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Gaining Momentum: A Review of Recent Developments Surrounding the Expansion of the Copyright Misuse Doctrine and Analylsis of the Doctrine in Its Current Form

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GAINING MOMENTUM: A REVIEW OF RECENT DEVELOPMENTS SURROUNDING THE EXPANSION OF THE COPYRIGHT MISUSE DOCTRINE AND ANALYSIS OF THE DOCTRINE IN ITS CURRENT FORM

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[Congress shall have the power] To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

—United States Constitution[1]

Every contract . . . in restraint of trade or commerce . . . is hereby declared to be illegal. Every person who shall monopolize, or attempt to monopolize . . . any part of the trade or commerce among the several states . . . shall be deemed guilty of a misdemeanor.

—Sherman Act[2]

I. INTRODUCTION

The United States intellectual property ("IP") system is the foundation for incentives for authors and inventors to create and invent so that their work will be distributed to the public for the betterment of society.[3] These incentives, in the form of limited monopolies over creations via patents, copyrights, and trademarks, are becoming increasingly important as the United States depends upon intellectual property to sustain its economy.[4] As the intellectual property industry grows, it becomes vital

1. U.S. CONST. art. I, § 8, cl. 8.
2. Sherman Act, ch. 649, §§ 1 & 2, 26 Stat. 209, 209 (1890) (codified as amended at 15 U.S.C. §§ 1 & 2 (2000)).
3. *See* U.S. CONST. art. I, § 8, cl. 8.
4. The FBI has stated that:

> As the world moves from the industrial age to the information age, the United States economy is increasingly dependent on the production and distribution of

to preserve the impetus behind its creation: the public good, or more specifically, the public's ability to make use of and enjoy new ideas and creations.[5]

Antitrust laws, namely the Sherman Act,[6] which seek to suppress monopoly abuse and promote competition, seemingly contradict the limited monopoly granted to IP owners.[7] "Traditionally, courts have resolved this tension in the only way possible that preserves the essence of both statutory regimes, particularly the integrity of the federal patent and copyright statutes: Exercise of the exclusive rights granted to an inventor or author, without more, is not unlawful under antitrust law."[8] In order to trigger a violation of antitrust laws, an owner of intellectual property must attempt to expand the monopoly granted to the owner beyond the scope of rights he may legally claim in the intellectual property,

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> creative, technical, and intellectual products. These valuable products, collectively known as "Intellectual Property" (IP), are the primary fuel of the U.S. economic engine. Currently, the U.S. leads the world in the creation and export of IP and IP-related products. The International Anti-Counterfeiting Coalition recently reported that the combined U.S. copyright industries and derivative businesses account for more than $433 billion, or 5.68%, of the U.S. Gross National Product, which is more than any other single manufacturing sector. The Bureau of Labor Statistics reports that between 1977 and 1996 the growth in the IP segment of the economy was nearly twice that of the U.S. economy as a whole. It is also estimated that the software industry alone will employ more than one million people in the U.S. by the year 2005.

Federal Bureau of Investigation Website, *About the Financial Institution Fraud Unit, at* http://www.fbi.gov/hq/cid/fc/fifu/about/about_ipc.htm (last visited April 2, 2004).

5. One commentator has stated:

> The copyright/patent clause is notable in that it explicitly mentions the purpose behind the grant of power, an unusual occurrence in the Constitution .... "The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and Useful Arts.'" Thus both patent law and copyright law derive their underlying authority from the common public policy of benefiting society by granting incentives for the production of novel ideas and creative expression.

James A.D. White, *Misuse or Fair Use: That is the Software Copyright Question*, 12 BERKELEY TECH L.J. 251, 254–56 (1997) (citing Mazer v. Stein, 347 U.S. 201, 219 (1953)); *see also* Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 349 (1991) ("The principal objective of copyright is not to reward the labor of authors, but 'to promote the Progress of Science and useful Arts.'").

6. Pub. L. No. 105-22, 26 Stat. 209 (1890) (codified as amended in scattered sections of Title 15 of the United States Code).

7. *See* Dennis S. Karjala, *Copyright Protection of Operating Software, Copyright Misuse, and Antitrust*, 9 CORNELL J.L. & PUB. POL'Y 161, 161 (1999) ("In the abstract, intellectual property and antitrust coexist in a state of superficial tension. The latter abhors monopolies, or at least the abuse of monopoly power, while the former actually creates monopolies through force of law.").

8. *Id.*

or "enter into agreements with others regarding the intellectual property rights (including others holding intellectual property rights in different products) that restrain trade."[9]

This Article addresses the judicially created defense to copyright infringement actions that limits these expansion attempts known as copyright misuse. This doctrine has become necessary in order to preserve the balance between intellectual property and effective competition. This necessity is reflected in the doctrine's recent judicial recognition and the failure of antitrust law and other pro-competition doctrines to remedy the problems presented by new technologies. Part II of this Article is a brief review of general copyright law and its relationship with antitrust law. Part III will chart the development of the copyright misuse doctrine up to the twenty-first century, summing up the prevalent ideology of the doctrine, and Part IV will explore the recent developments affecting the doctrine and analyze the courts' treatment of the doctrine. Finally, Part V will consider the arguments for and against adoption of the doctrine by the courts. It will evaluate the doctrine's strengths and weaknesses in comparison to other proposed vehicles for furtherance of a pro-competition model.

II. COPYRIGHT LAW AND ITS PLACE IN A PRO-COMPETITION MODEL

In the United States, IP protection in the form of patents and copyrights is almost entirely a creature of statute.[10] These statutes provide the sole source of federal IP protection for authors and inventors.[11]

A patent conveys the right to exclude others from making, using, selling, offering for sale, and importing the patented invention.[12] However, as a threshold matter, a patent is only granted to inventions that are "worthy" of legal protection. The federal statute requires that the invention have the appropriate statutory subject matter, be novel, be useful, and be non-obvious.[13] The right to an exclusive monopoly over a patented invention lasts for twenty years.[14]

A copyright grants its owner the right to reproduce, distribute to the public, perform publicly, display publicly, and prepare derivative works

9. *Id.* at 161–62.

10. The statutory rights granted to owners of intellectual property are contained in Chapters 17 and 35 of the United States Code.

11. *See* White, *supra* note 5, at 257–60.

12. *See* 35 U.S.C. § 271 (2000).

13. *See* 35 U.S.C. §§ 101–103 (2000).

14. *See* 35 U.S.C. §§ 154, 173 (2000).

of the copyrighted work.[15] Copyright protection is available for original works of authorship that are fixed in any "tangible medium of expression" and lasts for the life of the author, plus seventy years.[16] However, most importantly for the purposes of this Article, the scope of copyright is limited only to *original expression.*[17] "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."[18]

It is absolutely crucial to limit the rights of the intellectual property owners to the minimum necessary to "spur the creation and dissemination of inventions and works of authorship," because the Constitution only authorizes such grants of rights to the extent that they "promote the Progress of Science and the useful Arts."[19] Although it has been argued that patents pose a much greater monopolistic threat than do copyrights, the extension of copyright protection to software and technology has greatly increased the monopolistic opportunities inherent in the granting of a copyright.[20] One commentator has opined:

> For other forms of copyrighted works such as books or paintings, perceiving the expression is the goal of the work . . . . On the other hand, software's inherent value lies in its ability to perform a function or task when its instructions are executed on a machine. . . . Copyright protection for software can be used to withhold access to the ideas underlying the expression, and can also prevent others from building compatible products thereby leveraging existing technology. . . . To the extent that software copyright is used to enhance and maintain this type of 'monopoly', it can confer significant market power and make software

15. *See* 17 U.S.C. § 106 (2000).

16. *See* 17 U.S.C. §§ 102, 302 (2000).

17. *See* 17 U.S.C. § 102(b) (2000).

18. *Id.; see* Baker v. Selden, 101 U.S. 99 (1879); *see also* Lotus Dev. Corp. v. Borland Int'l, Inc., 49 F.3d 807 (1st Cir. 1995), *aff'd by an equally divided Court*, 516 U.S. 233 (1996) (holding that the Lotus menu command hierarchy is an uncopyrightable subject matter); Morrissey v. Procter & Gamble Co., 379 F.2d 675 (1st Cir. 1967); H.R. Rep. No. 94-1476 (1976) (stating that § 102(b) is "intended, among other things, to make clear that the expression adopted by the programmer is the copyrightable element in a computer program, and that the actual processes or methods embodied in the program are not within the scope of the copyright law").

19. *See* U.S. CONST. art. 1, § 8, cl. 8; White, *supra* note 5, at 256.

20. *See* White, *supra* note 5, at 282; *see also* Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191 (7th Cir. 1987) (Judge Posner stating that "[t]he danger of monopoly is more acutely posed by patents than by copyrights . . .").

copyright protection more akin to that provided by patent law (which protects functional ideas).[21]

Traditionally, in an attempt to deal with these abuses, the doctrines such as fair use, preemption and antitrust law were utilized.[22] However, due to the rapid pace at which software develops, the barriers and burdens associated with brining an antitrust suit, and the inability for Congress to adapt quickly enough to offer effective statutory solutions, courts are beginning to look to the copyright misuse doctrine for a more adaptable and plausible solution to the problem of copyright abuse.

III. THE HISTORY OF THE COPYRIGHT MISUSE DOCTRINE

In general, an intellectual property misuse defense "is a common law defense to infringement that derives from the equitable doctrine of 'unclean hands.' "[23] The doctrine of misuse has been judicially established by piecemeal.[24] The misuse doctrine was "created to address situations in which the owner of an intellectual property right used his or her legal monopoly to create such an asymmetry in the balance of rights that the courts refused to enforce the normal intellectual property rights."[25] Although the misuse doctrine is rooted in the notions of equity, it has been applied very differently in the areas of patents, copyrights, trademarks and trade secrets.[26] "Patent misuse is a technical defense to infringement that relies largely on antitrust analysis for resolution. Trademark [and trade secret] misuse, on the other hand, remains an inchoate collection of principles largely based in equity, and is not a recognized defense in most jurisdictions."[27]

Copyright misuse was explicitly recognized as a legitimate doctrine in 1990 in the Fourth Circuit case *Lasercomb America, Inc. v. Reynolds*,[28] but the defense does not owe its origins to *Lasercomb*. Instead, the

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21. White, *supra* note 5, at 282–84.

22. For further discussion on these topics, see *infra* Part V(e).

23. Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 867 (2000). The equitable doctrine of "unclean hands," which lies within the judges discretion, denies relief to the claimant based upon the claimants own wrongdoing. *See* Atari Games Corp. v. Nintendo of Am. Inc., 975 F.2d 832, 846 (Fed. Cir. 1992) ("In the absence of any statutory entitlement to a copyright misuse defense, the defense is solely an equitable doctrine. Any party seeking equitable relief must come to the court with 'clean hands.'" (citations omitted)).

24. Frischmann & Moylan, *supra* note 23, at 867.

25. White, *supra* note 5, at 265–66.

26. Frischmann & Moylan, *supra* note 23, at 880–81.

27. *Id.* at 881.

28. 911 F.2d 970 (4th Cir. 1990).

development of the copyright doctrine can be traced further back in the Supreme Court's treatment of the patent misuse doctrine.

A. *The Foundation of the Copyright Misuse Doctrine as Developed by U.S. Supreme Court Case Law*

"The doctrine of intellectual property misuse first arose in the early 1900's in conjunction with the use of patents."[29] In *Motion Picture Patents v. Universal Film Manufacturing. Co.*,[30] the Supreme Court refused to enforce a licensing agreement that would only grant a license to use a patented movie projector if the licensee also purchased the film to be used in the projector from the licensor.[31] The Court held that this restriction was invalid because the film that the licensee was required to purchase was not part of the movie patent, and that the agreement was an illegal attempt to "continue the patent monopoly in this particular character of film after it has expired," and "to enforce it would be to create a monopoly in the manufacture and use of moving picture films, wholly outside the patent . . . ."[32] In effect, the Court would not allow the patent owner to "extend the scope of the film projector patent into the unpatented area of film."[33]

A parallel may be drawn between the current state of the copyright misuse doctrine and the patent misuse doctrine as it existed at this point. Both doctrines lack uniform acceptance among the federal courts, and the application of the defense was somewhat uncertain in light of the fact it relied largely on the conscience of equity.[34] The first case to begin laying the foundation for copyright misuse was *Morton Salt Co. v. G.S. Suppiger*.[35] In *Morton Salt*, the Supreme Court expanded and firmly established the patent misuse doctrine and referred to the application of the misuse doctrine in a copyright context in dicta.[36] In fact, the Court referenced two circumstances "for application of the like doctrine in the case of copyright,"[37] which would seem to indicate the Court's recognition of a misuse doctrine that is not restricted to patents.

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29. White, *supra* note 5, at 266.
30. 243 U.S. 502 (1917).
31. *Id.*
32. *Id.* at 519.
33. White, *supra* note 5, at 266.
34. *See* Frischmann & Moylan, *supra* note 23, at 882–83; White, *supra* note 5, at 265–69.
35. 314 U.S. 488 (1942).
36. *Id.*; *see* Frischmann & Moylan, *supra* note 23, at 882–83; White, *supra* note 5, at 256–68.
37. *Morton Salt*, 314 U.S. at 494 (citing Stone & McCarrick, Inc. v. Dugan Piano Co., 220 F. 837, 841, 843 (5th Cir. 1915); Edward Thompson Co. v. American Law Book Co., 122 F. 922, 926 (2nd Cir. 1903)). Both *Stone & McCarrick* and *Edward Thompson Co.* deal with

Morton licensed its patented salt-depositing machine with a condition that the licensees exclusively use Morton's salt tablets.[38] The Court found that using the patent to restrain competition in a market for unpatented goods (i.e., the salt tablets) was patent misuse.[39] The Court stressed the purpose behind the creation of the intellectual property laws, and the balance that must be achieved between the monopoly granted and the benefits to society over the patented invention.[40] As such, the Court determined that using the monopoly granted by the government to secure an exclusive right or limited monopoly not granted to the patent owner is violative of this balance, counter to the purpose of the intellectual property system, and thus prohibited.[41] The Court declared that courts of equity "may rightfully withhold assistance from such use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the [patent misuse] have been dissipated."[42]

It is important to note that the Court in *Morton Salt* based the patent misuse defense in equity, and did not draw a strong parallel to statutory antitrust law.[43] "[A]lthough patent misuse in tying cases was later modified by legislation to resemble an antitrust-based defense, the original basis in equity may also apply to copyright misuse today."[44] Additionally, a "finding of [patent] misuse by the court does not invalidate the patent; it simply renders the patent unenforceable until the misuse is terminated. Thus, a finding of misuse precludes the patentee from obtaining relief for infringement."[45] However, once the patent owner can demonstrate that the actions causing the misuse have been expunged, courts will again be willing to enforce the patent, paving the way for another infringement suit.

In *United States v. Paramount Pictures, Inc.*,[46] the Court further extended the misuse defense to situations involving copyright infringement and antitrust implications. In *Paramount*, a case involving

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the equitable remedy of unclean hands in a copyright infringement context, and were referenced by the Court as a precursor to the misuse doctrine's application to copyright.

38. *Morton Salt*, 314 U.S. at 491.

39. *Id.*

40. *Id.* at 492.

41. *Id.* at 493; *see* Frischmann & Moylan, *supra* note 23, at 883.

42. *Morton Salt*, 314 U.S. at 493.

43. *See* Frischmann & Moylan, *supra* note 23, at 883 (citing *Morton Salt*).

44. *Id.*

45. David Scher, Note, *The Viability of the Copyright Misuse Defense*, 20 FORDHAM URB. L.J. 89, 95 (1992–1993).

46. 334 U.S. 131 (1948).

"block-booking" of copyrighted material,[47] the Court utilized the same reasoning employed in *Morton Salt* and focused on the importance of an equitable balance between the rights associated with the grant of a copyright and the social benefits to be derived from them.[48] In relying on this reasoning, the Court held the currently scrutinized form of block-booking was an improper attempt to enlarge the scope of individual copyrights beyond that which was granted to the owners.[49] Although this case primarily focused on antitrust law and did not directly employ or adopt the misuse defense in the context of copyright infringement actions, the Court's reliance on *Morton Salt* suggests that misuse may be used outside of patent law to curtail the negative effects of the rights granted to an intellectual property owner.[50]

Broadcast Music, Inc. v. CBS[51] is an antitrust case evaluating the legality of blanket licenses utilized by ASCAP and BMI.[52] "Although copyright misuse is not expressly considered in its opinion, the Court's antitrust analysis illuminates a set of guiding principles to be applied when an asserted misuse defense is based upon anticompetitive behavior."[53] Ultimately, the Supreme Court held that blanket licenses do not "facially appear[] to . . . always or almost always tend to restrict competition and decrease output" and as such are not per se violations of the Sherman Act.[54]

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47. Block-booking is "a particular tying arrangement where the sale or license of one or more copyrighted works is conditioned on the sale or license of other copyrighted works." Frischmann & Moylan, *supra* note 23, at 884.

48. *Paramount Pictures*, 334 U.S. at 158.

49. *Id.*

50. However, compare *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), where the Court considered whether block-booking violated the Sherman Act. Some commentators have noted that "the *Loew's* opinion is often cited as support for copyright misuse claims. While *Loew's* clearly supports the extension of antitrust-related presumptions to the copyright misuse context, it does not appear to support extension of misuse principals from patent to copyright." Frischmann & Moylan, *supra* note 23, at 884–85. Thus, although *Loew's* possibly advanced an antitrust based theory of misuse of copyright, it did little to advance the *Morton Salt* patent misuse "public policy" and "balance" principals.

51. 441 U.S. 1 (1979).

52. ASCAP (the American Society of Composers, Authors, and Publishers) and BMI (Broadcast Music, Inc.) both receive nonexclusive licenses from their members to license

> nondramatic performances of [their members] works, and [they] issue licenses and distributes royalties to copyright owners in accordance with a schedule reflecting the nature and amount of the use of their music and other factors . . . Both organizations operate primarily through blanket licenses, which give the licensees the right to perform any and all of the compositions owned by the members or affiliates as often as the licensees desire for a stated term.

Broadcasting Music, Inc., 441 U.S. at 5.

53. Frischmann & Moylan, *supra* note 23, at 886.

54. *Broadcasting Music, Inc.*, 441 U.S. at 19–20.

Although the copyright misuse defense was raised in this case, when the Court reversed the Second Circuit's finding of an antitrust violation, the Supreme Court stated that a copyright misuse ruling would not be addressed because it was dependent on the finding of an antitrust violation.[55] However, the dissent written by Justice Stevens advanced the theory that the misuse principles established by *Morton Salt* should be extended to apply to copyrights as well.[56] In it, he states that "[a] copyright, like a patent, is a statutory grant of monopoly privileges. The rules which prohibit a patentee from enlarging his statutory monopoly by conditioning a license on the purchase of unpatented goods, or by refusing to grant a license under one patent unless the licensee also takes a license under another, are equally applicable to copyrights."[57]

To date, the Supreme Court has yet to expressly adopt the copyright misuse doctrine as a legitimate defense. However, the Court has acknowledged the doctrine's existence and its foundation in equity.[58] Thus, development of the doctrine has been relegated to the lower circuit and district courts, which are left with the dilemma of if and how to apply a doctrine with little guidance from statute or judicial polestars.

B. *The Circuits Begin to Adopt the Misuse Defense*

1. The *Lasercomb* Decision

The first circuit court to firmly establish the copyright misuse doctrine as a legitimate defense to copyright infringement cases was the Fourth Circuit in *Lasercomb America, Inc. v. Reynolds.*[59] The plaintiff, Lasercomb, developed and licensed software that aided in the design and manufacture of steel rule dies used to score paper for folding into cartons.[60] Lasercomb licensed four copies of this software to the defendant, who then proceeded to circumvent the protective devices and make three unauthorized additional copies.[61] As such, there was no dispute that the defendant's actions amounted to copyright infringement.[62]

However, in addition to limiting copying of licensed software, Lasercomb also included a provision in its standard form contract that prevented a licensee from independently developing a competing soft-

55. *Id.* at 24.
56. *Id.* at 28 n.12 (citing United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948); United States v. Loew's, Inc., 371 U.S. 38 (1962)) (Stevens, J., dissenting).
57. *Id.* at 28.
58. *See* Frischmann & Moylan, *supra* note 23, at 887.
59. 911 F.2d 970 (4th Cir. 1990).
60. *Id.* at 971.
61. *Id.*
62. *Id.*

ware program for 100 years.[63] Based on this license, the defendants claimed that Lasercomb was "barred from recovery for infringement by its concomitant culpability" in the abuse of their copyright.[64]

The court began its analysis by stating that "[a] successful defense of misuse of copyright bars a culpable plaintiff from prevailing on an action for infringement of the misused copyright."[65] The court was careful to note that "[a]lthough defendants were not party to the restrictions of which they complain, they proved at trial that at least one Internet licensee had entered into the standard agreement, including the anticompetitive language."[66] Drawing its reasoning from the patent misuse doctrine, the court held that "the defense of copyright misuse is available even if the defendants themselves have not been injured by the misuse."[67]

In reaching its conclusion that "a misuse of copyright defense is inherent in the law of copyright just as a misuse of patent defense is inherent in patent law," the court cited to numerous parallels in underlying public policies between copyright law and patent law which justify the "application of the misuse defense to copyright as well as patent law."[68] After an exhaustive analysis of the historical origin and public policy behind the creation of intellectual property law and the development of the patent misuse doctrine, the court eventually held that "the rationale of *Morton Salt* in establishing the misuse defense applies to copyrights."[69]

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63. *Id.* at 972–73.

64. *Id.* The disputed portion of the license agreement stated:

> D. Licensee agrees during the term of this Agreement that it will not permit or suffer its directors, officers and employees, directly or indirectly, to write, develop, produce or sell computer assisted die making software.
>
> E. Licensee agrees during the term of this Agreement and for one (1) year after the termination of this Agreement, that it will not write, develop, produce or sell or assist others in the writing, developing, producing or selling computer assisted die making software, directly or indirectly without Lasercomb's prior written consent. Any such activity undertaken without Lasercomb's written consent shall nullify any warranties or agreements of Lasercomb set forth herein.

Id. at 973.

65. *Id.* at 972.

66. *Id.* at 973.

67. *Id.* at 979.

68. *Id.* at 974 ("The origins of patent and copyright law in England, the treatment of these two aspects of intellectual property by the framers of our Constitution, and the later statutory and judicial development of patent and copyright law in this country persuade us that parallel public policies underlie the protection of both types of intellectual property rights.").

69. *Id.* at 977. The court reiterated the principle brought out in *Morton Salt*, stating that "the granted monopoly power [that accompanies a grant of intellectual property] does not extent to property not covered by the patent or copyright." *Id.* at 976.

The court expounded upon this rationale by adapting the traditional language of *Morton Salt* to the context of copyright:

> The grant to the [author] of the special privilege of a [copyright] carries out a public policy adopted by the Constitution and laws of the United States, "to promote the Progress of Science and useful Arts, by securing for limited Times to [Authors] . . . the exclusive Right . . ." to their [original works.] But the public policy which includes [original works] within the granted monopoly excludes from it all that is not embraced in the [original expression]. It equally forbids the use of the [copyright] to secure an exclusive right or limited monopoly not granted by the [Copyright] Office and which it is contrary to public policy of the grant.[70]

Therefore, the court in *Lasercomb* explicitly adopted a "scope of the grant" copyright misuse analysis (i.e. the "public policy" analysis). In other words, owners of a copyright were forbidden from using their grant of a monopoly to gain a monopoly in a subject matter outside of the rights in which he was granted. If they were found guilty of this conduct, then a court would refuse to enforce the owner's copyright against the alleged infringer.

The court additionally held that, as with the patent misuse defense under *Morton Salt*, it is not necessary to prove an antitrust violation in order to successfully assert copyright misuse.[71] "So while it is true that the attempted use of a copyright to violate antitrust law probably would give rise to a misuse of copyright defense, the converse is not necessarily true—a misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action."[72]

Ultimately, the court found the copyright misuse defense valid in this case, stating that Lasercomb's licensing agreement "goes much further and essentially attempts to suppress any attempt by the licensee to independently implement the idea which [the software] expresses."[73] It is important to note that the court focused on the unreasonableness of the

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70. *Id.* (citations omitted) (alterations in original).

71. *See id.* at 978 (quoting Morton Salt Co. v. G.S. Suppiger, 314 U.S. 488, 494 (1942) ("It is unnecessary to decide whether respondent has violated the Clayton Act, for we conclude that in any event the maintenance of the present suit to restrain petitioner's manufacture or sale of the alleged infringing machines is contrary to public policy and that the district court rightly dismissed the complaint for want of equity.")).

72. *Lasercomb*, 911 F.2d at 978.

73. *Id.* Recall that "[a] copyright, of course, protects only the expression of an idea (the [software] code), and not the idea itself (using [the] software to make steel rule dies.)" *Id.* at 978 n.19.

licensing agreement,[74] and essentially ignored "the actual effects on competition or market power of the plaintiff, as it would in an antitrust analysis."[75]

2. The *Practice Management* Decision

The Ninth Circuit was the next circuit to fully adopt the copyright misuse doctrine in *Practice Management Information Corp. v. American Medical Ass'n.*[76] Following the rationale of the Fourth Circuit's decision in *Lasercomb* almost in its entirety, the *Practice Management* court adopted the "public policy" (non-antitrust) analysis of the copyright misuse doctrine, and reaffirmed that "a defendant in a copyright infringement suit need not prove an antitrust violation to prevail on a copyright misuse defense."[77]

As in *Lasercomb*, licensing provisions in restriction of competition were the foundation for the misuse holding.[78] Specifically, the American Medical Association ("AMA") granted the Health Care Financing Administration ("HCFA") a nonexclusive, royalty free and irrevocable license to use, copy, publish and distribute a coding system for medical procedures ("CPT") on the condition that the HCFA exclusively use the CPT and require its use in programs administered by the HCFA.[79] As such, "the plain language of the AMA's licensing agreement requires the HCFA to use the AMA's copyrighted coding system and prohibits HCFA from using any other."[80] This ultimately led the court to conclude that the AMA misused its copyright.[81] According to the court, "[t]he controlling fact is that HCFA is prohibited from using any other coding system by virtue of the binding commitment it made to the AMA to use the AMA's copyrighted material exclusively .... Conditioning the license on HCFA's promise not to use competitors' products constituted a misuse of the copyright by the AMA."[82]

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74. *Id.* at 979 ("The misuse arises from Lasercomb's attempt to use its copyright in a particular expression ... to control competition in an area outside the copyright, i.e. the idea of computer assisted die manufacture, regardless of whether such conduct amounts to an antitrust violation.").

75. Frischmann & Moylan, *supra* note 23, at 890.

76. 121 F.3d 516 (1995).

77. *Id.* at 521.

78. *Id.*

79. *Id.* at 517.

80. *Id.* at 520–21.

81. *Id.* at 521.

82. *Id.*

3. The *Alcatel* Decision

In a very complex and significant decision, the Fifth Circuit formally adopted the copyright misuse doctrine in *Alcatel USA, Inc. v. DGI Technologies, Inc.*[83] Although the court found copyright misuse due to a licensing agreement exceeding the "scope of the grant," the Fifth Circuit "looked more carefully at the context and the effects of the plaintiff's anticompetitive behavior."[84]

Alcatel (formerly known as DSC Communications Corporation, ("DSC")), a company that developed switching equipment for use in routing telephone calls, created and received a copyright on software that controls this equipment.[85] Alcatel's licensing agreement for this software included, *inter alia*, a restriction on the software limiting its use to the operation of Alcatel switches, a prohibition on copying the software or disclosing it to other parties, and an authorization to use the software "only in conjunction with [Alcatel] manufactured equipment."[86] A conflict arose when DGI Technologies was formed to produce "cards" that would be added to the switching equipment.[87] Because the cards made by DGI must be compatible with Alcatel's switching system, DGI was forced to download and copy Alcatel's operating system software for testing and development.[88] Alcatel brought suit against DGI for infringement and DGI asserted the copyright misuse defense.[89]

In contrast to *Lasercomb* and *Practice Management*, which dealt with attempts to suppress competition with a copyrighted product, Alcatel's misuse stems from its attempt to use its "copyrights to indirectly gain commercial control over products [Alcatel] does not have copyrighted [or patented]."[90] The court held that "DGI was effectively prevented from developing its product, thereby securing for [Alcatel] a limited monopoly over its uncopyrighted [and unpatented] microprocessor cards."[91] Alcatel's actions in preventing "card" manufacturer competitors from developing products that were compatible with Alcatel's copyrighted software is an illustrative example

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83. 166 F.3d 772 (5th Cir. 1999).

84. Frischmann & Moylan, *supra* note 23, at 892.

85. *See Alcatel*, 166 F.3d at 777.

86. *Id.*

87. Alcatel's customers would frequently need to expand the call-handling ability of their switches. "One way to expand the call-handling capacity of [Alcatel] switches is to add groups of 'cards' to the switch." *Id.* at 777–78.

88. *Id.*

89. *Id.* at 792.

90. *Id.* at 793 ("[T]he public policy which includes original works within the granted monopoly excludes from it all that is not embraced in the original expression."); *see* Frischmann & Moylan, *supra* note 23, at 893.

91. *Alcatel*, 166 F.3d at 794.

of a copyright owner exceeding the scope of the grant (the copyrightable expression contained in the software) to gain a monopoly in an unpatented and uncopyrightable item (the microprocessor "cards"), which is, *inter alia*, a misuse of copyright.

IV. Recent Developments Surrounding the Copyright Misuse Doctrine

Until 2003, the remaining federal circuits had yet to officially adopt the copyright misuse doctrine.[92] However, recently it seems as though the copyright misuse doctrine is gaining momentum, as it was recently adopted by the Third Circuit and acknowledged in at least nine other district or circuit court cases. The doctrine's elevated profile can be attributed to society's increased dependence on licensing agreements, particularly in the field of technology, as a large portion of the cases deal with allegedly faulty agreements that restrain competition.

A. Video Pipeline—*The Third Circuit Adopts the Copyright Misuse Doctrine*

Although the Third Circuit ultimately held that the copyright misuse doctrine was not applicable to the copyright owners, the court in *Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.*[93] officially recognized copyright misuse as a legitimate defense and adopted the public policy (as opposed to the antitrust) analysis employed in *Lasercomb* and *Practice Management.*[94] In addition, the court acknowledged a novel application of the misuse doctrine within the context of licensing agreements.

Plaintiff Video Pipeline ran a business that compiled movie trailers onto videotape for display in retail video stores.[95] "To obtain the right to distribute trailers used in the compilations, Video Pipeline entered into agreements with various entertainment companies."[96] The subject of this dispute was a licensing agreement with Disney (presumably the owner of the named defendant, Buena Vista Home Entertainment) to compile and use over 500 trailers for Disney movies in Video Pipeline's trailer videotape.[97]

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92. For a detailed analysis of the case law in the federal circuits that have not adopted the copyright misuse doctrine, see Frischmann & Moylan, *supra* note 23, at 894–901.

93. 342 F.3d 191 (3rd Cir. 2003).

94. *See supra* Part III.B.1–2.

95. *Video Pipeline*, 342 F.3d at 195.

96. *Id.*

97. *Id.*

In 1997, Video Pipeline created two websites that make movie trailers compiled by Video Pipeline throughout the years, including those received under the Disney license agreement, available for "streaming".[98] However, the license agreement between Video Pipeline and Disney did not permit such online use of its trailers.[99] After removing the Disney-owned trailers at Disney's request, Video Pipeline filed suit against Disney, seeking a declaratory judgment "that its online use of trailers did not violate federal copyright law."[100]

Upon the filing of the lawsuit, Disney terminated its license agreement with Video Pipeline.[101] In response, Video Pipeline copied a few minutes from each of about sixty-two Disney movies to create its own trailers for use in its website.[102] Then Video Pipeline amended its complaint to seek a declaratory judgment allowing it to use the trailers it had created.[103] The district court issued a preliminary injunction prohibiting Video Pipeline from displaying the trailers on their website, and the Third Circuit took the case to review the district court's opinion.[104] Video Pipeline challenged the injunction "on the ground that its internet use of the [trailers] is protected by the fair use doctrine and . . . that [Disney] may not receive the benefits of copyright protection because they have engaged in copyright misuse."[105]

The court first addressed Video Pipeline's fair use argument in a lengthy analysis, concluding that Video Pipeline's display of the trailers was not protected under the fair use doctrine.[106] The court then turned its attention to Video Pipeline's contention that Disney engaged in misuse of copyright. Video Pipeline's complaint centered around licensing agreements that Disney had entered into with three other companies.[107] These agreements, which Video Pipeline claimed were copyright misuse violations because they sought to suppress criticism, provided for the delivery of trailers to Disney movies over the web, and further stated that:

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98. *Id.* Streaming is defined as "[p]laying sound or video in real time as it is downloaded over the Internet as opposed to storing it in a local file first. A plug-in to a web browser . . . decompresses and plays the data as it is transferred to your computer over the World-Wide Web. Streaming audio or video avoids the delay entailed in downloading an entire file [before] playing it. . . ." Hyperdictionary, *Streaming: Dictionary Entry And Meaning, available at* http://www.hyperdictionary.com/dictionary/streaming (last visited Apr. 2, 2004).

99. *Video Pipeline*, 342 F.3d at 195.

100. *Id.*

101. *Id.*

102. *Id.*

103. *See id.* at 196.

104. *Id.*

105. *Id.* at 194.

106. *Id.* at 197–203.

107. *See id.* at 203.

> The Website in which the Trailers are used may not be derogatory to or critical of the entertainment industry or of [Disney] (and its officers, directors, agents, employees, affiliates, divisions and subsidiaries) or of any motion picture produced or distributed by [Disney] . . . [or] of the materials from which the Trailers were taken or of any person involved with the production of the Underlying Works. Any breach of this paragraph will render this license null and void and Licensee will be liable to all parties concerned for defamation and copyright infringement, as well as breach of contract . . . .[108]

Initially, the court recognized and proceeded to adopt many of the principals set forth in *Morton Salt*, *Practice Management*, and *Lasercomb*.[109] The court acknowledged the doctrine's foundation in equity, that the defense does not invalidate the copyright, but rather "precludes its enforcement during the period of misuse," and reaffirmed the principle that "[t]o defend on misuse grounds, the alleged infringer need not be subject to the purported misuse."[110]

The court also recognized the anti-competitive element that fuels misuse claims, but chose to focus on the "underlying policy rationale for the misuse doctrine set out in the Constitution's Copyright and Patent Clause: 'to promote the Progress of Science and useful Arts.'"[111] The court observed that "[a]nti- competitive licensing agreements may conflict with the purpose behind a copyright's protection by depriving the public of the would-be competitor's creativity."[112] In justifying a need for the copyright misuse doctrine, the court noted that both the fair use doctrine and the refusal to extend copyright protection to facts and ideas serve as effective tools to counteract actions by copyright owners that ultimately conflict with copyright's constitutional goal.[113] The court then correctly observed that even considering these tools, it is still "possible that a copyright holder could leverage its copyright to restrain the creative expression of another without engaging in anti-competitive behavior or implicating the fair use and idea/expression doctrines."[114]

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108. *Id.*

109. *See id.* at 204.

110. *Id.* ("[M]isuse doctrine extends from the equitable principle that courts 'may appropriately withhold their aid where the plaintiff is using the right asserted contrary to public interest.'" (quoting Morton Salt Co. v. G.S. Suppiger, 314 U.S. 488, 492 (1942))).

111. *Id.* (citations omitted). The court goes on to state that "[t]he 'ultimate aim' of copyright law is 'to stimulate artistic creativity for the general public good. . . . Put simply, our Constitution emphasizes the purpose and value of copyrights and patents. Harm cause by their misuse undermines their usefulness." *Id.*

112. *Id.*

113. *See id.* at 205.

114. *Id.*

As an example of such a case, the court cited *Rosemont Enterprises, Inc. v. Random House, Inc.*,[115] a case which invoked the unclean hands doctrine and refused to grant an injunction against a potential infringer because the copyright owners sought to use their copyright to "restrict the dissemination of information."[116] Conceding that *Rosemont Enterprises* did not concern the subject matter of a typical misuse case, an anti-competitive licensing agreement, the court focused on the fact that a copyright holder was denied relief because of his attempt to "disrupt a copyright's goal to increase the store of creative expression for the public good."[117]

In a novel theoretical application of the misuse doctrine, the court then held that a "copyright holder's attempt to restrict expression that is critical of it (or of its copyright 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."[118] Ultimately, however, the court refused to find Disney guilty of copyright misuse, as the court could not conclude that the agreements were likely to inhibit creative expression significantly enough to disrupt the public policy behind copyrights.[119] The court cited the available alternatives for Disney criticism and the lack of evidence that such restrictions in the licensing agreement would significantly affect the public's access to criticism of Disney.[120] Finally, the court declared that application of the misuse doctrine in this situation could actually decrease access to the trailers because Disney might simply refuse to license the trailers at all.

Despite the court's refusal to apply the misuse defense in this case, its holding that misuse "might operate beyond its traditional anti-

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115. 366 F.2d 303 (2nd Cir. 1966).

116. *Id.* at 311. In *Rosemont Enterprises*, a corporation acting for the publicity-shy Howard Hughes purchased the copyright to an article about Hughes solely to bring an infringement suit to enjoin the publication of a forthcoming biography on Hughes. *Id.* at 304. The concurring opinion noted that:

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

Id. at 311 (Lumbard, J., concurring).

117. Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc., 342 F.3d 191, 205 (3rd Cir. 2003).

118. *Id.* at 205–06.

119. *Id.* at 206.

120. *Id.* For example, "[t]he licensing agreements do not . . . interfere with the licensee's opportunity to express such criticism on other websites or elsewhere." *Id.* The court also noted that "if a critic wishes to comment on Disney's works, the fair use doctrine may be implicated regardless of the existence of the licensing agreement." *Id.*

competition context," is very significant for several reasons. First, the Third Circuit has become the fourth federal circuit court to explicitly adopt the copyright misuse doctrine (the third in eight years), which signals a growing acceptance of the doctrine that will likely lead to its adoption in some form by all of the circuits, and inevitably the Supreme Court. Second, by theoretically extending the misuse doctrine beyond an anti-competitive context to the suppression of expression, the court further distinguished copyright misuse from traditional antitrust analysis and established precedent to broaden the application of the doctrine, not only to restrictions on the dissemination of critical language, but perhaps to restrictions on the dissemination of information in general. It remains to be seen exactly what kind of influence and precedential effect this decision will have. In the least, copyright holders who create license agreements that potentially restrict critical language should at least be mindful of the possibility that too harsh of a restraint could prove to be copyright misuse (particularly in the Third Circuit).

B. In Re Napster, Inc. Copyright Litigation

In 2002, the Northern District of California further analyzed the copyright misuse doctrine as adopted by the Ninth Circuit in *In re Napster, Inc. Copyright Litigation.*[121] This memorandum and order on a motion for summary judgment follows extensive litigation and a ruling by the Ninth Circuit regarding copyright infringement issues that, while beyond the scope of this paper, serve as the backdrop for the court's discussion.[122]

The dispute in this case arose between eighteen record companies ("Plaintiffs") and Napster, "an Internet service that facilitates the downloading of MP3 music files."[123] Napster entered into a licensing agreement with plaintiff MusicNet "to distribute the music from the catalogs of the three participating MusicNet plaintiffs and any other label that licenses its catalog to MusicNet."[124] The district court issued this order and opinion on a motion for summary judgment against Napster "for willful contributory and vicarious copyright infringement."[125] As a defense, Napster attempted to invoke the copyright misuse doctrine against the plaintiffs.[126] Napster's argument asserted that:

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121. 191 F. Supp. 2d 1087 (N.D. Cal. 2002).

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

123. *Napster Litigation*, 191 F. Supp. 2d at 1092.

124. *Id.* at 1106. "MusicNet is a joint venture between three of the five record company plaintiffs . . . to distribute digital music." *Id.* at 1105.

125. *Id.* at 1092.

126. *Id.* at 1102–13.

> the licensing clauses in [its] agreement with plaintiffs joint venture, MusicNet, are unduly restrictive. In the alternative, Napster argue[d] that even if that particular agreement is not unduly restrictive, plaintiffs' practices as they enter the market for the digital distribution of music are so anti-competitive as to give rise to a misuse defense.[127]

Napster specifically took contention with the portion of the licensing agreement that "prevent[ed] Napster from entering into any licensing agreement with any individual plaintiffs until March 1, 2002."[128] Additionally, Napster attacked the portion of the license agreement that provided that even after March 2002, "if Napster enters into any individual license with any of the major labels—i.e., the plaintiffs—including the MusicNet plaintiffs, MusicNet may terminate the agreement with ninety-day notice."[129] Additionally, the agreement laid out "a pricing structure under which Napster will be charged higher fees if it fails to use MusicNet as its exclusive licensor for content."[130]

The court began its analysis similarly to that set forth in *Practice Management* by recognizing the uncertainty associated with the misuse defense and charting its development from *Morton Salt*, forward.[131] It also recognized the difference between the antitrust approach, which requires a finding of an antitrust violation, and the public policy approach, which prohibits the expansion of copyright to "gain control over areas outside the scope of the monopoly."[132] After a review of the decisions in *Lasercomb* and *Practice Management*, the court concluded that the current state of the doctrine was largely undefined and difficult to apply, although the prevailing law indicated that copyright misuse exists "when plaintiffs commit antitrust violations or enter unduly restrictive copyright licensing agreements" or perhaps when "the public policy behind the copyright laws" has been violated.[133]

The court was also troubled by the fact that the courts adopting the misuse doctrine have taken pains to differentiate antitrust analysis from copyright misuse analysis, yet "they still rely on antitrust-like inquiries

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127. *Id.* at 1105.
128. *Id.* at 1106.
129. *Id.*
130. *Id.*
131. *See id.* at 1103.
132. *Id.* The court pointed out that the correct test is "whether plaintiff's use of his or her copyright violates the public policy embodied in the grant of a copyright, not whether the use is anti-competitive." *Id.* However, the court also noted that "as a practical matter, this test is often difficult to apply and inevitably requires courts to rely on antitrust principles or language to some degree." *Id.*
133. *Id.* at 1105.

in determining what licensing agreements violate public policy."[134] In support of the contention, the court noted that all the cases utilizing the copyright misuse doctrine mimic some of the "per se" rules of antitrust, because the courts find the licensing agreements unduly restrictive *on their face*.[135] The court stated that:

> [a]s a result, the 'public policy' misuse case law only helps to identify the egregious cases of misuse—when it is obvious that the particular licensing provision is overreaching. Currently, there is no guidance as to how to approach the more sophisticated cases where the text of the licensing provision itself is not dispositive.[136]

Unfortunately, the court did not provide an answer to these dilemmas, instead using the issues to "guide the parties in the evidentiary development of the scope of [the] plaintiffs' alleged misuse."[137]

In applying its analysis to the case as hand, the court began by stating that "[i]t is unclear from the text of the agreement if the exclusivity provision operates to impermissibly extend [the] plaintiffs' control beyond the scope of their copyright monopoly."[138] The licensing agreement in this case differed from the previous licensing agreements in which copyright misuse was found, as the adverse effects of those agreements were apparent.[139] In particular, the court struggled with the fact that although the license was non-exclusive, meaning Napster was free to obtain licenses from any of the record company plaintiffs, it could only do so by going through MusicNet.[140]

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134. *Id.*

135. *Id.* "In theory, an absolute per se rule would preclude any defense and restrict the presentation of evidence to what is needed to characterize the alleged conduct as fitting within the per se classification." Frischmann & Moylan, *supra* note 23, at 878. In opposition to the per se rule in antitrust law is the "rule of reason" approach. "The rule of reason involves a comprehensive, fact-intensive inquiry where, in the end, courts assess the reasonableness of contested conduct." *Id.*; *see also* BLACK'S LAW DICTIONARY 1162 (7th ed. 1999) (Per Se Rule: "The judicial principle that a trade practice violates the Sherman Act simply if the practice is a restraint of trade, regardless of whether it actually harms anyone."; Rule of Reason: "The judicial doctrine holding that a trade practice violates the Sherman Act only if the practice is an unreasonable restraint of trade, based on economic factors."). The court in *Napster Litigation* goes on to declare that "[n]o court has yet found it necessary to investigate the effects of [] licensing provisions by adopting an analysis similar to the antitrust rule-of-reason approach but focusing instead on public policy." *Napster Litigation*, 191 F. Supp. 2d at 1105.

136. *Id.*

137. *Id.*

138. *Id.* at 1106.

139. *See id.*

140. *See id.*

The court eventually determined that the license was non-exclusive only in theory.[141] In practice, MusicNet has the ultimate control over which music Napster licenses, because such a license is based entirely on MusicNet securing a license to that music first.[142] The court observed that Napster was essentially backed into a corner through use of the plaintiff's copyrights, because Napster could either sign the overly restrictive license agreement to gain access to the catalogs of major record companies, or refuse to sign the agreement and have "virtually no access to most commercially available music."[143] Consequently, the court found these terms to be an "expansion of the powers of the three MusicNet plaintiffs' copyrights to cover the catalogs of the two non-MusicNet plaintiffs."[144]

The court avoided ruling on the validity of the agreement due to the current lack of information about the relationship between the record companies and MusicNet.[145] However, after dispensing with a number of plaintiff's arguments based on "established" copyright misuse principles, the court entered into a discussion regarding the crossroads of antitrust and copyright misuse.[146]

The court acknowledged that although antitrust violations could also qualify as a misuse of copyright, Napster must prove more than a general antitrust violation.[147] It must "establish a nexus between . . . alleged anti-competitive actions and [plaintiffs'] power over copyrighted material."[148] Although there was very little evidence in the record relating to the anti-competitive effects of the plaintiffs' actions, the court ruled that the small amount of evidence presented by Napster demonstrated a sufficient nexus to allow for further discovery on the anti-competitive effects and potential misuse of plaintiffs' copyrights.[149] As such, the court refused to grant the plaintiffs' motion for summary judgment, so as to give Napster more time to obtain discovery to adequately oppose such a motion.[150] The court's holding was based upon the possibility that the plaintiffs engaged in price fixing, an action that "carries antitrust and public policy

141. *Id.*

142. *Id.* ("For example, under the MusicNet agreement, Napster no longer has the ability to obtain an individual license from Sony (a non-MusicNet plaintiff.) Instead, Napster must rely on MusicNet to obtain a license to Sony's catalog. And, if MusicNet chooses not to obtain such a license, Napster is effectively prevented from using Sony's catalog.").

143. *Id.* at 1107.

144. *Id.* at 1106–07 ("The critical issue is that the agreement binds Napster to obtain licenses from MusicNet and not its competitors.").

145. *See id.* at 1107.

146. *Id.*

147. *Id.* at 1108.

148. *Id.* (alteration in original) (citations omitted).

149. *Id.* at 1109.

150. *Id.* at 1109 n.17.

considerations that may be relevant to misuse."[151] The court also utilized principles previous expounded upon in this paper: that it is irrelevant whether the alleged infringer is subject to the offending license provision, and that misuses does not invalidate a copyright, it simply "precludes its enforcement during the period of misuse."[152]

Finally, the court confronted the plaintiffs' argument that Napster's unclean hands arising from their infringement bars a misuse defense.[153] This assertion was novel, as almost no case law exists that deals with an unclean hands bar to copyright misuse, and the court was ultimately unpersuaded by the plaintiffs' argument. In rejecting their argument, the court relied on the reasoning employed in *Alcatel*, which held that "[i]f plaintiffs seek equitable relief, . . . then 'the defendants improper behavior serves as no bar to its equitable defenses.' If plaintiff 'requests exclusively legal relief, the defendant's unclean hands may preclude it from advancing equitable defenses.' "[154] As one reason for this rule's application to copyright misuse, the court stated that the misuse doctrine "is distinguishable from other equitable defenses in that it focuses on harm to the public as well as harm to the court's integrity."[155]

In Re Napster, Inc. Copyright Litigation is a significant case, but not because of any dramatic modification of the copyright misuse doctrine. Indeed, the court did not ultimately even rule on the question of copyright misuse, simply denying the plaintiffs' motion for summary judgment in favor of more discovery. However, this case is significant because the court offers some of the most detailed and specific analysis of the copyright misuse doctrine to date. The court helped clarify the difference between antitrust and copyright misuse, and most importantly, recognized the possibility of a valid copyright misuse defense notwithstanding a non-exclusive licensing agreement.

Unfortunately, this new application only further complicates the misuse doctrine's theoretical and practical application. For example, because the relevant provision need not be unduly restrictive on its face (due to its non-exclusivity in theory, but exclusivity in practice), what kind of evidence should the court consider in determining whether the

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151. *Id.* at 1109. The allegations opened up the possibility that the joint venture was created to allow the plaintiffs "to use their copyrights and extensive market-power to dominate the market for digital distribution." *Id.* Indeed, the court noted that "[t]he same conduct by plaintiffs that Napster alleges gives rise to copyright misuse is currently under investigation by the Department of Justice." *Id.*

152. *Id.* at 1108 (quoting Practice Mgmt. Info. Corp. v. Am. Med. Ass'n, 121 F.3d 516, 520 n.9 (9th Cir. 1995)).

153. *See Napster Litigation*, 191 F. Supp. 2d at 1110.

154. *Id.* (citing Alcatel USA, Inc. v. DGI Techs., Inc., 166 F.3d 772, 790, 794 (5th Cir. 1999)).

155. *Id.* at 1111.

copyright owners are engaging in misuse? Since the court tied antitrust and public policy together in this case, should the court be willing to employ some form of "rule of reason" analysis similar to antitrust? Or would such an approach violate precedent since: 1) courts recognizing the misuse doctrine have done so utilizing a per se (violative on its face)/public policy analysis; and 2) a rule of reason approach would inevitably force courts to consider evidence of anti-competitive effects, an antitrust approach that previous courts have taken pains to separate from misuse analysis?[156]

As a practical matter, such an invocation of the misuse doctrine could also complicate and lengthen trials to allow for the collection and presentation of such evidence. This complication, typical in antitrust suits, was what copyright misuse doctrine was designed to help avoid. Moreover, such discovery is likely to yield to the revelation of sensitive information that many businesses would prefer to keep private. In cases involving large corporations, these complications could affect their decisions of determining when and if to settle their claims due to such a high expense of "quasi-antitrust" litigation.

C. *The District Courts: A Review of Recent Cases That Recognize the Copyright Misuse Doctrine But Do Not Unequivocally Adopt It*

1. *Microsoft Corporation v. Jesse's Computers & Repair*[157]

In this case brought by Microsoft against a computer repair shop (Jesse's) distributing Microsoft Software in violation of copyright law, the District Court for the Middle District of Florida discussed whether Microsoft had misused its copyrights.[158] Although the court did not explicitly adopt the defense, it arguably gave considerable deference to the doctrine's validity, as the court recognized the doctrine as a potential defense and even went so far as to analyze the defendant's argument "assuming arguendo that the [misuse] doctrine was recognized in the Eleventh Circuit."[159]

Ultimately, the court was able to dispose of the defense on several grounds, including failure to plead the defense with particularity, failure to prove how Microsoft's conduct is sufficiently related to the case to invoke the defense, and the failure of the Supreme Court and the Eleventh Circuit to explicitly adopt the doctrine of copyright misuse.[160]

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156. *See* Practice Mgmt. Info. Corp. v. Am. Med. Ass'n, 121 F.3d 516 (9th Cir. 1995); Lasercomb America, Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990).

157. 211 F.R.D. 681 (M.D. Fla. 2002).

158. *Id.*

159. *Id.* at 685.

160. *Id.*

However, the court was careful to note that the only case to address copyright misuse in the Eleventh Circuit, *Bellsouth Advertising & Publishing Corp. v. Donnelley Information Publishing, Inc.*,[161] notwithstanding its refusal to adopt the doctrine, "acknowledged that the doctrine might some day be available in copyright cases."[162] This recognition, combined with the court's excessive analysis of a doctrine it purports not to adopt, signals a growing acceptance of the doctrine in Eleventh Circuit courts that could result in its explicit adoption.

2. *Bourne v. The Walt Disney Company*[163]

In *Bourne*, the plaintiff, owner of the copyright to a musical composition, sued for an injunction against Disney to prohibit the release any media that embodied a recorded performance of the composition. Disney asserted copyright misuse as a defense based on the fact that that plaintiff refused to give permission for a derivative work unless the derivative author assigned plaintiff all rights to the derivative work. The court rejected the defense because the plaintiff did not seek to control areas outside the grant of the copyright.[164] Although the Southern District of New York does not contribute a great deal of discussion to the doctrine in *Bourne*, it is interesting to note that the court does not dispose of the defense simply by stating that it has not been adopted by Second Circuit or the Supreme Court.[165] Instead, the court entertained the defendant's motion on its merits, citing *Lasercomb* and *Napster* in its analysis of whether the plaintiffs sought to control areas outside the grant of a monopoly.[166] Indeed, the court treated the issue of whether the defendant should succeed on a copyright misuse defense as critical to the success of the plaintiffs' copyright infringement action.[167] However, despite the court's strong deference to the merits of the copyright misuse doctrine, the precedential effect of the case might be limited due to the courts failure to unambiguously adopt the defense of copyright misuse.

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161. 933 F.2d 952 (11th Cir. 1991).
162. *Jesse's Computers*, 211 F.R.D. at 684 n.16 (citing *Bellsouth Adver.*, 933 F.2d 952).
163. No. 02 Civ. 6400 LTSDFE, 2003 WL 721405 (S.D.N.Y. Mar. 3, 2003).
164. *Id.* at *1, *4.
165. *See id.* at *4.
166. *Id.*
167. *Id.* ("In light of the foregoing, the Court finds that [the defendants] are not likely to prevail in its assertion of the defense of copyright misuse. Accordingly, the Court finds that Plaintiffs have demonstrated a likelihood of success on the merits of this action with respect to their copyright infringement claim.").

3. *Ocean Atlantic Woodland Corporation v. DRH Cambridge Homes, Inc.*[168]

This case involves an order decided by the Northern District of Illinois regarding dispute over a magistrate judge's report and recommendation ("R & R") to deny a preliminary injunction to plaintiffs in a copyright infringement suit.[169] In the particular portion of the R & R that addressed the copyright misuse doctrine, the magistrate judge asserted that copyright misuse "cast[s] the gravest doubts on [the plaintiff's] likelihood of success" on the merits.[170] The plaintiffs alleged that the magistrate judge manufactured this defense, but the District Court authoritatively rejected the plaintiffs' contention and proceeded to adopt the magistrate judge's opinion with regard to the copyright misuse defense.[171]

On its face, it would seem as though this decision explicitly adopts the copyright misuse doctrine for the Northern District of Illinois. However, it is unclear what, if any, precedential effect this will have on the copyright misuse doctrine. First, the court seems to merge the defense entirely with the equitable defense of unclean hands.[172] Such a merger contributes nothing to the precedential value of this opinion with respect to misuse doctrine, and potentially even detracts from it. Second, since the magistrate judge's R & R denied relief to the plaintiff on a number of grounds, there is little, if any, precedential value in the district court's blanket adoption of that R & R.

4. *Lexmark International, Inc. v. Static Control Components, Inc.*[173]

Here, the Eastern District of Kentucky discusses the copyright misuse defense as asserted by a re-manufacturer of replacement cartages who was sued by the original manufacturer of the cartridges for violating copyrights in the computer codes embedded in the cartridges.[174] Similar to the outcome in *Bourne*, the court, while it could have disposed of the defense on the ground it has not been explicitly adopted, instead chose to confront the merits of the copyright misuse defense, and as such, may have impliedly adopted it.[175]

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168. No. 02C 2523, 2003 WL 22225594 (N.D. Ill. Sept. 24, 2003).
169. *See id.*
170. *Id.* at *4.
171. *Id.*
172. *See id.* (holding that copyright misuse is "inextricably intertwined with [the] unclean hands defense").
173. 253 F. Supp. 2d 943 (E.D. Ky. 2003).
174. *Id.*
175. *See id.* at 965–66.

Although the court does not speak favorably about the odds of succeeding with a misuse defense, it still lays out the purported test and rejects the defense on its merits based on the legitimacy of the plaintiffs' actions.[176] This decision implies, if not an adoption, at least a growing acceptance for the copyright misuse doctrine, especially within the context of technology and software.[177]

V. ANALYSIS OF THE COPYRIGHT MISUSE DOCTRINE IN ITS CURRENT FORM

Although there are only a few cases that explore the rules, boundaries, and nuances of the copyright misuse doctrine in depth, including recent cases discussing it, a few guiding principles have evolved. This Part will examine these principles in their current state and their effectiveness as part of the copyright and pro-competition jurisprudential model.

A. *The Prevailing Tests for Establishing the Copyright Misuse Defense*

Almost all of the cases dealing with the doctrine seem to agree that there are at least two approaches to determine the existence of copyright misuse: (1) the antitrust based approach, and (2) the "scope of the grant" or public policy approach.

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176. *Id.* at 966. The court stated:

> To establish copyright misuse, a defendant must establish either (1) that [the plaintiff] violated antitrust laws, or (2) that [the plaintiff] illegally extended its monopoly beyond the scope of the copyright or violated the public policies underlying the copyright laws [(citing Microsoft Corp. v. Compusource Distribs., Inc., 115 F. Supp.2d 800, 811 (E.D. Mich 2000))]. [Plaintiff] is not seeking to improperly extend its copyright monopoly. [It] is simply attempting to enforce and protect access to, its copyrighted computer programs.

Id.

177. In further support of this contention is the number of cases that either acknowledge or assert copyright misuse at the district court level whose circuit courts have unequivocally adopted the copyright misuse doctrine. *See* Costar Group v. Loopnet, 164 F. Supp. 2d 688, 708 (D. Md. 2001) ("Misuse of copyright is an affirmative defense to a claim of copyright infringement."); *see also* Static Control Components v. Dallas Semiconductor Corp., No. 1:02CV1057, 2003 WL 21666582 (M.D.N.C. 2003) (impliedly adopting the same analysis used in *Lexmark*); MGM v. Grokster, 269 F. Supp. 2d 1213, 1225 (C.D. Cal. 2003) ("Copyright misuse is a relatively recent addition to the corpus of judge-made copyright law."); Blackhawk Indus. v. Bonis, 238 F. Supp. 2d 748 (E.D. Va. 2003).

1. The Antitrust Approach to Copyright Misuse

The antitrust-based analysis mandates that copyright misuse should be found only when an antitrust violation occurs, or in the very least, requires that any finding of misuse should be evaluated according to antitrust principles. This is the view currently held by the Seventh Circuit that was taken in *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*[178] The approach is to be applied in the same way the patent misuse doctrine is now utilized, "which applies per se misuse to certain activities (which are established as such by the Supreme Court) [and a] rule of reason test . . . to all other activities."[179] As adopted, the rule of reason test contains two parts. First, if the restraint within the scope of the copyright, then the activity is per se legal. If not, we must then ask whether the activity on the whole promotes or restricts competition.[180] "The latter part of the test requires courts to balance the anti- and pro-competitive effects of a particular activity, e.g., a licensing provision, and determine the net competitive effect."[181]

The rationale behind this approach is that "antitrust laws are intended to prohibit situations that unreasonably harm competition, and can apply to various uses of intellectual property rights."[182] Advocates claim that antitrust and copyright both further the goals of promoting consumer welfare through free competition and innovation, and that antitrust is based on more certain principles than public policy.[183] This approach, however, has come under fire by many critics, some of whom allege that the courts that adopt this view have confused the purposes of antitrust law and copyright law.[184] Commentators note that the "intellectual property goal of stimulating the creation and distribution of creative works is different from the antitrust goal of encouraging marketplace

178. 816 F.2d 1191, 1200 (7th Cir. 1987) (holding that "a no-contest clause in a copyright licensing agreement is valid unless shown to violate antitrust law"). Although the Seventh Circuit rejected the misuse defense in its equitable form, it did apply antitrust principles under a rule of reason analysis to assess the anticompetitive effects of alleged misuse. Judge Posner promulgated an antitrust approach to evaluating misuse claims because of the lack of alternatives. This "antitrust-based" misuse resembles modern day patent misuse. *Id.* This approach was also adopted by the Eighth Circuit in *United Telephone Co. v. Johnson Publishing*, 855 F.2d 604 (8th Cir. 1988).

179. Frischmann & Moylan, *supra* note 23, at 898. For examples of activities that are per se misuse, see *Northern Pacific Railway v. United States*, 356 U.S. 1 (1958) (allocation of markets); *United States v. General Electric Co.*, 358 F.Supp. 731 (S.D.N.Y. 1973) (price fixing).

180. *See id.*

181. *Id.*

182. White, *supra* note 5, at 272.

183. *See id.*; *see also* Karjala, supra note 6, at 164 ("[I]t seems more fundamentally sound to address the . . . problem from the perspective of antitrust policy rather than through application of the doctrine of misuse.").

184. *See* Scher, *supra* note 45, at 98.

competition, and that there are instances in which an antitrust inquiry alone fails to prevent all abuses of the intellectual property grant that may harm the public."[185]

Ultimately, these arguments overrule the logic associated with employing a strict antitrust approach to the copyright misuse doctrine, especially within the context of software and licensing.[186] Because antitrust and copyright further different goals, it is very important to look beyond the anticompetitive effect copyright restrictions have, and to examine the effect their actions have within the policy of granting rights to copyright owners. This is not to say, however, that a rule of reason analysis employing the restriction/action's effect on public policy will not be effective. Indeed, in a case such as *Napster*, where the harm to public policy is not readily apparent, a rule of reason analysis might be the only acceptable method of evaluation.

2. The "Scope of the Grant" or Public Policy Approach to Copyright Misuse

The public policy approach, which focuses more on the "equitable nature of the doctrine as a clean hands defense and on the scope limitation function that it provides," rather than traditional antitrust principals, was well laid out in *Napster*.[187] "Under the 'public policy' approach, copyright misuse exists when plaintiff expands the statutory copyright monopoly in order to gain control over areas outside the scope of the monopoly."[188]

The public policy approach was adopted by the Third, Fourth, Fifth, and Ninth circuits in *Video Pipeline*, *Lasercomb*, *Alcatel*, and *Practice Management*, respectively. Although the test focuses on whether the owner of a copyright uses it to violate the public policy embodied in the grant of a copyright, such a standard is "often difficult to apply and inevitably requires courts to rely on antitrust principals or language [focusing on anticompetitive use of copyrights] to some degree."[189] Brett Frischmann and Dan Moylan accurately summarized the public policy approach:

> [a]ny use of a copyright has some anticompetitive effect. The public policy behind the copyright system *is premised* upon an exchange between short-term "monopoly" costs and long-term

185. White, *supra* note 5, at 276.

186. A "strict" antitrust approach would require an antitrust violation in order to prevail on a copyright misuse defense.

187. Frischmann & Moylan, *supra* note 23, at 899.

188. *In re* Napster, Inc. Copyright Litigation, 191 F. Supp. 2d 1087, 1103 (N.D. Cal. 2002).

189. *Id.*

> efficiency gains in investment, production, and dissemination of innovation. Thus one might conclude that the proper inquiry is not *what* the behavior in question violates—public policy or antitrust law—but rather whether the social costs arising from copyright use exceed the expected short-term social costs inherent in the intellectual property grant.[190]

In effect, the public policy approach only confronts the first part of the antitrust rule of reason approach, as none of the courts who have adopted the defense have engaged in a true balancing of the pro and con effects the restriction/action can have on competition.[191] As such, the public policy approach resembles the per se test utilized in antitrust law.

The public policy approach is currently the dominant approach utilized by those courts that have fully implemented the copyright misuse doctrine. As a judicially created doctrine that specifically furthers the goals of copyright law, the public policy approach seem well-suited to confront the complex issues that arise in the context of software. This doctrine could be modified to prove more effective if a rule of reason element was added that considered the effects of the restriction on public policy for situations like the one presented in *Napster.* With such a modified approach, the courts could consider evidence beyond the language of the restriction that would allow them to narrowly tailor their holding to more equitable balance between the incentive for creation and public dissemination of works.

B. *The Current Strengths and Weaknesses of the Copyright Misuse Doctrine*

1. Strengths

Currently, the copyright misuse doctrine encompasses many attributes that make it desirable in the resolution of complex copyright infringement and licensing cases, including those discussed in the previous section. The doctrine remains desirable over a remedy based in antitrust violations because of its adaptable form, evidentiary requirements, and foundations in equity.

The misuse doctrine is seen by many as a "gap filler", able to resolve issues that are outside of the reach or clumsily applied by antitrust and the fair use doctrine.[192] It can also serve a coordinating function, connecting antitrust, copyright, and patent law, and as a general safeguard to the

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190. Frischmann & Moylan, *supra* note 23, at 901.

191. *See id.*

192. *See* Frischmann & Moylan, *supra* note 23, at 872; *see also* Dan Burk, *Anticircumvention Misuse*, 50 UCLA L. REV. 1095, 1127 (2003).

public interest.[193] Because the misuse doctrine is one of judicial creation, it is easily adapted to resolve novel conflicts that will appear with increasing regularity due to the rapid advance in technological innovation.

Its ease of adaptation also makes judicial adoption of the doctrine more desirable than a "hands off" approach in deference to a legislative body that is slow to react to change, influenced by lobbying interests, bound by international agreements, and less able to tailor solutions to individual cases.[194] One commentator has noted that "Congress has largely abdicated its constitutional role as drafter of copyright statutes and acts primarily as middleman, enacting into statutory law whatever compromises are reached among the various interests groups, that, at that particular time, have copyright concerns."[195] Further, "copyright has become so complex that few members of Congress have much interest, let along understanding, of its basic principles or how it works."[196] Finally, legislative resolution of this issue is undesirable because "once legislation is enacted, retrenchment becomes nearly impossible, because the same forces that make it difficult to get legislation passed . . . now work in favor of special interests whose [copyrights] are belatedly understood to be stronger" than what proper public policy balancing requires.[197]

Adoption of the copyright misuse doctrine is also preferable to a full-blown antitrust counterclaim, given the large amount of litigation with them that could complicate a simple infringement case dramatically. Such a complication could lead to a large increase in financial resources needed to defend the case, a luxury many defendants cannot afford. Without requiring defendants to produce a large volume of evidence related to anticompetitive behavior, the copyright misuse doctrine serves as a valuable defense. Additionally, "[a]ntitrust analysis cannot account for the *social* costs of information fencing,[198] just as it cannot

193. *See* Frischmann & Moylan, *supra* note 23, at 872.

194. *See* Karjala, *supra* note 6, at 178.

195. *Id.* at 179 ("A fundamental problem with . . . legislating is that interest groups that do not yet realize how or even that they will be affected (perhaps because the technology that would define their interest has not yet been invented) are unrepresented.").

196. *Id.*

197. *Id.* at 182 (Ultimately, "Congress is institutionally incapable of correcting a legislative error in recognizing intellectual property protection that is too long, too strong, or too broad").

198. "Information fencing" can best be described as the fencing in ideas and expression through a variety of technological means such as acquiring copyrights on hidden expression, exercising black-box copyrights, seeking protection through alternate legal frameworks, seeking protection through extra-legal technologies, and (if the producer has market power) withholding production thereby raising price. *See* Frischmann & Moylan, *supra* note 23, at 918. "Information fencing benefits society by encouraging production of software, though it

correct internal deficiencies in copyright law or coordinate copyright and patent law."[199]

The misuse doctrine remains a more suitable alternative than the fair use doctrine in many situations as well. First, applying the fair use defense "involves an ad hoc balancing of statutory factors, leaving actors with lingering uncertainty."[200] Second, the fair use defense is significantly more limited than the misuse defense, as fair use "succeeds only where the defendant at bar makes some fair use of a copyrighted work .... [C]ourts evaluating a misuse defense primarily focus on the plaintiff's conduct: the misuse defense can prevail without further focus on the defendant."[201] As such, the two doctrines can work in tandem, as each can cover areas excluded by the other.

Finally, it should be noted that under the misuse doctrine, copyright owners are still free to supplement their copyrights with patent protection and licensing restrictions so long as they do not violate public policy, federal criminal law, and reasonable technological restrictions.

2. Weaknesses

To be sure, the copyright misuse doctrine is not without fault. The doctrine still remains only a defense; it has yet to be applied offensively. There is also some question as to how effective the defense is since the doctrine only bars enforcement of an owner's copyright during the period of misuse, and the owner is free to bring suit once it has purged itself of the misuse.[202]

One commentator has criticized the misuse defense because it is too subjective; the test "'presupposes some transcendent notion of what constitutes natural or proper patent or copyright [exploitation] and thus fails to identify any legal rules or standards for fixing the boundaries of legitimate conduct.'"[203] This conclusion is arguably erroneous, however, as the test presupposes only the scope of rights granted with a copyright, which is precisely the boundary that the critic claims is missing. Other critics believe that the misuse doctrine gives courts "no solid foundation for coping with the downside social risks inherent in an unprecedented meshing of federal intellectual property policies with state-enforced

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imposes an important social cost, namely the reduced public access to an author's ideas and expression." *Id.*

199. Frischmann & Moylan, *supra* note 23, at 927.

200. *Id.* at 922.

201. *Id.* at 925.

202. *See* Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 979 n.22 (4th Cir. 1990).

203. Scher, *supra* note 45, at 106 (quoting Note, *Clarifying the Copyright Misuse Defense: The Role of Antitrust Standards and First Amendment Values*, 104 HARV. L. REV. 1289, 1295 (Apr. 1991)).

contracts of adhesion."[204] In particular, this critique attacks the defense based on a lack of doctrinal cohesion and a lack of empirical knowledge to apply the doctrine reliably to specific fact patterns.[205] However, these critics also disavow allowing Congress to specifically tailor a solution as well, leaving no effective remedy to confront the inequitable actions left untouched by fair use and antitrust.[206]

Ultimately, the strengths of the copyright misuse doctrine outweigh its weaknesses in many situations, particularly in the context of software and licensing. In a period of rapid technological advancement which has spurred the growth of large businesses with a significant degree of leveraging power due to their copyrights, U.S. jurisprudence must include a mechanism that is easier to employ than antitrust, adaptable to quickly evolving technological scenarios, more expansive than traditional statutory copyright remedies, but still allows copyright owners to enjoy all of the rights granted to them. The most likely candidate is the doctrine of copyright misuse.

VI. CONCLUSION

The copyright misuse doctrine, although yet to be firmly entrenched in the jurisprudence of many courts, is rapidly gaining acceptance as an effective mechanism to balance the public policy behind copyrights and the rights of their owners. Four circuit courts have now officially adopted the doctrine, and more are likely to follow. Many courts are considering the doctrine on its merits, contributing further discussion and analysis of the doctrine, and applying the doctrine in novel situations. These discussions serve to further define the scope of the doctrine with reference to doctrinal analysis and practical application. As the ambiguities and vagueness currently associated with the doctrine disappear, it is likely that the doctrine in its refined form will eventually be adopted in most jurisdictions.

Currently, the doctrine's strengths outweigh its weaknesses, making it a suitable doctrine to deal with actions taken by copyright owners who violate public policy. The doctrine is preferable in many situations to the potential remedies found in antitrust law, the fair use doctrine, or statutory creation. Indeed, the doctrine functions best as a "gap filler"

204. J.H. Richman & Jonathan A. Franklin, *Privately Legislated Intellectual Property Rights: Reconciling Freedom of Contract with the Public Good Uses of Information*, 147 U. PA. L. REV. 875, 919 (1999).

205. *See id.*

206. *See id.*

between these remedies, and is most effective when other remedies are legally inapplicable or practically undesirable.

Therefore, the doctrine stands not as a fix-all, but as an important mechanism in protecting society by aiding in the stasis of copyright law and the software industry—a stasis that is critical to support an increasingly necessary component of the United States' economic and technological infrastructure.