

THE EVOLVING DOCTRINE OF COPYRIGHT MISUSE*

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INTRODUCTION

Copyright misuse is a common law defense to copyright infringement. The defense derives from the equitable doctrine of “unclean hands.”¹ In contrast with defenses addressing the nature of copyrighted material or the defendant’s conduct, copyright misuse focuses on the plaintiff’s conduct and determines whether the plaintiff is entitled to enforce her rights. This alternative focus orients misuse differently. Copyright misuse regulates copyright owners’ use of their rights, polices the boundaries set by Congress in the copyright statute, and protects important public interests.

The misuse defense is potentially devastating to an intellectual property owner because of its reach and remedy. Misuse can be raised as a defense to infringement by defendants that have not even been affected by the plaintiff’s inequitable conduct.² This means that copyright owners must be careful when conducting their affairs because a misstep that amounts to misuse may affect a broad set of relations. Moreover, when defendants successfully raise misuse defenses, the courts withhold relief from the plaintiffs, rendering the copyright unenforceable until the misuse has been “purged.”³ Some commentators have

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¹ See, e.g., *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 846 (Fed. Cir. 1992) (“In the absence of any statutory entitlement to a copyright misuse defense, however, the defense is solely an equitable doctrine.”); see also *United States Gypsum Co. v. Nat’l Gypsum Co.*, 352 U.S. 457, 465 (1957) (explaining extension of unclean hands doctrine to patent law).

² *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 979 (4th Cir. 1990). While the Federal Circuit in *Atari* reasoned that a defendant with unclean hands would be barred from raising the defense, see *Atari Games Corp.*, 975 F.2d at 846 (“Any party seeking equitable relief must come to the court with ‘clean hands.’”) (quoting *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 244 (1933) (applying Ninth Circuit law)), subsequent cases have persuasively reasoned to the contrary. See *In re Napster, Inc. Copyright Litigation*, 191 F. Supp. 2d 1087, 1110 (N.D. Cal. 2002); see also *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 794-95 (5th Cir. 1999) (considering contrary opinions of “a smattering of other courts” to be “unpersuasive”).

³ The misuse doctrine does not bar future reliance on the courts. The intellectual property owners may return to court once they have “purged” the misuse, for example, by striking anticompetitive provisions in their licensing agreements. See *Lasercomb*, 911 F.2d at 979 n.22 (“This holding, of course, is not an invalidation of Lasercomb’s copyright. Lasercomb is free to bring a suit for

suggested that the combination of such broad reach and strong remedy may go too far, lead to over-deterrence, and reward unworthy infringers.⁴ Other commentators suggest that these dimensions of misuse may give it the flexibility to be a useful tool for regulating copyright owners, particularly their licensing behavior.⁵ While debatable, we do not express an opinion or further elaborate on reach and remedy in this chapter. Our purpose is mainly to shed light on what constitutes misuse, or more precisely, on how courts evaluate what constitutes copyright misuse.

Judicial creation of intellectual property misuse doctrines has been piecemeal, beginning with patent misuse and only recently moving into copyright misuse. Both trademark and trade secret misuse have had limited practical force in the courts.⁶ Although intellectual property misuse has been mentioned or alluded to in its various forms by courts for over a century, the Supreme Court did not establish the patent misuse doctrine until 1954 in *Morton Salt Co. v. G.S. Suppiger*.⁷ Since then, patent misuse has developed significantly. Yet copyright misuse, which was mentioned in dictum in the *Morton Salt* opinion, remained in limbo until the 1990 *Lasercomb America Inc. v. Reynolds* decision of the Fourth Circuit, which expressly upheld the doctrine's existence.⁸ Since 1990, the Third, Fifth and Ninth Circuits have established copyright misuse as a viable defense in

infringement once it has purged itself of the misuse.”); see also *United States Gypsum*, 352 U.S. at 465 (same in patent misuse context).

⁴ See, e.g., Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 Cal. L. Rev. 111 (1999); Thomas F. Cotter, *The Precompetitive Interest in Intellectual Property Law*, Washington & Lee Legal Studies Paper No. 2005-25, at 71-72 (December 2005), available at SSRN: <http://ssrn.com/abstract=870307>; see also Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599, 1614-20 (1990).

⁵ See Lydia Pallas Loren, *Slaying the Leather-Winged Demons in the Night: Reforming Copyright Owner Contracting with Clickwrap Misuse*, 30 Ohio N. Univ. L. Rev. 495 (2004) (arguing for courts to use copyright misuse as a regulatory tool to reform contracting behavior); cf. Dan Burk, *Anticircumvention Misuse*, 50 UCLA L. Rev. 1095, 1130-31 (2003) (noting that the reach of misuse allows it to be a “tool to vindicate the rights of nonparties to the suit”).

⁶ Trademark misuse today resembles copyright misuse twenty years ago: it has been raised as a defense in trademark infringement cases but is not widely recognized. See *infra* note 47 and accompanying text. However, we mention trademark misuse because its equitable origin resembles patent and copyright misuse, and it may evolve along similar lines if trademarks increasingly allow their owners to restrain competition. See *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena Steelmasters, Inc.*, 298 F. Supp. 1309, 1314 (S.D.N.Y. 1969) (recognizing that antitrust violation can constitute a trademark misuse defense, but only when the trademark is the primary instrument in restraining competition); *Estee Lauder, Inc. v. The Fragrance Counter, Inc.*, No. 99 Civ. 0382, 1999 U.S. Dist. LEXIS 14825 (S.D.N.Y. Sept. 24, 1999).

⁷ 314 U.S. 488, 494 (1942).

⁸ *Lasercomb*, 911 F.2d at 979.

their jurisdictions.⁹ The Supreme Court and the remaining circuit courts have not formally established this defense, leaving the doctrine's fate uncertain.

The chapter is organized as follows. Part II provides a brief introduction to the (potential) jurisprudential functions of the copyright misuse doctrine. It first develops a schematic model for understanding the jurisprudential relationship between the copyright misuse doctrine and copyright, patent, and antitrust laws. Next, it considers two approaches to formulating and applying misuse principles: per se rules and the rule of reason.

Part III analyzes the case law in the Supreme Court and the federal courts of appeals. Part III.A examines four foundational Supreme Court cases: *Morton Salt, United States v. Paramount Pictures, Inc.*,¹⁰ *United States v. Loew's, Inc.*,¹¹ and *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*¹² These cases provide lower courts guidance on what principles should guide courts in developing and applying copyright misuse. Parts III.B and III.C consider the case law in the federal courts, looking more carefully at the express application of copyright misuse as a defense to infringement to determine on what principles courts refuse to enforce the copyright, or apply the doctrine and fail to find misuse. Part III.B covers circuit precedents, and Part III.C covers other influential case law. Part III.D provides a brief overview of district court litigation.

Although the case law and legal commentary seem in disarray, we distill a set of guiding principles for evaluating copyright misuse in Part IV. We conclude that courts ask first whether a challenged action amounts to per se misuse by looking to the facts for evidence of blatantly egregious conduct. Two sets of per se rules may be fashioned by the courts. The first type identifies misuse violating the antitrust laws while the second type identifies misuse violating an important public policy behind the intellectual property grant. We discuss both types of per se rules in Part IV. If a challenged action does not fit within either set of per se rules, we suggest that the courts then engage in a rule of reason analysis similar to that used by courts in the patent misuse and antitrust contexts. Again, two approaches are possible. The first approach, which coincides with patent and antitrust analysis, weighs the anticompetitive and procompetitive effects of the challenged action to determine whether it constitutes misuse. The second approach is broader in scope and balances policy interests reflected in the intellectual property system. We evaluate both approaches and conclude that courts should apply both types of per se rules—antitrust-based and policy-based—and should only apply a competition-based balancing approach. We

⁹ *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516 (9th Cir. 1997); *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772 (5th Cir. 1999); *Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.*, 342 F.3d 191, 206 (3d Cir. 2003).

¹⁰ 334 U.S. 131 (1948).

¹¹ 371 U.S. 38 (1962).

¹² 441 U.S. 1 (1979).

remain skeptical about the advisability of a policy balancing test—a test that weighs pro-expressive against anti-expressive effects on a case-by-case basis—for doctrinal as well as pragmatic reasons.

II. JURISPRUDENTIAL FUNCTIONS OF COPYRIGHT MISUSE

Before exploring the copyright misuse case law, it is helpful to consider the justifications for and limitations of the common law doctrine.¹³ When courts formulate and apply copyright misuse principles, they affect the detailed statutory scheme created by Congress. At first glance, only the copyright statute and the exclusive rights granted thereunder seem affected. However, the case law analysis in Part III reveals a more complex relationship with other areas of law, especially patent and antitrust. This Part briefly develops a schematic model for understanding the jurisprudential relationship between the copyright misuse doctrine and copyright, patent, and antitrust laws. Next, this Part considers two approaches to formulating and applying misuse principles: *per se* rules and the rule of reason.

A. Three “Substantive” Legal Functions of the Misuse Doctrine

The misuse doctrine is a mechanism that performs, or has the potential to perform, at least three independent, structural functions. First, it gives courts the flexibility to “fill in gaps” left in statutory law; we label this the *corrective function* of the misuse doctrine.¹⁴ Second, the misuse doctrine allows courts to coordinate related and interdependent bodies of law; we label this the

¹³ Federal common law-making has an extensive literature. See, for example, the numerous sources cited in Hart & Wechsler’s *The Federal Courts and the Federal System*, ch. 7 (Fallon et al. eds., 4th ed. 1996); Symposium, 12 *Pace L. Rev.* 227 (1992); Martin H. Redish, *Federal Common Law, Political Legitimacy, and the Interpretive Process: An “Institutionalist” Perspective*, 83 *Nw. U. L. Rev.* 761 (1989); Martha A. Field, *Sources of Law: The Scope of Federal Common Law*, 99 *Harv. L. Rev.* 881 (1986); Thomas W. Merrill, *The Common Law Powers of Federal Courts*, 52 *U. Chi. L. Rev.* 1 (1985). An important distinction between this Article’s treatment of federal common law and that of most other commentators is that federalism concerns are not very important in the intellectual property misuse context. The common law misuse defense operates as a defense to an infringement claim originating from a federal intellectual property right. The sources of “friction” (or fear of judicial activism) primarily derive from separation of powers concerns and interstatutory concerns, i.e., potential conflicts between antitrust and patent, antitrust and copyright, or copyright and patent, rather than federalism. See *infra*. For a discussion of limits on the federal courts’ power to fashion common law, see Field, *supra* and Merrill, *supra*. For a discussion of separation of powers concerns arising from federal common law, see George D. Brown, *Federal Common Law and the Role of the Federal Courts in Private Law Adjudication—A (New) Erie Problem?*, 12 *Pace L. Rev.* 229 (1992). Cf. William F. Baxter, *Separation of Powers, Prosecutorial Discretion, and the ‘Common Law’ Nature of Antitrust Law*, 60 *Tex. L. Rev.* 661 (1982) (considering the separation of powers concerns regarding the exercise of prosecutorial discretion in light of the statutory scheme).

¹⁴ The gap-filling nature of common law is well known. See, e.g., Merrill, *supra* note 13, at 33-34; Thomas W. Merrill, *The Judicial Prerogative*, 12 *Pace L. Rev.* 327, 354 (1992).

coordination function. Third, it allows courts to safeguard the public interest generally; we label this the *safeguarding function*. This subsection briefly explains the substantive nature of these three functions. We note that since our earlier article, scholars have identified additional structural functions of copyright misuse;¹⁵ we have folded these into our existing three but recognize that a broader taxonomy might work as well.

Before proceeding, we should note that we do not argue that copyright misuse necessarily should be employed by courts to serve each of these functions. Our goal is to describe the *potential* utility of the common law doctrine as a policy lever available to courts. As we noted, the doctrine’s reach, remedy, and, most importantly, its focus on the plaintiff’s behavior lead to a different orientation than other related levers, such as fair use.¹⁶ In some cases, other levers may be preferable to copyright misuse as means to serve one of these functions, and in other cases, copyright misuse may be preferable.¹⁷

1. Corrective Function

The corrective function of the misuse doctrine is *intrastatutory*—it operates to correct, adjust, or simply work out the details of the copyright statute itself. This involves both judicial interpretation of express statutory language and congressional intent, and judicial lawmaking where gaps in the substantive law exist.¹⁸ For the most part, judges are expected to exercise these functions within reasonable discretion under each of the copyright, patent, and antitrust statutes. For example, much of the federal antitrust law that exists today derives from decades of dynamic common law-making by the federal courts.¹⁹ The broad precepts of the Sherman and Clayton Acts have produced a complex set of rules to effectuate the Acts’ procompetitive agenda in light of changing social,

¹⁵ See Dan Burk, *Anticircumvention Misuse*, 50 UCLA L. Rev. 1095, 1123, 1127 (2003) (suggesting that misuse might serve other functions than the three we had identified, including “a function sounding in judicial integrity,” and a constitutional “avoidance function” by reducing the need for courts to decide “explosive constitutional questions that might otherwise require controversial rulings on vertical federalism or the scope of federal power”).

¹⁶ See *id.* at 1129-31.

¹⁷ For example, copyright misuse may permit a court to avoid difficult questions that arise under fair use analysis. *Cf. id.* at 1127 (discussing a constitutional “avoidance function”).

¹⁸ For the purposes of this Article and the common law misuse doctrine, “[i]nterpretation shades into judicial lawmaking on a spectrum, as specific evidence of legislative adverting to the issue at hand attenuates.” Field, *supra* note 13, at 894; see also *id.* at 893-95; Merrill, *supra* note 13, at 4-5. The fine distinctions between statutory interpretation and common law-making are simply less important in the misuse context, given the federal statutory schema involved. On the fine distinctions, see generally Field, *supra* note 13 and Redish, *supra* note 13. See also Robert S. Summers, *Statutory Interpretation in the United States*, in *Interpreting Statutes: A Comparative Study* 407-59 (D. Neil MacCormick & Robert S. Summers eds., 1991).

¹⁹ See Baxter, *supra* note 13, at 662-73.

technological, and economic factors under a large variety of factual settings.²⁰ Courts have also historically formulated common law in the patent and copyright areas.²¹ Consider, for example, the fair use doctrine. Fair use was originally a common law defense before Congress stepped in to codify the doctrine in 17 U.S.C. § 107.²² The fair use example highlights the fact that Congress can always, and sometimes does, supercede common law with legislation.²³ Thus, corrective common law-making can also be viewed as a signal from the courts to Congress that a gap in the statutory scheme exists.

As the label we attach suggests, the gap-filling and interpretive functions exercised by courts applying corrective common law are internal to the statutory body of law at issue. Courts correct legal ambiguities of varying scope and importance within the statutory scheme.²⁴ For example, the set of judicially-

²⁰ See *id.* The “broad language of Section 1 of the Sherman Act . . . is often viewed as inviting the courts to fashion a common law of anti-competitive practices.” Hart & Wechsler’s *The Federal Courts and the Federal System* 754 (citing *Nat’l Soc’y of Prof’l Eng’rs v. United States*, 435 U.S. 679, 688 (1978)); see Merrill, *supra* note 13, at 43-46 (1985). But see Richard Posner, *The Problems of Jurisprudence* 289 (1990) (“[F]ew statutes contain a delegation of common law authority to courts. The Sherman Act is not one of them.”). For an interesting discussion of statutes as a starting point (or the initial conditions) for the development of common law, see Hon. Harlan Fiske Stone, *The Common Law in the United States*, in *The Future of the Common Law* 120, 130-34 (1937).

²¹ Beyond the common law origins of intellectual property rights, courts have played an active role in developing common law in conjunction with statutory schema; examples include the doctrine of equivalents in patent law and the fair use and the first sale doctrines in copyright law. See Merges et al., *Intellectual Property in the New Technological Age* 123-30, 345-348, 470-76, 490-98 (2000); James A.D. White, *Misuse or Fair Use: That is the Software Copyright Question*, 12 *Berkeley Tech. L.J.* 251, 260-63 (1997) (discussing common law modification of copyrights and patents); Ralph S. Brown, Jr., *Unification: A Cheerful Requiem for Common Law Copyright*, 24 *UCLA L. Rev.* 1070, (1977); see also Arti K. Rai, *Intellectual Property Rights in Biotechnology: Addressing New Technology*, 34 *Wake Forest L. Rev.* 827, 831-38 (1999) (evaluating the Court of Appeals for the Federal Circuit’s application of patent law doctrine to biotechnology).

²² 17 U.S.C. § 107 (1994). See David Nimmer, *A Riff on Fair Use in the Digital Millenium Copyright Act*, 148 *U. Pa. L. Rev.* 673, 741 n.360 (2000) (noting that both the fair use and the first sale doctrine were common law creations that Congress codified). For further discussion of the development of fair use, see Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 *Colum. L. Rev.* 1600 (1982) (discussing the development of fair use); William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 *Harv. L. Rev.* 1661 (1988).

²³ For an interesting discussion of the interaction between a common law rule and its subsequent codification, see John B. Shumadine, *Striking a Balance: Statutory Displacement of Established Federal Common Law and the D’Oench Doctrine in Murphy v. F.D.I.C. and Motorcity of Jacksonville Ltd. v. Southeast Bank*, 51 *Me. L. Rev.* 129 (1999).

²⁴ Some degree of legal ambiguity is unavoidable, thereby necessitating judge-made law. Larry Kramer, *The Lawmaking Power of the Federal Courts*, 12 *Pace L. Rev.* 263, 269 (1992).

That is, courts must make a certain amount of common law simply because there is no clear line between ‘making’ and ‘applying’ law, between commands that are clear on the face of a statute and those made through an exercise of judgment and creativity. Deciding individual cases thus generates some common law

crafted rules governing both horizontal and vertical price fixing derives from the express and implied policies underlying the Sherman Act, and the judicially-crafted fair use doctrine embodies equitable principles concerning the societal trade-off made via the copyright grant.

As we explored in a previous article,²⁵ copyright misuse may be a vehicle for correcting various ambiguities or gaps in the copyright law as it is applied to software. For example, the inclusion of software within copyrightable subject matter exposes the absence of a disclosure requirement in the copyright law. While the traditional expression gaining statutory protection is naturally disclosed when encountered by the public—consider, for example, books, songs, and paintings, among others—the expression in the source and object code of software is not, arguably jeopardizing the societal trade-off established by the copyright statute. The copyright misuse doctrine may fill the gap in the statute and ensure public access to copyrighted expression. We do not mean to suggest, however, that courts have free reign to rewrite the copyright statute. The judicial power to perform the corrective function with the copyright misuse doctrine is cabined by the express and implied scope of the statutory provision being interpreted or the gap being “filled in.” The intrastatutory nature of corrective common law-making contrasts with the more complicated, interstatutory nature of coordination-oriented common law-making, where judges are forced to coordinate interrelated bodies of law.

2. Coordination Function

The coordination function of the misuse doctrine is *interstatutory*—it involves the reconciliation (or working out) of relationships between the related and interdependent bodies of antitrust, copyright, and patent law.²⁶ While similar to the corrective function in that coordination involves statutory interpretation and

because the process of adjudication necessarily entails articulating rules to elaborate and clarify the meaning and operation of statutory texts.

Id.; see also Louise Weinberg, *Federal Common Law*, 83 Nw. U. L. Rev. 805, 839 (1989). In addition to constructing and interpreting statutes, Congress delegates lawmaking authority to the courts expressly or by implication under a broad mandate in many different areas. See, e.g., Redish, *supra* note 13, at 789 (“A more extreme example than section 1 of the Sherman Act is section 301(a) of the Labor Management Relations Act, which, as construed, vests unlimited authority in the hands of the federal judiciary to fashion a common law of labor agreements.”) (internal footnotes omitted); George Lee Flint, Jr., *ERISA: Reformulating the Federal Common Law for Plan Interpretation*, 32 San Diego L. Rev. 955, 967-70 (1995).

²⁵ See Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 Berkeley Tech. L.J. 865, 871, 926 (2000).

²⁶ Copyright misuse might also coordinate copyright with other bodies of law, such as the First Amendment and state contract law, among others. Internal copyright doctrines, such as idea-expression and fair use, already mediate the relationship between copyright law and the First Amendment, but copyright misuse may reinforce, correct, and/or coordinate in situations where the plaintiff’s behavior triggers analysis.

gap-filling, it operates externally to any single body of law. The express or implied statutory objectives derived internally—from myopic consideration of a single body of law—may not lead to principled rules at the interfaces.²⁷ Common law misuse allows courts to develop rules that evolve dynamically and respond to economic, legal, and technological change. For example, in the patent misuse context, courts have coordinated patent and antitrust law. Over the course of the twentieth century, courts, as well as legislators, enforcement officials, and commentators, have struggled to resolve “conflicts” between the two bodies of law in a variety of ways, ranging from near preemption in favor of patentees to strict antitrust-based limits on patentees’ behavior in the marketplace to a moderated contemporary approach.²⁸ Critically, responding to developments in the courts, Congress took an active role in coordinating patent and antitrust under the misuse doctrine when it modified the common law patent misuse doctrine by passing the Patent Reform Act.²⁹

In the copyright misuse context, courts coordinate both copyright and antitrust law as well as copyright and patent law. As discussed below, coordinating copyright and antitrust law leads to a copyright misuse doctrine that is identical to the patent misuse doctrine—both rely on antitrust principles for a finding of misuse. In contrast with antitrust-based patent misuse, findings of antitrust-based copyright misuse are rare (if not nonexistent).³⁰ While most copyright misuse cases involve allegations of anticompetitive behavior manifest in licensing provisions, the copyright owner ordinarily does not have market power (and if one does, it is not typically attributable to the copyright alone). Thus, it appears that copyright misuse is not actively employed to coordinate antitrust and copyright, although the potential remains.

²⁷ Where Congress expresses a default rule, as in preemption situations, then coordination by the courts is unnecessary.

²⁸ See Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 Harv. L. Rev. 1813, 1813-20 (1984); John H. Barton, *Patents and Antitrust: A Rethinking in Light of Patent Breadth and Sequential Innovation*, 65 Antitrust L.J. 449, 449 (1997) (noting the stark change from “the 1970s pattern of weak patent law and strong antitrust law [to the] 1990s pattern of strong patent law and weak antitrust law”).

²⁹ Patent Reform Act, codified at 35 U.S.C. § 271 (1994). The Act prevents per se misuse treatment for refusals to license and tying arrangements, requiring instead that courts determine whether a patent holder possessed sufficient market power to give rise to an antitrust violation. See 35 U.S.C. § 271(d)(4)-(5) (1994). Since the Act’s passage, the Federal Circuit has taken a more lenient view of licensing agreements in some cases. See, e.g., *Engel Indus., Inc. v. Lockformer Co.*, 96 F.3d 1398, 1408 (Fed. Cir. 1996) (allowing royalty arrangement that covered unpatented components as a convenient, non-coercive way for patentee to determine value of license); *Carborundum Co. v. Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 880 (Fed. Cir. 1995) (recognizing patentee’s right to determine best way to maximize profits from invention, whether through direct production, licensing, or withholding of patent); see also *Cygnus Therapeutic Sys. v. ALZA Corp.*, 92 F.3d 1153 (Fed. Cir. 1996); *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538 (Fed. Cir. 1995).

³⁰ We are aware of none.

The coordination of copyright and patent law is a more complicated task because it involves important policy decisions as to difficult trade-offs for different types of innovation. As a general matter, this task should be left to Congress because of its constitutional authority under the Intellectual Property Clause and its presumptive institutional competence in developing policy. However, judges may be forced to coordinate, or at least to signal to Congress that coordination is necessary, where friction between the two intellectual property regimes arises. As we have explored previously,³¹ copyright protection of computer software, which derives its economic value from the functional ends it facilitates rather than its expressive content, gives rise to such friction,³² and not surprisingly, many copyright misuse cases have involved software or other functional works. In such cases, courts have used copyright misuse to reinforce subject matter limitations and channeling doctrines that maintain boundaries and have thereby prevented copyright owners from securing control over subject matter by copyright license that could not be obtained by copyright or patent.

3. Safeguarding Function

Finally, when exercising the safeguarding function, courts play their traditional role as “balancer of equities” in specific cases. Misuse doctrines grew from the equitable notion that a plaintiff with “unclean hands” could not use the courts to obtain redress.³³ In balancing the equities between specific parties, courts may not be concerned with statutory matters, whether intrastatutory or interstatutory, and thus may not be exercising the corrective or coordination functions. For example, courts may be troubled with misuse of the legal system

³¹ See Frischmann & Moylan, *supra* note 25, at 902-29.

³² *Id.*; see, e.g., *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596, 598 (9th Cir. 2000) (“In this case we are called upon once again to apply the principles of copyright law to computers and their software, to determine what must be protected as expression and what must be made accessible to the public as function.”); White, *supra* note 21, at 252 (“Computer software is distinct from other forms of copyrighted works in various ways, providing more market power to the copyright owner *and impacting federal patent law in ways that require restraints on the actions of software copyright owners.*”) (emphasis added).

³³ Two early unclean hands cases involving copyrights are illustrative (both were cited by the Supreme Court in *Morton Salt*). In the first, *Edward Thompson*, the plaintiff published two encyclopedias and claimed that the defendant copied them directly in putting together a separate work. *Edward Thompson Co. v. Am. Law Book Co.*, 122 F. 922 (2d Cir. 1903). The defendant argued that both competitors engaged in the same practice – the plaintiff also had compiled his information from the works of others. See Raymond Nimmer & Murali Santhanam, *The Concept of Misuse in Copyright and Trademark Law: Searching for a Concept of Restraint*, 524 PLI/Pat 397, 410 (June 1998). Relying on equity, the court refused to punish the defendant in light of the plaintiff's unclean hands. In the second case, *Stone & McCarrick*, misleading representations by the infringement plaintiff regarding infringement led the Fifth Circuit to withhold protection for an instruction manual. See *Stone & McCarrick, Inc. v. Dugan Piano Co.*, 220 F. 837 (5th Cir. 1915). Neither case mentioned copyright misuse, but both decisions affirmed a clean hands defense to copyright infringement.

more generally, an abuse of process concern that Judge Posner has recently acknowledged.³⁴

In addition to balancing the equities between the parties to a case, courts also may safeguard the public policies underlying the statutory scheme where internal statutory protections exist but fail and an external conflict is not implicated.³⁵ For example, copyright holders who use their copyrights to gain leverage through licensing provisions that broaden the scope of their copyright may be misusing their copyright even if the leveraging is insufficient to raise antitrust concerns.³⁶

Courts that recognize such misuse reinforce existing scope and subject matter limitations. This may be the most important structural function of the copyright misuse doctrine. For example, as Dan Burk has argued, misuse plays an important role in safeguarding the limitations on the scope of contributory infringement type claims by “preventing the copyright holder from exercising a stranglehold on technologies adjacent to the primary intellectual property right.”³⁷ Furthermore, copyright misuse may safeguard user rights within copyright law by precluding copyright owners from contracting around important limitations on the scope of copyrights. For example, license provisions that seek to restrict licensees’ participation in socially valuable activities that ordinarily fall safely within the reach of fair use—activities like reverse engineering and critical commentary of protected expression—may trigger misuse.³⁸

B. *Per Se Rules and the Rule of Reason*

This section provides a brief explanation of the types of rules that judges create when formulating the substantive common law discussed above. The creation of common law depends upon case by case adjudication and the evolution of judicial precedent. The legally binding nature or precedential value of a substantive rule depends in part upon the manner in which it is applied in subsequent cases.

³⁴ See *Assessment Technologies of WI, LLC v. WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003).

³⁵ Arguably, courts should only exercise the safeguarding function when gap-filling or coordinating is also necessary; otherwise, courts may overreach into the legislative power. See generally Brown, *supra* note 13, at 235 (discussing the academic separation of powers debate as to whether federal common law-making power is coordinate or subordinate to the congressional lawmaking power). This Article does not seek to resolve this debate.

³⁶ See *infra* (discussing *Lasercomb, Practice Management*, and *Alcatel*).

³⁷ Burk, *supra* note 15, at 1127.

³⁸ On the role of copyright law in sustaining participation in a range of socially valuable activities, see Brett Frischmann, *Evaluating the Demsetzian Trend in Copyright Law*, Rev. L. & Econ. (forthcoming 2006); Brett Frischmann and Mark Lemley, *Spillovers*, Colum. L. Rev. (forthcoming 2006).

“Per se” and “rule of reason” describe approaches to judicial decision-making. Numerous formulations and explanations of what these labels mean can be found in the antitrust case law and literature.³⁹ Generally, they differentiate the degree to which judges entertain evidence and certain defenses when applying the law in a given case.⁴⁰ In theory, an absolute per se rule would preclude any defense and restrict the presentation of evidence to what is needed to characterize the alleged conduct as fitting within the per se classification. In practice, defenses creep into the characterization.⁴¹ At the opposite extreme from per se rules is the rule of reason approach. The rule of reason involves a comprehensive, fact-intensive inquiry where, in the end, courts assess the *reasonableness* of contested conduct. The “quick look” approach is something between strict per se and rule of reason, either a slightly more involved consideration of evidence and defenses in the per se context or a slightly less involved balancing approach.⁴²

In *Broadcast Music*, an important case discussed in Part III, the Supreme Court indicated that courts should apply a per se rule when “the practice facially appears to be one that would always or almost always tend to restrict competition and decrease output.”⁴³ The advantage of this approach is that “*per se* rules avoid ‘the necessity for an incredibly complicated and prolonged economic investigation . . . in an effort to determine at large whether a particular restraint has been unreasonable.’”⁴⁴ In theory, the administrative costs of adjudicating each case exceed the error costs (i.e., the cost of finding the occasional situation where a restraint is reasonable is not worth the adjudication costs). Thus, in the antitrust context, successful characterization of conduct as per se illegal obviates the court’s need to consider actual competitive effects because anticompetitive effects are presumed to exceed pro-competitive effects.

³⁹ See generally Milton Handler et al., *Trade Regulation*, ch. 4 (4th ed. 1997).

⁴⁰ For an interesting discussion of per se rules in antitrust law, see Thomas G. Krattenmaker, *Commentary, Per Se Violations in Antitrust Law: Confusing Offenses with Defenses*, 77 *Geo. L.J.* 165 (1988).

⁴¹ The *Broadcast Music* case analyzed below provides an excellent example.

⁴² See generally Milton Handler et al., *Trade Regulation*, ch. 4 (4th ed. 1997).

⁴³ *Broadcast Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1, 19-20 (1979); accord *NYNEX Corp. v. Discon, Inc.*, 525 U.S. 128, 133 (1998) (“Yet certain kinds of agreements will so often prove so harmful to competition and so rarely prove justified that the antitrust laws do not require proof that an agreement of that kind is, in fact, anticompetitive in the particular circumstances.”); *State Oil Co. v. Khan & Assocs.*, 522 U.S. 3, 10 (1997).

⁴⁴ *Fed. Trade Comm’n v. Superior Court Trial Lawyers Ass’n*, 493 U.S. 411, 430 (1990) (quoting *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 5 (1958)). Judge Posner reframed the *Broadcast Music* test in *General Leaseways*: “if the elimination of competition is apparent on a quick look, without undertaking the kind of searching inquiry that would make the case a [r]ule of [r]eason case in fact if not in name, the practice is illegal per se.” *General Leaseways, Inc. v. Nat’l Truck Leasing Ass’n*, 744 F.2d 588, 595 (7th Cir. 1984). In *General Leaseways*, the Seventh Circuit concluded “on the basis of the record compiled in the preliminary injunction hearing” that the market division at issue was a per se violation of the Sherman Act.

In the misuse context, per se rules are similarly narrow legal constructions that fulfill the “facially apparent” and “always or almost always” requirements.⁴⁵ On the other hand, the rule of reason encompasses a full consideration of the evidence and relevant defenses in a balancing or reasonableness inquiry. Critically, in contrast with a per se approach, a rule of reason approach evaluates, weighs, and compares the positive and negative effects—e.g., the procompetitive and anticompetitive effects in an antitrust case.

III. THE JURISPRUDENCE OF COPYRIGHT MISUSE

Although intellectual property misuse can be traced back to early notions of equity, the doctrine has taken subtly different tracts in patent, trademark, and copyright law. Patent misuse evolved tremendously over the course of the twentieth century and is now a well-established, technical defense to infringement that relies largely on antitrust analysis for resolution.⁴⁶ Trademark misuse, on the other hand, has not evolved in any significant manner, is barely recognized, and remains an inchoate collection of equitable principles.⁴⁷ Copyright misuse resembled trademark misuse until 1990, when the Fourth Circuit recognized the doctrine. Since 1990, copyright misuse has evolved at a relatively fast pace. The existence of the copyright misuse doctrine may be considered uncertain due to a lack of statutory basis and no express recognition by the U.S. Supreme Court. However, in our opinion, the degree of uncertainty as to mere existence is small. Those circuit courts that have had the doctrine’s existence squarely presented on appeal have recognized it, thereby providing a concrete legal foundation that is binding in those jurisdictions and persuasive elsewhere. Moreover, as we discuss below, we find that U.S. Supreme Court precedent supports (though not requires) recognition of the doctrine. While some have challenged the notion that these cases support recognition of the doctrine,⁴⁸ we find ample support for the *principles* underlying the misuse doctrine. In our view, these principles provide a stable foundation and legitimate justification for lower courts to develop

⁴⁵ *Broadcast Music*, 441 U.S. at 19-20.

⁴⁶ See, e.g., *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1200 (7th Cir. 1987) (citing *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 512 (7th Cir. 1982)).

⁴⁷ See, e.g., *Northwestern Corp. v. Gabriel Mfg. Co.*, No. 95 C 2004, 1998 U.S. Dist. LEXIS, 12763 (N.D. Ill. Aug. 14, 1998) (“The main difficulty with the present motion seems to be that the defense of trademark misuse is a phantom defense.”). *But cf.* *Manhattan Med. Co. v. Wood*, 108 U.S. 218 (1883) (rejecting enforcement of trademark on equitable grounds); *United States Jaycees v. Cedar Rapids Jaycees*, 794 F.2d 379 (8th Cir. 1986); *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, Steelmasters, Inc.*, 298 F. Supp. 1309 (S.D.N.Y. 1969) (recognizing that antitrust violation can constitute a trademark misuse defense, but only when trademark is primary instrument in restraining competition); *Estee Lauder, Inc. v. The Fragrance Counter, Inc.*, No. 99 Civ. 0382, 1999 U.S. Dist. LEXIS 14825 (S.D.N.Y. Sept. 24, 1999).

⁴⁸ See, e.g., Kathryn Judge, *Note, Rethinking Copyright Misuse*, 57 *Stan. L. Rev.* 901, 911 (2005).

copyright misuse doctrine. Thus, we take as a given that the doctrine exists and focus on the principles that guide its application and evolution in the courts.

This Part reviews the jurisprudence of copyright misuse, with particular emphasis on federal precedents and influential opinions.⁴⁹ Section A analyzes four Supreme Court cases that have guided courts' understanding of copyright misuse. Section B describes four precedents of the U.S. Courts of Appeals that have recognized the copyright misuse defense. Section C summarizes a handful of additional opinions that appear influential in understanding the defense. Finally, Section D provides a brief overview about how the copyright misuse defense has been applied in district court litigation. Each section contains a brief interim conclusion, tying our analysis of the caselaw back to the themes discussed in Part II.

A. *U.S. Supreme Court Opinions*

1. *Morton Salt Co. v. G.S. Suppiger (1942)*⁵⁰

Although the holding in *Morton Salt* is limited to patent misuse, the Court's commentary laid the foundation for a comparable defense in copyright law. The Court cited two circuit opinions "for application of the like doctrine in the case of copyright," suggesting the Court's belief that misuse principles can apply generally to intellectual property.⁵¹

In 1942, the Supreme Court firmly established the patent misuse doctrine.⁵² Although courts have applied patent misuse since 1917,⁵³ pre-1942 patent misuse resembles today's copyright misuse—evolving doctrinally with an uncertain future. Morton licensed its patented salt-depositing machine with a condition that licensees exclusively use Morton's salt tablets. The Court found that using the patent to restrain competition in a market for unpatented goods (i.e., the salt tablets) was patent misuse. The Court stressed that the public policy behind the patent system involved a delicate balance between the social benefits of improved progress in "Science and the useful Arts" and the social costs of

⁴⁹ This Part does not trace the misuse defense from its equitable origins, to the early recognition of patent misuse, to *dicta* suggesting an analog in copyright law; however, such historical analysis is available in the literature. See, e.g., Nimmer & Santhanam, *supra* note 33; G. Gervaise Davis III, *The Growing Defense of Copyright Misuse and Efforts to Establish Trademark Misuse: Legitimate Restraints on Copyright Owners or Escape Routes for Copyright Infringers? Ways of Protecting Domain Names?*, 524 PLI/Pat 433, 450 (June 1998).

⁵⁰ 314 U.S. 488 (1942).

⁵¹ *Id.* at 494. The two cases cited by the Court are *Edward Thompson Co. v. Am. Law Book Co.*, 122 F. 922 (2d. Cir. 1903), and *Stone & McCarrick, Inc. v. Dugan Piano Co.*, 220 F. 837 (5th Cir. 1915). For further discussion of these cases, see *supra* note 33.

⁵² *Morton Salt*, 314 U.S. at 494.

⁵³ See, e.g., *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

granting a “limited monopoly.”⁵⁴ Tipping the balance by using the “granted monopoly” to “secure an exclusive right or limited monopoly not granted” is forbidden and contrary to the public policy behind the system.⁵⁵ Courts of equity “may rightly withhold assistance from such use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the [patent misuse] have been dissipated.”⁵⁶

The *Morton Salt* misuse defense was based in equity and did not mirror the statutory antitrust law. Notably, the Court distinguished the patent misuse defense from traditional antitrust analysis under the Clayton Act and reversed the Seventh Circuit opinion which relied on a finding that the patent did not substantially lessen competition for salt tablets.⁵⁷ Thus, although patent misuse in tying cases was later modified by legislation to resemble an antitrust-based defense, the original basis in equity may also apply to copyright misuse today.⁵⁸ Moreover, the two copyright cases cited by the Court are both copyright infringement actions wherein a defense based in equity prevailed.⁵⁹ Neither case involved antitrust law nor anticompetitive behavior that would rise to the level of an antitrust violation today.

2. *United States v. Paramount Pictures, Inc. (1948)*⁶⁰

Although *Paramount Pictures* did not involve a copyright misuse defense, it sets the stage for more intensive judicial scrutiny at the interface of copyright and antitrust. The Court relied on the *Morton Salt* rationale and emphasized the inherent dependence of the success of the copyright laws in achieving their ends on efficient operation of the market. The opinion demonstrates interstatutory coordination at the interface of antitrust and copyright law.

⁵⁴ *Morton Salt*, 314 U.S. at 492 (citing U.S. Const. art. I, § 8, cl. 8 and 35 U.S.C. § 31 (1994)).

⁵⁵ *Id.*

⁵⁶ *Id.* at 493.

⁵⁷ *Id.* at 490.

⁵⁸ 35 U.S.C. § 271(d) (1994). Some commentators have argued that congressional modification of patent misuse to align the analysis with antitrust principles ought to guide copyright misuse analysis. We do not find this argument persuasive for a few reasons. First, the origins of misuse are in equity and are not statutory, unless and until Congress modifies the copyright statute itself. Second, the coordination of patent and antitrust is not necessarily coextensive with the coordination of copyright and antitrust. This is so because, *inter alia*, the role of the market and market-driven incentives are different in the patent system than the copyright system. Third, the underlying policies of patent and copyright diverge in important ways—for example, copyright intersects and interrelates with the First Amendment in a manner wholly different from patent law.

⁵⁹ The cases, *Edward Thompson* and *Stone & McCarrick*, are discussed *supra* note 33.

⁶⁰ 334 U.S. 131 (1948).

In a multi-faceted antitrust action brought by the United States against various companies in the motion picture industry,⁶¹ the Court addressed the issue of block-booking of copyrighted material for the first time. Block-booking is a particular tying arrangement where the sale or license of one or more copyrighted works is conditioned on the sale or license of other copyrighted works. The Court condemned the practice as a means used to enlarge the scope of individual copyrights and directly cited *Morton Salt* for support.

Paramount Pictures focused extensively on the public policy behind the issuance of an intellectual property right and the carefully prescribed balance achieved by the statutory scheme.⁶² Moreover, the Court went further and recognized that the public policy behind granting intellectual property is dependent upon successful operation of the market mechanism, which allows consumers to differentiate among innovations based upon quality.⁶³ This concept acknowledges a role for the market in shaping the scope and value of an intellectual property right and reaffirms the role of antitrust law in protecting market dynamics. The citation to *Morton Salt* acknowledges, or at least suggests, that the misuse doctrine also plays a role in cabining the scope of an intellectual property right.

Some commentators have critiqued reliance on *Paramount Pictures* to support extension of misuse from patent to copyright. For example, Kathryn Judge emphasizes the fact that this case, as well as *Loew's* discussed below, were brought by the government and not a private party and thus are too far removed from the infringement suit context in which a misuse defense would be raised.⁶⁴ Oddly, in the same paragraph, Judge suggests that “the Court’s decision not to recognize copyright misuse explicitly when it appeared to have a clear opportunity to do so indicates ... that the Court did not support the creation of a doctrine of copyright misuse comparable to patent misuse.”⁶⁵ But, of course, the Court did not have such a clear opportunity because it was not a copyright infringement suit. Arguably, the Court’s extensive discussion of the public policies behind intellectual property coupled with its condemnation of the practice of enlarging the scope of one’s rights and its citation to *Morton Salt* is suggestive of important principles at the intersection of copyright and antitrust law. In any event, while her point is well taken, we do not believe it (much) undermines the relevance or persuasiveness of this opinion. The point we make here (and in our earlier article) is simply that the Court has developed and applied rationales and principles pertinent to the evolution of copyright misuse and the role of courts in

⁶¹ The United States brought suit under section 4 of the Sherman Act to prevent and restrain violations. 15 U.S.C. § 4 (1994).

⁶² See *Paramount Pictures*, 334 U.S. at 157-58.

⁶³ *Id.* at 158.

⁶⁴ Kathryn Judge, *Note, Rethinking Copyright Misuse*, 57 *Stan. L. Rev.* 901, 911 (2005).

⁶⁵ *Id.*

coordinating the interface of antitrust and copyright and safeguarding the public policies that underlie copyright law.

3. *United States v. Loew's, Inc. (1962)*⁶⁶

Along with *Paramount Pictures*, the *Loew's* opinion is often cited as support for copyright misuse claims.⁶⁷ While *Loew's* supports extension of antitrust-related presumptions to the copyright misuse context, it does not appear to support extension of misuse principles from patent to copyright.

Loew's presented the Supreme Court with the issue of whether block-booking violated section 1 of the Sherman Act. The Court upheld the lower court's finding that the practice was an antitrust violation.⁶⁸ Relying on *International Salt*⁶⁹ and *Paramount Pictures*, the Court recognized a presumption that a copyright confers sufficient economic leverage to induce purchasers to go along with a tying arrangement.⁷⁰ The Court also reasoned that the existence of substitutes does not destroy the presumption of market power.⁷¹

Developments since the *Loew's* decision make it highly unlikely that the Court's presumptions regarding copyrights could operate under an antitrust-based misuse analysis today.⁷² First, in the patent misuse context, where

⁶⁶ 371 U.S. 38 (1962).

⁶⁷ For example, the Fourth Circuit's *Lasercomb* decision, discussed *infra* Part III.B, cited *Loew's* in extending the misuse defense from patents to copyrights based on the "similarity of rationales" underlying the two systems. *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 973-74 (4th Cir. 1990). *See also* *United Tel. Co. of Mo. v. Johnson Publ'g Co.*, 855 F.2d 604, 611 (1988) (noting that Johnson cited *Loew's* in its brief).

⁶⁸ The Court modified the injunctive decrees of the lower court, requiring film distributors to offer individually priced films up front, prohibiting illegitimate non-cost based price differentials between films offered individually and those offered in a package, and prohibiting temporary refusals to deal except as necessary for bona fide negotiations with competing stations.

⁶⁹ *Int'l Salt Co., Inc. v. United States*, 332 U.S. 392, 396 (1947).

⁷⁰ *Loew's*, 371 U.S. at 45-46. In a related fashion, the Court recognized a second presumption that a copyrighted work is unique. *Id.* at 48.

⁷¹ *Id.* at 49.

⁷² Some commentators have questioned the logic of scrutinizing tying arrangements at all: "[T]he tying arrangement, whatever else it may accomplish, is obviously not a means of gaining two monopoly profits from a single monopoly." Robert Bork, *The Antitrust Paradox: A Policy at War With Itself* 373 (1978); *see also* *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982) (Posner, J.) ("If . . . the patent owner requires the licensee to agree to continue paying royalties after the patent expires, he will not be able to get him to agree to pay as big a royalty before the patent expires."). For a critique of Judge Bork's and Chief Judge Posner's view, see Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 Colum. L. Rev. 515, 516, 523-24 (1985) (questioning that extant power is a fixed sum (where this power is compared to a stick of dynamite) by suggesting that how the power is deployed may entail significantly different effects (e.g., whether the dynamite is left whole in the middle of a room or broken in half for placement under both structural members of a building)).

contemporaneous antitrust-based presumptions stood on firmer ground, the law now requires a showing of market power.⁷³ Second, courts, enforcement officials, and commentators alike have generally leaned away from presuming that intellectual property confers market power.⁷⁴ Third, and most importantly, the Supreme Court recently rejected the presumption in antitrust tying cases that a patent confers market power.⁷⁵

4. *Broadcast Music, Inc. v. CBS (1979)*⁷⁶

In *Broadcast Music*, the Court recognized the economics of copyrights, including the inherent transaction costs associated with monitoring and enforcement and the implications for efficient licensing. As a result, the court required a rule of reason approach to evaluating the lawfulness of the blanket licenses used by the American Society of Composers, Authors and Publishers (“ASCAP”) and Broadcast Music, Inc. (“BMI”). Although copyright misuse is not expressly considered in its opinion, the Court’s antitrust analysis illuminates a set of guiding principles to be applied when an asserted misuse defense is based upon anticompetitive behavior.⁷⁷

Columbia Broadcasting System, Inc. (“CBS”) brought suit against ASCAP, BMI, and their members and affiliates seeking an injunction under the

⁷³ See Act of Nov. 19, 1988, Pub. L. No. 100-703, tit. II, § 20, 102 Stat. 4676 (codified as amended at 35 U.S.C. § 271(d)(5) (1994)). Modern day patent misuse “requires that the alleged infringer show that the patentee has impermissibly broadened the ‘physical or temporal scope’ of the patent grant with anticompetitive effect.” *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986) (quoting *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971)). The courts generally follow a rule of reason approach with a few per se misuse exceptions. See *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992) (establishing rule of reason analysis for patent misuse where conduct at issue is neither per se misuse nor exempt from misuse consideration by section 271(d) of the Patent Act). For historic treatment of patent misuse, see, for example, Troy Paredes, *Copyright Misuse and Tying: Will Courts Stop Misusing Misuse?*, 9 High Tech. L.J. 271, 278-79 (1994); Patricia A. Martone et al., *The Patent Misuse Defense-Its Continued Expansion and Contraction*, 448 PLI/Pat 325, 333-35 (1996).

⁷⁴ See, e.g., U.S. Dep’t of Justice & FTC, Antitrust Guidelines for the Licensing of Intellectual Property (1995), <http://www.usdoj.gov/atr/public/guidelines/ipguide.htm> [hereinafter Antitrust Guidelines]; HERBERT HOVENKAMP ET AL., IP AND ANTITRUST § 4.2, at 4-9 to -10 (2002); WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 374 (2003).

⁷⁵ *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 126 S. Ct. 1281 (2006).

⁷⁶ *Broadcast Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1 (1979); see also *Columbia Broad. Sys., Inc. v. Am. Soc’y of Composers, Authors and Publishers*, 562 F.2d 130 (2d Cir. 1977).

⁷⁷ In *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1 (1958), the Supreme Court similarly rejected application of a per se rule to tying arrangements absent a showing that the defendant had market power in the tying product. *Id.* at 11-12.

antitrust laws and a declaratory judgment of copyright misuse.⁷⁸ After dismissal by the district court, the Second Circuit reversed and remanded.

Similar to the block-book licensing of *Paramount* and *Loew's*, ASCAP and BMI each managed portfolios of copyrighted musical works and issued blanket licenses to perform each and every composition contained therein. The Supreme Court left intact the Second Circuit's holding that the blanket licenses were distinguishable from block-booking due to the available opportunity to negotiate individual licenses and, therefore, were not unlawful tying arrangements. The Supreme Court focused instead on the blanket license as an unlawful means of price fixing.

The Supreme Court reversed both the Second Circuit's holding that ASCAP's and BMI's blanket licensing policies amounted to *per se* violations of the Sherman Act and "the copyright misuse judgment dependent upon it."⁷⁹ The Second Circuit did not hold that blanket licenses were *per se* violations; it held "that the ASCAP blanket license *in its present form* is price-fixing and with respect to the television networks cannot be saved by a 'market necessity' defense. It therefore constitutes a violation of Section 1 of the Sherman Act."⁸⁰ Thus, because price fixing is *per se* unlawful, this particular form of blanket license violated antitrust law.⁸¹

The Supreme Court refused to "wholly equate[]" the collective arrangement among copyright holders to the "simple horizontal arrangement among competitors."⁸² Commercial copyright transactions require negotiation, monitoring, and enforcement that can be prohibitively costly for individuals but minimized through collective arrangements. Although not quite a "market necessity," blanket licenses may increase the private and social benefits of copyrighted works and improve market functionality by overcoming prohibitive transaction costs through economies of scale. Therefore, the Court concluded that blanket licenses do not "facially appear[] to . . . always or almost always tend to restrict competition and decrease output"⁸³—analysis of actual competitive effects was needed.

⁷⁸ Specifically, CBS claimed that the defendants' licensing practices violated both sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1-2 (1994), and sought an injunction under section 16 of the Clayton Act, 15 U.S.C. § 26 (1994 & Supp. IV 1998). *CBS*, 562 F.2d at 132. The declaratory judgment was sought under the Declaratory Judgment Act, 28 U.S.C. §§ 2201-2202 (1994).

⁷⁹ *BMI*, 441 U.S. at 24.

⁸⁰ *CBS*, 562 F.2d at 140 (emphasis added).

⁸¹ The Second Circuit continued: "[T]he blanket license need not be prohibited in all circumstances. The blanket license is not simply a 'naked restraint' ineluctably doomed to extinction." *Id.*

⁸² *BMI*, 441 U.S. at 23.

⁸³ *Id.* at 19-20.

Justice Stevens, in his dissent, applied a rule of reason analysis and found the particular blanket licenses to be unlawful.⁸⁴ He argued that “[t]he rules which prohibit a patentee from enlarging his statutory monopoly by conditioning a license on the purchase of unpatented goods, or by refusing to grant a license under one patent unless the licensee also takes a license under another, are equally applicable to copyrights.”⁸⁵ In doing so, he cited, *inter alia*, two leading patent misuse cases, *Paramount* and *Loew’s*.

5. Interim Conclusion

Although the Supreme Court has not expressly applied copyright misuse in an infringement action, it has acknowledged the doctrine’s existence, suggested that it is derived from principles of equity applicable to intellectual property in general, and provided a rule of reason framework for evaluating conduct at the antitrust-intellectual property interface.⁸⁶ There is little doubt that copyright misuse will eventually resurface in the Supreme Court and be reconciled. On this point, lower courts and commentators alike agree; however, divergent opinions abound as to what should be the proper scope and guiding principles for copyright misuse.

B. Federal Courts of Appeals Precedents

This Section provides an overview of the copyright misuse defense in the federal circuits, and then describes the four circuit precedents recognizing the defense. Additional circuit caselaw reaffirming, refining, or limiting the defense is described below in Section C.

1. Overview

The following U.S. Courts of Appeals have recognized the copyright misuse defense, in order of precedent: the Fourth Circuit;⁸⁷ the Fifth Circuit;⁸⁸ the

⁸⁴ *See id.* at 25-38 (Stevens, J., dissenting).

⁸⁵ *Id.* at 28 (Stevens, J., dissenting) (footnotes omitted).

⁸⁶ At times, the Court has ignored the doctrine despite vigorous pleas in briefs. *See, e.g.*, Brief for Petitioner, *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340 (1991) (No. 89-1909). Copyright misuse was argued strenuously from the district court to the Supreme Court but went unacknowledged in the Supreme Court opinion. *See Feist Publ’ns, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340 (1991). An antitrust suit followed but was unsuccessful for failure to prove anticompetitive harm derived from a refusal to deal. *See Rural Tel. Serv. Co., Inc. v. Feist Publ’ns, Inc.*, 957 F.2d 765 (10th Cir. 1992).

⁸⁷ *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (1990). In an unpublished per curiam opinion, the Fourth Circuit applied the *Lasercomb* rationale to a similar case involving anticompetitive licensing restrictions for copyrighted software. *PRC Realty Sys., Inc. v. Nat’l Ass’n of Realtors*, No. 91-1125, 1992 U.S. App. LEXIS 18017 (4th Cir. Aug. 4, 1992) (per curiam). The Fourth Circuit held that the National Association of Realtors had validly asserted a copyright misuse defense against PRC Realty Systems: “PRC is not allowed . . . to use its copyright as a hammer to crush all future development of an independent idea by NAR, or any other licensee.” *Id.* at *36.

Ninth Circuit,⁸⁹ and the Third Circuit.⁹⁰ It appears that the Court of Appeals for the Second Circuit was poised to accept a copyright misuse defense many years ago,⁹¹ and on progressive terms comparable to *Lasercomb*,⁹² although the court has not taken a definitive position in its modern caselaw. The Court of Appeals for the Seventh Circuit has not as yet upheld a defense based on copyright misuse, and its early opinions raised substantial questions about how misuse generally should be understood.⁹³ Yet the court's recent opinions leave little doubt that it would accept the defense in an appropriate case.⁹⁴

⁸⁸ *DSC Communication Corp. v. DGI Techs., Inc.*, 81 F.3d 597 (5th Cir. 1996); *see also Veeck v. Southern Bldg. Code Congress Int'l, Inc.*, 293 F.3d 791 (5th Cir. 2002) (describing copyright misuse as developed in *DSC Communications Corp.*, *Lasercomb*, and *Practice Management*, yet finding no evidence to support a finding of misuse); *Veeck v. Southern Bldg. Code Congress Int'l, Inc.*, 241 F.3d 398 (5th Cir. 2001); *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772 (5th Cir. 1999).

⁸⁹ *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516 (9th Cir. 1997); *see also A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); *Triad Sys. Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995) (implying existence of the defense); *Supermarket of Homes, Inc. v. San Fernando Valley Bd. of Realtors*, 786 F.2d 1400 (9th Cir. 1986) (same). *But see Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1090 (9th Cir. 2005) (declining to extend copyright misuse from an equitable defense to infringement, to a ground for voiding licensing agreements, where there had been no allegation of copyright infringement); *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596, 608 (9th Cir. 2000) (declining to apply copyright misuse where the plaintiff had not, for purposes of injunctive relief, established a likelihood of success on the merits of its claim of copyright infringement).

⁹⁰ *Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.*, 342 F.3d 191, 206 (3d Cir. 2003) (accepting the copyright misuse defense, and recognizing that it may operate beyond the scope of anti-competition rules, but finding it inapplicable in the case at hand). *See generally Dun & Bradstreet v. Grace Consulting, Inc.*, 307 F.3d 197 (3d Cir. 2002) (finding insufficient evidence of copyright misuse, as formulated in *Lasercomb*, without deciding whether or not the defense existed within the Third Circuit).

⁹¹ *See Rosemont Enters., Inc. v. Random House, Inc.*, 366 F.2d 303, 311, 313 (2d Cir. 1966) (Lumbard, C.J., concurring) (writing for a majority of the judges, but not for the court; concluding based on the equitable doctrine of unclean hands that the district court should not have enjoined an alleged copyright infringer, where an entity controlled by Howard Hughes had purchased the copyright to an article about him, for the purpose of preventing the later publication of a biography; reasoning that, in light of First Amendment considerations, “the courts should not tolerate any attempted interference with the public’s right to be informed regarding matters of general interest when anyone seeks to use the copyright statute which was designed to protect interests of quite a different nature”).

⁹² *Cf. Lasercomb*, 911 F.2d at 278 (expressing concern that without a misuse defense, the defendant’s creative abilities would be “withdrawn from the public”).

⁹³ “If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty.” *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1199-1200 (7th Cir. 1987) (Posner, J.) (quoting opinions from the Fifth and Seventh Circuits, which had raised the question concerning patent misuse and finding that proposition “applies with even greater force to copyright misuse, where the danger of monopoly is less.”); *see also Reed-Union Corp. v. Turtle Wax, Inc.*, 77 F.3d 909, 913 (7th Cir. 1996) (leaving open the question

2. *Lasercomb America, Inc. v. Reynolds* (4th Cir. 1990)⁹⁵

In 1990, the Fourth Circuit firmly established the copyright misuse doctrine as a viable defense to copyright infringement. Remarkably, the decision was the first affirmative application of the copyright misuse defense in a federal court of appeals.

Lasercomb licensed its copyrighted CAD/CAM software to the Holiday Steel Rule Die Corporation (Holiday Steel).⁹⁶ The software enabled steel rule die manufacturers to utilize a computer to create a design and then direct manufacturing systems.⁹⁷ Holiday Steel first copied the software for unauthorized private use, circumventing protective devices and avoiding additional fees, and then marketed its own software that was nearly identical to Lasercomb's program. The district court found the defendants liable for copyright infringement and dismissed their affirmative copyright misuse defense. The Fourth Circuit reversed both the injunction and damages award granted by the district court based upon its conclusion "that Lasercomb's anticompetitive clauses in its standard licensing agreement constitute misuse of copyright."⁹⁸ The defense was available "even though [Reynolds was] not part[y] to the standard licensing agreement."⁹⁹

The damning provisions of Lasercomb's standard licensing agreement prohibited licensees from writing, developing, producing or selling "computer assisted die making software."¹⁰⁰ The district court found that even if copyright

whether copyright misuse is a defense to infringement, in the absence of an antitrust violation). See generally *The Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 381 F.3d 1178, 1201-02 (Fed. Cir.) (finding it unlikely that the Seventh Circuit would recognize the anti-circumvention provisions of the DMCA as affording an exemption from antitrust liability, or from a copyright misuse defense), *reh'g en banc denied* (2004); *qad. inc. v. ALN Assocs., Inc.*, 974 F.2d 834, 839 (7th Cir. 1992) (affirming the district court's decision to vacate an injunction based on the deceptive conduct of qad.'s counsel, rather than on qad.'s own inequitable conduct relative to its copyrighted material).

⁹⁴ *Assessment Technologies of WI, LLC v. WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003) (Posner, J.) (suggesting without deciding that copyright misuse could apply, where an owner uses "an infringement suit to obtain property protection, here in data, that copyright law clearly does not confer, hoping to force a settlement or even achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist effectively") [hereinafter *WIREdata I*]; see also *Assessment Technologies of WI, LLC v. WIREdata, Inc.*, 361 F.3d 434, 437 (7th Cir. 2004) (Posner, J.) (recognizing that, although the Court in *WIREdata I* had not reached the question of whether the plaintiff's conduct was copyright misuse, "we made clear that it came close, and an award of attorneys' fees to the defendant is an appropriate sanction") [hereinafter *WIREdata II*].

⁹⁵ 911 F.2d 970 (1990).

⁹⁶ CAD is short for computer-aided design, and CAM is short for computer-aided manufacture.

⁹⁷ The appellants/defendants were Larry Holiday, president and sole shareholder of Holiday Steel, and Job Reynolds, computer programmer for Holiday Steel. *Id.* at 971.

⁹⁸ *Id.* at 979. The Fourth Circuit did not reverse the lower court's finding of fraud. *Id.* at 980.

⁹⁹ *Id.*

¹⁰⁰ *Id.* at 973.

misuse were an available defense, the anticompetitive provisions were “reasonable in light of the delicate and sensitive area of computer software.”¹⁰¹ The Fourth Circuit rejected the lower court’s reliance on the “‘rule of reason’ concept” and stressed the independence of copyright misuse from antitrust law.¹⁰²

[W]hile it is true that the attempted use of a copyright to violate the antitrust law probably would give rise to a misuse of copyright defense, the converse is not necessarily true—a misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action.¹⁰³

The circuit court found that Lasercomb’s attempt “to use its copyright in a manner adverse to the public policy embodied in the copyright law” is sufficient to support a misuse defense.¹⁰⁴

Critically, the license provisions were not only anticompetitive, but they also “suppress[ed] any attempt by the licensee to independently implement the [unprotected] idea which [Lasercomb’s software] expresses.”¹⁰⁵ Lasercomb was reaching beyond the scope of the rights granted by copyright law, and it was this conduct that justified a finding of misuse.

The Fourth Circuit dedicated a significant portion of its opinion to explaining the historical basis and public policy behind the intellectual property systems and the related development of the patent misuse defense as a limitation on the scope of the grant. Adhering to the reasoning of *Morton Salt*, the circuit court extended the scope limitation rationale from patents to copyrights.¹⁰⁶ In doing so, the court also cited *Paramount Pictures*, quoting the Supreme Court’s discussion of block-booking as a means for enlarging the granted monopoly.¹⁰⁷

In applying the copyright misuse doctrine to the facts, the court paid particular attention to the language of the licensing agreement and did not focus

¹⁰¹ *Id.*

¹⁰² The court attributed the confusion regarding the relationship between misuse defenses and antitrust law to a mistaken reading of the *BMI* opinion, particularly the holding that “[w]e reverse that judgment, and the copyright misuse judgment dependent upon it” *Id.* at 978 n.17. The court pointed out that the misuse judgment was a declaratory judgment rather than a defense to infringement. *Id.* However, if the alleged activity constituted misuse but not an antitrust violation, as the Fourth Circuit stated is possible, then a declaratory judgment would be justified as a preemptive defensive action against infringement claims.

¹⁰³ *Id.* at 978.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

¹⁰⁶ *Id.* at 977. Interestingly, the Fourth Circuit excerpts a passage from *Morton Salt* and inserts a few terms, such as “copyright” for “patent,” to demonstrate the adaptability of the reasoning. *Id.*

¹⁰⁷ *Id.* at 977 n.16. The Fourth Circuit also cited *Mitchell Bros. Film Group v. Cinema Adult Theater*, 604 F.2d 852 (5th Cir. 1979), in which the Fifth Circuit suggested in dicta that the scope limitation rationale of *Morton Salt* likely applies to copyrights.

on the actual effects on competition or market power of the plaintiff, as it would in an antitrust analysis. The attempt to use the copyright “to control competition in an area outside the copyright, *i.e.*, the idea of computer-assisted die manufacture [constitutes copyright misuse] regardless of whether such conduct amounts to an antitrust violation.”¹⁰⁸ Exercising the safeguarding function, the Fourth Circuit utilized the misuse doctrine to reinforce the idea-expression doctrine as a critical structural limitation on the scope and subject matter of copyright law.

3. *Practice Management Information Corp. v. American Medical Ass’n* (9th Cir. 1996)¹⁰⁹

In *Practice Management*, the Ninth Circuit followed the Fourth Circuit’s analysis in *Lasercomb* to establish copyright misuse as a defense to infringement. Expressly agreeing with the Fourth Circuit, the Ninth Circuit reiterated that a finding of copyright misuse does not require that an antitrust violation be shown.¹¹⁰ In establishing the copyright misuse defense within its jurisdiction, the circuit court did not discuss the historical development or rationale behind the doctrine.¹¹¹

As in *Lasercomb*, anticompetitive licensing provisions were the basis for the misuse holding, but again the basis for the court’s misuse finding was not dependent upon competition policy. The American Medical Association (“AMA”) granted the Health Care Financing Administration (“HCFA”) a “nonexclusive, royalty free and irrevocable license to use, copy, publish and distribute” a coding system for medical procedures (compiled into the “Physician’s Current Procedural Terminology” or “CPT”) on the condition that

¹⁰⁸ *Id.* at 979.

¹⁰⁹ *Practice Mgmt. Info. Corp. v. Am. Med. Ass’n*, 121 F.3d 516 (9th Cir. 1997).

¹¹⁰ *Id.* at 521. AMA argued that Practice Management’s failure to show an antitrust violation precluded a copyright misuse finding, but the circuit court rejected the argument.

¹¹¹ *Id.* It relied primarily on *Lasercomb* and also cites the Fifth Circuit opinion, *DSC Communication Corp. v. DGI Techs., Inc.*, 81 F.3d 597, 601 (5th Cir. 1996), in which the district court’s preliminary injunction was affirmed, based on the conclusion that “DSC did not have a substantial likelihood of success on the merits because . . . DGI may prevail on its misuse to the defense.” *Id.* DSC was the preliminary injunction phase of the *Alcatel* decision discussed next. The Ninth Circuit also cited two earlier opinions in which it implied that the doctrine existed: *Triad Sys. Corp. v. Southeastern Express Co.*, 64 F.3d 1330, 1337 (9th Cir. 1995) and *Supermarket of Homes, Inc. v. San Fernando Valley Bd. of Realtors*, 786 F.2d 1400, 1408 (9th Cir. 1986). In both cases, the copyright misuse doctrine was recognized, but none of the conduct alleged by the plaintiffs constituted misuse. In *Triad*, the court rejected claims that Triad, a hardware and software producer, was obligated to allow Southeastern Express, an independent service operator, to use its diagnostic software for free under either a fair use or misuse theory. *Triad*, 64 F.3d at 1337. So long as Triad did not use its copyright as leverage to prohibit Southeastern Express or any other independent service operator from developing its own software, Triad was validly operating within the scope of the intellectual property grant. *Id.*

the HCFA exclusively use the CPT and require its use in “programs administered by the HCFA, by its agents, and by other agencies whenever possible.”¹¹²

The circuit court dismissed various arguments made by the AMA that likely would be considered in a “rule of reason” antitrust analysis and focused exclusively on the plain text of the licensing agreement.¹¹³ Prohibiting the HCFA (and those within its regulatory reach) from using competing products gave the AMA “a substantial and unfair advantage” in the marketplace.¹¹⁴ The improper use of the CPT copyright as leverage to gain this advantage was sufficient for the court to hold that “Practice Management established its misuse defense as a matter of law”¹¹⁵

An important issue on which the Ninth Circuit may diverge from *Lasercomb* is whether a defendant with unclean hands may invoke the doctrine. In *Atari Games Corp. v. Nintendo Co., Ltd.*,¹¹⁶ the Federal Circuit applied Ninth Circuit law on copyright infringement claims and affirmed the district court’s holding that “Atari’s unclean hands prevent it from invoking equity” as a defense.¹¹⁷ The Ninth Circuit did not address this issue in *Practice Management*.

4. *Alcatel USA, Inc. v. DGI Technologies, Inc.* (5th Cir. 1999)¹¹⁸

Alcatel was a significantly more complex case than either *Lasercomb* or *Practice Management*. In those cases, a rather simple reading of the licensing provisions provided a sufficient basis for finding copyright misuse. Although *Alcatel* ultimately depended similarly on the text of the license, the Fifth Circuit looked more carefully at the context and the effects of the plaintiff’s anticompetitive behavior; (again the basis for the court’s misuse finding was not dependent upon competition policy).

¹¹² *Practice Management*, 121 F.3d at 517-18 (quotations and citations omitted). By congressional mandate, the HCFA was required “to establish a uniform code for identifying physicians’ services for use in completing Medicare and Medicaid claim forms.” *Id.* at 517. The HCFA sought to avoid duplication by contracting with the AMA. *Id.*

¹¹³ For example, the AMA argued that the HCFA decided to use exclusively the CPT as a standard because of natural efficiencies. Although it is unclear whether competing products or close substitutes existed, the circuit court ignored such issues as well as considerations of market power altogether, instead focusing on the exclusive dealings provisions.

¹¹⁴ *Practice Management*, 121 F.3d at 521.

¹¹⁵ *Id.* The circuit court vacated the preliminary injunction and remanded for entry of judgment in *Practice Management*’s favor. *Id.*

¹¹⁶ 975 F.2d 832, 846 (Fed. Cir. 1992) (applying Ninth Circuit law).

¹¹⁷ *Id.* at 846. (“[t]he Ninth Circuit has noted that the doctrine of unclean hands can also preclude the defense of copyright misuse”) (quoting *Supermarket Homes*, 786 F.2d at 1408).

¹¹⁸ 166 F.3d 772 (5th Cir. 1999).

Alcatel USA, Inc. (formerly known as DSC Communications Corporation, “DSC”) produced telephone switching equipment used in routing long distance telephone calls. Its copyrighted operating system software controlled the switching equipment, much like Lasercomb’s software was ultimately used to control manufacturing equipment when producing tool dies. DSC licensed its software through an agreement providing:

the operating system software remains the property of DSC;

the customer has the right to use the software only to operate its switch;

the customer is prohibited from copying the software or disclosing it to third parties;

the customers are authorized to use the software only in conjunction with DSC-manufactured equipment.¹¹⁹

In order to keep up with growing demand, DSC customers often expanded their capacity by adding “cards” to the switch.¹²⁰ DGI Technologies, Inc. (“DGI”) was formed in 1989 precisely to produce expansion cards for use with DSC switches. Yet, because the cards had to be compatible with the controlling operating system, DGI was forced to download and copy DSC’s operating system software for testing and development.

DSC brought suit against DGI seeking relief for, inter alia, copyright infringement. The Fifth Circuit affirmed (1) the jury’s determination that damages for trade secret misappropriation were due, (2) those parts of the district court’s injunction against DGI based upon the trade secret claim, and (3) the district court’s dismissal of DGI’s antitrust counterclaim. However, the circuit court reversed those parts of the injunction that were based upon DGI’s copyright infringement because Alcatel had misused its copyright.¹²¹

Copyright misuse in *Alcatel* stemmed from DSC’s attempt to use its “copyrights to indirectly gain commercial control over products DSC does not have copyrighted [or patented].”¹²² DSC’s licensing agreement prevented

¹¹⁹ *Id.* at 777.

¹²⁰ *See id.* at 778-79. Actually, the expansion cards were added in groups and did not all have to be microprocessor cards. One microprocessor card in the group would be sufficient. So, for a while, DGI purchased a DSC microprocessor card to sell along with its “ordinary” cards. However, market conditions and DSC’s marketing practices forced DGI to produce its own microprocessor card. *Id.*

¹²¹ For a discussion of the district court proceedings, see Ben Sheffner, *Alcatel USA, Inc. v. DGI Technologies, Inc.*, 15 Berkeley Tech. L.J. 25, 28 (2000).

¹²² *Alcatel*, 166 F.3d at 793 (quotation omitted). In concluding that this conduct amounted to misuse, the court observed that “the public policy which includes original works within the

competing “card” manufacturers from developing products that were compatible with DSC’s copyrighted operating system. The Ninth Circuit found that “DGI was effectively prevented from developing its product, thereby securing for DSC a limited monopoly over its uncopyrighted [and unpatented] microprocessor cards.”¹²³ In effect, this licensing arrangement gave DSC patent-like protection on the microprocessor cards.¹²⁴

The Fifth Circuit acknowledged that copyright misuse is an equitable or “clean hands” defense, and concluded the licensing provisions alone dirtied DSC’s hands sufficiently for relief to be withheld on the infringement claim. As in *Lasercomb* and *Practice Management*, the court did not explicitly consider the extent of DSC’s market power in the “card” market or the actual effects on competition, as it would in an antitrust action. Instead, the text of the licensing agreement was controlling. In addition to safeguarding the internal scope and subject matter limitations of copyright, the Fifth Circuit also appeared to be cognizant of the need to coordinate copyright and patent law.

5. *Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.* (3d Cir. 2003)¹²⁵

Like the cases that preceded it, *Video Pipeline* concerned what was arguably over-reaching licensing agreements. The case involved the defendant’s interlocutory appeal of a preliminary injunction against its unauthorized, online display of brief clips of video taken from Disney movies.¹²⁶ The Court of Appeals readily concluded that Disney had established a likelihood of prevailing on its infringement claim, and it also concluded following a lengthy analysis that *Video Pipeline* was unlikely to establish its fair use of the video clips.¹²⁷ The Court then turned to *Video Pipeline*’s copyright misuse defense.

Video Pipeline focused on licensing agreements in which Disney had agreed to supply online content providers with hyperlinks to its movie trailers. The licensing agreements contained a provision allowing Disney to seek certain relief, including canceling the licenses, if the website containing the links was

granted monopoly excludes from it all that is not embraced in the original expression.” *Id.* A similar misuse of copyright moved the district court in *qad. inc. v. ALN Assocs., Inc.*, 770 F. Supp. 1261 (N.D. Ill. 1991) to bar enforcement of a software copyright.

¹²³ *Alcatel*, 166 F.3d at 794.

¹²⁴ *Id.* at 793-94.

¹²⁵ 342 F.3d 191 (3d Cir. 2003).

¹²⁶ *Video Pipeline* had another business that Disney had approved: it had a licensing agreement with Disney that allowed it to use Disney’s movie trailers to prepare compilations of trailers for distribution to video stores. *Id.* at 195.

¹²⁷ *Id.* at 197, 203.

“derogatory to or critical of” Disney, its works, the entertainment industry, etc.¹²⁸ Video Pipeline argued that the licensing provisions constitute misuse because they suppress criticism.¹²⁹

The court began its analysis by describing settled law about the nature and effect of misuse,¹³⁰ referring to its equitable, public-policy, and pro-competitive dimensions. The court quoted the Supreme Court in *Sony* for the proposition that the purpose of copyright law is to “stimulate artistic creativity for the general public good,”¹³¹ and recognized that “[a]nti-competitive licensing agreements may conflict with the purpose behind a copyright’s protection by depriving the public of the would-be competitor’s creativity.”¹³² Although the court further recognized the fair-use doctrine and the idea-expression dichotomy as doctrines that harmonize copyright protection with this purpose, the court accepted that a copyright holder “could leverage its copyright to restrain the creative expression of another without engaging in anti-competitive behavior or implicating the fair use and idea/expression doctrines.”¹³³ In this sense, the court implied that there are situations in which misuse would apply, even though other defenses would not.¹³⁴

Having framed the question in this way, the court observed that Disney’s licensing provisions “do seek to restrict expression by licensing the Disney trailers for use on the internet only so long as the web sites on which the trailers will appear do not derogate Disney, the entertainment industry, etc.”¹³⁵ Still, the court was unable to conclude that the provisions would interfere significantly in the policy interest in “increasing the public store of creative activity.”¹³⁶ For

¹²⁸ “The Website in which the Trailers are used may not be derogatory to or critical of the entertainment industry or of [Disney] (and its officers, directors, agents, employees, affiliates, divisions and subsidiaries) or of any motion picture produced or distributed by [Disney] . . . [or] of the materials from which the Trailers were taken or of any person involved with the production of the Underlying Works. Any breach of this paragraph will render this license null and void and Licensee will be liable to all parties concerned for defamation and copyright infringement, as well as breach of contract . . .” *Id.* at 204.

¹²⁹ *Id.* at 204.

¹³⁰ *Morton Salt*, 314 U.S. at 492; *Practice Management*, 121 F.3d at 520 n.9; *Lasercomb*, 911 F.2d at 979 n.22.

¹³¹ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 432 (1984); accord *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003) (recognizing “copyright’s purpose is to promote the creation and publication of free expression.”).

¹³² *Video Pipeline*, 342 F.3d at 205.

¹³³ *Id.* at 204-05 n.13 (quoting Note, *Clarifying the Copyright Misuse Defense: The Role of Antitrust Standards and First Amendment Values*, 104 Harv. L. Rev. 1289, 1304-06 (1991)).

¹³⁴ See Frischmann & Moylan, *supra* note 25, at 922-25 (discussing the limitations of fair use doctrine).

¹³⁵ 342 F.3d at 206.

¹³⁶ *Id.*

instance, the court pointed out that there are alternative opportunities to criticize Disney without implicating the licensing restrictions, and the court further suggested that fair use may protect a defendant that has engaged in legitimate criticism. Finally, the court appeared sympathetic to Disney’s interest in not licensing the use of its trailers “willy-nilly,” without regard to what use a content provider might make of them.

In conclusion, the court finally confirmed its acceptance of the copyright misuse defense, including its operation beyond the traditional antitrust context. But the court found the defense inapplicable because Disney’s licensing restrictions did not significantly interfere with copyright policy. Much of the *Video Pipeline* approach appears in line with misuse as developed in cases like *Lasercomb*; however, the court interjected the notion that the owner’s conduct must meet a threshold of “significant interference” with copyright policy in order to establish misuse. The court’s opinion offers little guidance on how to weigh the magnitude of such interference. Yet it appears that the existence of alternatives for the public to gain access to expression that the owner has sought to limit weighs against a finding of misuse.

6. Interim Conclusion

The circuit court opinions discussed in this section illustrate the tip of the iceberg with regard to potential applications of the copyright misuse defense. In *Lasercomb*, *Practice Management*, and *Alcatel*, the relevant copyright licenses contained anticompetitive provisions that were relatively easy to discern as “overreaching” and, accordingly, were treated essentially as per se misuse.¹³⁷

Video Pipeline likewise involved an overreaching licensing provision but the nature of the offensive provision was not strictly anticompetitive; its aim was to control the expressive behavior of licensees rather than their competitive or commercial conduct. Equally important, in our opinion, the court’s analysis did not follow the per se approach of previous circuit courts. Instead, the Third Circuit appeared to balance policy interests and weigh the degree of interference with creative expression. As we discuss in Part IV, this opinion may signal a departure from misuse doctrine as developed in cases like *Lasercomb*.

C. Further Influential Opinions

1. *Rosemont Enterprises, Inc. v. Random House, Inc.* (2d Cir. 1966)¹³⁸

The Court of Appeals for the Second Circuit appeared close to recognizing the copyright misuse defense – and in strikingly progressive terms – in the late

¹³⁷ This is nearly identical to the establishment of per se rules against tying in the patent misuse context. See *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493-94 (1942).

¹³⁸ 366 F.2d 303 (2d Cir. 1966).

1960s, well ahead of any other federal circuit court. The court considered a claim of copyright infringement brought by an entity controlled by Howard Hughes, in order to enjoin Random House’s publication of a forthcoming biography about Hughes. Originally, the plaintiff entity had asserted privacy claims in New York state court in early 1966; however, several months later the plaintiff obtained copyrights to articles about Hughes published in 1954, and brought an infringement action against Random House in federal court. While the 1954 articles had not been commercially exploited since their original publication, the district court entered a preliminary injunction based on alleged similarities between the articles and a galley proof of the biography.

The Court of Appeals reversed based on its conclusions that the plaintiff had not shown a sufficient likelihood of prevailing on its infringement claim, and that Random House was likely in any event to prevail on its fair use defense.¹³⁹ Chief Judge J. Edward Lumbard wrote a separate concurring opinion, joined by Judge Paul Raymond Hays, in which he articulated an independent ground for reversal sounding in equity and invoking First Amendment considerations:

The district court should have denied any preliminary injunction to this plaintiff as there was good reason to believe that it was the instrument of Howard Hughes, created principally for the purpose of suppressing the biography of Hughes which Random House had published. We cannot approve an injunction under such circumstances as the plaintiff does not come here with clean hands. It has never been the purpose of the copyright laws to restrict the dissemination of information about persons in the public eye even though those concerned may not welcome the resulting publicity. It is the purpose of those laws to give reasonable protection to the product of an author and his manner of expression where the author’s proper interest in the product might suffer thereby. It would be contrary to the public interest to permit any man to buy up the copyright to anything written about himself and to use his copyright ownership to restrain others from publishing biographical material concerning him.

The spirit of the First Amendment applies to the copyright laws at least to the extent that *the courts should not tolerate any attempted interference with the public’s right to be informed regarding matters of general interest when anyone seeks to use the copyright statute which was designed to protect interests of quite a different nature.*¹⁴⁰

Applying such principles, Chief Judge Lumbard recited undisputed facts that he regarded as pointing to “a scheme developed by Hughes and his attorneys and

¹³⁹ *Id.* at 307.

¹⁴⁰ *Id.* at 311 (emphasis added).

employees to prevent the publication of any biography of Hughes and, in particular, the Random House biography.”¹⁴¹

Chief Judge Lumbard’s statements of law foreshadow with striking prescience the development of copyright misuse in its modern form, as a defense incorporating considerations of public policy, including a policy favoring the dissemination of ideas and expression.¹⁴² Although the opinion does not refer to misuse as such, and arises from an appeal of preliminary injunctive relief, it contains expansive statements intimating the existence of a merits defense to copyright infringement. The *Rosemont* concurring opinion received limited attention in early discussions of copyright misuse; however, the Court of Appeals for the Third Circuit rekindled interest in the opinion by discussing it in detail in *Video Pipeline*, in which that court accepted copyright misuse as the law of the Third Circuit.¹⁴³

2. Seventh Circuit Caselaw

One of the significant, recent developments in copyright misuse is found in opinions of the Court of Appeals for the Seventh Circuit.

The court’s early opinions questioned by what principles misuse should be judged, if not by antitrust principles. In *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, a pre-*Lasercomb* decision, Judge Posner suggested that copyright misuse should be evaluated according to antitrust principles, as with patent misuse.¹⁴⁴ *Saturday Evening Post* involved a no-contest clause in a licensing agreement that prohibited Rumbleseat from challenging the validity of the Saturday Evening Post Company’s copyright. Judge Posner explained the potential procompetitive and anticompetitive effects of a no-contest clause, and doubted that copyrights generally confer “economically significant monopoly” power.¹⁴⁵

¹⁴¹ *Id.* at 312.

¹⁴² See, e.g., *Lasercomb*, 911 F.2d at 278 (expressing concern that without a misuse defense, the defendant’s creative abilities would be “withdrawn from the public”); *Video Pipeline*, 342 F.3d at 205 (“Anti-competitive licensing agreements may conflict with the purpose behind a copyright’s protection by depriving the public of the would-be competitor’s creativity.”). See generally *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 432 (1984) (recognizing that the purpose of copyright law is to “stimulate artistic creativity for the general public good”); *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003) (recognizing “copyright’s purpose is to promote the creation and publication of free expression.”).

¹⁴³ *Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.*, 342 F.3d 191, 205-06 (3d Cir. 2003).

¹⁴⁴ 816 F.2d 1191, 1200 (7th Cir. 1987) (citing *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 512 (7th Cir. 1982)).

¹⁴⁵ *Id.* at 1199.

Declining to fashion “a federal common law rule that would jostle uncomfortably with the Sherman Act” and “[n]oting the convergence of patent-misuse principles with antitrust principles,” the *Saturday Evening Post* court expressed the view that “a no-contest clause in a copyright licensing agreement is valid unless shown to violate antitrust law.”¹⁴⁶ While subsequent Seventh Circuit cases have not evaluated copyright misuse claims on antitrust grounds,¹⁴⁷ Judge Posner’s observation that copyrights are less likely to confer market power than patents has been reiterated by the court.¹⁴⁸

Judge Posner’s recent opinions for the Seventh Circuit in *Assessment Technologies of WI, LLC v. WIREdata, Inc.*,¹⁴⁹ indicate an evolution of judicial opinion—or perhaps a misinterpretation of his earlier *Saturday Evening Post* opinion.¹⁵⁰ The *WIREdata* case concerned proprietary software developed by Assessment Technologies (“AT”) to capture certain detailed information about real property.¹⁵¹ Although it was AT that had designed the software, tax assessors hired by local municipalities actually collected the data that populated AT’s database.¹⁵² When WIREdata had sought to obtain some of the data directly from the municipalities in order to provide the data to real estate brokers, three of the municipalities refused on the basis that, as licensees of AT, disclosure may

¹⁴⁶ *Id.* at 1200.

¹⁴⁷ In *qad. inc. v. ALN Assocs., Inc.*, 974 F.2d 834 (7th Cir. 1992), the Seventh Circuit “appears [to follow] Lasercomb’s holding and reject[] any requirement that misuse must be based on antitrust violations.” Davis, *supra* note 49, at 450. However, the Seventh Circuit’s decision affirming the district court’s removal of an injunction was based on the deceptive conduct of qad.’s lawyers during the litigation and not on qad.’s inequitable conduct. *qad.*, 974 F.2d at 839. Thus, it seems likely that the Seventh Circuit holding did not turn on a successful assertion of the copyright misuse defense but rather on fraud or unethical conduct during legal proceedings. *Cf.* Davis, *supra* note 49 (noting the weakness of the misuse decision).

¹⁴⁸ See *Reed-Union Corp. v. Turtle Wax, Inc.*, 77 F.3d 909, 913 (7th Cir. 1996) (“[C]opyrights do not exclude independent expression and therefore create less market power than patents.”).

¹⁴⁹ *Assessment Technologies of WI, LLC v. WIREdata, Inc.*, 350 F.3d 640 (7th Cir. 2003); *Assessment Technologies of WI, LLC v. WIREdata, Inc.*, 361 F.3d 434 (7th Cir. 2004).

¹⁵⁰ Many commentators, including ourselves, read Judge Posner’s earlier *Saturday Evening Post* opinion to suggest that copyright misuse should be evaluated exclusively through an antitrust approach. In *WIREdata*, Judge Posner himself acknowledged that the Court had “intimated skepticism” for an approach going beyond antitrust law. Yet Judge Posner and William Patry have recently clarified, “All [*Saturday Evening Post*] holds is that *if* the basis of a claim of copyright misuse is an anticompetitive practice, the proper standard for adjudication is that supplied by antitrust principles.” William F. Patry & Richard A. Posner, *Fair Use and Statutory Reform in the Wake of Eldred*, 92 Calif. L. Rev. 1639, 1658 n.67 (2004) (emphasis added).

¹⁵¹ The database comprised a set of 34 tables (*e.g.*, one table for income valuations, one for residential buildings, *etc.*), each of which in turn contained a set of fields. In all, the database contained 456 fields of data. *WIREData I*, 350 F.3d at 642-43.

¹⁵² *Id.*

infringe AT’s copyright.¹⁵³ Judge Posner succinctly framed the question as follows:

The copyright is of a compilation format, and the general issue that the appeal presents is the right of the owner of such a copyright to prevent his customers (that is, the copyright licensees) from disclosing the compiled data even if the data are in the public domain.¹⁵⁴

Addressing the threshold question of liability, the court concluded that extracting uncopyrighted data from AT’s database could not constitute infringement, even if the municipalities would find it “difficult or impossible to furnish the raw data to requesters such as WIREdata in any format other than that prescribed by [AT’s proprietary software].”¹⁵⁵ Because AT had no ownership or other legal interest in the data collected by the assessors, the court recognized that it had no legal ground for excluding others from accessing the data.¹⁵⁶ In any event, the Court recognized, in accordance with *Sega Enterprises Ltd. v. Accolade, Inc.*,¹⁵⁷ that the municipalities and WIREdata would be privileged to make an intermediate copy of AT’s software, if accessing the public data required a predicate act of infringement.¹⁵⁸

The court also addressed AT’s argument that its licenses prevented disclosure of the data, finding the licenses unavailing because WIREdata was not a party to them, and because AT had not brought a claim against WIREdata for interference with AT’s contractual relations with the municipalities. The court further suggested that for AT to try to prevent, through licensing or other means, the municipalities from disclosing assessment data not available anywhere else “might constitute copyright misuse.”¹⁵⁹

As AT had raised its licensing agreements with the municipalities – even though the court observed it had no cause to do so¹⁶⁰ – the court took the occasion

¹⁵³ *Id.* at 642.

¹⁵⁴ *Id.*

¹⁵⁵ *Id.* at 644, 646.

¹⁵⁶ On this basis, the court found efforts aimed at extending protection to actors who expend substantial resources to compile data collections to be irrelevant, as it was the tax assessors that did such “heavy lifting” on behalf of the municipalities, not AT. *Id.* (distinguishing the concerns articulated in J.H. Reichman & Pamela Samuelson, *Intellectual Property Rights in Data?*, 50 Vand. L. Rev. 51 (1997), and Stephen M. Maurer & Suzanne Scotchmer, *Database Protection: Is It Broken and Should We Fix It?*, 284 Sci. 1129 (1999)).

¹⁵⁷ 977 F.2d 1510, 1520-28 (9th Cir.1992).

¹⁵⁸ 350 F.3d at 644-45.

¹⁵⁹ *Id.* at 646-47.

¹⁶⁰ *Id.* (noting that WIREdata was not a licensee of AT, and that AT was not suing to enforce any contract it might have with WIREdata).

to offer its views on copyright misuse, first reciting the settled view that the doctrine “prevents copyright holders from leveraging their limited monopoly to allow them control of areas outside the monopoly.”¹⁶¹ The court recognized that it had previously left open whether copyright misuse is a defense in the absence of an antitrust violation, and that it had “intimated skepticism” in *Rumbleseat*. Yet the court recognized:

Cases such as *Lasercomb*, however, cut misuse free from antitrust, pointing out that the cognate doctrine of patent misuse is not so limited, 911 F.2d at 977-78, though a difference is that patents tend to confer greater market power on their owners than copyrights do, since patents protect ideas and copyrights, as we have noted, do not. The argument for applying copyright misuse beyond the bounds of antitrust, besides the fact that confined to antitrust the doctrine would be redundant, is that for a copyright owner to use an infringement suit to obtain property protection, here in data, that copyright law clearly does not confer, hoping to force a settlement or even achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist effectively, is an abuse of process.¹⁶²

Having framed the issue in these terms, the court did not conceal its “profound skepticism” for AT’s position: “If accepted, it would forbid municipalities licensed by AT to share the data in their tax-assessment databases with each other even for the purpose of comparing or coordinating their assessment methods, though all the data they would be exchanging would be data that their assessors had collected and inputted into the databases.”¹⁶³ In its later opinion in *WIREDATA*, the court confirmed its view that AT’s conduct “came close” to copyright misuse.¹⁶⁴

Although the *WIREDATA* court did not decide the question of copyright misuse (and arguably could not given the defendant’s failure to raise the issue on appeal), the court accepted the defense as applicable both in cases involving an antitrust violation and in those involving an “abuse of process.” The court further

¹⁶¹ 350 F.3d at 647 (quoting *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026-27 (9th Cir. 2001)).

¹⁶² See also Patry & Posner, *supra* note 150, at 1657-58 (describing the “problem of overclaiming of copyright in situations in which asymmetrical stakes discourage a legal challenge to the claim argues strongly for a safe-harbor approach,” and colorfully describing the following example: “‘Copyright © 2003 by the Estate of Virginia Woolf. No part of this text may be reproduced without the express prior consent of Hesperus Press.’ No part? That is ridiculous. A journalist, biographer, literary critic, or historian writing about Virginia Woolf would be entitled by the fair use doctrine to quote a brief passage from the article. The note is pure bluff.”). See generally Burk, *Anticircumvention Misuse*, *supra* note 15, at 1123 (suggesting that misuse may serve “a function sounding in judicial integrity, preserving the courts from the reputational damage of enforcing legal claims that might be technically legitimate, but which would lead to socially perverse outcomes”).

¹⁶³ 350 F.3d at 647.

¹⁶⁴ *WIREDATA II*, 361 F.3d at 437 (awarding directly attorneys’ fees to the defendant).

recognized as abusive using the court's offices – *i.e.*, the litigation process – as leverage to extend a copyright *de facto* to cover uncopyrightable material, such as the tax assessment data collected by the municipalities. Whether this formulation is coextensive with the public policy rationale articulated in cases like *Lasercomb* is not entirely clear; however, the court's acceptance of copyright misuse beyond an antitrust violation harmonizes circuit caselaw on the general nature and scope of the defense.

3. The Napster Case

On December 6, 1999, A & M Records and seventeen other record companies filed a complaint against Napster, Inc. in connection with its proprietary file-sharing software. Napster's software had allowed users to share files directly with one another over the Internet, including MP3 files that contained copyrighted music. The district court issued a preliminary injunction on July 26, 2000, as amended on August 10, 2000.¹⁶⁵ In 2001, the Court of Appeals affirmed in part, and vacated and remanded in part.¹⁶⁶ The Court of Appeals affirmed the district court's preliminary rejection of the copyright misuse defense,¹⁶⁷ finding no evidence that plaintiffs had sought to control matters beyond the scope of their copyrights.¹⁶⁸

In 2002, Chief Judge Patel wrote a further opinion for the district court in which she provided an authoritative discussion of copyright misuse to that point.¹⁶⁹ The court alluded to the uncertain history of copyright misuse and described in detail the federal courts' adoption of the defense, in its antitrust and public policy forms.¹⁷⁰ Citing commentary, the court characterized the circuit caselaw as embracing the equivalent of *per se* rules based on copyright policy; however, the court observed that the caselaw had not addressed the more difficult "gray area" in which an owner's use of the copyright does not facially violate the policy of copyright law.¹⁷¹

¹⁶⁵ *A & M Records, Inc. v. Napster, Inc.*, 114 F.Supp. 2d 896 (N.D. Cal. 2000).

¹⁶⁶ *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

¹⁶⁷ *Id.* at 1026.

¹⁶⁸ *Id.* at 1027.

¹⁶⁹ *In re Napster, Inc. Copyright Litigation*, 191 F. Supp. 2d 1087 (N.D. Cal. 2002).

¹⁷⁰ *Id.* at 1102-05 (discussing caselaw as well as commentary).

¹⁷¹ *See id.* at 1105 ("Of the cases reviewed by the court, all mimic the *per se* rules of antitrust in holding that the relevant licensing agreements constitute copyright misuse because they are unduly restrictive on their face. No court has yet found it necessary to investigate the effects of a licensing provisions by adopting an analysis similar to the antitrust rule-of-reason approach but focusing instead on public policy. . . . Currently, there is no guidance as to how to approach the more sophisticated cases where the text of the licensing provision itself is not dispositive.") (citations to caselaw omitted); *see also id.* at n.10 (describing the difference between *per se* and rule-of-reason treatment, and citing Frischmann & Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 Berkeley Tech. L.J.

Although the court did not reach a definitive conclusion on the questions of misuse raised by Napster, it ultimately allowed further discovery into the “gray area,” based on its thorough discussion of the evidence to date. The court’s discussion focused on two arguments from Napster: (1) the plaintiffs’ joint venture had unduly restrictive licensing provisions and (2) the plaintiffs’ conduct was otherwise anticompetitive. As to the first argument, the court described various provisions of the licensing agreement that, while technically non-exclusive, could effectively grant the joint venture control over Napster’s access to content, including content published by two major record labels not then participating in the plaintiffs’ joint venture.¹⁷² The court’s opinion reflects its appreciation of the difficulty of Napster’s position: “Napster was caught in a position where its only options were to sign the agreement to gain access to the catalogs of the major record companies and thereby incur these restrictions in all their murkiness or to refuse to sign the agreement and have virtually no access to most commercially available music.”¹⁷³ Yet the court declined to resolve these questions in light of uncertainty concerning the relationship between the plaintiffs and their joint venture.

After clarifying several related points raised by the plaintiffs,¹⁷⁴ the court turned to Napster’s second argument that plaintiffs had engaged in anticompetitive practices. The court described in detail a declaration of Napster’s expert, Roger Noll, a Stanford professor specializing in antitrust economics and the recording industry, in which Dr. Noll concluded that plaintiffs’ joint ventures “have anti-competitive features and facilitate collusive activity between plaintiffs.”¹⁷⁵ Overall, the court recognized that Napster had raised “serious question with respect to possible copyright misuse,” noting further that plaintiffs’ practices were under federal investigation. Although the court regarded the

865, 880-902 (2000)), 1103 (recognizing the difficulty of applying the public-policy test), 1105 (observing that no courts had articulated the boundaries of “unduly restrictive licensing,” or when such conduct would violate “the amorphous concept of public policy”).

¹⁷² *Id.* at 1106 (“Section 19.1 of the MusicNet [the plaintiffs’ joint venture] agreement prevents Napster from entering into any licensing agreement with any individual plaintiffs until March 1, 2002. The text of the agreement calls this space of time the ‘Initial Exclusivity Period.’ The agreement also provides that even after March 2002 if Napster enters into any individual license with any of the major labels – *i.e.* the plaintiffs – including the MusicNet plaintiffs, MusicNet may terminate the agreement with ninety-day notice. Additionally, section 6.3(a) lays out a pricing structure under which Napster will be charged higher fees if it fails to use MusicNet as its exclusive licensor for content.”) (record citations omitted). The plaintiffs pointed out that the other two major record labels were expected to become part of the joint venture.

¹⁷³ *Id.* at 1107.

¹⁷⁴ In particular, the court explained that (1) Napster’s participation in the licensing agreement did not affect its ability to assert copyright misuse; (2) Napster’s defense did not depend on the current operation of the plaintiffs’ joint venture, so long as the licensing restriction currently bound Napster; and (3) plaintiffs could not recover for any acts of infringement pre-dating the alleged misuse, because “[m]isuse limits enforcement of rights, not remedies.” *Id.* at 1107-08.

¹⁷⁵ *Id.* at 1108.

record as insufficient to accept either side's arguments, it granted Napster's motion to allow further discovery and briefing.¹⁷⁶

Finally, the court discussed plaintiffs' contention that Napster could not assert copyright misuse in light of its own inequitable practices, including willful copyright infringement. The court began its discussion by observing some tension among authorities over whether unclean hands could bar a defendant against asserting copyright misuse, without regard to the balance of equities. On one hand, the Court of Appeals for the Federal Circuit had cited earlier Ninth Circuit caselaw – predating the latter court's adoption of the defense in *Practice Management* – suggesting that unclean hands “can . . . preclude the defense of copyright misuse.”¹⁷⁷ On the other hand, the *Napster* court observed that modern precedent had not accepted these earlier circuit cases as requiring an inflexible bar.¹⁷⁸ Following the modern line of opinion, the *Napster* court was persuaded that the question should turn on whether the plaintiff had sought equitable relief *ab initio*.¹⁷⁹ The court found this approach consistent with the Supreme Court's pronouncement that “the doors of a court of equity [are closed] to one tainted with inequitable conduct or bad faith relative to the matter in which he seeks relief, however improper may have been the behavior of the defendant.”¹⁸⁰ In light of this understanding, the court recalled that plaintiffs had sought the injunction that ultimately forced Napster to disable its file-sharing technology altogether.¹⁸¹ The court thus allowed Napster's equitable defenses.¹⁸² Balancing the equities, the court found it particularly significant that the plaintiffs' allegedly inequitable conduct, if established, would harm not just Napster, but also the public at large: “[i]f Napster is correct, plaintiffs are attempting the near monopolization of the digital distribution market.”¹⁸³ Moreover, the court observed that Napster's

¹⁷⁶ *Id.* at 1109-10.

¹⁷⁷ *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832, 846 (Fed. Cir.1992) (“The Ninth Circuit has noted that doctrine of unclean hands can also preclude the defense of copyright misuse”) (citing *Supermarket of Homes v. San Fernando Valley Bd. of Realtors*, 786 F.2d 1400, 1408 (9th Cir. 1986)); see also 4 NIMMER ON COPYRIGHT § 13.09[B] at 13-395 (2001) (opining that copyright misuse defense “should be denied . . . when the defendant has been guilty of conduct more unconscionable and unworthy than the plaintiff's”).

¹⁷⁸ *Alcatel*, 166 F.3d at 795.

¹⁷⁹ *Napster*, 191 F. Supp. 2d at 1110 (citing *United Cities Gas Co. v. Brock Exploration Co.*, 995 F. Supp. 1284, 1296 n.11 (D. Kan. 1998)).

¹⁸⁰ *Id.* (quoting *Precision Instrument Mfg. Co. v. Automotive Maint. Mach. Co.*, 324 U.S. 806, 814 (1945)).

¹⁸¹ *Id.* at 1110-11.

¹⁸² *Id.* at 1111 (“Once plaintiffs used equity as a sword to prevent Napster's continued infringement, they lost the right to employ the unclean hands bar to shield themselves from the consequences of their own potentially inequitable behavior.”).

¹⁸³ *Id.* at 1112.

inequitable conduct had ceased, whereas plaintiffs’, assuming it could be established, was ongoing.¹⁸⁴

Chief Judge Patel’s opinion offers useful insight into the challenges facing a trial court applying copyright misuse in the “gray area” beyond a *per se* violation of copyright policy. The court’s opinion also provides an engaging discussion about when to apply the unclean-hands bar to copyright misuse.

4. Additional Circuit Caselaw

In *United Telephone Co. of Missouri v. Johnson Publishing Co., Inc.*,¹⁸⁵ the Eighth Circuit rejected a copyright misuse defense based on the facts presented. However, the court considered the relevant case law supporting the extension of the misuse doctrine from patent to copyright, including *Morton Salt, Paramount Pictures*, and *Loew’s*. Then, assuming “that judicial authority teaches that the patent misuse doctrine may be applied as a defense to copyright infringement,” the court evaluated whether United Telephone actually restrained competition by its pricing scheme or its “effort to require Johnson to purchase a license in its entire white pages listing” and concluded that it did not.¹⁸⁶ The Eighth Circuit thus appeared willing to extend the misuse doctrine from patents to copyrights and applied a rule of reason analysis along the lines of traditional antitrust principles.¹⁸⁷

In *Data General Corp. v. Grumman Systems Support Corp.*,¹⁸⁸ the First Circuit entertained a complex copyright infringement action in which antitrust counterclaims paralleled a copyright misuse defense.¹⁸⁹ Although the First Circuit acknowledged the copyright misuse doctrine’s development and discussed *Lasercomb*,¹⁹⁰ it expressly chose not to “decide whether the federal copyright law permits a misuse defense.”¹⁹¹ Interestingly, the circuit court acknowledged that

¹⁸⁴ *Id.*

¹⁸⁵ 855 F.2d 604 (8th Cir. 1988). The circuit court affirmed the district court’s decision awarding damages and a permanent injunction to United Telephone in a copyright infringement suit between white pages directory publishers. *Id.*

¹⁸⁶ *Id.* at 612.

¹⁸⁷ Compare *id.*, with *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1199-1200 (7th Cir. 1987).

¹⁸⁸ 36 F.3d 1147 (1st Cir. 1994).

¹⁸⁹ See *id.* Data General manufactured computers and competed with Grumman Systems in the servicing market for its products. The infringement action arose from illicit copying of Data General’s diagnostic software by Grumman Systems. The First Circuit thoroughly evaluated a number of complex, interrelated claims and generally affirmed the district court’s decision in favor of Data General. See *id.*

¹⁹⁰ *Id.* at 1169-70. The Court noted that the rationale in *Lasercomb* did not turn on “the particular type of anti-competitive behavior,” suggesting that the *Lasercomb* holding is not limited to the facts of that case. *Id.*

¹⁹¹ *Id.*

“the Lasercomb court [did] not require proof of an antitrust violation” for a successful misuse defense,¹⁹² but relied on the lack of an antitrust violation to reject Grumman Systems’ misuse defense. Grumman Systems based its misuse defense solely on the alleged anticompetitive behavior underlying the antitrust counterclaims, which the court held to be without merit, and the court found the misuse defense to be “equally devoid of merit.”¹⁹³ In addition, the court noted that Grumman Systems might be precluded from raising the misuse defense because it had engaged in inequitable conduct itself.¹⁹⁴

In *Bateman v. Mnemonics, Inc.*, the Eleventh Circuit seemed to endorse the copyright misuse doctrine where copying is required to achieve compatibility in the computer software context.¹⁹⁵ It expressly joined “other circuits in finding that external considerations such as compatibility may negate a finding of infringement.”¹⁹⁶ The court refused to enforce the contested copyright, and emphasized the fact-specific nature of its holding.¹⁹⁷ Accordingly, the holding most likely is limited to the compatibility issue for computer software.¹⁹⁸

5. Interim Conclusion

The foregoing opinions contribute to an understanding of the jurisprudential functions. The *Rosemont* concurring opinion illustrates a judicial approach expressly focused on safeguarding public policy, as well as harmonizing the policy of copyright law with the “spirit” of the First Amendment.¹⁹⁹ Similarly, the opinion also can be seen as stating a proposition implicit in the Copyright Act—that its provisions are designed to promote rather than to

¹⁹² *Id.*

¹⁹³ *Id.*

¹⁹⁴ *Id.* (“Mere infringement may not be inequitable conduct in this context because a misuse defense would appear to sanction at least some infringement as a necessary measure of self-help. But violation of a valid injunction against further infringement issued pursuant to a court’s equitable powers would constitute blatantly inequitable behavior.”). This clean hands approach to the misuse doctrine seems to comport with the Federal Circuit’s assessment of Ninth Circuit law in *Atari v. Nintendo*, 975 F.2d 832 (9th Cir. 1992).

¹⁹⁵ *Bateman v. Mnemonics, Inc.*, 79 F.3d 1532 (11th Cir. 1996).

¹⁹⁶ *Id.* at 1547.

¹⁹⁷ *Id.* at 1547-48.

¹⁹⁸ In an earlier decision, the Eleventh Circuit rejected a misuse defense where the copyright holder was merely exercising the exclusionary rights granted by the copyright. *See Bellsouth Adver. & Publ’g Corp. v. Donnelley Info. Publ’g Co.*, 933 F.2d 952 (11th Cir. 1991), *vacated*, 977 F.2d 1435 (11th Cir. 1992), *rev’d on other grounds*, 999 F.2d 1436 (11th Cir. 1993), *cert. denied*, 114 S.Ct. 943 (1994). *See also Home Design Services v. Park Square Enterprises*, 2005 WL 1027370 (M.D. Fla.) (unreported opinion) (regarding copyright misuse as a valid defense given the weight of circuit authority).

¹⁹⁹ *Id.* at 311 (emphasis added). *See generally* Burk, *Anticircumvention Misuse*, *supra* note 15, at 1123 (recognizing that misuse is available to address not just overreaching in violation of statutory policy, but also overreaching in violation of constitutional authority).

suppress expression, and that questions concerning the enforceability of the copyright should be viewed in this light. *WIREData* revitalizes the courts’ central focus on safeguarding the judicial process against abuses – arguably an undercurrent in all misuse cases, in that by declining to enforce the copyright, the court is indicating its unwillingness to be made complicit in the plaintiff’s inequitable practices concerning its copyright. Although *Napster* takes the jurisprudential functions essentially as granted, the court’s opinion provides one of the most engaging discussions of the procedural and evidentiary challenges in the “gray” area between per se misuse and no misuse.

D. *Overview of Federal District Court Caselaw*²⁰⁰

One important feature of the federal district caselaw is what it does not say. There appears no example among the opinions reviewed of a factual finding, in which a court or jury found copyright misuse. Not surprisingly, all summary judgment motions were either resolved against the party asserting copyright misuse or allowed to continue to a further stage of the proceedings.²⁰¹ There are no opinions arising in the context of post-judgment briefing, in which a jury had found copyright misuse. Other opinions dealt with preliminary injunctive relief²⁰²

²⁰⁰ We have conducted a limited survey, and hope at a later time to supplement the survey with additional caselaw and statistics.

²⁰¹ See generally *MGE UPS Systems v. Fakouri Elec. Engg.*, 2006 WL 686577 (N.D. Tex. 2006) [*Fakouri*]; *Do It Best Corp. v. Passport Software, Inc.*, 2005 WL 743083 (N.D. Ill. 2005) [*Do It Best*]; *Home Design Services, Inc. v. Hibiscus Homes of Florida, Inc.*, 2005 WL 3445522 (M.D. Fla. 2005) [*Hibiscus*]; *Home Design Services v. Park Square Enterprises*, 2005 WL 1027370 (M.D. Fla. 2005) [*Park Square*]; *Open Source Yoga Unity v. Choudhury*, 2005 WL 756558 (N.D. Cal. 2005) [*Yoga Unity*]; *Corbis v. Amazon.com*, 351 F. Supp. 2d 1090 (W.D. Wash. 2004) [*Amazon*]; *Batesville Services v. Funeral Depot*, 2004 WL 2750253 (S.D. Ind. 2004) [*Batesville*]; *Ocean Atlantic v. DRH Cambridge Homes*, 2004 WL 2203423 (N.D. Ill. 2004) [*Ocean*]; *In re Napster, Inc. Copyright Litigation*, 191 F. Supp. 2d 1087 (N.D. Cal. 2003) [*Napster 03*]; *Video Pipeline v. Buena Vista*, 275 F. Supp. 2d 543 (D.N.J. 2003) [*Video Pipeline 03*]; *Antioch Co. v. Scrapbook Borders, Inc.*, 291 F. Supp. 2d 980 (D. Minn. 2003) [*Antioch*]; *Davidson (“Blizzard”) v. Internet Gateway*, 334 F. Supp. 2d 1164 (E.D. Mo. 2004) [*Davidson*], *aff’d* 422 F.3d 630 (8th Cir. 2005); *Costar v. Loopnet*, 164 F. Supp. 2d 688 (D. Md. 2001) [*CoStar*], *aff’d* 373 F.3d 544 (4th Cir. 2004); *Microsoft v. Compuserve*, 115 F. Supp. 2d 800 (E.D. Mich. 2000) [*Compuserve*]; *UMG v. MP3.com*, 92 F. Supp. 2d 349 (S.D.N.Y. 2000) [*UMG*]; *In re Independent Service Organizations Antitrust Litigation*, 85 F. Supp. 2d 1130 (D. Kan. 2000) [*ISO*]; *Veeck v. Southern Bldg. Code Congress, Int’l*, 49 F. Supp. 2d 885 (E.D. Tex. 1999) [*Veeck*], *aff’d in relevant part* 241 F.3d 398 (5th Cir. 2001), *reh’g en banc*, 293 F.3d 791 (5th Cir. 2002), *cert. denied*, 537 U.S. 1043 (2002), *cert. denied*, 539 U.S. 969 (2003).

²⁰² Motion for Preliminary Injunction: *FMC Corp. v. Control Solutions, Inc.*, 369 F. Supp. 2d 539 (E.D. Pa. 2006) [*FMC*]; *Lexmark v. Static Control Components*, 253 F. Supp. 2d 943 (E.D. Ky. 2003) [*Lexmark*], *order vacated*, 387 F.3d 522 (6th Cir. 2004); *Bourne v. Disney*, 2003 WL 721405 (S.D.N.Y. 2003) [*Bourne*]; *Video Pipeline v. Buena Vista*, 192 F. Supp. 2d 321 (D.N.J. 2002) [*Video Pipeline 02*], *aff’d*, 342 F.3d 191 (3rd Cir. 2003), *cert. denied*, 540 U.S. 1178 (2004); *A&M Records v. Napster*, 114 F. Supp. 2d 896 (N.D. Cal 2000) [*Napster 00*], *aff’d in part, rev’d in part*, 239 F.3d 1004 (9th Cir. 2001).

or a preliminary assessment of the legal sufficiency of a party's assertion of copyright misuse.²⁰³

Given the absence of appellate decisions dealing with what the *Napster* court termed the “gray area” of anticompetitive uses of a copyright, the antitrust component of the copyright misuse defense remains undeveloped in the caselaw, even though defendants have often raised it. It is difficult at this stage, without delving into jury verdicts, to evaluate what practical effect the antitrust component may be having in the district courts. At a minimum, some courts have recognized that the alleged anticompetitive practice must have a nexus to the owner's copyright.²⁰⁴

²⁰³ Motion for Leave to Am. Complaint: *Arista Records v. Flea World*, 356 F. Supp. 2d 411 (D.N.J. 2005) [*Arista*]; Motion to Dismiss Counterclaim: *Webcaster Alliance v. RIAA*, 2004 WL 1465722 (N.D. Cal. 2004) [*Webcaster*]; *Association of American Medical Colleges v. Princeton Review*, 332 F. Supp. 2d 11 (D.D.C. 2004) [AAMC]; *MGM v. Grokster*, 269 F. Supp. 2d 1213 (C.D. Cal. 2003) [*Grokster*]; Motion to Strike Affirmative Defense: *Microsoft v. Jesse's Computers*, 211 F.R.D. 681 (M.D. Fla. 2002) [*Jesse's*]; Motion to Dismiss or Strike Counterclaims: *Microsoft v. Computer Support*, 123 F. Supp. 2d 945 (W.D.N.C. 2000) [*Computer Support*]; *Syncsort Inc. v. Sequential Software, Inc.*, 50 F. Supp. 2d 318 (D.N.J. 1999) [*Syncsort*]; Combination: *Janel Russell Designs v. Mendelson*, 114 F. Supp. 2d 856 (D. Minn. 2000) [*Mendelson*] (defendant's motion to dismiss and to transfer venue, and plaintiff's motion for preliminary injunction).

²⁰⁴ See, e.g., *Arista*, 356 F. Supp. 2d at 430; *Napster 03*, 191 F.Supp.2d at 1108; *Jesse's*, 211 F.R.D. at 683; *Compusource*, 115 F. Supp. 2d at 811. But see *International Motor Contest Ass'n v. Staley*, --- F.Supp.2d ----, 2006 WL 1667889, at *15-*16 (N.D. Iowa June 19, 2006) (declining to follow cases like *Arista*, and recognizing that “nothing in Eighth Circuit law forecloses such a defense in a copyright infringement case as a matter of law, where no ‘nexus’ is pleaded”); *Microsoft Corp. v. Fredenburg*, 2006 WL 752985, at *1 (W.D. Pa. Mar. 22, 2006) (similar as to nexus requirement). Both *Staley* and *Fredenburg* quoted *Video Pipeline* for the proposition, “[t]o defend on misuse grounds, the alleged infringer need not be subject to the purported misuse.” 342 F.3d at 204. There appears to be a blurring of two distinct concepts – a required nexus between the plaintiff's copyright and the alleged inequitable practices, versus the concept addressed in *Video Pipeline* and other cases that the defendant need not have been directly impacted by the alleged misuse in order to raise copyright misuse as a defense.

IV. JUDICIAL APPROACHES TO EVALUATING COPYRIGHT MISUSE

Over the past decade and a half, copyright misuse has evolved along two conceptual lines. Antitrust-based misuse evaluates plaintiff's activities according to principles derived from antitrust law, and policy-based misuse evaluates plaintiff's activities according to public policies underlying copyright law. We examine both approaches below.

A. *Antitrust-Based Copyright Misuse*

Antitrust-based copyright misuse resembles modern day patent misuse, which declares certain activities per se misuse and applies a rule of reason balancing test to evaluate other activities. The inquiry is focused on assessing the challenged conduct's actual and potential effect on competition.

For conduct alleged to constitute a per se violation, courts look to multi-factored tests to determine whether the challenged conduct fits within the per se category. In the context of tying arrangements, a per se violation is established if: (1) there are two distinct products or services; (2) the producer has market power in the tying product; and (3) there is a substantial effect in the tied product market. In a handful of cases, liability may yet be avoided, but only if the defendant can prove that it had no alternative to the tying arrangement because of conditions in the market. The most critical factor for antitrust plaintiffs or patent infringement defendants to show is typically the producer's market power in the tying product.²⁰⁵ If a per se violation is established, then the court will look no further and critically will not weigh the positive and negative effects of the conduct.

The following two-part rule of reason test is applied to all other activities:

Step 1: Is the restraint within the scope of the patent grant?

- If the answer is yes, then the activity is per se legal.
- If the answer is no, go to step 2.

Step 2: Does the activity on the whole promote or restrict competition?

The latter part of the test requires courts to balance the anti- and procompetitive effects of a particular activity, e.g., a licensing provision, and determine the net competitive effect.²⁰⁶ If the net effect is anticompetitive, then activity would constitute misuse.

²⁰⁵ See Ramsey Hanna, *Misusing Antitrust: The Search for Functional Copyright Misuse Standards*, 46 Stan. L. Rev. 401, 412-13 (1994).

²⁰⁶ See *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992).

Extending this rule of reason test to copyright misuse requires courts first to evaluate the scope of the rights and the breadth of protection granted to copyright holders, and, second, to evaluate the net competitive effects of any questionable conduct. Both inquiries are commonly undertaken by courts and are readily within their adjudicative capacity. The Seventh Circuit in *Saturday Evening Post* and the Eighth Circuit in *United Telephone* seemed to adhere to this approach.

The presumptions upon which antitrust-based copyright misuse is based are 1) that intellectual property generally is procompetitive and does not confer market power in the antitrust sense; 2) that any market power given via an intellectual property right is valid; and 3) that intellectual property owners are entitled to exploit their intellectual property through the most efficient means available.²⁰⁷ These presumptions have emerged in the antitrust-intellectual property dialogue during the 1980s and 1990s and represent the current institutional opinion of the Department of Justice Antitrust Division.²⁰⁸ This view is supported by the Supreme Court holding in *BMI* that courts generally must conduct a more probing analysis into the market conditions and the procompetitive need for seemingly anticompetitive practices at the antitrust-intellectual property interface.²⁰⁹

B. *Public Policy-Based Copyright Misuse*

Courts and commentators have attempted to distinguish the copyright misuse defense from antitrust law by focusing on the equitable nature of the doctrine as a clean hands defense and on the scope limitation function that it provides.²¹⁰ Inequitable conduct on the part of the copyright holder need only offend the public policy behind the copyright system to trigger the defense.²¹¹ As the Fourth Circuit noted in *Lasercomb*:

[A] misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action. 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

²⁰⁷ See Antitrust Guidelines, *supra* note 74.

²⁰⁸ *Id.*

²⁰⁹ See discussion of *BMI supra*.

²¹⁰ See, e.g., Ernest Bainbridge Lipscomb III, 8 Walker on Patents §§ 28-33 (3d ed. 1989) (distinguishing between antitrust violation and patent misuse in that the latter does not require proof of “substantial lessening of competition”); Xavier Fellmeth, *Copyright Misuse and the Limits of the Intellectual Property Monopoly*, 6 J. Intell. Prop. L. 1, 25 (1998) (observing that the general rule is that an antitrust violation is not necessary to establish copyright misuse).

²¹¹ See, e.g., Fellmeth, *supra*, at 36-37 (arguing against antitrust principles in favor of a “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”).

copyright is being used in a manner violative of the public policy embodied in the grant of a copyright.²¹²

Courts applying this rationale have looked specifically at copyright licensing provisions and decided whether the scope of the private rights granted by the copyright is being improperly expanded.

The three circuit court decisions affirming findings of copyright misuse, discussed *supra*, are illustrative. In *Lasercomb*, the licensor restricted the licensee's ability to develop similar software, effectively expanding the scope of the copyright beyond the protected expression to the unprotected idea.²¹³ Similarly in *Practice Management*, license provisions restricting the licensee's ability to use competing products were found to be expansive and thus misuse.²¹⁴ Finally, in *Alcatel*, license provisions that restricted a licensee's ability to develop products to compete with the licensor's uncopyrighted products similarly were found to be misuse.²¹⁵ In all three cases, copyright owners' used their copyright to constrain licensees' productive/competitive activities and gain advantages in areas beyond the scope of the limited privileges conferred by the copyright.

In all three cases, the courts focused on the first step of the analysis—asking whether the restraint within the scope of the copyright, whether the copyright owner used the copyright to control unprotected subject matter or to restrict legitimate third party activities—and did not proceed to evaluate net effects. Both the Fourth and Ninth Circuits stopped well short of the second prong of the rule of reason test. The Fifth Circuit in *Alcatel*, on the other hand, emphasized the restrictive effect that DSC's behavior had on DGI's ability to compete. Still, none of the three circuit courts considered the potential positive effects of the licensing provisions in question.²¹⁶ Thus, it seems that in *Lasercomb*, *Practice Management*, and *Alcatel*, the public policy approach reduced the rule of reason approach to a single step, which is akin to a per se rule. Although no court explicitly declared the particular licensing practice to be per se misuse, the absence of any weighing of effects and the lack of additional guidance leaves little room for distinction.

In establishing these per se rules, the Fourth, Fifth, and Ninth Circuits were not creating per se antitrust rules based on the conclusion that in the general run of cases the questioned conduct is presumptively anticompetitive on the whole. Instead, the courts were creating per se rules that keep intact the socially

²¹² *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990).

²¹³ *Lasercomb*, 911 F.2d at 979.

²¹⁴ *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516 (9th Cir. 1997).

²¹⁵ *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 794-95 (5th Cir. 1999).

²¹⁶ Contrast the analysis in *Lasercomb*, *Practice Management*, and *Alcatel* with the Seventh Circuit's analysis of the no-compete provision in *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1199-1200 (7th Cir. 1987).

acceptable trade-off manifest in the copyright law. In a sense, the circuit courts were safeguarding the public interest in maintaining a copyright of limited scope while at the same time coordinating the various intellectual property systems.²¹⁷

The Third Circuit in *Video Pipeline* followed the Fourth, Fifth, and Ninth Circuits by accepting and applying a policy-based approach to analyzing copyright misuse. The court did not constrain itself to antitrust-based analysis and affirmed the equitable nature of copyright misuse. However, in *Video Pipeline*, the Third Circuit also signaled a substantial departure from the doctrine as developed in *Lasercomb*, *Practice Management*, and *Alcatel*.²¹⁸

Whereas other circuit courts have viewed licensing provisions aimed at expanding the scope of copyright as misuse according to a standard resembling a per se rule, the *Video Pipeline* court did not take this approach. Had it done so, it would have had to decide whether Disney's practice of restricting a licensee's ability to express criticism of the licensor or the licensor's copyrighted work violated a fundamental policy of copyright law and constituted per se misuse. The court appeared to accept that using a copyrighted work so as to limit expression implicates a fundamental policy of copyright law, but notably the court did not conclude its policy analysis at that point.²¹⁹ Instead, the court continued

²¹⁷ The scope limitation aspect can be seen as a combination of the corrective, coordination, and safeguarding functions.

²¹⁸ *Video Pipeline* has at times been heralded for its infusion of First Amendment principles into copyright misuse. We believe this is a positive development. Our concern, which we discuss below, is with the emergence of what appears to be a rule of reason approach to public policy based misuse.

²¹⁹ We accept the implication of the court's reasoning that complete interference with the public's access to expression would constitute misuse per se. (Notably we believe this reasoning would support a per se rule against license restrictions on reverse engineering in the software context. See Frischmann & Moylan, *supra* note 25 (arguing for such a rule).) Yet *Video Pipeline* presents a more difficult case (than complete interference). On one hand, the licensing provision seeks to limit a type of expression traditionally regarded as a form of fair use; on the other hand, the interference affects only authorized distributors engaged in disseminating works to the public. We believe it is generally reasonable for a copyright owner to regulate the expressive conduct of authorized public distributors as it relates to the owner's work and its distribution to the public. We suspect licensing provisions in that narrow context will "always or almost always" have greater pro-expressive effects than anti-expressive effects. Such provisions further the underlying policies of copyright by enabling creators to effectively transact with distributors, thus improving incentives and promoting public dissemination by copyright owners. By contrast, the anti-expressive effects of limiting authorized public distributors' commentary on the works they are distributing would likely be less significant. Our view, then, is only that copyright law provides copyright owners with leverage to regulate the expressive conduct of authorized public distributors with respect to the work itself and its distribution to the public.

Such a categorical per se rule (of lawfulness) should be narrowly fashioned to address the specific context – *i.e.*, regulating expression directly related to an authorized distributor's public dissemination of the owner's work. It should not cover licensing provisions that expansively regulate expression, in ways not related to the specific context of public distribution. For instance, we would be more concerned with a shrink-wrap license aimed at restricting the expression of consumers. In *Video Pipeline*, Disney reached rather broadly in that it restricted its licensees'

by addressing the magnitude of interference with the public’s ability to access the work. The court went so far as to suggest that if some actors could conceivably assert a valid fair use defense and express criticism of Disney and its products, that fact would weigh against a finding of copyright misuse, even though the plaintiff would have effectively suppressed the critical expression of its licensees.

Thus, the Third Circuit in *Video Pipeline* appears to have imported something akin to a rule of reason into the public policy analysis of copyright misuse, except the second step of the analysis focuses on weighing the pro-expressive and anti-expressive effects (or the net effects on expression). In so doing, *Video Pipeline* may generate considerable uncertainty, doctrinal confusion, and a host of difficult factual questions for litigants and courts to address. How much interference is too much? How much access must the public have for the copyright policy favoring expression to be satisfied, for purposes of a misuse defense? How susceptible are these questions to reliable evidence? Might they depend on hypothetical, as opposed to real-world, uses by the public, as *Video Pipeline*’s own reasoning suggests?

Most importantly, if a rule of reason, balancing-type approach is to be taken, courts must measure, compare and weigh anti- and pro-expressive effects on a case-by-case basis.²²⁰ How are such effects to be measured, compared and weighed? It is unclear, for instance, what pro-expressive effects would be generated by Disney’s use of the licensing provisions. Disney might argue that restricting licensees from engaging in criticism encourages content providers like Disney to license their works to distributors and producers of derivative works, but it remains unclear how to measure the pro-expressive effects of an increased willingness to license in this fashion, and it is much less clear how to weigh any

ability to express opinions “derogatory to or critical of the entertainment industry or of [Disney] (and its officers, directors, agents, employees, affiliates, divisions and subsidiaries) or of any motion picture produced or distributed by [Disney] . . . [or] of the materials from which the Trailers were taken or of any person involved with the production of the Underlying Works.” 342 F.3d at 204. Thus, Disney’s licensing provision would not be per se lawful under our suggested rule, and a court would have to decide further whether to declare Disney’s overreaching in this regard per se unlawful. Without having fully considered the briefing, oral arguments, and complete record, we are not certain whether to endorse such a rule.

Our suggested per se rule of lawfulness would be narrow and tied tightly to the context and facts of the case. It would clearly delineate the relevant copyright scope boundary, provide guidance for copyright owners, and constitute only an incremental jurisprudential step.

²²⁰ To make matters more complicated, if a court were to follow *Video Pipeline* and apply a rule of reason, balancing-type approach to policy-based misuse, it should consider the full range of public interests affected by the challenged licensing provision. Thus, a court would have to evaluate and weigh the competitive and expressive effects of a challenged provision. We thank Frank Pasquale for bringing this added complication to our attention.

such pro-expressive effects against the anti-expressive effects that result directly from the restriction on licensees' expression.²²¹

In light of this difficulty, we continue to believe that the approach set out in our original article remains sound: First, courts should apply traditional antitrust principles, consisting of per se rules and the rule of reason, when coordinating copyright and antitrust or gap-filling along the interface of these bodies of law; and second, courts should avoid any form of reasonableness or balancing test approach and should constrain themselves to formulating per se rules when filling gaps in the copyright laws, coordinating copyright and patent law, or safeguarding the policies underlying the copyright laws. Copyright misuse is potentially a powerful policy lever because of its common law foundation and its focus on plaintiffs' conduct, but it is a lever with potential to be misapplied. Given the serious effects of a finding of copyright misuse, courts should be cautious about following approaches that may generate uncertainty in the licensing and enforcement of copyrights.

Our approach would limit the doctrine to carefully formulated per se rules, based on recognizable factual settings that implicate the concerns mentioned in Part II.A. A per se rule sends a clear signal to Congress and to the public concerning some gap or tension in the law. Additionally, per se rules more clearly delineate the intellectual property rights themselves and inform copyright owners about what behaviors risk a misuse finding.²²² We believe a rule of reason or balancing test approach to public policy-based misuse would be problematic to the extent it depends upon speculative assessments of pro- and anti-expressive effects rather than a solid doctrinal and/or empirical foundation.²²³

²²¹ We believe *Video Pipeline* animates the concerns voiced by Judge Posner in *Saturday Evening Post*. See *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1199-1200 (7th Cir. 1987) (Posner, J.).

²²² Compare Ben Sheffner, *Alcatel USA, Inc. v. DGI Technologies, Inc.*, 15 Berkeley Tech. L.J. 25, 44 (2000) ("While concerns about vagueness are understandable, they do not seem any stronger in this context than are similar concerns about the application of the fair use doctrine in copyright or the notoriously slippery 'rule of reason' mode of analysis in antitrust."), with William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 Harv. L. Rev. 1661, 1668 (1988) (discussing the fair use doctrine as an "equitable rule of reason").

²²³ Lydia Loren has proposed an intermediate approach to policy based misuse. See Lydia Pallas Loren, *Slaying the Leather-Winged Demons in the Night: Reforming Copyright Owner Contracting with Clickwrap Misuse*, 30 Ohio N. Univ. L. Rev. 495, 522-35 (2004). Instead of per se rules, which create an irrebuttable presumption of misuse, Loren argues for policy based rules that lead to a rebuttable presumption of misuse. *Id.* According to Loren:

To rebut the presumption of misuse the copyright owner should be required to prove that enforcing the contract at issue would not likely lead to a significant reduction of the external benefits the Copyright Act is designed to ensure through the limitation the copyright owner is seeking to avoid. Only if this presumption is rebutted should the copyright owner be permitted to avoid the defense of misuse in an infringement action. Shifting the burden to rebut the presumption of misuse onto the copyright owner is the first step creating an

CONCLUSION

This chapter has explored the common law defense of copyright misuse in a manner calculated to expose the theoretical underpinnings of the doctrine as well as to provide practical guidance on future doctrinal development. The federal courts play an increasingly important role in today's world. Copyright, patent, and antitrust laws converge, intersect, and conflict on numerous issues, particularly when applied to industries experiencing rapid technological change. In response, common law emerges from the substantive demand for internal statutory correction, interstatutory coordination, and safeguards that protect the public interest.

Given the evolving nature of common law, any future development of the copyright misuse defense must build upon the current state of the law. Supreme Court guidance has paved the way for intellectual property misuse, although the Court has yet to explicitly hold that copyright misuse exists. In addition, the binding and persuasive case law of the federal circuit courts demonstrates conflicting views on precisely how to apply the doctrine, e.g., whether the defense should be based on public policy or antitrust principles. A mixed approach involving antitrust-based misuse (*per se* rules and the rule of reason) supplemented by narrow public policy-based *per se* rules best allows courts to meet the substantive demand for common law rules without overreaching or generating debilitating uncertainty in the licensing and enforcement of copyrights.

effective deterrent against overreaching contracting behavior. Additionally, placing the burden of proof on the copyright owner instead of the defendant is appropriate because the copyright owner is a party to the contract whereas the defendant that has raised the misuse defense in an infringement action often is not a party to that contract.

Id. at 531. While sympathetic to Loren's idea of burden shifting, we remain skeptical about the practicalities of her approach. Many of the same challenging issues of proof as raised by a balancing approach persist.