INTELLECTUAL PROPERTY MISUSE:
DEVELOPMENTS IN THE MISUSE DOCTRINE *

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The misuse doctrine, once the obscure province of intellectual property lawyers and scholars, has been thrust into the limelight by two recent developments.

First, the doctrine, originating in patent law, has been expanded recently to encompass other forms of intellectual property. The U.S. Court of Appeals for the Fourth Circuit, for example, has held explicitly that the misuse doctrine applies to copyrights, thus making virtually every software license potentially subject to the restrictions of the doctrine.

Second, antitrust law has changed so that most classical acts of misuse are no longer considered per se antitrust violations. These changes, including recent misuse legislation, have raised controversy among authorities about whether the misuse doctrine has, or should have, any continued vitality independent of antitrust law.

This Recent Development surveys these changes in the law, provides relevant background information, and examines the current status of the misuse doctrine.

I. ORIGINS AND CONSEQUENCES OF THE MISUSE DOCTRINE

The doctrine of intellectual property misuse has its origins in the patent misuse doctrine. Patent misuse is an affirmative defense to a suit for patent infringement or for royalties due under a patent licensing agreement. The doctrine developed and matured prior to the development of any significant body of federal antitrust law, as a judicial response to perceived anticompetitive practices of patent owners. The doctrine derived from the public policy that an inventor was to be

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3. See id. § 19.04[2].
granted a monopoly of limited scope in return for the public’s receipt of the benefits of the invention. Courts believed that economic power conferred by a patent enabled a patentee to engage in practices that extended the patent monopoly beyond its lawful scope. These courts considered the patentee to have "unclean hands" if the patentee inequitably extended the monopoly in a manner contrary to the public interest. 4

A patentee found guilty of patent misuse may not enforce the patent against infringers until the misuse has ceased and its harmful effects have been purged. 5 In the licensing context, if a patentee is found guilty of patent misuse, the patentee may not be able to enforce the license against the licensee; moreover, the licensee may obtain a royalty-free license under the patent until the misuse is purged. 6

II. EXPANSION OF THE MISUSE DOCTRINE

Although developed with respect to patents, the misuse doctrine has recently been expanded to encompass other forms of intellectual property. In Lasercomb America, Inc. v. Reynolds, 7 the Fourth Circuit found that the rationale of Morton Salt Co. v. G.S. Suppiger Co., 8 which established the patent misuse defense, applied equally well to copyrights. 9 The court reasoned that copyright and patent laws serve parallel public interests, and held that "misuse of copyright" should be, and is, a valid, analogous defense. 10

The Lasercomb decision is notable not only for its explicit expansion of the misuse doctrine but also for its particular application of that doctrine. The decision is a software licensor’s worst nightmare because the fact situation is simple and familiar, and the consequences to the licensor are draconian. Lasercomb licensed copies of its "Interact" program (CAD/CAM die-making software) to licensees who overcame the copy protection mechanism and made multiple copies for their own use. They

4. See id. § 19.04[1][b] & [2].
5. See id. § 19.04[4].
7. 911 F.2d 970 (4th Cir. 1990).
9. Some previous decisions denied the existence of a "copyright misuse doctrine." Others, while recognizing the defense, rejected its application on the facts. See cases cited in Broadcast Music Inc. v. Hearst/ABC Viacom Entertainment Services (Lifetime Television), 746 F. Supp. 320, 328 (S.D.N.Y. 1990); but see M. Witmark & Sons v. Jensen, 80 F. Supp. 843 (D. Minn. 1948), appeal dismissed, 177 F.2d 515 (8th Cir. 1949) (misuse defense applied in copyright infringement case). The Lasercomb court specifically cited Witmark as the only judicial precedent for its holding. Lasercomb, 911 F.2d at 976.
10. Lasercomb, 911 F.2d at 976–77.
also modified the program and started selling it as a competing product under their own trademark. Lasercomb sued and the district court found the licensees guilty of infringement. Everything seemed in order until the licensees appealed and the Fourth Circuit issued its opinion. It found in favor of the licensees. The problem was that Lasercomb had included in its standard license agreement an innocent-sounding (and reasonably common) clause that prohibited the licensees from developing or selling software which would compete with the licensed software. The court found (a) that this constituted "copyright misuse," (b) that it did not matter whether the provision was perfectly legal under the anti-trust laws, and (c) that the consequences to the licensor of having included this noncompetition clause in its license agreement were that the defendants were free to make and sell copies of Lasercomb's software, at least until Lasercomb "purged itself of the misuse."

Two weeks after Lasercomb was decided (and apparently without benefit of its precedent) the U.S. District Court for the Southern District of New York, in Broadcast Music, Inc. v. Hearst!ABC Viacom Entertainment Services (Lifetime Television), also held that misuse was a "cognizable" affirmative defense to copyright infringement, but refused to allow "the uncertain parameters of the copyright misuse doctrine" to be used as "a vehicle for affirmative relief." In that case, the defendant, Lifetime, had asserted that Broadcast Music used copyrights to force cable program services to purchase blanket licenses at exorbitant prices.

In an analogous decision, the U.S. District Court for the Central District of California, in Ashton-Tate Corp. v. Fox Software Inc., recently granted summary judgment to a defendant on its fraud and inequitable conduct defenses in a copyright infringement action. The defendant argued that plaintiff Ashton-Tate's copyright application failed to disclose that its line of software programs were derived from a public domain program.

11. Id. at 971.
13. Lasercomb, 911 F.2d at 977-79.
14. Id. at 977-78.
15. Id. at 979 & n.22.
16. 746 F. Supp. 320, 328 (S.D.N.Y. 1990). The court stated that its "research disclose[d] no case where the misuse of a copyright prevented recovery on any infringement claim." Id.
17. Id. at 328.
18. Id.
Copyright misuse issues are prominent in an ongoing California case which warrants attention—Atari Games Corp. v. Nintendo of America.\(^{20}\) In that case, Atari has relied on *Lasercomb* in asserting a copyright misuse defense in the parties' infringement litigation. Atari asserts the defense because Nintendo included a provision in its licensing agreement with Atari (and other third-party software developers) that prohibits development of games for other video game systems for a period of two years. Nintendo opposes summary judgment on the defense, arguing that copyright misuse should be a defense, if at all, only if an antitrust violation is shown. Alternatively, Nintendo argues that, even if a copyright misuse defense can be allowed without proof of an antitrust violation, the public policy supporting the defense should not be analyzed in a vacuum. Nintendo points out that the offending Lasercomb clause precluded the licensee from developing any related software for ninety-nine years, while Nintendo's clause was more limited in scope and for only two years' duration.\(^{21}\)

Decisions such as *Lasercomb* create a major trap for software licensors. Whether *Lasercomb* and its ilk will be followed, limited, or expanded by subsequent courts remains to be seen, but prudence dictates that owners of copyrights and other forms of intellectual property exercise caution. Specifically, software licensors might wish to avoid including in license agreements any clauses that unduly restrict what would otherwise be legitimate activities of the licensee.\(^{22}\)

### III. THE MISUSE DOCTRINE AND ANTITRUST LAW

The misuse doctrine retained a distinct identity long after the substantial development of antitrust law, including the Justice Department's "Nine No-Nos."\(^{23}\) The "No-Nos," which substantially mirrored

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\(^{22}\) Those who are sanguine about *Lasercomb* may want to ponder this question: Doesn't the *Lasercomb* opinion lead to the conclusion that a prohibition on reverse engineering—a clause contained in virtually every end-user software license agreement—constitutes copyright misuse?

\(^{23}\) In the early 1970s, the Antitrust Division of the U.S. Department of Justice publicized its enforcement policy regarding patent licensing through a list of per se illegal practices that included the following:

(a) Tying Arrangements (unlawful to require a licensee to purchase unpatented materials from the licensor).

(b) Assignment or Exclusive Grantback of Improvements (unlawful for a patentee to require a licensee to assign to the patentee any patent which may be issued to the licensee after the licensing arrangement is executed).

(c) Restraints on the Resale of a Licensed Product (unlawful to attempt to restrict a
licensing practices held to constitute misuse, were considered per se antitrust violations. Although addressed specifically to patent licenses, the "No-Nos," as categories of licensing practices thought to be anticompetitive and amounting to antitrust violations, arguably apply to licenses generally, regardless of the type of intellectual property involved.

Since the early 1980s, the Justice Department has backed off from its practice of asserting the "No-Nos" as per se antitrust violations, and has adopted a "rule of reason" approach, because of its emerging belief that the practices covered by the "No-Nos" are frequently procompetitive or innocuous.24 Now, for a licensing practice to constitute an antitrust

 prosecutions of a patented product in the resale of that product).

(d) Licensee's Freedom to Deal in Goods and Services Not Covered by the Patent (patentee may not restrict his licensee's freedom to deal in the products or services not within the scope of the patent).

(e) Exclusivity in License Grant (unlawful for a patentee to agree with his licensee that he will not, without the licensee's consent, grant further licenses to any other person).

(f) Mandatory Package Licensing (mandatory package licensing (licensing only a group of patents) is an unlawful extension of the patent grant).

(g) Conditioning Grant of License on Licensee's Agreement to Pay Royalties Not Reasonably Related to Sales.

(h) Restricting Sales of Unpatented Goods Made by a Patented Process (unlawful for the owner of a process patent to attempt to place restrictions on his licensee's sales of products made by the use of the patented process).

(i) Dictating the Price Licensee Can Charge for the Licensed Product (unlawful for a patentee to require a license to adhere to any specified or minimum price with respect to the licensee's sale of the licensed products).

Remarks by Bruce Wilson, Deputy Assistant Attorney General, Antitrust Division, before the Michigan State Bar Antitrust Law Section and Patent, Trademark and Copyright Law Section, reprinted in 7 Trade Reg. Rep. (CCH) ¶ 50,146 (Sept. 21, 1972).


Nowhere is the change in attitude from the per se approach of the "Nine No-Nos" to the current trend toward a rule of reason analysis more manifest than in the Justice Department's recent revision of its 1977 Guide. On November 10, 1988, the Department published its new Antitrust Guidelines for International Operations, reprinted in 55 Antitrust & Trade Reg. Rep. (BNA) No. 1391 (Nov. 17, 1988) [hereinafter 1988 Guidelines]. The Department now analyzes restrictions in intellectual property licensing arrangements under the rule of reason.
violation under the Antitrust Division's policies, there must first be a finding of actual anticompetitive effect, and if the challenged restriction is reasonably necessary to achieve some demonstrable procompetitive benefits, then these benefits must be balanced against the anticompetitive effects.  

This is not necessarily the case with defensive assertions under the misuse doctrine. In Lasercomb, the Fourth Circuit noted a general tendency to intermingle antitrust and misuse defenses. The court observed that:

A patent or copyright is often regarded as a limited monopoly—an exception to the general public policy against restraints of trade. Since antitrust law is the statutory embodiment of that public policy, there is an understandable association of antitrust law with the misuse defense.  

However, as noted above, the misuse doctrine developed apart and distinct from antitrust law. In the past, courts have applied the doctrine to regulate behavior alleged to be anticompetitive without requiring proof of an antitrust violation. A showing of actual anticompetitive effect or injury is not necessary under the doctrine. The changing policies of antitrust law do not necessarily entail corresponding changes in the misuse doctrine.

IV. CONTROVERSY OVER THE MISUSE DOCTRINE

In recent years the misuse doctrine has drawn criticism from various legal authorities and representatives of the technology industry. These critics draw support for their arguments from the recent changes in anti-
trust law. Antitrust law once operated on the assumption that intellectual property rights conflict with the goals of antitrust laws because such rights create monopolies. Antitrust law increasingly recognizes that intellectual property rights, even patent rights, do not necessarily confer monopolies or even market power in any relevant market.\textsuperscript{29} The Justice Department now believes that restrictions in intellectual property licensing arrangements should be analyzed under the rule of reason to determine whether the restriction entails unlawful anticompetitive effect or significant procompetitive potential.\textsuperscript{30} Indeed, regarding monopolies, the Department states, "Market power or even a monopoly that is the result of superior effort, acumen, foresight, or luck does not violate the antitrust laws. The owner of intellectual property is entitled to enjoy whatever market power the property itself may confer."\textsuperscript{31} The courts, although lagging behind, no doubt will follow suit.\textsuperscript{32}

Critics of the misuse doctrine offer parallel arguments. They maintain that application of the doctrine without reference to antitrust principles reduces the incentive to innovate through a chilling effect on licensing arrangements, since under the doctrine, the courts need not look at demonstrable anticompetitive or procompetitive aspects of suspect licensing practices in individual cases. These critics also question why the validity of vertical market distribution restrictions should turn on the fortuity of whether the restriction is contained in a license agreement rather than a distribution agreement; in other words, why is there one rule for license agreements and another rule for distribution agreements?\textsuperscript{33} These critics conclude that misuse should not be found unless


\textsuperscript{30} The Department's rule-of-reason analysis of intellectual property licensing arrangements involves four steps. First, the Department determines whether the license restrains competition between the licensor and licensee in a relevant market for technology and, if it does, whether it would likely create or facilitate the exercise of market power. Second, the Department determines whether the license expressly or implicitly restrains competition in any other market in which the licensor or licensee would compete in the absence of the license. Third, the Department conducts a vertical analysis designed to determine whether the license would result in anticompetitive exclusion or would likely facilitate collusion. Finally, the Department determines whether any risk of anticompetitive effects revealed under the first three steps is outweighed by the procompetitive efficiencies generated by the license restrictions. \textit{See 1988 Guidelines, supra} note 24.

\textsuperscript{31} \textit{1988 Guidelines, supra} note 24, at S–16.


anticompetitive effect, amounting to an antitrust violation under modern rule of reason standards, can be proven.\(^{34}\)

Supporters of the misuse doctrine argue that it should remain a viable equitable doctrine, distinct from antitrust principles and analysis, because antitrust and misuse principles address different policy considerations. Antitrust laws are said to be concerned with injury to the market environment. The misuse doctrine is said to be concerned with discouraging intellectual property owners from exploiting their property in an improper manner, even if those asserting the doctrine might not be injured.\(^{35}\) Supporters also cite cases in which the misuse doctrine prevented enforcement of intellectual property rights when the owner’s otherwise legitimate practice would have posed a clear threat to public welfare. In the patent context, at least one authority argues that, as an equitable doctrine preventing unfair extensions of patents, the misuse defense offsets other pro-patentee doctrines that effectively extend patents, such as the “doctrine of equivalents” and the provisions of 35 U.S.C. §271 (1982) relating to contributory infringement.\(^{36}\)

V. LEGISLATION AFFECTING THE MISUSE DOCTRINE

The above-mentioned debate was nearly settled by Congress in late 1988. Patent misuse reform legislation has been under consideration in Congress for a number of years, largely in response to pressure from critics of the misuse doctrine. On October 4, 1988, the Senate passed S. 438, the Intellectual Property Antitrust Protection Act of 1988.\(^{37}\) If enacted, Title II of this Senate Bill would have prohibited a finding of patent misuse unless the patentee’s “practices or actions or inactions ... violate the antitrust laws.”\(^{38}\) In effect, the doctrine of patent misuse would have retained no viability apart from antitrust law.

The House, preferring to retain patent misuse as a distinct, equitable doctrine, refused to agree to the broad changes of S. 438. The House

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38. Id. §201.
counterpart bill, H.R. 4086,\textsuperscript{39} instead codified those categories of licensing restrictions that most courts identify as misuse, eliminated from misuse characterization those restrictions that courts now recognize as non-problematic, and intentionally retained, through use of the word “unreasonable” in describing restrictions, the flexibility associated with equitable doctrines.\textsuperscript{40}

In a “last-minute cloakroom compromise”\textsuperscript{41} the 1988 Patent Misuse Reform Act was signed into law on October 20, 1988.\textsuperscript{42} The new Act imposes rule of reason-like standards on patent misuse defenses, but does so explicitly in only one situation, that involving tying arrangements.\textsuperscript{43} The Act amends 35 U.S.C. § 271(d) to read, in relevant part:

\begin{quote}
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 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.
\end{quote}

In addition to the explicit imposition of rule of reason standards on tying arrangements, it is arguable that the compromise Act implicitly imposes such standards on other restrictions traditionally held to be misuse. At least one authority, for example, states that the new provision implicitly removes compulsory package licensing and grantbacks from the patent misuse categories unless the “market power” test is met.\textsuperscript{44}

This misuse legislation, drafted in response to criticism of the doctrine and to the recent developments in antitrust law, raises questions about the current status of misuse as an independent doctrine.

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40. See Bennett, \textit{supra} note 35, at 2–3; Merges, \textit{supra} note 36, at 794–95.
43. See \textit{generally} Burchfiel, \textit{supra} note 29 (for an in-depth discussion and analysis of the Patent Misuse Reform Act's provision relating to tying arrangements).
44. See Hoerner, \textit{supra} note 41, at 10.
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VI. STATUS OF THE MISUSE DOCTRINE
APART FROM ANTITRUST LAW

In the compromise patent misuse statute that was eventually passed, all reference to the antitrust laws was deleted and the legislation's coverage was limited to two categories of misuse that had been uniformly considered problematic: refusals to license and tying arrangements. The provision applicable to tying arrangements changes prior law by requiring courts to find that the patentee employing the tie-in possesses actual market power prior to deciding that there has been patent misuse. Commenting on this new rule, Senator DeConcini stated: "While not mandating an antitrust test, the legislation nonetheless imposes a rule-of-reason type analysis before a court can conclude that a tie-in is misuse." Therefore, although Congress did not expressly adopt an antitrust test for misuse, the new statute arguably requires much of the same analysis as in an antitrust case, at least for tying arrangements.

The provision of the Act that imposes antitrust or antitrust-like standards on the misuse doctrine in tying contexts may be said effectively to overturn the Court of Appeals for the Federal Circuit's tying arrangement decision in Senza-Gel Corp. v. Seiffhart, which states that a tie-in not rising to the level of an antitrust violation may be found to constitute patent misuse. In addition, the provision can be said to codify, in tie-in situations, the Federal Circuit's earlier requirement from Windsurfing Int'l v. AMF, Inc. that anticompetitive effect in an appropriately defined relevant market must be established in order to prove patent misuse. On the other hand, the new patent misuse Act leaves a line of Supreme Court cases that recognize antitrust law and misuse doctrine as discrete bodies of law relatively untouched.

Legal authorities currently differ over whether the new patent misuse law entails or signals the demise of patent misuse as a doctrine distinct from antitrust law. Some authorities conclude that, since Congress specifically rejected a broad requirement that an alleged infringer prove an antitrust violation in all patent misuse situations, the Federal Circuit will generally adhere to the well-established Supreme Court precedent

46. See Susman & Krentzman, supra note 34, at 10; cf. Burchief, supra note 29, at 23 ("[I]t is clear that the amendments establish an intermediate requirement between the former per se rule and the elements required for an antitrust tying violation.").
47. 803 F.2d 661 (Fed. Cir. 1986).
that patent misuse and antitrust law are distinct, and that there is therefore no need to establish an antitrust violation to prove patent misuse.\textsuperscript{50} On the other hand, others are convinced that application of antitrust standards to misuse categories represents the wave of the future.\textsuperscript{51} Some cogently argue that, since the Patent Misuse Reform Act was a last-minute compromise, it is merely a "way station" to a more significant congressional reform of the patent misuse doctrine.\textsuperscript{52} Even if these latter authorities are correct, the best characterization, for the present at least, is that patent misuse remains a discrete doctrine. Accordingly, the misuse doctrine as expanded to include other forms of intellectual property, should also be considered discrete and viable.

**CONCLUSION**

The misuse doctrine, formerly applied primarily in the patent law context, has been expanded by recent cases to include other forms of intellectual property, specifically copyrights. Whether subsequent courts will follow these cases or continue such expansion remains to be seen, but prudence dictates that owners of copyrights and other forms of intellectual property exercise caution.

Antitrust law has changed so that most classical acts of misuse are no longer per se antitrust violations. This has raised controversy over whether the misuse doctrine retains any viability beyond its application to restrictions that continue to violate the antitrust laws. For the present at least, the misuse doctrine can be best characterized as discrete and viable. Congress has recently imposed antitrust-like rule of reason standards on at least one misuse category. Whether Congress or the courts will eventually impose such standards on additional intellectual property misuse categories remains to be seen.

In the meantime, licensors must navigate troubled waters. They must exercise caution to avoid being trapped by the uncertain parameters of the misuse doctrine.

\textsuperscript{50} See, e.g., Bennett, \textit{supra} note 35.

\textsuperscript{51} See, e.g., Susman & Krentzman, \textit{supra} note 34, at 12–14.

\textsuperscript{52} See Hoerner, \textit{supra} note 41, at 15.