Extending the New Patent Misuse Limitation to Copyright: *Lasercomb America, Inc. v. Reynolds*

Toshiko Takenaka
*University of Washington School of Law*

Follow this and additional works at: https://digitalcommons.law.uw.edu/faculty-articles

Part of the Intellectual Property Law Commons

Recommended Citation

EXTENDING THE NEW PATENT MISUSE LIMITATION TO COPYRIGHT:
LASERCOMB AMERICA, INC. V. REYNOLDS

Toshiko Takenaka*

I. Introduction .................................................. 740
II. Description of Case Law ..................................... 741
   A. Decisional History of The Misuse Doctrine .......... 741
   B. Two Views of the Misuse Doctrine ................... 746
      [1] Traditional View of the Misuse Doctrine: Separate
          Standards for Misuse Defense and Antitrust Laws .. 746
          Principles ............................................ 747
III. Analysis of Lasercomb .................................... 748
   A. Facts and Procedure ................................... 748
   B. Problems of the Traditional View of the Misuse
      Doctrine ................................................ 750
   C. 1988 Patent Misuse Reform Act ....................... 754
      [1] Legislative History ................................ 754
      [2] Impact on the Existing Case law ................. 757
   D. Application of the New Law to Lasercomb ........... 760
      [1] Applicability of the New Limitations to Lasercomb's
          Licensing Practice ................................. 760
      [2] Applicability of Market Power Limitations to
          Copyright Cases ..................................... 764
      [3] Relevance of Policies Other Than Free Competition
          to the Misuse Use Doctrine ......................... 767
IV. Conclusion .................................................. 770

* The assistant director and lecturer, the Center for Advanced Research and Study
Attorney (Benriishi); B.L., Seikei University, 1981; L.L.M. & Ph.D., the University of
Washington Law school, 1992. The author would like to thank Professors W. Andersen,
D. Chisum and J. Haley of the University of Washington for their valuable input and Mr.
Utgaard and Ms. Geiger for their comments.
I. INTRODUCTION

The misuse defense is a deadly weapon which may render a valid patent or copyright unenforceable. The doctrine of patent misuse was originally developed to prevent enforcement of a patent that was against public policy. In spite of the sound rationale, application of the misuse doctrine can lead to unreasonable results. For example, it may aid an infringer who makes or sells a patented product without having been granted a license.

_Lasercomb America, Inc. v. Reynolds_ illustrates this disadvantageous side of the misuse doctrine. In _Lasercomb_, it was undisputed that Reynolds copied Lasercomb's computer-assisted die-making software, thus willfully infringing its copyright. The court would have readily rendered a judgment for Lasercomb if its standard license agreement had not included clauses that prevented its licensees from developing computer-assisted die-making software. Solely for the reason that the license agreement included such restrictive clauses, the Court of Appeals granted the defendant's misuse defense and denied the plaintiff the remedy for copyright infringement. It did not analyze the effects of the allegedly restrictive arrangement to determine whether they were beneficial or anticompetitive. As a result, the court released the defendants, who were willful infringers, from copyright infringement liability and punished the copyright owner by declaring its copyright unenforceable.

Congress has recognized this harsh treatment of patent owners. It limited the scope of the patent misuse doctrine by enacting the 1988 Patent Misuse Reform Act. The enactment of the Patent Misuse Reform Act reflected Congress' deep concerns with the alleged evil effect of antitrust laws on American competitiveness. The Patent Misuse Reform Act introduced new limitations to abolish the problems of the traditional misuse doctrine. Such problems include the difficulties that patentees and copyright owners face in arguing that their licensing practices are justified once the court has declared an illegal extension of a patent or copyright monopoly. Courts held that the actual anticompetitive impact was irrelevant to make out a misuse defense. In other words, the patentee could not raise any argument once the court held that the patentee's conduct constituted misuse.

However, the Patent Misuse Reform Act is silent about whether the new limitation applies to practices other than tying and package licensing, or whether it also applies to copyright licensing practices. Thus, even if _Lasercomb_ had been filed after the enactment of the Patent Misuse Reform Act, it is not clear that the court would have ex-

---

1. 911 F.2d 970 (4th Cir. 1990).
tended the new limitations to Lasercomb's license agreement, though the application of the new limitations obviously could have led to a more well-reasoned conclusion.

Therefore, this Article examines the decisional history that shaped the misuse doctrine and the interplay between the misuse defense and antitrust liability in patent and copyright infringement litigation. In particular, by examining the public interest and policy considerations underlying patent and antitrust laws, this Article compares and evaluates the new view that misuse must be analyzed by the conventional antitrust theories expressed by Judge Posner in *USM Corp. v. SPS Technologies Inc.*\(^3\) and the traditional view that was derived from the equity doctrine expressed in *Morton Salt v. G.S. Suppiger.*\(^4\)

Furthermore, this Article reviews the legislative history and the impact on the existing common law to see to what extent the new limitations apply. This Article also criticizes the Lasercomb court's application of the traditional view and concludes that the court should have extended the new limitations in the Patent Misuse Reform Act to evaluate the licensing practice.

II. DESCRIPTION OF CASE LAW

A. DECISIONAL HISTORY OF THE MISUSE DOCTRINE

The development of the misuse doctrine is generally divided into two periods. The first period established a separate standard from an antitrust standard. The second period expanded the scope of the misuse doctrine, while moving toward the "super per se illegal" rule.\(^5\) The transition of the courts' attitude toward allegedly restrictive licensing practices in deciding patent misuse follows that of deciding antitrust liability. However, the courts recently removed the per se illegal rule from antitrust issues but maintained it with respect to patent misuse issues. This recent diversity between antitrust and patent misuse issues clearly shows that the application of the per se illegal test of the traditional misuse doctrine is outdated.

The doctrine of patent misuse was originally developed in tying cases. The traditional view of the principle underlying the patent misuse doctrine is best explained in *Morton Salt v. G. S. Suppiger Co.*\(^6\) *Morton Salt* involved a tying arrangement that required licensees to buy

---

3. 694 F.2d 505 (7th Cir. 1982), cert. denied, 462 U.S. 1107 (1983).
4. 314 U.S. 488 (1941).
unpatented salt tablets under a lease agreement of a patented machine. 

The origin of the patent misuse doctrine developed by the Morton Salt Court stems from the equity doctrine that a party seeking the aid of a court of equity must come into court with clean hands. In striking down the tying arrangement that lower courts had once legitimated, the Court reasoned that the grant to the inventor of the special privilege of a patent monopoly reflected a policy adopted by the Constitution and law. Thus, the holder of a patent may not use his or her patent in a manner contrary to public policy. Accordingly, the Morton Salt Court declared that the extension of the exclusive right outside the scope of patent was contrary to public policy. The Court reasoned that such a use of a patent should be condemned and it did so by declining to entertain the suit for infringement.

Even though the Morton Salt Court clearly stated that the extension of a patent monopoly is contrary to public policy, it did not make clear to what extent a patent holder can enjoy its patent monopoly. Furthermore, any degree of anticompetitive effect resulting from a licensing practice is enough to satisfy the requirement of Morton Salt. The Court also decided that an anticompetitive effect need not amount to that necessary for an antitrust violation. In fact, the Court denied the antitrust claim raised by the defendant but upheld the misuse defense. Consequently, the Court of this period did not consider that the extension of a patent monopoly would thus be an antitrust violation per se.

In cases following Morton Salt, the United States Supreme Court did not examine commercial benefits or necessities of a tying arrangement when an accused infringer raised a misuse defense alleging the patentee's licensing practice to be an illegal extension of a patent monopoly. Denying any arguments from the patentees, the Court simply condemned tying arrangements on the basis of the patentee's obligation not to use the patent beyond the limit of the grant. This practice

---

7. Id. at 492.
9. 314 U.S. at 491.
10. Id. The court stated, "The question we must decide is not necessarily whether respondent has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article." [emphasis added].
11. Id. at 490. "The Court of Appeals for the Seventh Circuit reversed, G.S. Suppiger Co. v. Morton Salt Co., 117 F.2d 968 (7th Cir. 1941), because it thought that respondent's use of the patent was not shown to violate § 3 the of Clayton Act, 15 U.S.C.A. § 14 (1980), as it did not appear that the use of its patent substantially lessened competition or tended to create a monopoly in salt tablets. We granted certiorari. . . ."
eventually gave rise to a "super per se rule" for patent misuse.\textsuperscript{13} Thus, the patent holder was under constraints with which owners of other property were not burdened.\textsuperscript{14}

At the same time, the Court and lower courts expanded the application of the misuse doctrine to condemn a variety of allegedly restrictive licensing practices.\textsuperscript{15} Such categories of licensing practices include noncompetition covenants,\textsuperscript{16} package licensing,\textsuperscript{17} post-expiration royalties and restraints,\textsuperscript{18} royalty based on total sales,\textsuperscript{19} refusals to license involving excessive or discriminatory licenses,\textsuperscript{20} territorial limitations,\textsuperscript{21} field-of-use and customer limitations,\textsuperscript{22} and grantback licenses.\textsuperscript{23} Interestingly, courts have not always applied the super per se misuse rule to all these practices. Rather, their attitude has varied depending on the category of the practice in question. In general, although courts consistently have applied a super per se rule in striking down tying arrangements, they have been more tolerant of other practices such as territorial limitations, field-of-use limitations, and grantback licenses.\textsuperscript{24}

The stringent judicial attitude toward restrictive business practices in patent misuse cases prestaged the bad tide of antitrust illegality per se.\textsuperscript{25} The courts began to find tying arrangements involving patents or copyrights as illegal per se. Consequently, the tying arrangements were unenforceable even though the anticompetitive impact that resulted

\begin{footnotesize}
\begin{enumerate}
\item J. Diane Brinson, Patent Misuse: Time for a Change, 16 RUTGERS COM. & TECH. L.J. 357, 390 (1990) (Professor Brinson compared the patent misuse doctrine with antitrust rules, and called the patent misuse doctrine a "super per se rule.").
\item See generally CHISUM, supra note 8, at § 19.04; Brinson, supra note 13; William J. Nicoson, Misuse of the Misuse Doctrine in Infringement Suits, 9 UCLA L. REV. 76 (1962).
\item See, e.g., National Lockwasher Co. v. George K. Garret Co., 137 F.2d 255, 58 U.S.P.Q. (BNA) 460 (3d Cir. 1943).
\item See, e.g., Sbicca-Del Mac, Inc. v. Milius Shoes Co., 145 F.2d 389, 63 U.S.P.Q. (BNA) 249 (8th Cir. 1944).
\item See, e.g., Scott Paper Co. v. Marcalus Co., 326 U.S. 249 (1945).
\item See, e.g., Extractol Process, Ltd. v. Hiram Walker & Sons, 153 F.2d 264 (7th Cir. 1946).
\item See, e.g., General Talking Pictures v. Western Elec. Co., 304 U.S. 175 (1938), on rehearing, 305 U.S. 124 (1938) (In his dissenting opinion, Justice Black argued that the defendant could not be guilty of infringement, on the basis of the tying cases.).
\item The legality of field-of-use limitations and grantback licenses is discussed in more detail in section III of this Article in connection with Lasercomb's allegedly restrictive clauses.
\end{enumerate}
\end{footnotesize}
from the arrangements affected only a small part of trade. The courts also severely limited the scope of antitrust immunity for a patent set forth by early Supreme Court cases.

In contrast to the separate standards for patent misuse and antitrust violations established in *Morton Salt*, in the mid-forties, some courts began to use a unified standard. For example, the *Mercoid v. Minneapolis-Honeywell Regulator Co.* court stated that the legality of tying arrangements should be measured by antitrust laws, not by patent law. However, the merger of patent-antitrust principles of this period did not affect patentees advantageously. Many courts in the 1940s and 1950s held that any attempt to expand a patent monopoly outside the patent grant constituted a *per se* violation of antitrust laws, practically without regard for the quantity of trade affected. Note that the courts' reasoning of this period suggests that the real core of antitrust *per se* illegality lay in the conduct or means employed to cause a restraint. Consequently, courts condemned various patent practices as *per se* violations of antitrust laws simply because patents, as opposed to other business practices, were used to achieve the restraint. In this view, the willful exclusion of competitors through the extension of a patent monopoly always constituted a nefarious means of restraining trade, and thus an antitrust violation and patent misuse *per se*.

The courts' attack on allegedly restrictive licensing practices reached a peak when the Neal Commission recommended legislation that would have required a patentee to license all applicants on equivalent terms, if it chose to license any. In 1975, the Justice Department articulated its principles for handling patent misuse cases. These became well known as the infamous "nine no-nos."  Wilson's

---

30. Id. at 684.
31. See, e.g., *International Salt Co. v. United States*, 332 U.S. 392, 396 (1944) "[t]he extension of patent monopoly outside the scope of the grant. "The volume of business affected by these contracts cannot be said to be insignificant or insubstantial and the tendency of the arrangement to the accomplishment of the monopoly seems obvious." Id.; *Oxford Varnish Corp. v. Ault & Wiborg Corp.*, 83 F.2d 764 (6th Cir. 1936).
32. FTC v. *Fashion Originators Guild*, 114 F.2d 80, 84-85 (2d Cir. 1940), aff'd, 312 U.S. 457 (1941).
33. Id.; see also Schueller, supra note 26, at 192.
34. WHITE HOUSE TASK FORCE ON ANTITRUST POLICY, THE NEAL COMMISSION REPORT § 5 (1968).
criticisms of the nine types of license practices clearly showed the marked hostility toward restrictive licensing practices.

In the eighties, the American government began to be concerned more about the competitiveness of American industry in the field of international trade than the possibility of one American firm controlling a domestic market. It was thought that stringent enforcement of antitrust laws in the area of licensing practices had a harmful effect on the competitiveness of American industries. Responding to this concern, the Justice Department discarded its stringent standard for evaluating licensing restrictions. Additionally, the courts began to show tolerance of licensing restrictions when they examined allegedly restrictive licensing practices for antitrust violations. Many courts upheld allegedly restrictive business practices that had once been held violative of antitrust law, which clearly shows the courts' application of a relaxed standard. For example, in Northern Pacific Railway v. United States, by examining the legality of a tying practice that did not involve patent licensing, the Supreme Court refused to apply the well established per se illegal rule. Instead, it expressly required that the defendant have sufficient economic power in the market of the tying product before condemning a tying arrangement.

In contrast, the Court's hostile attitude toward misuse cases in patent and copyright litigation has changed very little. The Court's upholding tying arrangements in non-patent licensing cases contrasts sharply with their attitude toward those in patent licensing cases. This shows the gap in antitrust standards between non-patent and patent cases. In a word, the Court has presumed that the grant of a patent confers on the patentee significant market power. Consequently, the Court has continued to apply the per se illegal test, finding antitrust violations when the tying arrangement in question was conditioned on a patent or copyright licensing agreement. This attitude of the Court seems to result from its reluctance to introduce the complexity entailed in defining market power and in applying antitrust principles to patent and copyright litigation. Compared with the task of defining market power, it is easier and more secure to presume market power and finding a patent misuse. However, as will be explained in the following sec-

37. Id. at 19.
39. United States v. Loew's, Inc., 371 U.S. 38, 45 (1962). The Court also found that tying arrangements involving patented products are an antitrust violation per se. Id. at 46. "[S]ince one of the objectives of the patent laws is to reward uniqueness, . . . the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences." Id.
tions, this practice unfairly discriminates against patentees and leads to unreasonable results. Considering this aspect of the misuse doctrine, courts should have read Northern Pacific Railway to require the application of the market power threshold test to the misuse doctrine. Even after the Court, influenced by the Chicago School's analysis on vertical restrictions, relaxed its rigid application of the per se rule to nonprice restraints in Continental TV, Inc. v. GTE Sylvania Inc., courts did not abandon the super per se rule in patent and copyright litigation.

As for misuse defenses, the Court has also upheld a defendant's misuse defense in patent infringement cases involving a tying arrangement because the license practice violates antitrust law. The Court's continuing stringent attitude in examining licensing practices when determining antitrust liability also found its way into lower courts' standards for finding the misuse defense. Therefore, some courts simply continued to strike down practices that courts recognized as an expansion of a patent monopoly regardless of the licensor's market power or the efficiency of the practices. The above historical analysis clearly shows that the misuse doctrine has developed inconsistently with antitrust principles. Naturally, courts should have made it more difficult for defendants to make out a misuse defense when they relaxed their standards for evaluating restrictive licensing practices for antitrust violations.

B. TWO VIEWS OF THE MISUSE DOCTRINE

1. Traditional View of the Misuse Doctrine: Separate Standards for Misuse Defense and Antitrust Laws

   In the intervening 50 years since Morton Salt, the courts' analyses in finding patent or copyright misuse are still inconsistent. While some courts appear to use antitrust principles and justify condemning patent or copyright misuse by holding that a patent grant presumes market power, other courts continue to use separate standards for upholding a misuse defense and antitrust issues established in Morton Salt. The majority of courts still follow the latter, traditional view—that patent misuse need not be supported by a showing of an antitrust violation, and that restrictive licensing practices, being against public

40. 433 U.S. 36 (1977) (emphasizing the redeeming purposes and possible beneficial effect of the arrangement).
41. CHISUM, supra note 8.
42. See, e.g., Digidyne Corp. v. Data Gen. Corp., 734 F.2d 1336 (9th Cir. 1984).
43. 314 U.S. 488 (1941).
46. See, e.g., Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990).
policy, render a patent unenforceable. In spite of the significant flaws of the traditional view that will be discussed in the following subsection, it does have its own merits.

The thesis in support of the traditional view is that the misuse doctrine is based on the patentee's obligation not to use the patent to secure a monopoly beyond the limit of its grant. The scope of antitrust laws extends only to conduct or attempts that monopolize, unreasonably restrain trade, or lessen competition, as they are against the policy of free competition. In contrast, the scope of the misuse doctrine extends to any conduct or attempts to expand a patent monopoly because they are against the public policy under patent law. Such conduct includes behavior that may not rise to the level of an antitrust violation but is still worth preventing under other branches of law beside antitrust. Thus, the traditional view sets a standard for patent misuse that has developed independent of antitrust principles.

The misuse doctrine originated from the equity doctrine that courts may withhold their aid where the plaintiff is using the right asserted contrary to the public interest. This doctrine is not related to antitrust remedies. Thus, in the traditional view patent law develops its own standard for finding a misuse defense.

2. New View: Analyzing Misuse by Antitrust Principles

Responding to this obvious inconsistency among courts, some courts and commentators began to propose that patent and antitrust misuse standards be unified. Judge Posner is the best-known supporter of the new view that unify patent misuse and antitrust liability standards. He challenged the long-standing view in Morton Salt, and expressly voiced his opinion that the distinction between patent misuse and antitrust must be removed. In USM Corp. v. SPS Technologies, Inc., the Seventh Circuit found that a differential royalty schedule in a licensing agreement was not a patent misuse. In analyzing whether the differential royalty schedule constituted patent misuse, Judge Posner cited cases that found misuse relying on the traditional view. In dicta, he

47. See, e.g., Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 140-41 (1969). "[I]f there was such patent misuse, it does not necessarily follow that the misuse embodies the ingredient of a violation of either §1 or §2 of Sherman Act, or that Zenith was threatened by a violation so as to entitle it to an injunction under §16 of the Clayton Act." Id. at 140; Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), aff'd in relevant part, 594 F.2d 979 (4th Cir. 1979).
50. 314 U.S. 488, 492-93 (1941).
51. 694 F.2d 505 (7th Cir. 1982), cert. denied, 462 U.S. 1107 (1983).
questioned whether the reasoning of these cases accurately characterized the economic effect of the practices held to constitute misuse. Furthermore, he triggered extensive debate over the unification of the patent misuse doctrine and antitrust liability by suggesting that the same standard could be used to find a patent misuse and antitrust violation.

III. ANALYSIS OF LASERCOMB

_Lasercomb America, Inc. v. Reynolds_ is an interesting case not only because it involved high-tech products, die-making software, on which the object of the Reform Act is focused, but also because the appellate courts employed the traditional per se illegal approach that Congress tried to remove from misuse cases. Furthermore, the Appellate Court found that Lasercomb’s standard licensing agreement constituted misuse because it is against both the policies of free competition and idea dissemination. The computer industry needs restrictive clauses to protect trade secrets, however, the court mistook the nature of the licensing practice and struck it down even though it was unlikely to actually harm the competition. Therefore, the _Lasercomb_ court’s conclusion is not in accord with the spirit of the Patent Misuse Reform Act.

A. FACTS AND PROCEDURE

Lasercomb America, Inc., a software program developer, brought an action against the president and computer programmer, Reynolds, of a steel rule die manufacturer (Holiday Steel), alleging copyright infringement and fraud. Lasercomb and Holiday Steel are competitors in the manufacture of steel rule dies that are used to cut and score paper and cardboard for molding into boxes and cartons. In 1983, Lasercomb licensed four copies of its die-making program “Interact” to Holiday Steel. To aid Holiday Steel’s use of the program, Lasercomb sent its personnel to train Reynolds in Interact’s operations and uses. Because

---

52. _Id._ at 510-11. The court stated:
As an original matter one might question whether any of these practices really 'extends' the patent. The patentee who insists on limiting the freedom of his purchaser or licensee . . . will have to compensate the purchaser for the restriction by charging a lower price for the use of the patent. . . . True, a tie-in can be a method of price discrimination. It enables the patent misuse owner to vary the amount he charges for the use of the patent by the intensity of each user's demand for the patent. . . . But since, . . . there is no principle that patent owners may not engage in price discrimination, it is unclear when one form of discrimination, the tie-in, alone is forbidden.

53. _Id._ at 512. The Court stated, "Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patents holders to debilitating uncertainty." _Id._
Reynolds received detailed knowledge of Interact's operation, Reynolds could readily copy the program and create a similar software "PDS-1000." In 1985, Holiday Steel started to sell the program as its own CAD/CAM die-making software. When Lasercomb found that PDS-1000 was almost a direct copy of Interact, it filed this action in the United States District Court for the Middle District of North Carolina.

The district court granted a summary judgment for the plaintiff, finding the defendants liable for copyright infringement. The defendants raised the copyright misuse defense, but the court rejected the misuse defense, stating that the clause preventing Lasercomb's licensees from developing die-making software was reasonable.

On appeal, the defendants did not dispute that they copied Interact, but raised the misuse defense on the basis of the non-development clauses in Lasercomb's standard licensing agreement. They did not claim an antitrust violation. Interestingly, the defendants were not bound by the agreement, and Lasercomb had never enforced the agreement. To support the misuse defense, the defendants proved that at least one Interact licensee had entered into the standard agreement. The standard licensing agreement includes the following allegedly restrictive clauses:

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

E. Licensee agrees during the term of this Agreement and for one year after the termination of this Agreement, that it will not write, develop, produce or sell or assist others in the writing, developing, producing or selling computers assisted die making software, directly or indirectly without Lasercomb's prior written consent. Any such activity undertaken without Lasercomb's written consent shall nullify any warranties or agreements of Lasercomb set forth herein.54

The Fourth Circuit Court of Appeals reversed. It held that the question whether a licensing agreement constitutes copyright misuse must be decided under the patent law principle. It stated that the district court erred in analyzing the licensing agreement under the antitrust principle, the "rule of reason." In other words, the Circuit Court repeated the traditional view of the patent misuse doctrine in Morton Salt,55 and ruled that the proper test for finding misuse is whether a patentee used its patent or copyright in a manner that violates the public policy embodied in the grant of a copyright regardless of whether the activity amounts to an antitrust violation. The court found that

---

54. 911 F.2d 970, 973 (4th Cir. 1990). "The 'Term in this Agreement' referred to in these clauses is ninety-nine years." Id.

Lasercomb's licensing practice was against public policy, and thus upheld the defendant's misuse defense.

B. PROBLEMS OF THE TRADITIONAL VIEW OF THE MISUSE DOCTRINE

When applying the patent misuse doctrine on the basis of the traditional view, courts have depended on ad-hoc analyses for finding misuse. The question whether courts can reach a reasonable result depends on how properly the courts locate the public policy concern and evaluate the nature of each practice and its possible harm to the public policy in light of the particular facts surrounding the patented invention in question. Although it is essential that courts make these inquiries in order to reach a reasonable solution, some courts sidestep the complex evaluation and arrive hastily at the conclusion of misuse by classifying the practice in question as identical with one of the practices that has previously been found to constitute misuse. This short-cut analysis often leads to unreasonable conclusions.

The Lasercomb court's reasoning is a typical example of this short-cut analysis. It is accompanied by many evils that result from the flexibility of the equity principle. Lasercomb should not have followed the traditional view, because the traditional view is outdated and defective in many aspects.

First, the traditional view is flawed because it rests on the incorrect premise that the ownership of a patent constitutes an automatic significant market power and results in anticompetitive effect. The premise that the policy of patent law conflicts with that of antitrust law is also incorrect. On the contrary, the patent policy harmonizes antitrust policy. The fundamental purpose is to promote the consumer's welfare. Patent law achieves this goal by encouraging innovative competition in the development of new products and processes. Antitrust law achieves the same goal by protecting price competition. In the long run, technological progress contributes far more to consumer welfare than does the elimination of allocative inefficiencies caused by noncompetitive pricing. Treating patentees more harshly under antitrust law than non-patentees is unreasonable. Any conduct permissible under antitrust laws for firms which have obtained significant market power through non-patent business practices also should be permissible for firms that have obtained market power through exercising patent rights. Thus,

56. 911 F.2d 970, 977-79 (4th Cir. 1990).
antitrust laws should control a licensing practice only when the practice selected by the patentee results in actual harm to the competition. As long as no actual harm occurs, the licensing practice is in perfect compliance with the public policy common to patent and antitrust laws.

Second, the traditional view should be removed because it deprives patentees of any argument for preventing courts from applying the misuse doctrine. The old view requires courts to continue to strike down licensing practices that are similar to a once-struck-down practice. In spite of the significant effect, the traditional misuse doctrine entails no general principle or standard for deciding the legality of licensing practices. Such uncertainty in standards unnecessarily suppresses the patentee's effort to start new beneficial licensing practices. The typical analytic practice of the courts is to classify the licensing practice in issue as one of the practices that courts have already declared misuse. Although courts explain the relevant public policy underlying the misuse doctrine to justify its application, they seldom examine the actual harm with respect to the public policy concerned, nor do they explain how much harm is required to constitute misuse. By failing to provide any principle or standard, courts prevent patentees from relying on any ground for their arguments. In short, the courts' current practice is unfair to patentees.

Third, it is likely that the traditional misuse doctrine is contrary to not only patent law policy but also antitrust law policy. Classifying a practice without examining the harm to the relevant public policy often leads to a misunderstanding of the nature of the practice. Conditions in allegedly restrictive license agreements vary from one another. Each agreement causes a different impact on competition and relates to a different public policy depending on the market circumstances and the nature of the patented invention. Courts striking down a license practice may forever render unusable a business practice that effectively improves social welfare without resulting in any anticompetitive impact. This is clearly against antitrust and patent policies.

Fourth, the traditional per se misuse doctrine was established over 50 years ago. Consequently, it does not include any considerations required for business practices involving transferring high-technology. It seems quite natural for the high-tech industry to complain that the traditional approach is outdated. Courts have ignored an important function of licensing practices, namely, permitting others to enter into the market of a patented product. A grant of a license with a restric-

---

tive clause encourages competition more than no grant of a license. Granting a patent or copyright license often accompanies a transfer of trade secrets. Under the *per se* illegal rule, a patentee must run the risk that inclusion of restrictive clauses to protect such trade secrets may constitute misuse. Thus, it is highly possible that the courts' harsh treatment of restrictive license practices discourages patentees from granting a license to competitors.

Finally, the courts' presumption of market power resulting from the ownership of a patent or copyright is clearly erroneous. Courts have been focusing on the imaginary power that is supposed to be created by a grant of a patent. Unfortunately, it is no longer true that a patent always confers upon its owner a significant market power. There once was a time when inventors of new products, such as Edison’s lamp, could enjoy a patent monopoly for their inventive genius. Today, however, one product, such as the CD player, is protected by hundreds of patents owned by different patentees. A patentee is unlikely to obtain market power through only one patent. In truth, a patentee can hardly recover costs of investment. Thus, in the current circumstances, the expected benefits of a patent monopoly do not motivate firms to take the effort to develop inventions. Rather, they are forced to do so simply because their business would otherwise be confined to the exclusive rights conferred by competitors’ patents.

Furthermore, even if a patentee obtains market power based on a patent for a distinguished product, it is very difficult to maintain that market power because competitors start to develop improvements by using information disclosed in the patent. When competitors obtain patents for the improvements, the patentee cannot use the improvements without infringing the competitors’ patents. To use the improvements, the patentee inevitably grants a cross-license with the competitors, resulting in less market power. In short, the courts' *per se* misuse rule is not in accord with the real circumstances of current American industries.

Only few commentators expressed their belief in maintaining the traditional view of misuse. One commentator argues that the doctrine

---

62. *But see*, Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 Harv. L. Rev. 1815 (1984) (The patent reward/monopoly loss ratio that Professor Kaplow used for his analysis is based on a presumption that a patentee can receive a reward by a patent monopoly. However, in competitive market such as the electronics industry, no company has a market power to control a price for a product even though every one of them has a number of patents. They are urged to invent so that they can have patents, the number and quality of which are good enough to get cross-licenses with their competitors.).

63. DONALD S. CHISUM, ELEMENTS OF UNITED STATES PATENT LAW § 4100 (1987).

64. Merges, supra note 49, at 798.
of misuse is based on the equitable principle of unclean hands and gives courts a flexibility to avoid an unreasonable result when a valid patent monopoly is enforced. 65 However, the equity doctrine of unclean hands is an ancient rule that stems from pure ethics and is hardly separable from morals. 66 The fact that today's courts seldom apply this doctrine other than in misuse cases indicates that this doctrine is outdated in the modern legal practice. Undoubtedly, it is in all respects outdated when applied to intellectual property that handles most of the advanced high technology transfer. To make matters worse, this doctrine inevitably introduces uncertainty in the results of cases. 67 The uncertainty is what Congress intended to remove from the existing misuse doctrine. Accordingly, the enactment of the Reform Act by Congress to clarify the standards for finding the misuse defense should be interpreted to mean that the time has come to abandon the ancient rule of unclean hands.

The same commentator also argues that the misuse doctrine, with its origins in equity is an important weapon for challengers, and thus must be maintained as a counterbalance to the doctrine of equivalents which is a pro-patentee weapon based on the equity doctrine. 68 However, this argument does not make sense. There is no nexus between the doctrine of equivalents and the misuse doctrine. Equity is achieved when the range of equivalents is decided so that the interests of challengers and patentees are balanced. To determine the range of equivalents, courts never consider whether the patentee conducted any practice that may constitute misuse.

American trade policy also limits the scope of finding a misuse defense. In the GATT Uruguay Round, 69 the United States established the minimum standards for the protection of intellectual property rights. 70 Since no other country has a system equivalent to the misuse

65. Id. at 796-97.
67. Merges, supra note 49, at 798. (Prof. Merges himself stated that the equitable doctrine is messy because of the unclear boundary of the doctrine.)
68. Id.
doctrine developed by American courts, American patent protection, in particular, its enforcement standard, does not satisfy the minimum standard. Courts ignored an important policy of the United States - that all compulsory licenses should be abolished.\textsuperscript{71} The misuse doctrine permits infringers to use a patented invention unless the patentee stops engaging in the practice constituting misuse. In other words, allowing the misuse defense constitutes a type of compulsory license during the period of the patentee's misuse. Moreover, maintaining the misuse doctrine is possibly harmful to American industry. For example, if an infringer is a foreign corporation, courts become a party to the theft of valuable commodities in the United States by declaring a patent of an American company unenforceable. Such a practice is clearly against the United States trade policy.

C. 1988 Patent Misuse Reform Act

Since Lasercomb was filed before the enactment of the 1988 Patent Misuse Reform Act, the Act is not applicable.\textsuperscript{72} However, when Congress shows a direction to guide courts by enacting a new Act, courts should not ignore the direction. Technically, the Lasercomb court's application of the old law that follows the traditional view of the misuse doctrine is not error. However, if Lasercomb properly interpreted Congress' direction underlying the enactment of the new Act and applied new laws in accord with the spirit of the new Act, it could have reached a more reasonable result.

1. Legislative History

The Reagan Antitrust Division made great efforts in reevaluating the intellectual property protection to find a more rational approach to the licensing arrangements.\textsuperscript{73} The creation of new technology is essential to strengthen the competitiveness of American industry in the international market.\textsuperscript{74} In response to courts' and commentators' criticism of the majority of courts' adoption of the traditional view, Congress decided to clarify the standard for finding misuse. In the 99th

\begin{verbatim}
72. The Act applies to cases filed after 1988.
74. HOFF, supra note 36.
\end{verbatim}
Congress two bills\textsuperscript{75} were introduced that proposed that all license agreements be analyzed using antitrust principles.\textsuperscript{76} To clarify and limit the patent misuse doctrine, the proposed provision of 35 U.S.C. § 282 listed practices that constituted misuse, and allowed a finding of misuse only when the practices violated the antitrust laws. Under the proposed provision, there would be no such thing as a \textit{per se} violation of the antitrust law. Indeed, courts would apply only the rule of reason in determining the legality of license agreements under antitrust laws.\textsuperscript{77}

After several misuse reform bills were discussed, the United States Senate passed a bill that was a predecessor to the 1988 Patent Misuse Reform Act.\textsuperscript{78} The purpose of this law was (1) to clarify the treatment of intellectual property rights under the antitrust laws by prohibiting courts from assuming market power only because of the existence of a patent or copyright; and (2) to reform the doctrine of patent misuse so it would not be used to restrict the rights of patent owners when their licensing practices do not violate the antitrust laws.\textsuperscript{79} In short, the bill included two schemes: 1) eliminate the presumption of a patentee's market power in patent misuse cases;\textsuperscript{80} and 2) evaluate license practices involving intellectual property under the same antitrust principles that are applied to practices involving other forms of property.\textsuperscript{81} Thus, this bill\textsuperscript{82} was clearly in line with the new view expressed by Judge Posner in \textit{USM Corp.}\textsuperscript{83} and would have overruled existing Supreme Court precedent.\textsuperscript{84}

\textsuperscript{77} Id. "The administration emphasized that a new section 282 (b) would not in any way alter existing law with respect to whether or when the conduct it specifies violate[s] the antitrust laws. It is intended to deal exclusively with the evaluation of such conduct under the patent misuse doctrine." Id.
\textsuperscript{78} Pub. L. No. 100-73, 102 Stat. 4674 (H.R. 4972).
\textsuperscript{80} Id.
\textsuperscript{81} S. Rep. No. 492, supra note 79, at 12.
\textsuperscript{82} According to the bill, the new § 271 (d) would provide:
No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his or her licensing practices or actions or inactions relating to his or her patent, unless such practices or actions or inactions, in view of the circumstances in which such practices or actions, or inactions are employed, violate the antitrust laws. Id.
\textsuperscript{83} USM Corp. v. SPS Technologies, Inc., 694 F.2d 505 (7th Cir. 1982).
On October 20, 1988, the House examined the bill, and amended it to limit the practices to which this new standard would apply to two situations, namely, refusal to license, and tie-in and package license arrangements. The amended bill required that a challenger prove the market power of the patentee, rather than all the elements of an antitrust violation for a finding of misuse. As a result, the amended § 271 provides:

d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:

- refused to license or use any right to the patent; or
- conditioned to license or use any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

According to Senator DeConcini, Congress' intent in enacting the Reform Act was to move away from a per se approach used in the past by the courts in applying patent misuse principles to tying arrangements and to establish a market power threshold test to precede any misuse finding involving tying. Senator DeConcini also explained that even if the defendant in a patent infringement action proves that the patent owner has market power, this does not automatically mean that the court will find that the patent owner has misused the patent. In other words, the patentee can avoid misuse by arguing the pro-competitive benefit of the arrangement. Furthermore, Senator DeConcini expressed his expectation that this revision would lead to the reevaluation of the licensing arrangements and move courts' analyses of the arrangements to the rule of reason approach. He also suggested that the new Act is only a part of the misuse reform scheme. Although he believed that Congress would continue to make an effort to reform the standards

---

85. The provisions for refusals to license reflects case law. Even before the enactment of the Reform Act, refusals to license did not constitute an antitrust violation nor patent misuse. See, e.g. SCM Corp. v. Xerox Corp., 645 F.2d 1195 (2d Cir. 1981), cert. denied, 455 U.S. 1016 (1982). Thus, this article will focus on the interpretation of the provisions regarding tie-in and package license arrangements.


87. 134 Cong. Rec. S. 17147 (Oct. 21, 1988). Statement of Senator DeConcini: "This will constitute the heart of this misuse rule-of-reason analysis, but as I indicated above, it will not be reached if the patent owner does not yield market power by virtue of his or her patent." Id.

88. Id.
of misuse, no such report has been reported since the Act was enacted.

2. Impact on the Existing Case Law

As the legislative history clearly shows, a per se approach relying on the presumption of the patentee's market power may no longer be taken in cases involving tie-in and package license arrangements. Under the Patent Misuse Reform Act, a challenger who raises a misuse defense must show that the patentee has market power in the relevant market. Congress avoided defining the term "market power" so that courts can assess the potential effect of a particular practice. It also did not specify what level of market power would be sufficient for a finding of misuse. It expected the courts to use the same principles that are established in antitrust cases. Congress thoroughly evaluated the market power theory in antitrust law. It follows from this fact that when Congress used the term "market power," it intended for courts to require challengers to show that a patentee's market power was sufficient to affect prices in the market, as is required under antitrust law. Congress' intent is that in applying the market threshold test, where a patent license is involved, courts should evaluate the question of "market power" in the context of the patent, the product, and the market in which the tie-in occurs.

Use of the term "relevant market" indicates that the courts must pay attention to the nature of the patent when the scope of the product is defined. Congress stated that the scope would be coextensive with the patent if the patented product is unique and no practical substitutes exist. The problem that Congress did not address and which courts must deal with in cases is the difficulty in defining substitutes. For example, each wireless telephone available has unique functions, but still one can be a substitute for another. Since there is no alternative test in determining substitutes, courts cannot help but use the tests established in antitrust cases such as the substitute product test for defining the

---

89. Id.
91. Id.
92. Id.; 134 Cong. Rec. S. 17148 (Oct. 21, 1988). Statement of Senator Leahy: "We would therefore expect any 'market power' determination made for patent misuse purposes to be the same as that used with respect to an antitrust matter relating to the same factual circumstances." Id.
93. Id.
95. Id.
96. The legislative record suggests that Congress intended to use antitrust principles
relevant market product definition in the Department of Justice’s Merger Guidelines.97

Consequently, the new limitations inevitably introduce a complex economic evaluation. The argument that the “relevant market” analysis is difficult and misleading has significant merit.98 Antitrust law and economics scholars have been trying to clarify “relevant market” for a century.99 Some antitrust scholars of the Chicago School proposed a process to evaluate market power without defining relevant market, although the effectiveness of this process is doubtful.100

In response to the assertion that it is too difficult to define relevant market, the argument can be made that the difficulty itself cannot justify the uncertainty in the misuse standard. It may be that imposing the burden of proof on the challengers makes it difficult for them to succeed in making out a misuse defense. Considering the fact that the Constitution imposes on Congress a specific obligation to protect patents and copyrights, the judicial attitude that shifts the burden to a patentee by assuming a market power is against the public policy underlying patent and copyright. Since challengers, in the first place, willfully or negligently infringe a constitutionally protected property right, they must be the parties who bear the burden of proving the patentee’s often difficult-to-define market power.

Other difficulties exist which are unique to patent and copyright licensing practices. These include the difficulty of determining the relevant market of a process patent, in particular, a manufacturing process that can be used to produce products that belong to different industries, and the difficulty of defining the relevant product when the patent covers only a small part of a product. Take, for example, a patent covering a memory circuit that minimizes the area occupied by the circuit. If there is no other circuit as small as the circuit that can provide the same function, the circuit itself is unique and has no substitute. However, the IC using the circuit may have many substitutes that are as small as the IC and can provide the same operations as the IC because the size of the IC can be minimized through other technology such as

---

98. Merges, supra note 49, at 802.
100. Eastbrook, supra note 60, at 23.
an arrangement of circuits. Considering the realities of the marketplace, the market power of a patented product or process can hardly be evaluated without evaluating related patents and patented products. Difficulty also exists in cases involving a product that is covered by a number of patents owned by competitors. These questions are all left for courts to resolve.

In spite of these difficulties, the advantage of the new limitation of the misuse doctrine exceeds the possible complexity. The advantage of adding the market power threshold limitation is to provide concrete grounds on which patentees can defend the legality of their licensing practice. The new rule alleviates much of the patentees' fear that a new licensing practice might constitute patent misuse. The unclear standard of the traditional misuse doctrine unreasonably restricts patentees' business activities. Much attention must be paid to the possibility that the past stringent judicial attitude has eliminated a variety of pro-competition licensing practices. Considering the importance of maintaining the competitive power of American industries in international trade, the risk of rendering an efficient business practice forever ineffectual is much higher than the risk of overlooking uncertain but possibly anticompetitive practices.

It is not clear what the term "in view of the circumstances" means. The legislative history suggests that the phrase "in view of the circumstances" was added to give the courts the flexibility to exercise their equitable powers. In particular, Senator DeConcini expressly noted that even if the defendant in a patent infringement action proves that the patent owner has market power, the patent owner may still argue that any substantial anticompetitive impact of the tie-in is outweighed by benefits of the licensing arrangement.

Despite Senator DeConcini's belief, he cannot change the fact that the new language of § 271 (d) does not explicitly require courts to apply the rule of reason analysis of antitrust laws. Thus, it is not clear that the revision directs courts to use the rule of reason analysis in determining patent misuse. Courts need not follow Senator DeConcini's view. They are free to interpret the terms "market power" and "in view of circumstances." However, it should be noted that these terms in the new Reform Act correspond to the factors that courts must examine for finding antitrust liability under the rule of reason. It follows that courts should infer from these terms that Congress intended them

102. Eastbrook, supra note 60.
to adopt the rule of reason analysis. In short, Congress adopted the rule of reason analysis for finding patent misuse. The reason that Congress did not use the terms "rule of reason" is to avoid ambiguity involved in defining the analysis. Congress adopted the term "market power" and "market circumstance" to directly list the factors to be used in the "rule of reason" analysis.

Congress also made a sensible choice in requiring proponents of the misuse defense to make the threshold showing of the patentee's market power rather than prove all the elements of an antitrust violation. In general, antitrust plaintiffs must show actual injury to competition in the relevant market and antitrust injury flowing from the particular conduct. It seems reasonable to require only a showing of the patentee's market power because without market power, the patentee cannot affect competition in the relevant market. This is because the doctrine of patent misuse makes a patent unenforceable, but does not allow defendants (alleged infringers of patents) to obtain antitrust remedies. If the new Reform Act had required the infringer to show a nexus between injury and conduct as is required under antitrust laws, it would have imposed an unwarranted burden on an infringer. As established by common law, the alleged infringer need only show that the alleged restrictive practice relates to the patent at issue. Thus, Congress balanced the interests between a patentee and an alleged infringer by removing a part of the burden of proof required under antitrust laws and made it easier for an alleged infringer to raise a misuse defense.

In conclusion, even though the language in the new provision involves many ambiguities, one thing is clear. Tie-in and package licensing agreements will no longer automatically constitute patent misuse. Under the new § 271 (d), courts must consider patentees' market power and the particular circumstances of the market in the patented products.

D. APPLICATION OF THE NEW LAW TO LASERCOMB

1. Applicability of the New Limitations to Lasercomb's Licensing Practice

Literally interpreted, the market power limitations in the Patent Misuse Reform Act do not apply to licensing arrangements other than tie-in and package licensing. It follows that the new limitation does not apply to Lasercomb's licensing agreement. However, the application of the limitations should extend to all licensing practices.

106. Eastbrook, supra note 60.
The misuse reform scheme in the original Senate bill 438 was applicable to all license arrangements, but the version which passed was limited to tie-in and package licensing arrangements on the process. The elimination of other arrangements from the misuse reform scheme was not intended to prevent courts from using the same principles in determining whether other licensing arrangements constitute misuse. As Senator Leahy's statement indicates, Congress' goal for the Misuse Patent Reform Act is to move the misuse standard for all license arrangements toward a more flexible, fact-oriented approach.

There are other reasons to justify the extension of the new limitations. First, the underlying public policy of free competition is common to tie-in and package licensing practices and other practices. Congress has adopted the principle that a practice is unlawful only when a patent holder has market power; this principle must apply to all licensing practices. All licensing practices held to constitute misuse can trace their origin to the court's application of the misuse doctrine in Morton Salt which involved a tying licensing practice. Focusing on the common underlying public policy, courts did not distinguish one licensing practice from another when they extended the misuse doctrine to strike down new forms of licensing practices. Clearly, no reasonable excuse exists to distinguish tie-in and package license arrangements from other arrangements when Congress set up the new standard for evaluating the legality of a licensing practice.

Second, courts had adopted the rule of reason test in analyzing licensing practices other than tying and package licensing even before the enactment of the Reform Act, although they did not expressly use the phrase "rule of reason" to describe their analyses. Compared with tie-in and package licensing practices, the judicial attitude toward other practices has been a relaxed one. Many courts declared some of these licensing practices legal per se, or seldom found others to constitute

---

109. 134 Cong. Rec. S. 17147 (Oct. 21, 1988). Senate Leahy stated: "While this approach is indeed different from our original patent misuse proposal, it does not mean that Congress has rejected the earlier Senate Proposal and now believes that the traditional misuse doctrine should be retained intact in the many other areas in which it may be applied by courts." Id.
110. See Eastbrook, supra note 60, at 17; see also Hoff, supra note 36.
111. 314 U.S. 488 (1941).
112. See, e.g., United States v. Univis Lens Co., 316 U.S. 241, 251-52 (1942) "The particular form or method by which the monopoly is sought to be extended is immaterial." Id.; Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648, 696 (D.S.C. 1977). "Patent misuse . . . occurs when there is an attempt to extend the patent beyond the scope of its claims. The manner in which the monopoly of the patent is sought to be extended is not material." Id.
Congress’ silence on other license practices implies its acquiescence to the courts’ attitude.

Third, this relaxed judicial attitude clearly shows that these licensing practices result in less anticompetitive impact than tie-in and package licensing practices. Therefore, if courts maintain the *per se* rule of the traditional misuse doctrine, they will use a more stringent standard to evaluate less anticompetitive practices than tie-in practices, which is clearly unreasonable. As a result, the market power limitation in the Patent Misuse Reform Act should apply in determining the legality of all licensing practices.

In *Lasercomb*, the license practice provided a very small impact on the competition because the scope of the agreement was limited to computer assisted die-making software and licensees can freely develop and sell other types of software. The new limitations should have prevented the court from finding misuse.

In particular, the new limitations should have applied to *Lasercomb*, because the *Lasercomb* court might have rendered forever ineffectual a harmless business practice that is necessary for the software development industry. This is what Congress wanted to avoid most by enacting the Misuse Reform Act. An important factor the court failed to recognize is that the scope of copyright protection for computer software is unclear. Application of the substantial similarity test that is well established with respect to traditional copyrightable subject matter is also difficult in the area of computer software. Thus, restrictive clauses such as the one in *Lasercomb*’s licensing agreement are necessary to effectively prevent licensees from infringing the licensed copyright in unlicensed fields. Covenants that are generally called “field of use” licenses are widely used to prevent licensees from infringing outside their grant of license. For example, *Lasercomb*

---

114. See, e.g., Transparent Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) (Grant of an exclusive license under design patent was held to be lawful); United States v. E.I. Dupont de Nemours & Co., 118 F. Supp. 41 (D. Del. 1953), aff’d, 351 U.S. 377 (1965) (Provisions restricting the quantity of patented articles produced were held to be lawful); General Talking Pictures Corp. v. Western Elec. Co., 304 U.S. 175 (1938), aff’d on rehearing, 305 U.S. 124 (1938) (Field of use restriction was held to be lawful).


has never granted a license to develop a derivative work from its software. Within the scope of the original copyright, Lasercomb is free to grant or refuse a license to develop a derivative work. Courts regard these types of agreements to be within the scope of a copyright grant.\textsuperscript{118}

An important factor in protecting computer software is the difficulty in effectively preventing infringement. Because the level of originality that renders revised software a separate copyright is not clear, it is difficult to identify whether a modification is within the scope of copyright for the original software. As Lasercomb illustrates, copyright owners face the risk that their licensees may modify the licensed software and start to sell the revised version, alleging its own copyright independent from the copyright of the original software. The most effective way to prevent this type of infringement is to forbid licensees from developing and selling any software designed for the same use. The allegedly restrictive clauses were likely to be ancillary for protecting Lasercomb's copyright, and also legally permissible since the restriction covers only software having the same use.

Restrictive clauses such as those in Lasercomb are also necessary for protecting trade secrets transferred with a grant of copyright license. As Lasercomb suggested, a grant of copyright license alone hardly enables licensees to use the licensed software. In many cases, a licensee requests its licensor to send personnel to train the licensee's employees. Naturally, providing training accompanies a transfer of valuable knowledge and trade secrets. Developing and revising software inevitably involves unauthorized use of this knowledge and trade secrets. Unrestricted granting of a license may lead to the disclosure of knowledge and trade secrets, resulting in loss of trade secret protection. In order to protect trade secrets transferred with a grant of copyright, the restrictive clause preventing licensees from developing and selling the same type of software are ancillary to computer licensing agreements. In summary, by ignoring these business necessities in the high-tech industry, the Lasercomb court reached a conclusion contrary to Congress' intention in enacting the Patent Misuse Reform Act.

Finally, the circuit court's analysis is inconsistent with precedents in that it did not construe the alleged restrictive clauses to cover software within the scope of copyright. Judicial attitude toward "field of use" restrictions has never been stringent. Even though courts may find a "field of use" license unlawful,\textsuperscript{119} they do not automatically find misuse. Rather, they tend to construe the restrictive clauses so that they are within the scope of the grant. For example, in Campbell v.

\textsuperscript{118} Id.
\textsuperscript{119} See, e.g., General Talking Pictures Corp. v. Western Elec. Co., 304 U.S. 175 (1938).
a misuse defense was raised by the alleged infringers in a patent infringement suit involving a patent relating to a feather-picking apparatus for fowl. The patentee granted its licensees the right to manufacture, use and sell the manually operated apparatus, but prohibited its licensee from making or selling both the patented and unpatented automatic apparatus. The court dismissed the misuse defense, construing the license as restricting the licensee from making or selling only the automatic apparatus covered by the patent. Similarly, in *Reliance Molded Plastics, Inc. v. Jiffy Products*, the lower court upheld the legality of a license agreement whose scope of grant was restricted to the specific construction exemplified by a sample trainer and blueprints. A similar interpretation could have applied to *Lasercomb*. That is, the circuit court could have construed the allegedly restrictive clauses as restricting the licensee from developing and producing revised die-making software within the scope of the licensed copyright. Under this interpretation, the restrictive clauses would clearly have been in the scope of the original copyright. Thus, even under the traditional misuse doctrine, the court should have upheld the standard licensing agreement. This erroneous result caused by the ad-hoc analysis is also the one Congress intended to prevent by enacting the Reform Act.

2. *Applicability of Market Power Limitations to Copyright Cases*

Since, unlike patent misuse cases, cases in which courts have upheld copyright misuse defenses are very few. Whether the patent misuse defense applies to copyright cases is questionable. The *Lasercomb* court answered this question affirmatively, relying on the similarity of rationales underlying patent and copyright laws. In particular, the court looked into the historical perspectives of copyright and patent laws and found that the public policy underlying these laws is essentially the same. The philosophy behind copyright law is to encourage the efforts of authors and introduce new ideas and knowledge into the public domain. This philosophy is parallel to that of patent law.

The *Lasercomb* court's analysis is generally correct in that the patent misuse doctrine can extend to copyright cases given the idea dissemination policy that is common to copyright and patent laws. However, it is flawed because the court extended the patent misuse doctrine to copyright, but did not extend the limitations for the misuse doctrine. Even though the extension of the new misuse standard to copyright

122. *Id.* at 973.
123. *Id.* at 974-75.
cases was also deleted from the enacted Reform Act,\textsuperscript{124} careful theoretical considerations require courts to extend the same limitations to copyright cases.

First, the underlying public policy of copyright law is common to patent law. Because of this, courts did not distinguish copyright licensing practices from patent licensing practices when they extended the patent misuse doctrine to copyright cases. Thus, it would be unreasonable for courts to distinguish copyright misuse from patent misuse when they evaluate the legality of licensing practices.

Second, the anticompetitive effect resulting from copyright is, at least in theory, less than that of patent.\textsuperscript{125} It is unreasonable to apply the market power threshold test to limit patent misuse but not to limit copyright misuse, which is less likely to harm competition. The exclusive right conferred by copyright is not as complete as that of a patent. A copyright can exclude others from using a copyrighted work only if that work directly or indirectly derives from the copyrighted work.\textsuperscript{126} In contrast, a patent right can exclude anyone from making, using and selling a patented product or process even though he or she independently invented the same product or process.\textsuperscript{127} Furthermore, the fair use defense broadly limits copyright protection.\textsuperscript{128} The new copyright law also imposes compulsory licensing schemes for various types of works.\textsuperscript{129} The scope of copyright protection is also different from that of patent. Since copyright protects expression, not the underlying idea,\textsuperscript{130} the scope of copyright is smaller than that of patent. Moreover, copyright is infringed only if the accused infringer's work is substantially similar to the copyrighted work in the expression. It follows that a copyright presumes less impact on competition in the relevant market.

Third, the extension of the new limitations to copyright cases would be advantageous because the market threshold test effectively functions to measure the actual harm resulting from an allegedly restrictive copyright licensing practice. Subject matter of copyright has more variety than that of patent.\textsuperscript{131} The market power conferred by

\footnotesize
\begin{itemize}
\item \textsuperscript{124} S. Rep. No. 492, \textit{supra} note 79.
\item \textsuperscript{126} DONALD S. CHISUM & WALDBAUM, ACQUIRING AND PROTECTING INTELLECTUAL PROPERTY RIGHTS § 4.02 (1985); EDWARD E. KITCH & HARVEY S. PERLMAN, \textit{LEGAL REGULATION OF THE COMPETITIVE PROCESS} 615 (1991).
\item \textsuperscript{128} 17 U.S.C. § 107 (1982).
\item \textsuperscript{129} 17 U.S.C. §§ 115-16, 118 (1988).
\item \textsuperscript{130} See, \textit{e.g.}, Baker v. Selden, 101 U.S. (11 Otto) 99 (1879).
\item \textsuperscript{131} 17 U.S.C. § 102 (a) (1992).
\end{itemize}
copyright significantly varies depending on the type of subject matter. For example, the market power conferred by a copyright for software is different from a copyright for films or literary works. The market power threshold test effectively prohibits only licensing practices that cause an actual harm to the competition. This is a reasonable protection. In conclusion, a reasonable interpretation of the enactment of the Patent Misuse Reform Act naturally leads to the extension of the new limitations to copyright cases.

Furthermore, the Lasercomb court's analysis is irrational. The Lasercomb court did not pay attention to the copyright owner's market power or other market conditions. Since the monopolistic power resulting from a grant of patent or copyright is a justification for imposing on a patentee a duty to use its patent or copyright in compliance with public policy, the competitive impact is the essential factor in evaluating the legality of a licensing practice. Accordingly, the circuit court's reliance on M. Witmark & Sons v. Jensen in upholding the defendant's misuse defense in Lasercomb is erroneous; the Jensen copyright owner's market power and particular market circumstance were far different from those of Lasercomb. Jensen involved a blanket licensing agreement for a music composition. Usually ownership of a copyright for one musical composition does not confer on the owner any power to affect the competition. But there is no doubt that in Jensen, the copyright owner, ASCAP, had a significant market power. ASCAP's pooling of a significant share of copyrighted musical compositions constituted a special market circumstance and conferred on ASCAP a monopoly power. In contrast, in Lasercomb, since neither the trial court nor the circuit court mentioned in their opinion Lasercomb's market power in the market of die-making software, it is not clear how much market power Lasercomb had. At the least it is clear that there were no special market circumstances such as in Jensen. It would also be very difficult for Lasercomb to obtain and maintain significant market power in the software market because software development does not require a big investment. A skilled computer engineer can readily enter the market. Additionally, Lasercomb's licensing agreement only partially restrained trade because the licensee has many options other than entering into Lasercomb's standard licensing agreement. Using the new limitation—

132. Morton Salt, 314 U.S. 488, 492-94. "The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adapted by the Constitution and laws of the United States..." Id. at 492. The court, however, does not aid the patentee when he illegally expands his patent monopoly beyond the granted scope. See id. at 494.

133. 80 F. Supp. 843 (D. Minn. 1948), appeal dismissed, 177 F.2d 515 (8th Cir. 1949).

134. Id. at 846. "It is uncontradicted that on an average at least 80% of the music integrated in sound films is copyrighted and owned by members of ASCAP and the licensing exclusively controlled by ASCAP." Id.
the market power threshold test and market circumstance consideration—the court could have properly evaluated these differences.

3. Relevance of Policies Other Than Free Competition to the Misuse Doctrine

The circuit court pointed out the possibility that the allegedly restrictive clauses would have dampened creative abilities of defendants. In determining the legality of the allegedly restrictive clause, the Lasercomb court was concerned with the public policy of disseminating ideas and promoting innovation. It decided that Lasercomb attempted to use its copyright in a manner against the public policy. However, the court's analysis is inconsistent with precedent and is not in accord with the spirit of the Patent Reform Act.

The Patent Misuse Reform Act does not address the question of whether the innovation promoting policy alone cannot support a finding of patent or copyright misuse. However, precedent indicates that the answer should be no. Grantback license cases well indicate courts' attitudes to forward the innovation promoting policy. Despite the suppressing effect of assignment type grantback licensing practices, courts have found that the grantback practices are not per se illegal. No court has ever held that a grantback clause alone constitutes an antitrust violation. Only few courts found license practices involving grantback clauses in violation of antitrust laws. These facts also indicate the courts' relaxed attitudes. The few courts that have found such licensing practices illegal did not focus on the idea dissemination policy, but focused on the effect of patent pooling, emphasizing the predatory nature of patent owners who used their basic patents to maintain their dominant position in the market of the patented product.

136. A grantback clause requires the licensee to grant back to the licensor patent rights which the licensee may develop or acquire. There are two types of grantback licenses: one requires licensees to grantback exclusive licenses for improvement; the other requires licensees to grantback nonexclusive licenses for improvements. See generally CHISUM, supra note 8, § 19.04 (3).
137. Transparent Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) (the Court reasoned that the use of one legal monopoly to acquire another is proper and distinguishable from an extension of a patent monopoly to encompass unpatented goods as in a tie-in).
138. See, e.g., United States v. Timken Roller Bearing Co., 83 F. Supp. 284 (N.D. Ohio 1949), aff'd, 341 U.S. 593 (1951). The exclusive grantback provision did not by itself violate the antitrust laws; only in connection with the other illegal practices were the grantbacks "integral parts of the general scheme to suppress trade." Id. at 309.
The Lasercomb court's analysis is also inconsistent with precedent, as it did not examine whether the licensees who entered into the restrictive licensing contract were in fact discouraged.\textsuperscript{141} If the licensee in the first place did not have any facilities or will to develop software, it would be impossible to discourage its development efforts. Thus, it is likely that the allegedly restrictive clauses did not have any adverse effect on the innovation promoting policy.

Furthermore, the Lasercomb court's conclusion may actually have an adverse impact on the innovation-promoting policy because refusal to protect valuable software would significantly discourage Lasercomb and other software developers from development.

The goals of the Reform Act—the clarification of the misuse standard—also indicate that policy other than that of free competition alone cannot constitute misuse. Namely, the enactment of the new act gave courts the duty to remove the seeds of uncertainty. In the past, courts have considered public policies other than free competition on an ad-hoc basis, which inevitably introduced uncertainty. The addition of the market power requirement means that Congress chose certainty in result over a reasonable result in each particular case. Congress' implicit intent is to endorse Judge Posner's proposal of unifying antitrust and patent misuse standards.\textsuperscript{142} Accordingly, courts should not consider public policies other than free competition in determining the legality of a licensing practice. Congress' efforts would have been wasted if the Reform Act allowed courts to manipulate the nexus between public policy and the licensing practice to find misuse.

One commentator strongly opposed Judge Posner's view, explaining the need to maintain the equity-based misuse doctrine by using an example in which public policy other than free competition requires that a patent be held unenforceable.\textsuperscript{143} He used an example of a patentee of an AIDS vaccine to show the need for courts to take into account background facts and maintain equitable flexibility.

This argument is unsound. First, his misuse theory encourages the attitude that patent misuse is whatever the judge says against some public policy, which gives courts unlimited power to grant compulsory


\textsuperscript{143} Merges, supra note 49, at 796.
licenses. Such a practice introduces not only great uncertainty in patent enforcement, but also is likely to be contrary to American trade policy, resulting in detrimental effects on American industry.144 Furthermore, as the commentator admitted, an exceptional case such as the one he used as an example is very rare. Removing the uncertainty from a patentee’s business strategy is more important than doing justice in such exceptional cases. Even though some urgent circumstances may require a patent to be held unenforceable, the courts are not a suitable forum to discuss the problems. Since intellectual property has come to have a great significance in American trade, Congress must be the one to set the standard. Now, Congress has taken charge by providing a statutory limitation to clarify the scope of the courts’ discretion to allow such compulsory licenses. Courts must refrain from overriding Congress’ authority.145 Without Congress’ clear authorization, courts should not use any public policy as an excuse to strip the patentee of important property rights.

Second, as for the misuse doctrine, there is no public policy other than that of free competition that is important enough to render a patent unenforceable. Some may argue against this view by focusing on the constitutionally acknowledged public policy of promoting the dissemination of ideas.146 However, this argument is not persuasive because it presupposes an undue importance of the idea dissemination public policy. This argument is flawed because it fails to recognize the fact that courts have never struck down a licensing practice simply because the practice prevents ideas from being disseminated to the public. If the Patent Clause in the Constitution renders the idea dissemination policy of such great importance, it is unreasonable that Congress has dropped the publication requirement for obtaining copyright protection147 and courts found trade secret protection permissible outside of the scope of patent and copyright laws.148 Moreover, this argument is also flawed because it fails to recognize the pro-idea dissemination aspect of all licensing practices. Any licensing practices, regardless of the content of restrictive covenants, promotes the dissemination of ideas, because a grant of license allows the transfer of ideas from a patentee to its licensees. In short, these arguments cannot justify the significant uncertainty that would result if courts are allowed to conclude that cer-

144. See U.S. FRAMEWORK PROPOSAL, supra note 70.
145. Other countries’ patent laws provide for compulsory licenses for public interest. See, e.g., Japanese patent law, Articles, 83, 92, and 93.
147. 17 U.S.C. § 104 (a) (1988); see generally MELVILLE B. NIMMER, NIMMER ON COPY-
tain licensing practices constitute misuse because they are against a policy other than that of free competition.

IV. Conclusion

The interplay between patent and antitrust law created the traditional misuse doctrine and expanded the application of the doctrine to various types of licensing practices. Considering both the needs in the high-tech industry and competition with other countries, the traditional misuse doctrine is outdated and no longer functions as it did when it was developed. The Lasercomb court's opinion illustrates that it is often difficult for courts to reach reasonable and uniform conclusions under the traditional misuse doctrine that reflects the ancient myth of historical equity. In particular, the traditional misuse doctrine leads to harsh results to patent owners, and to an unclear standard that constrains the business practices of patent and copyright owners.

The enactment of the Patent Misuse Reform Act is the result of Congress' effort to make the courts aware of these problems and act on their own discretion to adjust the principles to the reality in the market place. The new limitations provided in the Patent Misuse Reform Act effectively removed these problems. However, the scope of the new limitation is not perfectly clear and too narrow. The application of the new standard to other practices not only in patent cases but also in copyright cases proposed in this Article resonates with the courts' attitudes toward patent license practices in the antitrust context, and is essentially in harmony with any patent principles. Accordingly, courts should expand the scope of the new limitations to attain Congress' goals and establish a new era of common law in patent and copyright misuse.