

# COMMENT

## COPYRIGHT MISUSE AND TYING: WILL COURTS STOP MISUSING MISUSE?

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### I. INTRODUCTION

Should a copyright infringer be able to argue, as an affirmative defense, that the copyright holder has misused his copyright by undermining innovation and creativity, the public policy concerns of copyright law?

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The misuse doctrine, a permutation of the equitable doctrine of unclean hands, originally developed as a defense to patent infringement claims. The doctrine provides that whenever a copyright holder uses his copyright in a way that undermines copyright policy, the court may deny him relief against infringement. Although the general doctrine is simple, courts and scholars nonetheless disagree over how to define the type of conduct that constitutes misuse. There are two fundamentally different views. The traditional "scope of the grant" view argues that a copyright holder's misconduct need not rise to the level of an antitrust violation to constitute misuse. Adherents to this view argue that a copyright holder's conduct may undermine copyright policy even though it does not violate the Sherman or Clayton Acts. The "antitrust" view, on the other hand, argues that a copyright holder's misconduct must rise to the level of an antitrust violation to constitute misuse.

The issue of copyright misuse in today's economy is of special concern. Many defendants asserting the misuse defense are alleged infringers of copyrighted computer programs and software. Given the vital role of computer technology in our economy, it is essential that courts maintain incentives to create new software programs by adequately enforcing the exclusive rights attendant to a copyright grant.

Licensors of copyrighted computer software programs often "tie"<sup>1</sup> their works to hardware and servicing.<sup>2</sup> Ties are the quintessential example of misuse. Therefore, this Comment focuses on whether courts, which are currently split over how to define misuse, should adopt the traditional or antitrust view when the copyright holder's alleged misconduct is a tie.

Part II discusses the public policy implications of copyright law, and the economic incentives copyrights provide to innovation and creation. Part III begins with a historical overview of the development of the misuse doctrine in patent law, emphasizing conflicting interpretations of *Morton Salt*, the Supreme Court's first formal articulation of the misuse doctrine. Part III concludes with a discussion of the misuse defense. The analysis highlights the arguments supporting the traditional and antitrust views of copyright misuse. It also focuses on the antitrust view's criticisms of the traditional view. Part IV addresses the question of which view of misuse courts should adopt when the copyright holder's alleged misconduct is a tie. After analyzing tying theory within the context of the

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1. In a tying arrangement, the seller refuses to sell a product (tying product) unless the buyer agrees to purchase a second product (tied product). A tie-in, however, is not anticompetitive unless the seller has market power in the tying product market. Tie-ins are addressed in detail in Part IV.

2. See *infra* Part IV.C for examples of tie-ins involving computer software programs.

misuse doctrine, this commentator concludes that when plaintiff's alleged misconduct is a tie, courts should adopt the antitrust view.

Through Part IV, this commentator assumes *arguendo* that courts should recognize copyright misuse as a valid affirmative defense to allegations of infringement. However, in Part V, this commentator challenges this assumption. Part V thus asks whether the misuse defense should exist at all in copyright law and answers with this commentator's bifurcation theory. That is, when the copyright holder's alleged misconduct is a tie, courts should bifurcate issues of antitrust law from issues of infringement and reject the misuse defense completely for two reasons. First, the misuse defense weakens copyright policy by undermining incentives to innovate and creating incentives to infringe. Second, antitrust laws, bifurcated from issues of infringement and misuse, deter and root out illegal tying arrangements that threaten copyright policy, without displacing incentives to innovate with incentives to infringe. Bifurcation is the optimal approach because it holds both infringers and antitrust violators independently accountable for their behavior.

## II. COPYRIGHT PUBLIC POLICY

Article I, Section 8 of the United States Constitution gives Congress 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."<sup>3</sup> To the extent that the exclusive rights accompanying a copyright grant create opportunities for innovators and creators to capture monopoly profits from the sale and licensing of their works, copyrights create incentives to innovate and create.<sup>4</sup>

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3. U.S. CONST. art. I, § 8.

4. Copyrights usually confer limited, if any, market power; rather, it is the potential for carving out a profitable, monopolistic niche that provides the incentive to innovate, regardless of the actual market power that results, given actual or potential competitive entry. Thus, even though copyrights usually do not create economic monopolies, the author's creative effort is spurred by his *ex ante* expectation that his creation will create an economic monopoly. For a general discussion of the market room factor (i.e., the stimulant effect that the potential for monopoly profits has on creativity and innovation), see F.M. SCHERER & DAVID ROSS, *INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE* 630-637 (1990). For a mathematical model of copyright incentives, see William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEG. STUDIES 325, 333-35 (1989). For purposes of semantics, "innovate" and "create" will be used interchangeably to refer to the creative efforts of copyright holders and patentees. Likewise, the words "innovator" and "creator" will be used interchangeably to refer to copyright holders and patentees.

Not only does the Copyright Act<sup>5</sup> create economic incentives for innovators by allowing them to establish a market niche from which they may derive monopoly profits; but by making it unlawful to infringe the copyright holder's exclusive rights,<sup>6</sup> the Act deters free-riding. The remedies accorded copyright holders against infringers under the Act create a disincentive to infringe for those wanting free access to the copyrighted good.<sup>7</sup> As an alternative to the unlawful appropriation of the copyrighted good for personal consumption or to compete in the marketplace, a potential infringer has an incentive to create a substitute.

Inherent in a copyright grant is a tradeoff between the public interest against restraints of trade and the Constitutional charge to Congress to create economic rewards that promote progress.<sup>8</sup> That Congress adopted the Copyright Act demonstrates that under certain conditions, congressional concern for innovation supersedes its desire to protect unfettered competition. Because the ultimate objective of both antitrust and copyright policy is to promote consumer welfare through a combination of free competition and innovation, Congress is willing to allow limited restraints of trade in the form of copyright grants, if these restraints promote innovation. Presumably, the market power conferred by a copyright represents the maximum restraint of trade which Congress is willing to condone.<sup>9</sup> In the long run, efficiency and productivity gains resulting from innovation overwhelm allocative efficiency losses resulting from copyrights' monopoly power:

[T]echnological progress contributes far more to consumer welfare than does the elimination of allocative inefficiency caused by noncompetitive pricing. The grant of statutory monopoly rights in the form of patent or copyright . . . reflects that a primary goal of competitive policy—namely an efficient innovative economy—will be served by protecting, for a period of time, innovations meeting

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5. 17 U.S.C. §§ 101-1010 (1988).

6. 17 U.S.C. § 501 (1988).

7. 17 U.S.C. § 502-11 (1988). Remedies available to copyright holders against infringers include monetary and punitive damages, injunctive relief, the infringer's profits, costs and attorney's fees. For an exhaustive discussion of remedies, see 3 M. NIMMER & D. NIMMER, NIMMER ON COPYRIGHT §§ 14.01-14.10 (1994).

8. Legislative history of the 1909 Copyright Act demonstrates this balance of interests:

In enacting a copyright law Congress must consider . . . two questions: First, how much will the legislation stimulate the producer and so benefit the public; and second, how much will the monopoly granted be detrimental to the public? The granting of such exclusive right, under the proper terms and conditions, confers a benefit upon the public that outweighs the evils of the temporary monopoly.

H.R. Rep. No. 2222, 60th Cong., 2d Sess. 7 (1909).

9. This commentator assumes, for the sake of argument, that the market power and incentives to innovate which inhere in a copyright grant represent the optimal tradeoff between restraint of trade and innovation.

specified standards from the competition of those who have not incurred the expenses of innovation, thus encouraging innovative competition.<sup>10</sup>

Copyright policy therefore suggests that temporary and limited restraints of trade that spur dynamic efficiency are preferable to perfect competition and static efficiency, because without the incentive to innovate that is created by the potential for monopoly profits, long-run consumer welfare may be undermined.<sup>11</sup> In Federalist No. 43, James Madison captured the essence of this argument; namely that the potential to earn economic profit promotes innovation, whose ultimate beneficiary is the public:

The utility of this power will scarcely be questioned. The copyright of authors has been solemnly adjudged in Great Britain to be a right of common law. The right of useful inventions seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals.<sup>12</sup>

Copyrights only create incentives to innovate if courts enforce the copyright holder's exclusive rights.<sup>13</sup> If a copyright holder cannot rely on the courts to ensure his control over the market by disciplining infringers, his opportunity for monopoly profits decreases.<sup>14</sup> To the extent that the incentives to innovate are proportional to the innovator's ex ante valuation of the copyright grant—which is contingent upon the innovator's expected opportunity to earn monopoly profits—lack of

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10. Donald Turner, *Basic Principles in Formulating Antitrust and Misuse Constraints on the Exploitation of Intellectual Property Rights*, 53 ANTITRUST L.J. 485, 485 (1984). See also Jesse Markham, *Concentration: A Stimulant or Retardant to Innovation?*, in INDUSTRIAL CONCENTRATION: THE NEW LEARNING 247, 252-54 (H. Goldsmith, H. Mann & J. Weston eds., 1974).

11. Cf. *Picard v. United Aircraft Corp.*, 128 F.2d 632, 643 (1942) ("[T]o denounce patents merely because they create monopolies is to indulge in superficial thinking.") (Frank, J., concurring), *cert. denied*, 317 U.S. 651 (1942).

12. THE FEDERALIST NO. 43 (James Madison). See also *Mazer v. Stein*, 374 U.S. 201, 219 (1954) ("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 the useful Arts.'").

13. The broader the scope of the exclusive rights conferred by a copyright, and the more strictly these rights are enforced, the greater is the copyright holder's market power and ability to earn monopoly profits, and hence the greater the incentives to innovate. However, as mentioned above, see *supra* notes 8-11 and accompanying text, the benefits of dynamic efficiency only overwhelm the short-run welfare loss from restraints of trade if the anticompetitive effect is limited. Finding the optimal tradeoff between dynamic and static efficiency is critical but difficult.

14. See *Quinto v. Legal Times of Washington*, 511 F. Supp. 579, 581 (D.D.C. 1981); William J. Nicolson, *Misuse of the Misuse Doctrine in Infringement Suits*, 9 UCLA L. REV. 76, 106 (1962).

enforcement of the copyright holder's exclusive rights erodes the economic incentives to create a copyrightable work.

Furthermore, a potential infringer's incentive to innovate rather than infringe is a function of the likelihood that the infringer will be held liable for infringement. By definition, lack of enforcement of a copyright means that infringers are permitted to freely appropriate another's work without payment or permission. Thus, the incentive to free-ride increases when copyright enforcement decreases.

### III. COPYRIGHT MISUSE: ITS HISTORY AND ITS MEANING

#### A. An Overview of the Misuse Defense

The misuse doctrine is a permutation of the doctrine of unclean hands.<sup>15</sup> According to the unclean hands doctrine, a plaintiff seeking equitable relief should be denied such relief if he does not come into court with "clean hands."<sup>16</sup> The unclean hands defense consists of two requirements: first, that the plaintiff's misconduct directly and immediately relates to the litigated transaction; second, that the plaintiff's misconduct has harmed the defendant.<sup>17</sup>

In *Morton Salt Co. v. G.S. Superego Co.*,<sup>18</sup> a patent infringement case, the Supreme Court formally created the misuse defense as an application of the doctrine of unclean hands:

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15. For an overview of patent misuse doctrine see 5 D. CHISUM, PATENTS § 19.04 (1993). For a discussion of copyright misuse doctrine, see 9 E. LIPSCOMB, LIPSCOMB'S WALKER ON PATENTS §§ 28.32-28.36 (3d ed. 1988); 3 NIMMER, *supra* note 7, § 13.09[B].

16. Justice Story notes, "It is one of the fundamental principles upon which equity jurisprudence is founded, that before a complainant can have a standing in court he must first show that not only has he a good and meritorious cause of action, but he must come into court with clean hands." STORY, EQUITY JURISPRUDENCE 98 (14th ed. 1918).

17. In 1933 the Court described the test as follows:

But courts of equity do not make the quality of suitors the test. They apply the maxim requiring clean hands only where some unconscionable act of one coming for relief has immediate and necessary relation to the equity that he seeks in respect of the matter in litigation. They do not close their doors because of plaintiff's misconduct, whatever its character, that has no relation to anything involved in the suit, but only for such violations of conscience as in some measure affects the equitable relation between the parties in respect of something brought before the court of adjudication.

*Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 245 (1933). See also Note, *The Misuse Defense in Copyright Actions*, 37 N.Y.U. L. REV. 916, 917 (1962). In copyright cases, the unclean hands doctrine has been extended to actions at law, but courts rarely recognize the defense. See 3 NIMMER, *supra* note 7, § 13.09[A].

18. 314 U.S. 488 (1942).

It is said that the equitable maxim that a party seeking the aid of a court of equity must come into court with clean hands applies only to the plaintiff's wrongful conduct in the particular transaction which raises the equity, enforcement of which is sought. . . . Undoubtedly, 'equity does not demand that its suitors have led blameless lives,' but additional considerations must be taken into account where maintenance of the suit concerns the public interest as well as the private interest of the suitors.<sup>19</sup>

The misuse doctrine represents the maxim that whenever a copyright or patent holder uses his monopoly grant in a way that undermines the grant's underlying public policy, the court may and should deny the copyright holder relief when his exclusive rights are infringed.<sup>20</sup> Infringers can invoke the misuse doctrine as an affirmative defense. If the defendant successfully invokes the misuse defense, the court will deny the copyright holder relief until he purges himself of his misuse and thereby harmonizes the use of his copyright grant with public policy.<sup>21</sup>

While stemming from the unclean hands doctrine, the misuse doctrine is broader in scope than the unclean hands doctrine and is recognized as a separate defense.<sup>22</sup> An infringer may invoke the misuse doctrine as a recognizable and meritorious defense even though plaintiff's alleged misconduct is collateral to the litigated transaction and

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19. *Id.* at 491-93 (citations omitted).

20. "[T]he constitutionality of an attempt to compel the owner of a patent to share with others the title, use, and avail of his property" has been questioned, since the Constitution charges Congress with promoting innovation by rewarding creators with certain exclusive rights in the results of their efforts. Conway P. Coe, Commissioner of Patents of the United States 1933-45, before the Temporary National Economic Committee in 1939, *quoted in* *United States v. Line Material Co.*, 333 U.S. 287, 334 (1948) (dissenting opinion). This constitutional concern applies to the misuse doctrine, because a successful misuse defense effectively divests the intellectual property owner (if only temporarily) of his exclusive rights. However, the constitutionality of the misuse defense is supported by a comprehensive reading of Article I, Section 8. *See* Nicoson, *supra* note 17, at 101. The exclusive rights of a patent or copyright are granted pursuant to the specific constitutional objective to promote innovation. *See, e.g.*, *Bobbs-Merrill Co. v. Isador Straus*, 210 U.S. 339, 346 (1908) ("[C]opyright property under the Federal law is wholly statutory, and depends upon the right created under the acts of Congress passed in pursuance of the authority conferred under article I, § 8 of the Federal Constitution: to promote the Progress of Science and the useful Arts."). When an intellectual property owner uses his patent or copyright to undermine the constitutional purpose pursuant to which his exclusive rights were granted, any constitutional objections to the suspension of the owner's exclusive rights in his creation are tenuous at best. The conditional nature of intellectual property rights, therefore, distinguishes them from other forms of property rights.

21. *See Morton Salt*, 314 U.S. at 493. For a general discussion of purging, see 9 LIPSCOMB, *supra* note 15, § 28.35.

22. The unclean hands doctrine may be conceptualized as a special instance of misuse where the copyright holder's misconduct relates directly to the litigated transaction and where the defendant's conduct harmed the infringer.

does not directly relate to the issue before the court. In fact, to bring the defense, the defendant is not required to have been a party to the plaintiff's transaction creating the alleged misconduct, or to have been injured by the transaction.<sup>23</sup> Thus, the misuse defense represents a more potent shield against piracy charges than the unclean hands doctrine.

The development of the misuse doctrine represents the Court's effort to ensure that the public policy underlying intellectual property is preserved and furthered. It creates incentives for copyright infringers to plead misuse, and therefore creates incentives for copyright holders to protect their ability to enforce their rights by harmonizing their conduct with copyright policy.<sup>24</sup> Because the Court's concern is the public interest in innovation, it is not surprising that the misuse doctrine extends to cases where the plaintiff's misuse is not directly related to the defendant's infringement; even though the requirements of the unclean hands doctrine are not met, the copyright holder's misconduct has nevertheless eroded industry-wide incentives to innovate.<sup>25</sup>

## B. The Historical Development of the Misuse Doctrine in Patent Law

### 1. OVER 150 YEARS OF A "MISUSE NOTION"

Commentators and judges usually reference *Morton Salt* as the first case establishing the patent misuse doctrine.<sup>26</sup> However, the Supreme Court has invoked reasoning similar to that of the *Morton Salt* Court for

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23. See *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 979 (4th Cir. 1990) (explaining that infringer in *Morton Salt* was not injured by patentee's tie); 3 NIMMER, *supra* note 7, § 13.09[A]. Requiring that plaintiff's conduct injure defendant would be inconsistent with the concern of the misuse defense, which is not the equities between defendant and plaintiff, but between the public interest and a plaintiff. A plaintiff's misconduct may undermine the public interest without injuring the infringer. Moreover, since the ultimate beneficiary of copyright law is the public, "[t]he public is a silent but an important party in interest in all patent litigation." *Long v. Arkansas Foundry Co.*, 247 F.2d 366, 369 (1957), *cert. denied*, 361 U.S. 915 (1959). To the extent that the public is effectively a party to all infringement litigation, plaintiff's alleged misconduct has harmed a party to the litigation, even if not the named defendant.

24. The misuse defense is consistent with the discussion *supra* notes 8-11 and accompanying text regarding the acceptable tradeoff between the restraint of trade inherent in copyrights and the incentives they create to innovate. By misusing his copyright, a copyright holder not only garners more monopoly power than Congress presumably finds optimal, but also subverts innovation. As a result, the social cost of the copyright grant exceeds the social benefits. The misuse defense, by creating incentives for the plaintiff to purge his misconduct, therefore shifts the balance between monopoly power and innovation back to that which inheres in the copyright grant and which, by assumption, is optimal.

25. See *supra* note 23.

26. *Lasercomb*, 911 F.2d at 975.



more than 150 years to refuse infringed patentees relief.<sup>27</sup> The Court in these early cases reasoned that when a patentee extends his patent rights beyond their limited scope, he loses his right to relief from infringement in favor of the public's interest in these unprotected areas.

In *Pennock v. Dialogue*,<sup>28</sup> Pennock and Sellers had invented a hose in 1811 for which they filed for and received a patent in 1818. From 1811 to 1818, Dialogue, with Pennock and Sellers's permission, made and sold this hose to several Philadelphia companies.<sup>29</sup> After receiving their patent, Pennock and Sellers sued defendant for infringement.<sup>30</sup> The Supreme Court affirmed the lower court's denial of the plaintiff's request for relief.<sup>31</sup> Justice Story reasoned that if a patentee were allowed to withhold a patent request until competitors challenged his monopoly position with substitutes, the patentee could effectively extend the length of his monopoly power beyond the fourteen year duration of a patent grant.<sup>32</sup> Since the plaintiff-patentee's attempt to secure an excessively long monopoly offended the public policy of patents, the plaintiff relinquished his right to protection from infringement.<sup>33</sup>

Citing *Pennock*, the Court in *Kendall v. Winsor*,<sup>34</sup> which was also concerned with a delayed patent request, adopted and clarified the reasoning underlying Justice Story's opinion and more clearly foreshadowed the Court's reasoning in *Morton Salt*:

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27. See, e.g., *Pennock v. Dialogue*, 27 U.S. 1, 19 (1829); see also, *Kendall v. Winsor*, 62 U.S. 322, 328 (1858); *Motion Picture Patents Co. v. Universal Film Mfg Co.*, 243 U.S. 502, 519 (1917).

28. 27 U.S. 1 (1829).

29. *Id.* at 3.

30. *Id.*

31. *Id.* at 24.

32. The *Pennock* Court explained:

If an inventor should be permitted to hold back from the knowledge of the public the secrets of his invention; if he should for a long period of years retain the monopoly, and make, and sell his invention publicly, and thus gather the whole profits of it, relying upon his superior skill and knowledge of the structure; and then, and then only, when the danger of competition should force him to secure the exclusive right, he should be allowed to take out a patent, and thus exclude the public from any farther use than what should be derived under it during the fourteen years; it would materially retard the progress of science and useful arts, and give a premium to those who should least prompt to communicate their discoveries. A provision, therefore, that should withhold from an inventor the privilege of an exclusive right, unless he should, as early as he should allow the public use, put the public in possession of his secret, and commence the running of the period, that should limit that right; would not be deemed unreasonable.

*Id.* at 19.

33. *Id.*

34. 62 U.S. 322 (1858).

[T]he inventor who designedly, and with the view of applying it indefinitely and exclusively for his own profit, withholds his invention from the public, comes not within the policy or objects of the Constitution or acts of Congress. He does not promote, and, if aided in his design, would impede the progress of science and the useful arts. And with a very bad grace could he appeal for favor or protection to that society which, if he had not injured, he certainly had neither benefited nor intended to benefit.<sup>35</sup>

The 1917 case, *Motion Picture Patents Co. v. Universal Film Manufacturing*<sup>36</sup> is the most recognized predecessor to *Morton Salt*, probably because like *Morton Salt*, *Motion Picture Patents* concerned a tying arrangement.<sup>37</sup> In *Motion Picture Patents*, the patentee had conditioned the licensing of its patented movie projector on the condition that the licensee would only purchase film used in the machine from the patentee.<sup>38</sup> One of the defendants, Universal Film Exchange, had sold film made by defendant Universal Film Manufacturing for use in the patented machine to a third defendant, the Prague Amusement Company.<sup>39</sup> *Motion Picture Patents* sued for contributory infringement.<sup>40</sup> The Court denied the plaintiff relief, explaining that its licensing restrictions were invalid as an attempt to extend the scope of the valid movie projector patent into tied markets that were unpatented.<sup>41</sup> Because film was outside the scope of *Motion Picture Patents*' patent claims, the Court refused to condone plaintiff's attempt to bring film within the scope of the projector patent with a tie.<sup>42</sup> The Court justified its decision by its concern for the public's interest:

A restriction which would give to the plaintiff such a potential power for evil over an industry . . . is plainly void, because [it is] wholly without the scope and purpose of our patent laws and because, if sustained, it would be gravely injurious to that public interest, which we have seen is a more favorite of the law than is the promotion of private fortunes.<sup>43</sup>

Two patent contributory infringement cases following *Motion Picture Patents*, *Carbice Corp. of America v. American Patents Development*

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35. *Id.* at 328.

36. 243 U.S. 502 (1917).

37. *Motion Picture Patents* overruled *Sidney Henry v. A.B. Dick*, 224 U.S. 1 (1912).

38. 243 U.S. at 506.

39. *Id.* at 507.

40. *Id.* at 508. For a complete discussion of the history of misuse and contributory negligence, see James B. Kobak, Jr., *A Sensible Doctrine of Misuse for Intellectual Property Cases*, 2 ALB. L.J. SCI. & TECH. 1 (1992).

41. *Motion Picture*, 243 U.S. at 512-13.

42. *Id.* at 513.

43. *Id.* at 519.

*Corp.*<sup>44</sup> and *Leitch Manufacturing Co. v. Barber Co.*,<sup>45</sup> were to have the most immediate effect on the Court's decision in *Morton Salt*. However, the importance of these earlier cases in establishing the notion of misuse, which the Court more clearly developed over time into the formal misuse doctrine, should not be ignored.

## 2. SETTING THE TABLE FOR MORTON SALT

*Carbice* and *Leitch* set the table for *Morton Salt*. In *Carbice*, the plaintiff-patentee had patented a refrigerated transportation package which he licensed only on condition that the licensee use plaintiff's solid carbon dioxide (dry ice) with the package.<sup>46</sup> The defendant sold dry ice to the plaintiff's licensees and the plaintiff sued for contributory infringement.<sup>47</sup> Because the plaintiff tried to expand his legal monopoly into unpatented goods through his licensing agreement (which constituted a tie-in), the Court denied relief.<sup>48</sup> Summarizing the essence of *Pennock*, *Kendall*, and *Motion Picture Patents* and foreshadowing later misuse cases including *Morton Salt*, Justice Brandeis stated: "[C]ourts deny relief against those who disregard the limitations sought to be imposed by the patentee beyond the legitimate scope of its monopoly."<sup>49</sup> Underlying Justice Brandeis' opinion is the Court's concern that attempts to extend monopoly power into other markets through ties and other restrictive licensing arrangements undermine the public interest in innovation and competition.

In *Leitch*, the Barber Company had patented a process for laying bituminous emulsion on cement roads to retard evaporation during curing.<sup>50</sup> Barber did not charge users of this process a royalty, but only permitted them to use this process if they purchased its emulsion.<sup>51</sup> Leitch Manufacturing sold emulsion to a contractor using Barber's process, and Barber sued for contributory infringement.<sup>52</sup> The Court ruled for Leitch.<sup>53</sup> Justice Brandeis, again writing for the Court, reasoned that whenever a patentee extends the limited monopoly of his patent into unpatented goods and ignores the limitations "inherent in the patent

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44. 283 U.S. 27 (1931).

45. 302 U.S. 458 (1938).

46. 283 U.S. at 30.

47. *Id.*

48. *Id.* at 33-34 (relief denied because of plaintiff's attempt, "without sanction of law, to employ the patent to secure a limited monopoly of unpatented material").

49. *Id.* at 32.

50. *Leitch*, 302 U.S. at 460.

51. *Id.*

52. *Id.* at 461.

53. *Id.* at 463.

grant,"<sup>54</sup> the Court will deny him relief. Justice Brandeis firmly restated the rule which *Carbice* first established: "[E]very use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited."<sup>55</sup>

Because the patents in *Carbice* and *Leitch*, as well as *Motion Picture Patents*, did not legally extend to the tied good, there was effectively no infringement by defendant. Nevertheless, the Court did not limit its holdings to this ground. Given the *Morton* Court's reliance upon the reasoning of *Carbice* and *Leitch*,<sup>56</sup> one can only speculate that had *Carbice* and *Leitch* ruled against plaintiffs then *Morton Salt* might have turned out differently.

### 3. MORTON SALT: THE MODERN MISUSE DOCTRINE

In *Morton Salt*, Chief Justice Stone firmly articulated the patent misuse defense in direct infringement actions.<sup>57</sup> In *Morton Salt*, the respondent had patented a salt depositing machine.<sup>58</sup> A condition of the respondent's licensing agreement was that it required licensees to purchase salt tablets for the machine exclusively from the respondent.<sup>59</sup> Like the arrangements in *Carbice* and *Leitch*, the respondent's alleged misconduct was a tying arrangement.<sup>60</sup> The respondent sued when the petitioner, a competitor, copied, produced, and sold the patented machines in direct competition with the respondent.<sup>61</sup> The petitioner answered that respondent had misused his patent, and thus should be denied relief.<sup>62</sup> The issue before the Court, therefore, was "not necessarily whether respondent has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article."<sup>63</sup> The Supreme Court reversed the Court of Appeals for the Seventh Circuit and held that the respondent could not recover against its competitor for direct infringement.<sup>64</sup>

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54. *Id.* at 462.

55. *Id.* at 463.

56. *See Morton Salt*, 314 U.S. at 491.

57. *Morton Salt's* companion case, *B.B. Chemical Co. v. Elmer A. Ellis*, 314 U.S. 495 (1942), adopted part and parcel the holding and reasoning of *Morton Salt*.

58. *Morton Salt*, 314 U.S. at 490.

59. *Id.* at 491.

60. *Id.*

61. *Id.* at 490-91.

62. *Id.* at 492.

63. *Id.* at 490.

64. *Id.* at 494.

Although the Court declined to rule on whether respondent's tying arrangement violated the Clayton Act,<sup>65</sup> the Court's language implies that the substantive standard is that of anticompetitiveness, namely, whether respondent had restrained trade. Moreover, the Court's broad holding expressly illustrates its reliance upon antitrust standards to define misuse:

Where the patent is used as a means of restraining competition with the patentee's sale of an unpatented product, the successful prosecution of an infringement suit even against one who is a competitor in such sale is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent. . . . Equity may rightly withhold its assistance from such a 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 misuse of the patent have been dissipated.<sup>66</sup>

After explaining the tying arrangement, the Court concluded, with no apparent economic or market analysis, "that respondent is making use of its patent monopoly to restrain competition in the marketing of unpatented articles . . . and is aiding in the creation of a limited monopoly in the tablets not within that granted by the patent."<sup>67</sup> This conclusion reflected the Court's contemporaneous hostility toward patent tie-ins and its presumption in antitrust cases that when a patentee used his patent to effect a tie, the result was an anticompetitive restraint of trade.<sup>68</sup> In light of these antitrust decisions, it is nearly certain that, had *Morton Salt* been a Clayton Act case, the Court would have held that respondent's tie violated the antitrust laws.

Presuming that the respondent's tie-in illegally extended the monopoly power of its patent into the tied market for salt, the Court

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65. *Id.*

66. *Id.* at 493.

67. *Id.* at 491.

68. See *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594, 605 (1953); *International Salt Co. v. United States*, 332 U.S. 392, 396 (1947); *International Business Mach. Corp. v. United States*, 298 U.S. 131, 135-38 (1936); *United Shoe Mach. Corp. v. United States*, 258 U.S. 451, 457-60 (1922). See also George H. Schueller, *The New Antitrust Illegality Per Se: Forestalling and Patent Misuse*, 50 COLUM. L. REV. 170, 190-92 (1950); Toshiko Takenaka, *Extending the New Patent Misuse Limitation to Copyright: Lasercomb America, Inc. v. Reynolds*, 5 SOFTWARE L.J. 739, 755 (1992).

The Court's specific hostility toward patent tie-ins was an extension of its general hostility toward ties. See, e.g., *Standard Oil Co. of Cal. v. United States*, 337 U.S. 293, 305 (1949) ("Tying agreements serve hardly any purpose beyond the suppression of competition."). Eventually the Court focused its hostility on copyright tie-ins. See *United States v. Loew's Incorporated*, 371 U.S. 38, 45-52 (1962); *United States v. Paramount Pictures*, 334 U.S. 131, 157-58 (1948). For the Clayton Act and Sherman Act provisions relevant for the purposes of intellectual property misuse involving ties, see 15 U.S.C. § 14 (1988) (Clayton Act) and 15 U.S.C. §§ 1, 2 (1988) (Sherman Act).

concluded that the patentee's licensing agreement undermined the public interest in patents, and thereby constituted misuse, because it restrained trade.<sup>69</sup> The Court reasoned that a "patentee, like . . . other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy."<sup>70</sup> The Court viewed the policy subverted the constitutional charge of Congress "to promote the Progress of Science and Useful Arts."<sup>71</sup>

By implicitly defining misuse as conduct that restrains competition, the Court suggested that misuse and antitrust analyses are coextensive. Support for this reading is found in the Court's statement that "the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention."<sup>72</sup> In other words, any use of a patent that offends antitrust policy by extending monopoly power into a market outside the scope of the patent grant subverts patent policy and thus constitutes misuse. Since the Court seemingly conceptualized misuse as conduct that undermines patent policy by restraining competition, the Court presumably would have rejected petitioner's misuse defense had it found that the patentee's tie did not restrain trade.

#### 4. DOES MORTON SALT REQUIRE AN ANTITRUST VIOLATION?

While deciding whether there was a Clayton Act violation, the *Morton* Court applied antitrust policy to define the type of misconduct that constitutes misuse. The Court's language and reasoning suggest that it viewed antitrust violations and patent misuse as coextensive because a patentee who undermined antitrust policy by restraining trade was considered to have likewise undermined patent policy.<sup>73</sup> Although the Court's opinion suggests that antitrust and misuse concerns are coterminous, the Court did not explicitly answer the question whether the patentee's misconduct must violate an antitrust law to constitute misuse. Most commentators and judges read *Morton Salt* to answer this

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69. The *Morton Salt* Court's reasoning is consistent with the discussion above regarding the optimal tradeoff between monopoly power and incentives to innovate. See *supra* notes 8-11 and accompanying text.

70. *Morton Salt*, 314 U.S. at 494.

71. *Id.*

72. *Id.*

73. See, e.g., *supra* notes 65-72 and accompanying text.

question in the negative,<sup>74</sup> relying on *Morton Salt's* comment that "[i]t 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."<sup>75</sup>

The Court's presumption that respondent's tie restrained trade, its hostility at the time toward patent tie-ins, and its presumption that tie-ins per se violated the antitrust laws suggests that the Court did apply substantive antitrust standards to determine whether the licensing agreement constituted misuse. It was unnecessary to rule directly on a Clayton Act violation because the Court was hearing an infringement case and not a Clayton Act case.<sup>76</sup> Other than the above-quoted sentence, nothing in the Court's opinion suggests that conduct could undermine antitrust policy against restraints of trade, and thereby patent policy, without violating the antitrust laws.

Although the Supreme Court has asserted that *Morton Salt* does not require that a patent-holder's conduct rise to the level of an antitrust violation to constitute misuse,<sup>77</sup> this commentator believes that the language and reasoning of *Morton Salt* demand that the opinion be reinterpreted.

## C. From Patents to Copyright

### 1. THE MISUSE DOCTRINE IN COPYRIGHT LAW

Although the misuse doctrine developed in patent infringement cases, it has been extended to copyright law. The first case to uphold the

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74. See, e.g., Joel R. Bennett, *Patent Misuse: Must an Alleged Infringer Prove an Antitrust Violation?*, 17 AM. INTELL. PROP. L. ASS'N Q.J. 1 (1989) (arguing that patent misuse does not require an antitrust violation). See generally 9 LIPSCOMB, *supra* note 15, § 28:33.

75. *Morton Salt*, 314 U.S. at 494.

76. *Nicoson*, *supra* note 14, at 91.

77. The Court's view that conduct may constitute misuse while falling short of an antitrust violation apparently originated with Justice Douglas' opinion in *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947). Citing *Morton Salt*, Justice Douglas reasoned, "[t]hrough control of the unpatented article or device falls short of a prohibited restraint of trade or monopoly, it will not be sanctioned." *Id.* at 641. Twenty-two years later, the Court affirmed *Transparent-Wrap* in *Zenith Radio Corp. v. Hazeltine Research, Inc.* 395 U.S. 100, 140 (1969) ("If there was . . . patent misuse, it does not necessarily follow that the misuse embodies the ingredients of a violation of either § 1 or § 2 of the Sherman Act, or that Zenith was threatened by a violation so as to entitle it to an injunction under § 16 of the Clayton Act."). However, prior to *Transparent-Wrap*, the Court hinted that misuse required that the patentee's misconduct rise to the level of an antitrust violation. See *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 684 (1944) ("The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws not by the patent law.").

misuse defense in a copyright infringement action was *M. Whitmark & Sons v. Jensen*.<sup>78</sup> Plaintiffs, members of the American Society of Composers, Authors, and Publishers (ASCAP), sued defendants, operators of a movie theater, for copyright infringement. They alleged that defendants had shown movies accompanied by plaintiffs' music without obtaining from plaintiffs a license permitting defendants to publicly perform the music. Defendants argued that the court should deny plaintiffs relief because plaintiffs had misused their copyrights to fix prices and restrain competition by a policy of issuing only blanket licenses for music performances. The court ruled for defendants, reasoning that plaintiffs' licenses constituted misuse because they illegally extended plaintiffs' statutory monopolies in violation of the Sherman Act:

It is the collective acts and agreements of plaintiffs and their associate members which have diverted their copyrights from their "statutory purpose and become a ready instrument for economic control in domains where anti-trust acts or other laws not the patent statutes define the public policy." Refuge cannot be sought in the copyright monopoly which was not granted to enable plaintiffs to set up another monopoly, nor to enable the copyright owners to tie a lawful monopoly with an unlawful monopoly and thus reap the benefits of both.<sup>79</sup>

This court's misuse analysis, focusing on the copyright holder's use of its copyrights to restrain trade, suggests that the court defined misuse only in terms of an actual antitrust violation.<sup>80</sup>

After *Whitmark*, no court denied relief for copyright infringement on the basis of a misuse defense until the Ninth Circuit decided *Lasercomb America, Inc. v. Reynolds*<sup>81</sup> in 1990. In *Lasercomb*, the court adopted the conventional interpretation of *Morton Salt*: a misuse defense does not require an antitrust violation.<sup>82</sup> *Lasercomb* had developed a copyrighted software program, *Interact*, which it used in the manufacture of steel rule

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78. *M. Witmark & Sons v. Jensen*, 80 F. Supp. 843 (D. Minn. 1948).

79. *Id.* at 848-49 (citations omitted).

80. In the following passage, the court implied that an explicit antitrust violation was necessary:

One who unlawfully exceeds his copyright monopoly and violates the anti-trust laws is not outside the pale of the law, but where the Court's aid is requested . . . and the granting thereof would tend to serve the plaintiffs in their plan and scheme with other members of ASCAP to extend their copyrights in a monopolist control beyond their proper scope, it should be denied.

*Id.* at 850.

81. 911 F.2d 970 (4th Cir. 1990).

82. *Id.* at 973 ("We are persuaded that the rationale of *Morton Salt* in establishing the misuse defense applied to copyrights.").



dyes.<sup>83</sup> Before Lasercomb licensed Interact on a wide scale, it licensed four prerelease copies to Holiday Steel.<sup>84</sup> Holiday Steel circumvented a protective device on Interact and made three unauthorized copies.<sup>85</sup> Holiday Steel then created its own software program that was almost identical to Interact and marketed it as its own.<sup>86</sup> Holiday Steel did not deny direct infringement, but argued that the noncompete clause of plaintiff's license constituted misuse.<sup>87</sup> The court found that plaintiff's noncompete clause restrained competition outside the scope of the copyright.<sup>88</sup> Ruling for the defendant, the court noted 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."<sup>89</sup> Since patents and copyrights both serve the public policy of promoting innovation, they both must recognize the misuse defense in infringement actions.<sup>90</sup> The *Lasercomb* court explicitly stated that plaintiff's conduct need not rise to the level of an antitrust violation to constitute misuse.<sup>91</sup>

*Lasercomb* represents the broadest application of copyright misuse. Since *Lasercomb* the copyright misuse defense has been widely recognized in the courts. Although not necessarily ruling for defendant, the Fourth, Eleventh, and Federal Circuits, as well as district courts in the Second, Fourth, Fifth, Sixth, Ninth, Eleventh, and D.C. Circuits, have recognized the copyright misuse defense in the last three years.<sup>92</sup>

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83. *Id.* at 971.

84. *Id.*

85. *Id.*

86. *Id.*

87. *Id.* at 972. For an exhaustive discussion of *Lasercomb's* noncompete clause, see Philip Abromats, Comment, *Copyright Misuse and Anticompetitive Software Licensing Restrictions: Lasercomb America, Inc. v. Reynolds*, 52 U. PITT. L. REV. 629, 643-45 (1992). The primary offending clause required the licensee to agree not to "permit or suffer" any of its directors, officers, and employees to directly or indirectly write, develop, produce, or sell software that competed with Interact for a period of ninety-nine years. *Lasercomb*, 911 F.2d at 973.

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

89. *Id.* at 973.

90. *Id.* at 974. However, the *Lasercomb* court never explains why similar policy objectives necessitate the same affirmative defenses. Assuming *arguendo* that the misuse doctrine should be applied to copyright law as well as patent law, a case can be made that even if the traditional view is appropriate for patent misuse, it is inappropriate for copyright misuse. See, discussion *infra* Part IV.C.5.

91. *Lasercomb*, 911 F.2d at 978 ("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.")

92. See *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832, 845-47 (Fed. Cir. 1992); *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 690 (4th Cir. 1992); *Bellsouth Advertising & Publishing Corp. v. Donnelley Info. Publishing, Inc.*, 933 F.2d 952, 960-61 (11th Cir. 1991); *National Cable Television Ass'n, Inc. v. Broadcast Music, Inc.*, 772

The Supreme Court has yet to provide lower courts any definite guidance regarding how to define copyright misuse. The closest the Court has come to ruling on copyright misuse is its acknowledgment that such a defense exists in a few cases.

The Court first recognized copyright misuse implicitly in *United States v. Paramount Pictures, Inc.*<sup>93</sup> Although the Court never mentioned the term copyright misuse, it relied on patent misuse cases, including *Morton Salt*, to affirm the lower court's condemnation of *Paramount's* block-booking as an antitrust violation.<sup>94</sup> The Court stated, "[e]nlargement of the monopoly of the copyright was condemned below in reliance on the principle which forbids the owner of a patent to condition its use on the purchase or use of patented or unpatented materials."<sup>95</sup> Effectively, the Court found that *Paramount's* tie-in was a misuse of its copyright. In *United States v. Loew's Inc.*,<sup>96</sup> the Supreme Court again implicitly recognized copyright misuse in a block-booking case. The *Loew's* Court relied on *Paramount* and patent misuse cases to find that defendant's block-booking was an antitrust violation.<sup>97</sup> In dicta, the Court indicated that misuse may apply to copyright law as well as patent law.<sup>98</sup> Most recently, the Court explicitly recognized copyright

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F. Supp. 614, 651-52 (D.D.C. 1991); *Advanced Computer Serv. of Mich., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356, 366-67 (E.D. Va. 1994); *Triad Sys. Corp. v. Southeastern Express Co.*, 1994 WL 446049, \*14 (N.D. Cal. 1994); *Atari Games Corp. v. Nintendo of America*, 1993 WL 207548, \*9 n.2 (N.D. Cal. 1993); *Lucasarts Entertainment Co. v. Humongous Entertainment Co.*, 1993 WL 341281, \*4 (N.D. Cal. 1993); *National Football League, Cleveland Browns, Inc. v. Rondor, Inc.*, 840 F. Supp. 1160, 1168 (N.D. Ohio 1993); *Mastercraft Fabrics Corp. v. Dickson Elberton Mills, Inc.*, 821 F. Supp. 1503, 1511 (M.D. Ga. 1993); *Reliability Research Inc. v. Computer Associates Int'l*, 793 F. Supp. 68, 69 (E.D.N.Y. 1992); *Microsoft Corp. v. BEC Computer Co.*, 818 F. Supp. 1313, 1316-17 (C.D. Cal. 1992); *Sega Enter. Ltd. v. Accolade*, 785 F. Supp. 1392, 1399 (N.D. Cal. 1992), *rev'd on other grounds*, 977 F.2d 1510 (9th Cir. 1992); *Electronic Data Sys. Corp. v. Computer Associates Int'l, Inc.*, 802 F. Supp. 1463, 1465-66 (N.D. Tex. 1992); *Michael Anthony Jewelers, Inc. v. Peacock Jewelry, Inc.*, 795 F. Supp. 639, 655 (S.D.N.Y. 1992); *Budish v. Gordon*, 784 F. Supp. 1320, 1336-37 (N.D. Ohio 1992); *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1537-39 (S.D.N.Y. 1991); *Coleman v. ESPN*, 764 F. Supp. 290, 295 (S.D.N.Y. 1991).

93. 334 U.S. 131 (1948).

94. *Id.* at 157.

95. *Id.* (citations omitted).

96. 371 U.S. 38 (1962).

97. *Id.* at 46.

98. *Id.* at 45-52. As Professor Nimmer explains,

[t]he United States Supreme Court's decision in *United States v. Loew's, Inc.* seemed to hint that in the view of our highest tribunal, the doctrine of the patent cases is fully applicable in copyright actions. In *Loew's*, the Court made explicit reference to the principle that a patentee who utilizes unlawful tying arrangements should be denied relief in an infringement action, and then proceeded to apply with reference to copyrights the same antitrust restrictions on tie-in of sales as were applicable in the patent context.

misuse in *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*,<sup>99</sup> a blanket-licensing case in which the Court reversed the Second Circuit's finding of copyright misuse based upon a per se antitrust violation by finding that there had been no antitrust violation.<sup>100</sup> The Court did not independently address the validity of the copyright misuse doctrine.

The collective result of *Paramount*, *Loew's*, and *Broadcast Music* is that the Court has recognized the doctrine of copyright misuse and has suggested that misuse requires an antitrust violation.<sup>101</sup> However, as discussed in the following section, lower courts, lacking clear precedent from the Court, disagree over how to define misuse. Thus, it is critical that the Supreme Court, when given the opportunity, clearly articulate a definition of misuse.

## 2. HOW TO DEFINE COPYRIGHT MISUSE

The emphasis in *Whitmark* on plaintiffs' antitrust violation contrasts sharply with *Lasercomb's* statement that plaintiff does not need to violate the antitrust laws for his conduct to constitute misuse. This tension, which embodies the tension between the above conflicting interpretations of *Morton Salt*, has manifested itself in courts hearing copyright misuse cases. Courts disagree whether an antitrust violation is required for copyright misuse.<sup>102</sup> This disagreement among courts demonstrates

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3 NIMMER, *supra* note 7, § 13.09[A].

99. 441 U.S. 1 (1979).

100. *Id.* at 24. *See also id.* at 6 n.9.

101. For example, the *Loew's* Court stated, "[a]ccommodation between the statutorily dispensed monopoly in the combination of contents in the patented or copyrighted product and the statutory principles of free competition demands that extension of the patent or copyright monopoly by the use of tying agreements be strictly confined." *Loew's*, 371 U.S. at 49. *See also* 3 NIMMER, *supra* note 7, § 13.09[A] (asserting that *Loew's* tacitly approved "an analogy between patents and copyrights with respect to an antitrust misuse defense").

102. For courts that have either explicitly or implicitly defined misuse as conduct that violates the antitrust laws see *Bellsouth Advertising & Publishing Corp. v. Donnelley Info. Publishing, Inc.*, 933 F.2d 952, 960-61 (11th Cir. 1991) (copyright holder's enforcement of its compilation copyright in original format of "Yellow Pages" did not constitute misuse because such enforcement is sanctioned by copyright laws); *United Telephone Co. of Mo. v. Johnson Publishing Co.*, 855 F.2d 604, 612 (8th Cir. 1988) (copyright holder's effort to require infringer to purchase license in its entire white pages listings at 500% price increase did not constitute misuse); *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1200 (1987) (copyright holder's "no-contest" clause did not constitute misuse); *Electronic Data Sys. Corp. v. Computer Associates Int'l, Inc.*, 802 F. Supp. 1463, 1466 (N.D. Tex. 1992) (denying copyright holder's motion to dismiss licensee's misuse claim where licensee sufficiently alleged that copyright holder's licenses constituted illegal tie-in); *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1538-39 (S.D.N.Y. 1991) (copyright holder's infringement action did not constitute misuse because action was reasonable under copyright laws and not illegal monopoly extension).

today's two dominant views<sup>103</sup> of the misuse doctrine in intellectual property law: the traditional "scope of the grant" view that does not require an antitrust violation, and the more recent "antitrust view" which does.<sup>104</sup> Both views have their proponents in scholarly circles.<sup>105</sup>

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For courts that have either explicitly or implicitly defined misuse in terms of public policy standards that go beyond the antitrust laws see *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832, 846 (Fed. Cir. 1992) (upholding district court's preliminary injunction where copyright holder's license did not restrain licensee's creativity); *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990) (copyright holder's incorporation of "noncompete" clause into software license constituted misuse, regardless of whether it violated antitrust laws); *Advanced Computer Serv. of Mich., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356, 366-67 (E.D. Va. 1994) (owner of copyrighted software program did not misuse copyright where license neither violated antitrust laws nor restricted licensees from developing competing software); *Microsoft Corp. v. BEC Computer Co., Inc.*, 818 F. Supp. 1313, 1316 (C.D. Cal. 1992) (software license prohibiting licensee from selling licensed software unaccompanied by licensee's computers did not offend copyright policy because license did not prohibit licensee from independently implementing program similar to copyrighted software or selling computers without accompanying software); *National Cable Television Ass'n, Inc. v. Broadcast Music, Inc.*, 772 F. Supp. 614, 652 (D.D.C. 1991) (blanket licenses did not constitute misuse because licenses did not violate antitrust laws or otherwise undermine copyright policy); *Broadcast Music, Inc. v. Moor-Law, Inc.*, 527 F. Supp. 758, 772-73 (D. Del. 1981), *aff'd per curiam*, 691 F.2d 390 (3rd Cir. 1982) (performing rights organization's practice of basing license fee for small establishments providing live music on percentage of entertainment expenses did not constitute misuse).

103. There is a third view grounded in contract theory that failed to gather strong support. See Nicoson, *supra* note 14, at 100; Note, *Mandatory Package Licensing: A New Patent Misuse*, 44 VA. L. REV. 727, 734-35 (1958). The contract view of misuse conceptualizes patents and copyrights as contracts between the public and the innovator. The public promises the innovator the exclusive rights in the product of his creative efforts; the innovator implicitly promises to limit his monopoly to the parameters of these exclusive rights. Any use by the innovator of his patent or copyright to extend his monopoly power beyond the scope of his exclusive rights, therefore, constitutes a "breach" of his "contract" with the public. As a result, when the innovator misuses his intellectual property, the public is no longer obligated to enforce the innovator's exclusive rights in the courts. The innovator's breach frees the public from fulfilling its duties under the parties' bargain. Since the innovator has broken his promise, he is in no position to complain when the public does not respect his statutory monopoly, which was conditioned upon the innovator's upholding his end of the agreement. Among those who have framed intellectual property as a contract between the public and the innovator is Chief Justice Marshall. See *Grant v. Raymond*, 31 U.S. (6 Pet.) 218, 241-242 (1832).

104. The 1988 Patent Misuse Reform Act (PMRA) adopted the antitrust view of misuse when the alleged misconduct is a patent tie-in. 35 U.S.C. § 271(d)(5) (1988). No congressional action has been taken with regard to copyright misuse. For a more extensive discussion of PMRA, see *infra* Part IV.C.7.

105. For commentators supporting the traditional view see Timothy H. Fine, *Misuse and Antitrust Defenses to Copyright Infringement Actions*, HASTINGS L.J. 315 (1965); Richard Slitt, *Copyright Self-help Protection as Copyright Misuse: Finally the Other Shoe Drops*, UMKC L. REV. 899 (1989); David Scher, Note, *The Viability of the Copyright Misuse Defense*, 20 FORDHAM URB. L.J. 89 (1992). For commentators supporting the antitrust view, see, e.g., Byron A. Bilicki, *Standard Antitrust Analysis and the Doctrine of Patent Misuse: A Unification Under the Rule of Reason*, 46 U. PITT. L. REV. 209 (1984); J. Dianne Brinson, *Patent Misuse: Time for a Change*, 16 RUTGERS COMPUTER & TECH. L.J. 357 (1990); Scott A. Miskimon,

The traditional view contends that licensing arrangements, even without violating antitrust laws, may undermine copyright policy and constitute misuse. The premise of this position is that the copyright grant is limited in scope to explicit exclusive rights. Thus, any attempt to secure market power beyond these limits is misuse—even if the attempt to accrue monopoly power does not violate the Clayton or Sherman Acts—because it creates monopolies broader than those sanctioned by copyright policy,<sup>106</sup>

Effectively, the traditional view imposes a lower threshold of monopoly extension for conduct to undermine copyright policy than that which is required to violate the Clayton or Sherman Acts. For example, a tie-in may constitute misuse under the traditional view even if scrutiny under the antitrust laws would indicate that the tie was not anticompetitive.

According to the antitrust view, only conduct that undermines antitrust policy undermines copyright policy. Thus, only anticompetitive conduct violating antitrust law constitutes misuse. Therefore, Clayton and Sherman Act violations define copyright misuse.

Proponents of the antitrust view of misuse have four primary criticisms of the traditional view: (a) courts have historically relied on antitrust policy to define misuse; (b) by not requiring an antitrust violation, the traditional view risks condemning procompetitive licensing practices that do not undermine copyright policy; (c) the traditional view causes uncertainty for innovators and business; and (d) the legal presumption should be against recognizing the misuse defense.

- a. Courts have historically relied on antitrust policy to define misuse

Courts have relied on antitrust policy against restraints of trade to define misconduct constituting misuse.<sup>107</sup> Because courts apply antitrust policy when adjudicating the misuse defense, judicial antitrust and

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*Divorcing Public Policy From Economic Reality*, 69 N.C. L. REV. 1672 (1991); Philip Abromats, Comment, *Copyright Misuse and Anticompetitive Software Licensing Restrictions: Lasercomb America, Inc. v. Reynolds*, 52 U. PITT. L. REV. 629 (1991).

106. See, e.g., Robert P. Merges, *Reflections on Current Legislation*, J. PAT. & TRADEMARK OFF. SOC'Y 793, 795 (1988).

107. See, e.g., *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493 (1942). Even those courts expressly adopting the traditional view discuss misuse in terms of antitrust policy. See, e.g., *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 978-79 (4th Cir. 1990).

In a related argument, one commentator contends that since the Copyright Act creates economic incentives to innovate, courts should conduct their misuse analysis within an economic framework defined by the antitrust laws, rather than implement general notions of public policy that may be inconsistent with economic and antitrust analysis. Roger Arar, Note, *Redefining Copyright Misuse*, 81 COLUM. L. REV. 1291, 1311 (1981).

misuse analyses are effectively coextensive: a plaintiff's misconduct only undermines copyright policy if it violates antitrust policy. Since an antitrust violation is the best indication of conduct contravening antitrust policy, courts should rely on antitrust standards and require that a plaintiff's conduct rise to the level of an antitrust violation to constitute misuse.<sup>108</sup> As Judge Posner explains, "If misuse claims are not tested by conventional antitrust principles, by what principle shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one."<sup>109</sup>

Furthermore, there is no justification for treating copyright owners more harshly than other property owners. Owners of intellectual property should face the same standards of anticompetitiveness as any other property owner. Intellectual property owners should not be held liable for contravening antitrust policy when their conduct is too benign for the government or a private party to successfully challenge under the Clayton or Sherman Acts.<sup>110</sup>

The traditional view follows a strand of common law independent of and less demanding than the antitrust laws. This uncodified law of anticompetitive conduct has no place in the judicial system.<sup>111</sup> Moreover, it is unnecessary for courts to usurp the role of antitrust legislation and common law by imparting in infringement cases their own standards of the type of conduct that undermines antitrust policy. The antitrust laws have evolved over time, both through statutory amendment and case law developments, to be more responsive to anticompetitive concerns and to more accurately ascertain what types of conduct raise an anticompetitive concern. As the legal embodiment of public policy against restraints of trade, antitrust statutes and case law extend to all anticompetitive practices. There is no reason to believe that this well-developed body of antitrust law is an inadequate basis, requiring a supplemental body of common law, upon which to adjudicate the misuse defense.<sup>112</sup> The fact

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108. See, e.g., Roger B. Andewelt, "Competition Policy and the Patent Misuse Doctrine," remarks before the Bar Association for the District of Columbia, Patent, Trademark, and Copyright Section (Nov. 3, 1982) ("Since the antitrust laws are the appropriate vehicle for evaluating competitive effect, conduct should not be condemned as patent misuse on economic grounds unless the conduct is inconsistent with the antitrust laws."). See also Brinson, *supra* note 105, at 371 (arguing that it is logical to require antitrust violation for misuse since policy underlying misuse is antitrust policy); Nicoson, *supra* note 14, at 88.

109. *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 511 (7th Cir. 1982), *cert. denied*, 482 U.S. 1107 (1983).

110. See Turner, *supra* note 10, at 486.

111. Nicoson, *supra* note 14, at 91.

112. For example, Judge Posner explains,

[t]he [misuse] doctrine arose before there was any significant body of federal antitrust law, and reached maturity long before that law (a product very

that the court is hearing an infringement case does not, or at least should not, give it license to follow a strand of anticompetitive standards and case law with separate from current statutory and judicial standards that have developed through litigation of the Sherman and Clayton Acts. At least one circuit, the Seventh Circuit, has exercised the proper restraint: "We decline to create a federal common law rule that would jostle uncomfortably with the Sherman Act."<sup>113</sup>

- b. By not requiring an antitrust violation, the traditional view risks condemning procompetitive licensing practices that do not undermine copyright policy

The traditional view does not require an antitrust violation. There is thus a proof gap<sup>114</sup> between what a defendant has to show under the traditional and antitrust views of misuse. Under the antitrust view, "unless the defendant can make a 'definite factual showing of illegality' arising from plaintiff's agreement with its license, it is not entitled to judgment of dismissal."<sup>115</sup> Under the traditional view, the defendant may

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largely of free interpretation of unclear statutory language) attained its present broad scope. Since the antitrust laws as currently interpreted reach every practice that could impair competition substantially, it is not easy to define a separate role for a doctrine also designed to prevent an anticompetitive practice—the abuse of a patent monopoly.

*USM*, 694 F.2d at 510.

One commentator, supporting the traditional view, challenges Judge Posner's assessment:

The enactment of the copyright law itself embodied the existing federal policies generally opposing monopolies or restraints of trade. . . . Analysis of allegedly anticompetitive conduct from the standpoint of copyright policy alone is absolutely proper, for federal copyright protection existed for 100 years before the Sherman Act became law. And today, even if there had never existed antitrust laws with government sanctions and treble-damage liability, the analysis of a misuse defense in a copyright infringement action would proceed on the basis of the general public policy forbidding anticompetitive conduct incorporated in the copyright laws.

Frank Gibbs, *Copyright Misuse: Thirty Years Waiting for the Other Shoe*, Copyright L. Symp. (ASCAP) (No. 23) 31, 36 (1973). This commentator ignores that with the enactment of the Sherman and Clayton Acts, the antitrust laws became the standard by which courts determine whether a seller restrains trade in contravention of antitrust policy. The antitrust laws' role as the proper monitor of anticompetitive practices is not usurped by copyright law simply because copyright law embodies the public policy against anticompetitive practices and could (and perhaps did) monitor such practices involving copyrights in the absence of the Sherman and Clayton Acts.

113. *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1200 (7th Cir. 1987) (Posner, J.).

114. Brinson, *supra* note 105, at 375.

115. *G.S. Suppiger Co. v. Morton Salt Co.*, 117 F.2d 968, 972 (1941), *overruled by Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942). Depending on the licensing arrangement, the "factual showing of illegality" may be analyzed either under the *per se*

simply point to the licensing contract, without the economic analysis required to show an antitrust violation, to show that plaintiff has used his intellectual property to restrain trade in contravention of public policy.<sup>116</sup> Essentially, the traditional view presumes that certain licensing arrangements, while not violating the antitrust laws, nonetheless restrain trade enough to violate copyright policy.

*Senza-Gel Corp. v. Seiffhart*<sup>117</sup> is the most striking example of the effects of this gap. In *Senza-Gel*, the Federal Circuit found that "the district court's grant of summary judgment on the defense of [patent] misuse was not in conflict with its denial of summary judgment on the counterclaim for antitrust violation."<sup>118</sup> Although the court found that there were genuine issues of material fact relating to the tying counterclaim, it granted summary judgment on misuse merely on a showing that plaintiff had tied its patent license to other goods.<sup>119</sup> The court required no further evidence of anticompetitive effect.<sup>120</sup> To justify its decision, the Federal Circuit reasoned, "[T]he patentee's act may constitute patent misuse without rising to the level of an antitrust violation."<sup>121</sup> One commentator has dubbed this extreme form of the traditional view, in which tying is sufficient to establish a misuse, a "super *per se*" rule.<sup>122</sup>

The proof gap threatens the ultimate objective that the traditional view purports to support: increased consumer welfare. First, licensing arrangements that are condemned under the traditional view, but that do not violate antitrust laws, often reflect and promote competitive markets and are, therefore, in the best interest of the consumer. The traditional view forces the copyright holder to purge these procompetitive practices to avoid entering procompetitive agreements that could subject them to the risk of falling under the misuse doctrine. Second, licensing arrangements that do not implicate the antitrust laws, but do constitute

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rule or the rule of reason. For a general discussion of the *per se* rule and rule of reason, see 7 PHILLIP E. AREEDA, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION §§ 1500-11 (1986). The proof gap is wider under the rule of reason since it requires plaintiff to affirmatively prove that defendant's conduct is anticompetitive, whereas the *per se* rule presumes the requisite illegal restraint of trade when certain practices are engaged in under certain circumstances. That is, under the *per se* rule, the court presumes that certain practices are inherently anticompetitive and thus violate the antitrust laws.

116. See, e.g., *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990).

117. 803 F.2d 661 (Fed. Cir. 1986).

118. *Id.* at 668.

119. *Id.* at 669.

120. *Id.* at 668.

121. *Id.*

122. Brinson, *supra* note 105, at 390.



misuse under the traditional view, may be the most efficient mechanism for copyright holders or patentees to maximize profits or recoup investment costs. Prohibiting these licensing practices threatens to undermine the economic incentives driving innovation.

It is not worth preventing the downside risk that some illegal monopoly extension will slip through the cracks of the antitrust view by enforcing a harsh *super per se* rule. It is preferable for judges in an infringement action to err on the side of permitting illegal restraints of trade than to purge procompetitive licenses from the market. After the infringement litigation, the antitrust laws remain available to curb anticompetitive practices in antitrust cases, but there is no safety mechanism to remedy the harms that occur when judges root out procompetitive licensing arrangements from the marketplace. Moreover, to the extent that courts are loyal to precedent, even bad precedent, once courts, and especially the Supreme Court, condemn a practice as misuse, it will likely remain condemned, regardless of how much it benefits the public.<sup>123</sup> As then-Professor Easterbrook explains, "If judges condemn efficient practices, they will disappear, their benefits lost. . . . The costs of judicial error are borne by consumers, who lose the efficient practice and get nothing in return."<sup>124</sup>

c. Traditional view causes uncertainty for innovators and business

The traditional view, except in its *super per se* formulation, does not articulate clear standards for misuse. One commentator, criticizing the subjective nature of the traditional view, argues that it "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."<sup>125</sup> The traditional view, which results in different standards being applied by different judges, leaves ambiguous and uncertain what standards a court will apply to determine whether a plaintiff's conduct has an anticompetitive effect. Even if a licensor is relatively certain that his license does not violate the antitrust laws, he is uncertain whether his license violates the traditional view's vague public policy standards.<sup>126</sup> Given this uncertainty, copyright holders may hesitate before entering

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123. See Frank H. Easterbrook, *The Limits of Antitrust*, 63 TEX. L. REV. 1, 15 (1984).

124. *Id.* at 21.

125. Note, *Clarifying the Copyright Misuse Defense: The Role of Antitrust Standards and First Amendment Values*, 104 HARV. L. REV. 1289, 1295 (1991).

126. See *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 511 (7th Cir. 1982), *cert. denied*, 482 U.S. 1107 (1983).

certain licensing arrangements that, while not violating the antitrust laws, may nonetheless violate some judicially created standard of anticompetitiveness.<sup>127</sup> To the extent that uncertainty deters licensing practices that might survive scrutiny even under traditional misuse doctrine, and that are, in fact, procompetitive,<sup>128</sup> otherwise valuable goods and information are made unavailable for public enjoyment. Moreover, those licensing agreements that are entered into may not allow intellectual property owners to maximize profits, thus attenuating the incentives to innovate. Furthermore, without a well-defined legal framework within which to operate, potential licensors cannot easily assess their licensing opportunities and practices and must expend resources that could have been used for further innovation to determine if their licensing agreements constitute misuse. Finally, if a licensor is unsure whether his license constitutes misuse, he may hesitate to incur the costs associated with bringing an infringement suit, since the benefits of litigation are suspect. By deterring intellectual property owners from enforcing their exclusive rights, the traditional view undermines the public policy against piracy. The antitrust laws instead provide the misuse doctrine with needed certainty and stability.

- d. The legal presumption should be against recognizing the misuse defense

Because the Constitution charges Congress to create intellectual property rights, there should be a legal presumption against the misuse defense. An infringer who himself has undermined copyright policy by infringing a plaintiff's exclusive rights should be required to affirmatively prove that the plaintiff's licensing arrangement undermines the public welfare. The presumption of misuse should not weigh in favor of infringers as it does under the traditional view.<sup>129</sup> Rather, the presumption should weigh toward protecting intellectual property rights, as it does under the antitrust view. The constitutional purpose motivating copyrights is realized only if courts discipline infringers, so courts should respect copyright holders' exclusive rights. Courts should grant an intellectual property owner relief against infringement unless the defendant rebuts the presumption against misuse by proving that the plaintiff's conduct rises to the level of an antitrust violation. The plaintiff

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127. See Arar, *supra* note 108, at 1310-11.

128. For a general discussion of the potential competitive effects of licensing arrangements involving tie-ins, see *infra* Parts IV.A and IV.B

129. Under the traditional view, courts effectively presume an anticompetitive effect to justify their finding of misuse, even though an antitrust analysis may reveal that the licensing practice is of no anticompetitive concern.

should not be denied relief simply by the defendant's pointing to the plaintiff's licensing contract.

Aside from its assertion that conduct can undermine copyright policy without violating the antitrust laws, the traditional view has one primary rebuttal to the antitrust criticism: infringers will be deterred from using the misuse defense if they have to prove an antitrust violation.<sup>130</sup> As the proof gap discussion illustrates, it is more difficult for an infringer to successfully invoke a misuse defense if he must prove a violation of the antitrust laws. Proving an antitrust violation is more costly and time-consuming than simply examining a licensing contract. Litigating antitrust issues requires expert testimony, extensive discovery, and intricate analysis. As the cost of bringing the defense increases and the likelihood of its success decreases, the expected net benefit of arguing misuse decreases. Thus requiring an antitrust violation decreases the incentive for infringers to argue misuse. The result, according to proponents of the traditional view, is that too few acts of misuse will be purged under the antitrust view, because too few infringers will allege misuse, and of those, too few will sustain the defense. It is true that it is cheaper and easier for an infringer to sustain the misuse defense under the traditional view than under the antitrust view. Yet the reason for antitrust standards, after all, is to discriminate activities that actually undermine public policy from those too innocuous for competitive concern. Parts IV and V further address this issue.

#### IV. COPYRIGHT MISUSE AND TIE-INS: THE RISK OF APPLYING THE TRADITIONAL VIEW

Infringers usually predicate their misuse defense on tying arrangements in copyright holders' licenses, in part because copyright holders' licenses frequently involve tie-ins.<sup>131</sup> Thus, how courts approach misuse when the copyright holder's alleged misconduct is a tie is critical, because tying arrangements often promote competition, copyright policy,<sup>132</sup> and technological progress.

That misuse may undermine competition and copyright policy is reason enough to be concerned over how courts define misuse. However, the issue is particularly critical to copyrighted computer software, where infringers disproportionately argue the misuse defense and

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130. See, e.g., *Miskimon*, *supra* note 105, at 1695.

131. See, e.g., *United States v. Loew's Inc.*, 371 U.S. 38 (1962); *United States v. Paramount Pictures*, 334 U.S. 131 (1948); *F.E.L. Publications Ltd. v. Catholic Bishops of Chicago*, 506 F.Supp. 1127 (N.D. Ill. 1981), *rev'd on other grounds*, 739 F.2d 284 (7th Cir. 1984), *cert. denied*, 459 U.S. 859 (1982)

132. See *infra* Part IV.B.3.

disproportionately allege a copyright tie-in as misconduct.<sup>133</sup> Creators of copyrighted computer software programs, for whom research and development costs are higher than for other types of works receiving copyright protection and for whom technological goodwill and reputation are critically important, are notorious for tying hardware, maintenance, and servicing to their software.<sup>134</sup> The tumultuous computer market heightens the need of software developers to recoup investment costs, maximize profits, and protect their technological goodwill and reputation. Software copyright holders' opportunity to tie, and thereby increase their profits and protect their competitive status in the marketplace, mitigates the investment risks inherent in their rapidly changing industry, where new technology is constantly replacing its predecessors.<sup>135</sup> By mitigating investment risks, tie-ins encourage investment in research and development, which ultimately culminates in an increased rate of technological advancement that promotes economic growth and productivity.

#### A. Anticompetitive Effects of Tie-ins and Copyright Policy

"In the paradigm of a tie, a seller refuses to sell one product, which a buyer desires, unless the buyer also agrees to purchase a second product, which is not otherwise desired from this seller on the offered terms."<sup>136</sup> Or as the Supreme Court has framed them, ties are "an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier."<sup>137</sup> The fundamental anticompetitive concern of tie-ins is foreclosure<sup>138</sup> resulting

133. See cases cited *infra* notes 242-244.

134. For cases where an owner of a copyrighted software allegedly tied sales or licensing of its software (tying product) to hardware or maintenance and servicing (tied product) see *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680 (4th Cir. 1992); *Virtual Maintenance, Inc. v. Prime Computer, Inc.*, 957 F.2d 1318 (6th Cir. 1992), *vacated and remanded*, 61 USLW 3061 (1992), *aff'd on reh'g*, 995 F.2d 1324 (6th Cir. 1993); *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 926 (1985); *Advanced Computer Serv. of Mich., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356 (E.D. Va. 1994); *Electronic Data Sys. Corp. v. Computer Associates Int'l*, 802 F. Supp. 1463 (N.D. Tex. 1992); *Microsoft Corp. v. BEC Computer Co., Inc.*, 818 F. Supp. 1313 (C.D. Cal. 1992); *Sega Enter. Ltd. v. Accolade, Inc.*, 785 F. Supp. 1392 (N.D. Cal. 1992), *rev'd on other grounds*, 977 F.2d 1510 (9th Cir. 1992); *Data General Corp. v. Grumman Sys. Support Corp.*, 1988 WL 159936 (D. Mass. 1988).

135. See Ramsey Hanna, Note, *Misusing Antitrust: The Search for Functional Copyright Misuse Standards*, 46 STAN. L. REV. 401, 426 (1994).

136. 9 AREEDA, *supra* note 116, § 1700a. Tie-ins implicate sections of both the Clayton Act and the Sherman Act. 15 U.S.C. §§ 1, 2, 14.

137. *Northern Pacific Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958).

138. See 9 AREEDA, *supra* note 116, § 1704.

from leverage.<sup>139</sup> Leverage is "a supplier's power to induce his customer for one product to buy a second product from him that would not otherwise be purchased solely on the merit of that second product."<sup>140</sup> Thus, leverage is the means by which a seller effects its tying arrangement and extends monopoly power into the tied market. By using his leverage to coerce customers to accept a tie, the seller can foreclose the tied market to competitors and thereby insulate himself from competition in the tied market. Tying, therefore, restrains competition (on the merits) in the tied market, and, by leaving insufficient demand to support rivals, threatens to worsen the market structure of the tied market by creating either a monopoly or oligopoly.<sup>141</sup>

However, a seller has no leverage and hence cannot force his customers to accept the tied with the tying product, if he lacks market power in the tying product market.<sup>142</sup> For example, if numerous substitutes are available for the tying product, competitive pressures will force the tying seller to abandon his arrangement or lose market share to his competitors. The seller in a competitive market may also lower the price of the package so that it is acceptable to buyers. But in this situation the relation is not coercive, and there is no monopoly in either the tying or the tied market. Rather, the seller has competed on the merits of the bundled package by setting a price that customers willingly accept.

139. See *id.* § 1700d.

140. 5 P. AREEDA & D. TURNER, *ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION* § 1134a (1980).

141. See *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594 (1953). In *Times* the Court stated:

Tying arrangements . . . flout the Sherman Act's policy that competition rules the marts of trade. Basic to the faith that a free economy best promotes the public weal is that goods must stand the cold test of competition. . . . By conditioning his sale of one commodity on the purchase of another, a seller coerces the abdication of buyers' independent judgment as to the "tied" product's merits and insulates it from the competitive stresses of the open market. . . . Conversely, the effect on competing sellers attempting to rival the "tied" product is drastic: to the extent the enforcer of the tying arrangement enjoys market control, other existing or potential sellers are foreclosed from offering up their goods to a free competitive judgment; they are effectively excluded from the marketplace.

*Id.* at 605. For a general discussion of foreclosure, see 9 AREEDA, *supra* note 116, § 1703d.

142. Justice Black explained, "[I]f one of a dozen food stores in a community were to refuse to sell flour unless the buyer also took sugar it would hardly tend to restrain competition in sugar if its competitors were ready and able to sell flour by itself." *Northern Pacific*, 356 U.S. at 7. See also *Jefferson Parish*, 466 U.S. at 37-38; *Fortner Enter. v. United States Steel Corp.*, 394 U.S. 495, 519 (1969) (hereinafter *Fortner I*); *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 511 (7th Cir. 1982), *cert. denied*, 482 U.S. 1107 (1983); 9 AREEDA, *supra* note 116, §§ 1703d3, 1704c; *Ward Bowman, Tying Arrangements and the Leverage Problem*, YALE L.J. 19, 31 (1957); *Easterbrook, supra* note 123, at 20.

Courts have primarily relied on the anticompetitive effect of foreclosure when finding that tie-ins violate antitrust law.<sup>143</sup> However, there are additional anticompetitive concerns of ties, including: (1) the evasion of price controls;<sup>144</sup> (2) the facilitation of price discrimination,<sup>145</sup> and (3) the creation of entry barriers.<sup>146</sup> Like foreclosure, these anticompetitive risks also depend upon the seller having market power in the tying market. Justice White's dissent in *Fortner I* captures the various anticompetitive concerns of tie-ins.<sup>147</sup>

Because the Court believes that "[t]ying arrangements serve hardly any purpose beyond the suppression of competition,"<sup>148</sup> ties are scrutinized under the *per se* analysis of antitrust illegality,<sup>149</sup> usually.<sup>150</sup> The Court first outlined the *per se* rule in *Northern Pacific Railway Co. v.*

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143. See, e.g., *Jefferson Parish*, 446 U.S. at 16; 9 AREEDA, *supra* note 116, §§ 1700d, 1704.

144. See 9 AREEDA, *supra* note 116, § 1703e3; *Bowman*, *supra* note 143, at 21.

145. 9 AREEDA, *supra* note 116, § 1703e1.

146. *Id.* § 1705e.

147. Justice White wrote:

There is general agreement in the cases and among commentators that the fundamental restraint against which the tying proscription is meant to guard is the use of power over one product to attain power over another, or otherwise distort freedom of trade and competition in the second product. This distortion injures the buyers in the second product, who because of their preference for the seller's brand of the first are artificially forced to make a less than optimal choice in the second. And even if the customer is indifferent among brands of the second product and therefore loses nothing by agreeing to use the seller's brand of the second in order to get his brand of the first, such tying agreements may work significant restraints on competition in the tied product. The tying seller may be working toward a monopoly position in the tied product and, even if he is not, the practice of tying forecloses other sellers of the tied product and makes it more difficult for new firms to enter that market. They must be prepared not only to match existing sellers of the tied product in price and quality, but to offset the attraction of the tying product itself. Even if this is possible through simultaneous entry into production of the tying product, entry into both markets is significantly more expensive than simply entry into the tied market, and shifting buying habits in the tied product is considerably more cumbersome and less responsive to variations of competitive offers. In addition to these anticompetitive effects in the tied product, tying arrangements may be used to evade price control in the tying product through clandestine transfer of the profit to the tied product; they may be used as a counting device to effect price discrimination; and they may be used to force a full line of products on the customer so as to extract more easily from him a monopoly return on one unique product in the line. All of these distortions depend upon the existence of some market power in the tying product.

*Fortner I*, 394 U.S. at 512-14.

148. *Standard Oil Co. of Cal. v. United States*, 337 U.S. 293, 305 (1949).

149. See 9 AREEDA, *supra* note 116, §§ 1720-21.

150. *Id.* §§ 1728-29.

*United States*, explaining that ties are "unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected."<sup>151</sup> More recently, courts<sup>152</sup> require a plaintiff to establish four elements before condemning a tie-in under the per se rule: (1) the existence of separate products; (2) an agreement conditioning the purchase of the tying product upon purchase of the tied product (or at least upon a condition not to purchase the tied product from another seller); (3) sufficient market power<sup>153</sup> with respect to the tying product to restrain competition appreciably in the tied product; and (4) an effect upon a substantial amount of commerce in the tied product.<sup>154</sup>

Illegal ties undermine copyright policy by reducing competition in the tied product market. First, the possessor of a copyright to a tying product has little incentive to innovate because he does not have to compete to gain market share in the tied market. Neither does he have to maintain his market share because entry barriers erected by the tie, coupled with the copyright holder's guaranteed pool of customers comprising individuals accepting the tied package, ensure him a fixed

151. *Northern Pacific Ry. Co. v. United States*, 356 U.S. 1, 6 (1958).

152. *See, e.g., Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 683 (4th Cir. 1992).

153. For examples of how the Court has defined market power, see *Eastman Kodak Co. v. Image Technical Serv., Inc.*, 112 S. Ct. 2072, 2080 (1992) ("Market power is the power 'to force a purchaser to do something that he would not do in a competitive market.' " (quoting *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 14 (1984))) and *Fortner I*, 394 U.S. at 503 ("Market power is usually stated to be the ability of a single seller to raise price or restrict output. . . . [T]he proper focus of concern is whether the seller has the power to raise prices, or impose other burdensome terms such as a tie-in, with respect to any appreciable number of buyers within the market."). Economists usually define firm market power in terms of the Lerner Index. For a discussion of the Lerner Index, which measures the extent to which a seller can raise price over marginal cost, see SCHERER & ROSS, *supra* note 4, at 70-71. Recently, *Jefferson Parish* defined monopoly power by relying more on the economic theory underlying the Lerner Index. The Court stated, "As an economic matter, market power exists whenever prices can be raised above the level that would be charged in a competitive market." *Jefferson Parish*, 466 U.S. at 28 n.46. The Court has also historically relied heavily on the "uniqueness" of a good to infer market power. *See, e.g., United States Steel v. Fortner Enter.*, 429 U.S. 610, 619-22 (1977) (hereinafter *Fortner II*). The presumption of market power when a good is sufficiently unique is especially pertinent to a discussion of copyrights, since by definition copyrighted works are unique. Regardless of the slight nuances among the different ways the Court has defined market power, the Court has maintained the position of *Fortner I* that the "standard of 'sufficient economic power' does not . . . require that the defendant have a monopoly or even a dominant position throughout the market for the tying product." *Fortner I*, 394 U.S. at 502-03.

154. Unless the tying arrangement forecloses a substantial amount of commerce, it does not threaten to restrain trade enough in the tied market to create an anticompetitive concern. *See, e.g., 9 AREEDA, supra* note 116, §§ 1703, 1704.

share of the tied market.<sup>155</sup> Second, the copyright holder's actual and potential competitors in the tied market have less of an incentive to innovate since foreclosure and entry barriers reduce (and may eliminate) their opportunity to recoup investment costs or earn profits from their creative efforts.<sup>156</sup> By restraining trade and undermining innovation, illegal copyright ties upset the acceptable tradeoff between monopoly power and the dynamic efficiency of copyrights.<sup>157</sup>

## B. Should Copyright Ties Be Presumptively Anticompetitive?

The Court has historically treated tie-ins involving intellectual property more harshly than ties involving other goods or services.<sup>158</sup> The Court's hostility toward these ties began primarily with the early patent misuse cases in which the Court held, without formal economic analysis, that patent tie-ins were anticompetitive.<sup>159</sup> To justify its hostility to ties, the Court presumed that patents and copyrights provided the seller with sufficient economic power over the tying product to foreclose competition in the tied market.<sup>160</sup> The Court's presumption of market power and an illegal restraint of trade when the tying product was a

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155. For example, Areeda notes:

The disappearance of rival firms in the tied market . . . eliminates competitive spurs toward cost reduction, innovation, and improvements in the production and distribution of that product. Although a monopolist can usually increase profits by cutting costs and innovating, he is under less pressure to do so than the firm that needs such improvements to keep up with or get ahead of rivals. As usual, therefore, we fear that a monopolist will choose "the quiet life" rather than aggressive progress.

*Id.* §1705b The positive influence of competition on innovation is called the stimulus factor. See generally SCHERER & ROSS, *supra* note 4, at 630-37, 644-60.

156. See *supra* note 4.

157. See *supra* note 24.

158. 9 AREEDA, *supra* note 116, § 1701.

159. See *United States v. Loew's Inc.*, 371 U.S. 38, 45-46 (1962); *United States v. Paramount Pictures*, 334 U.S. 131, 157 (1948).

160. See, e.g., *Fortner I*, 394 U.S. at 505 n.2 ("Uniqueness confers economic power only when other competitors are in some way prevented from offering the distinctive product themselves. Such barriers may be legal, as in the case of patents and copyrighted products."); *Jefferson Parish*, 466 U.S. at 16 ("[I]f the government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power."); *Loew's*, 371 U.S. at 45 ("The requisite economic power is presumed when the tying product is patented or copyrighted."); *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594, 611 (1953) (patents and copyrights supply the "requisite market control"). At least one circuit has held that the Court's historical presumption of market power from intellectual property is rebuttable. *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336, 1344 (9th Cir. 1984), *cert. denied*, 473 U.S. 926 (1985). For a general discussion of *Digidyne* and whether the Court's presumption of market power is rebuttable or conclusive, see J. Dianne Brinson, *Proof of Economic Power in a Sherman Act Tying Arrangement Case*, 48 LA. L. REV. 29, 45-58 (1987).



patented or copyrighted good resulted in discriminatory treatment of these grants in antitrust cases: If a patent or copyright was involved, the Court condemned selling arrangements it otherwise permitted for non patented or non copyrighted other goods.<sup>161</sup> Because the Court presumed an antitrust violation, it found no reason to undertake extensive economic and market analyses and did not hesitate to find misuse.<sup>162</sup> With regard to copyrights, this presumption of anticompetitive effects was not justified.

### 1. THE QUESTION OF MARKET POWER, COPYRIGHTS, AND PATENTS

Market power is the "ability of a single seller to raise price and restrict output."<sup>163</sup> Intellectual property law potentially confers market power because it creates barriers to competitors' entry into the relevant market with the same good and, to a certain extent, with substitute goods.<sup>164</sup> Furthermore, even with entry into the market by competitors, the copyright holder would retain market power, albeit of no real anticompetitive concern in the long run, as intellectual property rights ensure product differentiation and a monopolistically competitive market.<sup>165</sup> Thus, the degree of market power is a function not only of how unique or socially desirable the new product is, but also of how effective the property right is in erecting entry barriers that keep substitutes out of the market.

As the analysis below suggests, neither patents nor copyrights confer much market power. Of the two, copyrights confer less.<sup>166</sup>

161. See Schueller, *supra* note 68, at 192.

162. As the Court explained in *Loew's*:

Since the requisite economic power may be found on the basis of either uniqueness or consumer appeal, and since market dominance in the present context does not necessitate a demonstration of market power in the sense of § 2 of the Sherman Act, it should seldom be necessary in a tie-in sale case to embark upon a full-scale factual inquiry into the scope of the relevant market for the tying product and into the corollary problem of the seller's percentage share in that market. This is even more obviously true when the tying product is patented or copyrighted, in which case . . . sufficiency of economic power is presumed.

*Loew's*, 371 U.S. at 45 n.4.

163. *Fortner I*, 394 U.S. at 503.

164. See generally SCHERER & ROSS, *supra* note 4, at 624-26.

165. For an overview of product differentiation and monopolistic competition, see *id.* at 600-10. For an exhaustive discussion of monopolistic competition, see E.H. CHAMBERLAIN, *THE THEORY OF MONOPOLISTIC COMPETITION* (1933).

166. See, e.g., *Alfred Bell & Co. v. Catalda Fine Arts, Inc.*, 191 F.2d 99, 103 (2d Cir. 1951) (explaining that the protection granted patent owners is greater than that accorded copyright holders).

Four factors contribute to the minimal market power inherent in copyright grants: (a) the requirements of a copyright; (b) the idea/expression dichotomy and merger doctrine; (c) the exclusive rights that accompany a copyright; and (d) the fair use doctrine.

a. Originality requirement of copyrights

Copyrights protect "original works of authorship fixed in any tangible medium of expression."<sup>167</sup> For purposes of a copyright, originality requires only that the work "was independently created by the authors (as opposed to copied from other works)."<sup>168</sup> Thus, to receive copyright protection, a work does not need to be novel and can in fact be identical to previous works.<sup>169</sup> Judge Learned Hand explains:

Borrowed the work must indeed not be, for a plagiarist is not himself pro tanto an "author"; but if by some magic a man who had never known it were to compose anew Keats's Ode on a Grecian Urn, he would be an "author," and if he copyrighted it, others might not copy that poem, though they might of course copy Keats's.<sup>170</sup>

The copyright originality standard, and its implications, contrasts sharply with the standards required for a patent.<sup>171</sup> First, to obtain a patent, an inventor must establish the novelty of his invention by demonstrating that it is unlike any prior useful art.<sup>172</sup> Second, he must establish that his invention is useful.<sup>173</sup> Third, the inventor must establish that the differences between his invention and prior art would not "have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains."<sup>174</sup>

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167. 17 U.S.C. § 102 (1988).

168. *Feist Publications, Inc. v. Rural Telephone Serv. Co.*, 499 U.S. 340, 345 (1991). See also *Alfred Bell*, 191 F.2d at 99-102 (comparing requirements of "a high degree of uniqueness ingenuity, and inventiveness" for patents with originality requirement of copyrights); 1 NIMMER, *supra* note 7, § 2.01.

169. See *Feist*, 499 U.S. at 345 ("Originality does not signify novelty; a work may be original even though it closely resembles other works so long as the similarity is fortuitous and not the result of copying."); *Alfred Bell*, 191 F.2d at 103 ("The 'author' is entitled to a copyright if he independently contrived a work completely identical with what went before; similarly, although he obtains a valid copyright, he has no right to prevent another from publishing a work identical with his, if not copied from his."); 1 NIMMER, *supra* note 7, § 2.01.

170. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 54 (2d Cir. 1936).

171. *Alfred Bell*, 191 F.2d at 101-102 ("[The] Constitution . . . recognizes that the standards for patents and copyrights are basically different.").

172. See 35 U.S.C. § 102 (1988) (novelty requirement); 35 U.S.C. § 101 (invention must be "new"); 35 U.S.C. § 115 (1988) (patentee must be the first inventor or discoverer).

173. 35 U.S.C. § 101 (1988).

174. 35 U.S.C. § 103. See *Feist*, 499 U.S. at 345; *Alfred Bell*, 91 F.2d at 102 (explaining that copyrights do not have a non-obviousness requirement).

Since the requirements for a patent are more demanding than for copyrights, patents confer more market power than copyrights. Because an author only has to meet the relatively lax standard of originality while an inventor has to meet the standards of novelty, utility, and non-obviousness, copyrights are easier to attain than patents.<sup>175</sup> It is easier, however, to create more perfect substitutes for copyrighted goods than to invent an acceptable substitute that does not infringe a patent.<sup>176</sup> In fact, because of the novelty requirement of patents, it is likely that a patented good is substantially unlike prior arts, which suggests a low degree of substitutability between patented inventions.

b. Idea/expression dichotomy.

An author may only copyright his expressions, not his ideas.<sup>177</sup> The Supreme Court explained in *Baker v. Seldon*<sup>178</sup> how the idea/expression dichotomy distinguishes copyrights from patents:

The difference between the two things, letters-patent and copyright, may be illustrated by reference to the subjects just enumerated. Take the case of medicines. Certain mixtures are found to be of great value in the healing art. If the discoverer writes and publishes a book on the subject (as regular physicians generally do), he gains no exclusive right to the manufacture and sale of the medicine; he gives that to the public. If he desires to acquire such exclusive right, he must obtain a patent for the mixture as a new art, manufacture, or composition of matter. He may copyright his book, if he pleases; but that only secures to him the exclusive right of printing and publishing his book. So of all other inventions or discoveries. . . . But the principal is the same in all. The description of the art in a book, though entitled to the benefit of copyright, lays no foundation for an exclusive claim to the art itself. The object of the one is explanation; the object of the other is use. The former can be secured, if at all, by letters-patent.<sup>179</sup>

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175. See 1 NIMMER, *supra* note 7, § 2.01.

176. The *Alfred Bell* court explained: "A patentee, unlike a copyrightee, must not merely produce something original, he must also be 'the first inventor or discoverer.' Hence it is possible to have a plurality of valid copyrights directed to closely identical or even identical works." *Alfred Bell*, 191 F.2d at 103 (citations omitted).

177. 17 U.S.C. § 102 (1988). For an overview of the idea/expression dichotomy, see 1 NIMMER, *supra* note 7, § 2.03[D]. For an economic justification of the idea/expression dichotomy, see Landes & Posner, *supra* note 4, at 347-49 (arguing that if ideas were copyrightable, the cost of expression would increase, which would decrease the proliferation of works upon which social welfare depends).

178. 101 U.S. 99 (1879).

179. *Id.* at 102-03, 105. See also *Mazer v. Stein*, 347 U.S. 201, 217 (1954) ("Unlike a patent, a copyright gives no exclusive rights to the art disclosed; protection is given only to the expression of the ideas—not the idea itself.").

A classic example illustrates the effect of *Baker*: While Shakespeare could have copyrighted the text of *Romeo and Juliet*, he could not have copyrighted its love theme. Thus, *West Side Story* would not infringe Shakespeare's copyright.<sup>180</sup>

The author's personal expression of an idea defines the scope of his copyright, whereas the inventor's patent claim defines the scope of his patent.<sup>181</sup> In his claim, the patentee may express his broad conception of an idea and how his invention captures part of that idea. The patent's scope, then, is not limited to the particular specifications of his invention but may also encompass the inventor's broader personal expression of the idea behind the invention.<sup>182</sup> The broader the patentee defines his claim, the broader is the scope of his patent; thus, the patent claim effectively allows a patentee to define the range of goods over which he will exert his exclusive rights. A patentee's broadly defined claim will exclude potential competitors by preempting alternative expressions of the idea embodied by the patentee's invention. The copyright holder, on the other hand, has no control over alternative expressions of the idea embodied by his work since his exclusive rights only protect his personal expression.<sup>183</sup> Since patent grants are often broader in scope than copyrights, a greater variety of substitutes may fall within the broad protective ambit of a patent claim than falls within the relatively narrow protective ambit of a copyright. Patents therefore often confer more market power than copyrights.

The merger doctrine is an extension of the idea/expression dichotomy. In order to prevent the monopolization of ideas, if a particular expression represents one of a limited number of ways of expressing an idea, or in the extreme the only way, the author cannot obtain a copyright for his expression.<sup>184</sup> Since the monopoly power conferred by a copyright increases as the number of ways available for expressing an idea decreases, an innovator cannot protect his creation when circumstances are such that a copyright would confer substantial monopoly power by effectively allowing him to monopolize a field without the threat of substitutes taking away market share. The merger doctrine requires the potential for competing innovators to create substitutes as a condition precedent to the granting of a copyright. In

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180. Glen P. Belvis, *Computers, Copyright & Tying Agreements: An Argument for the Abandonment of the Presumption of Market Power*, 28 B.C. L. REV. 265, 286 n.131 (1987).

181. 35 U.S.C. § 112 (1988). For an in-depth analysis of this point, see Belvis, *supra* note 180, at 283-87.

182. See Belvis, *supra* note 180, at 287.

183. See, e.g., *Alfred Bell*, 191 F.2d at 103.

184. See, e.g., *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 740-41 (9th Cir. 1971); *Morrisey v. Proctor & Gamble Co.*, 379 F.2d 675, 678-79 (1st Cir. 1967).

other words, if a copyright would confer substantial market power, the merger doctrine precludes the grant. The critical question for copyrights and market power, therefore, is not whether substitutes and potential entry provide a competitive stimulus, but how effective this threat of competition is in ensuring a competitive outcome. The answer depends on the facts of each case, and can be determined only on an ad hoc basis.

#### c. Exclusive rights and infringement

The exclusive rights that accompany a copyright most notably include the right "to reproduce the copyrighted work in copies."<sup>185</sup> The exclusive rights of a patent, however, are relatively broad and include the right to make, use, or sell the patented invention.<sup>186</sup> Since patents confer greater control over the relevant product, the market power inherent in a patent exceeds that inherent in a copyright.<sup>187</sup>

Not only are the exclusive rights of a patent broader than those of a copyright, they are accorded more protection, which bolsters the patentee's market power in comparison to the copyright holder's. First, inadvertent duplication constitutes patent infringement,<sup>188</sup> but not copyright infringement if the originality requirement is met.<sup>189</sup> Second, whereas substantial similarity between a patented good and an alleged infringer's invention may be sufficient for actionable infringement, similarity between a copyrighted work and an alleged infringer's work constitutes infringement only if the substantial similarity is the result of copying.<sup>190</sup>

#### d. Fair use doctrine

The Copyright Act allows copying of copyrighted works for certain purposes, which under the Act constitutes "fair use."<sup>191</sup> A defendant who successfully argues the fair use defense is exonerated from liability,

185. 17 U.S.C. § 106 (1988).

186. 35 U.S.C. § 271(a). (1988)

187. For an entertaining example of this point, see *Belvis*, *supra* note 180, at 285-87.

188. See 4 *CHSUM*, *supra* note 15, § 16.02[2].

189. See, e.g., *Alfred Bell*, 191 F.2d at 103. This distinction is consistent with the difference between the novelty requirement of patents and the originality requirement of copyrights. An inventor is charged with full knowledge of prior patented inventions, even if he does not have such knowledge. *Id.*

190. See, e.g., 1 *NIMMER*, *supra* note 7, § 2.01[A]. For a comprehensive discussion of substantial similarity and copyrights, see *id.* § 13.03[A].

191. 17 U.S.C. § 107 (1988). For a general discussion of fair use, see 13 *NIMMER*, *supra* note 7, § 3.05; see also *Bilicki*, *supra* note 105, at 235-37. For an economic analysis of fair use, see *Landes & Posner*, *supra* note 4, at 357-60.

because "fair use of a copyrighted work . . . is not an infringement."<sup>192</sup> There is no fair use defense for patent infringement.

e. In sum copyrights confer less market power than patents

As the above analysis suggests, copyrights and patents are fundamentally different. The statutory requirements for a patent are more demanding than for a copyright, the exclusive rights of a patent are broader than those of a copyright, and patents preempt competition from a broader field than do copyrights.<sup>193</sup> Hence, patents are a stronger shield against competition, since they erect a higher barrier to entry by potential competitors into the market. One therefore expects to find more copyrighted goods that satisfy consumer demand for a particular end use than patented goods that would satisfy such a demand.<sup>194</sup>

Not all patents confer enough market power for patent holders to successfully effect a monopolistic tie. This implies that copyrights, which offer less protection than patents, also fail to confer the requisite market power for such a tie.<sup>195</sup> Notwithstanding earlier cases presuming monopoly power from intellectual property grants, courts have begun to recognize that monopoly power should not be presumed from patents or copyrights. The judicial trend is toward requiring affirmative proof of market power before condemning an intellectual property tie.<sup>196</sup>

In conclusion, given the relatively lax requirements and less exclusive rights of copyrights, courts should not presume that they confer the requisite monopoly power to effect a tie that is anticompetitive. Copyrights erect minimal entry barriers, and potential innovators should not find it difficult to create around the copyright. Thus, even if there are no substitutes today for the copyrighted good, potential entry helps ensure competitive pricing and licensing arrangements. If the copyright holder does have market power, it is likely a function of factors other

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192. 17 U.S.C. § 107 (1988).

193. See *Bobbs-Merrill Co. v. Isador Straus*, 210 U.S. 339, 345 (1908); *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1198 (7th Cir. 1987).

194. See Richard Stitt, Comment, *Copyright Self-Help Protection as Copyright Misuse: Finally, the Other Shoe Drops*, 57 UMKC L. REV. 899, 904 (1989).

195. See, e.g., F.M. Scherer, Panel Discussion, *The Value of Patents and Other Legally Protected Commercial Rights*, 53 ANTITRUST L.J. 535, 547 (1985).

196. See *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 36 n.7 (1984) (O'Connor, J., concurring); *Virtual Maintenance, Inc. v. Prime Computer, Inc.*, 957 F.2d 1318 (6th Cir. 1992), *vacated and remanded*, 61 U.S.L.W. 3061 (1992), *aff'd on reh'g*, 995 F.2d 1324 (6th Cir. 1993); *Abbott Lab. v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1991); *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673 (6th Cir. 1986); *Alcon Lab., Inc. v. Allergan, Inc.*, 17 U.S.P.Q. 2d 1365 (N.D. Tex. 1990); *Allen-Myland, Inc. v. IBM Corp.*, 693 F. Supp. 262 (E.D. Pa. 1988); *Klo-zik Co. v. General Motors Corp.*, 677 F. Supp. 499 (E.D. Tex. 1987); *3 P.M., Inc. v. Basic Four Corp.*, 591 F. Supp. 1350 (E.D. Mich. 1984).

than the copyright, such as reputation, start-up costs, economies of scale, marketing and advertising, distribution and servicing networks, and first-mover advantages. The existence of a copyright is only one factor determining market structure, and, contrary to several older court opinions, but consistent with recent judicial trends, it is not dispositive as to whether the copyright holder actually has the market power to effect a monopolistic tie.

## 2. CRITICISM OF LEVERAGE THEORY

The Chicago School of Economics,<sup>197</sup> among others, has been an outspoken critic of the Supreme Court's reliance on leverage theory in tying cases.<sup>198</sup> The Chicago School argues that leverage theory is untenable, and that monopolists' use of tie-ins to maximize profits does not harm competition.

The Chicago School's fundamental criticism is the "fixed sum argument . . . which is simply that a firm with market power may be able to gain its profit all from its own market, all from another, or from any combination thereof, but the total amount of restriction that the monopolist will profitably be able to impose is fixed regardless of the practice that is used."<sup>199</sup> Thus, a copyright holder cannot extract more monopoly power from his grant than that received from its exclusive rights. Professor Stigler explains:

One film Justice Goldberg cited, *Gone With the Wind*, is worth \$10,000 to the buyer, while a second film the Justice cited, *Getting Gertie's Garter*, is worthless to him. The seller could sell the one for \$10,000, and throw away the second, for no matter what its cost, by-gones are forever by-gones. Instead, the seller compels the buyer to take both. But surely he can obtain no more than \$10,000, since by hypothesis this is the value of both films to the buyer. Why not, in short, use his monopoly power directly on the desirable film? It seems no more sensible, on this logic, to blockbook the two films

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197. The Chicago School analyzes anticompetitive behavior in terms of consumer welfare and efficiency.

198. For example, Judge Robert Bork, one of the leaders of the Chicago School, writes, The law's theory of tying arrangements is merely another example of the discredited transfer-of-power theory, and perhaps no other variety of that theory has been so thoroughly and repeatedly demolished in the legal and economic literature. That the law's course remained utterly undeflected for so long casts an illuminating and, if you are of a sardonic turn of mind, amusing sidelight upon the relation of scholarship to judicial lawmaking.

ROBERT BORK, *THE ANTITRUST PARADOX* 372 (1978). See also RICHARD POSNER, *ANTITRUST LAW: AN ECONOMIC PERSPECTIVE* (1976). See generally Aaron Director & Edward Levi, *Law and the Future: Trade Regulation*, 51 NW. U. L. REV. 281 (1956).

199. Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515, 518 (1985).

than it would to compel the exhibitor to buy *Gone With the Wind* and seven ouiji boards, again for \$10,000.<sup>200</sup>

Stigler suggests that the copyright holder cannot extend his monopoly profit potential, because he must compensate licensees for accepting the tie—which to consumers is equivalent to a price increase—by, for example, lowering prices.<sup>201</sup> Thus, according to then-Professor Posner, “[a] . . . fatal weakness of the leverage theory is its inability to explain why a firm with a monopoly of one product would want to monopolize complementary products as well.”<sup>202</sup>

Although the Chicago School rejects leverage theory, it concedes that a copyright holder may tie in order to price discriminate, the effect of which may or may not be anticompetitive.<sup>203</sup> For example, when goods are sold in variable proportions, price discrimination through metering enables the seller to maximize monopoly profit.<sup>204</sup> However, metering “creates no new and additional monopoly power over the tied product.”<sup>205</sup> In fact, if the copyright holder meters, the tie-in may actually increase allocative efficiency, output, and thus consumer welfare.<sup>206</sup> Not surprisingly, the Chicago School concludes that a copyright holder’s attempt to maximize profits with a tie should not be per se illegal.<sup>207</sup>

200. George Stigler, *United States v. Inc.: A Note on Block-Booking*, 1963 SUP. CT. REV. 152, quoted in BORK, *supra* note 198, at 374. Although the Supreme Court has accepted leverage as a viable economic theory in tying cases, members of the Court have recognized the Chicago School rationale. Justice White explained in his *Fortner I* dissent: “The monopolist can exact the maximum price which people are willing to pay for his product. By definition, if his price went up he would lose customers. If he then refuses to sell the tying product without the tied product, and raises the price of the tied product above the market, he will also lose customers. The tying link works no magic.” 394 U.S. at 514.

201. See *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 510 (7th Cir. 1982), cert. denied, 482 U.S. 1107 (1983); BORK, *supra* note 198, at 373; POSNER, *supra* note 198, at 173; Bowman, *supra* note 142, at 21.

202. POSNER, *supra* note 198, at 173.

203. See, e.g., BORK, *supra* note 198, at 376-78; Bowman, *supra* note 142, at 23. The welfare effects of price discrimination are uncertain and depend on the circumstances at hand. For a general discussion of the indeterminate nature of the welfare effects of price discrimination, see SCHERER & ROSS, *supra* note 4, at 494-508. Recognizing the indeterminate effect of price discrimination on competition and consumer welfare, the Court, for example, explained in *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 113 S. Ct. 2578, 2586 (1988), that price discrimination does not violate the Robinson-Patman Price Discrimination Act, 15 U.S.C. § 13(a), when the price differentials “result from or further the forces of competition.”

204. For a discussion of price discrimination through metering, see Part IV.2.c(5). Copyright holders may also have an incentive to price discriminate when goods are used in fixed proportions. See, e.g., BORK, *supra* note 198, at 377.

205. Bowman, *supra* note 142, at 24.

206. See *infra* Part IV.B.3(e).

207. Cf. *USM Corp. v. SPS Tech., Inc.*, 694 F.2d 505, 510 (7th Cir. 1982), cert. denied, 482 U.S. 1107 (1983) (“[T]here is nothing wrong with trying to make as much money as you can from a [copyright]. True, a tie-in can be a method of price discrimination. . . . But



Despite the Chicago School's criticisms, which themselves have been criticized,<sup>208</sup> leverage theory still is supported by the Supreme Court and some legal commentators.<sup>209</sup>

### 3. BUSINESS JUSTIFICATION AND PROCOMPETITIVE EFFECTS OF TIES

The Supreme Court has recognized that tie-ins may be procompetitive and serve legitimate business needs that overwhelm the risks of leverage and foreclosure:

Tie-ins may also at times be beneficial to the economy. . . . They may facilitate new entry into fields where established sellers have wedded their customers to them by ties of habit and custom. They may permit clandestine price cutting in products which otherwise would have no price competition at all because of fear of retaliation from the few other producers dealing in the market. They may protect the reputation of the tying product if failure to use the tied product in conjunction with it may cause it to malfunction. And, if the tied and tying products are functionally related, they may reduce costs through economies of joint production and distribution.<sup>210</sup>

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since . . . there is no principle that [copyright] owners may not engage in price discrimination, it is unclear why one form of discrimination, the tie-in, alone is forbidden." For a general discussion of price discrimination, see SCHERER & ROSS, *supra* note 4, at 489-517. For a discussion of price discrimination and ties, see 9 AREEDA, *supra* note 116, § 1711.

208. See, e.g., Kaplow, *supra* note 199, at 520-38. A primary criticism of the Chicago School is that it ignores the possibility that tying sellers may effect predatory pricing schemes by cross-subsidizing losses in the tied market with profits from the tying market, and thereby drive competitors from the tied market and establish their own monopoly position. Justice White recognized this possibility in his *Fortner I* dissent:

If the monopolist uses his monopoly profit in the first market to underwrite sales below market price in the second, his monopoly business becomes less profitable. There remains an incentive to do so nonetheless when he thinks he can obtain a monopoly in the tied product as well, permitting him later to raise prices without fear of entry to recoup the monopoly profit he has foregone.

*Fortner I*, 394 U.S. at 513 n.4.

209. See, e.g., *Eastman Kodak Co. v. Image Technical Serv., Inc.*, 112 S. Ct. 2072 (1992); *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984); Kaplow, *supra* note 199; Slawson, *A New Concept of Competition: Reanalyzing Tie-in Doctrine after Hyde*, 27 ANTITRUST BULL. 257 (1982).

210. *Fortner I*, 394 U.S. at 514 n.9. See also *Eastman Kodak*, 112 S. Ct. at 2091; *National Collegiate Athletic Ass'n. v. Board of Regents of Univ. of Okla.*, 468 U.S. 85, 104 n.26 (1984); *Jefferson Parish*, 466 U.S. at 11-14; *International Salt Co. v. United States*, 332 U.S. 392, 397 (1947). Although procompetitive and business justifications have been recognized as viable defenses to allegations of tying in antitrust cases, these defenses have generally been rejected in misuse cases, including those involving ties. See, e.g., *Mercoid v. Mid-Continent Inv. Co.*, 320 U.S. 661, 666 (1944); *B.B. Chem. Co. v. Ellis*, 314 U.S. 495, 498 (1942); *M. Whitmark & Sons v. Jenson*, 80 F. Supp. 843, 848 (D. Minn. 1948). *But see*

There are five primary potential business and procompetitive justifications for tie-ins: the four Justice White mentions (technological interdependence and goodwill; facilitating new entry; indirect price cuts; and economies of joint production and distribution) and price discrimination by metering.

a. Technological interdependence and goodwill

Professor Bowman explains, "The usefulness of a particular product or device may depend not only upon its own adaptability but equally upon the adaptability of some essential component. If the essential component did not conform to exact specifications, it might impair the operation or usefulness of the principal product."<sup>211</sup> A seller may be justified in tying a good to specific supplies, accessories, or services that complement that good if there is a substantial risk that the tying product will not work optimally unless used in conjunction with the seller's supplies, accessories, or services. By using the tying product with inferior goods that undermine the tying product's performance, purchasers threaten the seller's reputation.<sup>212</sup> Given that a seller's strength as a competitor in the marketplace decreases when its reputation as a supplier of high quality, dependable goods is eroded, rooting out ties undertaken to protect goodwill threatens competition.<sup>213</sup> Several courts have recognized a defense based on technological interdependence and business goodwill.<sup>214</sup>

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Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648, 697 (D. S.C. 1977), *aff'd*, 594 F.2d 979 (4th Cir. 1979).

211. Bowman, *supra* note 142, at 27.

212. Some have questioned whether technological interdependence and goodwill is a valid justification for ties because buyers and sellers have consistent incentives to ensure the optimal performance of the tying product. Thus, to the extent that buyers will follow sellers' recommendations regarding how to best use the principal product, the seller may be able to ensure his reputation without tying, by supplying purchasers with detailed specifications of complementary goods and services and a recommended list of alternative sources. However, compiling and disseminating this information may be costly, and it may be costly for the seller to effectively police his buyers' decisions. In any case, to prevail, defendants relying on the defense of technological interdependence and goodwill usually must establish that there is no less anticompetitive alternative.

213. It is not surprising that computer software and program developers, to preserve their reputation and goodwill, often tie the licensing or sale of their copyrighted works with hardware or servicing and maintenance.

214. See *Standard Oil Co. v. United States*, 337 U.S. 293, 306 (1949); *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43, 51 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972); *Susser v. Carvel Corp.*, 332 F.2d 505, 514-15, 519-20 (2d Cir. 1964), *cert. dismissed*, 381 U.S. 125 (1965); *Dennison Mattress Factory v. Spring-Air Co.*, 308 F.2d 403 (5th Cir. 1962). For a general discussion of technological interdependence and goodwill, see 9 AREEDA, *supra* note 116, § 1703g1; BORK, *supra* note 198, at 379-81; Joseph Bauer, *A Simplified Approach to Tying Arrangements: A Legal and Economic Analysis*, 33 VAND. L. REV. 283, 324-25 (1980); Bowman,

b. Facilitating new entry

Because a tying arrangement guarantees the seller a certain market share of the tied product for which he does not have to compete, the tie may facilitate the seller's entry into the tied market. If the tie does not foreclose an appreciable share of the market, the net effect of the tie may be to promote competition in the tied market. For as the entrant gains a reputation and experience in the tied market, he will likely begin to compete for customers in that share of the market not guaranteed by his tie as well, which will force other competitors to compete in price and quality.<sup>215</sup>

c. Indirect price cuts

It may not be profitable for a tying seller who is part of an oligopoly to cheat by lowering prices, because rivals may respond with their own price cuts so that everybody is worse off.<sup>216</sup> However, a seller may be able to use a tie to disguise his price cuts so that other members of the oligopoly have a more difficult time detecting and responding to the seller's lower prices and increased market share.<sup>217</sup> With a tie, the seller may continue to sell the tying and tied products separately at the market price, while also selling them as a package at a price that is less than the sum of the two individual prices. This clandestine cheating is competitive in that it leads to increased output at lower prices.

d. Economies of joint production and distribution

By tying two goods, the seller may capture otherwise unavailable economies of scale and thereby decrease costs of production, distribution, advertising, and administration. These savings may be passed onto consumers through increased output and lower prices that approach the outcome in a perfectly competitive market.<sup>218</sup> Professor Bowman suggests that when a tie generates efficiencies, the two goods should be

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*supra* note 142, at 27-28; Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: Blessed Be the Tie?*, 4 HARV. J.L. & TECH. 1, 65-66 (1991); Gary Myers, Note, *Tying Arrangements and the Computer Industry*, 1985 DUKE L.J. 1027, 1049-53 (1985).

215. For courts recognizing the new entry defense, see *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 23 n.39 (1984); *Continental T.V. Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 55 (1977); *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 799 (1st Cir. 1988); *Northern v. McGraw-Edison Co.*, 542 F.2d 1336, 1347 (8th Cir. 1976); *United States v. Jerrold Elecs. Corp.*, 187 F. Supp. 545, 555-60 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961). For a general discussion of new entry, see 9 AREEDA, *supra* note 116, § 1703g4; Bauer, *supra* note 214, at 326.

216. For a discussion of oligopoly cheating, see SCHERER & ROSS, *supra* note 4, at 277-79.

217. For a general discussion of indirect price cuts, see 9 AREEDA, *supra* note 116, § 1703g3.

218. See BORK, *supra* note 198, at 378-79.

conceptualized as a single product. With a single product, there is by definition no tie and thus no anticompetitive concern: "Still, when the cost of producing and selling the combination is less than the cost of producing and selling the parts separately, no tie can be said to exist. . . . No coercion is required when a cost advantage exists, for these lower costs will be reflected in lower prices."<sup>219</sup>

e. Price discrimination by metering

Restraints in an intellectual property license can help ensure that new technology realizes its maximum return and benefits consumers as quickly and efficiently as possible.<sup>220</sup> For example, Justice Department antitrust enforcement guidelines note that

license restrictions such as tie-ins . . . can be used to differentiate among licensees that value technology differently, allowing the licensor to charge prices that more closely approximate the value that individual licensees place on the technology. . . . In addition to increasing the return to the technology owner, metering can also lead to greater dissemination of the technology by reducing the price to licensees that would have been unable or unwilling to pay the higher uniform price that the technology owner would have charged in the absence of metering.<sup>221</sup>

Price discrimination by metering allows a copyright holder to charge each licensee a price that more closely reflects his individual valuation of the copyrighted good. If a copyright holder can tie the sale of a necessary item to the licensing of the copyright, he can discriminate among consumers according to the intensity of their demand for the copyrighted good (i.e., their elasticity of demand), by metering the intensity of their use of the tied commodity. Professor Bowman explains:

If the first commodity is worth more to the intensive users than to the less intensive users—in economic terms, if the former's demand is less elastic—tying the second commodity to the first can in effect achieve the goal of discriminatory pricing for the first. In this situation, the tied product serves as a counting device to measure how intensively the first product is being used.<sup>222</sup>

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219. Bowman, *supra* note 142, at 29. Concurring in *Jefferson Parish*, Justice O'Connor echoed Prof. Bowman's analysis: "When the economic advantages of joint packaging are substantial the package is not appropriately viewed as two products, and that should be the end of the tying inquiry." *Jefferson Parish*, 466 U.S. at 40 (O'Connor, J., concurring).

220. See BORK, *supra* note 198, at 376-78; Bilicki, *supra* note 105, at 235-37; Bowman, *supra* note 142, at 23-25. Price discrimination by metering is effectively part of the Chicago School criticism of leverage theory. See *supra* notes 198-207 and accompanying text.

221. U.S. Department of Justice *Antitrust Enforcement Guidelines for International Operations*, 55 Antitrust & Trade Reg. Rep. (BNA) No. 1391, at S-16 (November 17, 1988) [hereinafter *Guidelines*].

222. Bowman, *supra* note 142, at 23.

A typical metering arrangement works as follows: The copyright holder licenses the copyright at cost, or just above cost, on the condition of the tie. The copyright holder can meter the intensity of the licensees' use through their purchases of the tied product. By charging a supra-competitive price for the tied goods, the copyright holder earns what effectively is a royalty from the copyrighted goods. The royalty paid by high-intensity users is greater than that paid by low-intensity users, reflecting the high-intensity users' greater valuation of the license. Under a system of metering, the copyright holder has an incentive to lower the marginal cost of producing and supplying the tied product. By driving down costs, the copyright holder can capture increased producer surplus and profits. More importantly for consumers, the copyright holder's increased efficiency promotes competition in the tied market, and permits the copyright holder to charge lower royalties to low-intensity users.

In sum, the potential procompetitive benefits of metering include: stimulating competition in the tied market; increasing access to the copyrighted good for low-intensity users whose valuation of the copyright is lower than the licensing fee that would prevail in the absence of price discrimination; and maintaining, and possibly enhancing, economic incentives to innovate by providing copyright holders with a way to recoup investment costs and maximize the monopoly profits of their products, thereby contributing to long-run efficiency and productivity gains.<sup>223</sup>

### C. Applying Copyright Misuse to Ties

What standard should courts apply when evaluating the copyright misuse defense when the copyright holder's alleged misconduct is a tie-in? As explained above, this issue is critical, real, and timely, because of its impact on the computer software industry.

Typical copyright tying arrangements are found in *Digidyne Corp. v. Data General Corp.*<sup>224</sup> and *Virtual Maintenance, Inc. v. Prime Computer, Inc.*,<sup>225</sup> antitrust cases that did not involve allegations of infringement. In *Digidyne*, defendant Data General (DG) manufactured NOVA, a computer

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223. Expectations are an important and often determinative aspect of research and development, or of any technological undertaking. If innovators expect that the probability of recouping costs and capturing monopoly profits is higher with metering, the ability to meter bolsters incentives to innovate. Metering, therefore, is consistent with copyright policy, especially if, as the Chicago School suggests, metering does not extend the copyright holder's monopoly power.

224. 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 926 (1985).

225. 957 F.2d 1318 (6th Cir. 1992), *vacated and remanded*, 61 USLW 3061 (1992), *aff'd on reh'g*, 995 F.2d 1324 (6th Cir. 1993).

system consisting of a central processing unit (CPU) and a copyrighted operating system, RDOS.<sup>226</sup> Digidyne manufactured "emulator" CPUs designed to be compatible with DG's RDOS software.<sup>227</sup> Digidyne claimed that DG's RDOS licensing arrangement violated Section 1 of the Sherman Act<sup>228</sup> and Section 3 of the Clayton Act<sup>229</sup> because DG tied licenses of its copyrighted RDOS software (tying product) with purchases of its NOVA CPUs (tied product)<sup>230</sup> and thereby foreclosed Digidyne from competing with DG in the CPU market. Rejecting DG's defense that it "must bundle its software together with its CPU in order to recover its substantial investment in software research and development,"<sup>231</sup> the Ninth Circuit found that DG's licenses violated the antitrust laws under the per se standard of illegality, since DG could not prove that its tying arrangement was the least anticompetitive method available for recouping investment costs.<sup>232</sup>

In *Virtual Maintenance, Inc. v. Prime Computer, Inc.*, Prime Computer (Prime) manufactured and marketed computer systems, for which it also provided hardware maintenance and software programs.<sup>233</sup> PDGS, created by Ford Motor Company for automotive design, was one of the software design programs supplied exclusively by Prime for use on its 50 Series minicomputers.<sup>234</sup> Along with PDGS, Prime distributed PDGS software support, which included software revisions, modifications, updates, and support services.<sup>235</sup> Prime charged only \$16,000 per year for the software support when bundled in a package with Prime's hardware maintenance.<sup>236</sup> Yet Prime charged \$80,000 to \$160,000 per year for software support untied to maintenance.<sup>237</sup> Virtual Maintenance, Incorporated (VMI), a competing provider of hardware maintenance of Prime's 50 Series computers, sued Prime.<sup>238</sup> VMI alleged that Prime had foreclosed the market for hardware maintenance by tying the maintenance (tied product) with support for the copyrighted software (tying product).<sup>239</sup> Although Prime's package constituted a copyright

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226. *Digidyne*, 734 F.2d at 1338.

227. *Id.*

228. 15 U.S.C. § 1 (1988).

229. 15 U.S.C. § 14 (1988).

230. *Digidyne*, 734 F.2d at 1338.

231. *Id.* at 1343 (citation omitted).

232. *Id.* at 1343-44.

233. *Virtual Maintenance*, 957 F.2d at 1321.

234. *Id.*

235. *Id.* at 1322

236. *Id.*

237. *Id.*

238. *Id.*

239. *Id.*

tie-in,<sup>240</sup> the Sixth Circuit held that the package did not violate the antitrust laws because Prime lacked sufficient market power in the relevant tying market to foreclose the tied market for maintenance to competitors such as VMI.<sup>241</sup>

That copyright tie-ins are prevalent in the computer industry, coupled with the fact that recent copyright misuse cases have disproportionately challenged computer software licensing and sales arrangements, suggests that more and more software tying arrangements will be challenged as misuse. Since 1990, courts have heard at least twelve software copyright infringement cases in which the alleged infringer argued the misuse defense.<sup>242</sup> These cases have spanned the federal judiciary, having been heard in the Second, Fourth, Fifth, Seventh, Eighth, Ninth, and D.C. Circuits. In six of these twelve cases, the defense to the alleged infringement was a claim of misuse in the form of a tie-in.<sup>243</sup> In five of these six cases, the court explicitly or implicitly recognized the traditional view of misuse, although not necessarily ruling for the alleged infringer.<sup>244</sup>

*Data General Corp. v. Grumman*<sup>245</sup> and *Advanced Computer Services of Michigan, Inc. v. MAI Systems Corp.*<sup>246</sup> are representative cases where

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240. *Id.* at 1323.

241. *Id.* at 1326-27.

242. *Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832 (Fed. Cir. 1992); *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680 (4th Cir. 1992); *PRC Realty Sys. v. National Ass'n of Realtors*, 972 F.2d 341 (4th Cir. 1992); *Hill v. XYQUAD*, 939 F.2d 627 (8th Cir. 1991); *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990); *Advanced Computer Serv. of Mich, Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356 (E.D. Va. 1994); *Atari Games Corp. v. Nintendo of America*, 1993 WL 207548 (N.D. Cal. 1993); *Electronic Data Sys. Corp. v. Computer Associates Int'l, Inc.*, 802 F. Supp. 1463 (N.D. Tex. 1992); *Microsoft Corp. v. BEC Computer Co., Inc.*, 818 F. Supp. 1313 (C.D. Cal. 1992); *Sega Enter. Ltd. v. Accolade, Inc.*, 785 F. Supp. 1392 (N.D. Cal. 1992), *rev'd on other grounds*, 977 F.2d 1510 (9th Cir. 1992); *Reliability Research Inc. v. Computer Associates Int'l, Inc.*, 793 F. Supp. 68 (E.D.N.Y. 1992); *QAD, inc., v. ALN Associates, Inc.*, 770 F. Supp. 1261 (N.D. Ill. 1991), *aff'd in part, dismissed in part*, 924 F.2d 834 (7th Cir. 1992).

243. *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680 (4th Cir. 1992); *PRC Realty Sys. v. National Ass'n of Realtors*, 972 F.2d 341 (4th Cir. 1992); *Advanced Computer Serv. of Mich., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356 (E.D. Va. 1994); *Electronic Data Sys. Corp. v. Computer Associates Int'l, Inc.*, 802 F. Supp. 1463 (N.D. Tex. 1992); *Microsoft Corp. v. BEC Computer Co.*, 818 F. Supp. 1313 (C.D. Cal. 1992); *Sega Enter. Ltd. v. Accolade, Inc.*, 785 F. Supp. 1392 (N.D. Cal. 1992), *rev'd on other grounds*, 977 F.2d 1510 (9th Cir. 1992).

244. *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680 (4th Cir. 1992); *PRC Realty Sys. v. National Ass'n of Realtors*, 972 F.2d 341 (4th Cir. 1992); *Advanced Computer Serv. of Mich., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356 (E.D. Va. 1994); *Microsoft Corp. v. BEC Computer Co.*, 818 F. Supp. 1313 (C.D. Cal. 1992); *Sega Enter. Ltd. v. Accolade, Inc.*, 785 F. Supp. 1392 (N.D. Cal. 1992), *rev'd on other grounds*, 977 F.2d 1510 (9th Cir. 1992).

245. 1988 WL 159936 (D. Mass. 1988).

246. 845 F. Supp. 356 (E.D. Va. 1994).

alleged software copyright infringers raised, as affirmative defenses, the copyright holder's use of the software as a tying product.

In *Data General*,<sup>247</sup> Data General (DG) designed and sold computer systems and provided services for their maintenance and repair. Grumman, a third party maintainer, directly competed with DG in providing maintenance and repair for DG computers. DG developed and copyrighted a diagnostic program, ADEX, used to design, diagnose, and repair DG computer systems. DG only licensed ADEX to customers purchasing DG's maintenance services and to cooperative maintenance organizations that maintained their own computers.<sup>248</sup> Grumman, which was not licensed to use ADEX, admitted to reproducing copies of ADEX and using them. By copying ADEX, Grumman infringed DG's copyright.<sup>249</sup> Grumman defended itself by arguing that DG had misused its copyright to effect a tie.<sup>250</sup> Specifically, Grumman alleged that DG tied the purchase of maintenance repair services (tied product) to licensing of its copyrighted ADEX software (tying product). DG justified its licensing arrangement as a way to ensure optimal maintenance and performance of its computer systems—a technological goodwill and reputation justification.<sup>251</sup> Despite Grumman's misuse allegations, the court granted DG a preliminary injunction enjoining Grumman from copying and using ADEX.<sup>252</sup> Although it rejected Grumman's misuse defense, the court generally showed support for the antitrust view by citing cases adopting this view.<sup>253</sup>

In *Advanced Computer Services*, decided in 1994, plaintiffs, independent service organizations (ISOs), alleged that defendant MAI's software sales arrangement was an illegal tie-in.<sup>254</sup> MAI manufactured and sold computers, which it maintained and serviced in competition with plaintiffs.<sup>255</sup> MAI had copyrighted two types of software: operating system software and diagnostic software.<sup>256</sup> Although MAI had not

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247. The facts of the case are detailed at *Data General Corp. v. Grumman*, 803 F. Supp. 487 (D. Mass. 1992) and *Data General Corp. v. Grumman*, 761 F. Supp. 185 (D. Mass. 1991).

248. *Data General*, 761 F. Supp. at 192.

249. *Data General*, 803 F. Supp. at 491.

250. *Data General*, 1988 WL 159936, at \*3.

251. *Id.* at 188. For a discussion of technological goodwill and reputation defense, see *supra* notes 211-214 and accompanying text.

252. 1988 WL 159936, at \*6.

253. *Id.* at \*3.

254. *Advanced Computer Serv. of Mich., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356, 360 (E.D. Va. 1994). For a copyright misuse case that shares *Advanced Computer Services*'s fact pattern and issues, see *Triad Sys. Corp. v. Southeastern Express Co.*, 1994 WL 446049 (N.D. Cal. 1994).

255. *Advanced Computer Services*, 845 F. Supp. at 359.

256. *Id.* at 360.



licensed plaintiffs to use its software, plaintiffs nonetheless made unauthorized copies for use in servicing MAI computers.<sup>257</sup> In response to MAI's infringement claim, ISOs contended that MAI misused its copyrights by unlawfully tying the sale of its copyrighted operating system and diagnostic software (tying product) with the sale of its maintenance and repair services (tied product).<sup>258</sup> Ruling on motions for summary judgment, the court found that plaintiffs had infringed MAI's copyrights.<sup>259</sup> Since plaintiffs failed to raise a genuine issue of material fact as to the existence of an (illegal) tying arrangement,<sup>260</sup> the court dismissed their misuse defense predicated upon an illegal tie-in.<sup>261</sup>

Given the growing importance of computer-related technology to economic productivity, efficiency, and growth, it is critical that courts adequately protect the economic incentives of software program developers by adopting a view of misuse that, rather than emasculating a copyright holder's exclusive rights, instead subjects the copyright holder's conduct to rigorous scrutiny before deeming it misuse. The heightened concern and attention registered here for computer software programs bolsters the general public policy favoring copyright protection.<sup>262</sup>

Although courts, even those applying the traditional view, do not always rule in favor of the infringer, the misuse defense remains a potent shield against allegations of infringement. Infringers have increasingly used this shield, especially against allegations of software copyright infringement. Seven primary arguments favor the adoption and application by courts of the antitrust view rather than the traditional view in the specific case of tie-in misuse.<sup>263</sup>

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257. *Id.* at 360-64, 366 (discussion of copyright infringement of software).

258. *Id.* at 359-60.

259. *Id.* at 364, 366.

260. *Id.* at 369.

261. *Id.* at 366. Because plaintiffs failed to establish that MAI had in fact tied its copyrighted software to its servicing, the court dismissed plaintiffs' misuse defense, even though the court implicitly suggested that the traditional view of misuse should be applied. *Id.* at 368. Presumably, the court, which discussed misuse in terms of *Lasercomb*, would not have dismissed plaintiffs' (tying) misuse defense if it found that MAI in fact tied its software to its servicing, even though the court may still have dismissed plaintiffs' antitrust tying claim. *See id.* at 366

262. *See supra* Part II.

263. A recent publication addressing the issue of copyright misuse argues against the antitrust view. Ramsey Hanna, Note, *Misusing Antitrust: The Search for Functional Copyright Misuse Standards*, 46 STAN. L. REV. 401 (1994). Hanna argues that an antitrust-based approach to copyright misuse is inappropriate because: (1) courts' antitrust analyses presume market power from the existence of a copyright, even though rigorous economic scrutiny would prove that the copyright relevant in the case at bar confers insufficient market power to be of anticompetitive concern and (2) since the antitrust laws' primary concern is price competition, courts' antitrust analyses are based upon static models that

1. ONLY TIES THAT VIOLATE ANTITRUST LAWS  
UNDERMINE COPYRIGHT POLICY

Unless the copyright holder's tie rises to the level of an antitrust violation, the copyright holder has not used his copyright in a manner contrary to copyright policy. Only ties that violate the Clayton or Sherman Act restrain trade enough to undermine copyright policy. A violation of the antitrust laws is both a necessary and sufficient condition for a tie to undermine copyright policy. Courts have developed the per se

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do not account for the innovations and increased productivity that result when a large market share gives firms an incentive to invest in research and development. *Id.* at 417-31. In sum, Hanna argues that because courts' antitrust analyses presume market power from the existence of a copyright and discount the incentives created by market power to innovate, the antitrust view of misuse roots out procompetitive licensing practices that promote copyright policy, especially tying arrangements. *Id.* at 432-35. Although this commentator shares Hanna's concern for not rooting out procompetitive licensing practices that promote copyright policy, this commentator disagrees with Hanna's two premises. First, courts have increasingly refused to presume market power from the existence of a copyright. *See* cases cited *supra* note 196. Second, courts' antitrust analyses, at least implicitly, consider dynamic economic models; courts recognize efficiency gains, such as those resulting from innovation. *See, e.g.,* United States v. Baker Hughes, Inc., 908 F.2d 981, 985-86 (D.C. Cir. 1990). Third, if a copyright holder ties in order to meter rather than to lever his monopoly into the tied market, he will likely rebut allegations that his licensing/sales contract violates the antitrust laws. *See, e.g.,* Falls City Indus., Inc. v. Vanco Beverage, Inc., 450 U.S. 428, 434-45 (1983) (price discrimination violates antitrust laws only if it is reasonably probable that price differential may harm competition). Thus, a court applying the antitrust view of misuse would likely find that plaintiff did not misuse his copyright. Contrary to Hanna's assertions, modern antitrust analysis appeases Hanna's concern that the misuse defense should not undermine copyright policy. The arguments below substantiate this commentator's conclusion that the antitrust view is appropriate when the copyright holder's alleged misconduct is a tie-in. The antitrust view satisfies Hanna's, and this commentator's, ideal that "[p]ractices which do not constrain the development and dissemination of innovative materials should be permissible." Hanna, *supra* note 263 at 446.

The superiority of the antitrust view over the traditional view depends to a large extent on courts not presuming market power from the existence of a copyright. If courts applying the antitrust view presume market power, then even if these courts find that the copyright holder's tie rises to the level of an antitrust violation, there is still a strong likelihood that the tie is not anticompetitive, and thus does not undermine copyright policy, *see infra* Part IV.3(1), since few copyrights confer market power, *see supra* Part IV.2.a. The primary element distinguishing the antitrust view from the traditional view is that the former requires that the copyright holder have market power in the tied market. *See supra* notes 120-21 and accompanying text. If courts presume market power when applying the antitrust view, they harmonize the antitrust view with the traditional view, excepting the requirement of substantiality to prove a per se antitrust tying violation. *See supra* notes 120 and 122 and accompanying text. Thus, by presuming market power under the antitrust view, courts erode the merits of the antitrust view that make it preferable to the traditional view when plaintiff's alleged misconduct is a tie. However, given the recent judicial trend of not presuming market power from the existence of a copyright, *see* cases cited *supra* note 196, the advantages of the antitrust view appear to be real and substantial; courts appear unlikely to emasculate the merits of the antitrust view by presuming market power.

rule and rule of reason to determine when ties restrain trade sufficiently to undermine antitrust policy and incentives to innovate. Thus, the antitrust laws, rather than the traditional view's public policy standards (which do not even demand an affirmative showing of market power before condemning a tie as misuse), should measure misuse when plaintiff's alleged misconduct is a tie. Otherwise, courts fail to ensure that the copyright holder has, in fact, misused his copyright.<sup>264</sup> For by definition, unless the copyright holder's tying arrangement undermines incentives to innovate by restraining trade, the copyright holder has not misused his copyright to upset the balance between unfettered competition and innovation implicit in the copyright grant's exclusive rights.

## 2. THE TRADITIONAL VIEW IS INCONSISTENT WITH ECONOMIC REALITY

Referencing ties and other selling arrangements, then-Professor Easterbrook writes, "[e]conomists have developed procompetitive explanations for all these practices, sometimes several explanations for each practice. Then, too, practices that were deleterious yesterday may yield benefits today."<sup>265</sup> The reasoning of the early patent misuse cases, such as *Carbice*, *Leitch*, and *Morton Salt*, rested on a presumption that ties were sufficiently anticompetitive to undermine incentives to innovate. Without discussing here the risks of the Court's early misunderstanding of the potential effects of ties, it is enough to point out that recent economic theory rebuts the Court's early presumption, and thereby the traditional view of misuse embodied in that presumption. Specifically, the minimal market power conferred by copyrights,<sup>266</sup> the criticisms of leverage theory,<sup>267</sup> and the potentially procompetitive effects of ties<sup>268</sup> indicate that the traditional view is inconsistent with economic theory. The traditional view's presumption that a copyright tie ipso facto restrains trade enough to undermine incentives to innovate is untenable. Since there is nothing inherent in ties to suggest that they should be presumptively anticompetitive, courts should not adopt the traditional

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264. Subjecting a tie to the standards of the antitrust laws, of course, does not guarantee that the tie has in fact restrained trade, even if found to constitute an antitrust violation. However, an antitrust violation is generally accepted as a reasonable proxy for anticompetitive conduct. This commentator assumes for simplicity of discussion that conduct that violates the antitrust laws restrains trade sufficiently to undermine antitrust policy.

265. Easterbrook, *supra* note 123, at 7.

266. *See supra* Part IV.B.1.

267. *See supra* Part IV.B.2.

268. *See supra* Part IV.B.3.

view based upon an outdated economic theory of ties. Rather, courts should subject ties to the scrutiny of the antitrust laws before condemning them as misuse.<sup>269</sup>

### 3. THE TRADITIONAL VIEW THREATENS TO UNDERMINE COPYRIGHT POLICY

By rooting out efficient tying arrangements that the antitrust view would permit copyright holders to enter the traditional view threatens to undermine incentives to innovate. By not permitting copyright holders to meter as a means of efficient and effective profit maximization, the traditional view limits the economic reward of innovation,<sup>270</sup> as well as the innovator's potential to recoup his investment costs.<sup>271</sup>

Furthermore, by deterring copyright holders from entering tying arrangements, the traditional view retards the proliferation of works into the market and thus subverts copyright law's objective of promoting the pool of knowledge and information available to the public. Not only does metering allow an innovator to maximize his profits, it also increases the public's access to the copyrighted work more quickly and more widely than other licensing arrangements.

Moreover, rather than face the risk of having to purge, an innovator who can only protect his reputation and goodwill with a tie may decide not to license his good at all, or to license it on a restricted basis to preferred customers he can trust.

Finally, to avoid the risk of having to purge himself of profit-maximizing tying arrangements, a copyright holder may not enforce his exclusive rights against infringers. It may be more profitable for the copyright holder to allow limited infringement than to divest himself of the profits he earns from tying, especially if there are no financially viable alternative licensing arrangements that allow the innovator to recoup his costs. By discouraging suits against infringement, the traditional view subverts the copyright policy against piracy and free-riding.

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269. In fact, Judge Posner suggests that if any presumption is warranted when there is no market power it is that ties promote efficiency. *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 511 (7th Cir. 1982), *cert. denied*, 482 U.S. 1107 (1983). Realizing the potentially procompetitive effects of intellectual property licensing restrictions, such as tie-ins, the DOJ in 1988 adopted a rule of reason standard to determine whether to challenge restrictive licensing practices as antitrust violations. See *Guidelines*, *supra* note 221, at S-17.

270. See *USM*, 694 F.2d at 510.

271. See *Guidelines*, *supra* note 221, S-16-17; Scherer, *supra* note 195, at 551.

4. *THE TRADITIONAL VIEW UNDERMINES POTENTIALLY PROCOMPETITIVE EFFECTS OF TIES*

By deterring copyright holders from entering ties that do not foreclose the tied market to competitors, the traditional view contravenes public interest by depriving society of the potentially procompetitive benefits of ties. Those potential benefits include price discrimination by metering, the facilitation of entry into new markets, indirect price cuts, and economies of joint production and scale. Not only is society deprived of these competitive benefits under the traditional view, but the traditional view also does nothing to stimulate other aspects of competition or innovation.

Since the effect of a tie on competition and innovation depends on market share, it is critical that courts do not presume that all tying agreements are anticompetitive and in contravention of antitrust and copyright policy. Only when the tie undermines innovation should courts find that the copyright holder has misused his copyright. A proper analysis of the competitive effect of a tie cannot confidently be made under the traditional view, but rather requires a more extensive antitrust inquiry.

5. *EVEN IF APPROPRIATE FOR PATENT MISUSE, TRADITIONAL VIEW IS INAPPROPRIATE FOR COPYRIGHT MISUSE*

Recall the proof gap analysis above. The traditional view rests on a presumption that ties ipso facto restrain trade sufficiently to undermine incentives to innovate, while the antitrust view requires defendant to prove an antitrust violation under the per se rule, or if necessary under the rule of reason. The risk of the proof gap is a function of the extent to which ties condemned as misuse under the traditional view would not be condemned under the antitrust view.

For a tie to restrain trade, the seller must have economic power in the tying market. Thus, the more likely it is that the tying product confers market power, the less likely it is that the traditional view, by presuming an anticompetitive effect, will condemn ties that would pass muster under the antitrust view. In other words, the probability that the traditional view, which does not require a showing of market power, and the antitrust view, which does require a showing of market power, result in consistent outcomes increases with the likelihood that the tying

product confers market power.<sup>272</sup> When the results of the traditional and antitrust views converge, the risks of the proof gap dissipate.

This analysis suggests that the *Lasercomb* court erred in adopting the traditional view of patent misuse for copyright law.<sup>273</sup> Patents confer more market power than copyrights, so the traditional view's presumption of an anticompetitive effect is more likely to be consistent with an antitrust analysis of patent ties than of copyright ties. The traditional and antitrust views, then, are more likely to lead to the same conclusions in patent than in copyright misuse cases.

To save time, administrative and litigation costs, and other transaction costs, it may be efficient for courts to adopt the traditional view in patent cases. However, because the risks of the proof gap are greater when the tying product is a copyright rather than a patent, the traditional view is not appropriate for copyright misuse. It is less likely that the presumption of an anticompetitive effect is correct when the tying product is a copyrighted work rather than a patented invention. Therefore, courts should adopt the antitrust view of copyright misuse, regardless of the view they adopt for patent misuse.<sup>274</sup>

#### 6. EARLY PATENT MISUSE CASES INVOLVING TIES PRESUMED ILLEGAL RESTRAINT OF TRADE

In condemning ties as misuse, the Court in the early patent misuse cases presumed that patent tie-ins restrained trade sufficiently to undermine incentives to innovate. This presumption was a logical corollary to the Court's view at the time, that patent tie-ins were per se violations of the antitrust laws. Thus, the Court seems to have originally conceptualized misuse as conduct, such as a tie, that restrains trade sufficiently to constitute an antitrust violation if it were litigated under the Clayton or Sherman Acts. A procompetitive or neutrally competitive tie, which the Court presumed did not exist, would not have constituted misuse.

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272. Excepting the requirement of substantiality for a per se tying antitrust violation, courts harmonize the antitrust view with the traditional view when they presume market power from the existence of a copyright.

273. See *supra* notes 81-91 and accompanying text.

274. Constitutional concern over misuse is heightened when courts refuse to enforce a copyright holder's exclusive rights without requiring affirmative proof that a plaintiff's conduct undermines copyright policy. Furthermore, accepting the contractual view of misuse, if the copyright holder has not extended his market power beyond the legal scope of his statutory monopoly then the public, by upholding defendant's misuse defense, breaches its contract with the innovator. To minimize these constitutional concerns and the risk of breach of contract, courts should subject the copyright holder's tie to the scrutiny of the antitrust laws, since they are an accepted proxy for conduct that thwarts antitrust policy.

Not only does the reasoning of early misuse cases such as *Morton Salt* support the conclusion that antitrust policy and the misuse doctrine were meant to be coextensive, but so does the reasoning of the *Loew's Court*.<sup>275</sup> The *Loew's Court* explained that the Court had relied upon patent misuse cases to develop its antitrust standards for tying cases.<sup>276</sup> Specifically, the Court had read the misuse cases as standing for the proposition that patent tie-ins were presumptively an illegal restraint of trade in violation of the antitrust laws.<sup>277</sup> By premising antitrust standards for ties on patent misuse cases, the Court suggested that misuse analyses were identical to antitrust analyses. The consistency that the *Loew's Court* found between patent misuse and antitrust tying violations should be respected in copyright cases today.

7. THE 1988 PATENT MISUSE REFORM ACT AND THE DEPARTMENT OF JUSTICE'S APPROACH TO INTELLECTUAL PROPERTY TIES SUPPORT USE OF ANTITRUST STANDARDS WHEN PLAINTIFF'S ALLEGED MISCONDUCT IS A TIE-IN

In the 1988 Patent Misuse Reform Act (PMRA),<sup>278</sup> Congress moved away from the traditional view of misuse involving ties and toward an antitrust standard. The relevant part of PMRA reads:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . 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.<sup>279</sup>

Moreover, Senators DeConcini and Leahy interpret PMRA to require courts to consider, in addition to proof of market power, the various procompetitive effects and business justifications of plaintiff's tie before condemning it as misuse; only if the net effect of the tie is to undermine innovation does the tie constitute misuse.<sup>280</sup>

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275. *Loew's*, 371 U.S. at 46.

276. *Id.*

277. *Id.*

278. Pub. L. No. 100.73, 102 Stat. 4674 (H.R. 4972). For an in-depth discussion of PMRA, see Burchfiel, *supra* note 178, at 89-92; Mark A. Lemley, Comment, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CAL. L. REV. 1599, 1620-26 (1990).

279. 35 U.S.C. § 271(d)(5) (Supp. 1993).

280. Senator Leahy, for example, stated: "Courts will have to go through the process of evaluating the patent owner's market power . . . and must consider the availability of

The Department of Justice (DOJ) also recognizes the potentially procompetitive effects of restrictive intellectual property licensing arrangements under a rule of reason.<sup>281</sup> The DOJ's rule of reason not only requires an affirmative showing of a restraint of trade but also requires the Department to determine the net effect of the licensing restriction in light of any procompetitive effects of the contract. The DOJ's policy is to prosecute only licensing arrangements where the net effect is an illegal restraint of trade. Not surprisingly, the DOJ does not investigate licenses that "represent simply an effort by the creator of intellectual property to appropriate the full value of that property," because if the creator cannot appropriate this value, his incentives to innovate are decreased.<sup>282</sup>

In sum, the antitrust view is the appropriate measure for copyright misuse when plaintiff's alleged misconduct is a tie-in. If courts apply the traditional view they risk not only rooting out procompetitive practices that benefit society, but also undermining the very policy they purport to protect. Given recent developments in economic theory of tying arrangements, and given that copyrights often confer little market power, courts should not presume an anticompetitive effect from copyright tie-ins, nor presume that ties restrain trade enough to undermine copyright policy without violating the antitrust laws. Rather, courts should require a defendant to affirmatively prove that plaintiff's tie restrains trade and that the net effect of the license is to undermine incentives to innovate. Otherwise, courts will continue to threaten the public interest by condemning licensing arrangements that do not undermine, and may in fact promote, copyright policy.

## V. COPYRIGHT MISUSE: NEVER A FIRST-BEST SOLUTION

It is likely that courts will continue to recognize the misuse defense in copyright infringement cases. Moreover, the Supreme Court may hear the issue in the not-too-distant future, given the stark differences among

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substitutes, and the existence of any business justification or there [sic] benefits, before concluding that the patent has been misused." 134 CONG. REC. S17,149 (daily ed. Oct. 21, 1988). Senator DeConcini explained: "The patent owner may still argue that any substantially anticompetitive impact of the tie-in is outweighed by benefits of the arrangement, including both procompetitive benefits and other potential business justifications." *Id.* at S17,148.

281. See *Guidelines*, *supra* note 221, at S-17.

282. *Id.* As of the date this article went to publication, the DOJ was considering new Guidelines under which it would analyze intellectual property licenses. See *Draft DOJ Antitrust Guidelines for the Licensing and Acquisition of Intellectual Property*, 67 Antitrust & Trade Reg. Rep. (BNA) No. 1676 (Aug. 11, 1994). Like the 1988 Guidelines, the proposed Guidelines would not presume market power from a copyright, would analyze licenses under a rule of reason, and would only prosecute licenses for which efficiency justifications do not overwhelm any anticompetitive effect. *Id.* §§ 2.2, 3.4, and 5.3.



courts. Assuming *arguendo* that the misuse defense should be available to infringers as an affirmative defense, the above analysis demonstrates that, when the alleged misconduct is a tie-in, courts should adopt the antitrust view and not the traditional view. However, the antitrust view is simply the lesser of two evils. It does not solve the concerns that arise when copyright holders use their legal monopolies to foreclose competition in tied markets; the antitrust view is simply the lesser of two evils.

When the plaintiff's alleged misconduct is a tie-in, courts should reject the copyright misuse defense completely. For two primary reasons, the misuse defense is never the first-best solution when the copyright holder ties: first, the misuse defense undermines copyright policy;<sup>283</sup> and second, antitrust litigation is available to root out tying arrangements that threaten copyright policy.

## A. Copyright Misuse Defense Undermines Copyright Policy

### 1. MISUSE DEFENSE DEVALUES COPYRIGHTS

The purpose of copyright is to promote creativity and innovation.<sup>284</sup> Copyrights fulfill their purpose by granting copyright holders exclusive rights over their work, creating the opportunity for monopoly profits. The potential to earn monopoly profits, then, provides the incentive to innovate that satisfies the constitutional charge to Congress "To Promote the Progress of Science and useful Arts."<sup>285</sup> However, the efficacy of the copyright in creating incentives depends on judicial enforcement of the copyright holder's exclusive rights.<sup>286</sup> If a copyright holder cannot enforce his exclusive rights against infringers, he loses his ability to earn monopoly profits or to recapture as damages profits lost to infringers. With an attenuated opportunity to capture all monopoly profits attributable to a copyright, there is less of an incentive to create copyrightable works.<sup>287</sup>

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283. Although the arguments discussed *infra* Part V.A apply to both the antitrust and traditional views of misuse, they do not upset this commentator's conclusion that the antitrust view is superior to the traditional view. Rather, they bolster the above analysis, since the risks of misuse discussed below are greater when courts adopt the traditional instead of the antitrust view.

284. See *supra* Part II.

285. U.S. CONST. art. I, § 8.

286. See *supra* notes 13-15 and accompanying text.

287. See, e.g., *Sega Enterprises Ltd. v. Accolade, Inc.*, 785 F. Supp. 1392, 1399 (N.D. Cal. 1992), *rev'd on other grounds*, 977 F.2d 1510 (9th Cir. 1992) ("The grant of a copyright is intended to motivate creative activity by the provision of a special reward. . . . Without

Assume a (potential) copyright holder's perspective on copyright misuse. Although copyright holders may create works in order to earn certain psychic rewards, they also create to earn profit. Thus, a potential creator's decision to create is—at least partly—driven by an expected profit. A creator's incentive to innovate increases with his expected profit from innovation. Anything undermining the creator's expected profit, therefore, undermines his incentive to innovate.

It is worth repeating that a fundamental determinant of the expected profit is the copyright holder's ability to enforce his exclusive rights against infringers. If a plaintiff-copyright holder is found to have misused his copyright, the court will refuse to enforce his exclusive rights, and infringers are free to pirate the copyrighted work until the plaintiff purges himself of his misconduct. No matter how carefully the copyright holder drafts his licensing arrangement, he is never certain that a court will find him free of misuse. While less of a concern under the antitrust view than the vague public policy approach of the traditional view, the risk of misuse nonetheless threatens the copyright holder, who can never be "altogether sure that he is not violating some provision" of the antitrust laws.<sup>288</sup> The misuse defense, whether defined in terms of the traditional or antitrust view, increases the likelihood that the copyright holder will be unable to enforce his exclusive rights. The fact that the misuse defense itself encourages infringement exacerbates this concern.<sup>289</sup>

Because the misuse defense provides a real risk for the copyright holder that he will be unable to enforce the exclusive rights upon which his profit potential depends, the defense drives down the expected profit generated by a given copyright, which in turn devalues copyrights.<sup>290</sup> As copyrights devalue, the demand for them decreases. As this demand decreases, individual and corporate effort to create copyrightable works decreases.<sup>291</sup> The result is less innovation and creativity. Because the misuse defense devalues copyrights by undermining the opportunity for copyright holders to earn the maximum profit from a copyright grant, the defense undermines incentives to innovate.

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the economic incentive to create which copyright protection provides, this incentive and the advantages it creates for society may well be lost.").

288. See Zechariah Chafee, Jr., *Coming into Equity with Unclean Hands*, 47 MICH. L. REV. 1065, 1072 (1949).

289. See *infra* Part V.B.

290. See Andewelt, *supra* note 108 ("Any significant tampering with the patent owner's exclusive rights can lead to a perception of decreased value of a patent, and this perception can result in decreased R&D and hence decreased progress of science.").

291. Cf. *id.*; Richard Levin, Panel Discussion, *The Value of Patents and Other Legally Protected Commercial Rights*, 53 ANTITRUST L.J. 535, 549 (1985) ("Anything that enhances the value of a patent to the inventor necessarily provides a greater incentive to innovate.").

Moreover, any efforts by a copyright holder to increase prices to recoup lost profits captured by infringers will prove futile. After purging, the best that a copyright holder can do, given his cost structure and the demand he faces, is maximize profits by setting marginal revenue equal to his marginal cost. This pricing strategy does not recoup any earlier losses the copyright holder experienced because he was denied relief against infringers. If the copyright holder chooses not to purge and raises his price, he will simply lose additional market share and profits by pricing himself out of the market. In either case, once the misuse defense divests a copyright holder of profit attributable to his creation, that profit cannot be regained. As a result, there is no means by which to restore to a copyright grant the value it loses when courts find a misuse of the copyright grant.

In conclusion, facing the risk of misuse, potential creators will expect less profit from a copyright grant because they might be unable to enforce their exclusive rights against infringers. As the value of expected profits decreases, the incentive to innovate and obtain a copyright decreases.

## 2. MISUSE DEFENSE ENCOURAGES INFRINGEMENT

The threat to infringers of being subject to the remedy provisions of the Copyright Act<sup>292</sup> promotes copyright policy by deterring infringement. The credibility of this threat depends on the courts enforcing the copyright holder's exclusive rights. The expected cost of infringement, therefore, is a function of the probability that the court will grant the copyright holder relief and the amount of that relief.

Judicial recognition of the misuse defense,<sup>293</sup> which increases the probability that the court will exonerate an infringer, weakens copyright policy by encouraging infringement.<sup>294</sup> First, by decreasing the relative cost of infringing a copyright as compared to purchasing the product, the defense encourages consumers to infringe rather than purchase. Second, by decreasing the relative cost of infringing as compared to innovating and creating, the defense undermines potential competitors' incentive to

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292. 17 U.S.C. §§ 501-11 (1988).

293. Adjudication of the misuse defense presumably increases litigation costs by protracting litigation and increasing its complexity. Thus, the defense undermines copyright policy by consuming resources that could have been dedicated to research and development.

294. Even if the misuse defense did not increase the frequency or likelihood of infringement, the discussion in the preceding section demonstrates that it nonetheless devalues copyrights. The fact that the defense also promotes infringement exacerbates the extent of the devaluation: Not only is the copyright holder less likely to win a suit against an infringer, but he is more likely to be infringed.

create new works to compete with current copyrighted works. Rather, competitors may opt to divert resources from research and development and other creative efforts, searching for licensing practices that may constitute misuse.<sup>295</sup> Having found such a practice, the competitor may decide to risk his chances with infringement and copy the good to market as his own in an effort to capture the copyright holder's market share and profits. This is an especially real threat for computer software companies.<sup>296</sup>

## B. Leave It to the Antitrust Laws: A Theory of Bifurcation

As argued above, the traditional view of misuse is a poor means of enforcing copyright policy when plaintiff's alleged misconduct is a tie. Moreover, the above criticisms of all views of misuse suggest that the antitrust view, while it is superior to the traditional view, is also a less than optimal means of protecting copyright policy. The optimal solution for protecting copyright policy from anticompetitive copyright tie-ins is a judicial policy that captures the upside of the antitrust view, without displacing incentives to innovate with incentives to infringe. "Bifurcation," a process whereby courts bifurcate issues of antitrust law from issues of infringement and discard the copyright misuse defense entirely, meets these criteria.

### 1. ANTITRUST LAWS PROTECT COPYRIGHT POLICY

When both the plaintiff and the defendant in an infringement action have violated the law, both should be held liable. The misuse defense, however, protects the infringer at the expense of the copyright holder, whom the copyright laws are supposed to protect against piracy. If the copyright holder's tie does not violate the antitrust laws, there is no justification for the courts denying him relief against an infringer, for the plaintiff has not misused his copyright to contravene copyright policy.<sup>297</sup> If the copyright holder's tie does constitute misuse by violating the antitrust laws, there is still no justification for the courts denying him relief against an infringer.

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295. See Abromats, *supra* note 105, at 651; Arar, *supra* note 107, at 1303; Sean M. Aylward, *Copyright Law: The Fourth Circuit's Extension of the Misuse Doctrine to the Area of Copyright: A Misuse of the Misuse Doctrine?*, 17 U. DAYTON L. REV. 661, 695 (1992).

296. For examples of computer software and program infringement cases where the alleged infringing defendant is a competitor of the copyright holder, see *Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832 (Fed. Cir. 1992); *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990); *Sega Enter. Ltd. v. Accolade, Inc.*, 785 F. Supp. 1392 (N.D. Cal. 1992), *rev'd on other grounds*, 977 F.2d 1510 (9th Cir. 1992).

297. See *supra* Part IV.C.

The misuse defense and the antitrust laws share the same concern for rooting out and deterring anticompetitive ties that undermine innovation. Without the threat of misuse, therefore, an incentive nonetheless exists for copyright holders not to enter licensing arrangements that undermine copyright policy by illegally restraining trade. Ties that restrain trade sufficiently to undermine incentives to innovate violate the antitrust laws. The risk of losing an antitrust challenge and being subject to the remedies accorded a successful antitrust plaintiff, including the possible award of treble damages,<sup>298</sup> deters copyright holders from engaging in such licensing practices. Moreover, the remedy provisions of the antitrust laws create incentives for private enforcement (the award of treble damages especially encourages these "private attorney general" actions),<sup>299</sup> which supplements government enforcement. In fact, antitrust counterclaims are often the premise upon which defendant-infringers argue misuse. If not coupled with the misuse defense, the antitrust laws thus would collaterally protect copyright policy without undermining the copyright holder's ability to enforce his exclusive rights. Because both the copyright holder and infringer are answerable for their conduct, bifurcation provides the upside of misuse (i.e., rooting out and deterring illegal ties), without its downside of undermining incentives to innovate while creating incentives to infringe. Misuse, therefore, is never the first-best solution to protect copyright policy against the anticompetitive effects of copyright ties.

The viability of bifurcation as an alternative to misuse for protecting copyright policy depends on whether the antitrust laws provide optimal deterrence against illegal tying arrangements. If the misuse defense addressed harms other than those addressed by the antitrust laws, perhaps the additional sanction of misuse would be necessary to provide optimal deterrence of ties that subvert copyright policy. But the misuse defense and the antitrust laws are concerned with the same anticompetitive effects of ties. The antitrust laws, with their possibility of both public and private enforcement and their harsh remedies against a defendant if he ties, adequately deter illegal ties, independent of the misuse defense. This assertion is bolstered by the fact that historically the courts and Congress have been responsive to concerns that the antitrust laws, as then written and interpreted, did not sufficiently remedy the anticompetitive potentialities of certain practices. Both the courts and

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298. 15 U.S.C. § 5.

299. As the Court expressed in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 130-31 (1969): "[T]he purpose of giving private treble-damage and injunctive remedies was not merely to provide private relief, but was to serve as well the high purpose of enforcing the antitrust laws."

Congress have taken steps since the original enactment of the Sherman Act to heighten antitrust enforcement.<sup>300</sup>

Assuming *arguendo* that the antitrust laws are a suboptimal deterrent of anticompetitive conduct, antitrust laws should be carefully reviewed, amended, and enforced in order to achieve the desired results. The development of the common law of the misuse defense is a poor means of achieving copyright policy. Granted, it may prove desirable for courts and Congress, in response to perceived suboptimal deterrence of the antitrust laws, to create incentives for parties who would not otherwise have standing to bring private attorney general actions to achieve optimal enforcement of the laws. The affirmative defense of misuse may be viewed as a judicial innovation to create such an incentive, since it encourages collateral antitrust enforcement through infringement suits. However, by allowing a willful infringer to exonerate himself from liability by enforcing the public policy against restraints of trade, the misuse defense "creates a very strange class of private attorneys general,"<sup>301</sup> whose members may have undermined public policy more than the copyright holder.<sup>302</sup>

If antitrust laws are not a suboptimal deterrent, there is a real risk that courts will over deter tying licenses by recognizing the misuse defense. The misuse defense increases the expected cost to copyright holders of creating a tying contract. First, the sanctions of misuse and the antitrust laws overlap. If a court finds that a tying copyright holder has violated the antitrust laws, not only can an infringer infringe with impunity by invoking the misuse defense, but the copyright holder is also

300. For discussions and evidence of judicial and congressional action taken to heighten enforcement of the antitrust laws since the enactment of the Sherman Act, see, e.g., *Eastman Kodak Co. v. Image Technical Services, Inc.*, 112 S. Ct. 2072, 2090 (1992); *California v. American Stores Co.*, 495 U.S. 271, 285-88 (1989); *Cargill, Inc. v. Monfort of Colorado, Inc.*, 479 U.S. 104, 124-27 (1986); *Brown Shoe Co. v. United States*, 370 U.S. 294, 311-23 (1961); *Northern Pacific Ry. Co. v. United States*, 356 U.S. 1, 5 (1958); *Standard Oil Co. v. United States*, 221 U.S. 1, 59-60 (1911); *Northern Securities Co. v. United States* 193 U.S. 197, 329-33, 345-46 (1904); SCHERER & ROSS, *supra* note 4, at 11-13, 174-76, 324-27, 509.

301. *Kelly v. Kosuga*, 358 U.S. 516, 520 (1959).

302. *Zechariah Chafee, Jr., Coming into Equity with Unclean Hands*, 47 MICH. L. REV. 1065, 1072 (1949). In *Radio Corporation of America v. Majestic*, 53 F.2d 641 (D. Conn. 1931), the court hints at the absurdity of allowing individuals, who themselves have violated the law, to collaterally enforce antitrust policy. The RCA court, in rejecting the defendant's antitrust defense to the plaintiff-patentee's infringement suit, stated:

The situation here . . . is quite analogous to a case where A sues B for injunction to restrain B's continuing to trespass upon A's land and B pleads as a defense that A is using his land in violation of law by maintaining a brewery thereon, and that in addition to being in violation of the law, the brewery constitutes a common-law nuisance to the general public. Such a defense would, obviously, have to be stricken out.

*Id.* at 643.

subject to the remedy provisions of the antitrust laws. Second, the misuse defense increases the probability that the copyright holder's practice will be challenged as an antitrust violation, since the defense increases an infringer's valuation of his antitrust counterclaim. By increasing the expected cost of tying, the stacking of misuse on antitrust sanctions deters both legal and illegal ties.<sup>303</sup> If the antitrust laws strike the optimal balance between the marginal benefit of rooting out one more illegal tie and the marginal cost of doing so (measured by the benefits lost to society when the risk of antitrust sanctions deters efficient tie-ins), or if the antitrust laws themselves deter ties better than the misuse defense, courts' allowing an infringer to stack misuse on an antitrust counterclaim undermines the public interest. If a third scenario—that the antitrust laws suboptimally deter illegal ties—best captures reality, then, as reasoned above, the antitrust laws and not misuse are the correct medium through which Congress and the courts can approach optimal deterrence.

## 2. HISTORICAL DENIAL OF ANTITRUST DEFENSE SUPPORTS BIFURCATION

Prior to the birth and maturity of the misuse doctrine, courts systematically rejected the view that a copyright holder's antitrust violation, effected by use of the copyrighted work, constituted an affirmative defense against infringement allegations.<sup>304</sup> These courts, which bifurcated issues of antitrust law from issues of infringement, supported their holdings along two primary avenues of reasoning. The courts argued, first, that the remedies of the antitrust laws are exclusive, and that a plaintiff's antitrust violation, therefore, could not be invoked as

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303. Michael K. Block and Joseph G. Sidak, *The Cost of Antitrust Deterrence: Why Not Hand a Price Fixer Now and Then?*, 68 GEO. L.J. 1131, 1138 (1980).

304. *Peter Pan Fabrics, Inc. v. Candy Frocks, Inc.*, 187 F. Supp. 334 (S.D.N.Y. 1960); *Harms, Inc. v. Sansom House Enter., Inc.*, 162 F. Supp. 129 (E.D. Pa. 1958); *Buck v. Cecere*, 45 F. Supp. 441 (W.D.N.Y. 1942); *Buck v. Newsreel, Inc.*, 25 F. Supp. 787 (D. Mass. 1938); *Buck v. Spanish Gables, Inc.*, 26 F. Supp. 36 (D. Mass. 1938); *Buck v. Hillsgrove Country Club*, 17 F. Supp. 643 (D.R.I. 1937); *Vitagraph, Inc. v. Grobaski*, 46 F.2d 813 (W.D. Mich. 1931); *M. Whitmark & Sons v. Pastime Amusement Co.*, 298 Fed. 470 (E.D.S.C. 1924), *aff'd mem.*, 2 F.2d 1020 (4th Cir. 1924); *Harms v. Cohen*, 279 F. 276 (E.D. Pa. 1922).

The antitrust defense was also frequently rejected as an affirmative defense to patent infringement. See *Radio Corp. of America v. Majestic Distributors*, 53 F.2d 641 (D. Conn. 1931); *Edison Electric Light Co. v. Sawyer-Man Electric Co.*, 53 F. 592 (2d Cir. 1892), *cert. denied*, 149 U.S. 785 (1893); *F.A.D. Andrea, Inc. v. Radio Corp. of America*, 14 F. Supp. 226 (D. Del. 1936); *Radio Corp. of America v. Duovac Radio Tube Corp.*, 6 F. Supp. 275 (E.D.N.Y. 1931); *General Electric Co. v. Wise*, 119 F. 922 (N.D.N.Y. 1903); *Brown Saddle Co. v. Troxel*, 98 F. 620 (N.D. Ohio 1899); *American Soda-Fountain Co. v. Green*, 69 F. 333 (E.D. Pa. 1895); *Strait v. National Harrow Co.*, 51 F. 819 (N.D.N.Y. 1892).

an affirmative defense to exonerate an infringer for his liabilities;<sup>305</sup> and second, that a party who violates the antitrust laws is not thereby divested of his property and the rights, such as the right to exclude trespassers, that inhere in his property.<sup>306</sup> As the court in *M. Whitmark & Sons v. Pastime Amusement Co.* reasoned:

The Sherman Act does not make the party to an interstate monopoly an outlaw. It does not prevent such a party from asserting his rights in the courts. It does not give any person the right to trespass upon the rights of such party, or to deprive him unlawfully of his property. There is no provision in the Act divesting the members of combinations in restraint of trade of their property. The illegality of such a combination cannot be tested collaterally. The Act itself provides the remedies against the illegal combination and these remedies are exclusive.<sup>307</sup>

A third ground upon which courts often rejected an infringer's antitrust defense was the "snowball effect." Courts reasoned that if an infringer could exonerate himself from liability by arguing plaintiff's antitrust violation, any individual could take possession of another's goods with impunity so long as the owner was using the goods in violation of the antitrust laws.<sup>308</sup>

Despite this line of cases, the rejected antitrust defense has nonetheless evolved into an affirmative defense against an infringement

305. See, e.g., *Buck v. Hillsgrove Country Club*, 17 F. Supp 643 (D. R.I. 1937); *Harms v. Cohen*, 279 F. 276 (E.D. Pa. 1922); *General Electric Co. v. Wise*, 119 F. 922 (N.D.N.Y. 1903)

306. See, e.g., *Edison Electric Light Co. v. Sawyer-Man Electric Co.*, 53 F. 592 (2d Cir. 1892), cert. denied, 149 U.S. 785 (1893); *F.A.D. Andrea, Inc. v. Radio Corp. of America*, 14 F. Supp. 226 (D. Del. 1936); *Radio Corp. of America v. Duovac Radio Tube Corp.*, 6 F. Supp. 275 (E.D.N.Y. 1931); *Brown Saddle Co. v. Troxel*, 98 F. 620 (N.D. Ohio 1899).

307. *Whitmark & Sons*, 298 Fed. at 480 (citations omitted).

308. For example, in *Harms v. Cohen*, 279 F. 276 (E.D. Pa. 1922), the court stated:

If an infringer . . . may set up as a defense that the copyright is the object of an unlawful combination, and is being used to carry into effect the purposes of an unlawful combination, may he thus escape liability for his own wrongful act? If he can set up an unlawful combination as a defense against his infringement of the copyright, then any one who wrongfully trespasses upon or takes the property of another may set up as a defense that the property was being held and used by a member of an unlawful combination in carrying out the purposes of that combination. It would follow, if one took possession of cattle or beef belonging to a corporation or individual, a member of a combination for fixing the price of cattle or beef of trade, he would be relieved from liability to pay for the property so taken, or from returning it to its owner, upon producing proof that the owner was engaged in such unlawful combination. In this same manner one might with impunity take possession of oil, gasoline, sugar or other commodities belonging to members of an alleged trust or combination in restraint of trade. But there is no provision in the Sherman Act divesting members of combinations in restraint of trade of their property.

*Id.* at 279.



allegation with the development of the misuse doctrine. By repackaging the copyright holder's antitrust violation as conduct that undermines copyright policy, courts have been able to sustain the antitrust defense under the guise of misuse and thereby formulate a new copyright common law that sits uncomfortably next to courts' earlier precedent disfavoring the antitrust defense. Unfortunately, with the maturity of the misuse defense, the tension between the early line of cases rejecting the antitrust defense and the more recent opinions recognizing the misuse doctrine has been ignored at the expense of copyright holders.

The misuse defense is a wolf in wolf's clothing. Given that the antitrust defense, when disguised and sustained as misuse, undermines copyright policy, courts should reject the misuse defense when plaintiff's alleged misconduct is a tie and defer to the antitrust laws to protect copyright policy. The reasoning of pre-misuse doctrine precedent imposing bifurcation by denying the antitrust defense to infringers supports this conclusion.

## VI. CONCLUSION

An infringer of a copyright should not be able to argue as an affirmative defense that the copyright holder has misused his copyright to undermine innovation and creativity when the copyright holder's alleged misconduct is a tie. The misuse defense claims to protect copyright policy by discouraging and rooting out licensing practices that threaten innovation and creativity. However, the defense offends the very objectives that it purports to promote, because it undermines the intrinsic value of copyrights and makes it relatively less costly to infringe than to create. Courts could better serve copyright policy and promote public welfare by discarding the misuse defense, which creates disincentives to innovate and incentives to infringe.

An alternative doctrine, bifurcation, would root out illegal ties that hinder innovation without displacing incentives to innovate with incentives to infringe. Bifurcation not only holds copyright holders accountable for their ties under the antitrust laws, but unlike the misuse doctrine, bifurcation also holds infringers accountable for their infringements.

Given the widespread and increasing recognition of the defense of copyright misuse, it is unlikely that the bifurcation doctrine will be adopted. Rather, the choice appears to be between the traditional and antitrust views of misuse. To the extent that antitrust violations and misuse are coextensive when a copyright holder's misconduct is a tie, the antitrust view of misuse is superior to the traditional view. Since only ties that rise to the level of an antitrust violation threaten incentives to

innovate and create, those courts preferring the traditional view of misuse not only threaten to favor an infringer at the expense of a copyright holder who has not used his copyright to offend copyright policy, but more importantly, they threaten the public interest. Not only does the traditional view root out procompetitive ties, but it undermines copyright policy by retarding the proliferation of works to the public and undermining economic incentives to innovate.