that the existing administrative record supported the existence of the supposed agreement.

However, the panel majority also recognized that Princo bears “the burden of proving misuse, and the corresponding risk of having made an insufficient record.” Op. at 36. Although the Commission did not determine whether Philips and Sony agreed not to license the Lagadec technology as a competitor to the Orange Book – because Princo did not present that argument to the Commission – the Commission’s findings of fact and Princo’s admissions and omissions in this investigation establish that, on the record before the Commission, Princo could not show that any such agreement could have had the result hypothesized by the panel majority, viz., preventing the Lagadec technology from becoming a viable competitor to the Orange Book. This is so because the panel majority incorrectly concluded that whether Lagadec was a potentially workable alternative to the Orange Book technology is an open question. However, the Commission found that the Lagadec viability issue is not an open question, and substantial evidence supports the Commission’s determination on that point.

A. The Panel Majority Incorrectly Concluded that the Commission Failed to Determine Whether Lagadec Was a Potentially Workable Alternative to the Orange Book Technology

As detailed above, the Commission concluded that the record in this investigation does not support a finding that the Lagadec '565 patent competes with the '825 or '856 patents. A00061 (Comm'n Opn. 24). In reaching that conclusion, the Commission stated that –

[t]he ALJ concluded that “Lagadec constitutes, at best, a substitute technology for the ATIP standard, and at worst, an extraneous, non-working add-on to the patent pool.” ID at 201 [A00354]. Notably, even if Lagadec is a substitute technology for the ATIP standard, it is not a substitute technology that can be used to manufacture Orange Book compliant CD-R/RW discs.

A00061 (Comm'n Opn. 24). The Commission went on to note that –

[r]espondents have pointed to no evidence that the Lagadec approach is a commercially viable technological alternative to the technology of Philips' '825 or '856 patents. Moreover, the commercial viability of a method that is prone to errors, unreliable, and unworkable is doubtful. *See* Trans. (Hesselink) at 2581, 2585 [A01728-A01729].

A00061 (Comm'n Opn. 24 n.20). According to the panel majority, “[t]he Commission did not determine that Lagadec was fundamentally incapable of being commercialized as part of an alternative standard, but merely that it was not workable within the context of existing Orange Book technology.”⁴⁴ Op. at 29.

⁴⁴ The dissent disagreed. Dissent at 7 n.2.

This is not correct. The above-quoted finding in footnote 20 of the Commission's opinion should not be restrictively understood as a reference to the unworkability of the Lagadec patent "merely . . . within the context of Orange Book technology."

Footnote 20 follows the Commission's statement that "even if Lagadec is a substitute technology for the ATIP standard, it is not a substitute technology that can be used to manufacture Orange Book compliant CD-R/RW discs." A00061 (Comm'n Opn 24). Footnote 20 supplements that Orange Book-specific statement with a related, but broader, finding. The ALJ concluded that Lagadec is "at best" a substitute technology for the ATIP standard of the Orange Book and "at worst" a non-working add-on to the pool. The Commission found (1) that Lagadec is not a substitute that can be used in manufacturing Orange Book compliant discs, and further, (2) that respondents – who had the burden of proof on misuse – pointed to no evidence of the Lagadec approach's "commercial viability" as a technological alternative to the technology of Philips' '825 or '856 patents generally. Moreover, the Commission went on to find the commercial viability of the Lagadec approach to be "doubtful" given that the method "is prone to errors, unreliable, and unworkable." A61 (Comm'n Opn. 24 n.20).

B. Substantial Evidence Supports the Commission's Finding

As noted above, the dissent disagreed with the panel majority's conclusion that the Commission had determined only that Lagadec "was not workable within the context of existing Orange Book technology." Dissent at 7 n.2. The dissent noted that "[t]he expert who testified that the Lagadec approach was 'prone to errors' (and whose testimony was credited by the administrative law judge) identified several problems with Lagadec's approach that were not restricted to the viability of Lagadec as a component of the Orange Book platform. For example, the expert noted that 'from basic physics, you can just see that [Lagadec's approach] is not a good solution, and it really wouldn't work well.'"⁴⁵ *Id.*; *see also* A01728-A01729 (Trans. (Hesselink) 2581:7-14, 2585:1-13).

The panel majority discounts the expert testimony as "volunteered . . . during testimony related to the validity of the Raaymakers '825 and '856 patents, not in the context of whether Lagadec could have been a competitive alternative to the Orange Book technologies." *Op.* at 29 n.13. As noted above, although Princo did not mention the Lagadec patent in the misuse arguments that it presented to the ALJ, Princo presented invalidity arguments based on Lagadec as prior art. It is too

⁴⁵ The Commission's ALJ credited the expert's testimony, and repeatedly cited and quoted the expert's testimony in the patent misuse portions of the ID. A00350-A00354 (ID 197-201), A00576-A00579 (FF457-FF470).

late for Princo to challenge the findings that the ALJ made regarding the Lagadec approach:⁴⁶

FF94. Because the approach in the Lagadec patent has only one area in the code where a distinction is made between a “1” and a “0,” the measurement is *prone to errors* and decoding is difficult to carry out. [A1728] Hesselink Tr. 2581-2582; CX-619C, ‘825 Slide 4; [A00818-A00830] RX-177

A00470 (ID 317) (emphasis added). The ALJ further found that –

FF96. The low-frequency components generated by the approach disclosed in the Lagadec patent interfere with the velocity control of the disc. [A1728] Hesselink Tr. 2581.

FF97. The low-frequency components *cannot be filtered out* of the Lagadec patent because those components are necessary to encode the position information. [A1729] Hesselink Tr. 2583-2584; CX-619C, ‘825 Slide 7.

A00471 (ID 318) (emphasis added). Although Princo argued in its panel reply brief that the “defect” identified by the expert – and credited by the ALJ – (*viz.*, the problem of interference at the low end of the frequency spectrum) could be

⁴⁶ Princo did not petition for review of the ALJ’s initial determination, and the Commission adopted the findings of fact at issue in 2003. 19 C.F.R. §§ 210.43(b)(2), (4) (issues not raised to the Commission in a petition for review are abandoned).

overcome by a “digital highpass filter,”⁴⁷ the Commission adopted the above-quoted contrary findings of fact in 2003.⁴⁸

As discussed above, Princo did not argue to the Commission that Philips and Sony agreed not to license the Lagadec patent as competing technology to the Orange Book, and Princo did not argue or produce evidence that Lagadec could have been developed into a viable competing technology to the Orange Book technology.⁴⁹ But Princo did rely on the expert testimony in question in the misuse arguments that it presented to the Commission on remand. *See, e.g.*, A6901-6903. In fact, Princo told the Commission on remand that “Dr. Hesselink confirmed Mr. Mons’s testimony that Philips considered the digital modulation approach of Lagadec and the analog frequency modulation of Philips’ ‘856 and ‘825 patents, and decided to go with the analog modulation approach because the

⁴⁷ Reply Brief of Appellants Princo Corporation and Princo America Corporation at 9-10 (citing A1729, A3276, A3280-A3281); *see also* Op. at 32 n.14.

⁴⁸ As noted above, Princo cannot now challenge these findings.

⁴⁹ The IA specifically relied on the expert testimony in question in his proposed finding of fact to the ALJ that [[
]] and Princo affirmatively stated to the ALJ that it had “[n]o objection” to that particular proposed finding of fact. Respondents Princo Corp., Princo America Corp., Gigastorage Corp. Taiwan, Gigastorage Corp. USA, and Linberg Enterprises, Inc.’s Proposed Rebuttal Findings of Fact and Conclusions of Law Regarding Patent Misuse at 241 (Filed July 22, 2003).

Lagadec approach would not work with a CD-R/RW system.” A6902 (Princo submission at 93) (emphasis in original).

Princo could have argued to the Commission that the Lagadec patent could have been developed into a viable, competing technology to the Orange Book technology. Princo failed to do so. As explained by the dissent:

The Commission did not require a showing that Lagadec could have been used without further development to create a commercially successful technology. To the contrary, even though Princo did not point to any evidence of a realistic possibility that the Lagadec invention could be developed into competing technology in the foreseeable future, the Commission’s analysis encompassed the possibility of future developments. Nonetheless, the Commission found no evidence that Lagadec would have been likely to lead to competing technology but for the pooling arrangements. Princo failed to show a likelihood that the digital method of encoding position data recited in the Lagadec patent would lead to the development of discs that would use that technology instead of the Orange Book analog method of encoding position data, and that the digital encoding technology would be used in discs and disc readers that would compete with Orange Book compatible systems. As the Commission explained, unless the competing technology would have entered the market “to become a significant competitive force,” it could not have augmented future competition in an important way. Yet the Commission found that the record contained no evidence that Sony would have entered the market and become a significant competitive force. Final Determination 98 [A135].

Dissent at 8-9.

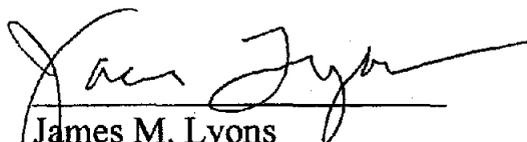
In sum, the Commission found the commercial viability of the Lagadec approach to be “doubtful.” A61 (Comm’n Opn. 24 n.20). Substantial evidence –

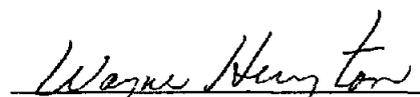
credible testimony that the Lagadec approach was prone to errors, unreliable, and unworkable – supports that finding. A61 (Comm'n Opn. 24 n.20) (citing Trans. (Hesselink) at 2581, 2585) (A1728-A1729). To the extent the record fails to support Princo's supposed argument, the fault rests with Princo – who has the burden of proof – for failing to raise the argument or providing a record to support it.

CONCLUSION

For the foregoing reasons, the full Court should affirm the Commission's determination.

Respectfully submitted,


James M. Lyons
General Counsel


Wayne W. Herrington
Assistant General Counsel


Clara Kuehn
Attorney-Advisor
U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436
(202) 205-3012

January 12, 2010

Attorneys for Appellee

CERTIFICATE OF SERVICE

I, Clara Kuehn, hereby certify on this 12th day of January 2010, that true and correct copies of the attached confidential and nonconfidential **BRIEF OF APPELLEE INTERNATIONAL TRADE COMMISSION ON REHEARING EN BANC** were served via Federal Express upon the following:

On behalf of Princo Corporation and Princo America Corporation:

Eric L. Wesenberg, Esq.
ORRICK, HERRINGTON & SUTCLIFFE LLP
1000 Marsh Road
Menlo Park, CA 94025

On behalf of U.S. Philips Corporation:

Edward C. DuMont, Esq.
**WILMER CUTLER PICKERING HALE
AND DORR LLP**
1875 Pennsylvania Avenue, N.W.
Washington, DC 20006


Clara Kuehn
Attorney for Appellee

CERTIFICATE OF COMPLIANCE WITH RULE 32(a)(7)(B)

Pursuant to Rule 32(a)(7)(B) of the Federal Rules of Appellate Procedure, I hereby certify that the attached brief contains 13,799 words, according to the word-count function of the word processing system used to prepare the brief. (WordPerfect X3).

Dated: January 12, 2010


Clara Kuehn