Copyright Misuse . . . Getting Defensive: Lasercomb America, Inc. v. Reynolds

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COPYRIGHT MISUSE . . . GETTING DEFENSIVE: LASERCOMB AMERICA, INC. v. REYNOLDS

The United States Constitution confers upon Congress the power to establish copyright and patent law. The purpose of this constitutional grant is to promote the general welfare through the advancement of "Science and useful Arts" by rewarding inventors and authors with an exclusive right to their original works. Con-
In recognition of the goal of patent legislation, the United States Supreme Court provided the public with a patent misuse defense to infringement claims brought by patent owners who have extended their statutory rights into unsanctioned areas.4

Federal courts have clearly recognized these intellectual property rights. See Dawson Chemical, 448 U.S. at 179-80 (patentee able to obtain relief against infringers); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964) (patent is statutory grant of monopoly); Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 491 (1942) (patent grants to patentee exclusive right to make, use and vend particular device); Smith Int'l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1577 (Fed. Cir.) (patent grant excludes others from using patentee's discovery without consent), cert. denied, 464 U.S. 996 (1983); Granite Music Corp. v. United Artists Corp., 532 F.2d 718, 720 (9th Cir. 1976) (copyright provides exclusive right to publish, copy, vend compositions); Greenbie v. Noble, 151 F. Supp. 45, 66 (S.D.N.Y. 1957) (copyright monopoly gives owner exclusive right to "exploit the form of his expression"). See generally HOLMES, supra note 2, § 1.02, at 1-2, § 4.07, at 4-10 to 4-13 (1990) (rights of holder of copyright grant).

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See Morton Salt, 314 U.S. at 495 (misuse defense founded in public interest in free competition). The majority of cases have followed Morton Salt and have found the use of a patent to acquire a monopoly which is outside the terms of the patent to constitute misuse. See, e.g., Blonder-Tongue Laboratories v. University of Ill. Found., 402 U.S. 313, 343-44 (1971) (Court condemned attempts to broaden scope of patent monopoly); Sears, Roebuck, 376 U.S. at 229-51 (patent may not be used to secure limited monopoly of unpatented device); Mercoid, 320 U.S. at 664-65 (patent misuse results in licensing provisions that suppress competition outside patent rights); B.B. Chem. Co. v. Ellis, 314 U.S. 495, 497-98 (1942) (companion case to Morton Salt; patentee who authorizes manufacturer to use patented item only with materials furnished by him cannot enjoin infringement); W. L. Gore & Assoc., Inc. v. Carlisle Corp., 529 F.2d 614, 622 (3d Cir. 1976) ("attempt to extend the patent monopoly beyond the patent claims or the limited period of the monopoly grant necessarily runs counter to the patent laws"); Robintech, Inc. v. Chemidus Wavin, Ltd., 450 F. Supp. 817, 822 (D.D.C. 1978) (party raising misuse defense need not show harm to self since "concern here [is] the adverse effects on the public interest"); Valmont Indus.,
While the Constitution treats patents and copyrights in tandem, no analogous copyright misuse defense has been codified by the legislature or expressly approved by the Supreme Court.®


"According to this [patent misuse] doctrine, a court may, as a matter of equitable discretion, refuse to enjoin infringement of a patent as long as the patent is being 'misused' to violate the antitrust laws or to otherwise act contrary to the public interest." Holmes, supra note 2, § 1.07, at 1-2. See Brinson, Patent Misuse; Time for a Change, 16 Rutgers COMP. & TECH. L. 557-58 (1990) (under misuse doctrine, infringer can avoid liability for infringement). Patent misuse has been recognized where patent owners engage in tying agreements, price fixing and prohibiting the production or sale of competing goods. See United States v. New Wrinkle, Inc., 342 U.S. 571, 380 (1952). See also Motion Picture Patents, 243 U.S. at 517-18 (patentee cannot condition sale of patented item on buyer's agreement to purchase another); National Lockwasher Co. v. George K. Garrett Co., 137 F.2d 255, 257 (3d Cir. 1943) (misuse for patentee to restrict manufacturing of patented washers to manufacturers who agree to refrain from manufacturing competing washers not covered by its patent).


® See Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 976 (4th Cir. 1990) ("No United States Supreme Court decision has firmly established a copyright misuse defense."); Broadcast Music, Inc. v. Hearst/ABC Viacom Entertainment Serv., 746 F. Supp. 320, 328 (S.D.N.Y. 1990) (declining to create copyright misuse claim given lack of precedent); Bellsouth Advertising & Publishing Co. v. Donnelly Information Publishers, Inc., 719 F. Supp. 1551, 1563 (S.D. Fla. 1988) (Supreme Court "has not expressly held that a court of equity ought to decline to enjoin infringement where the copyright owner [misuses a copyright]" (quoting Orth-O-Vision, Inc. v. Home Box Office, 474 F. Supp. 672, 686 (S.D.N.Y. 1979))). See generally Holmes, supra note 2, § 4.09, at 4-18 (Supreme Court has never expressly recognized copyright misuse defense).

The United States Supreme Court has, however, implied the existence of the copyright misuse defense. See Broadcast Music, Inc. v. Columbia Broadcasting Sys., Inc., 441 U. S. 1, 6 (1978) (while court of appeals found copyright misuse to exist, Supreme Court remanded because it disagreed with court of appeals' finding of per se illegality in blanket license); United States v. Loew's Inc., 371 U.S. 38, 46 (1962) (implied principles underlying patent misuse are applicable to copyright). See generally M.B. Nimmer, 3 Nimmer on Copyright § 13.09(A), at 15-144 (1990) (Supreme Court hints towards validity of copyright misuse defense in United States v. Loew's, Inc.).
though reference has been made to the implied existence of a copyright misuse defense in the lower federal courts, its validity has not been upheld with any definitiveness or uniformity. In response to the ambiguity, the United States Court of Appeals for

* See United States Tel. Co. v. Johnson Publishing Co., 855 F.2d 604, 610-12 (8th Cir. 1988) (declined to hold specifically that copyright misuse defense exists, but proceeded assuming that it did, and rejected its application); Supermarket of Homes, Inc. v. San Fernando Valley Bd., 786 F.2d 1400, 1408 (9th Cir. 1986) (alleged conduct did not constitute misuse of copyright); F.F.I. Publications, Ltd. v. Catholic Bishop of Chicago, 214 U.S.P.Q. 409, 413-16 (7th Cir.) (misuse of copyright in violation of antitrust laws may be asserted as defense); Mitchell Bros. Film Group v. Cinema Adult Theater, 527 F. Supp. 758, 772-73 (D.C. Del. 1981) (without sanctioning validity of copyright misuse claim, court proceeded to analyze claim that defendant unlawfully extended scope of its copyrights), aff’d, 691 F.2d 490 (3d Cir. 1982).

Other courts in dicta have presented affirmative arguments supporting the existence of the copyright misuse doctrine. See Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191, 1198-99 (7th Cir. 1987) (drew analogy between patent misuse and copyright misuse); Mitchell Bros. Film Group v. Cinema Adult Theater, 604 F.2d 852, 865 (5th Cir. 1979) (“In an appropriate case a misuse of the copyright statute that in some way subverts the purpose of the statute... might constitute a bar to judicial relief.”), cert. denied sub nom. Bora v. Mitchell Bros. Film Group, 445 U.S. 917 (1980); Tempo Music, Inc. v. Myers, 407 F.2d 503, 507 (4th Cir. 1969) (defense of unclean hands by virtue of copyright misuse is permissible); Broadcast Music, Inc. v. Hearst/ABC Viacom Entertainment Servs., 746 F. Supp. 320, 328 (S.D.N.Y 1990) (found copyright misuse defense to be cognizable but declined to create claim); Bellsouth Advertising & Publishing Co. v. Donnelly Information Publishing, Inc., 719 F. Supp. 1551, 1562 (S.D. Fla. 1988) (antitrust defense can bar enforcement of infringement claim if copyright holder attempts to extend power granted by copyright).

the Fourth Circuit, in Lasercomb America, Inc. v. Reynolds,\(^7\) made the first decisive statement addressing the issue, holding that a copyright misuse defense is available in infringement actions brought by copyright owners.\(^8\)

In Lasercomb, the respondents, Lasercomb America, Inc. ("Lasercomb"), developed a software program, "Interact," which enabled a programmer to design a steel rule die.\(^9\) Prior to marketing the program, Lasercomb entered into an agreement with Holiday Steel Rule Die Corporation ("Holiday Steel") whereby Holiday Steel would purchase and use four copies of the "Interact" program.\(^10\) Subsequent to receipt of the program, appellant Larry Holliday, president and sole shareholder of Holiday Steel, directed his computer programmer, appellant Job Reynolds, to make three unauthorized copies of "Interact."\(^11\) Under Holliday's further direction, Reynolds created a steel rule die program which was almost an exact copy of "Interact," to be marketed as a Holiday Steel product.\(^12\) Upon discovering the actions of appellants, Lasercomb registered its copyright in "Interact"\(^13\) and filed an action against Holliday, Reynolds and Holiday Steel claiming, primarily, copyright infringement and fraud.\(^14\) The appellants asserted several counterclaims\(^15\) and raised the affirmative defense

\(^7\) 911 F.2d 970 (4th Cir. 1990).
\(^8\) Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 974 (4th Cir. 1990). "[S]ince copyright and patent law serve parallel public interests, a "misuse" defense should apply to infringement actions brought to vindicate either right." \textit{Id.} at 976.
\(^9\) \textit{Id.} at 971. A steel rule die is a manufacturing tool which is "used to cut and score paper and cardboard for folding into boxes and cartons." \textit{Id.}
\(^10\) \textit{Id.} By way of this agreement, Holiday Steel paid $35,000 for the first copy of "Interact," $17,500 each for the second and third copies and $2,000 for the fourth copy. \textit{Id.} Any additional copies Holiday Steel cared to purchase would cost $2,000 each. \textit{Id.}
\(^11\) \textit{Id.}
\(^12\) \textit{Id.}
\(^13\) Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 972 (4th Cir. 1990). Lasercomb acquired its copyright in "Interact" before it entered into the licensing agreement with Holiday Steel, but failed to register it with the Federal Copyright Office until 1986. \textit{Id.} Although registration of a copyright is not mandatory, it is a statutory prerequisite to instituting an infringement action. \textit{See} 17 U.S.C. \textsection 411(a) (1977). Furthermore, a registration certificate constitutes prima facie evidence of the validity of the copyright and of the facts stated therein, when such registration occurs before or within five years after the first publication of the work. \textit{See} 17 U.S.C. \textsection 410(c) (1977).
\(^14\) Lasercomb, 911 F.2d at 972. In addition, Lasercomb claimed breach of contract, misappropriation of trade secret, false designation of origin and unfair competition. \textit{Id.} The latter three claims were dismissed as being preempted by the Copyright Act. \textit{Id.}
\(^15\) Lasercomb Am., Inc. v. Holiday Steel Rule Die Corp., 656 F. Supp. 612, 613
of copyright misuse. They alleged that Lasercomb wrongfully extended the rights granted by its copyright by incorporating a clause into its standard licensing agreement prohibiting the licensee from writing, producing or selling computer die-making software for a period of 99 years. Although appellants did not actually sign such an agreement and therefore were not bound by the restrictions contained therein, Lasercomb was able to prove at trial that at least one licensee was so bound.

Ultimately, all of the counterclaims were dismissed. The United States District Court for the Middle District of North Carolina rejected the affirmative defenses and held for Lasercomb, awarding actual and punitive damages for infringement of copyright and fraud. Rejecting the copyright misuse defense, the district court found the restrictive clause reasonable in light of the subject matter. More significantly, the court questioned the very

(M.D.N.C. 1987), aff'd in part, rev'd on other grounds sub nom. Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990). In addition to the affirmative defense of misuse of copyright, appellants asserted several counterclaims, including breach of contract, injurious falsehood and trade defamation, unfair competition by competition disparagement, malicious institution of a civil action, and unfair deceptive trade practices. Id. See 3 P. Rosenberg, Patent Law Fundamentals § 16.05[2], at 16-76 (2d ed. 1990). Misuse is not an affirmative cause of action but rather an affirmative defense to an infringement claim which must be pleaded and proven under Rule 8(e) of the Federal Rules of Civil Procedure. Id. Lasercomb, 911 F.2d at 973. The restrictive clauses contained in the licensing agreement read:

D. Licensee agrees during the term of this Agreement that it will not permit or suffer its directors, officers, and employees, directly or indirectly, to write, develop, produce or sell computer assisted die making software.

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

The "term of this Agreement" referred to in these clauses is ninety-nine years.
Lasercomb America, Inc. v. Reynolds

existence of a copyright misuse defense.\textsuperscript{32} On appeal, Holliday and Reynolds,\textsuperscript{33} while admitting that they copied the “Interact” program, argued that the court erred in rejecting the copyright misuse defense and claimed that Lasercomb should have been denied recovery on that ground.\textsuperscript{34} The Fourth Circuit reversed the district court’s decision on the infringement claim, holding that the copyright misuse defense did indeed exist and that all the required elements were satisfied by the appellants.\textsuperscript{35} Accordingly, Lasercomb was barred from suing for infringement of its copyright.\textsuperscript{36}

Writing for the majority, Judge Sprouse began by recognizing that the patent misuse defense is well established and inherent in patent law.\textsuperscript{37} Justifying the application of the misuse doctrine to

olds, 911 F.2d 970 (4th Cir. 1990). The district court reasoned that because Lasercomb did not use the restrictive licensing agreement when dealing with Holiday Steel, the required nexus between the claim and the defense did not exist. \textit{Id.}

\textsuperscript{38} \textit{Id.} The court noted that the defendants’ assertion of copyright misuse failed to create a genuine issue of fact. \textit{Id.}

\textsuperscript{39} See Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 971 (4th Cir. 1990). As a result of Holiday Steel’s bankruptcy it was not a party to the appeal. \textit{Id.} at 971 n.1.

\textsuperscript{40} \textit{Id.} at 972. Appellants also argued that the court erred in its finding of fraud and in the calculation of damages. \textit{Id.}

\textsuperscript{41} \textit{Id.} at 978-79. The court of appeals found Lasercomb misused its copyright by utilizing its licensing agreement to suppress any licensee from independently implementing the idea which “Interact” expressed in a manner contrary to the public policy embodied in copyright law. \textit{Id.} In addition, the court affirmed the district court’s finding of fraud and remanded for a redetermination of damages. \textit{Id.} at 980-81.

\textsuperscript{42} \textit{Id.} at 979. A finding of misuse does not invalidate a copyright but rather precludes the copyright holder from bringing an infringement action until the misuse ceases. \textit{Id.} at 979 n.22. See United States Gypsum Co. v. National Gypsum Co., 352 U.S. 457, 465 (1955) (owner who misuses patent cannot recover from infringement until effect of misuse has been dissipated or “purged”); Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 493 (1942) (equity can refuse to entertain infringement suit until improper practice is abandoned); Kearney & Trucker Corp. v. Cincinnati Milacron, Inc., 562 F.2d 365, 371-72 (6th Cir. 1977) (misused patent may not be enforced until owner can show it has discontinued illegal practice); Preformed Line Prods. Co. v. Fanner Mfg. Co., 328 F.2d 265, 278-79 (6th Cir.), \textit{cert. denied}, 379 U.S. 846 (1964) (relief was denied until misuser could show improper practice was “fully abandoned” and its “consequences had been fully dissipated”); Reinke Mfg. Co. v. Sidney Mfg. Corp., 446 F. Supp. 1056, 1068 (D. Neb. 1978) (where misuse is “purged” owners right to enforce patent revives), \textit{aff’d}, 594 F.2d 664 (8th Cir. 1979); Holmes, \textit{supra} note 2, \textsection 4.09, at 4-18 (copyright misuse defense holds enforcement of copyright against infringer can be denied if copyright is exploited to violate antitrust laws); 3 P. Rosenberg, \textit{supra} note 16, \textsection 16.02[2], at 16-40 (patent validity denied temporarily for misuse).

\textsuperscript{43} Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 973 (4th Cir. 1990). The court found its primary authority for declaring the validity of the patent misuse defense in the United States Supreme Court case of Morton Salt, Co. v. G.S. Suppiger Co., 314 U.S. 488
copyright infringement claims, Judge Sprouse paralleled the origin and public policy behind the grant of both copyrights and patents and found them to be essentially the same. By way of analogy, Judge Sprouse concluded that the copyright misuse defense is likewise inherent in copyright law and deserving of similar treatment.

It is submitted that in so far as Lasercomb established that the copyright misuse defense follows a priori from its predecessor in patent law, it did so correctly. However, Lasercomb's holding did little more than promulgate broader application of an already amorphous defense. This Comment will profile the analogous patent misuse defense and identify the infirmity of the misuse doctrine as it is applied to both patent and copyright law. Additionally, an alternative standard of review will be offered which will

(1942). Id. at 975. In Morton Salt, the plaintiff owned a patent in salt-depositing machines and by way of a licensing agreement required all licensees to purchase salt tablets from them exclusively. Morton Salt, 314 U.S. at 490. The Court concluded that the plaintiff misused its patent by restraining competition in the salt tablet market and was thus disqualified from maintaining an infringement action. Id. at 491, 494.


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The court concluded the chain of development by considering the constitutional grant of congressional power to create patent and copyright laws. Id. at 975. The philosophy of the framers in granting the congressional power to create both intellectual property rights was that "encouragement of individual effort by personal gain is the best way to advance the public welfare through the talents of authors and inventors in 'Science and useful Arts.'" Lasercomb, 911 F.2d at 974-75.

The court concluded by noting that congressionally mandated patent and copyright laws serve parallel public interests in that they both "seek to increase the store of human knowledge and arts by rewarding inventors and authors with the exclusive rights to their works for a limited time." Id. at 976. Consequently, due to the similar origin and supporting policies, the Lasercomb court held that the misuse defense should apply to infringement actions brought under either proprietary right. Id.
provide the courts with a guide for future application of the misuse defense in copyright infringement actions.

I. A HISTORICAL PERSPECTIVE

From a narrow perspective, patents and copyrights inure to the benefit of the individual owner. While it is true that patents and copyrights are undoubtedly intended as an incentive to promote personal achievement in the arts and sciences, their true purpose is the broader goal of advancing the public welfare. Historically, patent law has adhered to this principle of protecting the public welfare from overextension of these exclusive proprietary rights, as illustrated by the patent misuse defense.

A. The Patent Misuse Defense

In 1942, the United States Supreme Court firmly established the patent misuse defense to patent infringement actions in the landmark case of Morton Salt, Co. v. G.S. Suppiger Co. In Morton Salt, both respondent and petitioner manufactured and sold salt depositing machines and salt tablets used in the canning industry. Respondent’s salt depositing machines were patented. As a condition to the licensing agreement for their use, respondent re-

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**Annotation:**

1. **I.** A HISTORICAL PERSPECTIVE
2. **A.** The Patent Misuse Defense
3. **See** supra note 2 (equity may require withholding aid where plaintiff uses right contrary to public policy; Kolene Corp. v. Motor City Metal Treating, Inc., 440 F.2d 77, 84 (6th Cir.) (patent misuse defense based upon public policy considerations), cert. denied, 404 U.S. 886 (1971); Comment, supra note 6, at 555 (patent law places greater weight on public right to derive benefits from technology than on records given to inventors).
5. **Id.**
quired all licensees to purchase the salt tablets used in the leased machines exclusively from respondent. Respondent charged that petitioner manufactured and leased unpatented machines which infringed on their patent. The Court invoked the patent misuse defense, and found that respondent overextended its patent in the salt depositing machine by restraining trade in the salt tablet market through their conditional licensing agreement. The Court, finding the competition between respondent and petitioner in the salt tablet market inconsequential, stated that it is not a requirement, in asserting the misuse defense, that the petitioner be directly affected by respondent's alleged misuse. The Court held the patent misuse defense to be available to alleged infringers when the patent owner uses patent rights to restrain competition in the licensing or sale of unpatented products, in contravention of the public policy underlying patent law. Defining "derogation of public policy," the Court averred that it is not necessary that the misuse amount to a violation of antitrust law.

In 1988, Congress codified, with limitations, the holding in Morton Salt in the Patent Misuse Reform Act ("the Act"). The Act

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190
Lasercomb America, Inc. v. Reynolds

limited the use of the defense to cases where the alleged misuse occurred when the patent owner conditioned the licensing of the patented product on the acquisition of rights to, or the purchase of, a separate product.44 For a finding of misuse to be justified under these circumstances, the Act requires that the infringer prove the patent owner has “market power in the relevant market for the patent or patented product on which the license or sale is conditioned.”46

B. The First Word on Copyright Misuse

In 1948, only six years after Morton Salt, in M. Witmark & Sons v. Jensen,48 the United States District Court for the District of Minnesota found the overextension of copyright monopoly power in violation of antitrust laws sufficient to deprive a copyright owner of the right to relief in an infringement action.47 The

following: . . . (4) refusing to license or use any rights to the patent; or (5) conditioning 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.

Id. (emphasis added). See infra note 66 and accompanying text (legislative history of Patent Misuse Reform Act). See also Lasercomb, 911 F.2d at 976 (patent misuse statute codified, with limitations, holding in Morton Salt).


46 80 F. Supp. 843 (D. Minn. 1948). In Witmark, plaintiffs contended that defendants, who operated motion picture theaters, gave public performances of plaintiffs' copyrighted musical compositions, for profit, when showing certain films. Id. at 844. Plaintiffs alleged that defendants infringed on their copyright by performing these compositions without first obtaining a license from plaintiffs permitting them to do so and sought damages and an injunction preventing future violations. Id.

47 Id. at 850. The court reasoned:

[O]ne who unlawfully exceeds his copyright monopoly and violates anti-trust [sic] laws is not outside the pale of the law, but where the Court's aid is requested, as noted herein, [referring to equitable relief] and the granting thereof would tend to serve the plaintiffs in their plan and scheme . . . to extend their copyrights in a monopolistic control beyond their proper scope, it should be denied.

Id.

It is noteworthy that reference was made to the Morton Salt patent infringement case of as authority for the propriety of denying relief where the plaintiff used its copyright in a

191
court, in dicta, stated without analysis, that "[i]n view of . . . [its] finding that the copyright monopoly has been extended, it is not necessary to determine whether anti-trust [sic] violations alone would deprive plaintiffs of the right of recovery." Although the *Witmark* court was the first to apply the misuse defense in a copyright context, the applicability of the misuse defense to copyright infringement claims, in the absence of an antitrust violation, was left undecided until *Lasercomb*. It is submitted that the *Lasercomb* court has appropriately resolved the issue by analogizing the copyright and patent policies to justify the extension of the misuse doctrine to copyright law. Nonetheless, absent a clear standard for determining what conduct constitutes misuse, the doctrine's vagueness vitiates its use.

II. THE VAGUE STANDARD OF REVIEW

Copyrights and patents provide their owners with a limited monopoly allowing them to temporarily reap the exclusive benefits of their original works. "Misuse" occurs when the owner extends this monopoly in a manner violative of antitrust laws or other-manner contrary to public policy. See *id*.

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48 *Id.* at 850. It is submitted that this language implies the validity of a policy-based misuse defense to conduct that does not amount to an antitrust violation. Cf. *Morton Salt*, 314 U.S. at 494 (showing of antitrust violation unnecessary to successfully assert patent misuse defense).


50 See *supra* note 5 (illustrating indecisiveness of lower federal courts).

51 See *infra* notes 52-63 (vague standard of review). See also Brinson, *supra* note 4, at 386-89 (need for change in law of misuse); Wallace, *supra* note 2, at 819-20 (possible approaches to reform of misuse doctrine).

52 See *infra* note 3 (copyright and patent defined).

wise contrary to public policy. While this definition of "misuse" is widely accepted, its method of application is uncertain. Although misuse which rises to the level of an antitrust violation can
be evaluated by applying the facts to statutorily defined antitrust principles,\textsuperscript{67} the difficulty arises when the misuse is less severe. In these situations, courts must determine whether a copyright or patent has been used in a manner "contrary to public policy."\textsuperscript{68} Critics of the misuse doctrine emphatically argue that the "contra-
vvention of public policy" ground is "too vague a formulation to be useful."\textsuperscript{69} Nevertheless, courts have failed to set forth an adequate or reasonable standard of review.\textsuperscript{70} In recognition of this problem, some courts have found misuse only where there is an anti-
trust violation, refusing to consider the poorly defined "contra-
vention of public policy" ground.\textsuperscript{71} Allowing this vague standard

\textsuperscript{67} See Sherman Act, 15 U.S.C. § 1-7 (1973); Clayton Act, 15 U.S.C. § 12-27 (1973). The basic purpose of these Acts is to prohibit monopolistic behavior and conduct which constitute restraint of trade. See Appalachian Coals, Inc. v. United States, 288 U.S. 344, 359 (1933) (purpose of antitrust act is to prevent restraints on commerce and protect against monopolistic endeavors); D.R. Wilder Mfg. Co. v. Corn Prod. Ref. Co., 236 U.S. 165, 173-74 (1915) (antitrust laws prevent "conspiracies in restraint of trade or commerce, the monop-
olization of trade or commerce or attempts to monopolize the same"); United States v. American Tobacco Co., 221 U.S. 106, 114 (1911) (purpose of Sherman Act was to prevent monopolistic behavior); Standard Oil Co. v. United States, 221 U.S. 1, 12 (1911) ("Sher-

\textsuperscript{68} See USM Corp., 694 F.2d at 510 (finding of misuse when patent is used in manner contrary to public policy is "too vague a formulation to be useful"); Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191, 1200 (7th Cir. 1987) (follows USM Corp.); Rikers Laboratories, Inc. v. Gist-Brocades N.V., 208 U.S.P.Q. 777, 781 (D.C. Cir. 1980) (parameters of patent misuse are indistinct). But see, e.g., M. Witmark & Sons v. Jensen, 80 F. Supp. 843, 850 (D. Minn. 1948) (public policy violation sufficient to implicate misuse defense). See generally Brinson, supra note 4, at 369-75 (criticizing misuse doctrine).

\textsuperscript{69} USM Corp., 694 F.2d at 510. See 134 CONG. REC. S17146-02 (daily ed. Oct. 21, 1988) (statement of Sen. Leahy) ("courts impose the misuse doctrine using vague and shifting public policy grounds").


\textsuperscript{71} See supra note 6 (cases finding misuse only where there is antitrust violation). The legislature has clearly expressed a desire to limit the availability of the misuse defense solely to instances where improper behavior constitutes a violation of antitrust laws. See 134 CONG. REC. H10646-02 (daily ed. Oct 20, 1988) (statement of Rep. Kastenmeier) (advocating requirement that courts find patent holder guilty of misuse in limited circumstance where conduct constitutes violation of antitrust laws); Brinson, supra note 4, at 388 (citing American Bar Association Patent, Trademark and Copyright Law Committee's report con-
of review to perpetuate has led to a lack of uniformity in federal court decisions, as well as a deprivation of copyright and patent interests in cases where trivial misuse was found to be "contrary to public policy" and sufficient to deprive an owner of the right to bring an infringement action.

It is therefore submitted that the Lasercomb court fell short in its analysis by failing to provide a useful guide for defining the degree of conduct, contrary to public policy, that constitutes misuse.

III. SUGGESTED STANDARD OF REVIEW

It is submitted that the vague "contrary to public policy" standard is incapable of yielding equitable results absent definitive guidelines for its application. Reflective of similar dissatisfaction with this vague standard pronounced originally in Morton Salt, the legislature enacted the 1988 Patent Misuse Reform Act to narrow the doctrine as it was applied in that case. Since the copyright taining 1984 legislative proposal to deny relief for infringement only where copyright owner violated antitrust laws).

Compare Lasercomb, 911 F.2d at 979 (found no-contest clause to constitute misuse absent evidence of antitrust violation) with Rumbleseat Press, 816 F.2d at 1200 (found no-contest clause valid because no evidence of antitrust violation presented). See generally 134 CONG. REC. S17146-02 (daily ed. Oct. 21, 1988) (statement of Sen. Leahy) ("courts have been inconsistent in their application of the misuse doctrine to analogous practices"); D. CHISUM, PATENTS § 19.04, at 19-91 (1989) ("[d]ecisions considering analogous practices are not always consistent").

"[C]ourts have relied on the policy of antitrust laws to find patent misuse . . . without regard to competitive implications." Id. See, e.g., Compton v. Metal Prods., Inc., 453 F.2d 38, 42 (4th Cir. 1971) (no-compete clause extended beyond patent legal time limit is per se misuse); Berlenbach v. Anderson & Thompson Ski Co., 329 F.2d 782, 785 (9th Cir.) (illegal licensing clause is per se misuse), cert. denied, 379 U.S. 890 (1964); Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648, 697 (D.S.C. 1977) (patent tie-in was per se misuse absent business necessity for patentee on equivalent alterations for customer), aff'd in part, rev'd on other grounds, 594 F.2d 979 (4th Cir. 1979), cert. denied, 444 U.S. 1015 (1980). But see Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 202 (1980) (existence of tie-in insufficient to activate patent misuse defense).

See supra notes 43-45 (Patent Misuse Reform Act). The bill (S.438) originally proposed was more restrictive, suggesting that the subsection read as follows:

(d) 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 or her licensing practices or action or inactions relating to his or her patent, unless such practices or actions or inactions, in view of the circumstances in which such practices or actions or inactions are employed, violate the antitrust laws.
misuse defense follows a priori from its patent law counterpart, it is further submitted that the patent law restriction, codified in the Act, requiring "market power in the relevant market" is a suitable precondition to raising the defense in copyright infringement actions. Although the Act did not explicitly define these terms, legislative history reveals an intent to apply antitrust concepts of "market power" and "the relevant market." In this respect "relevant market" is defined as the area of trade or part of commerce in which the parties involved operate, usually consisting of products that are reasonably interchangeable with the misuser's product. "Market power" typically refers to the power to "control prices or exclude competition." In an effort to avoid the use of


See 134 CONG. REC. H10646-02 (daily ed. Oct. 20, 1988) (statement of Rep. Kas- tenmeier). "We do expect, however, that the courts will be guided though not bound by . . . decisions of the Supreme Court in the context of antitrust analysis . . . ." Id. "[T]he scope of the [relevant] market should resemble the typical antitrust analysis . . . ." Id. See also 134 CONG. REC. S17146-02 (daily ed. Oct. 21, 1988) (statement of Sen. Leahy). "We . . . expect any 'market power' determination made for patent misuse purposes to be the same as that used with respect to an antitrust matter relating to the same factual circumstances." Id. See generally Holmes, supra note 2, § 1.07, at 1-23 (discussing Congress' intent to apply antitrust principles when evaluating "market power in the relevant market").

See Nifty Foods Corp. v. Great Atl. & Pac. Tea Co., 614 F.2d 832, 840 (2d Cir. 1980) ("Goods are in the relevant product market if they are reasonably interchangeable for the same purposes for which they are produced . . . .") (quoting United States v.! Du Pont de Nemours & Co., 351 U.S. 377, 404 (1956)); T.V. Signal Co. of Aberdeen v. American Tel. & Tel. Co., 462 F.2d 1256, 1260 (8th Cir. 1972) (relevant market is area of "effective competition" within which parties operate); American Football League v. National Football League, 525 F.2d 124, 129 (4th Cir. 1963) (relevant market is area of commerce which defendant "sought to appropriate to itself"); Shaw v. Rolex Watch, U.S.A., Inc., 673 F. Supp. 674, 678 (S.D.N.Y. 1987) ("relevant product market includes all products that are reasonably interchangeable"); Becker v. Safelite Glass Corp., Inc., 244 F. Supp. 625, 637 (D. Kan. 1965) (limits of relevant market "are fixed by the area which the defendants allegedly sought to appropriate to themselves"). See generally Holmes, supra note 2, § 6.02[1], at 6-4 to 6-9 (defining relevant market).


A number of evidentiary methods can be used to establish that the defendant has [market] power. Proof that the defendant accounts for a high percentage of the total firm sales within the market . . . can be particularly compelling evidence . . . as can be evidence that the defendant has actually exercised price leadership control over the industry or has taken affirmative actions that have excluded actual or potential
inflexible rules, the framers of the Act chose not to define for the courts the level of market power required. Instead, they suggested that the courts evaluate market power in the context of the facts presented, retaining a sensitivity to the "realities of the market place." 

The purpose of instituting the threshold requirement of "market power in the relevant market" is to "permit the courts to reasonably assess the potential for anticompetitive effect of a particular practice." It is submitted that misuse by a copyright owner lacking market power will result in a de minimis effect on the relevant market and, therefore, should not warrant consideration of the misuse defense. Pragmatically, this threshold requirement limits the assertion of the defense in cases of trivial misuse, while having the incidental effect of promoting judicial economy.

The statutory guide provided by the Act is helpful, but not curative. Once the initial requirement is met to the court's satisfaction, a balancing test should be applied to determine whether the conduct constitutes misuse. This test should weigh the interests of competitors. Other useful indicators include the size and competitive strengths of the defendant vis à vis its competitors.

Holmes, supra note 2, § 6.02(2), at 6-9 to 6-11.

Representative Kastenmeier explained: "We have chosen not to adopt a specific modifier for 'market power' such as 'substantial'. . . . The absence of a modifier is designed to avoid the use of inflexible rules." Id. "Inflexible . . . rules work to the benefit of infringers and unnecessarily raise litigation costs and risks to patent owners." 134 Cong. Rec. S17146-02 (daily ed. Oct. 21 1988) (statement of Sen. Leahy).


Id. See Federal Trade Comm'n v. Indiana Fed'n of Dentists, 476 U.S. 447, 460 (1986) (purpose of evaluating market power in relevant market is to "determine whether an arrangement has the potential for genuine adverse effects on competition").

See supra note 60 (discussion of trivial misuse).

Id. See 154 Cong. Rec. S17146-02 (daily ed. Oct. 21, 1988) (statement of Sen. Leahy) (per se misuse rules which result in finding of trivial misuse "unnecessarily raise litigation costs").

See 35 U.S.C. § 271(d)(5) (1988). It is submitted that because the Patent Misuse Reform Act only defines the standard of review for a situation where the licensing of a patented item is conditioned on the sale or acquisition of another unpatented item, its usefulness is limited.

See Alfred Bell & Co. v. Catalda Fine Arts, 191 F.2d 99, 106 (2d Cir. 1951). The court in Catalda, after finding that the defendant had infringed, proceeded to consider the policy-based "unclean hands" defense by utilizing a balancing test weighing two conflicting policies: "(a) that of preventing piracy of copyrighted matter and (b) that of enforcing the anti-trust laws." Id. The factors taken into account were: "the comparative innocence or guilt of the parties, the moral character of their respective acts, the extent of the harm to
of the copyright owner in the exploitation of his copyright against the public's interest in preserving competition by preventing monopolistic behavior. Factors to be considered are the degree of the overextension of monopoly power by the copyright owner, the likelihood and severity of a negative effect on the market resulting from the anticompetitive conduct, and the severity of the infringement. It is submitted that this standard will formalize an analysis so as to avoid indiscriminate application of the law, and insure equitable results in copyright infringement cases where the misuse defense is asserted.

CONCLUSION

After viewing the copyright misuse defense from a historical perspective, having considered the like treatment afforded copyright and patent law by the Constitution and having compared the analogous patent misuse legislation, it is both logical and rational to affirm the validity of its use. While the court in Lasercomb was justifiably resolute as to the existence of the copyright misuse defense, it failed to set forth a standard for its application. This Comment has proposed a standard of review that incorporates and expands the legislative restrictions placed on the patent mis-


Austin v. Steiner, 207 F. Supp. 776, 779 (N.D. Ill. 1962) (copyright provides “exclusive right to publish, copy and vend ... compositions”). See also supra notes 2, 3 and accompanying text (statutory rights granted to copyright owner).

Appalachian Coals, Inc. v. United States, 288 U.S. 344, 359 (1933) (purpose of Antitrust Act to prevent restraint on commerce and protect against monopolistic endeavors). See also supra note 57 (cases stating purpose of antitrust laws to preserve competition).

See Catalda, 191 F.2d at 106. This factor was derived from the Catalda court’s balancing of the “innocence or guilt of the parties.” Id.

Id. This factor was derived from the Catalda court's evaluation of “the extent of the harm to the public interest.” Id.

Id. This factor was also derived from the Catalda court’s balancing of the “innocence or guilt of the parties.” Id.
use defense into a balancing test that remains cognizant of underlying public policy considerations. It is suggested that such formalistic guidelines will aid the courts in applying the copyright misuse defense so as to achieve its intended purpose: to encourage the preservation of competition by those with sanctioned monopolistic power.

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