

**UNITED STATES INTERNATIONAL TRADE COMMISSION**  
**Washington, D.C. 20436**

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**In the Matter of** )

**CERTAIN RECORDABLE COMPACT DISCS** )  
**AND REWRITABLE COMPACT DISCS** )

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**Inv. No. 337-TA-474**

**NOTICE OF ISSUANCE OF GENERAL EXCLUSION ORDER AND CEASE AND  
DESIST ORDERS; TERMINATION OF THE INVESTIGATION**

**AGENCY:** U.S. International Trade Commission.

**ACTION:** Notice.

**SUMMARY:** Notice is hereby given that the U.S. International Trade Commission has determined to reverse-in-part the presiding administrative law judge's ("ALJ's") final initial determination of October 24, 2003, in the above-captioned investigation and has determined that the patents in issue are not unenforceable for patent misuse. Having found a violation of section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, in the above-captioned investigation, the Commission has issued a general exclusion order and cease and desist orders directed to four domestic respondents, and has terminated the investigation. In its discretion, the Commission has also determined to grant Philips' motion for leave to reply and to deny respondents' request to reopen the record for further discovery.

**FOR FURTHER INFORMATION CONTACT:** Clara Kuehn, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone (202) 205-3012. Copies of the Commission's orders, the public version of its opinion, the public version of the ALJ's ID, and all other non-confidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone 202-205-2000. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>). The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-205-1810.

**SUPPLEMENTARY INFORMATION:** The Commission instituted this investigation on July 26, 2002, based on a complaint filed by U.S. Philips Corporation of Tarrytown, New York ("Philips" or "complainant"). *67 Fed. Reg.* 48,948 (2002). The complaint, as supplemented, alleged violations of section 337 of the Tariff Act of 1930 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 and rewritable compact discs by reason of infringement of certain claims of six U.S. patents: claims 1, 5, and 6 of U.S. Patent No. 4,807,209; claim 11 of U.S. Patent No. 4,962,493; claims 1, 2, and 3 of U.S. Patent No. 4,972,401; claims 1, 3, and 4 of U.S. Patent No. 5,023,856; claims 1–5, and 6 of U.S. Patent No. 4,999,825; and claims 20, 23–33, and 34 of U.S. Patent No. 5,418,764. *67 Fed. Reg.* 48,948 (2002).

The notice of investigation named 19 respondents, including Gigastorage Corporation Taiwan of Hsinchu, Taiwan; Gigastorage Corporation USA of Livermore, California (collectively, “Gigastorage”); Linberg Enterprise Inc. (“Linberg”) of West Orange, New Jersey; and DiscsDirect.Com of Campbell, California. *67 Fed. Reg.* 48,948 (2002). On August 14, 2002, the ALJ issued an initial determination (ALJ Order No. 2) granting a motion to intervene as respondents by Princo Corporation of Hsinchu, Taiwan, and Princo America Corporation of Fremont, California (collectively, “Princo”). The Commission determined not to review Order No. 2.

On October 24, 2003, the ALJ issued his final initial determination (“ID”) of no violation of section 337. When the ID issued, Gigastorage, Linberg, and Princo (collectively, “respondents”) were the only remaining active respondents in the investigation. *See* ALJ Order No. 6 (an unreviewed initial determination terminating eight respondents on the basis of a consent order); ALJ Order No. 17 (an unreviewed initial determination terminating each of three respondents on the basis of a consent order and settlement agreement); ALJ Order No. 18 (an unreviewed initial determination terminating one respondent on the basis of a consent order and settlement agreement); and ALJ Order No. 21 (an unreviewed initial determination finding four respondents, including DiscsDirect.Com, in default). In his final ID, the ALJ found that none of the asserted claims are invalid, that the accused products infringe the asserted patent claims,<sup>1</sup> and that the domestic industry requirement of section 337 had been satisfied. Nonetheless, the ALJ found no violation of section 337 because he concluded that all of the asserted patents were unenforceable by reason of patent misuse by Philips.

On November 5, 2003, complainant Philips petitioned for review of the portion of the final ID that found the asserted patents unenforceable due to patent misuse. On the same day, respondents filed a paper entitled “Statement of Respondents Princo Corp., Princo America Corp., Gigastorage Corp. Taiwan, Gigastorage Corp. USA, and Linberg Enterprises, Inc. Regarding the Initial Determination,” in which respondents urged the Commission to adopt the ID in its entirety. Respondents and the Commission investigative attorney (“IA”) filed responses to Philips’ petition for review.

On December 8, 2003, the ALJ issued his recommended determination on remedy and bonding.

On December 10, 2003, the Commission determined to review all of the ID’s findings of fact and conclusions of law concerning patent misuse. The Commission determined not to review the remainder of the ID, thereby adopting the unreviewed portions. The Commission

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<sup>1</sup>In his final ID, the ALJ identified claims 1, 2, 4, 5, and 6 of U.S. Patent No. 4,999,825 as asserted by Philips. ID at 111-116.

issued a notice dated December 10, 2003, in which it requested briefing on the issues under review, and invited interested persons to file written submissions on the issues of remedy, the public interest, and bonding. 68 *Fed. Reg.* 70036 (2003). In accordance with that notice, all parties to the investigation filed timely written submissions, and timely reply submissions, regarding the issues under review.

In the final ID, the ALJ found the asserted patents to be unenforceable for patent misuse *per se*, and he also found patent misuse under a “rule of reason” standard. On review, the Commission affirmed the ALJ’s conclusion that the asserted patents are unenforceable for patent misuse *per se*, but on the ground that Philips’ practice of mandatory package licensing constituted patent misuse *per se* as a tying arrangement between (1) licenses to patents that are essential to manufacture CD-Rs or CD-RWs according to Orange Book standards and (2) licenses to four other patents that are not essential to that activity, *viz.*, U.S. Patent No. 5,001,692 (“the Farla ‘692 patent”), U.S. Patent No. 5,060,219 (“the Lockhoff ‘219 patent”), U.S. Patent No. 5,740,149 (“the Iwasaki ‘149 patent”), and U.S. Patent No. Re. 34,719 (“the Yamamoto ‘719 patent”). 69 *Fed. Reg.* 12711, 12712 (March 17, 2004); Commission opinion at 23-25 (issued March 25, 2004).<sup>2</sup> The Commission took no position on the ALJ’s conclusion that the asserted patents are unenforceable for patent misuse *per se* based on theories of price fixing and price discrimination. 69 *Fed. Reg.* at 12712 n.1; Commission opinion at 5 n.3.

The Commission also adopted the ALJ’s conclusion that the asserted patents are unenforceable for patent misuse under a rule of reason standard based on the ALJ’s analysis of and findings as to the tying arrangement. 69 *Fed. Reg.* at 12712; Commission opinion at 50-52. The Commission took no position on the ALJ’s conclusion that the royalty rate structure of the CD-R/RW patent pools is an unreasonable restraint of trade. 69 *Fed. Reg.* at 12712 n.2; Commission opinion at 5, 51. The Commission also affirmed the ALJ’s conclusion that the patent misuse has not been shown to have been purged. 69 *Fed. Reg.* at 12712; Commission opinion at 63. Based on these determinations, the Commission found no violation of section 337 in this investigation. *Id.*

Philips appealed the Commission’s final determination to the United States Court of Appeals for the Federal Circuit (“the Federal Circuit”), and respondents intervened. On September 21, 2005, the Federal Circuit reversed the Commission’s final determination of no violation of section 337 in this investigation, and remanded the case for further proceedings consistent with the Court’s opinion. *U.S. Philips Corp. v. Int’l Trade Comm’n*, 424 F.3d 1179 (Fed. Cir. 2005). The Court issued its mandate on December 27, 2005, returning jurisdiction over this investigation to the Commission. The Supreme Court denied respondents’ petition for

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<sup>2</sup>The ALJ identified 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. ID at 196-213. The Commission took no position on the ALJ’s analysis of eight of those patents, *viz.*, U.S. Patent Nos. 4,962,493 (“the Kramer ‘493 patent”); 4,807,209 (“the Kramer ‘209 patent”); 4,942,565 (“the Lagadec ‘565 patent”); 5,126,994 (“the Ogawa ‘994 patent”); 5,978,351 (“the Spruit ‘351 patent”); 5,835,462 (“the Mimmagh ‘462 patent”); 4,990,388 (“the Hamada ‘388 patent”); and 5,090,009 (“the Hamada ‘009 patent”). Commission opinion at 43 n.28, 50-51 (March 25, 2005).

a writ of certiorari on June 19, 2006.

On January 17, 2006, the Commission issued an order seeking comments from the parties as to how to proceed on remand. The Commission specifically requested comments as to how it should proceed with those portions of the October 24, 2003, final ID upon which the Commission did not take a position.

On February 21, 2006, Philips filed comments pursuant to the Commission's January 17, 2006, order. On the same day, respondents jointly filed comments. On February 23, 2006, the IA filed his comments, in which he requested, *inter alia*, that all parties be given the opportunity to respond to the comments filed by the private parties. On March 10, 2006, Philips filed a memorandum in reply to respondents' February 21, 2006, comments.

On March 21, 2006, the Commission issued an order directing the parties to file responses to the comments of the private parties filed on February 21, 2006. The Commission also denied Philips' motion to file its March 10, 2006, reply memorandum without prejudice to its re-submission as part of Philips' response. On April 18, 2006, all parties filed response comments pursuant to the Commission's March 21, 2006, order.

On April 25, 2006, Philips filed a motion for leave to reply, with attached reply, to the response comments filed by the IA on April 18, 2006. On May 2, 2006, respondents filed an opposition to Philips' motion for leave to reply to the IA's response comments. In its discretion, the Commission has determined to *grant* Philips' motion for leave to reply and to *deny* respondents' request to reopen the record for further discovery.

Having reviewed the record in this investigation, including the parties' written submissions, the Commission has determined to *reverse* the ALJ's findings of patent misuse *per se* on theories of price fixing and price discrimination, has determined to *reverse* the ALJ's findings of patent misuse under the rule of reason standard, and has found a violation of section 337 of the Tariff Act of 1930, 19 U.S.C. 1337. The Commission has further determined that the appropriate form of relief is a general exclusion order prohibiting the unlicensed entry for consumption of recordable and rewritable compact discs that infringe the claims in issue of the six patents asserted by Philips in this investigation. The Commission has also determined to issue four cease and desist orders directed to domestic respondents Princo America Corporation; Gigastorage Corporation USA; Linberg; and DiscsDirect.Com.

The Commission has also determined that the public interest factors enumerated in subsections (d), (f), and (g) of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337(d), (f), and (g)) do not preclude the issuance of the aforementioned general exclusion order and cease and desist orders, and that the recordable and rewritable compact discs in question may be imported into the United States during the period of Presidential review under bond in the amount of US\$0.06 per such article. The general exclusion order, cease and desist orders, and Commission opinion supporting its determination were delivered to the United States Trade Representative on the date of issuance.

This action is taken under the authority of section 337 of the Tariff Act of 1930, as amended (19 U.S.C. § 1337), the Administrative Procedure Act, 5 U.S.C. 551 *et seq.*, and

sections 210.45-210.51 of the Commission's Rules of Practice and Procedure (19 C.F.R. § 210.45-210.51).

By order of the Commission.

/s/

Marilyn R. Abbott  
Secretary to the Commission

Issued: February 5, 2007