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Copyright Misuse and the Limits of the Intellectual Property Monopoly

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COPYRIGHT MISUSE AND THE LIMITS OF THE INTELLECTUAL PROPERTY MONOPOLY

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I. INTRODUCTION

It is commonly observed that Congress finds the source of its authority to protect intellectual property in the Constitution itself.\(^1\) Article I of the Constitution empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."\(^2\) Less commonly observed is the implication of the words "for limited Times"—that Congress does not have the power to grant permanent exclusive rights to authors or inventors. Although the enactment of antitrust laws lay far in the future, the Framers of the Constitution accepted as a matter of course that for the public good, the intellectual property monopoly must eventually end.

Pursuant to its constitutional power, Congress has protected exclusive intellectual property rights by statute since 1790.\(^3\) One hundred years later, the Sherman Act joined the intellectual property laws in the ever-expanding United States Code.\(^4\) Although section 2 of the Sherman Act forbids monopolizing any part of interstate trade, without mentioning any exception for exclusive intellectual property rights, courts have followed the traditional rule of reconciling apparently conflicting statutes to the extent possible.\(^5\) The "exclusive Right" conferred on intellectual property thus results in a limited, federal government-granted monopoly on the subject of the patent, trademark, or copyright, which is immune to antitrust prosecution. In other words, intellectual property laws are treated as an exception to the Sherman Act and subsequent antitrust laws.

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\(^1\) See, e.g., PAUL GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES 1 (4th ed. 1997) (stating that Article I, Section 8, Clause 8 of the Constitution "is the source of federal copyright and patent legislation"); 1 WILLIAM C. HOLMES, INTELLECTUAL PROPERTY AND ANTITRUST LAW § 1.01 (1998) (stating that our nation's patent system originates in the Constitution).

\(^2\) U.S. CONST. art. I, § 8, cl. 8.


At the same time, the intellectual property laws may be considered an extension of the antitrust laws. The antitrust laws are designed to defend competitive markets against the inevitable externalities and inefficiencies (and, perhaps, inequities) of unimpeded competition. The antitrust laws operate under the assumption that when capital becomes concentrated in too few hands, innovation will be discouraged, and output (or prices) will be set at an inefficient level. Similarly, the intellectual property laws were designed to encourage efficiency and innovation—two trademarks of competitive markets. Intellectual property tends to be cheaply copied, which means that large-scale infringement can deprive the inventor or author of the economic benefits of his invention or work. The infringer need not recoup the costs of research, development, insurance, and advertising to the same extent as the original inventor or author must. Lacking these usually considerable expenses, the infringer can charge a lower price for the infringing copies and thereby undersell the legitimate inventor or author. The intellectual property laws confer a monopoly on patents and copyrights and encourage innovation by deterring infringement with severe civil and criminal sanctions. This protection guarantees the inventor a fair (some would say excessive) opportunity to exploit the profits of his invention or work. Innovation and invention are thereby rewarded and flourish.

Although both the antitrust and intellectual property laws are intended to foster innovation and efficiency, the former do so by outlawing monopolies and the latter by protecting them. These disparate methods cause antitrust law and intellectual property law to coexist in a state of permanent tension. Until recently, that tension was reduced by the limited duration of patents and copyrights. However, with exponential growth of innovation and

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7 Until recently, copyright protection lasted fifty years after the death of the author for most works. 17 U.S.C. § 302(a) (1994). However, on October 27, 1998, President William J. Clinton signed into law senate bill 505 ("S. 505"). Title I of S. 505 is the Sonny Bono Copyright Term Extension Act. Effective immediately, this title extends the term of copyright protection an additional twenty years, making the copyright for most works effective for the life of the author plus seventy years. Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (1998).
invention in technology has come rapid obsolescence of many inventions. Works of literature, music, and arguably film continue to plod along healthily with their protection for seventy years after the death of the author. Software and hardware, however, become obsolete in a matter of a few years or months. Twenty or seventy years in the context of software or hardware is Mesozoic. A copyright monopoly on a computer hardware operating system, for example, need only last a decade or two to allow the monopolist to create massive inefficiencies and stifle innovation. The postindustrial era has therefore reinvigorated the conflict between intellectual property law and antitrust law. At the nexus of this tension, one will find the doctrines of patent and copyright misuse.

Unfortunately, neither the 1976 Copyright Act nor the antitrust statutes addresses the tension between the two bodies of law. In the copyright field, however, the dangers inherent in any monopoly have spawned legal doctrines, such as the misuse defense, designed to prevent abuse of the monopoly. The purpose of this Article is to discuss the current status of the copyright misuse doctrine and predict its probable future course. Until 1990, no federal circuit court and only one federal district court\(^8\) accepted the copyright misuse defense, making such predictions difficult. Since 1990, however, acceptance of the defense (in theory, at least) has become quite broad. The questions now are: what are the tenets of the doctrine and when will the defense most likely succeed?

II. PATENTS AND COPYRIGHTS: MONOPOLIES WITH A MISSION

Because of the "historic kinship" between patent law and copyright law,\(^9\) copyrights and patents exhibit many parallels in both the common law and statutes. For example, both patents and copyrights are intangible property; both confer limited, exclusive rights for a determinate period of time; and both are enforced through civil remedies as well as criminal sanctions. The parallels

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are also evident in the copyright misuse defense, which is partly based on patent misuse. Considering this nexus between the two bodies of law, it may be useful to summarize their similarities and differences.

Patents and copyrights each confer an exclusive right to make, use, copy, sell, or import the respective subject of the patent\(^{10}\) or copyright\(^{11}\) for a limited time. This exclusive right allows patentees and copyright owners to act as temporary, limited monopolists, controlling the disposition of their protected goods in ways that might otherwise violate the antitrust laws. For example, patentees and copyright owners can generally impose territorial and use restrictions on the licensed goods without these restrictions being \textit{per se} illegal under the Sherman Act\(^{12}\) or Clayton Act.\(^{13}\) In addition, the remedies for infringement of patents and copyrights are roughly the same; if all defenses to an infringement action fail, the infringer will be liable for any damages and royalties to the patentee or copyright owner. The patentee or copyright owner may also seek an injunction to prevent further infringement. However, the similarity between patents and copyrights tapers off from there. Patents and copyrights differ significantly in their duration of protection, the requirements for protection, and the content of what is protected.

The simplest (and most misleading) distinction between the two forms of intellectual property applies to the subject matter of protection: patents protect "functions and processes" while copyrights protect "expressions." Inventions such as the light bulb or a particularly efficient process for curing rubber are commonly patented, while artistic works such as films, music, sculptures, and literature must be copyrighted. Unlike copyrights, the content of a patent is \textit{substantive}. As a matter of policy, the laws of nature and the functions of ideas, mathematical formulae, and algorithms

are considered too abstract to be patented. Rather, patentable subject matter includes goods, machines or devices, processes that produce a given result, or compositions of matter (such as new chemical compounds). Because patents protect the underlying invention, the Patent Act imposes a number of requirements on the invention before a patent may be granted. To be validly patented, an invention must be novel, nonobvious, and useful. There is a vast body of case law interpreting these terms. Generally, an invention is "novel" if the invention was not publicly known or published before the patent was granted. "Obviousness" is measured according to whether the invention would have been apparent to a person of ordinary skill in the relevant art. The term "useful" means capable of beneficial and practical application. "Useful" does not mean, however, that the invention must be commercially viable. If an invention falls within the statutory subject matter (e.g., is not a mathematical formula) and fulfills the requirements of novelty, nonobviousness, and usefulness, the patent prosecution will usually be successful and a patent will be granted.

In contrast to patents, copyrights protect the expression of an idea, not its underlying substance. For example, the printed use of the phrase "the lupine Assyrians descended like waves/in violet legions with gold spears and staves" would not necessarily infringe on the earlier copyrighted lines "the Assyrian came down like a wolf on the fold/and his cohort was gleaming in purple and gold" even though the underlying idea and function (if not quality) are roughly equivalent. Another difference is that, to obtain a copyright, works need not be novel, nonobvious, or useful (witness the New York Times bestseller list at any given moment). The works must merely be original. "Original" in this context does not mean "inventive" or "creative" but merely that the author independently contrived the work.

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14 See De Forest Radio Co. v. General Elec. Co., 283 U.S. 664, 684, 9 U.S.P.Q. (BNA) 297, 303 (1931) (stating that it is the method and device which may be patented and not the scientific explanation of their operation).
17 Sincere apologies to Lord Byron.
18 See Alfred Bell & Co. v. Catalda Fine Arts, Inc., 191 F.2d 99, 103, 90 U.S.P.Q. (BNA) 153, 157 (2d Cir. 1951) (noting that a copyright owner may not prevent another from publishing an identical work as long as the subsequent author had no idea of the work's prior
COPYRIGHT MISUSE

Speaking lines of a poem (or singing a song) does not suffice to confer a copyright. To receive copyright protection, the expression must be fixed in a tangible medium through which the expression may somehow be communicated to others. While patents must be registered before they are protected, expressions are protected automatically from the moment the work is fixed in the tangible medium. Moreover, since the Berne Copyright Convention came into effect in the United States on March 1, 1989, a copyright notice, while advisable, is no longer necessary.

The term of protection offered by patents also differs from that offered by copyrights. Until recently changed by the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement") negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade ("GATT"), the term of patent protection was seventeen years. In implementing the TRIPS Agreement, Congress raised the term of patent protection to twenty years from the date the application was filed. In contrast, copyrights last far longer—ordinarily for the life of the author plus seventy years after his or her death.

To obtain a patent, the patentee must disclose to the Patent and Trademark Office ("PTO") the best method of producing the device or process and all prior art upon which the invention was founded. The description of the invention in the application must be explicit enough to allow someone reasonably skilled in the pertinent art to create and use the invention. This information assists the PTO in determining whether the claimed invention is novel. If prior art is too similar to the claimed invention, the PTO will find that the invention is not novel or is obvious, and will reject the patent registration application.

20 Id. § 401(a).
22 Id.
Once the inventor has obtained a patent, he or she may enforce the patent against all infringers. When confronting a claim of patent infringement, courts must begin with the assumption that the patent was correctly granted, that is, that the patent is valid. An alleged infringer can defend by showing that the patent is not valid for any of a variety of reasons, for example, mistake by the PTO in granting the patent or fraud on the PTO. Alternatively, the alleged infringer can also show that, although the patent may have been validly granted, the patentee should be estopped from enforcing the patent for a statutory or equitable reason, such as laches, misuse, or expiration of the statute of limitations. Finally, and most commonly, the alleged infringer can claim that his actions did not infringe the patent. Such a defense is impeded somewhat by the "Doctrine of Equivalents," under which two devices with the same function (performing in the same manner to accomplish substantially the same result) will be treated as the same for infringement purposes even though they differ in form.

Just as patents must be registered to be enforceable, an author must register his work with the Copyright Office before he or she may commence an infringement action. In an infringement action, the copyright owner may prove infringement through direct evidence or by circumstantial evidence that shows both that the defendant had access to the copyrighted work and that there is substantial similarity between the allegedly infringing work and the copyrighted work. The alleged infringer may defend by claiming that the copyright is unenforceable based on the plaintiff's misuse or by claiming that the defendant's own use of the copyrighted material was a "fair use." "Fair use" is a somewhat nebulous defense based on the lack of harm caused by the infringe-

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27 17 U.S.C. § 411(a) (1994). A copyright is protected from infringement even though it has not been registered. When someone infringes an unregistered copyright, the copyright owner can register the copyright and then file suit for infringement.
Copyright misuse and the beneficial effect of the use of the copyrighted expression (e.g., in education or news reporting). There is no “fair use” defense to patent infringement claims.

The contrasting characteristics of patents and copyrights make them desirable for different reasons. The scope of patent protection is broader, but it only lasts twenty years. An invention “equivalent” in function and process to a patented invention is considered to infringe the patent. An invention with similar form but a different function is not considered to infringe. Copyright does not protect function but does protect form. While neither kind of protection seems ideal for some intellectual property, such as computer software (now usually only subject to copyright protection), they each protect their original subject matter fairly well. How can a painting, for example, be said to infringe on the “function” of another painting? Do paintings even have a readily cognizable function? And what does an inventor care about the “expression” of his light bulb in image or words, so long as the invention itself is protected from infringement? Yet, in spite of these differences, patents and copyrights retain many common characteristics and, consequently, so do the patent misuse and copyright misuse doctrines.

III. THE MISTED LIMBO OF MISUSE DOCTRINE

The most relevant common characteristic of patents and copyrights for purposes of this discussion is that both potentially confer market power. The economic power granted by a patent or copyright monopoly can be immense. Yet, sometimes owners of a patent or copyright attempt to extend their economic power to unpatented or uncopyrighted products and works, or into other markets. Courts typically recite the mantra that owners of intellectual property rights may not attempt to extend their rights

31 See generally Pamela Samuelson et al., A Manifesto Concerning the Legal Protection of Computer Programs, 94 COLUM. L. REV. 2308 (1994) (analyzing the kind of legal protection most desirable for computer programs).
beyond those granted by statute (here, the 1976 Copyright Act). However, very often it is only a mantra, and a patently untrue one. While most courts will not sanction certain blatantly monopolistic practices by owners of intellectual property rights, courts often tolerate anticompetitive practices by intellectual property owners that are unrelated to the exercise of patent, trademark, and copyright privileges and that would otherwise violate antitrust laws. Almost all courts are more lenient in assessing the anticompetitive behavior of owners of intellectual property. The leniency is partly due to the lack of statutory guidance; with their limited resources, courts must draw a blurry and wavy line between where intellectual property rights end and where antitrust violations begin. The doctrine of intellectual property misuse exists in the misted limbo between the two legal regimes.

The misuse doctrine is a close relative of antitrust law. Some would say they are, or should be, twins. But unlike an antitrust violation, misuse is not a cause of action; at least, it never has been sustained as one. It is an affirmative defense to an infringement

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32 See, e.g., Image Technical Serv., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1216, 44 U.S.P.Q.2d (BNA) 1065, 1079 (9th Cir. 1997) (holding that defendant used monopoly power in an anticompetitive manner, and that valid intellectual property rights create a presumption of legitimate business justification for anticompetitive conduct), cert. denied, 118 S. Ct. 1560 (1998); Instructional Sys. Dev. Corp. v. Aetna Cas. & Sur. Co., 817 F.2d 639, 644-45 (10th Cir. 1987) (holding that licensing of intellectual property rights is not a violation of section one of the Sherman Act if the agreement does not extend beyond means reasonably necessary to effectuate rights granted); Ford Motor Co. v. United States, 405 U.S. 562, 576 n.11 (1972) (holding that "patents may not be used as levers for obtaining objectives proscribed by the antitrust laws").

33 See, e.g., Roger Arar, Redefining Copyright Misuse, 81 COLUM. L. REV. 1291, 1310-11 (1981) ("[C]ourts applying a misuse defense can do no better than to look to substantive antitrust principles."); see also USM Corp. v. SPS Techs., Inc., 694 F.2d 505, 510, 216 U.S.P.Q. (BNA) 959, 963 (7th Cir. 1982) (stating that the evaluation of patent misuse should be governed by antitrust, not public policy).

34 See Broadcast Music, Inc. v. Hearst/ABC Viacom Entertainment Servs., 746 F. Supp. 320, 328, 16 U.S.P.Q.2d (BNA) 1683, 1689 (S.D.N.Y. 1990) (holding that the copyright misuse doctrine cannot be used as a vehicle for affirmative relief); Juno Online Serv. v. Juno Lighting, Inc., 979 F. Supp. 684, 687, 44 U.S.P.Q.2d (BNA) 1913, 1916 (N.D. Ill. 1997) (stating that on the facts of the case in question, affirmative claims for trademark misuse should not be created by the court). As noted below, however, courts have sometimes mistakenly referred to antitrust counterclaims based upon unlawful use of a patent as "patent misuse claims."
COPYRIGHT MISUSE

If you misuse your copyright, patent, or trademark, in most jurisdictions you can expect to be unable to enforce that copyright, patent, or trademark against an infringer for the duration of the misuse, even if the infringer suffered no actual harm from your misuse. However, you cannot be sued for misuse unless you commit an independent antitrust violation, and many courts do not even recognize an antitrust violation as a defense against intellectual property infringement claims. In any case, the definition of misuse is contentious; the parameters of the misuse defense vary from court to court.

IV. PRECEDENTS IN PATENT MISUSE

The doctrine of patent misuse evolved prior to the doctrine of copyright misuse. Patent misuse has been applied to a range of practices: horizontal restraints (e.g., forcing reduced output, group boycotts, etc.), tying arrangements, cross-licensing and grantbacks, attempted enforcement of an invalid patent, and offenses against public policy, such as attempting to extend the effective duration of the patent beyond that granted in the Patent Act. Due to its more highly developed nature, the patent misuse doctrine often becomes a precedent for copyright misuse claims and decisions.

35 Interestingly, even a plaintiff's antitrust violation will generally not be upheld as a defense against a breach of contract claim. See, e.g., Bruce's Juices, Inc. v. American Can Co., 330 U.S. 743, 756-57 (1947) (holding that no congressional policy frees a defendant of an obligation to pay his promissory note when the payee's sales were discriminatory and illegal); Viacom Int'l, Inc. v. Tandem Prods., Inc., 526 F.2d 593, 600 (2d Cir. 1975) (holding that defendant would have to prove separate antitrust action against plaintiff rather than using alleged antitrust violation to invalidate the contract between them). Contra Continental Wall Paper Co. v. Louis Voight & Sons Co., 212 U.S. 227 (1909) (holding that an antitrust violation may be a defense to a breach of contract claim because to hold otherwise would help the illegal conduct).

36 See Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 492, 52 U.S.P.Q. (BNA) 30, 32 (1942) (finding that a patentee may not claim protection of his grant of an exclusive privilege by the courts when it is being used to subvert public policy).

37 See, e.g., DSC Communications Corp. v. DGI Techs., Inc., 81 F.3d 597, 601, 38 U.S.P.Q.2d (BNA) 1699, 1702 (5th Cir. 1996) ("The copyright misuse defense is analogous to the patent misuse defense.").
The same cannot truly be said for the trademark misuse doctrine. A defense of trademark misuse can be based on equity or, unlike copyright and patent misuse, on statute (the Lanham Act). Although the trademark misuse defense is far more venerable than the copyright misuse defense, the conceptual difference between a trademark and other kinds of intellectual property is that the ultimate purpose of trademark law is not to protect content, but identity. Trademarks have little inherent value except insofar as purchasers are able to identify the content of the trademark owner's goods or services with the trademark itself. Thus, a trademark owner's exclusive use of the trademark is less likely to confer market power on the owner than the exclusive use of a patent or copyright. One trademark almost always competes with others (e.g., Pepsi with Coca-Cola, Colgate with Crest, etc.), but a patent or copyright protects actual substance (e.g., at one time there was only one patentee of the ballpoint pen, and one copyright owner of Vladimir Nabokov's Lolita). In some situations, a patent or copyright owner may even preclude competition altogether in a relevant market. This is not to say that other goods do not compete with patented or copyrighted goods. Competition between goods continues even when goods are protected by patent or copyright. For example, an individual who cannot afford a ballpoint pen might buy a fountain pen, just as an individual who cannot afford the book Lolita might buy Ernest Hemingway's The Sun Also Rises.

38 See generally Raymond T. Nimmer & Murali Santhanam, The Concept of Misuse in Copyright and Trademark Law: Searching for a Concept of Restraint, 524 PLI/Pat 397 (Practicing Law Institute ed., 1998) (PLI Order No. G4-4037) (stating that trademark misuse existed before patent or copyright misuse and that equity would not allow a claim to trademark if that claim misrepresented to the public).
39 See, e.g., Helene Curtis Indus., Inc. v. Church & Dwight Co., 560 F.2d 1325, 1336, 195 U.S.P.Q. (BNA) 218, 225 (7th Cir. 1977) (commenting that the court in Zeiss had relied on its equity power to support injunctive relief against one who had used a trademark in violation of the antitrust laws); Carl Zeiss Stiftung v. VEB Carl Zeiss Jena, 298 F. Supp. 1309, 1314, 161 U.S.P.Q. (BNA) 414, 418 (S.D.N.Y. 1969) (holding that defendant's defense did not have to be dismissed because a court could exercise its equity powers to sustain it), aff'd, 433 F.2d 686, 167 U.S.P.Q. (BNA) 641 (2d Cir. 1970).
Even so, there is at least the potential for market power in the content itself because better quality or features can command higher prices. For example, suppose tomorrow someone developed and patented a holographic data storage device ("HDS device"). Suppose the HDS device could store 500 gigabytes of information in five square inches with an access speed fifty times faster than a conventional hard disk drive. Assume further that HDS devices can be profitably produced only a little more expensively than conventional hard drives. As long as no competitor is able to develop a comparable product, the HDS patent can confer immense market power on the patentee. The same might be said of copyrights on music compact discs of famous artists. A famous artist can sell his or her music at a higher price than other musicians and continue to sell more copies. Because of this common potential, patent misuse—far more often than trademark misuse—has served as a precedent for copyright misuse analysis.

Precedent is obscure because of disagreement between courts as to whether patent misuse must first be an antitrust violation, or whether it may be something else (e.g., a violation of public policy). Circuit courts have particularly confused the distinction between patent misuse and antitrust law. The United States Court of Appeals for the Seventh Circuit mistakenly referred to an antitrust counterclaim as an affirmative patent misuse claim. An attempt to clarify the matter by legislation failed in 1988. That year, the United States Senate passed a bill that would have required a finding of antitrust violation for a claim of patent misuse to succeed. However, the measure never was passed by the House of Representatives. The Supreme Court last addressed the issue directly over half a century ago in the paramount patent misuse case, Morton Salt Co. v. G.S. Suppiger Co.

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42 One might argue that this is also true of trademarks. For instance, the Coca-Cola Company is able to sell its product at a higher price than a grocery store brand such as Safeway cola. However, this is at least partly by virtue of the perceived superiority of the product. If consumers liked the taste of Safeway cola better than Coca-Cola, Safeway could charge a relatively higher price regardless of the independent value of the Coca-Cola trademark. The fact that trademark value cannot compensate for poor quality was proven by the dismal sales of Coca-Cola after a new, less popular formula was introduced in the 1980s.


In *Morton Salt*, the Supreme Court addressed Morton Salt's attempt to require users of its salt packing machine to buy its salt tablets (incidentally, a "staple" good). G.S. Suppiger Co. built a salt packing machine that Morton Salt claimed infringed its patent. When Morton Salt sued G.S. Suppiger for infringement, G.S. Suppiger pointed to the tying agreement and claimed that Morton Salt had misused its patent rights. The Supreme Court found the contract limitation unenforceable and contrary to public policy, even though no antitrust violations were alleged. Further, the Court found the patent unenforceable even as to G.S. Suppiger, who was not even a licensee of Morton Salt.\(^46\)

The *Morton Salt Co. v. G.S. Suppiger Co.* fact pattern presents a classic example of tying—a *per se* antitrust violation. The Supreme Court has defined tying as "an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier."\(^47\) Two things, however, differentiate the Court's decision in *Morton Salt* from an antitrust claim. First, the Supreme Court applied an equitable doctrine to the patent misuse defense rather than applying a straightforward antitrust analysis. Second, no injury was alleged or necessary. Normally a party invoking antitrust law against a patent or copyright owner must prove injury to succeed on his claim. Reasons for requiring proof of injury include: (1) the rights of patent and copyright owners are usually considered so ambiguous that they are best judged under the rule of reason,\(^48\) and (2) otherwise that party has no standing.\(^49\) Although it is often said that *equitas sequitur legem*, here the Court did not apply antitrust law; the Court instead invoked public policy. Standing was provided by Morton Salt's own patent infringement action.

\(^{46}\) *Id.* at 493-94.


\(^{48}\) *See* U.S. DEPT OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 3.4 (1995) (noting that most cases are evaluated under the rule of reason).

Thus, *Morton Salt* stands for the proposition that patent misuse can occur in the absence of any antitrust violation as a matter of equity, regardless of injury to the alleged infringer. In the years following *Morton Salt*, however, the circuit courts have not consistently upheld this rule.  

What the courts have established is a general patent misuse doctrine parallel to antitrust claims. As with antitrust claims, courts analyze some allegedly abusive patenting practices under a *per se* rule, while applying a rule of reason analysis to others. A patent misuse defense must show that the patentee has “impermissibly broadened the ‘physical or temporal scope’ of the patent grant with anticompetitive effect,” but anticompetitive effect will be presumed (i.e., *per se* analysis applies) if the patentee engages in a generally forbidden practice. These relatively few practices

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50 For example, notwithstanding the legislative failure to require an antitrust violation for patent misuse and the Supreme Court holding in *Morton Salt*, the United States Court of Appeals for the Seventh Circuit could manage to find no precedent for extending the patent misuse doctrine beyond the antitrust laws. See USM Corp. v. SPS Techs., Inc., 694 F.2d 505, 512, 216 U.S.P.Q. (BNA) 959, 965 (7th Cir. 1982) (finding that patent owner did not commit patent misuse by including a differential royalty schedule in the income agreement entered into as part of the settlement of parts of her suit for patent infringement). But see Senza-Gel Corp. v. Seiffhart, 803 F.2d 661, 668, 231 U.S.P.Q. (BNA) 363, 368 (Fed. Cir. 1986) (finding that violation of public policy underlying patent law could constitute patent misuse absent antitrust violation).

In any case, if *Morton Salt* were to take place in the modern day, section 271 of the Patent Act would apply. Section 271(d) protects patent owners from claims of abusing their patent rights if they condition the use of their patents on the purchase of their unpatented nonstaple goods. Thus, in *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 223, 206 U.S.P.Q. (BNA) 385, 407-08 (1980), the plaintiff, who held a patent on a process of applying an unpatented nonstaple herbicide, could legally require plaintiff’s licensees to buy herbicide solely from the plaintiff patent owner.

This is a strange development in patent law. Why do tie-ins for staple goods continue to be illegal while tie-ins for other goods are now legal? If a patent owner can condition the use of its patent on the purchase of unpatented, nonstaple products (an act that would otherwise constitute an illegal tie-in), where should courts draw a line separating the legal patent monopoly from unrelated violations of the antitrust laws? There is no apparent justification. And what, exactly, are staple products? Are products such as granite, skipjack tuna, lodgepole pine logs, oil country tubular goods, or chemically treated fax paper “staple products”? Questions of this type promise to plague the Patent Act until the new provision is repealed—hopefully, soon.


82 In the words of the United States Court of Appeals for the Seventh Circuit, there are only “a handful” of forbidden practices. *USM Corp.*, 694 F.2d at 510.
include: tying the purchase of patented goods to the purchase of unpatented goods, price fixing in the license agreement or sales contract, territorial restrictions on the distribution of unpatented products, and requiring royalties beyond expiration of the patent. However, due to the 1998 amendments to the Patent Act, even illegal tying is no longer a defense to infringement if the patentee lacks market power in the relevant market.

For all other practices that are not reasonably within the scope of the patent grant, and which tend to broaden the scope of the patent beyond the patentee’s statutory rights, courts apply the rule of reason. Courts use rule of reason analysis to determine whether a patentee’s behavior “imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s


55 See Ansl Co., 448 F.2d at 881-82 (stating that defendant’s pattern of conduct indicated a desire to prolong the effects of anticompetitive conduct); Robintech Inc. v. Chemidus Wavin, Ltd., 450 F. Supp. 817, 820-21, 197 U.S.P.Q. (BNA) 657, 659 (D.D.C. 1978) (finding no basis for patent misuse where patentee notified plaintiff that provision in license agreement requiring plaintiff to grant back to patentee apparatus was cancelled from agreement, and such provision was not so drafted as clearly to evidence an attempt to expand patentee’s entitlement beyond the scope of the patent).

56 See, e.g., Brulotte v. Thys Co., 379 U.S. 29, 33, 143 U.S.P.Q. (BNA) 264, 266 (1964) (finding the restriction per se unlawful and unenforceable, but not ordering the invalidation of the patent as a whole, even though invalidation is the usual remedy in patent misuse cases). It is perplexing why the court would find the behavior “unlawful” and still not resort to any sanction.


58 See Mallinckrodt Inc. v. Medipart, Inc., 976 F.2d 700, 708, 24 U.S.P.Q.2d (BNA) 1173, 1179-80 (Fed. Cir. 1992) (applying the rule of reason because there was no price fixing, tying, or per se antitrust and misuse violation).
history, nature, and effect. \textsuperscript{59} For example, in \textit{Mallinckrodt, Inc. v. Medipart, Inc.},\textsuperscript{60} the United States Court of Appeals for the Federal Circuit held that prohibiting purchasers of patented products from reconditioning and reusing the products was not \textit{per se} patent misuse; the district court should have analyzed the prohibition's impact on competition under the rule of reason. Similarly, territorial restraints on trade of licensed goods are governed by the rule of reason,\textsuperscript{61} as are restrictions on the use of a license in a particular field, such as bulk sales,\textsuperscript{62} and requirements that licensees assign improvements to the invention back to the patentee.\textsuperscript{63}

On the other hand, some practices performed by patentees are immune from the patent misuse defense altogether. For example, the Patent Act provides that a patentee's attempt to enforce his patent rights against infringement cannot form the basis of a patent misuse defense\textsuperscript{64} as long as the patentee has a good faith belief that his or her patent is being infringed.\textsuperscript{65} This rule is consistent with general antitrust doctrine as announced by the United States Supreme Court in \textit{Eastern Railroad Presidents Conference v. Noerr Motor Freight,}\textsuperscript{66} and it has also been applied

\begin{itemize}
\item \textsuperscript{59} State Oil Co. v. Kahn, 118 S. Ct. 275, 279 (1997). \textit{See also} Arizona v. Maricopa County Med. Soc'y, 457 U.S. 332, 343 & n.13 (1982) (stating that the rule of reason requires the fact finder to decide whether the restrictive practice imposes an unreasonable restraint on competition).
\item \textsuperscript{60} 976 F.2d at 701.
\item \textsuperscript{62} \textit{See, e.g.}, United States v. Ciba Geigy Corp., 508 F. Supp. 1118, 1156-57 (D.N.J. 1976) (holding that no prohibitory relief would be given in the case of an alleged violation of the Sherman Act since the activity left no lingering effect on the market).
\item \textsuperscript{63} Transparent-Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637, 648, 72 U.S.P.Q. (BNA) 148, 154 (1947) (holding that "the inclusion in the license of the condition requiring the license to assign improvement patents is not \textit{per se} illegal and unenforceable").
\item \textsuperscript{64} 35 U.S.C. § 271(d)(3) (1994).
\item \textsuperscript{65} Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 709, 24 U.S.P.Q.2d (BNA) 1173, 1180-81 (Fed. Cir. 1992).
\item \textsuperscript{66} 365 U.S. 127, 144 (1961).
\end{itemize}
to copyright misuse claims. Without always reaching agreement on any given rule, courts have generally found most other anticompetitive practices to pass scrutiny automatically under patent misuse rule of reason analysis, including (by way of example):

(a) retaliating against alleged patent infringers by voiding warranties on the patented products, even when the alleged infringer was statutorily exempt from any infringement claim.

(b) offering to enter into a tying arrangement (the patentee had to actually enter into the arrangement);

and

(c) prohibiting licensees from exporting the patented products, although the Patent Act only confers an exclusive license to import.

Cases establishing a bright line rule about what cannot be considered patent misuse or what constitutes per se patent misuse, although susceptible to being criticized as too rigid, at least provide some direction as to what practices courts will tolerate. Rule of reason cases are much more difficult. The complicating factor in rule of reason patent misuse cases is that the question is not only whether the allegedly abusive practice is anticompetitive, but whether the practice is anticompetitive outside the scope of the patent. What courts often fail to recognize is that the second part of this question has nothing to do with the rule of reason. The rule of reason does not speak to legal monopolies; it is designed to

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69 Virginia Panel Corp., 133 F.3d at 871.
prevent them. The question requires a determination either of the consistency of the patentee's actions with the underlying public policy of the Patent Act, or the consistency of the patentee's actions with traditional notions of equity.

V. PATENT MISUSE AND ANTITRUST LAW

Regardless of whether courts recognize a public policy misuse defense to an infringement action, most recognize a straight antitrust defense where injury is alleged. The difference is that an antitrust defense invokes traditional principles of competition law, and a court must therefore attempt to carve a safety zone out of section 2 of the Sherman Act to account for the lawful intellectual property monopoly. A successful antitrust defense does not render the intellectual property right unenforceable for the term of the misuse, but it might give rise to an affirmative civil or criminal claim. In addition, courts generally find that Sherman Act section 2 claims require "more exacting proof than suffices to demonstrate patent misuse." Finally, a plaintiff bringing suit for infringement cannot defeat the antitrust defense with equitable claims like unclean hands. In contrast, a public policy defense is equitable and gives rise to no counterclaims. A public policy defense asks first whether the claimant's behavior falls within the letter or spirit of the grant of the intellectual property monopoly. If not, it renders the intellectual property right unenforceable for the term of the misuse. It is thus at once broader and less severe than an antitrust defense. It is a priori difficult to judge the behavior of a lawful monopolist by traditional antitrust standards, which seek to prevent or break up concentrations of market power. In the end, courts are forced to decide when a patent or copyright owner has gained a little too much monopoly power, or has used his existing power a little too aggressively.

For example, a patent or copyright owner has the right to exclude others from using the patented or copyrighted technology, to refuse to grant licenses to use the technology, and generally to pursue his

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72 Virginia Panel Corp., 133 F.3d at 872.
own marketing strategy the way he sees fit.\textsuperscript{73} Several circuit courts agree that the desire of a patent or copyright owner to exclude others from using his protected work is presumptively valid despite any immediate harm to consumers.\textsuperscript{74}

Yet, some exclusive licensing practices are found to violate the antitrust laws. Unfortunately, decisions applying antitrust law to patent licensing have been inconsistent and often illogical. For example, the United States Court of Appeals for the Sixth Circuit has held that an owner of patent rights cannot be held liable for independently refusing to license to a competitor.\textsuperscript{75} This holding occurred even before the 1988 amendments to the Patent Act, which nullified the misuse defense against patentees who refused to license their patents.\textsuperscript{76} On the other hand, the Fourth Circuit has held that, although an owner of patent rights could legally refuse to license anyone except an exclusive licensee, it could \textit{not} agree with one licensee to terminate licenses to existing third party licensees.\textsuperscript{77}

There are two rules that might emerge from the cases applying antitrust law to patent rights: (1) the owner of a patent right can monopolize a market alone or with an exclusive licensee, as long as he has done so ever since he was granted a patent monopoly (this might be called the principle of "the patent owner giveth, but the patent owner may not taketh away"); and (2) as a general rule, a patentee may not conspire with competitors to do the same things he may legally do alone. Economically and legally, these rules make very little sense, and the problem once again is that the methodology of patent law and antitrust law fundamentally conflict.


\textsuperscript{75} Miller Insituform, Inc. v. Insituform of N. Am., 830 F.2d 606, 609, 4 U.S.P.Q.2d (BNA) 1463, 1465 (6th Cir. 1987).


VI. THE DECEPTIVE ONTOLOGY OF COPYRIGHT MISUSE

The tension between patent rights and antitrust law is all the more apparent with copyrights. Will courts consistently recognize a copyright misuse defense? The Supreme Court has several times referred to the possibility of raising a copyright misuse defense to an infringement action, but it has never applied or explicitly validated such a defense. As a result of the Court's position, the copyright misuse defense has presumptive legitimacy, and most federal appeals courts have explicitly recognized the possibility of a copyright misuse defense. The First and Sixth Circuits are the only ones that have not yet decisively ruled on the question.

Until 1990, however, and in some cases even later, only one court had upheld a copyright misuse defense, and many courts explicitly rejected even the possibility of the copyright misuse defense. Historically, even those courts that accepted the possibility of such a defense invariably rejected it on the facts. For example, in *Alfred Bell & Co. v. Catalda Fine Arts, Inc.* a British corporation sued the defendants for infringement of its United States copyrights on mezzotint engravings of valuable paintings. The district court found infringement and denied the defendants' copyright misuse defense. The defense was based upon the plaintiff's membership in a guild in Great Britain. The guild fixed prices in Great Britain

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and limited output. On appeal, the United States Court of Appeals for the Second Circuit upheld the district court’s rejection of the misuse defense, stating that unclean hands had not been established because the guild only fixed prices in Great Britain, and because the output restrictions were not imposed “with sales in the United States in mind.” The court recognized the tension between antitrust principles and the copyright monopoly: “We have here a conflict of policies: (a) that of preventing piracy of copyrighted matter and (b) that of enforcing the anti-trust laws. We must balance the two . . . .” Because the infringement was clear while the antitrust infraction was, in the court’s view, “doubtful and at most marginal,” it rejected the misuse defense. Considering that the Second Circuit rejected the misuse defense in circumstances of price fixing and output restrictions, it is not surprising that many courts concluded that the defense was a phantasm. In fact, one district court in the Tenth Circuit cited a number of older cases to support its rejection of the copyright misuse defense or an antitrust defense generally in copyright infringement actions: “Lower courts have generally been unwilling to find that antitrust violations constitute a defense to copyright infringement actions.” More recently, however, courts in the Tenth Circuit have become more open to the copyright misuse defense.

Other courts, such as the Eighth, Eleventh, and D.C. Circuits, have been confronted with copyright misuse defenses and simply confused them with antitrust defenses. Of course, there are

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63 Alfred Bell & Co., 191 F.2d at 105-06.
64 Id. at 106.
65 Id.
68 E.g., United Tel. Co. of Mo. v. Johnson Publ’g Co., 855 F.2d 604, 611-12, 8 U.S.P.Q.2d (BNA) 1058, 1064-65 (8th Cir. 1988); Bellsouth Adver. & Publ’g Corp. v. Donnelley Info. Publ’g Inc., 933 F.2d 952, 961, 19 U.S.P.Q.2d (BNA) 1345, 1351-52 (11th Cir. 1991), vacated,
cases in which antitrust law and copyright misuse overlap. In DSC Communications Corp. v. DGI Technologies, Inc., 89 for example, the manufacturer of a telephone circuit system sued to prevent a competitor from using the manufacturer's copyrighted operating system to develop components compatible with the manufacturer's circuit systems. The Fifth Circuit, determining that the manufacturer intended to prevent competition in selling components for its circuit systems, sustained the defense of copyright misuse as an antitrust violation. However, if the "copyright misuse" defense has no value except as an antitrust defense, it might as well be called that, and courts should resolve the question of whether an antitrust defense really can be effective against an infringement claim.

In contrast, more courts have labeled copyright misuse an equitable doctrine (as Morton Salt 90 and other cases 91 did for patents). In Atari Games Corp. v. Nintendo of America, Inc., 92 Nintendo had developed a program to prevent its video game system from accepting unauthorized game cartridges. After failing to crack the code protecting the Nintendo system, Atari reluctantly became Nintendo's licensee. However, Atari's lawyer eventually managed to obtain the Nintendo source code (illegally), enabling Atari to create games compatible with the Nintendo system. Nintendo sued Atari for copyright infringement, and Atari defended on grounds of misuse. The United States Court of Appeals for the Federal Circuit characterized the copyright misuse defense as an equitable doctrine. Because Atari had obtained Nintendo's code by


89 81 F.3d 597, 38 U.S.P.Q.2d (BNA) 1699 (5th Cir. 1996).


91 See, e.g., U.S. Gypsum Co. v. National Gypsum Co., 352 U.S. 457, 465, 112 U.S.P.Q. (BNA) 340, 343 (1957) ("[T]he courts will not aid a patent owner who has misused his patents . . . . The rule is an extension of the equitable doctrine of 'unclean hands' to the patent field.") (citations omitted); see also Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 978, 15 U.S.P.Q.2d (BNA) 1846, 1853 (4th Cir. 1990) ("[A] misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action.").

fraud, the court rejected Atari's invocation of misuse based on the equitable doctrine of unclean hands.\textsuperscript{93}

VII. TWO APPROACHES, ONE DOCTRINE

Whatever the proper theoretical characterization of the defense, its practical application should be consistent with both antitrust policy and intellectual property policy. As a preliminary matter, it is important to recognize that the copyright misuse defense is unlikely to succeed except in very limited circumstances. One court stated accurately: "The copyright misuse doctrine has been ill-received in the lower courts. Some courts have flatly rejected the existence of the doctrine. Others, while recognizing the defense, have rejected its application on the facts."\textsuperscript{94} The vast majority of copyright misuse cases arise in one or more of the following four categories:

(1) tying, that is, conditioning the sale or license of copyrighted material, typically desirable films or software, on the purchase of another product, such as undesirable films or hardware;
(2) anticompetitive clauses in contracts and licensing agreements;
(3) mandatory blanket licenses; and
(4) refusal to license competitors.

In spite of the generally negative response from courts, the incidence of copyright misuse claims has increased steadily over the past decade. And somehow, the lack of court examination of the copyright misuse defense has not completely prevented its theoretical development to an articulable doctrine, albeit a wobbly one. Broadly speaking, most courts that apply the copyright misuse defense in the same manner as patent misuse find that misuse occurs when a copyright owner (1) illegally attempts to use his

\textsuperscript{93} Presumably, the court would have allowed Atari to reverse-engineer the code and successfully rebut an infringement claim with a copyright misuse defense.

copyright to gain market power or to extend the monopoly beyond the scope of the copyright; or (2) violates the public policies underlying the copyright laws.95 Thus, the general rule is that an antitrust violation is not necessary to establish copyright misuse.96

One good example of a rebuffed attempt to extend a copyright is *qad., Inc. v. ALN Associates*.97 In that case, ALN Associates licensed its copyrighted software to qad. The software incorporated components from another company’s (Hewlett-Packard’s) software, over which ALN had no copyright. When qad. incorporated those same components into its competing software, ALN sued for infringement. qad. defended by claiming copyright misuse. ALN, it argued, was trying to extend its copyright over material to which it had no right, Hewlett-Packard’s components. The district court sustained qad.’s defense, holding that ALN could not extend its copyright beyond that granted by the government.

However, the leading case in which a plaintiff illegally tried to extend its monopoly is *Lasercomb America, Inc. v. Reynolds*.98 Lasercomb sued its licensee, Reynolds, for copyright infringement after Reynolds reproduced Lasercomb’s copyrighted software and sold it as its own. Reynolds defended by claiming copyright misuse. Under the software license, Reynolds was prohibited from indepen-
dently developing software that competed with Lasercomb’s during the term of the contract. The term of the contract was 99 years. This unlawful extension of the term of the copyright prompted the Fourth Circuit Court of Appeals to sustain Reynolds’ claim of copyright misuse. *Lasercomb* also seemed to imply, however, that the noncompetition clause might constitute misuse regardless of the term of the contract, a holding supported by at least one later unpublished Fourth Circuit case.99 In any case, it is notable that the *Lasercomb* court did not find that the plaintiff’s behavior violated any antitrust laws.

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95 See, e.g., *In re Independent Serv. Orgs. Antitrust Litig.*, 964 F. Supp. 1469, 1477 (D. Kan. 1997) (stating that an alleged infringer can establish copyright misuse by showing that the defendant violated antitrust laws, illegally extended its monopoly, or violated the public policies underlying the copyright laws).
98 911 F.2d at 970.
These cases, *qad.* and *Lasercomb,* offer two examples of copyright owners who tried to extend their copyright monopolies and were defeated by misuse defenses. In *qad.*, the plaintiff attempted to extend the copyright to uncopyrightable material. In *Lasercomb,* the plaintiff attempted to extend the duration of the copyright.

In a more recent case, *In re Independent Service Organizations Antitrust Litigation,* a district court confronted a refusal to license on a motion for summary judgment. Xerox, which held a copyright on diagnostic software and manuals for Xerox's own photocopy machines, declined to license that software to an independent photocopy machine repair service ("the ISO"). When the ISO used the software to repair Xerox machines without a license, Xerox sued for infringement. The court found that the ISO had infringed a validly registered copyright and then considered the ISO's copyright misuse defense. Determining that the manufacture and service markets for the machines were separate, the court held that, by refusing to license the software, Xerox might have misused its copyright and unlawfully attempted to extend its market power into the separate field of photocopy machine service.

On rehearing, however, the court reversed itself. Finding that its earlier ruling could essentially limit the scope of the copyright to a single antitrust market, the court held that as a matter of law, a copyright owner may unilaterally refuse to license without incurring antitrust liability or being subject to a misuse defense.

Insofar as a pattern exists, the holdings on copyright misuse seem to indicate that the misuse defense is likely to succeed only where the copyright owner attempts to:

1. enforce a grossly anticompetitive contract clause, for example, inserting a provision in a licensing or sales agreement that:
   a. extends the effective duration of the copyright beyond that granted by the Copyright Act, or

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101 Id. at 1475-76.
103 Id. at 1143.
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(b) prevents a licensee from independently developing a product or service that competes with the licensed product or service, which is known as a horizontal restraint in antitrust doctrine;°4

(2) exploit the leverage conferred by its copyright to acquire substantial rights over uncopyrighted components or in separate markets through tying; or possibly

(3) refuse license in order to dominate a separate market.

This is not at all to say that other practices will not be condemned as copyright misuse. In fact, it may be safe to say that, as with patent misuse, any per se violation of antitrust law is likely to be a defense to infringement, though, as discussed below, not necessarily a per se defense.

VIII. DIFFERENCES BETWEEN COPYRIGHT MISUSE AND PATENT MISUSE

Considering the historical kinship of patents and copyrights, it is worth comparing how copyright misuse differs from patent misuse. As mentioned above, practices that constitute per se patent misuse, such as tying, price fixing, and extending the term of the copyright beyond the statutory grant, may also constitute misuse when applied to copyrights. For example, tying with respect to copyrights has been found per se illegal,°5 as have horizontal noncompetition agreements°6 and attempts to extend the duration of the copyright beyond the statutory grant.°7 All of these practices will also cause patents to become per se unenforceable. However, it is also generally true that rule of reason analysis is different

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°4 See PRC Realty Sys., 972 F.2d at 341 (holding that the copyright owner attempted to suppress the development of a useful and efficient on-line publishing feature that could harm its interests).
°6 E.g., Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 979, 15 U.S.P.Q.2d (BNA) 1846, 1854 (4th Cir. 1990) ("The misuse arises from Lasercomb's attempt to use its copyright in a particular expression . . . to control competition in an area outside the copyright.").
°7 E.g., id. at 978 ("The period for which this anticompetitive restraint exists is ninety-nine years, which could be longer than the life of the copyright itself.").
when applied to copyright misuse insofar as some courts construe anticompetitive conduct with respect to copyrights more leniently than with respect to patents. For example, price fixing in a patent licensing agreement is *per se* illegal, but no court has ever found copyright price fixing to be *per se* illegal. On the contrary, in the well known case *Broadcast Music, Inc. v. Columbia Broadcast Systems*, the court applied rule of reason analysis to validate copyright price fixing in the form of blanket licenses for musical compositions.°8 The decision not to apply *per se* analysis to the copyright misuse defense bears witness to the attrition of vertical restraint cases in which courts apply the *per se* analysis and has correspondingly strengthened the importance of the rule of reason.°9 Unfortunately, courts have not often had occasion to consider whether antitrust practices that are commonly evaluated under the rule of reason with respect to patent misuse cases apply equally in copyright misuse cases. For example, courts have had no opportunity to rule on whether copyright territorial restraints or customer divisions are illegal in any given instance, although the *Lasercomb* court implied that such a defense was at least possible.°10

Apart from this absence of cases defining the copyright misuse defense, there are some evident differences between the copyright and patent misuse doctrines. A significant difference is that, as discussed above, Congress made amendments to the Patent Act in 1988 to remove certain conduct from within the ambit of misuse.°11 Patentees have a statutory right to tie their patents to sales of other goods if they lack significant market power;°12 copyright owners have no such immunity.

However, the other grants of immunity from the patent misuse defense added by the 1988 amendments do seem to apply to

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°8 *Broadcast Music, Inc. v. Columbia Broad. Sys.,* 441 U.S. 1, 201 U.S.P.Q. (BNA) 499 (1979); *see also* David Scher, Note, The Viability of the Copyright Misuse Defense, 20 Fordham Urb. L.J. 89, 98-99 (1992) (pointing out that the Court’s decision mistakenly implied that the copyright misuse defense was dependent upon a valid antitrust claim).


°10 *Lasercomb Am., Inc.*, 911 F.2d at 976.


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Copyrights. Under those amendments, patentees who sue for infringement cannot be subjected to a misuse defense that is based upon the infringement suit itself.\textsuperscript{113} While copyright owners have no such statutory right, the Supreme Court has applied the Noerr doctrine to affirmative antitrust claims against a copyright owner who sued for infringement.\textsuperscript{114} Lower courts would undoubtedly accord such immunity against a copyright misuse defense as well. In addition, according to the Patent Act, a patent infringer cannot rely on a unilateral refusal to license—no matter how anticompetitive in motive or effect—as the basis of a patent misuse defense.\textsuperscript{115} One court, at least, has applied this immunity to copyright owners who refuse to license, despite the fact that the Copyright Act contains no provision exempting licensing decisions from the scope of the misuse defense.\textsuperscript{116} Nonetheless, these similarities are dependent upon the courts, which can revoke the copyright immunity at will (subject only to \textit{stare decisis}), but cannot revoke the immunity granted by Congress to patentees.

The licensing estoppel rules present another difference. Courts formerly refused to allow licensees to challenge the validity of the licensed intellectual property right, even if there was no clause in the license agreement forbidding such a challenge. Courts believed that licensees should not at once benefit from the contract and seek to annul it by challenging the validity of the intellectual property right upon which the contract is based. Although licensing estoppel no longer applies to patent licensees\textsuperscript{117} or (probably) to copyright licensees,\textsuperscript{118} licensing clauses that forbid licensees to contest the validity of the patent are \textit{per se} void on a theory of patent misuse.

\textsuperscript{113} Id. \textsection 271(d)(3).

\textsuperscript{114} See, e.g., Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 53-54 n.2, 26 U.S.P.Q.2d (BNA) 1641, 1643 n.2 (1993) (discussing the circuit court's rejection of allegations of anticompetitive conduct resulting from the copyright owner's attempted enforcement of the copyright).

\textsuperscript{115} 35 U.S.C. \textsection 271(d)(4).


(although they do not negate the patent itself or the rest of the license). In contrast, one circuit court has held that such clauses in a copyright licensing agreement are actually valid.\textsuperscript{119} Of course, it could be argued that this is not really an issue of misuse, because courts merely void the offending clause without rendering the patent or copyright unenforceable, at least where the clause is not accompanied by other anticompetitive behavior.\textsuperscript{120}

More abstractly, while a copyright lasts far longer than a patent, a copyright affords less thorough protection.\textsuperscript{121} An inventor can conceivably patent the best methods of performing the function of the invention. A copyright owner cannot copyright the functional attributes of a software program, film, song, or book.\textsuperscript{122} Copyrights only cover the particular expression of an idea, not the idea itself. Registering a copyright is much simpler than prosecuting a patent. Patented inventions must be novel, nonobvious, and useful. Copyrighted works must merely be original to the author. It has sometimes been argued that, because of these differences, the dangers of misusing a patent monopoly far outweigh the dangers of misusing a copyright monopoly, and so the latter should, as a rule, be treated more leniently than the former.\textsuperscript{123} This argument has force, but on the other hand, comparing patents and copyrights raises empirical issues that are hard to measure. Notwithstanding this difficulty, it is important to note that, particularly in the increasingly important software industry, a copyright can confer very significant market power.

The example of Microsoft Corporation comes readily to mind. Microsoft can and does use its monopoly on its computer operating

\textsuperscript{119} Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191, 1200, 2 U.S.P.Q.2d (BNA) 1499, 1506 (7th Cir. 1987).
\textsuperscript{120} See Robintech, Inc. v. Chemidus Wavin, Ltd., 450 F. Supp. 817, 197 U.S.P.Q. (BNA) 657 (D.D.C. 1978) (holding that even though the clause was unenforceable the patent was still effective since no anticompetitive results were demonstrated).
\textsuperscript{121} See supra Part II (discussing the differences between the copyright and patent regimes).
\textsuperscript{123} See, e.g., Ramsey Hanna, Note, Misusing Antitrust: The Search for Functional Copyright Misuse Standards, 46 STAN. L. REV. 401, 427-31 (1994); Saturday Evening Post Co., 816 F.2d at 1199 (noting that the danger of monopoly is more prevalent in the patent context than in the copyright context).
systems to leverage concessions and gain market power in a number of other markets, such as Internet services and browsers, word processing, database and spreadsheet programs, network software, financial software, games, reference software, and so on. Microsoft's operating systems have exerted such influence on the hardware market that hardware and systems manufacturers now routinely post prominent stickers on their products that state "DESIGNED FOR MICROSOFT® WINDOWS®98." Microsoft even markets some of its own peripheral devices, including keyboards, mice, trackballs, and microphones. These peripherals commonly have new features that take advantage of idiosyncrasies in Microsoft's operating system.\(^{124}\)

This is not to opine that Microsoft is guilty of copyright misuse, although the Department of Justice (DOJ) and several state attorneys general seem to think so.\(^{125}\) It is merely to illustrate that a copyright can confer immense market power on its owner. Fortunately, more intense antitrust scrutiny by the DOJ, and the increasing popularity of the copyright misuse defense in infringement actions, appear to indicate a countervailing trend. Yet, some courts still seem to treat the patent monopoly as inherently more threatening to competition than the copyright monopoly and, thus, do not treat copyright misuse defenses with the gravity they sometimes merit. In any case, any intellectual property may be valuable or non-valuable, and as some courts have recognized, any given copyright or patent may carry little or no market power.\(^{126}\)

\(^{124}\) For example, Microsoft was among the first to develop a scrolling mouse to take advantage of the scrolling feature of Windows95 programs, and even added to its keyboards specific Windows buttons that take advantage of the Start Menu and other features of the operating system. On other operating systems, such as Unix, the scrolling wheel and Windows95 button are useless.

\(^{125}\) The DOJ has charged Microsoft with a violation of its 1994 consent decree for tying the licensing of its Internet browser, Internet Explorer, with the licensing of its operating system, Windows95, with the intent of driving its only main competitor, Netscape, out of business and gaining a greater share of the market for Internet services.

Questions of market power are best addressed on a case-by-case basis and not merely by reciting a facile generalization. Both patent and copyright monopolies can inherently carry anticompetitive potential in the marketplace and should be scrutinized and, if necessary, regulated accordingly. Whether patents as a rule convey more market power, and whether that market power is qualitatively different from the power granted by a copyright, are questions still open for debate.

Pending the production of more empirical evidence, it is probably safe to say that copyrights now carry more anticompetitive potential than they did thirty years ago. With the penetration of copyrightable software into every aspect of our lives, from grocery stores to product design and manufacture, digital answering machines, credit cards, and, obviously, the ubiquitous personal computer, the potential for the copyright to confer monopoly power has increased logarithmically. The dramatic increase in the use of the copyright misuse defense in the realm of software illustrates this phenomenon. Accordingly, the copyright misuse defense is likely to become increasingly important in regulating these monopolies.

One commentator, Leslie Wharton, has argued that the misuse defense should not apply to copyrights because the “scope of copyright in any ‘work of authorship’ may not be clearly defined” and may be accompanied by other intellectual property rights, such as rights in trade secrets. The latter argument is unconvincing on its face. Trade secrets are formulae, patterns, devices, or compilations of information used continuously for one’s business advantage over competitors who do not know or use the trade secret. Although most states protect trade secrets by statute or common law, there is no federal law protecting trade secrets. State law protecting trade secrets is thus superseded by the federal antitrust and copyright statutes to the extent that they conflict.

The former argument, that the scope of the copyright in the court is not aware of any patent which states that it confers a monopoly in a particular antitrust market.”).  


protected work is not as clearly defined as in patents, only applies with any consistency to computer programs. Courts agree that source and object code are copyrightable, but some federal courts of appeals disagree on the extent to which one can copyright the structure, organization, and "look and feel" of software. Wharton argues that the copyright misuse doctrine forces copyright owners to allow reproduction of the copyrighted expression, "thus destroying the very purpose of the license." 129

It is certainly true that courts disagree on the scope of copyrights in software. In situations such as these, courts are likely to allow the copyright owner some latitude in licensing practices due to the difficulty of separating copyrightable from uncopyrightable aspects of the software. The misuse defense has not succeeded so far where the protection of copyrighted aspects of software through a license agreement has resulted incidentally and unavoidably in the protection of uncopyrighted information. While Wharton's concern was valid at the time, when the copyright misuse doctrine was still unexplored, her fears have proven to be exaggerated. The copyright misuse defense has not changed licensing practices significantly, except to prevent practices that are obviously outside the scope of the copyright.

In any case, the misuse defense certainly should not be abolished merely because its application to computer software is more difficult than to films or books, or to patents. It is a mistake to assume, as Wharton does, that questions of (a) whether the copyright owner should be able to restrict competition in uncopyrighted aspects of the software, and (b) whether licensees should in some circumstances be able to infringe, should always be resolved automatically in favor of the copyright owner. Wharton is criticizing more the "scope of the grant" test advocated by some commentators, 130 rather than the copyright misuse defense as applied by the Lasercomb court, and cases since then. 131 Courts have

129 Wharton, supra note 127, at 5.
130 Scher, supra note 108, at 104-06.
131 See also Note, Clarifying the Copyright Misuse Defense: The Role of Antitrust Standards and Final Amendment Value, 104 HARV. L. REV. 1289, 1295 (1991) (arguing that "scope of the grant" test presupposes a "transcendent notion of what constitutes [a] natural . . . patent or copyright"). Regarding patents, this argument overlooks the fact that the patent grant itself defines the scope of the patent. Regarding copyright, courts have not
generally not looked to the scope of the copyright grant, because that scope is, as Wharton argues, too vague to give guidance. Rather, the normal application of the misuse defense permits an inquiry into the motives of each party and the public policy consequences of the holding. The same difficulties that Wharton attributes to the copyright misuse defense are attributable a fortiori to antitrust claims against owners of copyrights on computer software. Yet, it would be folly to argue that such copyright owners should be immune from the antitrust laws.

IX. COPYRIGHT MISUSE OR ANTITRUST?

_Lasercomb_ and _In re ISO Antitrust Litigation_ present contrasting illustrations of how the courts that have applied the copyright misuse defense attempt to balance the copyright owner's exclusive rights with antitrust and public policy principles. In _Lasercomb_, the court held that, although the plaintiff's behavior may not have violated rule of reason antitrust standards, it had violated the public policy underlying the Copyright Act: "The question is not whether the copyright is being used in a manner violative of antitrust law (such as whether the licensing agreement is "reasonable"), but whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright."132 By contrast, the _ISO Antitrust Litigation_ court confronted a defense based on a Sherman Act section 2 claim of monopolization.133 (It is, after all, called _Antitrust Litigation._) While Xerox was free to refuse to license its copyright generally, antitrust principles deny a monopolist the right to refuse to deal with a competitor where that refusal impedes competition or denies an essential facility to the competitor.134 The court found that

applied this test and, if required to, would probably look to the copyright grant and to the general principles of copyright law rather than to any transcendent criteria.


134 See Image Technical Serv., Inc. v. Eastman Kodak Co., 903 F.2d 612, 620 (9th Cir. 1990) (noting that "a monopolist may not retaliate against a customer who is also a competitor by denying him access to a facility essential to his operations, absent legitimate business justifications").
Xerox was using legitimate monopoly power over the diagnostic software and manuals to gain monopoly power over the market for service to its printers and copiers. Because Xerox's copyright did not cover the service market, Xerox committed a classic attempt to monopolize outside of the scope of the copyright.

The Lasercomb court eschewed the antitrust question by turning to public policy. The ISO Antitrust Litigation decision, by contrast, merely noted the scope of Xerox's copyright and found that monopolistic behavior outside that scope constituted copyright misuse. Both cases present excellent examples of a successful "public policy" misuse defense and an antitrust misuse defense. 35

In summary, some courts use an antitrust-oriented approach, and some use a public policy/equity approach. Whether these situations are classified as violations of public policy or antitrust violations matters a great deal, because antitrust violations might carry criminal penalties and, if sued upon after they have been proven in defense against an infringement claim, can lead to triple damages against the copyright owner (although this would be a classic antitrust claim and not a "misuse" claim, as explained above). By contrast, a violation of public policy carries no offensive threat to the copyright owner.

Some courts, when confronted with a conflict between antitrust law and intellectual property law, simply try to apply traditional antitrust without any coherent guiding principles. Thus, some courts have somehow tried to apply a test that balances "[1] the comparative innocence or guilt of the parties, [2] the moral character of their respective acts, [3] the extent of the harm to the public interest, [4] the penalty inflicted on the plaintiff [claiming infringement] if [the court denies] it relief. 136 The first factor appears to balance equities, the second calls for an analysis based

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35 See also United Tel. Co. of Mo. v. Johnson Publ'g Co., 855 F.2d 604, 611-12, 8 U.S.P.Q.2d (BNA) 1058, 1064 (8th Cir. 1988) (applying antitrust to the copyright misuse defense and "[a]ssuming arguendo that an antitrust violation is a defense in a copyright infringement action,"...the stipulated facts in this case do not support [the] contention that [the plaintiff] 'misused' its copyright") (quoting Edward B. Marks Music Corp. v. Colorado Magnetics, Inc., 497 F.2d 285, 290, 182 U.S.P.Q. (BNA) 129, 132 (10th Cir. 1974)).

upon the judge's religious or deontological convictions, the third appears to call for an economic analysis of the effects of the court's decision on consumers, and the fourth seems either to repeat the first (if intended to be neutral) or else arbitrarily to favor the intellectual property rights owner. How a court would actually go about weighing these factors is one of the enduring mysteries of our epoch.

X. JUDGING THE COPYRIGHT MONOPOLY ON ITS OWN TERMS

In The Saturday Evening Post Co. v. Rumbleseat Press, Inc., the United States Court of Appeals for the Seventh Circuit, the leading misinterpreter of the patent and copyright misuse doctrines, asked rhetorically, "If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested?" The question assumes a false dichotomy. Instead of listing a panoply of conceptually diverse considerations that simply mask the court's present whim, it would be vastly preferable to fashion a strict public policy approach that focuses on whether the behavior of the intellectual property rights owner is consistent with the policies of the relevant intellectual property law, with consideration to antitrust policy for those practices outside the scope of the grant. The question that should always be in the court's mind is: how can we tailor the legal rule in cases such as this one to be consistent with the purpose of the intellectual property law as an exception to the antitrust laws? In other words, antitrust law

137 816 F.2d 1191, 1200, 2 U.S.P.Q.2d (BNA) 1499, 1506 (7th Cir. 1987) (quoting USM Corp. v. SPS Techs., Inc., 694 F.2d 505, 512, 216 U.S.P.Q. (BNA) 959, 964-65 (7th Cir. 1982)).

138 For an argument that the antitrust laws are insensitive to the needs of inventors and authors, see Ramsey Hanna, Note, Misusing Antitrust: The Search for Functional Copyright Misuse Standards, 46 STAN. L. REV. 401, 422-24 (1994). To reject the complete suitability of traditional antitrust analysis to intellectual property rights does not, however, require one to agree with Hanna's assertion (derived from Thomas Jorde and David Teece) that United States antitrust law assumes "clearly defined markets, homogeneous products, and price-based competition among firms." Hanna, supra, at 423. It does not. Nor is it settled, as Hanna asserts, that technological innovation largely drives economic growth. Hanna, supra, at 424. In fact, higher savings and foreign investment rates, greater volume of foreign trade, and population increases (including by immigration) also drive economic growth.

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should not even be applied to patent or copyright licensing or other practices until it has been determined that the patentee or copyright owner has violated the public policy underlying the relevant intellectual property statutes. When phrased that way, many seemingly intractable problems become more manageable, as the Morton Salt and Lasercomb courts have shown.

For example, a copyright owner should not be able either to extend the term of his copyright under a license agreement or force the licensee to acknowledge the validity of his copyright because both are inconsistent with the 1976 Copyright Act, whose purpose is to grant a limited monopoly to a validly copyrighted work. Similarly, a software copyright owner should not be allowed to tie the license of his copyright to the purchase of a different product or technology, because the purpose of the Copyright Act is to grant a monopoly over a specific work. On the other hand, a copyright owner should be able to terminate licenses at will for whatever reason and "conspire" with licensees to monopolize the particular market for the licensed work, since monopoly over that copyrighted work is precisely what the Copyright Act contemplates. In the relatively rare case that an author is so inventive as to create a work that literally threatens to drive his competitors out of business, mandatory licensing with a fair return might be appropriate. Such mandatory licensing is obviously consistent with the antitrust laws, but it is also consistent with the public policy underlying the Copyright Act because it maximizes the availability of the creative work to the public while rewarding the copyright owner (and thus does not discourage innovation or invention).140

Why not simply apply antitrust law and supplement it with equity where the plaintiff has committed no antitrust violation but has violated public policy? Unless the anticompetitive behavior is obviously unrelated to the copyright owner's monopoly, there is a risk that the copyright owner will be subjected to antitrust liability for behavior that borders on proper use of the copyright monopoly. Antitrust and intellectual property law may in some cases be too inherently contradictory for this approach to work reliably. Courts should be able to punish borderline anticompetitive licensing

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practices by negating the copyright monopoly without adjudicating a true antitrust claim that requires both market power and intent to monopolize.\textsuperscript{141} A successful antitrust defense in a borderline case would expose the copyright owner to the risk of estoppel in an affirmative antitrust claim, with accompanying treble damages (or even a criminal investigation), even though the real purpose of the adjudication was not to punish willfully anticompetitive conduct, but to discourage questionable licensing practices.

Instead, the copyright misuse defense should be primarily a public policy doctrine, applied as the court did in \textit{Lasercomb}, with reference to antitrust principles for practices outside the scope of the grant. An antitrust claim as such should not be a defense to an infringement action. It should be an affirmative claim to be brought separately where the copyright owner’s conduct clearly falls outside the scope of the copyright monopoly.\textsuperscript{142}

Assuming it were possible to apply antitrust law to a copyright owner without creating a doctrinal mess, sanctioning anticompetitive behavior, or overreacting to borderline anticompetitive practices, there is a pragmatic reason for favoring a public policy-oriented approach. If antitrust law were applied, a copyright infringer could obtain a license from a copyright owner, breach the license agreement and misappropriate the intellectual property rights, and then defend based upon a possibly dubious antitrust violation. The infringer will have managed to gain access to the legitimately protected copyrighted material and, if the antitrust claim is upheld, have an independent basis for instituting an antitrust action. Even if the antitrust claim is valid, it hardly

\textsuperscript{141} United States v. Aluminum Co. of Am., 148 F.2d 416, 432, 65 U.S.P.Q. (BNA) 6, 21 (2d Cir. 1945).

\textsuperscript{142} For example, in the recent case \textit{Nobelpharma AB v. Implant Innovations, Inc.}, 141 F.3d 1059, 46 U.S.P.Q.2d (BNA) 1097 (Fed. Cir. 1998), \textit{cert. denied}, 119 S. Ct. 178 (Oct. 5, 1998), the United States Court of Appeals for the Federal Circuit reviewed a successful antitrust suit against a patentee ("NP") for anticompetitive conduct. When NP brought suit against Implant Innovations ("3I") for infringement of its dental implant patent, 3I defended based on invalidity of the patent and brought an antitrust counterclaim based on the infringement suit itself. The district court found the patent invalid based upon the patentee's fraud in prosecuting the patent before the Patent and Trademark Office. Upholding the district court's finding that the infringement suit was objectively meritless, the Federal Circuit affirmed NP's antitrust liability and the jury award of $9.9 million ($3.3 million trebled pursuant to Clayton Act § 4, 15 U.S.C. § 15 (1994)).
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seems fair both to cancel the copyright owner's rights with respect to an intentional infringer and to subject him to antitrust liability while allowing the infringer to obtain free intellectual property rights and recover antitrust damages. In a pure antitrust claim, an equitable defense, such as unclean hands, would not be available to the copyright owner in cases like *Atari Games Corp. v. Nintendo of Am., Inc.*

Another reason is that, without a public policy misuse defense, a copyright owner with anticompetitive licensing or other practices can recover damages against an infringer who was not injured by the copyright owner's anticompetitive conduct. It seems highly inequitable to allow someone misusing a government-granted right for anticompetitive ends to recover damages for infringement of that same right from anyone; the antitrust laws, however, allow it. That is the evil the Supreme Court sought to avoid in *Morton Salt Co. v. G.S. Suppiger.*

XI. CONCLUSIONS

It is not surprising that courts encounter difficulty in applying the copyright misuse defense. The patent misuse defense, upon which the copyright misuse defense is partially based, is itself a confused doctrine. Courts have been unable to agree exactly how the defense differs from an antitrust claim. The patent misuse doctrine should be reformed before the copyright misuse doctrine proceeds further along the same incoherent lines of development. As the copyright misuse defense stands, it appears to mimic the patent misuse defense in a slightly diluted form, with alleged copyright infringers retaining some misuse defenses that have been denied to alleged patent infringers by amendments to the Patent Act.

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144 *See, e.g.*, *Bendix Corp. v. Balax, Inc.*, 471 F.2d 149, 158-59, 176 U.S.P.Q. (BNA) 33, 40 (7th Cir. 1972) ("[I]n order to succeed in their counterclaim the defendants must show all of the elements necessary to create an antitrust cause of action, including damages suffered by the defendants as a proximate result of illegal acts of the plaintiff.").

That courts should apply the *per se* rule to the copyright misuse defense less readily than to the patent misuse defense is also not surprising. Most commentators and courts agree that the market power conferred by copyrights is less than the power conferred by patents. However, as software becomes increasingly important in American society, its potential to confer market power on the copyright owner will increase, undermining the justification for assuming *a priori* that patents confer more market power.

Finally, courts should steer the misuse defense away from straight antitrust analysis. Where the boundaries blur between legal and illegal acts, penalties should be less severe. A public policy/equity defense, combined with the possibility of a separate antitrust suit in cases of flagrantly anticompetitive behavior, should suffice to protect licensees and competitors while deterring clear antitrust violations by copyright owners. Moreover, the equitable defense of copyright misuse has several other advantages. The defense avoids trying to reconcile the contradictory methodologies of the antitrust and intellectual property laws, averts copyright owners from incurring antitrust liability where treble damages are not warranted, allows an unclean hands defense, and punishes copyright owners who engage in anticompetitive behavior by preventing them from enforcing their copyright against those not directly injured by that behavior. In short, it accomplishes a just result—strict but not unduly harsh—and leaves open the possibility of more severe punishment where the copyright owner's behavior warrants antitrust liability.