

DEVIATED, UNSOUND, AND SELF- RETREATING: A CRITICAL ASSESSMENT OF THE *PRINCO V. ITC* EN BANC DECISION

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I. INTRODUCTION

For the past few years, the licensing dispute between Philips and Taiwan CD-R and CD-RW manufacturers, such as Princo and Gigastorage, has been a powerful generator of new developments in the field of patent and competition in various countries around the world. For instance, in Germany, it stimulated the Supreme Court to deal with the applicability of antitrust defenses to injunctive relief in the context

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of patent infringement lawsuits, the issue that the same court left open in its *Standard-Spundfass* decision in 2004. The Court made use of this occasion—the *Orange-Book-Standard* case in 2009—to opine upon contending positions on that issue, and ruled for further extending antitrust defenses to injunctive relief claims, and meanwhile, set up prerequisites for raising such defenses on the basis of abusing dominant positions by refusal to license.¹

In Taiwan, where the present series of controversies initially burst out, the Fair Trade Commission is the key enforcer of antitrust law. In 2001, the Commission found that Philips maintained an excessive royalty rate as to patents that were essential for local manufacturers to comply with CD-R/CD-RW specifications—the Orange Book standards—and, consequently, abused its monopolistic position in the technology market.² This case represents a very rare instance where a monopolist was held to be abusing its intellectual property (IP) exploitatively, and, until now, was still under dispute in Taiwan judicial

1. Gerhard Barth, *Patentees Beware German Antitrust Rules*, MANAGING INTELLECTUAL PROPERTY (July 1, 2009), <http://www.managingip.com/IssueArticle/2251033/Supplements/Patentees-beware-German-antitrust-rules.html?supplementListId=72637>.

2. Philips refused to renegotiate the royalty rate that Taiwan manufacturers originally agreed upon, namely, three-percent of the net sales price, but at least 10 Japanese Yen for each CD-R disk. Kung-Chung Liu, *Rationalising the Regime of Compulsory Patent Licensing by the Essential Facilities Doctrine*, 39 INT'L REV. INTELL. PROP. & COMPETITION L. 757, 761 (2008) (hereinafter Liu, *Compulsory Patent Licensing*); Kung-Chung Liu, *Interface Between IP and Competition Law in Taiwan*, 8 J. WORLD INTELL. PROP. 735, 748 (2005) (hereinafter Liu, *Interface*); Ming-Yan Shieh, *A Discussion of the Relationship Between the Patent Law and the Fair Trade Law in Taiwan with a Review of the Philips CD-R Decisions*, THE FUTURE DEVELOPMENT OF COMPETITION FRAMEWORK 155, 161–62 (Tzong-Leh Hwang & Chiyuan Chen eds., 2004). Nevertheless, due to drastic price erosion (from US\$ 7 for each CD-R in 1996 to less than US\$ 0.5 in 2000) and the sixty-fold growth in sales volume (from 182 million CD-Rs in 1997 to 3.6 billion in 2000), the maintenance of such a scheme would generate royalties twenty to sixty times more in 2000 than the amount originally expected by both sides of the parties. Liu, *Interface*, *supra* note 2, at 748–49. Judge Dyk also noted in his dissent from the *Princo v. ITC* en banc rehearing opinion that “[t]he royalty rate has ranged from one-half to two-thirds the manufacturers' selling price for the discs. This has enabled Philips and the other members of the patent pool to collectively secure hundreds-of-millions, if not billions, of dollars in revenue from the sale of those discs.” *Princo Corp. v. ITC*, 616 F.3d 1318, 1343 (Fed. Cir. 2010) (en banc) (Dyk, J., dissenting). For other issues disposed in the commission decision including cartel and tying arrangement see TU THANH NGUYEN, *COMPETITION LAW, TECHNOLOGY TRANSFER AND THE TRIPS AGREEMENT: IMPLICATIONS FOR DEVELOPING COUNTRIES* 204–06 (2010); Shieh, *supra* note 2, at 162; Bruce Y. Hsueh & Morris Tu, *Application of Market Level Analysis in Anti-Trust Regulation on IP Licensing—The Philips CD-R Case in Taiwan*, 23 CHINESE (TAIWAN) Y.B. INT'L L. & AFF. 73, 73–76 (2005); Liu, *Interface*, *supra* note 2, at 747–49.

proceedings.³ Additionally, the Taiwan Intellectual Property Office once granted compulsory licenses on Philips' patents at dispute to local CD-R producers, but was later reversed on appeal and vacated by the Taipei Administrative High Court.⁴

Turning back to the United States, the Philips CD-R/CD-RW licensing dispute arose chiefly from the exclusionary order proceedings, which is a court-style procedure administered by the U.S. International Trade Commission (ITC) aiming to forestall IP-infringing products from entering into the United States.⁵ The U.S. Court of Appeals for the Federal Circuit (Fed. Cir.) possesses appellate jurisdiction over this class of cases arising from the ITC proceedings, as it does in patent infringement litigation.⁶ Since 2005, the Fed. Cir. brought out three consecutive major decisions adjudicating the present dispute, culminating at the *Princo Corporation v. ITC* en banc decision in 2010.⁷ These decisions substantially changed the landscape of the patent-misuse doctrine in general, and tying arrangement as a defense to patent infringement litigation in particular. They broke away from the traditional dichotomy between coercion and voluntariness in judging the legitimacy of mandatory package licenses.⁸ Instead, in the Philips-series cases, the Fed. Cir. consistently held that tying arrangements between patents should be analyzed under rule of reason, and put emphasis on actual or probable foreclosure of both technically and commercially viable alternative technologies.⁹

What is unique in the *Princo* en banc rehearing decision is that the

3. Liu, *Compulsory Patent Licensing*, *supra* note 2, 761–62; NGUYEN, *supra* note 2, at 206; Ching-fu Lin, *Filling in the Gaps of the TRIPS Agreement: Reflections on the Taiwan-Philips CD-R Compulsory License Case*, 3 *ASIAN J WTO & INT'L HEALTH LAW & POL'Y* 556, 563–64 (2008).

4. NGUYEN, *supra* note 2, at 209–10; Lin, *supra* note 3, at 561–62; Liu, *Interface*, *supra* note 2, at 739–41.

5. Tariff Act of 1930 § 337(a)(1)(B), 19 U.S.C. § 1337(a)(1)(B) (2006).

6. Tariff Act of 1930 § 337(c), 19 U.S.C. § 1337(c) (2006).

7. *Princo Corp. v. ITC*, 616 F.3d 1318 (Fed. Cir. 2010); *Princo Corp. v. ITC*, 563 F.3d 1301 (Fed. Cir. 2009); *U.S. Philips Corp. v. ITC*, 424 F.3d 1179 (Fed. Cir. 2005).

8. The Supreme Court laid down this dichotomy in two decisions dealing with basically the same license scheme. See *Automatic Radio Mfg. Co. v. Hazeltine Research Inc.*, 339 U.S. 827 (1950); *Zenith Radio Corp. v. Hazeltine Research Inc.*, 395 U.S. 100 (1969). See also 1 HERBERT HOVENKAMP ET AL., *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 3.3a, at 3–24 to 3–29 (2d ed. 2010).

9. *Princo Corp.*, 616 F.3d at 1337–39; *Princo Corp.*, 563 F.3d at 1314–15 (citing *U.S. Philips Corp. v. ITC*, 424 F.3d 1179, 1179 (Fed. Cir. 2005)); *U.S. Philips Corp.*, 424 F.3d at 1188–94.

court expanded the impact that the present dispute brought about concerning the entire array of patent-misuse. The majority of the Fed. Cir. unequivocally held that only restrictions on the licensee's use of the patented invention would possibly constitute patent misuse.¹⁰ Consequently, any other type of restriction or extension caused by the patent owners in exercising their patent rights is eliminated from the reach of the patent-misuse doctrine.¹¹ The court went even further in this decision, holding that antitrust violations based on patent rights do not unavoidably constitute patent-misuse at the same time, even if with that violation the owner extends the patent grant out of the metes and bounds of the claims recited in the same patents.¹² Those two separate but related rulings significantly curtailed the formerly applicable scope of the misuse doctrine, and as a result, substantially undermined its imperative function as a counterweight guarding against overreaching patent exploitation and infringement allegations.

The goal of this article is to review these two far-reaching holdings in the en banc decision. The author will explore their implications for patent law and market competition, and make meticulous assessments and reflections from doctrinal, policy, and functional dimensions. As a matter of fact, the court still delivered a third ruling in the same decision. The majority concluded that for a misuse defense to prevail based on agreement to suppress nascent technologies, the defendant has to prove that absent this suppress-and-non-compete agreement, the nascent technologies should have enjoyed reasonable probabilities to turn into technically and commercially viable alternatives to the patented inventions.¹³ Although the double viability requirement that the court put forward may also perversely affect the function of the misuse doctrine and is therefore worthy of examination, it would be more preferable to leave this critical and broadly-related issue for a separate and more focused investigation on a future day.

On the substance of the en banc decision, following careful examination of relevant statutes, case law, and their respective

10. On the two issues summarized in this paragraph, the majority of the court composed of six judges: Chief Judge Rader, and Judges Bryson, Newman, Lourie, Linn, and Moore; *Princo Corp.*, 616 F.3d at 1321. The dissenters, Judges Dyk and Gajarsa, vigorously opposed the majority's view. *See id.* at 1342 (Dyk, J., dissenting). The concurring judges, Judges Prost and Mayer, casted doubt on the majority's holdings, but preferred not to make rulings on those issues. *See id.* at 1341 (Prost, J., concurring).

11. *Princo Corp.*, 616 F.3d at 1330–33.

12. *Id.* at 1329–30, 1333 n.6.

13. *Id.* at 1336–37.

reasoning and fundamental policy concerns, this article proceeds to argue that the Fed. Cir.'s first two rulings regarding the applicable scope of the patent-misuse doctrine deviated from both Supreme Court and past Fed. Cir. precedent. However, except for fact patterns summarized from many of the precedents but relatively trivial to the primary principles of the misuse doctrine, there is nothing in the present decision providing adequate and sufficient reasoning for this breakaway from settled case law. Nor did the court proffer any meaningful policy grounds for this sudden turn on the law of misuse. Taking into account the possible polymorphism of the ways in which the patentees misuse their patent rights, which are difficult to predict *ex ante* and classify beforehand to certain fixed categories, the holdings of the en banc decision holding back the misuse doctrine to categories that have previously appeared in judicial opinions do not seem to be sound and well-deliberated decisions from a policy perspective.

Furthermore, the Fed. Cir. did not answer the core question that will occur as to the rulings on the scope of the misuse doctrine. The key problem that commentators may doubt is why those restrictions based on patent rights, imposed on parties other than the licensees but still contravening the antitrust laws and causing considerable anticompetitive harm to the economic welfare of our society, will never be considered as misuse of patent rights? In other words, the fundamental inquiry resulting from the holdings is how patent abuse targeted against non-licensees would never be misuse under patent law? The court did not provide any conceivable clue in the majority opinion to answer this question, nor did it articulate its reason for viewing this type of misuse more condemnable than other types of restraints on trade. It also failed to proffer any grounds for maintaining double remedies from patent and antitrust law only for misuse on licensees, but not for misuse residing otherwise. From a functional viewpoint, these mismatches create apparent disparities in the strength of legal protection and practical remedies against similar patent-abusing behaviors. Without comprehensible justification, the Fed. Cir. suddenly retreated in this decision from a heated battlefield that is in need of regulation by the patent-misuse doctrine, at least as much regulation as is afforded in other areas where the court chooses to keep faithful to the commitment of enforcing patent-misuse.

This article is poised to expand and develop those substantive observations into full-fledged investigation and comprehensive assessment on this momentous judicial decision. The rest of this comment will be organized in the following manner. In Part I the

author will briefly describe the Philips CD-R/CR-RW dispute and the technologies at issue in this en banc decision. Next, in Part II to Part IV, this article will review and evaluate the court's rulings from doctrinal, policy, and functional viewpoints, respectively, as summarized in the preceding paragraphs. The possible counter argument will be considered and carefully analyzed in Part V, and Part VI will be a short summary and conclusion.

II. PHILIPS CD-R/CR-RW DISPUTE AND THE EN BANC DECISION

Philips, Sony, and two other companies (Taiyo Yuden and Ricoh) own patents concerning the production of recordable compact discs (CD-R) and rewritable compact discs (CD-RW).¹⁴ Many of those patents cover technologies used on CD-R and CD-RW discs that are indispensable for them to comply with the "Orange Book," a technical specification jointly developed by Philips and Sony in the late 1980s and early 1990s.¹⁵ In producing CD-Rs and CD-RWs, manufacturers have to follow the Orange Book standard to assure the compatibility of those discs with CD drives set up on computers and consumer electronics, including audio and video systems installed on cars or at home, which are also manufactured in accordance with the Orange Book standard.¹⁶

In the early 1990s, the companies agreed to aggregate their Orange Book-related patents to configure patent pools for the ease of management and outward licensing.¹⁷ Philips, Sony, and Taiyo Yuden pooled respective CD-R patents and brought out a joint package license for those patents.¹⁸ Ricoh, Sony, and Philips also concentrated CD-RW patents and licensed them out in a similar manner.¹⁹ In return for a share of royalties from the pools, Sony, Taiyo Yuden, and Ricoh authorized Philips to run the two pools and to grant package licenses to worldwide manufacturers who produced Orange-Book compliant discs, drives, and players.²⁰ Interested licensees could only choose among the package licenses put forth by Philips; individual patents were not offered for licensing.²¹ Those package licenses required manufacturers

14. *Id.* at 1344; *Princo Corp.*, 563 F.3d at 1303.

15. *Princo Corp.*, 616 F.3d at 1322; *Princo Corp.*, 563 F.3d at 1303.

16. *Princo Corp.*, 616 F.3d at 1321–22; *Princo Corp.*, 563 F.3d at 1303; Hsueh & Tu, *supra* note 2, at 74; Shieh, *supra* note 2, at 161.

17. *Princo Corp.*, 616 F.3d at 1322; *Princo Corp.*, 563 F.3d at 1303.

18. *Princo Corp.*, 616 F.3d at 1343; *Princo Corp.*, 563 F.3d at 1303.

19. *Princo Corp.*, 616 F.3d at 1343; *Princo Corp.*, 563 F.3d at 1303.

20. *Princo Corp.*, 616 F.3d at 1343; *Princo Corp.*, 563 F.3d at 1303.

21. *Princo Corp.*, 616 F.3d at 1322; *Princo Corp.*, 563 F.3d at 1303; U.S. Philips Corp.

to pay a per-disc royalty on each CD-R or CD-RW sold where at least one licensed invention was in use during the production process.²² The per-disc royalty did not vary in portion to which, or how many technical aspects covered by licensed patents actually found themselves in producing the discs, “meaning that licensees must pay a royalty based on the number of discs manufactured regardless of how many of the patents are actually used in the manufacturing.”²³

One aspect of the CD-R/RW patented technology is actually at issue in the en banc case.²⁴ In order for a CD player to adequately locate its reader or writer when reading or writing data onto the compact discs, all-time position information has to be encoded onto CD-Rs and CD-RWs to ensure accurate positioning of the player.²⁵ In the course of developing the Orange Book standard, the Sony and Philips engineers discovered this problem and configured different solutions to deal with it.²⁶ Philips’s solution was to follow an analog approach to modulating the frequency of the “groove” on the disc, so as to insert location codes onto the disc.²⁷ One of Sony’s proposals to conquer this problem was to mark location codes in the groove by using a digital modulation method.²⁸ Philips’s approach was later covered by two of its patents at issue in this case, referred to as the “Raaymakers patents.”²⁹ Sony prosecuted another patent to protect its corresponding technology as well, referred to as the “Lagadec patent.”³⁰ The Raaymakers and Lagadec technologies perform the same basic function in dissimilar ways, and are in essence mutually incompatible.³¹ Given the fact that both of the technical approaches could interoperate backwards with then-existing CD players, such as CD-ROM drives, they are reciprocally substitutable and in direct competition with each other.³²

After investigating the two contending solutions, the Sony and Philips engineers agreed to use the Raaymakers technology, rather than

v. ITC, 424 F.3d 1179, 1182 (Fed. Cir. 2005).

22. *Princo Corp.*, 563 F.3d at 1303.

23. *In re Princo Corp.*, 478 F.3d 1345, 1348 (Fed. Cir. 2007); *see also* U.S. Philips Corp. v. Princo Corp., 173 Fed. Appx. 832, 833 (Fed. Cir. 2006).

24. *Princo Corp.*, 616 F.3d at 1322.

25. *Princo Corp.*, 616 F.3d at 1344; *Princo Corp.*, 563 F.3d at 1305–06.

26. *Princo Corp.*, 616 F.3d at 1344; *Princo Corp.*, 563 F.3d at 1305.

27. *Princo Corp.*, 616 F.3d at 1322.

28. *Princo Corp.*, 563 F.3d at 1305.

29. *Princo Corp.*, 616 F.3d at 1322; *Princo Corp.*, 563 F.3d at 1305.

30. *Princo Corp.*, 616 F.3d at 1322; *Princo Corp.*, 563 F.3d at 1305–06.

31. *Princo Corp.*, 563 F.3d at 1306.

32. *Id.*

the Lagadec approach, to solve this problem.³³ They consequently incorporated the Raaymakers technology into the Orange Book standard for the CD-R/RW manufacturing.³⁴ In the joint patent packages for licensing to manufacturers, Philips included the patents that it considered substantially necessary to produce Orange-Book compatible CD-R/RW discs, which contained both the Raaymakers and Lagadec patents simultaneously.³⁵ Those joint package licenses contained a “field of use” restraint, limiting the licensees to employing the licensed technologies only for the purpose of producing compact discs in compliance with the Orange Book standard.³⁶ Later in 2001, following the Taiwan Fair Trade Commission handing down violation findings against three CD-R joint licensors, Philips began to offer additional package options, grouping relevant patents into two categories, labeled “essential” and “nonessential,” for producing CD-Rs and CD-RWs.³⁷ Both the Raaymakers and Lagadec patents were classified as essential.³⁸

In the late 1990s, Princo, a company from Taiwan, manufactured CD-Rs and CD-RWs in compliance with the Orange Book standard and also covered by the Raaymakers and Lagadec patents.³⁹ This company sought to import those disc products into the U.S. market, and therefore entered into a package license agreement with Philips for those patents.⁴⁰ Unfortunately, the licensing relationship did not last long.⁴¹ Due to the high royalty rate of the package license, Princo soon declined to pay royalties.⁴² Philips terminated the license agreement in response, and initiated a proceeding before the International Trade Commission (ITC).⁴³ Philips asserted that while importing compact discs covered by the pooled and unlicensed patents into the United States, Princo had violated section 337(a)(1)(B) of the Tariff Act of 1930,⁴⁴ and requested the ITC to issue an exclusionary order to expel

33. *Princo Corp.*, 616 F.3d at 1322; *Princo Corp.*, 563 F.3d at 1306.

34. *Princo Corp.*, 616 F.3d at 1322; *Princo Corp.*, 563 F.3d at 1306.

35. *Princo Corp.*, 616 F.3d at 1322; *Princo Corp.*, 563 F.3d at 1306.

36. *Princo Corp.*, 616 F.3d at 1322; *Princo Corp.*, 563 F.3d at 1320.

37. *Princo Corp.*, 616 F.3d at 1322–23.

38. *Id.*

39. *Princo Corp.*, 616 F.3d at 1323; *Princo Corp.*, 563 F.3d at 1303.

40. *Princo Corp.*, 616 F.3d at 1323; *Princo Corp.*, 563 F.3d at 1303.

41. *Princo Corp.*, 616 F.3d at 1323; *Princo Corp.*, 563 F.3d at 1303.

42. *Princo Corp.*, 616 F.3d at 1323; *Princo Corp.*, 563 F.3d at 1303.

43. *Princo Corp.*, 616 F.3d at 1323; *Princo Corp.*, 563 F.3d at 1303.

44. See 19 U.S.C. § 1337(a)(1)(B) (2006).

Princo's CD-R and CD-RW products from importation.⁴⁵ Princo alleged the patent-misuse doctrine against Philips as its affirmative defense.⁴⁶

The ITC initially found Philips misused the pooled patents because the package licenses it offered were mandatory and thereby tied the patents that were essential to fulfilling the Orange Book standard with those patents that were not essential.⁴⁷ The Fed. Cir. reversed, concluding that no illegal tying could be properly established regarding patents then in question, and remanded to the ITC for further determination of whether Philips had engaged in other behavior that could be considered misuse.⁴⁸ In the second-round proceedings, the ITC rejected Princo's contention that including the Lagadec patent in the package license constituted unlawful tying arrangement, and held that the agreement between Sony and Philips not to license the Lagadec patent in competition with the Orange Book patent package, especially the Raaymakers patents incorporated therein, was not misuse as well.⁴⁹ The original Fed. Cir. panel opinion agreed that the ITC had righteously rejected the Lagadec tying claim, but erred in rejecting the misuse claim based on the agreement not to license the Lagadec technology as a substitute for Raaymakers approach adopted in the Orange Book.⁵⁰ However, on rehearing en banc, the entire Fed. Cir. reversed the panel opinion and held that the agreement not to license the Lagadec patent independently did not constitute misuse.⁵¹

III. MISUSE ABRIDGED: DEVIATING FROM PRECEDENTS AND LEGISLATIVE HISTORY

In addition to ruling on a non-compete agreement that might exist

45. *Princo Corp.*, 616 F.3d at 1323.

46. *Princo Corp.*, 616 F.3d at 1323; *U.S. Philips Corp. v. ITC*, 424 F.3d 1179, 1182–83 (Fed. Cir. 2005).

47. *Princo Corp.*, 616 F.3d at 1323.

48. *Id.* at 1323–24.

49. *Id.* at 1324.

50. Claim 6 of the Lagadec patent is arguably broad enough to embrace the Raaymakers technology. Though uncertainty existed as to the scope of this claim, the Fed. Cir. panel considered it would be reasonable for a manufacturer to believe a license on claim 6 was necessary when entering into the package license agreement with Philips. The Lagadec patent would therefore be rationally classified as an essential patent for practicing the Raaymakers technology, and the Orange Book standard as a whole. *Princo Corp. v. ITC*, 563 F.3d 1301, 1309–12 (Fed. Cir. 2009).

51. *Princo Corp.*, 616 F.3d at 1323–26. The majority opinion does not disturb the original panel's ruling with respect to the inclusion of the Lagadec patent in the package license not constituting unlawful tying arrangement. *Id.* at 1345 n.7 (Dyk, J., dissenting).

between Sony and Philips with regard to Lagadec and Raaymakers technologies, the Fed. Cir. delivered two more limitations in the en banc decision on the basic framework and applicable scope of the patent-misuse doctrine.⁵² The first is that only restrictions on the use of patents by the licensees would constitute patent-misuse.⁵³ The second makes clear that antitrust violations that involve extension of the patent grant do not necessarily denote patent-misuse.⁵⁴

These rulings brought patent-misuse jurisprudence into a brand new age. Before this decision, the existing principle for judging patent-misuse was declared in *Windsurfing*⁵⁵, and reiterated in *Mallinckrodt*⁵⁶ and *Virginia Panel*⁵⁷, all decided by the Fed. Cir. The court in *Windsurfing* framed the test as: “the alleged infringer [must] show that the patentee has impermissibly broadened the ‘physical or temporal scope’ of the patent grant with anticompetitive effect.”⁵⁸ The two elements that come to light from this test are broadening the patent scope in effect and the broadening affecting the competition.⁵⁹ There was no express constraint in the test limiting misuse to restrictions imposed on licensees only, nor was there an implied restraint to the same effect in the Fed. Cir.’s decisions. In contrast, there have been Fed. Cir. cases clearly pointing to the contrary. In *Virginia Panel*, the court explained that an antitrust violation “requires more exacting proof than suffices to demonstrate patent misuse,” such as evidence to establish an intent to monopolize and damages attributable to the asserted misuse conduct.⁶⁰ The fact that fewer elements are required for the court to substantiate patent-misuse allegations may suggest that it enjoys a more spacious scope than that of antitrust violations similarly involving extending the patent’s influence beyond its legal grant. The court made the same point more straightforward in *C.R. Bard*. In that case, the panel’s opinion plainly enunciated that “[p]atent misuse is viewed as a broader wrong than antitrust violation Thus misuse

52. *Id.* at 1327–28.

53. *Id.*

54. *Id.* at 1328.

55. *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001–02 (Fed. Cir. 1986).

56. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992).

57. *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 868–71 (Fed. Cir. 1997).

58. *Windsurfing*, 782 F.2d at 1001.

59. See 1 HOVENKAMP ET AL., *supra* note 8, § 3.2 at 3–8.

60. *Virginia Panel Corp.*, 133 F.3d at 872 (citing *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140–41(1969)).

may arise when the conditions of antitrust violation are not met.”⁶¹

The pre-existing case law highlights this question: why does the Fed. Cir. overturn its attitude in the present case? What are the factors and underlying reasons that advise the court to make this change happen? As expressed by the majority in the en banc decision, the rationale lies in the pervasive protection that the law would like to provide for patents, and a consistent fact feature in the misuse cases, which has rarely been noticed in the past.⁶² The majority opinion indicated that the patentee was entitled to substantial rights under a broad scope of the patent grant.⁶³ The right to impose a variety of conditions in licensing the patents is also one of the key capabilities possessed by the patent owners.⁶⁴ For this reason, the doctrine of patent-misuse has largely been confined to certain types of the patentee’s practices.⁶⁵

In light of these observations, the majority opinion narrowly re-interpreted the existing test for patent-misuse. It first emphasized that misconduct eligible for the misuse defense had to be rooted in the “use” of the patent.⁶⁶ The majority went on to state that those restrictions that the patentees imposed on licensees were the only type of constraining practices targeted precisely at the “use” of the patents. Other types of patent abuse, therefore, were not a suitable category for the misuse defense.⁶⁷ Secondly, the en banc majority considered that only those specific practices that the courts had previously recognized as patent-misuse could sustain such an allegation raised by the defendant.⁶⁸ It further analyzed the facts of past cases in which it had affirmed misuse allegations and concrete examples referred to in the legislative process of the Patent Licensing Reform Act of 1988.⁶⁹ The opinion came to the conclusion that in all those cases and examples, patent-misuse arose

61. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998) (citing *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140–41 (1969)).

62. *Princo Corp. v. ITC*, 616 F.3d 1318, 1328•29 (Fed. Cir. 2010) (en banc).

63. *Id.*

64. *Id.*

65. *Id.* at 1328–29 (citing *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 510 (7th Cir. 1982)).

66. *Id.* at 1331.

67. *Id.* at 1329, 1331–32 (citing *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1373 (Fed. Cir. 1998)); *See Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 870 (Fed. Cir. 1997); *Kolene Corp. v. Motor City Metal Treating, Inc.*, 440 F.2d 77, 84–85 (6th Cir. 1971); *McCullough Tool Co. v. Well Surveys, Inc.*, 395 F.2d 230, 238–39 (10th Cir. 1968); *Republic Molding Corp. v. B.W. Photo Utils.*, 319 F.2d 347, 351 (9th Cir. 1963)).

68. *Princo Corp.*, 616 F.3d at 1329.

69. *Id.* at 1330.

invariably from restrictions that the patentees imposed on licensees regarding the use of the licensed patents.⁷⁰ It considered that this similarity appeared to be a rule implied by previous courts in the precedents. Based on this two-fold reasoning, the court consequently added this new element, though retrieved from past decisions, into the criteria that the defendant had to satisfy in asserting the misuse defense.⁷¹

A. Over-Construing Previous Decisions

If you were to check the precedents that the court recited in the en banc decision to support its reasoning, you might be surprised that little reference or suggestion to the restriction-on-licensee requirement, if any, can be found. Furthermore, the reference to the “use” of the patent, though appearing in past decisions, actually did not work to the purpose of advocating or bolstering the requirement as such. For instance, the conduct at issue in *C.R. Bard*, concerning the misuse claim, was that the patent owner was suing for infringement with knowledge that no actual infringement had ever occurred. The panel unanimously concluded that because there was no substantial evidence showing this litigation was objectively baseless and brought in bad faith, it was insufficient to establish antitrust liability on the “sham litigation” theory.⁷² The panel rejected a parallel allegation of patent-misuse as well. In addressing this defense, the panel stressed that the misuse doctrine should not be expanded into an “open-ended pitfall” for any type of wrongful use of the patents.⁷³ The misconduct asserted in this case neither occurred in the licensing context, nor was the question of whether it related to the “use” of the patent ever raised in assessing the misuse claim. The panel revealed no intention to narrow the scope of misuse and there was no reference to any restriction on licensees. Similarly, in the *Virginia Panel* decision, although the Fed. Cir. referred to “use of the patent” when describing the alleged misconduct, the case would be better understood primarily as a tying arrangement lacking the coercion element, thus failing to meet the test for this type of patent-misuse.⁷⁴ The factor of using the patent or not did not actually play an

70. *Id.* at 1330–33.

71. *Id.* at 1331.

72. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1368, 1381–82 (Fed. Cir. 1998) (Bryson, J., concurring and dissenting-in-part).

73. *Id.* at 1373.

74. *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 870–71 (Fed. Cir. 1997).

important role in reaching the conclusion in this case.⁷⁵

Besides these two Fed. Cir. cases, the decisions that were made before the establishment of the Fed. Cir. have generally demonstrated similar situations. For example, in *Kolene Corporation*, the Sixth Circuit stated that “[w]e know of no authority suggesting that there can be a defense to a patent infringement suit based on ‘misuse in the air’ The misuse must be of the patent in suit”⁷⁶ The real condition the court encountered in that case, however, was the defendant’s contention that the plaintiff-patentee’s tying of her “service mark” license with unpatented products amounted to “patent” misuse as well.⁷⁷ The Sixth Circuit harshly refuted this allegation in its opinion, and reiterated the bottom line for a misuse allegation, which the Federal Circuit quoted in the present case: “the patent in suit [must] itself significantly contribute[] to the practice under attack.”⁷⁸ The same notion was also employed in *McCullough Tool Company*,⁷⁹ a Tenth Circuit case cited in the present Fed. Cir. decision, to rule against an off-the-mark misuse accusation. The practice at issue was the plaintiff-patentee suing approximately fifteen different operators for infringement of eight to ten different patents.⁸⁰ Some of the infringement allegations were dismissed after discovery ended in those cases.⁸¹ In the Tenth Circuit’s opinion, it was clear that the plaintiff had a reasonable basis for alleging infringement by operators of the patents at issue.⁸² As for the remainder of the patents, the court indicated what the Fed. Cir. quoted in the *Princo* case, that the patent-misuse defense was allowed “only where there had been a misuse of the patent in suit.”⁸³ Thus, the defense in this case was confined to misconduct in relation to, or in any manner connected with, the matter at dispute in the infringement proceeding.⁸⁴

From the analysis above, you can see “the use of the patent” concept barely functioned as a meaningful constraint—instead of a general and broad delineation—of the scope of the patent-misuse defense. Nor did

75. *Id.*

76. *Kolene Corp. v. Motor City Metal Treating, Inc.*, 440 F.2d 77, 84 (6th Cir. 1971).

77. *Id.*

78. *Id.* at 85 (internal quotation marks omitted).

79. *McCullough Tool Co. v. Well Surveys, Inc.*, 395 F.2d 230 (10th Cir. 1968).

80. *Id.* at 238.

81. *Id.*

82. *Id.* at 237.

83. *Id.* at 238.

84. *Id.* at 238–41.

any prerequisite to patent-misuse, such as restrictions being imposed on a licensee about how he or she exploits the patent, ever appear in prior decisions.

In addition to over construing previous court decisions in order to support the restriction-on-licensee requirement, the Fed. Cir. also erred in dismissing past decisions that stood opposite to its current view. The majority does not understand those past decisions according to their individual contexts, and rejects their holdings too lightly. The primary judicial decision that *Princo* relied on in the en banc proceeding, *Compton v. Metal Products, Inc.*,⁸⁵ is the most prominent case that the court misinterprets. The majority opinion distinguished the *Compton* case on its facts, and denounced it for transgressing precedents by finding misuse in a patentee's self-restraint on the use of the patent.⁸⁶ If you reset the case back to its original context, you will easily come up with a quite different view of this decision. By restraining its own freedom in using the patent at suit, Compton, the patentee, struck a non-compete agreement with its exclusive licensee in exchange for royalties.⁸⁷ More importantly, this agreement was not confined to the patent or patented products that Compton actually licensed, but instead covered the entire type of equipment that the Compton patent connected to.⁸⁸ In other words, the issue in this case was a cross-the-board, non-compete-and-share collusion between competitors, which is very similar to the facts presented in the *Princo* case. The major concern with this agreement was not that the patent owner constrained its own freedom to facilitate the transaction of exclusive license, but that the agreement eliminated the competition between the patentee and exclusive licensee regarding the entire category of equipment. Besides this anticompetitive effect, the agreement extended the exclusive terrain of the patent at dispute beyond its legal scope to affect the whole category of equipment, which satisfied the remaining element of the test for misuse that the Fed. Cir. maintained before the *Princo* en banc decision.⁸⁹ The collusion, nevertheless, did not contain restrictions on the licensee's use of the patent, the very element that is frequently

85. *Compton v. Metal Products, Inc.*, 453 F.2d 38 (4th Cir. 1971).

86. *Princo Corp. v. ITC*, 616 F.3d 1318, 1331 n.4 (Fed. Cir. 2010) (en banc).

87. *Compton*, 453 F.2d at 43–44.

88. *Id.* at 46.

89. See *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992); *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, (Fed. Cir. 1997); *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998).

missing in the decisions cited for support by the *Princo* majority. Against this backdrop, it is difficult to justify why the *Princo* majority excluded the *Compton* case from consideration, but not the decisions actually cited in the opinion. This disparity in surveying and assessing relevant case law would undeniably undermine the objectivity and strength of the en banc decision, in particular, when it occurs to such a controversial and worldwide-attended dispute.

B. Deviating from Supreme Court Precedent

Beyond the level of appellate court decisions, the more profound problem that the Fed. Cir. currently comes across is the observable gap between the *Princo* decision and prior United States Supreme Court precedents regarding the patent-misuse doctrine. The U.S. Supreme Court put the idea of patent-misuse forward for the first time in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*,⁹⁰ but it was not until its 1941 decision in *Morton Salt Co. v. G.S. Suppiger Co.*⁹¹ that the Supreme Court gave full shape and concrete substance, including the name of “patent-misuse”, to the doctrine.⁹² Initially, in *Morton Salt*, the Seventh Circuit reversed the trial court’s grant of summary judgment since its finding of misuse was not supported by evidence showing the patent owner’s tying practices had violated Section 3 of the Clayton Act, the corresponding antitrust law.⁹³ The Supreme Court disagreed. It proclaimed that the key inquiry for patent-misuse is not whether the patent owner contravenes antitrust law, but whether a court of equity will lend its aid to protect the patent monopoly when the plaintiff-patentee is using it as an effective means to forestall competition beyond the scope of rights that the patent grant provides.⁹⁴ The Court went on to elaborate:

The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adopted by the Constitution and laws of the United States, ‘to promote the Progress of Science and useful Arts, by securing for limited Times to * * *

90. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). See 1 HOVENKAMP ET AL., *supra* note 8, § 3.2a at 3-3 (noting the *Motion Picture Patents* case was the first application of the principle embodied in patent-misuse); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 409 (2003) (noting this case established what later developed into the doctrine of patent-misuse).

91. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

92. See, e.g., Thomas F. Cotter, *Misuse*, 44 HOUS. L. REV. 901, 907–09 (2007).

93. *Morton Salt*, 314 U.S. at 490.

94. *Id.* at 490–91.

Inventors the exclusive Right * * * to their ‘new and useful’ inventions. *But the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention.* It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.⁹⁵

The Court explicitly expressed its primary concern that underlies the rise of the patent-misuse doctrine.⁹⁶ It is the public policy to promote the progress of innovation that further determines the balance between what patents do and do not cover that requires the misuse doctrine to guard against the patentee from transgressing the boundary of rights granted by the patent office.⁹⁷ The scope of patent rights is ascertained by patent examiners through intensive and professional investigations. Overreaching the rights beyond their boundaries may enclose technologies commonly known or obvious for skilled artisans into a patentee’s exclusive terrain, rewarding the patent owner for what she does not actually invent. This type of reward would encourage free-riding on existing inventions, or stifle competition in areas the patent office intentionally leaves open for rivalry. No matter which of the above in fact occurs, it is definitely not these inventive activities that the patent system is destined to promote.⁹⁸ In addition to all of these, the patent grant expanded by the misuse conduct may also encumber subsequent inventions due to the need it generates for follow-on inventors to clear the extended patent rights that blocks on the path of subsequent innovation, causing another layer of disincentive similar to anticommons or patent thickets, which have been intensively discussed in recent years.⁹⁹

95. *Id.* at 492 (emphasis added) (internal citations omitted).

96. *Id.*

97. See Christina Bohannon, *IP Misuse as Foreclosure*, 96 IOWA L. REV. 475, 484–86 (2011); Cotter, *supra* note 92, at 908; Feldman, *supra* note 90, at 409–11; Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. HIGH TECH. L. 142, 147–48 (2010); Joe Potenza et al., *Patent Misuse—The Critical Balance, A Patent Lawyer’s View*, 15 FED. CIR. B.J. 69, 69–70, 77–78 (2005); Note, *Is the Patent Misuse Doctrine Obsolete?*, 110 HARV. L. REV. 1922, 1925–26 (1997).

98. The *Motion Picture Patents Co.* case is another source for similar analysis of the Supreme Court’s patent misuse policy. See 1 HOVENKAMP ET AL., *supra* note 8, § 3.2a, at 3–3–3–5; Feldman, *supra* note 90, at 405–09; Leaffer, *supra* note 97, at 148–49.

99. See Feldman, *supra* note 90, at 435; Leaffer, *supra* note 97, at 158. For the anticommons theory see generally Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCIENCE 698 (1998); Richard Li-dar Wang, *Biomedical Upstream Patenting and Scientific Research: The Case for*

According to *Morton Salt*, the patent policy behind the misuse doctrine is therefore aimed at safeguarding the open field of competition lying outside of the patent grant from the intrusion of patent owners. Although mixed with specific tests and arguments borrowed from antitrust law to assist in deciding misuse in individual cases,¹⁰⁰ the high court has consistently kept the same patent policy as its chief concern when applying the misuse doctrine. The Court maintained this principle all the way through to the most recent cases it handled relating to the misuse doctrine. It articulated in *Zenith Radio*, the last case in which the Supreme Court found misuse, that a patentee might not use the power of his patent to levy a charge for activities not within the reach of the patent as granted by the government.¹⁰¹ In the same vein, in the *Blonder-Tongue* decision, the final case where the Supreme Court discussed the basic rationale of this doctrine,¹⁰² the Court's opinion referred to prior misuse cases as "the series of decisions in which the Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly."¹⁰³ In quoting *Mercoïd*, the

Compulsory Licenses Bearing Reach-Through Royalties, 10 YALE J.L. & TECH. 251, 280–87 (2008). Relatively speaking, anticommons theorists put more emphasis on massive patents one may face in the research and development process. "Patent thickets" are a similar notion with a somewhat different focus. It stressed patent proliferation on the end products or their manufacturing processes. For a discussion of patent thickets see Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, 1 INNOVATION POLICY AND THE ECONOMY 119 (Adam B. Jaffe et al. eds., 2001).

100. Some commentators argued the mixture with antitrust considerations blurred the misuse doctrine with antitrust policy, turning that doctrine into "a common law of antitrust." J. Dianne Brinson, *Patent Misuse: Time for a Change*, 16 RUTGERS COMPUTER & TECH. L.J. 357, 369–75 (1990); Note, *supra* note 97, at 1926. Nevertheless, as the Supreme Court indicated in *Transparent-Wrap Machinery Corp. v. Stokes & Smith Co.*, which the commentators cited to support their argument, a misconduct that transgressed the patent boundary and demonstrated anticompetitive tendency, though falling short of antitrust violation, could still be condemned as patent-misuse. 329 U.S. 637, 641 (1947). This holding fully exemplified that the misuse doctrine has separate and independent, though complementary and sometimes similar, policy underpinnings than that of antitrust law. See also Potenza et al., *supra* note 97, at 70–71 (supporting antitrust considerations in determining patent misuse cases).

101. *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. 100, 136–37 (citing *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964)).

102. *Princo Corp. v. ITC*, 616 F.3d 1318, 1347 (Fed. Cir. 2010) (en banc) (Dyk, J., dissenting); *Dawson Chemical Co. v. Rohm & Haas Co.*, is the last misuse case that the U.S. Supreme Court considered, but it concentrated only on the issues of contributory infringement and statutory interpretation of § 271(c)–(d) of the 1952 Patent Act. 448 U.S. 176 (1980). Even so, Justice Blackmun described the misuse doctrine for the majority in brief: "a patentee should be denied relief against infringers if he has attempted illegally to extend the scope of his patent monopoly." *Id.* at 180–81.

103. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971).

Court unequivocally pointed out: “[t]he method by which the monopoly is sought to be extended is immaterial. The patent is a privilege It results from invention and is limited to the invention which it defines.”¹⁰⁴

After tracing back previous Supreme Court decisions on patent-misuse, it is more evident that the restriction-on-licensee requirement is a newly-created affix to the misuse doctrine, yet it is undeniably inconsistent with the principle that the Court already delivered in a series of cases regarding this defense. Since 2006, there has been an increasing number of Fed. Cir. decisions reversed by the Supreme Court in the area of patent law. The cases that have been overturned in this period include *eBay*,¹⁰⁵ *MedImmune*,¹⁰⁶ *KSR*,¹⁰⁷ and *Quanta Computer*,¹⁰⁸ all involving Fed. Cir. case law that already drifted away from Supreme Court precedents predating the Fed. Cir.’s establishment in 1982. In those cases, the Supreme Court continuously set aside category-specific rules gradually instituted by the Fed. Cir., and brought the law back to the more general, flexible, and open-ended rules as crafted in its prior decisions.¹⁰⁹ In fact, the *Princo* en banc decision created a specific requirement for asserting the misuse defense, and arguably deviated from Supreme Court precedent. The *Princo* decision possessed nearly all the listed features shared in the series of overturned cases since 2006. Even if it survives a petition for certiorari, the holdings in the *Princo* decision may still be vulnerable to future challenges, and will possibly have to live an unstable and contentious life.¹¹⁰

104. *Id.* at 344 (citing *Mercoid v. Mid-Continent Inv. Co.*, 320 U.S. 661, 666 (1944)).

105. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

106. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

107. *KSR Int’l. Co. v. Teleflex Inc.*, 550 U.S. 398 (2007).

108. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008).

109. Hill Wellford, *Is the Supreme Court Importing Antitrust Economics into Patent Law? A Different Look at eBay, MedImmune, KSR, and Quanta Computer*, THE ONLINE MAGAZINE FOR GLOBAL COMPETITION POLICY, MARCH 2009, at 12–14.

110. *See Princo Corp. v. ITC*, 131 S.Ct. 2480 (2011) (certiorari denied). The pre-existing Fed. Cir. rule actually requires defendants asserting the misuse defense to prove anticompetitive effects such as unreasonable restraint on competition and foreclosure to the extent similar to an antitrust claim. *See Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (quoting *State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997) (discussing antitrust law)); *U.S. Philips Corp. v. ITC*, 424 F.3d 1179, 1197–98 (Fed. Cir. 2005). Such a requirement might also contradict with earlier Supreme Court precedents. *See Feldman, supra* note 90, at 401–02; *see also HOVENKAMP ET AL., supra* note 8, § 3.2a, at 3–6 (acknowledging that the Fed. Cir. substantially cut back the scope of patent-misuse, confining it predominantly to conduct also violating antitrust law); Bohannon, *supra* note 97, at 490 (indicating that the Supreme Court’s misuse finding in *Motion Pictures Patents Co.* did not rely on antitrust law, but was firmly grounded in its IP policy).

C. Neglecting Legislative History

With regard to the relationship between the patent-misuse doctrine and antitrust law, it has been argued that with the enactment of the Patent Misuse Reform Act in 1988, Congress intended to confine the scope of the misuse doctrine to bring it in line with antitrust law.¹¹¹ If you look into the real process of that amendment to the Patent Act, however, you will perceive the legislative intent quite differently from that description. The Senate first passed a bill that would have the misuse defense truly coexistent with the antitrust rules. It stipulated that misuse findings could not be sustained unless the patent owner's "practices or actions or inactions . . . violate[d] the antitrust laws."¹¹² The House nonetheless preferred retaining patent-misuse as a distinct doctrine. Instead, the House counterpart, House Report 4086, recited the categories of restrictions that most courts had identified as misuse.¹¹³ Through mutual compromise, the two chambers of Congress eventually reached consensus. The enacted amendment only added a safe harbor to the Patent Act to shelter two specific types of practices from the misuse defense.¹¹⁴ The first category is refusal to license, and the second is tying arrangements where the patent owner fails to possess market power in the relevant market.¹¹⁵

The entire legislative process undoubtedly demonstrated that Congress not only had no intention of confining the scope of patent-misuse to the antitrust terrain, but instead, positively maintained the defense as a lone standing doctrine with coverage broader than its antitrust counterpart. In the *Princo* en banc decision, however, the Fed. Cir. majority announced that antitrust violations, even involving extension of the patent grant, would not necessarily constitute misuse.¹¹⁶ With this ruling, the Fed. Cir. arguably reduced the misuse scope to be even narrower than antitrust. This judicial move did not follow the legislative intent of keeping the broader scope of the misuse doctrine

111. See, e.g., *Princo Corp. v. ITC*, 616 F.3d 1318, 1329–30 (Fed. Cir. 2010) (en banc).

112. Jere M. Webb & Lawrence A. Locke, *Intellectual Property Misuse: Developments in the Misuse Doctrine*, 4 HARV. J.L. & TECH. 257, 264 (citing the Intellectual Property Antitrust Protection Act of 1988, S. 438, 100th Cong. § 201 (1988)).

113. H.R. 4086, 100th Cong. (1988). See also 134 Cong. Rec. 3261 (1988) (statement of Rep. Robert Kastenmeier); Joel R. Bennett, *Patent Misuse: Must an Alleged Infringer Prove an Antitrust Violation?*, 17 AIPLA Q.J. 1, 3–4 (1989).

114. Joel R. Bennett, *Patent Misuse: Must an Alleged Infringer Prove an Antitrust Violation?*, 17 AIPLA Q.J. 1, 2 (1989); Webb & Locke, *supra* note 112, at 264–65.

115. 35 U.S.C. § 271(d)(4)–(5) (2006).

116. See, e.g., *Princo Corp.*, 616 F.3d at 1328.

intact: running against the will of Congress as expressed in the last revision of the pertinent patent statutes. Accordingly, these rulings by the Fed. Cir. were unable to find affirmative support from the legislative history of the 1988 amendment.

IV. UNSOUND POLICY DECISION: CONSTRAINING EQUITABLE FLEXIBILITY

The reasoning put forth in the *Princo* decision, with regard to adding the restriction-on-licensee requirement for patent-misuse, is not sufficiently clear and abundant. The majority referred to retaining the pervasive protection of patent rights as its primary rationale, and consequently, narrowly controlled the scope of the misuse doctrine as a defense to patent infringement.¹¹⁷ However, there lacked a link in logic between the majority's reasoning and the restriction-on-licensee requirement. Without proper judicial precedents as its basis, why did the majority choose restriction-on-licensees as a suitable new element to control the scope of patent-misuse instead of other possible manners, such as tightening the interpretation of the existing misuse test or leveling up the evidentiary requirement for proving elements already contained in the misuse test?¹¹⁸ The opinion did not answer this question, nor did it provide any rationale connecting the new element to the court's underlying concerns. Therefore, a gap in logic resulted in the court's reasoning regarding the new requirement of the misuse doctrine.

In addition to this logical gap in reasoning, the majority's new limitation may also generate false negatives in identifying misuse. As the Fed. Cir. stated in *B. Braun Medical*, the patent-misuse doctrine is an extension of the equitable tort law doctrine of unclean hands.¹¹⁹ The guiding principle for that doctrine is the maxim "he who comes into equity must come with clean hands."¹²⁰ While "equity does not demand

117. *Id.* at 1328–29. *See also id.* at 1322–23; *Pinco Corp. v. ITC*, 563 F.3d 1301, 1306, 1320 (Fed. Cir. 2009).

118. Beginning with *Lucent Technologies, Inc. v. Gateway, Inc.*, the Fed. Cir. has made use of heightened evidentiary requirement to control damage awards in patent infringement lawsuits. 580 F.3d 1301 (Fed. Cir. 2009). *See, e.g.*, *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010); *Cornell Univ. v. Hewlett-Packard Co.*, 2009 WL 1405208 (N.D.N.Y. May 15, 2009).

119. *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1427 (Fed. Cir. 1997) (citing *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 (Fed.Cir.1986)). *See also* *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 492 (1942).

120. *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 814 (1945); *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 241 (1933).

that its suitors shall have led blameless lives,”¹²¹ the maxim does require that plaintiffs shall have acted reasonably, with conscience, and without fraud or deceit as to the matters they raise in litigation.¹²²

For the most part, courts are concerned with their integrity when applying the clean hands doctrine. Thus, the maxim entrusts a broad range of equitable discretion with courts in refusing to assist unclean litigants who attempt to make use of the judicial procedure in bad faith.¹²³ The equity court “is not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion.”¹²⁴

In the same spirit, a court of equity will not lend its support to enforce a patent that has been misused. It will be preferable for patent-misuse to stay open and flexible, in order to encompass all possible types of misconduct that adversely affects the opposing parties in the same litigation based on the patent at issue.¹²⁵ This flexibility will offer the courts broad but necessary discretion to shy away from accommodating inequitable patent owners who may achieve unreasonable gains through judicial procedures, which in turn would be of vital importance for the courts to preserve their integrity as the administer of justice.¹²⁶

The facts in the present case provide a good example illustrating the possible type of patent abuse that would be expelled from the scope of the misuse doctrine by the restriction-on-licensee requirement. Assuming *arguendo*, that Philips and Sony colluded to prevent licensing the Lagadec patent separately with an aim to avoid a workable digital resolution of encoding the position information to be developed and

121. *Loughran v. Loughran*, 292 U.S. 216, 229 (1934).

122. *Precision Instrument Mfg. Co.*, 324 U.S. at 814–15; *Johnson v. Yellow Cab Transit Co.*, 321 U.S. 383, 387 (1944); *Keystone Driller Co.*, 290 U.S. at 245–46. *See also* Zechariah Chafee, Jr., *Coming into Equity with Clean Hands*, 47 MICH. L. REV. 877 (1949).

123. *Precision Instrument Mfg. Co.*, 324 U.S. at 815; *Gaudiosi v. Mellon*, 269 F.2d 873, 881 (3d Cir. 1959). *See also* T. Leigh Anenson, *Beyond Chafee: A Process-Based Theory of Unclean Hands*, 47 AM. BUS. L.J. 509, 527–41, 558–59 (2010).

124. *Keystone Driller Co.*, 290 U.S. at 245–46. *See also* *Gaudiosi*, 269 F.2d at 881; *Bishop v. Bishop*, 257 F.2d 495, 500 (3d Cir. 1958).

125. The qualified claimant of patent-misuse is not limited to the defendant that is actually affected by the asserted misbehavior. The *Princo* en banc decision left this problem untouched. For the need to establish standing requirement for the misuse doctrine see Mark A. Lemley, Comment, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CAL. L. REV. 1599, 1618–19 (1990); *Infra* section IV.3.

126. Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. PAT. & TRADEMARK OFF. SOC’Y 793, 796 (1988). *See also* Feldman, *supra* note 90, at 417; Leaffer, *supra* note 97, at 157.

compete with Philips's Raaymakers analog technology. The colluded constraint was on Sony, a licensor, and thus failed to fulfill the restriction-on-licensee requirement, and therefore, was not a patent-misuse in the majority's mind. One group of victims under this collusion, however, was CD-R/RW manufacturers. They suffered from high royalty rates and no alternatives in the encoding technology, yet were sued for infringement in the present case precisely due to the fact that they were unable to afford the expensive royalties resulting from the conspiracy. Excluding that conspiracy from patent-misuse regrettably deprived the court of the necessary discretion in declining to execute that collusion against its victims. The outcome contradicted the basic concerns of the unclean hands doctrine, and conspicuously demonstrated the significance of equitable flexibility for the patent-misuse doctrine.

Professor Merges hypothesized another perfect example of this point.¹²⁷ Suppose a pharmaceutical company successfully develops an AIDS vaccine but refuses to sell or manufacture directly or through licensing in certain states because the rule of strict liability in those states makes it risky, or at least too burdensome, for the firm to make and distribute the vaccine.¹²⁸ Would it be an advisable choice for courts to enforce the patent monopoly against residents in those states, barring them from using the vaccine to prevent the deadly disease and to save human lives?¹²⁹ Should the courts be compelled to excuse that specific use of the patent rights from misuse allegations, just because it does not contain a restriction-on-licensees?

Actually, apart from the patent-misuse doctrine, restraint-on-competition is a common ground for unenforceability in contract and property law. The focal points for judging unenforceability in this aspect are reasonableness of the constraint,¹³⁰ its impact on competition,¹³¹ and whether it is ancillary to a valid transaction.¹³² All of

127. Merges, *supra* note 126, at 796–97.

128. *Id.*

129. *Id.*

130. See RESTATEMENT (THIRD) OF PROPERTY: SERVITUDES § 3.6 (2000) (providing that “[a] servitude that imposes an unreasonable restraint on trade or competition is invalid.”). See also E. ALLAN FARNSWORTH, CONTRACT § 5.3, at 322–23, 326–28 (4th ed. 2004).

131. See RESTATEMENT (SECOND) OF CONTRACTS § 186(2) (1981) (providing that “[a] promise is in restraint of trade if its performance would limit competition in any business or restrict the promisor in the exercise of a gainful occupation.”).

132. See RESTATEMENT (SECOND) OF CONTRACTS §§ 187–188 (1981). See also FARNSWORTH, *supra* note 130, § 5.3 at 323–26.

these factors are flexible, open-ended conceptions. No rigid limitation is built in to affect their adaptability. This hundred-year common law wisdom should be of considerable value for contemporary patent courts. In light of the foreseeable polymorphism and unforeseeable strains of potential misbehaviors, it will be much wiser and pragmatic for the Fed. Cir. to maintain greater range and considerable flexibility, and, in the meantime, to refrain from creating restrictive requirements with regard to the applicable scope of the patent-misuse doctrine.

V. FUNCTIONAL SELF-RETREAT: A GAP WITH ANTITRUST

If using antitrust law as a yardstick in assessing the impact that the *Princo* decision brought about to the patent misuse-doctrine, one may obtain a more comprehensive understanding in the implications of this case. With adoption of the restriction-on-licensee requirement, this decision excluded from the misuse doctrine those antitrust violations that involve patent right extension and anticompetitive restraint not explicitly imposed on the licensees. Recognizing the equitable nature and spirit of unclean hands, as embodied in the misuse doctrine, however, the misbehaviors set aside by this ruling do not appear to be truly “clean” and qualify for the court’s aid with its execution. Given the fact that misconduct violating section 1 or 2 of the Sherman Act—the key antitrust statute—are all felonies, it is really bizarre to hold that part of them merit the court’s protection and enforcement. Are there any meaningful differences between the two categories that the decision treated differently, in particular, in terms of the potential inequity those misconducts may generate to defendants? As long as the antitrust violations cannot be possible but for the patentees’ extension of patent rights beyond the patent grant, those violations have encroached the key thrust of the misuse doctrine, and nearly no reasonable ground could be raised to save them from the misuse allegations.¹³³ Against this backdrop, it is not a surprise that Judge Prost made a candid remark in his concurring opinion: “

I do not share the majority’s apparent view that antitrust considerations are an entirely ‘different issue,’ separate and apart from the question of whether there has been patent misuse Whether use of a patent runs afoul of antitrust law seems *in itself*

133. Though stated in dictum, the Supreme Court indicated in *Ill. Tool Works Inc. v. Indep. Ink, Inc.* that “[i]t would be absurd to assume that Congress intended to provide that the use of a patent that merited punishment as a felony would not constitute ‘misuse.’” 547 U.S. 28, 42 (2006).

probative of whether the patent owner has also abused, or ‘misused,’ the limited monopoly granted by Congress.¹³⁴

A. Retreating from Anticompetitive Behaviors

In the present case, Phillips based its asserted conspiracy with Sony on its CD-R/RW patents, and expanded the patent rights beyond the boundary set by the patent office. Using the Raymakers and other Orange Book patents as its cornerstone, Philips had three types of leverage to suppress the Lagadec technology. First, Philips might oppose the Lagadec patent from being listed as essential for compliance with the Orange Book standard or selected into the joint-license package administered by Philips. Second, Sony might not be able to enjoy a considerable share of the royalties accruing from the joint-license package as it did in the present case. In return for an insubstantial contribution to the Orange Book standard, Sony was rewarded a significant portion of the royalties. For example, the Lagadec patent was nearly the only essential patent that Sony possessed in the CD-RW license package. Notwithstanding, Sony received 36% of the royalties accruing from CD-RW joint licenses.¹³⁵ During the development of the CD-RW specification, Sony employees were described as “more observers than real active developers.”¹³⁶ Lastly, in order to enforce its alleged conspiracy with Sony, Philips could have refused to license the Orange Book patent package to the licensee of the Lagadec patent to punish Sony for cheating in their conspiracy and to suppress the emergence of alternative technology.¹³⁷ These were all pivotal bargaining chips that Philips might have utilized in exchange for a non-compete-and-share agreement with Sony.

In antitrust law, the noncompetition covenant, or market division agreement among horizontal competitors, might more often than not be analyzed under the rule of reason, on a condition that it is not a naked restraint on trade but is ancillary to a normal transaction or joint venture.¹³⁸ Sometimes it is possible, however, that the court analyzes

134. *Princo Corp. v. ITC*, 616 F.3d 1318, 1341 (Fed. Cir. 2010) (en banc) (Prost, J., concurring) (citing *U.S. Gypsum Co. v. Nat'l Gypsum Co.*, 352 U.S. 457, 468 (1957) (emphasis added)).

135. *Id.* at 1344–45 (Dyk, J., dissenting).

136. *Id.* at 1345 (Dyk, J., dissenting) (discussing testimony of Dr. Jacques Heemskerk, a Philips employee).

137. *Id.* at 1338.

138. *See, e.g., Eichorn v. AT&T Corp.*, 248 F.3d 131 (3d Cir. 2001); *Metro Indus. v. Sammi Corp.*, 82 F.3d 839 (9th Cir. 1996); *Polk Bros., Inc. v. Forest City Enterprises, Inc.*, 776

this type of agreement under a per se illegal rule, and regardless of which rule is analyzed, it does not necessarily pass antitrust scrutiny. For example, the Supreme Court applied the per se rule to a non-compete agreement in *Palmer v. BRG*.¹³⁹ The agreement in question involved an excessive territorial market division between two competing bar review course providers in Athens, Georgia.¹⁴⁰ The Court held this non-compete agreement was in violation of section 1 of the Sherman Act.¹⁴¹ In the present case, given the fact that there was no sufficient evidence to prove the agreement between Philips and Sony was necessary for their cooperation in developing the Orange Book standard, but instead some pieces of evidence indicated to the contrary,¹⁴² the non-compete agreement at issue might not be an ancillary restraint that could be readily justified under antitrust law. In other word, the agreement between Philips and Sony may be considered as a naked restraint that should be analyzed under the rule of per se illegal, which does not permit taking into account asserted efficiency gains of the cooperation between competitors. Without offsetting efficiencies from the joint venture to weigh against possible anticompetitive harms that the agreement generates to technology development and competition regarding CR-R/RW position information recording, the Philips-Sony conspiracy will probably have a net adverse impact on competition. With adopting the restriction-on-licensee requirement and shrinking the scope of misuse to be narrower than antitrust, however, the Fed. Cir. eschewed from suppressing this negative patent practice. Instead, it chose to implement the monopoly of Orange Book standard and technologies that the conspiracy contributed to sustain against the victimized CR-R/RW manufacturers. Unfortunately, this holding disappointedly contradicts the court's task of delivering and administering justice. A thorough reflection, therefore, appears to be paramount for the court to apprehend its vital role and grave responsibilities in regulating patent-abusing behaviors.

F.2d 185 (7th Cir. 1985); *Northrop Corp. v. McDonnell Douglas Corp.*, 705 F.2d 1030 (9th Cir. 1983).

139. *Palmer v. BRG of Georgia, Inc.*, 498 U.S. 46 (1990).

140. *Id.* at 46–48.

141. *Id.* at 49–50.

142. The record shows the Lagadec technology was separately developed by Sony and presented to Philips, and was not a collaborative invention. Besides the collusion at issue, there was no overall agreement that inhibited Sony from competing with the Orange Book joint venture. See *Princo Corp. v. ITC*, 616 F.3d 1318, 1355 n.19 (Fed. Cir. 2010) (en banc) (Dyk, J., dissenting).

B. Functional Needs to Complement Antitrust

Apart from specific misconduct that the court might require, there are apparent gaps in the misuse doctrine and antitrust law that resulted from the Fed. Cir.'s new rule. Respondents of section 337 proceedings before the ITC can not raise antitrust counterclaims. The patent-misuse doctrine is therefore the only defense respondents can rely on to repudiate the complainant's anticompetitive behaviors. Consequently, reducing the scope of the misuse doctrine would seriously affect the respondent's procedural right to effectively defend against illegitimate allegations in an adjudicative process. The respondents, whose misuse defense was ruled out, will have to initiate private antitrust litigation separately before the district court. The complex situation of multiple litigations will materially impede speedy resolution of the entire dispute, and drain valuable resources of the parties and the courts.¹⁴³ Accordingly, relaxation of the control on the misuse doctrine, at least allowing it to encompass the entire field of antitrust law, is inevitably a necessary measure to avoid the multi-forum intricacy from routinely happening in section 337 proceedings. In order to prevent a new class of antitrust lawsuits from being constantly initiated in the district courts, the Fed. Cir. needs to carefully reconsider its rulings and newly imposed requirement in its *Princo* decision.

Beyond the ITC proceedings, patent-misuse is also capable of complementing the function of antitrust law. U.S. antitrust law has long since suffered from over-deterrence due to the treble damage recovery awarded in private litigation.¹⁴⁴ For this reason, antitrust law has developed a number of over-prudent rules and doctrines to constrain its private enforcement. An "antitrust injury" must be demonstrated before private lawsuits can proceed to a jury trial.¹⁴⁵ At the federal level, a "direct-purchaser" rule is in place to prohibit indirect purchasers from

143. See, e.g., *Crosley Corp. v. Hazeltine Corp.*, 122 F.2d 925, 930 (3d Cir. 1941); Richard L. Marcus, *Cure-All for an Era of Dispersed Litigation? Toward a Maximalist Use of the Multidistrict Litigation Panel's Transfer Power*, 82 TUL. L. REV. 2245, 2253-54 (2008); William W. Schwarzer, Nancy E. Weiss, & Alan Hirsh, *Judicial Federalism in Action: Coordination of Litigation in State and Federal Courts*, 78 VA. L. REV. 1689, 1690 (1992).

144. See HERBERT HOVENKAMP, *ANTITRUST ENTERPRISE: PRINCIPLE AND EXECUTION* 66-68 (Harvard University Press 2005).

145. The antitrust injury requirement asks the plaintiff to show her loss flow from the anticompetitive aspect of the alleged unlawful behavior, instead of the procompetitive aspect of the same conduct. See *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977); *Los Angeles Memorial Coliseum Comm'n v. National Football League*, 791 F.2d 1356, 1364 (9th Cir. 1986).

recovering their losses from an antitrust offense.¹⁴⁶ For instance, if a manufacturer violates antitrust law, causing damages to distributors and consumers of Product A, only those consumers that purchased Product A directly from the manufacturer can sue for damages. Those that purchased from dealers and other distributors are not eligible to bring a lawsuit against the manufacturer. These procedural thresholds and the heavy burden of proving market power in a well-defined relevant market¹⁴⁷ could together give rise to the under-enforcement of antitrust law, especially in small or medium-scale violations. In contrast, the misuse doctrine does not possess such a dreadful remedy, as it has fewer procedural and evidentiary requirements. It is much more suitable for dealing with small or medium-scale misbehaviors that the scant antitrust enforcement may not adequately cover. Abstaining from using this tool to regulate a substantial part of patent abuse not targeted at licensees, as the Fed. Cir. proclaimed in the *Princo* decision, will be a pity in light of its functional advantages. A mutual supporting and complementing system of collaborating antitrust law and the misuse doctrine with fuller coverage will be a more balanced and satisfactory configuration.

C. Establishing a Requirement for Standing

Some commentators advocate total abolition of the patent-misuse doctrine, calling to replace it with antitrust law. The key point of their argument is the substantial overlapping of this doctrine with antitrust rules, the latter seeming to be a more well-developed body of law with regards to regulating potential anticompetitive behaviors.¹⁴⁸ Overlapping in itself is scarcely sufficient to vindicate the eradication of a legal doctrine. For instance, tort law and criminal law surely have regulated a vast, but common range of human activities, but abolishing one of them has barely been an issue of discussion. The reasoning behind this phenomenon is two or more layers of regulation may sometimes be more preferable than a sole and concentrated one. The true factor for their abolition lies instead in unnecessary waste and complexity. The doctrine of patent-misuse has different goals and

146. *Ill. Brick Co. v. Illinois*, 431 U.S. 720, 728–29 (1977). *See also Princo Corp. v. ITC*, 616 F.3d 1318, 1350 (Fed. Cir. 2010) (en banc) (Dyk, J., dissenting); Hovenkamp, *supra* note 144, at 72–76.

147. For the difficulty in market definition and market power measurement, *see e.g.*, Robert Pitofsky, *New Definitions of Relevant Market and the Assault on Antitrust*, 90 COLUM. L. REV. 1805, 1807–09, 1813–18 (1990); Frederick M. Rowe, *Market as Mirage*, 75 CAL. L. REV. 991, 991–96 (1987).

148. The most prominent figure in this camp is Judge Posner. *See USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 511 (7th Cir. 1982).

principles than antitrust law. As a defense in infringement suits, the doctrine emphasizes the prevention of patent owner's circumvention over the patent boundary.¹⁴⁹ The misuse and antitrust regimes also have divergent remedies and procedural postures. U.S. antitrust regime has its own weak points, such as ITC section 337 proceedings and strict requirements for private litigants, where the misuse doctrine can precisely play a positive role in filling in those gaps.¹⁵⁰ It would not be a layer of redundant regulation as those commentators denote.

Other critics of the misuse doctrine were focused on the difference between its remedy and the harm that misbehaviors generate, in particular the rule that every infringer of the patent can lodge the misuse defense no matter whether she is personally victimized or not.¹⁵¹ The origin of this defense—the unclean hands doctrine—is not a regulatory scheme that manipulates the punishment in proportion to the harm that the misbehavior achieves. The focus of this doctrine turns on the question of whether the plaintiff's pleading merits the aid of the court as the custodian of justice. From this perspective, proportionality might not be the only and best standard to determine the success or demise of the misuse doctrine. This does not mean that the misuse defense should be available to irrelevant patent infringers. Patent owner's misbehaviors that have no relation with the transaction or market at question will not impinge upon the alleged infringer in the specific infringement litigation. It will be a pure windfall for unaffected infringers to claim the misuse defense based on the suffering of someone else. In order to avoid rewarding infringers who do not suffer from the patentee's misbehaviors, a requirement on standing to confine the misuse defense to those who are actually affected by the alleged misbehaviors should be established. The integrity of justice administration will not be tainted if the court executes the patent right against unaffected infringers. Traditionally, the doctrine of unclean hands also retains a similar limitation to prevent abuse.¹⁵²

149. See *supra* Part II.2.

150. See *supra* Part IV. 1–2.

151. Cotter, *supra* note 97, at 902, 908–09; Lemley, Comment, *supra* note 125, at 1614–20.

152. RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 32 (Tentative Draft No. 3, 2004) (describing the unclean hands doctrine as “a party guilty of inequitable conduct *in the underlying transaction* may on that account be denied a claim”) (emphasis added).

VI. CONCLUDING REMARKS

The *Princo* en banc decision appears to be another important step by the Fed. Cir. to restrain the strength and scope of the patent-misuse doctrine. The court began the long course in 1986 in the *Windsurfing* case, where it imposed a new element, “having anticompetitive effect,” to the Supreme Court’s traditional test for this defense. In the present case, the Fed. Cir. majority proceeds to create another element—restriction-on-licensees only—to the existing criteria. There is no reliable way to assure what mobilizes the court to forge such a long and consistent endeavor in controlling this doctrine. The court has not sufficiently disclosed specific rationales and overall evaluations that support this project. As acknowledged in this article, the misuse doctrine needs improvement, such as adding a new requirement on standing to confine it to infringers actually suffering from the misuse. A substantial curtailment of this doctrine, however, still seems too early to stage. Through detailed analysis of the *Princo* decision, this essay demonstrates that the holding of this case deviates from Supreme Court precedent and previous Fed. Cir. and appellate court precedent. It also ignores the importance of equitable nature and discretionary flexibility originally embedded in the doctrine. Functionally speaking, the court’s ruling retreats from suppressing certain patent abuse, creating evident gaps and disjuncture with antitrust law. It is the author’s hope that the *Princo* decision is an end to the beginning, not a beginning to end. Instead of substantially weakening the misuse doctrine, this decision could be an excellent stimulus and starting point for careful reflection on its function, foundation, and better configuration.