

# Washington Journal of Law, Technology & Arts

*University of Washington School of Law*

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THE ANTI-CLONE WARS: TOWARDS A REINVIGORATION  
OF THE DOCTRINE OF PATENT MISUSE AND THE PER SE  
ILLEGALITY OF ANTI-CLONING PROVISIONS

*Patrick Holvey*\*

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ABSTRACT

*Patent misuse, a once-valuable doctrine used to remove anticompetitive actions enabled by patent grants from the marketplace, has been relatively disfavored by the courts for some time. Recent licensing practices by certain major players within the high-technology marketplace, however, provide an excellent opportunity for the doctrine to be reinvigorated and applied. Apple, Inc., through its attempts to prevent competitors from “cloning” its products, has become an anticompetitive force that appears to have impermissibly leveraged its patent portfolio in order to extract contractual protections of non-patented subject matter through “anti-cloning” provisions, improperly broadening the scope of its patent grants. This Article argues that this improper broadening of the patent grant constrains competition in unpatented subject matter, harms competition, and should be considered by the courts to constitute per se patent misuse or, in the alternative, patent misuse under a rule of reason analysis. As a result, Apple’s*

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*patents that are tainted by the anti-cloning provision's misuse should be held to be unenforceable at least as long as agreements that contain the offending provision are still in force.*

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## INTRODUCTION

As perhaps the most notable conflict in the so-called “technology patent wars,”<sup>1</sup> the “smartphone wars” continue to rage on. The battlefield is comprised of multiple smartphone manufacturers attempting to leverage various intellectual property protections and regimes against their competitors through litigation and trade complaints. Both the ultimate outcome of the smartphone wars and how the individual skirmishes play out in front of the court of public opinion will have lasting effects on the wider struggle over whether stronger or more restricted intellectual property regimes should be adopted to serve the economies of the present and future.

The results of smartphone skirmishes can be evaluated for clues as to developing trends in patent litigation, licensing, and settlements. This Article will examine a settlement license clause that has troubling implications for innovation not only in smartphones but also in software and industrial design in general: “anti-cloning provisions.” These provisions prohibit patent licensees from practicing licensed patents in ways that produce “clones” that are identical or substantially similar copies of products or functions. This work will argue that Apple’s decision to require Microsoft and HTC to acquiesce to anti-cloning provisions in the Apple/Microsoft and Apple/HTC settlement agreements sets a dangerous precedent for future patent licenses or settlement agreements and should be found to be per se illegal

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<sup>1</sup> Richard Waters, *Google Catches Up in Technology Patent Wars*, FIN. TIMES, Jan. 12, 2014, at COMPANIES 18 (discussing the “smartphone industry’s patent wars” within the “intellectual property arms race”).

under the doctrine of patent misuse. As such, this Article will argue that that this pattern of misuse, especially given Apple's demands for the inclusion of such a provision in any settlement with Samsung, should result in a finding of patent misuse in future litigation and provide an affirmative defense to any allegation of infringement.

Part I will set out the background of the smartphone wars; discuss cross-licensing as a potential tool to bring about settlement; and conclude with an analysis of the anti-cloning provisions, their conceptual framework, and recent examples of these provisions in agreements to which the public has access. Part II will delve into an analysis of misuse, beginning with patent misuse, continuing with copyright misuse, later focusing on the restraints on the misuse doctrine and the differences between the two regimes' doctrines, and concluding with a look at the intersection of antitrust and the misuse doctrine. Part III lays out the present work's central argument: anti-cloning provisions should be per se illegal under the doctrine of patent misuse because they impermissibly extend the patent grant and are unacceptably anticompetitive.

## I. BACKGROUND ON THE ANTI-CLONING WARS

### *A. A Brief Summary of the Smartphone Wars and their Casualties*

As one of the main battlefronts in the ongoing technology patent wars, the smartphone wars continually dominate mainstream media attention, particularly in technology-oriented reporting. They command attention as a result of not only the major players in the continual offensive, of which notable names include Google, Apple, Samsung, Sony, Microsoft, Nokia, Motorola, and HTC, but also the huge sums of money demanded and awarded. Indeed, some award amounts are larger than the nominal gross domestic product of small sovereign nations.<sup>2</sup>

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<sup>2</sup> Compare Field Listing: GDP, *World Factbook*, CENTRAL INTELLIGENCE AGENCY, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html> (last visited Apr. 9, 2015), with CHRIS BARRY ET AL., 2013 PATENT LITIGATION STUDY 8 (2013), [http://www.pwc.com/en\\_US/us/](http://www.pwc.com/en_US/us/)

Beginning in earnest in 2009 with Nokia's infringement suit<sup>3</sup> and International Trade Commission (ITC) complaint<sup>4</sup> against Apple, the smartphone wars have comprised of more than 50 suits; countersuits; and ITC complaints involving well over 200 patents, thousands of patent acquisitions between various parties, and massive settlement agreements and verdicts.<sup>5</sup> Of course, every litigation carries potential risks for both sides: the patentee risks a finding of invalidity, instantly rendering a perceived asset worthless, while the alleged infringer risks a finding of infringement, becoming suddenly responsible for unanticipated damages and forced to the bargaining table in an extremely disadvantageous position.

Because of this, it is not uncommon for patent litigants to attempt to find common ground in settlement agreements. An extensively utilized tool in high-tech patent settlements (and patent settlements in general) is cross-licensing, wherein the parties agree to trade intellectual property for intellectual property (among other covenants) and each party walks away from the table with additional freedom to operate and fewer litigation concerns.

As such, many of these litigations have concluded with settlement agreements, notably the litigations involving Apple/Nokia (in favor of Nokia), Apple/HTC (in favor of Apple), and Nokia/HTC (in favor of Nokia).<sup>6</sup> Virtually no public information regarding the Apple/Nokia or Nokia/HTC agreements is available (and will not be a focus of this work), but a redacted

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forensic-services/publications/assets/2013-patent-litigation-study.pdf (showing, specifically, that the top award listed in Chart 2c is larger than the GDP of 33 sovereign nations according to the CIA World Factbook ranking).

<sup>3</sup> *Nokia Sues Apple over iPhone's Use of Patented Wireless Standards*, APPLEINSIDER (Oct. 22, 2009, 11:20 AM), [http://appleinsider.com/articles/09/10/22/nokia\\_sues\\_apple\\_over\\_iphones\\_use\\_of\\_patented\\_wireless\\_standards.html](http://appleinsider.com/articles/09/10/22/nokia_sues_apple_over_iphones_use_of_patented_wireless_standards.html).

<sup>4</sup> Chris Foresman, *Nokia Hurls New Salvo in Spat with Apple, Complains to ITC*, ARS TECHNICA (Dec. 29, 2009, 7:18 PM), <http://arstechnica.com/apple/2009/12/nokia-hurls-new-salvo-in-spat-with-apple-complains-to-itc/>.

<sup>5</sup> *Smartphone Patent Wars*, WIKIPEDIA, [http://en.wikipedia.org/w/index.php?title=Smartphone\\_patent\\_wars&oldid=605528380](http://en.wikipedia.org/w/index.php?title=Smartphone_patent_wars&oldid=605528380) (last visited Feb. 25, 2015).

<sup>6</sup> *Id.*

version of the Apple/HTC Settlement Agreement sheds some light on the current state of smartphone licensing agreements.<sup>7</sup> One notable aspect of the Apple/HTC Settlement Agreement is a relatively novel so-called “anti-cloning” provision.<sup>8</sup> During an extensive search of available public sources, very few references to such provisions appear to exist, with almost all of them focused on the Apple/HTC Settlement Agreement<sup>9</sup> or the Apple/Microsoft 1997 settlement agreement.<sup>10</sup>

### 1. Apple/Samsung

Presently, Apple is deeply involved in litigation with Samsung over a number of smartphone patents.<sup>11</sup> According to reports and filings, Apple has predicated any settlement agreement upon Samsung’s acquiescence to an anti-cloning provision that is likely very similar to the one found in the Apple/HTC Settlement Agreement.<sup>12</sup> A question that needs to be asked is whether Apple’s

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<sup>7</sup> Patent License and Settlement Agreement between HTC America, Inc., HTC Corp., and S3 Graphics Co., Ltd.; and Apple Inc. (Nov. 11, 2012), <http://www.scribd.com/doc/115711499/apple-htc-settlement-redacted> [hereinafter Apple/HTC Settlement Agreement].

<sup>8</sup> *Id.* at Exhibit A “Requirements for Cloned Product” [hereinafter Apple/HTC anti-cloning provision]; see also Florian Mueller, *HTC Agreed Not to ‘Clone’ Apple’s Products, but the Pinch-to-Zoom Gesture is Licensed*, FOSS PATENTS (Dec. 6, 2012, 7:07 AM), <http://www.fosspatents.com/2012/12/htc-agreed-not-to-clone-apples-products.html> (characterizing the “Requirements for Cloned Product” as an “anti-cloning provision”).

<sup>9</sup> Mueller, *supra* note 8.

<sup>10</sup> *Patent Cross License Agreement Between Apple Computer, Inc. and Microsoft Corporation*, UNITED STATES DEPARTMENT OF JUSTICE (Aug. 5, 1997), <http://www.justice.gov/atr/cases/exhibits/584.pdf> [hereinafter Apple/Microsoft Agreement]; see also Matt Macari, *Apple and Microsoft Cross-License Deal Includes ‘Anti-Cloning’ Protections Going Back to 1997*, THE VERGE (Aug. 13, 2012), <http://www.theverge.com/2012/8/13/3239977/apple-and-microsoft-cross-license-agreement-includes-anti-cloning>.

<sup>11</sup> *Apple Sues Samsung for \$2bn as Tech Rivals Head Back to Court*, THE GUARDIAN (Mar. 30, 2014), <http://www.theguardian.com/technology/2014/mar/31/apple-sues-samsung-for-2bn?INTCMP=ILCNETTXT3487>.

<sup>12</sup> Florian Mueller, *Apple Insists on Anti-Cloning Provision as Part of Any Patent Settlement with Samsung*, FOSS PATENTS (Jan. 20, 2014, 4:42 PM), <http://www.fosspatents.com/2014/01/apple-insists-on-anti-cloning->

insistence on such a provision constitutes an attempt by Apple to inappropriately leverage its patent monopoly power to expand the scope of its patent rights to cover subject matter outside of the statutory grant.

### *B. Anti-Cloning Provisions*

During settlement negotiations and in settlement agreements, each party seeks to maximize its own profit and position and is loath to empower its competition to easily compete directly with itself, especially in the fast-moving and consumer preference-driven retail electronics market. As such, certain iconic corporations, namely Apple, have attempted to protect what they consider to be a “distinctive user experience,”<sup>13</sup> a nebulous term that attempts to capture aspects of the corporation’s products and innovations that do not otherwise qualify for protection within the intellectual property regimes and protect those aspects from being copied by Apple’s competitors. This protection is sought through the use of anti-cloning provisions, which essentially forbid a “substantially similar” user experience to result from the use of any licensed patents or intellectual property. Apple, in particular, appears to believe that it requires this contractual protection because it finds the current intellectual property regimes inadequate in capturing and protecting what it appears to consider one of its most valuable assets: the look and feel of its products.

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provision.html (“In a sworn declaration of January 16, 2014, Apple’s BJ Watrous, Vice President and Chief Intellectual Property Counsel, told the United States District Court for the Northern District of California that Apple’s ‘discussions with Samsung have consistently included limits to both the scope of any license and a prohibition against cloning Apple products.’ On that basis, Apple’s lawyers wrote on the same day: ‘Samsung incorrectly claims [in its opposition to Apple’s motion] that Apple made recent offers to Samsung without anti-cloning provisions. Every offer Apple made to Samsung has included limits to both the scope of any license and a prohibition against cloning Apple products.’”).

<sup>13</sup> See, e.g., Apple/HTC anti-cloning provision, *supra* note 8, at clause 1.

## 1. Conceptual Framework of the Provisions

At the center of anti-cloning provisions is the idea that the user experience, fostered by a particular innovation or set of innovations, lends economic value to a product on the market. Generally, this premise can be accepted as true, given past studies on the effects of brand loyalty and marketing in general and, more specifically, discussions on the unique user experience and user loyalty exhibited by users of Apple products.<sup>14</sup>

On this point, Apple does have a potentially valid concern if its goal is to protect the totality of a user's experience from duplication. In brief, the main intellectual property regimes are patent (both utility and design), copyright, trademark, trade dress, and trade secret.<sup>15</sup> Each of these protections can cover various aspects of an abstract operating system. Copyright will protect the source and object code from wholesale copying and will also cover the expressive elements of the operating system, such as the icons, system animations, system sounds, etc.<sup>16</sup> Copyright will generally not, however, serve to cover any functional or architectural aspects of the operating system.<sup>17</sup> Patent law will serve to protect those functional aspects of the operating system that are novel and inventive.<sup>18</sup> Here, however, the burden is high, and many aspects of operating system behaviors that make up the totality of the user experience will not qualify for protection under the patent regime.<sup>19</sup>

Trade secret is of little use to the operating system if the system is designed for retail use, as the "secrets" contained in the object or source code will be placed into the hands of consumers. With the proliferation of app developers (which strengthen any operating system's ecosystem and make it more attractive), the need for the

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<sup>14</sup> See, e.g., Ben Thompson, *Apple and the Innovator's Dilemma*, STRATECHERY (Dec. 9, 2010), <http://stratechery.com/2010/apple-innovators-dilemma/>.

<sup>15</sup> 1 HOLMES, INTELLECTUAL PROPERTY AND ANTITRUST LAW §§ 1:1, 2:1, 3:1, 4:1 (updated Mar. 2015).

<sup>16</sup> *Id.* § 4:2, n.2.

<sup>17</sup> *Id.* § 4:18, n.7.

<sup>18</sup> *Id.* § 1:10, n.1.

<sup>19</sup> *Id.* at n.2.

general public to have and understand the inner workings of the development platform effectively negates the trade secret regime absent licensing terms imposing duties of secrecy upon users and developers (terms that do not currently exist in either end user or developer license agreements).<sup>20</sup> And trademark law will only prevent other operating systems from confusing the public as to which company's operating system it uses.<sup>21</sup>

Of the existing intellectual property regimes, trade dress may be the only one that has the potential to afford Apple the ability to protect its "distinctive user experience." Trade dress refers generally to a clearly articulated design or combination of elements that is either inherently distinctive or has acquired distinctiveness through secondary meaning; is not functional; and serves to identify a source, sponsorship, affiliation, or connection.<sup>22</sup> In examining whether trade dress covers Apple's user experience, we may assume that their user experience is distinctive and even serves to identify Apple as a source.<sup>23</sup> The crucial question is

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<sup>20</sup> *Id.* § 2:2-3; iOS Developer Program License Agreement, TOR BUG TRACKER & WIKI, available at [https://trac.torproject.org/projects/tor/raw-attachment/ticket/6540/ios\\_program\\_standard\\_agreement\\_20130610.pdf](https://trac.torproject.org/projects/tor/raw-attachment/ticket/6540/ios_program_standard_agreement_20130610.pdf); iOS 8.1 End User License Agreement, TOR BUG TRACKER & WIKI, available at <https://ssl.apple.com/legal/sla/docs/iOS81.pdf>.

<sup>21</sup> HOLMES, *supra* note 15, § 3:1, at n.5.

<sup>22</sup> 1 J. MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 8:1 (4th ed. 2014).

<sup>23</sup> The author believes the experience to be distinctive but leaves aside whether a customer or user's experience with a product or service alone is sufficient to identify a source. In examining this issue, courts will likely be hard-pressed to avoid conflating user experiences with the first impressions a user may have when comparing two products or services but should make every effort to do so. For example, a customer walking into two taco shops may find the décor to be very similar. This similarity in décor may constitute a violation of the Lanham Act. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992). But how a product or service looks does not wholly define the user experience, although, admittedly, it may contribute to it. The customer may be greeted at one restaurant with a festive, signature welcome that all the front staff join in on and may be provided free tortilla chips and salsa upon seating while the other restaurant is more muted, albeit still polite, in its greeting and fails to provide chips and salsa for free. The impression an objective person may have *looking* at two photographs of the restaurants may indeed lead that observer to conclude that the appearances are likely to confuse consumers as to the source of the

whether the constituent elements of Apple's products that provide this distinctive user experience are functional. If they are, then trade dress (and trademark) protection is not available.<sup>24</sup> If they are non-functional, then it is likely that Apple may find protection from clones in trade dress.

Before addressing whether or not the constituent elements that comprise the distinctive user experience may or may not qualify for protection as trade dress, it is important to note that neither outcome affects whether or not Apple's inclusion of these elements in the anti-cloning provision of the patent licensing agreement constitutes patent misuse. If trade dress protection is available then the elements are necessarily non-functional and their inclusion must improperly expand the patent grant through their inclusion. But if, due to the elements' functionality, trade dress protection is not available, then their inclusion must also improperly expand the patent grant by leveraging the grant to protect non-patented functional elements from infringement. Indeed, the functionality doctrine of trade dress law exists to ensure that *de jure* functional trade dress is not monopolized to ensure competitive fairness, the same end goal of the doctrine of patent misuse.<sup>25</sup> In short, the legal

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restaurants' goods or services. However, an objective person *experiencing* the two restaurants' respective offerings will not necessarily find such confusion to exist. Indeed, the disparate treatment offered by each restaurant may clearly identify each one to the customer. On the other hand, it may also be taken as a particular "play" on a standard motif that, while perhaps adding to or subtracting from the enjoyment of the experience, does not actually serve as identification. In applying this type of analysis to software and/or device users, courts should face an additional challenge in determining what skill level consumers are expected to have with regard to software as it pertains to their experience using the software and their sophistication in being able to tell two similar products apart from each other. In determining whether consumer experiences, as opposed to first impressions, are likely to cause confusion about source, courts will need to dig deeper than comparing pictures in exhibits and take steps to compare the distinctive experiences that some litigants claim.

<sup>24</sup> HOLMES, *supra* note 15, § 3:15.

<sup>25</sup> *Brunswick Corp. v. British Seagull Ltd.*, 35 F.3d 1527, 1531 (Fed. Cir. 1994) ("Rather, *de jure* functionality rests on utility, which is determined in light of superiority of design, and rests upon the foundation [of] . . . effective competition." (citing *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1340 (C.C.P.A. 1982) (internal quotations omitted)).

status of the constituent elements not protected by the patent grant has no effect in the patent misuse analysis that follows in Part III

Turning back to the applicability of trade dress as a suitable form of protection for Apple's distinctive user experience, briefly, the question is whether the user experience, in whatever form it takes, is functional. As seen in the Apple/HTC licensing agreement (*see infra* Part I.B.2.b.), Apple's definition of a cloned feature of the distinctive user experience requires the feature to literally infringe a licensed patent. Because utility patents are at least strong evidence of a feature's functionality,<sup>26</sup> cloned features in their entirety should not be covered by trade dress since they necessarily would contain practiced utility patents. The question then becomes whether the non-functional visual appearance of the cloned feature is eligible for trade dress protection. On this point, there is currently a fair bit of contention and a lack of clarity. On the one hand, courts have previously refused to find the look and feel of a computer program or the appearance of video monitors and keyboards to be eligible for trade dress protection.<sup>27</sup> On the other hand, some courts have indicated that the look and feel of a website may fall within the protections that trade dress provides.<sup>28</sup>

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<sup>26</sup> *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29–30 (2001) (“A utility patent is strong evidence that the features therein claimed are functional. If trade dress protection is sought for those features the strong evidence of functionality based on the previous patent adds great weight to the statutory presumption that features are deemed functional until proved otherwise by the party seeking trade dress protection. Where the expired patent claimed the features in question, one who seeks to establish trade dress protection must carry the heavy burden of showing that the feature is not functional, for instance by showing that it is merely an ornamental, incidental, or arbitrary aspect of the device.”).

<sup>27</sup> *Digital Equipment Corp. v. C. Itoh & Co.*, 229 U.S.P.Q. 598 (D.N.J. 1985) (holding that the layout of keys and set-up screen and general appearance of video monitor are functional, while the shape and color of keyboard and monitor are nonfunctional but have acquired no secondary meaning); *see Engineering Dynamics, Inc. v. Structural Software, Inc.*, 785 F. Supp. 576 (E.D. La. 1991), *aff'd in part and rev'd in part, remanded*, 26 F.3d 1335 (5th Cir. 1994) (stating that the “look and feel” of a computer program is not protectable trade dress).

<sup>28</sup> *Blue Nile, Inc. v. Ice.com, Inc.*, 478 F. Supp. 2d 1240, 1248 (W.D. Wash. 2007); *see also Conference Archives, Inc. v. Sound Images, Inc.*, No. Civ. 3:2006-76, 2010 WL 1626072, at \*1 (W.D. Pa. Mar. 31, 2010) (denying

These courts, however, have been unable to provide a more thorough analysis on the subject due to settlements prior to reaching the merits of such claims. Thus, the issue remains unaddressed and ripe for more thorough consideration by the judiciary and academics.

In any event, the above discussion shows the fractious nature of the protection provided by the various intellectual property regimes and the need to incorporate multiple protections into any intellectual property strategy. While there was vigorous debate in the mid-1990s regarding developing a *sui generis* protection for software<sup>29</sup> that would be similar to the *sui generis* protection of semiconductors that had recently been enacted,<sup>30</sup> the lack of an agreed-upon framework for protection and the presence of protection, although a patchwork, through the existing intellectual property regimes inhibited the adoption of such protections. Given the importance of building and maintaining a unique user experience, it makes sense from a business perspective that companies reliant on such distinctive features would endeavor to protect their user experience from being duplicated. To a great extent, the intellectual property regime framework provides for such protection through the use of utility and design patents, copyright, trademark, trade dress, and trade secret protections. Indeed, some industry leaders believe that, while difficult and costly to achieve, the “total user experience” can be fully protected within traditional intellectual property regimes through a divide-and-conquer approach.<sup>31</sup>

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summary judgment, stating “protection of the ‘look and feel’ of a website remains unclear”).

<sup>29</sup> See generally Pamela Samuelson et al., *Symposium: Toward a Third Intellectual Property Paradigm: A Manifesto Concerning the Legal Protection of Computer Programs*, 94 COLUM. L. REV. 2308, 2327 (1994) (arguing that computer “programs are machines that happen to have been constructed in the medium of text” and, as such, differ from other kinds of machines or textual works for purposes of intellectual property protection).

<sup>30</sup> Semiconductor Chip Protection Act of 1984, 17 U.S.C. §§ 901–14 (2014).

<sup>31</sup> Charles Mauro, *Apple v. Samsung: Impact and Implications for Product Design, User Interface Design (UX), Software Development and the Future of High-Technology Consumer Products*, MAURO NEW MEDIA

While Apple has adopted this approach to some degree, it has also chosen to buttress its intellectual property protection with contractual and licensing safeguards that essentially prohibit the development or production of a product that is substantially similar to one produced by Apple that practices any licensed patent in any respect. Two examples of such provisions are provided below.

## 2. Recent Examples of these Provisions

The first relevant example of this provision, the 1997 Apple/Microsoft settlement agreement, set forth the relevant anti-cloning language within the definitional section. Only the relevant definitions are presented below. The second, the Apple/HTC settlement agreement, set forth the relevant anti-cloning language in a separate Exhibit, “Requirements for Cloned Product,” which is presented in its entirety below.

### a. Apple/Microsoft settlement agreement

In relevant part, the Apple/Microsoft settlement agreement states:

1.6 “Licensed Products” shall mean (i) any and all process or activities performed by a party and (ii) any and all machines, articles of manufacture, compositions of matter and any other products which are designed, developed, duplicated, manufactured, acquired or rendered by or for a party and which are transferred by or made available from a party. Licensed Products shall include, without limitation, Licensed Programs, but shall exclude Clone Products or Foundry Products.

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(Nov. 27, 2012), <http://www.mauronewmedia.com/blog/apple-v-samsung-implications-for-product-design-user-interface-ux-design-software-development-and-the-future-of-high-technology-consumer-products/> (“IP practitioners should make use of all available forms of IP protection including design patents, utility patents, copyright, trademark and in litigation, trade dress, to create an interlocking set of protections that cover the look, feel and function of [clients’] products and services.”).

“Clone Product” shall mean:

1.14.1 With the exceptions listed in this section 1.14 below, a new product designed or acquired after the Effective Date (“New Product”) of one of the Parties that is *primarily designed to be and is an identical or substantially identical replacement in functionality and/or user experience of a then-existing Commercialized Product* of the other party (“Prior Product”) by (i) in the case of a Program, *providing all or substantially all of the user commands and/or all or substantially all of the programming interface(s)* as the Prior Product or (ii) in the case of a product which is not a Program, *providing the same or substantially the same physical form or appearance to the user and electronic and/or mechanical design* as the Prior Product.

1.14.12 To the extent that the Parties independently develop new products, without prior detailed knowledge of each others’ products, and such products were both substantially developed prior to the disclosure or release of either of the products, then neither products shall be considered to be a Clone Product of the other.

1.14.3 To the extent that a New Product of a Party implements functionality that any party, including a third party, rightfully and with proper authority (i) licenses as an industry standard, or (ii) otherwise makes available for general use by the industry, the above functionality shall not be considered a factor in the determination of whether such a New Product is a Clone Product.

1.14.4 To the extent that a New Product of a Party implements functionality that is required for the New Product to interoperate or be compatible with (but not replace) the Prior Product, the above functionality shall not be considered a factor in the

determination of whether such New Product is a Clone Product.

1.14.5 Notwithstanding anything herein to the contrary, the Parties agree that none of the Commercialized Products existing as of the Effective Date are Clone Products.<sup>32</sup>

b. Apple/HTC settlement agreement

In relevant part, the Apple/HTC settlement agreement states:

Requirements for Cloned Product

Each of the following requirements must be satisfied in order for a particular HTC Android Mobile Communication Device to be considered a “Cloned Product” for the purposes of Article 12

Subject to any HTC defenses, APPLE demonstrates that one or more valid claims of its covered Patents (a) is literally infringed by a significant feature of the human interface that has a distinctive visual appearance of an HTC Android Mobile Communications Device; (b) the same patent is also literally practiced by a significant feature of the human interface of an APPLE Mobile Communication Device that has a distinctive visual appearance, and (c) *that the non-functional distinctive visual appearance of such feature in the HTC Mobile Communications Device is substantially similar to that in the APPLE Mobile Communications Device, it being understood however that such features will also include functional aspects (collective, “Distinctive Apple User Experience”), where such substantial similarity demonstrates copying (but without requiring proof of intent). Such substantially similar*

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<sup>32</sup> Apple/Microsoft Agreement, *supra* note 10 (emphasis added).

distinctive visual appearance of the feature in the HTC Mobile Communications Device is referred to herein as the “Cloned Feature”. *For Example, a specific graphical slider animation used in a APPLE Mobile Communication Devices at the bottom of a display screen to implement a “slide to unlock” feature could qualify as a distinctive Apple User Experience, however, a different animation (for example a bubble slider) or an animation at another location (for example along the side of a screen) would not be considered substantially similar and would not constitute a Cloned Feature. Functionality and related methods (for example, “pinch to zoom” functionality) will not be considered a Distinctive Apple User Experience.*

The Distinctive Apple User Experience (a) was first developed and introduced by APPLE as part of an APPLE Mobile Communication Device prior to introduction of such feature or substantially similar feature by HTC or any Third Party; (a) APPLE has not granted a license to any Third Parties that permits use of such features in a Mobile Communications Device with the Android Mobile OS without additional payment required for the use of such visual appearance or with additional payment if HTC agrees to such additional payment in order to take advantage of the exclusion from Cloning set forth in this Section 2(b) of this Exhibit A.

The Cloned Feature in the HTC Android Mobile Communications Device must have been created by HTC and not result from (i) any features or design elements provided to HTC as part of the Android Mobile OS or other third party component or software (unless specifically selected, customized or

modified by, or specifically at the requirement of or exclusively for, HTC to result in the Cloned Feature), (ii) requirements specified for the use of the Android Mobile OS or associate services or APIs by Google Inc., or any of its affiliates, or the Open Handset Alliance or any successor to any of the foregoing, (iii) requirements specified by a Carrier (in its role as such), (iv) requirements of Wireless Standards or other standards, where APPLE is a member and participates and has not withdrawn and objected to the specification, or any legal or regulatory requirements, (v) any features or design elements included in any HTC Android Mobile Communication Devices or Android Mobile OS that have been released prior to the Effective Date, (vi) any features or design elements included in any HTC Android Mobile Communication Devices for which APPLE does not provide an Initial Notice challenging the Cloned Feature within the time specified in Section 12.3(a) or, if APPLE has provided such Initial Notice, have nonetheless not been found to be Cloned Features pursuant to Section 12.3, and (vii) any features or design elements substantially the same or minor variants of those under (v) or (vi) above which are included in any subsequent HTC Android Mobile Communication Device.

There is an alternative appearance to the Distinctive Apple User Experience reasonably available to HTC for the HTC Android Mobile Communication Device that implements and realizes the functional, cost, and performance advantages of the features(s) covered by the Covered Patent that would not be considered Cloned Features (such as the examples

above regarding “slide to unlock”).<sup>33</sup>

### 3. Comparison between the Apple/Microsoft and Apple/HTC Settlement Agreements

As a brief examination of the licenses presented above easily illustrates, Apple has become more exacting in the language that it uses to attempt to thwart the cloning of its products. Both agreements, however, largely attempt to force competitors to avoid producing any product that implements features, interfaces, designs, or appearances that may be considered to be identical or substantially similar to those of a product that Apple produces, be it hardware or software. In both cases, the failure to do so results in the product being labeled a “clone” and thereby is not subject to the patent license, resulting in potential patent infringement.

## II. A BRIEF SURVEY OF MISUSE<sup>34</sup>

Before inquiring as to whether the anti-cloning provisions contained in the previously discussed settlement agreements constitute misuse, it is worth examining the foundational aspects of the misuse doctrine. Examining misuse establishes the bases upon which the misuse doctrine arose and gives a sense of where bright lines have been drawn in the past.

The doctrine of intellectual property misuse applied to patent and copyright law reaches back to just after the turn of the 20th century, appearing in a patent context within the Supreme Court’s *Motion Picture Patents* case.<sup>35</sup> The doctrine of misuse evolved and extended into copyright law as early as 1948 in *M. Whitmark &*

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<sup>33</sup> Apple/HTC Settlement Agreement, *supra* note 7 (emphasis added).

<sup>34</sup> The general survey presented is adopted in part from HERBERT HOVENKAMP ET AL., *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* (Wolters Kluwer ed., 2d ed. 2011). For a more in-depth primer on the subject, interested readers are encouraged to examine Hovenkamp’s excellent analysis.

<sup>35</sup> *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

*Sons v. Jensen*.<sup>36</sup> Since these extensions, the doctrine has evolved independently within the respective legal regimes into the present day, resulting in a mix of similar restraints in some respects but divergent rules in others. Most notably, while the doctrine of copyright misuse rests on inherent principles of copyright law, patent misuse appears to rest primarily on a foundation derived from principles of antitrust.

### A. Patent Misuse Jurisprudence

#### 1. Motion Picture Patents to *Mercoïd*

The first instance of the doctrine of misuse in any intellectual property context arose in 1917 in *Motion Picture Patents Co. v. Universal Film Mfg. Co.* where the patentee attempted to enforce a notice attached to the patentee's projector that restricted its use to only films that practiced another of the patentee's patents.<sup>37</sup> The patentee was found to be unable to leverage "the exclusive right granted" by the patent on the projector to:

[I]n effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation, but which are no part of the patented invention, or to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid, to be imposed thereafter at the discretion of such patent owner.<sup>38</sup>

Even though the Court's opinion purported to have found the doctrine of misuse to be "rooted in patent policy," the holding contained an "obvious competitive focus,"<sup>39</sup> paying specific attention to the "extension of the patent monopoly in general and tying in particular."<sup>40</sup>

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<sup>36</sup> 80 F. Supp. 843 (D. Minn. 1948).

<sup>37</sup> 243 U.S. at 502.

<sup>38</sup> *Id.* at 516.

<sup>39</sup> HOVENKAMP, *supra* note 34, § 3.2, at 3-5.

<sup>40</sup> *Id.*

The patent misuse doctrine gained strength<sup>41</sup> through the Court's decision in *Mercoïd Corp. v. Mid-Continent Inv. Co.*<sup>42</sup> In *Mercoïd*, the Court found misuse in Mercoïd's "attempt to control the market"<sup>43</sup> on unpatented combustion switches that were of no commercial value outside use within Mercoïd's patented domestic heating system by suing Mid-Continent for contributory infringement that resulted from Mid-Continent's manufacture of combustion switches for use in Mercoïd's system.<sup>44</sup>

Congress, displeased with the ever-broadening scope of the misuse doctrine, took action in its general revision of the Patent Act in 1952, choosing to explicitly curtail the breadth of the doctrine through restrictions codified in section 271(d) of the Patent Act.<sup>45</sup> This move effectively overruled the rule in *Mercoïd*. The doctrine of patent misuse retreated in the wake of this reversal, with the limited expansion that occurred in the 1960s and 1970s being curtailed by the (then) newly created Federal Circuit.<sup>46</sup> Paired with the additional restrictions on misuse placed by Congress's revision of the patent statutes by the 1988 Patent Misuse Reform Act,<sup>47</sup> misuse has generally fallen out of favor with courts and litigants.

## 2. Modern Misuse: Extension of the Physical or Temporal Scope of the Patent Grant

The Federal Circuit set forth the modern understanding of patent misuse in *Virginia Panel v. MAC Panel*, where it explained that:

Patent misuse is an affirmative defense to an

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<sup>41</sup> See *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27 (1931); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942); *International Salt Co. v. United States*, 332 U.S. 392 (1942), for examples of condemnation of tying arrangements and other license restrictions.

<sup>42</sup> 320 U.S. 661 (1944).

<sup>43</sup> HOVENKAMP, *supra* note 34, § 3.2, at 3-6.

<sup>44</sup> *Mercoïd*, 320 U.S. at 668-69.

<sup>45</sup> 35 U.S.C. § 271(d) (2010).

<sup>46</sup> HOVENKAMP, *supra* note 34, § 3.2, at 3-6 to 3-7.

<sup>47</sup> Patent Misuse Reform Act of 1988, 35 U.S.C. § 271(d) (2010) (adding (d)(4)-(5) to 35 U.S.C. § 271(d)).

accusation of patent infringement, the successful assertion of which “requires that the alleged infringer show that the patentee has impermissibly broadened the ‘physical or temporal scope’ of the patent grant with anticompetitive effect.”<sup>48</sup>

Thus, this interpretation of patent misuse requires evidence that the monopoly right granted by the patent has been broadened to acquire a scope beyond the original grant *and* that this broadening has competitive effects. The *Virginia Panel* court laid out a three-tier analysis that embodied this conception of the misuse doctrine: when faced with a question of whether a misuse defense can succeed, courts must determine whether the patentee’s conduct constituted per se misuse; per se legal conduct never categorized as misuse; or conduct that, depending on its degree of anticompetitive effect (as analyzed under the Rule of Reason), may be considered to be misuse.<sup>49</sup>

In terms of per se misuse, the Federal Circuit noted in *Virginia Panel* that some “specific practices [constitute] per se patent misuse, including so-called tying arrangements in which a patentee conditions a license under the patent on the purchase of a separable, staple good, and arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties.”<sup>50</sup> Some legal theorists believe the per se categorization of misuse is unlikely to expand beyond these two categories given recent Federal Circuit decisions that have been seen as extremely narrowing.<sup>51</sup> Indeed, Congress has restrained the per se category by restricting the doctrine to only consider tying arrangements to constitute per se misuse where the patentee has

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<sup>48</sup> *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997) (quoting *Windsurfing Int’l v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986)).

<sup>49</sup> *Id.* at 869 (discussing the per se patent misuse practices, exempted practices (*see, e.g., Mercoid*, 320 U.S. 661 (1944)), and conduct that is neither per se legal nor illegal).

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

<sup>51</sup> Saami Zain, *Misuse of Misuse: Princo Corp. v. International Trade Commission and the Federal Circuit’s Misguided Patent Misuse Jurisprudence*, 13 N.C. J. L. & TECH. 95 (Fall 2011).

market power in the tying market product.<sup>52</sup>

The second categorization of a patentee's conduct comprises conduct that is *per se* legal and cannot comprise misuse. This conduct arises from the statutory rights bestowed by the patent statute. Where the patentee restricts rights that reasonably fall within the bounds of the original grant, there can never be patent misuse.<sup>53</sup> Examples of conduct that falls within these bounds are: tying arrangements in which the patentee does not have market power in the tying product market, enforcing patents against infringing conduct, and refusing to license (to anyone or someone in particular).<sup>54</sup>

The final tier of the Federal Circuit's misuse test incorporates antitrust law's Rule of Reason and was laid out in *Virginia Panel*:

When a practice alleged to constitute patent misuse is neither *per se* patent misuse nor specifically excluded from a misuse analysis by § 271(d), a court must determine if that practice is reasonably within the patent grant, i.e., that it relates to subject matter within the scope of the patent claims. If so, the practice does not have the effect of broadening the scope of the patent claims and thus cannot constitute patent misuse. If, on the other hand, the practice has the effect of extending the patentee's statutory rights and does so with an anti-competitive effect, that practice must then be analyzed in accordance with the 'rule of reason.' . . . Under the rule of reason, the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature and effect.<sup>55</sup>

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<sup>52</sup> 35 U.S.C. § 271(d)(5) (2010).

<sup>53</sup> *Monsanto Co. v. McFarling*, 363 F.3d 1336 (Fed. Cir. 2004).

<sup>54</sup> 35 U.S.C. § 271(d) (2010).

<sup>55</sup> *Virginia Panel*, 133 F.3d at 869 (Fed. Cir. 1997); *see also* Mallinckrodt,

Under the guidance laid out in the Federal Circuit's three tiers, the doctrine of patent misuse is correctly classified as being a legal protection against market distortion that goes beyond the protection intended by the patent grant itself due to an unlawful expansion of the grant beyond its intended scope.<sup>56</sup>

This is not to say that the doctrine of patent misuse is necessarily coextensive with that of antitrust law or that it is constrained by antitrust law's precepts. While it is true that a finding of misuse often coincides with a finding of antitrust violations,<sup>57</sup> the Supreme Court has been very clear in articulating its belief that the doctrine of patent misuse arises independently from patent policy.<sup>58</sup> Indeed, patent misuse has been utilized to reach conduct from which the market or consumers could not depend on antitrust law to protect them.<sup>59</sup> In *Mallinckrodt, Inc. v. Medipart, Inc.* the Federal Circuit explained:

The concept of patent misuse arose to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy. The policy's purpose was to prevent a patentee from using the patent to obtain market benefit beyond that which inheres in the statutory patent right.<sup>60</sup>

This explanation provides for the existence of patent misuse where there is an expansion of the patent grant, even when the expansion has no anticompetitive effects.

Indeed, while the bifurcation of a trial into infringement and antitrust prongs (including misuse) in order to hopefully avoid

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*Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

<sup>56</sup> HOVENKAMP, *supra* note 34, § 3.2, at 3-10.

<sup>57</sup> See, e.g., *In re ISO Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000); *Virginia Panel Corp.*, 133 F.3d 860; *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir. 1997).

<sup>58</sup> *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942) (holding that misuse is based in patent policy and does not require proof of an antitrust violation).

<sup>59</sup> *Mallinckrodt*, 976 F.2d 700.

<sup>60</sup> *Id.*

unnecessary antitrust litigation depending on the outcome of the patent portion of the litigation will not render the issue of patent misuse moot, a trial is generally required regardless of the outcome of the patent portion of the litigation, further underscoring the doctrinal separateness between antitrust and misuse.<sup>61</sup> Furthermore, as a defense grounded solely in equity, the misuse inquiry does not carry a constitutional guarantee to a jury trial, unlike antitrust counterclaims.<sup>62</sup>

### *B. Copyright Misuse Jurisprudence*

Copyright misuse is regarded as younger than patent misuse, with most older cases refusing to acknowledge the existence of copyright misuse<sup>63</sup> and only a small number of district court cases prior to 1990 granting relief based on the misuse defense<sup>64</sup> (although two cases in the early 1900s may have indicated some elements of the judiciary's willingness to rely on principles of equity, i.e., "unclean hands," to prevent abuses of copyright grants<sup>65</sup>). In any event, copyright misuse truly blossomed with the advent of commercial software. This allowed for copyright grants to potentially have substantial anticompetitive effects on a market as a whole, a rarity in traditional copyright domains.<sup>66</sup>

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<sup>61</sup> HOVENKAMP, *supra* note 34, § 3.6, at 3-79.

<sup>62</sup> *Cordance Corp. v. Amazon.com, Inc.*, No. 06-491-MPT, 2009 WL 2252556, at \*1 (D. Del. July 28, 2009) ("[T]he right to trial to a jury on a claim for patent misuse is not automatic.").

<sup>63</sup> *See, e.g., Foreign Car Parts v. Auto World, Inc.*, 366 F. Supp. 977, 979 (M.D. Pa. 1973) ("It is doubtful that an anti-trust violation creates a defense in a copyright infringement action.").

<sup>64</sup> *See M. Witmark & Sons v. Jensen*, 80 F. Supp. 843, 850 (D. Minn. 1948); *Vogue Ring Creations, Inc. v. Hardman*, 410 F. Supp. 609, 615-16 (D.R.I. 1976).

<sup>65</sup> *See Edward Thompson Co. v. American Law Book Co.*, 122 F. 922 (2d Cir. 1903); *Stone & McCarrick, Inc. v. Dugan Piano Co.*, 220 F. 837 (5th Cir. 1915). Both findings of unclean hands resulted from misrepresentations to the court or copyright office regarding the copyrighted works.

<sup>66</sup> *Cf. Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1170 (1st Cir. 1994) ("[I]t is often more difficult to prove an antitrust violation when the claim rests on the questionable market power associated with a copyright . . .").

As opposed to its older sibling patent misuse, in which antitrust concerns dominate almost every inquiry, copyright misuse today is commonly thought of as being wholly separate from antitrust law. While early courts considering the defense centered their inquiries squarely on antitrust principles,<sup>67</sup> more modern inquiries have moved away from a reliance on antitrust principles and have justified findings of copyright misuse by relying solely on copyright policy arguments.<sup>68</sup>

Findings of copyright misuse tend to rely on rationales that are said to arise from copyright policy. These rationales vary, but they tend to fall within one of three broad categories identified by Hovenkamp: abuse of process and extension of right rationales, competition and licensing rationales, and externality rationales.<sup>69</sup>

Rationales relying on abuse of process or an extension of the rights granted by copyright do not require any implication of antitrust concerns. These rationales rest on principles grounded in copyright policy. In the case of improperly broadened grants of copyright, the rationale rests on the principle that misuse can be found in attempts to expand the copyright grant beyond its statutory boundaries and courts should not assist in this expansion by enforcing the expanded grant.<sup>70</sup>

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<sup>67</sup> See *Bellsouth Advertising & Pub. Corp. v. Donnelley Information Pub., Inc.*, 933 F.2d 952, 961 (11th Cir. 1991) (finding no copyright misuse “in the context before us because there is no antitrust violation”), *vacated*, 977 F.2d 1435 (1992); *Reed–Union Corp. v. Turtle Wax, Inc.*, 77 F.3d 909, 913 (7th Cir. 1996) (“Misuse of copyright in pursuit of an anticompetitive end may be a defense to a suit for infringement, along the lines of the patent-misuse doctrine in antitrust.” The court then argued that less market power is present in copyright than in patent, appearing to weaken the doctrine.).

<sup>68</sup> See *Practice Management Info. Corp. v. American Med. Ass’n*, 121 F.3d 516, 521 (9th Cir. 1997), *amended by* 133 F.3d 1140 (1998) (“[A] defendant in a copyright infringement suit need not prove an antitrust violation to prevail on a copyright misuse defense.”); *Lasercomb American, Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990) (“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.”).

<sup>69</sup> HOVENKAMP, *supra* note 34, § 3.4, 3-58.

<sup>70</sup> *Assessment Technologies of WI, LLC v. WIREdata*, 350 F.3d 640, 647 (7th Cir. 2003) (“The argument for applying copyright misuse beyond the

In perhaps the seminal copyright misuse case, *Lasercomb America v. Reynolds*, the Fourth Circuit relied on this rationale exclusive of any antitrust concerns.<sup>71</sup> Even though the contract clauses at issue in *Lasercomb* may have had anticompetitive effects, the court did not inquire into the effect the clauses may have actually had on competition.<sup>72</sup> In *Lasercomb* the plaintiff sought to enjoin the defendant's use of unauthorized copies of the plaintiff's die-making software.<sup>73</sup> Lasercomb's licensing agreement contained clauses that prohibited licensees or their employees from "directly or indirectly, writ[ing], develop[ing], produc[ing] or sell[ing] computer assisted die making software" during the term of the license, which was ninety-nine years, potentially far in excess of the term of the copyright grant itself.<sup>74</sup> While the court noted that "[t]here is no question that defendants engaged in unauthorized copying, and the purposefulness of their unlawful action is manifest from their deceptive practices,"<sup>75</sup> the court affirmed the existence of the misuse of copyright as a valid defense (analogizing its existence from patent misuse as a sister intellectual property regime) and found that the "misuse arises from Lasercomb's attempt to use its copyright in a particular expression, the Interact software, to control competition in an area outside the copyright, i.e., the idea of computer-assisted die manufacture, regardless of whether such conduct amounts to an antitrust violation."<sup>76</sup> In this way, the court specifically distanced the copyright misuse doctrine from necessarily relying on any antitrust principles, a stark difference from patent misuse, as previously discussed (*see supra* Part II.A.2.).

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

<sup>71</sup> 911 F.2d 970 (1990).

<sup>72</sup> *Id.* at 979.

<sup>73</sup> *Id.* at 972.

<sup>74</sup> *Id.* at 973.

<sup>75</sup> *Id.* at 971.

<sup>76</sup> *Id.* at 979.

Comparing the expansion of the copyright grant to the abuse of process, findings of misuse based on deception before the courts or the copyright office are also clearly reliant on principles of copyright policy as opposed to competition concerns. In a sense, abuses of process are a type of extension of the copyright grant in that the copyright is improvidently granted to improperly cover subject matter that should remain free of the copyright monopoly.<sup>77</sup>

Rationales relying on competition and licensing concerns most closely mirror the majority of asserted bases of patent misuse. Cases relying on these rationales commonly involve collusions to fix prices, tying arrangements, noncompetition provisions, or exclusive dealing provisions, among other traditionally anticompetitive behaviors. Similar to the antitrust foundation of patent misuse, copyright misuse defenses in these cases do not “claim . . . that the copyright owner has transgressed copyright policy by seeking to expand the scope or duration of the right, but that she has acted anticompetitively in the licensing of that right.”<sup>78</sup>

This rationale, while seemingly strong due to its parallel with patent misuse, actually proves to be rather disfavored within the doctrine of copyright misuse. It appears, at least on the surface, to be one of the weaker rationales for finding the presence of misuse. For example, *Lasercomb* could easily have rested on (or at least gestured at) the anticompetitive effects that limiting licensees from developing competing software would have had in the market. Plainly, allowing a dominant player to prohibit any interested party (its licensees) from even dabbling in independent creation of a competing product restricts competition in a manner that the Department of Justice’s 1995 Antitrust Guidelines for the Licensing of Intellectual Property would consider worth analyzing

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<sup>77</sup> *qad. inc. v. ALN Associates, Inc.*, 770 F. Supp. 1261, 1266–67 (N.D. Ill. 1991) (“When a copyright holder attempts to use legal proceedings to protect an improper extension of a copyright, the court may refuse to enforce the copyright. . . . [qad’s] misuse of both the judicial process and the copyright laws . . . severely restrained ALN . . . [and] impos[ed] an unwarranted harm on ALN . . . . That copyright misuse extended qad’s copyright privilege beyond the scope of the grant and violated the very purpose of a copyright. . . . This Court should not and will not offer its aid to a copyright holder whose actions run contrary to the purpose of the copyright itself.”).

<sup>78</sup> HOVENKAMP, *supra* note 34, § 3.4, at 3-61 to -62.

for competitive effect.<sup>79</sup> The *Lasercomb* court, however, chose not to inquire about the anticompetitive effects, relying entirely on copyright policy, as discussed previously, to hold that copyright misuse had occurred.

Similarly, the final set of rationales concerning the potential or known existence of troubling externalities have been applied to licensing policies that do not necessarily implicate antitrust issues. Where licenses contain contractual terms that impose burdens on third parties or the public without compensation, courts should consider whether the imposition constitutes a departure from the limits on copyright grants as dictated by copyright policy. Robert Merges considers every holding of misuse (including patent misuse) to be grounded in this rationale (in the abstract) in some respect, claiming that “[u]nder [misuse] doctrines, courts refuse to enforce voluntary, bilateral contracts that presumably benefit both parties . . . . The only workable rationale for such a prohibition must be that the contracts, though mutually beneficial to the contracting parties, harm third parties.”<sup>80</sup>

Although this rationale seems to be broader in its applicability

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<sup>79</sup> The U.S. Department of Justice’s guidelines for analyzing antitrust concerns in innovation markets:

3.2.3 Research and development: innovation markets

If a licensing arrangement may adversely affect competition to develop new or improved goods or processes, the Agencies will analyze such an impact either as a separate competitive effect in relevant goods or technology markets, or as a competitive effect in a separate innovation market. A licensing arrangement may have competitive effects on innovation that cannot be adequately addressed through the analysis of goods or technology markets. For example, the arrangement may affect the development of goods that do not yet exist. Alternatively, the arrangement may affect the development of new or improved goods or processes in geographic markets where there is no actual or likely potential competition in the relevant goods.

U.S. Dep’t of Justice & FTC, *Antitrust Guidelines for the Licensing of Intellectual Property*, U.S. DEP’T OF JUSTICE (Apr. 6, 1995), <http://www.justice.gov/atr/public/guidelines/0558.htm#t323>.

<sup>80</sup> See Robert P. Merges, *Intellectual Property and the Costs of Commercial Exchange: A Review Essay*, 93 MICH. L. REV. 1570, 1606 n.96 (1995).

due to its foothold in contract law, it is no less limited than the two prior rationales due to the limitations of the defense of copyright misuse. If no copyright claim is brought before the court and the plaintiff chooses to rely solely on state law rights under contract law, then misuse, even if present, may not be considered, even under this rationale. Where both a contract and copyright claim are brought, misuse, if found, may only bar the copyright claim, leaving the defendant to still face the untouched contract claim.<sup>81</sup>

### C. *Contrasting Approaches and Restraints Within Misuse*

To this point, the application of the misuse doctrine has been discussed in both patent and copyright contexts. While the doctrine is very similar in many respects in its basis and grounding in both contexts, some differences exist between the two. Namely, while copyright misuse firmly declaims any suspicion of being grounded in antitrust law and relies almost entirely on arguments based in copyright policy in finding misuse, patent misuse, which ostensibly grounds itself in patent policy, is much more concerned with antitrust analysis in its inquiries. Beyond this primary difference, various restraints on the doctrine of misuse also differ between the two disciplines.

#### 1. Statutory Restraints on Patent Misuse

The doctrine of misuse is only an affirmative defense. This structural restraint on the remedies a claim of misuse can provide is actually one of the primary factors in the Federal Circuit's insistence that misuse exists separate from antitrust law, its logic being that misuse should require a lesser burden of proof because the remedies it can provide are more limited in nature.<sup>82</sup> However,

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<sup>81</sup> *Pollstar v. Gigmania, Ltd.*, 170 F. Supp. 2d 974, 982 (E.D. Cal. 2000) (“[T]he court need not decide whether there was copyright misuse because Plaintiff does not allege copyright infringement [only common law misappropriation, unfair competition, and breach of contract of the license agreement].”).

<sup>82</sup> *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 882 F.2d 1556, 1563 (Fed. Cir. 1989) (“When a party seeks to collect monetary damages from a patentee because of alleged violations of the antitrust law, it is appropriate to require a

although courts and commentators have analogized the doctrine of misuse to the equitable defense of unclean hands, the doctrine of misuse is far broader, barring both equitable and legal remedies.<sup>83</sup> Interestingly, misuse is not always available as an affirmative action for declaratory judgment.<sup>84</sup> This restraint is not exceedingly common, however, and most courts have allowed such motions to proceed.<sup>85</sup>

Additionally, unlike antitrust concerns or unclean hands, misuse can be cured, restoring the enforceability of the intellectual property right.<sup>86</sup> This cure, however, is not easily achieved and only occurs once an offending rightsholder ceases the conduct considered to be misuse *and* the effects of the offending conduct have been “purged” or have “fully dissipated.”<sup>87</sup>

Findings of misuse generally cannot prevent the collection of damages for conduct that occurred before the misuse began.<sup>88</sup>

higher degree of misconduct for that damage award than when a party asserts only a defense against an infringement claim.”).

<sup>83</sup> HOVENKAMP, *supra* note 34, § 3.6, at 3-71.

<sup>84</sup> Ticketmaster L.L.C. v. RMG Techs., Inc., 536 F. Supp. 2d 1191, 1199 (C.D. Cal. 2008); Arista Records, Inc. v. Flea World, Inc., 356 F. Supp. 2d 411, 428 (D.N.J. 2005); Metro–Goldwyn–Mayer Studios Inc. v. Grokster, Ltd., 269 F. Supp. 2d 1213 (C.D. Cal. 2003).

<sup>85</sup> Midwest Tape, LL 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.”); Linzer Prods. Corp. v. Sekar, 499 F. Supp. 2d 540, 552–53 (S.D.N.Y. 2007); Shloss v. Sweeney, 515 F. Supp. 2d 1068, 1079–81 (N.D. Cal. 2007); Open Source Yoga Unity v. Choudhury, No. C 03-3182 PJH, 2005 WL 756558, at \*8 (N.D. Cal. 2005).

<sup>86</sup> HOVENKAMP, *supra* note 34, § 3.6, at 3-72.

<sup>87</sup> DONALD S. CHISUM, CHISUM ON PATENTS § 19.04; United States Gypsum Co. v. National Gypsum Co., 352 U.S. 457 (1957), *reh’g denied*, 353 U.S. 932 (1957) (“[T]he 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.”).

<sup>88</sup> Carotek, Inc. v. Kobayashi Ventures, LLC, No. 07 CIV. 11163 (NRB), 2010 WL 1640190, at \*6 (S.D.N.Y. Apr. 12, 2010) (“Carotek has not pointed us to a single decision holding that a patent misuse defense should bar a claim for unpaid royalties that accrued prior to the period of alleged misuse, and we can discern no persuasive reason for reaching such a conclusion.”).

However, whether or not retroactive damages for infringing conduct that occurred during the period of misuse are allowed depends on the discipline, with patent law being unlikely to allow such damages to accrue<sup>89</sup> but copyright appearing to allow them.<sup>90</sup>

As noted before, findings of misuse, while prohibiting the enforcement of intellectual property rights against infringers, do not obviate contractual responsibilities and will be of limited use in defending against state law contract claims.<sup>91</sup> However, contract law claims may turn out to be obviated by misuse should they accompany infringement actions, as a successful misuse defense may remove from the table any potential damages due to infringement. Additionally, the unenforceability of an intellectual property grant may render a license unconscionable (and thus unenforceable) since the license would (potentially) lack consideration on the rightsholder's side.<sup>92</sup>

Finally, while a finding of misuse will render the intellectual property grant unenforceable, where the offending conduct must lie in order to render a grant unenforceable has shifted over time. Traditionally, allegations of misuse of any one patent or a pattern of misuse in several patents unconnected with litigation was sufficient to prohibit enforcement of any patents held by a party.<sup>93</sup> This has apparently been constrained by the Federal Circuit in *Princo Corp. v. International Trade Commission*, requiring either the use of the patent or a connection between the offending conduct and the patent right.<sup>94</sup> Similar restraints exist within copyright law, with most courts requiring some nexus or

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<sup>89</sup> HOVENKAMP, *supra* note 34, § 3.6, at 3-74.

<sup>90</sup> *Shloss*, 515 F. Supp. 2d at 1079 (“[T]he doctrine does not prevent plaintiff from ultimately recovering for acts of infringement that occur during the period of misuse.”).

<sup>91</sup> *Pollstar v. Gigmania, Ltd.*, 170 F. Supp. 2d 974, 982 (E.D. Cal. 2000).

<sup>92</sup> The use of a license agreement that grants rights beyond a bare patent or copyright license, such as providing know-how, consulting, or other similar consideration, will likely allow any breach of contract claims to stand, although perhaps being reduced in potential damages.

<sup>93</sup> HOVENKAMP, *supra* note 34, § 3.6c, at 3-80 (“[A] pattern of misuse might bar the enforcement of any patents by the misuser.”).

<sup>94</sup> *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1331 (Fed. Cir. 2010) (en banc).

connection between the conduct, although at least one court found misuse in the absence of such a connection.<sup>95</sup>

#### *D. The Intersection of Misuse and Antitrust*

Throughout this discussion of the doctrine of misuse, the competitive effects of the doctrine have not been far removed from the picture, even where, as in copyright, the doctrine explicitly disclaims a reliance on antitrust principles.<sup>96</sup> A primary reason for this is the very nature of the nation's intellectual property regime. In creating the legal fiction of "intellectual property," the government and legal system have necessarily prevented the market from truly efficient conduct, since intellectual property never faces scarcity in that it is a non-rivalrous good.<sup>97</sup> Truly efficient and competitive market behavior would be characterized by the quick dissemination and widespread adoption of every advancement in technology not held as a trade secret as well as the continual publication and republication of literary and artistic works as the market demanded. Of course, the Founders, in their wisdom, devised the framework for incentivized disclosure around which intellectual property regimes center today. The public good served by the advancement of the "useful arts and sciences"<sup>98</sup> was the only reason they consented to the "embarrassment of an

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<sup>95</sup> See *Shloss*, 515 F. Supp. 2d at 1080–81; see also *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 192 F. Supp. 2d 321, 345–46 (D.N.J. 2002) (requiring proof of a "nexus between . . . alleged anti-competitive actions and [BVHE's] power over copyrighted material" (quoting *Orth-O-Vision, Inc. v. Home Box Office*, 474 F. Supp. 672, 686 (S.D.N.Y.1979))).

<sup>96</sup> See *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942); see also *Assessment Technologies v. WIREdata*, 350 F.3d 640, 647 (7th Cir. 2003) (emphasizing the copyright policy basis of modern misuse doctrine and noting that "[c]ases such as *Lasercomb*, however, cut misuse free from antitrust"); *In re Napster, Inc. Copyright Litig.*, 191 F. Supp. 2d 1087 (N.D. Cal. 2002) (describing antitrust and public policy rationales for misuse as two different approaches favored by different circuits).

<sup>97</sup> HOVENKAMP, *supra* note 34, § 1.1, at 1-1.

<sup>98</sup> U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have Power . . . To 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.").

exclusive patent.”<sup>99</sup> As such, the very nature of the intellectual property regime has anticompetitive effects that the courts must always keep in mind.

### 1. Anticompetitive Effects

Leaving aside any analysis or critique of the intellectual property system as a whole that may have been implied above, specific attention must be paid to the perniciousness of intellectual property misuse on the market. Congress possesses the ability to simultaneously (1) recognize and structure intellectual property regimes to appropriately balance and account for competing interests when incentivizing the advancement of the useful arts and sciences; (2) ensure the efficient functioning of markets; and (3) protect the public’s interests and welfare. The misuse of granted intellectual property rights violently disrupts this careful balance by taking this ability for granted. Acts of misuse include extending the grant beyond the explicitly restricted framework, leveraging the grant to inflict harm on the markets beyond that contemplated by the legislature, or hiding unlawful anticompetitive conduct behind a veneer of legality granted by the conferred right. In this way misuse betrays the public’s trust and harms the very framework on which the alleged misuser relies for enforcement.

Most anticompetitive conduct involving intellectual property is immortalized in licensing agreements. In looking at the anticompetitive effect a licensing agreement may exhibit, the central question is “whether it harms competition among entities that would have been actual or likely potential competitors in the absence of the arrangement.”<sup>100</sup> This inquiry should examine various factors, such as whether the license agreements “anticompetitively foreclose access to competing technologies, prevent licensees from developing their own competing technologies, or facilitate market allocation or price-fixing for any

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<sup>99</sup> Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813), [http://press-pubs.uchicago.edu/founders/documents/a1\\_8\\_8s12.html](http://press-pubs.uchicago.edu/founders/documents/a1_8_8s12.html).

<sup>100</sup> U.S. Department of Justice & Federal Trade Commission, *supra* note 79, at Example 1: Discussion.

product or service supplied by the licensees.”<sup>101</sup> The inclusion of such terms should immediately signal to the reviewer that anticompetitive behavior may be afoot and that closer scrutiny of the effects of the license is required.

Some of the primary anticompetitive conduct that courts (and agencies) are concerned with when dealing with intellectual property agreements include monopolization (anticompetitive conduct designed either to acquire or to maintain monopoly power by means other than normal competition), horizontal market division (anticompetitive conduct intended to limit competition by restricting competition between otherwise antagonistic competitors to prescribed markets), or other non-price restrictions (typically anticompetitive conduct tending to inhibit the development of future competition).<sup>102</sup>

For example, a licensor prohibition on using a competitor’s products is clearly misuse.<sup>103</sup> A prohibition on the development of competing products, which effectively denies or impedes the entrance of a potential competitor into the market, is analogously misuse.<sup>104</sup>

Of particular interest to the discussion of anti-cloning provisions is the Seventh Circuit decision in *Bela Seating Co. v. Poloron Prod.*<sup>105</sup> There, a non-price restriction prohibiting the manufacture of chairs other than the licensed design that were of a “substantially identical design” was found to be perfectly acceptable and not considered to be misuse. Central to this holding,

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<sup>101</sup> *Id.*

<sup>102</sup> HOVENKAMP, *supra* note 34, § 10.3.

<sup>103</sup> *Krampe v. Ideal Indus.*, 347 F. Supp. 1384, 1387 (N.D. Ill. 1972) (“Plaintiff’s use of the rights which he possessed in his invention to secure an additional right to which he was not entitled [prohibiting the licensee from selling competing products], combined with his maintaining the objectionable terms of the contract after these rights had ripened into a patent monopoly, constitutes misuse of his patent . . .”).

<sup>104</sup> *Compton v. Metal Prods.*, 453 F.2d 38, 45 (4th Cir. 1971) (“The public, in a system of free competition, is entitled to have the competition of other devices with a patented device and here it is against that public’s interest to use the patent to suppress such competition.” (quoting *McCullough v. Kammerer Corp.*, 166 F.2d 759, 762 (9th Cir. 1948))).

<sup>105</sup> 438 F.2d 733, 739 (7th Cir. 1971).

however, was the court's interpretation of the license as "an agreement that the licensee would not make other chairs that would infringe on the patent in question."<sup>106</sup> Thus, the prohibition falls squarely within the scope of the granted patent right because the patentee is entitled to exclude all others from infringing his or her patent as a matter of right.<sup>107</sup>

This holding leads to a very interesting counterpoint. If the restriction is legal because it remained within the bounds of the granted right, *prohibitions on non-infringing activity, which would be beyond the scope of the granted right, are likely to be found to be unenforceable and should constitute a potential misuse of the grant.* Indeed, were there a way to clone the chair without infringing the patent grant, the prohibition would be outside of the scope of the grant and presumptively, under this reasoning, illegal.

## 2. Anticompetitive Settlement of IP Disputes

This is not to say that every restriction attached to an intellectual property license is likely to constitute misuse, especially where the license arises within a settlement agreement. This is because a settlement agreement that "would otherwise produce an antitrust violation might be no more anticompetitive than the outcome of the underlying IP litigation."<sup>108</sup> For example, a suit that concludes with a finding of validity and infringement for a patentee may completely exclude a competitor from the market.<sup>109</sup> Thus, there is no decrease in competition where a settlement between the parties produced an identical result. However, just because there may be no reduction in competition does not excuse courts from ensuring that the settlement does not in fact violate antitrust principles. Given the frequent uncertainty surrounding the scope and validity of intellectual property rights, it is often in the

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<sup>106</sup> HOVENKAMP, *supra* note 34, § 33.6 (referencing *id.* at 739 ("[T]he restriction in the Bela agreements are limited to the manufacture of chairs covered by the claims of the patent in suit.")).

<sup>107</sup> 35 U.S.C. § 271(d) (2010).

<sup>108</sup> HOVENKAMP, *supra* note 34, § 7.1b.

<sup>109</sup> *Id.*

interest of the opposing parties to “share monopoly profits”<sup>110</sup> rather than pay for a roll of the die in litigation.

Courts also favor settlement agreements because they save time, money, and ever-scarce judicial resources while avoiding the strict “dichotomy between winners and losers created by adjudication.”<sup>111</sup> Legal and economic scholars largely concur with this opinion,<sup>112</sup> although there has been both vigorous dissent<sup>113</sup> and measured criticism on this point.<sup>114</sup> The increasing caseload of the federal judiciary due to the rise in federal litigation has caused federal judges to evolve from insulated arbiters into involved parties that are potentially as eager to see the case resolved as one or both of the other parties.<sup>115</sup> Indeed, “[w]hile few judges wish to force unwilling parties to settle, many judges believe that the promotion of informed and fair settlements is one of the most important aims of pretrial management.”<sup>116</sup> As such, when tried cases are the exception to the rule,<sup>117</sup> particular attention should be paid to the result of settlement negotiations and the growing and persistent potential for settlement agreements to wreak anticompetitive havoc on the market.

a. Hovenkamp’s framework for the analysis of settlements

Given these competing interests, Hovenkamp has set out a

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<sup>110</sup> *Id.* at § 7.1.

<sup>111</sup> Megan M. La Belle, *Against Settlement of (Some) Patent Cases*, 67 VAND. L. REV. 375, 383 (2014).

<sup>112</sup> *Id.* at 385.

<sup>113</sup> Owen M. Fiss, *Against Settlement*, 93 YALE L.J. 1073, 1073 (1984) (arguing settlement brings about peace but not necessarily justice).

<sup>114</sup> See, for example, Laurie Kratky Dore, *Public Courts Versus Private Justice: It’s Time to Let Some Sun Shine in on Alternative Dispute Resolution*, 81 CHI.-KENT L. REV. 463, 463 (2006) (“Since the early to mid-1990s, the issue of secrecy in litigation has attracted nationwide attention and has generated a literal mountain of commentary.”) for an example of commentary directed at a specific aspect of settlement agreements.

<sup>115</sup> La Belle, *supra* note 111, at 411.

<sup>116</sup> Robert F. Peckham, *The Federal Judge as a Case Manager: The New Role in Guiding a Case from Filing to Disposition*, 69 CALIF. L. REV. 770, 773 (1981).

<sup>117</sup> La Belle, *supra* note 111, at 391.

framework for analyzing intellectual property settlement agreements.<sup>118</sup> This framework is mentioned here to anticipate any rejoinder to the analysis of the anti-cloning provisions in Part III as not taking into account the provisions' status as part of a settlement agreement, should they have possible pro-competitive effects. Under the framework, there are three types of settlements: settlements that raise no antitrust concerns even in the absence of an IP dispute, settlements that raise antitrust concerns even in the absence of an IP dispute, and settlements that may raise antitrust concerns depending on the merits of the IP dispute.<sup>119</sup>

Generally speaking, cases that fall within the first category include agreements that encourage competition (i.e., reciprocal non-exclusive licenses). Typically, cases that fall within the second category include those that do not rely on determinations of patent or copyright policy to find injurious conduct present (i.e., geographical market divisions extending to products beyond the scope of a patent).<sup>120</sup> The final category necessitates an examination of the merits of the intellectual property dispute. An example of this would be a case of blocking patents—a finding of validity for both patents results in neither party being able to practice the invention without a license, so any license will increase competition. A finding of invalidity for one or both of the patents, however, would render anticompetitive any license that restricts a party from competition.<sup>121</sup>

While the third prong's framework is novel and certainly worth the reader's attention, its consideration must be left for later examination; presentation of this framework is not with the intention to examine whether anti-cloning provisions constitute antitrust violations (although this subject is certainly worth further inquiry), but rather to point out that even where settlement may have competition-enhancing aspects, anticompetitive behaviors in settlements may still be sufficient to call the agreement into question, even in a situation where limited monopolies have been given legal force by intellectual property grants.

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<sup>118</sup> HOVENKAMP, *supra* note 34, § 7.

<sup>119</sup> *Id.*

<sup>120</sup> *Id.*

<sup>121</sup> *Id.*

### III. ANALYSIS/PROPOSAL

Below are presented arguments in favor of considering anti-cloning provisions per se misuse of copyrights and patents, or in the alternative, at least subject to the examination of potential anticompetitive results. For the purposes of this argument, only the anti-cloning provisions within patent cross-licensing agreements will be considered (since those are the most common), although the argument extends to copyright misuse for reasons previously discussed (e.g., the misuse of copyrights is subject to fewer statutory limitations, less reliance on antitrust principles, and has a harsher view of the expansion of the copyright grant).

#### *A. Anti-Cloning Provisions Unlawfully Extend the Patent Grant*

As defined by the patent statute, a utility patent is granted to those who invent or discover “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof,”<sup>122</sup> and a design patent is granted to those who invent “any new, original and ornamental design for an article of manufacture.”<sup>123</sup> A granted patent entitles the inventor to the right to exclude others from “mak[ing], us[ing], offer[ing] to sell, or sell[ing] any patented invention, within the United States or import[ing] into the United States any patented invention during the term of the patent.”<sup>124</sup> The scope of the patent grant, then, necessarily resides within these statutorily prescribed boundaries to include only the defined elements of patentable subject matter and the right to exclude others from conduct.

As seen in the anti-cloning provisions set forth in Part I, licensors have attempted to grant patent rights to licensees while restricting the practice of these licensed patents to include elements or conduct not specifically included within the statutory grant. As an example, the Apple/HTC anti-cloning provision attempts to prohibit HTC from developing or producing a product that is

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<sup>122</sup> 35 U.S.C. § 101 (2013).

<sup>123</sup> *Id.* § 171.

<sup>124</sup> *Id.* § 271.

substantially similar to one produced by Apple that practices any licensed patent in any respect.

Specifically, Apple has attempted to prohibit HTC from developing products where a “non-functional distinctive visual appearance of [a] feature in the HTC Mobile Communications Device is substantially similar to that in the APPLE Mobile Communications Device, it being understood however that such features will also include functional aspects (collective, ‘Distinctive Apple User Experience’).”<sup>125</sup> To do so necessarily implicates prohibiting HTC from utilizing otherwise unprotected (and perhaps unprotectable) elements in its development and production cycle if HTC desires to use any of the licensed patents within its products. This prohibition expands the scope of the patent grant to wildly inappropriate lengths.

For example, consider the “slide to unlock” bar at the bottom of the screen as a feature that could be considered to be a part of the Distinctive Apple User Experience. The patent claiming the “slide to unlock” bar only claims “displaying an unlock image at a first predefined location on the touch-sensitive display while the device is in a user-interface lock state.”<sup>126</sup> The patent’s figure 4A actually places the bar in the middle of the screen, with figure 7A placing it at the bottom of the screen.<sup>127</sup> In licensing the patent, given that Apple has already developed and deployed a “slide to unlock” feature with the bar at the bottom of the screen, should HTC practice the patent in a feature that looks similar to Apple’s and is placed in a similar location (indeed in a location disclosed by the very patent itself), Apple could accuse HTC of cloning the feature and revoke the license to practice the patent in that instance under the terms of the HTC/Apple anti-cloning provision.<sup>128</sup>

Some may argue that anti-cloning provisions are merely field-of-use limitations and thus subject to, if anything, rule of reason analysis under antitrust laws.<sup>129</sup> This argument is misguided.

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<sup>125</sup> Apple/HTC anti-cloning provision, *supra* note 8.

<sup>126</sup> U.S. Patent No. 8,046,721 col. 20 l. 19–21 (filed Jun. 2, 2009).

<sup>127</sup> *Id.*

<sup>128</sup> Apple/HTC anti-cloning provision, *supra* note 8.

<sup>129</sup> *B. Braun Med., Inc. v Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997) (“[F]ield of use restrictions . . . are generally upheld, *see General Talking*

Supposing the provision is a field of use limitation, the provision allows the licensee to practice the licensed patent(s) in any manner *except in conjunction with certain non-patentable subject matter*. This phrasing exposes the limitation for what it is: leveraging a patent grant to “restrain competition in an unpatented product”<sup>130</sup> (here, the appearance and functional aspects of the Apple products).

Apple, in possession of patents that enjoy market power due to consumer preferences, refuses to license these patents without ensuring contractual protection of intellectual property that ostensibly falls outside of the current regime. In doing so, the settlement agreement attempts to extend the patent grant to cover this intellectual property. This occurs due to how the license is set up. Should HTC produce a product that practices one of Apple’s licensed patents *without* “infringing” on the Distinctive Apple User Experience, the product is licensed and HTC *does not* infringe on Apple’s patents. Should HTC produce a product that practices one of Apple’s licensed patents *while* “infringing” on the Distinctive Apple User Experience, the product is not licensed and HTC *does* infringe on Apple’s patents. As such, *but for* the infringement of the Distinctive Apple User Experience, HTC would not incur liability for patent infringement, extending the scope of the patent grant to cover the unpatentable subject matter.

Some may question whether forbidding licenses that prohibit the wholesale cloning of features in competing product lines is a positive endeavor. Is it not good for innovation to allow parties to settle a case in a manner in which the patent infringer obtains a license to use the patent in some fields of use but not others? Why should a patent holder have to license patents for use in directly competitive products when the infringer can use the patent in other products?

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*Pictures*, 305 U.S. at 127 . . . , and any anticompetitive effects they may cause are reviewed in accordance with the rule of reason. *See Mallinckrodt*, 976 F.2d at 708, 24 USPQ2d at 1179–80.”).

<sup>130</sup> *Id.* (“Two common examples of such impermissible broadening are using a patent which enjoys market power in the relevant market . . . to restrain competition in an unpatented product or employing the patent beyond its 17-year term.”).

First, as discussed previously, the anti-cloning provisions are not mere field of use restrictions. If Apple wanted to restrict HTC or Microsoft from deploying “slide to unlock” in mobile devices, Apple is certainly free to attempt to license the “slide to unlock” patent with that restriction in place. Apple is not likely to get much interest in that license, however, because the patent’s true value rests in the ease with which it integrates user actions with unlocking mobile devices, be they phones or tablets. Anti-cloning provisions, as opposed to the exemplar field of use restrictions above, restrict the practice of the patents not in certain fields but rather in combination with other non-patentable subject matter. It is this defining characteristic that removes the anti-cloning provisions from being simple field-of-use restrictions and places them squarely within the domain of patent misuse.

Second, Apple is under no obligation to license its patents to anyone.<sup>131</sup> Apple is also under no obligation to license its patents to competitors without limiting the license to exclude the fields of competition (such as the example in the previous paragraph). However, should Apple choose to license its patents to competitors without such a field limitation, Apple may not restrict the usage of the licensed patents within that field to hinder competition by requiring that the patents not be practiced in conjunction with non-patentable subject matter, as it does with anti-cloning provisions.

The possible procompetitive benefits that may be alleged are inconsequential. In both instances, the anti-cloning provisions serve to impermissibly restrict competition by improperly expanding the patent grant via licensure to capture unpatentable subject matter that rests squarely outside of the exclusive rights provided by the patent grant. Ignoring this fact in favor of any potential procompetitive argument only serves to undermine the patent system as a whole and intellectual property as a general concept.

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<sup>131</sup> *Cygnus Therapeutic Systems v. ALZA Corp.*, 92 F.3d 1153, 1160 (Fed. Cir. 1996) (“[The patentee] was under no obligation to license [its patented product]. The patent statute grants a patentee the right to exclude others from making, using, or selling the patented invention. 35 U.S.C. §§ 154, 271(a) (1994). Indeed, a patentee may, if it wishes, do nothing with the subject matter of the patent. *See King Instrument Corp. v. Perego* . . .”).

1. This Extension is Broader and More Flagrant than Term Expansions

While anti-cloning provisions should be considered to constitute misuse simply due to the extension of the patent grant to cover unpatentable subject matter, this extension of the patent grant is actually broader and more flagrant than other term expansions in that it entirely removes unpatentable innovation from being brought to the market by others. This is especially true if we accept Apple's allegations that its success in the market is due, in large part, to its user experience.<sup>132</sup> In granting patents, the market is always deprived of some elements of an innovation for a period of time. An extension of this deprivation (i.e., patent term extension), while harmful, has a limited effect because the vacuum was created in order to incentivize the innovation in the first place. Expansions of the scope or coverage of the patent grant have much more pernicious effects on the marketplace. Through these provisions, Apple can potentially exclude all licensees from utilizing non-patentable subject matter in their products or innovations as long as Apple is able to continue to secure patents with its market power that are sufficient to leverage acquiescence to its anti-cloning provisions. Consumers are denied fair competition regarding this subject matter so long as Apple's competitors must agree to not engage in competition. This vacuum was not created in order to incentivize innovation. Rather, the vacuum is forcibly imposed on the market by an actor that possesses market power.

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<sup>132</sup> Complaint at 1, *Apple Inc. v. Samsung Electronics Co., Ltd. et al*, 5:12-cv-00630 (N.D. Cal. Feb 08, 2012) ("Apple's iconic mobile devices . . . are now among the most distinctive and successful products in the world. The revolutionary patented design and user experience of these products are the result of Apple's massive investment in innovation and have contributed to the extraordinary acclaim and success of Apple's products.").

*B. Anti-Cloning Provisions are Anticompetitive*

By prohibiting Apple's competitors from utilizing elements and subject matter that would otherwise be available to them (due to being unprotected by the patent grant), the anti-cloning provisions restrain effective competition on the merits. This necessarily reduces competition in that it prevents the use of any of the licensed patents in a context that the market has approved of and adapted to by any competitors. For example, the Apple/HTC licensing agreement specifically identifies the "slide to unlock" bar at the bottom of the screen as a feature that could be considered to be a part of the Distinctive Apple User Experience.<sup>133</sup> Assuming for the moment that there are other ways that the "slide to unlock" feature could be implemented, such as along the side of the phone, the inertial position of the market impacts the demand. Apple, as a prime mover in the smartphone market, is in a position to guide user preferences by simply implementing features and making the market accustomed to certain aspects of those features. If effective competition requires a user experience or appearance that is similar to products on the market or an experience or appearance that possesses a similar veneer of non-patentable subject matter, any restraint on using the non-patentable subject matter clearly hinders that competition.

While the America Invents Act removes the best mode defense from alleged infringers' available defenses, the requirement that the best mode be included within the specification of an application remains.<sup>134</sup> The patent is granted to the patentee in exchange for disclosing the patentee's invention to the public. This disclosure is intended to enable the public to practice the invention once the patent has expired and to release the invention into the public domain. Should a licensor require that the best mode of an invention (or perhaps the only mode of an invention) not be practiced by the licensee, the licensee's ability to provide robust

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<sup>133</sup> Apple/HTC Settlement Agreement, *supra* note 7.

<sup>134</sup> Leahy-Smith America Invents Act, 35 U.S.C. § 282(b)(3)(A) (2013) ("[A]ny requirement of section 112, except that the failure to disclose the best mode shall not be a basis on which any claim of a patent may be canceled or held invalid or otherwise unenforceable.").

competition is effectively gutted. Here, through anti-cloning provisions, Apple potentially licenses its patents on the condition that the best mode (as embodied within the Distinctive Apple User Experience) of the disclosed invention not be practiced or else the resulting product be considered to be unlicensed and infringing. As such, the anti-cloning restrictions should always be considered to be anticompetitive.

*C. Anti-Cloning Provisions are More Pernicious than Reverse Engineering Clauses*

It may be argued at this point that these anti-cloning provisions are akin to restrictions on reverse engineering and that there are facial similarities between them; thus, since restrictions on reverse engineering are permitted, so too should anti-cloning provisions be allowed. A brief introduction to reverse engineering prohibitions followed by an analysis of the key differences between reverse engineering prohibitions and anti-cloning provisions will address this argument.

1. Reverse Engineering is a Matter of Copyright Law that May Be Restrained by Contract

In *Bowers v. Baystate*,<sup>135</sup> the Federal Circuit held that parties are free to enter into agreements that enforce stricter requirements than copyright law protections allow and that such agreements are not preempted by copyright law. This notion relies heavily on *ProCD v. Zeidenberg*,<sup>136</sup> where the court determined that uncopyrightable materials could be protected by shrinkwrap licenses because no new exclusive rights were created for the copyright holder. Furthermore, the court in *Bowers* noted that *Data General v. Grumman*<sup>137</sup> demonstrated that state laws dealing with similar subject matter as federal copyright laws (the unlawful copying of trade secret materials and unlawful copying,

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<sup>135</sup> 320 F.3d 1317 (Fed. Cir. 2003).

<sup>136</sup> 86 F.3d 1447 (7th Cir. 1996).

<sup>137</sup> *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994).

respectively) are not necessarily preempted so long as the state law is not wholly encompassed by copyright law.<sup>138</sup>

Judge Dyk's vigorous dissent in *Bowers v. Baystate Technologies, Inc.*<sup>139</sup> and the extensive commentary against the majority's holding<sup>140</sup> center around the harm to necessary limitations on the copyright grant, such as fair use reverse engineering, that is done by allowing shrinkwrapped contracts, which are commonly compared to contracts of adhesion, to effectuate the removal of such limitations. While Judge Dyk freely admits that the contracting away of a fair use defense or agreements to not engage in all permissible uses of copyrightable material that an unconstrained licensor may be entitled to is both possible and legal, he requires that the agreement be "freely negotiated" and thus add an "extra element" to the contract law claim that allows it to avoid preemption under *Data General*.<sup>141</sup>

While convincing to many academics and commentators, the dissent has not been adopted and the majority opinion has been consistently followed.<sup>142</sup> However, the perniciousness of restrictions on reverse engineering, even where the restrictions are unbargained for, is limited solely to the expression of the underlying structure of a program and does not prohibit the development of apparent behaviors that require no decompilation to discover. In that sense, a restriction on reverse engineering, while potentially harmful to copyright policy (especially with

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<sup>138</sup> *Bowers*, 320 F.3d at 1324.

<sup>139</sup> *Id.* at 1335 (Dyk, J., dissenting).

<sup>140</sup> See, e.g., David A. Rice, *Copyright and Contract: Preemption After Bowers v. Baystate*, 9 ROGER WILLIAMS U. L. REV. 595, 644 (2004); Christopher M. Kaiser, Comment, *Take it or Leave it: Monsanto v. McFarling, Bowers v. Baystate Technologies, and the Federal Circuit's Formalistic Approach to Contracts of Adhesion*, 80 CHI.-KENT L. REV. 487 (2005); Jonathan Wilson, Case Note, *Can a Copyright Holder Prevent Reverse Engineering? The Federal Circuit Court Holds that the Federal Copyright Act Does Not Preempt "No Reverse Engineering" Clauses*, 8 COMPUTER L. REV. & TECH. J. 467 (2004).

<sup>141</sup> *Bowers*, 320 F.3d at 1336–37.

<sup>142</sup> See, e.g., *Neon Enter. Software, LLC v. IBM Corp.*, No. A-09-CA-896 AWA, 2011 WL 2036674 (W.D. Tex. 2011) (dealing with "reverse assembly"); cf. *Hotsamba, Inc. v. Caterpillar Inc.*, 2004 U.S. Dist. LEXIS 4882, Copy. L. Rep. (CCH) P28, 788 (N.D. Ill. Mar. 24, 2004).

regard to interoperability), does not encompass the whole of the uncopyrightable elements of a work. Indeed, copyright law explicitly does not cover the behavioral aspects of software; therefore, if a developer is able to determine the underlying workings of a particular piece of software from a facial examination or is able to reproduce the behaviors in a different manner, the rightsholder has no recourse, as the substantially similar end product (behavior) is not the object of protection.

## 2. Differentiation between Anti-Reverse Engineering and Anti-Cloning Restrictions

Contractual restrictions on reverse engineering and contractual restrictions on cloning activities are fundamentally different for a single reason. While reverse engineering restrictions serve to prohibit an activity that involves a work that is within the scope of the copyright grant (and even this prohibition is incomplete, as noted above), anti-cloning restrictions necessarily implicate and cover more than can be contained within a patent grant and potentially any intellectual property grant.

For example, where software source code has been compiled into machine-readable object code for distribution, the decompilation of the object code (and thus its unauthorized copying), in order to reverse engineer attributes, behaviors, and concepts underlying the expressive elements of the source code, is allowed by the courts as a fair use of the copyright grant.<sup>143</sup> By requiring a finding of fair use to be legal, the practice necessarily involves work that is covered by the grant. A prohibition on reverse engineering merely prevents the licensee from examining the specific implementations that the licensor has utilized to achieve the various attributes and behaviors present in the software. The prohibition alone does not forbid making use of

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<sup>143</sup> See *Sega Enterprises, Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1993); *Sony Computer Equipment v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000) (holding that the disassembly of computer code may be a fair use of a copyrighted work if disassembly is the only way to gain access to the ideas and functional elements embodied in the work and there is a legitimate reason for seeking such access).

independently derived implementations of the various attributes or behaviors or forbid the development of similar attributes or behaviors for deployment in similar products.<sup>144</sup>

This may be contrasted with anti-cloning provisions. These provisions have a far and deep reach, attempting and claiming to cover every aspect of a “user experience,” reserving such an experience to one party or another. This necessarily encompasses far more than can ever be reached by the traditional regimes of intellectual property. Indeed, a clear and dangerous reality of anti-cloning provisions is the extent to which no one actually knows how far they truly reach.<sup>145</sup> Where expressive portions of a piece of

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<sup>144</sup> *i-Systems, Inc. v. Softwares, Inc.*, No. CIV. 02-1951 JRFLN, 2004 WL 742082 (D. Minn. Mar. 29, 2004) (“[Any elements of the program] may be unprotectable because they constitute idea rather than expression, are facts or processes, are unoriginal or in the public domain, or are subject to the doctrines of merger or scenes a faire.” (citing *Control Data, Inc. v. Infoware, Inc.*, 903 F. Supp. 1316, 1323 (D. Minn. 1995))); *see also id.* at 33 (“The main purpose of a program is almost always an idea, and thus unprotectable.” (citing *Gates Rubber Co. v. Bando Chemical Industries, Ltd.*, 9 F.3d 823, 836 (10th Cir. 1993))).

<sup>145</sup> *Apple, Inc. v. Samsung Elecs. Co.*, 2013 U.S. Dist. LEXIS 160337, 40-41 (N.D. Cal. Nov. 7, 2013) (“The scope of the Apple patents and HTC products covered by the HTC Agreement is not entirely clear. This much appears undisputed: the agreement settled litigations between Apple and HTC that involved 32 of Apple’s U.S. patents, including the ‘381 and ‘915 patents, see Updated Rebuttal Expert Report of Michael J. Wagner for New Trial on Damages, August 26, 2013, 353 (‘Wagner Updated Rebuttal Report’), and the agreement explicitly does not cover Apple’s design patents, see Article 5.1. But the parties’ experts do not necessarily agree on whether the agreement also exempts the ‘381, ‘915, or ‘163 patents, as applied to HTC’s smartphones. Compare Wagner Updated Rebuttal Report 344 (‘[T]he [HTC Agreement] explicitly provided a license to [the ‘381 and ‘915] patents, in addition to an implicit license to the ‘163 Patent.’) with Videotaped Deposition of Julie Davis, August 26, 2013, at 227 (ECF No. 2573-5) (‘I don’t know if [those patents] are [included] or are not.’). The reason for the lack of clarity appears to be due to the agreement’s ‘anti-cloning’ provision. In overly simplistic terms, but sufficient for current purposes, the anti-cloning provision exempts from HTC’s license any product for which HTC copied the patented design and related functionality of an Apple product, regardless of whether HTC intended to copy that product. See HTC Agreement, Articles 5.1 & 12, Exhibit A. Although the anti-cloning provision expressly does not exempt pure functionality, such as ‘pinch to zoom,’ from HTC’s license, *id.*, Exhibit A, Apple does not concede that the HTC Agreement gives HTC a license to the utility patents at issue in the

software contain non-expressive attributes or behaviors or functional elements, those elements are considered to be beyond the scope of a copyright grant. Where functional elements qualify for patent protection, the environment in which they are utilized does not factor into whether a patent grant covers the element. Furthermore, a claim over the user experience for software will almost certainly rely in some measure on patentable subject matter whose protection has expired and has entered into the public domain. Perhaps a software author could argue for a thin copyright covering the selection and arrangement of various protectable and non-protectable elements, but choosing not to attempt protection in this manner and instead relying on provisions prohibiting cloning clearly expands the scope of whatever intellectual property rights have been granted and exposes the public to the potential recapture of intellectual property in the public domain.

Indeed, compared to the prohibition on “examination” to which was analogized reverse engineering above, anti-cloning provisions prohibit far more. They prohibit the very use of disclosed implementations (i.e., the implementations disclosed, as intended by the patent regime, in the patent application or, potentially, in the public domain) in developing or producing similar attributes or behaviors not covered by the patent grant for deployment in competing products, attributes or behaviors that may be included in the very disclosure that the licensor ostensibly grants permission to the licensee to use. The prohibition covers a much larger expanse than the prohibition of reverse engineering, prohibiting the ability of a competitor to fairly compete in a very meaningful way, as opposed to restricting the in-depth examination of a licensor’s product. As such, restrictions on cloning activities necessarily implicate works and elements that fall outside of any specific grants of intellectual property rights, potentially including elements that may never be subject to the traditional intellectual property regimes, while restrictions on reverse engineering only affect activities that necessarily implicate and are covered by the copyright grant.

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retrial, see, e.g., 10/27/2013 Hearing Tr. at 134 (‘How you would apply that license to this IP is very complicated. It carves out portions of the IP that have been found to be infringed here.’)).

The judiciary's acceptance of contractual restraints on reverse engineering has likely been eased by Judge Rader's assignment of de minimus damages to breaching the contractual restraint for the discernment of non-protected code.<sup>146</sup> Acceptance is much less likely to occur, however, where contractual restraints result in wide swaths of innovation being removed and potential competitors being prohibited from entering the market without incurring heavy damages as a result of patent infringement.

*D. Anti-Cloning Provisions Should be Found to be Per Se Illegal and Should Result in Equitable Remedies*

Under the doctrine of patent misuse, conduct may be classified as per se misuse, per se legal, or potential misuse depending on the competitive effects. Anti-cloning provisions should be considered to impermissibly broaden the patent grant to cover non-patentable subject matter and effectively restrain competition in unpatented products. Without even needing to consider the anticompetitive effects that the provisions have on the market, this improper broadening of the patent grant should provide enough of a basis for courts to find such provisions to be per se misuse—the obvious anticompetitive effects serving to buttress this determination.

Arguments in favor of the anti-cloning provisions on the grounds that they may provide some procompetitive benefits can be easily brushed aside. Whatever the procompetitive benefits are alleged to be, the anticompetitive effect of allowing an entity with market power that is able to set the de facto standard in at least some markets in which it competes (i.e., smartphones) to effectively remove the possibility of directly competing products (i.e., Samsung smartphones) by leveraging its patent monopoly cannot be overcome. Even if this effect could be overcome, the argument is moot due to the grounding of patent misuse in patent policy rather than antitrust policy. Patent policy abhors impermissible expansions of the patent grant, and anti-cloning provisions are examples of such expansions.

A finding of misuse renders the misused intellectual property

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<sup>146</sup> *Bowers*, 320 F.3d at 1326.

unenforceable. Where courts encounter such provisions, especially where there is a history of their usage and thus a history of misuse, courts should order all intellectual property rights involved in any licensing agreement that contains such a provision to be unenforceable until the misuse is cured. While other factors will play into a court's determination of whether the misuse has been cured, at a minimum a court should require a party that has engaged in such misuse to renegotiate all "tainted" licensing agreements to remove the offending terms and certify to the court that no agreements currently in force contain the offending terms in order to demonstrate that they have cured the misuse.

Here, Apple's use of anti-cloning provisions should constitute misuse. The presence of the Apple/Microsoft settlement agreement and the Apple/HTC settlement agreement, paired with Apple's insistence that any settlement agreement with Samsung include an anti-cloning provision, should provide ample evidence of a pattern of misuse spanning over 15 years. As such, should a court consider a defense of patent misuse against an infringement claim by Apple, the court should find Apple's conduct to have constituted per se misuse and hold every patent involved in an agreement that contained or contains any anti-cloning provision to be unenforceable. At a minimum, the court should require that, in order for Apple to cure the misuse for any single patent, every agreement that the patent is involved in must have the offending provision removed. The anti-cloning provision itself is not necessarily unenforceable. Rather, the misuse renders the patent grant itself unenforceable. As such, the severability clause of Apple's agreements may<sup>147</sup> or may not<sup>148</sup> remove the anti-cloning

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<sup>147</sup> Severability clause of Apple's agreement in the Apple/HTC settlement agreement:

Severability. If any portion of this Agreement is found to be invalid, illegal, or unenforceable for any reason, the remainder of the Agreement shall continue in full force and, if needed, the Parties or an appropriate arbitral body shall substitute suitable provisions having like economic effect and intent.

Apple/HTC Settlement Agreement, *supra* note 7, at 13.5.

<sup>148</sup> Severability clause of Apple's agreement in the Apple/Microsoft settlement agreement:

Severability. If any term, provision, covenant, or restriction of

provision automatically, thus potentially requiring Apple to renegotiate every agreement affecting every patent rendered unenforceable by its misuse.

This is obviously a sweeping result with the potential to effectively render most or all of an entity's intellectual property unenforceable for a significant amount of time (the time required to renegotiate all of the offending agreements where the provision is not automatically severed plus, potentially, time for any lingering "taint" to disperse). While such a remedy is anything but subtle, the noxiousness of the anti-cloning provisions is such that it demands a strong reinvigoration of the equitable remedies available to the judiciary in policing the appropriate bounds of patent licensing.

#### CONCLUSION

Anti-cloning provisions inflict an evil on the market, capturing non-patentable subject matter within the scope of a patent grant and exposing those who infringe upon the non-patentable subject matter to potential liability. This improper broadening of the patent grant constrains competition in unpatented products, harms competition, and should be considered by the courts to constitute per se patent misuse. Where this misuse exists, all intellectual property that is tainted by the anti-cloning provision should be held to be unenforceable while agreements that contain the offending provision are still in force.

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this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants, and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

Apple/Microsoft Agreement, *supra* note 10, at 14.7.



STANDING ROOM ONLY: *MADSTAD ENGINEERING* AND THE  
POTENTIAL TO CHALLENGE THE CONSTITUTIONALITY OF  
THE AMERICA INVENTS ACT'S "FIRST-INVENTOR-TO-FILE"  
PATENTING SYSTEM

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ABSTRACT

*In 2011, the Leahy–Smith America Invents Act (AIA) was signed into law, bringing significant changes to the Patent Act of 1952. Arguably, the most substantial change was the demise of the “American approach” to patent law: the “first-to-invent” patent filing system. Congress, by enacting the AIA, changed America's patent system from “first-to-invent” to “first-inventor-to-file,” sparking controversy among patent scholars and practitioners, with some individuals arguing that this change was unconstitutional. Recently, the Federal Circuit faced an issue of first impression when an inventor challenged the constitutionality of the first-inventor-to-file provisions of the AIA, and by extension the AIA as a whole, under Article I, Section 8, Clause 8 of the United States Constitution in the case of MadStad Engineering, Inc. v. USPTO. While ruling against MadStad based on standing, and not on the constitutionality issue, the court gave some insight for a challenger to establish standing by showing a substantial risk of injury actually arising from the first-inventor-to-file*

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*provision of the AIA. From the MadStad ruling, it is clear that the arguments of the constitutionality of the AIA’s first-inventor-to-file provisions are far from settled.*

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INTRODUCTION

Practitioners and academics alike have debated the constitutionality of the American Invents Act (“AIA”) since before it was signed into law on September 16, 2011.<sup>1</sup> Notably, some

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<sup>1</sup> See, e.g., Jonathan S. Massey, *Why First To File Is Unconstitutional*, in WHY H.R. 1249 IS UNCONSTITUTIONAL 1, 1 (2011), docs.piausa.org/112th-Congress%20(2011-2012)/Why%20H.R.%201249%20is%20Unconstitutional.pdf; Andrew L. Sharp, *Misguided Patent Reform: The Questionable Constitutionality of First-to-File*, 84 U. COLO. L. REV. 1227, 1253 (2013); John Burke, *Examining the Constitutionality of the Shift to “First Inventor to File” in the Leahy–Smith America Invents Act*, 39 J. LEGIS. 69, 87 (2013); Edward C. Walterscheid, *Priority of Invention: How the United States Came to Have a “First-to-Invent” Patent System*, 23 AIPLA Q.J. 263, 286 (1995); Eric P.

academics question the constitutionality of changing America’s first-to-invent patent system to a first-inventor-to-file patent system, bringing the United States in line with the rest of the world’s patent regimes.<sup>2</sup> They argue that the implementation provisions of the AIA do not comport with the original intent behind Article I, Section 8, Clause 8 of the United States Constitution (the “IP Clause”) and the legislative history and intent behind patent law in America.<sup>3</sup> A recent ruling by the Federal Circuit, *Madstad Engineering, Inc. v. U.S. Patent & Trademark Office*, enlightens the procedural context of the continuing debate as to whether certain provisions of the AIA are constitutional.<sup>4</sup> Although the Court ruled that MadStad lacked federal standing, a constitutional challenge to the AIA could be brought if one were to follow the Federal Circuit’s murky path, achieve standing, and maintain a cognizable argument for unconstitutionality.

In Part I, this Article sets out a brief historical backdrop of the Constitution’s IP Clause, explains how America came to have a first-to-invent patent system, and discusses who qualifies as a true “Inventor” under prior patent laws. Following the history of the IP Clause, Part II of this Article describes questions regarding the constitutionality of the AIA and arguments that the first-inventor-to-file provisions of the AIA are unconstitutional. In Part III, this Article explores the *MadStad* case, its facts, procedure, and eventual majority opinion. Ruling against MadStad on the standing issue, the Federal Circuit avoided the constitutional issues MadStad raised in its initial complaint. The Federal Circuit’s opinion invites discussion of how one can establish standing to challenge the AIA. Finally, Part IV of this Article discusses the ramifications of the *MadStad* ruling; the constitutionality of the first-inventor-to-file patent system; and practice pointers on how standing can be achieved and what, if any, constitutional

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Vandenburg, *America Invents Act: How It Affects Small Businesses*, 50 IDAHO L. REV. 201, 205 (2013); *see also* Pub. L. No. 112-29, 125 Stat. 284 (2011).

<sup>2</sup> Dennis Crouch, *First-to-File versus First-Inventor-to-File*, PATENTLY-O (Dec. 11, 2009), <http://patentlyo.com/patent/2009/12/first-to-file-versus-first-inventor-to-file.html>.

<sup>3</sup> Burke, *supra* note 1, at 87.

<sup>4</sup> *Madstad Eng'g, Inc. v. USPTO*, 756 F.3d 1366 (Fed. Cir. 2014).

challenges can be sustained.

### I. BRIEF HISTORICAL BACKDROP: THE “IP CLAUSE” AND WHO QUALIFIES AS AN INVENTOR

Prior to the changes made by the AIA, the United States granted patent rights based on a first-to-invent system, whereby the first individual to conceive of a new invention and reduce it to practice received the patent.<sup>5</sup> In order to understand the new first-inventor-to-file system and its origins, it is helpful to briefly consider Article I, Section 8, Clause 8 of the United States Constitution and the historical definition of “Inventor.”

#### *A. Development of the IP Clause: Who is an “Inventor?”*

Article I, Section 8, Clause 8 (the “IP Clause”) of the Constitution states: “To 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.”<sup>6</sup> Some scholars have argued that the IP Clause is the only clause granting power to Congress that specifically provides the authorized means to accomplish the clause’s stated purpose.<sup>7</sup> Some scholars argue that, because common usage and Supreme Court precedent indicate that the term “Inventor” actually means the “first inventor,” Congress is only authorized to endow first inventors with patent rights.<sup>8</sup> Other scholars, however, believe that “to promote the Progress of Science and the Useful Arts” grants general power to Congress.<sup>9</sup> What, then, is the constitutional meaning of an “Inventor”? Moreover, has Congress properly

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<sup>5</sup> Vandenburg, *supra* note 1, at 205.

<sup>6</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>7</sup> Adam Mossoff, *The First-to-File Provision in H.R. 1249 is Unconstitutional: A Textual and Historical Analysis*, SANDRA DAY O’CONNOR COLLEGE OF LAW (2011), [http://homepages.law.asu.edu/~dkarjala/Patent/MossoffHR1249Unconstitutional\(2011\).pdf](http://homepages.law.asu.edu/~dkarjala/Patent/MossoffHR1249Unconstitutional(2011).pdf).

<sup>8</sup> Sharp, *supra* note 1, at 1243.

<sup>9</sup> Andrew M. Hetherington, *Constitutional Purpose and Inter-clause Conflict: The Constraints Imposed on Congress by the Copyright Clause*, 9 MICH. TELECOMM. & TECH. L. REV. 457, 507 (2003).

observed this in passage of the AIA?

The common usage of the word “inventor” generally refers to a first inventor, not the second individual to discover the same or similar idea.<sup>10</sup> In certain instances, however, “inventor” means anyone who brought the invention into another country, not necessarily the absolute first inventor in the world.<sup>11</sup> When the Constitution was drafted, “inventor” meant “one who produces something new; a devisor of something not known before.”<sup>12</sup> Only a first inventor can devise something not previously known; a second inventor does not produce anything new. Therefore, while a second inventor may rediscover an idea, he or she does not actually discover the idea.<sup>13</sup>

The Constitution was not the only enactment relating to patent rights in the early days of the Republic. In 1790, Congress passed the first patent act, which authorized patents for any person who “invented or discovered any useful art, manufacture, engine, machine, or device . . . not before known or used.”<sup>14</sup> Although certain congressional members believe that a first-to-invent system has been guaranteed by prior history, both the Supreme Court and Congress believe a first-inventor-to-file system brings the U.S. in line with the rest of the world. The Supreme Court has previously supported the idea that the first-to-invent system, which is different from other patent systems in place around the world, is constitutional.<sup>15</sup> But, does the first-inventor-to-file system comport with prior definitions and remain constitutional? Almost every other country in the world awards patents to the first individual to file for a patent without considering whether the potential patentee was actually the first to invent the particular subject matter for

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<sup>10</sup> Massey, *supra* note 1, at 2.

<sup>11</sup> Edward C. Walterscheid, *Patents and Manufacturing in the Early Republic*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 855 (1998).

<sup>12</sup> *Id.*

<sup>13</sup> Sharp, *supra* note 1, at 1243.

<sup>14</sup> Patent Act of 1790, ch. 7, 1 Stat. 110 (1790).

<sup>15</sup> Burke, *supra* note 1, at 87 (acknowledging *Shaw v. Cooper*, 32 U.S. (6 Pet.) 292, 292 (1833) (“[I]t clearly appears, that it was the intention of the legislature, by a compliance with the requisites of the law, to vest the exclusive right in the inventor only . . .”).

which the patent is sought.<sup>16</sup> Thus, Congress felt the need to align the American patent system with the world's view of an "inventor."

*B. The Changing Landscape: The AIA and the "First-to-Invent" Patent Filing System*

The Supreme Court has given Congress wide latitude to define the patent system under the IP Clause.<sup>17</sup> The Court noted that, although the IP Clause "is both a grant of power and a limitation," Congress may "[w]ithin the limits of the constitutional grant . . . implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim."<sup>18</sup> Although the Supreme Court has allowed Congress to define "inventor" to mean the first inventor to file, this does translate to a general prohibition against challenging the constitutionality of the AIA.

When Congress enacted the AIA, it defined an inventor as the individual who is the first inventor to file with the United States Patent and Trademark Office (USPTO). As Congress noted in the AIA, "converting the United States patent system from 'first to invent' to . . . 'first inventor to file' . . . [provides] inventors with greater certainty regarding the scope of protection provided by the grant of exclusive rights to their discoveries."<sup>19</sup> With potential patent holders worried that their inventions and proprietary information may be encroached upon, some have challenged Congress's way of thinking and questioned the legitimacy of the first-inventor-to-file system when legislative history, constitutional drafting, and case law have indicated otherwise.

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<sup>16</sup> *Id.* (quoting Vito J. DeBari, *International Harmonization of Patent Law: A Proposed Solution to the United States' First-to-File Debate*, 16 *FORDHAM INT'L L.J.* 687, 687–88 (1993)).

<sup>17</sup> Timothy R. Holbrook, *The Treaty Power and the Patent Clause: Are There Limits on the United States' Ability to Harmonize?*, 22 *CARDOZO ARTS & ENT. L.J.* 1, 7 (2004).

<sup>18</sup> *Id.*

<sup>19</sup> Leahy–Smith America Invents Act, Pub. L. No. 112-29, § 3(o), 125 Stat. 284, 293 (2011) (codified at 35 U.S.C. § 100).

## II. SCHOLARLY CRITICISM OF THE AIA'S CONSTITUTIONALITY

Beyond the arguments that the AIA does not comport with the IP Clause of the Constitution, other scholars have argued that the AIA is unconstitutional under the Fifth Amendment's Takings Clause. In his article *Misguided Patent Reform: The Questionable Constitutionality of First-to-File*, Andrew L. Sharp argues that the AIA's constitutionality can be challenged under the Fifth Amendment's Takings Clause.<sup>20</sup> The Takings Clause states that "private property [shall not] be taken for public use, without just compensation."<sup>21</sup> The argument goes as follows: although the Takings Clause traditionally applies to eminent domain seizures, it also prevents the government from taking any constitutionally-protected private property without just compensation.<sup>22</sup> The Takings Clause has four elements: (1) an individual must have private property; (2) the government must take the private property; (3) the taking must be without just compensation; and (4) the taking must be in the public interest.<sup>23</sup>

When the Patent Office awards patent rights to an individual other than the first inventor, it allows that individual to prevent the first inventor from using their invention. Ultimately, "whatever invention [an inventor] may thus conceive and perfect is his individual property."<sup>24</sup> Using the Supreme Court's reasoning from *Ruckelshaus v. Monsanto*,<sup>25</sup> Sharp argues that patentable inventions are private property because those inventions possess many elements of real property.<sup>26</sup>

Sharp also analogizes to the "real property" aspects of patentable intentions. Citing *Phillips v. Washington Legal*

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<sup>20</sup> See Sharp, *supra* note 1, at 1248 (arguing that the Takings Clause prevents the government from taking an inventor's private property without compensation and for the public use).

<sup>21</sup> U.S. CONST. amend. V.

<sup>22</sup> Sharp, *supra* note 1, at 1248 (citing *United States v. Willow River Power Co.*, 324 U.S. 499, 502 (1945)).

<sup>23</sup> *Kelo v. City of New London*, 545 U.S. 469, 496–97 (2005).

<sup>24</sup> Sharp, *supra* note 1, at 1250 (quoting *Solomons v. United States*, 137 U.S. 342, 346 (1890)).

<sup>25</sup> 467 U.S. 986 (1984).

<sup>26</sup> Sharp, *supra* note 1, at 1249–54.

*Foundation*,<sup>27</sup> Sharp notes that the Supreme Court held that “a State may not sidestep the Takings Clause by disavowing traditional property interests long recognized under state law.”<sup>28</sup> As Sharp summarizes, because the Fifth Amendment applies equally to the state and federal governments, the reasoning in *Phillips* would also prohibit the federal government from taking first inventors' property via congressional action.<sup>29</sup> Thus, Congress cannot simply revoke the Fifth Amendment protection that first inventors enjoy in patentable inventions. This revocation creates an unconstitutional “taking.” While this argument has yet to gain traction in federal court, it remains a potential ground for challenging the AIA.

### III. FACTS AND RULINGS OF *MADSTAD ENGINEERING V. USPTO*

#### *A. Facts*

Mark Stadnyk is an inventor and the holder of three patents. Stadnyk's company, MadStad Engineering, Inc., is a Florida corporation that developed and marketed Stadnyk's inventions.<sup>30</sup> Together, Stadnyk and MadStad Engineering, Inc., (collectively “MadStad”) challenged the constitutionality of the AIA because, allegedly, they had to “maintain heightened security around potential inventions,” which increased business costs, including costs resulting from maintaining security against computer hackers who allegedly sought information about ideas that were “close to patentability.” MadStad claimed that it invested substantially in “hardware firewalls, . . . encryption software, . . . and the IT expertise to install and manage [those systems],” and also had to invest in additional equipment and facilities to produce, manufacture, and execute prototypes “increasing time and effort and higher costs relating to patent applications” costing

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<sup>27</sup> 524 U.S. 156, 164 (1998).

<sup>28</sup> Sharp, *supra* note 1, at 1252.

<sup>29</sup> *Id.* at 1253.

<sup>30</sup> *Madstad Eng'g, Inc. v. USPTO*, No. 8:12-CV-1589-T-23MAP, 2013 WL 3155280, at \*1 (M.D. Fla. May 8, 2013).

approximately \$3,500.00.<sup>31</sup> MadStad claimed the AIA’s new first-inventor-to-file system imposes a burden of maintaining heightened secrecy around potential inventions until a patent application is filed, as “much of today’s intellectual property . . . is created on or stored on computers, virtually all of which are connected to the Internet . . . . Since the [AIA] no longer concerns itself with actual inventorship, the new law makes it attractive and profitable for computer hackers to steal IP and file it as their own or to sell it to the highest bidder.”<sup>32</sup>

MadStad sued the United States, the USPTO, and the Director of the USPTO (collectively the “Defendants”), claiming the AIA was unconstitutional and violated the IP Clause because “Congress [was] not authorized to award patents to the winners of the race to file at the USPTO.” MadStad sought injunctive and declaratory relief.<sup>33</sup> The Defendants challenged MadStad’s standing to sue and filed a motion to dismiss.

### B. Rulings

#### 1. District Court Rules Against MadStad: The Uphill Climb Begins

At the district court level, the Defendants attacked MadStad’s standing to sue the USPTO and claim that the AIA was unconstitutional. In order to establish standing, a plaintiff must assert facts showing that, at the moment of the filing of the suit, “the plaintiff suffers from a *concrete and imminent injury in fact* (1) that results from the invasion of a legally protected interest, (2) that is causally and fairly traceable to the defendant’s challenged conduct, and (3) that a favorable judicial determination likely will redress.”<sup>34</sup> These three factors “constitute the core of Article III’s case-or-controversy requirement, and the party invoking federal

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<sup>31</sup> *Id.* at \*1–2.

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

<sup>34</sup> *Id.* (emphasis added) (quoting *Lujan v. Defenders of Wildlife*, 504 U.S. 555 (1992)).

jurisdiction bears the burden of establishing its existence.”<sup>35</sup>

MadStad argued that it suffered four “concrete injuries” from the enactment of the AIA: (1) the burden of maintaining heightened security protocols; (2) the need to maintain additional equipment to expedite product development; (3) the increased time and effort caused by the need to file additional patent applications; and (4) lost business and investment opportunities caused by the “chilling effect” of the AIA.<sup>36</sup> The Defendants argued that MadStad’s harms were not actual or imminent (not “certainly impending”) and were partially within MadStad’s control.<sup>37</sup>

After analyzing both sides’ arguments, the district court discussed *Clapper v. Amnesty International USA*, the Supreme Court’s then-current directive on Article III standing.<sup>38</sup> In *Clapper*, the Supreme Court reversed a judgment of the Second Circuit Court of Appeals but agreed that, under Article III, an injury must be “concrete, particularized, and actual or imminent.”<sup>39</sup> The *MadStad* district court stated that “imminence is concededly . . . an elastic concept, it cannot be stretched beyond its purpose, which is to ensure that the alleged injury is not too speculative for Article III purposes . . . . [T]hreatened injury must be *certainly impending* to constitute injury in fact . . . . [A]llegations of *possible* future injury” are insufficient.<sup>40</sup> The district court in *MadStad* then recounted the injuries pled by the plaintiffs in *Clapper*, which included heightened travel costs for fear of government monitoring of personal conversations under the Foreign Intelligence Surveillance Act (FISA), and noted that the Supreme Court determined that the “highly attenuated chain of possibilities present[ed] no prospect of a ‘certainly impending’ injury to the plaintiffs.”<sup>41</sup> Finally, the *MadStad* court further emphasized that,

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<sup>35</sup> *Id.* at \*3.

<sup>36</sup> *Id.* at \*2–3.

<sup>37</sup> *Id.*

<sup>38</sup> *Clapper v. Amnesty Int’l USA*, 133 S. Ct. 1138 (2013). The case of *Susan B. Anthony List v. Driehaus*, 134 S. Ct. 2334 (2014), the Supreme Court’s new directive on standing, was not decided until 2014.

<sup>39</sup> *Clapper*, 133 S. Ct. at 1140 (quoting *Monsanto Co. v. Geertson Seed Farms*, 130 S. Ct. 2473, 2474 (2010)).

<sup>40</sup> *Clapper*, 133 S. Ct. at 1147.

<sup>41</sup> *Id.* at 1148.

although the *Clapper* plaintiffs contended that they had standing because of costs incurred due to the reasonable risk of harm, the plaintiff’s costs were a form of “self-inflicted injuries” that were not “fairly traceable” to the claim.<sup>42</sup>

The district court then compared the facts of *Clapper* to Madstad’s case. The *MadStad* court believed that, although the two cases had remarkably different fact patterns, there were some similarities: each plaintiff tested the constitutionality of a statute, and each plaintiff triggered an especially rigorous inquiry into the qualifications for his standing. Further, both plaintiffs responded to a perceived need to expend money to avoid “entirely hypothetical consequences of legislation,” that is, “the plaintiffs expended funds . . . in response to conjectural events . . . controlled entirely by the judgment and discretion of the plaintiffs.”<sup>43</sup> Relying on *Clapper*, the district court held that MadStad did not have standing, and granted the Defendants’ motion to dismiss.

## 2. Federal Circuit Hearing: No Rest for MadStad

Madstad appealed the dismissal and requested that the Federal Circuit declare the AIA unconstitutional.<sup>44</sup> The Federal Circuit affirmed the lower court’s ruling and did not address the constitutionality argument.<sup>45</sup>

### a. Federal Circuit jurisdiction

In the Federal Circuit’s opinion, the court first discussed whether it was authorized to hear the case under Article III. The court held that, based on previous Supreme Court rulings, the court’s jurisdiction was proper because (1) a resolution of the constitutional challenge would require the court to interpret the terms “inventor” and “first-inventor-to-file” under the AIA and to assess the interactions between those terms and the use of those terms in the IP Clause in the Constitution; and (2) both parties’

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<sup>42</sup> *Id.* at 1152.

<sup>43</sup> *MadStad Eng’g*, 2013 WL 3155280, at \*5.

<sup>44</sup> *MadStad Eng’g v. USPTO*, 756 F.3d 1366, 1367 (2014).

<sup>45</sup> *Id.* at 1380.

briefs made clear that the definitional matters were at the heart of the dispute—precisely the type of issue the Supreme Court has classified as substantial in the relevant sense, as defined by its “importance of the issue to the federal system as a whole.”<sup>46</sup> Further, the court emphasized that Congress placed appeals for constitutional inquiries involving patents “within the province of the Federal Circuit.”<sup>47</sup>

b. MadStad’s failed standing arguments

The court next addressed MadStad’s standing to sue. The court recounted the minimum standing requirements, described above.<sup>48</sup> It then recounted the lower court’s reliance on *Clapper* and agreed with the lower court that an “acutely attenuated concatenation of events” was required for MadStad to actually suffer any injury traceable to the AIA.<sup>49</sup>

MadStad made no argument that was persuasive to the Federal Circuit. The court analyzed all four of MadStad’s alleged injuries: the increased risk of computer hacking, the increased time and effort to file additional patent applications, the competitive disadvantage relative to competitors, and the lost business and investment opportunities.<sup>50</sup> The court found none of those injuries sufficient to reverse the lower court’s ruling that MadStad did not have standing.<sup>51</sup>

MadStad claimed it suffered redressable injury because it already expended money to enhance cyber security in response to an alleged increase in computer hacker threats.<sup>52</sup> The court stated “the mere fact that MadStad, like all other people and companies, faces cyber threats does not create standing . . . . MadStad [cited] statistics that indicate hacking was a growing threat well *before the*

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<sup>46</sup> *Id.* at 1371 (quoting *Gunn v. Minton*, 133 S. Ct. 1059, 1066 (2013)).

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

<sup>48</sup> *Id.* (quoting *Monsanto Co. v. Geertson Seed Farms*, 561 U.S. 139, 149 (2010)).

<sup>49</sup> *Id.* at 1373 (quoting *MadStad Eng’g*, 2013 WL 3155280, at \*6).

<sup>50</sup> *Id.* at 1373–78.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

*AIA was even enacted.*”<sup>53</sup> The court discussed this point, finding that there was nothing in the record to suggest that the AIA would cause hackers to launch attacks that MadStad’s old security system could not handle and concluded that MadStad’s assumptions did not create standing.<sup>54</sup>

Turning to the argument that MadStad had to increase its time and effort to file additional patent applications, the court analyzed whether MadStad had suffered actual or imminent injury because of the AIA.<sup>55</sup> MadStad claimed that Stadnyk would be forced to move the invention process more quickly and file applications earlier than he might otherwise desire. The Defendants argued that MadStad had not filed any patent applications after the AIA was enacted, and that Stadnyk’s patents would still have to traverse the patent application process.<sup>56</sup> While the court did not necessarily agree with the Defendant’s arguments, it agreed that MadStad did not establish standing based on “[MadStad’s] fear of being forced into filing a patent application . . . .”<sup>57</sup> Quoting *Lujan v. Defenders of Wildlife*, the court found MadStad did not provide enough evidence to meet the “concrete, particularized, and actual or imminent injury requirement.”<sup>58</sup>

For Madstad’s final two arguments—the competitive disadvantage relative to competitors and the lost business and investment opportunities—the court found MadStad’s concerns too “speculative and generalized” to meet the injury requirement.<sup>59</sup> MadStad argued that it would have to create in-house development and testing centers to compete with larger companies that have resources to protect their inventions.<sup>60</sup> However, the court noted

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<sup>53</sup> *Id.* at 1374.

<sup>54</sup> *Id.* (comparing to *Clapper v. Amnesty Int’l USA*, 133 S. Ct. 1138, 1148 (2013)).

<sup>55</sup> *Id.* at 1375.

<sup>56</sup> *Id.*

<sup>57</sup> *Id.* at 1376.

<sup>58</sup> *Id.* at 1377 (quoting *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 564–65 (1992) (“[P]rofessions of ‘some day’ intentions without any description of concrete plans or indeed even any specification of when that some day will be do not support a finding of the ‘actual or imminent injury.’”)).

<sup>59</sup> *Id.* at 1377.

<sup>60</sup> *Id.* at 1378.

that this would require too many assumptions to connect the injury to the enactment of the AIA; MadStad had not shown that it actually had set up research facilities in response to the AIA, or that it was engaged in a research project that would use such facilities.<sup>61</sup> Finally, the court was not persuaded by MadStad's argument that non-disclosure agreements (put in place to combat theft) would dissuade potential investment opportunities, creating an actual or imminent injury sufficient to establish standing.<sup>62</sup>

c. *Clapper* as appropriate precedent

After finding that MadStad had failed to establish standing under the standard set forth in *Clapper*, the court addressed MadStad's challenge to the district court's reliance on *Clapper*. MadStad tried (and failed) to persuade the court that *Clapper*'s plaintiffs were not directly affected by the act they brought suit under (the FISA), and that the facts of *Clapper* in no way conformed to the facts in the current case.<sup>63</sup> While the court agreed with MadStad's argument, it concluded that many of the general standing principles set forth in *Clapper* were "enlightening and . . . controlling."<sup>64</sup> Much like the plaintiffs in *Clapper*, MadStad "present[ed] no concrete evidence to substantiate their fears, but instead rest[ed] on mere conjecture about possible government action."<sup>65</sup> MadStad provided no concrete evidence the enactment of the AIA would increase IP theft, and "MadStad [did] not allege or present evidence that anyone [was] trying to actively steal its IP because of the AIA."<sup>66</sup>

MadStad also argued that the court should apply the standing analysis employed by the Supreme Court in *Susan B. Anthony List v. Driehaus*.<sup>67</sup> In *Driehaus*, the Court articulated a separate

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<sup>61</sup> *Id.*

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 1381.

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

<sup>65</sup> *Id.*

<sup>66</sup> *Id.* at 1379–80.

<sup>67</sup> 134 S. Ct. 2334 (2014).

standard for the threat of impending injury.<sup>68</sup> The Court, citing *Clapper*, stated that a “challenger need not expose himself to . . . prosecution to challenge a statute so long as the threat of arrest or prosecution is sufficiently ‘credible’ . . . . [A]n allegation of future injury may suffice if the threatened injury is ‘certainly impending’ or there is a ‘substantial risk’ harm will occur.”<sup>69</sup> The *Madstad* court, unpersuaded by the potential of other tests for standing based on different factual circumstances, held *Clapper* applied to *Madstad* and affirmed the district court’s ruling.<sup>70</sup>

#### IV. CONCLUSION

Despite finding that *Madstad* lacked standing, the court by no means closed the door to a constitutional attack on the AIA. This, of course, is as long as one achieves standing under Article III and competently challenges the constitutionality of the AIA.

While the plaintiffs in *Madstad* failed to establish standing due to lack of cognizable injury, future plaintiffs could do a few things to overcome this particular hurdle. In order to achieve standing under the *Clapper* standard (and to an outside extent the *Driehaus* standard), plaintiffs must present a substantial risk that harm will occur *because of* the enactment of the challenged congressional act. Based on the Federal Circuit’s opinion, a plaintiff would need to show that, because of the AIA, he or she has been harmed and the offending party has (1) stolen the potentially patentable idea and attempted to patent that idea; (2) hacked a patent holder’s data systems and taken potential proprietary information for the purpose of being the first inventor to file an invention; or (3) caused concrete injury because of the illegal decisions of independent actors stemming from the enactment of the AIA. Of course, any person filing a patent under the AIA is still subject to certain statutory requirements.<sup>71</sup> Beyond the statutory provisions, a

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<sup>68</sup> *Id.* at 2342–43.

<sup>69</sup> *Madstad Eng’g*, 756 F.3d at 1380 (quoting *Susan B. Anthony List*, 134 S. Ct. at 2340–41).

<sup>70</sup> *Id.* at 1381.

<sup>71</sup> A patent applicant must adhere to the Oath and Declaration requirement under §115(b) of the AIA (stating they are the original inventor) and is subject

plaintiff could bolster their standing to sue outside of the AIA's provisions by showing harm similar to the *Clapper* standard: an injury that is "concrete, particularized, and actual or imminent."<sup>72</sup> This could include: (1) evidence of harm arising out of the enactment of the AIA, including the harms listed above; (2) a suffering of current injury; or (3) a patentable invention or a patent ready for filing.

If a plaintiff can establish standing, they would be able to argue that the AIA's first-inventor-to-file provision is unconstitutional under the IP Clause or the Takings Clause. Thus, "the door remains open for a challenger to attempt to establish standing by demonstrating its alleged harms are 'certainly impending' through factual circumstances that support a 'substantial risk' of injury flowing from the statutory requirement."<sup>73</sup>

#### PRACTICE POINTERS

- *MadStad* did not close the door to a constitutional challenge of the AIA's first-inventor-to-file provisions.
- To establish standing when challenging the constitutionality of the AIA's first-inventor-to-file provisions, practitioners should closely follow the standards set forth in *Clapper*, and to a lesser extent, *Driehaus*, and establish: a sufficiently "credible" allegation of future injury if the threatened injury is "certainly impending" or there is a "substantial risk" harm will occur.
- A plaintiff could bolster their standing to sue by showing (1) evidence of harm arising out of the enactment of the AIA; (2) a suffering of current injury; and (3) a patentable invention or a patent ready for filing.

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to the AIA's §135 Derivation Proceedings if another inventor believes they were indeed the first person to invent.

<sup>72</sup> *Clapper v. Amnesty Int'l USA*, 133 S. Ct. 1138, 1148 (2013).

<sup>73</sup> Natalie A. Bennett, *Federal Circuit Sidesteps Constitutionality of AIA First-to-File Provision*, NAT'L L. REV. (Aug. 29, 2014), <http://www.natlawreview.com/article/federal-circuit-sidesteps-constitutionality-america-invents-act-aia-first-to-file-pr>.

THE CODE-BASED INTERPRETATION OF AUTHORIZATION:  
AN INCOMPLETE PICTURE

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ABSTRACT

*The definition of authorization under the Stored Communications Act raises questions about implied authorization in situations where someone fails to secure an email account properly. The few cases that have addressed this issue under the federal act or its state equivalents have not created a bright-line rule. Instead, the question of authorization has been highly fact-dependent. Two leading interpretive theories have emerged on the question of authorization: the code-based theory and the trespass theory. While the code-based interpretation of authorization seems pleasing because it appears to provide highly predictive outcomes, it fails in some circumstances. This failure is especially obvious when someone inadvertently and unintentionally gives someone else permanent access to an email account by, for instance, saving their username and password in the browser of a shared computer. Courts interpreting cases in this context implicitly reject the code-based interpretation of authorization, which would provide no remedy, in favor of the trespass theory. Ultimately, the code-based model does not provide enough flexibility to fit all situations in which the courts wish to provide a remedy. The best test, therefore, involves aspects of both theories.*

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## INTRODUCTION

At a time where anything and everything is done online, and when our computer, phone, or tablet can store all of our private email accounts and passwords, when do we implicitly grant someone else authorization to access that information? The question is not as clear-cut as some would like to think. There are two models of interpreting the ultimate question of what constitutes *authorization* under the federal Stored Communications Act (“SCA”): the code-based theory and the trespass theory. The code-based theory relies on whether the user bypasses code-based protections of the computer or system, whereas the trespass theory analogizes to trespass law to determine implied authorization. Depending on the facts of the case, the

outcome may necessarily be different depending on which model is used. While the code-based theory is growing in popularity, it fails to provide a remedy in all cases where society and the courts appear to see the need for one. In those circumstances, the courts implicitly reject the code-based interpretation in favor of the more fluid trespass model, often leaving the ultimate determination of implied authorization to the jury.

## I. BACKGROUND

As technology developed, privacy protection laws needed to as well. A wiretap statute that only penalized voice interception proved inadequate once communications started becoming electronic and digital.<sup>1</sup> Further, courts lacked guidance as to what extent common law protections extended to electronic communications. Recognizing these problems, Congress passed the Electronic Communications Privacy Act (“ECPA”) in 1986.<sup>2</sup> This Act expanded the Wiretap Act to include the “interception” of electronic communications.<sup>3</sup> Congress also recognized that electronic communications are not always in transit; service providers also place them in temporary storage.<sup>4</sup> The ECPA, therefore, included the Stored Communications Act to protect communications in electronic storage.<sup>5</sup>

### A. *The Stored Communications Act*

Congress passed the Stored Communications Act (“SCA”) to extend privacy protections to electronic communications stored on a server that provides email or other electronic communication service.<sup>6</sup> The Act provides that whoever “(1) intentionally accesses

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<sup>1</sup> See *United States v. New York Telephone Co.*, 434 U.S. 159, 167 (1977) (recognizing that the Wiretap Act only applies where there is “aural acquisition of the contents” of a message).

<sup>2</sup> See generally, H.R. REP. NO. 99-647 (1986); Electronic Communications Privacy Act of 1986, Pub. L. No. 99-508, 100 Stat. 1848.

<sup>3</sup> Compare 18 U.S.C. § 2511 (2008), with Wiretap Act of 1968, Pub. L. 90-351, Title III, § 802, 82 Stat. 213.

<sup>4</sup> See H.R. REP. NO. 99-647, at 22 (1968).

<sup>5</sup> *Id.*

<sup>6</sup> See S. REP. NO. 99-541, at 5 (1986).

without authorization a facility through which an electronic communication service is provided; or (2) intentionally exceeds an authorization to access that facility . . . shall be punished . . . .”<sup>7</sup>

The classic problem Congress designed the SCA to address is when an individual hacks into an email provider and reads another individual’s emails. As one departs from the archetypal example, however, the analysis becomes more complicated. This Article does not attempt to answer the ultimate question of when a person can and cannot implicitly have authorization. Instead, this Article attempts to demonstrate the highly fact-dependent nature of the inquiry.

### *B. Civil Cause of Action*

The SCA provides for a civil cause of action, which allows persons who are “aggrieved” by the violation of the SCA to recover damages from the violator.<sup>8</sup> Notably, the civil cause of action requires a lesser mens rea: from intentional to either “knowing or intentional.”<sup>9</sup> The SCA also guarantees a minimum of a \$1,000 recovery, grants the court power to award the prevailing party costs and attorney’s fees, and allows for the possibility of punitive damages if the conduct was “willful or intentional.”<sup>10</sup>

### *C. State Statutes*

Certain states have adopted comparable statutes to the SCA.<sup>11</sup> For example, New Jersey expanded its Wiretap Act to include language equivalent to that of the federal SCA.<sup>12</sup> While New Jersey’s version has a different grammatical structure than its federal counterpart, the

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<sup>7</sup> 18 U.S.C. § 2701(a) (2002).

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Id.* § 2707(c).

<sup>11</sup> The following is a non-exhaustive list of states that have some variation of the SCA: Alaska, Delaware, Florida, Massachusetts, New Jersey, Pennsylvania, Virginia, and Wisconsin. *See* 1 ROBERT D. BROWNSTONE & TYLER G. NEWBY, DATA SEC. & PRIVACY LAW § 9:47, at 1 n.1 (2014); N.J. STAT. ANN. § 2A:156A-27 (West 2013).

<sup>12</sup> N.J. STAT. ANN. § 2A:156A-27 (West 2013).



when someone determines the password using a password-cracking computer program, but also covers others situations, such as where a person hacks around a password barrier or other security device, or uses social engineering to trick someone into disclosing their password to the hacker.<sup>19</sup> Though this approach covers a wide swath of activity, it is still narrow in that only limited types of conduct constitute code-based violations.

One reason for using this approach is clarity. Another is that it limits the number of situations that would constitute a violation of the SCA. Recognizing that statutes like the SCA impose criminal liability, some argue that the rule of lenity<sup>20</sup> should apply to require this narrow interpretation of authorization.<sup>21</sup> Therefore, this method of understanding authorization limits liability to when someone *explicitly* tricks a computer system or uses deceit to induce a human into giving more information or privileges than the person otherwise would have.<sup>22</sup>

### *B. The Trespass Theory is a More Fluid Model*

Another, more fluid theory of interpreting authorization involves linking violations to the tort of trespass. This theory operates mainly by analogy between trespass law and computer systems.<sup>23</sup> In *Theofel*, the court found a violation of the SCA when a company sought to execute a clearly invalid subpoena on an email provider.<sup>24</sup> After recognizing that the SCA serves a comparable role to the tort of

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*Determining Employees' Authorization Under the Computer Fraud and Abuse Act*, 107 MICH. L. REV. 819, 825 (2009).

<sup>19</sup> *Id.*

<sup>20</sup> The Rule of Lenity requires that ambiguous laws imposing criminal liability be interpreted in favor of the defendant when their ambiguity cannot be clarified through traditional means of statutory interpretation. *See Bell v. United States*, 349 U.S. 81, 83–84 (1955).

<sup>21</sup> *See* Warren Thomas, Comment, *Lenity on Me: LVRC Holdings LLC v. Brekka Points the Way Toward Defining Authorization and Solving the Split over the Computer Fraud and Abuse Act*, 27 GA. ST. U. L. REV. 379 (2011) (arguing for lenity to be applied in interpreting authorization under the CFAA).

<sup>22</sup> Field, *supra* note 18, at 825.

<sup>23</sup> *See, e.g., Theofel v. Farey-Jones*, 359 F.3d 1066, 1072–73 (9th Cir. 2003). *Theofel* is the leading and arguably first case to apply the trespass model.

<sup>24</sup> *See id.* at 1074.



fact.<sup>28</sup>

In *Marcus v. Rodgers*, a school employee used a computer after another employee who had not logged off of her email.<sup>29</sup> The subsequent user discovered the email inbox open on the screen and then opened two emails where the email subject indicated that he was discussed.<sup>30</sup> While he did not have to do anything to see the inbox contents, he did have to click on each of the two individual emails to see their text.<sup>31</sup> He eventually printed and disseminated the content of the emails.<sup>32</sup> Criminal charges were brought against Rodgers but ultimately dismissed.<sup>33</sup> Thereafter Marcus, the owner of the email account, sued under New Jersey's equivalent of the SCA.<sup>34</sup> The trial court denied a motion for summary judgment and let the issue go to a jury.<sup>35</sup> The jury found that Rodgers did not violate the act.<sup>36</sup>

On appeal, the court found that Marcus could not establish that the defendant acted without authorization because she left her email account open and accessible.<sup>37</sup> The court noted that the defendant did not circumvent a username or password but merely accessed what was open and available to him.<sup>38</sup> This analysis implies a code-based approach to interpreting authorization.

However, the court did not close the door on further analysis beyond the simple code-based inquiry. While the code-based approach appeared to resolve the first question of whether the defendant had authorization, the court looked further to whether the defendant “knowingly *exceeded* his authorization.”<sup>39</sup> As to this second step, the court focused on the mens rea requirement: “plaintiffs had to establish that [Rogers] *knowingly* exceeded his

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<sup>28</sup> *Marcus*, 2012 WL 2428046, at \*5.

<sup>29</sup> *Id.* at \*1.

<sup>30</sup> *Id.* at \*1–2.

<sup>31</sup> *Id.*

<sup>32</sup> *Id.* at \*1–3.

<sup>33</sup> *Id.* at \*3.

<sup>34</sup> *Id.*

<sup>35</sup> *Id.* at \*1.

<sup>36</sup> *Id.*

<sup>37</sup> *Id.*

<sup>38</sup> *See id.* at \*5.

<sup>39</sup> *Id.* (emphasis added).



skepticism as to the defendants' story.<sup>52</sup>

The juxtaposition of these two cases serves to highlight how highly fact-dependent the outcomes of these cases are. While it is important to note that these cases deal with different statutes in different jurisdictions,<sup>53</sup> both indicate the unwillingness of courts to leave the question to the simple code-based approach. Ultimately, and despite the simple answer under the code-based approach, both courts left the question to the jury.

*B. The Context of a Computer Shared Between Spouses  
Demonstrates the Predictive Appeal of the Code-Based  
Interpretation*

Feuding spouses provide another context in which questions of implied authorization arise. In these cases, the code-based model seems applicable and largely outcome-determinative.

In *White v. White*,<sup>54</sup> the wife hired a private agency to investigate her husband for information that she could use to obtain a divorce.<sup>55</sup> The agency looked at a computer that was for family use and found that the husband had backed up all his emails on the hard drive.<sup>56</sup> Not knowing that the emails would be available without username or password, he did not attempt to secure the emails.<sup>57</sup> The wife's investigator copied the emails from the hard drive.<sup>58</sup> In the resultant custody proceeding, the husband moved to suppress the emails, arguing that the private investigator accessed them in violation of New Jersey's version of the SCA.<sup>59</sup>

In denying the motion, the court briefly addressed the concept of authorization. It stated, "'without authorization' means using a computer from which one has been prohibited, or using another's

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<sup>52</sup> *Id.*

<sup>53</sup> *Marcus* applies the New Jersey equivalent to the SCA, while *Doe* applies the federal SCA.

<sup>54</sup> 344 N.J. Super. Ct. 211 (2001).

<sup>55</sup> *Id.* at 215–16.

<sup>56</sup> *Id.*

<sup>57</sup> *Id.* at 216.

<sup>58</sup> *Id.* at 217.

<sup>59</sup> *Id.* at 214–15.



scenario, courts may reject the code-based interpretation of authorization in favor of the more fluid trespass theory.

In *Lazette v. Kulmatycki*,<sup>66</sup> Verizon issued Lazette, an employee, a BlackBerry for business and personal use.<sup>67</sup> Verizon allowed the employee to check her personal Gmail account on the BlackBerry.<sup>68</sup> At the end of her employment, she returned the BlackBerry with all her personal emails deleted but without disabling or removing the Gmail account access.<sup>69</sup> Subsequently, her supervisor used the BlackBerry and continually monitored her personal email account from it.<sup>70</sup>

Lazette sued, alleging a violation of the SCA.<sup>71</sup> The defense filed a 12(b)(6) motion to dismiss and argued that her failure to secure the system deprived her of a claim under the SCA.<sup>72</sup> The court declined to dismiss, stating that “negligence [in failing to remove the account] is, however, not the same as approval, much less authorization.”<sup>73</sup> The court followed the trespass model, analogizing the situation to someone who “fails to leave the door locked when going out” as opposed to “one who leaves it open knowing someone [will] be stopping by.”<sup>74</sup>

In another case, *Pure Power Boot Camp v. Warrior Fitness Boot Camp*,<sup>75</sup> plaintiffs brought action against defendants for theft of business model, violation of trademarks and copyrights, and breaching fiduciary duties.<sup>76</sup> Defendants moved to exclude from evidence certain emails obtained in violation of the SCA.<sup>77</sup> Mr. Fell, owner of the defendant corporation, left his username and password for his personal email account stored on his work computer, such that it auto-filled when an employee of plaintiff corporation accessed the

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<sup>66</sup> 949 F. Supp. 2d 748 (N.D. Ohio 2013).

<sup>67</sup> *Id.* at 751.

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

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

<sup>70</sup> *Id.*

<sup>71</sup> *Id.* at 751.

<sup>72</sup> *Id.* at 756.

<sup>73</sup> *Id.* at 757.

<sup>74</sup> *Id.*

<sup>75</sup> 587 F. Supp. 2d 548 (S.D.N.Y. 2008).

<sup>76</sup> *Id.* at 551.

<sup>77</sup> *Id.*

email account.<sup>78</sup>

The plaintiff<sup>79</sup> argued that authorization was implied because Fell left his username and password stored on the work computer.<sup>80</sup> The court applied the trespass model, likening plaintiff's conduct to leaving "a key to his house on the front desk [of the plaintiff's corporation]" and maintained that in such a situation, "one could not reasonably argue that he was giving consent to whomever found the key, to use it to enter his house and rummage through his belongings."<sup>81</sup> The court held that there was no implied authorization for plaintiff's employees to access his personal email directly from his Hotmail account and other accounts by using a password stored on plaintiff's computers.<sup>82</sup>

One final case does not involve inadvertence but express permission. In *Cardinal Health 414, Inc. v. Adams*,<sup>83</sup> two employees, Adams and Young, exchanged their usernames and passwords so they could access each other's email and other work materials when one was replacing the other as manager. After a couple of years, Adams left the company.<sup>84</sup> Though Adam's own username and password ceased to work once he left, he continued to access information on the employer's server using Young's account information.<sup>85</sup> He ultimately obtained information that was proprietary in nature.<sup>86</sup>

The company eventually sued under, inter alia, the SCA. Both sides moved for summary judgment. Despite the fact that Young freely gave Adams his username and password, the court granted judgment for the plaintiff, finding an SCA violation as a matter of law.<sup>87</sup> The court first noted that "[c]ommon sense should have been sufficient to indicate to Adam that [his] behavior was wrong."<sup>88</sup> Then the court applied the trespass model:

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<sup>78</sup> *Id.* at 552.

<sup>79</sup> The plaintiff was the non-movant for the motion.

<sup>80</sup> *Pure Power Boot Camp*, 587 F. Supp. 2d at 559, 561.

<sup>81</sup> *Id.* at 561.

<sup>82</sup> *Id.* at 562.

<sup>83</sup> 582 F. Supp. 2d 967, 970 (M.D. Tenn. 2008).

<sup>84</sup> *Id.*

<sup>85</sup> *Id.* at 970–71.

<sup>86</sup> *Id.* at 972.

<sup>87</sup> *Id.* at 977.

<sup>88</sup> *Id.*

Drawing the analogy to trespassing, it is as if, two years earlier, Young asked Adams to water the plants in his office while he was on vacation and, for this purpose only, Young gave Adams an extra key to his office. Then, two years later, after Adams left the company, Adams used the key to come back in the office, snoop around, and take some of Young's work-related materials. Such conduct would clearly be trespassing.<sup>89</sup>

The first two of these cases suggest that, when a person inadvertently leaves another individual permanent access to his or her password, he or she does not grant the other individual authorization to access the email account. The final case suggests that inadvertence may not even be required. In all three situations the courts comfortably used an analogy, likening the situation to trespass law, thereby applying the trespass theory of authorization. Additionally, in all three cases the courts implicitly rejected the code-based analysis by finding breach of the act for simply using the password someone had access to. These cases demonstrate that the code-based approach is insufficient. It does not provide a remedy in every situation where society would expect one. The trespass theory is more fluid and can fit these unusual cases. If *Lazette*, *Pure Power Boot Camp*, and *Cardinal Health* are any indication, courts tend to abandon the code-based interpretation of authorization in situations where the code-based interpretation would not provide (from the court's perspective) an adequate remedy.

#### IV. THE APPROPRIATE APPROACH TO AUTHORIZATION LOOKS TO BOTH THE CODE-BASED AND TRESPASS THEORIES

It is important to note that the code-based and trespass approaches to authorization are not mutually exclusive. The predictive benefit of the code-based model can, at least in part, be utilized while still allowing a more fluid trespass model to emerge and protect individuals when needed. In fact, the best approach to determining authorization would involve both approaches working in tandem. As

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<sup>89</sup> *Id.*



facts. So too, in the computer trespass context, practitioners should be aware that slightly distinguishable facts can create vastly different outcomes. The best model would involve using aspects of both approaches together. Thus, a court can get some of the predictive ability of the code-based approach while still having the freedom to find violations under analogies to trespass law when the facts and societal norms demand it.

RADIO REVOLUTION: THE LOCAL COMMUNITY RADIO  
ACT'S EXPANSION OF POSSIBILITIES FOR LOW-POWER FM  
STATIONS

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ABSTRACT

*This Article explores the struggle to establish low-power FM radio stations on airwaves already crowded with full-power stations. Historically, urban markets have provided few opportunities for low-power stations due to third-adjacent channel protections—there are only so many frequencies available in a given city. The Local Community Radio Act of 2010 gives new stations an advantage in the debate by eroding these protections. In October of 2013, the FCC opened the application window for new low-power stations—only the second window since the inception of low-power FM in 2001. During the window, the FCC received 2,800 applications, including eighty-one from Washington State. In an industry dominated by only a few voices, community stations now have the chance to raise their own voices above the din. This Article also explores the technical and practical feasibility of removing second-adjacent channel protections. While such removal faces*

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The author of this Article would like it to be noted that he formerly volunteered for and has donated to KYRS in Spokane, Washington. KYRS is a low-power FM station whose general manager, Lupito Flores, lobbied in favor of the Local Community Radio Act.

*resistance from traditional broadcasters, the FCC has shown through its decisions that the prevailing trend is in favor of community radio.*

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INTRODUCTION

The radio industry is sharply defined by the scarcity of its very medium of expression—broadcast spectrum. Given this scarcity, community interests often take a backseat to commercial interests. But through the continued efforts of the Federal Communications Commission (“FCC”) and recent legislation, that imbalance is starting to change. Though locally-driven low-power FM stations (“LPFMs”) have yet to achieve parity with full-power stations, the balance is shifting in their favor.

In October of 2013, the FCC opened up applications for a new wave of LPFMs. This wave was made possible by the Local

Community Radio Act (“LCRA”), passed by Congress in 2010.<sup>1</sup> The LCRA’s primary vehicle for new opportunities is the elimination of third-adjacent channel protections.<sup>2</sup> The LCRA also allows the waiver of second-adjacent channel protections when a LPFM can demonstrate that no interference with another station will occur.<sup>3</sup> Finally, the LCRA establishes parity between LPFMs and FM translators and boosters.<sup>4</sup>

Adjacent channel protections have overprotected full-power stations, allowing them to maintain a virtual stranglehold on the radio market in urban areas—the LCRA will loosen that grip and allow for a more competitive, community-oriented radio market. Despite resistance from entities like the National Association of Broadcasters (“NAB”),<sup>5</sup> the FCC has shown that it intends to fulfill its congressional mandate and support LPFMs. As hopeful stations apply for licenses over the next few years, American communities both urban and rural may see a local radio revolution as the FCC emphasizes the potential of locally-produced content and downplays the bugaboo of “interference.”

## I. A BRIEF TECHNICAL NOTE

This Article uses the terms “second-adjacent channel” and “third-adjacent channel” frequently. Each “channel” is equivalent to 200 kHz, or one “click” on the radio dial.<sup>6</sup> Thus, 100.5 FM is one channel away from 100.3 and 100.7, two channels away from 100.1 and 100.9, and three channels away from 99.9 and 101.1. Full-power FM radio stations are required to be spaced four channels apart,<sup>7</sup> primarily to keep broadcasters from concentrating

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<sup>1</sup> Local Community Radio Act of 2010, Pub. L. No. 111-371, § 3, 124 Stat. 4072 (2010).

<sup>2</sup> *Id.*

<sup>3</sup> *Id.* at 4073.

<sup>4</sup> *Id.*

<sup>5</sup> See Alan G. Stavisky, Robert K. Avery & Helen Vanhala, *From Class D to LPFM: The High-Powered Politics of Low-Power Radio*, 78 JOURNALISM AND MASS COMM. Q. 340, 341 (2001) (finding that the resistance to LPFM mostly revolves around maintaining “spectrum integrity”).

<sup>6</sup> See 47 C.F.R. § 73.207(b) (2012).

<sup>7</sup> *Id.* (requiring full-power FM stations to maintain first-, second-, and

their stations in city centers.<sup>8</sup> The elimination of third-adjacent channel protection in the LCRA would allow a LPFM to operate on a frequency only three channels away from another station; in the Seattle radio market, the elimination of such protection could result in as many as eight new radio stations operating on newly-available frequencies.<sup>9</sup>

## II. LEGAL BACKGROUND BEFORE AND AFTER THE LCRA

### A. *LPFMs Before the LCRA Were Bound by an Inconsistent Protection Regime*

Before the LCRA, LPFMs progressed by incremental steps—specifically one forward, two back. In 2000, the FCC authorized the creation of a new, low-power radio service.<sup>10</sup> The intent was twofold: to create a class of community stations not controlled by existing media concern—i.e., commercial entities—and to preserve the integrity of existing FM radio service.<sup>11</sup> At the time of the authorization, the FCC did not impose third-adjacent channel requirements of the new LPFMs, reasoning that it would unduly impede the operation of new stations.<sup>12</sup> However, Congress later imposed third-adjacent channel protection requirements in a general appropriations bill.<sup>13</sup> The Radio Broadcast Preservation Act of 2000, which had nearly the exact same provisions as the relevant section of the appropriations bill, died in committee that same year; nevertheless, the two bills have been referred to

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third-adjacent channel spacing).

<sup>8</sup> See *Commc'ns Inv. Corp. v. FCC*, 641 F.2d 954, 963–64 (D.C. Cir. 1981) (finding that the relevant portion of the Communications Act of 1934 was intended to “ensure adequate service to smaller communities and ‘sparsely populated’ regions”).

<sup>9</sup> Anna Minard, *Low Power to the People: The FCC Will License Up to Eight Underground Radio Stations in Seattle*, THE STRANGER, Feb. 13, 2013, at 9.

<sup>10</sup> Creation of Low Power Radio Serv., 15 FCC Rcd. 2205, 2206 (2000).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 2207.

<sup>13</sup> D.C. Appropriations—FY 2001, Pub. L. No. 106-553, § 632, 114 Stat. 2762 (2000).

interchangeably.<sup>14</sup> In 2003, the FCC commissioned a study on the impact of third-adjacent channel interference, which ultimately concluded that third-adjacent channel interference is minimal at best and is unlikely to cause issues with full-power FM stations except at or near the transmitter station site.<sup>15</sup> Despite the conclusions of the study, however, the FCC's hands remained tied.

Though mandated by the Radio Broadcast Preservation Act to maintain third-adjacent channel protections, the FCC authorized a limited waiver of *second*-adjacent channel protections in 2007 to avoid the loss of a "small but not insignificant" number of LPFMs.<sup>16</sup> The NAB challenged the ruling, claiming that it was arbitrary and capricious to protect third-adjacent channels while allowing second-adjacent channel protection to lapse.<sup>17</sup> The D.C. Circuit ultimately disagreed, deferring to the FCC's judgment and dismissing the suit.<sup>18</sup>

Accordingly, before the passing of the LCRA the channel protection regime was inconsistent. The FCC could not waive third-adjacent channel protections because of the Radio Broadcast Preservation Act, but could waive second-adjacent channel protections (albeit only in very limited circumstances). Low-power radio was in dire need of some consistency, which it would receive in 2010 in the form of the LCRA.

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<sup>14</sup> See *U.S. v. Any & All Radio Station Transmission Equip.* Located at 4521 20th St., San Francisco, Cal., No. C 03-04598 SI, 2005 WL 588429, at \*4 (N.D. Cal. Mar. 11, 2005); see also *U.S. v. Any and All Radio Station Transmission Equipment*, No. 00 CIV. 893 (GBD), 2004 WL 2848532, at \*8 (S.D.N.Y. Dec. 9, 2004) (both referring to § 632 as the "Radio Broadcast Preservation Act of 2000").

<sup>15</sup> THE MITRE CORP., EXPERIMENTAL MEASUREMENTS OF THE THIRD-ADJACENT CHANNEL IMPACTS OF LOW-POWER FM STATIONS 146–50 (2003) ("[N]o significant LPFM-related degradation of a non-translator receiver was ever identified more than 333 meters from the test LPFM transmitter . . .").

<sup>16</sup> *Creation of a Low Power Radio Serv.*, 22 FCC Rcd. 21912, 21939 (2007) [hereinafter *Radio Service Creation 2007*].

<sup>17</sup> *Nat'l Ass'n of Broadcasters v. FCC*, 569 F.3d 416, 422 (D.C. Cir. 2009).

<sup>18</sup> *Id.* at 421 (stating that while complete elimination of second-adjacent channel protection might be arbitrary and capricious, announcing limited circumstances in which second-adjacent channel protection waiver might be granted is not).

*B. Third-Adjacent Channel Protection is All but Eliminated,  
Subject to Interference Broadcast Requirements*

The LCRA's first major change to LPFMs was the near-elimination of the third-adjacent channel protection requirement, overruling the Radio Broadcast Preservation Act of 2000.<sup>19</sup> However, some restrictions remain: stations on third-adjacent channels are required to broadcast notices of interference, warning listeners that any issues they are having might be due to the LPFM signal.<sup>20</sup> The station must also provide contact information if anyone wishes to complain and must notify the FCC within forty-eight hours of receiving a complaint.<sup>21</sup> These restrictions apply to what the FCC terms "Section 7(3) stations"—that is, new LPFMs that broadcast on third-adjacent channels.<sup>22</sup> Section 7(1) stations, i.e., those that did not satisfy the minimum third-adjacent spacing requirements before the LCRA was enacted, must instead eliminate all interference.<sup>23</sup> Section 7(1) stations, being short-spaced under pre-LCRA regulations, are not required to broadcast interference notices but are subject to the more rigorous requirements contained in the FCC's regulations.<sup>24</sup> LPFMs who obtain licenses post-LCRA are subject to the Section 7(3) requirements, which is a less stringent regime. The FCC has set forth guidelines as to when notices should be broadcast and what language they must contain.<sup>25</sup>

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<sup>19</sup> Local Community Radio Act of 2010, Pub. L. No. 111-371, § 3, 124 Stat. 4072 (2010).

<sup>20</sup> *Id.* § 7.

<sup>21</sup> *Id.*

<sup>22</sup> Creation of a Low Power Radio Serv., 27 FCC Rcd. 15402, 15434 (2012) [hereinafter Radio Service Creation 2012].

<sup>23</sup> *Id.*

<sup>24</sup> See 47 C.F.R. § 74.1203 (2012) (requiring the cessation of broadcast within three minutes of interference being reported and barring any further transmissions until it can be shown that the interference is eliminated).

<sup>25</sup> Radio Service Creation 2012, *supra* note 22, at 15434 (stating that broadcast notices must be made twice daily within the first thirty days of station operation and twice weekly for the remainder of the year; they must also contain language that, "at a minimum, alert[s] listeners of the potentially affected third-adjacent channel station of the potential for interference, instruct[s] listeners to contact the LPFM station to report any interference, and provide[s] contact

*C. Second-Adjacent Channel Protection Remains Mostly in Place*

The second major change prospective LPFMs should be aware of is the waiver provision for second-adjacent channel protection. Under certain circumstances, the FCC can allow LPFMs to broadcast on second-adjacent channels.<sup>26</sup> Specifically, the applicant must show that no interference will occur to any authorized radio service.<sup>27</sup> The FCC permits stations to proceed in the same manner as FM translator stations, such as by showing that interference will not occur due to intervening terrain or a “lack of population” in the overlapping interference area.<sup>28</sup> Applicants have the burden of proof to show that no interference will occur.<sup>29</sup>

LPFMs have tools at their disposal to show the unlikelihood of interference and improve their chances of waiver.<sup>30</sup> These include raising the height of the transmitter and relocating the transmitter away from populated areas.<sup>31</sup> Stations will not, however, be permitted to operate below a certain power level in order to avoid interference,<sup>32</sup> and they cannot use directional antennas.<sup>33</sup> The FCC has provided a few guidelines but as of yet there are no practical examples of accepted measures.

Applicants should also be aware that, although second-adjacent channel waiver is possible, it is subject to more stringent requirements akin to the Section 7(1) stations mentioned above. Upon the receipt of a bona fide complaint (i.e., from someone

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information for the LPFM station”).

<sup>26</sup> Local Community Radio Act of 2010, Pub. L. No. 111-371, § 3, 124 Stat. 4072, 4073 (2010).

<sup>27</sup> Radio Service Creation 2012, *supra* note 22, at 15425.

<sup>28</sup> *Id.* at 15429.

<sup>29</sup> See Administrative Procedure Act, 5 U.S.C. § 556(d) (1946).

<sup>30</sup> These tools are, however, highly technical and largely beyond the scope of this Article.

<sup>31</sup> Radio Service Creation 2007, *supra* note 16, at 21938.

<sup>32</sup> Radio Service Creation 2012, *supra* note 22, at 15430.

<sup>33</sup> Creation of a Low Power Radio Serv., 28 F.C.C. Rcd. 14489, 14501 (2013) [hereinafter Radio Service Creation 2013] (explaining that directional antennas, which are used mainly to focus the direction of a broadcast signal, will have little or no effect on the interference near the transmitter site).

without a legal stake in the proceedings<sup>34</sup>), the station must cease operation immediately until it can show that the interference either was not due to its operation or has been eliminated.<sup>35</sup> Applicants should proceed carefully when applying for a second-adjacent channel waiver and should be mindful that their station can be required to shut down if interference occurs.

*D. The LCRA Establishes LPFM Parity with Translators and Boosters, Creating a Level Playing Field*

The LCRA's final minor change is to put LPFMs on equal footing with FM translators and boosters<sup>36</sup> (though all three remain secondary to full-power stations<sup>37</sup>). LPFMs have been challenged by translators before—in 2003, for example, a rash of translator applicants (the “Great Translator Invasion”) bogged down the FCC application process for years, resulting in (according to one study) a reduction of 15.9% in available airwave space.<sup>38</sup> By putting them on the same level, the LCRA ensures that translator and booster applicants will not receive priority over LPFMs. While this does not immediately open up new opportunities for LPFMs, it does at least allow them to compete on the same terms in the future.

III. THE LCRA IS A STEP IN THE RIGHT DIRECTION, BUT NOT WITHOUT OBSTACLES

The LCRA eliminates some inconsistency and uncertainty

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<sup>34</sup> Radio Service Creation 2012, *supra* note 22, at 15432.

<sup>35</sup> *Id.* at 15431.

<sup>36</sup> Translators and boosters are stations that simultaneously broadcast a full-power station on another channel or strengthen a full-power station's signal by broadcasting on the same channel, respectively, in order to expand coverage. See *FM Translators and Boosters - General Information*, FCC.GOV, <http://www.fcc.gov/encyclopedia/fm-translators-and-boosters-general-information> (last visited Apr. 12, 2015).

<sup>37</sup> Local Community Radio Act of 2010, Pub. L. No. 111-371, § 5, 124 Stat. 4072, 4073 (2010).

<sup>38</sup> John Anderson, *Translator Invasion's Impact on LPFM Quantified*, DIYMEDIA.NET (July 6, 2004), <http://diymedia.net/translator-invasions-impact-on-lpfm-quantified-2/2705>.

surrounding LPFMs, but introduces new wrinkles. Though third-adjacent channel protection is nearly a thing of the past, interference broadcast requirements and complaint proceedings remain as holdovers from those worried about the old saw of “spectrum integrity.” And while second-adjacent channel waiver might be cause for celebration, the technical requirements and limitations make it a rare exception.

*A. Interference Broadcasts Will Have Little Practical Effect and the Complaint Resolution Process is Unclear*

The interference broadcast requirements for third-adjacent channel LPFMs are clear, though marked by two major problems. The first is that the FCC’s requirements for “addressing” complaints remain vague.<sup>39</sup> Unless the FCC clarifies its responsibilities through further rulemaking, this issue must be resolved through agency adjudications on the subject, which do not exist at the time of this Article’s publication. The second problem is that the interference notice requirement will have little effect if the interference on third-adjacent channels is *de minimis*.<sup>40</sup> If there is no interference, listeners on the other station will be unable to hear the notice. The likely result is that stations will broadcast the notices for a year, as per the requirement, but will eventually expire with no effect.

*B. Second-Adjacent Channel Waiver Will Be Limited*

The second-adjacent channel waiver may not create a wealth of new opportunities for hopeful LPFMs in urban markets, as the “lack of population” requirement will be difficult to fulfill. In all likelihood, this portion of the LCRA will be most helpful to

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<sup>39</sup> Radio Service Creation 2012, *supra* note 22, at 15500–01 (giving stations a “reasonable opportunity to resolve all complaints of third-adjacent channel interference” and stating that “complaint[s] will be considered resolved where the complainant does not reasonably cooperate with an LPFM station’s remedial efforts,” but giving no definition of what constitutes reasonable resolution).

<sup>40</sup> Radio Service Creation 2013, *supra* note 33, at 14503 (stating that third-adjacent channel interference is unlikely except near the transmitter site).

stations in rural areas where populations are thinly spread and transmitter site placing is more flexible. Still, the FCC acknowledges that second-adjacent channel interference, like third-adjacent, is unlikely in many situations.<sup>41</sup> This demonstrates an awareness of the struggles LPFMs will face and possibly an inclination towards future deregulation.

#### CONCLUSION

The LCRA doesn't swing the door wide open to LPFMs, but it does allow them to firmly wedge their collective foot in the crack. The elimination of third-adjacent channel protections is a major step in the right direction, and the last vestigial protections are minimal—the interference broadcast requirement is a fail-safe that will fail to do anything at all. But LPFMs should temper their expectations when it comes to second-adjacent channel waiver. Under current standards, a drastic expansion of LPFM service is simply not going to happen. But any headway, however small, towards the removal of second-adjacent channel protections should be celebrated. Most importantly, the FCC decisions have consistently shown a predilection towards progress and support for LPFMs.

However, the coup will not be bloodless—stations will be faced with problems nonetheless. The new adjacent channel protection regime is complicated and applicants may be confused by the lack of direction that has been given. Where once there was a bright-line rule (“no third-adjacent channel spacing”), there is now a host of varying requirements. Ultimately, the LCRA will help cast off the chains of the old radio regime. While it may not be a revolution unto itself, it is a declaration of LPFM independence, a statement of intent to pave the way for future renaissance.

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<sup>41</sup> Radio Service Creation 2012, *supra* note 22, at 15429.

## PRACTICE POINTERS

- LPFM applicants should be aware of the changes to the third- and second-adjacent channel protection regime and know what procedures and showings are required to operate on such channels. Updates can be found on the FCC website's LPFM subsection.<sup>42</sup>
- In the long-term, applicants should keep an eye on FCC decisions regarding second-adjacent channel waiver since it is likely to become less stringent as the threat of interference is shown to be, more or less, an empty one.

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<sup>42</sup> *Low Power FM Broadcast Radio Stations*, FCC.GOV, <http://www.fcc.gov/encyclopedia/low-power-fm-broadcast-radio-stations-lpfm> (last visited Feb. 27, 2015).

