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## The Uses of IP Misuse

Deepa Varadarajan

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# THE USES OF IP MISUSE

Deepa Varadarajan\*

## ABSTRACT

*Roughly seventy-five years ago, the equitable doctrine of misuse emerged as a tool to police intellectual property (IP) owners' overzealous contracting and enforcement behavior. First in patent law and then in copyright, courts developed the misuse doctrine to scrutinize practices that expanded IP rights in socially disadvantageous ways. The misuse doctrine reminded IP owners that their contractual freedom was not absolute, that legislatively calibrated limitations on IP rights were more than mere suggestions, and that certain enforcement tactics could trigger a court's refusal to enforce IP rights.*

*In recent years, patent misuse doctrine has essentially gone the way of antitrust—narrowing its focus to a thin sliver of anticompetitive harms. Copyright misuse doctrine has, however, stayed faithful to broader IP policy concerns. Courts have, for example, responded to misuse arguments where a copyright owner's licensing or enforcement behavior threatens to deter innovative activity or socially valuable speech.*

*Similar to their IP counterparts, trade secret owners also engage in problematic licensing and enforcement behavior. This is perhaps unsurprising, given the growing legal and economic importance of trade secrets to firms. Yet what is surprising is that courts have not developed an analogous trade secret misuse doctrine. Instead, courts tend to ignore trade secret owners' problematic practices or evaluate them through the lens of ill-fitting doctrinal substitutes. This Article takes the first close look at the justifications for introducing a trade secret misuse doctrine—and considers how copyright misuse doctrine provides a template for reform.*

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INTRODUCTION .....	741
I. ORIGINS AND COMMON FEATURES OF PATENT AND COPYRIGHT MISUSE DOCTRINE .....	746
A. <i>Origins of Patent Misuse</i> .....	747
B. <i>Origins of Copyright Misuse</i> .....	749
C. <i>Common Features of Patent and Copyright Misuse</i> .....	751
II. THE DIVERGING CONCERNS OF PATENT AND COPYRIGHT MISUSE ...	753
A. <i>Competition Harms</i> .....	754
1. <i>Patent Misuse: Moving Toward Antitrust</i> .....	755
2. <i>Copyright Misuse: Flexibility and Deviation from Antitrust</i> .....	758
B. <i>Deterring Socially Valuable Uses</i> .....	759
1. <i>Critical Speech</i> .....	761
2. <i>Reverse Engineering</i> .....	763
C. <i>Channeling Between Patent and Copyright Subject Matter</i> .....	766
D. <i>Abusive Overclaiming of Copyright Scope</i> .....	769
E. <i>Understanding the Divergence of Patent and Copyright Misuse</i> .....	773
III. CONSIDERING A TRADE SECRET MISUSE DOCTRINE .....	775
A. <i>Understanding Trade Secret Law</i> .....	777
B. <i>Copyright Misuse's Concerns Are Relevant to Trade Secret Law</i> .....	779
1. <i>Competition Harms and Antitrust's Limitations</i> .....	779
2. <i>Restraining Socially Valuable Uses</i> .....	781
a. <i>Critical Speech</i> .....	781
b. <i>Reverse Engineering</i> .....	784
3. <i>Channeling Between Patent and Trade Secret Subject Matter</i> .....	785
4. <i>Abusive Overclaiming of Trade Secret Scope</i> .....	787
C. <i>Justifying and Implementing a Trade Secret Misuse Doctrine</i> ..	789
1. <i>Existing Doctrinal Gaps and Beneficial Overlaps</i> .....	790
2. <i>Implementation Considerations</i> .....	792
a. <i>High Threshold and Burden of Proof</i> .....	794
b. <i>Procedural and Remedial Flexibility</i> .....	796
CONCLUSION .....	798

## INTRODUCTION

Intellectual property (IP) owners have considerable freedom to decide the terms upon which they will share patented technologies, copyrighted works, and trade secret information. In general, the legal system is supportive of such private arrangements and recognizes the efficiency benefits of IP licensing.<sup>1</sup> At the same time, private arrangements regarding IP can impact third parties and the broader public. Indeed, IP laws are explicitly designed to balance owners' interests against the public's.<sup>2</sup> To this end, owners get enough exclusivity to incentivize the creation and dissemination of new works, but not so much that others are deterred from engaging in critical discourse or building on existing works.<sup>3</sup> For this reason, patents and copyrights are term-limited,<sup>4</sup> and others can engage in certain socially valuable uses of an owner's work without permission, including "experimental uses" of a patented drug,<sup>5</sup> "fair uses" of a copyrighted work,<sup>6</sup> and "reverse engineering" of trade secrets.<sup>7</sup>

Given these public-minded limitations on IP owners' rights, the tenets of contractual freedom and IP policy can conflict when owners impose restrictive licensing conditions.<sup>8</sup> For example, suppose a patent owner requires a licensee to pay royalties past the patent term, or a copyright owner prevents a licensee from engaging in critical speech, or a trade secret owner restrains a licensee from

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<sup>1</sup> See, e.g., *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1323 (Fed. Cir. 2003) ("Courts respect freedom of contract and do not lightly set aside freely-entered agreements."); U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, *ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY 2* (2017) [hereinafter 2017 GUIDELINES] (recognizing that "intellectual property licensing . . . is generally procompetitive.").

<sup>2</sup> See, e.g., *Stewart v. Abend*, 495 U.S. 207, 228 (1990) ("[T]he Copyright Act . . . creates a balance between the artist's right to control the work during the term of the copyright protection and the public's need for access to creative works.").

<sup>3</sup> See *id.*; Maureen A. O'Rourke, *Toward a Doctrine of Fair Use in Patent Law*, 100 COLUM. L. REV. 1177, 1180 (2000) ("Virtually since their inception, both the copyright and patent laws have grappled with the question of how to safeguard the incentive inherent in the grant of exclusive rights while at the same time allowing second-comers to build on prior works.").

<sup>4</sup> See 17 U.S.C. §§ 302–05 (2012) (describing copyright duration); 35 U.S.C. § 154(a)(2) (2012) (describing patent term).

<sup>5</sup> See 35 U.S.C. § 271(e)(1).

<sup>6</sup> See 17 U.S.C. § 107.

<sup>7</sup> See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974).

<sup>8</sup> A robust academic literature explores the question of whether intellectual property laws should merely be default rules that parties can contract around or fixed policy judgments that justify limitations on IP licensing. For a sampling of this literature, see, for example, Jonathan M. Barnett, *Why Is Everyone Afraid of IP Licensing*, 30 HARV. J.L. & TECH. 123, 124 (2017); Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 111, 116 (1999); J.H. Reichman & Jonathan A. Franklin, *Privately Legislated Intellectual Property Rights: Reconciling Freedom of Contract with Public Good Uses of Information*, 147 U. PA. L. REV. 875, 877 (1999).

reverse engineering software. Licensing terms aside, IP owners may also exaggerate the scope of their rights and threaten meritless litigation, deterring others from engaging in lawful innovative activity.<sup>9</sup> From the IP owner's perspective, such practices may make strategic sense. But when should the rest of us worry that an IP owner has gone too far, so to speak, engaging in acts that, in the aggregate, can inflict societal harms related to competition, innovation, or public discourse?

The misuse doctrine emerged to address such worries about “overreaching” by IP owners. First in patent law and then in copyright, courts developed the equitable doctrine of misuse to scrutinize owners’ practices that threatened to expand the scope of IP rights in anticompetitive or other problematic ways.<sup>10</sup> Misuse arguments are usually raised as an infringement defense, even though the defendant asserting it need not herself be the victim of the offensive practice.<sup>11</sup> And the penalty for misuse is potent: the misusing owner cannot enforce the patent or copyright against anyone until the offending practice stops and “the consequences of the misuse . . . have been dissipated.”<sup>12</sup>

While copyright and patent misuse doctrines share these features, they have nonetheless forged different paths. In recent decades, patent misuse doctrine has moved closer to antitrust principles, placing competition concerns at the forefront and embracing a “rule of reason” analysis.<sup>13</sup> As a result, patent misuse doctrine has become increasingly irrelevant outside a narrow sliver of cases where a patent owner with market power engages in licensing practices with demonstrable anticompetitive effects.<sup>14</sup> By contrast, copyright misuse has eschewed antitrust law’s strictures to consider broader IP policy concerns. To this end, courts have invoked copyright misuse to scrutinize licensing and enforcement practices that threaten not just competition, but also innovation and speech. Misuse doctrine is a relatively under-examined aspect of intellectual

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<sup>9</sup> See *Assessment Techs. of WI, LLC v. WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003) (“[F]or a copyright owner to use an infringement suit to obtain property protection . . . that copyright law clearly does not confer, hoping to force a settlement or even achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist effectively, is an abuse of process.”).

<sup>10</sup> See, e.g., *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 494 (1942) (originating the modern patent misuse doctrine and applying it to a patentee’s tying of patented salt-injection machines to unpatented salt tablets), *invalidated in part by* *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 31 (2006); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976 (4th Cir. 1990) (applying copyright misuse to copyright owner’s software license restriction).

<sup>11</sup> See *Lasercomb*, 911 F.2d at 972–73.

<sup>12</sup> *Morton Salt*, 314 U.S. at 493; see also *infra* Section I.C.

<sup>13</sup> Under a rule of reason analysis, courts generally consider the likely anticompetitive effects and procompetitive benefits of a challenged practice. See *infra* Section II.A.1.

<sup>14</sup> See *infra* Section II.A.1.

property law.<sup>15</sup> But some commentators have pointed to the different trajectories of patent and copyright misuse as suggestive of a “schizophrenic” or “chaotic” doctrine.<sup>16</sup>

This Article develops a typology of concerns underlying copyright misuse and explains why a nimble misuse doctrine is potentially more important for copyright than patent. Courts and claimants have invoked copyright misuse not only to address competitive harms, but also copyright owners’ acts that: (i) preemptively restrain fair uses, like socially valuable speech and reverse engineering; (ii) upset the subject matter boundary between patent and copyright by sneaking functional works through the “back-door” of copyright protection; and (iii) overclaim or misrepresent the legitimate scope of copyright, particularly to unsophisticated audiences.<sup>17</sup> This Article suggests that important differences between copyright and patent law—in terms of their subject matter, structure, and audience—help explain the divergence of copyright and patent misuse doctrines.<sup>18</sup>

This Article then turns to trade secret law, a subset of IP that covers a vast array of information firms try to keep secret, including formulas, mechanical processes, business strategies, and aspects of software. Like other IP regimes, trade secret law grants owners limited exclusivity to help stimulate investments in innovation.<sup>19</sup> And like their IP counterparts, trade secret owners engage in

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<sup>15</sup> Relatively few scholars have examined misuse across intellectual property laws. *See generally* Christina Bohannon, *IP Misuse as Foreclosure*, 96 IOWA L. REV. 475 (2011); Thomas F. Cotter, *Misuse*, 44 HOUS. L. REV. 901 (2007). For scholarly treatments of patent misuse, see generally Thomas F. Cotter, *Four Questionable Rationales for the Patent Misuse Doctrine*, 12 MINN. J.L. SCI. & TECH. 457 (2011); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399 (2003); Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CALIF. L. REV. 1599 (1990); Daryl Lim, *Patent Misuse and Antitrust: Rebirth or False Dawn?*, 20 MICH. TELECOMM. & TECH. L. REV. 299 (2014). For scholarly treatments of copyright misuse, see generally Dan L. Burk, *Anticircumvention Misuse*, 50 UCLA L. REV. 1095 (2003); John T. Cross & Peter K. Yu, *Competition Law and Copyright Misuse*, 56 DRAKE L. REV. 427 (2008); Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865 (2000); JuNelle Harris, *Beyond Fair Use: Expanding Copyright Misuse to Protect Digital Free Speech*, 13 TEX. INTELL. PROP. L.J. 83 (2004); Lydia Pallas Loren, *Slaying the Leather-Winged Demons in the Night: Reforming Copyright Owner Contracting with Clickwrap Misuse*, 30 OHIO N.U. L. REV. 495 (2004); David S. Olson, *First Amendment Based Copyright Misuse*, 52 WM. & MARY L. REV. 537 (2010); Kathryn Judge, Note, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901 (2004).

<sup>16</sup> *See, e.g.*, Cotter, *Misuse*, *supra* note 15, at 932.

<sup>17</sup> *See infra* Section II.B–II.D.

<sup>18</sup> *See infra* Section II.E. This is not, however, meant to be an endorsement of patent misuse’s antitrust orientation. A number of scholars have ably argued that patent misuse should retain a separate identity from antitrust; this Author does not relitigate their persuasive arguments here. *See generally* Bohannon, *supra* note 15, at 478; Feldman, *supra* note 15, at 400.

<sup>19</sup> *See infra* Part III. Unlike patent, copyright, and trade secret laws, the other major IP branch—trademark

licensing and enforcement practices that threaten to expand their limited rights in problematic ways.<sup>20</sup> Trade secret law shares structural characteristics with copyright law that make these acts of expansion more likely. Notably, copyright and trade secret owners do not have to satisfy *ex ante* application, disclosure, or claiming requirements—as patentees do.<sup>21</sup> As a result, trade secret boundaries are highly uncertain, making it easier for trade secret owners to misrepresent the scope of their rights, particularly to legally unsophisticated audiences like employees and former employees, who make up the largest category of trade secret defendants.<sup>22</sup>

Given the structural similarities between copyright and trade secret law, many of the policy concerns underlying copyright misuse resonate in the trade secret context. Like copyright owners, trade secret owners restrain reverse engineering, deter critical speech, and overclaim the scope of their trade secrets to legally unsophisticated audiences.<sup>23</sup> Yet curiously, courts have not developed an analogous trade secret misuse doctrine. In misuse's absence, some trade secret defendants have attempted to raise misuse-like arguments through ill-fitting doctrinal substitutes, which courts have either ignored or insufficiently addressed.<sup>24</sup>

This oversight is particularly troubling because trade secrecy's significance has swelled in recent decades—both in economic and legal terms. Indeed, trade

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law—is not concerned with promoting innovation, but rather, reducing consumer confusion. *See* *TraFFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 28 (2001); WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 167–68 (2003). Given the consumer protection rationale underlying trademark law, this Article does not address trademark law or trademark misuse. As with trade secret law, courts have not widely recognized a trademark misuse doctrine akin to patent or copyright misuse. *See, e.g.*, *KEMA, Inc. v. Koperwhats*, 658 F. Supp. 2d 1022, 1036 (N.D. Cal. 2009) (questioning whether “trademark misuse ever exists as a separate affirmative defense”); *Microsoft Corp. v. Compuserve Distributions, Inc.*, 115 F. Supp. 2d 800, 810 (E.D. Mich. 2000) (observing that “courts in other circuits have questioned the existence [of a trademark misuse] defense”); *see also* William E. Ridgeway, *Revitalizing the Doctrine of Trademark Misuse*, 21 *BERKELEY TECH. L.J.* 1547, 1548 (2006) (describing trademark misuse as a “doctrine with early roots but without contemporary recognition”). In any case, given the consumer protection rationale underlying trademark law, there may be greater negative consequences for consumers when a trademark owner is denied an injunction or prevented from enforcing its mark. *Cf.* Mark A. Lemley, *Did eBay Irreparably Injure Trademark Law?*, 92 *NOTRE DAME L. REV.* 1795 (2017) (criticizing courts' denials of trademark injunctions in infringement cases because of the public's significant interest in not being confused by a defendant's use of a mark).

<sup>20</sup> *See infra* Section III.B.

<sup>21</sup> *See* Deepa Varadarajan, *Trade Secret Fair Use*, 83 *FORDHAM L. REV.* 1401, 1405 (2014).

<sup>22</sup> *See* David S. Ameling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 *GONZ. L. REV.* 57, 69 (2010–2011) (conducting an empirical study of state appellate decisions between 1995 and 2009 and concluding that in 77% of cases, the alleged misappropriator was an employee or former employee).

<sup>23</sup> *See infra* Section III.B.

<sup>24</sup> *See infra* Section III.C.1.

secrets were recently described as “the most pervasive form of intellectual property in the modern economy.”<sup>25</sup> Firms from a variety of industries report their increased dependence on trade secrets.<sup>26</sup> As the economic importance of trade secrets has grown, so too has their legal recognition. Trade secrecy laws started as a loose patchwork of state common law principles, but now, almost every state legislature has enacted some version of the Uniform Trade Secrets Act (UTSA).<sup>27</sup> In 2016, Congress enacted the Defend Trade Secrets Act (DTSA), which enables trade secret owners to assert claims under federal law as well.<sup>28</sup> These legal and economic developments invite fresh scrutiny of trade secret law—and how owners’ practices can conflict with legislatively calibrated limits on their rights to exclude.

This Article proceeds in three parts. Part I describes the origins and common features of patent and copyright misuse. Part II offers a framework for understanding the diverging concerns of patent and copyright misuse. Part III argues that many of the policy concerns underlying copyright misuse are relevant to trade secret law and considers the potential benefits and costs of introducing a trade secret misuse doctrine. To be sure, copyright misuse is not a perfect doctrinal vehicle, and its application to trade secret law would require adjustment. But copyright misuse asks important questions that are insufficiently addressed by other limiting doctrines. In that sense, trade secret should borrow a page from copyright’s book. Finally, this Article offers a few recommendations for how courts might implement a trade secret misuse doctrine.

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<sup>25</sup> Peter S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 CALIF. L. REV. 1, 3 (2017).

<sup>26</sup> See JOHN E. JANKOWSKI, NAT’L SCI. FOUND., BUSINESS USE OF INTELLECTUAL PROPERTY PROTECTION DOCUMENTED IN NSF SURVEY 4 (2012) (reporting survey results finding that “[m]ore so than for other forms of [inter partes review], a diverse group of industries reported trade secrets as very or somewhat important to their businesses”).

<sup>27</sup> UNIFORM TRADE SECRETS ACT (UNIF. LAW COMM’N 1985). All but two states (New York and North Carolina) have enacted some form of the UTSA. *Trade Secrets Act*, UNIFORM L. COMM’N, <https://my.uniformlaws.org/committees/community-home?CommunityKey=3a2538fb-e030-4e2d-a9e2-90373dc05792> (last visited Feb. 20, 2019).

<sup>28</sup> See Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376 (2016) (codified at 18 U.S.C. § 1832 (2018)). The DTSA amended the Economic Espionage Act of 1996 to provide a federal cause of action for trade secret misappropriation. 18 U.S.C. § 1836(b). Prior to the DTSA, civil trade secret claims could only be asserted under state laws.

## I. ORIGINS AND COMMON FEATURES OF PATENT AND COPYRIGHT MISUSE DOCTRINE

Patent and copyright laws have common origins and animating rationales. Patent law covers technical, functional subject matter, such as new machines, processes, and chemical compositions.<sup>29</sup> Copyright law covers a broad range of literary and artistic expression, including books, songs, paintings, and (more recently) computer programs.<sup>30</sup> Even though patent and copyright law focus on different subject matter, Congress's authority to enact both stems from the same clause of the Constitution.<sup>31</sup> Moreover, the same utilitarian justification underlies both patent and copyright laws. That is, by providing time-limited exclusive rights, patents and copyrights motivate inventors and authors to create and disseminate their technological inventions and creative works.<sup>32</sup> Yet despite these similarities, patent and copyright laws are designed quite differently.

Notably, a patent is harder to obtain and expires more quickly than a copyright. A patent seeker must undergo a lengthy and rigorous examination process before the U.S. Patent and Trademark Office, demonstrating that her invention is sufficiently useful, novel, nonobvious, and described so that others in the field can learn from it.<sup>33</sup> By contrast, a copyright seeker does not have to apply for copyright protection. Copyright protection is automatic upon the creation of a work, so long as it meets a very low threshold of originality and is fixed in a tangible medium of expression.<sup>34</sup> Moreover, while an issued patent lasts twenty years from the date the patent application was filed,<sup>35</sup> a copyright lasts much longer—usually for the author's entire life plus seventy years after the author's death.<sup>36</sup>

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<sup>29</sup> 35 U.S.C. § 101 (2012) (“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter . . . may obtain a patent . . .”).

<sup>30</sup> 17 U.S.C. § 102(a) (2012) (“Copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression . . .”); see 2 ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE*: 2018, at 528–36 (2018).

<sup>31</sup> See U.S. CONST. art 1, § 8, cl. 8 (“Congress shall have the power . . . to promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . .”). Pursuant to this authority, Congress enacted the first patent and copyright statutes soon after the country's founding. Copyright Act of 1790, 1 Stat. 124 (codified in scattered sections of 17 U.S.C.); Patent Act of 1790, 1 Stat. 109 (codified in scattered sections of 35 U.S.C.).

<sup>32</sup> See MERGES ET AL., *supra* note 30, at 16–20; Mark A. Lemley, *Ex Ante Versus Ex Post Justifications for Intellectual Property*, 71 U. CHI. L. REV. 129, 129–30 (2004).

<sup>33</sup> 35 U.S.C. §§ 101–03, 112.

<sup>34</sup> See 17 U.S.C. § 102(a); *Feist Publ'ns v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345 (1991) (explaining that to qualify for copyright protection, “the requisite level of creativity is extremely low; even a slight amount will suffice” and “[t]he vast majority of works make the grade quite easily”).

<sup>35</sup> See 35 U.S.C. § 154.

<sup>36</sup> See 17 U.S.C. § 302(a).

While a patent is harder to get and expires sooner, it guards the owner's exclusivity more zealously than a copyright by prohibiting conduct that would be permissible under copyright law. For example, patent infringement liability extends to those who independently develop the same technology.<sup>37</sup> By contrast, copyright infringement only punishes copiers, not independent creators.<sup>38</sup> Moreover, copyright protection extends only to the author's original expression of a work, not to any underlying ideas, facts, systems, processes, or other functional elements divulged in the copyrighted work.<sup>39</sup> Patent law purposely covers functional subject matter.<sup>40</sup> And finally, patent law does not have copyright's robust "fair use" limitation, which permits unauthorized uses of copyrighted works for various socially valuable purposes.<sup>41</sup>

However, one limitation on owners' rights that both patent and copyright law share is the equitable doctrine of misuse. Broadly speaking, misuse doctrine considers whether a patent or copyright owner has acted to "impermissibly broaden" or "exceed the scope" of an intellectual property right, often through licensing conditions.<sup>42</sup> If misuse is found, a court will not enforce the intellectual property right against anyone until the offensive conduct stops and the effects of misuse are purged.<sup>43</sup>

### A. *Origins of Patent Misuse*

The U.S. Supreme Court's *Morton Salt v. G.S. Suppiger*<sup>44</sup> decision is often credited with originating the modern patent misuse doctrine.<sup>45</sup> In *Morton Salt*,

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<sup>37</sup> See Mark A. Lemley, *Should Patent Infringement Require Proof of Copying?*, 105 MICH. L. REV. 1525, 1525 (2007) ("Patent law gives patent owners not just the right to prevent others from copying their ideas, but the power to control the use of their idea—even by those who independently develop a technology with no knowledge of the patent or the patentee.").

<sup>38</sup> See, e.g., *Armstein v. Porter*, 154 F.2d 464, 468 (2d Cir. 1946) (explaining that copyright infringement requires proof of copying).

<sup>39</sup> See 17 U.S.C. § 102(b).

<sup>40</sup> See 35 U.S.C. § 101.

<sup>41</sup> See 17 U.S.C. § 107.

<sup>42</sup> See, e.g., *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1328 (Fed. Cir. 2010); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990).

<sup>43</sup> See *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493 (1942).

<sup>44</sup> 314 U.S. at 490–91; see Bohannon, *supra* note 15, at 485 ("*Morton Salt* is widely regarded as the first case to apply the modern patent-misuse doctrine.").

<sup>45</sup> Even before *Morton Salt*, the U.S. Supreme Court refused to find contributory patent infringement in cases involving patent holders' tying of patented inventions to unpatented goods. See, e.g., *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 31 (1931); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 517 (1917). The *Motion Picture Patents Co. (MPPC)* case is often described as the first Supreme Court case to apply the "principle of patent misuse." See HERBERT HOVENKAMP ET AL., IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW § 3.02 (2017) [hereinafter IP AND ANTITRUST]. In *MPPC*, the plaintiff had a patent on a mechanism for feeding film into movie projectors

the patent holder on a machine for depositing salt tablets required those leasing the machines to use them only with salt tablets purchased from the patent holder.<sup>46</sup> The Court determined that the patent holder had exceeded its patent right on the machine—had “misused” the patent—by tying it to an unpatented product (salt tablets).<sup>47</sup> As a result, the Court held the patent holder could not enforce its patent right against anyone until “the improper practice ha[d] been abandoned” and “the consequences of the misuse . . . dissipated.”<sup>48</sup> In formalizing the patent misuse doctrine, the Court invoked competition concerns, as well as the broader “public policy” and “public interest” concerns underlying the patent system.<sup>49</sup> The Court explained: “The patentee, like . . . other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy.”<sup>50</sup>

In the years following *Morton Salt*, the Supreme Court applied patent misuse to various tying requirements and other attempts to “enlarge” or “expand” the legitimate scope of a patent.<sup>51</sup> In *Brulotte v. Thys Co.*,<sup>52</sup> for example, the Supreme Court applied misuse principles to post-term royalty provisions—i.e., license provisions requiring royalty payments even after expiration of the

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and tied the use of its patented projectors to the purchase of its unpatented films. 243 U.S. at 505. The Supreme Court articulated misuse principles in rejecting the restriction, observing that “[s]uch a restriction is invalid because such a film is obviously not any part of the invention of the patent in suit.” *Id.* at 518. Yet *MPPC* “did not create the modern misuse doctrine as we know it today,” for it did not describe unenforceability of the patent as misuse’s remedy or explain that alleged patent infringers unharmed by the misuse could raise it as a defense. Bohannon, *supra* note 15, at 480.

<sup>46</sup> See *Morton Salt*, 314 U.S. at 490–91.

<sup>47</sup> *Id.* at 491.

<sup>48</sup> *Id.* at 493.

<sup>49</sup> *Id.* at 492 (“[T]he public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right . . . not granted by the Patent Office and which it is contrary to public policy to grant . . . . It is a principle of general application that courts . . . may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest.”).

<sup>50</sup> *Id.* at 494.

<sup>51</sup> See, e.g., *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 139 (1969) (holding that patentee’s setting royalty rates on the basis of the licensee’s sale of unpatented products could constitute misuse); *Transparent–Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 644 (1947); *Berlenbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782, 784–85 (9th Cir. 1964) (“[A] clause prohibiting a licensee from selling articles in competition with the patented articles likewise constitutes patent misuse . . . .”); *Nat’l Lockwasher Co. v. George K. Garrett Co.*, 137 F.2d 255, 256 (3d Cir. 1943) (finding misuse where patentee used the patent to “suppress the manufacture of possible competing goods not covered by its patent”).

<sup>52</sup> 379 U.S. 29, 32 (1964).

underlying patent.<sup>53</sup> The Court analogized such provisions to tying requirements and deemed them “counter to the policy and purpose of the patent laws.”<sup>54</sup>

These early patent misuse cases were not beholden to antitrust principles, but instead invoked broader policy concerns underlying patent law. In recent decades, however, both the Federal Circuit and Congress have shifted patent misuse doctrine closer towards antitrust standards.<sup>55</sup> The growing influence of antitrust law on patent misuse doctrine is discussed further in Part II.

### B. *Origins of Copyright Misuse*

Misuse doctrine migrated beyond patent to copyright during the late twentieth century.<sup>56</sup> Although the Supreme Court has not “firmly established” a misuse doctrine in copyright,<sup>57</sup> it has “tacitly approved” the copyright analogy to patent misuse.<sup>58</sup> The first appellate court to apply “copyright misuse” doctrine was the Fourth Circuit in *Lasercomb America, Inc. v. Reynolds*.<sup>59</sup>

Like the foundational patent misuse cases, *Lasercomb* involved restrictive licensing terms. The defendants had licensed die-making software from Lasercomb.<sup>60</sup> Lasercomb imposed a standard licensing agreement on its licensees, barring them from “writing, developing, producing, or selling computer-assisted die-making software” for a term of ninety-nine years.<sup>61</sup> The

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<sup>53</sup> *Id.*

<sup>54</sup> *Id.* at 31 (quoting *Scott Paper Co. v. Marcalus Co.*, 326 U.S. 249, 256 (1945)). “[P]roject[ing] . . . royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tying the sale or use of the patented article to the purchase or use of unpatented ones.” *Id.* at 33.

<sup>55</sup> Today, a tying case like *Morton Salt* would likely be analyzed differently. A court would not assume that a patent confers market power on its owner. See *infra* Section II.A.1.

<sup>56</sup> Although copyright defendants tried to invoke analogies to patent misuse in earlier decades, they were often unsuccessful. See, e.g., *Orth-O-Vision, Inc. v. Home Box Office*, 474 F. Supp. 672, 686 (S.D.N.Y. 1979) (refusing to extend the rationale of *Morton Salt* to copyright); *Harms, Inc. v. Sansom House Enters., Inc.*, 162 F. Supp. 129, 135 (E.D. Pa. 1958) (“The affirmative defense of violation of the Anti-Trust laws . . . is not permitted in a copyright infringement action.”), *aff’d*, *Leo Feist, Inc. v. Lew Tendler Tavern, Inc.*, 267 F.2d 494 (3d Cir. 1959).

<sup>57</sup> See *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976 (4th Cir. 1990).

<sup>58</sup> See 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.09[A][2][b] (2013) (describing the Court’s “tacit approval” of copyright misuse doctrine). In a few mid-twentieth century decisions, the Court condemned copyright owners’ block book licensing (i.e., where copyright holders conditioned the licensing of popular films on the licensing of less popular films). Analogizing this tying practice to earlier patent misuse cases, the Court deemed copyright owners’ block booking practices illegal under antitrust law. See, e.g., *United States v. Lowe’s Inc.*, 371 U.S. 38, 45–46 (1962); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 156–59 (1948).

<sup>59</sup> *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990).

<sup>60</sup> *Id.* at 971–72.

<sup>61</sup> *Id.* at 972–73.

defendants copied Lasercomb's software and marketed it as their own die-making software.<sup>62</sup> Lasercomb sued the defendants for copyright infringement.<sup>63</sup> The defendants did not deny copying the software but nonetheless invoked a defense of copyright misuse based on Lasercomb's restrictive licensing terms.<sup>64</sup>

Citing the "parallel public interests" of copyright and patent law, the Fourth Circuit formally recognized copyright misuse doctrine.<sup>65</sup> Invoking the reasoning of early patent misuse cases like *Morton Salt*, the Fourth Circuit deemed Lasercomb's license restriction to be copyright misuse because the copyright "was being used in a manner violative of the public policy embodied in the grant of a copyright."<sup>66</sup> The court explained:

Lasercomb undoubtedly has the right to protect against copying of [its software] code. Its standard licensing agreement, however, goes much further and essentially attempts to suppress any attempt by the licensee to independently implement the idea which [the software] expresses. The agreement forbids the licensee . . . [and] all its directors, officers and employees from assisting in any manner to develop computer-assisted die-making software. Although one or another licensee might succeed in negotiating out the noncompete provisions, this does not negate the fact that Lasercomb is attempting to use its copyright in a manner adverse to the public policy embodied in copyright law, and that it has succeeded in doing so with at least one licensee.<sup>67</sup>

The Fourth Circuit highlighted the "extremely broad" language of the licensing agreement, which forced licensees to forego "creative abilities . . . in the area of . . . die-making software" and thus remove them "from the public."<sup>68</sup> The court also emphasized the lengthy period of the restraint: "ninety-nine years, which could be longer than the life of the copyright itself."<sup>69</sup>

In the decades since *Lasercomb*, a majority of circuit courts have recognized copyright misuse.<sup>70</sup> In contrast to patent misuse, however, copyright misuse

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<sup>62</sup> *See id.* at 971–72.

<sup>63</sup> *Id.* at 972.

<sup>64</sup> *Id.*

<sup>65</sup> *Id.* at 976 ("Both patent law and copyright law seek to increase the store of human knowledge and arts by rewarding inventors and authors with the exclusive rights to their works for a limited time. At the same time, the granted monopoly power does not extend to property not covered by the patent or copyright.")

<sup>66</sup> *Id.* at 978–79.

<sup>67</sup> *Id.* at 978.

<sup>68</sup> *Id.*

<sup>69</sup> *Id.*

<sup>70</sup> The doctrine has been recognized in almost all circuits. *See, e.g.,* Chamberlain Grp., Inc. v. Skylink Techs., Inc., 381 F.3d 1178, 1201 (Fed. Cir. 2004); Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc., 342 F.3d 191, 204–06 (3d Cir. 2003); Alcatel USA, Inc. v. DGI Techs., Inc., 166 F.3d 772 (5th Cir. 1999); Practice

cases have turned away from antitrust standards and embraced broader policy concerns. This important divergence between patent and copyright misuse is discussed further in Part II.

### C. Common Features of Patent and Copyright Misuse

Before addressing the differing trajectories of patent and copyright misuse, it is worth noting their common features. First, misuse arguments are typically raised as an infringement defense.<sup>71</sup> In some cases, however, a licensee brings a declaratory judgment action to determine whether an intellectual property owner has committed misuse,<sup>72</sup> or raises the argument in response to a breach of contract claim.<sup>73</sup> These other procedural avenues are less common—and have been expressly rejected by some courts in copyright misuse cases.<sup>74</sup>

Second, the defendant raising the misuse argument need not herself be a victim of the misuse, so long as she can show that the patent or copyright owner

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Mgmt. Info. Corp. v. Am. Med. Ass'n, 121 F.3d 516, 521 (9th Cir. 1997); DSC Commc'ns Corp. v. DGI Techs., Inc., 81 F.3d 597, 601 (5th Cir. 1996); qad. inc. v. ALN Assocs., Inc., 974 F.2d 834 (7th Cir. 1992); United Tel. Co. of Mo. v. Johnson Publ'g Co., 855 F.2d 604, 611–12 (8th Cir. 1988) (assuming “that judicial authority teaches that the patent misuse doctrine may be applied or asserted as a defense to copyright infringement”); Saks Inc. v. Attachmate Corp., No. 14 Civ. 4902(CM), 2015 WL 1841136, at \*12 (S.D.N.Y. Apr. 17, 2015) (“While the Second Circuit Court of Appeals has never formally endorsed the affirmative defense of copyright misuse, a number of district courts in this circuit have refused to strike such a defense, so it is incorrect to suggest that this defense is not recognized in this Circuit.”); Nat'l Cable Television Ass'n, Inc. v. Broadcast Music, Inc., 772 F. Supp. 614, 752 (D.D.C. 1991); see also IP AND ANTITRUST, *supra* note 45, at § 3.04[A] (“All told, the First, Third, Fourth, Fifth, Seventh, Eighth, Ninth, Eleventh, and Federal Circuits, and district courts in all other circuits except the Tenth, have held that a copyright misuse defense exists.”); cf. Soc'y of Holy Transfiguration Monastery, Inc. v. Gregory, 689 F.3d 29, 65 (1st Cir. 2012) (considering misuse arguments but observing that “this court has not yet recognized misuse of a copyright as a defense to infringement”); Telecom Tech. Servs. v. Rolm Co., 388 F.3d 820, 831 (11th Cir. 2004) (avoiding decision to recognize copyright misuse); Design Basics, LLC v. Petros Homes, Inc., 240 F. Supp. 3d 712, 720 (N.D. Ohio 2017) (recognizing copyright misuse but acknowledging that “the Sixth Circuit has not addressed the topic” of copyright misuse).

<sup>71</sup> See, e.g., Pringo Corp. v. Int'l Trade Comm'n, 616 F.3d 1318, 1321 (Fed. Cir. 2010) (“Patent misuse developed as a nonstatutory defense to claims of patent infringement.”).

<sup>72</sup> See, e.g., Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401, 2403 (2015) (describing how Marvel brought a declaratory judgment in federal district court confirming that it could stop paying Kimble post-term royalties); Cty. Materials Corp. v. Allan Block Corp., 502 F.3d 730, 732–33 (7th Cir. 2007) (recognizing declaratory judgment action claiming that licensor's conduct constituted misuse); Elec. Data Sys. Corp. v. Comput. Assocs. Int'l, Inc., 802 F. Supp. 1463, 1466 (N.D. Tex. 1992) (permitting copyright misuse to be raised as both as a defense to copyright infringement, and as an independently actionable claim).

<sup>73</sup> In *Brulotte v. Thys Co.*, the patent misuse-like argument was raised as a defense to a state-law breach of contract claim when the licensee stopped paying royalties on the contract after expiration of the patent. 379 U.S. 29, 32 (1964).

<sup>74</sup> See, e.g., Ass'n of Am. Med. Colls. v. Princeton Review, Inc., 332 F. Supp. 2d 11, 18 (D.D.C. 2004) (holding that “test preparation service could not affirmatively claim copyright misuse by test provider, apart from use as defense to infringement claim”). See *infra* text accompanying notes 369–71.

misused the intellectual property right against another party.<sup>75</sup> In *Lasercomb*, for example, the defendants asserting copyright misuse were not bound by the offensive licensing agreement—though others were.<sup>76</sup> The absence of a “standing”-type requirement for raising misuse arguments distinguishes it from certain contract defenses as well as antitrust law.<sup>77</sup>

Third, the penalty for misuse is quite potent. The patent or copyright cannot be enforced against anyone until the “improper practice has been abandoned and . . . the consequences of the misuse . . . have been dissipated.”<sup>78</sup> The remedy for misuse can be distinguished from antitrust remedies, which include damages but not the unenforceability of the underlying intellectual property right.<sup>79</sup> This remedy can also be distinguished from contract law remedies, which might render an offensive licensing agreement unenforceable, but not the underlying intellectual property right upon which the agreement was based.<sup>80</sup>

And finally, it is fair to say that courts apply misuse doctrine “sparingly”<sup>81</sup>—or at least, “not expansively.”<sup>82</sup> Defendants raise misuse arguments with some frequency, but they are difficult to win in practice.<sup>83</sup> Some commentators speculate that courts rarely find misuse due to the doctrine’s combination of a

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<sup>75</sup> See *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 494 (1942) (“It is the adverse effect upon the public interest of a successful infringement suit in conjunction with the patentee’s course of conduct which disqualifies him to maintain the suit, regardless of whether the particular defendant has suffered from the misuse of the patent.”).

<sup>76</sup> *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 973 (4th Cir. 1990) (observing that the “[d]efendants were not themselves bound by the standard licensing agreement” but they proved “at least one other licensee” had entered into the standard agreement that included the restrictive terms). In the patent misuse context, Daryl Lim has empirically observed that “[o]nly in two percent of the cases” involving a patent misuse allegation from 1953 to 2013 was the defendant “an unrelated third party.” Lim, *supra* note 15, at 374.

<sup>77</sup> Cotter, *Misuse*, *supra* note 15, at 902 (“[T]here is no misuse ‘standing’ requirement, as would be necessary to assert the defense of unclean hands in a contract action—or, for that matter, to assert a viable antitrust claim.”); see *infra* text accompanying notes 327–31.

<sup>78</sup> *Morton Salt*, 314 U.S. at 493. At least one court, however, seems to have broken from this remedial approach by suggesting that a plaintiff may “ultimately recover[] for acts of infringement that occur during the period of misuse,” after the misuse stops. *In re Napster, Inc. Copyright Litig.*, 191 F. Supp. 2d 1087, 1108 (N.D. Cal. 2002).

<sup>79</sup> See, e.g., Cross & Yu, *supra* note 15, at 454 (“Violation of the law of monopolies is not a defense to a copyright infringement claim. Nor can the victim use that law to have the copyright declared invalid.”).

<sup>80</sup> See *infra* text accompanying notes 327–29.

<sup>81</sup> *Apple Inc. v. PsyStar Corp.*, 658 F.3d 1150, 1157 (9th Cir. 2011) (noting that it has “sparingly” applied copyright misuse doctrine).

<sup>82</sup> *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1321 (Fed. Cir. 2010) (“Because patent misuse is a judge-made doctrine that is in derogation of statutory patent rights against infringement, this court has not applied the doctrine of patent misuse expansively.”).

<sup>83</sup> See Barnett, *supra* note 8, at 129 (observing that, despite its low success rate, patent misuse “continues to be asserted as an affirmative defense in a significant number of cases”); Lim, *supra* note 15, at 313, 322–29 (observing an increase in patent misuse claims and a decline in their success).

severe penalty and an unclear standard.<sup>84</sup> As discussed in the next Part, that misuse doctrine is unclear stems from confusion about its underlying concerns, which in turn, vary from patent to copyright. A high threshold for misuse may be desirable,<sup>85</sup> but it should stem from clarity rather than confusion about the doctrine's goals.

## II. THE DIVERGING CONCERNS OF PATENT AND COPYRIGHT MISUSE

In both patent and copyright law, courts craft vague formulations to describe the goals of misuse doctrine. They describe misuse doctrine as preventing owners from “exceeding” or “going beyond the scope” of granted IP rights.<sup>86</sup> But such phrases offer little in the way of practical guidance because the scope or boundaries of IP rights are often unclear. In this way, IP boundaries are unlike real property boundaries.<sup>87</sup> For example, despite patent law's requirement that patentees must claim the boundaries of their inventions, the words of a claim are subject to linguistic uncertainty.<sup>88</sup> Copyright boundaries are even more uncertain, as there are no claims to speak of, and the law imposes various context-specific limitations like fair use.<sup>89</sup> The duration of a patent or copyright is relatively easy to determine, but along non-temporal dimensions, the boundaries of IP rights are uncertain.

Instead of relying on any “beyond the scope” formulation, this Part categorizes the specific policy concerns invoked in misuse cases. Patent misuse cases fixate primarily on competitive harms, using antitrust law's “rule of reason” standard as the lodestar for analysis. By contrast, copyright misuse cases employ a more flexible approach for assessing competitive harms, and more importantly, engage a broader set of policy concerns. By developing a typology of concerns animating copyright misuse caselaw, this Part seeks to clarify the goals of copyright misuse. As this Part demonstrates, copyright misuse caselaw is concerned not only with competitive harms, but also with copyright owners' acts that (i) preemptively restrain socially valuable fair uses, like critical speech and reverse engineering; (ii) upset the subject matter boundary between patent and copyright by sneaking functional works through the “back-door” of

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<sup>84</sup> See, e.g., Cotter, *Misuse*, *supra* note 15, at 960.

<sup>85</sup> See *infra* Section III.C.2.a.

<sup>86</sup> See *supra* note 42.

<sup>87</sup> See Mark A. Lemley & Mark P. McKenna, *Scope*, 57 WM. & MARY L. REV. 2197, 2207 (2016).

<sup>88</sup> See Dan L. Burk & Mark A. Lemley, *Fence Posts or Sign Posts? Rethinking Patent Claim Construction*, 157 U. PA. L. REV. 1743, 1744 (2009).

<sup>89</sup> See Lemley & McKenna, *supra* note 87, at 2210, 2226.

copyright protection; and (iii) misrepresent or overclaim the legitimate scope of a copyright, particularly to unsophisticated audiences.

This Part also explains the divergent paths of patent and copyright misuse doctrine by comparing the subject matter, structure, and audience of patent and copyright laws. Rather than suggesting a doctrine in “chaos,”<sup>90</sup> the deviating trajectories of patent and copyright misuse respond to important differences between these two areas of IP. These differences help justify a copyright misuse doctrine that focuses on a broader set of concerns than patent misuse. Later, Part III suggests that because trade secret law shares important structural similarities with copyright, the concerns animating copyright misuse also resonate in the trade secret context—and may merit the introduction of a trade secret misuse doctrine.

#### A. *Competition Harms*

From its inception, one important concern of misuse doctrine has been harms to competition. For example, in *Morton Salt*, the Court observed that the patentee was “making use of its patent monopoly to restrain competition in the marketing of unpatented articles.”<sup>91</sup> Similarly, in *Lasercomb*, the Fourth Circuit characterized the challenged license provision as “anticompetitive” and criticized Lasercomb’s “attempt to use its [software] copyright . . . to control competition in . . . the idea of computer-assisted die manufacture.”<sup>92</sup>

Since these foundational cases, a number of courts have cited competition harms as an important policy concern underlying misuse doctrine. To this end, courts have applied misuse doctrine to evaluate various kinds of licensing practices with potential anticompetitive effects. Such practices include tying arrangements, post-term royalties, territorial restrictions, exclusive dealing, non-competition provisions, and grant-back requirements.<sup>93</sup>

Of course, such licensing practices can also trigger scrutiny under antitrust law.<sup>94</sup> Thus, one recurring question in misuse caselaw and scholarship is how much antitrust law—the area of law most directly concerned with assessing competitive harms—should guide misuse analysis. Patent and copyright have answered this question differently. Over the past few decades, patent misuse

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<sup>90</sup> See, e.g., Cotter, *Misuse*, *supra* note 15, at 932.

<sup>91</sup> *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491 (1942).

<sup>92</sup> *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 979 (4th Cir. 1990).

<sup>93</sup> See, e.g., *id.* at 976 (describing courts’ application of patent misuse in cases where “patent owners have attempted to use their patents for price fixing, tie-ins, territorial restrictions, and so-forth”).

<sup>94</sup> See 2017 GUIDELINES, *supra* note 1.

doctrine has narrowed its focus to competitive harms and applied antitrust principles to guide its analysis.<sup>95</sup> By contrast, copyright misuse doctrine has largely ignored antitrust principles in assessing competitive harms, and more importantly, has focused on a broader set of concerns beyond the anticompetitive effects of a challenged practice.<sup>96</sup>

### 1. Patent Misuse: Moving Toward Antitrust

Since its formation in 1982, the Federal Circuit has played a pivotal role in shaping patent misuse doctrine. Over the past few decades, it has focused misuse analysis on demonstrable anticompetitive effects, relying primarily on antitrust law's "rule of reason" to assess challenged practices.<sup>97</sup> As the Federal Circuit has explained, a successful assertion of patent misuse requires a showing that the patentee has "impermissibly broadened the physical or temporal scope of the patent grant *with anticompetitive effect*."<sup>98</sup> While certain practices like price-fixing and post-term royalty arrangements have been deemed "per se patent misuse,"<sup>99</sup> most challenged practices are assessed in accordance with antitrust law's rule of reason.<sup>100</sup>

Under the rule of reason, a fact finder typically considers whether the challenged practice "is likely to have anticompetitive effects and, if so, whether the restraint is reasonably necessary to achieve procompetitive benefits that

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<sup>95</sup> See *infra* Section II.A.1.

<sup>96</sup> See *infra* Section II.A.2.

<sup>97</sup> See, e.g., *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708–09 (Fed. Cir. 1992) ("The appropriate criterion is whether Mallinckrodt's restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason."); *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001–02 (Fed. Cir. 1986); see also *Cotter, Misuse*, *supra* note 15, at 912 (describing how, outside of the few practices deemed "per se" misuse or per se lawful, courts analyze the challenged practice in accordance with antitrust's rule of reason); *Feldman*, *supra* note 15, at 418 (arguing that the Federal Circuit has largely "reframed" the patent misuse test in antitrust terms).

<sup>98</sup> *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997) (quoting *Windsurfing Int'l*, 782 F.2d at 1001) (emphasis added).

<sup>99</sup> See *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2407, 2415 (2015) (citing *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964)) (reaffirming *Brulotte*'s holding that post-term royalty provisions in a patent license are "unlawful per se"). While tying arrangements in which the patentee conditions a patent license on the purchase of an unpatented staple good (e.g., the *Morton Salt* scenario) were once considered "per se" misuse, this category of misuse has been subsequently limited by 35 U.S.C. § 271(d) (2012) to situations where the patentee has market power in the tying market product.

<sup>100</sup> See *Va. Panel*, 133 F.3d at 869 ("When a practice alleged to constitute patent misuse is neither per se patent misuse nor specifically excluded from a misuse analysis by § 271(d) . . . that practice must then be analyzed in accordance with the 'rule of reason.'"); see also *IP AND ANTITRUST*, *supra* note 45, at § 3.04[E] ("The *Virginia Panel* court expressly invoked antitrust's rule of a reason as a determinant in most patent misuse cases.").

outweigh those anticompetitive effects.”<sup>101</sup> Generally, a claimant must demonstrate the IP owner’s market power in the relevant market for the product or process that embodies the IP right.<sup>102</sup> Absent market power, the owner’s practice is regarded as unlikely to have anticompetitive effects.<sup>103</sup> Courts will not presume that a patent—or any IP right—confers market power on its owner.<sup>104</sup> Although the Federal Circuit continues to describe patent misuse as a “broader wrong than [an] antitrust violation,”<sup>105</sup> outside of a few limited “per se” misuse scenarios, there is considerable overlap.<sup>106</sup>

Congress also implicitly endorsed this antitrust-influenced model for patent misuse when passing the Patent Misuse Reform Act of 1988.<sup>107</sup> Among other things, the Act provides that tying an unpatented product to a patented product (i.e., the *Morton Salt* scenario) is not misuse unless market power in the patented product can be proven.<sup>108</sup> According to one empirical study, the antitrust-

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<sup>101</sup> 2017 GUIDELINES, *supra* note 1, at 16–17; *see also* Feldman *supra* note 15, at 422 n.113 (contrasting the “rule of reason” and its singular focus on competitive impact with other judicial balancing tests, and suggesting the “rule of reason” imposes “thresholds and elements that are burdensome to establish”). For a detailed analysis of antitrust’s rule of reason analysis, *see generally* Herbert Hovenkamp, *The Rule of Reason*, 70 FLA. L. REV. 81 (2018).

<sup>102</sup> Bohannon, *supra* note 15, at 487. Market power is defined as “the ability to profitably maintain prices above, or output below, competitive levels for a significant period of time.” 2017 GUIDELINES, *supra* note 1, at 4. A patent or copyright owner may not have market power because, for example, there are sufficient substitutes for that product. Absent market power, “a firm cannot raise prices, limit supplies, and create the type of anticompetitive effects that antitrust law recognizes. Thus, where no market power exists, antitrust is generally unconcerned by firm behavior. This is particularly true for the rule of reason, which always requires a finding of market power.” Feldman, *supra* note 15, at 400.

<sup>103</sup> Feldman, *supra* note 15, at 400.

<sup>104</sup> *See* Ill. Tool Works Inc. v. Indep. Ink, Inc., 547 U.S. 28, 42, 45 (2006).

<sup>105</sup> *See, e.g.,* Monsanto Co. v. Scruggs, 459 F.3d 1328, 1339 (Fed. Cir. 2006); C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1372 (Fed. Cir. 1998); Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 704 (Fed. Cir. 1992).

<sup>106</sup> *See* IP AND ANTITRUST, *supra* note 45, at § 3.04[B] (observing “congruence between the two doctrines” of patent misuse and antitrust); Herbert Hovenkamp, *Antitrust and the Patent System: A Reexamination*, 76 OHIO ST. L.J. 467, 563 (2015) (“In general, the courts have moved . . . to a framework that limits [patent] misuse to conduct that would otherwise violate the antitrust laws.”).

<sup>107</sup> *See* 35 U.S.C. § 271(d) (2012) (listing patent-related activities that may have been considered misuse at one time, but are no longer misuse, including a refusal to license and certain tying activities). However, Congress rejected a prior version of the Act that would have expressly limited patent misuse to cases of antitrust violation. *See, e.g.,* S. REP. NO. 100-492, at 17–18 (1988); Bohannon, *supra* note 15, at 487–88 (arguing that “Congress considered and rejected legislation that would have explicitly limited misuse to antitrust principles”).

<sup>108</sup> *See* 35 U.S.C. § 271(d)(5) (2012) (“No patent owner otherwise entitled to relief for infringement . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.”); *cf.* Cotter, *Misuse*, *supra* note 15, at 923–24 (arguing that while “Patent Act section 271(d)(5) moves the law of tying misuse closer to its antitrust counterpart, the overlap is not

influenced rule of reason approach has led to an overall reduced rate of success for patent misuse.<sup>109</sup>

One area where patent misuse doctrine has, however, conspicuously parted ways with antitrust involves post-term royalty agreements. Such agreements require licensees to pay royalties after the patent has expired. Notably, in the recent *Kimble v. Marvel Entertainment* decision, the Supreme Court upheld its earlier decision in *Brulotte* and deemed post-term royalty provisions in a patent license “unlawful per se.”<sup>110</sup> By contrast, a rule of reason analysis would have required clearer proof of market power and anticompetitive effects before finding post-term royalties to be a violation.<sup>111</sup> Emphasizing the importance of *stare decisis*, the Court refused to overrule *Brulotte*.<sup>112</sup> But the Court seemed to do so grudgingly, and went out of its way to emphasize potential pro-competitive benefits of post-term royalty provisions and the limited nature of its holding.<sup>113</sup> Thus, *Kimble* should not be read as signaling patent misuse’s parting of ways with antitrust principles—at least, not outside of the post-term royalty context.

And *Kimble* notwithstanding, the general tilt of patent misuse doctrine has been towards antitrust principles—requiring proof of market power and demonstrable anticompetitive effects in the relevant market for the patented product. Some commentators applaud this tilt, arguing that antitrust is a more

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complete; it may be that assertions of tying misuse can be sustained on a lesser showing of anticompetitive harm than would be the case with respect to an analogous antitrust claim”).

<sup>109</sup> See Lim, *supra* note 15, at 322–29.

<sup>110</sup> *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401, 2415 (2015) (citing *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964)). In *Kimble*, Marvel’s corporate predecessor had purchased Kimble’s patent on a foam web-shooting toy in exchange for a lump sum plus a 3% royalty on future sales—with no end date for royalties specified in the agreement. *Id.* at 2406. Marvel sought a declaratory judgment that it could stop making royalty payments at the end of the patent term. *Id.* While the Supreme Court never used the phrase “patent misuse” in *Kimble* (or its predecessor, *Brulotte*) scholars and treatises routinely describe both cases as examples of “patent misuse.” See, e.g., Exela Pharma Scis., LLC v. Lee, 781 F.3d 1349, 1356 (Fed. Cir. 2015) (citing *Brulotte* as a “patent misuse” decision); *Cty. Materials Corp. v. Allan Block Corp.*, 502 F.3d 730, 735 (7th Cir. 2007); IP AND ANTITRUST, *supra* note 45, at § 3.03[C] (“While *Brulotte* itself did not invoke the patent misuse doctrine . . . term extension has been accepted into the canon of patent misuse.”).

<sup>111</sup> See Cotter, *Misuse*, *supra* note 15, at 923 (“An agreement to continue collecting royalties after the patent term, for example, as in *Brulotte*, would not constitute an antitrust violation absent much clearer proof of anticompetitive effect.”).

<sup>112</sup> See *Kimble*, 135 S. Ct. at 2403, 2406–11.

<sup>113</sup> See *id.* at 2408, 2413 (emphasizing the ease with which the *Kimble–Brulotte* per se analysis could be avoided, either by specifying in the contract that payments for “pre-expiration use” of a patent are being deferred “into the post-expiration period” or by tying post-expiration royalties to a “non-patent right,” like a closely related trade secret, and also noting that *Brulotte* “poses no bar to business arrangements other than royalties”). Similarly, “reach-through” licenses that require licensees to pay royalties on post-term sales of drugs that are discovered using a patented research tool during the patent term have survived the patent misuse inquiry. See *Bayer AG v. Housey Pharm.*, 228 F. Supp. 2d 467, 472–73 (D. Del. 2002).

reliable and developed body of law for analyzing competitive harms than misuse.<sup>114</sup> Others critique it, arguing that certain licensing and enforcement practices cause competitive harms that go unrecognized under antitrust's rule of reason standard.<sup>115</sup> Examples of competitive (and related innovation) harms that may fall short of antitrust's standard include harms to submarkets, harms arising from aggregate rather than unilateral conduct, or harms to "a market for a product that does not yet exist but may exist in the future if innovation proceeds in some expected fashion."<sup>116</sup>

Professor Christina Bohannon, for example, highlights restrictive licensing provisions that "prevent[] nascent products and technologies" from developing.<sup>117</sup> Where potential rivals have not yet introduced a new product to the market, the effects of a patentee's licensing condition would be speculative and hard to prove under antitrust standards.<sup>118</sup> And yet, "it is often the IP holder's anticompetitive or anti-innovative conduct that precludes further development and marketing of the competing technology."<sup>119</sup> Bohannon and other critics have offered persuasive arguments in favor of a patent misuse doctrine that retains a separate identity from antitrust.<sup>120</sup> Yet patent misuse has nonetheless moved closer to antitrust.

## 2. *Copyright Misuse: Flexibility and Deviation from Antitrust*

Copyright misuse, by contrast, has forged a path more attuned to broader copyright policy concerns. While some courts mention competitive harms when

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<sup>114</sup> See, e.g., *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 512 (7th Cir. 1982) ("If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested?"); 10 PHILLIP E. AREEDA ET AL., *ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION* ¶ 1781d4, at 474–75 (2d ed. 2004) ("[N]o contract or patent [should] be denied enforcement unless the challenged behavior would constitute a substantive antitrust violation" because "the antitrust laws are society's designated and generally applicable vehicle for deciding what is anticompetitive.").

<sup>115</sup> See, e.g., Bohannon, *supra* note 15, at 514 (arguing in favor of a misuse doctrine that focuses on "foreclosure" of competition, innovation, and access to the public domain, rather than adherence to antitrust standards); Feldman, *supra* note 15, at 414; Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. PAT. & TRADEMARK OFF. SOC'Y 793, 793–94 (1988).

<sup>116</sup> Thomas F. Cotter, *The Procompetitive Interest in Intellectual Property Law*, 48 WM. & MARY L. REV. 483, 534–36 (2006).

<sup>117</sup> Bohannon, *supra* note 15, at 514.

<sup>118</sup> See *id.*

<sup>119</sup> *Id.* (noting the relationship between innovation harms and competitive harms and the difficulty of disentangling the two, because "[c]onduct that is anticompetitive is often also anti-innovative").

<sup>120</sup> See, e.g., *id.* at 500, 525–26; Feldman, *supra* note 15, at 400–01; Hovenkamp, *supra* note 106, at 562 (arguing that "by limiting misuse to conduct that would otherwise violate the antitrust laws" courts have "take[n] misuse out of patent policy where it belongs and place[d] it within antitrust policy").

assessing copyright misuse, they largely eschew antitrust principles.<sup>121</sup> That is, copyright cases are far less likely than patent to draw from antitrust’s “rule of reason” analysis or require the party alleging misuse to demonstrate the owner’s market power in the relevant market for the copyrighted product.<sup>122</sup> For example, in *Lasercomb*, the Fourth Circuit rejected the district court’s “misplaced reliance” on antitrust’s rule of reason standard in finding the challenged provision reasonable.<sup>123</sup>

More importantly, courts have identified a broader set of concerns underlying copyright misuse than competitive harms. Copyright misuse is still an evolving doctrine, the “contours of which are still being defined.”<sup>124</sup> But as the following sections demonstrate, courts have invoked copyright misuse when an owner (i) preemptively restrains fair uses (e.g., socially valuable speech and reverse engineering); (ii) upsets the patent-copyright boundary by sneaking certain functional works through the “back-door” of copyright protection; and (iii) “overclaims” the legitimate scope of copyright, particularly to unsophisticated audiences. These concerns stem primarily from copyright (and IP) policy writ large, rather than a singular focus on anticompetitive effects.

### *B. Deterring Socially Valuable Uses*

Courts and commentators have invoked copyright misuse to scrutinize owners’ restraints on critical speech and reverse engineering—as a supplement to fair use doctrine. Copyright’s fair use doctrine insulates a variety of unauthorized but socially beneficial uses of a copyrighted work from liability.<sup>125</sup> Section 107 of the Copyright Act describes various examples of fair use,

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<sup>121</sup> See Cotter, *Misuse*, *supra* note 15, at 925–27 (“Whatever the current state of patent misuse may be, it is clear that copyright misuse, as currently understood by several circuit courts, goes well beyond the contours of antitrust law.”).

<sup>122</sup> See *id.*; *cf.* Ass’n of Am. Med. Colls. v. Princeton Review, Inc., 332 F. Supp. 2d 11, 19 (D.D.C. 2004) (observing that “although an antitrust violation is not a prerequisite to showing misuse, failure to show a violation of the antitrust laws makes it more difficult for the court to find copyright misuse”).

<sup>123</sup> *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 977 (4th Cir. 1990) (“If, as it appears, the district court analogized from the ‘rule of reason’ concept of antitrust law, we think its reliance on that principle was misplaced . . . [W]hile it is true that the attempted use of a copyright to violate antitrust law probably would give rise to a misuse of copyright defense, the converse is not necessarily true—a misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action. The question is not whether the copyright is being used in a manner violative of antitrust law . . . but whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright.”); see also Frischmann & Moylan, *supra* note 15, at 890 (“[I]n applying the copyright misuse doctrine to the facts, the [*Lasercomb*] court paid particular attention to the language of the licensing agreement and did not focus on the actual effects on competition or market power of the plaintiff, as it would in an antitrust analysis.”).

<sup>124</sup> *MDY Indus., LLC v. Blizzard Entm’t, Inc.*, 629 F.3d 928, 941 (9th Cir. 2010).

<sup>125</sup> 17 U.S.C. § 107 (2012).

including use of the copyrighted work “for purposes such as criticism, comment, news reporting, teaching, . . . scholarship, or research.”<sup>126</sup> But there are no presumptive or automatic categories of fair use. Instead, courts consider four nonexclusive factors when assessing fair use, including the “purpose and character” of the defendant’s unauthorized use of the copyrighted work, as well as its potential market harm to the owner.<sup>127</sup> In addition, “transformative use[s]” of the copyrighted work—i.e., those that “add[] something new, with a further purpose or different character, altering the first with new expression, meaning, or message”—are more likely to be fair uses.<sup>128</sup>

The fair use doctrine serves dual purposes: it is an “important safety valve[]” both for “promoting cumulative creativity and free expression.”<sup>129</sup> As the Supreme Court has observed, the “latitude for scholarship and comment traditionally afforded by fair use” helps reconcile the Copyright Act with the First Amendment.<sup>130</sup> Fair use also has been justified as a way to avoid market failure that would otherwise prevent socially desirable uses of the protected work.<sup>131</sup> Fair use doctrine recognizes that certain acts by the defendant may infringe a copyright, but nonetheless produce positive externalities. These benefits to society might not be captured or considered by parties negotiating a copyright license.<sup>132</sup>

Yet the protections of fair use doctrine may not sufficiently safeguard speech or cumulative creativity. Notably, to succeed in demonstrating fair use, the defendant has typically engaged in the socially valuable act by the time of

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<sup>126</sup> *Id.*

<sup>127</sup> *Id.* (considering “(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work”).

<sup>128</sup> *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994); *see also* Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978–2005*, 156 U. PA. L. REV. 549, 605 (2008) (empirically finding that “[i]n those cases where the defendant’s otherwise infringing use was deemed transformative, it exerted nearly dispositive force”).

<sup>129</sup> *MERGES ET. AL.*, *supra* note 30, at 609.

<sup>130</sup> *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 560 (1985); *see also* Eldred v. Ashcroft, 537 U.S. 186, 221 (2003) (describing fair use doctrine and the idea/expression distinction as “copyright’s built-in free speech safeguards”).

<sup>131</sup> For example, copyright owners may have noneconomic reasons to prohibit certain transformative uses—especially parodic or critical uses—and may be unwilling to license their works for such uses at any price. At the same time, such uses have positive externalities that the transformative user cannot capture, making her unwilling to pay for a license. Other kinds of market failure include cases where high transaction costs stand in the way of private bargaining. *See, e.g.*, Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1614, 1632–35 (1982).

<sup>132</sup> *See id.* at 1630–31.

litigation.<sup>133</sup> That is, she has rendered the critical speech, reverse engineered the software, or transformed the original work in a way that merits excuse from infringement liability. By contrast, copyright misuse doctrine recognizes that such acts might not have happened yet—and that owners’ licensing practices will likely prevent them from occurring.<sup>134</sup>

Some courts and commentators have thus rationalized copyright misuse as an important complement to fair use, because it asks whether the owner’s licensing provisions are so restrictive that they will likely deter socially valuable fair uses before they occur.<sup>135</sup> And with misuse, the defendant does not have to be the person or entity that has done—or is likely to do—something transformative, improving, or otherwise deserving of the fair use defense. Instead, the defendant claiming misuse is acting on behalf of other fair users (both actual and potential), by demonstrating that the plaintiff’s acts preemptively squelch fair use-worthy contributions. Such misuse arguments have been raised—albeit to limited success—in cases involving licensing restraints on critical speech and reverse engineering.

### 1. *Critical Speech*

When copyright owners restrict critical speech, copyright misuse doctrine can supplement the policy goals of fair use. The Third Circuit explained this function of copyright misuse in *Video Pipeline v. Buena Vista Home Entertainment, Inc.*<sup>136</sup> In *Video Pipeline*, Disney licensed movie trailers to website owners, on the condition that they refrain from criticizing Disney, its

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<sup>133</sup> See Frischmann & Moylan, *supra* note 15, at 925.

<sup>134</sup> See *id.* (“The fair use defense succeeds only where the defendant at bar makes some fair use of a copyrighted work. In contrast, courts evaluating a misuse defense primarily focus on the plaintiff’s conduct . . . .”); Harris, *supra* note 15, at 109 (describing the inadequacies of the fair use doctrine for protecting certain kinds of critical speech). Interestingly, a recent California district court opinion implied a similar complementary role between copyright misuse and copyright’s first sale or exhaustion defense, which provides that once a copyrighted item is sold, the copyright owner cannot use copyright law to prevent the buyer from transferring that particular copy. Compare 17 U.S.C. § 109(a) (2012), with *Disney Enters., Inc. v. Redbox Automated Retail, LLC*, No. CV 17-08655 DDP (AGRx), 2018 WL 1942139, at \*2, \*6, \*9 (C.D. Cal. Feb. 20, 2018) (denying Disney’s preliminary injunction motion on the ground that Redbox would likely succeed on its copyright misuse defense because Disney’s website terms improperly “restricted secondary transfers” of purchased DVDs in violation of the first sale doctrine). A few months later, however, the same court appeared to reverse course. See *Disney Enters., Inc. v. Redbox Automated Retail, LLC*, No. CV 17-08655 DDP (AGRx), 2018 WL 4182483, at \*4, \*8–9 (C.D. Cal. Aug. 29, 2018) (granting Disney a preliminary injunction after it refashioned its restrictions as “click-wrap” terms written on the movie packages themselves).

<sup>135</sup> See, e.g., *Video Pipeline, Inc. v. Buena Vista Home Entm’t, Inc.*, 342 F.3d 191, 205 (3d Cir. 2003); Frischmann & Moylan, *supra* note 15, at 925; Olson, *supra* note 15, at 559.

<sup>136</sup> 342 F.3d at 194.

movies, or the entertainment industry on their websites.<sup>137</sup> One website owner, Video Pipeline, subsequently replaced the Disney trailers on its website with two-minute clips copied from various Disney movies.<sup>138</sup> Video Pipeline filed a declaratory judgment action, arguing that its acts of copying were fair use and that Disney's attempt to suppress criticisms through its licensing conditions amounted to copyright misuse, precluding copyright enforcement.<sup>139</sup>

The Third Circuit rejected Video Pipeline's fair use defense, due largely to the commercial and non-transformative nature of its use.<sup>140</sup> However, the Third Circuit explained that copyright misuse could "operate beyond its traditional anti-competition context" by supplementing copyright balancing doctrines like fair use, and thereby promote copyright law's "underlying policy rationale":

[I]t is possible that a copyright holder could leverage its copyright to restrain the creative expression of another without engaging in anti-competitive behavior or implicating the fair use and idea/expression doctrines . . . . A copyright holder's attempt to restrict expression that is critical of it (or of its copyrighted good, or the industry in which it operates, etc.) may, in context, subvert . . . a copyright's policy goal to encourage the creation and dissemination to the public of creative activity.<sup>141</sup>

The Third Circuit ultimately concluded that Disney's restrictions did not constitute misuse because website owners were free to voice criticism in other media—just not websites featuring Disney trailers.<sup>142</sup> A more onerous speech restriction may, however, have led to a different result.<sup>143</sup>

Citing *Buena Vista* and similar examples, Professor David Olson has argued that copyright misuse should be "decoupled" from any competition-based moorings, and should instead be "refocused and grounded in First Amendment speech interests."<sup>144</sup> He explains that "defining as copyright misuse the

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<sup>137</sup> *Id.* at 194–95, 206.

<sup>138</sup> *Id.* at 195.

<sup>139</sup> *Id.* at 203–04.

<sup>140</sup> *See id.* at 202.

<sup>141</sup> *Id.* at 204–06 (observing copyright misuse's focus on "the copyright holder's attempt to disrupt a copyright's goal to increase the store of creative expression for the public good").

<sup>142</sup> *Id.* at 206.

<sup>143</sup> *See id.* (acknowledging that Disney's licensing agreements did "seek to restrict expression," but expressing doubt that the interference with creative expression "was to such a degree that they affect in any significant way the policy interest in increasing the public store of creative activity").

<sup>144</sup> Olson, *supra* note 15, at 568–69 (describing examples of "copyright holders demand[ing] that, in exchange for a license to use the copyrighted work, certain topics may not be discussed, or may only be discussed in a favorable way—or in a negative way—depending on the axe the copyright owner has to grind" or "that, in exchange for a copyright license, the author must agree not to research, investigate, or write about certain things

unjustified chilling of speech . . . will encourage important speech rights that are currently underprotected.”<sup>145</sup> An entirely speech-focused misuse doctrine is a normative vision that is hard to square descriptively with existing caselaw. But certainly, one important function of copyright misuse doctrine is to scrutinize speech-chilling restrictions that undercut copyright law’s First Amendment safeguards.

## 2. Reverse Engineering

Software licenses that prohibit reverse engineering offer another example of copyright misuse’s potential role as a useful backstop for fair use. Software licenses often contain broad prohibitions against product disassembly, decompiling, or any other form of reverse engineering.<sup>146</sup> Such restrictions have triggered scholarly condemnation and concern, because they prohibit licensees from accessing certain “unprotectable” aspects of software, like its underlying ideas or functional elements, or engaging in socially valuable activities, like creating interoperable programs, that would otherwise be deemed fair use.<sup>147</sup>

To put this in context, it is important to understand that software occupies an odd place in copyright law. In general, copyright law is concerned with the expressive or creative aspects of a work, while patent law is concerned with the functional aspects of a device or process.<sup>148</sup> The inclusion of software within copyright subject matter muddies this neat delineation between expressive and functional works. Copyright law protects software code because it is a kind of written expression.<sup>149</sup> But its economic value “is completely derived from the functional ends facilitated by the software.”<sup>150</sup> Also, while most copyrighted

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or pursue certain areas of inquiry”); *see also* Harris, *supra* note 15 (arguing that “fair use has proven inadequate” to protect First Amendment speech interests and proposing that misuse “be expanded as a device to protect speech”).

<sup>145</sup> Olson, *supra* note 15, at 539.

<sup>146</sup> *See, e.g.,* Davidson & Assocs., Inc. v. Internet Gateway, Inc., 334 F. Supp. 2d 1164, 1170 (E.D. Mo. 2004) (considering a software license agreement that prohibited users from “reverse engineer[ing], deriv[ing] source code, modify[ing], disassembl[ing] . . . [and] decompil[ing]” the program without the copyright owner’s consent).

<sup>147</sup> *See generally* Frischmann & Moylan, *supra* note 15, at 907–09; David A. Rice, *Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering*, 53 U. PITT. L. REV. 543, 557–58 (1992) (criticizing reverse engineering restrictions in the software license context); Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575, 1582 (2002) (describing various social benefits of reverse engineering).

<sup>148</sup> *See* Frischmann & Moylan, *supra* note 15, at 911.

<sup>149</sup> *See* 17 U.S.C. § 101 (2012) (protecting “literary works”). For a helpful summary of the history of software protection under patent, copyright, and trade secret laws, *see generally* Michael Risch, *Hidden in Plain Sight*, 31 BERKELEY TECH. L.J. 1635 (2016).

<sup>150</sup> Frischmann & Moylan, *supra* note 15, at 912.

works are discernable to the naked eye or ear, software is distributed in an “object code” format that a computer can understand but a human cannot.<sup>151</sup> Comprehending software requires a process of translating object code into human-readable “source code”—that is, reverse engineering it.<sup>152</sup> Reverse engineering software usually requires copying object code into a computer’s memory.<sup>153</sup> This copying violates the owner’s copyright unless it qualifies as fair use.<sup>154</sup>

Courts have found reverse engineering software to be fair use where it is necessary “to gain access to the [unprotectable] ideas and functional elements embodied in a copyrighted computer program,” and where the defendant has a legitimate reason for seeking such access,” like creating non-infringing interoperable products.<sup>155</sup> For example, in the oft-cited Ninth Circuit case, *Sega Enterprises Ltd. v. Accolade, Inc.*,<sup>156</sup> Sega manufactured a video game console, copyrighting the computer code.<sup>157</sup> Accolade made non-infringing games that were compatible with Sega’s game console.<sup>158</sup> Accolade’s innovation process required reverse engineering and copying Sega’s code.<sup>159</sup> The Ninth Circuit concluded that Accolade’s “intermediate” copying of Sega’s code was fair use, because reverse engineering was the only way to access the underlying functional concepts.<sup>160</sup> The court also emphasized the social value of reverse engineering in this context, observing: “Accolade’s identification of the functional requirements for Genesis compatibility has led to an increase in the

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<sup>151</sup> *Id.* at 907, 909 (observing that “object code is unique in copyright law in that it has no perceptible expression” and that the “hidden nature of object code . . . creates friction with a core premise of copyright law, namely that producers will distribute expressive works to the public”); *see also* *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1527 (9th Cir. 1992) (“[T]he fact that computer programs are distributed for public use in object code form often precludes public access to the ideas and functional concepts contained in those programs, and thus confers on the copyright owner a *de facto* monopoly over those ideas and functional concepts.”).

<sup>152</sup> *See* *Sony Comput. Entm’t, Inc. v. Connectix Corp.*, 203 F.3d 596, 599–600 (9th Cir. 2000) (describing methods of reverse engineering software).

<sup>153</sup> *See id.*

<sup>154</sup> *See* Frischmann & Moylan, *supra* note 15, at 910.

<sup>155</sup> *Sega Enters.*, 977 F.2d at 1527; *see also* *Sony Comput. Entm’t*, 203 F.3d at 602 (finding that copying necessary “for the purpose of gaining access to the unprotected elements of Sony’s software” was fair use). The controversial Digital Millennium Copyright Act (DMCA), which makes it illegal to circumvent technological measures designed to prevent unauthorized uses of copyrighted digital works, includes certain reverse engineering exceptions for “achieve[ing] interoperability of an independently created computer program with other programs.” 17 U.S.C. § 1201(f) (2012).

<sup>156</sup> 977 F.2d at 1527–28.

<sup>157</sup> *Id.* at 1514.

<sup>158</sup> *Id.* at 1514–15.

<sup>159</sup> *Id.*

<sup>160</sup> *Id.* at 1522 (“Accolade copies Sega’s software solely in order to discover the functional requirements for compatibility with the Genesis console—aspects of Sega’s programs that are not protected by copyright.”).

number of independently designed video game programs . . . . It is precisely this growth in creative expression . . . that the Copyright Act was intended to promote.”<sup>161</sup>

*Sega* and similar software cases are often cited for the proposition that fair use insulates software reverse engineers from copyright liability. However, these cases did not address licensing agreements that prohibited reverse engineering. Just as the fair use doctrine does not prevent copyright owners from restricting critical speech in licensing agreements, it does not stop copyright owners from restricting reverse engineering.<sup>162</sup> In spite of fair use’s protections (or rather, because of them), copyright owners routinely condition access to software on the user’s agreement to avoid all forms of reverse engineering.<sup>163</sup> Such prohibitions can preemptively constrain socially valuable reverse engineering—for example, where done to create interoperable products.

Acknowledging these insufficiencies of fair use doctrine, Professor Brett Frischmann and Dan Moylan have argued that copyright misuse should complement fair use’s protection of reverse engineering.<sup>164</sup> While Frischmann and Moylan generally support “antitrust-based misuse,” they suggest a narrow “per se” misuse rule against reverse engineering license restrictions to supplement copyright fair use.<sup>165</sup> Such a misuse rule “can complement fair use in restoring the public benefits inherent in copyright law . . . [and] reinvigorate downstream innovation in software development.”<sup>166</sup>

Despite scholarly support for misuse’s expanded role to protect reverse engineering, few federal cases present a copyright misuse challenge to reverse engineering restrictions. In *Davidson & Associates, Inc. v. Internet Gateway, Inc.*, for example, the defendant raised both fair use and copyright misuse

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<sup>161</sup> *Id.* at 1523. The court took a similar view in *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596, 599 (9th Cir. 2000). In *Sony*, the defendant reverse engineered Sony’s BIOS software program to create emulator software that enabled Sony PlayStation games to be played on computers. *Id.* at 598–99. Here, too, the intermediate copying was deemed fair use, despite the fact that the defendant was a competitor of Sony whose non-infringing products could cause “some economic loss” to Sony. *Id.* at 607.

<sup>162</sup> See Frischmann & Moylan, *supra* note 15, at 925 (observing that the “fair use defense does not preclude software developers from imposing higher technical and legal barriers against reverse engineering”).

<sup>163</sup> Cf. Florencia Marotta-Wurgler & Robert Taylor, *Set in Stone? Change and Innovation in Consumer Standard-Form Contracts*, 88 N.Y.U. L. REV. 240, 269–70 (2013) (using empirical methods to demonstrate that reverse engineering restrictions in software licenses have increased over time).

<sup>164</sup> Frischmann & Moylan, *supra* note 15, at 925.

<sup>165</sup> *Id.* at 931.

<sup>166</sup> *Id.* at 925; see also Julie Cohen, *Reverse Engineering and the Rise of Electronic Vigilantism: Intellectual Property Implications of “Lock-Out” Programs*, 68 S. CAL. L. REV. 1091, 1198 (1995) (“License agreements that restrict the development of interoperable products . . . should be scrutinized carefully to ensure that they do not have the opposite effect.”).

arguments to challenge software license restrictions on reverse engineering.<sup>167</sup> The court rejected the fair use argument, finding that the defendants “waived their fair use right to reverse engineer by agreeing to the license agreement.”<sup>168</sup> As for copyright misuse, the court was reluctant to look beyond the procedural posture of the case because the plaintiff was suing under a breach of contract theory rather than copyright infringement.<sup>169</sup> The court noted, however, that if it were to address the merits, it viewed the plaintiff’s reverse engineering prohibitions to be less anticompetitive than the restrictions in *Lasercomb*.<sup>170</sup>

### C. Channeling Between Patent and Copyright Subject Matter

Courts have also invoked copyright misuse to police the functional subject matter boundary between patent and copyright. Software, of course, traverses this boundary in some troublesome ways described above. But software aside, IP laws have certain boundary-policing doctrines to protect patent law’s primacy over functional subject matter.<sup>171</sup> Protecting patent law’s domain is important, since the exclusive rights it provides over functional subject matter are harder to get and expire more quickly than copyrights.<sup>172</sup> The higher substantive hurdles and shorter duration for patent rights are an intentional IP design choice; it reflects the fact that “[w]hen IP law grants protection to useful or functional features of a product . . . it can convey substantial market power” that often translates to higher costs for consumers and subsequent innovators.<sup>173</sup>

Despite patents’ primary role in protecting functionality, creators may nonetheless try to use copyright law to protect functionality—i.e., to “obtain the equivalent of a utility patent without having to do the work required to get one.”<sup>174</sup> Copyright law tries to prevent this form of “back-door” patenting by

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<sup>167</sup> 334 F. Supp. 2d 1164, 1180–81 (E.D. Mo. 2004).

<sup>168</sup> *Id.* at 1181.

<sup>169</sup> *Id.* at 1182–83 (noting that the court was “reluctant to apply the copyright misuse defense to a contract claim”).

<sup>170</sup> *Id.* at 1182 (“[T]he language used does not prevent defendants from competing with Blizzard by prohibiting them or their employees from developing video game software as in *Lasercomb* . . . .”); see also *Syncsort Inc. v. Sequential Software, Inc.*, 50 F. Supp. 2d 318, 337 (D.N.J. 1999) (rejecting a copyright misuse argument based on a reverse engineering restriction in a software license agreement). Even outside of misuse arguments, courts are generally unwilling to invalidate reverse engineering restrictions on other grounds, like contract non-enforcement doctrines or copyright preemption. See Deepa Varadarajan, *The Trade Secret-Contract Interface*, 103 IOWA L. REV. 1543, 1545 (2018).

<sup>171</sup> See Christopher Buccafusco & Mark A. Lemley, *Functionality Screens*, 103 VA. L. REV. 1293, 1304–05 (2017) (defining functionality as “things that make a product work at all, or work better, or with fewer defects, or more cheaply”).

<sup>172</sup> See *id.* at 1295; see also text accompanying notes 33–38.

<sup>173</sup> Christopher Buccafusco et al., *Intelligent Design*, 68 DUKE L.J. 75, 78 (2018).

<sup>174</sup> Buccafusco & Lemley, *supra* note 171, at 1295, 1300.

imposing certain restrictions,<sup>175</sup> such as the limitation on copyrighting “useful articles”<sup>176</sup> and the exclusion of underlying processes, systems, and methods depicted in copyrighted works from the scope of copyright protection.<sup>177</sup> These doctrinal limits—which some scholars have termed “functionality screens,” “boundary screens,” or “channeling doctrines”—“prevent creators from characterizing things that belong in the utility patent realm as being copyrightable.”<sup>178</sup> Largely absent from this literature, however, is a discussion of copyright misuse’s role.<sup>179</sup>

The Fifth Circuit invoked this channeling or boundary-screening role for copyright misuse in a pair of decisions involving telecommunications software. In *Alcatel USA, Inc. v. DGI Technologies, Inc.*, the copyright owner licensed copyrighted software on the condition that licensees only use it with certain

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<sup>175</sup> Buccafusco et al., *supra* note 173, at 85.

<sup>176</sup> Copyright’s useful article doctrine denies copyright protection to functional aspects of three-dimensional sculptural works. *See* 17 U.S.C. § 101 (2012); *Star Athletica, LLC v. Varsity Brands, Inc.*, 137 S. Ct. 1002, 1005 (2017) (articulating a two-part test for the useful article doctrine); *Smith & Hawken, Ltd. v. Gardendance, Inc.*, No. C 04-1664 SBA, 2005 WL 1806369, at \*3 (N.D. Cal. July 28, 2005) (“The useful article doctrine serves the important policy of keeping patent and copyright separate by preventing parties from using copyright to obtain a ‘backdoor patent’ on a functional article that cannot be patented.”).

<sup>177</sup> *See* 17 U.S.C. § 102(b) (“In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.”); *see also* *Baker v. Selden*, 101 U.S. 99, 104 (1879) (preventing copyright law from protecting a functional method described in a literary work); *Bikram’s Yoga Coll. of India, L.P. v. Evolution Yoga, LLC*, 803 F.3d 1032, 1038, 1040 (9th Cir. 2015) (holding that the yoga sequence described in books was a “system or method” not protectable under copyright law and that “protection is more properly sought through the patent process”); *cf.* *Oracle Am., Inc. v. Google Inc.*, 750 F.3d 1339, 1381 (Fed. Cir. 2014) (seeming to endorse overlapping copyright and patent protection for functional elements of software, such as application programming interfaces (APIs)).

<sup>178</sup> Buccafusco & Lemley, *supra* note 171, at 1304 (using the terms “functionality doctrine” and “functionality screen”). For a sampling of this literature, see, for example, *id.*; Buccafusco et al., *supra* note 173; Kevin Emerson Collins, *Patent Law’s Authorship Screen*, 84 U. CHI. L. REV. 1603, 1604 (2017) (describing functionality screens as a subset of intellectual property’s “boundary screens,” which “keep the goods that should be protected by a first regime from infiltrating a second regime and upsetting the competition/protection balance for that type of good that Congress struck in the first place”); Mark P. McKenna & Christopher Jon Sprigman, *What’s In, and What’s Out: How IP’s Boundary Rules Shape Innovation*, 30 HARV. J.L. & TECH. 491, 492 (2017); Viva R. Moffat, *The Copyright/Patent Boundary*, 48 U. RICH. L. REV. 611, 615 (2014); Viva R. Moffat, *Mutant Copyrights and Backdoor Patents: The Problem of Overlapping Intellectual Property Protection*, 19 BERKELEY TECH. L.J. 1473, 1476 (2004); Pamela Samuelson, *Strategies for Discerning the Boundaries of Copyright and Patent Protections*, 92 NOTRE DAME L. REV. 1493, 1494 (2017). Similarly, trademark law’s functionality doctrine “serves primarily to identify features which are properly the subject of patent law rather than trademark law and channel protection of those features to the patent system.” Mark P. McKenna, *An Alternative Approach to Channeling*, 51 WM. & MARY L. REV. 873, 876 (2009); *see also* *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 34 (2003) (warning against “over-extension of trademark and related protections into areas traditionally occupied by patent or copyright”).

<sup>179</sup> *Cf.* Laura A. Heymann, *Overlapping Intellectual Property Doctrines: Election of Rights Versus Selection of Remedies*, 17 STAN. TECH. L. REV. 239, 268 (2013) (describing courts’ invocation of misuse when they “sense that plaintiffs are attempting an end-run around the limitations of a particular legal doctrine”).

hardware (“switching cards”) manufactured by the copyright owner.<sup>180</sup> The Fifth Circuit invoked the patent-copyright boundary in deeming this licensing restriction (a tying requirement) copyright misuse: “DSC indirectly seeks to obtain patent-like protection of its hardware—its microprocessor card—through the enforcement of its software copyright.”<sup>181</sup> In an earlier ruling on denial of a preliminary injunction, the Fifth Circuit similarly observed: “DGI may well prevail on the defense of copyright misuse because DSC seems to be attempting to use its copyright to obtain a patent-like monopoly over unpatented microprocessor cards.”<sup>182</sup>

More recently, courts invoked this boundary-policing or channeling function of copyright misuse in *Omega S.A. v. Costco Wholesale Corp.*<sup>183</sup> Omega, a luxury watchmaker, wanted to stop Costco’s importation and sale of Omega watches that were lawfully purchased abroad.<sup>184</sup> To prevent this, Omega engraved a miniscule design on the back of its watches and claimed that Costco was engaging in copyright infringement.<sup>185</sup> In 2011, the district court granted summary judgment in favor of Costco on the copyright infringement claim, holding that Omega had misused its copyright in the engraved design by trying to control the importation of the watches.<sup>186</sup> As a useful article, the watch was not copyrightable.<sup>187</sup> While the Ninth Circuit’s 2015 decision affirmed on the basis of the first sale doctrine,<sup>188</sup> Judge Wardlaw’s lengthy concurrence

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<sup>180</sup> 166 F.3d 772, 777 (5th Cir. 1999).

<sup>181</sup> *Id.* at 793–94 (“Any competing microprocessor card developed for use on DSC phone switches must be compatible with DSC’s copyrighted operating system software. In order to ensure that its card is compatible, a competitor such as DGI must test the card on a DSC phone switch. Such a test necessarily involves making a copy of DSC’s copyrighted operating system . . . . If DSC is allowed to prevent such copying, then it can prevent anyone from developing a competing microprocessor card, even though it has not patented the card.”).

<sup>182</sup> *DSC Commc’ns Corp. v. DGI Techs., Inc.*, 81 F.3d 597, 600–01 (5th Cir. 1996); *see also* Jonas P. Herrell, Note, *The Copyright Misuse Doctrine’s Role in Open and Closed Technology Platforms*, 26 BERKELEY TECH. L.J. 441, 487 (2011) (arguing that copyright misuse doctrine should be applied to “prevent software companies from bootstrapping their copyrights . . . in order to gain protection over . . . hardware”).

<sup>183</sup> 776 F.3d 692, 703–04 (9th Cir. 2015); *see also* *Omega S.A. v. Costco Wholesale Corp.*, No. CV 04–05443 TJH, 2011 WL 8492716, at \*2 (C.D. Cal. Nov. 9, 2011).

<sup>184</sup> *Omega*, 776 F.3d at 694.

<sup>185</sup> *See id.* at 694. Omega’s copyright infringement argument relied on a theory of national exhaustion. *Id.* at 697. At the time of Omega’s lawsuit, it was unclear whether copyright’s doctrine of exhaustion/first sale applied to “gray-market” goods purchased lawfully abroad and then sold domestically. *Id.*

<sup>186</sup> *See Omega*, 2011 WL 8492716, at \*2 (“Here, Omega concedes that a purpose of the copyrighted Omega Globe Design was to control the importation and sale of its watches containing the design, as the watches could not be copyrighted. Accordingly, Omega misused its copyright of the Omega Globe Design by leveraging its limited monopoly in being able to control the importation of that design to control the importation of its Seamaster watches.”).

<sup>187</sup> *Omega*, 776 F.3d at 699 (Wardlaw, J., concurring) (“Because Omega’s watches are useful articles, they are not copyrightable, with some possible exceptions not before us.”).

<sup>188</sup> *Id.* at 693. This case has a long and convoluted history, taking place over nearly a decade, with several

highlighted the channeling or boundary-policing role of copyright misuse. As Judge Wardlaw observed: “Omega misused its copyright when it used its intellectual property protection to obtain a copyright-like monopoly over uncopyrightable Seamaster watches.”<sup>189</sup> Courts have thus recognized, either explicitly or implicitly, copyright misuse’s potential role in policing the patent-copyright boundary and protecting patent law’s primacy with regard to functional subject matter.

#### *D. Abusive Overclaiming of Copyright Scope*

Courts have also invoked copyright misuse when owners try to “overclaim” the legitimate scope of their copyrights—usually, by bringing meritless litigation or making unfounded litigation threats. Unlike other applications of misuse, this branch of caselaw does not focus on restrictive license terms so much as abusive enforcement tactics. Given the costs of defending a copyright suit, even the threat of litigation—like a misleading warning or a cease-and-desist letter—can deter parties from engaging in permissible activities.<sup>190</sup> Numerous scholars have described this outsized potential for copyright owners to chill legitimate conduct by threatening meritless litigation and misrepresenting the scope of their rights.<sup>191</sup>

Cases that involve abusive overclaiming come in different flavors. The copyright owner may assert a claim to subject matter that is clearly outside of copyright’s purview, such as raw facts. Or the copyright owner may assert a

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opinions issued along the way. *Id.* Between the district court’s decision in *Omega* and the Ninth Circuit’s decision on appeal, the Supreme Court clarified the reach of copyright’s first sale doctrine in *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519 (2013). In *Kirtsaeng*, the Court held that goods lawfully purchased abroad would be treated like domestic goods under the first sale doctrine. *Id.* at 520–25. Because of this, *Omega*’s right to control the importation of its copyrighted *Omega* design expired after the authorized first sale abroad. Relying primarily on *Kirtsaeng*, the Ninth Circuit’s majority decision affirmed the district court’s grant of summary judgment in *Omega* and said little about misuse. See *Omega*, 776 F.3d at 694–95 (“[A]pplication of the first sale doctrine disposes of *Omega*’s claim, resolves this case in *Costco*’s favor, and conclusively reaffirms that copyright holders cannot use their rights to fix resale prices in the downstream market.”).

<sup>189</sup> *Omega*, 776 F.3d at 703 (Wardlaw, J., concurring).

<sup>190</sup> See Olson, *supra* note 15, at 594 (“Because there is enough gray area in determining fair use, the cost of defending a copyright infringement suit is high, and because a copyright holder can control whether and when to sue, and when to dismiss a suit if it starts going against him, the mere threat of litigation will deter many uses of copyrighted material that are fair as matter of law.”).

<sup>191</sup> See, e.g., *id.*; Harris, *supra* note 15; Loren, *supra* note 15; William F. Patry & Richard A. Posner, *Fair Use and Statutory Reform in the Wake of Eldred*, 92 CALIF. L. REV. 1639, 1658 (2004) (describing the “problem of overclaiming of copyright in situations in which asymmetrical stakes discourage a legal challenge to the claim” and arguing that “[t]he doctrine of copyright misuse is thus applicable where litigation is threatened in an effort to extract a licensing fee or other profit when there is no reasonable basis for supposing that the threatener’s copyright has been infringed”).

claim against a defendant whose use is expressly permitted by one of the Copyright Act's specific limitations or safe harbors—for example, a teacher displaying a work during a face-to-face teaching activity.<sup>192</sup> Or the copyright owner may assert a claim against a defendant that is almost certain to prevail on a defense, such as fair use.

In *Assessment Technologies of WI, LLC v. WIREdata, Inc.*,<sup>193</sup> for example, the copyright owner's overclaiming related to unprotectable subject matter. The plaintiff, Assessment Technologies (AT), owned copyrighted tax assessment software.<sup>194</sup> Various municipalities had licensed AT's software and used it to compile and store real estate tax assessment data.<sup>195</sup> WIREdata wanted to access the municipalities' underlying tax assessment data—factual data that was not itself copyrightable.<sup>196</sup> The municipalities had refused WIREdata's request, however, because they were subject to broadly worded, restrictive licensing agreements with AT and feared infringing AT's software copyright by providing the data.<sup>197</sup> AT brought suit against WIREdata to block it from obtaining the tax data. The district court granted AT a permanent injunction.<sup>198</sup> On appeal, the Seventh Circuit reversed, finding fault with a copyright owner's attempt to prevent its licensees from disclosing unprotectable data.<sup>199</sup> The Seventh Circuit held that AT's copyright did not extend to the raw data collected by the municipalities, and therefore, the municipalities could share the tax data freely.<sup>200</sup>

While the case did not turn on misuse, Judge Posner nonetheless gave it a strongly worded treatment in dicta:

The data in the municipalities' tax-assessment databases are beyond the scope of AT's copyright. . . . The argument for applying copyright misuse . . . is that for a copyright owner to use an infringement suit to obtain property protection, here in data, that copyright law clearly does not confer, hoping to force a settlement or even achieve an outright

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<sup>192</sup> Sections 108–22 of the Copyright Act set out specific limitations on a copyright owner's rights to exclude. *See* 17 U.S.C. §§ 108–22 (2018). For example, § 110 permits the “performance or display of a work by instructors or pupils in the course of face-to-face teaching activities of a nonprofit educational institution, in a classroom or similar place devoted to instruction.” *Id.* § 110; *see also* Loren, *supra* note 15, at 523 (arguing that “a presumption of misuse should apply to a contractual clause” limiting activities permitted by §§ 108–22).

<sup>193</sup> 350 F.3d 640, 647 (7th Cir. 2003).

<sup>194</sup> *Id.* at 642.

<sup>195</sup> *Id.*

<sup>196</sup> *Id.*

<sup>197</sup> *Id.*

<sup>198</sup> *Id.*

<sup>199</sup> *Id.*

<sup>200</sup> *Id.*

victory over an opponent that may lack the resources or the legal sophistication to resist effectively, is an abuse of process.<sup>201</sup>

In an accompanying attorneys' fees decision, the Seventh Circuit reiterated this point, stating: "We did not reach the question [of] whether the plaintiff's conduct rose to the level of actual copyright misuse, but we made clear that it came close . . . ." <sup>202</sup> More recent cases acknowledge that copyright misuse can occur "where a copyright owner uses an infringement suit or threat of suit to obtain protection that copyright law does not confer."<sup>203</sup>

Outside of the unprotectable subject matter scenario, commentators have advocated using copyright misuse to deter copyright owners from threatening litigation against individuals who are engaging in "obvious fair use."<sup>204</sup> Professor Olson, for example, suggests that copyright defendants asserting misuse "could enter evidence of any attempts by the copyright holder to chill obvious fair use through use of litigation or threats of litigation."<sup>205</sup> Since any copyright defendant can bring forth such evidence of an owner's misuse, not just the individual targets of the misuse, "copyright holders [will] think carefully before being too aggressive in seeking to deter obvious fair use."<sup>206</sup>

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<sup>201</sup> *Id.* at 647; *see also id.* at 646–47 (Posner, J.) ("To try by contract or otherwise to prevent the municipalities from revealing *their own* data, especially when, as we have seen, the complete data are unavailable anywhere else, might constitute copyright misuse."). Interestingly, in earlier decades, Judge Posner seemed to support a more antitrust-aligned misuse doctrine. *See Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1200 (7th Cir. 1987) ("If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested?").

<sup>202</sup> *Assessment Techs. of WI, LLC v. WIREdata, Inc.*, 361 F.3d 434, 437 (7th Cir. 2004); *see also qad. Inc. v. ALN Assocs., Inc.*, 770 F. Supp. 1261, 1266 (N.D. Ill. 1991) (applying copyright misuse to a software owner's attempt to pass off unoriginal/derivative aspects of its software as original and then obtain injunctive relief against competitors: "This improper extension and overstatement of qad's copyrights is a misuse which this Court should remedy by declaring qad's copyrights unenforceable against ALN.").

<sup>203</sup> *Nielsen Co. v. Truck Ads, LLC*, No. 08 C 6446, 2011 WL 221838, at \*8 (N.D. Ill. Jan. 24, 2011); *see also Design Basics, LLC v. Petros Homes, Inc.*, 240 F. Supp. 3d 712, 720–21 (N.D. Ohio 2017) (denying plaintiff's motion for partial summary judgment on a copyright misuse defense where allegations centered on copyright owner's litigation and threats of litigation based unprotectable architectural design elements); *Huthwaite, Inc. v. Randstad Gen. Partner (U.S.), LLC*, No. 06-C-1548, 2006 WL 3065470, at \*9 (N.D. Ill. Oct. 24, 2006) ("[A]ttempting to use . . . copyrighted books to cover the unprotectable ideas within those books by filing copyright infringement lawsuits and forcing companies . . . to either settle or incur litigation expenses" constitutes copyright misuse).

<sup>204</sup> Olson, *supra* note 15, at 595 (arguing that this role for copyright misuse will "mak[e] it potentially more costly for copyright owners to try to stop fair use"); *see also Patry & Posner, supra* note 191, at 1659 ("Exaggerating the substantive rights of a copyright owner by denying in effect the fair use privilege . . . seems a] . . . serious form of copyright overclaiming.").

<sup>205</sup> Olson, *supra* note 15, at 599.

<sup>206</sup> *Id.* at 599–600.

One well-publicized case, *Online Policy Group v. Diebold, Inc.*,<sup>207</sup> provides an example of overclaiming against obvious fair users. Although this case involved a copyright owner's abuse of notice and takedown procedures under the DMCA,<sup>208</sup> its facts are nonetheless illustrative. Diebold asserted copyright claims to prevent the online publication of critical commentary regarding security lapses with its electronic voting machines.<sup>209</sup> As the court observed: "No reasonable copyright holder could have believed that the portions of the email archive discussing possible technical problems with Diebold's voting machines were protected by copyright," as they were clearly subject to the fair use exception.<sup>210</sup> In other cases, however, it has proven harder to draw a clear line in the sand between a copyright owner's threat against an "obvious fair user" and an aggressive-but-plausible assertion of copyright infringement. The application of fair use doctrine is, after all, a fact-specific balancing exercise.<sup>211</sup> Thus, by and large, courts have been justifiably cautious, hesitating to find misuse where a copyright owner asserts a plausible infringement claim.<sup>212</sup>

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<sup>207</sup> 337 F. Supp. 2d 1195 (N.D. Cal. 2004); see also Sabrina Rubin Erdely, *The Paperless Chase*, MOTHER JONES (May/June 2004), <https://www.motherjones.com/politics/2004/05/paperless-chase/>.

<sup>208</sup> *Online Policy Grp.*, 337 F. Supp. 2d at 1195–96. To a limited extent, the DMCA penalizes copyright owners that knowingly overclaim copyright scope in the context of "notice and takedown procedures." *Lenz v. Universal Music Corp.*, 815 F.3d 1145, 1151 (9th Cir. 2016). A service provider, like YouTube or Google, can avoid copyright infringement liability for storing users' content if it "expeditiously" removes or disables access to the content after receiving notification from a copyright holder that the content is infringing." *Id.* But the DMCA penalizes copyright owners for making knowingly false accusations of copyright infringement that result in the removal of online material. 17 U.S.C. § 512(f) (2018) ("Any person who knowingly materially misrepresents under this section—(1) that material or activity is infringing . . . shall be liable for any damages . . ."). However, this provision has been rendered rather toothless by the requirement of "subjective" bad faith, rather than an objective standard of reasonableness. See *Rossi v. Motion Picture Ass'n of Am. Inc.*, 391 F.3d 1000, 1004 (9th Cir. 2004) (holding that copyright holder need only form a subjective good faith belief that a use is not authorized to avoid liability under § 512(f)); Eric Goldman, *It Takes a Default Judgment to Win a 17 USC 512(f) Case – Automatic v. Steiner*, TECH. & MARKETING L. BLOG (Mar. 13, 2015), <http://blog.ericgoldman.org/archives/2015/03/it-takes-a-default-judgment-to-win-a-17-usc-512f-case-automatic-v-steiner.htm> (criticizing this subjective standard for 17 U.S.C. § 512(f)).

<sup>209</sup> See *Online Policy Grp.*, 337 F. Supp. 2d at 1198–99.

<sup>210</sup> *Id.* at 1204–05 (concluding that "Diebold knowingly materially misrepresented that Plaintiffs infringed Diebold's copyright interest, at least with respect to the portions of the email archive clearly subject to the fair use exception. . . . Diebold sought to use the DMCA's safe harbor provisions—which were designed to protect ISPs, not copyright holders—as a sword to suppress publication of embarrassing content rather than as a shield to protect its intellectual property").

<sup>211</sup> See *supra* text accompanying note 127.

<sup>212</sup> See *Nielsen Co. v. Truck Ads, LLC*, No. 08 C 6446, 2011 WL 221838, at \*8 (N.D. Ill. Jan. 24, 2011) (refusing to find misuse unless "the underlying infringement claim [is] wholly lacking in merit"); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 454 F. Supp. 2d 966, 998 (C.D. Cal. 2006) (declining to find misuse where "music publishers aggressively demanded royalties for streaming," explaining that acceptance of the defendant's "position that a copyright holder's assertion of what it plausibly believes to be its rights under an ambiguous statute can constitute copyright misuse . . . would turn the copyright law on its head"); *Huthwaite, Inc. v. Ecolab, Inc.*, No. 05 C 3273, 2006 WL 929262, at \*2 (N.D. Ill. Jan. 4, 2006) ("Claiming infringement by

### E. *Understanding the Divergence of Patent and Copyright Misuse*

Why has copyright misuse evolved differently from patent misuse? Some commentators point to the diverging paths of patent and copyright misuse as indicative of the doctrine's overall incoherence, and counsel either a narrowing of copyright misuse to mimic patent misuse's antitrust-inspired focus on competition harms or a scrapping of the misuse doctrine altogether.<sup>213</sup> This section suggests that the divergence is not indicative of doctrinal schizophrenia or chaos, but rather can be explained by the notable differences between patent and copyright—in terms of subject matter, structure, and audience. These differences help justify a copyright misuse doctrine that focuses on a broader set of concerns than patent misuse. And as Part III argues, because the structure of trade secret law bears a number of similarities to copyright, the broader concerns animating copyright misuse resonate in the trade secrecy context as well.

Patent law covers functional subject matter (e.g., devices), rather than expressive works (e.g., literature).<sup>214</sup> Thus, insofar as copyright misuse concerns itself with reconciling First Amendment speech interests or preventing functional works from getting “back-door” protection through copyright law, these concerns are largely irrelevant to patent law.<sup>215</sup> And insofar as copyright misuse concerns itself with owners' abusive overclaiming of copyright scope, it

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a writing cannot possibly be copyright misuse unless the claim is patently frivolous.”); *Advanced Comput. Servs. of Mich., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356, 370 (E.D. Va. 1994) (finding that plaintiff's aggressive “enforcement of its copyrights does not constitute copyright misuse”); Patry & Posner, *supra* note 191, at 1659 (“[C]ourts must be careful not to place copyright owners on a razor's edge, however, where a mistake in a copyright warning precludes enforcement of the copyright . . .”). Whether courts should delve deeper into a copyright owner's “ill-fitting” motivations for bringing suit—for example, to address reputational rather than economic concerns—is an interesting question that is beyond the scope of this Article. *See, e.g.*, Christopher Buccafusco & David Fagundes, *The Moral Psychology of Copyright Infringement*, 100 MINN. L. REV. 2433, 2490–94 (2016) (advocating a constitutional affirmative defense where plaintiffs bring copyright infringement lawsuits for “copyright-irrelevant harm”); Jeanne C. Fromer, *Should the Law Care Why Intellectual Property Rights Have Been Asserted?*, 53 HOUS. L. REV. 549, 591–92 (2015) (describing misuse as a tool that courts have at “their disposal to address ill-fitting motivations”); Edward Lee, *Suspect Assertions of Copyright*, 15 CHL-KENT J. INTELL. PROP. 379, 395–96 (2016) (“[C]opyright misuse may be well-suited to stopping suspect assertions of copyright.”).

<sup>213</sup> *See supra* note 16.

<sup>214</sup> *See supra* text accompanying notes 29–30.

<sup>215</sup> *See supra* Sections II.B–II.C; *see also* Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147, 234 (1998) (explaining that “making, using, or selling machines, products or processes . . . aren't activities that involve speech”); O'Rourke, *supra* note 3, at 1198 (“[P]atented inventions are simply not imbued with the same First Amendment interests that copyrighted material tends to be . . .”). *But see* Tun-Jen Chiang, *Patents and Free Speech*, 107 GEO. L.J. 309, 314 (2018) (arguing that patent protection poses threats to free speech that merit additional safeguards, including an expanded application of the patent misuse defense).

is notable that copyright law lacks patent's structural safeguards and specialized audience.

In terms of structure, patent law requires patentees to formally apply for a patent, claim the boundaries of their inventions, demonstrate novelty and nonobviousness, and satisfy disclosure requirements like enablement and written description.<sup>216</sup> These requirements try to winnow out inventions unworthy of a patent right and ensure that granted patent rights correspond to inventors' actual contributions.<sup>217</sup> Moreover, these requirements provide some degree of *ex ante* notice to competitors and the public about how far a patentee's right to exclude extends.<sup>218</sup> And since the threat of invalidity looms over the decision to bring meritless claims, patent owners "must be cautious about filing suit, or even threatening suit, because the defendant can counterclaim that the patent is invalid."<sup>219</sup> While these structural features of patent law do not eliminate the problem of overclaiming,<sup>220</sup> they offer some important checks on abusive enforcement practices.

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<sup>216</sup> See 35 U.S.C. § 112 (2018).

<sup>217</sup> See MERGES ET AL, *supra* note 30, at 195 (describing the overclaiming concerns of § 112 requirements). Patent's inequitable conduct doctrine may also deter patent applicants from making material misrepresentations to the PTO (e.g., regarding the novelty of a claimed invention) in the course of obtaining patents. See *Therasense, Inc. v. Becton-Dickinson & Co.*, 649 F.3d 1276, 1292–93 (Fed. Cir. 2011) (en banc).

<sup>218</sup> See 35 U.S.C. § 112. The question of how well patent claims perform their important notice function is, however, a topic of scholarly debate. See, e.g., JAMES BESSEN & MICHAEL J. MEURER, *PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK* 8–9 (2008); Burk & Lemley, *supra* note 88 (arguing that the modern claiming system "isn't working").

<sup>219</sup> Olson, *supra* note 15, at 604.

<sup>220</sup> To be sure, ongoing legislative efforts to curb the tactics of patent assertion entities (PAEs) or "patent trolls," as they are pejoratively known, suggest that patent law has its own problems with abusive enforcement practices. PAEs do not practice patents themselves, but instead, purchase patents of dubious value from other companies to force businesses or individuals into licensing agreements and settlements. It is unclear whether current patent misuse doctrine would apply to such litigation tactics. See, e.g., *Intellectual Ventures I LLC v. Capital One Fin. Corp.*, No. 1:13-cv-00740, 2013 WL 6682981, at \*11 (E.D. Va. Dec. 18, 2013) (explaining that the patent assertion entity's enforcement tactics did not amount to misuse); cf. Lim, *supra* note 15, at 369 (suggesting that "[p]atent misuse may find its second wind in the wake of controversial practices by patent assertion entities"). Because 35 U.S.C. § 271(d)(3) (2012) provides that "no patent owner otherwise entitled to relief for infringement . . . shall be . . . deemed guilty of misuse . . . by reason of having . . . sought to enforce his patent rights . . .," some courts have been skeptical of misuse arguments based on a patent holder's enforcement activities. See *IP AND ANTITRUST*, *supra* note 45, at § 3.03[I] (citing cases). The Federal Circuit treats patent misuse arguments based on enforcement tactics similar to antitrust claims based on sham litigation. See *Glaverbel S.A. v. Northlake Mktg. & Supply, Inc.*, 45 F.3d 1550, 1558–59 (Fed. Cir. 1995) ("The bringing of a lawsuit to enforce legal rights does not of itself constitute violation of the antitrust laws or patent misuse; there must be bad faith and improper purpose in bringing the suit, in implementation of an illegal restraint of trade."). An antitrust "sham litigation" suit requires a demonstration that the IP owner has market power. See *infra* note 313. Patent misuse doctrine aside, some states have recently enacted legislation to deter PAEs from engaging in abusive litigation tactics. See, e.g., GA. CODE ANN. § 10-1-770 (West Supp. 2018) (Georgia's "bad faith assertions of patent infringement" provision); MICH. COMP. LAWS ANN. § 446.161 (West Supp. 2018) (Michigan's "bad-faith patent infringement claims act").

Copyright law lacks similar safeguards. Notably, copyright law imposes no formal application process, claiming requirements, or disclosure obligations on putative owners.<sup>221</sup> Thus, in contrast to patent law—where patentees must try to “define the entitlement sharply *ex ante* for all the world to see”—copyright law ensures that “[o]bservers bear the costs of determining what constitutes the protected expression.”<sup>222</sup> And because copyright requirements are so minimal, no comparable invalidity threat tempers an owner’s decision to go after users on the basis of dubious infringement claims.

In addition, notable differences in the audience for patents and copyrights can exacerbate copyright owners’ propensity to overclaim. As Professor Clarissa Long has explained, the “average observer of patented goods has greater knowledge of the [relevant] field and a higher tolerance of information costs than the average observer of copyrighted goods.”<sup>223</sup> The audience for copyrights tends to be larger and more heterogeneous than the more technically adept audience for patents. Copyrighted goods (e.g., novels, books, movies) impact many observers who are “not interested in understanding detailed [information]” about the precise boundaries of a copyright.<sup>224</sup> Copyright law’s combination of no application requirement, limited *ex ante* notice of boundaries, and more information cost-avoidant audience, makes it easier for owners to engage in abusive overclaiming practices—and increases the likelihood that permissible uses of information will be deterred. As the next Part demonstrates, trade secret law shares many of these characteristics with copyright.

### III. CONSIDERING A TRADE SECRET MISUSE DOCTRINE

The previous Part considered copyright misuse’s divergence from patent misuse to embrace a broader set of policy concerns. Courts use copyright misuse doctrine to scrutinize an owner’s acts that not only pose demonstrable anticompetitive effects, but also those that: (i) suppress socially valuable fair uses, like critical speech and reverse engineering, (ii) try to evade the boundary between copyright and patent, or (iii) “overclaim” the legitimate scope of copyright, usually through unfounded litigation threats against parties that “lack the resources or the legal sophistication to resist effectively.”<sup>225</sup>

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<sup>221</sup> See *supra* text accompanying note 34.

<sup>222</sup> Clarissa Long, *Information Costs in Patent and Copyright*, 90 VA. L. REV. 465, 484, 500–02 (2004).

<sup>223</sup> *Id.* at 502–03.

<sup>224</sup> *Id.* at 508.

<sup>225</sup> *Assessment Techs. of WI, LLC v. WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003).

What of trade secret law, then? Trade secret law covers a vast array of information that companies take reasonable steps to keep secret. This includes both technical information that can overlap with patentable subject matter (e.g., mechanical processes and chemical formulas), as well as business-related information (e.g., customer lists, marketing plans and pricing data). In modern times, trade secrets are increasingly categorized as a subset of IP, with innovation-promoting rationales similar to patents and copyrights.<sup>226</sup> Thus, all three IP doctrines—patent, copyright, and trade secret—are primarily justified as mechanisms to encourage the invention and creation of information-based goods.<sup>227</sup> And yet, courts did not develop a comparable trade secret misuse doctrine.<sup>228</sup>

Perhaps courts did not develop an analogous misuse doctrine because trade secrecy's historical origins differ from patent and copyright. In deciding to import misuse doctrine into copyright law, the Fourth Circuit in *Lasercomb* emphasized the similar historical roots and constitutional underpinnings of patent and copyright laws.<sup>229</sup> Trade secrecy's origins do not match up so neatly, however. While Congress's power to enact patent and copyright laws stem from the same constitutional provision,<sup>230</sup> the legal recognition of trade secrets grew

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<sup>226</sup> See 1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS 73–98 (2006) (listing cases describing trade secrets as property and intellectual property); David D. Friedman et al., *Some Economics of Trade Secret Law*, 5 J. ECON. PERSP. 61, 64 (1991) (explaining that trade secrecy “supplements the patent system” and “is congruent with the basic economic explanation for patent protection—that it provides a means of internalizing the benefits of innovation”); Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 324–25 (2008) (arguing that trade secrets are best conceptualized as intellectual property). *But cf.* Robert G. Bone, *The (Still) Shaky Foundations of Trade Secret Law*, 92 TEX. L. REV. 1803, 1807–08 (2014) (expressing skepticism that “trade secret law generates incentive benefits that exceed its costs”).

<sup>227</sup> See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484–85 (1974) (“Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent inventor to proceed with the discovery and exploitation of his invention.”); *Am. Can Co. v. Mansukhani*, 742 F.2d 314, 329 (7th Cir. 1984) (“The primary purpose of trade secret law is to encourage innovation and development . . . .”); *MERGES ET AL.*, *supra* note 30, at 11 (“The principal objective of much of intellectual property law is the promotion of new and improved works—whether technological or expressive. This purpose encompasses patent, copyright, and trade secret law . . . .”). Though some courts have also emphasized a commercial morality rationale for trade secret law. See, e.g., *Kewanee*, 416 U.S. at 481 (observing that in addition to promoting innovation, “[t]he maintenance of standards of commercial ethics” is an additional “polic[y] behind trade secret law”); *E.I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012, 1016 (5th Cir. 1970).

<sup>228</sup> While an analogous trade secret misuse doctrine does not currently exist, at least one Federal Circuit decision suggests a willingness to consider the “defense of . . . trade secret misuse,” had the defendant in the case raised it in a timely manner. *Glitsch, Inc. v. Koch Eng'g Co.*, 216 F.3d 1382, 1383 (Fed. Cir. 2000).

<sup>229</sup> *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 974 (4th Cir. 1990) (“The origins of patent and copyright law in England, the treatment of these two aspects of intellectual property by the framers of our Constitution, and the later statutory and judicial development of patent and copyright law in this country persuade us that parallel public policies underlie the protection of both types of intellectual property rights.”).

<sup>230</sup> See *supra* note 31.

out of nineteenth century common law and unfair competition principles.<sup>231</sup> Also, given patent misuse's increased intersection with antitrust, courts may have been reluctant to import a misuse doctrine into trade secrecy. Compared to patents, trade secrets provide less propensity for market dominance.<sup>232</sup> But even though a trade secret misuse doctrine did not develop organically, this Part demonstrates that many of the concerns motivating copyright misuse resonate in the trade secret context. Given these similarities, this Part then considers whether a misuse doctrine would be a useful policy lever in trade secret law.

### A. *Understanding Trade Secret Law*

Almost every state has enacted some version of the UTSA.<sup>233</sup> In 2016, Congress introduced a new federal civil claim for trade secret misappropriation, the DTSA, which largely echoes the UTSA.<sup>234</sup> Although trade secret's technical subject matter can overlap with patent, its structure is very similar to copyright law. Like copyright law, trade secret law does not require putative owners to formally apply for protection or claim the boundaries of trade secrets. Consequently, the boundaries of trade secrets are highly uncertain *ex ante*, and thorny issues of validity and scope do not get sorted out until litigation.<sup>235</sup>

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<sup>231</sup> For a detailed history of the evolution of trade secret law in the United States, see generally Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 *HAMLIN L. REV.* 493 (2010).

<sup>232</sup> See, e.g., *Quick Point Pencil Co. v. Aronson*, 567 F.2d 757, 766 n.9 (8th Cir. 1977) (Larson, J., dissenting) ("I think it unnecessary to discuss [the trade secret misuse] theory in much detail; the patent misuse doctrine is to prevent a party from using his extraordinary legislative grant of exclusivity as leverage to extend the benefits he has obtained. The trade secret owner has no such leverage; he cannot guarantee his licensees freedom from encroachment by others."). Similar perceptions of the relative weakness of a trademark right compared to patent right have led courts to reject trademark misuse arguments. See *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 56 (2d Cir. 1997) (quoting *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 298 F. Supp. 1309, 1314 (S.D.N.Y. 1969)) ("[A] trademark, unlike other intellectual property rights, does not confer a legal monopoly on any good or idea; it confers rights to a name only. Because a trademark 'merely enables the owner to bar others from the use of the mark, as distinguished from competitive manufacture and sale of identical goods bearing another mark, the opportunity for effective antitrust misuse of a trademark . . . is so limited that it poses a far less serious threat to the economic health of the nation [than patent misuse].").

<sup>233</sup> The UTSA, a model state statute, was issued by the National Conference of Commissioners in 1979 and has since been enacted in nearly every state. See *supra* text accompanying note 27. More recently, the 1995 *Restatement (Third) of Unfair Competition* describes the principles of trade secret law. See *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* §§ 39–45 (AM. LAW INST. 1995). It is largely consistent with the UTSA. See, e.g., James Pooley, *The Myth of the Trade Secret Troll: Why the Defend Trade Secrets Act Improves the Protection of Commercial Information*, 23 *GEO. MASON L. REV.* 1045, 1051 (2016).

<sup>234</sup> 18 U.S.C. § 1836(b) (2018); see *supra* text accompanying note 28. For a discussion of the similarities and differences between the DTSA and UTSA, see Sharon K. Sandeen & Christopher B. Seaman, *Toward a Federal Jurisprudence of Trade Secret Law*, 32 *BERKELEY TECH. L.J.* 829 (2017).

<sup>235</sup> See Orly Lobel, *The DTSA and the New Secrecy Ecology*, 1 *BUS. ENTREPRENEURSHIP & TAX L. REV.* 369, 375 (2017) ("Given their expansive, open-ended definition, trade secrets are the broadest type of intellectual property. Because of their 'do-it-yourself' nature, which does not require application or registration, trade secrets

Under state or federal trade secret laws, a successful trade secret plaintiff must satisfy three elements. First, the information at issue must be protectable subject matter—meaning, it has “independent economic value, actual or potential,” and is not “generally known” or “readily ascertainable” by others in the field.<sup>236</sup> Thus, any competitor can use published or well-known industry information.<sup>237</sup> In addition, trade secret owners must engage in “reasonable” efforts to keep the information secret.<sup>238</sup> These measures can include physical and contractual means to protect the information’s confidentiality.<sup>239</sup> If the subject matter and reasonable efforts elements are satisfied, the plaintiff has a valid trade secret. A trade secret has no fixed term, but protection expires if the secret information becomes publicly available (e.g., published in a patent).<sup>240</sup> The lack of fixed term means that trade secrets can, in theory, be protected indefinitely—as exemplified by the over-century-old Coca-Cola formula.<sup>241</sup>

Finally, a successful plaintiff must show that the defendant acquired, used, or disclosed the information by breaching a duty of confidence or through “improper means.”<sup>242</sup> Defendants who use proper means to acquire information—like independently creating it or reverse engineering a lawfully acquired product—are insulated from liability.<sup>243</sup> The vast majority of trade secret cases involve defendants that use or disclose information in violation of a confidentiality duty. These defendants have typically worked with the trade secret owner in some capacity—as employees, former employees, or business

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do not come with a disclosure or enablement requirement like patent law.”)

<sup>236</sup> UNIFORM TRADE SECRETS ACT § 1(4) (UNIF. LAW COMM’N 1985) (defining “trade secret” as: “information, including a formula, pattern, . . . or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy”); *see also* 18 U.S.C. § 1839(3) (imposing similar requirements under federal law).

<sup>237</sup> *See* Lemley, *supra* note 226, at 317.

<sup>238</sup> 18 U.S.C. § 1839(3)(A); UNIFORM TRADE SECRETS ACT § 1(4)(ii) (UNIF. LAW COMM’N 1985).

<sup>239</sup> For a discussion of this requirement and the reasons behind it, *see generally* Deepa Varadarajan, *Trade Secret Precautions, Possession, and Notice*, 68 HASTINGS L.J. 357 (2017).

<sup>240</sup> *See* MILGRIM, *supra* note 226, at § 1.05.

<sup>241</sup> *See* R. Mark Halligan & David A. Haas, *The Secret of Trade Secret Success*, FORBES (Feb. 19, 2010, 8:30 PM), <https://www.forbes.com/2010/02/19/protecting-trade-secrets-leadership-managing-halligan-haas.html#120bc1f1372e>.

<sup>242</sup> UNIFORM TRADE SECRETS ACT § 1(2) (UNIF. LAW COMM’N 1985) (defining “misappropriation” as “acquisition of a trade secret . . . by improper means” or “disclosure or use of a trade secret of another without express or implied consent by a person who . . . acquired [it] under circumstances giving rise to a duty to maintain its secrecy or limit its use”); *see also* 18 U.S.C. § 1839 (similarly defining misappropriation under federal law).

<sup>243</sup> *See* 18 U.S.C. § 1839(6); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974); UNIFORM TRADE SECRETS ACT § 1 cmt. 2 (amended 1985), 14 U.L.A. 437, 438 (1990).

partners.<sup>244</sup> Trade secret liability also applies to third parties who use or disclose information that they “knew or had reason to know” was misappropriated.<sup>245</sup> A successful trade secret plaintiff can obtain various remedies, including injunctive relief and monetary damages.<sup>246</sup>

## *B. Copyright Misuse’s Concerns Are Relevant to Trade Secret Law*

As previously discussed, copyright misuse offers courts a mechanism to ask important questions that are insufficiently addressed by other doctrinal vehicles: (1) Does a plaintiff’s acts pose competitive harms unlikely to be addressed by antitrust’s rule of reason standard?; (2) Is a plaintiff’s licensing condition too restrictive of socially valuable acts, like critical speech and reverse engineering?; (3) Is a plaintiff using copyright to obtain protection over functional subject matter that is best channeled into the patent system?; (4) Is a plaintiff engaging in abusive overclaiming—for example, by threatening litigation to deter uses of unprotectable subject matter. The sections that follow demonstrate that many of these concerns underlying copyright misuse are relevant to the trade secret context. And in the absence of a trade secret misuse doctrine, defendants are left with ill-fitting doctrinal substitutes to address these concerns.

### *1. Competition Harms and Antitrust’s Limitations*

Like other forms of IP licensing, trade secret licensing practices are subject to antitrust scrutiny.<sup>247</sup> However, the “the antitrust treatment of trade secrets has remained largely hidden,” subject only to “scarce” commentary.<sup>248</sup> Like copyrights, trade secrets are generally not viewed as conferring market power.<sup>249</sup>

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<sup>244</sup> See Ameling et al., *supra* note 22, at 69. “Improper means” cases are unusual; they tend to involve persons unknown to the plaintiff engaged in unlawful acts like wiretapping, or acts that fall below “generally accepted standards of commercial morality and reasonable conduct,” like aerial spying. See *E.I. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012, 1016 (5th Cir. 1970).

<sup>245</sup> UNIFORM TRADE SECRETS ACT § 1 (UNIF. LAW COMM’N 1985).

<sup>246</sup> See 18 U.S.C. § 1836(b)(3); UNIFORM TRADE SECRETS ACT §§ 2–3 (UNIF. LAW COMM’N 1985); see also Lemley, *supra* note 226, at 319 (explaining that “trade secret misappropriation gives rise to a panoply of remedies”).

<sup>247</sup> See 2017 GUIDELINES, *supra* note 1, at 3; MELVIN JAGER, 2 TRADE SECRETS LAW § 11:1 (2016) (“Th[e] interface between trade secret and antitrust law usually occurs in the preparation and enforcement of agreements dealing with the licensing or transfer of trade secrets.”).

<sup>248</sup> Harry First, *Trade Secrets and Antitrust Law*, in THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH 332, 332 (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2011).

<sup>249</sup> See IP AND ANTITRUST, *supra* note 45, at § 3.5[A] (“[T]rade secret law provide[s] generally weaker intellectual property rights than patent and copyright law, at least from the perspective of dominance of an economic market.”); JAGER, *supra* note 247, at § 11:2 (describing a trade secret’s lesser potential for “monopoly power” than a patent); cf. *E.I. duPont deNemours & Co. v. Kolon Indus. Inc.*, 637 F.3d 435, 451 (4th Cir. 2011).

Thus, while “a trade secret owner does not have *carte blanche*” to craft contract terms, at least one commentator has suggested that “federal antitrust laws are applied with less vigor to a trade secret license than to a patent license.”<sup>250</sup>

Yet it is worth asking—as courts and commentators have asked in other IP contexts—whether certain activities of trade secret owners threaten competition in ways that escape antitrust’s rule of reason standard.<sup>251</sup> Particularly in software cases, the absence of a trade secret misuse doctrine can lead to discordant results. Software licenses are often premised on both copyright and trade secret rights.<sup>252</sup> A licensing condition deemed copyright misuse because of its competitive harms could nonetheless survive trade secret litigation unscathed.

In *Lasercomb*, for example, the copyright owner prevented software licensees from developing or assisting in the development of die-making software for a ninety-nine-year period.<sup>253</sup> Citing competition and other concerns, the court applied copyright misuse to deny plaintiff’s copyright infringement claim.<sup>254</sup> But suppose the same restrictions had been linked to the licensing of trade secrets rather than copyright—or both. Even if *Lasercomb*’s misuse negated a finding of copyright infringement, the defendant’s liability for trade secret misappropriation would be unaffected.<sup>255</sup> Given the panoply of remedies

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(finding market power where DuPont, the trade secret owner, controlled over 70% of the U.S. para-aramid fiber market); First, *supra* note 248, at 357 (“It is certainly possible that a trade secret could be sufficiently strong to confer market power on its possessor.”).

<sup>250</sup> JAGER, *supra* note 247, at § 11:2; *cf.* First, *supra* note 248, at 333 (arguing that “[t]here is no inherent reason for trade secrets to have escaped antitrust scrutiny . . . [and that] the arguments for according deference to the use of confidential trade secret information are . . . far weaker[] than the arguments for according such deference to the holders of either patents or copyrights”).

<sup>251</sup> Whether antitrust law itself should be flexible enough to assess such competitive harms is an interesting question but is beyond the scope of this Article. *See* Thomas F. Cotter, *IP Misuse and Innovation Harm*, 96 IOWA L. REV. BULL. 52, 58 (2011) (questioning whether antitrust law should be reformed to “loosen up some of its concerns over false positives”).

<sup>252</sup> *See* *GlobeRanger Corp. v. Software AG*, 691 F.3d 702, 707–09 (5th Cir. 2012) (describing the intersection between copyright and trade secret laws’ protection of software); Jacqueline D. Lipton, *IP’s Problem Child: Shifting the Paradigms for Software Protection*, 58 HASTINGS L.J. 205, 241–43 (2006) (discussing the protection of software code under trade secret law); Risch, *supra* note 149, at 1646 (“Operation of a computer program, if it otherwise satisfies the requirements of the statute, falls squarely within . . . the definition [of a trade secret].”).

<sup>253</sup> *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 973 (4th Cir. 1990).

<sup>254</sup> *See supra* text accompanying notes 59–70.

<sup>255</sup> *See* Risch, *supra* note 149, at 1654–55 (discussing the limitations of *Lasercomb*’s holding for the trade secret software licensing scenario); *see also* *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994), *abrogated on other grounds by* *Reed Elsevier, Inc. v. Muchnick*, 559 U.S. 154 (2010). In *Data General*, the plaintiff’s software was protected by both copyright and trade secret. *Id.* at 1152. To use the software, consumers had to agree to a license provision preventing them from utilizing any of plaintiff’s competitors in the services market. *Id.* at 1154–55. The defendant Grumman was a competitor in the services market. *Id.* at 1152. Grumman raised antitrust claims, as well as “misuse” arguments in defense of both the

available under trade secret law, including injunctive relief, a plaintiff could accomplish the same anticompetitive ends through trade secret litigation—even if copyright misuse condemned those very acts. Thus, to the extent copyright misuse cares about competitive harms that are likely to be unaddressed by antitrust principles, trade secret law arguably should too—at least in the software context.

## 2. *Restraining Socially Valuable Uses*

Trade secret law does not have a fair use doctrine akin to copyright.<sup>256</sup> It does, however, have a robust reverse engineering limitation, which has been described as trade secrecy’s fair use counterpart.<sup>257</sup> And while trade secret law has been largely inattentive to speech concerns (too inattentive, as this Author has previously argued),<sup>258</sup> the recently enacted DTSA incorporates new whistleblower provisions to protect certain forms of socially valuable speech.<sup>259</sup> Misuse doctrine can act as a useful supplement or backstop to these fair use-light doctrines, akin to copyright misuse’s relationship with fair use.

### a. *Critical Speech*

Since trade secrets often cover technical information rather than creative works, speech concerns have been largely overlooked.<sup>260</sup> In recent years, however, firms’ use of trade secret law to prevent or intimidate employees from engaging in whistleblowing speech has garnered more attention.<sup>261</sup>

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copyright and trade secret claims. *Id.* The Court found insufficient proof of an antitrust violation. *Id.* The Court did not view the misuse arguments to be distinct from antitrust, and consequently, dismissed those as well. *Id.* But even if the court had applied a broader, *Lasercomb*-like view of copyright misuse, the trade secret claim would have been unaffected. *Id.* at 1169–70.

<sup>256</sup> See Varadarajan, *supra* note 21, at 1404 (“Unlike copyright . . . trade secret law lacks limiting doctrines sufficiently attuned to a defendant’s follow-on improvements or to First Amendment interests, like creating a well-informed citizenry and fostering open debate over matters of public interest.”).

<sup>257</sup> See Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. MARSHALL REV. INTELL. PROP. L. 325, 328 (2005) (noting the “counterpart to fair use in trade secret law is the right to unmask a trade secret by reverse engineering”).

<sup>258</sup> See Varadarajan, *supra* note 21, at 1404.

<sup>259</sup> See 18 U.S.C. § 1833(b) (2018); see also Elizabeth A. Rowe, *Snapshot of Trade Secret Developments*, 60 WM. & MARY L. REV. ONLINE 45, 78 (2019) (describing the DTSA’s “whistleblower defense” as “the newest defense to a trade secret misappropriation claim . . . which applies to all potential criminal and civil trade secret liability, state or federal”).

<sup>260</sup> See Varadarajan, *supra* note 21, at 1434–36 (describing the “general reluctance of courts to consider speech concerns in trade secret cases”); see also Pamela Samuelson, *Principles for Resolving Conflicts Between Trade Secrets and the First Amendment*, 58 HASTINGS L.J. 777, 778 (2007) (discussing conflicts between trade secret law and the First Amendment).

<sup>261</sup> See Menell, *supra* note 25, at 45 (explaining the “imperative to establish a clear safe harbor within trade secret law for employees, contractors, and any other signatories of NDAs to communicate evidence of

Whistleblowing speech—for example, when an employee or business partner reports confidential information about a firm’s suspected unlawful activities—has vital consequences for public health and safety.<sup>262</sup> In recognition of trade secret law’s somewhat anemic protection for this kind of critical speech,<sup>263</sup> Congress drafted explicit provisions in the DTSA to protect whistleblowers.

The DTSA immunizes whistleblowers from liability “under any Federal or State trade secret law for the disclosure of a trade secret” when they report confidential information to government officials or attorneys “solely for the purpose of reporting or investigating a suspected violation of law.”<sup>264</sup> The DTSA also requires trade secret owners to provide notice of this immunity in “any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”<sup>265</sup> The senators that introduced these provisions emphasized the need to “ensure that employers and other entities cannot bully whistleblowers or other litigants by threatening them with a lawsuit for trade secret theft.”<sup>266</sup>

Yet trade secret owners impose broad non-disclosure restrictions on employees, licensees, and other recipients of trade secret information, and engage in enforcement practices that can undercut the beneficial effects of these whistleblowing provisions.<sup>267</sup> The DTSA specifies a penalty for failing to give employees notice about these immunity provisions: the “employer may not be awarded exemplary damages or attorney fees” in a trade secret action brought “against an employee to whom notice was not provided.”<sup>268</sup> The statute specifies

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possible illegal conduct to the government without risk of negative repercussions”).

<sup>262</sup> See *id.* at 6–7 (describing several examples).

<sup>263</sup> The UTSA does not explicitly protect whistleblower speech. While the *Restatement (Third) of Unfair Competition* recognizes courts’ ability to balance a trade secret owner’s rights against disclosures serving the public interest, it is merely guidance that is not binding on courts. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. c (AM. LAW INST. 1995) (observing that “the disclosure of another’s trade secret for purposes other than commercial exploitation may implicate the interest in freedom of expression or advance another significant public interest” and that “a privilege is likely to be recognized, for example, in connection with the disclosure of information that is relevant to public health or safety, or to the commission of a crime or tort, or to other matters of substantial public concern”).

<sup>264</sup> 18 U.S.C. § 1833(b)(1)(A).

<sup>265</sup> *Id.* § 1833(b)(3)(A). The statute undercuts this notice requirement somewhat by stating that “an employer shall be considered to be in compliance with the notice requirement . . . if the employer provides a cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law.” *Id.* § 1833(b)(3)(B).

<sup>266</sup> 162 CONG. REC. S1636 (daily ed. Apr. 4, 2016) (statement of Sen. Leahy). For a detailed discussion of the legislative history behind these whistleblower provisions, see Peter S. Menell, *The Defend Trade Secrets Act Whistleblower Immunity Provision: A Legislative History*, 1 BUS. ENTREPRENEURSHIP & TAX L. REV. 398, 398 (2017).

<sup>267</sup> See, e.g., *Unum Grp. v. Loftus*, 220 F. Supp. 3d 143 (D. Mass. 2016).

<sup>268</sup> 18 U.S.C. § 1833(b)(3)(C).

no penalty, however, for threatening whistleblowers with litigation in spite of these provisions.<sup>269</sup> Nor is it clear how the DTSA's whistleblower immunity provisions, which are specific to "Federal [and] State trade secret law,"<sup>270</sup> apply to situations where a trade secret owner asserts a breach of contract claim against a potential whistleblower for violating of a non-disclosure contract, instead of a trade secret misappropriation claim.

Given how recently these immunity provisions have been enacted, it remains to be seen how meaningful a deterrent they will be to trade secret owners' speech-restraining practices.<sup>271</sup> At least one commentator has already expressed concern that courts are "misconstru[ing] the immunity provision, creating the very [speech-]chilling effects" that the provision was meant to deter.<sup>272</sup> A trade secret misuse doctrine could raise the stakes for employers that engage in contractual or enforcement practices to undercut whistleblower speech. If the price for such activity included being unable to enforce a trade secret for a period of time, trade secret owners would have greater incentive to refrain from such speech-chilling behavior and to adhere to the DTSA's notice provisions.<sup>273</sup> In this way, a trade secret misuse doctrine could buttress the DTSA's whistleblower defense—not unlike copyright misuse's complementary role to fair use.

Even outside of the whistleblowing context, trade secret owners use contractual restrictions and litigation threats to suppress critical speech regarding public health, safety, and other issues of important public interest.<sup>274</sup> In previous work, this Author has argued that a fair use doctrine for trade secret

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<sup>269</sup> A whistleblower defendant would presumably be entitled to collect attorney's fees for having to defend a "bad faith" misappropriation claim. See *infra* text accompanying note 313.

<sup>270</sup> 18 U.S.C. § 1833(b)(1)(A).

<sup>271</sup> See Peter S. Menell, *Misconstruing Whistleblower Immunity Under the Defend Trade Secrets Act*, 1 NEV. L.J.F. 92, 95 (2017) (criticizing recent caselaw for treating the whistleblowing provisions as an affirmative defense, rather than immunity from liability).

<sup>272</sup> See Peter S. Menell, *Misconstruing Whistleblower Immunity Under the Defend Trade Secrets Act*, C.L.S. BLUE SKY BLOG (Jan. 3, 2017), <http://clsbluesky.law.columbia.edu/2017/01/03/misconstruing-whistleblower-immunity-under-the-defend-trade-secrets-act/>.

<sup>273</sup> See *Xoran Holdings LLC v. Luick*, No. 16-13703, 2017 WL 4039178, at \*7 (E.D. Mich. Sept. 13, 2017) ("It is . . . undisputed that Xoran did not provide notice of employee whistleblower immunity provisions in the Employment Agreement (or elsewhere).").

<sup>274</sup> Varadarajan, *supra* note 21, at 1441–44; see, e.g., Annemarie Bridy, *Trade Secret Prices and High-Tech Devices: How Medical Device Manufacturers Are Seeking to Sustain Profits by Propertizing Prices*, 17 TEX. INTELL. PROP. L.J. 187, 188 (2009); David S. Levine, *Secrecy and Unaccountability: Trade Secrets in Our Public Infrastructure*, 59 FLA. L. REV. 135, 139–40 (2007); Mary L. Lyndon, *Secrecy and Access in an Innovation Intensive Economy: Reordering Information Privileges in Environmental, Health, and Safety Law*, 78 U. COLO. L. REV. 465, 466–67 (2007); Frank Pasquale, *The Troubling Consequences of Trade Secret Protection of Search Engine Rankings*, in THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH 381, 382 (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2011).

law would benefit society in these situations.<sup>275</sup> Short of a more robust fair use doctrine, however, a trade secret misuse doctrine could provide a check on socially harmful speech restrictions. The absence of a fair use defense in trade secret law makes the development of an equitable backstop like misuse potentially more pressing.

*b. Reverse Engineering*

The ability to reverse engineer—that is, “starting with the known product and working backward to divine the process which aided in its development or manufacture”<sup>276</sup>—is one of the most significant limitations on owners’ trade secret rights.<sup>277</sup> As the Supreme Court has emphasized, reverse engineering is “an essential part of innovation” that “may lead to significant advances in the field.”<sup>278</sup> In holding that federal patent law did not preempt state trade secrecy laws, the Supreme Court highlighted how the reverse engineering limitation made trade secrecy protection “far weaker” than a patent.<sup>279</sup>

While any trade secret licensing agreement can potentially include restrictions on reverse engineering, such restrictions are particularly prevalent in the software licensing context. Professor Michael Risch describes “no reverse engineering” clauses as “relatively standard” in software license agreements.<sup>280</sup> Professor Florencia Marotta-Wurgler and Robert Taylor demonstrate that such restrictions have become more common over time—and posit that the increase is due to increased judicial enforcement of such restrictions.<sup>281</sup> Legal challenges to reverse engineering restrictions have generally been unsuccessful.<sup>282</sup>

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<sup>275</sup> See Varadarajan, *supra* note 21, at 1404.

<sup>276</sup> *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974).

<sup>277</sup> *Id.*; see also UNIFORM TRADE SECRETS ACT § 1 cmt. 2 (amended 1985), 14 U.L.A. 437, 438 (1990).

<sup>278</sup> *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 160 (1989) (“[A]s we noted in *Kewanee*, the competitive reality of reverse engineering may act as a spur to the inventor, creating an incentive to develop inventions that meet the rigorous requirements of patentability.” (citing *Kewanee*, 416 U.S. at 489–90)).

<sup>279</sup> *Kewanee*, 416 U.S. at 489–90; see also *Chi. Lock. Co. v. Fanberg*, 676 F.2d 400, 405 (9th Cir. 1982) (explaining that imposing an obligation not to reverse engineer “upon the lock owners in this case would, in effect, convert the Company’s trade secret into a state-conferred monopoly akin to the absolute protection that a federal patent affords. Such an extension of California trade secrets law would certainly be preempted by the federal scheme of patent regulation”).

<sup>280</sup> Risch, *supra* note 149, at 1652.

<sup>281</sup> See Marotta-Wurgler & Taylor, *supra* note 163, at 273–74.

<sup>282</sup> See, e.g., *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1326–27 (Fed. Cir. 2003) (enforcing a prohibition on reverse engineering in mass-market software license agreement); *Davidson & Assoc., Inc. v. Internet Gateway, Inc.*, 334 F. Supp. 2d 1164, 1181 (E.D. Mo. 2004) (“The defendants in this case waived their ‘fair use’ right to reverse engineer by agreeing to the license agreement.”).

Where reverse engineering restrictions are linked to the trade secret-protected aspects of software, they raise similar innovation concerns to those in a copyright context.<sup>283</sup> And allowing reverse engineering restrictions to go unchecked raises an additional concern in the trade secret context—it can undermine federal patent policy. Professor David Rice, for example, has critiqued the pervasive incorporation of reverse engineering prohibitions in software distribution contracts as restraining innovative conduct that was “absolutely critical” to the Supreme Court’s upholding of state trade secret laws over patent preemption arguments.<sup>284</sup> This additional concern—about the relationship between trade secret limitations and federal patent policy—is addressed in further depth below.

### 3. Channeling Between Patent and Trade Secret Subject Matter

Both trade secret and patent law protect technical innovations. Yet, society’s preference is for technical innovations that could qualify for patent protection to get channeled into the patent system; that way, the public gets the useful disclosure and knowledge from the patent.<sup>285</sup> By contrast, if a firm chooses to protect a technical innovation through trade secrecy, it will, by definition, be kept secret from the public.<sup>286</sup>

In holding that state trade secret laws were not preempted by federal patent law, the Supreme Court in *Kewanee Oil Co. v. Bicron Corp.* concluded that the two systems for encouraging innovation “are not and never would be in conflict.”<sup>287</sup> In reaching this conclusion, the Court emphasized the relative “weakness” of state trade secret laws compared to patent.<sup>288</sup> That is, the public

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<sup>283</sup> See *supra* Section II.B; see also Rochelle Cooper Dreyfuss, *Do You Want to Know a Trade Secret? How Article 2B Will Make Licensing Trade Secrets Easier (but Innovation More Difficult)*, 87 CALIF. L. REV. 191, 263 (1999) (observing that “there may be a few [trade secret licensing] restrictions that are so inhibiting of innovation that they should be considered per se unlawful (a ban of reverse engineering may be one)”).

<sup>284</sup> Rice, *supra* note 147, at 623; cf. First, *supra* note 248, at 372 (suggesting that even in the context of antitrust litigation, “efforts to keep licensees from reverse engineering could be narrowly construed so as to be sure that the legal limitations on the scope of trade secrecy protections are maintained”).

<sup>285</sup> See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51 (1989) (“The federal patent system thus embodies a carefully crafted bargain . . . . [The inventor] may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted.”) (alteration in original) (quoting *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186–87 (1933)); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 491 (1974) (observing the “federal policy favoring disclosure of clearly patentable inventions”).

<sup>286</sup> For a discussion of patents and trade secrets as substitute choices, see, for example, J. Jonas Anderson, *Secret Inventions*, 26 BERKELEY TECH. L.J. 917, 923–24 (2011); Lemley, *supra* note 226, at 314.

<sup>287</sup> 416 U.S. at 484.

<sup>288</sup> *Id.* at 489–90 (“Trade secret law provides far weaker protection in many respects than the patent law.”); see also *Bonito Boats*, 489 U.S. at 155–56 (explaining that “[t]his point was central to the [*Kewanee*] Court’s

can freely exploit the trade secret through reverse engineering or independent creation; the same limitations do not exist for patented inventions.<sup>289</sup> Because of these limitations on trade secret owners' rights, the Court was convinced that "trade secret law [posed] no reasonable risk of deterrence from patent application by those who can reasonably expect to be granted patents . . . ."<sup>290</sup> As the Court explained: "Where patent law acts as a barrier, trade secret law functions relatively as a sieve. The possibility that an inventor who believes his inventions meets the standards of patentability will sit back, rely on trade secret, and . . . forfeit any right to patent protection is remote indeed."<sup>291</sup>

In recent years, however, these assumptions about the comparative benefits of patenting over trade secrecy have come into question.<sup>292</sup> Notable changes in patent law, like new limits on patentable subject matter<sup>293</sup> and the elimination of a "general rule" of favoring injunctive remedies for patent infringement,<sup>294</sup> have made trade secrecy a more compelling option relative to patent. In addition, federal expansions of trade secret law, including the recent passage of DTSA, have led some commentators to conclude that the scales are tilting in favor of trade secret protection at the expense of patent.<sup>295</sup>

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conclusion that trade secret protection did not conflict with either the encouragement or disclosure policies of the federal patent law").

<sup>289</sup> See *Kewanee*, 416 U.S. at 490 (observing that "[w]hile trade secret law does not forbid the discovery of the trade secret by fair and honest means, e.g., independent creation or reverse engineering, patent law operates 'against the world,' forbidding any use of the invention for whatever purpose for a significant length of time").

<sup>290</sup> *Kewanee*, 416 U.S. at 489–90.

<sup>291</sup> *Id.* at 490 (citation omitted); see also *id.* at 489 (warning, however, that "[i]f a State, through a system of protection, were to cause a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on the state protection, we would be compelled to hold that such a system could not constitutionally continue to exist").

<sup>292</sup> Even in *Kewanee*, Justice Marshall questioned these assumptions, observing:

Unlike the Court, I do not believe that the possibility that an inventor with a patentable invention will rely on state trade secret law rather than apply for a patent is 'remote indeed.' State trade secret law provides substantial protection to the inventor[,] protection which in its unlimited duration is clearly superior to the 17-year monopoly afforded by the patent laws. I have no doubt that the existence of trade secret protection provides in some instances a substantial disincentive to entrance into the patent system, and thus deprives society of the benefits of public disclosure of the invention which it is the policy of the patent laws to encourage.

*Id.* at 493–94 (Marshall, J., concurring) (citation omitted).

<sup>293</sup> See, e.g., *Alice Corp. Pty. v. CLS Bank Int'l*, 573 U.S. 208, 215–18 (2014); *Mayo Collab. Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 91–92 (2012).

<sup>294</sup> See *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006) (rejecting the Federal Circuit's "general rule" favoring patent injunctions and requiring federal courts to apply a "well-established" four-factor test to each case, consistent with "traditional principles of equity").

<sup>295</sup> See Lobel, *supra* note 235, at 376 ("Both the strengthening of trade secret law and the uncertainty about patent eligibility of certain biotechnologies, business processes, and software inventions may lead today's firms to rely more heavily on trade secret laws.").

Adding to these concerns about firms channeling patentable innovations into trade secrecy protection is their ability to augment “weaker” trade secret rights (relative to patent) with contractual restrictions. For example, when trade secret owners impose licensing restrictions on reverse engineering<sup>296</sup> or obligations that continue even after a trade secret is publicly revealed,<sup>297</sup> they avoid the key weaknesses of protecting an innovation through trade secret rather than patent. Such restrictions “enhanc[e] the desirability of keeping trade secrets relative to applying for patents.”<sup>298</sup> As these patent-versus-trade secret channeling concerns have magnified in recent years, a trade secret misuse doctrine that scrutinizes such contractual practices may help push the deliberative scales back towards patenting.

#### 4. *Abusive Overclaiming of Trade Secret Scope*

In the trade secret context, as in copyright, owners engage in abusive overclaiming of trade secret scope—for example, by threatening litigation or bringing lawsuits to deter uses of information that are clearly permissible under trade secret law. Trade secret claims are brought most often against employees and former employees.<sup>299</sup> Employees often do not have clear sense of how far the employer’s trade secret right extends.<sup>300</sup> In some cases, a trade secret owner may threaten a departing employee who wants to set up her own business with meritless trade secret litigation. Such tactics can deter the employee or force her to enter a needless license agreement with the former employer. In the aggregate, such acts pose negative consequences for cumulative innovation and employee mobility.<sup>301</sup>

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<sup>296</sup> See *supra* Section III.B.2.

<sup>297</sup> See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 266 (1979) (upholding indefinite royalty payment obligations for the licensing of a secret keyholder design despite it “ceas[ing] to have any secrecy as soon as it was first marketed”).

<sup>298</sup> Dreyfuss, *supra* note 283, at 248 (“[A] well-drafted license—one that survives even if the trade secret is revealed—can duplicate the benefits of patenting. With lower up-front costs, and a possibly infinite duration, the frequency of patenting will decrease as reliance on trade secrecy protection increases.”); see also *Chi. Lock Co. v. Fanberg*, 676 F.2d 400, 405 (9th Cir. 1982) (expressing concern that absent a reverse engineering limitation, trade secret law interferes with federal patent policy because it “convert[s] the Company’s . . . trade secret into a state-conferred monopoly akin to the absolute protection that a federal patent affords”).

<sup>299</sup> See *supra* text accompanying notes 22, 244.

<sup>300</sup> See, e.g., Orly Lobel, *The New Cognitive Property: Human Capital Law and the Reach of Intellectual Property*, 93 TEX. L. REV. 789, 810 (2015) (observing that “[c]ontractually, it has become standard to include broad and open-ended lists of confidential information that goes beyond the statutory definition of trade secrets”); Menell, *supra* note 25, at 38–39 (observing that non-disclosure agreements are “confusing, intimidating documents” for employees, which often “include a catch-all category of any information deemed proprietary by the employer”).

<sup>301</sup> Cf. ORLY LOBEL, TALENT WANTS TO BE FREE 106–10 (2013).

The facts of *CVD, Inc. v. Raytheon Co.*<sup>302</sup> provide a useful illustration. Two departing employees sought to leave Raytheon and start a new company.<sup>303</sup> Upon learning of their departure, Raytheon threatened trade secret litigation to force them to license the use of a chemical vapor deposition (cvd) process.<sup>304</sup> The employees had signed non-disclosure contracts promising to safeguard Raytheon's proprietary information.<sup>305</sup> But the cvd process was publicly available information that had been published in government reports—a fact that the employees emphasized to Raytheon.<sup>306</sup> Raytheon threatened to sue them anyway unless they signed the license agreement.<sup>307</sup> Fearing the end of their start-up enterprise before it had even begun, the employees agreed.<sup>308</sup> The license agreement imposed a royalty rate based on a flat percentage of revenue for a ten-year period.<sup>309</sup>

The employees subsequently brought a declaratory judgment action to void the agreement.<sup>310</sup> Raytheon counterclaimed trade secret misappropriation and breach of contract.<sup>311</sup> In the absence of a misuse theory, the employees argued that Raytheon's acts amounted to a bad faith assertion of trade secrets in violation of antitrust law.<sup>312</sup> The First Circuit was amenable to this antitrust argument only because of Raytheon's undisputed market power—it was the “only company in the world to produce for commercial sale zinc selenide or zinc sulfide by chemical vapor deposition.”<sup>313</sup> For most departing employees in a

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<sup>302</sup> 769 F.2d 842 (1st Cir. 1985).

<sup>303</sup> *Id.* at 848.

<sup>304</sup> *Id.* at 847–48.

<sup>305</sup> *Id.* at 847.

<sup>306</sup> *See id.* at 848.

<sup>307</sup> *Id.*

<sup>308</sup> *See id.*; *see also id.* at 855 (“[T]he threat of litigation with Raytheon would have effectively prevented them from entering into the business.”).

<sup>309</sup> *See id.* at 848.

<sup>310</sup> *Id.* at 857.

<sup>311</sup> *Id.* at 858.

<sup>312</sup> *Id.* at 857.

<sup>313</sup> *Id.* at 851. The First Circuit analogized Raytheon's acts to “cases in which patent infringement suits have been brought in bad faith with an intent to restrain competition or monopolize.” *Id.* at 849–50. Certain kinds of anticompetitive litigation constitute monopolization in violation of Section 2 of the Sherman Act. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965); *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1284 (9th Cir. 1984). Under *Walker Process*, the enforcement of a patent obtained by fraud on the PTO can give rise to antitrust liability. 382 U.S. at 173. Bad faith or “sham litigation” may also violate Section 2, provided that the IP owner subjectively knew the infringement claim was baseless. *See Prof'l Real Estate Inv'rs v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60, 72 (1993) (describing “sham litigation” as an exception to *Noerr Pennington* antitrust immunity which generally insulates antitrust defendants from liability for “petitioning the government”). To succeed on either the *Walker Process* or “sham litigation” theories, however, the other elements of an antitrust claim must be satisfied, including a demonstration that “the intellectual property owner has market power.” IP AND ANTITRUST, *supra* note 45, at § 11.04[C]. Antitrust

similar situation, this antitrust argument would be unavailable, as trade secrets do not typically confer market power.<sup>314</sup>

While *CVD* presented a clear-cut case of unprotectable “public” information,<sup>315</sup> the line between abusive overclaiming and aggressive enforcement of a plausible trade secret claim is less clear in other cases. For example, in *Ass’n of American Medical Colleges v. Princeton Review, Inc.*, the Association of American Medical Colleges (AAMC), a provider of the Medical College Admission Test (MCAT), alleged trade secret misappropriation arising from Princeton Review’s acquisition of its test questions.<sup>316</sup> The public nature of the test questions was unclear because AAMC required all of its test-takers to sign an agreement not to “duplicate, record or memorize” test questions.<sup>317</sup> Princeton Review argued that because AAMC widely disseminated its MCAT questions to test-takers, the questions were not secret, and any claim of trade secret misappropriation was an attempt to misuse its trade secret rights.<sup>318</sup> In the absence of a trade secret misuse doctrine, Princeton Review asserted both copyright misuse and unclean hands as defenses to the trade secret claim. The court rejected both theories on grounds that it “could find no legal authority that has applied copyright misuse or an unclean hands defense to a trade secret misappropriation claim.”<sup>319</sup> Yet even if the court had recognized a trade secret misuse doctrine in this case, so long as AAMC had a plausible argument that its test questions were sufficiently secret, a finding of misuse would not have been appropriate.

### C. *Justifying and Implementing a Trade Secret Misuse Doctrine*

As the previous section demonstrated, many of the concerns underlying copyright misuse are relevant to trade secrecy. In both trade secrecy and copyright, owners restrain socially valuable speech and reverse engineering, and “overclaim” IP rights in ways that deter lawful, innovative activity. Whether a new trade secret misuse doctrine can effectively address these concerns is a harder question to answer. Even in the copyright context, misuse doctrine is evolving, and its “contours . . . are still being defined.”<sup>320</sup> Yet as this section

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lawsuits based on allegations of sham IP litigation typically fail. *Id.* at § 11.03[B][4].

<sup>314</sup> See *supra* text accompanying note 249.

<sup>315</sup> See *CVD, Inc.*, 769 F.2d at 854 (observing that the record in the case revealed “extensive public disclosure” of the alleged secrets).

<sup>316</sup> 332 F. Supp. 2d 11, 14–15 (D.D.C. 2004).

<sup>317</sup> *Id.* at 14.

<sup>318</sup> *Id.* at 24.

<sup>319</sup> *Id.* at 25.

<sup>320</sup> *MDY Indus., LLC v. Blizzard Entm’t, Inc.*, 629 F.3d 928, 941 (9th Cir. 2010).

suggests, existing doctrinal mechanisms—like attorney fee-shifting provisions, contract non-enforcement doctrines, and the generic “unclean hands” defense—have proven ineffective in policing problematic licensing and enforcement behavior by trade secret owners. Antitrust law’s limitations for controlling such behavior have already been discussed.<sup>321</sup> A trade secret misuse doctrine could help plug important gaps and provide beneficial overlap with existing doctrinal mechanisms. This section also considers the potential costs of implementing a trade secret misuse doctrine and how certain design features, like remedial flexibility, could help address these costs.

### 1. Existing Doctrinal Gaps and Beneficial Overlaps

Under federal and state trade secret statutes, courts can award reasonable attorney’s fees and costs to defendants against whom “bad faith” claims of misappropriation have been brought.<sup>322</sup> Such fee-shifting provisions are intended to “deter[] opportunistic suits by raising the expected cost of weak lawsuits and undermining the credibility of the plaintiff’s threat to go to trial.”<sup>323</sup> The impact of attorney fee-shifting on abusive enforcement practices has proven quite limited, however, in trade secrecy as in other IP contexts.<sup>324</sup> As Professor Michael Meurer observes: “The prospect of recovering attorney’s fees after trial has no value to a defendant who goes bankrupt before trial, and perhaps little value to a defendant who suffers financial distress because of trial cost and delay.”<sup>325</sup> And while fee-shifting provisions may offer some check on the initiation of bad-faith lawsuits, they are unlikely to affect owners’ imposition of

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<sup>321</sup> See *supra* Section III.B.1; see also Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 539 (2003) (“[I]n practice antitrust does little to control socially harmful IP litigation because its reach is very limited; it does not apply to opportunistic litigation and applies only to a subset of anti-competitive litigation.”).

<sup>322</sup> 18 U.S.C. § 1836(b)(3)(D) (2018) (providing that a court may award “reasonable attorney’s fees” where “a claim of the misappropriation is made in bad faith”); UNIFORM TRADE SECRETS ACT § 4 (UNIF. LAW COMM’N 1985) (“If . . . a claim of misappropriation is made in bad faith . . . the court may award reasonable attorney’s fees to the prevailing party.”). The patent, copyright, and trademark statutes also have provisions that authorize attorney fee shifting by courts. See Meurer, *supra* note 321, at 536.

<sup>323</sup> Meurer, *supra* note 321, at 537.

<sup>324</sup> *Id.*; see Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1307–08 (2008) (suggesting that fee shifting is unlikely to prevent “copyright overenforcement in a large number of cases” and observing that for this mechanism “to have the desired effect in a large number of cases, users must be aware of their rights . . . [.] confident they will be able to find attorneys who are willing to take their cases in exchange for the prospect of a court-ordered fee down the road[, a]nd . . . must be willing to litigate, if necessary, all the way through the end of trial”); Tait Graves, *Bad Faith and the Public Domain: Requiring a Pre-Lawsuit Investigation of Potential Trade Secret Claims*, 8 VA. J.L. & TECH., no. 12, 2003, at 1, 3 (observing that the UTSA’s bad faith provisions “have been underutilized in the two decades since they were first made law, especially outside California”).

<sup>325</sup> Meurer, *supra* note 321, at 537.

problematic contractual provisions, such as reverse engineering or speech-related restrictions.<sup>326</sup>

Contract non-enforcement doctrines can, in theory, act as a check on problematic contractual provisions. Under the public policy exception, courts are empowered to deny enforcement of a contract term where it is “clearly outweighed in the circumstances by a public policy.”<sup>327</sup> Moreover, under the doctrine of “unconscionability”<sup>328</sup> a court can refuse to enforce contract terms if a defendant lacked a “meaningful choice” when assenting to the contract (i.e., procedural unconscionability), and the contract terms are “unreasonably favorable to the other party” (i.e., substantive unconscionability).<sup>329</sup> In practice, however, courts are reluctant to apply either of these non-enforcement doctrines to the trade secret context.<sup>330</sup> Moreover, unlike misuse doctrine, contract non-enforcement doctrines can be raised only by a contracting party to the offensive licensing provision. Thus, in a fact pattern like *Lasercomb*—where misuse arguments were raised by a trade secret defendant not herself subject to the onerous licensing provisions at issue—contract non-enforcement defenses would be unavailable. Nor would such contract non-enforcement defenses be relevant in cases involving abusive litigation practices. In this regard, misuse can address a broader range of problematic behavior than contract non-enforcement doctrines.<sup>331</sup>

Nor is the generic “unclean hands” defense an adequate substitute for a misuse doctrine. The unclean hands defense “closes the doors of a court of equity to one tainted with inequity or bad faith relative to the matter in which he seeks relief.”<sup>332</sup> Courts have described both patent and copyright misuse as being related to the more generic unclean hands defense.<sup>333</sup> Yet in some jurisdictions,

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<sup>326</sup> See *supra* Section III.B.2.

<sup>327</sup> RESTATEMENT (SECOND) OF CONTRACTS § 178 (AM. LAW INST. 1981); see also *id.* § 179; Alan E. Garfield, *Promises of Silence: Contract Law and Freedom of Speech*, 83 CORNELL L. REV. 261, 295 (1998) (discussing courts’ ability to assess “other laws as well as their own sense of what restrictions are needed to protect the public welfare”).

<sup>328</sup> See U.C.C. § 2-302 (AM. LAW INST. & UNIF. LAW COMM’N 1977). For a general discussion of the economics of the unconscionability doctrine, see Richard Craswell, *Property Rules and Liability Rules in Unconscionability and Related Doctrines*, 60 U. CHI. L. REV. 1 (1993).

<sup>329</sup> *Brower v. Gateway 2000, Inc.*, 676 N.Y.S.2d 569, 573–74 (N.Y. App. Div. 1998); see also *Forsythe v. BancBoston Mortg. Corp.*, 135 F.3d 1069, 1074 (6th Cir. 1997) (“The doctrine of unconscionability is only used in rare instances, such as when a party abuses its right to contract freely.”).

<sup>330</sup> See Varadarajan, *supra* note 170, at 1587–89.

<sup>331</sup> See *Loren*, *supra* note 15, at 519–20 (“[M]isuse may be addressed in situations where the enforceability of the overreaching contract clause itself need not be directly at issue.”).

<sup>332</sup> *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 814–15 (1945).

<sup>333</sup> See *In re Napster, Inc. Copyright Litig.*, 191 F. Supp. 2d 1087, 1102 (N.D. Cal. 2002) (“Copyright misuse as a defense to an infringement action finds its origins in the equitable defense of unclean hands and is

an unclean hands defense will only bar injunctive remedies, not damages.<sup>334</sup> And since the broader unclean hands defense is unmoored to any trade secret-specific policy concerns, courts do not seem to know what they are looking for other than a plaintiff's "egregious" conduct.<sup>335</sup> To this Author's knowledge, the defense has never been successfully raised by a trade secret defendant in a reported case.<sup>336</sup>

In any event, a trade secret misuse doctrine need not be the exclusive mechanism for challenging problematic licensing and enforcement practices by trade secret owners. As Professor John Golden has observed, legal redundancy can be desirable, for it "prevents undesired gaps in legal coverage while also avoiding a need for the excessive warping of one or another doctrine to prevent this or that particular case from falling through doctrinal cracks."<sup>337</sup> Thus, even if there is some degree of overlap between existing doctrinal mechanisms and a trade secret misuse doctrine, such overlap can be beneficial.

## 2. *Implementation Considerations*

Regarding implementation, courts are well-equipped to develop a misuse doctrine in trade secret cases. Legislative intervention is unnecessary. After all, misuse originated as a judge-made doctrine in both patent and copyright.<sup>338</sup> While copyright fair use was introduced by the courts and later codified in the

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similar to the patent law defense of the same name.").

<sup>334</sup> See DAN B. DOBBS & CAPRICE L. ROBERTS, *LAW OF REMEDIES: DAMAGES—EQUITY—RESTITUTION* § 2.4(2) (2018) ("The most orthodox view of the unclean hands doctrine makes it an equitable defense, that is, one that can be used to defeat an equitable remedy only, but one that is unavailable to those seeking only legal relief."); Samuel L. Bray, *The System of Equitable Remedies*, 63 *UCLA L. REV.* 530, 549 (2016) ("[I]n the vast majority of jurisdictions [unclean hands] is an equitable defense good only against equitable claims."). *But see* *Gilead Sci., Inc. v. Merck & Co., Inc.*, 888 F.3d 1231 (Fed. Cir. 2018) (applying the unclean hands defense to bar patentee's enforcement of its patents against the defendant, preventing injunctive and damage remedies).

<sup>335</sup> *Wyeth v. Nat. Biologics, Inc.*, No. Civ. 98-2469, 2003 WL 22282371, at \*23 (D. Minn. Oct. 2, 2003) (denying the trade secret defendant's unclean hands defense and observing that the "plaintiff's conduct must be 'egregious' to support a finding of unclean hands"); *see also* Zechariah Chafee, Jr., *Coming into Equity with Clean Hands*, 47 *MICH. L. REV.* 1065, 1091-92 (1949) (arguing that the unclean hands defense should be replaced with more specific doctrines); Cross & Yu, *supra* note 15, at 459-60 ("[T]he doctrine of unclean hands has not realized its potential. [C]ourts have applied it only rarely, . . . [in cases] involv[ing] some form of fraud . . .").

<sup>336</sup> In at least one case, even where the jury found unclean hands, the court nonetheless concluded that the jury's finding need not bar injunctive relief for the trade secret claimant. *See Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 797 (5th Cir. 1999) ("DSC's putative unclean hands do not serve as a bar to injunctive relief grounded in trade secret misappropriation.").

<sup>337</sup> John M. Golden, *Redundancy: When the Law Repeats Itself*, 94 *TEX. L. REV.* 629, 665-66 (2016) (observing various benefits of "overlapping legal doctrines" in different legal contexts).

<sup>338</sup> *See supra* Part I.

Copyright Act, copyright misuse has never been codified.<sup>339</sup> Even in patent law, Congress did not enact misuse-related legislation until decades after courts first introduced the patent misuse doctrine.<sup>340</sup> Thus, courts can ably develop a misuse doctrine in trade secret cases.

Yet one persistent criticism of misuse—particularly copyright misuse—is its unpredictability.<sup>341</sup> Because copyright misuse is unmoored from antitrust principles and addresses multiple policy concerns, it invites more judicial discretion and uncertainty for litigants than patent misuse.<sup>342</sup> Introducing a flexible, copyright-misuse inspired doctrine into trade secret law may trigger similar objections. To be sure, uncertainty is often a feature of flexible legal “standards” (like fair use or misuse) as opposed to more rigid “rules.”<sup>343</sup> Given the precision of rules, they are “costly to create up front,” whereas more indeterminate standards “transfer those costs to the adjudicative process.”<sup>344</sup> Intellectual property laws contain a number of malleable standards—copyright fair use being the paradigmatic example.<sup>345</sup> While flexible and context-specific standards in IP introduce uncertainty and assessment costs, they allow courts to beneficially calibrate the “scope of [an IP owner’s] entitlement to its underlying purpose and function.”<sup>346</sup>

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<sup>339</sup> See generally Tom W. Bell, *Codifying Copyright’s Misuse Defense*, 2007 UTAH L. REV. 573 (2007) (arguing that copyright misuse should be codified).

<sup>340</sup> See *supra* text accompanying notes 107–08; see also *Cty. Materials Corp. v. Allan Brock Corp.*, 502 F.3d 730, 734 (7th Cir. 2007) (“Today, the concept of patent misuse has been cabined . . . by statute, 35 U.S.C. 271(d), which essentially eliminates from the field of ‘patent misuse’ claims based on tying and refusals to deal, unless the patent owner has market power . . .”).

<sup>341</sup> See Cotter, *Misuse*, *supra* note 15, at 936 (“[I]f we are trying to find a plausible role for misuse that goes beyond antitrust confines but does not dissolve into some sort of free-floating ‘get out of jail free’ card, we need to be more precise about the conditions that might conceivably give rise to a finding of misuse.”).

<sup>342</sup> Cf. Olson, *supra* note 15, at 597–98 (advocating a singularly speech-focused copyright misuse doctrine and arguing that additional policy concerns for misuse will “risk[] confused and inconsistent decisions” and will “divert[] courts’ attention away from providing practical protections for fair use rights”). On the relative merits of “multi-purpose” doctrinal tools compared to “single-purpose” doctrinal tools, see generally Samuel L. Bray, *On Doctrines that Do Many Things*, 18 GREEN BAG 2D 141 (2015).

<sup>343</sup> For an overview of the distinction between rules and standards, see Ronald M. Dworkin, *The Model of Rules*, 35 U. CHI. L. REV. 14, 22–29 (1967); Louis Kaplow, *Rules Versus Standards: An Economic Analysis*, 42 DUKE L.J. 557, 569 (1992); Cass R. Sunstein, *Problems with Rules*, 83 CALIF. L. REV. 953 (1995).

<sup>344</sup> Shyamkrishna Balganesh, *Foreseeability & Copyright Incentives*, 122 HARV. L. REV. 1569, 1616–17 (2009).

<sup>345</sup> See *id.* at 1616 (“Intellectual property law . . . contain[s] innumerable vague standards.”); Gideon Parchomovsky & Kevin A. Goldman, *Fair Use Harbors*, 93 VA. L. REV. 1483, 1503 (2007) (“Intellectual property law relies heavily on numerous vague standards . . .”).

<sup>346</sup> Balganesh, *supra* note 344; see also James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882, 938 (2007) (observing that copyright’s rule-based approaches “often end up compromising flexibility and adaptability without providing much clarity or protection for users, as courts convert safe harbors into the only harbors, floors into ceilings, and minimums into maximums”).

Trade secret law, like its IP cousins, already incorporates various standards. For example, discerning a trade secret owner's "reasonable" secrecy efforts or a defendant's "misappropriation" requires flexible, fact-based assessment.<sup>347</sup> Other aspects of trade secret law also subject owners to uncertainty, including the absence of a validating agency like the U.S. Patent and Trademark Office and the various forms of disclosure (intentional or unintentional) that can impair the value of a trade secret.<sup>348</sup> It seems unlikely then that the additional *ex post* uncertainty from a misuse doctrine will meaningfully disturb owners' innovation incentives. In the absence of rigorous empirical study (for which, the trade secret context poses particular difficulties),<sup>349</sup> it is hard to say with certainty that the potential benefits of a misuse doctrine will significantly outweigh the potential costs. With that caveat, the following sections offer a few preliminary suggestions and observations for developing a workable trade secret misuse standard.

*a. High Threshold and Burden of Proof*

In general, courts should impose a high threshold for demonstrating trade secret misuse, placing the burden of proof on the party asserting misuse. In close cases, courts should not find misuse. A high threshold can reduce costs associated with judicial assessment and uncertainty, by narrowing application of the doctrine to severe cases. As Professor Golden observes, in various legal contexts "a backstop or safety valve whose direct effect, under ordinary circumstances, is relatively limited in frequency or intensity" does "limited damage" to concerns of predictability and accuracy.<sup>350</sup> And "such limited damage might be viewed as plausibly counterbalanced by the additional assurance provided to at least some risk-averse parties that a backstopping standard will help prevent extreme outcomes."<sup>351</sup>

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<sup>347</sup> See *supra* text accompanying note 239.

<sup>348</sup> Cf. Balganes, *supra* note 344, at 1620 (observing that imposing an *ex post* standard in copyright law is less problematic than in patent because "copyright's entitlement structure is certainly more contingent or probabilistic than its equivalent in patent law. The absence of an administrative agency validating the grant at the first instance, coupled with copyright's emphasis on a showing of . . . copying, make its grant more uncertain.").

<sup>349</sup> In general, empirical studies concerning trade secrets are quite limited, especially compared to other areas of intellectual property. See Lobel, *supra* note 235, at 376 ("Because they are secret in nature, empirical research on trade secrets has been inherently difficult to conduct."); Michael Risch, *Empirical Methods in Trade Secret Research*, in RESEARCH HANDBOOK ON THE ECONOMICS OF INTELLECTUAL PROPERTY LAW (VOL. II – ANALYTICAL METHODS) (Peter S. Menell & David L. Schwartz eds.) (forthcoming), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2658685](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2658685) (surveying the empirical work on trade secrets and suggesting reasons for the relative lack of empirical trade secret studies, such as the difficulty of accessing state court data).

<sup>350</sup> Golden, *supra* note 337, at 709.

<sup>351</sup> *Id.*

In the licensing context, the absence of an explicit duration for trade secrets may complicate the assessment of trade secret misuse. In *Lasercomb*, for example, a ninety-nine-year license restriction acted as a red flag of sorts because, as the court observed, it “could be longer than the life of the copyright itself.”<sup>352</sup> Similarly, in patent misuse cases like *Brulotte* and *Kimble*, licensing restrictions that exceed the twenty-year patent term trigger special scrutiny.<sup>353</sup> Trade secrets, in notable contrast to patents and copyright, lack an explicit end date. Because of this durational ambiguity, courts have tended to view trade secret licenses with long or unspecified durations more permissively than their patent counterparts.<sup>354</sup>

In *Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*, for example, the then-secret formula for Listerine was licensed under a contract that required the licensee to pay royalties for “each & every gross of said Listerine” sold by the licensee or “his heirs, executors or assigns.”<sup>355</sup> The agreement included no fixed end date; rather, the royalty obligation ended when the licensee or its successors stopped manufacturing Listerine.<sup>356</sup> Warner-Lambert and its predecessors made royalty payments for over seventy-five years.<sup>357</sup> At some point, the formula became publicly known and published in various medical journals, and Warner-Lambert sought a declaratory judgment that it was no longer obligated to make payments due to the expiration of the trade secret.<sup>358</sup> The court disagreed, holding that Warner-Lambert would have to pay royalties until it stopped making the product.<sup>359</sup> In doing so, the court emphasized the unambiguous language of the contract and contrasted the “indefinite” term of trade secrets with the fixed statutory terms of patents and copyrights.<sup>360</sup>

Similarly, in *Aronson v. Quick Point Pencil Co.*, an inventor agreed to disclose her secret keyholder design to Quick Point in exchange for royalty payments that had no set end date.<sup>361</sup> The inventor had applied for a patent on the design and Quick Point was aware of the pending application.<sup>362</sup> The contract

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<sup>352</sup> *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990).

<sup>353</sup> *See supra* Section II.A.1.

<sup>354</sup> *See, e.g.*, *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 266 (1979); *Warner-Lambert Pharm. Co. v. John J. Reynolds, Inc.*, 178 F. Supp. 655, 665–66 (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960) (per curiam) (adopting District Court opinion).

<sup>355</sup> 178 F. Supp. at 658.

<sup>356</sup> *Id.* at 660.

<sup>357</sup> *Id.* at 657.

<sup>358</sup> *Id.* at 659–60.

<sup>359</sup> *Id.* at 667.

<sup>360</sup> *Id.* at 665.

<sup>361</sup> *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 266 (1979).

<sup>362</sup> *Id.* at 259.

mandated higher royalty payments if the inventor successfully obtained a patent within five years, and lower royalty payments otherwise.<sup>363</sup> Because the design was quite simple, “it ceased to have any secrecy as soon as it was first marketed,”<sup>364</sup> and other competitors began selling similar keyholders. Quick Point sought a declaratory judgment that the royalty agreement was unenforceable once the inventor failed to get a patent.<sup>365</sup> Applying principles of state law rather than patent misuse, the Supreme Court did not relieve Quick Point of its contract obligations—emphasizing the fact that “the contracting parties agreed expressly as to alternative obligations if no patent should issue.”<sup>366</sup>

In both of these cases, the court highlighted aspects of the agreements that evinced the parties’ clear “intent to create ongoing obligations after the life of the relevant intellectual property.”<sup>367</sup> And both of these cases concerned ongoing obligations to pay royalties, rather than long-term restrictions on the ability of licensees to create competing products or reverse engineer. Where the latter restraints accompany trade secret licenses with unspecified or long durations, courts assessing misuse should be particularly scrutinizing.<sup>368</sup>

#### *b. Procedural and Remedial Flexibility*

Although misuse is typically raised as an infringement defense, courts should be willing to consider trade secret misuse arguments in other procedural contexts—for example, when raised in a declaratory judgment action or as a defense to a contract claim.<sup>369</sup> Courts in copyright misuse cases have been particularly inflexible in this regard, typically refusing to consider misuse arguments unless raised as a defense to copyright infringement.<sup>370</sup> In the patent

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<sup>363</sup> *See id.*

<sup>364</sup> *Id.* at 259–66.

<sup>365</sup> *Id.*

<sup>366</sup> *Id.* at 262–64.

<sup>367</sup> *Nova Chems., Inc. v. Sekisui Plastics Co.*, 579 F.3d 319, 329 (3d Cir. 2009).

<sup>368</sup> *Cf. Dreyfuss*, *supra* note 283, at 264–65 (arguing that trade secret licensing restrictions with indefinite or long durations should be analyzed for reasonableness and observing that state courts, in the context of remedies, “have shown increasing willingness to reject applications for permanent injunctions and to opt instead for relief that extends only for so long as the information would have remained secret”).

<sup>369</sup> *See Apple Inc. v. PsyStar Corp.*, No. C 08-03251 WHA, 2009 WL 303046, at \*2–3 (N.D. Cal. Feb. 6, 2009) (“PsyStar may well have a legitimate interest in establishing misuse independent of Apple’s claim against it, for example, to clarify the risks it confronts by marketing the products at issue in this case or others it may wish to develop.”); *cf. Meurer*, *supra* note 321, at 529–30 (describing how a declaratory judgment action allows a potential IP defendant to “respond quickly . . . instead of waiting for an infringement suit that could be strategically delayed” and allows “potential defendants to organize and share costs”).

<sup>370</sup> *See, e.g., Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1090 (9th Cir. 2005) (refusing to consider copyright misuse argument as a defense to state law claims regarding enforcement of software licenses); *Arista*

misuse context, by contrast, courts appear more willing to consider misuse arguments raised in a declaratory judgment action or as a defense to a breach of contract claim.<sup>371</sup>

Along with more procedural flexibility, courts should also have flexibility in tailoring the appropriate remedy for a trade secret owner's misuse. In some cases, misuse's traditional remedy may be "disproportionate" to the harm arising from misuse.<sup>372</sup> Citing this concern, Professor Thomas Cotter has argued that in cases involving "transactional misuse," the remedy should be unenforceability of the offending contractual provision, rather than misuse's traditional remedy that renders the underlying IP right unenforceable for a period of time.<sup>373</sup> By contrast, Professor Olson has argued that misuse's traditional penalty is a "uniquely effective . . . deterrent" for speech-chilling practices by copyright owners, which are perpetuated both through licensing provisions as well as abusive enforcement tactics.<sup>374</sup>

In deciding between misuse's traditional penalty, the unenforceability of the IP right for a period of time, and a lesser penalty, such as not enforcing a

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Records, Inc. v. Flea World, Inc., 356 F. Supp. 2d 411, 428 (D.N.J. 2005) ("[C]opyright misuse is not a claim but a defense, and Defendants may not transmute it into an independent claim merely by labeling it one for 'declaratory judgment.');" Davidson & Assocs., Inc. v. Internet Gateway, Inc., 334 F. Supp. 2d 1164, 1182–83 (E.D. Mo. 2004) (expressing "reluctan[ce] to apply the copyright misuse defense as a defense to a contract claim"); Ass'n of Am. Med. Colls. v. Princeton Review Inc., 332 F. Supp. 2d 11, 19–20 (D.D.C. 2004) (holding that "copyright misuse does not form the basis of an affirmative claim"). *But see* Midwest Tape, LLC v. Recorded Books, LLC, No. 3:09 CV 2176, 2010 WL 1258101, at \*1 (N.D. Ohio Mar. 26, 2010) ("[B]ecause the Complaint seeks declaratory judgment, the plaintiff may assert copyright misuse as an affirmative claim."); Open Source Yoga Unity v. Choudhury, No. C 03-3182 PJH, 2005 WL 756558, at \*8 (N.D. Cal. Apr. 1, 2005) (same).

<sup>371</sup> See, e.g., Cty. Materials Corp. v. Allan Block Corp., 502 F.3d 730, 732–33 (considering a patent licensee's misuse argument raised in declaratory judgment action: "County Line wanted the district court to declare that the [term] was unenforceable because it violated federal patent policy, essentially raising an anticipatory patent misuse defense to its planned breach of the Agreement."). However, the percentage of patent misuse arguments raised in the context of a declaratory judgment action versus an affirmative defense is quite small. See Lim, *supra* note 15, at 384 ("While [patent] misuse may be invoked by declaratory judgments, it featured in only about 7% of misuse cases between 1953 and 2012 . . .").

<sup>372</sup> See Cotter, *Misuse*, *supra* note 15, at 903 (critiquing misuse's remedy for "bear[ing] no necessary relationship to the scope of the misconduct or the harm flowing from it" and "in turn, poses a risk that in some cases the sanction will be grossly disproportionate to the offense and thus may create a substantial risk of overdeterrence"); Lemley, *supra* note 15, at 1616–17 ("[T]he level of the patent misuse sanction is not related to the severity of the patent misuse violation.").

<sup>373</sup> See Cotter, *Misuse*, *supra* note 15, at 903, 963–64 ("[I]n cases involving transactional misuse, the penalty should be limited to nonenforceability of the challenged provision . . . . For litigation misuse . . . , however, the unenforceability penalty may continue to be one, though perhaps not the only, option available to deter abusive litigation."); see also Hovenkamp, *supra* note 106, at 561, 563 (describing the patent unenforceability remedy for misuse as "draconian" and suggesting that courts "simply enjoin an abusive practice or deny relief to the plaintiff in a particular case").

<sup>374</sup> See Olson, *supra* note 15, at 597.

particular contract provision, courts should weigh this trade-off between effective deterrence and causing a particular IP owner disproportionate harm. In cases where trade secret owners undercut whistleblowing activity or engage in abusive overclaiming practices, a more deterrent-oriented misuse remedy that renders the trade secret unenforceable for a period of time is likely appropriate. And with this remedy, a court would also have to determine the requisite conditions to be met before the trade secret owner could resume enforcing its trade secret.<sup>375</sup> In cases involving problematic licensing restrictions, however, a contract non-enforcement remedy may be more proportionate to the harm.<sup>376</sup> Allowing courts flexibility to tailor a misuse remedy can help minimize error costs and may lessen courts' unwillingness to check misuse solely because of the severity of the traditional penalty.<sup>377</sup>

### CONCLUSION

Courts developed the equitable doctrine of misuse to police the overzealous contracting and enforcement behavior of patent and copyright owners. In recent decades, courts have narrowed patent misuse doctrine to reflect antitrust law's competitive concerns. By contrast, copyright misuse cases continue to evince broader IP policy concerns. While the contours of copyright misuse are evolving, courts and claimants invoke this doctrinal vehicle to scrutinize owners' (i) restrictions on critical speech and reverse engineering, (ii) attempts to protect functional works through the "back-door" of copyright rather than patent, and (iii) enforcement tactics that overclaim or misrepresent copyright scope, particularly to legally unsophisticated audiences. Trade secret owners engage in similarly problematic behavior—restraining reverse engineering, deterring critical speech, and overclaiming trade secret scope to legally unsophisticated employees. Despite these similarities, courts have not developed an analogous misuse doctrine in trade secret law. As trade secrecy's legal and economic importance has soared in recent years, perhaps the time has come to consider a misuse doctrine for trade secret law. While it need not mimic the procedural and remedial inflexibility of its copyright misuse cousin, a trade

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<sup>375</sup> See Harris, *supra* note 15, at 115 (suggesting that this determination is "relatively straightforward" where a discrete licensing practice is the basis of the misuse determination, but less so in other contexts); Olson, *supra* note 15, at 603 ("In cases of prolonged misuse . . . a court should hold that it takes some time to cure the . . . effects . . .").

<sup>376</sup> Cf. Cotter, *Misuse*, *supra* note 15, at 963–64.

<sup>377</sup> See *supra* text accompanying note 84; cf. *Ethyl Corp. v. Hercules Powder Co.*, 232 F. Supp. 453, 458 (D. Del. 1963) (acknowledging that while the patentee "attempted to do that which he was incapable of legitimately doing, the application of the doctrine of misuse is too drastic").

secret misuse doctrine could help check the contractual and enforcement excesses of trade secret owners.