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Misuse: An Equitable Defense to Intellectual Property Infringement Actions

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Misuse: An Equitable Defense to Intellectual Property Infringement Actions

by

ALAN R. GERALDI*

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Introduction

The United States Constitution provides that Congress shall have the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." The policy behind the grant of copyright and patent powers is "the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare." In accordance with this power, Congress enacted the Patent Code to extend the protection of patents to inventors and the United States Copyright Act to offer copyright protection to authors.

Congress also passed the Lanham Act to offer protection for trademarks. The main purpose behind the Lanham Act is Congress' desire to protect consumers from possible confusion of source or sponsorship. Unlike the patent and copyright laws, the authority for the Lanham Act does not stem directly from a specific constitutional clause but from broader commerce powers delegated to Congress by the Constitution.

Inherent in the grant of a patent, trademark, or copyright is the owners' right to bring a claim against one who infringes this exclusive domain. In some instances a patent infringer can defend the action based upon the culpable conduct of the inventor. This equitable claim is the misuse defense. Since both the patent and copyright acts find their authority in the same clause of the Constitution, there has been much discussion on whether the misuse defense can also be raised by a copyright infringer.

This article will discuss the evolution and development of the patent misuse defense from its inception in early case law to the present day case law and codified version. Next, this article will discuss the applicability of the misuse defense in the context of copyrights from the early confusion to the present disagreement concerning the status, and even the existence, of the copyright misuse defense. Then, the article will discuss expansion of the misuse defense to the area of trademark law. Finally, the article will summarize the present state of the misuse defense as it pertains to patents, copyright and trademarks and discuss its impact on today's practitioner.

The Patent Misuse Defense

A. History

The defense of patent misuse embodies the rationale that a court will not assist a patent owner in using a patent in an inequitable manner. It is an old maxim that he who seeks equity must do equity. This philosophy is the basis of the unclean hands defense. Generally, a plaintiff is precluded from obtaining assistance from a court of equity when the defendant can show that plaintiff is guilty of inequitable conduct. It is from this equitable defense that the intellectual property misuse defense has evolved. The misuse defense allows accused infringers to point to specific instances of inequitable conduct by the plaintiff and request a court of equity to deny the plaintiff relief.

American courts have only recently recognized the misuse defense. As late as 1934, this legal theory had been rejected as an invalid defense to patent infringement. However, in 1942, the United States Supreme Court set a new precedent.

The seminal case for the patent misuse defense is Morton Salt Co. v. G.S. Suppiger. Morton brought a suit claiming that the defendant had infringed Morton's patent in a salt-depositing machine. There was a provision in Morton's patent license agreement which required Morton's licensees to purchase unpatented salt tablets from Morton. Morton's patent only extended to the machine and not to the salt tablets.

The defendant claimed that Morton's tying arrangement was violative of the antitrust laws and, as such, should preclude an enforcement of Morton's patent. The defendant was not one of Morton's licensees and suffered no direct harm as a result of the licensing arrangement. The plaintiff claimed that the defendant was merely attempting to set forth an unclean hands defense. Morton argued that where the complained of conduct does not arise out of the issue in dispute, the unclean hands doctrine is inapplicable.

10. Radio Corp. of Am. v. Hygrade Sylvania Corp., 10 F. Supp. 879, 883 (D.N.J. 1934) ("There is no law that one who restrains trade forfeits one's property to any person who wishes to take it.").
12. Id. at 489.
13. Id. at 492-93.
14. Id.
The Supreme Court held that it would not aid Morton in impermissibly extending the scope of its patent, even though the defendant may have been infringing Morton's patent. The Court recognized that Morton was using the patent on the machine to effectively restrain competition in the salt market. The Court stated that the patent law forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office. Because Morton had attempted to extend the scope of its patent in violation of the antitrust laws, the Court refused to aid Morton in its inequitable conduct.

While it is common for the violation of antitrust laws to trigger the patent misuse defense, a wide variety of inequitable conduct will support the defense. In order for the defendant to employ the patent misuse defense, the defendant must show that the patentee has attempted to impermissibly expand the scope of the patent. The Supreme Court held that the issue is not "necessarily whether the patentee has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly."

*Morton Salt* holds that tie-in arrangements will support a misuse defense. However, this is not the only conduct underlying such a defense. In *American Security Co. v. Shatterproof Glass Corp.*, an insistence upon only licensing patents in a mandatory package license rather than individually was held to be patent misuse per se. A patent tie-out will also support a charge of patent misuse. A patent tie-out is when a

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15. Id. at 493-94.
16. Id. at 492. See also Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 180 (1980) (relief against patent infringement is denied if the patentee "has attempted illegally to extend the scope of his patent monopoly . . .").
17. 314 U.S. at 493.
18. Id. at 490.
19. Id. There are two types of tie-in arrangements. The first is where the patent owner ties a staple to the patent license. A staple is an item which has substantial uses other than in the patented item. The salt in *Morton Salt* is an example of a tied staple. The other type of tying arrangement involves tied non-staples. These are items which are used only in conjunction with the patented good. It was originally thought that a tie-in arrangement concerning non-staple goods could not support a misuse defense and was actually the basis of a contributory infringement action. However, the U.S. Supreme Court held that such a tie-in would support a misuse defense. Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 670 (1944). This was later rejected by Congress when it passed 35 U.S.C. § 271(c) and (d) (1952), in which it was stated that tie-in arrangements of non-staples would constitute contributory infringement. The Court, by only a 5 to 4 decision, followed Congress' instructions when they next had the chance to address the issue. Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176 (1980). For a thorough discussion on the staple tie-in and non-staple tie-in misuse distinction, see OPPENHEIM, ET AL., FEDERAL ANTITRUST LAWS, 933-45 (West 4th ed. 1981). Subsections 4 and 5 of Section 271(d) were added in 1988. 35 U.S.C. § 271(d) (1988).
20. 268 F.2d 769 (3d Cir. 1959) (it is arguable that this blanket license is a form of a tie-in arrangement). This holding was followed in Hazeltine Research, Inc. v. Zenith, 388 F.2d 25 (7th Cir. 1969), modified, 395 U.S. 100 (1969).
patent owner conditions licensing of its patent upon the requirement that the licensee not use or manufacture goods which would compete with the licensed patented good. Any conduct which a court finds impermissibly extends the patent rights will support a misuse defense.

B. Defense Analysis

In Windsurfing Int'l, Inc. v. Bic Leisure Prods., Inc., the United States Court of Appeals for the Federal Circuit discussed the application of patent misuse analysis to licensing agreements. In Windsurfing, the holder of a sailboard patent had inserted a clause in its licensing agreements that required licensees to refrain from infringing the patentee's trademark.

The court held that when the objectionable conduct is analyzed, "a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market." In applying this to the Windsurfing licensing agreements, the court held that the patentee was merely asserting its valid rights under the federal trademark act and that this conduct did not rise to the level of patent misuse.

The misuse defense is not limited to one who has experienced damages as a direct result of the patentee's conduct. A third party can also assert the defense without actually being affected by the patentee's misuse. As previously mentioned, the petitioner in Morton Salt was not a direct victim of the tying arrangement. It appears that courts have extended this defense to third parties because of judicial aversion to assisting the unlawful expansion of the patents, and not to compensate the defendant for any alleged misconduct.

C. Defense Elements

While the rules stated above appear to give an infringer broad leeway in claiming the misuse defense, there is at least one additional formal requirement that must be satisfied.

First, a relationship between the patent in suit and the patentee's improper conduct must exist. An alleged infringer can not use an-

23. 782 F.2d 995 (Fed. Cir. 1986).
24. Id. at 1001-02.
25. Id. at 1002.
ticompetitive conduct in connection with an unrelated patent. This analysis is distinct from the Court’s rejection of Morton’s argument that the objectionable conduct must be part of the subject matter at dispute. Because Morton sued for direct infringement of the patent and not for any issue concerning the tie-in, Morton claimed that there was no issue of its tying arrangement. The Court rejected this argument. Since there was a relationship between the objectionable conduct, i.e. tying the patent license to a non-patented good and the patent that Morton claimed was being infringed, the patent served as a link between the inequity and the rights sought to be enforced.

In addition to the relationship requirement some commentators have proposed that the court apply a second requirement to patent misuse cases. This would require all alleged misuses to be considered under a "rule of reason" analysis. Due to the unique nature of patents, the reasonableness of the restriction would be studied to decide if the patent owner’s conduct is egregious.

In its Vertical Restraint Guidelines of 1985, the Department of Justice stated that antitrust per se analysis should not be applied to patents. The Department of Justice has since reaffirmed its deference to patents in the face of claims of antitrust violations. In 1988, the Department released the International Antitrust Guidelines which set forth the Department’s analysis. The new approach states that the intellectual property owners are “entitled to enjoy whatever market power the property itself may confer.” As long as intellectual property licenses are not merely shams, the guidelines set forth a rule of reason analysis.

The Department’s rule of reason is premised upon two basic philosophies. First, as long as the arrangement is not a sham but simply an

No. 82 Civ. 2599 (N.D. Ill. Mar. 8, 1988). (An asserted antitrust misuse defense failed where defendant claimed that plaintiff was engaged in an illegal tying arrangement with a patent that was not in the present dispute.)

28. Id. (Court refused to accept alleged antitrust violations in connection with patent on label as unrelated to suit to enforce separate patent on label.)
31. U.S. DEPT. JUSTICE VERTICAL RESTRAINT GUIDELINES 2.4 (1985). In its pertinent part, the department report stated that the guidelines do not apply to intellectual property licenses as restrictions if such licenses are necessary to promote full technological development.
33. Id. at S-16, § 3.6.
34. Id. at S-17, § 3.62.
35. One commentator has even argued that any patent misuse should be dealt with by the Antitrust Division and the FTC, and that the patent misuse defense should not be applied. Robert H. Hoerner, 59 Antitrust & Trade Reg. Rep. (BNA) 1479, §§ 262-63 (Aug. 16, 1990) (Any misuse should not result in the loss of the property right to exclude.).
effort by the intellectual property owner to appropriate the full inherent value of his creation, the Department will not challenge the arrangement.\textsuperscript{36} Second, the arrangement will not be required to create competition in the owner's technology.\textsuperscript{37} The Department's rule of reason analysis consists of four steps.\textsuperscript{38} First, the Department determines whether the arrangement restrains competition between parties in the relevant market, and if so, whether it facilitates the use of market power.\textsuperscript{39} Second, the Department determines whether the arrangement restrains competition in any other market in which the parties actually or potentially compete.\textsuperscript{40} Third, the Department looks for vertical effects of collusion or anticompetitive exclusion.\textsuperscript{41} Fourth, the Department runs the arrangement through an "efficiency filter" to determine whether the anticompetitive risks are outweighed by any procompetitive benefits.\textsuperscript{42}

D. Codification

Congress has shown its acceptance of the defense. In the 1952 U.S. Patent Code, Congress stated that one who would otherwise be entitled to relief from infringement shall not be "deemed guilty of misuse or illegal extension of the patent right" by reason of having used the patent to prevent contributory infringement.\textsuperscript{43} While actually passed to clarify the issue of contributory infringement,\textsuperscript{44} this section specifically recognizes the defense of misuse by excluding from it certain actions.

Later amendments limited but did not abolish the misuse defense. In 1988, Congress passed the Patent Misuse Reform Act,\textsuperscript{45} which had

\begin{itemize}
  \item \textsuperscript{36} 55 Antitrust & Trade Reg. Rep. (BNA) at 1391, \S 17.
  \item \textsuperscript{37} Id.
  \item \textsuperscript{38} For a thorough discussion on the Department's four-step approach, see Comments of Roger B. Andwelt, Deputy Director of Operations, Antitrust Division, before ABA, Patent, Trademark and Copyright Division (July 16, 1985), discussed in Sobel \textit{supra} note 26, at 169-72.
  \item \textsuperscript{39} Id. at 167-69.
  \item \textsuperscript{40} Id. at 169.
  \item \textsuperscript{41} Id.
  \item \textsuperscript{42} Id.
  \item \textsuperscript{43} 35 U.S.C. § 271(d) (1988).
  \item \textsuperscript{44} OPPENHEIM, ET AL., \textit{supra} note 19, at 940.
\end{itemize}

No patent owner otherwise entitled to relief for infringement . . . of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . . (4) refused to license or use rights to the patent; or (5) 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 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.

\textit{Id.}
the effect of eliminating the presumption that use of a patent license to create a tie-in is per se misuse. Although this passage did limit prior case law concerning patent misuse, it once again showed congressional recognition that misuse is a valid defense to an infringement claim. The Patent Misuse Reform Act does not extend this protection to cases where the patent owner already has market power in either the patent market or tied good market.\textsuperscript{46}

The Senate also had an opportunity to discuss the analysis of anticompetitive conduct derived from patent rights. While discussing the passage of the National Cooperative Research Act (NCRA),\textsuperscript{47} the Senate Committee on the Judiciary studied various sections dealing with the misuse defense. The effect of these provisions would have been to codify the approach of Department of Justice and require certain patent license agreements to be analyzed under the rule of reason.

The NCRA had a proposed section, Title IV, which dealt with the analysis of patent misuse. Under this section, the U.S. Patent Code\textsuperscript{48} would have been amended to specify six patent licensing practices to be excluded from the category of patent misuse.\textsuperscript{49} However, the Senate Committee excised this title from the act to guarantee its passage.\textsuperscript{50} In its present form, the NCRA does not affect the case law definition of patent misuse.

E. Purging the Conduct

To maintain the original equity justification for the misuse defense, courts will not enforce the defense in cases in which the patentee has ceased the anticompetitive conduct. Thus, a patent owner may avoid the misuse claim by purging the culpable conduct.\textsuperscript{51} The Supreme Court stated that,

It is now, of course, familiar law that the courts will not aid a patent owner who has misused his patents to recover any of their emoluments accruing during the period of misuse or thereafter until the effects of such misuse have been dissipated, or "purged" as the conventional saying goes.\textsuperscript{52}

\textsuperscript{46} Id.
\textsuperscript{49} These included agreements which affected commerce outside the scope of the patent, licensee resale restrictions, excessive or unequal royalties, royalties based upon criteria other than sales or products, refusal to license and any other conduct previously held to be patent misuse. For a complete discussion on the development of the NCRA and its effects on the misuse defense, see William B. Miller, Note, Giving the Patent Owner His Due: Recent Developments in the Antitrust/Patent Misuse Interface, 12 Del. J. Corp. L. 135, 144-48 (1987).
\textsuperscript{50} Id. at 142-43.
\textsuperscript{51} SOBEL, supra note 26, at 116-17.
The patent owner must satisfy a two-prong test to prove that the conduct has been purged. First, the owner must show that the "improper practices [have been] abandoned." Second, the owner must show that the consequences of the conduct have been dissipated. Thus, the more egregious the conduct, the longer it will take for the effects to dissipate. Courts do not have any set time in which the conduct need be purged. It has been held that the time required for complete purging depends upon the facts of each case.

After settling any doubt surrounding the existence of the patent misuse defense, the Supreme Court stated that the same defense could probably be extended to other forms of intellectual property, including copyright and trademark.

II
The Copyright Misuse Defense

A. History

1. The Early Years

There is no Supreme Court case explicitly upholding the copyright misuse defense, as Morton Salt did for the patent misuse defense. There has even been some disagreement about the existence of a copyright misuse defense. However, the Morton Salt Court stated, in dictum, that patent misuse may also extend to copyrights. The Court suggested that this defense could be extended to "cases where relief for copyright infringement was denied because of inequitable conduct on the part of the plaintiff copyright owner." In its discussion, the Supreme Court cited two cases.


56. Morton Salt, 314 U.S. at 494 (The Court stated "Similarly, equity will deny relief for infringement of a trademark where the plaintiff is misrepresenting to the public the nature of his product either by the trademark itself or by his label... also, for application of the like doctrine in the case of copyright... "). For a thorough discussion of this case and its application to copyright misuse, see Timothy H. Fine, Misuse and Antitrust Defenses to Copyright Infringement Actions, 17 Hastings L.J. 315, 318-19 (1965).

57. See Id., and accompanying text.

58. While the Court's dictum in Morton Salt supports the belief that misuse is a valid defense to copyright infringement, some authorities believed as recently as 1990 that the misuse defense was not applicable to copyright infringement actions. Sobel, supra note 26, at 118 ("The doctrine of misuse does not apply to copyright infringement.").

59. 314 U.S. at 494.

60. Fine, supra note 56, at 318-19 (citing 314 U.S. at 494). The Court also discussed the applicable defenses to cases in which the copyright owner attempted to extend its copyright beyond the granted scope and was held to be in restraint of trade. Id.
In Edward Thompson Co. v. American Law Book, the plaintiff brought an action claiming that the defendant had infringed its copyrighted encyclopedia. The court found that the defendant was not guilty of copyright infringement. In its dicta the court held that if it were to find the defendant had been guilty of infringement, so had the plaintiff. As such, "[a]n author who has pirated a large part of his work from others is not entitled to have his copyright protected." However, the court did not say that it would invalidate the plaintiff's copyright, only that it would not protect the copyright.

This language was mirrored in Stone & McCarrick, Inc. v. Dugan Piano Co. There, the plaintiff had sued for copyright infringement of its book of forms. The court held that the defendant had not infringed any copyright because the book was not copyrightable. The court also stated that if the book's contents were "misleading and deceptive, they will find the doors of a court of equity barred against their admission."

In its Morton Salt holding, the Court stated that grounds for barring Morton's infringement action were the same as that which precludes a copyright owner's suit for violation of a retail price maintenance provision. In support of this proposition, the Court cited Bobbs-Merrill Co. v. Straus.

In Bobbs-Merrill the plaintiff had inserted a provision in copies of its book stating that sale of the book below the specified price would infringe the book's copyright. The Court held that the plaintiff had attempted to extend its rights beyond that conferred by the copyright laws and that retail price maintenance was not a right conferred to copyright owners. Due to this inequitable conduct, the plaintiff's copyright would not be enforced against the defendant.

The early years seemed to exhibit a recognition of a copyright misuse defense, yet there was still much confusion. Although the Supreme Court's dicta in Morton Salt did imply that the misuse defense could be used by copyright infringers, there was still no decision to explicitly apply it to copyright action.

61. 122 F. 922 (C.C.A.N.Y. 1903).
62. Id. at 925.
63. Id. at 926.
64. 314 U.S. at 494.
65. 220 F. 837 (5th Cir. 1915).
66. Id. at 843.
68. 210 U.S. 339 (1908).
69. Id. at 345.
2. The Middle Age

The first case to explicitly uphold a copyright misuse defense was *M. Witmark & Sons v. Jensen.*\(^7\) *Witmark* concerned copyright owners who were members of the American Society of Composers, Authors, and Publishers (ASCAP). They owned copyrighted musical works that were licensed to ASCAP in a uniform plan for use in movie soundtracks. These licenses granted licensees only the right to synchronize the copyrighted music with movie soundtracks. The license did not confer the right of public performance.\(^7\) The defendants were charged with infringing this right.\(^7\)

The defendants contended that because the collective acts of the plaintiffs in their actions with ASCAP violated the antitrust laws,\(^7\) the plaintiffs were barred by the misuse defense from enforcing their copyrights. The court agreed and held that the plaintiffs were guilty of impermissibly expanding their copyright monopoly.\(^7\) The court refused to extend its equity powers to assist the plaintiffs.

Various conduct which seeks to unlawfully expand the copyright rights can act as a bar to a copyright owner's claim of infringement. The copyright owner must use the copyright in an attempt to expand the exclusionary power beyond that granted by the copyright before the defendant's defense of copyright misuse may be successful.

B. Recent Developments

1. F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago

In *F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago,*\(^7\) the Seventh Circuit discussed an infringement claim brought by a publisher of songs. The publisher had developed an Annual Copying License, which allowed any licensee to copy any song in F.E.L.'s fourteen hundred song

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70. 80 F. Supp. 843 (D. Minn. 1948).
71. A copyright actually consists of numerous rights, including the rights to exclude others from: reproducing the work, making a derivative work, distributing the work, public performance, and displaying the work. 17 U.S.C. § 106(1)-(5) (1988).
72. 80 F. Supp. at 844.
73. This case was heard before Broadcast Music, Inc. v. Columbia Broadcast System, Inc., 441 U.S. 1 (1979), in which the Court decided that ASCAP's arrangements were not horizontal restraints of trade under the antitrust laws.
74. 80 F. Supp. at 849-50. The court relied upon the case of Alden-Rochelle, Inc. v. American Society of Composers, Authors and Publishers, 80 F. Supp. 888 (S.D.N.Y. 1948). This early decision concluded that ASCAP's licenses were violative of the antitrust laws. As such, the court concluded that aiding the plaintiff would be paramount to it placing its imprimatur on a scheme which involves misuse of an intellectual property privilege. *Witmark,* 80 F. Supp. at 850.
75. 214 U.S.P.Q. (BNA) 409 (7th Cir. 1982).
collection for a yearly fee. The defendant claimed that the publisher was barred from bringing the infringement action based upon the misuse defense.

The defendant claimed that the licensing agreement required them to place copyright notice on any song or part of a song copied, even if only words were copied. The defendant argued that this could result in the requirement of copyright notice on words in the public domain and, as such, F.E.L. had expanded its rights beyond the bounds of its copyright.

The court rejected this argument. It found that the licensing agreement was reasonable and was not sufficient basis for finding misuse. Even if it were, the court concluded that the balance of equities weighed in favor of F.E.L. and it could not bar F.E.L.'s claim on this conduct.

2. Lasercomb America, Inc. v. Reynolds

The Fourth Circuit recently held that the defense of copyright misuse could be applied against a copyright owner who had shown infringement of its copyrighted computer program. In Lasercomb America, Inc. v. Reynolds, the court had the opportunity to review the question of whether the copyright misuse defense exists.

a. Lasercomb Facts

In Lasercomb, a software program developer charged a steel die manufacturer with copyright infringement. The plaintiff had developed a computer program, Interact, which allowed a designer to create a template of a cardboard cutout on a computer screen and the software directed the mechanized creation of a conforming steel rule die.

Lasercomb licensed four copies of the software to the Holiday Steel Rule Die Corporation, the employer of the two defendants, Job Reynolds and Larry Holiday. Holiday Steel then breached the protective devices attached to the programs and made three unauthorized copies of Inter-

76. This licensing agreement is not unlike the arrangement found reasonable under antitrust laws in Broadcast Music, Inc. v. Columbia Broadcast System, Inc., 441 U.S. 1 (1979).
77. 214 U.S.P.Q. (BNA) 409 (7th Cir. 1982)
78. Id. at 409 n.9.
79. Id.
80. Id.
81. Id.
82. 911 F.2d 970 (4th Cir. 1990).
83. Id. at 971.
84. Id. Lasercomb charged Holiday $35,000 for the first copy, $17,500 for each of the next two and $2,000 for the fourth. Lasercomb informed the defendant that it could purchase additional copies for $2,000 a copy.
act. The defendants removed devices called “chronoguards” from the licensed copies but told the plaintiff that these protective devices were still intact.

Reynolds and Holiday then created a software program called PDS-1000, which was almost a direct copy of the plaintiff’s Interact program and marketed it as their own die making program. Reynolds slightly altered the software so the copied program’s output would appear to be different from the plaintiff’s program. Lasercomb discovered this, registered its copyright in Interact, and filed suit alleging copyright infringement, trade secret misappropriation, false designation of origin, fraud, breach of contract, and unfair competition.

b. The Trial

During the trial, the defendants raised various defenses, including the copyright misuse defense. However, the trial court found for the plaintiff and rejected the misuse defense and other defenses. The court awarded Lasercomb $105,000 in damages and permanently enjoined the defendants from publishing and marketing the PDS-1000 program.

c. The Appellate Court’s Analysis

On appeal, the defendants claimed that the trial court erred in its failure to recognize the copyright misuse defense. Reynolds and Holiday contended that even though Lasercomb had a valid copyright, which they infringed, the plaintiffs had abused it in their licensing agreements. The license agreement contained a clause which prohibited licensees from participating in any manner in the creation of computer-assisted

85. Id. at 971.
86. Id. at 971-72.
87. Id. at 971.
88. Id. at 972.
89. Id. The court dismissed the misappropriation of trade secrets, false designation of origin, and unfair competition as preempted by the United States Copyright Act.
90. Id. at 972.
91. Id. The $105,000 award was against the defendants Holiday Steel, Reynolds and Holiday jointly and severally, for the copyright infringement claims. The court also awarded Lasercomb $10,000 from Holiday and $5,000 from Reynolds as punitive damages. In addition, the court found that Lasercomb had been damaged in the amount of $105,000 on the fraud claim, but could only allow one recovery as both injuries arose out of the same conduct. Id. n.3.
92. Id.
93. Id. The defendants also claimed that Lasercomb had misused its copyright by creating an illegal tie-in. Reynolds and Holiday contended that Lasercomb had discounted its price on the Interact program when it was purchased along with steel rule dies and other goods. The appellate court held that the trial court had properly rejected this as a tie-in. Id. n.6.
die-making software. The defendants themselves were not bound by this agreement as they had never signed it. However, Reynolds and Holiday were able to prove at trial that at least one licensee had entered into the agreement. The trial court had rejected the misuse defense for three reasons. First, the defendants had not signed the agreement and, therefore, they were not bound to the terms of the restriction. Second, the court found that the restriction was "reasonable in the light of secretive and delicate nature of computer technology." And, third, the trial court was not convinced that a copyright misuse defense even existed.

The appellate court addressed these concerns after reviewing the patent misuse defense. The court found that the same public rational underlying the patent misuse defense, as set forth in Morton Salt, was applicable to a copyright misuse defense. While the appellate court recognized the confusion over the existence of the copyright misuse defense, it held that such a defense was inherent to copyright law.

Next, the appellate court considered whether the trial court correctly refused a misuse defense on the basis that the restriction was reasonable. It held that the trial court erred in this finding. The court stated that the trial court's apparent analysis on the "rule of reason" concept of antitrust violations was misplaced.

The appellate court adopted the reasoning of the Morton Salt Court belief that a misuse defense need not be based upon an antitrust violation. It stated that while "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

94. Id. at 973. The pertinent clause read:

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

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

Id.

95. Id.


97. 911 F.2d at 973.

98. Id.

99. Id. at 978; see also 40 Pat. Trademark & Copyright J. (BNA) 374 (1990) (recognizing that the misplacement of the rule of reason analysis is understandable since patents and trademarks are often regarded as monopolies).
law in order to comprise an equitable defense to an infringement action."\textsuperscript{100}

\section*{d. The Appellate Court’s Holding}

Applying this to the \textit{Lasercomb} restriction, the appellate court found that Holiday had shown a copyright misuse defense. The court stressed that the "anticompetitive language in Lasercomb's licensing agreement is at least as egregious as that which led [the court] to bar" a previous patent infringement action.\textsuperscript{101} The court noted that the finding of this misuse is similar to, but separate from, the analysis necessary to a finding of antitrust violations.\textsuperscript{102}

In keeping with the analogy to the patent misuse defense, the \textit{Lasercomb} court stated that the copyright owner can purge itself of the conduct. It stated that it was not invalidating the copyright and that Lasercomb would be free to bring a suit for infringement once it had purged itself of the misuse.\textsuperscript{103}

\section*{3. Other Copyright Cases}

The copyright misuse defense was again found to constitute a valid defense to infringement actions in \textit{Broadcast Music Inc. v. Lifetime Television}.\textsuperscript{104} BMI was a holder of non-exclusive licenses from numerous copyright owners to license the performing rights of their musical compositions. Lifetime, a cable television service, broadcast various movies and programs. All of the rights to the music contained in the movies and programming were included in the package the producer sold to the cable television service, except the performance rights.\textsuperscript{105}

BMI offered to license all the music performing rights in a blanket license with royalties equal to one percent of Lifetime's gross revenues. Lifetime refused to pay this royalty claiming that it was four times greater than BMI charges other broadcasters. BMI filed suit for copyright infringement and Lifetime responded by counterclaiming antitrust violations and copyright misuse.\textsuperscript{106}

The court recognized that the copyright misuse defense has been received with some hesitation in the lower courts. However, it stated that Lifetime's allegation that BMI had used its monopoly power to force licensees to pay exorbitant prices for blanket licenses could constitute

\textsuperscript{100} 911 F.2d at 978.
\textsuperscript{101}  Id. at 979.
\textsuperscript{102}  Id. at 979 n.22.
\textsuperscript{103}  Id. at 979 n.22.
\textsuperscript{104} 746 F. Supp. 320 (S.D.N.Y. 1990).
\textsuperscript{105}  Id. at 323.
\textsuperscript{106}  Id. at 322.
inequitable conduct supporting a misuse defense. The court held that copyright misuse is a cognizable affirmative defense to infringement actions. However, Lifetime's argument that BMI's copyright misuse constitutes an action for affirmative relief was rejected since the court could find no precedent for such an argument and refused to create one.

In *Allen-Myland, Inc. v. International Business Machines, Corp.*, the Pennsylvania district court held that copyright misuse was a valid defense to a counterclaim of copyright infringement. The plaintiff had brought several antitrust violation claims against IBM. IBM responded with various counterclaims, including the assertion that Allen-Myland had infringed IBM's copyright on its 3090 microcode.

In response, Allen-Myland contended that IBM could not enforce its copyright because IBM's pricing practices of the 3090 microcode were in violation of an earlier consent decree. The court agreed with Allen-Myland. The court found that Allen-Myland had successfully shown a copyright misuse defense and, therefore, the court refused to aid IBM in exploiting its copyright.

A recently filed case, *Atari Games Corp. v. Nintendo of America*, may tell us whether other jurisdictions will adopt the *Lasercomb* rational. Nintendo filed a copyright infringement suit against Atari for alleged infringement of computer game software. In response, Atari raised a copyright misuse defense.

Atari claimed that Nintendo entered into agreements with software developers to develop games for the Nintendo Entertainment System. Nintendo approves the licensee's game, manufacturers it, and sells it back to the licensee for resale to the public. There are clauses in these licensing agreements which prohibit the licensee from developing any licensed game for any other home videogame system for a period of two years.

Nintendo raised two objections against the application of the copyright misuse defense. First, Nintendo claimed that the defense has only been held to apply where the copyright has been used to either violate the

107. *Id.* at 328.
108. *Id.*
110. *Id.* at 541.
111. *Id.* at 546-47.
112. *Id.* at 547.
114. *Id.* at 17.
116. *Id.*
antitrust laws or to severely hamper competition. Nintendo argued that neither of these justifications are applicable to a two-year provision without a showing that the provisions have any unlawful anticompetitive effect.\footnote{117}

Nintendo next argued that even if the misuse defense is applicable, there is no evidence that a two-year restriction is unreasonable. Nintendo compared its two-year restriction with the ninety-nine year restriction of the plaintiff in \textit{Lasercomb}. Not only does this fail to have any anticompetitive effect, Nintendo argued, but in conjunction with its limitation of games any licensee may license with Nintendo, it actually has pro-competitive effects. Nintendo claims that its licenses, unlike the egregious clause in \textit{Lasercomb}, do not withdraw from the public the creative abilities of the licensees.\footnote{118}

C. Conduct Underlying Copyright Misuse

Like patents, the use of a copyright related to a tied good can be a basis for a misuse defense. In \textit{Orth-O-Vision, Inc. v. Home Box Office}, an illegal tying arrangement was found to support a claim of copyright misuse. In \textit{F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago}, the court stated that the act of extracting money for works in the public domain could also be seen as misuse.\footnote{121} In general, like the patent misuse defense, an allegation of copyright misuse can be supported by any conduct which illegally attempts to or does expand the scope of granted rights.\footnote{122}

With the incredible growth of the computer industry, the doctrine of copyright misuse may become a popular defense. As infringement actions among computer programmers increase, it is inevitable that most defendants will search for some inequitable conduct by the plaintiff on which to assert a misuse defense. This makes drafting program licensing agreements even more difficult.\footnote{123} However, due to the high costs of de-
development and need for secrecy in the technological fields, courts must also be careful not to indiscriminately apply the misuse defense.

III

The Trademark Misuse Defense

In trademark law, evidence exists that various inequitable conduct will also bar a claim of trademark infringement. In the Lanham Act, evidence that the trademark is being used to violate the antitrust laws can support a petition for cancellation, even if the mark is incontestable.\(^{(124)}\)

While there is much similarity between the copyright misuse and the patent misuse defenses, there is a substantial difference between these and the misuse of a trademark. In the United States, patents and copyrights find their legal origin in Article I of the Constitution.\(^{(125)}\) They are granted to reward innovators and creators. However, trademarks developed from common law attempts to protect consumers from being misled as to source and sponsorship of the goods. Thus, while equity may be reluctant to aid one who misuses a trademark, equity also has an aversion to the possible result of this inaction: continued consumer confusion.

A. Early Case Law

One of the earliest cases of trademark misuse was decided by the U.S. Supreme Court in *Worden v. California Fig Syrup Co.*\(^{(126)}\). In *Worden*, a producer of a laxative labeled ‘Syrup of Figs’ sued to enforce its trademark.\(^{(127)}\) The Court noted that the laxative contained no fig syrup and stated “if the plaintiff makes any material false statement in connection with the property which he seeks to protect, he loses his right to claim the assistance of a court of equity.”\(^{(128)}\)

*Worden* has been recently interpreted to mean that “a court should not protect the exclusive right to use a name or mark which is misleading to the public.”\(^{(129)}\) Thus, the *Worden* holding sets forth the rule that where a trademark is materially deceptive or misleading, a court of equity will not aid the wrongdoer in protecting the mark.\(^{(130)}\)

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126. 187 U.S. 516 (1903).
127. Id. at 533.
128. Id. at 528.
129. Fuddruckers, Inc. v. Doc’s B.R. Others, Inc., 826 F.2d 837, 847 (9th Cir. 1985) (quoting Shatel Corp. v. Mao Ta Lumber and Yacht Corp., 697 F.2d 1352, 1355 (11th Cir. 1983)).
130. One commentator has stated that the *Worden* principle simply requires that the public be told the truth. McCarthy, supra note 9, § 31:16, at 592. Professor McCarthy noted, with disapproval, that sometimes courts have strained to find some marks nondeceptive by assum-
In Phi Delta Theta Fraternity v. J.A. Buchroeder & Co., a Missouri district court applied the misuse defense to infringement of an organization's affiliation mark. There, a group of jewelers charged nationwide fraternities and sororities with violating the antitrust laws by conspiring to limit the competition among producers of their insignia. As a counterclaim, the defendant organizations claimed that the plaintiffs were infringing the trademarks of the fraternities and sororities.

The court reviewed the history of the patent misuse defense and noted that as in the case of patent misuse, efforts to exceed the legal scope of trademarks should be consistently rejected. In reviewing past trademark cases and the history of the unclean hands doctrine, the court found that the misuse defense was also applicable to trademarks.

Turning to the facts before it, the court discussed whether the fraternities' and sororities' alleged antitrust violations could render their trademark unenforceable. The court reviewed the history of the Lanham Act and found that the Department of Justice had originally been strongly opposed to its enactment. In order to appease the Department's concerns, the trademark bill had been revised to include violations of the United States antitrust laws as a defense to possible infringement claims. The court concluded that an antitrust violation was an anticipated and viable defense to a charge of trademark infringement.

In Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, the misuse defense was analyzed and supported but found not to apply. There, the plaintiff brought a claim of trademark infringement, alleging that the defendant had used deceptively similar marks. The defendant claimed that a high standard of care for the consumer. In Holeproof Hosiery Co. v. Wallach Bros., 172 F. 859 (2d Cir. 1909), the court held that no buyer would ever be so gullible to believe that holes would never appear in hosiery under the mark of HOLEPROOF.

132. Id. at 970.
133. Id.
134. Id.
135. Id.
136. Id.
137. The Department of Justice had attached to its opposition report an appendix which labeled trademarks as instruments of monopolies and restraints of trade. The Department stated that trademarks had been used as a means of geographic market division, customer market division, vertical market discrimination, and monopolistic control. Id. at 978.
139. 251 F. Supp. at 977-79.
the plaintiff was barred from asserting its claim due to its antitrust violations.\textsuperscript{141}

The plaintiff argued that evidence of antitrust abuse only serves to defeat the presumption of validity under the Lanham Act and does not serve as a complete ban to an infringement action. The court spent considerable time discussing the legislative history of the Lanham Act and studied the comments from the Act's drafters.\textsuperscript{142}

The court concluded that, insofar as the defendant based its trademark misuse defense upon the Lanham Act, the misuse defense must fail. However, the court stated that the discussion did not end at that point. The court cited the \textit{Morton Salt} holding in support of the proposition that a finding of antitrust violations could serve as a basis for defending an infringement action.\textsuperscript{143}

In its discussion, the court noted the vital differences between a patent and a trademark.\textsuperscript{144} Notwithstanding these differences, the court stated that "a court, in the exercise of its equity powers, may deny enforcement of a trademark on the part of one who has used that trademark in violation of the antitrust laws."\textsuperscript{145}

The court held that it is not enough in an infringement action that a defendant prove that merchandise bearing a trademark has been used in furtherance of antitrust violations.\textsuperscript{146} The court said that to accept this as satisfaction of a misuse claim would result in forfeiture of a trademark in such a broad spectrum of distribution plans as to frustrate the policy underlying trademark enforcement.\textsuperscript{147}

It is essential that the alleged infringer prove "that the mark itself has been the basic and fundamental vehicle required and used to accomplish the violation."\textsuperscript{148} In applying this principle to the defendant's case,

\textsuperscript{141}. The alleged misuses consisted of:

\begin{enumerate}
\item combining with American distributor and franchise dealers to maintain prices,
\item restricting sales by certain dealers to limited territories,
\item restricting sales to certain customer classes,
\item tying goods with trademark to other goods,
\item unlawful price discrimination, and
\item trying to eliminate competition in the sale of certain products.
\end{enumerate}

\textit{Id.} at 1311.

\textsuperscript{142}. \textit{Id.} at 1311-14.

\textsuperscript{143}. \textit{Id.} at 1314.

\textsuperscript{144}. \textit{Id.} The court held that any anti-competitive use of a trademark poses a less serious threat to the national economic health than misuse of patents. \textit{Id.}

\textsuperscript{145}. \textit{Id.}

\textsuperscript{146}. \textit{Id.} at 1315.

\textsuperscript{147}. \textit{Id.}

\textsuperscript{148}. \textit{Id.}
the court held that the trademark use was merely collateral to any violation.149

The court stated that the second essential element of a trademark misuse defense is that the defendant must show a connection between the plaintiffs and the alleged antitrust conduct which is sufficient to satisfy the plaintiff's legal responsibility. In applying this factor to the defendant's case, the court held that the defendant had once again failed to meet its burden.150

While the trademark misuse defense may have been a disappointing effort in legal advocacy for the defendants in Zeiss, the case successfully set forth both the parameters of the trademark misuse defense and its acceptance.

B. Modern Case Law

Modern cases have reaffirmed the required elements of the trademark misuse defense. Recent cases have refused to extend the trademark misuse defense unless the misuse is relevant to the parties' litigation.

In Coca-Cola Co. v. Howard Johnson Co.,151 the Georgia district court refused to apply the defense in a case in which the conduct was only remotely involved in the claims. Coca-Cola alleged that the defendant hotel was serving a competitor's drinks when customers requested plaintiff's drink, Coca-Cola.152

The defendant hotel claimed, in addition to other defenses, that Coca-Cola had misused its trademark and that equity should refrain Coca-Cola from enforcing the mark. The defendant complained specifically that the plaintiff had imposed various territorial resale restrictions upon its licensed users, imposed tie-in requirements on licensees, and used its power to attain monopoly status.153

The court reviewed the history of the unclean hands doctrine, the effect of the Lanham Act, and recent case law and concluded that the misuse defense, as a general rule, is not a sufficient defense to trademark infringement.154 It relied upon Zeiss, which reasoned that a court should reject the misuse defense where the claim merely asserts activities using

149. Id.
150. Id. at 1317.
152. Id. at 333.
153. Id. at 334, 338. The defendant, like the defendant in Morton Salt and Lasercomb, was not a party to these licensing arrangements.
154. Id. at 334-35.
the trademark as opposed to the trademark being used as the prime and effective instrument of the misuse.155

The Coca-Cola court concluded that "an 'unclean hands' defense, whether arising from violation of the antitrust laws or some other laws, can be utilized in trademark infringement . . . cases."156 However, the court also recognized the qualitative difference between trademarks and other intellectual property rights. It stated that while more attenuated conduct may support a patent misuse defense, there must be "an immediate and necessary relationship between the relief the plaintiff seeks and the conduct giving rise to the 'unclean hands'" in trademark cases.157 The court found that the complained of conduct, while involving the trademark, was not immediate and necessarily related to the claims before it and refused to find a trademark misuse defense.158

One recent case illustrates that certain conduct will be found to constitute a basis for a misuse defense to trademark infringement. In United States Jaycees v. Cedar Rapid Jaycees,159 a national leadership training organization sought an injunction to prevent a local chapter from using its trademark. The local chapter contended that its license to use the trademark was canceled because it admitted women into its chapter. The chapter contended that this illegal gender discrimination was the basis of the trademark dispute.160

The court held that "[t]he public interest in preventing trademark infringement and in preventing market confusion is outweighed in this case by the government interest in preventing invidious discrimination."161 These cases show that a central element of any trademark misuse defense is that the objectionable conduct must be relevant and related to the subject of the litigation.

Recent cases have also restated that any deceptive or misleading trademark must be materially deceptive and misleading in order to constitute misuse. In Fuddruckers, Inc. v. Doc's B.R. Others, Inc.,162 a plaintiff's advertisement that its hamburgers were "ground steak" was found not to be a materially false statement. Following the early Worden standard, the court found that it was not precluded from enforcing its trade-

155. Id. at 335 (citing Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, 298 F. Supp. 1309, 1311-12 (S.D.N.Y. 1969)).
156. Id. at 336. The court also provides a list of numerous other cases finding misuse a defense to trademark infringement and unfair competition cases. Id. at 336 n.4.
157. Id. at 337.
158. Id.
160. Id. at 517.
161. Id. at 518.
162. 826 F.2d 837 (9th Cir. 1987).
mark. Because the misstatement was not material and the trademark not misleading, the court could properly enforce the plaintiff's mark.163

IV
Conclusion

Notwithstanding some confusion and disagreement, the misuse defense is a strong and often-asserted defense to patent, copyright, and trademark infringement actions. There appears to be varying degrees of application to the different intellectual properties.164 However, in all three categories, there is a two-step approach for the practitioner to use. First, avoid any conduct and license restrictions which will support a misuse claim. Second, if any misconduct or restrictions are revealed, the practitioner must purge the client of this activity as soon as possible in order to regain its exclusionary property rights.

Despite serving as the basis for later misuse defenses, the patent misuse defense is now in a schizophrenic state. Most case law follows the original Morton Salt holding in applying the misuse defense. However, administrative and legislative bodies, ranging from the Department of Justice to the U.S. Senate, have been whittling away at the misuse defense as applied to patents. Thus, while a patent owner may be less concerned with possible liability, the practitioner must still be aware of this defense when drafting license agreements. In particular, tying arrangements should be avoided.

Despite the fact that there is no copyright misuse case analogous to Morton Salt, the use of this defense appears to be growing. The 4th Circuit's decision in Lasercomb breathed new life into a lifeless policy. Other jurisdictions are now following suit. Due to the dramatic growth in the computer industry, this defense may be applied in a larger number of cases as industries attempt to protect valuable information via restrictive licensing plans. Despite the recent decrease in antitrust enforce-

163. Id.
164. One of the criticisms of the misuse defense is that it allows a party, who is obviously infringing a proprietary right, to continue to infringe until the owner discontinues its inequitable conduct. One compromise which may alleviate the apparent inequity of this result would be for the courts to "blue pencil" licensing agreements. This approach will allow a court to cut down or limit licensing restrictions in scope or duration to a reasonable manner and still prevent a party from continuing its infringement. Such "blue penciling" approaches have been applied in employee non-competition covenants by a minority of courts. See Karpinski v. Ingrasci, 268 N.E.2d 751 (Ct. App. N.Y. 1971) (Court penciled a restriction on the practice of dentistry to only prohibit oral surgery). While this approach may alleviate the harshness of the misuse defense for those companies which have innocently attempted to protect their valuable proprietary interests in licensing agreements, it would not prevent the application of the misuse defense in those cases of greater egregious conduct such as antitrust violations and false advertising.
ments by the federal courts, should a copyright misuse case reach the Supreme Court, it is likely that the Court, looking back to its *Morton Salt* holding, would find the misuse defense a viable and enforceable defense. Because of this, practitioners drafting copyright licenses must anticipate the possible effect of any restrictions.

The copyright misuse defense has the potential of trapping a great number of practitioners because the party claiming misuse does not have to be a party to the license. This requires drafters to be aware that there may be an infinite number of defendants, even some who truly infringe upon the copyright, who can assert the defense.

The attorney practicing in trademark licensing appears to have the greatest leeway in the choice of license restrictions. Because of the aversion to denying injunctive relief to situations that result in consumer confusion, the success of a trademark misuse claim will be limited. This does not mean that it is utterly precluded. Under both section 33(b)(7) of the Lanham Act and principles of equity, egregious conduct will still preclude a trademark owner from asserting her rights. Practitioners should not expect to, nor be allowed to, raise the specter of consumer protection to preclude a misuse defense claim. Attorneys must still anticipate the adverse effects on the enforceability of their clients' marks that egregious licensing may create.