Beyond Preemption: The Law and Policy of Intellectual Property Licensing
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III Public Policy Restrictions on Information Contracts

Public policy limitations on contractual freedom are fairly common in our society. Article 2B itself acknowledges
one such limitation - the contract doctrine of unconscionability. Certain shrinkwrap license terms - such as those
featured in a recent Dilbert cartoon - may well be held unconscionable. But unconscionability is rarely used,
and it is not well-tailored to the needs of intellectual property law. In the intellectual property context, three sets of
rules may supplement contract preemption: copyright misuse, federal public policy, and state public policy. Not all of
these rules will apply in every case; there will still be plenty of room for contract law to operate. But its operation will
not be unfettered by intellectual property policy. In this Part, I explain these three sets of rules and consider the limits
they impose on contract terms.

A. Copyright Misuse

The doctrine of copyright misuse renders a copyright unenforceable if the copyright owner has engaged in certain sorts
of misconduct in licensing or enforcing the copyright. Copyright misuse is of relatively recent vintage. While the
somewhat analogous doctrine of patent misuse has been around for a century, courts in this century
generally denied the existence of a copyright misuse defense. Before 1990, only a handful of district courts had
granted relief based on such a defense, though others had acknowledged that the defense was available in
appropriate circumstances. Since 1990, several cases have found plaintiffs' copyrights unenforceable for misuse.
The circumstances in which they have done so are instructive for contractual restrictions on the use of copyrighted
works.

In the context of patent misuse, there has been a long-standing debate over whether the misuse defense should be
available only in circumstances in which the patentee has violated the antitrust laws. Patent misuse case law is
largely, but not entirely, coextensive with antitrust doctrine; certain conduct can constitute patent misuse but does not
violate the antitrust laws.

By contrast, copyright misuse has departed rather markedly from antitrust principles. While Goldstein
refers to the "antitrust misuse defense" in copyright, and a number of early cases tested copyright misuse with
explicit reference to antitrust principles, most of the cases that have found copyright misuse have done so by
employing copyright policy, not antitrust policy, as their rationale. The basis for copyright misuse 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 an improperly-broadened copyright. This policy is particularly strong when the agreement between the
parties has significant external effects; virtually all of the cases finding copyright misuse have that characteristic. There are a number of cases involving licensing that find or imply misuse; I discuss two
of these cases in more detail below.

In Lasercomb America, Inc. v. Reynolds, the plaintiff brought a copyright claim to enjoin Reynolds
from copying its computer-assisted die-making software. The district court found for plaintiff and enjoined the
infringement. On appeal, the Fourth Circuit found that plaintiff was not entitled to relief because it had misused its
copyright by insisting upon and enforcing a standard form licensing agreement that attempted to expand its rights beyond those granted by copyright law. \textsuperscript{197} In particular, the court noted that the licensing agreement contained clauses precluding any licensee or employee from developing any competing software for a period of 99 years. \textsuperscript{198} Thus, it refused to permit the plaintiff to invoke the equity power of the courts to enforce the copyright, and reversed both the grant of injunctive relief and the award of damages. Notably, the court held that plaintiff's anticompetitive licensing provisions barred enforcement of the copyright despite the fact that defendants were not parties to the standard licensing agreement. \textsuperscript{199} Also of note is that while the contract clauses at issue in Lasercomb probably had anticompetitive effects, there was no need for the court to find that the clauses themselves violated the antitrust laws.

More recently, in DSC Communications v. DGI Technologies, \textsuperscript{200} the Fifth Circuit expressly tied the copyright misuse doctrine to the plaintiff's attempt to expand the copyright beyond its scope and "obtain a patent-like monopoly." \textsuperscript{201} In that case, DSC sold a microprocessor card for use on its phone switches, which ran on DSC's copyrighted operating system. DGI wanted to sell a competing microprocessor card compatible with DSC's switch. In order to build a compatible card, DGI tested its card on a DSC phone switch, which necessitated making a temporary copy of the operating system in the switch. \textsuperscript{202} The court rejected DSC's copyright infringement claim based on such temporary copying, finding that DSC's assertion of the claim was likely to constitute copyright misuse because it effectively asserted copyright control, not merely over the operating system software, but also over the unprotected microprocessor card. \textsuperscript{203} For a court to find likely copyright misuse here, it necessarily had to conclude that DSC's copyright argument would prove unpersuasive, an issue on which other courts have disagreed. \textsuperscript{204} The decision also suggests, however, that a copyright owner may commit misuse by improperly attempting to extend the power of the copyright beyond the scope granted by the law. As in Lasercomb, there is no antitrust analysis in the DSC opinion, suggesting that the court did not consider proof of an antitrust violation necessary for a finding of misuse.

By contrast, copyright owners seeking to expand the monopoly on their computer operating systems to cover hardware and software maintenance have for the most part withstood attack under both antitrust and copyright misuse principles. \textsuperscript{205} But it is worth noting that, in these cases, the determinative issue seems to have been whether copyright law extends to cover computer maintenance because it requires turning on the computer (and therefore loading the copyrighted software into RAM). For courts that believe this RAM copying is within the scope of the copyright laws implausible should be inclined to find misuse in this context. \textsuperscript{206} On the other hand, those who find this construction of the copyright laws plausible should be inclined to find misuse in this context. \textsuperscript{207} For a court to find likely copyright misuse here, it necessarily had to conclude that DSC's assertion of the claim was likely to constitute copyright misuse because it effectively asserted copyright control, not merely over the operating system software, but also over the unprotected microprocessor card. \textsuperscript{208} The court rejected DSC's copyright infringement claim based on such temporary copying, finding that DSC's assertion of the claim was likely to constitute copyright misuse because it effectively asserted copyright control, not merely over the operating system software, but also over the unprotected microprocessor card. \textsuperscript{209} For example, a plaintiff who truly does "opt out" of copyright in favor of contract presumably would not be bound by the limits of the copyright misuse defense. And it might not bar a contract claim even if it barred a copyright claim in the same case. Furthermore, the misuse doctrine is a defense to an infringement claim, and it therefore won't help copyright owners who complain about improper licensing agreements forced upon them by licensees.

 Nonetheless, copyright misuse doctrine readily disposes of the "contracts are different" canard, because it so clearly operates (as in Lasercomb) to restrict the enforcement of anticompetitive licensing provisions. It also may be more apt than fair use doctrine in preventing some anticompetitive extension of copyright. \textsuperscript{210} It also may be of no help in cases in which only state law rights are at issue. \textsuperscript{211} For example, a plaintiff who truly does "opt out" of copyright in favor of contract presumably would not be bound by the limits of the copyright misuse defense. And it might not bar a contract claim even if it barred a copyright claim in the same case. Furthermore, the misuse doctrine is a defense to an infringement claim, and it therefore won't help copyright owners who complain about improper licensing agreements forced upon them by licensees.

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B. Licensing Contracts as Creatures of Federal Law

There is no general federal common law of intellectual property licenses, \textsuperscript{214} as there is in a few other areas of federal law. \textsuperscript{215} Rather, federal law generally relies on state contract doctrine to support the myriad contracts that revolve around federal intellectual property rights. \textsuperscript{216} But in some circumstances, federal law overrides state contract doctrine, not in the sense of preemption, but by declaring that certain contracts will be interpreted under federal rather than state law. The occasional willingness of federal law to assume responsibility for
interpreting intellectual property licenses places a second nonpreemption limit on the ability of Article 2B to change the rules of contract law in this field. n217

[*159] A variety of federal intellectual property doctrines trump state law. In some cases, notably assignments of copyrights and patents, the federal statute itself governs the way in which transfers can be lawfully made. n218 Even where the federal statute is silent, determinations of whether an intellectual property right may be transferred in a particular circumstance tend to be decided as questions of federal law. n219 The same is true of the rules for how the transfer must be recorded, n220 and perhaps [*160] even the basic rules of contract law under which the transfer will be interpreted. n221

Similarly, a variety of patent and copyright ownership rules are determined by federal law rather than state contract law, even in circumstances in which that determination requires the court to interpret an assignment agreement. n222 Whether a copyrighted work is initially owned by the individual creator or another depends on whether it is a work made for hire; that determination is made on the basis of federal law. n223 Federal estoppel doctrines (or their opposites) may supersede state contract law interpretation, such as when assignors are precluded from [*161] challenging patent validity. n224 or licensors are permitted to do so. n225 In addition, if the interpretation of a contract requires a determination of the existence or scope of a federal right, such as a patent, that determination will be made as a matter of federal rather than state law. n226

An instructive case is S.O.S., Inc. v. Payday, Inc., n227 in which the court noted that state contract law could not be applied where it interfered with copyright law or copyright policy. n228 The district court had applied a California rule of contract construction which requires that courts interpret contracts against the drafter. The Ninth Circuit held that the California rule could not be applied to copyright license agreements because it was "contrary to [the] federal copyright policy" that licenses do not imply grant rights not expressly authorized. n229 While one can agree or disagree with the substantive result in this case - I for one don't find it terribly persuasive n230 - it is worth noting that even core canons of contract interpretation are not immune from the dictates of federal policy. n231

Other cases do not involve federal law interpretation of a contract per se, but impose federal restrictions on contract terms in order to protect important aspects of federal policy. n232 One might think of these cases as analogous to ones in which state courts invalidate contracts on grounds of public policy, but here the public policy at issue derives [*162] from federal rather than state law. n233 In a number of trademark cases, for example, federal policy restricts the enforceability of a franchise trademark licensing agreement because unrestricted licensing of a trademark is inconsistent with the goals of trademark law. n234 Another example is Fasa Corp. v. Playmates Toys, Inc., n235 where the court held that the parties to a settlement agreement could not waive all future intellectual property claims that might later arise. n236 One can readily imagine other circumstances in which federal policy might step in to preclude contract enforcement. For example, it is well-established that once an invention is patented, trade secret protection for that invention is lost. n237 If a patentee tried to require that a licensee continue to treat the patented invention as a trade secret, that agreement might well be invalid on federal public policy grounds. n238

In short, parties that would enforce contract terms cannot look only to state law in the wake of Article 2B. In some cases, such as those dealing with ownership and transfers, state law simply may not be the source [*163] of the interpretive rule. n239 While federal courts could conceivably adopt Article 2B by analogy in such cases, it is unlikely that they will so readily cede substantive control over a choice that they have already decided to make a question of federal law. Furthermore, even if Article 2B applies in contract interpretation, the contract terms are not immune from the dictates of federal policy. As seen above, in cases in which the contract threatens a significant federal interest, courts have shown no hesitation in interposing federal law as a limit on contractual freedom. As the conflict between federal policy and contract law sharpens in the wake of Article 2B, it would seem quite reasonable to expect an expanded role for federal public policy limits on contract enforcement. For example, a court might well conclude that a "no-reverse-engineering," "no-criticism," or "no-parody" clause in a contract was unenforceable as a matter of federal policy, without invoking the mechanisms of preemption.

C. State Public Policy Limits on Intellectual Property Contracts

State law and public policy also place limits on the freedom of contract afforded in state contract law. These limits are of two types. First, contract law itself typically will refuse to enforce certain types of contract terms, such as those that are unconscionable. Because these public policy restraints are internal to contract law, their continued existence depends on the way the contract statute is drafted. Article 2B contains a few such restrictions, although as noted above, it contains fewer such provisions than does its Article 2 counterpart. n240 Moreover, even though Article 2B provides
that substantively unconscionable contract terms will not be enforced. n241 Our experience with Article 2 cases makes it clear that courts rarely invoke the unconscionability doctrine to strike terms. n242 The same will undoubtedly continue to be true in Article 2B cases. Article 2B also contains a host of procedural restraints. For example, it requires certain terms to be conspicuous, or to be separately assented to, in order to be enforceable. n243 Again, however, Article 2B [*164] includes fewer such restrictions than does existing law, and it makes its procedural protections easier to waive by changing the meaning of a "contract." n244

A second set of state law public policy restrictions on contractual freedom comes from sources external to contract law, such as state intellectual property statutes or decisions. n245 The clearest example in the intellectual property context has to do with noncompetition agreements. n246 Enforceability of these agreements varies from state to state, but virtually all states impose some restriction on the enforceability of noncompetition agreements as a matter of public policy, and courts have not hesitated to invalidate such agreements. n247 Some states impose an overarching requirement of reasonableness, including limits on the permissible scope and duration of the agreement. n248 Others refuse to enforce noncompetition agreements at all in certain circumstances, such as contracts for employment at will. n249 Most restrictive are California and a few other states, which ban noncompetition agreements entirely in the employment context, and subject them to stringent conditions in other contexts. n250

The state interest in promoting these public policies can be quite strong. A California court recently took the position that a [*165] noncompetition agreement entered into in another state could not be enforced in California against the company that hired a departing employee, even though the noncompetition agreement was between two non-California parties and was valid in the jurisdiction in which it was signed. n251 This raises the possibility that California's interest in preventing such contracts is so strong that California state courts will deny full faith and credit to the judgments of another state. n252

State public policy interests in limiting the enforceability of contracts are not limited to the enforceability of noncompetition agreements. States have imposed similar restrictions on "trailer clauses," which require the assignment of inventions by former employees for a certain period after they leave their job. n253 A number of states have statutes restricting the circumstances in which employers can compel their employees to assign inventions made during the course of employment. n254 Other states have expressed public policy interests in various aspects of trade secret law, in some cases refusing to allow the parties to preclude reverse engineering, n255 or to extend trade secret protection beyond the time a secret is publicly disclosed. n256 And while the issue has [*166] not been litigated, I strongly suspect that trade secret policy will declare a widely distributed computer program like Windows to have lost trade secret protection at some point, despite efforts to characterize all of the hundred million or more sales as subject to nondisclosure agreements. n257 Contract terms ancillary to an unenforceable provision may also be struck down on public policy grounds. n258

Finally, states have public policy interests that come from sources other than intellectual property law, but that may also place limits on Article 2B. For example, most states have antitrust statutes. n259 And the application of those state antitrust laws will presumably constrain the enforcement of contracts under Article 2B. Most states also consider the common law policy against restraints on alienation to be a bedrock principle of the law. n260 Article 2B represents a direct attack on this principle, both because it will validate "contract" terms that run with the information and because some of its provisions explicitly attach to the information even after transfer. n261 There is a real conflict between this principle and Article 2B.

State intellectual property policies are entitled to just as much deference as any other state public policy, and perhaps as much as federal [*167] policies. n262 Certainly where the intellectual property right is created by the state itself, as in the case of trade secrets or the right of publicity, the state has a strong interest in defining the scope and limits of that right. State public policies that arise from intellectual property law should prevail in the face of Article 2B-endorsed contract terms to the contrary, just as analogous federal policies would. Whether they will do so is the subject of the next Section.

D. The Interaction of Public Policy and Article 2B

1. Doctrinal Questions

Article 2B acknowledges (as it must) that state contract law cannot override federal law. n263 But preemption will not be the only federal limit on the enforcement of contracts in the Article 2B world. To the extent that it applies, there is no question that the copyright misuse doctrine will prevail over anticompetitive terms - at least by precluding enforcement
of the copyright in federal court, and perhaps by invalidating the term entirely. Indeed, the February Draft of Article 2B for the first time explicitly recognized copyright misuse doctrine as a potential limit on contract terms. n264 Similarly, it seems clear that federal public policy will prevail over state contract law. Federal policy interests can invalidate contractual provisions in a wide variety of contexts, from agreements to arbitrate Title VII n265 employment disputes n266 to agreements to pay fact witnesses for their testimony. n267 To hold that federal interests in intellectual property policy must be subordinated to state contract law would effectively set those interests at naught, in violation of the Supremacy Clause.

A more difficult question is presented by state public policy restrictions. Clearly there is no reason to expect that the public policies currently embedded in contract law should be enforced in the Article 2B world. Because these policies are creatures of contract law, a new contract law can change them. Thus, should the drafters of Article 2B choose to abolish such contract law protections (as they have done in [*168] allowing vendors to effectively eliminate all warranties in most contracts), n268 and should state legislatures choose to enact such a new rule, there is no barrier to their doing so.

The same may not be true, however, of public policies embedded in state intellectual property laws. As a general rule, state contract law is subject not only to its internal constraints, but also to public policies that come from other state law sources, including statutes and judicial decisions. n269 State courts will refuse to enforce contracts that violate such noncontractual public policy rules. For example, a contract to murder someone - or a contract to pay for "legal" services rendered by someone who is not a member of the bar - may be perfectly valid as a matter of contract law, but courts will still refuse to enforce them. n270 Contractual freedom is subject not only to the dictates of state law, but also to the requirements of other applicable state and federal laws. n271

Judicial refusal to enforce contract terms because of conflicting state policy should not depend on whether the contract statute was enacted before or after other state laws. State legislatures are not obliged to reenact all their laws of general applicability every time they change contract law. n272 Put another way, one should not assume that enactment of Article 2B works an implied repeal of preexisting public policy rules. The more logical approach is to require the legislature to repudiate existing law unambiguously if it really wishes to change it. Article 2B should therefore not be read to repudiate generally applicable principles of state intellectual property law without clear guidance from the legislators.

The August Draft discusses its interaction with other state laws in some detail. n273 Section 2B-105(d) provides that conflicting state statutes and regulations prevail over Article 2B in cases in which the state law "establishes a consumer protection." n274 What a "consumer protection" is in this context is ambiguous; one might construe any number of state rules that restrict the scope of trade secrets as "consumer protections," for example. [*169] In addition, the August Draft provides that "principles of law and equity supplement this article," and in particular that trade secret laws and unfair competition laws are "not displaced" by Article 2B. n275 This language is encouraging, because it suggests in an open-ended way that existing rules of law and equity, as well as the "fundamental public policy" grudgingly included in section 105(b), n276 all survive the enactment of Article 2B. The fact that these equitable rules "supplement" rather than supersede the provisions of Article 2B nonetheless calls for some searching judicial inquiry into the relationship between these various areas of law. It would seem just as unreasonable to supersede judicial expressions of public policy impliedly as it would to directly supersede statutory rules. After all, both statutes and the common law reflect public policy concerns that arise outside of contract law. Indeed, overriding state policy with Article 2B might be worse for common law public policy rules than for statutes. Statutes can be reenacted, but a body of common law decisions cannot easily be recreated by a legislature. It is also worth noting that prior provisions of the U.C.C. have left many such common law doctrines intact. n277

2. Normative Questions

To be sure, not everyone is happy with the idea that public policy overrides contract. Judge Easterbrook has suggested that it should do so only rarely, n278 and advocates of a strong form of private ordering often suggest that "the market" will do a better job of determining public policy than "the law." n279 Robert Gomulkiewicz derides this effort to balance between policy and freedom of contract as "over-regulating" by the government. n280 But in fact, intellectual property is a prime example of an area in which we cannot simply rely on "the agreement of the parties" to choose our public policy. This is true partially because intellectual property licenses are notoriously fallible as indicators of the "intent" of the parties; n281 as we proceed to remove all trace of assent [*170] from the notion of contract, n282 the philosophical basis for private ordering disappears as well. n283
But the problem is more fundamental than this. Intellectual property is a deliberate, government-sponsored departure from the principles of free competition, designed to subsidize creators and therefore to induce more creation.\footnote{284} This departure from the competitive model affects third parties who are not participants in the contract.\footnote{285} If I agree not to criticize, parody, reverse engineer, improve, adapt, or extend your work, I am not the only one who pays the price for that agreement. All those consumers who would have bought my new product lose value as well, and that value simply isn't accounted for in the deal between the parties.\footnote{286} It can't be, because I myself would not be able to capture the full social surplus from those people who would buy my improved product.\footnote{287} This potential surplus is accounted for by the constraints and dictates of intellectual property law - it is the very reason intellectual property provides only a limited incentive and not complete control.\footnote{288} Those intellectual property rules may not always be pretty, or easy to determine, and they certainly aren't perfect descriptions of an optimal incentive structure.\footnote{289} But they are at least an effort to arrive at the right balance of incentives - an effort that would never even be made were we to leave social ordering entirely in the hands of private parties. \footnote{290}

Conclusion

Article 2B may well usher in a brave new world in which the predominant protection provided to intellectual property owners is based on contract rights, not on property rules.\footnote{291} But that new world will not be entirely free from the constraints of intellectual property policy. Contract terms that flagrantly conflict with federal law, or that upset the balance struck by that law, may be preempted. Even if they are not, a wide variety of state and federal public policy rules, including the doctrines of patent and copyright misuse, will limit the enforceability of contract terms that threaten federal policy.

It is worth noting that most (though by no means all) of the examples of federal policy interests I have discussed involve limits on the ability of intellectual property owners to expand protection, not limits on the ability of licensees to defeat protection. That is, most of the policy interests reflect ceilings rather than floors on the scope of protection. This is no accident. Intellectual property has always reflected a rough effort to balance the incentives of creators against the needs of particular consumers, improvers, and the public.\footnote{292} Historically, this has generally meant that the law must protect creators against the vagaries of the market; the most obvious threat to the balance came from rampant piracy, not excessive control over copyrighted works. But as Article 2B expands those intellectual property owners' power to obtain through contract law everything that intellectual property would give them and more, the role of intellectual property law must necessarily shift. Instead of being primarily a creator protection statute, intellectual property will become more and more a consumer protection law. And if Article 2B is enacted, consumers will certainly need one.

FOOTNOTES:


\footnote{180} In the cartoon, Dilbert inadvertently agrees to "spend the rest of my life as a towel boy in Bill Gates' new mansion" when he opens a piece of shrinkwrapped software without reading the entire agreement first (on file with author, pasted to his office door).


\footnote{182} See 2 Goldstein, supra note 134, at 9:35-40.

\footnote{183} For a history of the patent misuse doctrine, see 3 Donald S. Chisum, Chisum on Patents 19.04 (1998).

\footnote{184} See 2 Goldstein, supra note 134, at 9:35-36 (citing cases). Goldstein notes, however, that the cases expressing skepticism about the copyright misuse defense "should be taken with a grain of salt" because they are generally older cases, and the recent trend seems to be to recognize the defense. Id.
extend its control into neighboring markets, see David McGowan, Regulating Competition in the Information Age: Economic Effects, in control over a strong network market, see Mark A. Lemley & David McGowan, Legal Implications of Network notes, certain copyright licensing practices in the software context may raise antitrust concerns because they either lock misuse is limited to cases in which the antitrust laws are violated).

U.S.C. 102 misuse might be appropriate to prevent a copyright owner from capturing protection for an idea in violation of (describing misuse as "an equitable defense to an infringement action" that applies where "the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright"); cf. Bateman v. Mnemonics, Inc., 79 F.3d 1532, 1547 (11th Cir. 1996) (suggesting that copyright misuse might be appropriate to prevent a copyright owner from capturing protection for an idea in violation of 17 U.S.C. 102(b)). But see Reed-Union Corp. v. Turtle Wax, Inc., 77 F.3d 909 (7th Cir. 1996) (suggesting that copyright misuse is limited to cases in which the antitrust laws are violated).

Whether or not Peggy Radin is correct that one should never be held to things that one has written more than two years before, see Margaret Jane Radin, Reinterpreting Property 1 (1993), I must here confess error in this debate. I now believe that there may be circumstances in which rules peculiar to patent law make it appropriate to apply the misuse doctrine but do not warrant invocation of antitrust law. So too with copyright law. The application of the patent (or copyright) misuse doctrines, however, should be coupled with a reasonable mechanism to link the harm charged with the remedy administered; on that point (the thesis of my earlier paper), I am resolute. See Lemley, supra note 52, at 1614-20.

Notable on this list is extension of a patent license beyond the term of the patent. See Brulotte v. Thys Co., 379 U.S. 29, 38 n.3 (1964) (dissenting opinion). Other possible examples include non-metered royalties, grantback clauses, and resale field-of-use restrictions. See Richard Calkins, Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims, 38 Drake L. Rev. 175, 187 n.38 (1989) (cataloguing types of patent misuse defenses). In addition, even where patent misuse covers the same conduct as antitrust law, it may be easier to prove because it does not always require proof of market power or anticompetitive effect. See Lemley, supra note 52, at 1611-13.


See USM Corp. v. SPS Tech., Inc., 694 F.2d 505, 512 (7th Cir. 1982) (discussing whether patent misuse should be coextensive with antitrust law); Phillip Areeda & Louis Kaplow, Antitrust Analysis 183 (4th ed. 1987); Cohen, supra note 62, at 1191 (arguing for different rules); Lemley, supra note 52, at 1599 (arguing that the two doctrines should be coextensive, but noting that currently they are not); Robert P. Merges, Reflections on Current Legislation Affecting Patent Misuse, 70 J. Pat. & Trademark Off. Soc'y 793 (1988) (arguing for different rules).

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Whether or not Peggy Radin is correct that one should never be held to things that one has written more than two years before, see Margaret Jane Radin, Reinterpreting Property 1 (1993), I must here confess error in this debate. I now believe that there may be circumstances in which rules peculiar to patent law make it appropriate to apply the misuse doctrine but do not warrant invocation of antitrust law. So too with copyright law. The application of the patent (or copyright) misuse doctrines, however, should be coupled with a reasonable mechanism to link the harm charged with the remedy administered; on that point (the thesis of my earlier paper), I am resolute. See Lemley, supra note 52, at 1614-20.

Finally, it should be noted that while this Section focuses on the rationales courts have used to find misuse, many - indeed most - cases considering a copyright misuse claim have not found misuse. I hope my presentation of the former set of cases will not mislead anyone into thinking that defendants arguing misuse always - or even often - prevail.


n194. See Merges, supra note 1, at 1606 n.96 ("Under...[misuse] doctrines, courts refuse to enforce voluntary, bilateral contracts that presumably benefit both parties.... The only workable rationale for such a prohibition must be that the contracts, though mutually beneficial to the contracting parties, harm third parties.").

n195. See Lasercomb America, Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990), and DSC Communications Corp. v. DGI Technologies, 81 F.3d 597 (5th Cir. 1996), which are discussed below. See also Practice Management Info. Corp. v. American Med. Ass'n, 121 F.3d 516, 520-21 (9th Cir. 1997), amended by 133 F.3d 1140 (1998) (finding that AMA license of its works to government agency on the condition that they did not use a competing work was copyright misuse, even though the clause was not enforced); PRC Realty Sys., Inc. v. National Ass'n of Realtors, No. 91-1125, 1992 U.S. App. LEXIS 18017, at *36 (4th Cir. Aug. 4, 1992) (invalidating a license agreement for copyright misuse because it precluded competition by licensees); F.E.L. Publications, Ltd. v. Catholic Bishop, 214 U.S.P.Q. 409, 413 n.9 (7th Cir. 1982) (noting in dictum that "it is copyright misuse to exact a fee for the use of a musical work which is already in the public domain"); Tamburo v. Calvin, No. 94 C 5206, 1995 U.S. Dist. LEXIS 3399, *16-18 (N.D. Ill. Mar. 17, 1995) (holding that a software license agreement that prevents the development of competing products, whether or not based in software, constituted patent misuse); qad, inc. v. ALN Assocs., 770 F. Supp. 1261, 1267-69 (N.D. Ill. 1991) (holding that wrongly asserting copyright infringement on the basis of material that in fact plaintiff copied from another was copyright misuse, and precluding plaintiff from asserting even the original portions of the copyrighted work), aff'd, 974 F.2d 834 (7th Cir. 1992); Broadcast Music, Inc. v. Moor-Law, Inc., 527 F. Supp. 758, 772 n.24 (D. Del. 1981) ("Copyright misuse and antitrust analysis in this area are not necessarily coextensive."); Vogue Ring Creations, Inc. v. Hardman, 410 F. Supp. 609, 615-16 (D.R.I. 1976) (finding that material misstatements in copyright registration form constituted copyright misuse); cf. Coleman v. ESPN, Inc., 764 F. Supp. 290, 295 (S.D.N.Y. 1991) (holding that defendant could proceed to trial on its copyright misuse defense).

Commentators are also divided on whether copyright misuse is broader than antitrust law, but lean heavily towards the view that it is. See Sean Michael Aylward, The Fourth Circuit's Extension of the Misuse Doctrine to the Area of Copyright: A Misuse of the Misuse Doctrine?, 17 U. Dayton L. Rev. 661, 692 (1992) (stating that copyright misuse doctrine is broader than antitrust law, but shouldn't be); Cohen, supra note 62 (arguing for application of misuse outside the antitrust context); Timothy H. Fine, Misuse and Antitrust Defenses to Copyright Infringement Actions, 17 Hastings L.J. 315 (1965) (arguing that misuse can occur without an antitrust violation); Marshall Leaffer, Engineering Competitive Policy and Copyright Misuse, 19 U. Dayton L. Rev. 1087, 1099-1100 (1994) ("Most courts have declared that the misuse defense does not require proof of an antitrust violation."); John G. Mills, Possible Defenses to Complaints for Copyright Infringement and Reverse Engineering of Computer Software: Implications for Antitrust and I.P. Law, 80 J. Pat. & Trademark Off. Soc'y 101, 119 (1998) (arguing that copyright misuse does not require a showing of injury to competition); O'Rourke, supra note 62, at 550 (stating "it seems that the quantum of proof is somewhat less" in a copyright misuse than in an antitrust case); Troy Paredes, Copyright Misuse and Tying: Will Courts Stop Misusing Misuse?, 9 High Tech. L.J. 271, 330 (1994) (arguing that copyright misuse should be abolished, and only antitrust violations should be considered); David Scher, The Viability of the Copyright Misuse Defense, 20 Fordham Urb. L.J. 89, 102 (1992) (arguing that misuse should cover all extensions of copyright); Richard Stitt, Copyright Self-Help Protection as Copyright Misuse: Finally the Other Shoe Drops, 57 UMKC L. Rev. 899 (1989) (arguing that misuse is distinct from antitrust); Toshiko Takenaka, Extending the New Patent Misuse Limitation to Copyright: Lasercomb America, Inc. v. Reynolds, 5 Software L.J. 739, 746-48 (1992) (arguing for an antitrust-based approach to misuse); White, supra note 63, at 273, 287-88 (arguing that "misuse is independent of antitrust" and should be, at least for software); Philip Abromats, Comment, Copyright Misuse and Anticompetitive Software Licensing Restrictions: Lasercomb America, Inc. v. Reynolds, 52 U. Pitt. L. Rev. 629 (1991) (arguing for antitrust-based treatment of misuse); Ramsey Hanna, Note, Misusing Antitrust: The Search for Functional Copyright Misuse Standards, 46 Stan. L. Rev. 401 (1994) (arguing that misuse should be independent of, but narrower than, antitrust); Note, Clarifying the Copyright Misuse Defense: The Role of Antitrust Standards and First Amendment Values, 104 Harv. L. Rev. 1289 (1991) (arguing that copyright misuse should properly have both antitrust and pro-dissemination objectives).
For an interesting argument that network effects in the software industry support reliance on misuse principles independent of antitrust, see White, supra note 63, at 277-80; cf. Mark A. Lemley & David McGowan, Could Java Change Everything? The Competitive Propriety of a Proprietary Standard, 43 Antitrust Bull. (forthcoming Fall 1998) (discussing the problems in applying both antitrust and intellectual property law in network industries); Lemley & McGowan, supra note 192, at 500-41 (same).

n196. 911 F.2d 970 (4th Cir. 1990).
n197. See id. at 978.
n198. See id. at 978.

n199. See id. at 979. This remedial approach is analogous to the one I have criticized in the patent misuse cases. See Lemley, supra note 52, at 1614-20. Fortunately, other courts and commentators have suggested that the copyright misuse doctrine may be more narrowly tailored than the patent misuse doctrine. See Midway Mfg. Co. v. Artic Int'l, Inc, 211 U.S.P.Q. 1152, 1161 (N.D. Ill. 1981) (stating that a copyright misuse defense is allowed only when "the plaintiff's transgression...relates directly to the subject matter of the infringement action"); 2 Goldstein, supra note 134, at 9:39 (suggesting that to prevail, the defendant must show that "the alleged anticompetitive conduct relates directly to the claim of copyright infringement"). One patent misuse case has also imposed a similar requirement. See Kolene Corp. v. Motor City Metal Treating, Inc., 440 F.2d 77, 85 (6th Cir. 1971) ("The misconduct must be connected with the matter in litigation.")

n200. 81 F.3d 597 (5th Cir. 1996).
n201. Id. at 601.
n202. See id. at 599.
n203. See id. at 601.

n204. See MAI Sys. Corp. v. Peak Computing, Inc., 991 F.2d 511, 518 (9th Cir. 1993) (holding that the making of temporary copies of the operating system in a chip is copyright infringement). For a discussion of the debate over the meaning of fixation in the digital context, see Lemley, Overlapping Copyrights, supra note 15, at 550-52 (discussing cases and legislative history on both sides of the issue); Litman, Exclusive Right, supra note 63, at 40.

n205. The paradigm case is MAI Systems Corp., 991 F.2d at 518, which found copyright infringement based on such a claim.


n207. The holding in In re Independent Service Organizations, for example, is dependent on this conclusion. See 910 F. Supp. at 1543 (considering antitrust liability based on the assumption that RAM copying was copyright infringement). Indeed, the same court later concluded that whether there was copyright misuse in the case before it depended on a question of material fact: "the scope of Xerox's copyrights." In re Independent Serv. Orgs. Antitrust Litig., 964 F. Supp. 1469, 1477 (D. Kan. 1997).

n208. This group includes virtually all commentators who have considered the issue. See supra note 63 (collecting commentators).

n209. See, e.g., DSC, 81 F.3d at 601; Tricom, 902 F. Supp. at 745 (stating that a copyright owner cannot "enforce its copyright to violate the antitrust laws or indeed use it in any "manner violative of the public policy embodied in the grant of a copyright") (quoting Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 978 (4th Cir. 1990)). The Tricom court found that the plaintiff's MAI-based RAM copying claim did not preclude antitrust liability. See Tricom, 902 F. Supp. at 745; see also 4 Nimmer on Copyright, supra note 127, at 13-290 to 291 (arguing that the Independent Service Organizations cases "overly constrict" the misuse defense); cf. Independent Service Organizations, 964 F. Supp. at 1477 (appearing to condition misuse determination on copyright determination).

n210. In a case such as ProCD v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996), though, the doctrine might still be applicable because the plaintiff asserted a claim for copyright infringement despite the clear contrary authority of Feist
Inc. v. Rice, 16 F.3d 355, 357 (9th Cir. 1994) (holding that section 204 requires a negotiated agreement to prevent standing to file suit as patentee because purported exclusive license was not in writing, as federal case law requires).

cf. nonexclusive license could be implied under federal law notwithstanding contrary state rules of contract interpretation);

Cir. 1997) assignment disputes should be decided by federal courts).

that state courts are incapable of understanding complex issues of patent policy and that all patent license and sensitive issues of federal law are being decided by state courts which may not fully understand them. See Mark J.

Henry, State Courts Hearing Patent Cases: A Cry for Help to the Federal Circuit,

This fact, in itself, has disturbed some commentators who worry that dispute over ownership of the copyright, and that the dispute belonged in state court. See over a copyright infringement complaint because it concluded that the copyright suit was "incidental" to a contract dispute. See generally Donald Arnold Corp. v. Hydrotech Sys., Inc., 109 F.3d 1567, 1571 (Fed. Cir. 1996) (concluding that a claim based on breach of patent license is a state law claim over which the federal courts had no jurisdiction). Federal law may apply even though the dispute is litigated in state court. Indeed, in cases such as Dow Chemical Co. v. Exxon Corp., 139 F.3d 1470, 1474 (Fed. Cir. 1998) (noting the "traditional domain" of state law in interpreting patent contracts); Nimmer et al., supra note 8, at 26-27.

n211. One might argue that copyright misuse should apply to cases in which only state law claims are asserted, but the assertion of those claims (say, the enforcement of the contract at issue in Lasercomb) depends indirectly on the misuse of copyright. To date, there have been no cases of which I am aware that address such an argument at all.

n212. See Cohen, supra note 62, at 1193; White, supra note 63, at 290-91, 293-95.

n213. See McGowan, Regulating Competition, supra note 192 (favoring copyright misuse over antitrust for this reason); O'Rourke, supra note 62, at 550 ("The copyright misuse doctrine may prove helpful to avoid transforming breach of contract litigation...into full blown antitrust litigation.").

Further, if McGowan is correct that copyright law takes a different approach to enhancing social welfare than either antitrust or contract, see McGowan, supra note 145; McGowan, Regulating Competition, supra note 192, at 773-78, applying the principles of copyright stands the best chance of correctly resolving a conflict between copyright and contract.


n216. See, e.g., Dow Chemical Co. v. Exxon Corp., 139 F.3d 1470, 1474 (Fed. Cir. 1998) (noting the "traditional domain" of state law in interpreting patent contracts); Nimmer et al., supra note 8, at 26-27.

n217. One should distinguish the application of federal law and policy from litigation in federal court. See Jim Arnold Corp. v. Hydrotech Sys., Inc., 109 F.3d 1567, 1571 (Fed. Cir. 1996) (concluding that a claim based on breach of patent license is a state law claim over which the federal courts had no jurisdiction). Federal law may apply even though the dispute is litigated in state court. Indeed, in cases such as Consolidated Kinetics Corp. v. Marshall, Neil & Pauley, Inc., 521 F.2d 1209, 1212-13 (Wash. Ct. App. 1974), and Lear Sieglar, Inc. v. Sargent Industries, Inc., 374 A.2d 273, 276-77 (Del. Super. Ct. 1977), in which the state court actually determines the validity of the patent in the course of deciding a licensing dispute, there seems to be no question that federal law and policy must apply. See generally Donald Shelby Chism, The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation, 46 Wash. L. Rev. 633 (1971) (discussing federal patent cases litigated in state court). And one case even dismissed federal jurisdiction over a copyright infringement complaint because it concluded that the copyright suit was "incidental" to a contract dispute over ownership of the copyright, and that the dispute belonged in state court. See Robinson v. Princeton Review Inc., 41 U.S.P.Q.2d 1008, 1012 (S.D.N.Y. 1996). This fact, in itself, has disturbed some commentators who worry that sensitive issues of federal law are being decided by state courts which may not fully understand them. See Mark J. Henry, State Courts Hearing Patent Cases: A Cry for Help to the Federal Circuit, 101 Dick. L. Rev. 41 (1996) (arguing that state courts are incapable of understanding complex issues of patent policy and that all patent license and assignment disputes should be decided by federal courts).

n218. See, e.g., 17 U.S.C. 204 (1994); 35 U.S.C. 261 (1994); Jacob Maxwell Inc. v. Veeck, 110 F.3d 749, 752 (11th Cir. 1997) (holding that an oral agreement to grant exclusive copyright license was invalid under federal law, but that a nonexclusive license could be implied under federal law notwithstanding contrary state rules of contract interpretation); cf. Enzo APA & Son, Inc. v. Geapag A.G., 134 F.3d 1090, 1093 (Fed. Cir. 1998) (holding that patent plaintiff lacked standing to file suit as patentee because purported exclusive license was not in writing, as federal case law requires).

This is not to say that courts necessarily agree on how section 204 is to be interpreted. Compare Konigsberg Int'l Inc. v. Rice, 16 F.3d 355, 357 (9th Cir. 1994) (holding that section 204 requires a negotiated agreement to prevent
Circuit held that where two parties co-owned a patent, either one was free to license the work to third parties. See determination of ownership of the patent itself is a matter of patent law, not contract law. See these circumstances; a fraud claim may still lie, for example, against someone who steals an invention and patents it in under Stark v. Advanced Magnetics Inc., 119 F.3d 1551, 1554 (Fed. Cir. 1997) (holding that determination of inventorship file for a patent without the permission of the actual inventor, if the inventor had an obligation to assign the invention); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972) (same); Tasini v. New York Times Co., 972 F. Supp. 804, 807 (S.D.N.Y. 1997) (holding that attempt by publishers to license electronic reprint rights from authors by including a legend on the royalty check was ineffective under federal law); In re Patient Education Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997) (holding that debtor cannot assign nonexclusive license without consent of copyright owner). But cf. Yount v. Aecuff Rose-Opryland, 103 F.3d 830, 835 (9th Cir. 1996) (holding that a contract assigning royalty interests in copyright, but not the copyright itself, is construed under state law); Farmland Irrigation Co., Inc. v. Dopplmaier, 308 P.2d 732, 737-39 (Cal. 1957) (stating that no federal patent policy "requires a uniform federal rule of construction of license contracts to determine their assignability").

Jessica Litman points out that a rule of nontransferability of nonexclusive licenses makes little sense in the copyright context. See Litman, supra note 4, at 2 n.4. Nonetheless, the case law does exist, and it is unquestionably federal case law.

n220. See 17 U.S.C. 205 (1994) (providing for a certain set of priority rules between conflicting claimants to copyright ownership). As Paul Heald notes, however, section 205 does not exhaust the issues that come up when intellectual property is used as collateral, and therefore does not necessarily preempt all state regulation in the area. See Heald, supra note 142, at 140.

Even so, courts have applied federal law to many of these interstices. For example, a number of courts have held that security interests in copyrights must be registered with the Copyright Office, not with state offices (as Article 9 of the U.C.C. would otherwise provide). See U.C.C. 9-101 (1997); In re AEG Acquisition Corp., 127 B.R. 34, 40 (Bankr. C.D. Cal. 1991), aff'd, 161 B.R. 50 (9th Cir. B.A.P. 1993); In re Peregrine Entertainment Ltd., 116 B.R. 194, 199 (C.D. Cal. 1990); see also Shubha Ghosh, The Morphing of Property Rules and Liability Rules: An Intellectual Property Optimist Examines Article 9 and Bankruptcy, 8 Fordham Intell. Prop. Media & Ent. L.J. 99 (1997); Shawn K. Baldwin, Comment, "To Promote the Progress of Science and Useful Arts": A Role for Federal Regulation of Intellectual Property as Collateral, 143 U. Pa. L. Rev. 1701, 1731 (1995) (endorsing the federal approach). For criticism of this approach, see Haemmerli, supra note 14, at 1680-95; Aimee A. Watterberg, Comment, Perfecting a Security Interest in Computer Software Copyrights: Getting It Right, 15 J. Marshall J. Computer & Info. L. 855, 867 (1997) (endorsing a federal approach, but arguing that the current system needs significant clarification). Haemmerli also notes the potentially contrary rule in patent cases. See Haemmerli, supra note 14 at 1697-98. For further discussion of the intellectual property recording rules, see Ronald J. Mann, The Role of the U.C.C. in Facilitating the Financing of Software Licenses 12 (1998) (unpublished manuscript, on file with author).

n221. The Nimmer treatise suggests that a transfer of copyright ownership does not require consideration, despite the fact that consideration is ubiquitous in state contract doctrine. See 3 Nimmer on Copyright, supra note 127, at 10.03[A][8].

n222. See, e.g., 35 U.S.C. 118 (1952) (allowing for "involuntary assignment," permitting rightful patent owner to file for a patent without the permission of the actual inventor, if the inventor had an obligation to assign the invention); Stark v. Advanced Magnetics Inc., 119 F.3d 1551, 1554 (Fed. Cir. 1997) (holding that determination of inventorship under 35 U.S.C. 256 is a matter of federal patent law). Note that it does not follow that state law is entirely preempted in these circumstances; a fraud claim may still lie, for example, against someone who steals an invention and patents it in his name. See University of Colo. Found., Inc. v. Am. Cyanamid Co., 974 F. Supp. 1339, 1353 (D. Colo. 1997). But the determination of ownership of the patent itself is a matter of patent law, not contract law.

An instructive case is Schering Corp. v. Roussel-UCLAF SA, 104 F.3d 341 (Fed. Cir. 1997). There, the Federal Circuit held that where two parties co-owned a patent, either one was free to license the work to third parties. See id. at 344. However, the licensor could not prevent his co-owner from suing the licensee for past acts of patent infringement.
because the licensor did not have the power to grant a release of past liability to the co-owner. See id. at 345. This is a rule of federal law interpreting the meaning of a license agreement, not a result of the terms of the agreement itself.

n223. See 17 U.S.C. 101 (1994) (defining "work made for hire"). Ginsburg notes that Article 2B will not cover most agreements designating works as made for hire, because they are not licenses but are rather outright assignments of all intellectual property interests. See Ginsburg, supra note 4. Article 2B will still apply, however, to the extent that the agreement on assignment or work for hire status constitutes a "software contract" or an "access contract." See U.C.C. 2B-103(a)(1) (Draft, Aug. 1, 1998).

n224. See, e.g., Carroll Touch, Inc. v. Electro Mechanical Sys., Inc., 3 F.3d 404 (Fed. Cir. 1993) (holding that an inventor is estopped from challenging the validity of his own patent - later assigned to another - when the patent application was based on his representations to the Patent and Trademark Office); Diamond Scientific Co. v. Ambico, Inc., 848 F.2d 1220, 1224 (Fed. Cir. 1988) (finding that assignor estoppel prevents inventor from challenging patent validity).


n226. See Dow Chemical Co. v. Exxon Corp., 139 F.3d 1470, 1475 n.4 (Fed. Cir. 1998).

n227. 886 F.2d 1081 (9th Cir. 1989).

n228. See id. at 1088.

n229. Id.

n230. The conclusion that the terms of a form license agreement must always be construed to grant only what the license itself states seems at odds with a number of other decisions, including a subsequent decision by the Ninth Circuit that granted an implicit license to use a copyrighted work. See Effects Assoc., Inc. v. Cohen, 908 F.2d 555, 558 (9th Cir. 1990); see also Jacob Maxwell Inc. v. Veeck, 110 F.3d 749, 751 (11th Cir. 1997); I.A.E., Inc. v. Shaver, 74 F.3d 768, 774 (7th Cir. 1996).

n231. See Fantastic Fakes, Inc. v. Pickwick Int'l, Inc., 661 F.2d 479, 483 (5th Cir. 1981) (noting that "it is possible to hypothesize situations where application of particular state rules of construction would so alter rights granted by the copyright statutes as to invade the scope of copyright law or violate its policies," but concluding this was not such a case).


n233. Many of the cases discussed above that apply federal law to an entire area of licensing do so because of important federal policies, and so might be thought to fit in this category as well. For a good example, see Everex Systems, Inc. v. Cadtrak Corp., 89 F.3d 673, 679 (9th Cir. 1996), in which the court discusses the important federal policies that support allowing the patentee to govern assignability of nonexclusive licenses. But see Dreyfuss, supra note 4, at 227-29 (suggesting that Everex may be wrong about federal policy in this area); Daniel A. Wilson, Note, Patent License Assignment: Preemption, Gap Filling, and Default Rules, 77 B.U. L. Rev. 895 (1997) (same).

Another possible area of federal policy interest is in rights of indemnification and contribution against intellectual property infringement claims. For an excellent discussion of the labyrinthine federal and state rules in this area, see David Hricik, Remedies of the Infringer: The Use by the Infringer of Implied and Common Law Federal Rights, State Law Claims, and Contract to Shift Liability for Infringement of Patents, Copyrights, and Trademarks, 28 Tex. Tech L. Rev. 1027 (1997).

n234. See 15 U.S.C. 1060 (1994) (providing that a trademark may be assigned along with the goodwill of a business); American Steel Foundries v. Robertson, 269 U.S. 372, 380 (1926) (assignment in gross); Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 871 (10th Cir. 1995) (holding trademark rights lost due to unsupervised license); Marinelli v. Shell Oil Co., 511 F.2d 853, 858 (3d Cir. 1975) (precluding trademark registration due to naked licensing); Pepsico,
Inc. v. Grapette Co., Inc., 416 F.2d 285, 288 (8th Cir. 1969) (holding assignment in gross invalid); Dawn Donut Co., Inc. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959); 2 McCarthy on Trademarks, supra note 95, at 18.01; Merges et al., supra note 43, at 698-99 (discussing the assignments in gross rule).


n236. Id. at 1066. But cf. National Presto Indus. Inc. v. Dazey Corp., 107 F.3d 1576, 1580-82 (Fed. Cir. 1997) (stating that federal courts do not have continuing jurisdiction to enforce settlement agreement in a patent case).

n237. See, e.g., Ferroline Corp. v. General Aniline & Film Corp., 207 F.2d 912, 919 (7th Cir. 1953).

n238. Indeed, patentees occasionally have been subject to antitrust attack for attempting to patent an invention and then claiming the same invention as a trade secret after the patent expired. See United States v. Pilkington PLC, No. 94-345 (D. Ariz. Dec. 22, 1994).

The attempt to get such dual protection for a single invention should be distinguished from Aronson v. Quick Point Pencil Co., 440 U.S. 257, 263-64 (1979), in which the Supreme Court held that a patent applicant could enforce a royalty agreement that continued to claim as a secret an invention that did not qualify for patent protection.

n239. In some cases, a federal court will look to analogous cases for guidance in interpreting a particular term in a federal statute. See, e.g., Community for Creative Non-Violence v. Reid, 490 U.S. 730, 731 (1989) (applying common law agency principles to determine whether plaintiff was an "employee" for purposes of the works made for hire doctrine); De Sylva v. Ballentine, 351 U.S. 570, 580 (1956) (noting that the meaning of "children" in the Copyright Act could be determined by reference to state law). The use of state or common law principles in these cases, however, does not change the essentially federal nature of the inquiry. For example, a state could not change the meaning of the Copyright Act by adopting a new definition of "employee" or "children."

n240. See supra notes 23-32 and accompanying text.


n242. See supra note 181 and accompanying text (noting paucity of decisions).

n243. See U.C.C. 2B-111(b) (Draft, Aug. 1, 1998) (establishing rules governing assent to particular terms); id. 2B-112(a)(1) (defining opportunity to review contract terms); id. 2B-406(b)(6) (providing that disclaimers of implied warranties in mass-market licenses must be conspicuous).

n244. See supra notes 19-32 and accompanying text.

n245. See generally American Home Assurance Co. v. Stephens, 130 F.3d 123, 126 (5th Cir. 1997) ("Expressions of public policy are found in a state's constitution, statutes and judicial decisions.").

n246. This need not be entirely a state policy issue. Arguably the federal antitrust laws embody the common law's historic aversion to contractual restraints on trade and employment. See Herbert Hovenkamp, Enterprise and American Law 1836-1937, at 268-95 (1991); McGowan, supra note 145.

n247. Many cases have invalidated covenants not to compete. See, e.g., Hi-Line Elec. Co. v. Dowco Elec. Prods., 765 F.2d 1359 (5th Cir. 1985); NCH Corp. v. Broyles, 749 F.2d 247 (5th Cir. 1984); Diodes, Inc. v. Franzen, 67 Cal. Rptr. 19 (Cal. Ct. App. 1968); Renal Treatment Ctrs. v. Braxton, 945 S.W.2d 557 (Mo. 1997); Reed Roberts Assoc., Inc. v. Strauman, 353 N.E.2d 590 (N.Y. 1976); Light v. Centel Cellular Co., 883 S.W.2d 642 (Tex. 1994).

n248. See, e.g., Comprehensive Techs. Intl, Inc. v. Software Artisans, Inc., 3 F.3d 730, 738 (4th Cir. 1993) (applying Virginia law); Holloway v. Faw, Casson & Co., 572 A.2d 510, 515 (Md. 1990); Strauman, 353 N.E.2d at 679 (applying New York law); cf. Renal, 945 S.W.2d at 557 (finding under Texas law that the noncompetition agreement was ancillary to sale of a business, but that the buyer had no legitimate interest in preventing solicitation of patients).

n249. See, e.g., Light v. Centel Cellular Co., 883 S.W.2d 642, 647 (Tex. 1994); cf. Central Adjustment Bureau, Inc. v. Ingram, 678 S.W.2d 28, 33 (Tenn. 1984) (finding noncompetition agreement enforceable where continuous long-term employment constituted consideration). But cf. Tatge v. Chambers & Owen, Inc., 579 N.W.2d 217 (Wis. 1998) (holding that an employee can be fired for refusing to sign a noncompetition agreement, even if the agreement would be unenforceable).

n251. See Application Group, Inc. v. Hunter Group, Inc., 72 Cal. Rptr. 2d 73, 88 (Cal. Ct. App. 1998). The court emphasized the strength of California's interest in voiding such agreements, particularly the policies in favor of free employee mobility. See id. at 89. On the strength of California's interest, see also Hollingsworth Solderless Terminal Co. v. Turley, 622 F.2d 1324, 1338-39 (9th Cir. 1980) (concluding that California courts would not enforce covenants violative of section 16600 even if such covenants would be enforceable under the laws of the state chosen by the contract itself); KGB, Inc. v. Giannoulas, 164 Cal. Rptr. 571, 578 (Cal. Ct. App. 1980); Frame v. Merrill, Lynch, Pierce, Fenner & Smith Inc., 97 Cal. Rptr. 811 (Cal. Ct. App. 1971).

n252. The Application Group court concluded that California's interests in precluding enforcement were "materially stronger" than Maryland's interests in allowing it. See 72 Cal. Rptr. 2d at 86.


n254. Of particular note is section 2870 of the California Labor Code, which provides that contracts may not require assignment of an "invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information" unless the invention relates to the employer's current or demonstrably anticipatable business. Cal. Lab. Code 2870 (Deering 1991). Other states have similar statutes. See Minn. Stat. Ann. 181.78 (West 1993); N.C. Gen. Stat. 66-57.1 to 57.2 (1996); Wash. Rev. Code Ann. 49.44.140 (West 1990).


n256. Courts have taken inconsistent positions on whether the parties to a nondisclosure agreement may agree to require protection of a trade secret (and the payment of royalties) beyond the time the secret is disclosed and statutory protection is lost. Compare Warner-Lambert Pharm. Co. v. John J. Reynolds, Inc., 178 F. Supp. 655, 665-66 (S.D.N.Y. 1959) (holding a contract to pay royalties enforceable even after secret has been disclosed), aff'd, 280 F.2d 197 (2d Cir. 1960), with Restatement (Third) of Unfair Competition § 79 cmt. d, 41 cmt. d (1993) (suggesting that public policy may render agreements purporting to protect information in the public domain unenforceable), Sarkes Tarzian, Inc. v. Audio Devices, Inc., 166 F. Supp. 250, 265-66 (S.D. Cal. 1958) (same), aff'd, 283 F.2d 695 (9th Cir. 1960), and Gary Van Zeeland Talent, Inc. v. Sandas, 267 N.W.2d 242 (Wis. 1978) (same). Cf. Pitney Bowes, Inc. v. Mestre, 701 F.2d 1365, 1371 (11th Cir. 1983) (holding that when a patent and related know-how are licensed together, the obligation to pay royalties on both expires when the patent does); St. Regis Paper Co. v. Royal Indus., 552 F.2d 309, 315 (9th Cir. 1979) (same).


n258. For example, in Application Group, the court held that a contractual choice of law provision was "contrary to this state's fundamental policy" because it facilitated the enforcement of a contractual term deemed void under California law. Application Group, Inc. v. Hunter Group, Inc., 72 Cal. Rptr. 2d 73, 83 (Cal. Ct. App. 1998); accord Nedlloyd Lines B.V. v. Superior Court, 834 P.2d 1148 (Cal. 1992); Frame v. Merrill, Lynch, Pierce, Fenner & Smith Inc., 97 Cal. Rptr. 811 (Cal. Ct. App. 1971).

n260. See, e.g., John D. Park & Sons Co. v. Hartman, 153 F. 24, 39 (6th Cir. 1907) (“The right of alienation is one of the essential incidents of a right of general property in movables, and restraints upon alienation have been generally regarded as obnoxious to public policy....”).

n261. See, e.g., U.C.C. 2B-507(b) (Draft, Aug. 1, 1998).

n262. While Jerry Reichman and Jonathan Franklin suggest that a doctrine of "public interest unconscionability" be added to Article 2B, Reichman & Franklin, supra note 8, at 30-32, such a concept is perhaps better located in state intellectual property policy itself, rather than in contract law.


n268. Sections 2B-406 and 2B-401(d) of Article 2B together permit vendors to disclaim all express and implied warranties simply by including appropriate language in a shrinkwrap license or other form contract. See U.C.C. 2B-401(d), 2B-406 (Draft, Aug. 1, 1998).

n269. See American Home Assurance Co. v. Stephens, 130 F.3d 123, 126 (5th Cir. 1997).

n270. See, e.g., Birbrower, Montalbano, Condon & Frank, P.C. v. Superior Court, 949 P.2d 1 (Cal. 1998) (holding that contract requiring payment for services that constituted unauthorized practice of law was void as contrary to public policy).

n271. See Fisher, supra note 171 (cataloguing public policy restrictions on freedom of contract).

n272. Article 2B seems both to acknowledge this and to dispute it, providing that some state statutes (but presumably not others) in force at the time the final draft is enacted will continue to apply. See U.C.C. 2B-105(d) (Draft, Aug. 1, 1998). State laws enacted after Article 2B, of course, would be free to modify it.

n273. See id. 2B-105.

n274. Id. 2B-105(d).

n275. Id. 2B-105(c).

n276. Id. 2B-105(b).


n278. See Cange v. Stotler & Co., Inc., 826 F.2d 581, 596 (7th Cir. 1987) (stating that "contracts rarely defeat the function of a statute so utterly that they may be set aside" as violative of public policy).

n279. See Bell, supra note 11, at 591; Hardy, supra note 11, at 218-19.

n280. Gomulkiewicz, supra note 4, at 3.

n281. See Lemley, Economics of Improvement, supra note 10, at 1042-72 (explaining in detail the problems with the assumption of efficient intellectual property licensing).


n283. Even if one is convinced that contract terms to which two parties agreed necessarily reflect the optimal allocation of resources between them, the same assumption cannot be made in a case like Hill, in which the "terms" to
which the parties supposedly agreed were not even available to one of the parties at the time the contract was made. See Hill, 105 F.3d at 1199.

n284. See Lemley, Economics of Improvement, supra note 10, at 993-1000 and sources cited therein. Indeed, if intellectual property rights did not allow copyright and patent owners to price above marginal cost, they would have failed in their essential purpose. See Allan N. Litman, Monopoly, Competition and Other Factors in Determining Patent Infringement Damages, 38 IDEA 1, 11 (1997) (acknowledging that using the term "monopoly" to describe intellectual property rights is currently in disfavor, but arguing that "[a] patent does grant a legal monopoly over the making, using and selling of the patented article or method. To deny that is to tilt at windmills.").

At the very least, Julie Cohen is surely correct to note that we don't have sufficient information across the range of creative works to conclude definitively that they exhibit a high degree of substitutability in spite of intellectual property law. See Cohen, supra note 11, at 60.


n286. See Andreas A. Papandreou, Externality and Institutions 225 (1994) ("Institutional change does not require efficiency gains to be initiated, it requires gains to the initiators of change, which may or may not coincide with an overall increase in wealth...."); cf. Wendy J. Gordon, Asymmetric Market Failure and Prisoner's Dilemma in Intellectual Property, 17 U. Dayton L. Rev. 853, 857 (1992) (arguing that intellectual property protection cannot be justified if users will face market failure).

n287. Julie Cohen makes this point as well. See Cohen, supra note 11, at 86-87. For a similar argument made in terms of political theory, see Philip E. Agre, Mixed Metaphors: Inscribing Social Visions in Networked Computers (1997) (unpublished manuscript, on file with author) (suggesting that "externalities" are in fact central rather than peripheral in an information economy).

n288. See Lessig, supra note 38, at 638.

n289. On some of the flaws with the process, see Jessica Litman, Copyright Legislation and Technological Change, 68 Or. L. Rev. 275 (1989); Jessica D. Litman, Copyright, Compromise, and Legislative History, 72 Cornell L. Rev. 857 (1987).

n290. See Cohen, supra note 11; Lemley, Economics of Improvement, supra note 10, at 1083; McGowan, supra note 145, at 56.

It is worth noting that even advocates of default rules as a norm endorse immutable rules when "unregulated contracting would be socially deleterious because parties internal or external to the contract cannot adequately protect themselves." Ayres & Gertner, supra note 23, at 88; see also Robert C. Ellickson, Property in Land, 102 Yale L.J. 1315, 1367 (1993) ("Group-imposed restraints on alienation are defensible when they bar a transfer that would harm others more than it benefits the parties to the transaction.").

n291. A number of scholars have made this argument. See Bell, supra note 11, at 612; Elkin-Koren, Contracts in Cyberspace, supra note 11; Fisher, supra note 171.

n292. See supra note 34.