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## Misuse

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# ARTICLE

## MISUSE

*Thomas F. Cotter\**

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### I. INTRODUCTION

As developed by the courts in the mid- to late-twentieth century, misuse is a defense to a claim of patent or copyright infringement that is often defined as resting upon proof that the patent or copyright plaintiff has attempted to broaden the scope of her intellectual property rights (IPRs) with an anticompetitive effect.<sup>1</sup> As such, misuse shares some features with both the

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1. *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)); *see*

venerable equitable doctrine of unclean hands and with antitrust law. Unlike the doctrine of unclean hands, however, misuse (according to most courts) may be asserted by a defendant who is not himself a victim of the plaintiff's alleged misconduct. In other words, there is no misuse "standing" requirement, as would be necessary to assert the defense of unclean hands in a contract action—or, for that matter, to assert a viable antitrust claim.<sup>2</sup> This brings us to a second curious feature of the doctrine: despite the courts' invocation of misuse as a tool for combating anticompetitive uses of IPRs, defendants generally have a somewhat easier time proving patent or copyright misuse than do plaintiffs (or counterclaimants) proving antitrust violations. Despite the misuse doctrine's purported relation to competition policy, courts continue to state that "misuse may arise when the conditions of antitrust violation are not met"<sup>3</sup> (subject to a few exceptions) without precisely delineating what those conditions are. This departure from conventional antitrust standards for proving competitive harm is particularly striking in some cases involving copyright misuse; while the patent misuse doctrine in recent years has moved toward incorporating antitrust standards for evaluating competitive harm, it continues to diverge from those standards in some notable respects. A third feature of misuse, of fairly recent origin, is the application (or proposed application) of the doctrine in cases involving arguably excessive assertions of copyright rights that do not touch upon competition policy as traditionally understood. Put another way, we may be witnessing the evolution of misuse as a complement to fair use, merger, or other copyright doctrines that balance the social costs

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*also* Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc., 342 F.3d 191, 204–06 (3d Cir. 2003) (stating that "[m]isuse often exists where the patent or copyright holder has engaged in some form of anti-competitive behavior," but also "recogniz[ing] that it might operate beyond its traditional anti-competition context," such as when the owner "attempt[s] to disrupt a copyright's goal to increase the store of creative expression for the public good").

2. In the copyright context, however, a few courts recently have required some showing of a "nexus" between the misconduct and the claim asserted against the defendant, while others have rejected this requirement. *See infra* note 160 and accompanying text.

3. C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1372 (Fed. Cir. 1998) (recognizing that misuse is "a broader wrong than [an] antitrust violation because of the economic power that may be derived from the patentee's right to exclude"); *see also* Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 140 (1969) (stating that, when there is patent misuse, "it does not necessarily follow that the misuse embodies the ingredients of a violation of either § 1 or § 2 of the Sherman Act"); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992) ("The concept of patent misuse arose to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy.").

and benefits of copyright protection, not limited to the costs and benefits that would be relevant in an antitrust context. A few scholars have proposed a similar expansion of patent misuse.<sup>4</sup> A fourth feature that distinguishes misuse is its remedy—namely, the unenforceability of the misused patent or copyright unless and until the misuse has been purged, meaning that its effects have dissipated.<sup>5</sup> While this sanction might seem roughly appropriate to the harm caused by the misuse in some instances, it bears no necessary relationship to the scope of the misconduct or the harm flowing from it. This, in turn, poses a risk that in some cases the sanction will be grossly disproportionate to the offense and thus may create a substantial risk of overdeterrence.

In this Article, I propose several reforms to the existing law of misuse. First, contrary to the opinions of some skeptics, misuse can play a useful, albeit limited, role in patent and copyright policy. In particular, misuse can play a role in discouraging conduct giving rise to relatively speculative threats to competition, in cases in which there is no corresponding social benefit; and in discouraging overly broad assertions of IPRs, particularly copyright rights. But I stress the word “limited.” In order to avoid overdetering socially useful conduct, assertions of misuse should be (to borrow a phrase from another controversy) safe, legal, and rare. Second, courts should distinguish between transactional and litigation misuse. Only the latter should result in unenforceability of the patent or copyright for the duration of the misuse; the former should result only in unenforceability of the offending contractual provision—and whatever other sanctions, if any, are appropriate as a matter of antitrust or other law. As a corollary, only parties who are victimized by the misuse would have standing to raise the defense.

Part II traces the development of the misuse doctrine, with particular emphasis on some of its more recent manifestations in both the copyright and patent contexts. Part III presents my arguments in support of the above claims and critiques some applications of the existing law. Part IV concludes.

## II. DOCTRINAL CONTOURS

The early cases from which the misuse doctrine evolved all involved questions of whether patent owners could enforce their

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4. See Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 400–01 (2003) (arguing that applying antitrust rules should not apply to patent misuse because policy goals for antitrust and patent misuse are different).

5. See *id.* at 402 (“The patent holder will be denied relief until the abusive practice has been abandoned and the effects of the practice have dissipated.”).

patents against persons who lawfully purchased, through intermediaries, products incorporating patented inventions but who then disregarded notices affixed to these products stating that product use was subject to patentee-imposed restrictions.<sup>6</sup> Beginning in 1913, the U.S. Supreme Court ruled on a series of patent infringement cases that both extended the first-sale or exhaustion principle announced in *Bobbs-Merrill Co. v. Straus*<sup>7</sup> to

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6. To put these cases in context, in 1902, the U.S. Supreme Court held in *Bement v. National Harrow Co.*, 186 U.S. 70, 92–94 (1902), that the Patent Act permitted (and the Sherman Act did not forbid) the licensing of the right to make and sell a patented invention, subject to an obligation on the part of the licensee/manufacture to resell the product at a specified price. The Court reaffirmed this rule in its 1926 decision, *United States v. General Electric Co.*, 272 U.S. 476, 488 (1926), although it has since hinted the rule may no longer be valid. See *Simpson v. Union Oil Co. of Cal.*, 377 U.S. 13, 24 (1964) (noting that, although “price fixing in the marketing of patent articles had been condoned” previously, resale price fixing through a “coercive type of ‘consignment’ agreement is illegal under the antitrust laws”). Nevertheless, in 1908, the Court in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908), interpreted the language of the Copyright Act as not conferring upon copyright owners the right to prevent remote purchasers of lawfully made copies from reselling those copies at any price the latter chose. In 1911, the Court held in *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 404–09 (1911), that the Sherman Act rendered unenforceable a contractual obligation between the manufacturer of a nonpatented product on the one hand, and wholesalers and retailers on the other, requiring the latter entities to resell the product at issue at a specified price. *Dr. Miles* thus established the principle, subject to the *Bement/General Electric* exception, that minimum resale price maintenance was unlawful per se. (The Supreme Court overruled *Dr. Miles* this past term, however. See *Leegin Creative Leather Prods. v. PSKS, Inc.*, 127 S. Ct. 2705, 2710 (2007). Under federal antitrust law, resale price maintenance is now subject to the rule of reason.) Just a few months after the Court’s decision in *Dr. Miles*, the Court held in *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48–49 (1912), that a person who bought a patented mimeograph machine, conditioned upon her agreement to use only (nonpatented) ink made by the patentee, engaged in an infringing use when she used another company’s ink instead; and the supplier of the ink, who was aware of the license restriction, was liable for contributory infringement. The Court, in other words, approved of a tying arrangement; but within two years Congress responded by enacting section 3 of the Clayton Act, which specifically forbids some forms of tying. See 15 U.S.C. § 14 (2000) (prohibiting business transactions that restrict the purchaser’s access to competing goods or services where such a restriction substantially lessens competition or creates a monopoly). But even before the statutory change, the tide had begun to turn, as described in the text above.

There is also a smattering of decisions hinting at a trademark and even trade secret misuse doctrine as well, but the case law remains sketchy. Applications of the doctrine to trademarks in particular might harm consumers by enabling infringers to continue using trademarks in a confusing manner. See generally 1 HERBERT HOVENKAMP ET AL., IP AND ANTITRUST § 3.5, at 3-52 to 3-54 (2007) (suggesting trademark owners could use “a trademark as a cover for a scheme among competitors to divide up markets” through a franchise tying arrangement, but that dividing markets may be “a perfectly rational solution to the problem of consumer confusion resulting from overlapping marks”); 6 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 31:91, at 31-162 to 3-163 (2007) (“[A]n additional policy pointing toward reluctance to uphold an antitrust misuse defense in trademark litigation is the necessity of protecting customers from confusion.”). In any event, these other forms of misuse are beyond the scope of this Article.

7. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908) (holding that

patent disputes and provided a rationale for the subsequent development of a separate patent misuse defense.<sup>8</sup> In *Bauer & Cie v. O'Donnell*,<sup>9</sup> for example, the Court held that a notice affixed to a product incorporating a patented invention did not obligate the defendant, who had purchased the product from a wholesaler, to offer the product for resale at the price specified in the notice.<sup>10</sup> Similarly, in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*,<sup>11</sup> the plaintiff sold film projecting

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"copyright statutes . . . do not create the right to impose . . . a limitation at which the book shall be sold at retail by future purchasers" because the right only extends to the first production of the copyrighted work); see also *supra* note 6 (discussing the *Bobbs-Merrill* decision).

8. A few earlier patent cases foreshadowed the above decisions to some extent. For example, in *Adams v. Burke*, 84 U.S. 453, 456 (1873), the plaintiff licensed a firm to make and sell coffin lids embodying his invention within a ten-mile radius centered on the city of Boston. The firm sold some coffin lids to the defendant who then used them, without permission from the patentee, in his undertaking business seventeen miles away. *Id.* at 454. The Court construed the Patent Act as permitting the defendant to use the product without authorization, on the ground that "when the patentee . . . sells a machine . . . whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use." *Id.* at 456; see also *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 661 (1895) ("Where the patentee . . . chooses himself to make and vend a patented article of manufacture, . . . a purchaser can use the article in any part of the United States, and, unless restrained by contact with the patentee, can sell or dispose of the same."); *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852) ("When the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. . . . and is no longer under the protection of the act of Congress."). A more recent case often cited as support for the first-sale doctrine is *United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942), which held "[t]he first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers." As Professor Robinson points out, these earlier cases, arguably unlike *Bauer* and other twentieth-century cases cited in the text above, seem to imply that use restrictions might be enforceable if made part of an express contractual condition. Glen O. Robinson, *Personal Property Servitudes*, 71 U. CHI. L. REV. 1449, 1465–66 (2004). The Federal Circuit now follows this reading of the first-sale doctrine as a default rule. See *infra* notes 59–66 and accompanying text (analyzing *Mallinckrodt, Inc. v. Medipart, Inc.* and concluding the first-sale doctrine is merely the default rule that provides no defense to unauthorized use). Whether it is consistent with *Bauer* and the other cases cited is debatable. See Robinson, *supra*, at 1469 (referring with approval to the Federal Circuit's reading of the case law as a "creative misreading" of the prior texts" (quoting HAROLD BLOOM, *THE ANXIETY OF INFLUENCE: A THEORY OF POETRY* xlv (Oxford 2d ed. 1997))). The Supreme Court recently granted certiorari in a case that poses the question whether the Federal Circuit has correctly interpreted patent law's first-sale doctrine as merely a default rule. See *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), *cert. granted sub nom. Quanta Computer, Inc. v. LG Elecs., Inc.*, No. 06-937, 2007 WL 2768020 (Sept. 25, 2007).

9. *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913).

10. *Id.* at 16–18; see also *Boston Store of Chi. v. Am. Gramophone Co.*, 246 U.S. 8, 25, 27 (1918) (finding that the power to fix prices "in derogation of the general law was not within the monopoly conferred by the patent law"); *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500–01 (1917) (finding the "real and poorly-concealed purpose" of a license notice was to fix the resale price, making the notice valid).

11. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

equipment incorporating its patent, subject to a notice warning subsequent purchasers that they were authorized to use the equipment only on the condition that they exhibited films controlled by the plaintiff.<sup>12</sup> As in *Bauer*, the Court held that a defendant who had lawfully acquired the equipment from a middleman and then ignored the notice was not liable for patent infringement.<sup>13</sup> In these cases, the Court relied (as it had in *Bobbs-Merrill*) upon statutory interpretation (here, a narrow construction of the Patent Act's grant of the exclusive rights to use and sell),<sup>14</sup> as well as the premise that the first sale adequately compensates the patent owner,<sup>15</sup> and upon a general distaste for restraints on alienation.<sup>16</sup> More importantly, the Court appeared to be swayed by the anti-price-fixing policy articulated in *Dr. Miles Medical Co. v. John D. Park & Sons Co.*<sup>17</sup> Likewise, in *Motion Picture Patents Co.*, the Court expressed misgivings over patentee efforts to "extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation but which are no part of the patented invention."<sup>18</sup>

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12. *Id.* at 506.

13. *Id.* at 512-19 (reciting the holding in *Bauer* that the patent owner's "right to vend is exhausted by a single, unconditional sale").

14. *See Bauer*, 229 U.S. at 17 (concluding that "the right to vend in the patent statute is not distinguishable from the right of vending given in the copyright act"; in both statutes, Congress intended to protect the right to sell, but not the right to fix prices for resale).

15. *Id.* at 16.

16. *Straus v. Victor Talking Mach.*, 243 U.S. 490, 500-01 (1917).

17. *See Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 405 (1911) (denying the ability of the manufacturer to fix prices of future sales absent an agreement or statutory right to do so); *see also Boston Store of Chi. v. Am. Graphophone*, 246 U.S. 8, 21-25 (1918) (surveying case law disallowing the owner of intellectual property to set fixed prices for future sales); *Straus*, 243 U.S. at 501 (rendering unenforceable a "License Notice" which attempted to fix prices on future sales); *Bauer*, 229 U.S. at 11-12 (reaffirming the principle that the goal of fixing prices on future transactions is against public policy).

18. *See Motion Picture Patents Co.*, 243 U.S. at 516, 519 (describing the restraint at issue as conferring "a potential power for evil over an industry which must be recognized as an important element in the amusement life of the nation" and potentially being "gravely injurious to that public interest, which . . . is more a favorite of the law than is the promotion of private fortunes"); *see also Boston Store*, 246 U.S. at 25 (holding the price-fixing contract in question "contrary to the general law and void"); *Straus*, 243 U.S. at 501 (finding the "real and poorly-concealed purpose" of the plaintiff's "License Notice" was "to restrict the price" of the machines); *Bauer*, 229 U.S. at 17-18 ("[I]t was the intention of Congress to secure an exclusive right to sell, and there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold."). The Court in *Motion Picture Patents Co.* also stated that section 3 of the Clayton Act overruled *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912). *Motion Picture Patents Co.*, 243 U.S. at 517-18; *see also Boston Store*, 246 U.S. at 22 (noting that *A.B. Dick*, a 4-3 decision, was decided at a time when there was one vacancy on the Court). From 1913 to 1918, each member of the *A.B. Dick* majority, consisting of

Taken together, these cases, along with *Bobbs-Merrill*, not only established the first-sale doctrine (which to this day permits the owner of a lawfully made product incorporating a patent or copyright to resell the product without having to obtain permission from the patent or copyright owner),<sup>19</sup> but also set the stage for the evolution of a distinct patent misuse doctrine twenty-some years later.

The Supreme Court's 1942 decision in *Morton Salt Co. v. G.S. Suppiger Co.*<sup>20</sup> was the first to clearly articulate the contours of the patent misuse doctrine as it exists today. Morton Salt owned a patent on a machine for depositing salt tablets, and it leased machines that incorporated this invention on the condition that the lessees (commercial canners) use the machines only in conjunction with nonpatented salt tablets manufactured by a Morton subsidiary.<sup>21</sup> Morton filed a patent infringement suit against G.S. Suppiger Co., a manufacturer and seller of allegedly infringing machines.<sup>22</sup> Without passing judgment on whether the patent was valid or infringed, the district court entered judgment for Suppiger, on the ground that the licenses restrained trade.<sup>23</sup> The Seventh Circuit reversed the judgment on the ground that

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Justices Lurton, McKenna, Holmes, and Van Devanter, dissented from the holdings in each of the new cases of which they took part in the consideration.

After a break of some thirteen years, the Court reaffirmed the holding in *Motion Picture Patents Co.* in two patent infringement cases in the 1930s. See *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 462–63 (1938); *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 31–33 (1931). By this time, the Court had also concluded that tying arrangements involving patents could violate section 3 of the Clayton Act. See *United Shoe Mach. Corp. v. United States*, 258 U.S. 451, 462 (1922) (finding restrictive clauses in the leases of patented machines in violation of the Clayton Act); see also *Int'l Bus. Machs. Corp. v. United States*, 298 U.S. 131, 140 (1936) (“The Clayton Act names no exception to its prohibition of monopolistic tying clauses.”). But cf. *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 179–83 (1938) (affirming a judgment of patent infringement where the patentee had licensed the manufacture and sale of patented articles for private use, the defendant purchased the articles from the licensee, but then the defendant used them for a commercial purpose use other than that which the patentee had licensed).

19. The Copyright Act of 1976 codifies the first-sale doctrine as applied to copyrighted works of authorship. 17 U.S.C. § 109(a)–(b); see also *Quality King Distribs., Inc. v. Lanza Research Int'l, Inc.*, 523 U.S. 135, 143–44 (1998) (considering the applicability of the first-sale doctrine with respect to copyrighted articles made or sold abroad). Although the first-sale doctrine remains good law in the patent context as well, see, e.g., *Anton/Bauer, Inc. v. PAG, Ltd.*, 329 F.3d 1343, 1349–50 (Fed. Cir. 2003), it has never been codified in the Patent Act itself.

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

21. *Id.* at 489–91.

22. *Id.* Suppiger also sold salt tablets, and thus would potentially be a victim of any attempt by Morton to monopolize the salt tablet market; but as noted in the text above, there was no proof that Morton had monopolized that market. In any event, the Court expressly stated that “nothing turns on the fact that [Suppiger] also competes with [Morton] in the sale of the tablets.” *Id.* at 490–91.

23. *Id.* at 489–90.



the licenses did not violate the Clayton Act because they did not substantially lessen competition or tend to create a monopoly in the market for salt tablets.<sup>24</sup> The Supreme Court, however, without passing judgment on the Seventh Circuit's Clayton Act analysis, reversed, citing the unclean-hands principle that courts "may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest."<sup>25</sup> The Court concluded that the use of a patent "to suppress competition in the sale of an unpatented article may deprive the patentee of the aid of a court of equity to restrain an alleged infringement by one who is a competitor."<sup>26</sup> Most importantly, the Court declined to limit this new doctrine to cases in which the patentee's misconduct relates to the particular act or transaction at issue<sup>27</sup>—a traditional limitation upon the application of the equitable doctrine of unclean hands<sup>28</sup>—or in which the defendant competed with the plaintiff in the market for the unpatented product.<sup>29</sup> Thus, "regardless of whether the particular defendant

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24. *Id.* at 490.

25. *Id.* at 492.

26. *Id.* at 491.

27. *Id.* at 492–93.

28. See RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 32 cmt. d (Tentative Draft No. 3, 2004) (stating that, under the doctrine of unclean hands, "a party guilty of inequitable conduct in the underlying transaction may on that account be denied a claim based on unjust enrichment" (emphasis added)). The doctrine of unclean hands would retain some applicability within the realm of patent and copyright law even if my proposed narrowing of the misuse doctrine were to be accepted. See, e.g., *Saxon v. Blann*, 968 F.2d 676, 680 (8th Cir. 1992) (affirming a district court's judgment that the doctrine of unclean hands prevented a copyright owner from enforcing his copyright, in a slightly revised version of a work, against a defendant to whom he had assigned the copyright in an earlier version of the work, where the marketing of the revised version would undermine the economic value of that assignment). Similarly, doctrines such as inequitable conduct and fraud of the Patent or Copyright Office would continue to prevent the assertion of IPRs under applicable circumstances. See, e.g., *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) (noting a patentee may be subject to antitrust liability for (1) asserting a patent infringement claim based upon a patent procured by knowing and willful fraud or (2) asserting "sham" patent rights); *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 872, 877 (Fed. Cir. 1988) (en banc) (stating the defense of inequitable conduct, which can result in unenforceability of the patent in its entirety, resides in the patentee's "failure to disclose material information, or submission of false information, with an intent to deceive" and that both "materiality and intent must be proven by clear and convincing evidence"); *Lennon v. Seaman*, 84 F. Supp. 2d 522, 525 (S.D.N.Y. 2000) (stating a party seeking to establish fraud on the Copyright Office, and hence copyright invalidity, "must establish that the application for copyright registration is factually inaccurate, that the inaccuracies were willful or deliberate . . . , and that the Copyright Office relied on those misrepresentations" (citations omitted)).

29. See *Morton Salt*, 314 U.S. at 493–94 (noting the doctrine applies equally to suits against competitors and noncompetitors). This was, as noted above, despite the fact that Suppiger *did* compete with Morton's subsidiary in the manufacture of salt tablets. *Id.* at 491. Similarly irrelevant was the fact that Suppiger was neither an unwilling party to the

has suffered from the misuse of the patent,<sup>30</sup> the patentee is foreclosed from obtaining relief, “at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse . . . have been dissipated.”<sup>31</sup>

The Supreme Court extended the holding of *Morton Salt* in subsequent cases. In *Zenith Radio Corp. v. Hazeltine Research, Inc.*, for example, the Court held that misuse could consist of setting royalty rates on the basis of the licensee’s sale of unpatented products,<sup>32</sup> while in *Brulotte v. Thys*, it disapproved of the licensing of a patent on the condition that the licensee continue paying royalties after the expiration of the patent.<sup>33</sup>

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restrictive licenses nor (like the defendant in *Motion Picture Patents Co.*) charged with inducing others to breach the restrictive licenses.

30. *Id.* at 494.

31. *Id.* at 493. For similar cases decided at or near the time of *Morton Salt*, see *International Salt Co. v. United States*, 332 U.S. 392, 393 (1947) (analyzing the Government’s suit to enjoin the International Salt Company “from carrying out provisions of the leases of its patented machines to the effect that lessees would use therein only International’s salt products”), and *B.B. Chemical Co. v. Ellis*, 314 U.S. 495, 495–96 (1942) (addressing “the question whether the owner of a method patent who authorizes manufacturers to use it only with materials furnished by him may enjoin infringement by one who supplies the manufacturer with materials for use by the patented method and aids in such use”).

32. See *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 139 (1969) (“There is nothing in the right granted the patentee . . . which empowers him to insist on payment not only for use but also for producing products which do not employ his discoveries at all.”). *But see* *Engel Indus., Inc. v. Lockformer Co.*, 96 F.3d 1398, 1408–09 (Fed. Cir. 1996) (holding that “voluntary” package licensing does not constitute misuse, and distinguishing *Zenith* on the ground that the licensing arrangement there was coerced).

33. See *Brulotte v. Thys Co.*, 379 U.S. 29, 30–34 (1964) (“[A] patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se.*”); see also *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017–21 (7th Cir. 2002) (following *Brulotte* on *stare decisis* grounds despite questioning the Court’s reasoning). *But cf.* *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 261–64 (1979) (holding federal patent law did not preempt a contract to pay a 5% royalty if a patent issued on the inventor’s invention or a lower royalty indefinitely if a patent did not issue). Technically, *Brulotte* was not a misuse case; the Court did not hold the patent at issue to be unenforceable for the very good reason that it had already expired. See *Brulotte*, 379 U.S. at 32–34 (discussing the ramifications of the “post-expiration” period). The plaintiff was instead suing for breach of the agreement to pay post-patent termination royalties, and it was this agreement that the Court held to be unenforceable on the ground that it violated federal patent policy. See *id.* at 33–34 (“[A]fter expiration of the last of the patents . . . , an attempt to project it into another term by continuation of the licensing agreement is unenforceable.”). Subsequent courts, however, have interpreted *Brulotte* as standing for the principle that conditioning a patent license on the agreement to pay post-termination royalties does constitute patent misuse. *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997); *County Materials Corp. v. Allan Block Corp.*, 431 F. Supp. 2d 937, 948 (W.D. Wis. 2006); *Engineered Prods. Co. v. Donaldson Co.*, 313 F. Supp. 2d 951, 995 (N.D. Iowa 2004); *SmithKline Beecham Corp. v. Pentech Pharms., Inc.*, 261 F. Supp. 2d 1002, 1005 (N.D. Ill. 2003). *But see* *Zila, Inc. v. Tinnell*, \_\_ F.3d \_\_, \_\_, 2007 WL 2482099, at \*6–\*7 (9th Cir. Sept. 5, 2007) (questioning the conventional reading of *Brulotte*, but holding that even under that reading *Brulotte* does not vitiate the entire contract but

Lower courts found other practices, such as “tie-outs”—licensing a patent only on the condition that the licensee *not* use a competitor’s product—to constitute misuse.<sup>34</sup> The Supreme Court also held in *Mercoïd Corp. v. Mid-Continent Investment Co. (Mercoïd I)*<sup>35</sup> that patent misuse could arise from tying a patent license to the sale of a product (unlike, say, salt tablets) that has no substantial use other than in connection with the patented invention (a so-called nonstaple product).<sup>36</sup> This holding tended to reduce the doctrine of contributory infringement to a virtual nullity.<sup>37</sup> In 1980, however, in *Dawson Chemical Co. v. Rohm &*

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rather only renders the offending contractual provisions unenforceable). This in turn has given rise to a cottage industry devoted to crafting agreements in such a way that the post-termination royalties can plausibly be attributed to something other than the patented invention—e.g., the use of related trade secrets. *See, e.g.,* *Boggliid v. Kenner Prods., Div. of CPG Prods. Corp.*, 776 F.2d 1315, 1318 (6th Cir. 1985) (declining to find a “hybrid” agreement even though the agreement was entered into before the patent issued because the agreement required royalty payments based on patent rights beyond the term of the patent); *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1371 (11th Cir. 1983) (holding misuse despite arguments that the agreement contained trade secret royalty payments where there was no line drawn between the patent and post-expiration term with respect to the royalties applicable to each); *Quick Point Pencil Co. v. Aronson*, 567 F.2d 757, 760 n.5 (8th Cir. 1977) (rejecting the characterization of a license as a “trade secret license agreement” when the consideration was paid for use of the device instead of disclosure and there was a mutual understanding that a patent application would be filed), *rev’d on other grounds*, 440 U.S. 257 (1979).

34. *See* *Nat’l Lockwasher Co. v. George K. Garrett Co.*, 137 F.2d 255, 256 (3d Cir. 1943) (finding the patentee extended the bounds of the patent monopoly by using the patent to “suppress the manufacture of possible competing goods not covered by its patent”); *see also* *Berlenbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782, 784–85 (9th Cir. 1964) (citing the *Lockwasher* holding for the proposition “that a clause prohibiting a licensee from selling articles in competition with the patented articles likewise constitutes patent misuse”).

35. *Mercoïd Corp. v. Mid-Continent Inv. Co. (Mercoïd I)*, 320 U.S. 661 (1944). The Supreme Court also issued an opinion on the companion case to *Mercoïd I*. *See Mercoïd Corp. v. Minneapolis-Honeywell Regulator Co. (Mercoïd II)*, 320 U.S. 680 (1944).

36. *Mercoïd I*, 320 U.S. at 665–67. The salt tablets at issue in *Morton Salt*, by contrast, are usually understood to have been *staple* products, having substantial uses other than in connection with Morton’s patented machine. *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 192–93 (1980); *NL Chems., Inc. v. United Catalysts, Inc.*, No. 87-0150-L(B), 1989 WL 108508, at \*1 (W.D. Ky. Apr. 11, 1989). *But cf. Morton Salt*, 314 U.S. at 490 (stating that the tablets had “a particular configuration rendering them capable of convenient use in respondent’s patented machines”).

37. To illustrate, consider a patented machine comprising three elements: A, B, and C. A person who combines the three elements without authorization of the patentee has engaged in the unlawful manufacture of the patented invention and is liable as a direct infringer. Now suppose that another entity supplies the direct infringer with element B, that element B has no substantial uses other than in combination with elements A and C, and that the supplier knows the purchaser will be using element B to infringe. If the direct infringer cannot be found or is judgment-proof, the patentee might prefer to sue the supplier as an indirect infringer, on the theory that the supplier knowingly aided and abetted the other in committing direct infringement. Under *Mercoïd I*, however, merely filing suit against the supplier put the patentee at risk of engaging in misuse, on the ground that the patentee was using the patent to suppress competition in the market for

*Haas Co.*, the Supreme Court interpreted a provision of the post-*Mercoïd* 1952 Patent Act<sup>38</sup> as having overruled *Mercoïd I*.<sup>39</sup> As the law now stands, patent owners can assert claims for indirect infringement against persons who knowingly supply nonstaple articles for others to use for the purpose of patent infringement.<sup>40</sup>

More recently, Congress enacted the Patent Misuse Reform Act of 1988<sup>41</sup> to further limit the application of the misuse doctrine as applied to tying arrangements. The act added two new subparts to section 271(d) of the Patent Act, which together with the introductory language read as follows:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following . . . (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the

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the nonstaple good—although this result was not inevitable. One could certainly argue that, even under *Mercoïd I*, merely filing suit shouldn't give rise to a finding of misuse unless the patentee has specifically conditioned the right to use the patent on the user's agreement to buy element B from the patentee. On this theory, the patentee in the example above could still file suit for contributory infringement against a supplier who knowingly sold element B to a person who had no license to make and use the patented invention. But some courts interpreted *Mercoïd I* more broadly. See *Dawson Chem. Co.*, 448 U.S. at 199–200 & n.16 (discussing expansive interpretations of *Mercoïd I*).

38. Patent Act of 1952, Pub. L. No. 593, § 271(d), 66 Stat. 792, 811 (codified at 35 U.S.C. § 271(d) (2000)). This provision reads:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement. . . .

35 U.S.C. § 271(d)(1)–(3) (2000).

In addition, section 271(b) of the Patent Act states that it is unlawful to “actively induce[ ] infringement of a patent.” Sections 271(b) and (c) state that one may be liable for contributory infringement for, *inter alia*, selling a component of a patented machine, “knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use.” 35 U.S.C. § 271(b)–(c) (2000).

39. *Dawson Chem. Co.*, 448 U.S. at 214 (interpreting 35 U.S.C. § 271(d) (2000)).

40. See *id.* at 200–02 (finding section 271(d) of the Patent Act allows a limited power to exclude others from competing in the market for nonstaple goods in conjunction with the patented invention).

41. Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(4)–(5) (2000)).

circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.<sup>42</sup>

The effect of Section 271(d)(5) is to require a defendant asserting misuse by tying prove that the patentee has market power rather than rely upon a presumption that the patent confers such power.<sup>43</sup> By contrast, until recently plaintiffs asserting *antitrust* tying claims were entitled to rely upon a presumption that patents *do* confer market power—thus providing a rare instance in which patent misuse doctrine made it *more* difficult to prove anticompetitive conduct than did the counterpart antitrust doctrine.<sup>44</sup> In 2006, however, the Supreme Court, in accordance with the views expressed by many contemporary economists that most patents do not confer market power in any meaningful sense, overruled some of its own case law and held that plaintiffs asserting claims against defendants for allegedly tying the sale or license of patented articles must prove that the patent at issue conferred market power.<sup>45</sup>

In 1982, Congress established the U.S. Court of Appeals for the Federal Circuit and charged that court with, among other things, hearing all appeals from federal district court judgments involving claims for patent infringement.<sup>46</sup> The Federal Circuit therefore has taken the leading role in recent years in refining the contours of the patent misuse doctrine. As the Federal Circuit has noted, Patent Act section 271(d) establishes only safe harbors—that is, it defines what patent

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42. 35 U.S.C. § 271(d)(4)–(5) (2000).

43. *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1349 n.7 (Fed. Cir. 2005), *rev'd on other grounds*, 547 U.S. 28 (2006).

44. *See id.* at 1347–49.

45. *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 45–46 (2006). Note, however, that some economists advocated retention of the market power presumption on the ground, *inter alia*, that *litigated* patents, as opposed to patents generally, are likely to confer market power. *See* Brief of Scherer as Amicus Curiae Supporting Respondent at 4–10, *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006) (No. 04-1329) (urging that “[b]ecause of the likelihood that a patent involved in litigation has substantial value and market power, this court should maintain a rebuttable presumption of market power in patent tying cases”). *But cf.* Brief of Nalebuff, Ayres, & Sullivan as Amici Curiae Supporting Respondent at 3–4, *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006) (No. 04-1329) (arguing that tying products necessary to the use of the patented process should trigger a presumption of market power).

46. Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25, 37–39 (codified as amended at 28 U.S.C. § 1295 (2000)). *But see* *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 830 (2002) (holding that federal jurisdiction is lacking when the patent claim does not appear on the face of a well-pleaded complaint, but rather is asserted instead as a counterclaim).

misuse *is not*, without affirmatively stating what it *is*.<sup>47</sup> The Federal Circuit itself has come to define patent misuse as “impermissibly broaden[ing] the ‘physical or temporal scope’ of the patent grant with anticompetitive effect,”<sup>48</sup> and it has developed a three-step framework for evaluating assertions of misuse. The first step involves determining whether the challenged conduct is either *per se* misuse or *per se* lawful.<sup>49</sup> *Per se* misuse includes, among other things, conditioning the use of the patent upon the defendant’s agreement to pay post-termination royalties (as per *Brulotte v. Thys*), as well as tying.<sup>50</sup> *Per se* lawful practices include everything listed in Patent Act section 271(d)(1)–(4), e.g., asserting a claim for contributory infringement based upon the defendant’s sale of a nonstaple item, or merely refusing to license the patent to the defendant.<sup>51</sup> Second, if the challenged conduct is neither *per se* misuse nor *per se* lawful, then

47. See *U.S. Philips Corp. v. Princo Corp.*, 173 Fed. Appx. 832, 835 (Fed. Cir. 2006) (reaffirming Congress’s intent that Section 271(d) serve only to specify certain actions that do not qualify as patent misuse). The court has also made clear that patent misuse remains a defense, not an affirmative claim (or counterclaim) for relief. See *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1428 (Fed. Cir. 1997) (“[T]he defense of patent misuse may not be converted to an affirmative claim for damages simply by restyling it as a declaratory judgment counterclaim.”). The same rule applies with respect to copyright misuse. See *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1368 (Fed. Cir. 1999) (“Copyright misuse is a defense to a claim of copyright infringement.”).

48. *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)).

49. See *Va. Panel Corp. v. MAC Panel Corp.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (determining patent misuse by first listing instances of *per se* misuse found in previous court holdings).

50. *Id.*

51. 35 U.S.C. § 271(d)(1)–(4) (2000); see also *Va. Panel Corp.*, 133 F.3d at 869 (describing Section 271 as exclusions from patent misuse). The Federal Circuit also takes the position that a unilateral refusal to license a patent can never constitute a violation of section 2 of the Sherman Act. See *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325–28 (Fed. Cir. 2000) (holding a unilateral refusal to license a patent does not violate Section 2, absent proof that the antitrust defendant committed fraud in the procurement, engaged in sham petitioning, or otherwise attempted to extend its patent beyond the scope of the grant); *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1356–62 (Fed. Cir. 1999) (holding that Intel’s refusal to share proprietary information with Intergraph did not violate the essential facilities doctrine, constitute an unlawful refusal to deal, or otherwise violate Section 2); see also *SCM Corp. v. Xerox Corp.*, 463 F. Supp. 983, 1010–15 (D. Conn. 1978) (refusing to impose damages liability upon Xerox for the profits SCM lost because of Xerox’s refusal to license), *aff’d*, 645 F.2d 1195, 1206 (2d Cir. 1981). Some other courts have held a refusal to license IP presumptively valid, but the antitrust plaintiff can rebut the presumption by showing that the refusal was a pretext. See *United States v. Microsoft Corp.*, 253 F.3d 34, 63–64 (D.C. Cir. 2001) (rejecting Microsoft’s argument that its ownership of valid copyrights in its software constituted a legitimate business justification for its licensing restrictions, given the lack of evidence that all but one of the restrictions were directed at acts that would constitute infringement of those copyrights); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 & n.64 (1st Cir.

a court must determine if that practice is “reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims.” If so, the practice does not have the effect of broadening the scope of the patent claims and thus cannot constitute patent misuse. If, on the other hand, the practice has the effect of extending the patentee’s statutory rights and does so with an anti-competitive effect, that practice must then be analyzed in accordance with the “rule of reason.” Under the rule of reason, “the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature, and effect.”<sup>52</sup>

Using this approach, the Federal Circuit has held that practices such as threatening to void or limit warranties if third parties did not agree to purchase certain unpatented products from the patent owner, or requiring the licensee to acknowledge the validity of and avoid using the patentee’s *trademarks*, did not constitute misuse because they did not broaden the scope of the patent claims.<sup>53</sup> Other practices, such

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1994) (holding that a unilateral refusal to license a copyright does not violate Section 2, except possibly in “rare cases” in which the antitrust plaintiff can rebut a presumption that the defendant was motivated by a valid business justification); *see also* *Image Technical Servs. v. Eastman Kodak Co.*, 125 F.3d 1195, 1218–20 (9th Cir. 1997) (adapting the First Circuit’s holding in *Data General* and affirming a jury verdict that defendant *had* lacked a legitimate business justification for its refusal, and therefore was liable under Section 2).

52. *Va. Panel Corp.*, 133 F.3d at 869 (citations omitted).

53. *See id.* at 868–71 (arguing that threats to void or limit warranties were, in fact, not misuse of the patent, but rather a contractual matter between the buyer and seller having no patent implications); *Windsurfing*, 782 F.2d at 1001–02 (finding that a license provision requiring acknowledgement of a trademark and avoidance of its use could not, except under rare circumstances, unlawfully restrain competition in a relevant patent market); *see also* *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1341–43 (Fed. Cir. 2004) (holding licensing agreements forbidding farmers from saving any seed, covered by a patent on genetically modified seeds, for replanting did not constitute misuse on the ground that second-generation seeds themselves would be covered by the patent and therefore could not be used without authorization). For a recent non-Federal Circuit case citing the Federal Circuit’s framework with approval, *see County Materials Corp. v. Allan Block Corp.*, No. 06-2857, 2007 WL 2701979, at \*1–2 (7th Cir. Sept. 18, 2007). In *County Materials*, a patent licensee filed suit for a declaratory judgment that a license provision restricting competition against the licensor for eighteen months following termination of the license constituted patent misuse. Given the procedural posture of the case, the regional circuit court of appeals, rather than the Federal Circuit, had appellate jurisdiction. The court affirmed a judgment for the licensor on the ground that the licensee had not demonstrated anticompetitive effect. *See id.* at \*5. In the course of so holding, the court called into question the continuing vitality of cases such as *National*

as grantbacks and field-of-use restrictions, are evaluated, if at all, under the rule of reason.<sup>54</sup>

Among the Federal Circuit's more prominent recent decisions on misuse are *Mallinckrodt, Inc. v. Medipart, Inc.*,<sup>55</sup> *Monsanto Co. v. McFarling*,<sup>56</sup> *Monsanto Co. v. Scruggs*,<sup>57</sup> and *U.S. Philips Corp. v. International Trade Commission*.<sup>58</sup> *Mallinckrodt* involved patented medical devices which the patent owner (Mallinckrodt) sold to hospitals on the condition that the hospitals dispose of them after a single use.<sup>59</sup> Ignoring this restriction, several hospitals sent their used devices to Medipart for reconditioning and then used the devices again.<sup>60</sup> Mallinckrodt filed suit against Medipart both for direct infringement and for inducing the hospitals to infringe through reuse.<sup>61</sup> The district court concluded, on the authority of *Bauer, Motion Picture Patents*, and the like, that patentees may not impose a single-use restrictions on purchasers.<sup>62</sup> The Federal Circuit, however, reversed and remanded for the district court to determine (1) whether the challenged restraint on use was "reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims," and (2) if so, whether the anticompetitive effects of the restraint violated the rule of reason.<sup>63</sup> Assuming the restraint passed muster under these standards, the court pointedly concluded the first-sale doctrine also would provide no defense to the claim of unauthorized use.<sup>64</sup> The court's reasoning therefore appears to

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*Lockwasher*, discussed *supra* at note 34. See *id.* at \*4.

54. See, e.g., *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426–27 (Fed. Cir. 1997) (remanding for determination of whether field-of-use restrictions broadened the scope of the patent, and if so, whether they did so within the bounds of the rule of reason).

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

56. *Monsanto Co. v. McFarling*, 363 F.3d 1336 (Fed. Cir. 2004).

57. *Monsanto Co. v. Scruggs*, 459 F.3d 1328 (Fed. Cir. 2006), *cert. denied*, 127 S. Ct. 2062 (2007).

58. *U.S. Philips Corp. v. Int'l Trade Comm'n*, 424 F.3d 1179 (Fed. Cir. 2005), *cert. denied*, 126 S. Ct. 2899 (2006). In the interest of full disclosure, I should note that, after the initial draft of this Article had been posted on *ssrn.com*, I was retained by counterclaim defendants Gigastorage Corporation and Gigastorage USA as a proposed expert witness, in a parallel district court action involving the same patents that were at issue in the 2005 *Philips* decision, on the issue of whether it was objectively reasonable to believe, prior to the Federal Circuit's 2005 decision, that those patents were unenforceable on the ground of patent misuse.

59. *Mallinckrodt*, 976 F.2d at 701–02.

60. *Id.* at 702.

61. *Id.*

62. *Id.* at 703.

63. *Id.* at 708–09 (finding the facts of the case did not represent a per se antitrust or misuse violation under *Bauer* or *Motion Picture Patents*).

64. See *id.* at 709 (finding the district court holding of permissible repair of the



indicate that the Federal Circuit views the first-sale doctrine as merely a default rule<sup>65</sup>—that is, it applies only when the patentee has made an *unrestricted* sale of an article incorporating the patented invention.<sup>66</sup>

The two *Monsanto* cases both involved patents that claim, among other things, the insertion of genetically modified enzymes into seeds.<sup>67</sup> A farmer who plants the modified seed can then spray her crops with specified insecticides or herbicides; the insecticide or herbicide will kill pests or other plants (such as weeds), respectively, but it does not affect the genetically modified organism grown from the seed.<sup>68</sup> Monsanto licenses seed companies to incorporate its technology into their seed, but only on condition that the seed companies in turn license farmers to use the seed subject to certain restraints. In particular, Monsanto requires the seed companies to distribute seed to farmers only on condition that the farmers use the seed for only one growing season and not to save any seed or crop for replanting.<sup>69</sup> In both cases, Monsanto filed suit against a farmer who ignored these restrictions, alleging patent infringement and (in *McFarling*) breach of contract.<sup>70</sup> In *McFarling*, the farmer argued Monsanto's refusal to permit seed saving in effect tied the license of the patented technology to an unpatented product, naturally-occurring soybean seed.<sup>71</sup> Both the lower court and the Federal Circuit rejected this characterization, however, as well as Monsanto's alternative characterization of the arrangement as a field-of-use restriction, on the ground that the license did nothing more than forbid the unauthorized manufacture of the patented invention.<sup>72</sup>

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patented product moot and vacated). *But cf.* *Kendall Co. v. Progressive Med. Tech., Inc.*, 85 F.3d 1570, 1575–76 (Fed. Cir. 1996) (distinguishing from *Mallinckrodt*, the court held that, absent any contractual obligation requiring the purchasers to buy replacement parts from the patentee, the defendant's sale of replacement parts to the patented product purchasers did not constitute contributory infringement when the patentee instructed purchasers to replace a component of its patented device after each use).

65. See Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 CAL. L. REV. 1, 33–36 (2001) (criticizing this result in the software context because most software is licensed rather than sold).

66. See *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001) (“The unrestricted sale of a patented article, by or with the authority of the patentee, ‘exhausts’ the patentee’s right to control further sale and use of that article by enforcing the patent under which it was first sold.”).

67. *Monsanto v. Scruggs*, 459 F.3d 1328, 1332 (Fed. Cir. 2004); *Monsanto v. McFarling*, 363 F.3d 1336, 1338 (Fed. Cir. 2004).

68. *Scruggs*, 459 F.3d at 1333; *McFarling*, 363 F.3d at 1338.

69. *Scruggs*, 459 F.3d at 1333; *McFarling*, 363 F.3d at 1339.

70. *Scruggs*, 459 F.3d at 1333; *McFarling*, 363 F.3d at 1340.

71. *McFarling*, 363 F.3d at 1342.

72. *Id.* at 1342–43.

Because second-generation seed is identical to first-generation seed, the planting of second-generation seed necessarily results in a "making" of the patented enzyme.<sup>73</sup> Assuming that Monsanto's patent validly reads on first-generation seed, it necessarily reads on second-generation seed as well; the restriction therefore fell squarely within the scope of Monsanto's patent rights.<sup>74</sup> The court rejected a similar misuse argument in *Scruggs*, as well as other arguments directed towards other aspects of Monsanto's licensing system.<sup>75</sup> Among these arguments was a requirement, imposed from 1996 to 1998, that seed growers who wanted to use glyphosate herbicide in connection with Monsanto "Roundup Ready" seed use Monsanto's own "Roundup" glyphosate herbicide.<sup>76</sup> According to the majority, the fact that Roundup was the only EPA-approved glyphosate herbicide on the market during the period in question was dispositive—the condition threatened no "actual adverse effect on competition."<sup>77</sup>

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73. See *id.* at 1343 (observing that use of the patented first-generation seed produces nearly identical second-generation seed).

74. *Id.*

75. See *Scruggs*, 459 F.3d at 1339, 1342 (finding no merit in *Scruggs*'s allegations of antitrust violations and patent misuse or his attacks on Monsanto's partner licensing agreements, grower licensing agreements, and grower incentive programs).

76. *Id.* at 1339. Specifically, the court concluded, first, any challenge to Monsanto's no-replant policy was precluded by its decision in *McFarling*. *Id.* at 1339. This no-replant provision, as well as a related provision "requiring growers to use only seed containing Monsanto's biotechnology for planting a single crop ('exclusivity provision')" fell within the scope of Monsanto's patent rights. *Id.* at 1333, 1340. Second, it rejected a challenge to Monsanto's imposition of a technology fee, which the court concluded was indistinguishable from a royalty, and therefore within the scope of the patent grant. *Id.* at 1340. Third, the court rejected a challenge to Monsanto's requirement that seed growers not use the seed for purposes of research or experimentation, characterizing this restraint as "a field of use restriction . . . within the protection of the patent laws." *Id.* Fourth, and relatedly, the court affirmed the district court's characterization of Monsanto's prohibition of the "stacking" of "the Roundup Ready trait with transgenic traits developed by competitors" as a lawful field of use restriction. *Id.* at 1339, 1342. Fifth, the court rejected a challenge to Monsanto's "grower incentive" program, which gave "participating seed growers additional voluntary benefits if they choose to use Roundup herbicide exclusively on crops containing Monsanto's Roundup technology," on the ground that the program "was optional, not coerced." *Id.* at 1339–40. Note, however, that the court made no mention of section 3 of the Clayton Act, which forbids, *inter alia*, a seller from discounting or rebating a portion of the purchase price of goods on condition that the buyer agree not to use the goods of a competitor, where the effect is substantially to lessen competition or tends to create a monopoly. 15 U.S.C. § 14 (2000). Sixth, the court rejected a challenge to "seed partner agreements" which required "seed growers who choose to use a glyphosate herbicide to use Roundup," on the ground that the "seed partners were not forced to buy Roundup under the seed partner agreements." *Scruggs*, 459 F.3d at 1339–40. Seventh, the court rejected a challenge based on Monsanto's "alleged refusal to sell Roundup Ready cotton seeds without the Bollgard trait," on the ground that Monsanto in fact "sells cotton without the Bollgard trait and there is no evidence that Monsanto engineered a shortage of Roundup Ready cotton." *Id.* at 1339–41.

77. *Scruggs*, 459 F.3d at 1341. In his dissent, Judge Dyk cited *Federal Trade*

More recently, in *Philips*, the court concluded that a package licensing arrangement did not constitute patent misuse.<sup>78</sup> Philips owned a portfolio of patents on compact disc related technology, some of which Philips designated as essential, and some nonessential, for producing CDs that would comply with applicable technical standards.<sup>79</sup> Philips offered licenses to the essential and nonessential patents as a package in exchange for royalties based on the number of CDs the licensee produced, rather than on the basis of the number of patents used.<sup>80</sup> Philips declined to license the patents on an individual basis.<sup>81</sup> Philips thereafter filed suit against three of its licensees, who had stopped paying their fees, for unlawful importation into the United States of CDs that infringed Philips's patents.<sup>82</sup> In their defense, the licensees asserted the package licensing system constituted patent misuse, insofar as Philips had conditioned the license of the essential patents on the licensees' agreement to license the nonessential patents as well.<sup>83</sup> The administrative law

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*Commission v. Independent Federation of Dentists* for the proposition "[t]hat a particular practice may be unlawful is not, in itself, a sufficient justification for collusion among competitors to prevent it." *Scruggs*, 459 F.3d at 1343 (Dyk, J., concurring in part and dissenting in part) (quoting *Fed. Trade Comm'n v. Ind. Fed'n of Dentists*, 476 U.S. 447, 465 (1986)); see also *Nat'l Soc'y of Prof'l Eng'rs v. United States*, 435 U.S. 679, 695-96 (1978) (holding that purported concerns over public safety do not justify collusion among competitors). The principle that the promotion of safety or compliance with other laws is not a cognizable *procompetitive* justification for otherwise anticompetitive restraints, however, while unassailable, is also irrelevant to the vertical restraint at issue in *Scruggs*. As the majority points out, because Roundup was the only approved glyphosate herbicide during the period in which Monsanto imposed the condition, there was no foreclosure in the market for the tied product; consumers who demanded glyphosate herbicide would have had no choice but to purchase the tied product from Monsanto. See *Scruggs*, 459 F.3d at 1341 (majority opinion) (noting that Monsanto's glyphosate herbicide was the only one approved by the EPA). Judge Dyk may have been on more sound footing in noting that the effect of the restraint potentially was to discourage competitors "from seeking regulatory approval or attempting to have the regulation modified or eliminated," and that a license merely requiring "the use of a government-approved herbicide," as opposed to Monsanto's Roundup-branded herbicide, would have been less objectionable. *Id.* at 1343-44 (Dyk, J., concurring in part and dissenting in part). However, neither the majority nor the dissent pointed to any evidence of competitors who were actually discouraged from seeking regulatory approval for their herbicides as a result of the restraint. Arguably there was no "forcing" either, insofar as consumers who preferred not to use glyphosate herbicide at all were under no obligation to buy any. See *id.* at 1340 (majority opinion) (observing that consumers were not coerced into buying the Roundup herbicide).

78. *U.S. Philips Corp. v. Int'l Trade Comm'n*, 424 F.3d 1179, 1198-99 (Fed. Cir. 2005).

79. *Id.* at 1182.

80. *Id.*

81. *Id.* at 1184.

82. *Id.* at 1182-83.

83. *Id.* at 1183.

judge and the International Trade Commission (ITC) ruled in favor of the defendants; the Federal Circuit reversed.<sup>84</sup> The court concluded, first, that the licensing arrangement did not constitute per se misuse, despite the fact that Philips possessed market power in the relevant market<sup>85</sup> and despite two earlier Supreme Court decisions, *United States v. Paramount Pictures, Inc.*<sup>86</sup> and *United States v. Loew's, Inc.*,<sup>87</sup> that had condemned block booking of motion pictures as a per se violation of the antitrust laws. The court distinguished *Paramount* on the ground that, in that case, licensees were required not only to license but also to exhibit the tied films (and, as a practical matter, not to exhibit other films in their stead); it distinguished *Loew's* on the similar ground that licensees were required to pay for exhibition rights to the tied films "at a price that was greater than the price attributable to the desired films."<sup>88</sup> By contrast, Philips did not require licensees to use the tied (nonessential) patents at all, and, importantly, no portion of the royalty charged for the package could be attributed to the nonessential patents alone.<sup>89</sup> The court noted repeatedly that Philips charged licensees based on the number of CDs they manufactured, not the number of patents used, and it reasoned that Philips should be no worse off for having included the nonessential licenses in the package than it would be if, for example, it dedicated those latter patents to the public domain.<sup>90</sup> The court also cited several potential procompetitive benefits from the package licensing arrangement, including a reduction in transaction costs, analogous to the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music, Inc. (BMI) licensing system, as a further reason to resist the per se characterization.<sup>91</sup> In the alternative, the court concluded another element necessary for per se tying—an anticompetitive foreclosure of commerce in the market for the tied patents—was lacking, citing what it saw as a lack of evidence that the so-called nonessential patents really *were* nonessential, in the sense of having viable competitive

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84. *Id.* at 1183, 1198–99.

85. *See id.* at 1186 (commenting that the existence of market power does not require a finding of patent misuse).

86. *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 157–59 (1948) (holding the refusal to license one copyright unless another copyright is licensed to be illegal).

87. *United States v. Loew's, Inc.*, 371 U.S. 38, 49–50 (1962) (invalidating tying and block-booking arrangements of motion picture films for television).

88. *Philips*, 424 F.3d at 1188–89.

89. *Id.* at 1190–91.

90. *Id.* at 1191.

91. *Id.* at 1192–93.

alternatives.<sup>92</sup> This latter holding, as well as the perceived procompetitive benefits of the arrangement, also may have doomed any assertion that the package arrangement constituted misuse under the rule of reason, although the court remanded for further consideration.<sup>93</sup>

*Philips* is an interesting case in that the court (if anything) construed the misuse doctrine as being even more difficult to sustain than would be the analogous antitrust claim.<sup>94</sup> To see why, consider the following hypothetical based upon a slightly different hypothetical posed by a student commentator.<sup>95</sup> Suppose that P owns patents on two inventions, X and Y. Because there are no good substitutes for patent X, patent X confers market power. Potential licensees of patent X, however, need to use the patent in combination with a complementary patent. P's patent Y is one such complementary patent, as are patents A, B, C, D, and E, all of which are owned by other persons. The market for these complementary patents is competitive, meaning that firms within this market earn no more than the normal rate of return on capital, and the market price for a standard license is \$5.<sup>96</sup> Finally, suppose that P can maximize her profit in the market for patent X by selling 100 licenses each for a monopoly price of \$50. P can either bundle patents X and Y together or she can leave her licensees free to choose whichever complementary patent they want. Licensees who are free to choose whichever complementary patent they want pay \$55 for the package: \$50 for patent X, and \$5 for the complementary patent (payable to whoever owns that patent). If instead P bundles X and Y together, she still has no incentive to charge more than \$55 for the package. Prior to bundling, licensees knew that the implicit price of a bundle was \$55, and P maximized her profit by selling 100 licenses to patent X; thus if she raises the price of the bundle, her profits go down.

This is the standard analysis that leads Chicago School observers to doubt that tying typically enables the monopolist to

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92. *Id.* at 1193–95.

93. *See id.* at 1198–99 (remanding in light of the Commission's failure to address all findings under per se and rule of reason analyses). On remand, the Commission entered judgment for Philips. *See Certain Recordable Compact Discs and Rewritable Compact Discs*, Inv. No. 337-TA-474, Commission Op. (Int'l Trade Comm'n, Feb. 5, 2007).

94. *Philips*, 424 F.3d at 1185–86 (noting some activities that would require scrutiny under antitrust laws may not qualify as patent misuse).

95. *See* Daniel P. Homiller, *Patent Misuse in Patent Pool Licensing: From National Harrow to "The Nine No-Nos" to Not Likely*, 2006 DUKE L. & TECH. REV. 007, ¶¶ 35–38 (2006), available at <http://www.law.duke.edu/journals/dltr/articles/2006dltr0007.html>.

96. The competitive price actually may be near zero if the marginal cost of producing each license is very low.

derive a second monopoly profit in the market for the tied good.<sup>97</sup> The bundling strategy nevertheless may be vulnerable to an antitrust claim, even if P extracts the same profit under either strategy. According to most courts, tying is per se unlawful when the defendant has market power in the market for the tying product, there are separate demands for the tying and tied products, and the defendant coerces buyers to buy the tied product from the defendant instead of other sellers.<sup>98</sup> All of these elements arguably are satisfied in the hypothetical; sellers of the competing complementary patents are indeed foreclosed from the tied product market. On the other hand, some courts require, as an additional element in a tying case, proof of *anticompetitive* harm in the market for the tied product.<sup>99</sup> If anticompetitive harm is defined to mean harm to consumer or social welfare, as opposed to harm to competitors, this element is not satisfied in the hypothetical.<sup>100</sup> Yet while this may be the better result, as a matter of rational antitrust policy it is not clear that the Supreme Court is quite ready to interpret tying law in this fashion.<sup>101</sup> Similarly, the Federal Circuit's effort to distinguish

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97. The classic analysis is found in Ward S. Bowman, Jr., *Tying Arrangements and the Leverage Problem*, 67 YALE L.J. 19, 35 (1957) (concluding that existence of separate charges for the tying product and the tied product does not necessarily create a second monopoly).

98. See *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1338 (Fed. Cir. 2006) (listing elements plaintiff must show to prove a tying arrangement), *cert. denied*, 127 S. Ct. 2062. In addition, the tie must affect a substantial volume of commerce in the market for the tied product. *Eastman Kodak Co. v. Image Technical Servs., Inc.* 504 U.S. 451, 462 (1992).

99. See *Scruggs*, 459 F.3d at 1341 (declaring that under the rule of reason a defense of patent misuse requires a showing of stifled competition).

100. See *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 56 (2d Cir. 1997) (focusing the ultimate inquiry on potential harm to consumers); *United Farmers Agent Ass'n, Inc. v. Farmers Ins. Exch.*, 89 F.3d 233, 235 n.2 (5th Cir. 1996) (defining harm as the actual effect of a tying arrangement on the market's competition); see also *Brown Shoe Co. v. United States*, 370 U.S. 294, 344 (1962) ("It is competition, not competitors, which the [Sherman] Act protects."). But cf. *In re Visa Check/Mastermoney Antitrust Litig.*, No. 96-CV-5238, 2003 WL 1712568, at \*2 (E.D.N.Y. Apr. 1, 2003) (holding that a showing of anticompetitive harm of a tying arrangement is optional).

101. If licensees are *indifferent* among alternatives Y, A, B, C, D, and E in the hypothetical above, then arguably there is no valid tying claim. See *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 28 (1984) (stating that when consumers are indifferent among alternatives in the tied product market, tying "cannot be said to have foreclosed a choice that would have otherwise been made 'on the merits'"); Christopher R. Leslie, *Cutting Through Tying Theory with Occam's Razor: A Simple Explanation of Tying Arrangements*, 78 TUL. L. REV. 727, 813 (2004) (citing *Jefferson Parish* for the proposition that a tying arrangement does not stifle competition where consumers are indifferent to choices among the tied product). If some licensees would prefer one of the other alternatives to Y, however, it remains to be seen whether the Court would view the foreclosure of these alternatives from the market for the tied product as competitive harm even though (as in the hypothetical above) the monopolist derives only one monopoly profit. But cf. *Paddock Publ'ns, Inc. v. Chi. Tribune Co.*, 103 F.3d 42, 46 (7th Cir. 1996) (Easterbrook, J.) (stating that, in an exclusive dealing case, the approach—"which

*Paramount* and *Loew's* may make economic sense,<sup>102</sup> but it is not easy to reconcile with the actual decisions. The *Paramount* Court, for example, defined block-booking as “the practice of licensing, or offering for license, one feature or group of features

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depends on ‘foreclosure’ of sales to competitors without proof of injury to consumers—reflects a bygone day in antitrust analysis,” though not all cases relying upon that approach have been overruled).

It is also conceivable that the Federal Circuit underestimated the potential anticompetitive nature of the package licensing at issue in *Philips*. When a monopolist bundles two products together, a potential competitor in either the tying or tied product market may have to enter both markets simultaneously in order to compete. The cost of doing so may constitute a barrier to entry, in which case bundling *can be* anticompetitive in the sense that it enables the monopolist to preserve her monopoly in the tying product market for longer than would otherwise be the case. See Barry Nalebuff, *Bundling* 1–2 (Yale Int'l Center for Finance, Working Paper No. 14, 1999), available at <http://ssrn.com/abstract=185193> (positing that tying gains from entry-deterrent effect are significant when compared to nominal gains from price discrimination). But cf. Bruce H. Kobayashi, *Does Economics Provide a Reliable Guide to Regulating Commodity Bundling by Firms? A Survey of the Economic Literature* 33–34 (Geo. Mason Law & Econ. Research Paper No. 35, 2005), available at [http://ssrn.com/abstract\\_id=836724](http://ssrn.com/abstract_id=836724) (arguing that, while bundling can be anticompetitive, the literature thus far provides insufficient guidance for evaluating the pro- and anticompetitive benefits of bundling in the real world). More generally, economists have identified several possible situations in which it might be plausible to leverage a monopoly in one product market into a monopoly in a second market. See Dennis W. Carlton & Michael Waldman, *The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries*, 33 RAND J. ECON. 194, 196–97 (2002) (presenting two models that suggest tying enables a monopolist to realize a second monopoly in an emerging market); Eric B. Rasmusen et al., *Naked Exclusion*, 81 AM. ECON. REV. 1137, 1143–44 (1991) (concluding that certain exclusionary agreements do allow monopolists to exclude competitors and potential competitors); see also Michael D. Whinston, *Tying, Foreclosure, and Exclusion*, 80 AM. ECON. REV. 837, 837–40 (1990) (addressing criticisms of the leverage theory); Jay Pil Choi, *Antitrust Analysis of Tying Arrangements* 5–11 (Center for Econ. Studies and Ifo Inst. for Econ. Research, Working Paper No. 1336, 2004), available at <http://ssrn.com/abstract=629001> (discussing academic treatment of the leverage theory). Absent the specific conditions identified in works such as these, however, the common view among economists today is that leveraging is not a likely result of tying. See KEITH N. HYLTON, *ANTITRUST LAW: ECONOMIC THEORY & COMMON LAW EVOLUTION* 281–83 (2003) (surveying specific situations and academic assumptions which tend to support the leverage theory).

102. It is hardly obvious to me, however, that anything hangs on the court's distinction between a tying arrangement in which the tied product is a product or service, on the one hand, as opposed to intellectual property, on the other. See *U.S. Philips Corp. v. Int'l Trade Comm'n*, 424 F.3d 1179, 1188–90 (Fed. Cir. 2005) (differentiating Philips's patent-to-patent arrangement from the tying arrangements in *Paramount* and *Loew's*). In any event, the *Philips* court did not attempt to distinguish *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969), a case that did involve patent-to-patent tying. See 1 HOVENKAMP ET AL., *supra* note 6, § 3.3b1, at 3-24.1 (noting the *Philips* court's failure to distinguish *Zenith*). In *Zenith*, the Supreme Court held that the patent owner may have engaged in misuse by conditioning the grant of its package license upon the licensee's agreement to pay royalties based on total sales of radios and television sets, regardless of whether the patents at issue were used in those products. See *Zenith*, 395 U.S. at 134–38; see also *Engel Indus. v. Lockformer Co.*, 96 F.3d 1398, 1408 (Fed. Cir. 1996) (“If convenience of the parties rather than patent power dictates the total-sales royalty provision, there are no misuse of the patents and no forbidden conditions attached to the license” (quoting *Zenith*, 395 U.S. at 138)).

on condition that the exhibitor will also *license* another feature or group of features.”<sup>103</sup> It did not, as the court in *Philips* asserted, refer to the practice of requiring the *exhibition* of the tied film,<sup>104</sup> any more than the Philips package required the *use* of the tied patents. Although the Supreme Court may well choose to reverse the Federal Circuit someday, as it continues its move away from the Warren Court and earlier antitrust precedent in favor of a more Chicago-friendly approach, the Court has repeatedly stated that it is not for the lower courts to anticipate such moves.<sup>105</sup>

And yet at the same time it is clear that patent misuse remains, at least in a few discrete respects, easier to prove than would be the counterpart antitrust violations. An agreement to continue collecting royalties after the patent term, for example, as in *Brulotte*, would not constitute an antitrust violation absent much clearer proof of anticompetitive effect.<sup>106</sup> Similarly, although Patent Act section 271(d)(5) moves the law of tying misuse closer to its antitrust counterpart, the overlap is not complete; it may be that assertions of tying misuse can be sustained on a lesser showing of anticompetitive harm than

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103. *United States v. Paramount Pictures*, 334 U.S. 131, 156 (emphasis added); see also *id.* at 157 (stating that the district court “enjoined defendants from performing or entering into any license in which the *right to exhibit* one feature is conditioned upon the licensee’s taking one or more other features” (emphasis added)).

104. See *Philips*, 424 F.3d at 1187–88 (asserting that the block-booking arrangement in *Paramount* forced purchasers of packaged licenses to exhibit unwanted films in order to exhibit the desired films).

105. See *Khan v. State Oil Co.*, 93 F.3d 1358, 1363 (7th Cir. 1996) (reinforcing the Supreme Court’s principle that lower courts should not treat a decision as overruled until the Supreme Court has expressly overruled that decision), *rev’d on other grounds*, 522 U.S. 3 (1997). The court is probably correct, however, in suggesting that, all other things being equal, block-booking is more problematic than package licensing, insofar as the former, but not the latter, requires the use of the tied product. See 1 HOVENKAMP ET AL., *supra* note 6, § 22.4, at 22-28.3 (arguing that block-booking may be more harmful than package licensing because competitor foreclosure is more of a concern in a block-booking arrangement). Note also that the Department of Justice/Federal Trade Commission guidelines state the agencies’ view that, notwithstanding *Paramount*, package licensing should be treated no differently from any other alleged tying arrangement. See U.S. DEPT OF JUSTICE & FEDERAL TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 5.5, at 26 (Apr. 6, 1995), available at <http://www.usdoj.gov/atr/public/guidelines/0558.pdf> (advising that package licensing found to be a tying arrangement will be evaluated the same as any other tying arrangement).

106. See *Zenith*, 395 U.S. at 140 (concluding that patent misuse on the part of Hazeltine Research does not necessarily signal an antitrust violation); *Engineered Prods. Co. v. Donaldson Co., Inc.*, 313 F. Supp. 2d 951, 994–95 (N.D. Iowa 2004) (stating that patent misuse may occur without finding an antitrust violation); *PSC Inc. v. Symbol Techs., Inc.*, 26 F. Supp. 2d 505, 511 (W.D.N.Y. 1998) (noting that finding an antitrust violation is not a prerequisite for a finding of patent misuse); see also *Windsurfing, Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001–02 (Fed. Cir. 1986) (noting that a licensing agreement may constitute patent misuse even if the agreement is not found per se anticompetitive).



would be the case with respect to an analogous antitrust claim.<sup>107</sup> And even today the occasional district court opinion interprets patent misuse in a much broader fashion. For example, in *PSC Inc. v. Symbol Technologies, Inc.*, the district court held that a patent owner had committed misuse when it (1) required a manufacturer of hand-held scanners to pay a royalty based on every sale of every scan engine incorporating the patent owner's patented technology, and (2) required a manufacturer of scanning terminals to pay a similar royalty, even when the latter manufacturer had purchased scan engines incorporating that equipment from the first manufacturer.<sup>108</sup> In the court's view, the patent owner had broadened the patent's scope by collecting two royalties for the same product, in violation of the exhaustion doctrine.<sup>109</sup> This broadening produced "a strong anticompetitive effect on the market for scan engines" because (somewhat circularly) it resulted in a double payment;<sup>110</sup> the practice "suppress[ed] competition by increasing the manufacturing cost of a hand-held scanner or an integrated terminal when a PSC scan engine is used in those products," thus "unfairly restrain[ing] competition in a market that is essentially controlled by" the patent owner.<sup>111</sup> As in *Brulotte*, the proposition that the patent conferred monopoly power upon the patent owner

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107. See *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 670 n.14 (Fed. Cir. 1986) (noting that, for purposes of antitrust tying claims, a court must determine whether two separate goods, as defined by consumer demand, are being tied, whereas the law of misuse "need not look to consumer demand (which may be nonexistent), but need look only to the nature of the claimed invention as the basis for determining whether a product is a necessary concomitant of the invention or an entirely separate product"); 1 HOVENKAMP ET AL., *supra* note 6, § 3.3b.1, at 3-14 to -16 (noting that Section 271(d)(5) does not speak to the issue of whether misuse by tying can exist if there is no market power in the market for the tied good, but that imposing such a requirement in both antitrust and misuse cases makes sense). On the other hand, in *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), the court affirmed a jury verdict that a product design change that made it more difficult for purchasers of a product covered by a patent to obtain spare parts from anyone other than the patentee constituted a violation of Sherman Act section 2, in light of evidence that the patentee had market power for the replacement part and that the design change actually reduced the product's technical functionality. *Id.* at 1381-83. At the same time, however, the court reversed a finding that the patentee had committed misuse on the grounds that (1) the jury instruction on misuse was too vague, and (2) there was no evidence that the patentee's conduct constituted per se misuse or was "not 'reasonably within the patent grant.'" *Id.* at 1372-73 (citing *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992)).

108. See *PSC*, 26 F. Supp. 2d at 511 (holding that collecting two royalties for the same product is patent misuse). But see *Minebea Co. v. Papst*, 444 F. Supp. 2d 68, 210-12 (D.D.C. 2006) (distinguishing *PSC* because Minebea did not "pay for the same patent rights on the same products").

109. *PSC*, 26 F. Supp. 2d at 510.

110. *Id.* at 510-11.

111. *Id.* at 511.

appears to have been assumed, rather than proven; the court offered no explanation for why it is any more anticompetitive to extract a single monopoly profit from two parties (or over two time periods, as in *Brulotte*) than to extract it from one.<sup>112</sup> Finally, it remains the case that one need not prove standing or injury to assert patent misuse,<sup>113</sup> and the remedy remains unenforceability of the patent until purgation—potentially a more substantial penalty than even treble damages. The Supreme Court and the Federal Circuit therefore are probably correct when they state that misuse goes beyond antitrust.<sup>114</sup> Exactly how far, however, still remains a bit uncertain.

Whatever the current state of patent misuse may be, it is clear that copyright misuse, as currently understood by several circuit courts,<sup>115</sup> goes well beyond the contours of antitrust law. One of the first opinions to clearly recognize and validate a copyright misuse defense is the Fourth Circuit's decision in *Lasercomb America, Inc. v. Reynolds*.<sup>116</sup> Lasercomb owned the

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112. Intuitively, one might expect that a patent owner in such circumstances might be able to exploit information asymmetries and thus succeed in extracting two profits; but if the second manufacturer was willing to pay in effect a "double" royalty, why not simply charge him as much in the first instance? The more likely explanation is, once again, price discrimination. Scan engines incorporated into the second manufacturer's product may be more valuable than scan engines incorporated into other products. In effect, the patent owner was extracting two different tariffs, depending on the end use of the product.

113. Cf. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977) (holding that, in private antitrust litigation, plaintiff must prove it has suffered, or is threatened with, "injury of the type the antitrust laws were intended to prevent"). There also is no necessary connection between the amount of harm suffered by the victims of the misuse and the penalty imposed upon the patentee—namely, the loss of the right to enforce the patent. See Mark A. Lemley, Comment, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CAL. L. REV. 1599, 1616–17 (1990) (arguing that the remedy in a patent misuse ruling does not necessarily correlate to the infringement). Professor Lemley no longer believes that the misuse doctrine should be abolished in its entirety, and he may be right, but the preceding point is still a valid one. See Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 152 n.188 (1999) [hereinafter Lemley, *Beyond Preemption*] (acknowledging that application of patent misuse may be appropriate in certain situations).

114. See *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969) (stating that, when there is patent misuse, "it does not necessarily follow that the misuse embodies the ingredients of a violation of either § 1 or § 2 of the Sherman Act"); *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998) (stating misuse is "a broader wrong than antitrust violation because of the economic power that may be derived from the patentee's right to exclude," and that it "may arise when the conditions of antitrust violation are not met"); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992) ("The concept of patent misuse arose to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy.").

115. There are no Supreme Court cases on point.

116. *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976–77 (4th Cir. 1990). A district court opinion from 1948 appears to be the very first case to recognize a copyright misuse defense, holding that members of ASCAP violated the Sherman Act and

copyright in a computer-assisted die-making software program, Interact, which it licensed on condition that licensees not develop or market their own computer-assisted die-making software during the term of the agreement, ninety-nine years.<sup>117</sup> One of the licensees, Reynolds, failed to sign the agreement (a fact that Lasercomb apparently overlooked) and then proceeded to copy the program for the purpose of creating and marketing its own nearly identical program.<sup>118</sup> The Fourth Circuit reversed a judgment in favor of Lasercomb on the ground of copyright misuse,<sup>119</sup> characterizing the license Reynolds had declined to execute as “anticompetitive,”<sup>120</sup> as an “attempt[] to suppress any attempt by the licensee to independently implement the idea which Interact expresses,”<sup>121</sup> and as an “attempt to use its copyright . . . to control competition in an area outside the copyright, *i.e.*, the idea of computer-assisted die manufacture.”<sup>122</sup> Perhaps more importantly, the court rejected the lower court’s recourse to antitrust’s rule of reason<sup>123</sup>—thereby apparently concluding that the license constituted misuse *per se*—or any close connection to antitrust at all, stating that “[t]he question is not whether the copyright is being used in a manner violative of antitrust law (such as whether the licensing agreement is ‘reasonable’), but whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright.”<sup>124</sup>

Several other courts followed suit in the wake of *Lasercomb*. For example, the Fifth Circuit in *Alcatel USA, Inc. v. DGI*

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committed copyright misuse by fixing prices and monopolizing the market for musical works integrated into motion pictures. *M. Witmark & Sons v. Jensen*, 80 F. Supp. 843, 849–50 (D. Minn. 1948), *appeal dismissed*, 177 F.2d 515 (8th Cir. 1949) (per curiam). A few other decisions prior to *Lasercomb* arguably implicitly recognized a misuse defense. See Roger Arar, Note, *Redefining Copyright Misuse*, 81 COLUM. L. REV. 1291, 1304–05 (1981); Meg Dolan, *Misusing Misuse: Why Copyright Misuse Is Unnecessary* 10 & n.57 (Dec. 4, 2006) (unpublished manuscript, on file with The Houston Law Review).

117. *Lasercomb*, 911 F.2d at 971, 973, 978.

118. *Id.* at 971, 973.

119. See *id.* at 979 (“We think the anticompetitive language in *Lasercomb*’s licensing agreement . . . amounts to misuse of its copyright.”).

120. *Id.* at 978.

121. *Id.*

122. *Id.* at 979.

123. *Id.* at 977.

124. *Id.* at 978. As my colleague Dan Gifford has suggested, it is as if the copyright courts have completely ignored the development of patent misuse law since *Morton Salt*. See Daniel J. Gifford, *The Antitrust/Intellectual Property Interface: An Emerging Solution to an Intractable Problem*, 31 HOFSTRA L. REV. 363, 368–69 (2002) (discussing the “judicial assault on tying arrangements”).

*Technologies, Inc.*,<sup>125</sup> held that an agreement requiring licensees of the plaintiff's operating systems software to use the software only in conjunction with hardware manufactured by the plaintiff constituted misuse<sup>126</sup>—while at the same time, holding evidence of the plaintiff's power over a properly defined market was insufficient to support the defendant's counterclaim for violation of section 2 of the Sherman Act.<sup>127</sup> Similarly, the Ninth Circuit held in *Practice Management Information Corp. v. American Medical Ass'n*<sup>128</sup> that the American Medical Association (AMA) committed misuse by authorizing a federal agency, the Health Care Financing Administration (HCFA), to “use, copy, publish[,] and distribute” the AMA's copyrighted medical procedure codes (referred to as the “CPT”) for use in administering Medicare and Medicaid claim forms, only on the condition that the HCFA agree “not to use any other system of procedure nomenclature . . . for reporting physicians' services.”<sup>129</sup> The court found the “adverse effects” of this exclusivity requirement to be “apparent” because they “gave the AMA a substantial and unfair advantage over its competitors”<sup>130</sup>—even though there was “no evidence that anyone wishing to use the CPT has any difficulty obtaining access to it,”<sup>131</sup> that the AMA's copyright posed any “realistic threat to public access”<sup>132</sup> or “stifle[d] independent creative expression in the medical coding industry,”<sup>133</sup> or that the AMA had violated the antitrust laws.<sup>134</sup>

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

126. *Id.* at 777. There is some confusion in the court's analysis. Although it describes the licensing provision as the basis for misuse, the court goes on to state that the defendant, to ensure that the hardware it was developing would be compatible with the plaintiff's operating systems software, had to reverse engineer the software. *Id.* at 793–94 (“If [Alcatel] is allowed to prevent such copying, then it can prevent anyone from developing a competing microprocessor card, even though it has not patented the card.”). Although this reasoning suggests the fair use analysis developed in cases such as *Sega Enterprises, Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1520 (9th Cir. 1992), might have been dispositive of some aspects of the plaintiff's copyright claim, even in the absence of the misuse defense, the *Alcatel* court did not discuss fair use. Note also that the licensing agreement at issue did not, as in *Lasercomb*, obligate licensees to forgo the independent development of their own software, but the court concluded this fact was irrelevant. *Alcatel*, 166 F.3d at 793–94.

127. *Alcatel*, 166 F.3d at 783–84.

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

129. *Id.* at 517 (omission in original).

130. *Id.* at 521.

131. *Id.* at 519.

132. *Id.*

133. *Id.* at 520 n.8 (concluding that the merger doctrine did not apply).

134. *Id.* at 521 (“We agree with the Fourth Circuit that a defendant in a copyright infringement suit need not prove an antitrust violation to prevail on a copyright misuse defense.”).

Most interesting, perhaps, is the Seventh Circuit's allusion to the doctrine in *Assessment Technologies of Wisconsin, LLC v. WIREdata, Inc.*<sup>135</sup> At issue was an attempt on the part of the defendant WIREdata, a company that serviced real estate brokers, to obtain information concerning properties located in several towns in southeastern Wisconsin.<sup>136</sup> The towns themselves collected this information for purposes of property-tax assessments from independent contractor assessors who coded the information using a program developed by Assessment Technologies (AT).<sup>137</sup> Each time an assessor used the program, the program created a copyrightable compilation of data organized into 34 master categories and 456 subcategories, but the raw data themselves consisted only of uncopyrightable facts.<sup>138</sup> When WIREdata sought the data from the municipalities under Wisconsin's open-records law, AT filed suit to enjoin WIREdata from inducing the towns to infringe AT's copyright.<sup>139</sup>

The district court granted the injunction, but the Seventh Circuit, in an opinion by Judge Posner, reversed.<sup>140</sup> The principal ground for reversal was that AT's copyright extended only to the original aspects of its compilation, but not to the raw data, and therefore there could be no infringement for merely supplying those data.<sup>141</sup> But the court went on to make two further observations, one relating to fair use and one to misuse. First, the court cited *Sega Enterprises Ltd. v. Accolade, Inc.*,<sup>142</sup> for the proposition that fair use would shield the municipalities if it

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135. *Assessment Techs. of Wis., LLC v. WIREdata, Inc.*, 350 F.3d 640 (7th Cir. 2003) (Posner, J.).

136. *Id.* at 642.

137. *Id.*

138. *Id.* at 642-43.

139. *Id.* at 642.

140. *Id.* at 642, 648.

141. *Id.* at 644. Copyright protection subsists "in original works of authorship, fixed in any tangible medium of expression." 17 U.S.C. § 102(a) (2000). Copyright does not subsist in facts, but it may subsist in a compilation that selects or arranges facts in a manner that demonstrates at least minimal creativity. *See* 17 U.S.C. § 101 (2000) (defining "compilation"); 17 U.S.C. § 102(b) (2000) ("In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."); *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 348 (1991) (distinguishing between facts and factual compilations). Thus, one who copies only individual facts from a copyrighted compilation, but none of the original selection or arrangement, does not infringe the compilation copyright. *Feist*, 499 U.S. at 348. In *Assessment Technologies*, the selection of facts appears to have been comprehensive, and therefore not original, but AT's arrangement in accordance with its 456 subcategories probably demonstrated sufficient creativity to satisfy the originality requirement. All that WIREdata wanted to copy, however, were the facts themselves, not the categories. *Assessment Techs.*, 350 F.3d at 644.

142. *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1520 (9th Cir. 1992).

were impossible for them to extract the uncopyrightable data without copying the compilation's copyrightable arrangement.<sup>143</sup> Alternatively, the court asserted that any attempt by AT to use its software license, which arguably forbade the towns from disseminating any data collected with the use of the program, so as to prevent them "from revealing *their own* data . . . might constitute copyright misuse."<sup>144</sup> The court noted that there was no evidence that AT possessed market power, but it concluded that this did not matter:

The argument for applying copyright misuse beyond the bounds of antitrust . . . 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 achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist effectively, is an abuse of process.<sup>145</sup>

This conclusion made for a startling contrast with Judge Posner's thoughts on misuse as expressed twenty-one years earlier in a patent case, *USM Corp. v. SPS Technologies, Inc.*,<sup>146</sup> in which he had questioned the viability of an independent role for patent misuse:

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.<sup>147</sup>

Judge Posner elaborates upon his current "abuse of process" theory at greater length in a recent article.<sup>148</sup> Two recent district court decisions point in opposite directions on the question of whether filing bogus lawsuits can be a form of misuse.<sup>149</sup>

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143. *Assessment Techs.*, 350 F.3d at 644–45.

144. *Id.* at 642, 646–47.

145. *Id.* at 647.

146. *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505 (7th Cir. 1982) (Posner, J.).

147. *Id.* at 512. Judge Posner quoted this dictum with approval in a later case, upholding the validity of a no-contest clause in a copyright licensing agreement. *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1200 (7th Cir. 1987).

148. See William F. Patry & Richard A. Posner, *Fair Use and Statutory Reform in the Wake of Eldred*, 92 CAL. L. REV. 1639, 1654–59 (2004) (discussing the problem of overclaiming and copyright misuse).

149. *Compare Adv. Magnetic Closures, Inc. v. Rome Fasteners, Inc.*, No. 98-CV-7766 (PAC), 2006 WL 3342655, at \*3 (S.D.N.Y. Nov. 16, 2006) (holding that enforcement of a patent knowing it to be invalid or not infringed does not constitute misuse), *with Huthwaite, Inc. v. Randstad Gen. Partner (US)*, L.L.C., No. 06-C-1548, 2006 WL 3065470, at \*8–9 (N.D. Ill. Oct. 24, 2006) (stating that "mere filing of a copyright infringement

Nevertheless, it is hardly the case that the misuse defense has always succeeded, even among courts that have been willing to concede its existence. For example, in *Triad Systems Corp. v. Southeastern Express Co.*,<sup>150</sup> the Ninth Circuit rejected the argument that a software manufacturer's licensing of its software on condition that licensees not duplicate the software or allow it to be used by third parties—a restriction that effectively made it impossible for independent service organizations to service Triad's customers' computers—constituted misuse.<sup>151</sup> This result is consistent with a narrow, but mainstream, interpretation of the Supreme Court's antitrust decision in *Eastman Kodak Co. v. Image Technical Services, Inc.*<sup>152</sup>—though curiously, not with the Ninth Circuit's own more expansive interpretation of that decision on remand from the U.S. Supreme Court.<sup>153</sup>

Similarly, in *Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.*,<sup>154</sup> the declaratory judgment plaintiff argued (unsuccessfully) that the fair use doctrine shielded it from liability for making available, without permission of the defendant copyright owners, two-minute "clip previews" of the defendants' motion pictures and that, in the alternative, the

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lawsuit is not grounds for a copyright misuse claim," but that an allegation that the plaintiff "is attempting to use its copyrighted books to cover the unprotectible ideas within those books by filing copyright infringement lawsuits and forcing companies such as Randstad to either settle or incur litigation expenses" properly raises the misuse defense).

150. *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995).

151. *Id.* at 1336–37. To put the matter in perspective, the Copyright Act permits the owner of a lawfully made copy of software to duplicate the software if the resulting copy constitutes "an essential step in the utilization of the computer program in conjunction with a machine and . . . is used in no other manner." 17 U.S.C. § 117(a) (2000). Licensees, however, as opposed to owners, do not have this right; according to an earlier Ninth Circuit decision, *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517–19 (9th Cir. 1993), merely running a lawfully made copy of computer software without permission of the copyright owner creates an infringing copy of the software, absent an applicable exception. In 1998, however, Congress added a new provision, 17 U.S.C. § 117(a) (2000), which permits the owner or lessee of a computer to make copies of software for the purpose of maintenance or repair—effectively overruling *MAI Systems Corp.* and *Triad* on this point. See Computer Maintenance Competition Assurance Act, Pub. L. No. 105-304, § 302, 112 Stat. 2860, 2887 (1998) (amending 17 U.S.C. § 117).

152. *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 486 (1992) ("It may be that [Kodak's] parts, service, and equipment are components of one unified market, or that the equipment market does discipline the aftermarkets so that all three are priced competitively overall, or that any anticompetitive effects of Kodak's behavior are outweighed by its competitive effects.").

153. See *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1218–20 (9th Cir. 1997) (affirming a jury verdict that the defendant lacked a legitimate business justification for its unilateral refusal to license its intellectual property and therefore was liable for monopolization under Sherman Act section 2).

154. *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191 (3d Cir. 2003).

defendants had engaged in misuse.<sup>155</sup> The alleged misuse took the form of agreements with companies that sought permission to display authorized movie trailers on their websites, to the effect that these companies' websites would not be "derogatory to or critical of the entertainment industry," or (more specifically) of the defendants or their films.<sup>156</sup> Citing with approval the evolving case law on copyright misuse, the Third Circuit suggested that misuse may exist when the copyright owner has entered into anticompetitive agreements, or sought to stifle the exercise of the fair use or merger doctrines,<sup>157</sup> as well as perhaps even in other cases in which the owner seeks to "leverage its copyright to restrain the creative expression of another without engaging in anticompetitive behavior or implicating the fair use and idea/expression doctrines."<sup>158</sup> Nevertheless, the court concluded that the agreements at issue were *not* "likely to interfere with creative expression to such a degree that they affect in any significant way the policy interest in increasing the public store of creative activity," noting (1) that licensees were free to offer criticism "on other websites or elsewhere"; (2) the lack of evidence that the public would find it more difficult to obtain criticism of Disney from other sources; (3) the possibility that the fair use doctrine itself would override the licensing restriction; and (4) the concern that an overly broad application of the misuse doctrine "would likely decrease the public's access to Disney's works because it might as a result refuse to license at all online display of its works."<sup>159</sup> Finally, although the majority of courts that have recognized the copyright misuse defense appear to follow *Lasercomb* and the patent misuse decisions in not requiring the defendant itself to be a victim of the misuse, there is a significant plurality of decisions that require some sort of "nexus" between the IP plaintiff's alleged misconduct and the IP dispute at issue.<sup>160</sup>

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155. *Id.* at 194.

156. *Id.* at 203.

157. *Id.* at 204–05.

158. *Id.* at 205–06 (stating also that "[a] copyright holder's attempt to restrict expression that is critical of it (or of its copyrighted good, or the industry in which it operates, etc.) may, in context, subvert—as do anti-competitive restrictions—a copyright's policy goal to encourage the creation and dissemination to the public of creative activity").

159. *Id.* at 206.

160. *See Int'l Motor Contest Ass'n v. Staley*, 434 F. Supp. 2d 650, 668–69 (N.D. Iowa 2006) (surveying the case law and concluding that the Eighth Circuit would likely follow the majority view and not require a nexus). Perhaps if the misuse defense were raised more frequently, however, more courts would insist upon some sort of nexus requirement. There have been a few reported decisions, for example, when Microsoft filed suit for copyright infringement and the defendant asserted the defense of copyright misuse, with



In summary, the misuse defense as it exists today seems a bit schizophrenic. On the one hand, the patent misuse cases (mostly, though not entirely) apply antitrust standards to determine whether a given restraint constitutes misuse. Even so, there is to date no clear articulation why it is desirable to accord even this narrow misuse defense to persons who are themselves not victims of the restraint, or why, if the facts make out an antitrust violation, relegating the victim to an antitrust remedy is insufficient. In the copyright context, some courts have enthusiastically embraced what I have referred to elsewhere as an “antitrust lite” standard,<sup>161</sup> though without clearly articulating why copyrights should be rendered unenforceable when their owners engage in conduct that falls short of an antitrust violation. Some courts have extended the defense to circumstances not implicating competition issues as such, while others have attempted to narrow it by applying an ill-defined nexus requirement. This chaos suggests some need for theoretical clarity. Exactly what purposes should the misuse doctrine serve, and how should the doctrine be implemented? In the following Part, I suggest some answers to these questions and some implications for some current controversies.

### III. REIMAGINING MISUSE

Suppose that the misuse doctrine does not currently exist, and that the proposition under consideration is whether there *ought* to be some penalty imposed upon copyright and patent owners who use their IPRs in an objectionable fashion. To state the proposition in this way almost assumes its answer: surely we should discourage

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the misuse comprising Microsoft’s unrelated antitrust violations (which did, after all, involve Microsoft’s use of its copyrightable software) in *United States v. Microsoft Corp.*, 253 F.3d 34, 64 (D.C. Cir. 2001). Some courts have permitted the defense to go forward; others have not. See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 454 F. Supp. 2d 966, 997 (C.D. Cal. 2006) (holding defendant’s allegations that plaintiff record companies had engaged in price fixing and concerted refusals to deal did not implicate the misuse doctrine because, even if true, such conduct “would not have extended Plaintiffs’ copyrights into ideas or expressions over which they have no legal monopoly”—in other words, defendants must prove the existence of a nexus). Compare *Microsoft Corp. v. Jesse’s Computers & Repair, Inc.*, 211 F.R.D. 681, 685 (M.D. Fla. 2002) (requiring a nexus between the infringing conduct and the purported misuse), *Microsoft Corp. v. Computer Support Servs. of Carolina, Inc.*, 123 F. Supp. 2d 945, 955 (W.D.N.C. 2000) (same), and *Microsoft Corp. v. Compusource Distr., Inc.*, 115 F. Supp. 2d 800, 811 (E.D. Mich. 2000) (same), with *Microsoft Corp. v. Fredenburg*, No. 05-CV-1710, 2006 WL 752985, at \*1 (W.D. Pa. Mar. 22, 2006) (rejecting any nexus requirement, although it is unclear whether the defendant was relying upon conduct at issue in *United States v. Microsoft* or upon some other unrelated conduct).

161. See Thomas F. Cotter, *The Procompetitive Interest in Intellectual Property Law*, 48 WM. & MARY L. REV. 483, 544 (2006).

people from “misusing” their IPRs! As soon as we answer the question affirmatively, however, several difficult follow-up questions immediately rise to the surface. Should we penalize owners for using their IPRs to commit antitrust violations, for example—or to violate other laws, for that matter?<sup>162</sup> Should we penalize them for attempting to “broaden the scope of the grant”? If so, what exactly does this mean—how can we tell when a patent or copyright is being put to such ends? Should there be other conditions present, such as the use of the IPR to achieve an anticompetitive purpose (and what exactly does that mean?), or does any attempted broadening merit a penalty? Assuming we can reach consensus on these substantive issues, further questions arise with respect to procedure and enforcement: what should the penalty be, and how should it be enforced? Should nonvictims be allowed to assert misuse as a defense to an infringement claim, or should there be a “nexus” or standing requirement?

The answers to these questions depend upon two underlying inquiries. The first involves defining the conduct that might,

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162. Most contemporary observers contend that copyright subsists even in obscene or illegal or fraudulent works, and that any penalties flowing from the publication of such works is independent of copyright. See *Mitchell Bros. Film Group v. Cinema Adult Theater*, 604 F.2d 852, 856, 862 (5th Cir. 1979) (“In our view, the absence of content restrictions on copyrightability indicates that Congress has decided that the constitutional goal of encouraging creativity would not be best served if an author had to concern himself not only with the marketability of his work but also with the judgment of government officials regarding the worth of the work.”); 1 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT*, § 2.17, at 2-197 (2007) (describing *Mitchell Bros.* as expressing “the currently prevailing view” with respect to copyright in obscene works, despite some older cases to the contrary). But see *Devils Films, Inc. v. Nectar Video*, 29 F. Supp. 2d 174, 176 (S.D.N.Y. 1998) (“It strains credulity that Congress intended to extend the protection of the copyright law to contraband.”). Similarly, the U.S. Court of Appeals for the Federal Circuit has largely confined the “moral utility” doctrine, which at one time prevented the patenting of immoral or fraudulent inventions, to oblivion, see *Juicy Whip, Inc. v. Orange Bang, Inc.*, 185 F.3d 1364, 1366–67 (Fed. Cir. 1999), though it may retain some vitality with respect to a small class of inventions the practice of which would violate fundamental public policy. See *Agreement of Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods* § 5, art 27, Dec. 15, 1993, 33 I.L.M. 81, 94 (1994) [hereinafter TRIPS] (“Members may exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect *ordre public* or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment . . .”); Mikyung Kim, *An Overview of the Regulation and Patentability of Human Cloning and Embryonic Stem Cell Research in the United States and Anti-Cloning Legislation in South Korea*, 21 SANTA CLARA COMPUTER & HIGH TECH. L.J. 645, 708 (2005) (summarizing the current state of the morality doctrine and noting that “the USPTO appears to be willing to invoke the morality doctrine in determining utility of any invention pertaining to human material”). So one puzzle is why the use of intellectual property to subvert competition policy should render the IPR unenforceable, when its use for other illegal purposes does not. But cf. *Mitchell Bros.*, 604 F.2d at 864 n.25 (distinguishing the patent misuse cases on the ground that, unlike cases involving assertions of copyright in obscene works, the IP owner’s conduct threatened to subvert patent policy).

even potentially, constitute misuse. Is the IP owner's exercise of her rights something that the law should discourage, and if so, why? The second involves devising a remedy and an enforcement mechanism. The choice of remedies could range from merely declining to enforce an offending contract provision, on the one hand, to the partial or complete unenforceability of the IPR, on the other—with perhaps some intermediate options as well. The choice of remedy, in turn, may determine who has standing to assert the defense; if the remedy is limited to the unenforceability of an offending provision, it probably makes little sense to confer standing on a nonparty to the contract containing that provision. Moreover, the two inquiries may be related—the more expansive the penalties and enforcement mechanisms for misuse, the narrower we may want the definition of misuse to be, and vice versa.

Section A develops a theoretical framework for defining misuse and for evaluating assertions of the misuse defense. The principal focus will be upon assertions of misuse arising from IP transactions, and for this reason will be referred to, from time to time, as transactional misuse. Section B then applies the analysis developed in Section A to some current controversies. Section C discusses related issues of standing, remedies, and misuse arising from bad faith assertions of IPRs (litigation misuse). By way of summary, I will argue, among other things, that transactional misuse should be defined as encompassing a narrow class of practices that are likely to give rise to a surfeit of social costs over benefits, and only in rare instances should depart from antitrust standards; that the remedy for transactional misuse should be limited to unenforceability of the challenged contractual provision, in which case misuse effectively merges into preemption doctrine, and that this reform should result in the elimination of nonparty standing; but that unenforceability of the IPR should remain one possible remedy, though probably not the exclusive remedy, for litigation misuse.

#### *A. Defining Misuse*

A first approximation of the substance of misuse, given its frequent invocation in cases involving purported threats to competition, would be to equate it with an antitrust violation. As so defined, misuse may take a variety of forms, from a conspiracy to fix prices of copyrighted sound recordings, to illegal tie-ins and exclusive dealing or distributorship arrangements, to (rarely) monopolization offenses. An obvious question, however, is why there is a need for a doctrine that defines misuse as conduct that

is identical to an antitrust violation, as long as an infringement defendant who is the victim of the antitrust offense could simply file a claim or counterclaim for violation of the antitrust laws. The only plausible reasons to have a misuse doctrine in addition to antitrust law, if the substantive content of the two is the same, would be (1) to permit someone who does not have antitrust standing or cannot prove antitrust injury to challenge the conduct at issue, or (2) to create an additional penalty (such as unenforceability of the IPR) in addition to the antitrust sanction. If such reforms to competition policy are deemed desirable, however, the more obvious path would be to loosen antitrust law's strictures on antitrust standing and remedies, rather than to do so indirectly and perhaps haphazardly by way of the misuse doctrine. Indeed, the application of misuse doctrine as a way of indirectly reforming antitrust law, assuming such reform is desirable, would be grossly underinclusive, insofar as it would apply only to conduct involving the assertion of IPRs and not other property or contract rights. But at least the substance of the misuse doctrine would be relatively easy to gauge if misuse were simply equated with a violation of antitrust law. Determining whether specific conduct violates the antitrust laws is hardly a trivial undertaking, to be sure, but there is a vast body of precedent and commentary to guide the inquiry in most instances.

The more interesting substantive question is whether, as the courts continue to assert, misuse may consist of conduct that does *not* rise to the level of an antitrust violation. At a highly abstract, theoretical level, one might imagine that *some* sort of defense ought to be available in cases in which a court is convinced that a finding of infringement liability would impose greater social costs than social benefits. Many IP doctrines already can be viewed as embodying a rough cost/benefit calculation, but perhaps misuse could play some sort of backup role for situations in which case-by-case adjustments seem appropriate. For example, one might postulate that the nonobviousness doctrine in patent law reflects a rough estimation that the cost of conferring patent protection on some inventions—those that qualify as “obvious” under the applicable criteria—outweighs the social benefit. Perhaps “misuse” could serve a backup role by enabling courts to render unenforceable patents on inventions that qualify as nonobvious under the applicable nonobviousness criteria, but that nevertheless should be unenforceable due to a perceived surplus of social costs over social benefits in a particular case. As so described, however, the doctrine would probably have few advocates, conferring as it

would such unfettered discretion upon judges that it would lead to unpredictable and inconsistent results. Moreover, given that Congress has seen fit to create patent and copyright rights subject to various criteria, it might seem to conflict with rule-of-law virtues for the courts to undo that bargain on the basis of their own seat-of-the-pants second-guessing. And intuition might seem to suggest that if there is to be a misuse doctrine of some sort, misuse should rest upon a finding of misconduct and not simply the assertion of possibly welfare-reducing, but lawfully procured, IPRs.

Thus, if we are trying to find a plausible role for misuse that goes beyond antitrust confines but does not dissolve into some sort of free-floating “get out of jail free” card, we need to be more precise about the conditions that might conceivably give rise to a finding of misuse. One characteristic that most of the litigated misuse cases seem to have in common is that the IP owner is allegedly using its IP to extract concessions from another party: conditioning access to the IP, for example, on the buyer’s or licensee’s promise to buy or license something else from the IP owner, or not to buy or license a competing product from another party, or not to engage in some conduct that would otherwise be lawful such as resale or some other use of the product embodying the IPR.<sup>163</sup> To be sure, a decision to consider the doctrine anew

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163. This is a somewhat narrower conception of misuse than that urged (unsuccessfully) by the defendant in *Metro-Goldwyn-Mayer Studios, Inc.*, 454 F. Supp. 2d at 997, or by the defendants in the *Microsoft* cases discussed *supra* at note 160. In these cases, the defendants alleged that anticompetitive conduct involving the plaintiffs’ copyrights—for example, horizontal agreements to fix the prices of copyright royalties—rendered those copyrights unenforceable. I suppose that such conduct might be viewed as an extraction of concessions with respect to price or other matters, although it seems quite different from the concessions I focus on above for a couple of reasons. First, in a case such as *Grokster*, the alleged anticompetitive conduct is concerted, rather than a unilateral effort to extract a concession from a licensee. As such, it has less to do with expanding the scope of the IP grant than with violating other legal norms. Second, in *Microsoft*, much of the anticompetitive conduct was unilateral, but its relation to copyright seems a bit strained. Microsoft certainly owns copyright rights in its software, and it can even be viewed as having attempted to expand the scope of its copyright grant by asserting the spurious right to prevent modifications that would not amount to the creation of unlawful derivative works. See *United States v. Microsoft*, 253 F.3d at 62–64 (outlining Microsoft’s justifications for the license restrictions); Herbert Hovenkamp et al., *Unilateral Refusals to License in the US*, in *ANTITRUST, PATENTS AND COPYRIGHT: EU AND US PERSPECTIVES* 35–36 (Howard Shelanski & François Lévêque eds., 2005). But arguably very little of the government’s antitrust case against Microsoft depends upon the existence or nonexistence of copyright in Microsoft’s code. Trade secret and contract rights alone might have sufficed to enable Microsoft to engage in the unlawful maintenance of its monopoly.

In a recent paper focusing on copyright misuse, Professors John Cross and Peter Yu have classified “copyright abuse” cases into four types: “(1) use of copyright to exact concessions from the licensee; (2) dealings that limit others’ ability to compete;

need not entail fealty to these existing decisions. But perhaps this common feature provides a useful starting point for trying to sketch out what a rational version of (transactional) misuse that goes beyond antitrust strictures might resemble. In other words, let us consider provisionally a regime under which misuse exists when the IP owner uses its IP to extract concessions that we believe, on policy grounds, should not be extracted. Why might we wish to restrict IP owners from extracting some concessions from their purchasers and licensees?

The obvious, though not entirely satisfying, answer that existing misuse doctrine suggests is that we want to prevent IP owners from extracting concessions that go beyond the scope of the IP grant. This answer presupposes, naturally enough, that the law fixes the scope of the grant in some fashion, but that in some instances it is possible for IP owners to transgress those boundaries—rather as if the state had accorded me a plot of land, and I purported to assert dominion and control over some adjacent plot as well. And in some meaningful sense this presupposition must be true. Congress fixes the scope, breadth, and duration of IPRs, presumably with some goal, either instrumental or deontological (or some combination thereof), in mind. The law thus tells the patent or copyright owner, in other words, “you may do this” (e.g., you may enjoin someone from making your patented invention or copying your copyrighted material, absent permission or an applicable exception), but “you may not do that” (e.g., you may not enjoin someone from making an invention that contains fewer than all of the elements of your patented invention, or from using facts or ideas expressed in the user’s own words). Thus our provisional definition of “misuse”

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(3) restriction of the licensee’s ability to deal with the copyright owner’s competitors; and (4) groundless claims made by the copyright owner.” John T. Cross & Peter K. Yu, *Competition Law and Copyright Misuse* 5 (Mich. St. U. College of Law Legal Studies Research, Research Paper No. 04-29, 2007), available at <http://ssrn.com/abstract=986891>. The classification scheme I employ in this paper would probably group the first three types of possible abuse identified by Cross and Yu into the category of possible transactional misuse, and the last as litigation misuse. The first and third of Cross and Yu’s types can both be thought of as efforts on the part of the IP owner to extract concessions; the second does not fit as comfortably into this pigeonhole, as noted in the preceding paragraph of this footnote. See Janice M. Mueller, *Patent Misuse Through the Capture of Industry Standards*, 17 *BERKELEY TECH. L.J.* 623, 669–83 (2002) (arguing that a patentee’s refusal to license its patent on reasonable and nondiscriminatory terms, after having successfully urged the technology covered by that patent to be adopted as an industry standard without first having disclosed the patent’s existence, should be considered misuse). But cf. *In re Rambus, Inc.*, No. 9302, slip op. at 118–19 (Fed. Trade Comm’n Aug. 2, 2006), available at <http://www.ftc.gov/os/adjpro/d9302/060802commissionopinion.pdf> (finding an antitrust violation on similar facts), amended by [http://www.ftc.gov/os/adjpro/d9302/070427commopinionpetreconsideration\\_pv.pdf](http://www.ftc.gov/os/adjpro/d9302/070427commopinionpetreconsideration_pv.pdf) (Apr. 27, 2007).

might be restated such that misuse occurs when the patent or copyright owner attempts to transgress these boundaries, i.e., to assert patent or copyright rights beyond the limits the law has set. Notice that, under this definition, it may not matter whether the “broadening” of the IPR results in any anticompetitive result—that is, in some result (such as increase in price or reduction in output) that would be of concern to antitrust enforcers.

The preceding definition is far from perfect, however, for several reasons. Most obviously, it begs the question of what the relevant boundaries are.<sup>164</sup> Although there are a few relatively clear boundaries set forth in the applicable statutes—patent and copyright terms, for example, are usually not hard to calculate<sup>165</sup>—there is more frequently a substantial gray area within which it is unclear whether one’s IPRs extend. Although the claims of a patent are often described as the “metes and bounds”<sup>166</sup> of the invention, IPRs don’t come with metes and bounds in any literal sense; determining whether a given invention falls within the literal scope of those claims is often a difficult task, as any patent lawyer will attest.<sup>167</sup> Determining the scope of a copyright is even more difficult, because there is nothing analogous to a patent claim that defines the outer limits of the work of authorship. At the margin, no one can clearly demarcate the line between copyrightable expression and uncopyrightable idea, as Judge Learned Hand observed many

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164. See Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813, 1849 (1984) (arguing that commentators, “[b]y assuming the existence of a background standard of the appropriate scope of patent exploitation . . . , simply beg the question of determining which practices should be allowed”); Note, *Clarifying the Copyright Misuse Defense: The Role of Antitrust Standards and First Amendment Values*, 104 HARV. L. REV. 1289, 1295 (1991) (“The Supreme Court in *Morton Salt* and its progeny has defined patent misuse simply as an extension of the patentee’s monopoly beyond the lawful ‘scope’ of the patent grant and applied the doctrine with little elaboration of what marks the boundaries of the patent ‘monopoly.’” (footnote omitted)).

165. Though even here there are exceptions: the standard copyright term today, for works other than works made for hire, subsists from the creation of the work until seventy years after the author’s death, 17 U.S.C. § 302 (2000). For works made for hire, however, the term can begin on the date of publication, 17 U.S.C. § 302(c) (2000), but calculating when this date occurs is sometimes less than clear. See Thomas F. Cotter, *Towards a Functional Definition of Publication in Copyright Law*, 92 MINN. L. REV. (forthcoming 2008), (manuscript at 4–5, 9–11), available at <http://ssrn.com/abstract=1019263>. Calculating the term for works published prior to January 1, 1978, evinces similar difficulties.

166. *E.g.*, *Univ. of Rochester v. G.D. Searle & Co.*, 375 F.3d 1303, 1326 (Fed. Cir. 2004) (Linn, J., dissenting).

167. See *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1384 (Fed. Cir. 2005) (“Infringement is often difficult to determine . . .”).

years ago in *Nichols v. Universal Pictures Corp.*<sup>168</sup> Worse yet, our instincts concerning what lies “beyond the scope” may tend to elevate form over substance. Just as it seems intuitively plausible that tying can increase monopoly profits, it seems plausible that certain types of licenses can expand the scope of one’s IPRs; however, economic analysis suggests that our intuitions can be wrong.<sup>169</sup> Inquiry should focus less on appearances and more on the substantive question of whether, for example, enforcing a given contractual restriction would defeat the purposes of the patent or copyright laws—in which case, however, one needs first to define those purposes.

A few purposes immediately suggest themselves. One might be concern about inequality of bargaining power, or some other vulnerability on the part of users and licensees. Some sought-after concessions may seem substantively unfair,

168. *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir. 1930) (“Nobody has even been able to fix that boundary, and nobody ever can.”).

169. Cases such as *Brulotte* and *Lasercomb* can be viewed as involving expansions of IPRs only in the sense that licensees agreed to continue paying royalties, or not to engage in certain conduct, after the date on which the plaintiffs’ IPRs expired. But those agreements had no effect on third parties, who were free to practice the patent or copyright at will upon the expiration of the government-granted term. *Brulotte* in particular also has been widely criticized for invalidating an efficient method for financing the licensing of patents. See, e.g., 1 HOVENKAMP ET AL., *supra* note 6, § 3.3b3, at 3-26 to -28 (“If a patent gives its owner power in a relevant economic market, a long-term royalty agreement may effectively ‘lock in’ licensees to use the patented technology even after the patent expires. . . . Such circumstances do not justify a per se prohibition on term extensions, however. Rather, the categorical treatment of term extensions under patent misuse seems to be driven by noneconomic concerns about the use of patent law to gain some perceived economic advantage.”); WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 380–81, 417–18 (2003) (describing *Brulotte* as “one of the all-time economically dumb Supreme Court decisions”); Ian Ayres & Paul Klemperer, *Limiting Patentees’ Market Power Without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies*, 97 MICH. L. REV. 985, 1026–27 (1999) (arguing “the Court’s concern with leverage was misplaced” because constant royalty payments spread beyond the life of the patent are economically reasonable for both parties). Similar critiques might be raised against arguments that restraints conditioning access to an IPR upon the user’s agreement to buy or license some aftermarket product or service expand the scope of the copyright grant, see 4 NIMMER & NIMMER, *supra* note 162, § 13.09[A][3][a], at 13-301, despite the fact that they do so only in a very formalistic sense and are anticompetitive only in the (most likely) uncommon setting in which monopoly leveraging is a plausible outcome. See *supra* notes 97–101 and accompanying text. To the extent such restraints facilitate price discrimination, see *infra* notes 194–97, 211–13 and accompanying text, their enforceability should turn on the desirability (or not) of enabling such discrimination.

In the wake of *Brulotte*, parties should structure their transactions so that all royalties attributable to the patent are paid before the end of the term. The rational response for potential licensors is to demand more money up front so that the present value of the income stream is the same as it would have been under a pre-*Brulotte* license; depending on the cost of credit, however, licensees may prefer the option of making smaller payments over a longer term.



or may conflict with distributive justice goals. These concerns usually would not be viewed as a very good reason for intervention from a purely economic perspective, but in theory might nevertheless be compelling under some circumstances.<sup>170</sup>

Second, from a more utilitarian standpoint, interpreting the boundaries of IP protection too expansively might entail an excess of social costs in relation to social benefits. The theoretical costs and benefits of IP protection have been discussed at length elsewhere.<sup>171</sup> For now, we need merely note that the benefits may include the creation and publication of new inventions and works of authorship, as well as the reduction in costs attributable to less reliance on other forms of protection such as self-help.<sup>172</sup> Invention and works of authorship, in turn, are valuable not only for their immediate utilitarian ability to satisfy preferences but also for their contribution to the store of human knowledge and (particularly in the case of works of authorship) self-governance and creative autonomy.<sup>173</sup> At the same time, the costs can include not only transaction costs but also the costs attributable to deadweight loss due to monopoly, among other things.<sup>174</sup> The optimal IP system would maximize the surplus of social benefits over social costs. While no one knows where the optimal point lies, in theory one might be able to make an educated guess in a particular case whether an interpretation of the scope of IPRs in one direction or another is likely to move toward or away from that hypothetical point. An expansion of the scope of IPRs beyond this hypothetical balance, even if embodied in a bilateral bargained-for contract,

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170. For example, if we view fair use as embodying distributional goals, an effort to coerce a waiver of fair use rights might be deemed misuse. See Molly Shaffer Van Houweling, *Distributive Values in Copyright*, 83 TEX. L. REV. 1535, 1543–45 (2005) (suggesting fair use may confer distributive benefits by exempting users from having to pay for content in some situations in which ability to pay constrains willingness to pay). But maybe this could come within the social externalities rationale too, if anything counts in the utilitarian calculus.

171. See generally ROGER D. BLAIR & THOMAS F. COTTER, *INTELLECTUAL PROPERTY: ECONOMIC AND LEGAL DIMENSIONS OF RIGHTS AND REMEDIES* 13–20, 30–32 (2005) (“The fundamental premise of the patent system is that society benefits when people conceive of new inventions . . . . The difficult question is how to maximize these social benefits.”).

172. *Id.* at 13–14.

173. See Thomas F. Cotter, *Memes and Copyright*, 80 TUL. L. REV. 331, 374 (2005) (“[T]he more diverse memes there are, the greater the likelihood that consumers will find the memes that satisfy their preferences; the deeper the resources upon which they can draw when making important decisions; and the better able they will be to find their true selves.”).

174. See *id.* at 367 (“[S]tatic analysis suggests that consumers stand to lose more than producers gain.”).

may undermine important third party interests, including the interest in protecting future innovation (dynamic efficiency).<sup>175</sup>

Seen in this light, there is a theoretical case for characterizing some efforts to extract concessions as going beyond the scope of the grant. The inquiry might even be thought of as taking the form of a conditional probability, where the “given” is the congressional judgment, to which courts should defer, that a lawfully procured IPR *in general* generates more benefits than costs or is otherwise justified on the basis of public policy. Under this view, a court should find misuse only when it is probable that the social costs of permitting the IP owner to extract a specific concession outweigh the social benefits, given the assumed fact that the exercise of the IPR at issue *in general* generates more benefits than costs. All IPRs, in other words, potentially can give rise to static deadweight losses (even though many do not do so in practice) and to other social costs, including costs to dynamic efficiency<sup>176</sup> or to freedom of speech.<sup>177</sup> In

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175. See Julie E. Cohen, *Reverse Engineering and the Rise of Electronic Vigilantism: Intellectual Property Implications of “Lock-Out” Programs*, 68 S. CAL. L. REV. 1091, 1192–94 (1995) (arguing that misuse doctrine may be better tailored than antitrust to account for harm to innovation); Brett Frischmann & Dan Moynan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 927–30 (2000) (arguing that misuse doctrine should come into play in some cases in which restraints undermine public policy, such as by unduly inhibiting innovation, even if they fall short of violating antitrust law); Ramsey Hanna, Note, *Misusing Antitrust: The Search for Functional Misuse Standards*, 46 STAN. L. REV. 401, 423–24 (1994) (arguing antitrust does not sufficiently account for harm to long-term innovation, but the misuse doctrine can); Note, *Is the Patent Misuse Doctrine Obsolete?*, 110 HARV. L. REV. 1922, 1934–36 (1997) (arguing potential harm to innovation markets may justify application of patent misuse in some cases, but noting the difficulty of applying this insight in practice).

176. Cotter, *supra* note 161, at 492.

177. Several commentators have proposed that copyright misuse may fill a gap in cases in which copyright owners attempt to prohibit users from accessing uncopyrightable facts or ideas (as in *Assessment Technologies*), or from engaging in fair uses that promote free speech interests. See JuNelle Harris, *Beyond Fair Use: Expanding Copyright Misuse to Protect Digital Free Speech*, 13 TEX. INTELL. PROP. L.J. 83, 85 (2004) (arguing these cases are more likely “to silence speakers who are engaged in criticism rather than economic piracy”); Patry & Posner, *supra* note 148, at 1658–59 (arguing for invocation of misuse where a copyright holder overenforces “to the prejudice of publishers of public domain works”); Note, *supra* note 164, at 1303 (arguing that a “public interest . . . in the free flow of ideas . . . may be harmed even if the infringement plaintiff’s conduct does not threaten to undermine competitive conditions”); Kathryn Judge, Note, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901, 930–31 (2004) (arguing “that copyright misuse should protect the values embodied in the First Amendment”). An interesting question—and one to which I do not, as of yet, propose a conclusive answer—is whether the First Amendment forbids the state from overriding doctrines such as fair use and the idea/expression dichotomy. On the one hand, the Supreme Court has stated that these doctrines make it largely irrelevant to subject copyright laws or disputes to heightened First Amendment scrutiny. See, e.g., *Eldred v. Ashcroft*, 537 U.S. 186, 219–20 (2003) (noting that “every idea, theory, and fact in a copyrighted work becomes instantly

general, courts must accept these costs as the necessary tradeoff in return for the social benefits of IP protection. But in determining whether a specific concession falls within the ambiguous scope of the IP grant, perhaps a court should consider whether the marginal deadweight loss (and other costs) attributable to the concession are likely to be justified by the marginal increase in incentives or other social goods.<sup>178</sup> Permitting copyright owners, for example, to extract concessions against fair use or first-sale rights conceivably might generate more social costs than benefits, particularly if these rights safeguard important third-party interests that do not factor into the licensor's and licensee's bargaining calculus.<sup>179</sup>

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available for public exploitation at the moment of publication"); *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 556–57 (1985) (observing that "copyright's idea/expression dichotomy 'strike[s] a definitional balance between the First Amendment and the Copyright Act by permitting free communication of facts while still protecting an author's expression'"). If so, then maybe the First Amendment prohibits the state from legislating these doctrines out of existence or even from enforcing private contracts compelling the waiver of protections afforded under them. On the other hand, in other contexts courts have long permitted the assertion of (limited) property rights in ideas and facts. *See, e.g., Nadel v. Play-By-Play Toys & Novelties, Inc.*, 208 F.3d 368, 380 (2d Cir. 2000) (interpreting New York law as recognizing both property and contract rights with respect to ideas, subject to qualifications); *Nat'l Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 845 (2d Cir. 1997) (interpreting New York law as recognizing a right to prevent others from misappropriating "hot news," subject to certain conditions); Pamela Samuelson, *Principles for Resolving Conflicts Between Trade Secrets and the First Amendment*, 58 HASTINGS L.J. 777, 778 (2007) (offering a set of principles for mediating the occasional tensions between First Amendment law and trade secret law). But even if the First Amendment permits Congress or state legislatures to extend property rights into the realm of facts and ideas, it might be sensible for courts to interpret the scope of copyright and patent grants more narrowly, absent clear guidance that Congress intends or would tolerate a broader construction. Professor Sprigman independently makes a very similar argument in a recently published paper. *See* Christopher Sprigman, *Indirect Enforcement of the Intellectual Property Clause*, 30 COLUM. J.L. & ARTS 565, 568–69 (2007). Put another way, where the scope of the IP grant is ambiguous, courts may conclude that the benefits (of construing IPRs as broadly as the IP owner asserts those rights should be construed) do not outweigh the costs to free speech, even if courts would defer to an unambiguous statement of congressional intent to the contrary. Or perhaps courts should adopt a narrower construction of IPRs in light of the long-standing policy of construing statutes so as to avoid difficult constitutional questions. *See* Dan L. Burk, *Anticircumvention Misuse*, 50 UCLA L. REV. 1095, 1123 (2003) (arguing the misuse doctrine might in some instances "defus[e] explosive constitutional questions that might otherwise require controversial rulings on vertical federalism or the scope of federal power"). *But see* Philip P. Frickey, *Getting from Joe to Gene (McCarthy): The Avoidance Canon, Legal Process Theory, and Narrowing Statutory Interpretation in the Early Warren Court*, 93 CAL. L. REV. 397, 401 (2005) (criticizing the canon of construing statutes so as to avoid constitutional issues on the ground that this canon simply allows courts to rewrite statutes to avoid difficult questions). I hope to take these questions up in greater depth in a follow-up work.

178. *Cf.* Kaplow, *supra* note 164, at 1831 (proposing a ratio test, under which a patentee would be permitted to engage in a practice if the ratio between the reward accruing to the patentee and the social loss due to monopoly is sufficiently large).

179. *See infra* notes 214–31 and accompanying text (cataloguing various social

One additional factor that should be taken into account before adopting a definition of misuse that focuses upon social costs and benefits, however, is the cost of error and adjudication. How exactly are courts to tally up social costs and benefits? How can we be sure they will get it right, and will do so predictably and consistently? And at what cost? These problems may not be as acute as in my earlier example of a court overriding a finding of nonobviousness based upon the judge's independent weighing of the costs and benefits of enforcing the patent at issue, although surely some substantial risk of excessive error and adjudication costs remains. But perhaps there are ways to minimize these risks. As Professor Hovenkamp points out in the context of antitrust law, antitrust doctrine has evolved in ways that enable courts to avoid, under most circumstances, actually having to weigh procompetitive benefits against anticompetitive harms—for example, through the use of presumptions and burden-shifting.<sup>180</sup> Perhaps some similar structure can be incorporated into misuse doctrine. To illustrate, let me suggest framing the relevant inquiry as one of determining how far the IP owner's rights extend. The parties' competing positions can be visualized as follows:

IP Owner: "My rights extend this far: —————→"

User: "No, they only extend this far: —————→"

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benefits and costs in the context of reverse engineering). *But cf.* Feldman, *supra* note 4, at 400 (arguing that patent misuse doctrine can take into account for harms that antitrust does not recognize, including (1) the social "waste that can occur with defensive research or inventing around a patent, (2) the burden on innovation that can result from an overproliferation of patent rights, and (3) the disincentives to innovation that can result from allocating reward to early-stage inventors over late-stage inventors"). Although I agree with Professor Feldman that misuse doctrine sometimes should be more sensitive than antitrust to harm to innovation, I am much less sanguine than she about an *expansive* role for misuse in combating the harms she lists. More generally, Feldman makes the valid point that IPRs give rise to a variety of social costs, including but not limited to monopoly costs; although antitrust is directed only against the latter type of cost, IP doctrine rightly tries to minimize a wider class of costs. Feldman, *supra* note 4, at 438. The utility of misuse doctrine in combating these other harms, however, is in my view nevertheless quite limited. There is nevertheless something to be said for resolving some of these matters within IP law, rather than trying to stretch antitrust law to deal with perceived excesses in the exercise of IPRs, as for example with abuse of dominant position or essential facilities. See Thomas F. Cotter, *Evaluating the Pro- and Anticompetitive Effects of Intellectual Property Protection*, ANTITRUST SOURCE, Mar. 2006, at 1, 6 (book review), available at <http://www.abanet.org/antitrust/at-source/06/03/Mar06-CotterRev3=22f.pdf> (arguing that policymakers should rely on IP law to correct anticompetitive aspects because antitrust law can be "slow, inflexible, and . . . potentially susceptible to overdeterrence").

180. See HERBERT HOVENKAMP, *FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION AND ITS PRACTICE* § 5.6c, at 257 (2d ed. 1999) (noting that, "if a challenged restraint simultaneously produces opportunities for both anticompetitive practices and substantial efficiencies, a court must have a guide").

The evaluation of these competing claims will depend, of course, primarily upon the traditional tools of legal analysis—statutory text, precedent, legislative history, and other conventional aids to interpretation.<sup>181</sup> Assuming, however, these tools do not determine which party is correct—in other words, that the scope of the IP owner's rights truly are ambiguous—then the analysis above suggests that courts must fall back onto policy considerations to resolve the matter. To this end, one might ask why, if at all, the law *should* interpret the IP owner's rights as extending as far as she claims (for example, far enough to permit her to extract a challenged concession).

*Three categories of possible reasons for broadly construing the scope of the IP owner's rights suggest themselves.* The remainder of this Article therefore will focus upon developing a method for evaluating the plausibility of these reasons. The first—and it is here that the influence of antitrust analysis can be most plainly seen—is that permitting the owner to extract the concession at issue may facilitate some end that could be viewed as ancillary to the use or management of the IPR—such as encouraging licensees to promote and advertise products that incorporate the owner's copyright or patent, or to engage in quality control—or as a means of reducing transaction or monitoring costs (as was arguably the case, respectively, in *Brulotte* and in *Lasercomb*).<sup>182</sup> Second, permitting the owner to extract the concession at issue may enable her (for good or for ill, as we shall see) to engage in a form of price discrimination. A third possibility is that permitting the IP owner to extract the concession serves no substantial purpose other than enriching

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181. Let me be clear at this point that I am taking a position in this paper on the question of whether precedent or legislative history *do* dictate any particular result with respect to, for example, contractual waivers of first-sale or fair use rights—and, if so, whether those rights of the IP owner vis-à-vis the licensee continue to be governed by IP law or by contract law alone. *See, e.g., Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (“Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.”); Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1282 (1995) (“Congress was explicit in the context of section 109(a) [of the Copyright Act] that it intended for vendors who ‘contract around’ the first-sale doctrine to be limited to contract remedies.”).

182. In *Lasercomb*, for example, the restraint at issue appears to have been motivated by the desire to prevent licensees from making unauthorized copies of the software and marketing it for their own purposes—precisely the conduct in which the defendant engaged. *See* James A. Kobak, Jr., *A Sensible Doctrine of Misuse for Intellectual Property Cases*, 2 ALB. L.J. SCI. & TECH. 1, 5 (1992) (arguing that *Lasercomb*'s license had a “legitimate purpose . . . to prevent . . . surreptitious creation of disguised copies,” though “undoubtedly a narrower, less overreaching provision could have served this purpose”).

the IP owner at the expense of the user. But even this selfish purpose may be socially useful. Conceivably, further strengthening IP owners' rights, at the cost of users, may stimulate other potential inventors and creators, who otherwise would not be inclined to do so, to produce and publish; concomitantly, it may decrease their incentive to rely upon self-help measures, such as trade secrecy. Of course, to say that permitting the concession *may* have this beneficial effect is not the same as concluding that it *will*, or that the marginal benefits outweigh the corresponding social costs.

In any event, requiring the court to focus upon the underlying reason for (possibly) permitting the IP owner to extract a challenged concession might have the salutary effect of enabling courts to apply an analytical framework, inspired by standard antitrust analysis, as a means of reducing both error and adjudication costs. To put this framework in context, in antitrust law a few types of conduct (such as horizontal price fixing) are deemed so likely to generate net anticompetitive harm that courts are confident to condemn them on a *per se* basis, without inquiring too deeply into the specific facts and circumstances.<sup>183</sup> This truncated approach conserves adjudicative costs, is likely to generate few "false positives" (wrongly condemning welfare-enhancing conduct), and, to the extent it generates "false negatives" (condemning conduct that is unlikely, in reality, to give rise to anticompetitive harm), the resulting costs are likely to be small, given the paucity of social benefits from even futile efforts to fix prices (for example, among firms that lack market power).<sup>184</sup> With respect to other types of conduct, however, that, depending on the facts, could have (on balance) either pro- or anticompetitive effects, analysis usually continues by focusing upon whether the restraint at issue plausibly can be viewed as either integral or ancillary to the joint provision of

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183. See *Ragsdale v. Wolverine World Wide, Inc.*, 535 U.S. 81, 92–93 (2002) ("[C]ategorical rules—such as the rule of *per se* antitrust illegality—reflect broad generalizations holding true in so many cases that inquiry into whether they apply to the case at hand would be needless and wasteful." (citing *Cont'l T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 50 & n.16 (1977); *Eastman Kodak Co. v. Image Technical Servs.*, 504 U.S. 451, 486–87 (1992) (Scalia, J., dissenting))); *Arizona v. Maricopa County Med. Soc'y*, 457 U.S. 332, 343–44 (1982) (noting that, "[f]or the sake of business certainty and litigation efficiency," *per se* rules condemn "some agreements that a fullblown inquiry might have proved to be reasonable").

184. See *Rothery Storage & Van Co. v. Atlas Van Lines, Inc.*, 792 F.2d 210, 217 (D.C. Cir. 1986) (Bork, J.) (remarking that "any attempt by [a company with little market power] to engage in a monopolistic restriction of output would be little short of suicidal"); ROBERT H. BORK, *THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF* 269 (1978) ("Very few firms that lack power to affect market prices will be sufficiently foolish to enter into conspiracies to fix prices. Thus, the fact of agreement defines the market.").

some good or service that consumers demand.<sup>185</sup> If the answer to this question is affirmative, then the antitrust plaintiff typically must demonstrate actual or potential anticompetitive harm by presenting evidence of market power or other relevant factors.<sup>186</sup> In this way, antitrust analysis can be viewed as an effort to minimize the total cost of false positives, false negatives, and adjudication.<sup>187</sup>

My suggestion here is that a similar type of framework might usefully be incorporated into misuse analysis. Consider first a case in which the proposed justification for the concession at issue is that it encourages licensees to promote products embodying the IPR or minimizes the transaction costs of licensing. Two points are worth noting initially. First, if we abide by the principle that courts should defer to Congress's judgment that IPRs in general generate more benefits than costs, then restraints enabling the efficient use or management of IPRs probably also should be, as a general matter, deemed legitimate.<sup>188</sup> If the law encourages the creation or publication of

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185. See, e.g., *Texaco Inc. v. Dagher*, 547 U.S. 1, 5–8 (2006) (declining to apply per se condemnation to restraints that involve core activities, or are ancillary to a legitimate purpose, of a joint venture).

186. See, e.g., *Copperweld Corp. v. Indep. Tube Corp.*, 467 U.S. 752, 768 (1984) (stating that “combinations, such as mergers, joint ventures, and various vertical arrangements . . . , are judged under a rule of reason, an inquiry into market power and market structure”); *Schering-Plough Corp. v. Fed. Trade Comm’n*, 402 F.3d 1056, 1065 (11th Cir. 2005) (stating that, under the rule of reason, “[t]he plaintiff bears an initial burden of demonstrating that the alleged agreement produced adverse, anti-competitive effects within the relevant product and geographic markets, i.e., market power” (citing *Fed. Trade Comm’n v. Ind. Fed. of Dentists*, 476 U.S. 447, 460–61 (1986))); see also *Ind. Fed. of Dentists*, 476 U.S. at 460–61 (“[P]roof of actual detrimental effects, such as a reduction of output, can obviate the need for an inquiry into market power, which is but a ‘surrogate for detrimental effects.’” (internal citation omitted)).

187. C. Frederick Beckner III & Steven C. Salop, *Decision Theory and Antitrust Rules*, 67 ANTITRUST L.J. 41, 44 (1999); John E. Lopatka & William H. Page, *Monopolization, Innovation, and Consumer Welfare*, 69 GEO. WASH. L. REV. 367, 387 (2001).

188. See *supra* text accompanying notes 178–79. The text above does not necessarily imply, however, that IP owners should be accorded broader control over derivative uses of their works, or that terms of protection should be further extended, so as to enable them to better coordinate follow-up uses of those works, to maintain artificial scarcity, or the like. In fact, I am quite skeptical of such arguments for broader and longer IPRs. See Cotter, *supra* note 173, at 384–87 (arguing that broader rights amount to “private acts of censorship, under the guise of copyright law, [which] is difficult to reconcile with any of the plausible instrumental goals of copyright,” such as “quantity, diffusion, and possibly diversity”); see also Mark A. Lemley, *Ex Ante versus Ex Post Justifications for Intellectual Property*, 71 U. CHI. L. REV. 129, 129 (2004) (claiming broader rights to IP owners “to mandate or control works that have already been created” are “strikingly anti-market” and “reflect a fundamental misunderstanding of the economics of private ordering”). I also doubt, however, that unilaterally withholding one’s lawfully procured IP from the market, in order to render it more scarce or to prevent certain follow-up uses, should be viewed as misuse, absent adoption of a copyright or patent working requirement of the type that

X, in other words, then contracts designed to encourage people to use or read or listen to X, or to reduce the cost of their so doing, should be subject to at least a rebuttable presumption of validity.<sup>189</sup> Second, however, it is conceivable that in some cases free speech (or perhaps, though I personally remain somewhat skeptical, other possible interests, including the distributive justice interests suggested above)<sup>190</sup> might dictate that the court give short shrift to any such ancillary justification. A hypothetical license provision forbidding the user from ever criticizing the licensed work in any forum, for example, might present such a case. Although the provision would perhaps serve the overall purpose of encouraging the licensee to promote and advertise the work at issue,<sup>191</sup> enforcing such a restraint threatens to deprive both the user and the public of the many benefits of open and robust debate. Subject to these qualifications, however, if the purpose of the restraint is a legitimate one and no free speech or other interests point the other way, analysis of whether the concession should be permitted should proceed along familiar antitrust lines. Thus, the next stage of the analysis typically would entail consideration of such matters as whether the IP owner has market power in some properly defined market, or whether the concession at issue otherwise results in demonstrable anticompetitive consequences.<sup>192</sup> If the answer to these questions is no, analysis can end there; otherwise, the court would need to consider

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traditionally has been absent from the U.S. system. *But cf.* LAWRENCE LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* 248–54 (2004) (proposing that, at some point, copyright owners should be required to register their works or else forfeit their copyright protection); Kurt M. Saunders, *Patent Nonuse and the Role of Public Interest as a Deterrent to Technology Suppression*, 15 HARV. J. L. & TECH. 389, 430–31 (2002) (discussing whether patent suppression should be viewed as a type of misuse, *contra* 35 U.S.C. § 271(d)(4), or under some circumstances an antitrust violation). Of course, unilateral refusals to deal might in some rare circumstances constitute antitrust violations. *See supra* note 51.

189. Of course, other laws (e.g., false advertising, obscenity) may be designed to discourage people from using, reading, or listening. As noted above, however, U.S. law generally takes the position that IPRs may subsist in such works nonetheless. *See supra* note 162. Logically, this would seem to suggest that contracts encouraging the use of such works should not be viewed as a form of transactional misuse, even if they are unenforceable for some other reason.

190. *See supra* note 170 and accompanying text.

191. Of course, even if one were to put aside free speech objections, some hypothetical anticriticism agreements might not be reasonably necessary to achieve this purpose. Imagine, for example, an agreement not to criticize the licensed work or, say, the entire entertainment industry, in any forum.

192. *But cf.* HOVENKAMP, *supra* note 180, § 5.6c, at 256–57 (providing a roadmap to characterize agreements and treating “the distinction between the *per se* rule and the rule of reason as soft rather than hard”).



whether the concession has any actual, as opposed to hypothetical, competitive benefits, and whether it is no broader than is reasonably necessary to achieve its legitimate purpose. Only in the rare case in which the answer to both of these latter questions is yes would a court have to engage in the difficult balancing of pro- and anticompetitive consequences.<sup>193</sup>

Next, consider a case in which the concession enables the IP owner to engage in price discrimination. This issue is likely to arise in cases involving restraints on the exercise of first-sale rights, such as in *Mallinckrodt* and the two *Monsanto* cases, because the principal effect of such restraints is to enable IP owners to engage in second-degree price discrimination.<sup>194</sup> As I have discussed elsewhere, drawing on the work of other scholars, the social welfare consequences of such price discrimination schemes are ambiguous.<sup>195</sup> On the one hand, output may be higher than it would be under a regime that forbids price discrimination, as IP owners seek to serve a portion of consumers who would not be willing to pay the unitary, profit-maximizing monopoly price; but it is also possible, under some circumstances, that output will be lower.<sup>196</sup> In addition, to the extent the ability to price discriminate offers the prospect of higher monopoly rents, it may induce more inventive and creative effort than would otherwise be the case; this added stimulus may be unnecessary, however, or even counterproductive, to the extent it induces investment that might be more socially productive elsewhere.<sup>197</sup> Whether the purpose of enabling second-degree price discrimination should be viewed as a legitimate one, possibly justifying an agreement to waive first-sale rights, therefore depends to a large extent on one's ultimate views of the net merits of price discrimination, a point to which I return below.<sup>198</sup>

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193. *Id.* § 5.6c, at 257. *See generally* *United States v. Visa U.S.A., Inc.*, 344 F.3d 229, 237–38 (2d Cir. 2003) (“Certain arrangements, such as price fixing and market division, are considered unreasonable *per se*, but most other restraints are evaluated case-by-case, under the ‘rule of reason’”); *Cont’l Airlines, Inc. v. United Airlines, Inc.*, 277 F.3d 499, 508–17 (4th Cir. 2002) (noting that the “three methods are best viewed as a continuum, on which the ‘amount and range of information needed’ to evaluate a restraint varies depending on how ‘highly suspicious’ and how ‘unique’ the restraint is” (internal citation omitted)).

194. *Cotter*, *supra* note 161, at 547.

195. *Id.* at 547 (citing LANDES & POSNER, *supra* note 169, at 40, 378, 389; Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 73–75 (2001)).

196. *Id.* at 548.

197. *Id.*

198. *See infra* notes 215–17 and accompanying text.

Third, consider a restraint that strengthens the IP owner's hand but does not appear to serve any other ancillary purpose. Even here, permitting the IP owner to extract the concession may enhance social welfare to the extent it increases social incentives to invent, create, and publish; the more valuable the IPR, the stronger the incentive, all other things being equal. Depending on the circumstances, however, those benefits may be large or small; the smaller the benefits appear to be, the more important the potential costs, even costs that otherwise might not be of interest in an antitrust forum. In particular, as the social benefits of permitting the concession approach zero, even relatively remote costs (e.g., relatively small threats to static efficiency or relatively speculative threats to dynamic efficiency) or costs that would not be cognizable in an antitrust forum, such as costs to free speech, may loom large. Courts might rightfully be more skeptical of efforts to interpret IPRs broadly, when the only credible justification for the concession at issue is to strengthen IP incentives. In the following section, I provide some suggested analyses of cases falling within this and the other two categories.

### *B. Applying an Antitrust-Inspired Framework*

The framework depicted above is probably easiest to apply in the first class of cases involving, as plausible justifications for a challenged concession, interests such as promotion or advertising or transaction-cost reduction. In such cases, absent some compelling free speech or other countervailing noneconomic interest, I have argued that misuse analysis should proceed along familiar antitrust lines. Applying this analysis to cases such as *Brulotte*, *PSC*, and *Lasercomb*, among others, probably would have reversed the outcome of those cases.<sup>199</sup> In all of those cases, there was a plausible justification for the restraint at issue; in none of them does there appear to have been much evidence that the challenged provision was likely to have any significant impact upon competition or innovation, or free speech rights.<sup>200</sup>

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199. Overruling *Brulotte*, of course, would require Supreme Court action.

200. But see Cross & Yu, *supra* note 163, at 19 ("The copyright owner's acts in *Lasercomb* constituted misuse because they were an attempt to evade one of the limits that Congress placed on a copyright owner's rights: the idea-expression dichotomy."); Note, *supra* note 164, at 1308 (arguing that *Lasercomb* vindicated a free speech interest in access to ideas); Judge, *supra* note 177, at 930–31 (arguing that "the idea/expression distinction . . . was central to both *Lasercomb* and *Alcatel*," "that copyright misuse should protect the values embodied in the First Amendment," and that "any attempt by a copyright holder to cross the idea/expression boundary or to deter fair use of his copyrighted material [should be] deemed misuse"). To the extent the restraints at issue in

Which is not to say that the type of conduct at issue in these cases never *could* have such an impact; had the defendants come forward with evidence that the restraints at issue really did threaten anticompetitive harm, due to the lack of available substitutes or other market imperfections, then perhaps a finding of misuse (or outright antitrust liability) would have been appropriate.<sup>201</sup> In *Lasercomb*, in particular, the license provisions at issue may have been broader than necessary to achieve any ancillary purpose.<sup>202</sup> Even so, an antitrust court typically would not condemn such a restraint—indeed, it would not even arrive at this point of the analysis—absent proof of anticompetitive effects. By contrast, the Federal Circuit’s recent decision in *Philips* exonerating the use of package licensing appears correct.<sup>203</sup> The procompetitive benefits of the arrangement, as described by the Federal Circuit, are at least plausible, unless outweighed by evidence that the agreements would enable Philips to discourage competition in the market for the essential patents.<sup>204</sup> Absent such evidence of anticompetitive effects—or other negative consequences, such as free speech restraints, which typically would not be implicated in the patent misuse context<sup>205</sup>—there is no good reason to condemn the restraint.

An interesting hypothetical case to consider in light of the preceding framework involves the recently publicized exclusive distributorship involving The Weinstein Company and

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*Lasercomb* and *Alcatel* prevented the reverse engineering of software for the purpose of extracting uncopyrightable ideas, a finding that the restraints were unenforceable for that reason alone might be consistent with my analysis. Such a limited holding, however, should not in my view result in the unenforceability of the copyright *tout court*. See *infra* text accompanying notes 232–37.

201. See Michael J. Meurer & Maureen A. O’Rourke, IP License Terms, Misuse, Preemption, and Competition Law Principles (unpublished abstract, on file with The Houston Law Review) (arguing that “occasionally IP licenses have an exclusionary effect on horizontal competitors of the IP owner which justifies a finding of preemption or misuse”).

202. *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990) (noting that *Lasercomb* has the right to protect against the copying of its work but finding that the licensing agreement was “extremely broad”).

203. See *U.S. Philips Corp. v. Int’l Trade Comm’n*, 424 F.3d 1179, 1190–93 (2005) (stating that a “package licensing agreement that includes both essential and nonessential patents does not . . . foreclos[e] the competitor from licensing his alternative technology”).

204. *Id.*

205. But see Dan L. Burk, *Patenting Speech*, 79 TEX. L. REV. 99, 150–60 (2000) (arguing that patent law must accommodate free speech values, at least to the extent that software patents read on digitized expression); Thomas F. Cotter, *A Burkean Perspective on Patent Eligibility*, 22 BERKELEY TECH. L.J. 855, 880–81 (2007) (arguing that past approaches to patentable subject matter should be altered to include computer and business-related art and proposing a reformed and refined approach to patentable subject matter).

Blockbuster Video. Under the terms of the deal, Weinstein agreed to distribute its movies for rental at Blockbuster outlets only; in return, Blockbuster, *inter alia*, promised to promote those films more aggressively to its customers.<sup>206</sup> Weinstein also would sell copies of the films to retailers such as Costco, however, and its distributor, Genius Products, has stated it will not attempt to circumvent the first-sale doctrine by preventing lawful purchasers of those films from subsequently renting them; thus, both Blockbuster and Weinstein expect that some of Blockbuster's competitors will still be able to rent the films to consumers.<sup>207</sup> Each authorized copy of a Weinstein film that is made available for retail sale, however, will bear a notice stating Weinstein has authorized the sale of that DVD for sale only.<sup>208</sup>

Notwithstanding some negative reactions from consumer groups,<sup>209</sup> this arrangement, like the package licensing at issue in *Philips*, probably should not be condemned either as an antitrust violation or as copyright misuse. On the antitrust side, exclusive distributorship agreements are normally analyzed under the rule of reason.<sup>210</sup> Applying that standard here, the restraint at issue probably would be viewed, as restraints incident to exclusive distributorships often are, as reasonably necessary to the efficient promotion of the Weinstein films for rental—keeping sufficient quantities of the films in stock, stimulating consumer

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206. Susanne Ault, *Blockbuster, Weinsteins Sign Exclusive Deal*, VIDEO BUS., Nov. 15, 2006, <http://www.videobusiness.com/article/CA6391512.html>.

207. Susanne Ault, *Genius Chief: Exposure Key to Blockbuster Deal*, VIDEO BUS., Nov. 22, 2006, <http://www.videobusiness.com/article/CA6394171.html>.

208. *Id.*

209. See Susanne Ault, *Buying Group Challenges Weinstein-B'Buster Deal*, VIDEO BUS., Dec. 11, 2006, <http://www.videobusiness.com/article/CA6398859.html> (discussing a suit filed in Massachusetts state court, alleging miscellaneous unfair competition claims based upon the "for sale only" labeling).

210. See *Tampa Elec. Co. v. Nashville Coal Co.*, 365 U.S. 320, 327–29 (1961) ("In practical application, even though a contract is found to be an exclusive-dealing arrangement, it does not violate [Section 3] unless the court believes it probable that performance of the contract will foreclose competition in a substantial share of the line of commerce affected."); *Barry Wright Corp. v. ITT Grinnell Corp.*, 724 F.2d 227, 236–38 (1st Cir. 1983) (noting that courts judging "the lawfulness of contracts to purchase do not apply a per se rule but a 'rule of reason'"). As a general matter, for an exclusive dealership to be unlawful, there must be substantial foreclosure in either the upstream or downstream market; moreover, the shorter the term of the contract, the less likely it will be held to violate the Sherman Act. See *Barry Wright*, 724 F.2d at 237–38 (holding that the agreements at issue were not "exclusionary," in part, because of the flexible nature of the contracts and their fairly short durations). Exclusive distributorships are, if anything, judged even more leniently. See *E & L Consulting, Ltd. v. Doman Indus. Ltd.*, 472 F.3d 23, 29–31 (2d Cir. 2006) (noting that exclusive distributorship arrangements are presumptively legal); *Paddock Publ'ns, Inc. v. Chi. Tribune Co.*, 103 F.3d 42, 46–47 (7th Cir. 1996) (finding that an exclusive distributorship is not as restrictive as an exclusive dealing contract).

demand for them, and so on.<sup>211</sup> To be sure, many (though not all) of the Weinstein films already would have played at theaters by the time they arrive at Blockbuster, thus dissipating somewhat the need for educating consumers about those films; plus, some consumers might prefer being able to rent the films from other sources or to obtain unbiased recommendations from video store employees. On the other hand, the deal may provide consumers with desired assurances that they will find Weinstein films in stock when they go to Blockbuster, and it may facilitate the provision of information to consumers about some Weinstein films (particularly straight-to-DVD films) they otherwise would overlook. In any event, it seems doubtful that antitrust enforcers would or should intervene to condemn this agreement. Even assuming Blockbuster possesses substantial market power in the market for video rentals, notwithstanding competition from other rental outlets (and from DVD sales and other possible substitutes for rental), antitrust enforcers rightly would take Weinstein's copyrights as a given; assuming the legitimacy of those copyright rights, efforts to stimulate consumer demand for products embodying those rights, through promotion and advertising, are (as I have argued above) almost certainly legitimate purposes as well. As long as the terms of the deal can be viewed as reasonably necessary to serve these purposes, it seems unlikely that any potential anticompetitive effects in the market for video rentals would be significant enough to result in invalidation of the deal. (The press reports do not disclose the duration of the contract, however, which is often an important consideration in exclusive dealing cases.)

Similarly, on the misuse side, I see no reason to depart from antitrust principles, notwithstanding the possibility that there may be *some* anticompetitive impact, even if it is too slight or too speculative to warrant much concern under antitrust standards—and despite my own lingering skepticism that consumers really stand to benefit much from the aggressive

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211. See Ault, *supra* note 207 (quoting Genius Products' CEO Trevor Drinkwater as stating that Blockbuster would promote the films through "a fully integrated marketing plan from pre-theatrical all the way to video," and that "[f]or direct-to-video, there will be a high level of exposure, as Blockbuster will be recommending them as good films to rent"); see also Paddock, 103 F.3d at 45 (stating that "[c]ompetition-for-the-contract is a form of competition that antitrust laws protect rather than proscribe," and "a market in which the creators of intellectual property . . . could not decide how best to market it for maximum profit would be a market with less (or less interesting) intellectual property created in the first place"); Joshua D. Wright, *Antitrust Law and Competition for Distribution*, 23 YALE J. ON REG. 169, 172–75 (2006) (arguing that promotional contracts can solve an incentive compatibility problem under which manufacturers prefer that retailers engage in more promotion than retailers would undertake on their own).

promotion of Weinstein films. The problem is that if a court were to invalidate the agreement on the grounds that the invalidation of this one deal would not diminish incentives to produce and distribute films (which may well be true), and might even generate some social benefits, there would be no natural stopping point. As noted above, exclusive distributorships are pervasive and, in general, antitrust law does not condemn them because of their potential procompetitive benefits.<sup>212</sup> If every exclusive distributorship agreement involving IPRs were to become potential fodder for the application of the misuse doctrine instead, the cost of entering into exclusive distributorships would rise significantly; both adjudication costs and false positives would become more problematic. Moreover, I doubt that there are any substantial free speech or other policies beyond the domain of competition law that should be accorded much weight in the present context. True, to the extent that Blockbuster favors Weinstein films over others, or even succeeds in putting some smaller video rental stores out of business, the availability of other films for rental may decrease; expressive diversity could suffer. But for now there appear to be many other outlets for video rentals, including online services such as Netflix (which itself has exclusive arrangements with some independent film distributors)<sup>213</sup> that can cater to more specialized tastes. Contrast this state of affairs with the extraction of promises not to reverse engineer or to criticize another's copyrighted work, discussed below.<sup>214</sup> In these latter cases, it is not illogical to respect Congress's judgment to grant copyright rights generally (despite the possible anticompetitive consequences, e.g. deadweight loss, resulting therefrom) but not to construe those rights as enabling the owner to extract promises not to reverse engineer or to criticize; such promises arguably pose a great risk of causing harm to dynamic efficiency and to speech beyond what is necessary to induce the creation and publication of copyrightable material. It is much less apparent, however, that exclusive distributorships pose any analogous threats that are not adequately captured by the standard antitrust framework.

A more difficult set of cases involves restraints on the exercise of first-sale rights, such as *Mallinckrodt*, the two *Monsanto* cases, or a hypothetical variation of the Weinstein deal in which Weinstein *does* sell the DVDs only on condition that they not be rented for commercial purposes, i.e., it attempts to

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212. See *supra* text accompanying note 204.

213. Ault, *supra* note 206.

214. See *infra* notes 218–31 and accompanying text.

override first-sale. Given the ambiguity of the economic consequences, it would not be irrational to conclude that the effort to override first-sale rights is on balance welfare-reducing, even though there is no demonstrable anticompetitive harm in any given case. The correct outcome therefore may depend on where one believes the risk of error should lie. In my own previous work, I have suggested that the potential costs of permitting waivers of first-sale rights do not so clearly dominate the potential benefits as to forbid such waivers outright.<sup>215</sup> To the extent my conclusion is correct, it would support the outcomes in *Mallinckrodt* and the two *Monsanto* cases, and would support Weinstein's attempt to override the first-sale doctrine in my hypothetical cases. Someone starting from the opposite presumption, however, could just as easily argue that the potential benefits of first-sale waivers do not so clearly dominate the potential costs as to compel the routine of enforcement of waivers, particularly in mass market licenses. What may be dispositive, however, is the fact that, absent the price discrimination that can result from waivers of first-sale rights, IP owners may simply find other ways to charge more to "heavy" users of their works—for example, through tying arrangements (as long as the IP owner lacks market power in the market for the tying product, and thus cannot be guilty of a per se tying offense or of misuse) that meter uses of the tying product through sales of the tied product.<sup>216</sup> If outright price discrimination is no

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215. See Cotter, *supra* note 161, at 547–49.

216. See *id.* at 545–46 (noting that tying arrangements can serve a metering purpose); Benjamin Klein, *Market Power in Franchise Cases in the Wake of Kodak: Applying Post-Contract Hold-up Analysis to Vertical Relationships*, 67 ANTITRUST L.J. 283, 313–14 (1999) (noting that tying contracts often are used for metering purposes and arguing, in addition, that it is "invalid to infer market power from the existence of a metering arrangement"). Alternatively, product design—programming or formulating a product so that it cannot be reused, for example—may sometimes serve as a substitute for contractual restraints. This insight has led some commentators to question whether product design and contractual restraints should be treated differently. Compare Michael J. Madison, *Law as Design: Objects, Concepts, and Digital Things*, 56 CASE W. RES. L. REV. 381, 399 & n.56 (2005) (suggesting that restraints inherent to product design might be more problematic, from the standpoint of personal autonomy, than contractual restraints), with Robinson, *supra* note 8, at 1516–23 (suggesting that both types of restraints should be lawful). For better or worse, out of concern that courts become entangled in questions concerning design choices, theories of predatory innovation—that innovation may violate antitrust law by raising rivals' costs without providing a commensurate social benefit—have not won widespread favor, despite their potential theoretic appeal. See generally Janusz A. Ordover & Robert D. Willig, *An Economic Definition of Predation: Pricing and Product Innovation*, 91 YALE L.J. 8 (1981) (presenting a theory of predatory innovation). See also *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1382 (Fed. Cir. 1998) (affirming judgment that a product design change violated antitrust law); Hanna, *supra* note 175, at 436–37 (describing market configurations where "predatory product innovation" may be successful in driving away competition); Maria Lillà Montagnani, *Predatory and Exclusionary Innovation: Which Legal Standard for Software Integration in the*

worse than the alternatives to which IP owners otherwise would resort, it's a bit hard to see why first-sale waivers intended to enable price discrimination should be condemned.<sup>217</sup>

The third category—cases in which the restraint at issue appears to be justified only by the IP owner's desire to increase licensing revenues—is the one in which courts most frequently might depart, with good reason, from normal antitrust standards. To illustrate, suppose a copyright owner conditions access to her copyrighted software, as embodied in a video game, upon the purchaser agreeing not to reverse-engineer the software so as to extract uncopyrightable applications program interfaces (APIs) that would enable the purchaser to create other games that would be compatible with the owner's video game system.<sup>218</sup> Here, the principal reason to enforce the condition may be simply that it permits the owner to extract additional rent from purchasers who are willing to pay for access to the APIs for the purpose of creating compatible games.<sup>219</sup> Consistent with the copyright incentive scheme, the prospect of attaining such rents might stimulate others to invest in creating and publishing their own copyrightable works; by most (though not necessarily all) accounts, this additional stimulus counts as a social benefit. Moreover, *not* enforcing the condition might encourage copyright owners to find other, more costly ways to discourage reverse engineering (for example, investing time and effort to make reverse engineering particularly difficult), which in turn might

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Context of the Competition v. Intellectual Property Rights Clash? (2006) (unpublished abstract), *available at* [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=804985](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=804985) (addressing the “line between predatory and competitive innovation” and the “balance between the market leaders’ freedom to innovate and the public interest towards the persistence of competitive markets”).

217. Though perhaps there are reasons, other than some (arguably misguided) effort at combating price discrimination, in support of a first-sale doctrine that is more than simply a default rule, Professor Robinson, rightly in my view, targets some of the traditional arguments in favor of the first-sale doctrine. *See* Robinson, *supra* note 8, at 1480–92, 1496–97 (calling into doubt the “restraints on alienation” and “single reward” theories). Perhaps, though, some sort of distributive justice argument—e.g., that first-sale enables users who are unable to pay even marginal cost to obtain copies of books and other works at prices below marginal cost—could be made in favor of the doctrine. *See* Cotter, *supra* note 161, at 547–48 (noting those wishing to protect externalities such as “spillover educational benefits” would prefer the first-sale doctrine so that those who cannot afford the marginal cost of the product could still reap the benefits of its use).

218. *See* Cotter, *supra* note 161, at 510–16 (discussing the facts at issue in *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1523–24 (9th Cir. 1993), and *Sony Computer Entertainment, Inc. v. Connectix Corp.* 203 F.3d 596, 598 (9th Cir. 2000)).

219. Although there might be a price discrimination rationale lurking here as well, *see id.* at 549 n.271 (arguing that “restrictions on reverse engineering can . . . be viewed as means for enabling price discrimination”), or a quality control issue, *see Sony*, 203 F.3d at 608–09 (arguing a copyright “suffers negative associations” when consumers confuse it with another product).



constitute a social waste. On the other hand, enforcing the condition restricts competition in the market for compatible games. How substantial this loss will be will depend upon the specific facts; ownership of the copyright in the reverse-engineered software may or may not confer meaningful power over some well-defined market. But reverse engineering also has the potential to generate positive externalities by leading to new discoveries and new innovation down the road. Again, depending on the facts, these potential static and dynamic efficiency effects may not be sufficiently concrete to matter much in an antitrust context, where the risk of false positives (wrongly condemning conduct that is not, in reality, inefficient) is typically substantial. If, however, one reasonably believes that in the present context the social benefits of enforcing the condition are also minimal, because the incremental increase in copyright owner incentives is *de minimis*, then the better choice may be to condemn the condition, even though the social cost from enforcing it is somewhat speculative. Such, at any rate, is the logic behind case law holding the right to reverse engineer software for the purpose of creating complementary products to be a fair use.<sup>220</sup> If this reasoning is correct, then arguably a contractual restriction on the purchaser's ability to reverse engineer should be equally suspect, particularly if the envisioned social costs would be borne primarily by persons not parties to the contract.<sup>221</sup>

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220. Cotter, *supra* note 161, at 541–44.

221. For a case to the contrary, however, see *Bowers v. Baystate Technologies, Inc.*, 320 F.3d 1317 (Fed. Cir. 2003). *Bowers* involved a shrinkwrap license that purported to obligate the purchaser of a software package not to reverse-engineer the software. *Id.* at 1322. After Baystate ignored the restriction and marketed a competing product, a jury found it liable for breach of contract and for copyright and patent infringement. *Id.* The Federal Circuit reversed the judgment as to patent infringement, holding that the fair use doctrine permitted the reverse-engineering. *Id.* at 1325, 1334. Nevertheless, it concluded that Baystate breached the license and that copyright law did not preempt the license; the opinion makes no mention of misuse. *Id.* at 1326–27. As a matter of policy, interpreting the fair use doctrine to permit reverse-engineering to produce a competing product is not as easy to defend as a rule permitting reverse-engineering to produce a compatible product. Cotter, *supra* note 161, at 542–43. Once the decision is made that fair use *does* protect a form of reverse engineering, however, enforcing a contract forbidding that fair use *should* be problematic. The justification for finding fair use is not merely, as the court suggests, to enable access to uncopyrightable ideas, *see id.* at 514—in which case, upholding a freely negotiated agreement *not* to access them might be defensible if it affected no one but the parties—but more fundamentally to vindicate a perceived social interest in permitting a form of competition. *See supra* text accompanying notes 211–13. As David Nimmer points out, however, the holding in *Bowers* is somewhat at odds with the Federal Circuit's subsequent discussion in *Chamberlain Group, Inc. v. Skylink Technologies, Inc.* to the effect that the DMCA should not be read as permitting “any copyright owner, through a combination of contractual terms and technological measures, to repeal the fair use doctrine with respect to an individual copyrighted work.” *Chamberlain Group, Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1202 (Fed. Cir. 2004),

More generally, restraining users from exercising rights that have come to be viewed as permissible under copyright's fair use doctrine are troubling because fair use—more so than many other IP doctrines—seems designed, at least in part, to encourage unauthorized uses which are likely to give rise to net positive social externalities (such as those associated with reverse engineering), notwithstanding the copyright owner's objections.<sup>222</sup> In this light, agreements forbidding reverse engineering for the purpose of creating compatible products in particular should be troubling because (1) the anticompetitive harm, though speculative, may be quite substantial, and (2) the procompetitive benefit of enforcing the restraint is probably slight. But restraints on the exercise of fair use rights may be problematic for other reasons too. Suppose instead that a copyright owner conditions access to its work upon the user's agreement not to quote from or criticize the work. Quotation for the purpose of commentary or critique is, of course, a long-standing example of fair use, and for good reason. Even if a user were willing to abide by the stated condition, third parties would be deprived of the social benefits of commentary or critique. These third parties would include not only members of the general public, who, consistent with standard First Amendment theory, stand to benefit from free and open discussion of ideas, but also other content owners who, on average, benefit from the value of unauthorized critique as a form of credible advertising.<sup>223</sup> A copyright owner's insistence upon such a condition therefore might seem to be a good candidate for at least a rebuttable presumption of misuse, *even if* the anticompetitive effect of the restraint in a given case seems minimal (for example, due to the presence of numerous good substitutes for the copyrighted work at issue). To the extent that freedom of speech principles favor the creation of a diversity of a works and the autonomy of commentators and critics as goods in and of themselves, the

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quoted in 4 NIMMER & NIMMER, *supra* note 162, § 13.09[A][3][b], at 13-306; see also Wendy J. Gordon, *Keynote: Fair Use: Threat or Threatened?*, 55 CASE W. RES. L. REV. 903, 912 (2005) (siding "with those who say contractual waivers of fair use should be preempted, at least in the typical shrinkwrap context"). But see Robert P. Merges, *Intellectual Property Rights and the Costs of Commercial Exchange: A Review Essay*, 93 MICH. L. REV. 1570, 1612-13 (1995) (book review) (arguing that parties should be permitted to contract out of a fair use right to reverse engineer unless the market structure is so anticompetitive that the restriction becomes a form of private legislation).

222. See generally Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. (forthcoming 2008) (presenting a model of the private costs and benefits faced by would-be users of copyrighted materials in settings in which economic analysis suggests the fair use doctrine should apply).

223. See *id.* at 13.

resulting loss of diversity and commentary that would follow from enforcing the restraint should count as a real, albeit unquantifiable, harm.<sup>224</sup>

The more difficult issue, in my view, is whether contractual restraints on reverse engineering or other possible fair uses should be viewed as misuse per se, or should instead be subject to some further inquiry into their actual effects. On the one hand, if one permits courts to examine the individual merits, misuse analysis might become less predictable, and courts might be called upon to engage in case-by-case balancing of unquantifiable costs and benefits.<sup>225</sup> Conceivably, if this danger looms large enough, or (to put the matter another way) if the costs of adjudication in this context typically overwhelm the stakes involved, perhaps a per se rule condemning such contracts outright would be preferable, even at the risk of some false positive costs. On the other hand, perhaps there are circumstances in which reverse engineering should *not* qualify as a fair use of a copyrighted work, and therefore a restraint on reverse engineering should be enforced, not condemned. In *Davidson & Associates v. Jung*,<sup>226</sup> for example, the defendants reverse engineered the plaintiff's computer game software to develop an online gaming server that would enable gamers to play the plaintiff's computer games without having to use the

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224. See Neil Weinstock Netanel, *Copyright and 'Market Power' in the Marketplace of Ideas*, in ANTITRUST, PATENTS AND COPYRIGHT: EU AND US PERSPECTIVES, *supra* note 163, at 168 (arguing that "the value of expressive diversity, in the sense of diverse political and artistic viewpoint as opposed to product differentiation *per se*, lies largely in our fundamental, extra-economic commitments to individual self-expression and a robust system of free speech"). *But cf.* Rochelle Dreyfuss, *Unique Works/Unique Challenges at the Intellectual Property/Competition Law Interface*, in EUROPEAN COMPETITION LAW ANNUAL 2005: THE INTERSECTION BETWEEN COMPETITION LAW AND INTELLECTUAL PROPERTY LAW 133 (Claus-Dieter Ehlermann & Isabela Atanasiu, eds., 2005) (arguing that competition law should take a more aggressive approach to ensuring access to "unique" works, especially where "the payoffs associated with the rights are . . . extraordinarily high relative to the inventive contributions made" and "there is little danger that reducing the licensor's flexibility would strip it of the ability to earn an adequate return on investment").

Unfortunately, courts do not always agree with this sort of reasoning. For example, in *Religious Technology Center v. Lerma*, 40 U.S.P.Q.2d 1569 (E.D. Va. 1996), the court concluded copyright's merger doctrine did not entitle the defendant to copy certain documents considered scriptural by the Scientology religion on the ground that "theological musings on the sources of (and remedies for) spiritual harm have dominated discussion about religion for centuries." *Id.* at 1573. From an economic standpoint, the conclusion that adequate substitutes existed for the documents at issue was almost certainly correct. From a free speech and freedom of religion perspective, however, it is doubtful whether the existence of economic substitutes should be dispositive.

225. See *supra* text accompanying note 183.

226. *Davidson & Assocs. v. Jung*, 422 F.3d 630 (8th Cir. 2005).

plaintiff's own server.<sup>227</sup> Unfortunately, the defendant's server also enabled players to trade unauthorized copies of the plaintiff's games.<sup>228</sup> For this reason, the court may have been right, both as a matter of law and policy, to conclude that the defendant's conduct violated the DMCA's anticircumvention provisions.<sup>229</sup> Alternatively, there may be cases in which a prohibition of conduct that initially sounds as if it should be protected by fair use, such as criticism, may be valid. Recall from above that in *Video Pipeline* the court suggested Disney's imposition of such a term in its contracts with website operators displaying Disney movie trailers might have been justified because, *inter alia*, the operators remained free to criticize Disney elsewhere, criticism was in fact readily available elsewhere, and invalidation of the restraint might have induced Disney not to make the trailers available at all.<sup>230</sup> At this point, I would suggest only that a contract prohibiting reverse engineering or criticism falls into the class of contracts that *might* be inconsistent with federal copyright law, to the extent they undermine substantial purposes of that law, and therefore *might* qualify as copyright misuse. But perhaps even some of these contracts may survive if the copyright owner can plead and prove an adequate, copyright-consistent justification for the restraint.<sup>231</sup>

### C. *Standing, Remedies, and Litigation Misuse*

The analysis thus far has left open, among other things, the related issues of standing and remedies. With respect to these issues, a concern that I and others have expressed before is that the potential uncertainty and error costs of misuse doctrine are likely exacerbated when the remedy for the misuse is unenforceability of the IPR; the cost of a false positive then becomes very high.<sup>232</sup> Consider again the reverse-engineering example. Suppose that, if one were able to quantify the net

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227. *Id.* at 636.

228. *Id.* at 640.

229. *Id.* at 641. Less persuasive, however, is the court's dictum that contractual restraints on the reverse engineering of code are in general enforceable. *Id.* at 639.

230. *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191, 206 (3d Cir. 2003).

231. Contractual restraints on reverse engineering trade secrets would seem to be even more clearly preempted, insofar as the ability to reverse engineer is one point of distinction between patent and trade secret law. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476, 489–90 (1974) (contrasting the protection of patents as opposed to the weaker coverage for a trade secret).

232. See Cotter, *supra* note 161, at 537.

expected social harm from enforcing the reverse-engineering limitation, it would be \$100,000. The existence of such expected harm provides a good reason not to enforce the condition. If the penalty is enhanced to include nonenforceability of the IPR, however, the cost/benefit calculus has the potential to radically change. Although it may be impossible to even roughly quantify the consequences of nonenforceability, one can easily imagine a few possible effects. First, if courts are willing to find misuse in a broad range of cases, one likely effect is that IPRs will become less valuable and IP owners less willing to “push the envelope” by extracting borderline concessions. This may not matter much if IPRs generally do not offer more than a modest stimulus to creativity and publication; but how can we be sure of this *ex ante*? Moreover, to the extent that IP owners are chilled from extracting concessions that might lead to their loss of IPRs, IP users may suffer too. Cases such as *Brulotte* are hardly an unmitigated boon for IP users, who as noted above, may see their financing options limited.<sup>233</sup> Second, it’s not clear that the unenforceability penalty is necessary to attain the social wealth-maximizing result. Under normal conditions, one would expect that holding the offending *condition* unenforceable (without rendering the *IPR* unenforceable) would suffice to dissipate its harm.<sup>234</sup> Alternatively, if courts perceive the penalty for misuse as being too onerous, the penalty paradoxically may deter too little, due to reluctance to invoke it.<sup>235</sup>

All of this suggests to me that, in the typical case in which the basis of the alleged misuse is the IP owner’s attempt to extract concessions from purchasers or licensees, a judgment that the offending condition is unenforceable should suffice to remedy the misuse; anything more seems unnecessary and could lead to an imbalance of costs and benefits. (Of course, to the extent the misuse is independently tortious—for example, it constitutes an

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233. See *supra* note 169.

234. In theory, one might imagine cases in which an offending provision continues to be used simply because no licensee has the temerity to challenge it; though penalty clauses themselves are generally unenforceable and, if the market of licensees is thick enough, one would not expect this condition to persist indefinitely. See also Dolan, *supra* note 116, at 1, 42–44 (arguing the unenforceability penalty, coupled with the lack-of-standing feature, of current copyright misuse doctrine may encourage licensees to take advantage of unsophisticated licensors by advocating the inclusion of license provisions that will result in a finding of misuse); Judge, *supra* note 177, at 940 (same).

235. See Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won’t Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 BERKELEY TECH. L.J. 943, 961 & n.45 (2004) (noting that, in both patent and criminal-law contexts, factfinders sometimes resort to nullification when the penalty appears disproportionate).

antitrust violation—the tort remedy would still be available to the tort plaintiff or counterclaimant.) Adopting such a rule for transactional misuse would effectively merge this type of misuse into standard preemption doctrine; federal patent or copyright law would preempt certain licensing conditions that are deemed grossly inconsistent with the purposes of those laws, without however providing a basis for rendering the IPR unenforceable altogether.<sup>236</sup>

At the same time, the rule would tend to eliminate another curious feature of misuse doctrine, namely the “standing anomaly.” If offending licensing provisions were nullified but had no other impact on the IP owner’s rights, infringement defendants who are not parties to such provisions would have

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236. Section 301 of the Copyright Act explicitly preempts all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103.

17 U.S.C. § 301(a) (2000). Many courts have expressed the view that Section 301 does not preempt claims for breach of contract because contract claims, by definition, are not “equivalent to any of the exclusive rights within the general scope of copyright” as specified by Section 106. *E.g.*, *ProCD Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996). Whether this is the correct interpretation of Section 301 remains unclear; even if it is, it nevertheless may be the case that some claims, including breach of contract claims, are implicitly preempted by federal copyright law to the extent their enforcement would conflict with or substantially undermine federal copyright policy. *See* Lemley, *Beyond Preemption*, *supra* note 113, at 141–51; Joseph P. Bauer, *Addressing the Incoherency of Judicial Interpretation of the Preemption Provision of the Copyright Act of 1976*, at 54–69, 111–24 (Notre Dame Law School Legal Studies, Research Paper No. 07-27, 2007), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=978500](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=978500). If so, there would appear to be no material difference between a finding of transactional misuse leading only to the unenforceability of a challenged provision, on the one hand, and a finding that that provision is preempted, on the other. *But see* Lemley, *Beyond Preemption*, *supra* note 113, at 157–58 (“[B]ecause copyright misuse is a fact-specific doctrine tailored to the circumstances of individual cases, it may prove a better tool both for tailoring copyright incentives and for avoiding the reticence that surrounds coarser tools such as preemption.”).

In a recent paper, Professor Tom Bell in effect argues that a finding of copyright misuse should not be equivalent to a finding that the contractual provision at issue is preempted by federal copyright law; rather, misuse should leave the common-law contract rights in place. By this mechanism, copyright owners could opt out of copyright law altogether and rely exclusively upon contract rights to safeguard their creations. Tom W. Bell, *Codifying Copyright’s Misuse Defense*, 2007 UTAH L. REV. (forthcoming 2007) (manuscript at 13), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=983805](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=983805). In my view, however, this interpretation of copyright misuse would permit copyright owners to override precisely those limitations that copyright law imposes in order to induce unauthorized uses that are likely to generate positive externalities. I have argued in this paper that relatively few licensing practices should qualify as misuse; but when a finding of misuse is appropriate, in order to preserve and vindicate certain values implicit within the copyright system, permitting the copyright owner to enforce the contract *dehors* the copyright framework would tend to undermine those very values.

much less reason to raise the matter in the first place. But even if they did, for example, to gain leverage in settlement negotiations, courts probably should enforce normal standing doctrine to preclude such inquiry. In such a case, there is no compelling reason to entrust the infringement defendant with vindicating the public interest as it relates to the provision at issue; if a party to the provision at issue believes it is unenforceable as a matter of patent or copyright preemption, there is quite literally nothing to stop him from challenging the offending provision in court, as long as a sufficient case or controversy exists.<sup>237</sup>

It may nevertheless be wise to retain the unenforceability option with respect to “litigation misuse” of the type discussed by Judge Posner in *Assessment Technologies*.<sup>238</sup> In a companion paper, I argue the unenforceability penalty that accompanies misuse under existing law may indeed be necessary to deter overly aggressive assertions of IPRs which otherwise threaten to discourage lawful conduct on the part of would-be users.<sup>239</sup> In such a case, defining an objectively bad-faith assertion of IPRs as misuse might provide a more effective deterrent against such abuse than the more typical range of litigation sanctions—though precisely how much of a deterrent is optimal remains an open question. Kathryn Judge argues, for example, that the more limited sanction of converting the IP owner’s entitlement from a property-rule to a liability-rule entitlement (one enforceable only by way of a damages judgment, and not by way of injunctive relief) would provide an adequate sanction and would be less susceptible to overdetering zealous but good-faith assertions of IPRs.<sup>240</sup> I do not propose to settle this matter here, but only to note that, in cases involving litigation misuse, something more than merely rendering the offensive exercise of the IPR a nullity (e.g., merely entering judgment for the IP defendant in a frivolous copyright infringement suit) may be necessary to

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237. A patent or copyright licensee need not even breach the license prior to filing a declaratory judgment action, if the prospect of provoking an infringement suit subsequent to such a breach is sufficiently certain. See *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 777 (2007) (holding licensee may commence declaratory judgment action challenging patent validity or infringement while license remains in effect). I recognize, of course, that at least on the patent side my proposal to incorporate a standing requirement into misuse doctrine would necessitate the overruling of Supreme Court cases such as *Morton Salt*.

238. *Assessment Techs. of Wisc., LLC v. WIREdata, Inc.*, 350 F.3d 640, 647 (2003).

239. See Cotter, *supra* note 222, at 39–40.

240. See Judge, *supra* note 177, at 950–51 (suggesting that courts can avoid the overdeterrence problem in copyright misuse cases by permitting the copyright plaintiff to recover damages but not injunctive relief).

provide adequate deterrence. As with transactional misuse, however, courts should require the party asserting misuse to be a victim of the misuse—in this instance, the party who is forced to defend against the spurious assertion of IPRs. Anything else would likely give rise to fishing expeditions with respect to one's assertion of IPRs vis-à-vis third parties; once again, one need not deputize the IP defendant as roving avenger of the public interest. Allocating the right to assert the defense to those actually harmed by the conduct should suffice.<sup>241</sup>

#### IV. CONCLUSION

I have argued above that misuse doctrine should be refashioned in several respects. First, the principle question should be whether the conduct at issue broadens the scope of the patent or copyright grant. Where the answer to this question is unclear as a matter of statutory text or precedent, as it sometimes will be, courts must consider the policy implications of construing the grant broadly or narrowly; too broad a construction may implicate innovation or competition policy, or free speech concerns. But courts also should be cognizant of the risk of false positives. Construing the grant too narrowly may undermine the copyright and patent incentive schemes, induce costly countermeasures, or increase the cost of licensing. Only when such risks appear negligible should a court feel free to vindicate relatively speculative competitive harms. In addition, courts should work towards developing a more predictable set of criteria for determining whether misuse has occurred, focusing attention on a relative handful of recurring situations such as contractual restrictions on reverse engineering or fair use. Finally, I have argued that in cases involving transactional misuse, the penalty should be limited to nonenforceability of the challenged provision; this reform would impose a standing requirement that is, by most accounts, absent from the current

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241. A potentially difficult question lurking beneath the surface of the text above is whether it would be litigation or transactional misuse for an IP owner to file suit against a defendant for breach of a license provision that itself constitutes transactional misuse. Perhaps transactional misuse would morph into litigation misuse in cases in which the contractual provision has come to be clearly established as unenforceable; until such time, asserting a claim based upon the provision would not be sufficiently egregious to constitute litigation misuse. Ultimately, the question comes to the degree of culpability that should be required for a finding of litigation misuse—e.g., objective bad faith, or both objective and subjective bad faith, or some other standard. There might also be tricky questions concerning the purgation of the misuse. Do its effects dissipate once the litigation is over and the copyright owner chooses not to appeal? Or only after the victorious defendant is restored to its prelitigation status, whatever that might mean in this context?



system and would in effect merge misuse with preemption analysis. For litigation misuse of the type arguably at issue in *Assessment Technologies*, however, the unenforceability penalty may continue to be one, though perhaps not the only, option available to deter abusive litigation. So reformed, misuse would continue to play a modest, but useful, role in copyright and patent litigation.