

# Deviated, Unsound, and Self-Retreating: A Critical Assessment of *Princo v. ITC* en banc Decision

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## Abstract

The licensing dispute between Philips and Taiwan CD-R/RW manufacturers has been a powerful generator of new developments in the field of patent and competition worldwide, which culminates at the *Princo* en banc decision of the Fed. Cir. in 2010. By adding new elements to the current governing test, Fed. Cir. confined the patent misuse doctrine to one simplified scenario: the patent owner's restrictions on licensees. This holding substantially constrained the scope of this doctrine to narrower than antitrust law, significantly transforming the landscape of patent misuse. It appears to be another important step of the Fed. Cir. to restrain the strength and scope of the misuse doctrine, but no logical and convincing reasoning provided in this decision.

Through detailed analysis of the *Princo* decision, this paper finds that the previous decisions from Fed. Cir. and other appellate courts could not substantiate the holding of this case. It also deviated from the Supreme Court precedents, which emphasized the policy behind patent misuse is to prevent patent owners from transgressing the boundary of the patent grant as set by the USPTO. The court also ignored the importance of equitable nature long since embedded in the misuse doctrine. Through curtailing substantially the misuse doctrine, Fed. Cir. might force courts to enforce inequitable misbehaviors of the patent holder against alleged infringers, and compress discretionary flexibility necessary to encompass unpredictable kinds of misuse practices. From functional perspective, the court's ruling retreats from suppressing certain patent abuse, creating inevitable gaps and disjuncture with antitrust law. The misuse doctrine needs to be refined, not least adding a new requirement on standing to confine it only for the infringers suffering from the misuse to assert, but not a substantially curtailment. A careful reconsideration of this case hence may be necessary.

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For the past a 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 defense to injunctive relief in the context 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 defense to the injunctive relief claims, and meanwhile setting up prerequisites for raising such defense on the basis of abusing dominant position by refusal to license.<sup>1</sup>

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<sup>1</sup> Bundesgerichtshof [BGH] [Federal Court of Justice] May 6, 2009, paras. 2(a)-2(b), *translated in* <http://www.boek9.nl/www.delex-backoffice.nl/uploads/file/Boek9%20Boek%209%20Uitspraken/Octrooirecht/EN%20Translation%20BGH%20Orange%20Book%20Standard%20-%20eng.pdf>; 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>.

In Taiwan, where the present series of controversies initially burst out, the Fair Trade Commission is the key enforcer of antitrust law. The commission found in 2001 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.<sup>2</sup> This case represents a very rare instance where a monopolist is held abusing its intellectual property (IP) exploitatively, and itself till now is still under dispute in Taiwan judicial proceedings.<sup>3</sup> Additionally, Taiwan Intellectual Property Office once granted compulsory license on Philips' patents at dispute to local CD-R producers, but later on appeal reversed and vacated by Taipei Administrative High Court.<sup>4</sup>

Turing 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

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<sup>2</sup> Philips refused to renegotiate the royalty rate that Taiwan manufacturers originally agreed upon, namely 3% of the net sales price but at least 10 Japanese Yen for each CD-R disk. 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. ; Ming-Yang Shieh, *A Discussion of the Relationship Between the Patent Law and the Fair Trade Law in Taiwan with a View of Philips CD-R Decisions*, in THE FUTURE DEVELOPMENT OF COMPETITION FRAMEWORK 155, 161 (Tzong-Leh Hwang & Chiyuan Chen eds., 2004); Kung-Chung Liu, *Interface Between IP and Competition Law in Taiwan*, 8 J. WORLD INTELL. PROP. 735, 747-49 (2005)(hereinafter Liu, *Interface*); 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*). 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 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.

<sup>3</sup> 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).

<sup>4</sup> NGUYEN, *supra* note 2, at 209-10; Lin, *supra* note 3, at 561-62; Liu, *Interface*, *supra* note 2, at 739-41.

procedure administered by the U.S. International Trade Commission (ITC), aiming to forestall IP-infringing products from entering into the U.S. borders.<sup>5</sup> U.S. Court of Appeals for the Federal Circuit (Fed. Cir.) possesses the appellate jurisdiction over this class of cases arising from the ITC proceedings as it does in patent infringement litigation.<sup>6</sup> Since 2005, Fed. Cir. consecutively brought out three major decisions adjudicating the present dispute, culminating at *Princo v. ITC* en banc decision in 2010.<sup>7</sup> Those decisions substantially changed the landscape of 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 license.<sup>8</sup> Instead in the Philips-series cases, Fed. Cir. consistently held that tying arrangement 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.<sup>9</sup>

What is unique in the *Princo* en banc rehearing decision is that the court expanded the impact that the present dispute brought about to 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.<sup>10</sup> 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.<sup>11</sup> The court went even further in this decision to hold that antitrust violation based on patent rights does 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.<sup>12</sup> Those two separate but related rulings significantly curtail the formerly applicable scope of the

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

<sup>6</sup> The Tariff Act of 1930 § 337(c), 19 U.S.C. § 1337(c) (2006).

<sup>7</sup> *Philips v. ITC*, 424 F.3d 1179 (Fed. Cir. 2005); *Princo v. ITC*, 563 F.3d 1301 (Fed. Cir. 2009); *Princo v. ITC*, 616 F.3d 1318 (Fed. Cir. 2010) (en banc).

<sup>8</sup> 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 3-27 (2d ed. 2010).

<sup>9</sup> *Philips v. ITC*, 424 F.3d at 1188-94; *Princo v. ITC*, 563 F.3d at 1314-15 (citing *Philips v. ITC* with approval); *Princo v. ITC*, 616 F.3d at 1337-39.

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

<sup>11</sup> *Id.* at 1330-32, 1333.

<sup>12</sup> *Id.* at 1329-30, 1333 n.6.

misuse doctrine, and as a result substantially undermine its imperative function as a counterweight guarding against overreaching patent exploitation and infringement allegations.

The goal of this article is focused on reviewing the two far-reaching holdings in the en banc decision. The author will explore their implications for the patent law and market competition and make meticulous assessment and reflection from the 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 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.<sup>13</sup> Although the double viability requirement that the court put forward may also perversely affect the function of the misuse doctrine and therefore is worth to be examined, 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 laws and their respective reasoning and fundamental policy concerns, this article proceeds to argue that its first two rulings regarding the applicable scope of the patent misuse doctrine are deviated already from the precedents handed down both by the Supreme Court and the Fed. Cir. Except for fact patterns summarized from many of the precedents but relatively trivial to the primary principles of the misuse doctrine, however, there is nothing in the present decision providing adequate and sufficient reasoning for this breakaway from settled case laws. Neither did the court proffer any meaningful policy ground for this sudden turn on the law of misuse. Taking into account the possible polymorphism of the ways in which the patentees misusing their patent rights, which are difficult to predict *ex ante* and classified beforehand to certain fixed categories, the holdings of the en banc decision that hold back the misuse doctrine to categories that have previously appeared in judicial opinions do not seem to be a sound and well-deliberated decision-making from a policy perspective.

Furthermore, Fed. Cir. did not answer to the core question that will occur as to the rulings on the scope of 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

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<sup>13</sup> *Id.* at 1336-37.

anticompetitive harm to the economic welfare of our society, shall never be considered as misuse of the patent rights? In other words, the fundamental inquiry resulted from the holdings is how patent abuse targeted other than the licensees would never be a misuse under the patent law? The court did not provide any conceivable clue in the majority opinion to the answer of this question, nor did the court articulate its reason for viewing this type of misuse much more condemnable than other types of restraints on trade. It also failed to proffer any grounds for maintaining double remedy from patent and antitrust law only for misuse on licensees, but not for misuse residing otherwise. From a functional viewpoint, those mismatches create apparent disparities in the strength of legal protection and practical remedies against similar patent-abusing behaviors. With no comprehensible justification, Fed. Cir. suddenly retreats with this decision from a heated battlefield that should be fought for in the patent law, a place that is in need of regulation no less than where it keeps faithful to the commitment of enforcing the patent misuse doctrine.

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 remark to conclude the entire comment.

## I. 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). 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. 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.<sup>14</sup>

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. Philips, Sony, and Taiyo Yuden pooled respective CD-R patents and brought out a joint package license for those patents. Ricoh, Sony, and Philips also concentrated CD-RW patents and licensed them out in a similar manner. 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. Interested licensees could only chose among the package licenses put forth by Philips; individual patents were not offered for licensing.<sup>15</sup> Those package licenses required manufacturers to pay a per-disc royalty on each CD-R or CD-RW of which at least a single licensed invention was in use during the production process. 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.”<sup>16</sup>

One aspect of the CD-R/RW patented technology is actually at issue in the en banc case. In order for a CD player to locate adequately 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 so as to ensure accurate positioning of the player. 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. 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. One of Sony's proposals to conquer this problem was to mark location codes in the groove by using a digital modulation method. Philips's approach was later covered by two of its patents at issue in this case, referred to as the “Raaymakers patents.” Sony prosecuted another patent to protect its corresponding technology as well, referred to as the “Lagadec patent.”<sup>17</sup> The Raaymakers and Lagadec technologies perform the same basic function in dissimilar ways, and are in essence mutually incompatible. Given the fact

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<sup>14</sup> *Princo v. ITC*, 616 F.3d at 1322; *Princo v. ITC*, 563 F.3d 1301, 1303 (Fed. Cir. 2009); Hsueh & Tu, *supra* note 2, at 74; Shieh, *supra* note 2, at 161.

<sup>15</sup> *Princo v. ITC*, 616 F.3d at 1322; *Princo v. ITC*, 563 F.3d at 1303; *Philips v. ITC*, 424 F.3d 1179, 1182 (Fed. Cir. 2005).

<sup>16</sup> *In re Princo Corp.*, 478 F.3d 1345, 1348 (Fed. Cir. 2007). *See also* *Philips v. Princo*, 173 Fed. Appx. 832, 833 (Fed. Cir. 2006).

<sup>17</sup> *Princo v. ITC*, 616 F.3d at 1322; *Princo v. ITC*, 563 F.3d at 1305-06.

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.<sup>18</sup>

After investigating the two contending solutions, the Sony and Philips engineers came to agree to use the Raaymakers technology, rather than the Lagadec approach, to solving this problem. They consequently incorporated the Raaymakers technology into the Orange Book standard for the CD-R/RW manufacturing.<sup>19</sup> 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. 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. 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. Both of the Raaymakers and Legadec patents were classified as essential.<sup>20</sup>

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 Legadec patents. 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. Unfortunately, the licensing relationship did not last long. Due to the high royalty rate of the package license Princo soon declined to pay royalties. Philips terminated the license agreement in response, and further initiated a proceeding before the International Trade Commission (ITC). Philips asserted that while importing into the U.S. compact discs covered by the pooled and unlicensed patents, Princo already in contravention of section 337(a)(1)(B) of the Tariff Act of 1930,<sup>21</sup> and requested the ITC to issue an exclusionary order to expel Princo’s CD-R and CD-RW products from importation. Princo alleged the patent misuse doctrine against Philips as its affirmative defense.<sup>22</sup>

The ITC initially found Philips misused the pooled patents because the package

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<sup>18</sup> Princo v. ITC, 563 F.3d at 1306.

<sup>19</sup> Princo v. ITC, 616 F.3d at 1322; Princo v. ITC, 563 F.3d at 1306.

<sup>20</sup> Princo v. ITC, 616 F.3d at 1322-23; Princo v. ITC, 563 F.3d at 1306.

<sup>21</sup> 19 U.S.C. § 1337(a)(1)(B) (2006).

<sup>22</sup> Princo v. ITC, 616 F.3d at 1323; *id.* at 1346 (Dyk, J., dissenting); Philips v. ITC, 424 F.3d at 1882-83.

licenses it offered was mandatory and hence tied patents essential to fulfilling the Orange Book standard to those patents that were not essential. Fed. Cir. overruled on appeal, concluding that no illegal tying could be properly established regarding patents then in question, and remanded to ITC for further determination of whether Philips had engaged in other behaviors that could be considered as misuse.<sup>23</sup> 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 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, were not misuse as well. The original Fed. Cir. panel opinion agreed that the ITC had rejected righteously the Lagadec tying claim,<sup>24</sup> 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. The entire Fed. Cir. court, however, reversed the panel opinion on rehearing en banc, held that the agreement not to license the Lagadec patent independently did not constitute misuse.<sup>25</sup>

## II. Misuse Abridged: Deviating from Precedents and Legislative History

In addition to ruling on non-compete agreement that might exist between Sony and Philips with regard to Lagadec and Raaymakers technologies, Fed. Cir. delivered two more limitations in the en banc decision on the basic framework and applicable scope of the patent misuse doctrine. The first one is that only restrictions on the use of patents by the licensees would constitute patent misuse. The second one makes clear that antitrust violation that involves extension of the patent grant does not necessarily denote patent misuse.<sup>26</sup>

Those rulings bring the patent misuse jurisprudence into a brand new age. Before

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<sup>23</sup> Philips v. ITC, 424 F.3d at 1197-99 (Fed.Cir.2005).

<sup>24</sup> The Claim 6 of the Lagadec patent is arguably broad enough to embrace the Raaymakers technology. Though uncertainty existed as to the scope 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 v. ITC, 563 F.3d at 1309-12.

<sup>25</sup> Princo v. ITC, 616 F.3d at 1323-26; *id.* at 1346 (Dyk, J., dissenting). 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).

<sup>26</sup> Princo v. ITC, 616 F.3d at 1329-33.

this decision, the existing principle for judging patent misuse was declared in *Windsurfing*<sup>27</sup> and reiterate in *Mallinckrodt*<sup>28</sup> and *Virginia Panel*<sup>29</sup>, all decided by 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.”<sup>30</sup> The two elements coming into light in this test are broadening the patent scope in effect and the broadening affecting the competition.<sup>31</sup> There was no expressive constraint in the test limiting misuse to restrictions imposed on licensees only, nor did any indication of implied restraint to the same effect appearing in the Fed. Cir. decisions. In contrast, there has been Fed. Cir. cases clearly pointing out to the contrary. In *Virginia Panel*, the court explained that 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.<sup>32</sup> Fewer elements required for the court to substantiate patent misuse allegations may suggest it enjoys a more spacious scope than that of antitrust violation 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 may arise when the conditions of antitrust violation are not met.”<sup>33</sup>

The pre-existing case law background highlights the question: why does Fed. Cir. overturn its attitude in the present case? What are the factors and underlying reasons that advise the court to make that 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. The majority opinion indicated that the patentee was entitled to substantial rights under a broad scope of the patent grant. The right to impose a variety of conditions in licensing the patents is also one of the key capabilities possessed by the patent owners. For this reason, the doctrine of patent misuse has been largely confined to a certain types of patentee’s practices.<sup>34</sup>

In light of those observations, the majority opinion re-interpreted narrowly the

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<sup>27</sup> *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986).

<sup>28</sup> *Mallinckrodt v. Medipart*, 976 F.2d 700 (Fed. Cir. 1992).

<sup>29</sup> *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997) (quoting *Windsurfing*).

<sup>30</sup> *Windsurfing*, 782 F.2d at 1001.

<sup>31</sup> See 1 HOVENKAMP ET AL., *supra* note 8, § 3.2, at 3-8.

<sup>32</sup> *Virginia Panel*, 133 F.3d at 872 (citing *Zenith Radio Corp. v. Hazeltine Research, Inc.* 395 U.S. 100, 140-41 (1969)).

<sup>33</sup> *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998) (citing *Zenith Radio* as well).

<sup>34</sup> *Princo v. ITC*, 616 F.3d 1318, 1328-29 (Fed. Cir. 2010) (en banc) (citing *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 510 (7th Cir.1982)).

existing test for patent misuse. It emphasized first the misconducts eligible for the misuse defense had to be rooted in the “use” of the patent. The majority went on to believe 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.<sup>35</sup> 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.<sup>36</sup> It further analyzed the facts of the past cases that the court had ever affirmed misuse allegations, and concrete examples referred to in the legislative process of the Patent Misuse Reform Act of 1988. The opinion came to the conclusion that in all those cases and examples patent misuse arose invariably from restrictions that the patentees imposed on licensees regarding the use of the licensed patents.<sup>37</sup> It considered this similarity appearing to be a rule implied by the previous courts in the precedents. Based on the two-fold reasoning, the court consequently added this new element, though retrieved from the past decisions, into the criteria that the defendant had to satisfy in asserting the misuse defense.<sup>38</sup>

#### 1. Over-Construing Previous Decisions

If one checks with the precedents that the court recited in the en banc decision to support its reasoning, she might be surprised that little reference or suggestion, if any, could be found in those previous cases as to the restriction-on-licensee requirement. Furthermore, the reference to the “use” of the patent, thought appearing in the 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 the patent owner suing for infringement with knowledge that no actual infringement had ever occurred. The panel unanimously concluded that due to 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.<sup>39</sup> The panel rejected a parallel allegation of patent misuse as well. In addressing this defense, the panel stressed the misuse doctrine should not be expanded into an “open-ended pitfall” for any type of wrongful use of the patents.<sup>40</sup> The

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<sup>35</sup> *Princo v. ITC*, 616 F.3d at 1329, 1331-32 (citing *C.R. Bard*, 157 F.3d at 1373; *Virginia Panel*, 133 F.3d at 870; *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)).

<sup>36</sup> *Princo v. ITC*, 616 F.3d at 1329.

<sup>37</sup> *Princo v. ITC*, 616 F.3d at 1330-31, 1331-32, 1333.

<sup>38</sup> *See Princo v. ITC*, 616 F.3d at 1331.

<sup>39</sup> *C.R. Bard*, 157 F.3d at 1369; *id.* at 1381-82 (Bryson, J., concurring-in-part and dissenting-in-part).

<sup>40</sup> *Id.* at 1373.

misconduct asserted in this case was neither occurred in the licensing context, nor was the question whether it related to the “use” of the patent had ever raised in assessing the misuse claim. The panel revealed no intention to narrow down the scope of misuse, and no referring to any restriction on licensees. Similarly in the *Virginia Panel* decision, Fed. Cir. although 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. The factor of whether using the patent or not did not actually play an important role in reaching the conclusion in this case.<sup>41</sup>

Besides the two Fed. Cir. cases, the decisions that were reached before the Fed. Cir. was established principally reflected quite similar situations. For example in the case of *Kolene Corp.*, the Six 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 . . . .”<sup>42</sup> The real condition that the court encountered in that case, however, was the defendant contending that the plaintiff-patentee tying her “service mark” license with unpatented products amounted to “patent” misuse as well. The Six Circuit harshly refuted this allegation in its opinion, and reiterated the bottom line for a misuse allegation, which Fed. Cir. quoted in the present case: “the patent in suit must itself significantly contribute[ ] to the practice under attack.”<sup>43</sup> The same notion was also employed in *McCullough Tool*,<sup>44</sup> another 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 15 different operators for infringement of 8 to 10 different patents. Some of the infringement allegations were dismissed after discovery procedures ended in those cases. In the Tenth Circuit’s opinion, it was clear that the plaintiff had a reasonable basis for alleging infringement by these operators of the patent that was sought to enforce in the instant lawsuit. As for the remainder of the patents, the court indicated what the Fed. Cir. quoted in the *Princo* case: the patent misuse defense was allowed “only where there had been a misuse of the patent in suit.” The defense thus was confined in this case to misconducts in relation to or in any manner connected with the matter at dispute in the infringement proceeding.<sup>45</sup>

From the analysis above, one can barely see “the use of the patent” concept

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<sup>41</sup> *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 870-71 (Fed. Cir. 1997).

<sup>42</sup> *Kolene Corp. v. Motor City Metal Treating, Inc.*, 440 F.2d 77, 84 (6th Cir.1971).

<sup>43</sup> *Id.* at 84-85 (internal quotation mark omitted).

<sup>44</sup> *McCullough Tool Co. v. Well Surveys, Inc.*, 395 F.2d 230 (10th Cir.1968).

<sup>45</sup> *Id.* at 238.

functioned as a meaningful constraint—instead of a general and broad delineation—of the scope of the patent misuse defense. Nor did any requirement for a licensee or for restrictions on how a licensee exploiting the patent appeared in those cited cases.

In addition to over-construing the previous decisions to support the restriction-on-licensee requirement, Fed. Cir. also erred in dismissing past decisions that stood opposite to its view too lightly and out of context. The primary judicial decision that *Princo* relied on in the en banc proceeding, *Compton v. Metal Products, Inc.*,<sup>46</sup> made the most prominent case in this aspect. The majority opinion distinguished the *Compton* case on its fact, and denounced it for transgressing precedents when the *Compton* court found misuse in patentee’s self-restraint on the use of the patent.<sup>47</sup> If resetting the case back to its original context, one will easily come up with a quite different view on this decision. By restraining its own freedom in using the patent at suit, *Compton*—the patentee—stroke a non-compete agreement with its exclusive licensee in exchange of royalties. But 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 connecting to. In other word, what at issue in this case was a cross-the-board, non-compete-and-share collusion between competitors, which revealed considerable similarity to the facts presented in the *Princo* case. The major concern the court might have with this agreement was not that the patent owner constrained its own freedom to facilitate the transaction of exclusive license, but that by this agreement the competition between the patentee and exclusive licensee regarding the entire category of equipment had been eliminated. 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 Fed. Cir. maintained before the *Princo* en banc decision.<sup>48</sup> The collusion nevertheless did not contain restrictions on licensee’s use of the patent, the very element that is frequently missing in the decisions cited by the *Princo* majority for support. Against this backdrop, it is difficult to justify the *Princo* majority excluded the *Compton* case from consideration, but not those decisions being cited in the opinion. This disparity in surveying and assessing relevant case laws 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.

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<sup>46</sup> 453 F.2d 38 (4th Cir. 1971).

<sup>47</sup> *Princo v. ITC*, 616 F.3d 1318, 1331 n.4 (Fed. Cir. 2010) (en banc).

<sup>48</sup> See *supra* text accompanying notes 27- 33.

## 2. Deviating from Supreme Court Precedents

Stepping over the level of appellate courts, the more profound problem that Fed. Cir. currently comes across is the observable gap between the *Princo* decision and prior Supreme Court precedents on patent misuse doctrine. The U.S. Supreme Court put forward the idea of patent misuse for the first time in the *Motion Picture Patents* case,<sup>49</sup> but not until the *Morton Salt* decision in 1942<sup>50</sup> did the Supreme Court give the full shape and concrete substance, including the name of “patent misuse”, to that doctrine.<sup>51</sup> Initially in *Morton Salt*, the Seventh Circuit reversed the trial court’s summary judgment since its finding of misuse was not supported by evidence showing the patent owner’s tying practices had violated the Clayton Act, the corresponding antitrust law.<sup>52</sup> The Supreme Court disagreed. It proclaimed that the key inquiry for patent misuse is not whether the patent owner contravenes the 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 to her.<sup>53</sup> 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 \* \* \* Inventors the exclusive Right \* \* \*.’ to their ‘new and useful’ inventions. United States Constitution, Art. I, s 8, cl. 8; 35 U.S.C. s 31, 35 U.S.C.A. s 31. *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.<sup>54</sup>

The Court explicitly expressed its primary concern that underlies the rise of the patent misuse doctrine. It is the public policy to promote the progress of innovation that further determines the balance between what patents cover and what do not that

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<sup>49</sup> *Motion Picture Patents Co. v. Universal Film Mfg.*, 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).

<sup>50</sup> *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

<sup>51</sup> See e.g., Thomas F. Cotter, *Misuse*, 44 HOUS. L. REV. 901, 907-09 (2007).

<sup>52</sup> See *Morton Salt*, 314 U.S. at 490 (depicting the Seventh Circuit opinion).

<sup>53</sup> *Id.* at 490-91.

<sup>54</sup> *Id.* at 492 (emphasis added).

requires the misuse doctrine to guard against the patentee from transgressing the boundary of rights as granted by the patent office.<sup>55</sup> The scope of patent rights is ascertained by patent examiners through intensive and professional investigations. Over-reaching the rights beyond their boundaries may enclose technologies commonly known or obvious for skilled artisans into 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 invention, or bring competition stifling at places the patent office intentionally leaves open for rivalry. No matter which of the above in fact occurs, it is definitely not the inventive activities that the patent system is destined to promote.<sup>56</sup> In addition to all of these, the patent grant expanded by misuse conduct may also encumber subsequent invention for the need of clearing the extended patent rights that blocks on the follow-on innovation path, causing another layer of disincentive to invent similar to that of anticommons or patent thickets which have been intensively noted in recent years.<sup>57</sup>

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 migrating from antitrust law to assist deciding misuse or not in individual cases,<sup>58</sup> the high court has consistently kept the same patent policy as its

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<sup>55</sup> See Christina Bohannon, *IP Misuse as Foreclosure*, 96 IOWA L. REV. 475 484-86 (2011); Cotter, *supra* note 51, at 907-08; Feldman, *supra* note 49, at 409-11, Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. HIGH TECH. L. 142, 152 (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).

<sup>56</sup> The *Motion Picture Patents* 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 to 3-5; Feldman, *supra* note 49, at 405-09; Leaffer, *supra* note 55, at 148-49.

<sup>57</sup> See Feldman, *supra* note 49, at 435; Leaffer, *supra* note 55, 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 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*, in 1 INNOVATION POLICY AND THE ECONOMY 119 (Adam B. Jaffe et al. eds., 2001).

<sup>58</sup> Some commentators argued the mixture with antitrust considerations blurred the patent policy behind the misuse doctrine with antitrust policy, turning that doctrine into "a common law of

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 the Supreme Court found for 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.<sup>59</sup> In the same vein in the *Blonder-Tongue* decision, the final case where the Supreme Court discussed the basic rationale of this doctrine,<sup>60</sup> the court 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.”<sup>61</sup> In quoting *Mercoid*, the 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.”<sup>62</sup>

After tracing back to Supreme Court decisions previously on patent misuse, it is more evident that the restriction-on-licensee requirement is a newly-created affix to the misuse doctrine, yet undeniably inconsistent with the principle that the Court already delivered in a series of cases regarding this defense. Since the year of 2006, there has been an increasing number of Fed. Cir. decisions reversed by the high court in the area of patent law. The cases have being overturned in this period include *eBay*,<sup>63</sup> *MedImmune*,<sup>64</sup> *KSR*,<sup>65</sup> and *Quanta Computer*,<sup>66</sup> all involving Fed. Cir. case

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antitrust.” J. Dianne Brinson, *Patent Misuse: Time for a Change*, 16 RUTGERS COMPUTER & TECH. L.J. 357, 370-74 (1990); Note, *supra* note 55, at 1926. Nevertheless, as the Supreme Court indicated in *Transwrap* case 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; *Transparent-Wrap Machinery Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 641 (1947). This holding fully exemplified the misuse doctrine has separate and independent, though complementary and sometimes similar, policy underpinnings other than the antitrust law. *See also* Potenza et al., *supra* note 55, at 70-71 (supporting antitrust considerations in determining patent misuse cases).

<sup>59</sup> *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136-37 (1969) (citing *Brulotte v. Thys Co.*, 379 U.S. 29, 33, 85 S.Ct. 176, 179, 13 L.Ed.2d 99 (1964)).

<sup>60</sup> *Princo v. ITC*, 616 F.3d 1318, 1347 (Fed. Cir. 2010) (en banc) (Dyk, J., dissenting). *Dawson Chemical* is the last misuse case that the Court ever considered, but it concentrated only on the issues of contributory infringement and statutory interpretation of § 271(c) and (d) of the 1952 Patent Act. 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”. *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 180-81 (1980).

<sup>61</sup> *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971).

<sup>62</sup> *Id.* at 343-44 (quoting *Mercoid v. Mid-Continent Investment Co.*, 320 U.S. 661, 666, 64 S.Ct. 268, 271, 88 L.Ed. 376 (1944) ).

<sup>63</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>64</sup> *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

laws that already drifted away from the Supreme Court precedents predating the Circuit's establishment in 1982. In those cases, the Supreme Court continuously set aside category-specific rules gradually instituted by the Fed. Cir., and resumed the law back to the more general, flexible, and open-ended rules as crafted in its prior decisions.<sup>67</sup> The *Princo* en banc decision in fact created a specific requirement for asserting the misuse defense, and arguably deviated from the Supreme Court prior precedents. As of the finishing of this article, the certiorari of the present decision is still pending for the high court's approval. No matter eventually the certiorari will be granted or not, the *Princo* decision possessed nearly all the listed features shared in the series of overturned cases since 2006. Even if surviving successfully at the certiorari stage for this time, the holdings in the *Princo* decision may still be vulnerable to future challenges, and will possibly have to live an unstable and contentious life in the prospect.<sup>68</sup>

### 3. Neglecting Legislative History

With regard to the relationship between patent misuse doctrine and antitrust law, it has been argued that with enacting the Patent Misuse Reform Act in 1988, Congress intended to confine the scope of misuse doctrine and to bring it in line with the antitrust law.<sup>69</sup> If one looks into the real process of that amendment to the Patent Act, however, she will perceive the legislative intent quite differently from that description. The Senate firstly 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 the antitrust laws."<sup>70</sup> The House nonetheless preferred retaining patent misuse as a distinct doctrine. The House counterpart, H.R. 4086, recited instead the categories of restrictions that most

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<sup>65</sup> *KSR Intern. Co. v. Teleflex Inc.*, 550 U.S. 398 (2007).

<sup>66</sup> *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008).

<sup>67</sup> Hill Wellford, *Is the Supreme Court Importing Antitrust Economics into Patent Law? A Different Look at eBay, MedImmune, KSR, and Quanta Computer*, at 12-14 (Mar. 2009), <https://www.competitionpolicyinternational.com/file/view/5883>.

<sup>68</sup> The pre-existing Fed. Cir. rule actually requires defendants asserting 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), an antitrust decision); *Philips 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 49, at 401-02. See also HOVENKAMP ET AL., *supra* note 8, § 3.2a, at 3-6 (acknowledging Fed. Cir. substantially cut back the scope of patent misuse, confining it predominantly to conducts also violating antitrust law); Bohannon, *supra* note 55, at 490 (indicating Supreme Court's misuse finding did not rely on antitrust law, but grounded firmly in its IP policy).

<sup>69</sup> See, e.g., *Princo v. ITC*, 616 F.3d 1318, 1329-30 (Fed. Cir. 2010) (en banc).

<sup>70</sup> Jere M. Webb & Lawrence A. Locke, *Intellectual Property Misuse: Developments in the Misuse Doctrine*, 4 HARV. J.L. & TECH. 257, 264 (citing Intellectual Property Antitrust Protection Act of 1988, S. 438, 100th Cong. § 201 (1988)).

courts had identified as misuse. Through mutual compromise, the two chambers of Congress eventually reach consensus. The enacted amendment only added a safe harbor to the Patent Act to shelter two specific types of practices from misuse defense.<sup>71</sup> The first category is refusal to license, and the second is the tying arrangements where the patent owner fails to possess market power in the relevant market.<sup>72</sup>

The entire legislative process undoubtedly demonstrated that Congress not only had no intention to confine the scope of patent misuse to the antitrust terrain, but instead positively maintained the defense as a standing-alone doctrine with coverage broader than its antitrust counterpart. In the *Princo* en banc decision, however, Fed. Cir. majority announced in the opinion that antitrust violation, even involving extension of the patent grant, would not necessarily constitute misuse conducts. With this ruling, Fed. Cir. arguably reduced the misuse scope even narrower than antitrust. That judicial move did not follow the legislative intent to keep the broader scope of misuse doctrine intact, thus running against the will of Congress as expressed at the last revision of pertinent patent statutes. Accordingly, those rulings were unable to find affirmative support from the legislative history of the 1988 amendment.

### III. Policy Decision Unsound: 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 pointed to retaining the pervasive protection of patent rights as its background rationale, and for that reason to control narrowly the misuse doctrine as a defense to patent infringement.<sup>73</sup> There lacked, however, a link in logic between that reasoning and the restriction-on-licensee requirement. Without proper judicial precedents as its basis, why the majority chose 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 existing misuse test, or leveling up evidentiary requirement for proving elements already contained in the misuse test?<sup>74</sup>

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<sup>71</sup> Joel R. Bennett, *Patent Misuse: Must an Alleged Infringer Prove an Antitrust Violation?*, 17 AIPLA Q.J. 1, 2 (1989); *id.* at 264-65.

<sup>72</sup> 35 U.S.C. § 271(d)(4)-(5) (2006).

<sup>73</sup> *Princo v. ITC*, 616 F.3d 1318, 1328-29 (Fed. Cir. 2010) (en banc). *See also supra* text accompanying notes 34-37.

<sup>74</sup> Beginning with *Lucent v. Gateway* in 2009, Fed. Cir. has made use of heightened evidentiary requirement to control damage awards in patent infringement lawsuits. *See, e.g.*, *Uniloc USA, Inc. v. Microsoft Corp*, No. 2010-1035, 2011 WL 9738 (Fed. Cir. Jan. 4, 2011); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010); *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009); *Cornell University v. Hewlett-Packard Co.*, No. 01-CV-1974, 2009 WL 1405208 (N.D.N.Y. May 15,

The opinion did not answer this question, nor provide any rationale to connect the new element to the court’s underlying concerns. A gap in logic therefore resulted in the reasoning of the court’s holdings for the new requirement in the misuse doctrine.

In addition to the logical gap in reasoning, the majority’s new limitation may also generate false negatives in identifying misuse conducts. As Fed. Cir. stated in *B. Braun Medical*, the patent misuse doctrine is an extension of the equitable doctrine of unclean hands in tort law.<sup>75</sup> The guiding principle for that doctrine is the maxim “he who comes into equity must come with clean hands.”<sup>76</sup> While “equity does not demand that its suitors shall have led blameless lives,”<sup>77</sup> the maxim does require plaintiffs shall have acted reasonably, with conscience, and without fraud or deceit as to the matter they raise in the litigation.<sup>78</sup> Courts are for the most part concerned with their integrity in applying the clean hands doctrine. The maxim thus entrusts broad range of equitable discretion with courts in refusing to assist unclean litigants to make use of the judicial procedure in bad faith.<sup>79</sup> The equity court “is not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion.”<sup>80</sup>

In the same spirit, a court of equity will not lend its support to enforce a patent that has been misused. It will be much preferable for patent misuse to stay open and flexible so as to encompass all possible types of misconducts that adversely affect the opposing parties in the same litigation based on the patent at issue.<sup>81</sup> This flexibility will offer the courts broad but necessary discretion to shy away from accommodating

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2009).

<sup>75</sup> *B. Braun Medical, Inc. v. Abbott Laboratories*, 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).

<sup>76</sup> *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814 (1945); *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 241, 243 (1933).

<sup>77</sup> *Loughran v. Loughran*, 292 U.S. 216 (1934).

<sup>78</sup> *Precision Instrument*, 324 U.S. at 814-15; *Johnson v. Yellow Cab Transit Co.*, 321 U.S. 383, 387 (1944); *Keystone Driller*, 290 U.S. at 245-46. See also Zechariah Chafee, Jr., *Coming into Equity with Clean Hands*, 47 MICH. L. REV. 877, 877 (1949).

<sup>79</sup> *Precision Instrument*, 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).

<sup>80</sup> *Keystone Driller*, 290 U.S. at 245-246. See also *Gaudiosi v. Mellon*, 269 F.2d at 881; *Bishop v. Bishop*, 257 F.2d 495, 500 (3d Cir. 1958).

<sup>81</sup> 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, Comments, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CAL. L. REV. 1599, 1618-19 (1990), and discussion *infra* IV.3 .

inequitable patent owners to achieve unreasonable gains through judicial procedures, which would be of vital importance for the courts to preserve their integrity as the administer of justice.<sup>82</sup>

The fact in the present case provides a good example to illustrate the possible type of patent abuse that would be expelled from the scope of misuse doctrine by the restriction-on-licensee requirement. Assuming arguendo that Philips and Sony did collude to prevent licensing the Lagadec patent independently, for the purpose of avoiding a workable digital resolution to encoding the position information on CD-R/RWs to be developed and to compete with Philips's Raaymakers technology. The colluded constraint was on Sony, a licensor, thus failing to fulfill the restriction-on-licensee requirement and not a patent misuse in the majority's mind. One group of victims under this collusion, however, is CD-R/RW manufacturers. They suffered from high royalty rates and no alternative in the encoding technology, yet were sued for infringement in the present case precisely due to unable to afford those expensive royalties resulting from the conspiracy. Excluding that conspiracy from patent misuse regrettably deprived the court necessary discretion of declining to execute the consequences of that collusion against its victims. The outcome contradicted with 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 to this point. Suppose a pharmaceutical company successfully develop an AIDS vaccine, but refuse to sell or to manufacture directly or through licensing in certain states of the United States, on the ground that the strict product liability in those states generate too heavy and risky burdens for the firm to make and distribute the vaccine there. 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?<sup>83</sup> Should the courts be compelled to execute that specific use of the patent rights against product liability and human life, 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,<sup>84</sup> its

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<sup>82</sup> 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 49, at 417; Leaffer, *supra* note 55, at 157.

<sup>83</sup> Merges, *supra* note 82, at 796-97.

<sup>84</sup> See RESTATEMENT (THIRD) OF PROPERTY: SERVITUDES § 3.6 (2000) ("A servitude that imposes an unreasonable restraint on trade or competition is invalid.") See also E. ALLAN FARNSWORTH, CONTRACT §

impact on competition,<sup>85</sup> and whether it is ancillary to a valid transaction.<sup>86</sup> All of 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, in the meantime to refrain from creating restrictive requirements with regard to the applicable scope of the patent misuse doctrine.

#### IV. Functionally Self-Retreat: A Gap with Antitrust

If taking antitrust law as a yardstick and 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 but not explicitly imposed on the licensees. Recognizing the equitable nature and the spirit of unclean hands that embodied in the misuse doctrine, however, those misbehaviors set aside by this ruling do not appear to be reasonable and “clean” enough to qualify for the court’s aid with their execution in patent infringement suits, just as those the Fed. Cir. still condemns as misuse. Given the fact that misconducts 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 do merit court’s protection and enforcement. Are there any meaningful differences between the two categories that the decision treated differentially, 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 extension of patent rights and do reap market benefit beyond the patent grant, what is the remaining justification for exempting them from the “patent” misuse?<sup>87</sup> Against this backdrop, it is not a surprise that Judge Prost made a candid

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5.3, at 322-23, 326-28 (4th ed. 2004).

<sup>85</sup> See RESTATEMENT (SECOND) OF CONTRACTS § 186(2) (1981) (“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.”)

<sup>86</sup> See RESTATEMENT (SECOND) OF CONTRACTS §§ 187-188 (1981). See also FARNSWORTH, *supra* note 84, § 5.3, at 323-26 (4th ed. 2004).

<sup>87</sup> Though stated in dictum, the Supreme Court indicated in *Illinois Tool Works* 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.’” *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S.

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 probative of* whether the patent owner has also abused, or ‘misused,’ the limited monopoly granted by Congress” (emphasis added).<sup>88</sup>

### 1. Retreating from Anticompetitive Behaviors

In the present case, Phillips did base its asserted conspiracy with Sony on its CD-R/RW patents, and expand the patent rights beyond the boundary set by the patent office. Using the Raaymakers and other Orange Book patents as its cornerstone, Philips had three leverages in possession to suppress the Legadec technology. Firstly, Philips might oppose the Legadec patent from enlisted 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 package license 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 license.<sup>89</sup> During the development of the CD-RW specification, Sony employees were testified as “more observers than real active developers.”<sup>90</sup> Lastly, in order to enforce its alleged conspiracy with Sony, Philips may refuse to license the Orange Book patent package to the licensee of the Legadec patent, so that to punish Sony for cheating in their conspiracy and to suppress the emergence of alternative technology. Those were all pivotal bargaining chips that Philips might utilize in exchange for 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 rule of reason, on condition that it is not a naked restraint on trade, but is ancillary to a normal transaction or a joint venture.<sup>91</sup> Sometimes it is possible, however, that the

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28, 42 (2006).

<sup>88</sup> *Princo 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, 472, 77 S.Ct. 490, 1 L.Ed.2d 465 (1957); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 667, 64 S.Ct. 268, 88 L.Ed. 376 (1944)).

<sup>89</sup> *Id.* at 1344-45 (Dyk, J., concurring).

<sup>90</sup> *Id.* at 1345 (Dyk, J., concurring) (testimony of Dr. Jacques Heemskerk, a Philips employee).

<sup>91</sup> *See, e.g.*, *Ehchorn v. AT&T Corp.*, 248 F.3d 131 (3d Cir. 2001); *Metro Industries v. Sammi Corp.*, 82 F.3d 839 (9th Cir. 1996); *Polk Brothers, Inc. v. Forest City Enterprises, Inc.*, 776 F.2d 185 (7th Cir. 1985); *Northrop Corp. v. McDonnell Douglas Corp.*, 705 F.2d 1030 (9th Cir. 1983).

court analyzed this type of agreements under per se illegal rule, and no matter analyzed under which rule they do not necessarily pass the antitrust scrutiny. For example, the Supreme Court applied the per se rule to a non-compete agreement in *Palmer v. BRG*. The agreement at question involved an excessive territorial market division between two competing bar review course providers at Athens, Georgia. The Court held in conclusion this non-compete agreement in violation of Section 1 of the Sherman Act.<sup>92</sup> 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,<sup>93</sup> the non-compete agreement at issue might not be an ancillary restraint that could readily justified under the antitrust law. This situation may foreclose alleging efficiency gains of the cooperation to justify the agreement. 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 may probably have a net adverse impact on competition. With adopting the restriction-on-licensee requirement and shrinking the scope of misuse to narrower than antitrust, however, Fed. Cir. eschewed from suppressing this negative patent practice, instead choosing to implement the monopoly of Orange Book standard and technologies that the conspiracy contributed to sustain against the victimized CR-R/RW manufacturers. This holding disappointedly contradicts with the court's task of delivering and administering the justice. A through reflection therefore appears to be paramount for the court to apprehend its vital role and grave responsibilities in regulating the patent abusing behaviors.

## 2. Functional Needs to Complement the Antitrust

Apart from specific misconducts that the court might assist with their fulfillment, there are apparent gaps in the misuse and antitrust law that Fed. Cir. resulted through the new rule. Respondents of Section 337 proceedings before the ITC can raise no antitrust counterclaims within the procedure. The patent misuse doctrine is therefore the only defense respondents can rely on to repudiate the complainant's anticompetitive behaviors in the same proceeding. Consequently, to reduce the scope of misuse doctrine would seriously affect the respondent's procedural right to defend effectively against illegitimate allegations in an adjudicative process. The respondents

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<sup>92</sup> *Palmer v. BRG of Georgia, Inc.*, 498 U.S. 46, 46-50 (1990).

<sup>93</sup> The record shows the Lagadec technology was separately developed by Sony and presented to Philips, 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 v. ITC*, 616 F.3d at 1355 (Dyk, J., dissenting).

whose misuse defense was ruled out will have to initiate a 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.<sup>94</sup> Accordingly, relaxation of the control on the misuse doctrine, at least allowing it encompassing the entire field of antitrust law, is inevitably a necessary measure to avoid the multi-forum intricacy from routinely happening in the Section 337 proceedings. In order to prevent a new class of antitrust lawsuits constantly instituted at the district courts, Fed. Cir. needs to reconsider carefully its rulings and newly imposed requirement in the present *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 litigations.<sup>95</sup> For this reason, the antitrust law has developed a number of over-prudent rules or doctrines to constrain its private enforcement. An “antitrust injury” must be demonstrated before the private lawsuits can proceed to the jury trial.<sup>96</sup> At the federal level, a “direct-purchaser” rule is in place to prohibit indirect purchasers to recover their losses from an antitrust offense.<sup>97</sup> For instance, if a manufacturer violates the 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 for raising a lawsuit against the manufacturer. Those procedural thresholds and heavy burden of proving market power in a well-defined relevant market<sup>98</sup> could together give rise to under-enforcement of the antitrust law, especially in small- or medium-scale violations. In contrast, the misuse doctrine does not possess such a dreadful remedy, in return having fewer procedural and evidentiary requirements. It is much more suitable for dealing with small- or medium-scale misbehaviors, where the scant antitrust enforcement may not cover adequately. Abstaining from using this tool to regulate a substantial part of patent abuse not targeted at licensees, as Fed. Cir.

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<sup>94</sup> 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, *Judicial Federalism in Action: Coordination of Litigation in State and Federal Courts*, 78 VA. L. REV. 1689, 1690 (1992).

<sup>95</sup> See HERBERT HOVENKAMP, *ANTITRUST ENTERPRISE: PRINCIPLE AND EXECUTION* 66-68 (2005).

<sup>96</sup> 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*, 429 U.S. 477, 489 (1977); *Los Angeles Memorial Coliseum v. NFL*, 791 F.2d 1356, 1364 (9th Cir. 1986).

<sup>97</sup> *Ill. Brick Co. v. Illinois*, 431 U.S. 720, 728-29 (1977). See also *Princo v. ITC*, 616 F.3d 1318, 1350 (Fed. Cir. 2010) (en banc) (Dyk, J., dissenting); HOVENKAMP, *supra* note 95, at 72-76 (2005).

<sup>98</sup> 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).

proclaimed in the *Princo* decision, will be a pity in light of its functional advantages. A mutual supporting and complementing system by collaboration of the antitrust law and the misuse doctrine with fuller coverage will be a more balanced and satisfactory configuration.

### 3. Requirement on Standing Has to Be Established

Some commentators advocate total abolition of the patent misuse doctrine and replacing it with antitrust law. The key point of their argument is the substantial overlapping of this doctrine with antitrust rules, and the latter seems to be a more well-developed body of law in regulating potential anticompetitive behaviors.<sup>99</sup> 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 range of human activities in common, but abolishing one of them has barely been an issue at discussion. The reason behind this phenomenon is two or more layers of regulation may sometimes be more preferable than a sole and concentrated one. Instead, the true decisive factors of their desirability exist in unnecessary or even destroying waste and complexity. The doctrine of patent misuse has different goals and principles from the antitrust law. As a defense in infringement suits, the doctrine emphasizes the prevention of patent owner's circumvention over the patent boundary.<sup>100</sup> The misuse and antitrust regimes also have divergent remedies and procedural postures. U.S. antitrust regime has its own weak points, such as ITC Sec. 337 proceedings and strict requirements for private litigants, where the misuse doctrine can precisely play a positive role in filling in those gaps.<sup>101</sup> It would not be a layer of redundant regulation as those commentators denotes.

Other critics of the misuse doctrine were focused on the disproportionality between its remedy and the harm that the 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.<sup>102</sup> 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 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 the best standard to determine the success or demise of misuse doctrine. This does not mean

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<sup>99</sup> The most prominent figure in this camp is Judge Posner; see *USM Corp. v. SPS Technologies, Inc.* 694 F.2d 505, 511 (1982).

<sup>100</sup> See *supra* Part II.2.

<sup>101</sup> See *supra* Part IV. 1-2.

<sup>102</sup> Cotter, *supra* note 51, at 902, 908-09; Lemley, Comment, *supra* note 81, at 1614-20.

that the misuse defense should be available to irrelevant patent infringers. Those misbehaviors of the patent owner 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 those unaffected infringers to claim the misuse defense that is based on the suffering of someone else. In order to avoid rewarding those infringers that do not suffer from the patentee's misbehaviors, a requirement on standing to confine the misuse defense to those that actually affected by the alleged misbehaviors should be established. The integrity of justice administration will not be tainted if the court execute the patent right against those unaffected infringers. Traditionally, the doctrine of unclean hands also retains a similar limitation to prevent being abused.<sup>103</sup>

## V. Concluding Remarks

The *Princo* en banc decision appears to be another important step of the Fed. Cir. to restrain the strength and scope of the patent misuse doctrine. The court began the long course in 1986 at 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 exiting 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 disclosed sufficiently much on 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 only for the infringers actually suffering from the misuse. A substantial curtailment of this doctrine, however, seems still too early to stage. Through detailed analysis of the *Princo* decision, this essay demonstrates that the holding of this case deviates from the Supreme Court precedents and previous decisions from the Fed. Cir. and other appellate courts. 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 the 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.

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<sup>103</sup> 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).

