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Rethinking Copyright Misuse

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NOTE

RETHINKING COPYRIGHT MISUSE

Kathryn Judge*

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INTRODUCTION

Over the last few decades, copyright has evolved in dramatic and unprecedented ways. At the heart of this evolution lies a series of changes in the statutory scheme that have substantially expanded copyright's scope.¹ There has also been a rise in private ordering as copyright holders increasingly use licenses to govern use of their copyrighted material and thereby supplant the default terms prescribed by the Copyright Act.² Mediating and contributing to this evolution has been the judiciary. The judiciary has long played an active role in protecting copyright policy, and the dynamism of the last thirty years has only accentuated the importance of the judiciary's role of interpreting and applying copyright law. The Supreme Court has led the way, but lower federal courts have also issued a number of formative decisions.³

One of the most significant moves by lower courts to protect the public policy embodied in copyright is the adoption by some of the doctrine of copyright misuse. Copyright misuse is an equitable defense to a copyright infringement claim based upon the doctrine of "unclean hands." While the doctrine's roots arguably go back half a century, copyright misuse was first successfully invoked by an alleged copyright infringer to escape liability in the 1990 case *Lasercomb America, Inc. v. Reynolds*.⁴ In *Lasercomb*, the Fourth Circuit held that the plaintiff had misused a software copyright when it included in its standard licensing agreement a term that forbade the licensee from creating a competing product. The court held that inclusion of such a provision, while not an antitrust violation, violated the public policy behind copyright and hence rendered the plaintiff's copyright unenforceable.

The doctrine has since reappeared in a number of cases dealing primarily, though not exclusively, with software copyrights. Both the Fifth⁵ and Ninth⁶ Circuits have accepted copyright misuse as an affirmative defense, and others⁷

1. See *infra* notes 17-25 and accompanying text.

2. See *infra* note 25 and accompanying text.

3. See *infra* notes 56-62 and accompanying text.

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

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

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

7. E.g., *Assessment Techs. of Wis., L.L.C. v. WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003) (Posner, J.) (acknowledging the doctrine of copyright misuse "cut . . . free from antitrust"). One commentator suggested that the Eleventh Circuit also recognized copyright misuse in the case of *Bateman v. Mnemonics, Inc.* Scott A. Sher, Case Note, *In re Napster Inc. Copyright Litigation: Defining the Contours of the Copyright Misuse Doctrine*, 18 SANTA CLARA COMPUTER & HIGH TECH. L.J. 325, 329 & 329 n.31 (2002) (describing *Bateman v. Mnemonics, Inc.*, 79 F.3d 1532 (11th Cir. 1996)). In *Bateman*, the Eleventh

have recognized the doctrine's validity. However, as recognized in *Nimmer on Copyright*, "*Lasercomb* remains the exceptional case. Other courts—without denying that illegitimate, anticompetitive conduct could lead to a misuse defense—tend to deny the existence of such conduct on the facts before them."⁸

The mixed reception courts have given the doctrine may be attributable in part to confusion about what constitutes misuse. Copyright misuse can arise in two different but related circumstances.⁹ The first type occurs when a copyright

Circuit held that the jury had not been adequately instructed on the way "external factors such as compatibility may work to deny copyright protection to certain portions of a computer program." *Bateman*, 79 F.3d at 1547. Presumably, Sher drew his conclusion regarding copyright misuse from the court's acknowledgment that it is unclear "[w]hether the protection is unavailable because these factors render the expression unoriginal, nonexpressive per 17 U.S.C. § 102(b), or whether these factors compel a finding of fair use, copyright estoppel, or misuse" *Id.* However, this seems, at best, a weak acknowledgment of the doctrine, and subsequent district court cases in the Eleventh Circuit have not interpreted *Bateman* to have any precedential value regarding the validity of copyright misuse. See, e.g., *Microsoft Corp. v. Jesse's Computers & Repair, Inc.*, 211 F.R.D. 681, 684-85 (M.D. Fla. 2002) (stating that the Eleventh Circuit has not recognized copyright misuse as an affirmative defense and rejecting the claim on the merits if the doctrine were to be recognized); *Telecomm Technical Servs. v. Siemens Rolm Communications, Inc.*, 66 F. Supp. 2d 1306, 1324 (N.D. Ga. 1998) (same). Accordingly, *Bateman* is not addressed further in this Note.

8. 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.09[A] (2003); see also *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191, 203-06 (3d Cir. 2003) (rejecting misuse as applied and noting that it had not been affirmatively recognized by the Third Circuit or the Supreme Court); *Veeck v. S. Bldg. Code Cong. Int'l, Inc.*, 293 F.3d 791, 822 (5th Cir. 2002) (acknowledging the "equity-based defense of copyright misuse" but concluding that the defendant had "raised no genuine issue of material fact regarding any purported misuse"); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1169 (1st Cir. 1994) (acknowledging that the "copyright misuse" defense is not without legal support" but concluding that "this case does not require us to decide whether the federal copyright law permits a misuse defense"); *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 846 (Fed. Cir. 1992) (concluding that "[i]n the absence of any statutory entitlement to a copyright misuse defense . . . the defense is solely an equitable doctrine" and hence could not be invoked by the defendant because of his own "unclean hands"); *United Tel. Co. of Mo. v. Johnson Publ'g Co.*, 855 F.2d 604, 611 (8th Cir. 1988) (recognizing that although the defendant "has cited no case in which the misuse of a copyright has been held to constitute a successful defense to copyright infringement," there are "several cases in which courts have noted that the misuse of a copyright, in violation of the antitrust laws, may bar a plaintiff from recovering damages for copyright infringement"); *Microsoft Corp. v. Compuserve Distributions, Inc.*, 115 F. Supp. 2d 800, 810 (E.D. Mich. 2000) (rejecting a copyright misuse defense and noting that the "Sixth Circuit has neither accepted nor rejected the copyright misuse defense"); *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1538 (S.D.N.Y. 1991) (rejecting a copyright misuse defense and noting that "[i]t has proven difficult to convince courts of the misuse defense").

9. E.g., *In re Napster, Inc. Copyright Litig.*, 191 F. Supp. 2d 1087, 1103 (N.D. Cal. 2002) (noting that in finding misuse, courts have "employ[ed] two different, though interrelated approaches"). *In re Napster, Inc. Copyright Litigation*, a decision by Judge Marilyn Patel, Chief Judge of the Northern District of California, provides one of the most thorough summaries available of the doctrine's history and current status.

holder uses rights granted to him under the Copyright Act in a manner that violates federal antitrust law.¹⁰ The second type arises when a copyright holder attempts to extend his copyright beyond the scope of the exclusive rights granted by Congress in a manner that violates the public policy embodied in copyright law.¹¹ However, the relationship between the two strands, and the degree to which competition policy underlies the public policy approach, has been a source of significant confusion.¹²

The hesitancy of courts to apply the doctrine may have been accentuated by the fact that, until recently, it has been assumed that a finding of misuse renders a copyright unenforceable, at least until the misuse has ceased and its effects have been purged. As the resultant limitation on enforceability could be excessively punitive relative to a minor transgression, courts may have resisted deeming such transgressions misuse.

This Note attempts to address and partially resolve these difficulties in two ways. First, it calls for a clarification of the policy goals protected by misuse and for the adoption, where possible, of rules (or standards) to protect the identified policy goals. Copyright misuse already has been most accepted in an area where we have a clear policy goal and a defined line to protect it—competition and antitrust law. Yet many of the cases invoking copyright misuse, while rationalized as necessary to protect copyright policy, fail to specify the public policy at stake and how the copyright holder's misuse undermines that policy. This clarification should not only assist courts in adjudicating copyright misuse claims, but should also enhance the doctrine's efficacy by putting copyright holders on notice of what constitutes misuse.

Examination of the cases applying and commentary discussing copyright misuse suggests that recognizing one additional policy aim and a couple of guidelines to protect it should be sufficient to encompass the great majority of violations the doctrine has thus far been asked to address. That policy is the protection of the values embodied in the First Amendment¹³ and, consistent with dicta from the Supreme Court's recent decision in *Eldred v. Ashcroft*,¹⁴ the protective guidelines are the idea/expression distinction and fair use.

10. *E.g., id.* (stating that the first approach to copyright misuse “requires a finding that plaintiff engaged in antitrust violations”). Throughout this Note, the term “competition policy” is used to denote the policy rationale underlying antitrust law.

11. *E.g., id.* (stating that the second approach to misuse “focuses on public policy and has been applied to a greater range of conduct than the antitrust approach”).

12. *See, e.g.,* Aaron Xavier Fellmeth, *Copyright Misuse and the Limits of the Intellectual Property Monopoly*, 6 J. INTELL. PROP. L. 1, 39 (1998) (noting that “[c]ourts have been unable to agree exactly how the defense differs from an antitrust claim” and thus “[i]t is not surprising that courts encounter difficulty in applying the copyright misuse defense”).

13. This Note assumes that the values ascribed to the First Amendment have positive as well as negative force; it takes no position on whether this is an appropriate interpretation of the First Amendment itself.

14. 537 U.S. 186 (2003).

Specifically, this Note argues that any attempt by a copyright holder to expand the scope of his copyright to gain control over an idea or to deter fair use should constitute misuse.

Second, in order to make this potentially broad reading of copyright misuse palatable, I suggest courts consider invoking an alternative remedial measure upon finding misuse: denial of equitable relief. Because the doctrine of copyright misuse already has been identified as equitable in nature, it lends itself to such a remedy.¹⁵ The purpose of introducing this additional remedial option is not to convert the exclusive rights held by a copyright holder from property rights into liability rights. Nor are the proposed modifications to copyright misuse intended to deter parties from contracting around the default allocation of rights embodied in the Copyright Act. Rather, the proposed regime aims to force copyright holders to choose between respecting certain elements of copyright law deemed particularly important to copyright policy or forgoing their right to seek injunctive relief under the Copyright Act. Thus, if a copyright holder chooses to use contract to create a private governance regime that controls virtually all use of his copyrighted material and the regime he creates fails to respect certain tenets identified as fundamental to copyright policy, he will be relegated to remedial options comparable to those he would have under contract law.¹⁶

This Note proceeds in three parts. Part I provides the background necessary to understand the doctrine's recent adoption. Part II summarizes the leading cases on copyright misuse and considers the substantive questions of what does and what should constitute copyright misuse. Part III examines the remedy associated with a finding of misuse and suggests that courts continue a pattern they have already started of shifting the remedy away from that used in patent misuse toward one better suited to copyright.

I. HISTORY: ROOTS OF COPYRIGHT MISUSE

This Part sets the stage for understanding the doctrine of copyright misuse—why it is needed, where it came from, and how long it has been around. It begins with an examination of the evolution of copyright law in

15. See, e.g., *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942) (“It is a principle of general application that courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest.”) (emphasis added); see also *BLACK’S LAW DICTIONARY* 29 (7th ed. 1999) (defining “action in equity,” under “action,” as “[a]n action that seeks equitable relief, such as an injunction or specific performance, as opposed to damages”).

16. The enforcement options available to a copyright holder are similar to but not synonymous with his rights under contract law, as federal courts would still have original jurisdiction over the claim and a copyright holder could still assert rights against parties not in privity with the copyright holder. The copyright holder would also retain any rights he would otherwise have under contract law, including the right to injunctive relief, if he can meet the burdens contract law sets for such relief to be granted.

recent decades, both in terms of changes in the law governing copyright and changes in the way copyright holders exercise the rights the law grants them. Having established the potential need for a doctrine like misuse, I turn to the doctrine's roots. Thus Parts I.B and I.C examine patent misuse, the doctrine's more established relative, and a couple of Supreme Court cases that some have considered indicative of the Supreme Court's tacit approval of the doctrine of copyright misuse. After rejecting the notion that such approval can be implied, Part I.D looks at the role of the judiciary in shaping and implementing copyright law and how the adoption of copyright misuse fits with this role.

A. Contextualizing the Adoption of Copyright Misuse

Copyright has changed dramatically in recent years. Central to copyright's evolution over the last few decades is a series of changes to the statutory scheme governing copyright, each of which has expanded copyright's scope. The 1976 Act started the trend by making federal copyright protection begin from the moment of fixation, lengthening the term of protection from fifty-six to seventy-five years, and doing away with the requirement that a copyright holder renew his copyright to qualify for the full period of protection.¹⁷ The 1989 Berne Amendments continued the trend, most significantly by eliminating the mandatory notice requirement and thereby eliminating the ability of Americans to presume that any work lacking a copyright notice was in the public domain.¹⁸ With the Visual Artists Rights Act of 1990,¹⁹ Congress expanded the bundle of rights granted to artists by adding the rights of attribution and integrity to that bundle; in the same year, Congress adopted the Architectural Works Copyright Protection Act,²⁰ which expanded copyright's scope to encompass architectural works. In 1994, Congress actually removed works from the public domain by restoring copyright in certain works published by Berne or World Trade Organization (WTO) nationals.²¹ In 1998,

17. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended in scattered sections of 17 U.S.C.). The attempt to protect the interests of an author embodied in the renewal right survived in the form of a termination right. However, under the previous renewal regime, if the author (or copyright holder) failed to renew, the work fell into the public domain, whereas an author's failure to terminate under the current regime results in the rights remaining vested in the transferee.

18. Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (codified as amended in scattered sections of 17 U.S.C.).

19. Pub. L. No. 101-650, tit. VI, 104 Stat. 5089, 5128-33 (codified as amended in scattered sections of 17 U.S.C.).

20. Pub. L. No. 101-650, tit. VII, 104 Stat. 5089, 5133-5134 (1990) (codified as amended in scattered sections of 17 U.S.C.).

21. Uruguay Round Agreements Act, Pub. L. No. 103-465, § 514(a), 108 Stat. 4809, 4976-81 (1994) (codified as amended in scattered sections of 17 U.S.C.). Section 104A of the Copyright Act was first enacted in 1993 to comply with the North American Free Trade Agreement and then expanded the following year to comply with the WTO Agreement.

Congress again lengthened the term of protection, this time by an additional twenty years, when it adopted the Sonny Bono Copyright Term Extension Act (CTEA).²² Finally, also in 1998, Congress adopted the Digital Millennium Copyright Act (DMCA),²³ which provides copyright holders with new tools to protect copyrighted material in the digital arena without any requirement that copyright holders accommodate established limitations on copyright, such as fair use, when utilizing these tools.

At least two other concurrent trends further expanded copyright's scope. First, court decisions and congressional action extended copyright protection to all types of software.²⁴ Second, and correspondent to the rise in software's omnipresence, copyright holders increasingly began to use standardized contracts to govern the use of their copyrighted works; such contracts often included terms that were more protective of copyright holders' interests than the exclusive rights granted to a copyright holder under the Copyright Act.²⁵

The evolution of copyright over this period, however, is not just a story of expansion. There were also a number of forces operating to limit and shape the changing contours of copyright's domain. First, Congress introduced new limits on copyright. For example, in response to advice from the National Commission on New Technological Uses of Copyrighted Works, Congress adopted section 117 of the Copyright Act, which limits the rights copyright holders can exercise over copyrighted software sold to consumers.²⁶ Second,

22. Pub. L. No. 105-298, 112 Stat. 2827 (1998) (codified as amended in scattered sections of 17 U.S.C.).

23. Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified as amended in scattered sections of 17 & 28 U.S.C.). Note that this summary highlights some of the most significant changes made during this period, but it is by no means exhaustive.

24. See, e.g., 17 U.S.C. § 109(b)(1) (2000); *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir. 1983). For a discussion of the problems associated with extending copyright to software and the effectiveness of various approaches, including copyright misuse, to dealing with those problems, see Dennis S. Karjala, *Copyright Protection of Operating Software, Copyright Misuse, and Antitrust*, 9 CORNELL J.L. & PUB. POL'Y 161, 163 (1999) (noting that "[t]he extension of copyright protection to computer programs is probably the most dramatic, and least justifiable, expansion of copyright in its 200-plus years of existence in the United States, but it represents simply another step in the ever broader, stronger, and longer copyright rights that Congress has been recognizing from copyright's inception"). Another significant expansion in the type of works that could be copyrighted was the extension of copyright protection to architectural works. See *Architectural Works Copyright Protection Act*.

25. Michael J. Madison, *Reconstructing the Software License*, 35 LOY. U. CHI. L.J. 275, 276 (2003) ("For all intents and purposes . . . copies of computer programs are never sold outright. They are always licensed."). For a summary of common copyright license provisions that potentially conflict with copyright policy, see Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 128-33 (1999). One could make a strong argument that the rise in such contracting practices does not constitute an expansion of copyright itself. However, as long as copyright holders are able to sue under copyright law and not just contract law when such agreements are breached, their effects are properly considered in conjunction with copyright law.

26. 17 U.S.C. § 117 (2000).

academics became increasingly critical of copyright's expansion,²⁷ and many engaged in a number of tactics to counter the process.²⁸ One of the most prominent examples of academic activism in this field was Professor Larry Lessig's constitutional challenge to the CTEA.²⁹ Finally, and most importantly, the judiciary has responded.

By highlighting the dramatic changes in copyright law over the last few decades, this Part has also illustrated why the tools courts must have at their disposal to protect copyright policy may have changed over this period. But before we can understand why copyright misuse specifically may be an important tool for courts to wield, we must know something about from whence it came. Parts I.B and I.C discuss aspects of the doctrine's origins. The first provides a brief summary of patent misuse, the doctrine from which copyright misuse is derived. The second surveys the case law that predates the afore-described changes in copyright for indicia of approval or disapproval of the doctrine. Part I.D will then look at the role of the judiciary in this ever-changing environment.

B. Patent Misuse

Patent misuse, predecessor and kin to copyright misuse, had been recognized by the Supreme Court in earlier cases,³⁰ but it is the Court's decision in *Morton Salt Co. v. G.S. Suppiger Co.* in 1942 that is considered the seminal patent misuse case.³¹ In *Morton Salt*, the Court held that it was per se illegal for a patent holder to tie the sale of a patented good to the sale of a nonpatented good. Invoking the language of Article I, Section 8, Clause 8 of

27. See, e.g., Jane C. Ginsburg, Essay, *How Copyright Got a Bad Name for Itself*, 26 COLUM. J.L. & ARTS 61, 61 (2002) ("Many of the developments over the last years designed to protect copyright have drawn academic scorn.").

28. For example, groups of law professors often submit amicus briefs in major copyright cases on behalf of parties seeking to narrow copyright's scope. E.g., Brief Amici Curiae of 40 Intellectual Property and Technology Law Professors Supporting Affirmance, *MGM Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2003) (Nos. 03-55894, 03-55901), http://www.eff.org/IP/P2P/MGM_v_Grokster/20030930_lawyers_amicus.pdf.

29. *Eldred v. Ashcroft*, 537 U.S. 186 (2003). Lessig has also empowered the movement by helping the public understand the myriad problems posed by copyright's expansion. His books, including his most recent, *Free Culture: How Big Media Uses Technology and the Law to Lock Down Culture and Creativity*, provide great background for understanding the problems this Note suggests copyright misuse should address. See LAWRENCE LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CREATIVITY* (2004).

30. *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931) (recognizing that "[c]ontrol over the supply of such unpatented material is beyond the scope of the patentee's monopoly" and refusing to grant relief to a patent holder who engages in such a practice). But see *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912) (allowing tying of ink to use of patented mimeograph machine).

31. 314 U.S. 488 (1942).

the Constitution, which gives Congress the power to grant authors and inventors limited monopolies to “promote the Progress of Science and useful Arts,” to define the policy embodied in patent law, the Court concluded that public policy also mandates that a patent holder not exercise exclusive rights beyond those granted to him by Congress.³²

The current state of the doctrine is summarized in *Chisum on Patents*:

A patent owner may exploit a patent in an improper manner by violating the antitrust laws or extending the patent beyond its lawful scope. If such misuse is found, the courts will withhold any remedy for infringement or breach of a license agreement—even against an infringer who is not harmed by the abusive practice. The rights of the patent owner will be restored if and when the misuse is purged. Such purging occurs upon abandonment of the abusive practice and dissipation of any harmful consequences.³³

As subsequent analysis of the copyright misuse case law will reveal, this summary also reflects the shape and scope of copyright misuse as it was first adopted.

This analysis, however, will also reveal that copyright misuse is starting to move away from its patent kin, and this is likely the appropriate direction for copyright misuse to take. Despite its long-established position in patent law, patent misuse has been attacked by academics³⁴ and substantially narrowed by Congress.³⁵ Thus, the lessons to be learned from patent misuse may be in what to avoid, as much as in what to emulate.³⁶

In addition, even if there were no problems inherent in patent misuse, differences in patent and copyright would likely necessitate modification of the doctrine for it to translate effectively from one to the other.³⁷ The process of

32. *Id.* at 492 (quoting U.S. CONST. art. I, § 8, cl. 8). This clause also gives rise to Congress’s power to regulate copyright and provided the basis for one of Eldred’s claims that the CTEA was unconstitutional.

33. 6 DONALD S. CHISUM, *CHISUM ON PATENTS* § 19.04 (2003).

34. See Note, *Is the Patent Misuse Doctrine Obsolete?*, 110 HARV. L. REV. 1922, 1925 (1997) (summarizing the “[n]umerous authorities [that] contend that the misuse doctrine should be abolished”).

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

36. For example, one problem that has plagued patent misuse is that “decisions considering analogous practices are not always consistent.” CHISUM, *supra* note 33, § 19.04. According to Chisum, this is partly “attributable to the absence of a clear and general theory for resolving the problem of what practices should be viewed as appropriate exercises of the patent owner’s statutory patent rights.” *Id.* Thus, in evaluating copyright misuse, this Note will consider how the doctrine can be fashioned to avoid such inconsistency in application and the potential role of a “general theory” of copyright misuse in this project.

37. See, e.g., Ralph D. Clifford, *Simultaneous Copyright and Trade Secret Claims: Can the Copyright Misuse Defense Prevent Constitutional Doublethink?*, 104 DICK. L. REV. 247, 287 (2000) (arguing “the scope of the copyright misuse defense must be expanded from the patent defense” to compensate for the lack of a disclosure requirement in copyright comparable to that in patent).

qualifying for patent protection is far more rigorous than for copyright,³⁸ the exclusive rights granted to a patent holder are far broader than those granted to a copyright holder,³⁹ and the term of protection is significantly shorter for patent than for copyright.⁴⁰ In fact, attempts by a copyright holder to appropriate for himself a set of rights comparable to the rights patent law grants a patent holder can be the basis for a finding of copyright misuse.⁴¹ Accordingly, while this Note regularly attempts to glean what lessons it can from patent misuse, it does not automatically defer to patent misuse as it tries to determine the appropriate contours of copyright misuse.

C. Possible Supreme Court Guidance

The next question that arises in examining the adoption of copyright misuse by lower federal courts is whether there is any relevant Supreme Court precedent. Both courts and commentators have suggested that the Supreme Court's block-booking jurisprudence could reflect the Court's tacit approval of copyright misuse.⁴² In *United States v. Loew's, Inc.*,⁴³ as in the earlier case *United States v. Paramount Pictures, Inc.*,⁴⁴ the Supreme Court modified in form but affirmed in intent a consent decree that prevented the defendant from engaging in block booking. Block booking occurs when a party conditions the license of particular content, generally popular films, on the licensee also licensing other, undesired content, usually less popular films. Loew's was party to a number of such contracts. For example, in *Loew's*, one of Loew's clients, "[s]tation WMAR wanted only 10 Selznick films, but was told that it could not have them unless it also bought 24 inferior films from the 'TNT' package and

38. Compare 35 U.S.C. pt. II, chs. 10-12 (2000), with 17 U.S.C. § 102 (2000).

39. Compare 35 U.S.C. § 154 (2000), with 17 U.S.C. § 106 (2000).

40. Compare 35 U.S.C. § 154(a)(2), with 17 U.S.C. § 302 (2000). For a summary of the major differences between copyright and patent, see Fellmeth, *supra* note 12, at 4-9.

41. DSC Communications Corp. v. DGI Techs., Inc., 81 F.3d 597, 601 (5th Cir. 1996).

42. See, e.g., Atari Games Corp. v. Nintendo of Am. Inc., 975 F.2d 832, 846 (Fed. Cir. 1992) (citing *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), to support the assertion that "the United States Supreme Court has given at least tacit approval of the defense"); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976 n.16 (4th Cir. 1990) (summarizing *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), and noting that based upon *Paramount*, "the Fifth Circuit has opined in dicta that '[i]t is . . . likely that the public monopoly extension rationale of *Morton Salt* . . . is applicable to copyright") (citing *Mitchell Bros. Film Group v. Cinema Adult Theater*, 604 F.2d 852, 865 n.27 (1979)); Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 884 (2000) (asserting that the "citation to *Morton Salt* [in *Paramount Pictures*] acknowledges (or suggests) that the misuse doctrine also plays a role in cabining the scope of an intellectual property right").

43. 371 U.S. 38.

44. 334 U.S. 131. *Paramount* was different from *Loew's* in that it involved the licensing of films to movie theaters rather than for television.

12 unwanted ‘Fabulous 40’s.’”⁴⁵ The Court held such licensing practices to be a violation of section 1 of the Sherman Act.

These cases have been interpreted by many commentators as indicative of the Court’s approval of the extension of misuse into copyright. For example, as described in *Nimmer on Copyright*,

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.⁴⁶

According to *Nimmer*, this indicates the Court’s “tacit approval of an analogy between patents and copyrights, with respect to a misuse defense”⁴⁷

While such an interpretation would provide nice support for the doctrine this Note endorses, there is reason to be skeptical. The Court was merely upholding a consent decree that resulted from a government-initiated suit against the copyright holder for antitrust violations. This is different from holding that a copyright infringer can escape liability because the copyright holder has violated antitrust law, and even one step more removed from holding that an action by a copyright holder that violates the public policy underlying copyright law but does not violate antitrust law can render his copyright unenforceable. Moreover, while the Court references patent misuse by name, it chooses not to frame the decision in a manner that creates a comparable doctrine of copyright misuse. Arguably, the Court’s decision not to recognize copyright misuse explicitly when it appeared to have a clear opportunity to do so indicates the opposite—that is, that the Court did not support the creation of a doctrine of copyright misuse comparable to patent misuse.

The other Supreme Court case that could shed light on the Court’s position on copyright misuse is *Broadcast Music, Inc. v. CBS, Inc.*⁴⁸ Unlike *Loew’s* and *Paramount, Broadcast Music, Inc.* (BMI) did involve a suit initiated by a private party, CBS, charging BMI and the American Society of Composers, Authors and Publishers (ASCAP), BMI’s codefendant in the suit, with “various violations of the Sherman Act and the copyright laws.”⁴⁹ The Supreme Court recognized that in holding BMI and ASCAP’s licensing practices constituted a per se violation of the Sherman Act, the Second Circuit considered this sufficient to establish copyright misuse.⁵⁰ However, because the Court reversed

45. *Loew’s*, 371 U.S. at 42.

46. 4 NIMMER & NIMMER, *supra* note 8, § 13.09[A].

47. *Id.*

48. 441 U.S. 1 (1979). This case remains unique among copyright misuse cases in that the party allegedly engaged in misuse was not a copyright holder, but rather a nonexclusive licensee of multiple copyright holders.

49. *Id.* at 6.

50. *Id.*

and remanded the antitrust claim and understood the Second Circuit's finding of misuse to rest upon the antitrust violation, the misuse claim was similarly reversed without further consideration. Thus, *BMI* appears to be another case in which the Court had the opportunity to take a stance on copyright misuse but refrained from doing so.

The preceding examination of potentially relevant Supreme Court cases is not meant to imply that the Court currently would oppose copyright misuse, even in the broad form put forth in this Note. As Part I.A revealed, copyright law has evolved dramatically since these cases were decided, and the Supreme Court's recent copyright jurisprudence suggests that the Supreme Court, as much as lower courts, recognizes the need for rules that promote copyright policy. However, these analyses do suggest that lower federal courts are operating largely without the benefit of Supreme Court guidance in their application of the doctrine.

D. *The Role of the Judiciary*

Having established that there is little or no Supreme Court precedent advocating recognition of copyright misuse and that patent misuse had been operative for half of a century prior to the doctrine's adoption, questions arise regarding why the doctrine finally did come alive and whether lower federal courts were justified in bringing it to life. Part I.A showed why changes in copyright's scope and the additional steps taken by copyright holders to protect their copyrighted material may require greater vigilance by the courts to ensure that copyright enforcement promotes, rather than undermines, copyright policy. Part I.D addresses the appropriateness of the doctrine's adoption in light of the role of the judiciary in copyright's evolution.

The judiciary has long played a central role in shaping the copyright landscape, and Congress has repeatedly affirmed the appropriateness of judicial lawmaking in this field, both by delaying legislation until the Supreme Court has taken a position on an issue⁵¹ and by codifying doctrines created by the judiciary.⁵² In addition to Congress's implicit endorsement, there are a number of other factors enhancing the formative nature of copyright case law. The dynamic nature of the environment in which copyright operates virtually ensures that technology will evolve at a more rapid rate than the statutory scheme and that the courts will have to resolve issues not addressed by Congress.⁵³ The structure of the constitutional grant of power embodied in the

51. See PAUL GOLDSTEIN, *COPYRIGHT'S HIGHWAY: FROM GUTENBERG TO THE CELESTIAL JUKEBOX* 108 (rev. ed. 2003) ("Congress put off the library photocopying issue until *Williams & Wilkins*, and similarly deferred consideration of a bill on home videotaping until the Supreme Court could decide the question.").

52. *E.g.*, *Ty, Inc. v. Publ'ns Int'l Ltd.*, 292 F.3d 512, 517 (7th Cir. 2002) ("The defense of fair use, originally judge-made, now codified, plays an essential role in copyright law.").

53. In the words of Goldstein, "As the pace of technological change quickens,

Copyright Clause, by specifying a purpose as well as a means, arguably creates a heightened duty for courts to ensure the statutory scheme is implemented in a way that furthers the constitutionally defined purpose. The possible tension between copyright law and other constitutional limits on congressional power, specifically the First Amendment, means that in implementing the statutory regime, courts must simultaneously be cognizant of their duty to interpret the law in a manner that respects these external limitations.⁵⁴ And finally, at least one commentator has argued that the history of American copyright, which suggests Congress is armed with only a one-way ratchet, creates a burden on courts and laws outside of copyright to “recalibrate the balance between creation incentives and free use.”⁵⁵

Historically formative decisions by the Supreme Court include cases like *Baker v. Selden*, in which the Court held that copyright protection extended only to a particular expression of an idea, not the idea itself.⁵⁶ The very notion of fair use, while now codified, originated with the judiciary.⁵⁷ Recent formative decisions by the Supreme Court have continued to protect the balance sought by copyright in a diverse variety of ways. In *Sony Corp. v. Universal City Studios, Inc.*, the Court protected technological innovation against threats of premature death by holding that distribution of a product that can facilitate copyright infringement does not constitute contributory copyright infringement as long as the product also has substantial noninfringing uses.⁵⁸ In *Feist Publications, Inc. v. Rural Telephone Service Co.*, the Court narrowed copyright’s potential scope by rejecting the sweat of the brow theory and clarifying the requirement that a work have some modicum of creativity to qualify for federal copyright protection.⁵⁹ And, in *Campbell v. Acuff-Rose*

Congress seems less and less able to adjust copyright laws to the changes. In the two centuries since it passed the first American copyright act, it has been playing catch-up” GOLDSTEIN, *supra* note 51, at 25.

54. For an analysis of the tensions between copyright and the First Amendment and how the magnitude of the potential conflict between the two has increased since 1970, see Neil Weinstock Netanel, *Locating Copyright Within the First Amendment Skein*, 54 STAN. L. REV. 1 (2001).

55. Karjala, *supra* note 24, at 163.

56. 101 U.S. 99 (1879).

57. *Id.*

58. 464 U.S. 417 (1984). *But see* *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021-22 (9th Cir. 2001) (stating that substantial noninfringing uses are sufficient only to negate constructive knowledge of infringement). Interestingly, *Sony* is also a case where the Court turned to patent law.

59. 499 U.S. 340 (1991). The sweat of the brow theory—the notion that copyright protection arises from the effort invested in the creation of a work rather than the originality of work created—that was rejected by the Court in *Feist* had gained currency in a number of lower courts and had a long history behind it. Accordingly, the Court’s ruling in *Feist* is far more remarkable ruling than the unanimous nature of the decision might suggest. *See, e.g.*, Victoria Smith Ekstrand, *Drawing Swords After Feist: Efforts to Legislate the Database Pirate*, 7 COMM. L. & POL’Y 317, 320 (2002) (noting that “*Feist* sent shockwaves through the database and intellectual property communities” and that “[s]cholarly response to *Feist*

Music, Inc., the Court facilitated the use of parody as a means of social commentary by holding that the creation of a derivative work that parodies a copyrighted work can constitute fair use of the original it derides, despite significant considerations weighing against fair use on all of the statutory factors.⁶⁰

Lower federal courts have also played an important role in shaping copyright law. The Second Circuit case *Computer Associates International, Inc. v. Altai, Inc.* is considered by many to provide the operative guidelines for determining which portions of software programs are protected by copyright.⁶¹ Likewise, the Ninth Circuit case *Sega Enterprises Ltd. v. Accolade, Inc.* was pivotal in establishing that reverse engineering of computer programs can constitute fair use, even though the practice entails making an intermediate copy of the entire copyrighted work.⁶² Thus, even though precedent may not have mandated adoption of copyright misuse, the doctrine's adoption is consistent with the broader pattern, supported by precedent, of federal courts at all levels implementing copyright law in a manner protective of the copyright policy.

E. Completing the Stage

Now that we understand something about the environment that gave rise to copyright misuse, the next Part introduces us to the doctrine itself. As a final aside before we get there, I want to clarify an assumption underlying this Note. Some commentators have suggested that it was the expansion of copyright protection to encompass software, which by its nature is more functional than traditionally copyrighted works, and more specifically all types of software (including operating systems, which compete in a marketplace strongly influenced by network effects), that gave rise to the doctrine's adoption and

was voluminous"); Alfred C. Yen, *The Legacy of Feist: Consequences of the Weak Connection Between Copyright and the Economics of Public Goods*, 52 OHIO ST. L.J. 1343 (1991) (describing the pre-*Feist* circuit split and the impact of the decision).

60. 510 U.S. 569 (1994).

61. 982 F.2d 693 (2d Cir. 1992); see *Liberty Am. Ins. Group, Inc. v. Westpoint Underwriters, L.L.C.*, 199 F. Supp. 2d 1271, 1289 (M.D. Fla. 2002) (noting that "[t]he Eleventh Circuit has adopted the abstraction-filtration-comparison test set forth in the Second Circuit Court of Appeals decision, *Computer Associates International, Incorporated v. Altai, Incorporated*"; 4 NIMMER & NIMMER, *supra* note 8, § 13.03[A][1][e] ("The dominant test for determining substantial similarity between computer programs [for purposes of determining whether there is infringement] has now become the Second Circuit's approach in *Computer Associates International, Inc. v. Altai, Inc.*").

62. 977 F.2d 1510 (9th Cir. 1992); see Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575, 1608-13 (2002) (identifying *Sega* as the "principal decision" on whether decompilation and disassembly of a computer program constitutes copyright infringement and noting that the decision "has been followed in virtually all subsequent cases").

should guide its evolution.⁶³ I resist this explanation in part because of doubts regarding its accuracy, but also because of doubts about whether the functional nature of software and the complications that this creates for copyright policy are issues that can be rectified by copyright misuse.⁶⁴

This Note suggests that copyright misuse is a doctrine that has the potential to play an important role in protecting the public policy underlying copyright. However, it also recognizes that copyright misuse is not a panacea that can cure all of copyright's woes.⁶⁵ As copyright law continues to evolve, and technological innovation continues to change the environment in which copyright operates, courts are going to need a variety of tools to protect copyright policy from the various threats such changes could pose. Copyright misuse is one of the only copyright-limiting doctrines that arises from actions taken by the copyright holder. This makes the doctrine uniquely suited to incentivize copyright holders to engage, or not engage, in particular behaviors. Accordingly, I am inclined to believe that it was actually aggressive licensing practices that instigated the doctrine's adoption; and, more importantly, that it is such abuses the doctrine should seek to curb.⁶⁶

II. IDENTIFYING MISUSE

This Part takes up the question of what is copyright misuse. Because of the limited number of cases in which a defense of misuse has prevailed and the ambiguity that surrounds the doctrine, this Part begins with a close examination of the three circuit court cases in which the defense has prevailed. In the course of this examination, three distinct ways of understanding the doctrine come to light. A fourth approach suggested in a recent decision by Judge Richard

63. See Ramsey Hanna, Note, *Misusing Antitrust: The Search for Functional Copyright Misuse Standards*, 46 STAN. L. REV. 401, 409 (1994) (summarizing the arguments of several commentators that the "unique characteristics [of software] lend more credence to claims of market power . . . and make claims of misuse more intuitively appealing").

64. See Karjala, *supra* note 24, at 185 (recognizing that copyright misuse is not suited to deal with the problems arising from software copyrights because "copyright misuse does not directly deal with the structural problems that arise from the combination of strong network effects and the copyright itself").

65. This is one area where my approach to copyright misuse diverges from that of other commentators. See, e.g., Frischmann & Moylan, *supra* note 42, at 872 (stating that copyright misuse serves three separate functions: (1) "it gives courts the flexibility to 'fill in gaps' left in statutory law," (2) it "allows courts to coordinate related and interdependent bodies of law," and (3) "it allows courts to safeguard the public interest generally").

66. This does not mean that the nature of the copyrighted work is irrelevant to the copyright misuse inquiry. Technological considerations can be pivotal in determining whether a particular licensing provision crosses one of the bounds identified in this Note as central to copyright policy. Likewise, to the extent one accepts that an antitrust violation involving copyrighted material constitutes copyright misuse, the functional nature of software can be highly relevant to the copyright misuse inquiry.

Posner is added to the mix before this Part moves on to assess which of these will best allow the doctrine to fulfill its purpose going forward.

A. *The Cases*

1. Lasercomb

The first federal appellate court to apply the doctrine of copyright misuse was the Fourth Circuit, in the case *Lasercomb America, Inc. v. Reynolds*.⁶⁷ Lasercomb had created and licensed to Reynolds (and his employer, Holiday Steel, who was also party to the suit) software for the creation of steel die forms. Reynolds⁶⁸ created a number of unauthorized copies of the software and created his own competing die-making software “which was almost entirely a direct copy”⁶⁹ of Lasercomb’s copyrighted software. Lasercomb sued for infringement and prevailed on this claim at the district court.

On appeal, Reynolds claimed that Lasercomb should not be allowed to prevail on its infringement claim because it had misused its copyright. The basis for this claim was a provision in Lasercomb’s standard licensing agreement that barred the licensee from creating a competing product for a period of one hundred years.⁷⁰ Reynolds and his employer had never signed the agreement, and other licensees had negotiated to have the term removed. However, at least one licensee had signed the standard licensing agreement with the offensive term.

In discussing the doctrine of copyright misuse, the court recognized that “uncertainty engulfs the ‘misuse of copyright’ defense” but ultimately it “[was] persuaded . . . 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.”⁷¹ In concluding that the inclusion of the no-compete provision was sufficient to constitute misuse, the court stated that “misuse need not be a violation of

67. 911 F.2d 970 (4th Cir. 1990). In at least one earlier district court case, the judge, after declaring a copyright to be invalid, announced that even if it were not invalid, he would have held it unenforceable because of the copyright holder’s “unclean hands.” *Vogue Ring Creations, Inc. v. Hardman*, 410 F. Supp. 609 (D.R.I. 1976). The “inequitable conduct” that “constitute[d] misuse of the copyright” was a combination of lying to the copyright office and a “copyright warning” placed on the allegedly copyrighted good, which the court found “false and misleading in that it implie[d] that the statutory penalty [was] mandatory” and made a number of other misrepresentations about copyright penalties and limits thereon. *Id.* at 616.

68. In discussion of this case, references to “Reynolds” refer to Reynolds and Holiday Steel collectively.

69. *Lasercomb*, 911 F.2d at 971.

70. The provision prevented the licensee from creating a competing product for one year after the end of the agreement and the agreement had a term of ninety-nine years, resulting in a one-hundred-year ban. *Id.* at 973.

71. *Id.* at 973.

antitrust law in order to comprise an equitable defense to an infringement action.”⁷² The court went on to announce that “[t]he question is not whether the copyright is being used in a manner violative of antitrust law (such as whether the licensing agreement is ‘reasonable’), but whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright.”⁷³

The court held that the no-compete provision constituted misuse because through it, Lasercomb “attempt[ed] to suppress any attempt by the licensee to independently implement the idea which . . . [the die-making software] expresses.”⁷⁴ Having found Lasercomb guilty of misuse, the court reversed on the infringement claim. However, the court also clarified that its holding “is not an invalidation of Lasercomb’s copyright. Lasercomb is free to bring a suit for infringement once it has purged itself of the misuse.”⁷⁵

This case clearly recognizes copyright misuse as a functioning doctrine that limits the ways in which a copyright holder can exercise his rights. The case provides less clarity, however, on the question of when exactly the doctrine applies. One way of understanding the court’s holding in *Lasercomb* is that copyright misuse arises whenever a copyright holder attempts to use his copyright in an anticompetitive fashion, even if such action does not reach the level of being an antitrust violation. Under this reading, it is the anticompetitive nature of the no-compete provision that gives rise to the misuse. A second interpretation could be that misuse arises whenever a copyright holder attempts to extend the scope of his exclusive rights beyond the formal bounds created by the legislative scheme. Under this interpretation, the duration of the no-compete term—which has the potential to run longer than the copyright itself—and the attempt by Lasercomb to appropriate for itself a right beyond those granted to it under the Copyright Act—the ability to prevent others from competing in the field—could be the basis for misuse. A third explanation is that misuse arises when a copyright holder crosses certain lines that are particularly central to copyright policy. Under this interpretation, it could be Lasercomb’s attempt to cross the idea/expression threshold, which has long been identified as central to copyright policy, that renders the offensive term misuse. We will return to these various readings of the court’s holding as we look at how the doctrine has been applied in other cases.

2. Alcatel

In *Alcatel USA, Inc. v. DGI Technologies, Inc.*, the Fifth Circuit followed the Fourth Circuit’s lead and recognized copyright misuse as an equitable

72. *Id.* at 978.

73. *Id.*

74. *Id.*

75. *Id.* at 979 n.22.

defense to a copyright infringement claim. In *Alcatel*, the court held that Alcatel had misused a software copyright by attempting to extend that copyright to cover uncopyrighted cards.⁷⁶

Alcatel designs, manufactures, and sells telephone switching systems ("switches") that direct long-distance telephone calls. The switches use software copyrighted by Alcatel that it licenses to customers subject to a number of restrictive terms, including prohibitions on copying the software, disclosing it to third parties, or using it in conjunction with anything other than Alcatel-manufactured equipment.⁷⁷ Alcatel's clients, primarily long-distance providers, often seek to expand the capacity of the switches, which can be done by adding sets of expansion cards. In a multistage process that involved DGI getting access to an older Alcatel switch and accompanying manuals and testing by DGI on an Alcatel switch licensed/owned⁷⁸ by a third party, DGI created a competing set of Alcatel-compatible expansion cards.

Alcatel brought suit to prevent DGI from selling their cards and to recover damages based on a number of claims, including direct and indirect copyright infringement. DGI defended itself in part by claiming Alcatel had misused its copyright. In asserting its misuse defense, "DGI reason[ed] that, as [Alcatel]'s software is licensed to customers to be used only in conjunction with [Alcatel]-manufactured hardware, [Alcatel] indirectly seeks to obtain patent-like protection of its hardware—its microprocessor card—through the enforcement of its software copyright."⁷⁹ Alcatel tried to justify the validity of its licensing practices by emphasizing that unlike the plaintiff in *Lasercomb*, it did not "prohibit the independent development of compatible operating system software."⁸⁰ The court rejected the accuracy of this claim by examining the effect of the questionable license provisions in light of the nature of the material they covered.

The court recognized that for DGI to compete with Alcatel in the Alcatel-compatible microprocessor expansion card market,

DGI must test the card on a[n Alcatel] phone switch. Such a test necessarily involves making a copy of [Alcatel]'s copyrighted operating system, which copy is downloaded into the card's memory when the card is booted up. If [Alcatel] is allowed to prevent such copying, then it can prevent anyone from

76. 166 F.3d 772 (5th Cir. 1999).

77. *Id.* at 777 ("The licensing agreement provides that (1) the operating system software remains the property of DSC; (2) the customer has the right to use the software only to operate its switch; (3) the customer is prohibited from copying the software or disclosing it to third parties; and (4) the customers are authorized to use the software only in conjunction with DSC-manufactured equipment.").

78. The switch itself was owned by the third party; the switch's operating system was licensed to the third party by Alcatel.

79. *Id.* at 793.

80. *Id.*

developing a competing microprocessor card, even though it has not patented the card.⁸¹

Thus, even though Alcatel did not explicitly condition the license on the licensee's agreement not to create a competing product, as the copyright holder in *Lasercomb* did, the effect was the same. Accordingly, the court concluded that the licensing provisions did constitute misuse and rendered Alcatel's software copyright temporarily unenforceable.

This holding is particularly interesting in light of the court's refusal to recognize Alcatel-compatible cards as a market for antitrust purposes. In affirming the district court's judgment as a matter of law on the antitrust claim, the court agreed with the lower court's "determination that DGI's characterization of the expansion products market as the relevant market is at odds with market realities."⁸² This affirms that action by a copyright holder to preclude competitors from entering a market can constitute misuse even when that market is not one the potential competitor has any right to compete in under antitrust law.

Another interesting aspect of the court's holding is that it appears to rest at least in part on the contract provision prohibiting copying, even though the right to prevent copying is a right granted to a copyright holder under the Copyright Act and, hence, is a right held by Alcatel even without the license.⁸³ To understand how such a provision could violate copyright policy, it is necessary to distinguish the scope of a copyright holder's exclusive right to reproduce the copyrighted work as granted by the Copyright Act and the level of control Alcatel was attempting to assert via the no-copying clause in the license.

The copyright holder's right to prevent copying, like all of the exclusive rights granted under the Copyright Act, is subject to a number of limitations.⁸⁴ Federal appellate courts have held that compatibility considerations, such as the ability of a software program to interact with a particular operating system, can limit the scope of a copyright⁸⁵ and that intermediate copying, when necessary to create a compatible product, can constitute fair use.⁸⁶ Thus, Alcatel presumably included the prohibition on copying in an attempt to prevent copying that it might not have the right to control under the Copyright Act; the Fifth Circuit, in holding that the term contributed to misuse, presumably assumed that at least some of the copying banned by the licensing provision otherwise would be lawful.

81. *Id.* at 793-94.

82. *Id.* at 783.

83. 17 U.S.C. § 106(1) (2000 & Supp. II 2002).

84. *See, e.g.*, 17 U.S.C. § 106 (2000 & Supp. II 2002) (identifying the exclusive rights granted to a copyright owner in § 106 as "[s]ubject to sections 107 through 122").

85. *See Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693 (2d Cir. 1992).

86. *See Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992).

This relates to a final interesting aspect of the decision: applying misuse allowed the court to avoid a number of other potentially difficult issues. The court did not have to resolve the issue of when intermediate copying constitutes fair use and whether DGI's copying complied with those conditions.⁸⁷ Nor did the court have to consider how a fair use analysis might be complicated by DGI's status as a contributory as well as direct infringer. The court also managed to avoid a preemption analysis to determine whether state enforcement of the contract might be preempted by either section 301 of the Copyright Act or the Constitution.⁸⁸ Avoidance of the last issue might have been particularly beneficial to the court, as the Fifth Circuit previously had taken a very broad stance on the issue of constitutional preemption in an analysis that has subsequently come under attack.⁸⁹

In conjunction with avoiding the potentially difficult analyses required to resolve these issues, the court also managed to avoid the limitations inherent in the application of either fair use or preemption. Fair use by its nature is a very fact-intensive inquiry, and its applicability is determined by reference to the actions of the alleged infringer. Accordingly, a finding of fair use may have protected DGI, but it would have provided minimal comfort to others seeking to compete with Alcatel and it would have had no effect on discouraging Alcatel from engaging in aggressive licensing practices. In contrast, applying preemption to prevent enforcement of the problematic licensing terms has the potential to be overly broad as a deterrent. For example, read literally, the Fifth Circuit's earlier preemption analysis could be interpreted to make certain rights completely inalienable. There are circumstances where each of these other approaches is appropriate. The *Alcatel* case, however, highlights why courts may want an additional option that lies between these two extremes. Application of copyright misuse allowed the court to take a stance staunchly protective of copyright policy while not overly restricting the ability of parties to contract around the default allocation of rights embodied in the Copyright Act.

Before turning to the final circuit court case applying the doctrine, let us return briefly to reconsider the various ways of understanding copyright misuse suggested in *Lasercomb*. Each of these interpretations potentially could apply

87. Whether intermediate copying of copyrighted software is fair use has been a matter of much debate, and at least one commentator has suggested that DGI's copying might not qualify as fair use under the current standard. Eric Douma, *Fair Use and Misuse: Two Guards at the Intersection of Copyrights and Trade Secret Rights Held in Software and Firmware*, 42 *IDEA* 37, 65 (2002).

88. In *Vault Corp. v. Quaid Software Ltd.*, the Fifth Circuit had held that a non-decompilation provision in a software license was constitutionally preempted. 847 F.2d 255, 269-70 (5th Cir. 1988).

89. See, e.g., Maureen A. O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 *DUKE L.J.* 479, 535-38 (1995) (concluding that *Vault Corp.*'s analysis "is of limited precedential value").

to Alcatel as well. First, as in *Lasercomb*, the offensive terms were aimed at limiting competition—both by prohibiting the licensee from using a competing product in conjunction with the Alcatel switch and by proscribing uses of the copyrighted software necessary for the creation of a competing product. Second, there is an attempt by the copyright holder to extend the scope of his copyright beyond the rights granted to him under the Copyright Act, here by extending the software copyright to cover the unprotected card. Finally, the offensive licensing terms again cross the fundamental idea/expression divide, as they are being used by Alcatel to attempt to control not just a particular expression of an Alcatel-compatible card, but the very idea of such a card.

3. Practice Management

The Ninth Circuit adopted copyright misuse in the case *Practice Management Information Corp. v. American Medical Ass'n*.⁹⁰ *Practice Management* arguably involves the broadest application of the doctrine to date and is also unique among the cases in that it is a suit for a declaratory judgment.

The copyright at issue in *Practice Management* covered the Physician's Current Procedural Terminology (CPT), a guide to a detailed coding system used by medical professionals to identify medical procedures, which was designed and copyrighted by the American Medical Association (AMA). In 1977, the AMA granted the Health Care Financing Administration (HCFA), which operates under congressional oversight, a nonexclusive, royalty-free, perpetual license to use the CPT in exchange for the HCFA agreeing to use the CPT exclusively and requiring all of the programs it administers to do the same. After failing to come to terms on a volume discount that would allow Practice Management, a publisher and reseller of medical texts, to resell copies of the CPT, Practice Management sued to have the AMA's copyright in the CPT declared invalid. The Ninth Circuit refused to invalidate the copyright. It did, however, hold that the license provision requiring exclusive use of the CPT constituted copyright misuse, and thus the AMA was precluded from enforcing the copyright for the duration of misuse.

The AMA defended the exclusivity provision on the ground that "it did not insist the HCFA use only the CPT; rather, HCFA decided to use a single code

90. 121 F.3d 516 (9th Cir. 1997). The progression of copyright misuse in the Ninth Circuit started out similar to other circuits where the doctrine has yet to be adopted, in that the first panel to consider misuse recognized that such a doctrine existed but concluded it was not present in the facts of that case. *Supermarket of Homes, Inc. v. San Fernando Valley Bd. of Realtors*, 786 F.2d 1400, 1408 (9th Cir. 1986) (stating that the "action will be dismissed under the theory of unclean hands if defendant establishes that plaintiff's evidence was false and that plaintiff was involved in a scheme to defraud the public," but concluding "[t]here was no evidence of fraud or misconduct here").

to take advantage of natural efficiencies.”⁹¹ In addition, if the HCFA chose to use an alternate coding system, it had the right to cancel the agreement without penalty at any time with ninety days’ notice.⁹² In the view of the Ninth Circuit, this was not sufficient to overcome the “adverse effects of the licensing agreement,” which “gave the AMA a substantial and unfair advantage over its competitors.”⁹³ As Brett Frischmann and Dan Moylan point out in their analysis of the case, the Ninth Circuit treated the provision as a *per se* violation and hence did not consider its potential welfare-enhancing effects.⁹⁴

Application of the tripartite framework that this Note developed to analyze the courts’ holdings in *Lasercomb* and *Alcatel* reveals differences between *Practice Management* and the previous two cases. The first reading—that misuse is concerned with anticompetitive conduct—is strongly supported by *Practice Management*. The court’s primary concern is with the competitive advantage the exclusive licensing provision gives the AMA over potential competitors. The second explanation—that misuse arises whenever a copyright holder expands the scope of his rights beyond those granted to him under the Copyright Act—would be a little more of a stretch but could still apply. Under this reading, the right to have the HCFA use its guide exclusively, and the market power the AMA derives as a result, would have to be considered benefits outside the scope of the rights granted to the AMA as copyright holder. The final explanation—that misuse arises when a copyright holder exercises his rights in a manner that violates certain principled boundaries—is far more of a stretch. For this to apply, it is necessary to assume that the market power the AMA derived from the exclusive licensing provision is so great that it essentially granted the AMA exclusive control over the idea of a coding manual for medical procedures and hence crossed the idea/expression threshold. This approach could also be applicable if there were another important policy goal at stake, but nothing in the case suggests this. The greatest problem with this last explanation is the lack of support for such a reading in the court’s reasoning. In contrast to *Lasercomb* and *Alcatel*, the only policy concern articulated by the *Practice Management* court is the competitive advantage the AMA may have derived from the exclusive licensing provision.⁹⁵

4. WIREdata

Based upon my reading of the leading cases in which the defense of copyright misuse has prevailed, I have suggested three different ways of

91. *Practice Mgmt.*, 121 F.3d at 520.

92. *Id.* at 518 n.2.

93. *Id.* at 521.

94. Frischmann & Moylan, *supra* note 42, at 890-92.

95. Basing the decision on misuse rather than antitrust has the additional effect of allowing the court to avoid consideration of the *Noerr-Pennington* doctrine.

understanding when a copyright holder is engaged in misuse. Before assessing the strengths and weaknesses of each approach, this Note introduces an additional option that merits consideration. That approach is suggested by Judge Posner in the case *Assessment Technologies of Wisconsin, L.L.C. v. WIREdata, Inc.*⁹⁶ In *WIREdata*, the defendant sought public information about a number of properties in Wisconsin from the municipalities in which the properties were located. The municipalities had collected the desired information for tax assessment purposes, and most complied with the requests. However, three municipalities, which used software copyrighted by Assessment Technologies (AT) to compile the relevant data, refused to provide the requested information for fear that doing so would infringe AT's copyright. When *WIREdata* sued in state court for release of the information, AT initiated the federal suit, claiming that the release would violate its copyright. AT prevailed on its claim in the district court, but the Seventh Circuit reversed. In the words of the court: "This case is about the attempt of a copyright owner to use copyright law to block access to data that not only are neither copyrightable nor copyrighted, but were not created or obtained by the copyright owner It would be appalling if such an attempt could succeed."⁹⁷

The court then went on to note that "[t]o try by contract or otherwise to prevent the municipalities from revealing *their own* data . . . might constitute copyright misuse."⁹⁸ Recognizing that its earlier cases "had intimidated skepticism," the court explained that

[t]he argument for applying copyright misuse beyond the bounds of antitrust, besides the fact that confined to antitrust the doctrine would be redundant, is that for a copyright owner to use an infringement suit to obtain property protection, here in data, that copyright law clearly does not confer, hoping to force a settlement or even achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist effectively, is an abuse of process.⁹⁹

This abuse of process rationale again overlaps with the three approaches I suggest come out of the previous cases, but it is not synonymous with any. Having provided an overview of how the doctrine has been applied, the next Part considers the form the doctrine should take going forward.

96. 350 F.3d 640 (7th Cir. 2003). The case is almost as significant for the assumptions it belies as for the statement it makes, as prior to this decision commentators regularly asserted that the Seventh Circuit recognizes misuse only when there is an antitrust violation. *E.g.*, Frischmann & Moylan, *supra* note 42, at 894 (citing *Rumbleseat* to support their proposition that the "Seventh Circuit has been adamant in its antitrust approach to misuse analysis"). Writing for the court, Judge Posner firmly rejects that contention.

97. *WIREdata*, 350 F.3d at 641-42.

98. *Id.* at 646-47.

99. *Id.* at 647.

B. How Should the Doctrine Be Understood?

We have seen four ways of understanding copyright misuse that have at least some basis in copyright misuse case law. This Part evaluates the strengths and weaknesses of each. The anticompetitive approach is discussed first, as it is the one that has the greatest support historically. I then examine the formalistic and abuse of process approaches to misuse before reaching the principled-guidelines approach endorsed by this Note.

1. Anticompetitive conduct

The first explanation is that misuse arises from anticompetitive conduct by a copyright holder, even when that action does not rise to the level of being an antitrust violation. This is the explanation that most readily explains all of the leading cases, including cases like *Syncsort Inc. v. Sequential Software, Inc.*, where the court refrained from applying misuse.¹⁰⁰ This is also the approach that has been assumed by some other commentators who have looked at copyright misuse. For example, in their analysis of *Lasercomb, Alcatel*, and *Practice Management*, Frischmann and Moylan conclude that “[i]n all three cases, the copyright licenses contained *anticompetitive* provisions that were relatively easy to discern as ‘overreaching’ and, accordingly, were treated essentially as *per se* misuse.”¹⁰¹

However, others have been critical of such an approach, and there is reason to heed such critics’ concerns. One of the most influential statements that the anticompetitive nature of conduct by a copyright holder should not be the basis of a finding of misuse unless that activity violates federal antitrust law is Judge Posner’s opinion in *Saturday Evening Post v. Rumbleseat Press, Inc.*¹⁰² In *Rumbleseat*, the court held that a no-contest clause in a copyright license did not qualify as misuse. Invoking the rationale he had applied previously to patent misuse, Judge Posner queried, “If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested?”¹⁰³

To the extent one views copyright misuse as a tool for limiting the ability of copyright holders to use the rights granted to them by virtue of their copyright in an anticompetitive fashion, the concerns expressed by Judge Posner in *Rumbleseat* remain relevant and difficult issues. The Sherman Act grants judges significant leeway in formulating federal antitrust law, and with this grant of power judges have the freedom not only to craft antitrust law but

100. 50 F. Supp. 2d 318 (D.N.J. 1999).

101. Frischmann & Moylan, *supra* note 42, at 893-94 (emphasis added).

102. 816 F.2d 1191 (7th Cir. 1987).

103. *Id.* at 1200 (quoting *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 512 (7th Cir. 1982)). It was this decision upon which commentators rested their conclusion that Judge Posner felt misuse should never be found independent of an antitrust violation.

to change that body of law as new technologies or new insights into how markets operate reveal faults or limitations in the current law.¹⁰⁴ Allowing courts to punish (and thereby deter) behavior for its anticompetitive nature without requiring them to engage in an antitrust analysis creates at least two types of risks. First, there is the risk that they will end up deterring behavior that is not anticompetitive, and may even benefit social welfare. Second, lacking the guidance provided by antitrust, there is a risk that courts will turn to other sources, such as their subjective impressions of the rightness or wrongness of the copyright holder's actions, to determine whether a particular action constitutes misuse. While this second risk is not unique to misuse and may not be inherently bad, it is problematic in this context because courts will be able to make these judgments under the guise of regulating competition. This lack of transparency decreases accountability and increases the risk of inconsistent case law, as future courts will be deprived of a reasoned analysis that accurately reflects the basis of a court's decision.

In short, antitrust law provides courts with a highly evolved body of law designed to identify and regulate behavior that adversely impacts competition. Integrating antitrust law into copyright via copyright misuse, a move that seems to have received a high level of acceptance and hence is not questioned in this Note, may have a number of positive effects on curbing abusive practices by copyright holders. For example, this integration may enable a party to allege misuse based upon an antitrust violation even if that party would not meet the standing requirements to bring a private antitrust claim. However, freeing courts from the constraints and guidance provided by antitrust law makes little sense if the primary aim really is to promote competition.

2. *Expansion of rights*

Another possible reading of the cases is that any attempt by the copyright holder to extend the scope of his copyright beyond the exclusive rights granted to him under the Copyright Act constitutes misuse. This reading explains *Lasercomb* and *Alcatel* and potentially *Practice Management* as well. In many ways, this approach resembles patent misuse without the statutory narrowing. As a result, it also raises some of the same issues that have arisen in the debate over patent misuse, including the question of how, if at all, intellectual property (IP) holders should be able to leverage their IP rights.¹⁰⁵

104. See RICHARD H. FALLON, JR. ET AL., *HART & WECHSLER'S THE FEDERAL COURTS AND THE FEDERAL SYSTEM* 695 (5th ed. 2003) (noting that "[t]he broad language of section 1 of the Sherman Act, 15 U.S.C. § 1, is often viewed as inviting the courts to fashion a common law of anti-competitive practices").

105. See generally Robin Cooper Feldman, *Defensive Leveraging in Antitrust*, 87 *GEO. L.J.* 2079, 2080 (1999) (describing the way "[t]he Chicago school blasted the assumptions implicit in the traditional analysis of leverage behavior" while introducing the concept of defensive leveraging to illustrate why such behavior may still pose threats to competition).

One way of viewing the debate over patent misuse, and tying more specifically, is to see the debate as one over the degree to which courts should enforce formalistic limitations on the rights granted to a patent or copyright holder. It could be that there is value in enforcing formalistic limitations, even if this value is not immediately apparent in economic terms. After all, if we assume parties act rationally and that they cannot extract greater monopoly rents by tying the product in which they have the monopoly to another product, this raises the question of what they do derive from the tie. The result could benefit social welfare, for example, by decreasing transaction costs; however, it also might not.¹⁰⁶ The various motives an IP holder could have for structuring sales or licenses in a particular way might be ill-suited for a per se rule of illegality, but that does not mean that tying and other attempts by an IP holder to extend the scope of his rights beyond the formalistic bounds of the rights granted to him are always socially beneficial either. All it means is that we have a mixed bag.

The primary advantage of taking a formalistic approach to assessing copyright misuse is that it creates a clear rule—one that avoids requiring courts to make difficult judgment calls. For example, if one believes that attempts by copyright holders to expand the scope of their rights on average have an adverse effect on competition, but for reasons alluded to earlier one questions the ability of courts to discern the good from the bad, then a purely formalistic rule could make sense.¹⁰⁷

The greatest problem with this approach is that it has the potential to deter many welfare-enhancing transactions. Taken to its natural extreme, this approach could prevent copyright holders from extracting anything other than monetary compensation from their licensees. The adverse consequences of such a rule become evident from brief consideration of a recent article by Raymond Nimmer, in which he draws attention to the “market benefits that flow from the flexibility created by license agreements.”¹⁰⁸ Challenging the view that the use of licenses to govern the transfer of information, including information protected by patent or copyright, restricts the free flow of information, Nimmer argues licenses can actually facilitate the transfer of information.¹⁰⁹ This is because licenses enable “parties to tailor rights and resulting costs in ways that less nuanced deals cannot.”¹¹⁰ If copyright holders are prevented from

106. See generally WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 372-82 (2003).

107. Cf. Eric A. Posner, *A Theory of Contract Law Under Conditions of Radical Judicial Error*, 94 NW. U. L. REV. 749 (2000).

108. Raymond T. Nimmer, *The Uniform Computer Information Transactions Act and Electronic Commerce: Licensing in the Contemporary Information Economy*, 8 WASH. U. J.L. & POL'Y 99, 127 (2002).

109. *Id.* at 150 (asserting that “legal support for personal choices about how to distribute information will encourage the distribution of information”).

110. *Id.* at 102.

negotiating such terms, the distribution patterns of some may be unaffected; but for others, the additional terms they can impose have value—this is probably the case for most copyright holders who utilize restrictive licenses, otherwise they would have no reason to expend resources to cover the transaction costs of creating the license—and for them, their distribution patterns likely will be impacted. They might demand a higher price, restrict the number of parties to whom they sell, or choose not to release their work at all. Because a formalistic approach would discourage all such transactions, it suffers from a serious overbreadth problem.

A second problem with this approach is the assumption that courts should not be trusted to make difficult judgment calls. While there may be reason to fear such discretion when courts can (or must) disguise the reasons for a decision, the role of judges is to judge. We have the benefit of a highly capable federal judiciary; thus, a better approach may build upon its recognized skills. For example, as we saw earlier, the judiciary has long been vested with the responsibility of understanding and administering copyright policy. Hence, one way of approaching the question of when attempts by copyright holders to expand their control outside the formal bounds of copyright law should be deemed misuse would be to provide copyright holders with great discretion in licensing practices but identify certain bounds as so central to copyright policy that if transgressed, the copyright would become unenforceable (at least as a property right). This approach, which I label the principled-guidelines approach to misuse, will be examined in Part II.B.4. Alternatively, recognizing the expertise of the courts in policing procedure, we could take a process-based approach to determining whether a particular act by a copyright holder is misuse. This is the type of approach I consider next.

3. *Abuse of process*

A third approach, suggested by the court in *WIREDATA*, is to deem any attempt by a copyright holder to extend the scope of his limited monopoly misuse if the attempt entails an abuse of process. To understand how this approach would function, we consider what constitutes an abuse of process. According to *Black's Law Dictionary*, an abuse of process is “[t]he improper and tortious use of a legitimately issued court process to obtain a result that is either unlawful or beyond the process’s scope.”¹¹¹ The *Restatement (Second) of Torts* adds that

[t]he gravamen of the misconduct for which the liability stated in this Section [on abuse of process] is imposed is not the wrongful procurement of legal process or the wrongful initiation of criminal or civil proceedings; it is the

111. BLACK'S LAW DICTIONARY, *supra* note 15, at 15.

misuse of process, no matter how properly obtained, for any purpose other than that which it was designed to accomplish.¹¹²

However, as one of the reasons Judge Posner gave for expanding misuse beyond the bounds of antitrust is that to do otherwise would render the doctrine duplicative, his conception of abuse of process in this context is likely more expansive than the tort.¹¹³ Thus, the best way to approach this question may be to consider how Judge Posner would actually apply the doctrine in a particular context—something we can do by turning to an article he recently authored with William Patry.

In their article, *Fair Use and Statutory Reform in the Wake of Eldred*, Patry and Posner argue that at least some of the policy problems the petitioners presented to the Supreme Court in *Eldred v. Ashcroft* could be rectified by an expanded doctrine of fair use.¹¹⁴ They contend that courts have the power under the current statutory scheme to apply the doctrine of fair use in a far broader set of circumstances than is used currently, and that it is particularly important for courts to take this step “under the changed conditions that the CTEA has brought about.”¹¹⁵

Patry and Posner identify as the “fly in the ointment” of their solution the fact that “[c]opyright owners and their lawyers are likely to continue advising would-be copiers that they are infringers even when the proposed copy would be a fair use; and the copiers will be reluctant to provoke litigation over the issue.”¹¹⁶ They then present numerous examples of copyright owners and their lawyers doing just that—from warnings in books that announce that no part of the text may be reproduced without permission to instructions provided by university presses to their authors that announce overly restrictive guidelines regarding what they may quote without permission. They suggest that “[t]he problem of overclaiming of copyright in situations in which asymmetrical stakes discourage a legal challenge to the claim argues strongly for a safe-

112. RESTATEMENT (SECOND) OF TORTS § 682 cmt. a (1977).

113. Interpreted too broadly, this approach could become synonymous with the approach just discussed. For example, in their *IP and Antitrust* treatise, Herbert Hovenkamp, Mark Janis, and Mark Lemley identify a class of misuse cases that they dub “abuse-of-process” cases; but in their view, “[t]he basis for copyright misuse in this set of cases seems to be that courts should not assist the expansion of a copyright beyond its statutory bounds, as they would do were they to enforce improperly broadened copyright.” HERBERT HOVENKAMP ET AL., 1 *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 3.4 (2002 & 2004 Supp.). Depending upon one’s interpretation of “improperly,” this statement could articulate an approach very similar to that I label as formalistic.

114. William F. Patry & Richard A. Posner, *Fair Use and Statutory Reform in the Wake of Eldred*, 30 *CAL. L. REV.* (forthcoming 2004). Further citations to this piece will be to a manuscript copy on file with the author.

115. *Id.* at 16.

116. *Id.*

harbor approach,” and they see copyright misuse as providing such a safe harbor.¹¹⁷

According to Patry and Posner, when a copyright holder affixes a warning on copies of his copyrighted work that “grossly and intentionally exaggerates the copyright holder’s substantive or remedial rights, to the prejudice of publishers of public-domain works, the case for invoking the doctrine of copyright misuse seems to us compelling.”¹¹⁸ Two examples they provide of circumstances that might warrant application of misuse¹¹⁹ are a situation where a copyright holder demanded \$25,000 for inclusion of three seconds of *Little Rascals* footage captured in the background of a documentary¹²⁰ and another concerning a copyright warning published with a reproduction of a newly discovered notebook entry by Virginia Woolf that asserted, “No part of this text may be reproduced without the express prior consent of Hesperus Press.”¹²¹ This reveals that the abuse of process approach to misuse is not limited to circumstances where a copyright holder seeks judicial relief. It can also arise in circumstances where a copyright holder uses the implicit or explicit threat of litigation to expand the scope of his monopoly.

Applied in the context of protecting fair use, this approach seems quite appealing. It gives judges discretion to penalize copyright holders who abuse their copyright without requiring them to disguise such a decision in a cloak of harm to competition. It also avoids the overbreadth problem associated with the formalistic approach by granting copyright holders flexibility in how they choose to exercise their rights under copyright so long as their actions do not rise to the level of being an abuse. More generally, this approach is consistent with my suggestion in Part I that copyright misuse can best contribute to the current copyright regime if its applicability arises from actions taken by the copyright holders. Finally, application of this approach results in what seems like the right outcome.

What is less clear, however, is whether this approach achieves the right outcome because the integrity of the process is protected or because the examples happened to involve applying this approach to protect a doctrine that lies at the heart of copyright policy—fair use. It is also unclear whether this approach will consistently avoid the limitations of the first two approaches. If we allow courts free reign to determine what constitutes an abuse of process

117. *Id.* at 19-20.

118. *Id.* at 21.

119. *Id.* at 20-21 (stating that “[e]xaggerating the substantive rights of a copyright owner by denying in effect the fair use privilege, the sort of abuse illustrated by the *Little Rascals* and *New York Review* examples, seems an equally serious form of copyright overclaiming” as an earlier case that had found misuse).

120. *Id.* at 17 (quoting Jeffrey Rosen, *Mouse Trap: Disney’s Copyright Conquest*, NEW REPUBLIC, Oct. 28, 2002, at 12).

121. *Id.* (quoting Virginia Woolf, *At Lady Ottoline’s*, N.Y. REV. BOOKS, July 17, 2003, at 17).

without requiring them to adhere to tort principles, might we not run into many of the same risks we encountered in the anticompetitive approach to misuse? Alternatively, might the uncertainty of a standard like “grossly and intentionally” deter more behavior than is actually disallowed? (The tension between such a standard and the safe-harbor function Patry and Posner ascribe to the doctrine is discussed in more detail below.) While such an effect might not seem problematic when applied to fair use, it could be in other areas.

These concerns are not fatal to an abuse of process approach. As just noted, in the context of fair use, this approach yielded a result protective of copyright policy. A similarly desirable result was suggested in *WIREDdata*. Had the doctrine actually been applied in that case, it would have functioned to prevent a copyright holder from using his copyright to restrict access to noncopyrighted data. Hence, it seems possible, if not probable, that an abuse of process approach to misuse would often result in a good outcome. However, this begs the question: if we are defining an outcome as good because it protects or promotes copyright policy (which is the assumption on which I am operating) might there be a more direct way to achieve this? The next Part takes up this possibility.

4. Principled guidelines

Under the principled-guidelines approach to misuse, copyright misuse arises when a copyright holder attempts to extend the scope of his copyright if in doing so he crosses certain lines identified as central to copyright policy. This is the approach this Note advocates. Substantively, this approach does not necessarily ask courts to resolve copyright misuse claims much differently than they currently do. It does, however, ask them to frame their decisions in slightly different terms. Under this approach, whenever a party to a suit alleges misuse, that party must articulate the policy goal at stake and show how the alleged misuse undermines that goal. In addition, it asks courts applying copyright misuse to articulate a rule or standard that encompasses the misuse at issue and protects the identified policy goal. Asking courts to clarify their rationale and adopt a corresponding rule when possible should increase transparency and facilitate the creation of a body of case law that others can turn to in order to understand what constitutes misuse.¹²²

One policy goal, a competitive marketplace, and correspondent guideline, federal antitrust law, already has an established position in copyright misuse. The preceding analysis suggests there are at least two other guidelines that courts and commentators think copyright misuse should protect: the idea/expression distinction, which was central to both *Lasercomb* and *Alcatel*,

122. In this sense, it overcomes not only the problems in the anticompetitive approach to copyright misuse, but also one of the central problems plaguing patent misuse. *See supra* note 36.

and fair use, for which Judge Posner advocated protection. In a coincidence not easily dismissed as happenstance, these are the two limitations on copyright that the Supreme Court recently identified as rooted in the First Amendment.¹²³ As the Supreme Court recognized in *Eldred v. Ashcroft*, “copyright law contains built-in First Amendment accommodations.”¹²⁴ The first is the idea/expression distinction that ensures “every idea, theory, and fact in a copyrighted work becomes instantly available for public exploitation at the moment of publication.”¹²⁵ The second is that “the ‘fair use’ defense allows the public to use not only facts and ideas contained in a copyrighted work, but also expression itself in certain circumstances.”¹²⁶ The Court explained that “it is appropriate to construe copyright’s internal safeguards to accommodate First Amendment concerns.”¹²⁷ Accordingly, this Note argues that copyright misuse should protect the values embodied in the First Amendment, and that it can do this if any attempt by a copyright holder to cross the idea/expression boundary or to deter fair use of his copyrighted material is deemed misuse.¹²⁸

Example. To understand how this approach would work, we can consider a recent news story. The cover of the business section of the *New York Times* recently featured an article titled *File Sharing Pits Copyright Against Free Speech*.¹²⁹ The article addresses the right of students to post on the Internet memoranda and e-mail of Diebold Election Systems, a maker of voting

123. *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003). To be clear, I am not arguing that the First Amendment mandates that copyright misuse be extended in this fashion. First Amendment challenges to copyright laws have rarely succeeded, largely because Congress and the courts have incorporated First Amendment protections into copyright policy and law. The existence of such protections helped enable the Court to reject *Eldred*’s claim that the CTEA violated the First Amendment.

124. *Id.* at 190.

125. *Id.* at 219.

126. *Id.*

127. *Id.* at 221 n.24.

128. I am not the first to suggest that copyright misuse should be used to protect the values of the First Amendment. See Note, *Clarifying the Copyright Misuse Defense: The Role of Antitrust Standards and First Amendment Values*, 104 HARV. L. REV. 1289, 1290 (1991) (“[T]he copyright misuse defense is best conceived as a tool both for preventing anticompetitive harm to consumers and for vindicating the copyright/first amendment policy favoring the dissemination of ideas.”).

129. John Schwartz, *File Sharing Pits Copyright Against Free Speech*, N.Y. TIMES, Nov. 3, 2003, at C1. The Diebold situation has subsequently made it onto the Op-Ed page, the cover of the Sunday *New York Times* “Money & Business” section, and a feature article in the *New York Times Magazine*. See Robert S. Boynton, *The Tyranny of Copyright?*, N.Y. TIMES MAG., Jan. 25, 2004, at 40; Paul Krugman, Op-Ed, *Hack the Vote*, N.Y. TIMES, Dec. 2, 2003, at A31; Melanie Warner, *Machine Politics in the Digital Age*, N.Y. TIMES, Nov. 9, 2003, at C1. The magazine article is a particularly powerful illustration of the significant level of media attention currently being devoted to copyright and potential problems with the current copyright regime. Boynton, *supra*, at 42 (“Once a dry and seemingly mechanical area of the American legal system, intellectual property law can now be found at the center of major disputes in the arts, sciences and—as in the Diebold case—politics.”).

machines, that discuss problems with the machines. The students claim they posted the material "to spread the word about problems with the company's software" and, in doing so, "they are performing a valuable form of electronic civil disobedience, one that has broad implications for American society."¹³⁰ Diebold responded to the postings by sending the students cease-and-desist letters asserting that the postings constituted copyright infringement. In the view of one recipient who is a sophomore at Swarthmore, the letters were "'a perfect example of how copyright law can be and is abused by corporations like Diebold' to stifle freedom of speech."¹³¹ Another student who had received such a letter responded, "I'm starting to worry about the ramifications for my entire family if I end up in some sort of legal action."¹³²

What options does the recipient of such a letter have? That depends on the viability and form of copyright misuse and the contents of the letter. Without copyright misuse, his options are limited. Even if his use of the copyrighted work qualifies as fair use, the fact-intensive nature of a fair use inquiry prevents the recipient from being able to seek a declaratory judgment that any postings he might make in the future would also constitute fair use. The recipient thus would be forced to choose between ceasing his activities or continuing in the face of a real liability risk—the probability and magnitude of which the copyright holder may well have exaggerated in the letter.

If, however, copyright misuse in the form advocated herein is operative, then the recipient might have options. If the copyright holder is using such letters to deter fair use, for example, by sending the letters to critics he does not have reason to believe are also infringers or by overstating his rights or the penalties for infringement, then the recipient could seek a declaratory judgment that the copyright holder has misused his copyright. If the recipient is knowledgeable about copyright and misuse—and if the rules for what constitutes misuse are sufficiently clear—the recipient might be able to recognize the letter as misuse and take comfort in that protection even without such a judgment.

The importance of copyright misuse to this story, however, lies not in the options available to the recipient once he receives the letter, but in the doctrine's effect on the likelihood that such a letter would be sent and what it would say if it were. Cease-and-desist letters can be a legitimate means for copyright holders to prevent ongoing copyright infringement. If a copyright holder uses such letters for this purpose by sending letters only to parties he reasonably believes are engaged in infringement and the letters accurately state the copyright holder's rights and the potential ramifications for infringement, he will likely be engaged in a lawful exercise of his rights. As such, he should not be prevented from seeking relief, including injunctive relief, from the

130. Schwartz, *supra* note 129.

131. *Id.* (quoting, in part, Nelson Pavlosky).

132. *Id.* (quoting Zac Elliott, a student at Indiana University).

courts. Without a vibrant doctrine of copyright misuse, however, a copyright holder has no incentive not to abuse this lawful tool. He could send such letters to anyone who criticizes his product, and he could exaggerate or even lie about the potential repercussions. The examples provided by Patry and Posner illustrate how common these practices are.

This prophylactic function of copyright misuse also highlights why the principled-guidelines approach could be superior to the abuse of process approach discussed in the last Part. By their own terms, Patry and Posner suggested that violations should be found only when the copyright holder's abuse is egregious—e.g., “the warning [that] grossly and intentionally exaggerates the copyright holder's substantive or remedial rights.”¹³³ Abuse of process, by its nature, involves intentional wrongful activity by the perpetrator. Under a principled-guidelines approach, by contrast, any overstatement has the potential to constitute misuse. Thus, copyright holders would have an incentive not only to avoid intentional and flagrant violations, but also to learn about what their rights actually are and to operate within those bounds.

Objective rules would also help the doctrine fulfill the safe-harbor function Patry and Posner ascribe to it. Recall the suggestion that a letter recipient who recognizes overclaiming should be able to take comfort in the fact that the letter constitutes misuse without having to seek a declaratory judgment to that effect. While Patry and Posner specifically envision copyright misuse functioning in this manner, their approach makes this unlikely, for if the guidelines for what constitutes misuse are subjective or ambiguous, there will necessarily be uncertainty as to whether a particular action will qualify. Only if the guidelines are both objective and clearly defined will such a recipient be able to take comfort without a judgment in hand. The adoption of bright-line rules is facilitated by the remedial scheme proposed in Part III, which would make the penalty for copyright misuse more congruent to the type of mild abuses I suggest should be sufficient to constitute misuse.

5. Limits on First Amendment protection

The copyright misuse doctrine depicted here is not intended to accommodate all potential freedom of expression claims that could arise when a copyright holder exercises his rights in a manner that restricts expression by another. Copyright by its nature entitles the copyright holder to prevent others from using his copyrighted material. I cannot get up on a stage and publicly read a copyrighted poem in its entirety, even if I attribute the work to the author and offer to compensate the author for use of his work. This restrains my freedom of expression.

133. Patry & Posner, *supra* note 114, at 21.

Such restraints can be lawful even when exercised in an attempt to suppress a certain message or quiet a particular speaker. For example, in *Religious Technology Center v. Lerma*, Lerma posted on the Internet large sections of text that were copyrighted by the Church of Scientology (the plaintiff) and the Church sued for infringement.¹³⁴ The district court held that this did constitute infringement and in the process rejected the defendant's claims of fair use and copyright misuse. In rejecting the latter, the court stated that for there to be copyright misuse, "the copyright owner must use the copyright in an impermissible way by 'extending his monopoly or otherwise violating the public policy underlying copyright law.'"¹³⁵ "Such a misuse is quite distinct from the legitimate invocation of one's copyright even though prompted by ulterior motives."¹³⁶ Even under the more expansive view of copyright misuse that I advocate, this case was potentially decided correctly. At the least, the court's reason for denying the copyright misuse defense—a bad motive without any actual attempt by the copyright holder to extend the scope of his copyright is not sufficient to constitute misuse—would still be applicable.¹³⁷

To argue that this approach is the only reading of the current case law would be a stretch. However, with the possible exception of *Practice Management*, this approach is not inconsistent with current case law; I am not the first commentator to question the court's analysis in *Practice Management*.¹³⁸ Furthermore, this may be the most accurate reading of what the courts applying copyright misuse claim they are doing. In all of the cases discussed, the courts stated they were applying the doctrine to protect the public policy embodied in copyright. They may not have clearly identified the policy goal at stake and delineated how it was violated by the misuse, as I suggest they should, but this is a matter of form more than substance.

One potential drawback of this approach is that it requires courts to make potentially difficult judgment calls about what copyright policy is and when it is violated. However, in making these judgment calls, they are not writing on a blank slate. They have the benefit of an extensive body of case law and congressional records to which they can turn for guidance. And, as noted

134. 1996 U.S. Dist. LEXIS 15454 (E.D. Va. 1996).

135. *Id.* at *34-35 (quoting *Nat'l Cable Television v. Broad. Music, Inc.*, 772 F. Supp. 614, 652 (D.D.C. 1991)).

136. *Id.* at *34.

137. The only way the case should potentially have been decided differently is if, in their attempt to suppress dissenting speech, the plaintiffs had attempted to place restrictions on the use of their copyrighted material that would have deterred fair use. For example, if the church released the text only subject to an agreement that the licensee not criticize the work or make it available to third parties, the outcome would change under the proposed regime.

138. Clifford, *supra* note 37, at 256 (suggesting that the Ninth Circuit panel that decided *Practice Management* "seemed to confuse the misuse of copyright defense with the general defense of unclean hands").

earlier, this is the type of judgment call we regularly trust the federal judiciary to make.

A greater potential problem is that if the proposed approach attempts to protect a multitude of values, or if it attempts to protect only a few core values but a large body of rules are adopted to protect those values, the scheme could become very messy very quickly. While in theory this seems like a potentially significant problem, in practice it appears unlikely to be much of an issue. At least for now, the addition of a single policy goal (the values embodied in the First Amendment) and two guidelines to protect it (fair use and the idea/expression dichotomy) are all that is needed to address essentially all of the problematic behavior discussed in the case law thus far.

6. Potential counterarguments

This Part introduces and responds to a number of potential counterarguments to modifying misuse in the manner called for in this Note. The list is not exhaustive and the responses may or may not be sufficient to alleviate the acknowledged source of concern. Hopefully, however, by responding to some of the most pressing concerns the proposed changes may provoke, this Part should help this Note instigate a dialogue about how copyright misuse should evolve, even if that path is different than the one proposed.

First Amendment protection may not be warranted. One counterargument to the proposed scheme is that there is no need for copyright misuse to concern itself with protecting First Amendment values because copyright law already has the protections identified by the Court in *Eldred* to fulfill that function. However, without the support of copyright misuse, these doctrines may not be able to serve the purposes the Court assigns to them in *Eldred*. For example, as evidenced by *Lasercomb* and *Alcatel*, without copyright misuse, copyright holders could prevent the idea/expression distinction from making “every idea, theory, and fact in a copyrighted work . . . instantly available for public exploitation at the moment of publication”¹³⁹ by simply releasing their works only subject to license agreements that forbid such dissemination. The article by Patry and Posner provides similar illustrations of the way copyright holders could undermine the ability of “the public to use not only facts and ideas contained in a copyrighted work, but also expression itself in certain circumstances,”¹⁴⁰ were it not augmented by copyright misuse.

In addition, as we saw in the Diebold example, the fair use doctrine by its nature arguably requires support if it is to protect First Amendment values.¹⁴¹

139. *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003).

140. *Id.*

141. For an examination of how fair use and copyright misuse could operate together, see Douma, *supra* note 87, at 63-67, which provides a thorough analysis of why “a copyright

Paul Goldstein has described fair use as the most indeterminate doctrine in copyright.¹⁴² He supports this assertion by noting that of the six fair use cases the Supreme Court has decided, two have resulted in 4-4 splits,¹⁴³ three have a history where the district court decided the case one way, the appellate court reversed, and the Supreme Court reversed again,¹⁴⁴ and the final one is not really a fair use case.¹⁴⁵ This is not the type of safeguard normally considered sufficient to protect First Amendment values. One might wonder whether a doctrine can provide any kind of meaningful First Amendment protection if speakers have such limited ability to determine *ex ante* whether particular speech will be protected.

Augmenting fair use with copyright misuse would not rectify all of the problems arising from fair use's indeterminate nature. It would, however, minimize some of them. As Patry and Posner recognized, one of the greatest factors preventing fair use from fulfilling its potential is the misinformation copyright holders disseminate about their rights under copyright, and misuse can rectify that. Other problems with fair use that may be partially corrected by copyright misuse are discussed in the summary of a recent speech by Judge Kozinski that begins Part III.

Congress's intent as embodied in the DMCA suggests new copyright direction. Another potential counterargument is that protecting the values of the First Amendment is actually not consistent with congressional intent for copyright law. While the courts have long talked of balance, Congress has continually acted to expand copyright protection. Congressional intent regarding the right of copyright holders to exceed the limits imposed by the idea/expression distinction and fair use could be considered ambiguous after adoption of the DMCA, which in effect gives copyright holders the power to deny users those rights when they use architecture rather than contract as the tool of prevention. For example, one commentator has criticized the Fifth Circuit's decision in *Alcatel* as "against this tide" of the DMCA, which that commentator understood as "effectively confer[ring] new power upon software copyright owners to restrict access to the ideas, concepts, procedures and processes embedded in copyrighted material."¹⁴⁶

misuse defense cannot replace the application of the fair use doctrine."

142. Paul Goldstein, Lecture to Copyright Class at Stanford Law School (Oct. 28, 2003).

143. *Williams & Wilkins Co. v. United States*, 420 U.S. 376 (1975); *CBS, Inc. v. Loew's Inc.*, 356 U.S. 934 (1958).

144. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994); *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985); *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

145. *Stewart v. Abend*, 495 U.S. 207 (1990).

146. Theodore Dorenkamp, Note, *Copyright Misuse or a Right to Compete?: A Critique of Alcatel USA v. DGI Technologies*, 9 TEX. INTELL. PROP. L.J. 269, 270 (2001).

I would suggest that the DMCA should not be viewed as indicative of legislative intent regarding the purpose of copyright generally, but rather as a congressionally granted exception to these still-important limitations necessitated by new technology. Both the idea/expression distinction and fair use are codified in current copyright law, and Congress has indicated no desire to narrow these provisions.¹⁴⁷ When Congress makes clear that it intends to override fair use or the idea/expression distinction, it has the power to do so (within constitutional bounds). Where, however, Congress has not expressed any intent to allow copyright holders to get around these statutorily and judicially mandated limits on the scope of copyright protection, we should assume that Congress intends these limits to be enforced.

Any copyright misuse doctrines should come from the legislature. Another factor that could weigh against the courts modifying misuse into the form advocated is that it is the type of change properly enacted via legislation. This argument becomes even more potent in light of the remedial change called for in the next Part, which arguably is a more dramatic change from the current regime than the substantive refinement called for in this Part. It is true that these changes could be wrought, perhaps most effectively, by a change in the legislative scheme. While this Note is targeted to the judiciary, it could speak just as well to Congress. I would strongly encourage Congress to codify misuse in the form advocated by this Note. That does not, however, mean that courts should be paralyzed in their approach to the doctrine in the interim.

As the earlier examination of the role of the judiciary in copyright lawmaking illustrates, having the judiciary instigate these changes is consistent with the traditional domain of the courts relative to Congress. One could even argue that having already taken it upon themselves to adopt the doctrine, courts have a duty to continue applying and modifying it as they think appropriate until Congress communicates to the contrary.

Consumers don't seem to care about these rights, why should courts? The final counterargument this Note addresses is probably the strongest. To the extent that copyright misuse arises from contractual relations between a copyright holder and his licensees, there is a question of whether judicial interference undermines freedom of contract and has an overtone of paternalism. A partial answer to this challenge is that copyright misuse does not, or at least does not need to, adversely affect any rights a party would have under contract law; thus, the only change the doctrine brings about is that it prevents licensors from being able to sue for breach without actually turning to contract law. If anything, the proposed modifications to the doctrine promote

147. The idea/expression distinction is codified in section 102(b) of the Copyright Act, which states: "In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work." 17 U.S.C. § 102(b) (2000). Fair use is codified in section 107 of the Act. 17 U.S.C. § 109 (2000).

freedom of contract, as the suggested remedial change would decrease the likelihood that a finding of misuse would render a contract unenforceable for lack of consideration (as a license is primarily a covenant not to sue and such a covenant may well be deemed valueless if there is no potential cause of action because the copyright is unenforceable).

In addition, even in the standardized licensing context, we may not be worried about the inclusion of terms that limit consumer rights if there is competition in such terms, that is, if consumers could choose to license a comparable work not subject to the rights-limiting term.¹⁴⁸ However, at least in certain contexts, consumers do not appear to have this choice.¹⁴⁹ This Part considers the potential reasons behind this lack of competition and why this lack may give courts reason to be concerned.

One reason copyright holders may be able to extract rights from licensees that go beyond the Copyright Act could be that copyright holders hold some level of market power. Because a copyright grants a limited monopoly over the protected expression, this may seem like a reasonable conjecture. However, the nature of the IP protected by copyright makes it highly unlikely that a copyright vests in its owner any significant market, as it is widely recognized that the market power conferred by a copyright is far less than that of a patent.¹⁵⁰ It thus seems highly unlikely that this could account for the prevalence of such agreements in the marketplace for copyrighted works. An alternative explanation for the apparent lack of competition in these terms could be that the average licensee may place relatively little value on the right sacrificed relative to the cost of the copyrighted work. In the software context, for example, consumers may place little value on their fair use rights relative to other factors, e.g., the price, functionality, or quality of the software.

This returns us to the original counterargument: if consumers do not care about these rights enough to pay for them, why should courts be concerned if the rights are waived? There are two potential responses. The first is that the rights at stake represent values that we as a society have made it a policy to protect, even in circumstances where individuals place a low value on their ability to exercise those rights.¹⁵¹ Alternatively, there could be a collective

148. Presumably, the opportunity to choose a competing product without the restrictive terms would also ensure that when licensees choose a product with the restrictive terms, they are compensated for the rights they are forgoing.

149. See generally Madison, *supra* note 25.

150. *E.g.*, Assessment Techs. of Wis., L.L.C. v. WIREdata, Inc., 350 F.3d 640, 647 (7th Cir. 2003) (stating “that patents tend to confer greater market power on their owners than copyrights do, since patents protect ideas and copyrights, as we have noted, do not”); Dorenkamp, *supra* note 146, at 280 (noting that “[t]here is general agreement among courts and scholars alike . . . that copyright does not presumptively confer market power”); Hanna, *supra* note 63, at 415-16 (challenging the presumption that patent grants the holder market power and suggesting that such a presumption is even more misplaced as applied to copyright).

151. See, e.g., Jed Rubenfeld, *A Reply to Posner*, 54 STAN. L. REV. 753, 753 (2002)

action problem. The average copyright consumer may derive little or no direct value from the right to reverse engineer a software program or critique a book. Accordingly, the average user may be willing to pay little, if anything, to hold on to such a right. However, the ability of those who might exercise such rights can have significant welfare-enhancing effects. As Cass Sunstein has recognized:

Various civil liberties, including freedom of speech, can be seen as an effort to insulate people from the pressure to conform. The reason is not only to protect private rights but also to protect the public against the risk of self-silencing. A striking claim by the legal philosopher Joseph Raz emphasizes the social value of free speech: "If I were to choose between living in a society which enjoys freedom of expression, but not having the right myself, or enjoying the right in a society which does not have it, I would have no hesitation in judging that my own personal interest is better served by the first option." A system of free speech confers countless benefits on people who do not much care about exercising that right.¹⁵²

We can easily see how this insight relates here. As a reader, I might not be willing to pay extra for a book to have the right to criticize it. I benefit, however, from others having that right, as I can look to book reviews to guide my selection and know that those reviewers were not handicapped in their critique by a need to get the author's approval to write about the book. Likewise with software: as a computer illiterate, the ability to reverse engineer a program has no value for me, but I benefit from others having that right, as their work can reveal flaws in a program or provide the basis for new (complementary or competing) programs. Thus, limiting the ability of copyright holders to override specified limitations on the scope of their copyright may be necessary to counterbalance this collective action problem.

To further alleviate these concerns, Part II.B.7 suggests that misuse potentially should not apply when the contract fits the traditional model of a negotiated meeting of the minds and the copyright holder can show that inclusion of problematic terms was in fact optional.

7. Negotiability should influence finding of misuse

The copyright misuse cases decided thus far demonstrate little concern for the context in which the offensive licensing term arises. In *Lasercomb*, the offensive term was part of the copyright holder's standard licensing agreement, but the defendant invoking misuse had never actually signed the agreement

(developing further his argument that "cost-benefit" reasoning in free speech law is unnecessary and unacceptable); Jed Rubenfeld, *The First Amendment's Purpose*, 53 STAN. L. REV. 767, 770 (2001) (invoking the notion of purposivism—"to reclaim an old idea: that there are certain First Amendment absolutes, which stand up regardless of any balancing of interests").

152. CASS SUNSTEIN, *WHY SOCIETIES NEED DISSENT* 83 (2003).

with the offensive term and other licensees had negotiated to have the term removed. The defendant in *Alcatel* was not in privity with the copyright holder, although the court did seem to think it significant that the copyright holder only released his copyrighted program subject to a standardized license with the offensive terms. And in *Practice Management*, the offensive term was part of a single, negotiated contract, and there was even a suggestion that the licensee, rather than the licensor, desired its inclusion.

While it is beyond the scope of this Note to engage in a detailed analysis of how the circumstances under which a licensing term arises should figure into the misuse analysis, brief consideration of the issue is warranted. I suggest that a copyright holder should be able to overcome a presumption of misuse arising from terms in a licensing agreement if the copyright holder can show that the terms were not included in any standardized license agreement it attached to his copyrighted work and that the copyright holder had licensed or sold the work free of the offensive provisions.

Providing a narrowly tailored exception for circumstances that suggest the contract actually reflects a negotiated meeting of the minds respects contractual freedom. Another advantage of providing this exception is that it avoids the potentially problematic incentives that the current regime creates for licensees. Under the current regime, it appears that a licensee can negotiate inclusion of an exclusivity or other potentially offensive term and then use inclusion of that term in the agreement to claim that the licensor misused its copyright. This seems particularly problematic under the current copyright misuse regime, where such a finding is likely to enable the licensee to use the copyrighted material without providing any recompense to the copyright holder (at least for the period of misuse).¹⁵³

At the same time, ensuring that standardized licenses can be the basis for a claim of misuse is important to protecting copyright policy, as such licenses can be used to create regimes that completely supplant the terms of the Copyright Act.¹⁵⁴ It also has the advantage of freeing courts (at least when applying misuse) from having to determine whether the standardized license in question is in fact a contract. As copyrighted works of all forms increasingly are released only subject to standardized licenses, such as the infamous shrink-wrap licenses, the line between mutually agreed-upon terms, as exist in a

153. One court seemed to assume that such an exception exists:

Plaintiffs' argument would have merit if there was any evidence that Napster introduced and negotiated for the exclusivity provision. In that scenario, it would be unseemly to allow Napster to use the same provision as protection against infringement actions. Such a rule would create perverse incentives to artificially manufacture overreaching clauses as liability shields under the misuse doctrine. However, the evidence thus far shows that the relevant provisions were inserted at MusicNet's urging and not as an end-run around copyright laws by Napster.

In re Napster, Inc. Copyright Litig., 191 F. Supp. 2d 1087, 1107 n.16 (2002).

154. See Madison, *supra* note 25, at 2 ("If there is no ability to choose an 'unlicensed' version of the copyrighted work, the licensing norm displaces the Copyright Act.").

contract, and unilateral assertions of rights, as appear in a copyright warning, is fading. Two other patterns in copyright licensing practices further complicate this distinction. First, copyright licenses often intermingle terms that create rights or responsibilities with those that merely reiterate the rights granted under the Copyright Act.¹⁵⁵ And second, some copyright holders are explicitly asserting that the licenses they attach to their copyrighted works are not contracts.¹⁵⁶ Thus, allowing courts to apply misuse to adhesion contracts with problematic terms and problematic copyright warnings without requiring that they identify the text in question as one or the other should facilitate the application of misuse to modern licensing practices.¹⁵⁷

III. REMEDIAL MEASURES

This Part addresses the remedy for misuse. As alluded to earlier, the major change this Note calls for in this regard is for courts to consider penalizing misuse by transforming a copyright holder's property right in the copyrighted work into a liability right for the duration of the misuse. Looking at the legislative scheme and Supreme Court precedent, it might appear that copyright law does not automatically vest a copyright holder with a full property right in his copyrighted work.¹⁵⁸ However, in practice, courts still grant injunctions as a

155. See O'Rourke, *supra* note 89, at 537-38. Interestingly, this use of a license as a means of educating a user about his or her rights and responsibilities under the Copyright Act can characterize licenses governing open source software as well as those governing proprietary software. See Lawrence Lessig, Lecture to Advanced Contracts Class at Stanford Law School (Sept. 30, 2003) (noting that the GNU General Public License that governs most GNU/Unix software, as well as many other open source applications, serves two functions: setting the terms of use and educating the licensee about the terms already in place by virtue of copyright law). Moreover, licenses used in both contexts often do not distinguish between terms that merely reiterate terms set forth in the Copyright Act from those the licensor is imposing separate from the Copyright Act.

156. *E.g.*, Pamela Jones, *The GPL Is a License, Not a Contract, Which Is Why the Sky Isn't Falling*, at <http://www.groklaw.net/article.php?story=20031214210634851> (Dec. 14, 2003) (describing the difference between a license and a contract and asserting the GPL is a license but not a contract).

157. This is an area where my approach to misuse parts with the approach taken by Judge Posner, who seems prepared to make this distinction and willing to have the applicability of misuse hinge upon it. In *Assessment Technologies of Wisconsin, L.L.C. v. WIREdata, Inc.*, Judge Posner dismisses as "irrelevant" that "a copyright owner can by contract limit copying beyond the right that a copyright confers" prior to considering the copyright misuse issue. 350 F.3d 640, 646 (7th Cir. 2003). He recognizes that contracting practices could be the basis for a finding of misuse but only if the copyright holder attempts to use contract to prevent suppliers of data from releasing that data to third parties. This suggests he views the problem with the overstatements he condemns in the article he coauthored with Patry to be their misleading nature and that he would not be similarly troubled if such statements arose instead in the context of a contract.

158. Congressionally created section 502 of the Copyright Act, which gives courts the power to grant copyright holders injunctive relief, also vests courts with discretion to determine whether such relief is warranted. See 17 U.S.C. § 502(a) (2000) (stating that

matter of routine.¹⁵⁹ As such, using a liability rule in place of a property rule to protect a copyright holder's exclusive rights is a cognizable penalty.

This Part begins by introducing the notion of pliability rules, i.e., rules that change from being property rules to liability rules upon the occurrence of some predetermined condition, as developed by Abraham Bell and Gideon Parchomovsky. After Part III.A establishes that copyright misuse does and should operate as a pliability rule, Part III.B goes on to consider the potential benefits derived from using liability rules in this context. It does this with a summary of a speech by Judge Alex Kozinski in which he proposed that a copyright holder's exclusive right to create derivative works be protected by a uniform liability rule, rather than a property rule with an exception for fair use. Interestingly, the problem Judge Kozinski aspires to rectify—the deficiencies of fair use—relates to the substantive changes proposed in the previous Part. His response is fundamentally different than mine, as he seeks to supplant fair use with a liability rule while I seek to augment it with such a rule, but his insights are instructive nonetheless.

With this background, Part III.C then evaluates the dominant remedy for copyright misuse, a modified remedial scheme suggested by Judge Marilyn Patel in *In re Napster, Inc. Copyright Litigation*,¹⁶⁰ and the proposed liability regime. This analysis reveals that the dominant remedy, which was adopted from patent misuse, may not translate well from the patent context to the copyright context, that Judge Patel's approach represents a significant first step away from the dominant approach toward a remedial scheme better suited to copyright, and that the proposed liability scheme completes this shift.

A. Pliability Rules

Guido Calabresi and A. Douglas Melamed transformed how we think about legal rights and duties by demonstrating that the rules used to enforce them can be conceptualized as property, liability, or inalienability rules, and showing how this conceptual framework can be used to promote the economic

courts “may . . . grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright”). The Supreme Court has also emphasized the discretionary nature of injunctive relief and the ability of courts to refrain from granting such relief when public policy so mandates. For example, in *Acuff-Rose*, the Court reminded lower courts that because fair use inquiries involve difficult judgment calls, “courts may also wish to bear in mind that the goals of the copyright law, ‘to stimulate the creation and publication of edifying matter’ are not always best served by automatically granting injunctive relief when parodists are found to have gone beyond the bounds of fair use” *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (internal citations omitted).

159. 4 NIMMER & NIMMER, *supra* note 8, § 14.06[B] (“It is uncontroversial that a ‘showing of past infringement and a substantial likelihood of future infringement’ justifies issuance of a permanent injunction.”).

160. 191 F. Supp. 2d 1087, 1103 (N.D. Cal. 2002).

efficiency and fairness of legal rules.¹⁶¹ Bell and Parchomovsky recently added depth to Calabresi and Melamed's classic framework by drawing attention to an additional type of legal rule also found in the American legal system: pliability rules.¹⁶² In their words, "[p]liability, or pliable, rules are contingent rules that provide an entitlement owner with property rule or liability rule protection as long as some specified condition obtains; however, once the relevant condition changes, a different rule protects the entitlement—either liability or property, as the circumstances dictate."¹⁶³ Despite appearing to occupy a middle ground between property and liability, "[p]liability rules are distinct from property and liability rules, as grue is from green and blue."¹⁶⁴ A pliability rule is "ontologically distinct" because "[u]nlike a property or liability rule, a pliability rule contains within itself its own conditions for change."¹⁶⁵

The distinctive nature of pliability rules means they provide lawmakers with a tool for protecting legal rights that is not paralleled in previously recognized categories of legal rules.

Pliability rules allow decisionmakers to avoid the all-or-nothing decision of creating property rule or liability rule protection. Instead, decisionmakers may build flexibility into the rule, setting conditions that switch from a stronger to a weaker protection of entitlements (or vice versa) when economic efficiency or fairness considerations so require.¹⁶⁶

In addition to drawing attention to the flexibility enabled by pliability rules, the authors demonstrate "that lawmakers have preceded the academy to pliability rules; pliability rules are already widely used."¹⁶⁷

For example, Bell and Parchomovsky note that our intellectual property regime already uses at least two pliability rules. First, a "zero order pliability rule," that is, a pliability rule where "property rule protection is succeeded by a no liability rule," is central to both patent and copyright.¹⁶⁸ In each, the IP holder has a property right in the IP for the term of protection; but, when the term expires, the IP becomes subject to a zero-liability rule that makes the IP freely available. Fair use in copyright is likewise a pliability rule but of the "simultaneous" pliability rule species, as "the same entitlement holder holds

161. Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972).

162. Abraham Bell & Gideon Parchomovsky, *Pliability Rules*, 101 MICH. L. REV. 1 (2002).

163. *Id.* at 5.

164. *Id.* at 27 (explaining that grue, as conceptualized by Nelson Goodman, is the color of an item that looks green to anyone who observes it prior to a given time and blue to anyone who views it after that time).

165. *Id.*

166. *Id.* at 7.

167. *Id.* at 26. They go on to claim that "pliability rules are so ubiquitous in our legal regime that every entitlement can be viewed, in one sense or another, as falling under the protection of pliability rules . . ." *Id.* at 28.

168. *Id.* at 6.

one type of rule protection with respect to some potential users, but a different type of rule protection with respect to other users.”¹⁶⁹

Copyright misuse is likewise governed by a pliability rule. The default rule is that a copyright holder has a property right. Upon the occurrence of the first trigger—misuse of the copyright—that property right is suspended. When the misuse ends, the copyright holder’s property right is reinstated.¹⁷⁰ Because the nature of the right can change more than once, copyright misuse is governed by a “multiple stage” pliability rule.

Affirming the appropriateness of using such a rule to govern copyright misuse, the doctrine fits both of the categories Bell and Parchomovsky identify as suited for a multiple-stage pliability rule: “anticipated multiple changes in circumstances or a particularly complicated balance of interests.”¹⁷¹ In regard to the first, just as a copyright holder can engage in misuse, he can also cease his misuse and the effects of the misuse can dissipate. Under a multiple-stage pliability rule, copyright misuse can both penalize copyright holders for engaging in the former and encourage them to bring about the latter. Regarding the second, copyright by its nature involves a complex balancing of interests. Copyright misuse is no exception. There is a delicate balance between protecting the public policy underlying copyright by penalizing certain actions by copyright holders which violate that policy and protecting the limited monopoly rewarded to copyright holders as an incentive to create. If courts are too quick to undermine a copyright holder’s exclusive rights or if there is insufficient notice provided to copyright holders *ex ante* regarding what will

169. *Id.* at 31; *see also id.* at 50-52.

170. The issue of when the misuse ends is another area where reconsideration of the dominant approach, which is modeled after patent misuse, could be appropriate, as the longer term of copyright relative to patent increases the likelihood of restoration. Under the dominant approach, misuse ends when the copyright holder ceases the misuse and the effects of the misuse have dissipated. This approach also has the advantage of seeming just, as it prevents the copyright holder from exercising a full set of rights as long as the marketplace remains affected by the copyright holder’s misconduct. One problem with this approach is that it can be difficult for a court to assess when the effects of misuse have dissipated. For example, under the facts of *Lasercomb*, it is unclear how a judge should determine when the effects of the no-compete clause have dissipated. Is it when a sufficient number of competitors have entered the marketplace? If this is the measure and misuse renders the copyright unenforceable, the very finding of misuse may have the effect of deferring its dissipation—one would have to create a far superior product in order to compete with a software program that is free. One alternative would be that the period of misuse comes to an end when the copyright holder ceases the misuse. This approach is easier to administer, but it is potentially less just and could be easily manipulated by the copyright holder. An ideal solution may be the cessation and dissipation rule, but with a rebuttable presumption that the effects of the misuse have dissipated after a prescribed amount of time has lapsed following cessation. The greatest problem with such a rule is that it begins to look very legislative and thus is not the type of rule easily adopted by the judiciary.

171. Bell and Parchomovsky, *supra* note 162, at 59.

constitute misuse, application of the doctrine could undermine the incentive system set up by copyright.¹⁷²

Having established that copyright misuse is and should be governed by a liability rule, that the beginning and end points for misuse are relatively established, and that copyright law prescribes that a property rule govern a copyright holder's exclusive rights for any period not affected by misuse, the question that remains is what type of right should govern during the period of misuse. Part III.B explores some of the advantages of using liability rules in this field generally, and Part III.C uses these insights to assess what type of rule will most effectively allow misuse to fulfill its function.

B. Liability Protection in the Field of IP

As noted at the outset, liability rules are a rarity in IP. Generally, IP is protected by a property rule or subject to a no-liability rule. Part III.B considers the deficiencies that may arise from limiting the regulation of IP to such rules and the advantages that could arise from invoking a liability rule in this domain. This insight comes from a recent speech by Judge Kozinski in which he proposed a new legislative scheme for regulating the creation of derivative works.¹⁷³ According to Judge Kozinski,

our current copyright law leaves us with two unsatisfactory choices when someone makes a derivative work that the original author is unwilling to license. Either it's not a fair use, in which case we usually enjoin the work out of existence, or it is a fair use, in which case the work gets published and the copyright holder gets to pay the attorney's fees.¹⁷⁴

The fundamental problem he sees is that "we ask courts to engage in a nuanced query to determine whether something is fair use, but don't provide any way for them to give a nuanced *answer*."¹⁷⁵

He begins his search for a more nuanced solution by calling into question "whether the 'exclusive Right' of authors to profit from their work need necessarily entail an exclusive right to control the uses to which that work is put."¹⁷⁶ He then notes that "[t]he First Amendment doesn't answer the question, but it does suggest that to the extent we can do without copyright

172. This Note attempts to minimize these risks in two ways. First, as described earlier, the Note calls for a clarification of the policies protected by the doctrine and the adoption, where possible, of ex ante guidelines of what will constitute misuse. Second, the additional remedial option put forth in this Part minimizes the risk that a finding of misuse would undermine the economic incentives set up by the copyright regime. It does this by minimizing the economic harm to a copyright holder if he is deemed guilty of misuse.

173. Alex Kozinski & Christopher Newman, *What's So Fair About Fair Use?*, 46 J. COPYRIGHT SOC'Y U.S.A. 513 (1999) (reproducing the 1999 Donald C. Brace Memorial Lecture delivered by Judge Kozinski).

174. *Id.* at 525.

175. *Id.* at 515.

176. *Id.* at 521.

injunctions, we should.”¹⁷⁷ Freed from the obligation to protect a copyright holder’s right with a property rule, he suggests that a copyright holder’s derivative right should instead be protected by a liability rule; he demonstrates that such a rule provides the desired nuanced solution as it creates a scheme that is simultaneously more protective of a copyright holder’s economic interests and more protective of free expression than the current fair use doctrine.

The liability regime he proposes protects a copyright holder’s economic interests by requiring that the creator of a derivative work compensate the copyright holder for his use of the copyrighted work, irrespective of whether the work would qualify as a fair use under current law. However, it also promotes expression by eliminating the copyright holder’s ability to enjoin creation and distribution of the derivative work or to demand an unreasonably high royalty rate for use of his copyrighted work.

The logistics of his plan are based on the current Copyright Act. Under his proposed scheme, sections 502 and 503 of the Copyright Act, which provide for injunctive relief and the impounding and disposition of the infringing articles, would not be available; nor would section 504(c), which provides for statutory damages.¹⁷⁸ Instead, the copyright holder would be relegated to the actual damages and profits provided for by section 504(b).¹⁷⁹ Specifically, a copyright holder would be entitled to any actual damages he suffers as a result of the infringement and any profits the infringer makes from the derivative work that are attributable to the infringement, with the added exception that he not be entitled to “damages attributable to critical evaluation of the copyrighted work.”¹⁸⁰

Equitable relief would still be available, but only if the “equitable requirements for an injunction,” such as a lack of means to pay the required recompense, are met.¹⁸¹ “Thus, in this system injunctions could still issue, but only against infringing works whose original added value was outweighed by

177. *Id.*

178. Given the time and expense associated with establishing actual damages and profits, if I were starting from scratch my hunch would be to retain the availability of statutory damages but ask courts to limit the amount so awarded to a value comparable to damages and profits. One of the factors that likely shaped Judge Kozinski’s decision not to provide such an option is his desire, voiced elsewhere in his speech, to encourage the copyright holder to negotiate with potential infringers. Whatever his reason, I defer to his judgment regarding the best way to introduce a liability rule into the current copyright scheme. In addition, to the extent the proposed liability rule is intended to be a penal measure, the potential for the copyright holder to be slightly undercompensated as a result of being burdened with a heightened cost of recovery may be appropriate.

179. 17 U.S.C. § 504(b) (2000).

180. Kozinski & Newman, *supra* note 173, at 526.

181. *Id.* at 528.

the damage to the copyright holder. In other words, we would enjoin only inefficient infringement.”¹⁸²

Collectively, Judge Kozinski’s proposed scheme for protecting copyright holders’ derivative rights provides insight into the advantages of a liability rule over a scheme in which the only options are a property rule or no recompense, a logistical model for how to implement a liability rule within the current copyright regime, and the beginnings of a framework for understanding the incentives set up by such a rule. We utilize each of these features in Part III.C as we consider what a liability rule might be able to do for copyright misuse.

C. The Best Rule for Misuse

Parts III.C.1 through III.C.3 will briefly recap the dominant approach, examine an alternative remedy that has recently been recognized in the case law, and consider the potential advantages and drawbacks of the proposed liability rule relative to the current options.

1. Dominant approach

Part II established that in early copyright misuse cases judges seemed to assume that the remedy for misuse would parallel that provided by patent misuse, where the patent holder has no right to recover for infringement that occurs during the period of misuse. If this is the state of the law, then during the period of misuse, the property right is replaced with a zero-liability right, as no party would have any right to compensation for infringement that occurs during such a period. One effect of such a rule is that no party has any incentive not to infringe during the period of misuse because under a no-liability rule infringement is costless to the infringer.¹⁸³

2. Napster approach

More recently, Judge Patel asserted in *Napster* that a copyright holder can still recover for acts of infringement that occur during the misuse and the effect of misuse is merely to defer when a copyright holder can recover.¹⁸⁴ Under this

182. *Id.*

183. This assumes that a finding of misuse renders the copyright unenforceable against anyone for the period of misuse. This is the rule for patent misuse, and it is the approach that has been assumed by most courts applying copyright misuse. However, at least two courts have required there to be some nexus between the alleged misuse and the defendant. *See* *Microsoft Corp. v. Jesse’s Computers & Repair, Inc.*, 211 F.R.D. 681, 685 (M.D. Fla. 2002); *Microsoft Corp. v. Compusource Distributions, Inc.*, 115 F. Supp. 2d 800, 811 (E.D. Mich. 2000). Whether there should be a nexus requirement is another interesting issue that is beyond the scope of this Note.

184. *In re Napster, Inc. Copyright Litig.*, 191 F. Supp. 2d 1087, 1108 (N.D. Cal. 2002).

approach, the property right is replaced by a deferred, and presumably conditional, liability right for the period of misuse. The right is deferred because the copyright holder cannot recover until the misuse has come to an end. It appears to be conditional because the copyright term could expire prior to the conditions being met for the period of misuse to end, in which case it seems likely that the copyright holder would lose any right of recovery he might otherwise have had.¹⁸⁵

Judge Patel's approach has the potential to create a very different set of incentives for all parties potentially affected by a finding of misuse. First, the copyright holder may have an added incentive to end the misuse, as the potential financial recovery for doing so is increased. Even more significantly, actual and potential infringers must now consider whether infringement would still be efficient if they eventually must compensate the copyright holder for the value of the copyrighted material they appropriate. As Judge Kozinski recognized in the context of derivative works, forcing an infringer to pay the copyright holder market value for the appropriated material ensures that such works will only be created when it is efficient, that is, when the derivative work is expected to have value that exceeds the value of the copyrighted material appropriated. Parties considering infringing other exclusive rights protected by copyright would have to engage in a similar assessment of whether the value to them of infringing exceeds the expected cost to determine whether infringement is efficient.¹⁸⁶

Judge Patel's proposed remedy would not prevent all "inefficient" infringement. A variety of factors, including the possibility that the copyright holder will never regain his right to recover, the possibility that the copyright

In one of the series of suits the record companies filed against Napster, "an Internet service that facilitates the downloading of MP3 music files," for contributory and vicarious copyright infringement, Napster put forth a misuse defense predicated upon two separate theories. *Id.* at 1092. First, Napster alleged misuse based upon restrictions in an agreement between Napster and MusicNet, a joint venture of the recording studios; its primary gripe related to a term that prevented Napster from entering into a licensing arrangement with any of the plaintiffs, including two who were not then parties to the joint venture, for a period of time. Second, Napster claimed that the plaintiffs engaged in a host of anticompetitive activities and that there was a sufficient nexus between these activities and the plaintiffs' enforcement of their copyrights to constitute misuse. The court concluded that because "Napster ha[d] raised serious questions with respect to possible copyright misuse, based on both the MusicNet agreement and plaintiffs' possible antitrust violations in their entry into digital music delivery," the defendant's motion for summary judgment would be stayed pending further discovery. *Id.* at 1109.

185. To be clear, this is mere speculation. There is nothing in the opinion that resolves the question either way.

186. This is, of course, both a simplification and probably a misrepresentation of the actual decisionmaking process potential infringers will engage in when making a decision about whether to infringe. However, it is sufficiently less wrong and more workable than alternative ways of trying to conceptualize the decisionmaking process, in that it provides some useful insight for trying to craft an effective remedial scheme.

holder will not seek recovery from a particular infringer, and the time value of money if recovery is delayed significantly and interest is not calculated into the damages awarded, all reduce the estimated cost to a consumer of using the misused copyright. As a result, there will be potential infringers for whom it is rational to infringe the misused copyright even though it would not be if they were forced to pay fair market value for the infringed material. Nonetheless, Judge Patel's approach represents a significant shift away from patent misuse and toward a remedy better suited to effectuate the purpose of copyright misuse.¹⁸⁷

One positive side effect of Judge Patel's liability rule relative to a no-liability rule is that it may protect competitors of the copyright holder who engages in misuse. If the remedy for misuse is to prevent the copyright holder from having any right of recovery for the period of misuse and the copyright covers a form of expression where consumers can switch easily from one supplier to another, a finding of misuse may have the effect of encouraging consumers to use the temporarily free expression in place of other copyrighted material. For example, in the Napster context, if one or two of the major music labels were found guilty of misuse and the effect was to make their music catalogs free for the period of misuse, it is probable that other labels would suffer as some consumers would substitute the free music for music they otherwise would have purchased.

This substitution risk highlights the reasons why it may be appropriate for copyright misuse to move away from patent misuse. As mentioned earlier, it generally has been recognized that copyright bestows upon the holder less market power than patent.¹⁸⁸ This suggests that there is a greater degree of substitutability between various copyrighted works; and hence, there is a greater risk that decreasing the cost of a copyrighted work would induce substitution away from competitors.

Judge Patel's approach partially dissipates this substitution effect by creating the possibility that the copyright holder could eventually recover damages for infringement that occurs during the period of misuse. However, because the estimated cost to the consumer of the misused copyright likely remains below its fair market value, it remains possible that some consumers

187. At this point, one could easily argue that I am using the wrong measure of efficiency. Because IP is a public good, one person's consumption of the good does not diminish anyone else's ability to enjoy it; thus, one could claim, it is efficient for anyone who places a positive value on consumption of the good to be able to consume it. This is true—if the world is static. Our IP regime, however, is built upon the recognition that the production and consumption of IP occurs in a dynamic environment. The terms of protection the legislature provides for various types of IP are designed to strike a balance between encouraging innovation with the reward of a limited monopoly and enabling consumption. For purposes of this Note, I assume that the balance the legislature has struck in that regard is efficient.

188. *Supra* note 150.

will still engage in substitution. How much of a substitution effect there will be is highly speculative, as it will vary a great deal depending on whether consumers know of the misuse and its ramifications, the degree to which the misused copyright can substitute for other copyrighted works, and the costs to the consumer of switching from one product to another.

3. *Proposed liability rule approach*

Another alternative, and the one called for in this Note, is that during the period of misuse, the property right could be replaced with a liability right that is neither deferred nor conditional. The logistics of the liability rule can be taken in full from Judge Kozinski's speech,¹⁸⁹ and the reasons for such a rule largely parallel the reasons Judge Kozinski provided for using such a rule to replace fair use: it protects the economic interests of copyright holders (and thereby the incentive system upon which the copyright regime rests) while limiting the ability of copyright holders to unduly restrain creation (thereby protecting the values of the First Amendment); it encourages infringement only when it is efficient; and it frees courts from the difficult position of applying an all-or-nothing rule to situations where neither option is just. Such a rule would also complete the shift initiated by Judge Patel toward a remedy suited to copyright.

Preventing a copyright holder from being able to enforce his copyright, even if only temporarily, is a harsh remedy. While Judge Posner may be prepared to impose such a sanction upon a copyright holder who claims no part of his manuscript may be reproduced without permission, such judgments are not for the faint of heart. The incongruity of such a remedy with violations like overstating one's rights under copyright, using a standardized license that effectively expands the scope of one's copyright to cover the idea that it expresses, or using cease-and-desist letters to try to silence critics may be one of the primary factors preventing misuse from being invoked in the myriad situations where it could apply. Particularly egregious violations may warrant such a result, and courts should still be able to deny a copyright holder any rights of enforcement for the period of misuse when presented with such violations. Overreaching by copyright holders, however, often does not rise to such a level. Having the option of imposing a remedy more suited to the violation should enable courts to apply misuse to the wider range of violations

189. One aspect of Judge Kozinski's proposal not mentioned earlier is that he would have "[s]ection 505 stay[] much the same, leaving intact the court's discretion to award costs and attorney's fees to a prevailing party" with one minor modification. Kozinski & Newman, *supra* note 173, at 526. While this approach might suffice, as I would hope that courts would be hesitant to award costs and attorney's fees to a copyright holder engaged in misuse, a rule or strong presumption against such recovery might be appropriate to promote the safe-harbor function alluded to earlier and to further dissuade copyright holders from engaging in misuse.

outlined in Part III and hence should enable the doctrine to fulfill its purpose of protecting copyright policy more effectively. This remedy derives further legitimacy from its relationship to the doctrine's lineage. Copyright misuse is an equitable doctrine; it warrants an equitable solution.

The strength of this approach is also its greatest weakness. By reducing the severity of the remedy for misuse, it also decreases the incentive copyright holders have not to engage in misuse. I suggest that the broadening of application that should accompany the softening of the remedy justifies this change. However, others could believe to the contrary. It is also important to recognize that imposing a liability rule does not completely eliminate the incentive for copyright holders not to engage in misuse. Property rights are generally valued over liability rights. Returning again to Bell and Parchomovsky, they use the label "loproperty rules" to describe rules where the entitlement holder starts with a liability right that then can become a property right.¹⁹⁰ They state, "The goal of loproperty protection is generally to incentivize the entitlement holder to take some action in order to earn property rule protection."¹⁹¹ Thus, the proposed remedy would weaken but not eviscerate a copyright holder's incentive not to engage in misuse.

CONCLUSION

This Note has attempted to provide a broad overview of copyright misuse—both as it is and as it potentially should be. The breadth of this Note has both advantages and drawbacks. The primary advantage is that it enables a broad rethinking of the role copyright misuse plays in the copyright landscape and how it can best fulfill that role. The primary disadvantage is that many important issues were given only superficial consideration and others were left out completely.

The two central arguments about how the doctrine should evolve are interrelated. The substantive change advocated, adoption of a principled-guidelines approach to misuse, is in part a mere reframing of the current doctrine. However, it also has the potential to be an expansion. This expansion is enabled by the proposed remedial change, which would soften the effect of a finding of misuse.

Despite the interrelated nature of these two pieces, it should be evident that they are severable. The less stringent nature of the proposed remedy may make courts sufficiently comfortable with finding misuse that they will be willing to invoke the doctrine whenever a copyright holder appropriates for himself, via contract or otherwise, rights beyond those granted to him under the Copyright Act. Alternatively, courts may feel that the values protected by the principled-guidelines approach to misuse are sufficiently fundamental that violations

190. Bell & Parchomovsky, *supra* note 162, at 31.

191. *Id.* at 53.

warrant a harsher remedy, like that laid out by Judge Patel or the one adopted from patent misuse.

There are undoubtedly issues unaddressed or insufficiently considered by this Note, and responding to those concerns may require the proposed scheme to be modified, perhaps significantly. Similarly, one could disagree with my assumptions about the role copyright misuse is best suited to play in the copyright landscape, which would likely lead one to a very different set of conclusions about how the doctrine can best effectuate its purpose. Nonetheless, whether severed, taken as a whole, or otherwise modified, the proposed copyright misuse regime, and the analysis supporting its adoption, should hopefully serve as an effective starting point for rethinking copyright misuse.