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INTELLECTUAL PROPERTY

NATIONAL BASKETBALL ASSOCIATION V. MOTOROLA, INC.

By Nicholas Khadder

With each advance in communications technology, those who sell commercially valuable information can convey their product more rapidly or conveniently.¹ Recently, for example, the Internet has enabled users to distribute and sell information very widely at a negligible marginal cost to the distributor.² This advance, like others before it, has attracted free riders who seek to appropriate the content of others' communications, and sell it for their own profit.³ Not surprisingly, content providers have often sought relief from such opportunists.⁴ Copyright law provides a remedy in some circumstances, but because copyright protection does not extend to certain types of subject matter, content providers must often turn to broader equitable doctrines such as the misappropriation branch of unfair competition.⁵

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1. See generally Bruce P. Keller, *Condemned to Repeat the Past: the Reemergence of Misappropriation and Other Common Law Theories of Protection for Intellectual Property*, 497 PLI/PAT 185 (1997) (providing a concise discussion of the major advances in communications technology and application of laws protecting the underlying content). It may be of interest that Keller was counsel to some of the *amici curiae* in this case. See *National Basketball Assoc. v. Motorola, Inc.*, 105 F.3d 841, 843 (2d Cir. 1997). His article, however, contains a good summary of New York's misappropriation law, and this comment uses the article only for general propositions regarding the history of misappropriation and its relationship to technology.

2. See Michael W. Carroll, *Garbage In: Emerging Media and Regulation of Unsolicited Commercial Solicitations*, 11 BERKELEY TECH. L.J. 233, 234 (1996) (discussing potential proliferation of commercial solicitations on the Internet due to the low marginal cost of distribution).

3. See Keller, *supra* note 1, at 189-95, 203-07.

4. See *id.*

5. See generally Elizabeth T. Tsai, Annotation, *Unfair Competition by Direct Reproduction of Literary, Artistic, or Musical Property*, 40 A.L.R.3d 566 (1972 & Supp. 1997) (listing cases where plaintiffs recovered for direct reproduction of literary, artistic, or musical property under a theory of unfair competition); see also, e.g., *International News Service v. Associated Press*, 248 U.S. 215 (1918) (rejecting copyright claim, but allowing plaintiff to recover under an unfair competition theory of misappropriation of commercially valuable information); *Mayer v. Josiah Wedgwood & Sons, Ltd.*, 601 F. Supp. 1523, 1534-35 (1985) (listing a large number of New York cases where plaintiffs sought to recover for acts similar to copyright infringement and resorted to claims like misappropriation).

Such a claim can often intrude upon the domain of federal copyright protection because plaintiffs use doctrines like misappropriation to remedy conduct that fails to qualify as copyright infringement. As a general matter, federal copyright law occupies the field and eliminates equivalent rights provided by the states (a doctrine known as "preemption" and codified in the Copyright Act of 1976),⁶ and defendants frequently avoid liability by invoking the Copyright Act's displacement of state remedies.⁷ This comment explores how new communications technologies have influenced the limits of federal copyright law's preemptive impact on misappropriation.

*National Basketball Association v. Motorola, Inc.*⁸ represents one court's recent attempt to reassess that impact with respect to New York's version of misappropriation. In *NBA II*, Judge Winter of the Second Circuit Court of Appeals decided that federal copyright law preempted all but a narrow class of misappropriation claims, and formulated several elements necessary to that type of claim.⁹ After presenting the circumstances and reasoning of the case, this comment will argue that, despite Judge Winter's recognition of changes in copyright law in response to new technologies, and the resulting limits on misappropriation, his formulation fails to save a claim of misappropriation from copyright preemption. Judge Winter problematically assumed that the hallmark of permissible misappropriation claims is some "extra element" defining a claim distinct from federal copyright infringement, rather than a dispute over subject matter that copyright law does not cover. As a result, Judge Winter designated "extra elements" that were, in the end, unnecessary to a valid misappropriation claim.

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6. 17 U.S.C. § 301 (1994). Subsection (a) provides, On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

Id.

7. *See Mayer*, 601 F. Supp. at 1534 (listing a broad range of actions held preempted).

8. 105 F.3d 841 (2d Cir. 1997) [hereinafter *NBA II*].

9. *Id.* at 852 (holding that only "hot news" misappropriation survives copyright preemption). "Hot news" refers to the time-value of the content that a defendant appropriates for its own profit. *See id.* at 853.

I. THE ORIGINS OF MISAPPROPRIATION DOCTRINE

Misappropriation of commercial value is a broad and somewhat amorphous doctrine that originated from within the even broader umbrella of “unfair competition.”¹⁰ Unfair competition encompasses a variety of different theories for obtaining judicial relief from injuries caused by wrongful conduct in the marketplace.¹¹ Misappropriation theories, as explained below, often raise special issues with respect to federal copyright laws.

In 1918, the misappropriation theory found its origin in *International News Service v. Associated Press*,¹² where the United States Supreme Court held that an unfair competition claim could survive under a theory of misappropriation despite the absence of the traditional element of “palming off” another’s property as one’s own. In *International News*, the Associated Press (AP) used telegraph dispatches to send to the East Coast of the United States the latest news on World War I events in Europe.¹³ From there, the AP wired the news to subscribing newspapers on the West Coast.¹⁴ International News Service (INS) reporters copied that news (in both verbatim and rewritten form) from public bulletin boards maintained by the AP, and from early editions of newspapers on the East Coast; then they wired it to INS subscribers on the West Coast.¹⁵ This practice enabled INS subscribers to publish the news at the same time or earlier than their AP competitors.¹⁶

The Court recognized that a copyright could not protect underlying facts (even if it could extend to the expressive form of the news articles), but went no further in its copyright analysis.¹⁷ Instead, the Court resolved the case by allowing the AP to recover against INS on a theory of unfair competition. Traditionally, unfair competition claims required a showing

10. See *Mayer*, 601 F. Supp. at 1534 (noting the breadth of misappropriation doctrine in New York law); see also generally Tsai, *supra* note 5 (describing misappropriation as a branch of unfair competition).

11. See *National Basketball Association v. Sports Team Analysis and Tracking Systems, Inc.*, 939 F. Supp. 1071, 1098-99 (S.D.N.Y. 1996) (describing the evolution of unfair competition doctrine from cases involving “palming off” to theories of misappropriation) [hereinafter *NBA I*].

12. 248 U.S. 215 (1918).

13. See *id.* at 229-30.

14. See *id.*

15. See *id.* at 231; Douglas G. Baird, *Common Law Intellectual Property and the Legacy of International News Service v. Associated Press*, 50 U. CHI. L. REV. 411, 412 (1983).

16. See *International News*, 248 U.S. at 231.

17. *Id.* at 234-35.

that the defendant misrepresented its goods as those of the plaintiff.¹⁸ In *International News*, however, the Court held that such a showing was not imperative—that misappropriation satisfactorily substituted for misrepresentation.¹⁹ In essence, the Court held that a plaintiff could recover in equity where the defendant:

is taking material that has been acquired by complainant as the result of organization and the expenditure of labor, skill, and money, and which is salable by complainant for money, and ... defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown²⁰

Many states adopted this form of unfair competition, preserving the misappropriation theory beyond the elimination of federal common law by *Erie Railroad v. Tompkins*.²¹ New York's courts embraced the doctrine and, over the years, expanded the tort beyond the scope of *International News*.²² For example, in *Metropolitan Opera Association, Inc. v. Wagner-Nichols Recorder Corp.*,²³ the court held that plaintiffs could obtain judicial relief where a defendant simply usurps, for commercial advantage, property rights of commercial value deriving from the efforts and expenditures of the plaintiff.²⁴ Other courts may require elements beyond these (such as actual competition between the parties, fraud, or that the information be time-sensitive "hot news"), but the requirements vary by jurisdiction.²⁵

18. See generally Tsai, *supra* note 5.

19. *International News*, 248 U.S. at 241-42.

20. *Id.* at 239-40.

21. 304 U.S. 64 (1938).

22. See generally Baird, *supra* note 15.

23. 101 N.Y.S.2d 483 (Sup. Ct. 1950).

24. *Id.* at 489. Nimmer describes the broad New York version of unfair competition announced in *Metropolitan Opera* as requiring, "unfairness and an unjustifiable attempt to profit from another's expenditure of time, labor and talent." MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 1.01[B][1][f][iv], at 1-36 (1997).

25. See generally Tsai, *supra* note 5 (annotations trace the varying requirements by jurisdiction and type of property claimed); Keller, *supra* note 1, at 189-202 (providing a snapshot of the major cases in the development New York's misappropriation law after *International News*.) Requirements have also evolved within the various jurisdictions, including New York. Keller, for example, shows the broad application of misappropriation by many New York courts, and the *NBA II* case's attempt to reign in those theories by strictly construing *International News* to require, among other elements, direct competition and "hot news." See *id.*

II. THE CASE

A. Factual Background

The National Basketball Association (the NBA) “produces, organizes, and markets [all] basketball games involving all its twenty-nine member teams.”²⁶ It derives great commercial value from the sale of broadcasting and distribution licenses and from admission fees for access to the live games.²⁷ Hence, it zealously guards against unauthorized distribution of information about the events.²⁸

In addition to contracting with others to disseminate information during the events, the NBA also provides its own information service. During the 1994-1995 season, the NBA installed a system called “Gamestats” for the capture and dissemination of data about on-going games.²⁹ That system (which the NBA was still developing as the case was litigated) captured and distributed various categories of game data to licensees.³⁰ The ultimate goal for the system was “creating and collecting game statistics and interfacing these statistics with arena clocks and scoreboards, networking this information among the arenas, and making this information available for commercial use.”³¹ According to the NBA, it intended at the time of this case “to provide a Gamestats data feed to a pager product once [the system had] the capability to provide real-time information beyond the particular arena in which the game [was] being played.”³²

In January 1996, Motorola, Inc. (Motorola) began selling specialized pagers³³ to the general public.³⁴ These pagers, sold and marketed under

26. *NBA I*, 939 F. Supp. at 1076.

27. *See id.* at 1077 (“[R]oughly 80% of NBA’s revenues are derived from the promotion of NBA games while they are in progress, such as from broadcast distribution licenses and admission fees to the arenas.”).

28. *See id.* (describing the NBA’s various lucrative licensing agreements, and contractual restrictions on licensees’ ability to relay information obtained from within the arenas). Contractual restrictions range from agreements by “credentialed media” to broadcast only limited reports during the games, to a statement on the back of admission tickets that, “By your use of this ticket . . . you agree that you will not transmit or aid in transmitting any description, account, picture or reproduction of the event to which this ticket invites you.” *Id.* at 1079.

29. *See id.* at 1079-80.

30. *See id.* at 1079.

31. *Id.*

32. *Id.* at 1080.

33. The pagers in question are “portable beeper devices” with a one-and-a-half inch square display depicting a basketball court, upon which the information in question would appear. *See NBA I*, 939 F. Supp. at 1074; *NBA II*, 105 F.3d at 843. On that screen, updates regarding scores, times, and other statistics could appear anywhere from several

the name, "SportsTrax," enabled their owners to receive various types of statistical information about NBA games.³⁵ Owners could select between "modes" (current, statistics, final scores, or demonstration) and "channels" (each displaying information about different basketball games).³⁶ The "current" mode (which instigated this dispute) provided almost instantaneous updates on which teams were playing each other, the latest scores, the game-time remaining, and other information.³⁷ In marketing this product, Motorola occasionally used the NBA acronym to describe the type of information the pager could receive, but there was no record that Motorola ever claimed the NBA licensed, sponsored, or approved of the product.³⁸

Another company, Sports Team Analysis and Tracking Systems, Inc. (STATS),³⁹ gathered and relayed the information to the pagers.⁴⁰ STATS reporters obtained the information from radio and television broadcasts, and then uploaded that data via modem to STATS's host computers.⁴¹ From there, STATS compiled the information and relayed it via satellite to local FM radio networks, and those networks emitted a signal received by the SportsTrax Pagers.⁴²

Concurrently with the launch of the professional basketball⁴³ SportsTrax product, STATS also began a basketball information web site

times per minute, to once every two or three minutes, depending on the importance of developments to a game. *See NBA I*, 939 F. Supp. at 1080-81.

34. *See NBA II*, 105 F.3d at 843.

35. *See id.* at 844.

36. *See id.* at 843.

37. *See id.* at 843-44.

38. *See NBA I*, 939 F. Supp. at 1081-82.

39. STATS's relationship to Motorola's basketball statistics project began after lengthy negotiations between Motorola, STATS, and the NBA. *See id.* at 1083-84. According to the district court, Motorola commenced negotiations with STATS with respect to the SportsTrax professional basketball pager while simultaneously engaging in negotiations with the NBA. *See id.* at 1084. Apparently, the NBA was still developing its own statistics broadcasting system, "Gamestats," and Motorola did not want to delay its launch date to conform to the NBA's production schedule for the Gamestats system. *See id.* at 1078, 1084. Thus, STATS agreed to provide the information and Motorola launched the product without the NBA's involvement, but only after obtaining an assurance from STATS that Motorola would be protected from potential NBA claims. *See id.* at 1085.

40. *See NBA II*, 105 F.3d at 844.

41. *See id.*

42. *See id.*

43. "Motorola already had an agreement with Stats for the SportsTrax Major League Baseball paging device." *NBA I*, 939 F. Supp. at 1084.

through America Online (AOL).⁴⁴ That site allowed users to access more comprehensive and rapidly updated information on the games through the on-line service.⁴⁵

B. Procedural History

After sending a "cease and desist" letter to Motorola and AOL, the plaintiffs (NBA and NBA Properties, Inc.)⁴⁶ filed a lawsuit against Motorola and STATS.⁴⁷ The NBA's complaint demanded relief on six grounds:

- (i) state law unfair competition by misappropriation; (ii) false advertising under Section 43(a) of the Lanham Act; (iii) false representation of origin under Section 43(a) of the Lanham Act; (iv) state and common law unfair competition by false advertising and false designation of origin; (v) federal copyright infringement; and (vi) unlawful interception of communications under the Communications Act of 1934.⁴⁸

Motorola filed a counterclaim, asserting that the NBA unlawfully interfered with Motorola's contractual relationship with four individual NBA teams that had initially indicated they would sponsor and advertise SportsTrax.⁴⁹

District Judge Preska dismissed Motorola's counterclaim, and all but one of the NBA's claims: that of state law misappropriation.⁵⁰ The court found Motorola and STATS liable for misappropriation, rejecting the contention that the claim was preempted by the federal Copyright Act, and permanently enjoined them from distributing data about ongoing NBA games via the pagers, the AOL site, or equivalent means.⁵¹ It then stayed

44. *See id.*

45. *See id.*

46. "Plaintiff NBA Properties Inc. ... has the exclusive worldwide rights to market and promote NBA games and, accordingly, controls and manages [the NBA's] intellectual property rights." *NBA I*, 939 F. Supp. at 1076. For the purposes of this comment, "the NBA" should be understood to encompass both the National Basketball Association and NBA Properties, Inc.

47. *See id.* at 1076, 1085. Various *amici* also filed documents with the district court; they included the National Football League, the Office of the Commissioner of Baseball, the National Hockey League, the Associated Press, America Online, Inc., and The New York Times Company. *See id.* at 1076.

48. *NBA II*, 105 F.3d at 844.

49. *See NBA I*, 939 F. Supp. at 1083; *NBA II*, 105 F.3d at 844.

50. *NBA II*, 105 F.3d at 844.

51. *NBA I*, 939 F. Supp. at 1097-98, 1107; *NBA II*, 105 F.3d at 843-44.

the execution of the injunction pending an appeal by both the plaintiffs and defendants.⁵²

Motorola and STATS appealed from the injunction, and the NBA cross-appealed from the district court's dismissal of their false advertising claims under the Lanham Act.⁵³ Writing for the Second Circuit Court of Appeals, Judge Winter affirmed the district court's dismissal of the false advertising claims (finding that misstatements by Motorola about its product were immaterial), but reversed the district court's determination that Motorola was liable for misappropriation under New York law on the ground that federal copyright law preempted the claim.⁵⁴

C. Summary of the Opinion

The Second Circuit's decision dealt with a complicated and hotly disputed issue surrounding misappropriation: when plaintiffs should be able to obtain relief for a wrong similar to copying, but not redressed by copyright law.⁵⁵ Federal copyright law expressly preempts certain state claims. As the court explained,

Under 17 U.S.C. § 301, a state law claim is preempted when: (i) the state law claim seeks to vindicate 'legal or equitable rights that are equivalent' to one of the bundle of exclusive rights already protected by copyright law ...; and (ii) the particular work to which the state law claim is being applied falls within the type of works protected by the Copyright Act under Sections 102 and 103.⁵⁶

Misappropriation claims have often led courts to undertake this analysis because such claims, in essence, provide relief from conduct very similar to copying or distribution (exclusive rights granted under the Copyright Act).⁵⁷

Before conducting the preemption analysis, the court explained that the game *broadcasts* were copyrightable (as opposed to the underlying games) pursuant to a legislative allowance for copyright protection of live-

52. *NBA II*, 105 F.3d at 844.

53. *Id.*

54. *Id.* at 843, 854-55.

55. *Id.* at 848-52.

56. *Id.* at 848.

57. See 17 U.S.C. § 106(1), (3) (1994) (setting out exclusive rights); see also NIMMER & NIMMER, *supra* note 24, § 1.01[B][1][f], at 1-27 to 1-36 (1997) (analyzing the 1976 legislative debate on what form of misappropriation should survive the preemption provision, and discussing various cases grappling with the issue).

performance broadcasts.⁵⁸ Thus, according to the Second Circuit, the subject matter in question did fall within the type of works protected by the Copyright Act.⁵⁹ After reaching this conclusion, the court rejected the NBA's argument that it only sought to protect the underlying facts with its misappropriation claim, explaining that "[c]opyrightable material often contains uncopyrightable elements within it, but Section 301 bars state law misappropriation claims with respect to uncopyrightable as well as copyrightable elements [of copyrightable works]."⁶⁰

After determining that the work in question came within the subject matter of copyright, the court went on to discuss whether and to what extent misappropriation claims (such as the NBA's) vindicate rights equivalent to those provided by copyright law.⁶¹ In other words, the court sought to establish when those claims lie outside the "general scope" of copyright law's exclusive rights.⁶² The court invoked the commonly-used test of whether an "extra-element" defines the state law claim, thereby removing the claim from the scope of copyright.⁶³ Quoting *Computer Associates International, Inc. v. Altai, Inc.*,⁶⁴ the court stated the rule as follows: "[I]f an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie within the general scope of copyright, and there is no preemption."⁶⁵

58. *NBA II*, 105 F.3d at 847. As the court explained, Congress accomplished this through the device of "simultaneous fixation." Generally, copyright protection is available for original works of authorship fixed in a tangible medium of expression. See 17 U.S.C. § 102(a). The definition of "fixation" provided by section 101 of the Act now includes the following language: "A work consisting of sounds, images, or both, that are being transmitted, is 'fixed' for purposes of this title if a fixation of the work is being made simultaneously with its transmission."

59. *NBA II*, 105 F.3d at 846-48.

60. *Id.* at 849. Judge Winter described this separation of the copyrightable expression from the uncopyrightable elements contained within that expression, for the purposes of Section 301 analysis, as "partial preemption." To explain further, he wrote,

Congress, in extending copyright protection only to the broadcasts and not to the underlying events, intended that the latter be in the public domain. Partial preemption turns that intent on its head by allowing state law to vest exclusive rights in material that Congress intended to be in the public domain

Id.

61. See *id.* at 850-53.

62. See 17 U.S.C. § 301(a).

63. See *NIMMER & NIMMER*, *supra* note 24, § 1.01[B][1], 1-11 to 1-12 ("if a state-created right is 'within the general scope of copyright,' it is subject to pre-emption").

64. 982 F.2d 693 (2d Cir. 1992).

65. *NBA II*, 105 F.3d at 850 (internal quotation marks omitted).

According to the Second Circuit, a narrowly construed “hot news” form of misappropriation (from *International News*) could survive copyright preemption because certain extra elements made the claim qualitatively different from copyright.⁶⁶ The court found that these elements were a critical part of the *International News* form of misappropriation that Congress intended to preserve.⁶⁷ The court rejected the broader formulations of misappropriation advanced by prior New York cases, explaining that those cases permitted such claims under a more limited copyright regime.⁶⁸ “Those cases were decided at a time when simultaneously-recorded broadcasts were not protected under the Copyright Act and when the state law claims they fashioned were not subject to federal preemption.”⁶⁹

The court announced that plaintiffs must prove the following elements if a misappropriation claim was to survive preemption:⁷⁰

[T]he surviving “hot-news” INS-like claim is limited to cases where: (i) a plaintiff generates or gathers information at a cost; (ii) the information is time sensitive; (iii) a defendant’s use of the information constitutes free riding on the plaintiff’s efforts; (iv) the defendant is in direct competition with a product or service offered by the plaintiffs; and (v) the ability of other parties to free-ride on the effort of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.⁷¹

Finally, the court held that the NBA had not proven these necessary elements, and its attempt to assert a misappropriation claim, based on prior New York law, was preempted.⁷² Although the information in question was time-sensitive and the NBA did (or would shortly) compete for Motorola’s statistics-distribution business, the court found no evidence of any competitive effects with regard to the actual games and the broadcasts be-

66. *NBA II*, 105 F.3d at 853. The court stated, “We therefore find the extra elements—those in addition to the elements of copyright infringement—that allow a “hotnews” [sic] claim to survive preemption are: (i) the time-sensitive value of factual information, (ii) the free riding by a defendant, and (iii) the threat to the very existence of the product or service provided by the plaintiff.”

Id.

67. *Id.* at 850.

68. *Id.* at 852.

69. *Id.*

70. *Id.*

71. *Id.* at 845.

72. *Id.* at 854.

cause the pager market was no substitute for attending the games or watching them on television.⁷³ Furthermore, it found no evidence of free riding with respect to the transmission of statistical information because "Motorola and STATS expend their own resources to collect purely factual information generated in NBA games to transmit to SportsTrax pagers."⁷⁴

III. DISCUSSION

The court's announcement of the five elements of a non-preempted misappropriation claim are perhaps the most prominent aspect of its holding. The court's elements, however, do nothing to differentiate those misappropriation claims that should be preempted from those that should not.⁷⁵ As a result, the court's formulation permits some unworthy claims to succeed. Though the court reached the correct result, it did so on the wrong grounds, failing to draw an important lesson from the history of misappropriation: that such claims have survived copyright preemption inquiries when the subject matter at issue was not covered by copyright law. Instead, the court followed a questionable path in searching for an "extra element" to preserve "hot news" misappropriation.

First, one must assess precisely how the court approached the question of when misappropriation can survive copyright preemption. As shown above, the court relied heavily on *International News* to define a misappropriation claim that survives preemption. Its justification for doing so was the general agreement by most courts, and an indication from the legislative history of section 301, that the *International News* category of misappropriation should survive preemption. These propositions are relatively unremarkable; many commentators agree that misappropriation based on the *International News* case probably does survive preemption.⁷⁶

73. *Id.* at 853.

74. *Id.* at 854.

75. Interestingly, the *NBA II* court's opinion seems to hinge on the Restatement (Third) of Unfair Competition's conclusion that misappropriation retains legitimacy only to the extent it includes factors like time-sensitivity and direct threat to the existence of a product. *NBA II*, 105 F.3d at 852. This is curious because the Restatement merely opines that "[s]uch circumstances present the most compelling case for protection against appropriation" RESTATEMENT (THIRD) OF THE LAW OF UNFAIR COMPETITION § 38, cmt. c (1995). It does not analyze what part of a misappropriation claim allows it to survive statutory copyright preemption.

76. *See, e.g.*, Katherine F. Horvath, *NBA v. Motorola: A Case for Federal Preemption of Misappropriation?*, 73 NOTRE DAME L. REV. 461, 487-88 (1998); *NBA II*, 105 F.3d at 850 ("We turn, therefore, to the question of the extent to which a "hot news" misappropriation claim based on *International News* involves extra elements and is not the

The court then attempted, however, to define what feature of an *International News* misappropriation claim allows it to survive preemption under section 301. It concluded that the distinctive features from that case were the "hot news," free riding, and competition elements.⁷⁷ According to the court, something about those elements makes a misappropriation claim qualitatively different from copyright infringement.⁷⁸

Unfortunately, the court's opinion makes no attempt to explain precisely how these elements form an "extra element" and thereby define a right not equivalent to copyright. Once again, "if an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie within the general scope of copyright, and there is no preemption."⁷⁹ Thus, a state law requiring the presence of intent or unfairness in addition to copying would not survive preemption because the act of copying is still the real focus of the law.⁸⁰ If one carefully examines the elements identified by the court, one soon discovers they probably do no more than recite possible components of copying and distribution.⁸¹

Even the *NBA II* court did not contend that direct competition between the parties or cost in generating the information constitute extra elements in a preemption analysis.⁸² Those components of a claim are preexisting conditions. They are not acts that produce liability defining a right different from the exclusive rights provided by copyright law. It is unclear, then, why the "time-sensitivity" of information is any more successful at

equivalent of exclusive rights under a copyright. Courts are generally agreed that some form of such a claim survives preemption."). Even the most recent Restatement (Third) of the Law of Unfair Competition, though disfavoring the doctrine because of its tendency to stifle competition, grudgingly admits that a limited form of misappropriation based on *International News* probably has continued vitality. RESTATEMENT (THIRD) OF THE LAW OF UNFAIR COMPETITION § 38, cmt. c (1995).

77. *NBA II*, 105 F.3d at 852.

78. *Id.* at 853.

79. *Id.* at 850 (internal quotation marks omitted).

80. See NIMMER & NIMMER, *supra* note 24, § 1.01[B][1], 1-12.

81. See Jane C. Ginsburg, *Copyright, Common Law, and Sui Generis Protection of Databases in the United States and Abroad*, 66 U. CIN. L. REV. 151, 162-63 (1997) (criticizing the elements from the *NBA II* case as ineffective in providing an "extra element" sufficient to avoid preemption). Ginsburg's article argues that "hot news" misappropriation and contract claims already provide significant protection for databases, and sui generis protection may be unnecessary to preserve incentives to produce such databases. *Id.* at 152.

82. See *NBA II*, 105 F.3d at 853 (concluding three (not five) elements allow a claim of "hot-news" misappropriation to survive).

defining an extra element. Time-sensitivity merely classifies the underlying subject matter—another preexisting condition. In a similar vein, the threat to a plaintiff's business based on diminished incentives is merely a *consequence* of an act.

Finally, free riding, the only element the court identified that could potentially constitute a qualitatively different wrongful act, is virtually indistinguishable from the right to reproduce a work in copies and distribute it. Assume free riding, in essence, involves unfairly appropriating something generated by another, and reaping its benefits. Such traits are components of any wrongful copying and distribution. In fact, one commentator, Jane C. Ginsburg, in reviewing the "extra elements" the *NBA II* court identified, wrote, "The second element—free-riding—may be a pejorative description of copying, but it is still copying."⁸³ Thus, the court's elements, upon inspection, contribute nothing to avoiding preemption under the "general scope" branch of Section 301.

The court overlooked the more persuasive significance of *International News* for purposes of copyright preemption analysis. The defendants in that case appropriated information not contained within the subject matter of copyright law: "the history of the day."⁸⁴ News itself, then and now, is uncopyrightable fact.⁸⁵ Though the court recognized that news *articles* could receive copyright protection under the 1909 Act, the defendants had not misappropriated that expression because, as the court found, the articles were not copyrighted.⁸⁶ Thus, all the defendants really took in *International News* was pure factual information—subject matter entirely outside the coverage of copyright laws.⁸⁷

This conclusion may appear to gloss over concerns such as the negative implications (for state laws) of Congress' refusal to protect facts with

83. Ginsburg, *supra* note 81, at 162.

84. *International News Service v. Associated Press*, 248 U.S. 215, 233 (1918).

85. *See id.*; *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340 (1991); NIMMER & NIMMER, *supra* note 23, § 1.01[B][2][b], 1-49 ("[P]roprieters may claim federal protection only in the particular expression of facts, or in their selection and arrangement.").

86. *See International News*, 248 U.S. at 233. The articles probably lacked a copyright because they were published without notice, effectively thrusting the works into the public domain under the 1909 Act. *See* ROBERT A. GORMAN & JANE C. GINSBURG, *COPYRIGHT FOR THE NINETIES*, 360-64 (1993).

87. *See* NIMMER & NIMMER, *supra* note 24, § 1.01[B][1][f][ii], 1-30 to 1-31 (arguing that a claim on the *International News* facts might avoid preemption, not on the basis of an extra element, but "because of a failure to satisfy the other condition of preemption. That is, the subject matter arguably did not involve 'works of authorship that ... come within the subject matter of copyright.'").

federal copyright law. A brief exploration of this issue, however, helps illustrate why this possibility was not an issue in *International News*. Under section 301(b)(1), the Copyright Act does not preempt state laws protecting "subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression." Most agree that the failure of a work to display the required modicum of original expression should not mean state copyright laws can step in to protect that work.⁸⁸ On the other hand, some argue that purely factual material, even if it is fixed in a tangible medium of expression, is expressly excluded from preemption.⁸⁹ This debate, however, does not affect the *International News* case because those writings had lost any possibility for copyright protection through publication without notice. Thus, *International News* dealt with facts divorced from any expression conceivably protected by copyright law. Those circumstances are analogous to a situation where most would agree copyright law does not preempt state law protection: live performances not fixed in a tangible medium of expression.

Some may respond to these observations by pointing out the emphasis on the "hot" aspect of the news in the *International News* claim from the legislative history on section 301. It is true that the House Report contains language indicating that time-sensitivity is what sets an *International News* claim apart from other misappropriation claims in a preemption analysis.⁹⁰ But, "hot news," is just as much a type of subject matter as other news is. Perhaps time-sensitive news deserves state protection more

88. See GORMAN & GINSBURG, *supra* note 86, at 853.

89. See *id.* at 852.

90. H.R. REP. NO. 94-1476, at 132 (1976).

'Misappropriation' is not necessarily synonymous with copyright infringement, and thus a cause of action labeled as 'misappropriation' is not preempted if it is in fact based neither on a right within the general scope of copyright as specified by section 106 ... nor on a right equivalent thereto. For example, state law should have the flexibility to afford a remedy (under traditional principles of equity) against a consistent pattern of unauthorized appropriation by a competitor of the facts (i.e., not the literary expression) constituting 'hot' news, whether in the traditional mold of [*International News*], or in the newer form of data updates from scientific, business, or financial databases.

Id. Notably, the language of this passage implies an *International News* misappropriation claim should survive both because it involves a claim based on a right not within the general scope of copyright, and because misappropriation involves facts, not "literary expression." This type of phrasing suggests only the truism that, to the extent misappropriation does not fit within the two prongs of section 301, it survives preemption.

than other news,⁹¹ but, more likely, those involved in drafting the House Report simply did not carefully examine exactly why *International News*-type claims should survive preemption.⁹² As Ginsburg has noted, “the House Report accompanying the 1976 Copyright Act should not be taken as persuasive evidence of Congress’s intent.”⁹³ Any rigorous analysis of copyright preemption of *International News* misappropriation must turn on the language Congress eventually adopted.

The changing scope of copyright protection over time, and a corresponding diminution of permitted state law misappropriation claims, bears out this emphasis on the “subject matter” prong of misappropriation. Periodically, Congress has added to the range of subject matter that falls within the sweep of copyright law. For example, in 1971, Congress provided some copyright protection to sound recordings. Owners of the copyright in a sound recording were allowed to prevent others from recapturing “the actual sounds fixed in the recording.”⁹⁴ Before that time, plaintiffs were allowed to recover for defendants’ unauthorized reproduction and sale of tapes or phonorecords under state record piracy laws.⁹⁵ Now that federal copyright extends to sound recordings fixed after 1972, state record piracy laws in those works are expressly preempted by section 301(c). Thus, the subject matter of copyright expanded to cover sound recordings, and misappropriation laws receded with respect to those works.

91. In support of a theory that “hot” news involves a sub-category of uncopyrightable subject matter, one might note that the *International News* court wrote, “Complainant’s news matter is not copyrighted. It is said that it could not, in practice, be copyrighted, because of the large number of dispatches that are sent daily Defendant, ... apparently conceded this.” *International News Service v. Associated Press*, 248 U.S. 215, 233 (1918). Thus, the Court took as fact the proposition that copyright was, in essence, unavailable for this category of news. Perhaps, the short-term value of the information meant huge content providers like the Associated Press had almost no time to ensure compliance with the formalities of the 1909 Act (such as strict notice requirements to preserve copyright upon publication, or deposit demands by the Register of Copyrights on penalty of forfeiture). Therefore, one could argue, the real importance of “time sensitivity” to Congress was the practical inability to obtain a copyright in the work.

92. See NIMMER & NIMMER, *supra* note 24, § 1.01[B][1][f][i-ii], 1-27 to 1-31 (concluding that the legislative history was ambiguous with respect to misappropriation, and that one should turn to the finally enacted language for guidance).

93. Ginsburg, *supra* note 81, at 162 n.46.

94. 17 U.S.C. § 114(b) (1994).

95. See, e.g., *Goldstein v. California*, 412 U.S. 546 (1973) (holding, under the 1909 Act, that federal copyright law did not preempt state record piracy laws); see also 17 U.S.C. § 301(c) (expressly withholding preemption of such laws in pre-1972 works until 2047).

Furthermore, in the Copyright Act of 1976, Congress allowed protection for live broadcasts, despite the fact that transmission occurred before the broadcast was "fixed in a tangible medium of expression," and therefore, technically, before copyright attached.⁹⁶ The Act accomplished this result by simply defining "fixed" to include "simultaneous fixation."⁹⁷ The development of simultaneous broadcasting technology, however, created an industry that needed some form of legal protection for its product before Congress expanded the Copyright Act to such a product.⁹⁸ Until the adaptation of copyright law to absorb those communications, plaintiffs successfully turned to misappropriation doctrine to remedy the unauthorized copying and redistribution for profit of radio broadcasts.⁹⁹ Today, however, such claims are probably preempted.¹⁰⁰ As the *NBA II* court wrote:

[T]he 1976 amendments to the Copyright Act were specifically designed to afford copyright protection to simultaneously-recorded broadcasts, and *Metropolitan Opera* and *Muzak* could today be brought as copyright infringement cases. Moreover, we believe that they would have to be brought as copyright cases because the amendments affording broadcasts copyright protection also preempted the state law misappropriation claims under which they were decided.¹⁰¹

Interestingly, this statement shows the Second Circuit recognized that the *subject matter* of copyright law has expanded to preempt such cases, but it still ignored the essence of that lesson for an *International News-type* claim. It failed to recognize the evidence from a history of technological advances and attendant changes in what constitutes copyrightable subject matter. The evidence pointed to a conclusion that the continuing viability of a given misappropriation claim depends on the subject matter requirement of section 301 (not whether there was an extra element).

96. See *NBA II*, 105 F.3d at 847.

97. 17 U.S.C. § 101.

98. See generally *Keller*, *supra* note 1, at 189-95.

99. See, e.g., *Mutual Broad. Sys. v. Muzak Corp.*, 30 N.Y.S.2d 419 (Sup. Ct. 1941) (unauthorized simultaneous retransmission of baseball game radio broadcasts over telephone lines); *Metropolitan Opera Ass'n, Inc. v. Wagner-Nichols Recorder Corp.*, 101 N.Y.S.2d 483 (Sup. Ct. 1950) (unauthorized reproduction and redistribution of opera radio broadcasts).

100. See *NBA II*, 105 F.3d at 848-49, 851.

101. *Id.*

Simple misappropriation, by definition, constitutes copying and distribution.¹⁰²

IV. CONCLUSION

The Second Circuit reached the correct decision in the *NBA II* case, but it went too far to get there. As this comment has argued, misappropriation in the *International News* context provides, in essence, rights against reproduction and distribution of information. Under most circumstances, that *type* of claim should not survive preemption, no matter how “hot” the news is, or what effect it has on the incentives of the plaintiff. Misappropriation of the type identified by the court has no “extra element.” Thus, the court should have rested its conclusion on the finding that the facts appropriated in *International News* were a component of copyrightable subject matter.

Because the court sought some extra element, however, it created a list of elements it believed distinguished an *International News*-type claim from copyright infringement. Unfortunately, those elements now create a false safe-harbor because, as history has taught, the essence of a valid misappropriation claim is subject matter unprotected by copyright law, not an element distinct from copying or distribution. Thus, a plaintiff whose claim fits those elements could succeed on a misappropriation theory even when his or her product is protected by the Copyright Act. This is a result at odds not only with the statute governing preemption, but also with the lessons a history of technological advances in communication has taught.

102. See NIMMER & NIMMER, *supra* note 24, § 1.01[B][1][f][iii], 1-34 (“It must be concluded, then, that in this context, misappropriation is but another label for reproduction, and as such, is a pre-empted right”).

WASHINGTON POST V. TOTAL NEWS, INC.

By Frank C. Gomez

Advertising expenditures on the World Wide Web (Web) reached \$217.3 million for the first six months of 1997.¹ Advertising is undoubtedly the primary source of revenue for many Web site operators. The increased profit-making potential of the Web also increases the potential for commercial and legal conflict. The Web community, once a society with unwritten rules dictated primarily by the norms of the computer culture, is expanding rapidly to include a diverse array of societies, cultures, and influences throughout the world. The dynamics of interaction on this multi-leveled international gateway create a strong need for concrete rules, procedures, and regulations to govern its use. Consequently, the Web community is receiving enormous internal, as well as, external pressure to speed the evolution of its system of rules to comport better with those governing society at large. The case of *Washington Post v. Total News*² offers a prime example of the legal entanglements and ambiguities that inevitably arise when technological advancements create commercial opportunities in a new domain where the rules are at an early stage of development.

The Web is the most popular feature of the Internet today.³ A user can browse the Web for hypertext documents which contain elements such as sound, animation, and video. With a computer, modem, and the requisite browsing software, one can access this massive information system and obtain current information relating to everything from creative health food tips to stock prices.

The Internet, in simple terms, is a network of computer networks that utilizes standard protocols to communicate; it lacks any real central point of management.⁴ This international "super-network," containing more

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1. See *Web Ad Revenue Takes a Huge Leap*, PATRIOT LEDGER, Aug. 4, 1997, at 1, available in 1997 WL 8187491. According to Cowles/Simba Information Co., advertising revenue on the World Wide Web reached \$217.3 million for the first six months of 1997. *Id.* This figure is over triple the amount of \$61 million that was spent in the first six months of 1996. *Id.* Cowles/Simba predicts that Web advertising will reach \$446.0 million during 1997. *Id.*

2. 97 Civ. 1190 (S.D.N.Y., complaint filed Feb. 20, 1997).

3. See David Phillips & Elizabeth Blumenfeld, *Seams in a Seamless Web*, 482 PLI/PAT 65, 67 (1997).

4. See *id.* at 67-68.

than 15,000 computer networks is used by approximately 30 million individuals, corporations, organizations, governmental, and educational institutions.⁵ The Web is a separate set of protocols that overlay the Internet and allow users to navigate by "point-and-click" commands throughout the system.⁶ A core feature of the Web is "hypertext" links. A link, often represented by a colored textual icon or graphic image, allows a user to "click" on a designated area of the screen and transfer to the home page of another Web site, perhaps located on the other side of the world.

The particular Web browsing technology that has caused great uncertainty with respect to copyright law and unfair competition on the Internet is "framing." Framing enables a Web page designer to split a page into independent scrollable regions, each capable of displaying a separate and distinct external Web page.⁷ Rather than having to leave the screen of one Web page to access another, the framing feature allows a user to "display" a portion of a separate Web site on the one originally accessed.⁸ Framing was first introduced as a feature of the popular Web browser, Netscape Navigator, in 1996.⁹ Since then, the feature has been incorporated into many commercial Web browsers. In fact, it is even included in the standard HTML specification, the computer code which makes Web pages readable across platforms.¹⁰

I. THE CASE: *WASHINGTON POST V. TOTAL NEWS*

A. Total News: Users of Web Framing

Total News Inc., a small Web development company that operates behind a Lulu's Taco Stand in Gilbert, Arizona, utilizes this "framing" technology on its principal Web page. The Total News site allows users to link to other sites while retaining the framed presence of the Total News site. When external sites are accessed via a hyperlink, they are viewed within a frame, surrounded by a border that includes the Total News logo and commercial advertisements sold by the company.¹¹ The Total News

5. See *Panavision International, L.P. v. Toeppen*, 945 F. Supp. 1296 (C.D. Cal. 1996).

6. See Phillips & Blumenfeld, *supra* note 3, at 68.

7. See *Use of Frames to Incorporate Third-Party Content in Web Site Sparks Controversy*, 13 No. 11 COMPUTER L. STRATEGIST 8 (1997) [hereinafter *Use of Frames*].

8. See Katherine C. Spelman & James F. Brelsford, *Protecting Your Intellectual Property Assets: How to Value, Maximize, and Enhance Your Assets*, 468 PLI/PAT 101, 112 (1996).

9. See *Use of Frames*, *supra* note 7, at 8.

10. See *Multimedia Docket Sheet*, 3 No. 5 MULTIMEDIA STRATEGIST 8 (1997).

11. See *Use of Frames*, *supra* note 7, at 8.

Web site offers hundreds of "framed" links to news and media organizations.¹² These links are listed next to icons containing the famous trademarks of these organizations.¹³

B. Legal Allegations: Misappropriation of Web Page Content

The plaintiffs alleged that Total News was liable for misappropriating copyrighted material on the Internet and generating advertising revenue derived from such unauthorized use of their Web site content. The plaintiffs included such prominent news media organizations as the Washington Post, the Cable News Network (CNN), and Dow Jones & Company. They argued that the defendant's Web site "openly free-rides on plaintiff's efforts by simply lifting plaintiff's content wholesale and selling advertising based on proximity to that content."¹⁴ Further, the plaintiffs alleged that defendant had expressly promoted its Web site by suggesting that its advertisements would appear next to the commercial messages of the plaintiffs.¹⁵

In addition to the misappropriation claim, the plaintiffs alleged eight other causes of action against Total News. These claims were trademark infringement, federal trademark dilution, false advertising, unfair competition under state law, dilution under state law, deceptive practices, copyright infringement, and tortious interference with the plaintiffs' advertising.

C. The Settlement

On June 6, 1997, Total News agreed not to provide "framed" links to the plaintiffs' Web sites.¹⁶ However, Total News retained the right to provide conventional links to those sites.¹⁷ The plaintiffs, in turn, reserved the right to provide fifteen days notice to Total News to revoke such linking rights.¹⁸ Because this case was resolved in a settlement agreement rather than a court opinion, the Web community will have to wait for another case for a detailed court analysis on this hot issue.

12. See *Multimedia Docket Sheet*, *supra* note 10, at 8.

13. See Rob Bierstedt, *Plaintiff's Complaint in Washington Post Co. v. Total News*, 480 PLI/PAT 235, 249 (1997).

14. See *id.* at 255.

15. See *id.* at 256.

16. See *Washington Post Co. v. Total News, Inc.*, 97 Civ. 1190 (S.D.N.Y., complaint filed Feb. 20, 1997).

17. See *id.*

18. See *id.*

II. THE DOCTRINE OF MISAPPROPRIATION

This comment considers whether a Web framing misappropriation claim, as alleged against Total News, is within the scope of federal copyright, and thus preempted, or if it may be adjudicated pursuant to state law.

A. The Basis of Misappropriation Analysis

The primary claim the plaintiffs asserted was misappropriation, a cause of action arising under the state law doctrine of unfair competition. Misappropriation is defined as converting to one's own use and profit the product of another's labor.¹⁹ The doctrine seeks to protect the hard work of a commercial seller from a competitor's copying, without requiring that the work be an original creation.

International News Service v. Associated Press,²⁰ the seminal case which established the misappropriation branch of the doctrine of unfair competition, continues to serve as the basis of misappropriation analysis. The U.S. Supreme Court held that plaintiffs may be protected from misappropriation by competitors, but not by the general public.²¹ The case involved Associated Press, a company that gathered information from across the country, at its own expense, and published it throughout the United States. International News Service (INS) was held liable for misappropriation when it copied news from Associated Press publications and used that information in its own publications without acknowledging the source.²²

While analyzing the doctrine of unfair competition, the Court noted that copyright law was not an issue because news is not considered copyrightable.²³ The Court asserted that a person or entity that gathers news at his own effort and expense with the intent to profit from it possesses a "quasi-property" interest in that news.²⁴ A competitor who utilizes that news for his gain, at the expense of the gatherer, has engaged in unfair competition.²⁵ The Court emphasized that each participant in a commercial dealing must utilize his own "money, skill, and effort."²⁶ When one

19. See *International News Serv. v. Associated Press*, 248 U.S. 215, 239 (1918).

20. *Id.*

21. See *id.*

22. See *id.* at 242.

23. See *id.* at 233.

24. See Kelly A. Ryan, *Copyright Law: Do State Misappropriation Rights Survive Feist Publications Copyright Laws?*, 1992/1993 ANN. SURV. AM. L. 329, 331 (1994) (analyzing *International News*, 248 U.S. at 236).

25. See *International News*, 248 U.S. at 233.

26. See *id.* at 238.

party fails to do this, that party has competed unfairly.²⁷ The Court further noted that INS could not publish the news acquired by Associated Press until the commercial value of that news had diminished.²⁸

III. FEDERAL PREEMPTION OF A STATE MISAPPROPRIATION CLAIM

The plaintiffs' misappropriation claim in *Total News* was perhaps the most potent of those raised in their complaint. The misappropriation claim directly addressed the primary concern of the plaintiffs: the ability of the defendant to use the content of plaintiffs' sites to generate advertising revenue in competition with the plaintiffs. However, the ability of a similar plaintiff to succeed in the future will depend on whether such a misappropriation claim is preempted by federal copyright law.

A. Section 301 of the Copyright Act: Equivalent rights

In section 301 of the 1976 Copyright Act, Congress explicitly established that federal copyright law preempts state law protection of copyrightable subject matter where the rights afforded under state law are equivalent to those secured by federal law.²⁹ Section 301 preemption was created in part to give the federal government unequivocal authority in matters of copyright protection and to prevent uncertainty in deciding whether state or federal protection applies. Section 301(a) presents three prerequisites for federal preemption:

- (i) The state law claim must vindicate legal or equitable rights that are equivalent to any of the exclusive rights ... specified in Section 106.
- (ii) There must be works of authorship that are fixed in a tangible medium of expression.
- (iii) These works must come within the subject matter of copyright as specified by sections 102 and 103.³⁰

1. Sections 102, 103, & 106

A state law right is considered equivalent to a right within the general scope of federal copyright if it violates any of the rights specified in sec-

27. See Ryan, *supra* note 24, at 332 (analyzing *International News*, 248 U.S. at 239-40).

28. See *International News*, 248 U.S. at 245-46.

29. See generally Raymond T. Nimmer, *Federal Preemption in Intellectual Property Law*, 453 PLL/PAT 95, 107 (1996).

30. Carol P. Sadler, *Federal Copyright Protection and State Trade Secret Protection: The Case for Partial Preemption*, 33 AM. U.L. REV. 667, 673 (1984).

tion 106.³¹ Essentially, section 106 grants the copyright holder the right to “reproduce, distribute, perform and display” a copyrighted work.³²

Section 102(a) provides that copyright protection is extended to works of “original authorship fixed in a tangible medium of expression.”³³ Works of authorship include: “literary works; musical works; dramatic works; pantomimes; pictorial graphic and sculptural works; motion picture and other audio visual works.”³⁴ Section 102(b) holds that any “procedure, process, or system” is excluded from copyright protection.³⁵

2. *Application of Statute*

Section 301 provides two questions for the courts to consider in determining whether federal copyright law preempts state law. First, is the right to protection akin to an exclusive right specified in the Copyright Act? Second, is the work within the domain of copyrightable subject matter?

Section 301(a) of the Copyright Act is considered to be a fundamental change in copyright law.³⁶ Prior to the enactment of section 301(a), a common law copyright could be granted by the states to protect unpublished works as well as published works that were not afforded federal copyright protection.³⁷

3. *Section 301 As it Applies to Total News' Use of Framing*

While the plaintiffs' home pages in *Total News* may have been properly copyrighted as literary or pictorial graphic works, the satisfaction of section 301 remains unclear because it is doubtful whether a “copy” of their Web pages was made. Currently, there is an absence of case law addressing whether “linking” constitutes the creation of a “copy” of another work. A technical understanding of linking suggests that it does not. The prime function of a link, “framed” or not, is to “move” the user to the

31. See 17 U.S.C. § 301(a) (1976); See *Allied Artists Pictures Corp. v. Rhodes*, 679 F.2d 656, 662-63 (6th Cir. 1982) (holding that a state law right is equivalent if it creates or destroys a right contained in federal copyright law).

32. 17 U.S.C. § 106.

33. *Id.* § 102(a).

34. *Id.* § 102(a).

35. *Id.* § 102(b).

36. See *Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 677 (7th Cir. 1986). The court held that live telecasts of sporting events that are simultaneously videotaped are considered fixed in a tangible medium of expression, thus rendering such recorded broadcasts copyrightable. See *id.* at 668. The court further held that the telecast of a baseball game contains sufficient creativity to deem it copyrightable. See *id.* at 668-69.

37. See *Goldstein v. California*, 412 U.S. 546, 569 (1973).

URL address of the external Web page, rather than “copy” that page into some medium for the user’s convenience. This discretion to “move” is purely in the hands of the user. Ultimately, it is the user who transfers the free content of the Web page to his or her computer screen.

The prerequisites of section 301 cannot be fulfilled until it is clear that linking creates a “copy” that has been placed in a “tangible medium of expression.” Possible contributory infringement claims are constrained for the same reason.³⁸ In order to deem linking the creation of a “copy,” the conceptual view of a “copy” will have to be stretched considerably.

If the courts favor a view remotely close to that held by the Web development community, “linking” will not be deemed a copy. Avid Web developers seldom, if at all, refer to “copying” in the same sentence as the term “linking.” The prevalent view amongst Internet companies and Web developers is that once a site is posted on the Web, no consent is required to link to it.³⁹ Commonly, Web developers who share a mutual business interest link to one another’s site to promote consistency of performance, quality, and availability with respect to information.⁴⁰

B. Legislative History of the Copyright Act’s Preemption Clause

During a series of early legislative hearings on what became the 1976 Copyright Act, Congress asserted that certain provisions of the federal copyright laws were meant to preempt state misappropriation laws because they merely represented copyright protection under another guise.⁴¹ However, during the final Congressional debates, some members of Congress acknowledged that section 301 was not intended to alter certain areas of existing state misappropriation law.⁴² The House Report indicated that the Act would provide businesses with protection from competitors

38. Contributory infringement is a subset of the doctrine of vicarious liability, a third-party liability theory. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984). In general, “one who, with knowledge of the infringing activity, includes, causes, or materially contributes to the infringing activity of another, may be held liable as a ‘contributory’ infringer.” *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). Although no express statutory provision governs contributory infringement, the doctrine is regarded as a valid means of holding a party liable for copyright infringement. See *Sony*, 464 U.S. at 435. To hold a party liable as a contributory infringer, a claim of direct infringement against some party must first be established. See *Cable/Home Communications Corp. v. Network Prod. Inc.*, 902 F.2d 829, 844 (11th Cir. 1990).

39. See Phillips & Blumenfeld, *supra* note 3, at 67.

40. See Richard Raysman & Peter Brown, *Dangerous Liaisons: The Legal Risks of Linking Web Sites*, 217 N.Y.L.J. 3, 5 (1997).

41. H.R. REP. NO. 89-2237, at 129 (1966).

42. See Ryan, *supra* note 24, at 339.

who consistently use facts gathered by another for their own benefit.⁴³ The following excerpt from the House Report for the 1976 amendments clarifies the congressional stance:

'Misappropriation' is not necessarily synonymous with copyright infringement, and thus a cause of action labeled as 'misappropriation' is not preempted if it is in fact based neither on a right within the general scope of copyright as specified by section 106 nor on a right equivalent thereto. For example, state law should have the flexibility to afford a remedy (under traditional principles of equity), against a consistent pattern of unauthorized appropriation by a competitor of the facts (i.e. not the literal expression) constituting 'hot' news, whether the traditional mold of *International News Service v. Associated Press*, 248 U.S. 215 (1918), or in the newer form of date updates from scientific, business, or financial data bases.⁴⁴

C. The "Extra Element": A Three Part Test

Even if the plaintiffs' Web content met the requirements of section 301, it could still survive federal preemption if the "extra element" test were met. State law is equivalent to copyright if it violates section 106 or "it requires additional elements to make out a cause of action, but the additional elements do not differ in kind from those necessary for copyright infringement."⁴⁵

In *NBA v. Motorola Inc.*,⁴⁶ the Second Circuit held that the Copyright Act of 1976 preempts only those state law claims that would infringe one of the exclusive rights provided by the federal Copyright Act.⁴⁷ Certain forms of misappropriation, particularly "hot news" claims, otherwise within the general scope of copyright will survive preemption if the "extra element" test is met.⁴⁸ This test is met if the following conditions are satisfied: (i) the information in question is time sensitive; (ii) the defendants' use of the information constitutes a free ride on the plaintiffs' efforts; and

43. *See id.*

44. *See NBA v. Motorola, Inc.*, 105 F.3d 841, 850 (2nd Cir. 1997) (citing H.R. REP. NO. 94-1476, at 132 (1976)).

45. *See Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 677 (7th Cir. 1986).

46. 105 F.3d 841 (2nd Cir. 1997).

47. *See id.* at 850. The court held that a "real-time" transmission of NBA game scores does not constitute a misappropriation of "hot-news." *Id.* at 853. Further, the court held that a state law "hot-news" misappropriation claim based on *International News* survives preemption by the federal Copyright Act. *Id.* at 848.

48. *See id.* at 853.

(iii) the ability of other parties to free ride on the efforts of the plaintiff and others would so reduce the incentive to produce the product or service that its existence or quality would be threatened.⁴⁹ Although *Total News* never reached a judge, a court may have reasoned through the three part “extra element” test as follows.

1. *Time sensitive information*

Establishing that the information contained in the plaintiffs’ Web sites was time sensitive would have presented only a minor obstacle. The Washington Post, for example, asserted in the complaint that it updates its Web page thirty times per day.⁵⁰ Because the majority of the plaintiffs are in the business of providing current news, their Web sites generally contain a plethora of information that is arguably time sensitive. To the extent that the plaintiffs were diligent in updating their Web pages, the time sensitivity requirement would easily be met. However, there is not a bright-line rule to determine how often a Web page must be updated or how current its content must be to constitute “time sensitive” information. In addition, there is no firm rule designating the percentage of time sensitive information that must be embodied in the whole work for the requirement to be met.

2. *Free riding on the plaintiff’s efforts*

To prevail on the free riding requirement, it must be proved that the defendant appropriated the plaintiff’s product at a minimal cost and offered that product at a lower cost to competitors.⁵¹ Free riding generally occurs when one party does little or nothing to warrant the benefit it receives from the efforts of others in furtherance of a mutual interest.

Total News arguably did not free ride on the plaintiffs’ efforts because misappropriation implies a “taking” of another’s work. “Appropriate” means “[t]o make a thing one’s own; to make a thing the subject of property; to exercise dominion over an object to the extent, and for the purpose, of making it subserve one’s own proper use or pleasure.”⁵² Total News’ use of linking did not involve a “copying” or “taking” of the plaintiffs’ work. Rather, Total News merely provided its users with an organized and convenient path to the information posted by the plaintiffs. Total

49. *See id.*

50. *See Bierstedt, supra* note 13, at 255.

51. *See NBA*, 105 F.3d at 854 (noting that an indispensable element of an *International News* “hot news” claim is free riding which enables the defendant to produce a competitive product at a reduced cost because of the efforts of the original producer).

52. BLACK’S LAW DICTIONARY 67 (6th ed. 1991).

News' framed link service can be analogized to providing a "taxi cab-like" service to a given destination. Does it constitute a free ride on the plaintiffs' efforts to solicit advertisements for a "cab-like" service to a particular set of locations which house the plaintiffs' copyrighted material?

a) Technological methods of limiting Web access

From a technological standpoint, the plaintiffs have many methods of limiting third-party Web developers from accessing or altering the appearance of their sites. For instance, the plaintiffs can install anti-framing software on their Web pages as well as restrict a Web site operator's URL address (i.e. <http://www.totalnews.com>) from accessing their sites.⁵³ Further, the plaintiffs can limit access to their sites by requiring a paid subscription, as Dow Jones does, or by imposing a registration and a password entry code requirement.⁵⁴ In an even more creative approach, the plaintiffs can program their Web pages to change URL addresses at random intervals.⁵⁵

Not only do the plaintiffs have discretion to bypass frames, but so does the user. For instance, the user is free to scroll within the framed region to view the advertisements of the original external site.⁵⁶ In addition, the user can bypass the Total News site completely by recalling an external Web site's URL address or using a Web browser program that does not support frames.⁵⁷

b) Limiting framing through contractual "click agreements"

To prevent unwanted framing, the plaintiffs can also experiment with enforcing on-line contractual "click agreements." Such agreements require the user to consent to the terms of an on-screen contract by "clicking" on the requisite icon before accessing the site.⁵⁸ Although it still remains questionable whether a court will consistently enforce such an agreement, the judicial trend has been to clarify the enforceability of such "shrink-wrap" or "Web-wrap" contracts.⁵⁹

53. See Alan Pearlman, *Web Framing Feature Spreading Quickly*, 14 No. 12 LEGAL TECH. NEWSL. 5 (1997).

54. See Bierstedt, *supra* note 13, at 254.

55. See Raysman & Brown, *supra* note 40, at 7.

56. See Mitch Wagner, *Web Firms Eye Suit on Link Policies*, COMPUTERWORLD, May 12, 1997, at 62.

57. See *id.*

58. See Mary M. Luria, *Controlling Web Advertising: Spamming, Linking, Framing, And Privacy*, THE COMPUTER LAWYER, Nov. 1997, at 14.

59. See generally *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996). The court held that a shrink-wrap agreement, a contract in which the user agrees to the terms

3. *Reduced incentive of plaintiffs to produce the product*

Considering that the plaintiffs already disseminate in print form much of the information contained on their Web pages, it is unlikely that the plaintiffs will be deterred by the Total Newses of cyberspace. The plaintiffs have a general marketing interest in maintaining a presence on the Web, particularly because it aids them in establishing a favorable brand image as companies who are cutting-edge and up-to-date.

The current economic reality of the Internet does not favor the view that the plaintiffs would be easily deterred from producing Web content. Web pages are among the least expensive forms of communicating information: it is generally inexpensive to modify and update a Web page beyond its initial design. Generally, large corporate firms such as the Washington Post hold an advantage in attracting Web advertising revenue in comparison to small and mid-sized businesses such as Total News. In the fourth quarter of 1995, approximately 75% of the advertising dollars spent on the Web went to only ten companies, the majority of which were large publishers.⁶⁰

Some analysts predict that annual advertising expenditures on the Web will reach \$2 billion during the year 2000.⁶¹ This data suggests that, if the current trend continues, a small player will have little impact on the ability of a large company to generate advertising revenue for its Web page. Arguably, the "existence and quality" of the plaintiffs' product will not be threatened by small businesses such as Total News due to the large-firm advertising advantage the plaintiffs hold. Although Web developers who provide framed links to the plaintiffs' sites may cut into their margins, the plaintiffs are still likely to produce their Web product as long as the revenue generated exceed their costs by a reasonable margin. In sum, the likely deterrent effect caused by Total News' market presence may not be substantial enough to establish that the plaintiffs have a reduced incentive to produce Web content. There is no concrete rule that establishes the

by opening the package seal, was an enforceable contract with respect to a CD-ROM database. *Id.* at 1450-51. The court also concluded that rights under contract are not preempted by federal law even in the case of prohibitions on trade secrets and limitations on use. *Id.* at 1454.

60. See Rosalind Resnick, *Hawking Their Wares: Online Advertisers Ready to Pour Money Into Sales Pitches on the Internet*, THE STAR-LEDGER NEWARK, NJ, Feb. 5, 1996, at 1, available in 1997 WL 7940044.

61. See *Study Predicts Online Ad Revenues Will Reach \$2 billion in 2000*, EDP WEEKLY 009, July 22, 1996, at 1, available in 1996 WL 9720172; see also, *Web Advertising Expected to Grow 500 PCT*, PHILADELPHIA INQUIRER, June 7, 1997, at 1, available in 1997 WL 8698016.

level of market harm necessary to reduce the incentive of a plaintiff to produce a product. With respect to *Total News*, a decision on this element of the test will be based, at best, largely on subjective standards.

IV. ADDITIONAL CASE LAW

A. Survey of Case Law Supporting Misappropriation as Not Preempted

There is further support that a misappropriation claim is not preempted by federal copyright law. In *Goldstein v. California*,⁶² the U.S. Supreme Court ruled that misappropriation protected interests outside the realm of copyright law and thus was not preempted by federal copyright law. *Goldstein* involved the pirating of recordings created by major musical artists. These pirated tapes were distributed to retail outlets and placed in competition with those of the original recording companies.⁶³ A California statute prevented the transfer of any performance fixed on record or tape to other records or tapes with the intent to sell in the absence of express permission.⁶⁴

In *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*,⁶⁵ the U.S. Supreme Court implied in dicta that a remedy for hard work is available under the unfair competition laws, of which misappropriation is one. The *Feist* Court recognized that facts themselves are not copyrightable, but the unique expression of those facts are.⁶⁶ After rejecting what was known as the "sweat of the brow" doctrine in copyright law,⁶⁷ the Court hinted in dicta that an adequate remedy under state unfair competition law may exist for the plaintiffs.⁶⁸

In *Southern Bell Telephone and Telegraph Co. v. Associated Telephone Directory Publishers*,⁶⁹ the Eleventh Circuit Court of Appeals suggested that federal copyright law cannot subvert a state misappropriation claim. *Southern Bell* involved the copying of a telephone directory, and was settled prior to *Feist*. The Eleventh Circuit suggested in dicta that

62. 412 U.S. 546, 546 (1973).

63. *See id.* at 550.

64. *See id.*

65. 499 U.S. 340 (1991).

66. *See id.*

67. *Id.* at 353 (rejecting the "sweat of the brow" doctrine which grants copyright protection to works which require a great deal of labor to produce but little creativity).

68. *See Ryan, supra* note 24, at 330 (citing *Feist*, 499 U.S. at 350).

69. 756 F.2d 801 (11th Cir. 1985).

Southern Bell could prevail on a misappropriation cause of action by invoking the state unfair competition doctrine.⁷⁰

B. The "Passing Off" Test: A Stricter Standard for Preemption

In contrast to *Goldstein* and *Southern Bell*, the Ninth Circuit has relied on a more stringent standard for survival of a state misappropriation claim. In *Del Madera Properties v. Rhodes and Gardner*, the court held that state claims of unfair competition based on misappropriation of copyrighted material are preempted by federal copyright law unless a showing of the tort of "passing off" can be established.⁷¹ "Passing off" has been defined by prior case law to mean "the selling of one's own creation under the name or trademark of another."⁷²

The "passing off" presented in *Del Madera Properties* does not apply to the facts of *Total News*. Such analysis is most useful for two types of unfair competition claims: namely false advertising and trademark infringement.⁷³ *Total News* is not a clear-cut case in which the defendant is attempting to "pass off" its Web site as that of the major entertainment and media conglomerates to which it links. Generally, an active user of the Web understands that the mere presence of a "link" does not necessarily imply that the linked external Web site is owned and controlled by the provider of the link.

V. CONCLUSION

As the case law and legislative history suggest, misappropriation claims are not preempted by federal copyright law, although their scope is limited. The policy goals of copyright law and misappropriation are different. Copyright law seeks to protect original expression while state misappropriation laws aim to protect labor. In addition, the doctrines protect different groups. Misappropriation protection can only be upheld against competitors while copyright law extends protection against the world. In addition, the duration of copyright and misappropriation protection greatly differ. Copyright law grants protection for 50 years following the death of the author or, for corporate authors, the lesser of 100 years from creation

70. See *id.* at 809 n.9.

71. See *Xerox Corp. v. Apple Computer, Inc.*, 734 F. Supp. 1542, 1550 n.15 (1990) (citing *Del Madera Properties v. Rhodes and Gardner, Inc.*, 820 F.2d 973, 977 (9th Cir. 1987)).

72. *Smith v. Montoro*, 648 F.2d 602, 604 (9th Cir. 1981).

73. See *Xerox*, 734 F. Supp. at 1551 (citing 2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 27:2(C) (2d ed. 1984)).

or 75 years from publication. In contrast, misappropriation protection lasts only as long the competitive value of the work still exists.

The criteria for establishing preemption under section 301 of the Copyright Act most likely cannot be met under the facts of *Total News* due to the simple fact that "linking" does not rationally constitute the creation of a "copy." Regardless of whether the requirements for section 301 are met, the state misappropriation claim of the plaintiffs may be preempted if the "extra element" test is not met. The criteria for this test offer plenty of opportunities for both parties to make effective arguments. The plaintiffs are likely to prove successful in establishing that their Web content is time sensitive. However, asserting that the use of links free rides on the plaintiffs' efforts and deters them from creating the product at hand is more questionable. The difficulty stems from the fact that *Total News'* product is hard to classify as being a close reproduction of the work of the plaintiffs. In addition, the notion of competition between the parties is not as direct as that of other leading misappropriation cases, such as *International News*.

The lack of consistent decisions with respect to a misappropriation preemption challenge give rise to an even greater problem. The reality of engaging in a course of conduct like *Total News* is that there are no strong assurances that state law will survive preemption. This leaves a great deal of ambiguity for entrepreneurs and other interested parties who desire to take advantage of the growing opportunities on the Web without incurring the risk of substantial legal liability. A reasonably valid pre-assessment of such liability may be crucial for some, especially the new breed of emerging companies which maintain very few hard assets but rely heavily on their intellectual property rights for survival. The resolution of cases like *Total News* are needed, not only to spur risk-taking and the use of innovative technologies, but to establish a clear precedent for tolerance of broader forms of conduct on the Internet. The general mold of *Total News* is likely to be found again and again as the Web progresses even further technologically. Therefore, a strong legal foundation in this area is needed to assure that the law can keep pace with the rapid change of the Internet.

PROCD, INC. V. ZEIDENBERG

By Brian Covotta & Pamela Sergeeff

With the rapid growth of the computer software industry, the principles of intellectual property law failed to stretch rapidly enough to protect valuable aspects of new products.¹ Thus, as computer software evolved from programs custom-made for huge mainframe computers into mass-marketed items available to individual customers for use with their personal computers, software developers attempted to fashion protection for their products.² The method of protection that the software industry currently favors is packaging software license agreements with its products. These agreements vary depending on the type of software involved: negotiated agreements for custom-made software and non-negotiated "shrinkwrap licenses" for mass-market retail software.³

Computer software manufacturers use shrinkwrap licenses in an attempt to provide greater protection for their products than currently afforded by federal copyright law's exclusive rights.⁴ Shrinkwrap licenses impose specific restrictions on use, reproduction, transfer, and modification of the software program by consumers in an attempt to prevent unauthorized duplication of the program, and to give the software owner a breach of contract action should the restrictions be violated. However, because shrinkwrap licenses are now ubiquitous in the mass-marketed software industry, serious questions arise as to whether a consumer typically understands and assents to the terms of the license. It is in this context that the question of the enforceability of shrinkwraps as the sole expression of an agreement between the parties comes to the forefront.

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1. See generally Samuelson et al., *A Manifesto Concerning the Legal Protection of Computer Programs*, 94 COLUM. L. REV. 2308 (1994).

2. See Mark A. Lemley, *Intellectual Property and Shrink-wrap Licenses*, 68 S. CAL. L. REV. 1239, 1239 (1996).

3. Shrinkwrap licenses are the list of fine print terms that the user is expected to read prior to using the product. Often, the terms are printed on an envelope within the actual purchased package that contains the software diskettes. The user may constructively assent to these terms by opening the flap of the envelope or by breaking a plastic seal of the software package, hence the name "shrinkwrap." See *id.* at 1241 & n.5. In addition, with the rapid expansion of the Internet, those who make products available online or maintain a web site use shrinkwrap type agreements in the form of "clickwrap" click-on agreements and "webwrap" agreements to govern the use of information and products on the Internet.

4. See *id.* at 1246.

The first case in which a court actually ruled on the enforceability of a shrinkwrap software license was *Step-Saver Data Systems, Inc. v. Wyse Technology*.⁵ In *Step-Saver*, a software vendor (Wyse) made numerous sales to the plaintiff (Step-Saver), a value-added retailer of computer software and hardware systems.⁶ In the first of these sales, Wyse sent Step-Saver a copy of the software in Wyse's standard packaging with shrinkwrap license terms. All subsequent sales between Wyse and Step-Saver involving the software, however, were made by telephone order, with no pre-sale mention of shrinkwrap license terms.⁷ The court held that, in the first transaction, the shrinkwrap license terms formed part of the contract. In the subsequent transactions, however, the license terms did not constitute conditions to the licensor's acceptance of the contract under section 2-207(1) of the Uniform Commercial Code (UCC).⁸ Instead they were proposed additional terms to a sales contract under section 2-207(2),⁹ and thus, the shrinkwrap license did not become part of the contract.¹⁰

Following the *Step-Saver* case, courts generally found shrinkwrap licenses unenforceable because the consumer was not able to review the terms of the license until after he had purchased the item, and therefore the terms were not part of the bargained-for exchange.¹¹ Some courts also found that the federal Copyright Act preempted state enforcement of shrinkwrap license terms.¹² The United States Court of Appeals for the Seventh Circuit, however, refused to follow this trend of invalidating shrinkwrap contracts. As the first exception to the general rule of non-enforcement of shrinkwrap licenses, the Seventh Circuit enforced a

5. 939 F.2d 91 (3d Cir. 1991).

6. *See id.* at 93.

7. *See id.* at 101-02.

8. U.C.C. § 2-207(1) (1977). Section 2-207(1) provides that: "A definite and seasonable expression of acceptance ... operates as an acceptance even though it states terms additional to or different from those offered or agreed upon, unless acceptance is expressly made conditional on assent to the additional or different terms."

9. U.C.C. § 2-207(2) (1977). Section 2-207(2) provides that: "The additional terms are to be construed as proposals for addition to the contract."

10. *See id.*

11. *See, e.g., Arizona Retail Sys., Inc. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1993) (finding shrinkwrap licenses to be non-binding in transactions between a software vendor and a retailer).

12. *See Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 269-70 (5th Cir. 1988) (finding state statute upholding validity of software licenses to be preempted by the Copyright Act).

shrinkwrap license in the case of *ProCD, Inc. v. Zeidenberg*,¹³ thus creating a split in the circuits with regard to the enforceability of shrinkwraps.¹⁴

I. CASE HISTORY

A. Background Facts

In *ProCD*, a manufacturer of computer software (ProCD), compiled information from over 3,000 directories into a telephone book database containing approximately 95 million telephone listings (at considerable expense) and developed a search engine to be used in conjunction with the database.¹⁵ In order to effectively market the software, ProCD licensed the database at different prices—higher prices for commercial users and lower prices for private users.¹⁶ A problem arose, however, when Zeidenberg bought a private user package, but ignored the license,¹⁷ extracted the listings, and made the database commercially available over the Internet through his own proprietary search engine.¹⁸ ProCD sued Zeidenberg, claiming copyright infringement and breach of the shrinkwrap license agreement.¹⁹

B. The District Court Opinion—*ProCD I*

ProCD sought an injunction against all activities proscribed by the terms of the shrinkwrap license. Chief Judge Crabb of the United States District Court for the Western District of Wisconsin denied the injunction finding that: (1) the Supreme Court's decision in *Feist Publications, Inc.*

13. 86 F.3d 1447 (1996) [hereinafter *ProCD II*].

14. Compare *Step-Saver*, 939 F.2d at 104 (shrinkwrap licenses found invalid by Third Circuit), with *ProCD II*, 86 F.3d at 1447 (shrinkwraps deemed enforceable contracts by Seventh Circuit).

15. See *ProCD II*, 86 F.3d at 1449.

16. See *id.*

17. The shrinkwrap license was printed on the actual CD-ROM and in the user's guide. See *id.* at 1450. It also appeared on the screen every time the program ran. See *id.* The license limited the use of the application program and the listings to noncommercial purposes. See *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 645 (W.D. Wis. 1996), *rev'd*, 86 F.3d 1447 (7th Cir. 1996) [hereinafter *ProCD I*]. Additionally, each box had a notice on the outside stating that the software came with restrictions set out in an enclosed license and that if the user did not consent to its terms, the user could return the software for a full refund. See *ProCD II*, 86 F.3d at 1450.

18. *Id.*

19. See *ProCD I*, 908 F. Supp. at 643-44.

*v. Rural Telephone Service Co., Inc.*²⁰ defeated the copyright claim because ProCD's telephone listings lacked sufficient originality;²¹ (2) under the *Step-Saver* rationale, the shrinkwrap license terms were not binding because the license was not on the exterior of the package at the time of purchase (so the customer had no opportunity to inspect it at the time of the transaction and thus never consented to the terms of the license);²² and (3) even if there was a binding contract, the terms of the shrinkwrap were unenforceable because they were preempted by the Copyright Act.²³ Consequently, the court held that the license was not binding on Zeidenberg and he was not contractually restricted from disseminating the unprotected telephone listings on the Internet. ProCD appealed the decision, and a little more than one year later, the Seventh Circuit reversed.

C. The Seventh Circuit Opinion—*ProCD II*

In an opinion by Judge Easterbrook, the appellate court held that shrinkwrap licenses are enforceable as long as they do not violate generally accepted principles of contract law.²⁴ The Seventh Circuit did not dispute the district court's ruling on the copyright infringement claim, but found that Zeidenberg breached an enforceable contract²⁵ and that enforcement of the shrinkwrap was not preempted by existing federal Copyright Law.²⁶

1. Seventh Circuit's Treatment of Contract Law

In addressing the enforceability of the contract, the court first determined whether the UCC governed the transaction in *ProCD*. Despite the fact that ProCD labeled the transaction a "license" rather than a sale, the

20. 499 U.S. 340 (1991) (holding that the white pages of the telephone directory are not sufficiently original to be copyrightable and that copyright protection does not extend to "sweat of the brow" works).

21. See *ProCD I*, 908 F. Supp. at 647.

22. See *id.* at 655. In finding shrinkwrap licenses unenforceable, the preliminary step the district court factored into its analysis was characterizing the transaction as not a "licensing" of software but, in fact, as a "sale" governed by the UCC. See *id.* at 651 ("there are sound reasons for treating a software transaction as a sale of goods under the UCC rather than as a license"). Because the license was inside the box at the time of the software's purchase, the court applied UCC sections 2-207 (governing general agreements where specific terms are finalized at a later time) and 2-209 (pertaining to proposed modifications of the terms of a transaction). See *id.* at 655. In applying UCC section 2-207, the court stressed Zeidenberg's inability to bargain over the terms of the shrinkwrap license prior to purchase. See *id.*

23. See *id.* at 656-62.

24. See *ProCD II*, 86 F.3d at 1449.

25. See *id.* at 1450-53.

26. See *id.* at 1455.

Seventh Circuit treated ProCD's shrinkwrap license as an ordinary contract for the sale of goods governed by the UCC and the law of contracts.²⁷

In applying an expansive theory of contract formation and the UCC, the Seventh Circuit found that a contract had been validly formed by the purchaser's conduct, even though the specific terms of the bargain were not disclosed until after the sale.²⁸ Thus, instead of requiring that all license terms be printed on the outside of the box so that the consumer can read them before making a purchase, the court found that the license was enforceable because Zeidenberg had assented to the terms of the license by his conduct.²⁹

The court supported this result by reasoning that shrinkwrap licenses are beneficial for consumers. Judge Easterbrook opined that because shrinkwrap licenses were fast becoming an accepted means of doing business in the mass-produced software market, the dynamics of the market necessitated the preservation of shrinkwraps.³⁰ The court used the familiar reasoning that standardized licensing contracts reduce transaction costs because they make costly bargaining in repeated transactions of substantially identical nature unnecessary.³¹ The court then noted that "transactions in which the exchange of money precedes the communication of detailed terms are common,"³² and that because requiring express assent to terms prior to payment would be inefficient, such transactions generally create enforceable contracts.³³ Furthermore, such transactions are especially common in on-line sales of consumer goods and computer soft-

27. *See id.* In concluding that computer software transactions fall within the scope of Article 2 of the UCC, the court joined the view of other courts and commentators. *See, e.g.,* Bonna Lynn Horovitz, Note, *Computer Software as a Good Under the Uniform Commercial Code: Taking a Byte Out of the Intangibility Myth*, 65 B.U. L. REV. 129 (1985); *Photo Copy, Inc. v. Software, Inc.*, 510 So.2d 1337, 1338-39 (La. Ct. App. 1987); *Neilson Bus. Equip. Ctr., Inc. v. Monteleone*, 524 A.2d 1172, 1174-75 (Del. 1987).

28. *See ProCD II*, 86 F.3d at 1451.

29. *See id.* at 1452. Judge Easterbrook concluded that Zeidenberg was put on sufficient notice of the license terms because upon running the program each time, the license was "splashed ... on the screen" such that Zeidenberg could not continue without indicating his acceptance. *Id.*

30. *See id.* at 1451-52.

31. *See id.* at 1451.

32. *Id.*

33. *See id.* (citing RESTATEMENT (SECOND) OF CONTRACTS § 211, cmt. a (1981)). The court's analysis leans heavily on the benefits of standardized licensing. *See E. ALLAN FARNSWORTH*, 1 FARNSWORTH ON CONTRACTS § 4.26, at 310 (2d ed. 1990) ("Standardization of agreements is essential to a system of mass production and distribution.").

ware.³⁴ Finally, the court addressed the distinctive characteristics of the software market. The court noted that because an increasing amount of transactions take place electronically, many sales occur without any accompanying packaging and documentation. The court argued that consumers would be harmed by the refusal to enforce shrinkwrap licenses because to invalidate contractual terms simply because they were delivered to the consumer after the purchase "would drive prices through the ceiling or return transactions to the horse-and-buggy age."³⁵

Turning specifically to the UCC, the Seventh Circuit disagreed with the district court's view that the UCC "cannot countenance the sequence of money now, terms later,"³⁶ and thus rejected the approaches suggested by the district court.³⁷ Instead, the Seventh Circuit rested its analysis on section 2-204 of the UCC.³⁸ Specifically, section 2-204(1) was invoked to support the contention that "[a] vendor, as master of the offer, may invite acceptance by conduct, and may propose limitations on the kind of conduct that constitutes acceptance. A buyer may accept by performing the acts the vendor proposes to treat as acceptance."³⁹ The basic message sent by the court was that, although the district judge was correct in saying that a contract can be accepted simply by paying the purchase price of the product, the UCC allows contracts to be formed in other ways. In fact, ProCD proposed one such way: enclosing a contract that the buyer, after reading the license, could accept by using the software.⁴⁰ The court found this alternate method of contract formation to yield an enforceable contract, especially when, as in *ProCD*, the purchaser accepts without protest. Consequently, Zeidenberg's use of the software, after receiving notice of the license, constituted an acceptance, and thus Zeidenberg was found liable for breach of contract.⁴¹ By so holding, the *ProCD II* court granted

34. See *ProCD II*, 86 F.3d at 1451. The court analogized the transaction in this case to other common transactions in which money precedes the communication of detailed terms, such as insurance policies and airline tickets. See *id.*

35. *Id.* at 1452.

36. *Id.* The drafters of UCC Article 2B also adopted this view. See *infra* note 95 and accompanying text.

37. See *supra* note 22.

38. See *ProCD II*, 86 F.3d at 1452.

39. *Id.* (citing U.C.C. § 2-204(1) (1977)).

40. See *ProCD II*, 86 F.3d at 1452. Perhaps most significantly, the Seventh Circuit validated a common practice among software developers, namely requiring users to signify assent to license terms by, for example, clicking on an "I agree" button. See *id.*

41. The fact that Zeidenberg paid for the product before he knew the terms of the enclosed agreement was irrelevant in determining whether an enforceable contract had been created because the notice on the outside of the box, coupled with the opportunity for a

shrinkwrap licenses a broad acceptance similar to that of other standard contracts,⁴² radically redefining their effect in the marketplace.

2. *The Seventh Circuit's Treatment of Federal Preemption*

After concluding that shrinkwrap licenses are enforceable contracts under state law, the Seventh Circuit considered whether the federal Copyright Act preempts the enforcement of such contracts.⁴³ Section 301 of the Copyright Act preempts any rights under state law "that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright"⁴⁴ The court quickly accepted that ProCD's data was within the subject matter of copyright even if it was not sufficiently original to be copyrighted.⁴⁵ Turning to whether contract rights are equivalent to any of the exclusive rights within the general scope of copyright, the court concluded that equivalent rights must be rights established by law.⁴⁶ In contrast, "a simple two-party contract is not 'equivalent to any of the exclusive rights within the general scope of copyright' and therefore may be enforced."⁴⁷

II. DISCUSSION

The ability to establish enforceable contracts by way of shrinkwrap licenses is central to the distribution of software both in the retail software market and on the Internet. In finding that a majority of these transactions are routinely conducted so that the negotiation of the terms of a contract is unrealistic, the court properly appreciated the commercial realities involved in software development and distribution. Thus, Judge Easterbrook reached the correct result in holding that shrinkwrap licenses are, in general, valid contracts under the UCC.

However, Judge Easterbrook was incorrect to find that such contract rights always survive copyright preemption. Allowing software developers to contract beyond the scope of copyright fails to recognize that

refund if the consumer did not agree to the terms of the license, was acceptable and sufficient to form a valid contract.

42. See *ProCD II*, 86 F.3d at 1451 ("Doubtless a state could forbid the use of standard contracts in the software business, but we do not think that Wisconsin has done so.").

43. See *id.* at 1453.

44. *Id.* (quoting 17 U.S.C. § 301(a) (1994)).

45. See *ProCD II*, 86 F.3d at 1453.

46. See *id.* at 1454.

47. *Id.* at 1455.

Congress, not developers, should strike the appropriate balance between proprietary rights and freedom of information. Thus, the Seventh Circuit erred in holding that shrinkwrap licenses are two-party contracts that never fall within the general scope of copyright (and, thus, are never preempted by federal copyright law).

A. Efficiencies of Flexible Contract Formation

In order to keep pace with emerging technology, it is important to maintain flexibility by the manner in which software manufacturers can contract with purchasers of their products. The court's application of a flexible approach to contract formation is not only consistent with the principles of the UCC, but is especially important to the jurisprudence of technology law. As the Seventh Circuit noted, in the realm of mass-market sales of products, the efficiency of standardized contracts produces transaction cost savings benefiting both consumers and producers.⁴⁸ However, even though transactional efficiency is necessary in an increasingly technological world, it should not come at the cost of fairness. Instead, in choosing the appropriate rule, efficiencies must be balanced against potentially unfair burdens on the purchaser. Despite ultimately reaching the correct result by granting a broad acceptance similar to that of other contracts, the court still overlooked some key factors in its balancing of interests analysis.

Notice is one important element that the court takes for granted in the *ProCD II* decision. In mass-market software sales, it is possible that sellers could insert unreasonable terms into a shrinkwrap license and define the means of acceptance without the consumer having knowledge of how these restrictions affect their right to use the software. Without notice of the terms or the shrinkwrap itself, consumers may be bound by terms that are not consistent with their reasonable expectations.⁴⁹

48. See *id.* at 1451-52; see also, e.g., David A. Rice, *Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering*, 53 U. PITT. L. REV. 543, 563 (1992) (noting that shrinkwrap licenses are a "rational and expedient response to the evolution of market conditions"); Celeste L. Tito, *The Servicewrap: 'Shrinkwrap' for Mass-Marketed Software Services*, 13 COMPUTER LAW 19, 19 (1996); Robert W. Gomulkiewicz & Mary L. Williamson, *A Brief Defense of Mass Market Software License Agreements*, 22 RUTGERS COMPUTER & TECH. L.J. 335, 341-46 (1996).

49. For example, products ordered on the Web and sent to the consumer via postal mail could potentially be accompanied by a shrinkwrap license containing onerous terms which can only be avoided by incurring a substantial cost in returning the package.

The court in *ProCD II* also disregarded the fact that, in comparison to standard contracts, shrinkwrap licensing transactions are subject to an imbalance in bargaining power at the time of contract formation. Because most software is sold over-the-counter as a retail item, the purchaser has no contact with the software developer and therefore does not have the opportunity to negotiate the terms. This disparity in bargaining power presents another opportunity for a software developer to include unreasonable terms which may surprise the consumer. Thus, lack of notice compounded with the lack of an opportunity to negotiate leaves the shrinkwrap licensing system open to abuse.

However, after taking into account the commercial realities of the retail software market, it does not appear likely that sellers will abuse their position and incorporate unreasonable terms into shrinkwrap licenses. First, courts can invalidate any terms that violate basic principles of contract law.⁵⁰ If the shrinkwrap is deemed unenforceable, the seller's purpose of protecting its intellectual property rights is frustrated. Thus, sellers are unlikely to include unconscionable terms. Furthermore, sellers are less likely to incorporate objectionable terms into their shrinkwrap licenses because that practice may impair the product's marketability. Consumers judge a product based on the overall package, which includes not only the quality of the actual software program, but also the terms of the license.⁵¹ If a shrinkwrap license has unacceptable terms, consumers will be dissatisfied and thus unlikely to repurchase any product from that manufacturer.⁵² Therefore, it is unlikely that any rational software manufacturer facing a competitive market would risk gaining a reputation for unfairness by including onerous terms in its shrinkwrap license.⁵³

50. See *ProCD II*, 86 F.3d at 1449 (noting that unconscionable terms in the shrinkwrap license context can be addressed through standard contract analysis); see, e.g., Gomulkiewicz & Williamson, *supra* note 48, at 345; 3 ARTHUR LINTON CORBIN, CORBIN ON CONTRACTS § 559A(B) (Supp. 1997); U.C.C. § 2-302 (1977) ("Unconscionable Contracts or Clauses"). Courts will refuse to enforce contract terms when they work oppressive burdens or unfair surprise on one of the parties in light of the circumstances. See, e.g., *Wheeler v. St. Joseph Hosp.*, 133 Cal. Rptr. 775, 783 (Ct. App. 1976); U.C.C. § 2-302, cmt. 1 (1977).

51. See *ProCD II*, 86 F.3d at 1453 (citing *Digital Equip. Corp. v. Uniq Digital Techs., Inc.*, 73 F.3d 756 (7th Cir. 1996)).

52. See TERELL G. WILLIAMS, CONSUMER BEHAVIOR: FUNDAMENTALS AND STRATEGIES 46 (1981) ("[t]he consumer decision process is not over when the final [purchase] is made"); see also JAMES F. ENGEL ET AL., CONSUMER BEHAVIOR 532-44 (2d ed. 1973).

53. This of course assumes a perfectly competitive market, which markets in computer software rarely are. However, antitrust law is the best mechanism to deal with markets as they deviate from the competitive norm.

Nonetheless, even though the commercial realities of the retail software market do not dictate the inclusion of a notice requirement, it would be helpful to consumers. A clear-cut notice requirement should be an important factor in a court's consideration of the enforceability of a shrinkwrap licensing scheme. The legal rule should work to ensure that consumers know the exact terms of the shrinkwrap license at the time of purchase, or at least be able to return the software after discovering the onerous terms without incurring further burdensome costs. If these conditions are met, the risks of shrinkwrap agreements are lessened and the consumer should be bound by the contract.

B. A Broader Application of Federal Preemption

Assuming that a shrinkwrap license constitutes an enforceable contract under state law, the question remains whether the Copyright Act contains default rules that are alterable by private contract, or whether it contains immutable principles that are not subject to such private reordering.⁵⁴

1. *Federal Preemption of State Law and Section 301 of the Copyright Act*

In executing the United States Constitution, the individual States delegated authority regarding copyrights to the federal government.⁵⁵ Despite this delegation, the States retain concurrent power to issue copyrights.⁵⁶

54. Statutes are often explicit about whether a given rule is a default provision or immutable. See, e.g., U.C.C. § 1-102 (1977) (“[t]he effect of provisions of this Act may be varied by agreement, except as otherwise provided in this Act ...”); REV. UNIF. PARTNERSHIP ACT § 103 (1994) (“Except as otherwise provided in subsection (b), relations among the partners and between the partners and the partnership are governed by the partnership agreement. To the extent the partnership agreement does not otherwise provide, this [Act] governs relations among the partners and between the partners and the partnership.”); Ian Ayres & Robert Gertner, *Filling Gaps in Incomplete Contracts: An Economic Theory of Default Rules*, 99 YALE L.J. 87, 87 n.1 (1989) (asserting that few corporate laws are immutable). In contrast, criminal laws are immutable.

55. See U.S. CONST. art. I, § 8, cl. 8 (granting Congress the 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”).

56. See *Goldstein v. California*, 412 U.S. 546, 552-60 (1973). The Court quoted approvingly from Alexander Hamilton's explanation that:

as the plan of the (Constitutional) convention aims only at a partial union or consolidation, the State governments would clearly retain all the rights of sovereignty which they before had, and which were not, by that act, exclusively delegated to the United States. This exclusive delegation, or rather this alienation, of State sovereignty, would only exist in three cases: where the Constitution in express terms granted an exclusive authority to the Union; where it granted in one instance an

When the federal government shares legislative power concurrently with the States, preemption issues arise. Whether a federal statute preempts state law is a matter of congressional intent.⁵⁷ Courts attempt to ascertain congressional intent from express language within the applicable statute.⁵⁸ Absent explicit preemptive language, courts consider such factors as the pervasiveness of congressional regulation, the strength of the federal interest, and the extent to which federal and state laws conflict.⁵⁹ Such conflicts arise when compliance with each regulatory scheme is a physical impossibility or when the state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.⁶⁰

In section 301 of the Copyright Act, Congress explicitly states the extent to which federal copyright law preempts state laws.⁶¹ Under section 301, preemption occurs if two conditions are satisfied: (1) the work in which the state law right is asserted comes within the "subject matter" of copyright; and (2) the state law right is equivalent to any of the rights specified in section 106.⁶² A right is not equivalent to any of the rights specified in section 106⁶³ if it incorporates an extra element beyond those

authority to the Union, and in another prohibited the States from exercising the like authority; and where it granted an authority to the Union, to which similar authority in the States would be absolutely and totally contradictory and repugnant.

THE FEDERALIST No. 32 (Alexander Hamilton).

57. *See Pacific Gas & Elec. Co. v. State Energy Resources Conservation & Dev. Com'n*, 461 U.S. 190, 203-04 (1983).

58. *See id.* at 203.

59. *See id.* at 204.

60. *See id.*

61. Section 301(a) provides:

On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

17 U.S.C. § 301(a) (1994).

62. *See, e.g., Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 674 (7th Cir. 1986).

63. Section 106 provides:

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

necessary to prove copyright infringement.⁶⁴ The *ProCD II* court considered whether a contract claim contains an extra element such that it avoids preemption.

The legislative history behind section 301 provides some support for the proposition that contract claims are not preempted by the Copyright Act: “[n]othing in this bill derogates from the rights of the parties to contract with each other and to sue for breaches of contract”⁶⁵ Subsequent litigation proved the fallacy of this simple statement. For example, in *Rano v. Sipa Press, Inc.*,⁶⁶ the Ninth Circuit held that section 203 of the Copyright Act, permitting termination of a contract at the will of the author only during a five-year period beginning at the end of thirty-five years from the date that the license was executed unless an earlier termination date is specified, preempted California’s terminable at will doctrine.⁶⁷ Indeed, “[c]ommentators have criticized the drafters of section

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- (2) to prepare derivative works based upon the copyrighted work;
 - (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
 - (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
 - (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
 - (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

17 U.S.C. § 106.

64. See, e.g., *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 659 (4th Cir.), cert. denied, 510 U.S. 965 (1993); *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 200 (2d Cir. 1983), rev’d on other grounds, 471 U.S. 539 (1985).

65. H.R. REP. NO. 94-1476, at 132 (1976). As originally drafted, section 301 included a list of causes of action that Congress did not intend to preempt. See Maureen A. O’Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479, 517-19 (1995). The list included breach of contract. See *id.* However, the list was deleted because of concern that it should not include state law misappropriation actions. See *id.*

66. 987 F.2d 580 (9th Cir. 1993).

67. *Id.* at 587. In *Rano*, a professional photographer entered into an oral copyright license agreement of indefinite duration with a photograph distribution syndicate. *Id.* at 583. After eight years, the photographer attempted to terminate the contract. *Id.* Under California contract law, the contract was terminable at the will of either party. *Id.* at 585. However, the application of this principle of California contract law directly conflicted with section 203 of the Copyright Act. The Ninth Circuit held that California’s terminable at will doctrine was preempted. *Id.* at 587; see also *Miller v. CP Chemicals, Inc.*, 808

301, stating that Congress had no idea what it was trying to accomplish through its enactment."⁶⁸ Not surprisingly, courts and commentators have struggled with the extent to which section 301 preempts contract claims that do not directly conflict with federal law.⁶⁹

F. Supp. 1238, 1246 (D.S.C. 1992) (holding that section 201(b) of the Copyright Act that grants the copyright in works made for hire to the employer unless the parties expressly agree otherwise in a written instrument preempted the plaintiff's claim that he retained the copyright in his work because of an oral contract).

68. Kell Corrigan Mercer, Casenote, *Consumer Shrink-Wrap Licenses and Public Domain Materials, Copyright Preemption and Uniform Commercial Code Validity in ProCD v. Zeidenberg*, 30 CREIGHTON L. REV. 1287, 1334-35 (1997) (citing Howard B. Abrams, *Copyright, Misappropriation, and Preemption: Constitutional and Statutory Limits of State Law Protection*, 1983 SUP. CT. REV. 509, 545 (1983)); see also Jane C. Ginsberg, *No "Sweat"? Copyright and Other Protections of Works of Information after Feist v. Rural Telephone*, 92 COLUM. L. REV. 338, 356 (1992) ("[t]he legislative history ... is muddled"); Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 860 (1987) ("[c]ourts consult the statute's legislative history for guidance, but find that it compounds their confusion"); Henry David Fetter, *Copyright Revision and the Preemption of State "Misappropriation" Law: A Study in Judicial and Congressional Interaction*, 27 ASCAP COPYRIGHT L. SYMP. 1, 54 (1982) ("[t]he legislative history appears thoroughly confusing"); Shelley Ross Saxer, Note, *Baltimore Orioles, Inc. v. Major League Baseball Players Association: The Right of Publicity in Game Performances and Federal Copyright Preemption*, 36 UCLA L. REV. 861, 879 (1989) ("[s]ection 301(b)'s legislative history is a source of controversy and ambiguity, rather than a helpful guide to determining which rights Congress intended as not equivalent"). Even if Congress' intent with regard to contracts in general was more clear, its intent with regard to software shrinkwrap licenses would still be difficult to ascertain because software was not clearly protectable under the Copyright Act until the 1980 amendments to the Copyright Act. See Lemley, *supra* note 2, at 1242-43. Moreover, the mass-market software industry was still in its infancy in the early 1980s. See *id.* at 1241 n.5.

69. See, e.g., *American Movie Classics Co. v. Turner Entertainment Co.*, 922 F. Supp. 926, 931 (S.D.N.Y. 1996) (holding that a contract claim only survives preemption if there is a promise and the promise involves a right not existing under the Copyright Act); *Wolff v. Institute of Electrical and Electronics Eng'rs, Inc.*, 768 F. Supp. 66, 69 (S.D.N.Y. 1986) (holding that all contract claims are preempted); *Brignoli v. Balch Hardy & Scheinman, Inc.*, 645 F. Supp. 1201, 1204-05 (S.D.N.Y. 1986) (holding that contract claims are not preempted even if the contract involves rights granted to copyright owners under the Copyright Act); Dennis S. Karjala, *Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 U. DAYTON L. REV. 511, 511-13 (1997) (arguing that shrinkwrap licenses regarding widely distributed works should be preempted); Maureen A. O'Rourke, *Copyright Preemption After the ProCD Case: A Market-Based Approach*, 12 BERKELEY TECH. L.J. 53, 81-90 (1997) (arguing that contracts should not be preempted unless they are unreasonable in light of market conditions); Niva Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 BERKELEY TECH. L.J. 93, 106-13 (1997) (arguing that the Copyright Act does preempt shrinkwrap licenses); O'Rourke, *supra* note 65, at 541-55 (arguing that courts should employ an anti-trust analysis in determining whether a particular contract is preempted); Ramona L.

2. ProCD II and the Section 301 Preemption of State Contract Claims

In *ProCD II*, the Seventh Circuit held that “a simple two-party contract is not ‘equivalent to any of the exclusive rights within the general scope of copyright’ and therefore may be enforced.”⁷⁰ It reasoned that the parties’ assent to the contract created an extra element that removed the contract claim from section 301 preemption.⁷¹ In reaching this conclusion, the court relied upon three court of appeals decisions that held that rights created by contract are not equivalent to the exclusive rights within the general scope of copyright:⁷² *National Car Rental System, Inc. v. Computer Associates International, Inc.*,⁷³ *Taquino v. Teledyne Monarch Rubber*,⁷⁴ and *Acorn Structures, Inc. v. Swantz*.⁷⁵

Despite its reliance on these three cases, the court significantly expanded the enforceability of contracts and constricted federal preemption. Each of these three cases was distinguishable on its facts because each involved a negotiated contract between two parties, not a mass-market shrinkwrap license.⁷⁶ This distinction is critical to the section 301 analysis because courts have held that the extra element that removes a state law

Paetzold, Comment, *Contracts Enlarging a Copyright Owner's Rights: A Framework for Determining Unenforceability*, 68 NEB. L. REV. 816, 822-34 (1989) (arguing that contracts that conflict with public policy should be preempted).

70. *ProCD II*, 86 F.3d at 1455 (quoting 17 U.S.C. § 301 (1994)). Despite this broad pronouncement, the court did acknowledge that “some applications of the law of contract could interfere with the attainment of national objectives and therefore come within the domain of § 301(a).” *Id.*

71. *See id.* at 1454.

72. Before addressing whether rights created by contract are equivalent to any of the exclusive rights within the general scope of copyright, the court held that the data within ProCD’s database was within the subject matter of copyright despite the fact that it was not sufficiently original to be copyrighted. *See id.* at 1453. This holding is consistent with prior case law, the opinions of commentators, and the legislative history of the Copyright Act. *See, e.g.*, *Baltimore Orioles, Inc. v. Major League Baseball Players Ass’n*, 805 F.2d 663, 676 (7th Cir. 1986); PAUL GOLDSTEIN, III, COPYRIGHT § 15.2.3 (2d ed. 1996); MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 101[B] (1995); WILLIAM F. PATRY, II, COPYRIGHT LAW AND PRACTICE 1108-09 (1994); H.R. REP. NO. 94-1476, at 131 (1976) (if a work fits within “the general subject matter categories of sections 102 and 103, the bill prevents the States from protecting it even if it fails to achieve Federal statutory copyright because it is too minimal or lacking in originality to qualify, or because it has fallen into the public domain”).

73. 991 F.2d 426 (8th Cir. 1993).

74. 893 F.2d 1488 (5th Cir. 1990).

75. 846 F.2d 923 (4th Cir. 1988).

76. *See National Car Rental*, 991 F.2d at 427; *Taquino*, 893 F.2d at 1490; *Acorn Structures*, 846 F.2d at 924.

claim from federal preemption must change the nature of the action so that it is qualitatively different from a copyright infringement claim.⁷⁷ These courts have held that elements such as awareness and intent fail to provide an extra element that sufficiently distinguishes a state law claim from a claim for federal copyright infringement.⁷⁸

Similarly, the level of assent manifest in a shrinkwrap license is insufficient to make the breach of contract claim qualitatively different from a federal copyright infringement claim. In the shrinkwrap license context, the consumer does not have a chance to read the terms of the contract until bringing the box home and opening it. Even if the consumer actually reads the license at that time and the license permits the consumer to return the software if he or she does not assent to the terms, it is not reasonable to assume that this is a viable alternative. The consumer will incur significant switching costs in attempting to return the software—the consumer must return to the vendor, the consumer's expectations regarding the utility of the software will be frustrated, and the consumer must search for other software that will perform as well, yet have acceptable terms. This all assumes that the consumer eventually reads the license and that the license permits the consumer to return the software. If either of these conditions is not satisfied, the distinction between copyright infringement and breach of contract becomes even more tenuous. For example, if a license prohibits the consumer from copying the underlying facts in a database, but the consumer never reads the license, he or she will be liable for breach of contract if he or she copies those facts, despite the absence of any knowledge that the copying is prohibited. This closely approximates the result under the Copyright Act for copyrightable subject matter.⁷⁹ Therefore, a non-negotiated contract fails to provide the extra element that can remove a breach of contract claim from federal preemption. *ProCD II's* holding swept too broadly and would permit the enforceability of contracts that are equivalent to some of the exclusive rights within the general scope of copyright.

77. See, e.g., *Crow v. Wainwright*, 720 F.2d 1224, 1226 (11th Cir. 1983); *Mayer v. Josiah Wedgwood & Sons, Ltd.*, 601 F. Supp. 1523, 1535 (S.D.N.Y. 1985).

78. See, e.g., *Crow*, 720 F.2d at 1226 (holding that a scienter requirement does not sufficiently distinguish a state law claim from a claim for federal copyright infringement); *Josiah Wedgwood*, 601 F. Supp. at 1535 (holding that state misappropriation claim does not survive federal preemption merely because the plaintiff had to prove that the copying was commercially immoral, a mere "label attached to [the same] odious business conduct").

79. See *Elkin-Koren*, *supra* note 69, at 102-04.

3. *A More Nuanced Approach to Section 301 Preemption of State Contract Claims*

Shrinkwrap licenses are useful devices⁸⁰ that should only be preempted to the extent that they attempt to protect material within the subject matter of copyright. In determining the extent to which section 301 preempts state law contract claims, it is important to distinguish the various components of the typical shrinkwrap license. In general, shrinkwrap licenses address the ownership of rights in the software, warranties, limitations of liability, and choice of law.⁸¹ Warranties, limitations of liability, and choice of law are not equivalent to any of the exclusive rights in section 106 of the Copyright Act—the rights to reproduce, prepare derivative works, distribute copies, and perform and display the work. However, the allocation of rights in the software implicates section 301.

A shrinkwrap license may structure the allocation of rights in many different ways. For instance, it may permit the user to make one copy while prohibiting the right to reverse engineer the software or make derivative works based upon it. Whether section 301 preempts these provisions depends upon a number of factors. First, negotiated contracts where the parties have an opportunity to make an informed decision about how the rights are allocated contain a sufficient extra element, removing them from preemption. However, mass-market contracts do not contain this sufficient extra element. To determine whether these terms are preempted, courts should consider whether the copyright holder is attempting to license a portion of the full bundle of rights provided in the Copyright Act or attempting to extend copyright-like protection to non-copyrightable material. For example, a copyright holder should be permitted to limit the number of copies that a user may make or the ability to create derivative works. The Copyright Act reserves these rights exclusively to the copyright holder who can decide how or whether to license them. This is consistent with section 201(d) of the Copyright Act that permits ownership of a copyright to be transferred in whole or in part.⁸²

80. See, e.g., Gomulkiewicz & Williamson, *supra* note 48, at 341-52 (noting that shrinkwrap licenses reduce transaction costs and inform purchasers about their rights).

81. See O'Rourke, *supra* note 65, at 490 n.39.

82. 17 U.S.C. § 201(d) (1994). Specifically, section 201(d) provides:

- (1) The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.
- (2) Any of the exclusive rights comprised in a copyright, including any subdivision of any right of the rights specified by section 106, may be

On the other hand, the copyright holder may be using the license to extend copyright-like protection to non-copyrightable material. For example, many shrinkwrap licenses attempt to restrict a user's ability to reverse engineer the program. Courts have held that the copy of the software made during the reverse engineering process is a fair use of the copyright permitted under section 107 of the Copyright Act.⁸³ Therefore, a copyright holder's attempt to restrict reverse engineering in a shrinkwrap license prohibits a right that is equivalent to an exclusive right under the Copyright Act—the right to make copies. Moreover, this restriction applies to material within the subject matter of copyright that Congress decided not to protect. These attempts to extend copyright-like protection to non-copyrightable material should be preempted.

4. *Reconsidering the Shrinkwrap License in ProCD II*

Under this more nuanced approach to federal copyright preemption of state contract law, portions of the shrinkwrap license considered in *ProCD II* would have been preempted. ProCD attempted to use a shrinkwrap license to prevent the copying of material within the subject matter of copyright—the facts within a database.⁸⁴ Because the contract attempted to prohibit copying, an exclusive right mentioned in section 106, it raised section 301 concerns. The fact that the parties did not negotiate the contract meant that the level of assent did not provide the extra element required to make Zeidenberg's actions qualitatively different from a copyright infringement cause of action. Therefore, federal copyright law preempted the contract and prohibited ProCD from protecting the facts within its database.

transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.

Id.

83. See *Sega Enters., Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1520-28 (9th Cir. 1992); *DSC Comm. Corp. v. DGI Technologies, Inc.*, 898 F. Supp. 1183, 1190-92 (N.D. Tex. 1995). Section 107 of the Copyright Act provides that:

[n]otwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright

17 U.S.C. § 107.

84. *ProCD I*, 908 F. Supp. at 644-45.

“It may seem unfair that much of the fruit of the compiler’s labor may be used by others without compensation [T]his is not ‘some unforeseen byproduct of a statutory scheme.’ It is, rather, ‘the essence of copyright,’ and a constitutional requirement.”⁸⁵ In enacting copyright laws, Congress sought to balance the need to encourage creativity by granting authors a monopoly over their works with the public benefit derived from the wide dissemination of information.⁸⁶ In furtherance of this purpose, there is no valid copyright in facts⁸⁷ or ideas⁸⁸ because the very object of creating these materials is to communicate the useful knowledge that they contain to the public.⁸⁹ The court in *ProCD II* explained that its result actually promoted the wide dissemination of copyrighted information because the contract permitted ProCD to price discriminate, charging a different price to different consumers. The court argued that if ProCD had to charge a single price, it would charge a higher one, thereby harming consumers and reducing the dissemination of the information.⁹⁰ However, the copyright laws seek to promote more than just the dissemination of information. When works remain in the public domain, individuals are free to build upon that information and create new works. ProCD’s contract prohibited individuals from building upon this information. Therefore, contracts containing terms that are equivalent to any of the exclusive rights within the general scope of copyright and attempting to restrict the availability of non-copyrightable information conflict with the policies behind the Copyright Act and should be preempted under section 301.⁹¹

85. *Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 349 (1991) (quoting *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 589 (1985) (Brennan, J., dissenting)) (citations omitted).

86. *See Elkin-Koren, supra* note 69, at 100; *see also Feist*, 499 U.S. at 351-54. While “[c]reative work is to be encouraged and rewarded, ... private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.” *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

87. *See Feist*, 499 U.S. at 344.

88. *See Harper & Row*, 471 U.S. at 556.

89. *Cf. Baker v. Selden*, 101 U.S. 99, 103 (1879) (explaining that the reason for writing a book was to convey information to the public).

90. *See ProCD II*, 86 F.3d at 1449.

91. Because ProCD was attempting to restrict the distribution of mere facts that Congress decided to leave for public use, ProCD should not have been permitted to use state contract law to circumvent congressional policy. Rather, if there are any impermissible injustices that arise from not protecting the facts within a database, the remedy should be left to Congress, the institution that can balance the public interest in dissemination of information with the private interest in earning a return on investment. Indeed, Congress has considered extending federal protection to databases. *See, e.g., Legisla-*

III. DEVELOPMENTS SINCE *PROCD II*

Technically, the *ProCD II* decision applies only to Wisconsin law, and is binding only in the federal district courts supervised by the Seventh Circuit. If the Seventh Circuit's reasoning is followed by other courts, however, the *ProCD II* case may mark a watershed in the enforceability of shrinkwrap and on-line license agreements. Whether other jurisdictions will follow the *ProCD II* decision has yet to be seen, although several cases have cited it without criticism,⁹² and one court has specifically followed it.⁹³ Because the result the Seventh Circuit reached is contrary to holdings of the Third and Fifth Circuits,⁹⁴ the uncertain status of shrinkwrap licenses is an issue of considerable significance for the software industry.

In an attempt to eliminate the confusion surrounding the law of shrinkwraps specifically, and to promulgate a set of rules governing commerce of intangible goods generally, the American Law Institute and the National Conference of Commissioners on Uniform State Laws appointed a drafting committee to create a supplement to Article 2 of the UCC.⁹⁵ This supplement, entitled "Article 2B: Licenses," aims to consolidate the law of shrinkwraps, and balance the competing interests of consumers with those of software manufacturers. Although not yet complete, Article 2B is expected to be given to the States for ratification in 1998. Thus, at

tion/Treaties: Bill, Treaty Proposal Would Create New Protection of Databases, 52 Pat. Trademark & Copyright J. (BNA) 141 (May 30, 1996).

92. See, e.g., *National Basketball Assn. v. Motorola, Inc.*, 105 F.3d 841, 849 (2d Cir. 1997) (copyright preemption issue); *Architectronics, Inc. v. Control Systems, Inc.*, 935 F. Supp. 425, 439 (S.D.N.Y. 1996) (copyright preemption issue); *Compuserve, Inc. v. Patterson*, 89 F.3d 1257, 1260 (6th Cir. 1996) (description of shrinkwrap licenses); *Microstar v. Formgen, Inc.*, 942 F. Supp. 1312, 1318 (S.D. Cal. 1996) (waiver issues).

93. See *Hill v. Gateway 2000, Inc.*, 105 F.3d 1147 (7th Cir. 1997) (reaffirming the same basic rule of contract law applied in *ProCD II*). The net effect of the *Hill* ruling is that software vendors now have, at least in the Seventh Circuit, better-established contractual protections against being haled into court by buyers who seek to recover the full value of their purchase—and sometimes more.

94. See *Arizona Retail Sys., Inc. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1993) (holding shrinkwrap license invalid without the express assent of both parties as proscribed by UCC section 2-209); *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91 (3d Cir. 1991) (holding that under UCC section 2-207, the terms of a shrinkwrap license did not become part of the parties' sales agreement); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988) (holding shrinkwrap license enforceability was preempted by the Copyright Act).

95. See American Law Institute and National Conference of Commissioners on Uniform State Laws, *Uniform Commercial Code Article 2B: Licenses*, 3 (Draft, May 1997).

present, given the divergent case law and the unfinished status of the draft proposal, the law with regard to shrinkwrap licenses remains unclear.

IV. CONCLUSION

The opinion of the Seventh Circuit is an important first step in providing some semblance of certainty in the retail software market. While the *ProCD II* court was astute in recognizing that shrinkwraps play an important role in the efficiency of software transactions, Judge Easterbrook's strong endorsement of the enforceability of shrinkwrap licenses still leaves some questions regarding the limits of this mode of contracting unanswered. Thus, some meaningful guidance for the use of shrinkwrap licenses in the software market is still needed.

Despite the benefits of shrinkwrap licenses, section 301 of the Copyright Act should preempt some such licenses. By failing to parse the terms of these contracts to determine whether any of them grant the copyright holder rights equivalent to those provided by the Copyright Act, courts permit the software industry, and others, to circumvent the policies behind the Copyright Act. Owners of material falling within the general subject matter of copyright may prohibit the distribution of facts and ideas—content that Congress deliberately left in the public domain. This could, in fact, retard the progress of science and the useful arts.

CORCORAN V. SULLIVAN

By Peter Huang

Computers are an increasingly important part of modern society. Unfortunately, they are also playing an increasingly important role in criminal activity. Computer crime creates difficult challenges for traditional criminal law. *Corcoran v. Sullivan*¹ was the first case to address whether a prisoner held for violation of a state law criminalizing the willful destruction of computer data may petition for a writ of habeas corpus by claiming that federal copyright law preempts the state criminal law. In *Corcoran*, Judge Richard Posner wrote the decision for the Seventh Circuit. Though he refused to issue a writ of habeas corpus based upon the merits of the defendant's preemption claim,² Posner's opinion could significantly expand habeas corpus subject matter jurisdiction by explicitly allowing review of habeas corpus petitions when state law is potentially subject to federal copyright preemption.

This case may have an impact on many defendants because a number of state computer crime cases could involve copyright preemption analysis.³ Those cases are now subject to federal habeas corpus review in the Seventh Circuit. This comment will analyze and critique the reasoning in *Corcoran*. It argues that the *Corcoran* court may have misapplied habeas corpus case law, and that federalism concerns cut against allowing habeas corpus jurisdiction for copyright preemption. Finally, this comment reviews potential administrability problems faced by the federal courts when reviewing copyright preemption.

I. CASE BACKGROUND

A consulting firm hired the defendant, Brian Corcoran, to write data processing programs.⁴ Corcoran feared that the firm would not pay his fees due to dissatisfaction with the quality of his work.⁵ In response, Cor-

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1. 112 F.3d 836 (7th Cir. 1997).

2. *See id.* at 838.

3. Almost all of the states have computer crime statutes. Many of these state statutes have intellectual property components that conceivably may be impacted by federal copyright law. *See infra* Part IV.

4. *See Corcoran*, 112 F.3d at 837.

5. *See id.*

coran intentionally added a software "time bomb" to one of his programs.⁶ Corcoran designed the "time bomb" to be activated by an operator inputting a harmless-looking triggering command.⁷ When it went off, the "time bomb" would erase the copyrighted programs that Corcoran wrote.⁸ In addition, it would also erase any data supplied for use by the firm when the firm entered new data.⁹

Later, Corcoran induced the firm to enter the triggering command.¹⁰ The programs written by him erased themselves. Still later, the firm entered new data, thereby erasing all of the firm's data supplied for use in Corcoran's programs.¹¹ The authorities caught Corcoran, and he was convicted under a Wisconsin state law that criminalizes the willful destruction of computer data.¹²

Corcoran eventually applied for federal habeas corpus relief. He argued that he had a valid copyright in the programs he wrote. He further reasoned that his work regarding the firm's data had also earned him a copyright in the firm's data.¹³ Thus, he argued federal copyright law entitled him to destroy that data, and that federal law preempted the state charges. The district court that heard Corcoran's application for a writ of habeas corpus rejected his application. Then, a panel of Seventh Circuit judges heard Corcoran's application.¹⁴

II. BACKGROUND ON HABEAS CORPUS LAW

The writ of habeas corpus allows a prisoner to demand that he be released because he is being held in violation of the Constitution or laws or treaties of the United States.¹⁵ The Constitution explicitly refers to the writ of habeas corpus and states that it "shall not be suspended arbitrarily."¹⁶ The First Judiciary Act of 1789 created a writ of habeas corpus for federal prisoners,¹⁷ and in 1867 federal judges were given authority to

6. *See id.*

7. *See id.*

8. *See id.*

9. *See id.*

10. *See id.*

11. *See id.*

12. *See id.*

13. *See id.*

14. *See id.* at 836.

15. *See* 28 U.S.C. §§ 2241(c)(3), 2254(a) (1994); *see generally* JAMES S. LIEBMAN & RANDY HERTZ, FEDERAL HABEAS CORPUS PRACTICE AND PROCEDURE 227 (2nd ed. 1994).

16. U.S. CONST. art. I, § 9, cl. 2.

17. *See* LIEBMAN & HERTZ, *supra* note 15, at 28.

grant the writ to state prisoners as well.¹⁸ Federal statutes primarily govern the writ; federal prisoners can apply for a writ via 28 U.S.C. § 2255 and state prisoners can apply via 28 U.S.C. § 2254.

A habeas corpus proceeding is a collateral attack on error leading to the prisoner's detention. It is a civil proceeding that is applicable only when the defendant is in custody.¹⁹ To successfully attack the error, it must have had substantial and injurious effect in determining the verdict.²⁰ As mentioned above, the detention of any habeas corpus petitioner must violate his or her rights under the Constitution or the laws of the United States.²¹ Claims premised exclusively on state law grounds will usually be dismissed.²² Finally, state prisoners must also exhaust all available state court remedies available at the time of filing.²³ Over time, a wide variety of violations have qualified for the writ. A small sample of such claims includes attacks on illegal investigative or detention practices, suppression of evidence, and incorrect jury instructions.²⁴

Historically, the writ's power has been relatively limited.²⁵ However, there was a dramatic expansion of its power during this century.²⁶ That expansion was notably supported by the Warren Court.²⁷ However, it slowed during the Burger Court era.²⁸ More recently, the Rehnquist court has made a major effort to restrict habeas corpus.²⁹ In addition, Congress has also recently enacted statutory restrictions on the habeas remedy such

18. *See id.* at 29.

19. *See* 28 U.S.C. §§ 2241(c), 2254(a).

20. *See* *Brecht v. Abrahamson*, 507 U.S. 619, 623 (1993) (citing *Kotteakos v. U.S.*, 328 U.S. 750, 756 (1946)).

21. *See* 28 U.S.C. § 2254(a).

22. *See, e.g.,* *Gilmore v. Taylor*, 508 U.S. 333, 344 (1993) ("instructional errors of state law generally may not form the basis for federal habeas relief"); *see generally* LIEBMAN & HERTZ, *supra* note 15, at 229-30.

23. *See* 28 U.S.C. § 2254(b) (1994).

24. *See* LIEBMAN & HERTZ, *supra* note 15, at 304-06, 311.

25. *See, e.g.,* Michael O'Neill, *On Reforming the Federal Writ of Habeas Corpus*, 26 SETON HALL L. REV. 1493, 1506, 1511 (1996).

26. *See generally id.* at 1517-26.

27. *See* Marshall J. Hartman & Jeanette Nyden, *Habeas Corpus and the New Federalism After the Anti-terrorism and Effective Death Penalty Act of 1996*, 30 J. MARSHALL L. REV. 337, 340-42 (1997).

28. *See id.* at 342.

29. *See id.* at 343-51 (detailing further the Rehnquist court's retrenchment); *see also* William N. Eskridge, Jr. & Philip P. Frickey, *Foreward: Law as Equilibrium*, 108 HARV. L. REV. 26, 64 (1994).

as new limitations on the filing of habeas corpus petitions and increased deference to the state courts, among others.³⁰

III. THE COURT'S HABEAS CORPUS ANALYSIS

It is notable that *Corcoran* involves somewhat unusual issues for a habeas corpus case. Most habeas corpus cases allege a violation of the prisoner's procedural rights. The habeas corpus analysis in *Corcoran* is unusual because it involves substantive analysis of the Wisconsin state law, focusing on whether federal copyright law preempted the state law.

The court could have framed the preemption question as a pure constitutional issue arising under the Supremacy Clause. Instead, it analyzed whether there was a violation of federal statute: specifically "an error in the interpretation of a federal statute."³¹ The line separating constitutional analysis and statutory interpretation in this case is somewhat unclear. However, preemption in this case primarily "turns on the interpretation of the [federal] statute claimed to preempt,"³² namely section 301 of the Copyright Act. Thus, focusing on whether there was a violation of the copyright statute seems to be the more reasonable approach.

The court quickly rejected *Corcoran*'s copyright preemption claim on its merits.³³ What makes the case interesting is the court's analysis of the threshold issue of whether copyright preemption is suitable subject matter for habeas corpus petitions. The court considered the issue of whether copyright preemption qualifies for habeas corpus review to be a matter of first impression. It noted that there have been at least two cases where courts considered copyright preemption cases in federal habeas corpus proceedings, but explained that neither of these earlier cases addressed the jurisdictional issues. The *Corcoran* court concluded that they were not precedent for this case.³⁴

30. See Antiterrorism and Effective Death Penalty Act of 1996, Pub. L. No. 104-193, 110 Stat. 1214 (1996) (to be codified in scattered sections of 28 U.S.C.); see also Hartman & Nyden, *supra* note 20, at 352 (summarizing briefly how the Act has cut back federal habeas power).

31. *Corcoran v. Sullivan*, 112 F.3d 836, 837 (7th Cir. 1997).

32. *Id.*

33. See *id.* at 838.

34. See *id.* (citing *Anderson v. Nidorf*, 26 F.3d 100 (9th Cir. 1994) (denying writ of habeas corpus based on the merits of prisoner's copyright preemption analysis); *Crow v. Wainwright*, 720 F.2d 1224 (11th Cir. 1983) (reversing denial of writ of habeas corpus based on merits of prisoner's copyright preemption analysis and remanding with instructions to grant the writ).

The court began its analysis by noting that federal case law holds that habeas corpus is available "only to correct fundamental errors in the criminal process of the states."³⁵ The court then relied on *Davis v. United States*³⁶ to provide an analytical framework supporting significant expansion of habeas corpus subject jurisdiction. In that case, Davis was convicted for his refusal to report for Selective Service induction.³⁷ Davis exhausted his regular appeals, and then filed a petition for habeas corpus. He based his petition on a similar case decided after his conviction that he asserted could have been grounds to reverse his own conviction.³⁸ A federal district court denied his petition and a court of appeals affirmed that denial.³⁹ However, the United States Supreme Court reversed the Court of Appeals.⁴⁰

In the critical holding for the *Corcoran* case, the *Davis* court held that Davis' claim involved the law of the United States, and that his claim was possibly sufficient for habeas corpus jurisdiction.⁴¹ It held that if the claimed error is a fundamental defect which inherently results in a complete miscarriage of justice, then the subject matter requirement for habeas corpus is satisfied.⁴² Thus, the Court established a relatively vague standard that could support expansive habeas corpus subject matter jurisdiction.

In the present case, the court used the *Davis* "fundamental defect" standard. First, the court interpreted *Davis* to hold that habeas corpus is available to someone wrongly convicted of criminal activity: specifically to someone convicted under a repealed statute. It noted that Corcoran claimed the Wisconsin state courts erred in holding that federal copyright law did not preempt the state crime used to convict him.⁴³ It further rea-

35. *Id.* at 837.

36. 417 U.S. 333 (1974) (habeas corpus analysis of misinterpretation of federal statutes and federal prisoners).

37. *See id.* at 337.

38. The specific facts of *Davis* are rather complicated. Davis had originally appealed his conviction. The court of appeals remanded his appeal because of an intervening decision that could have possibly affected his case. *See id.* at 337-38. On remand the district court concluded that the intervening case did not affect Davis' conviction. *See id.* at 339. Davis appealed again and the court of appeals affirmed his conviction. *See id.* Davis then appealed to the Supreme Court. While his petition was pending, the court of appeals decided a second case on the same issue. On virtually the same facts as Davis' case, the court of appeals overturned the conviction in the second case. *See id.*

39. *See id.* at 340-41.

40. *See id.* at 346-47.

41. *See id.* at 342-47.

42. *Id.* at 346.

43. *See Corcoran v. Sullivan*, 112 F.3d 836, 838 (7th Cir. 1997).

soned that federal preemption nullifies a state statute, and that such a nullified statute is equivalent to a repealed statute.⁴⁴ Finally, it held that mistakenly convicting someone under a preempted statute is just like convicting someone under a repealed statute; thus, such a conviction also qualifies as a fundamental defect under *Davis*.⁴⁵

IV. DISCUSSION: *CORCORAN* MAY OVEREXTEND HABEAS CORPUS JURISDICTION

A. Possible Misapplication of Habeas Corpus Case Law

The court's analysis in this case is troubling for several reasons. First, the court itself acknowledges early in its opinion that "it is not altogether easy to see how an error in the interpretation of a federal statute ... unrelated to criminal procedure could be thought fundamental to the propriety of the petitioner's continued imprisonment."⁴⁶ It also admits "such an 'error' of statutory interpretation would not appear to be the stuff of which habeas corpus is made."⁴⁷

Second, it is significant that the habeas corpus petition in *Davis* was based on an intervening change in the law that even the Solicitor General admitted would have freed *Davis*. The appellate court insisted on keeping him in prison based on a technicality: that the direct appeal was the "law of the case" and precluded further appeal.⁴⁸ In contrast, there is no such clear, universal agreement that *Corcoran's* acts were not criminal. In fact, the state courts that spoke on the matter universally agreed that he was indeed guilty of criminal activity. Thus, even the relatively liberal interpretation of *Davis* may not justify habeas corpus jurisdiction in this case. The detention in *Davis* more plausibly constituted an "exceptional circumstance" than a mere disagreement regarding interpretation.

Third, and perhaps most critically, *Davis* probably does not control here. *Davis* involved the application of the "fundamental defect" standard to *federal* prisoners.⁴⁹ *Corcoran* was a *state* prisoner, and a different case, *Reed v. Farley*,⁵⁰ controls the "fundamental defect" standard with respect

44. See *id.* The court supported this conclusion with *Cipollone v. Liggett Group, Inc.*, 505 U.S. 504, 516 (1992). In *Cipollone*, the Supreme Court held that courts should treat a preempted statute as if it never existed.

45. See *Corcoran*, 112 F.3d at 838.

46. *Id.* at 837.

47. *Id.*

48. See *Davis v. United States*, 417 U.S. 333, 341 (1974).

49. See *id.* at 334.

50. 512 U.S. 339 (1994). The court cited this case but did not analyze it.

to state prisoners.⁵¹ That case extended the Davis “fundamental defect” standard to cover the habeas corpus actions of state prisoners under 28 U.S.C. § 2254. However, *Reed* seemed to provide an interpretation of the “fundamental defect” test that was considerably less generous than *Davis*.

The statute in question in *Reed* was the Interstate Agreement on Detainers (IAD).⁵² The IAD is a compact among the states and federal government governing the handling of prisoners.⁵³ Article IV of the IAD provides that the trial of a prisoner transferred from one participating jurisdiction to another shall commence within 120 days of the prisoner's arrival in the receiving state.⁵⁴ *Reed*'s trial did not begin within the time limit. The trial court admitted that it had violated the IAD, but denied *Reed*'s petition for release because the judge was unaware of the deadline, and *Reed* had not earlier objected to the trial date.⁵⁵ On review, the U.S. Supreme Court held that the “fundamental defect” standard also applied to state defendants.⁵⁶ The Court went on to find that there was no fundamental defect, and it dismissed *Reed*'s petition. However, there was no clear majority opinion on this point.

Justice Ginsburg, joined by Chief Justice Rehnquist and Justice O'Connor, wrote that Congress intended section 2255 to mirror section 2254 in operative effect.⁵⁷ Unfortunately for *Reed*, she then emphasized that *Reed* had not asserted his rights in a timely manner.⁵⁸ However, she did not preclude the possibility that another more serious violation of the IAD might be a fundamental defect.⁵⁹ Justice Scalia (joined by Justice Thomas) concurred that the fundamental defect standard was applicable, but he applied the standard even more cautiously. He felt that an IAD violation could never be a fundamental defect.⁶⁰ Further, Justice Scalia implied that there may be no federal statutory violation serious enough to meet the fundamental defect standard.⁶¹

Justice Blackmun, joined by Justices Stevens, Kennedy, and Souter, dissented. Blackmun argued that the fundamental defect test should not

51. See, e.g., STEPHEN A. SALTZBURG & DANIEL J. CAPRA, *AMERICAN CRIMINAL PROCEDURE* 1375 (1996).

52. See *Reed*, 512 U.S. at 341-45 (plurality).

53. See *id.* at 341.

54. See *id.*

55. See *id.* at 344-45.

56. See *id.* at 350-52.

57. See *id.* at 353-54.

58. See *id.*

59. See *id.* at 355.

60. See *id.* at 356-58 (Scalia, J., concurring).

61. See *id.* at 359 (Scalia, J., concurring).

apply because it was too stringent.⁶² He felt the primary purpose of section 2254 was to provide a federal forum to review violations of federal law addressed by the state courts. He reasoned that the fundamental defect standard would filter out too many worthy cases.⁶³

Reed was a cautious application of the "fundamental defect" standard to state prisoners. It held that, in many cases, even a blatant violation of a statutory requirement would not qualify for habeas corpus. The violation of the IAD in *Reed* seems more serious than a reasonable disagreement over statutory interpretation of copyright law, and could quite plausibly constitute a miscarriage of justice. Nevertheless, the court denied relief to the prisoner.

As Professor William Eskridge observes, the Rehnquist Court appears to be setting up "roadblocks to invocation of the habeas statute by state prisoners."⁶⁴ *Reed* is one of those roadblocks.⁶⁵ Thus, *Reed* supports a trend towards limitation, rather than expansion, in habeas corpus jurisdiction. Because *Reed*, not *Davis*, controls for state habeas corpus petitioners, the case law does not support *Corcoran's* unprecedented expansion of habeas corpus jurisdiction to include preemption by a federal statute.

B. Federalism Policy

Federalism concerns arise whenever the power of the federal courts over the state courts expands to a new area. In many cases, however, there is some benefit to federal review. First, review of state misconduct by insulated federal judges with life tenure is a justification for generous habeas corpus subject matter jurisdiction. Such review, in theory, is especially useful in preventing biased state courts from rubber-stamping human rights abuses. Second, allowing the federal courts to review habeas corpus petitions based on copyright preemption may promote national uniformity in copyright law. Such national uniformity would be consistent with the federal courts' exclusive jurisdiction in normal copyright cases. However, both of those benefits are somewhat attenuated in cases like *Corcoran*.

First, the defendant in *Corcoran* does bring forth a very serious allegation: that his conviction was based on an invalid statute and that he, therefore, never actually committed a crime. However, it is notable that the Supreme Court's twentieth-century expansion of habeas corpus has largely been driven by the idea that some errors were simply not correct-

62. *See id.* at 359-360 (Blackmun, J., dissenting).

63. *See id.* at 361-66 (Blackmun, J., dissenting).

64. Eskridge & Frickey, *supra* note 29, at 64-65.

65. *See id.*

able on appeal to state courts.⁶⁶ For example, when regional racism or other bigotry taints the state appellate process, then the state courts may not be inclined to correct the errors reviewed. In fact, several of the major cases in the expansion of habeas corpus power specifically involved racism or other bigotry tainting the state judicial process.⁶⁷ Strong federal review in such cases makes sense. Arguably, state judges worried about re-election may be unwilling or unable to protect unpopular minorities. Insulated federal judges with life tenure may be more able to rule objectively.

In contrast, *Corcoran* did not involve anything indicating that the alleged error was not correctable on appeal. In *Corcoran*, the main issue was a plain statutory interpretation regarding computer copyright law. As serious as the claim was, *Corcoran* involved no factors like the invidious taint of racism that would prevent a fair hearing. The defendant has not challenged the state appellate process' impartiality and general competence, and there is no evidence that state procedure and direct review were inadequate.

The second federalism argument, that federal habeas corpus review helps promote uniform federal copyright law, is also weaker in cases like *Corcoran*. First, computer copyright is a complex area of law, full of difficult technical and legal issues that can be challenging to litigate. Unlike other technically intensive intellectual property cases, habeas corpus cases with a computer copyright component are the province of the district courts. They cannot be sent to the specialists on intellectual property law: the Federal Circuit. The district and appellate courts, many of whom are less likely than the Federal Circuit to have technical expertise or consistent exposure to computer cases, may have difficulties with this field. As a result, the doctrine in this area may become muddled as circuit splits develop.

Furthermore, it is important to recall that habeas corpus review engenders certain federalism costs. For example, the local courts will have more experience and expertise with the state computer statutes than the federal courts. In addition, and perhaps most importantly, subjecting the results of

66. See O'Neill, *supra* note 25, at 1522.

67. See *id.* at 1517-25 (discussing the modern expansion of habeas corpus and citing *Brown v. Allen*, 344 U.S. 443 (1953) (African-American convicted of rape who petitioned for habeas relief regarding coerced confession and racially biased jury selection); *Moore v. Dempsey*, 261 U.S. 86 (1923) (African-Americans convicted for murder of a white man, whose lynch-mob dominated trial including racially biased jury selection); *Frank v. Magnum* 237 U.S. 309 (1915) (Jewish-American's murder trial tainted by anti-Semitism and apparent gross irregularities)).

the state appellate process to new federal review in the context of habeas corpus will undercut the finality of the state courts' decisions. This will undermine confidence in the state criminal justice system.⁶⁸ As one commentator has noted, "Dual sovereignty and principles of comity demand that state courts are accorded respect."⁶⁹ In cases like *Corcoran*, the costs in experience and respect for the state courts' decisions outweigh the less than overwhelming benefits.

C. The Administrability of High-Technology Copyright Analysis and *Corcoran*

Corcoran's holding may pose significant administrability problems. Indeed, courts have previously expressed concerns about the administrability of the writ of habeas corpus and its possible abuse. For example, Justice Frankfurter once noted "Abuse of the writ may undermine the orderly administration of justice and therefore weaken the forces of authority that are essential for civilization."⁷⁰

Here, the court's lowering of the standard for habeas corpus subject matter jurisdiction will potentially create a significant increase in habeas cases in general, and those involving computer crime law in particular. Every state, except Vermont, has some sort of computer crime statute.⁷¹ Many of those statutes govern crimes against intellectual property.⁷² There is a danger that many of the state convictions involving such crimes will be attacked on copyright preemption grounds.⁷³ Under *Corcoran*, every defendant who can make an argument that his case involved copyright preemption will be able to raise a habeas corpus claim.

Furthermore, an increased number of cases may make it more difficult to sort out meritorious cases from the frivolous cases.⁷⁴ Again, computer copyright law involves complex issues that will be difficult to litigate. Some of the district and appellate courts lack technical expertise and may frequently struggle with these issues. Thus, there is a significant possibility that these tough cases will create circuit splits, and also drain time and resources from an already overworked federal court system. *Corcoran* is

68. *See id.* at 1527.

69. *Id.* at 1529.

70. *See* SALTZBURG & CAPRA, *supra* note 51, at 1379-80 (quoting *Brown v. Allen*, 344 U.S. 443 (1953)).

71. *See* Xan Raskin & Jeannie Schaldach-Paiva, *Eleventh Survey of White Collar Crime: Computer Crimes*, 33 AM. CRIM. L. REV. 541, 563 (1996).

72. *See id.*; *see, e.g.*, ALA. CODE § 13A-8-102 (1994); MISS. CODE ANN. §§ 97-45-1, 97-45-9 (1994).

73. *See* Raskin & Schaldach-Paiva, *supra* note 71, at 567.

74. *See* O'Neill, *supra* note 25, at 1528.

an example of problems inherent in this type of copyright analysis. The details of the analysis are not as important as the problems the court had to deal with to come to its conclusion.

In *Corcoran*, the state's case rested on the assertion that, under a state criminal statute, Corcoran illegally destroyed the firm's data. The court focused its preemption analysis around Corcoran's assertion that, when the firm's data commingled with his copyrighted software, he somehow acquired a copyright in the firm's data that preempted the state statute. In other words, Corcoran claimed that his software's re-arrangement of the firm's data gave him a copyright in the data that allowed him to legally destroy it, along with his own software, under federal copyright law. This authorization under federal law, he argued, overrode the state criminal statute. Thus, the copyright preemption analysis in *Corcoran* turned on the court's conclusion that "Corcoran did not have, and could not have, acquired a copyright in the firm's data, even though he embedded those data in his copyrighted programs."⁷⁵

The court first cited Section 103(b) of the Copyright Act. That section states "The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material."⁷⁶ Thus, the court apparently reasoned that, even after Corcoran embedded the firm's data in his copyrighted software, the firm's data still constituted "preexisting material" ungoverned by the copyright protection on Corcoran's software.

The court cited some cases to support this contention. First, it cited *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*⁷⁷ That case involved a set of telephone directory entries compiled into a "white pages" directory.⁷⁸ Under *Feist*, facts are not copyrightable unless there is some minimal creativity in selection or arrangement.⁷⁹ The *Feist* court held that rudimentary alphabetical arrangement of the data was insufficient for copyright protection.⁸⁰

Further, the court cited *Rockford Map Publishers, Inc. v. Directory Service Co. of Colorado, Inc.*⁸¹ In *Rockford Map*, the plaintiff used gov-

75. *Corcoran v. Sullivan*, 112 F.3d 836, 838 (7th Cir. 1997).

76. 17 U.S.C. § 103(b) (1994).

77. 499 U.S. 340 (1991).

78. *See id.* at 342.

79. *See id.* at 344-45.

80. *See id.* at 361-63.

81. 768 F.2d 145 (7th Cir. 1985).

ernment aerial photographs to create maps of parcels of land.⁸² The plaintiff then checked the land titles corresponding to the photographs and drew boundary lines indicating the location and size of each parcel, along with the name of the owner of the parcel.⁸³ It then sold those maps to local residents and sellers of farm equipment. The court in *Rockford Map* felt that there was sufficient creativity to qualify the maps for copyright protection for compilations.⁸⁴

Unfortunately, the court cited Section 103(b), *Feist*, and *Rockford Map* without any comment to guide the reader. However, the most plausible inference is that the court concluded that, even after being embedded in Corcoran's copyrighted program, the firm's data was still uncopyrightable fact instead of copyrightable expression. In other words, it appears that the court concluded that Corcoran's embedding of the firm's data in his software so lacked creativity that it resembled the *Feist* simple alphabetical ordering of telephone entries rather than the more sophisticated *Rockford Map* incorporation of photos into maps. Thus, the court concluded that Corcoran did not supply enough creativity to give him a copyright in his arrangement of the preexisting material.

If the firm's data was still uncopyrightable fact after being processed by Corcoran's program, then there could be no federal preemption of the state criminal statute. According to Section 301(b) of the Copyright Act, federal copyright statutes only cover copyrightable material. Specifically, Section 301(b)(3) states that nothing in the Copyright Act "annuls or limits any right or remedies ... that are not equivalent to any of the exclusive rights within the general scope of copyright as specified."⁸⁵ Thus, the state criminal statute that governed the destruction firm's data would not be preempted if Corcoran had no copyright regarding that data.

Unfortunately, the court's opinion in *Corcoran* did not describe the firm's data, nor how Corcoran's program "enable[ed] the processing of data,"⁸⁶ nor how Corcoran "embedded those data in his programs."⁸⁷ Thus, it is not completely clear if the data processing by Corcoran resulted in a simple uncopyrightable arrangement like *Feist's* alphabetical ordering, or a more sophisticated combination like *Rockford Map's* maps. The court came to a very plausible, and probably correct, conclusion that Corcoran had no copyright. However, the lack of detail regarding how ex-

82. *See id.* at 147.

83. *See id.*

84. *See id.* at 149.

85. 17 U.S.C. § 301(b)(3) (1994).

86. 112 F.3d 836 (7th Cir. 1997).

87. *Id.* at 838.

actly Section 103(b), *Feist*, and *Rockford Map* apply to the firm's data and Corcoran's software leaves some uncertainty in the court's preemption analysis.

More importantly, the court does not perform some important analysis. Perhaps the key statutory authority in copyright preemption is Section 301(a) of the Copyright Act. Section 301(a) preempts all state law that involves federally copyrightable material and which provides rights equivalent to any of the exclusive rights in federal copyright law.⁸⁸ It can be extremely complex to determine whether a state-created right is equivalent to a right under federal copyright law, and this issue has generated much interesting case law.⁸⁹ However, the court's opinion makes no mention at all of this critical analysis.

In this case, sound public policy (not explicitly articulated in the decision) supports the court's final conclusion. Granting Corcoran a copyright in the data entrusted to him would create a classic holdup opportunity.⁹⁰ Any programmer would be able to plant a "time bomb" and demand almost the full value of the data he threatened, without fear of punishment. The strong public policy interest in deterring such destructive behavior helps overcome the uncertainties produced by rapidly changing computer technology and the difficulty in defining copyrightable material. However, not all cases have such clear policy implications. Such cases will be harder to resolve and be considerably more burdensome on the federal court system.

Again, the details of the court's analysis are not as important as its potential complexity. Distinguishing copyrightable expression from non-copyrightable facts is a common copyright problem. As shown by *Cor-*

88. [A]ll legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

17 U.S.C. § 301.

89. See, e.g., *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996); *National Car Rental System, Inc. v. Computer Associates Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993); see generally ROBERT P. MERGES, ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 804-24 (1997).

90. See generally Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1106-07 (1972).

coran, that distinction is very fact-intensive and involves determinations that are difficult in any type of case. Determining exactly how much originality is enough usually depends on somewhat arbitrary distinctions, making for difficult cases and muddled doctrine. This problem and others like it are not uncommon in copyright analysis.⁹¹ When combined with complex computer technology, copyright law will often pose a difficult challenge to the courts.

V. CONCLUSION

The *Corcoran* decision is flawed even though Judge Posner correctly rejected the defendant's petition for habeas corpus relief based on its merits. The appellate court created an unprecedented expansion of habeas corpus subject matter jurisdiction. It incorrectly justified this expansion by relying on *Davis* instead of *Reed*. In addition, the appellate court may have overestimated the possible benefits of collateral federal review in copyright preemption cases relative to the costs of undercutting the state courts. Finally, there may be significant administrability problems stemming from the difficult technical and legal issues involved in computer copyright preemption. The above analysis suggests that the appellate court should not have expanded habeas corpus subject matter jurisdiction to copyright preemption.

91. Other difficult problems may involve further defining the scope of software copyright protection, what type of use violates copyright protection, etc. See MERGES, *supra* note 89, at 861-938.

URANTIA FOUNDATION V. MAAHERRA

By Christina Rhee

On the basis of the legal claims involved, *Urantia Foundation v. Maa-herra*¹ was a simple copyright infringement action. This case is notable, however, because the parties agreed that the original authors of the work were several celestial beings. As a result, this case may seem to have little precedential value. After all, it is unlikely that many disputes will arise concerning works of celestial origin. Nevertheless, with the inclusion of one sentence, the court made it clear that this opinion will bear directly on an issue that will arise in a plethora of cases in the near future: "The copyright laws, of course, do not expressly require 'human' authorship, and considerable controversy has arisen in recent years over the *copyrightability of computer-generated works*."² Because the court presented its analysis as broadly applying to non-human authorship, courts that face copyright ownership issues in computer-generated works may look to this opinion for a structure within which to analyze their cases.

This case has specific implications for copyright ownership of computer-generated works: the copyright will belong to a human and, most likely under this analysis, the copyright will belong to the computer program user. Still, courts should be wary of utilizing the *Urantia* structure for all copyright disputes over computer-generated works because the analysis presents an imperfect platform for analyzing cases. The court in *Urantia* did not delve into enough of the facts in the case or establish how much the human authors actually contributed to the work and, therefore, failed to determine whether the Foundation actually met the conditions to be the copyright holder of the *Urantia* Book. Consequently, this case will not likely establish a bright-line rule for future cases.

In addition, there are a couple of alternatives that courts may use rather than the *Urantia* structure. The courts may utilize a consent model suggested from interview cases, or analyze each claim on a case-by-case basis by examining the actual input by each party. Because computer-generated works are so varied, it may be necessary for courts to reserve the right to utilize a structure that works best for each case. As of yet, there has been

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1. 114 F.3d 955 (9th Cir. 1997).

2. *Id.* at 958 (emphasis added) (citing Arthur R. Miller, *Copyright Protection for Computer Programs, Databases, and Computer-Generated Works: Is Anything New Since CONTU?*, 106 HARV. L. REV. 977 (1993)).

no case law on copyright ownership for computer-generated works, but it is likely that such cases will arise as computer programs become increasingly sophisticated.³

I. CASE SUMMARY

A. Statement of the Facts

The Urantia Foundation claimed that Maaherra infringed its copyright by copying the Urantia Book verbatim.⁴ Both parties believed that the Urantia Book was authored by several celestial beings known as the Divine Counselor, the Chief of the Corps of Superuniverse Personalities, and the Chief of the Archangels of Nebadon.⁵ At the turn of the century, psychiatrist Dr. Sadler counseled a patient he believed was channeling the revelations of these celestial beings.⁶ Dr. Sadler and other devotees of the celestial beings formed a "Contact Commission" in order to study these communications.⁷ The followers of the celestial beings believed that the communications were divine teachings and wished to better understand them in order to be able to share them with the rest of the world.⁸ The members of the Contact Commission posed questions to the beings and recorded their answers. The Contact Commission subsequently accumulated the questions and answers to form the Urantia Papers (Papers).⁹

Later, the Contact Commission members formed the Urantia Foundation (Foundation) in order "to preserve and disseminate the teachings contained in the Papers."¹⁰ After it created the Foundation, the Contact Commission transferred the printing plates for the Papers to the Foundation. In 1955, the Foundation published *The Urantia Book* (Book) based on the Papers, and in 1956, it received a copyright on the Book.¹¹ In 1983,

3. Commentators state that the advent of the growing use of computers and artificial intelligence may give rise to new issues of copyrightability. See Pamela Samuelson, *Allocating Ownership Rights in Computer-Generated Works*, 47 U. PITT. L. REV. 1185, 1187 (1986); Andrew J. Wu, *Dealing with Copyright Aspects of Computer-Aided Authorship: New Class of Disputes Between Programmers and Users*, 13 No. 9 COMPUTER L. STRATEGIST 1, 1 (1997).

4. See *Urantia*, 114 F.3d at 958.

5. See *id.* at 957.

6. See *id.*

7. See *id.*

8. See *id.*

9. See *id.*

10. *Id.*

11. See *id.*

the Foundation applied for and received a timely renewal of the copyright.¹²

In 1990, Maaherra, an avid reader of the Book, created a study aid that included the entire text of the Book.¹³ She distributed the study aid for free on computer disks.¹⁴ When the Foundation discovered that she was distributing the disk, it filed suit alleging copyright infringement.¹⁵ Both parties conceded that Maaherra copied the Book in its entirety.¹⁶ In her defense, however, Maaherra contended that because there was no human author there could be no valid copyright in the Book.¹⁷ Additionally, she claimed that both the transfer and the renewal of the copyright were invalid.¹⁸ Maaherra asserted that the Foundation could not adequately “establish how it had become the ‘proprietor’ of the copyright in the Papers”¹⁹ and that it inappropriately “claim[ed] renewal as the ‘proprietor of copyright in a work made for hire.’”²⁰

B. Procedural History

The Foundation originally brought this case in the United States District Court for the District of Arizona.²¹ Senior District Judge Warren K. Urbom granted Maaherra summary judgment on the renewal issue.²² The judge found that the renewal improperly described the Book as a work for hire and that the Foundation was not entitled to the renewal without proof that it was the proprietor of the work.²³ The Foundation appealed this decision to the Ninth Circuit Court of Appeals.

12. *See id.*

13. *See Urantia*, 114 F.3d at 957.

14. *See id.*

15. *See id.* at 958. There were several other claims as well at the district court level. *See Urantia Foundation v. Maaherra*, 895 F. Supp. 1338 (D. Ariz. 1995); *Urantia Foundation v. Maaherra*, 895 F. Supp. 1328 (D. Ariz. 1995); *Urantia Foundation v. Maaherra*, 895 F. Supp. 1329 (D. Ariz. 1995); *Urantia Foundation v. Maaherra*, 895 F. Supp. 1337 (D. Ariz. 1995); *Urantia Foundation v. Maaherra*, 895 F. Supp. 1335 (D. Ariz. 1995).

16. *See Urantia*, 114 F.3d at 956.

17. *See id.* at 958.

18. *See id.* at 959-60.

19. *See id.* at 959.

20. *See id.* at 960.

21. *See Urantia Foundation v. Maaherra*, 895 F. Supp. 1347 (D. Ariz. 1995), *rev'd* 144 F.3d 955 (9th Cir. 1997).

22. *See id.* at 1354.

23. *See id.* at 1352-54.

II. COURT'S ANALYSIS

A. Ownership of the Copyright

The court first addressed Maaherra's contention that the Foundation did not own the copyright in the Book. Maaherra argued that because celestial beings authored the Book, "it lack[ed] the requisite ingredient of human creativity, and that therefore the Book [was] not a 'work of authorship' within the meaning of the Copyright Act."²⁴ The court found that the Book met the originality requirements proscribed by the Copyright Act²⁵ and *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*²⁶ and therefore was copyrightable.²⁷

The court began its analysis by looking to the Copyright Act. The court stated that the copyright laws do not require human authorship, but rather some element of human creativity.²⁸ The court found that the Book was a compilation as defined in section 101 of the Copyright Act, because it had been compiled, selected, and coordinated from the original communications.²⁹ Section 103 provides that compilations are copyrightable, so, the court reasoned that the first humans to compile the information would legitimately own the copyright.³⁰ Because the members of the Contact Commission were, evidently, the first humans to arrange the information gathered from the celestial beings, the court found that they were entitled to the copyright in the Book as a compilation.³¹

The court next turned to the *Feist* originality standard for compilations.³² In that case, the Supreme Court interpreted the "originality" threshold for compilations as requiring "that the work was independently created by the author (as opposed to copied from other works), and that it

24. See *Urantia*, 114 F.3d at 958.

25. 17 U.S.C.A. §§ 101, 102(a), 103 (West 1998).

26. 499 U.S. 340 (1991).

27. See *Urantia*, 114 F.3d at 958-59.

28. See *id.* at 958.

29. See *id.* Section 101 states that "[a] 'compilation' is a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship." 17 U.S.C.A. § 101 (West 1998).

30. See *Urantia*, 114 F.3d at 958 ("Those who were responsible for the creation of the tangible literary form that could be read by themselves as 'authors,' because they were responsible for the revelations appearing 'in such a way' as to render the work as a whole original.") (citing *Feist*, 499 U.S. at 358.)

31. See *id.* at 958.

32. See *id.* at 958-59.

possesses at least some *minimal degree of creativity*.”³³ According to the *Urantia* court, the Contact Commission’s questions to the spirit and the following arrangement of the Papers fulfilled the minimum requirement for creativity.³⁴ Hence, the court found that the Contact Commission owned a common law copyright in the *Urantia* Papers at the time of its creation.³⁵

B. Transfer and Renewal of the Copyright³⁶

Having found that the Contact Commission was the copyright holder of the Papers, the court next looked at the validity of the copyright transfer to the Foundation and the validity of the copyright renewal. The court found that the Contact Commission demonstrated its intent to transfer its common law copyright in the *Urantia* Papers to the Foundation by drawing up a trust with the Foundation as the beneficiary of the Papers.³⁷ This clear intent to transfer the copyright combined with the action of actually transferring the printing plates for the Papers to the Foundation were sufficient to complete legal transfer of the common law copyright to the Foundation.³⁸ Consequently, the Foundation owned the copyright in the Book at the time of the alleged infringement.³⁹

The court also found that the renewal of the copyright was valid. The court stated that timeliness was the most important factor in copyright renewals.⁴⁰ The Foundation met this requirement by submitting the application for the renewal before the deadline.⁴¹ In addition, the court noted that small inadvertent mistakes do not invalidate an otherwise valid renewal.⁴² Accordingly, the court found that the Foundation’s erroneous identification of the Book as a work “made for hire” did not invalidate the renewal.⁴³ Ultimately, the court ruled that the *Urantia* Foundation held a

33. *Id.* at 958 (emphasis added).

34. *See id.* at 959.

35. *See id.* at 960.

36. This comment will primarily focus on the copyrightability of the work in question. Specifically, this comment focuses on the case’s effect on the copyrightability of computer-generated data. Consequently, the other two issues of transfer and renewal, are not as relevant to the discussion.

37. *See Urantia*, 114 F.3d at 960.

38. *See id.*

39. *See id.*

40. *See id.* at 961.

41. *See id.*

42. *See id.* at 963.

43. *See id.* at 962-63.

valid copyright based on all three issues of authorship, transfer, and renewal.⁴⁴

III. DISCUSSION

A. Originality Standard

The court did not address all of the facts required to satisfactorily determine whether the Book possessed the minimum level of creativity necessary for the compilation copyright. The court reached the conclusion that the Book was copyrightable as a compilation and that the Foundation was the appropriate owner of that copyright. However, the steps the court took to reach that conclusion were too perfunctory. The court gave the copyright to the Foundation simply because the court believed that the mere posing of questions and the arrangement of the information fulfilled the minimum level of creativity.⁴⁵ Instead, the court should have more critically analyzed the amount of creativity the Contact Commission actually injected into the work.

As noted above, the Supreme Court recently laid out the proper test for the copyrightability of compilations.⁴⁶ The Supreme Court stated that compilations are copyrightable only when the author infuses some originality in the selection, coordination, or arrangement of the pre-existing material.⁴⁷ Since the *Feist* decision, the Federal Courts of Appeals have applied it to several cases.⁴⁸ In general, the courts have found that the mere compilation of facts is insufficient for a copyright because the requi-

44. *See id.* at 957.

45. "[T]he members of the Contact Commission chose and formulated the specific questions asked. These questions materially contributed to the structure of the Papers, to the arrangement of the revelations in each Paper, and to the organization and order in which the Papers followed one another." *Id.* at 959.

46. *See Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340 (1991).

47. *See id.* at 358.

48. *See Warren Publishing, Inc. v. Microdos Data Corp.*, 115 F.3d 1509 (11th Cir. 1997) (finding that an efficient method for gathering information does not impart the necessary originality for a copyright in a directory of cable television systems); *CCC Information Services, Inc. v. Maclean Hunter Market Reports, Inc.*, 44 F.3d 61 (2nd Cir. 1994) (finding that division of regions, selection of included material and valuations was original enough for a copyright on book containing used car valuations); *Bellsouth Advertising & Publishing Corp. v. Donnelley Information Publishing, Inc.*, 999 F.2d 1436 (11th Cir. 1993) (stating that there was difference between creation and discovery for the requirement of originality); *Victor Lalli Enters., Inc. v. Big Red Apple, Inc.*, 936 F.2d 671 (2nd Cir. 1991) (finding that the charts containing the winning numbers for a race-track were void of any creativity).

site originality is missing.⁴⁹ On the other hand, when a compiler takes the facts and places them into a format that requires something more than discovery or efficiency, the compilation is copyrightable.⁵⁰

According to the court in *Urantia* case, the Contact Commission's questions to the celestial beings "materially contributed to the structure of the Papers, to the arrangement of the revelations in each Paper, and to the organization and order in which the Papers followed one another."⁵¹ However, facts revealed at the district court level suggest that the Contact Commission may not have created the questions or arranged the Papers. District Judge Urbom analyzed the relationship between the celestial beings and the Contact Commission. Instead of finding that the Contact Commission took the lead in any discussion or questioning, Judge Urbom found that the Contact Commission acted in response to the directives of the celestial beings. The *Urantia* Foundation admitted that "the Contact Commission lacked any power to control the production of the 'Urantia Papers' ...; it was the 'personalities' that determined which questions would be considered and what would be included in the text."⁵² In addition, the Judge found that the questions were actually in response to the papers, implying that much of the Papers were created before the questions were even asked.⁵³

These facts suggest that the Contact Commission may not be responsible for much, if any, originality in the compilation. Rather, it seems that the celestial beings orchestrated the arrangement of the Papers. Instead of considering these facts, the Court of Appeals glossed over them in the application of the *Feist* test for the copyrightability of compilations. The court should have delved into how much of the work the Contact Commission actually lifted verbatim and to what extent it edited or rearranged the revelations. Also, the court should have analyzed whether the compilation was in a predictable format which would render the work not copyrightable.

In this case, the court may have been eager to give the copyright to a human being because "[i]ntellectual property in the United States is fun-

49. See *Warren Publishing*, 115 F.3d at 1515-16; *Bellsouth Advertising*, 999 F.2d at 1441-44; *Victor Lalli Enterprises*, 936 F.2d at 673.

50. See *Warren Publishing*, 115 F.3d at 1520.

51. See *Urantia Foundation v. Maaherra*, 114 F.3d 955, 959 (9th Cir. 1997).

52. *Urantia Foundation v. Maaherra*, 895 F. Supp. 1347, 1353 (D. Ariz. 1995) (citation omitted).

53. See *id.*

damentally about incentives to invent and create.”⁵⁴ Congress created the Copyright Act in order to encourage new works.⁵⁵ If an author is unable to discourage copying of his product, his incentive to create new products will diminish. When an author is a non-human entity such as a celestial being or a computer, there is no one to hold or defend the copyright. Perhaps the court determined that the copyright did indeed belong to the Contact Commission because that was the only pragmatic way to avoid these issues. In cases of computer-generated works, however, the computer (non-human author) will be programmed by a human, so more often than not, the issue of copyright ownership will be more complicated.

B. Computer-Generated Works

If courts strictly apply the *Urantia* decision to future copyright claims over computer-generated works, they will grant the copyright to a human, most likely the computer program user. As noted above, the *Urantia* court compared the non-human authorship of the Book to the non-human authorship of computer-generated data.⁵⁶ In this case, the court found that the Foundation was the rightful owner of the copyright in the Book because human Contact Commission members were involved in its creation. “[I]t is not creations of divine beings that the copyright laws were intended to protect, and ... in this case some element of human creativity must have occurred in order for the Book to be copyrightable.”⁵⁷ By extension, this statement suggests that the necessary factor for computer-generated work being copyrightable is a minimum level of creative input by humans. At this stage in their development, computers do not have the capability to think or create completely on their own, so there is always an element of human input involved. Under this court’s analysis, then, the *Urantia* holding would probably mean that the computer-generated works are copyrightable by those humans.⁵⁸

54. ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 12 (1997).

55. *See id.*

56. *See Urantia*, 114 F.3d at 958.

57. *See id.*

58. This case confirms the view of most commentators who believe that computer-generated works are copyrightable and that the copyright should belong to a human. *See Miller, supra* note 2, at 1058 (“Although commentators have differed as to who should be considered the author of a computer-generated work, they seem to agree that it should be a human being or legal entity, even though identifying that author may not always be easy - especially when the human element is highly attenuated.”) (citing Samuelson, *supra* note 3, at 1224-28).

Under the logic of the *Urantia* case, future courts would not only grant copyrights in computer-generated works to humans, but they most likely would grant the copyright to the computer program user with no recognition to the programmer or the owner of the program. As noted above, because this case does not delve into the rights of the other parties in the creation of the work, the court deemed the copyright to be purely the property of the compiler. In the case of computer-generated works, the counterpart to the compiler would be the user of the program. The program user inputs certain data and parameters to guide the computer's responses. The end creation would be, in part, a product of the tasks the user instructed the program to perform. Under this court's formulation, because the user contributed to the structure and arrangement of the final product, the user would be entitled to the copyright on the work as a compilation.

C. Problems in the Application of This Case to Computer-Generated Works

Because the analysis from this case is so perfunctory, future courts faced with disputes over copyrights in computer-generated works should be reluctant to utilize such a bright-line rule. In computer-generated works, there are many different types of programs that require differing levels of input. These works vary widely: from an essay that an author creates on her own using a word processor to musical compositions that are created almost completely by a computer with minimal input by a user. Because the amount of originality involved in creation of the work varies so widely, it may be inappropriate to state that in every case the copyright should belong solely to the user of the program.⁵⁹

In addition, a compilation structure does not seem to be the best paradigm for analyzing computer-generated works. In many compilations such as telephone books or automobile price quotation books, the facts themselves are not copyrightable and are in the public domain. In such a case, the compiler does not vie for the copyright in the compilation against someone else. In a computer program, on the other hand, many of the elements are copyrightable by the programmer including the literal and nonliteral elements of the program.⁶⁰

59. Even Professor Samuelson, who generally proposes giving the user the copyright in the computer-generated work, recognizes that in some cases where the work "incorporates a substantial block of recognizable expression from the copyrighted program" there should be an exception to this rule. Samuelson, *supra* note 3, at 1192.

60. See, e.g., *Apple Computer v. Franklin Computer*, 714 F.2d 1240, 1246-49 (3d Cir. 1983) (stating that computer programs in object code, source code, and embedded in

Because the compilation or the computer-generated work will most likely be a product of copyrighted elements, clip art, music, etc., the user may have to vie for the copyright against the owner of the copyrighted works incorporated into the program. For example, in a recent article, Tal Vidgerson explored the rights of authors versus the rights of programmers of computer-generated "read-alike" works.⁶¹ Vidgerson based his article on a programmer who programmed his computer to write a book in the style of a famous deceased author, Jacqueline Susann. He copied her style of writing and reduced it to "6000 computer-programmed rules equalling hundreds of thousands of lines of computer code."⁶² In a program like this one, the programmer has imparted most of the creativity in the creation of the work. The program user would only need to press "enter" or type "compose" and the computer would create a novel in the style of Jacqueline Susann. Even though the novel is a new creation by the computer user, the programmer enabled the computer to create the work with little additional input. The original author, the programmer, and the program user could all have competing claims to the copyright of the computer-generated end-product. In this case, it would be inequitable to grant the copyright to the user when he contributed the least work and little, if any, creativity.

D. Alternatives To A Strict Compilation Structure With Which To Analyze These Cases: Case-by-Case Analysis and Interview/Consent Model

Courts that face the issue of copyright ownership of computer-generated works may choose to follow the *Urantia* structure or use a different analysis altogether. One option the courts could use would be to analyze each claim on a case-by-case basis to determine how much of the end product is due to the creative input of each party involved.⁶³ In this way, a court can fairly evaluate who should own the copyright or whether the parties should share the copyright. Unfortunately, however, this may

ROM are copyrightable); *Stern Electronics, Inc. v. Kaufman*, 669 F.2d 852, 856-58 (2d Cir. 1982) (protecting computer program audio/visual elements under copyright).

61. Tal Vidgerson, *Hamlet II: The Sequel? The Rights of Authors vs. Computer-Generated "Read-Alike" Works*, 28 LOY. L. REV. 401 (November 1994).

62. *See id.* at 405-06.

63. *See* LEGAL RESEARCH NETWORK, INC. ET AL, RULES OF THE ROAD FOR THE INFORMATION SUPERHIGHWAY: ELECTRONIC COMMUNICATIONS AND THE LAW § 32.2 (1996) ("The particular solution to the conflicting claims of the author of the program, the user, and the owner of the computer is likely to depend on the facts of the particular case, rather than on a generalized rule of attribution of ownership."); *see also* Miller, *supra* note 2, at 1059.

prove to be a drain on the courts' time and resources if the courts were obligated to analyze the facts of each copyright dispute.

Another alternative to the strict compilation structure would be the interview/consent model. Though the *Urantia* court viewed the Book as a strict compilation, that is not the only, or even, the most logical paradigm. Another more logical approach that the court could have taken would have been to view the interactions between the Contact Commission and the celestial beings as an interview because the posing of questions and recording of the answers falls into the basic structure of an interview.

In cases where the published work in question is an interview, the copyright has generally fallen to the interviewer as the author of the interview. "Regardless of who owns the copyright in each of the quoted passages in the article, there can be no doubt that [the interviewer] owns the copyright in his compilation of the quotations."⁶⁴ Because the work is an interview, the courts reason that the structure fulfills the necessary creativity for an interviewer copyright in a compilation.⁶⁵ This type of analysis may be more appropriate for the *Urantia* case because the facts, as the court viewed them, seem to fit a compilation as interview structure better than a strict compilation structure.⁶⁶

More importantly, courts pay special attention to the fact that interviewees typically grant permission to the interviewer to use the quotations in the final work.⁶⁷ In *Estate of Hemingway v. Random House, Inc.*,⁶⁸ the court stated that Hemingway's willingness to let Hotchner take notes of their conversations and write articles based on the articles preempted any common law copyright Hemingway's estate could have claimed on Hemingway's quotations.⁶⁹ Similarly, in *Urantia*, the celestial beings were

64. See *Quinto v. Legal Times of Washington, Inc.*, 506 F. Supp. 554, 559 (1981).

65. See Vicki L. Ruhga, *Ownership of Interviews: A Theory for Protection of Quotations*, 67 NEB. L. REV. 675, 684 (1988) ("Several courts maintain that the interviewer is the sole owner of a work consisting of quotations. The courts reason that the interviewer recreates the conversation, organizes the article and forms the literary expression.") (citation omitted).

66. Of course, because interviews are viewed as compilations, the interviewer still needs to impart the necessary amount of originality required by the Court in *Feist* in order to hold a copyright on the interview. See *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340, 358 (1991).

67. See *Quinto*, 506 F. Supp. at 559 ("Even if [the plaintiff] did not own the copyright to the quotations in his article, he had permission to use the quotations and his copyright in the compilation protects his selection, arrangement, and ordering of them.")

68. 296 N.Y.2d 341 (1968).

69. "For the present purposes, it is enough to observe that Hemingway's words and conduct, far from making any such reservation, left no doubt of his willingness to permit Hotchner to draw freely on their conversation in writing about him and to publish such

willing to let the Contact Commission take the revelations and, at the very least, transcribe them. There is no indication that the celestial beings would have disapproved of the Contact Commission publishing the work. On the contrary, the facts revealed in the district court state that the celestial beings directed which questions would be in the text.⁷⁰ If the Foundation could show that the celestial beings expected that the works would be published and did not disapprove, then under the interview as compilation structure, the Foundation may be a valid copyright holder as an interviewer.

While the interview paradigm laid out above may not seem to fit the computer situation any better than the basic compilation analysis, those cases provide an important insight courts should utilize going forward: the relevance of consent. In the interview cases, courts viewed the interviewee's consent to the interview as permission to the interviewer to utilize the information gained in the interview. In comparison, programmer consent in the forms of contract, licensing, or payment could enable the user of a program to copyright the end product. Professor Samuelson argues that in those cases where the programmers get something in return for sale or license of their program, the programmers should yield some of their rights.⁷¹ Also, if the programmers choose not to give up their rights, they always have the option not to distribute the program.

When courts are faced with the issue of copyright in computer-generated data, they will have alternatives to the *Urantia* structure: case-by-case analysis and a consent model may be two alternatives to consider. The consent analysis may be the stronger of the two because it can act as a default. Such a default model may encourage the programmer and the user to settle the copyright question before the user ever creates a new work with the program. This way both parties are aware of their rights and can negotiate, instead of having an outside party decide their rights for them. Lastly, the default rule adds the elements of reliability and foreseeability to this area of law and may make it a better choice than case-by-case analysis.

material." *Id.* at 349-50; *see also* *Ruhga*, *supra* note 64, at 681-82 (stating that in *Falwell v. Penthouse International*, 521 F. Supp. 1204 (1981), the court dismissed the case based on Falwell's consent to the interview).

70. *See* *Urantia Foundation v. Maaherra*, 895 F. Supp. 1347, 1353 (D. Ariz. 1995).

71. *See* Samuelson, *supra* note 3, at 1207.

IV. CONCLUSION

On its face, *Urantia Foundation v. Maaherra* is a case about straightforward copyright infringement. However, when the court addressed the issue of non-human authorship, it also created implications for future cases regarding the copyrightability of computer-generated works. The court's opinion suggests that a computer program user will own the copyright on the end product even if he or she contributes only a minimal level of creativity. Nevertheless, it would be a hasty and inequitable decision for a court to state that the program user owns the copyright where he or she has contributed minimal creative input.⁷² As technology becomes more sophisticated, the facts of computer-generated works cases will vary so widely that decisions will not yield satisfactory results in many cases with the simple application of *Urantia* and the courts should be wary of utilizing it broadly in the newly emerging arena of computer-generated works.

72. One commentator has even posited that we will eventually reach the opposite conclusion from that reached in *Urantia*; Professor Arthur Miller has argued that as computer programs become more sophisticated, the computer programmer should be the owner of the copyright in the computer-generated work. See Miller, *supra* note 2, at 1058.

MATTHEW BENDER V. WEST PUBLISHING

By Peter Thottam

The parameters governing copyright privileges in legal publishing changed substantially with the 1997 case *Matthew Bender & Co. v. West Publishing Co.*¹ The *Bender* court determined the extent of West Publishing Company's (West) copyright monopoly on its case reporters. In doing so, the decision builds directly on recent Supreme Court jurisprudence² and scholarly commentary³ regarding the Copyright Act. By rejecting West's derivative work⁴ and compilation claims,⁵ *Bender* departs from the reasoning of two comparable decisions in which West prevailed in the Eighth Circuit.⁶ *Bender* potentially heralds an end to legal publishers' abilities to assert copyright protection for trivial editorial changes.⁷ Perhaps the ruling will provide impetus to create new legal publishing paradigms, involving uniform citation standards and Internet compatibility that would greatly enhance public access to the law.

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1. 42 U.S.P.Q.2d 1930 (S.D.N.Y. 1997).

2. See *Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340 (1991).

3. See, e.g., L. Ray Patterson & Craig Joyce, *Monopolizing the Law: The Scope of Copyright Protection for Law Reports and Statutory Compilations*, 36 UCLA L. REV. 719, 787-88; Jane C. Ginsburg, *No 'Sweat'? Copyright and Other Protection of Works of Information after Feist v. Rural Telephone*, 92 COLUM. L.REV. 338 (1992) (providing two overviews of the legal background to, and the copyright implications of, *Feist*).

4. Section 101 of the Copyright Act defines a derivative work as a "work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship." 17 U.S.C. § 101 (1994).

5. Section 101 defines a "compilation" as a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship. The term "compilation" includes collective works. *Id.*

6. See *West Publishing Co. v. Mead Data Central, Inc.*, 799 F.2d 1219 (8th Cir. 1986), *cert. denied*, 479 U.S. 1070 (1987); *Oasis Publishing Co. Inc. v. West Publishing Co.*, 924 F. Supp. 918 (D. Minn. 1996).

7. One example of such arguably trivial editorial changes is West's star-pagination system. See generally *Matthew Bender & Co., Inc. v. West Publishing Co.*, 24 Media L. Rep. 2432 (S.D.N.Y. 1996).

I. CASE SUMMARY

A. Factual Background

West Publishing has long had a de facto monopoly on print, CD-ROM, and on-line databases for court opinions.⁸ As a result, it has been able to set monopoly prices for access to the content of these databases.⁹ By creating uniform page citation references, West's publications have been especially useful to lawyers and judges. West's "Star-Pagination" system keys text, regardless of the format, to the page on which it would appear in the printed volume. West argues that there is a level of skill and labor involved that justifies copyright.¹⁰ In the face of opposition from other legal publishers who contend West's edits and page breaks add no copyrightable expression, West continues to claim a copyright on the selection, coordination, and arrangement of its reporters, in addition to the editorial enhancements it provides.¹¹

Matthew Bender & Company (Matthew Bender) is a rival publisher of legal materials. In recent years, Matthew Bender prepared for publication in CD-ROM format¹² the text of opinions of the United States Court of Appeals for the Second Circuit, four United States district courts, and various New York state courts.¹³ In these recent publications, Matthew Bender inserted information about parallel pages in West's volumes where the text may also be found.¹⁴ More specifically, Matthew Bender pro-

8. See generally Patterson & Joyce, *supra* note 3.

9. See *id.*

10. See generally *Alfred Bell & Co. v. Catalda Fine Arts, Inc.*, 191 F.2d 99 (2d Cir. 1951) (holding that transfer from one medium to another can support a copyright claim when the transfer involves a high level of artistic skill and effort). However, to the extent that cases like *Bell* base their findings of copyrightability on the amount of skill or labor invested by the artist, these decisions are clearly qualified, if not overruled, by the Supreme Court's recent decision in *Feist* which held that labor could not substitute for originality. See *Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 353-56 (1991); see also *L. Batlin & Son, Inc. v. Snyder*, 536 F.2d 486, 510 (2d Cir.), *cert. denied*, 429 U.S. 857 (1976).

11. Such editorial enhancements include West's synopses, headnotes, and key numbers.

12. See Matthew Bender, Inc., *Bookstore* (visited Dec. 2, 1997) <http://www.bender.com/bender/open/Webdriver?Mival=index_bookstore>.

13. See Matthew Bender, Inc., *About Us* (visited Dec. 2, 1997) <<http://www.bender.com/bender/open/Webdriver?Mival=abtframe>>.

14. For more information, see HyperLaw, Inc., *Transcript Granting Summary Judgment* (visited Feb. 2, 1998) <<http://www.hyperlaw.com/benchtr2.htm>> (transcript of Judge Martin's granting summary judgment on Nov. 22, 1996 to competing publisher Matthew Bender & Co. and partial summary judgment to HyperLaw, Inc. with respect to

vided the West volume and page number for the first page of each case. Bender also included the West page numbers in the same position where page breaks would occur in West's publications.¹⁵ In essence, Matthew Bender provided West's star-pagination to its own volumes, claiming that West was not entitled to copyright protection on its pagination references. Bender sued for a declaratory judgment on the issue of West's copyright interest in its pagination.¹⁶ While other issues were presented in the collateral actions of *Bender*, they were distinct from the pagination issue and Bender's defense against allegations of copyright infringement.

In *Bender*, HyperLaw, Inc. (HyperLaw)¹⁷ joined, as an intervenor-plaintiff, Matthew Bender's original action against West and sought an injunction against West in order to obtain access to West's court privileges.¹⁸ In particular, HyperLaw sought access to federal judiciary corrections and modifications made available to West.¹⁹ HyperLaw, Matthew Bender, and other vendors could not avail themselves of these corrections. HyperLaw argued that this created a huge competitive disadvantage.²⁰ In its complaint, HyperLaw sought permission to copy the information it argued was not subject to West's copyright: any corrections, amendments, attorney names, parallel citations, West citation formats, opinion text not provided to HyperLaw by the courts, and the interior pagination from volumes of West's *Supreme Court Reporter* and the *Federal Reporter*.²¹ In

both companies' desire to cross-reference West's page numbers in their CD-ROM case law collections).

15. *See id.*

16. *See* June M. Besek, RECENT DEVELOPMENTS IN COPYRIGHT LAW, 521-22 (1997).

17. HyperLaw was incorporated in 1991 as an electronic publisher of substantive information for the legal profession. The company's primary publication medium is CD-ROM which uses full-text retrieval, hypertext, and image retrieval technologies. HyperLaw has explicitly stated that it intends eventually to offer West type data on the Internet. *See* HyperLaw, Inc., *HyperLaw, Inc.* (visited Dec. 2, 1997) <<http://www.hyperlaw.com/index.htm#about>>. It publicly stated that it might ultimately scan up to 75% (not including headnotes) of West cases into its system. *See* Matthew Bender & Co., Inc. v. West Publishing Co., 42 U.S.P.Q.2d 1930, 1931 (S.D.N.Y. 1997). In February 1992, HyperLaw broke new ground in the legal publishing industry by issuing a CD-ROM of United States Supreme Court Opinions, *Supreme Court on Disc*TM. In July 1993, HyperLaw released the first CD-ROM of United States Court of Appeals opinions, *Federal Appeals on Disc*TM. In so doing, HyperLaw hoped to join the ranks of companies like Lexis-Nexis in eroding the monopoly that West holds over much of the legal publishing industry.

18. *See Bender*, 42 U.S.P.Q.2d at 1931.

19. *Id.*

20. *Id.*

21. *Id.*

response to HyperLaw's complaint, West brought counterclaims of copyright infringement and alleged its copyrights as affirmative defenses.²²

B. The Case

On May 22, 1997, a New York federal district court considered HyperLaw's contention as to whether the changes West makes to an opinion, either singly or in combination, represent a sufficient creative effort to warrant copyright protection.²³ The court said no, holding that competing legal publishers could digitally scan cases found in West legal publications and subsequently issue those cases in their own publications.²⁴ The holding implies West's copyright protection for case editorial changes is in fact limited to headnotes, key numbers, and a limited amount of other added material.

The decision—though momentous in its import for copyright privileges for legal publishers—was not unexpected. Earlier, in response to the original action that Matthew Bender brought, Judge Martin had granted a summary judgment motion denying copyright protection for West's star-pagination system.²⁵ In his more recent opinion, Judge Martin developed the logic of the November opinion which had focused on Matthew Bender's star pagination concerns. Judge Martin affirmed HyperLaw's declaratory request thereby allowing it to copy case reports from West's volumes in the *Supreme Court Reporter* and *Federal Reporter Series*.²⁶ West has appealed both of Judge Martin's decisions.²⁷ In the interim, however, the exclusion from copyright of the numbering system known as "star pagination" puts West's system of book and page number tracking into the public domain. In conjunction with Judge Martin's more recent ruling in *Bender*, this is arguably the correct result under existing copyright law and under the logic of important public policy goals. These goals include public access to the law and the creation of greater competition in legal publishing.

22. See HyperLaw, Inc., *HyperLaw v. West Publishing Company* (visited Dec. 2, 1997) <<http://www.hyperlaw.com/hlvwest.htm>>.

23. See *id.*

24. See *id.*

25. See HyperLaw, Inc., *Transcript Granting Summary Judgment*, *supra* note 14.

26. *Bender*, 42 U.S.P.Q.2d at 1933-34.

27. Brief for U.S. Court of Appeals for the Second Circuit at 7910, n.2, *Matthew Bender & Co. v. West Publishing Co.* (S.D.N.Y. 1997) (No. 97-7910). West notes that it has "never objected to the copying, even by competitors of individual case reports, notwithstanding their copyright protection. It is only the threat of wholesale report copying by 'free-riding' competitors that compels West to assert and defend its entitlement under the Copyright Act." *Id.*

Bender specifically held that the changes West makes to an opinion that it publishes do not, by themselves, make the reported decision “independently copyrightable.”²⁸ Citing section 102(a) of the Copyright Act and *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, the court emphasized that minor changes to the caption, the identification of judges, and information as to the attorneys, together with the insertion of subsequent history, were not sufficient to qualify West’s reprints as “original works of authorship.”²⁹

West argued that the court should consider its copyright in the compilation of opinions as a whole. However, the court noted “[w]hat HyperLaw is copying is the individual reported decision and the fact that it copies one, two, or a thousand decisions does not change the fact that it is the decisions and not West’s compilation of those decisions that HyperLaw is copying.”³⁰ Because HyperLaw was not copying the order of cases used by West, the court instead judged each individual opinion as a derivative work. The court cited a number of cases holding that in order for a work to qualify as a derivative work it must be independently copyrightable with some measure of originality of authorship.³¹

In *Bender*, the court ruled that HyperLaw’s copying for its CD-ROM product would be non-infringing.³² It held that anything HyperLaw might take from West would be devoid of *Feist*’s originality requirement. West therefore was arguably not adding much that was truly original. *Bender* effectively asserted that what West was adding to judicial opinions—opinions which were indisputably in the public domain³³—were in fact trivial and mechanical changes. The court observed that West’s changes, taken separately or collectively, did not result in “a distinguishable variation” of the court opinions.³⁴ It noted that minor changes to the caption, the identification of judges, and information as to the attorneys, together with the insertion of subsequent history, are not sufficient to

28. *Bender*, 42 U.S.P.Q.2d at 1932.

29. *Id.*

30. *Id.*

31. *Id.* at 1933 (citing *Woods v. Bourne Co.*, 60 F.3d 978, 990 (2d Cir. 1995)); see also *HyperLaw, Inc., Transcript Granting Summary Judgment*, *supra* note 14. For a definition of “derivative works,” see *supra* note 14.

32. *Bender*, 42 U.S.P.Q.2d at 1933.

33. For a discussion of Copyright Act analysis on government opinions, see *infra* notes 94 & 95.

34. See *Bender*, 42 U.S.P.Q.2d at 1934 (discussing the triviality of West’s changes and citing the holding of *Waldman Publishing Corp. v. Landoll, Inc.*, 43 F.3d 775, 782 (1994)).

insertion of subsequent history, are not sufficient to qualify West's reprints as "original works of authorship."³⁵

Furthermore, the district court also emphasized that the *Feist* case emphatically rejected the "sweat of the brow" doctrine that some lower courts had previously adopted.³⁶ Past application of a doctrine might have enabled a court to justify copyright on the basis of labor expended by a publisher like West in collecting and cataloging its facts. *Feist* and *Bender* both acknowledge that such labor can be valuable to the public. Nonetheless, both cases stress that labor simply cannot be substituted for originality. Indeed, only factual compilations that are original—those that meet the minimal creativity standard—can be the subject of copyright.

On November 22, 1996, the same New York court took a step in the same direction by granting summary judgment as to the non-copyrightability of West's "star pagination" system.³⁷ District Court Judge Martin observed that the facts set forth in such a numeric compilation were not protected by copyright law and therefore were capable of being freely copied.³⁸ The judge emphasized copyright protection extends to compilation efforts which embody the original creation of the compiler. He stated that there would be no question that if Matthew Bender took a volume of West's *Federal Reporter*, ran it through its Xerox machine or its computer and printed it out and called it *Bender's Federal Third Reporter*, this would then violate West's copyright.³⁹ However, Judge Martin qualified this observation by emphasizing the importance of the proposition that the title and the citation to a West reported decision are

35. 17 U.S.C. § 102(a) (1994).

36. *Bender*, 42 U.S.P.Q.2d at 1933-34; see, e.g., *Callaghan v. Myers*, 128 U.S. 617 (1888). For a discussion of *Callaghan* and other cases, see *Patterson & Joyce*, *supra* note 3, at 736-46.

37. See generally *Matthew Bender & Co., Inc. v. West Publishing Co.*, 24 Media L. Rep. 2432 (S.D.N.Y. 1996). Again, this comment defines star-pagination as the feature West offers which is used to indicate the precise word or letter in a given document with which the next page in the document's equivalent version in a separate publication begins. Its use occurs both in hard copy and on-line via WESTLAW.

38. See *id.* at 2440. Section 103(b) provides:

The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

17 U.S.C. § 103(b).

39. *Matthew Bender*, 24 Media L. Rep. at 2432.

facts.⁴⁰ He emphasized that these were facts that anyone was free to use. He further stressed that the West did not engage in any creative activity when deciding that the opinion of a particular judge is reported at some particular page of some particular volume of West.⁴¹ He clarified the analysis by observing that West decided a group of cases should be compiled together in a certain order, and a consequence of that compilation was that the case with that title appeared at that page.⁴² The resulting layout is a consequence of the way the compilation is put together, but that it is not any part of the aspect of the compilation that embody the original creation of the compiler.⁴³

The insights in *Bender* regarding creative and original activity in contrast to “facts”⁴⁴ is particularly meaningful because legal publishing is rapidly shifting to digital forums such as CD-ROMs and the Internet—forums where fact manipulation and copying are much easier than with traditional media.

II. DISCUSSION

A. The Constitution and Prior Copyright Law

The primary issue before the district court in *Bender* was whether changes West made to judicial opinions, either singly or in combination, represented a sufficient creative effort to warrant copyright protection. As with any copyright case, the Copyright clause of the Constitution⁴⁵ and the Copyright Act⁴⁶ provide a starting point for analysis.⁴⁷ The Constitution

40. *Id.*; see also HyperLaw, Inc., *Transcript Granting Summary Judgment*, *supra* note 14.

41. *Matthew Bender*, 24 Media L. Rep. at 2433.

42. *Id.*

43. *Id.*

44. Judge Martin also observed:

[T]he original creation of West is not in the number of lines in any case, it is not in the number of any pages of any case. The original creation may be in the way West selects cases for reporting, the cases that it puts, any headnotes that it adds to the report and similar additional material when put together with the official report that they obtain from the Court. However, where and on what particular pages the text of a court opinion appears does not embody any original creation of the compiler, and, therefore, in my view, is not entitled to protection.

HyperLaw, Inc., *Transcript Granting Summary Judgment*, *supra* note 14.

45. U.S. CONST. art. I, § 8, cl. 8. For a more complete exploration of relevant constitutional background, see Paul Heald, *The Vices of Originality*, 1991 SUP. CT. REV. 143, 168-177.

46. 17 U.S.C. §§ 101-810 (1994).

grants Congress the power to “[p]romote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writing and Discoveries.”⁴⁸ The Copyright Act enables this Constitutional grant of authority to Congress. A unifying goal of these subsections is to protect the original writings of authors.⁴⁹ This protection is meant to be exercised for the public benefit.⁵⁰

For a work to be entitled to copyright protection it must be an “original work of authorship.”⁵¹ Specifically, section 102(a) provides that copyright subsists “in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”⁵² Sections 101⁵³ and 103⁵⁴ specifically pro-

47. See Robert C. Denicola, *Copyright in Collections of Facts: A Theory for the Protection of Nonfiction Literary Works*, 81 COLUM. L. REV. 516, 519 (1981). Denicola notes that because progress in science and the arts is often a process of creative accretion the Constitutional mandate embraces a tension between economic incentives to produce, which are provided through the recognition of exclusive rights, and unfettered access to creative works.

48. U.S. CONST. art. I, § 8, cl. 8.

49. Specifically, section 106 of the Copyright Act gives an owner an exclusive right to reproduce, distribute, perform, display, or license his work. *Id.* § 106. Section 201(d) further provides that an owner receives an exclusive right to produce or license the production of derivatives of his work. *Id.* § 201(d).

50. See generally *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151 (1975).

51. 17 U.S.C. § 102(a) (1994).

52. H.R. REP. NO. 94-1476, at 51 (1976) (providing that the criterion of originality does not require any “novelty”).

53. 17 U.S.C. § 101 (1994) (defining “Collective Work” and “Compilation”) provides:

Except as otherwise provided in this title, the following terms and their variant forms mean the following: ... A ‘collective work’ is a work, such as a periodical issue, anthology, or encyclopedia, in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective whole.

For a definition of “compilation” under section 101, see *supra* note 5.

54. 17 U.S.C. § 103 provides:

(a) The subject matter of copyright as specified by § 102 includes compilations and derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully. (b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection the preexisting material.

vide that copyright protection will extend to original compilations and derivative works.

West pointed to both of these types of works to argue that it had created "original" works. First, West alleged that it should receive a copyright on all of its content because the case reports constituted derivative works.⁵⁵ With this right, West could prevent other parties from copying its reported cases wholesale. Second, West alleged that it should receive a copyright on its arrangement of cases as an original compilation.⁵⁶ West also argued that this compilation copyright should cover use of the star pagination references. The argument is that if others can tell where all the text appears in West volumes, a user can theoretically recreate an entire West Reporter without ever paying for or viewing the original.⁵⁷

In *L. Batlin & Son v. Snyder*,⁵⁸ for instance, the court found that the changes in the product, an "Uncle Sam" piggy bank, were too minor and trivial to support a derivative work copyright.⁵⁹ The original bank consisted of Uncle Sam, dressed in characteristic attire. A coin could be placed in Uncle Sam's extended hand, and when a lever was pressed, his arm lowered, and the coin fell into his bag while Uncle Sam's whiskers moved up and down.⁶⁰ The plastic reproduction in *Batlin* reduced the height of the original from eleven to nine inches and made other minor changes, many of which were not perceptible to the casual observer.⁶¹ The court reasoned that mere translation from one medium to another, in this case from a cast iron piggy bank to a plastic one, were trivial variations and therefore did not warrant protection.⁶² Most courts have similarly held that in order to be copyrightable, a derivative work must contain "some substantial, not merely trivial, originality"—a substantial variation from the original work on which the derivative work is based.⁶³ Notwithstanding decisions such as *Batlin*, other courts developed a theory that the copyright laws would protect works when the creator had spent a significant effort compiling the facts in question. These courts essentially rea-

55. For an overview of the contravening arguments against West's position, see HyperLaw, Inc., *Brief for Amicus Curiae American Association of Legal Publishers—Second Circuit Text Appeal*, Nov. 1997 (visited Feb. 16, 1998) <<http://www.hyperlaw.com/aalpbr.htm>>.

56. *Id.*

57. See HyperLaw, Inc., *Transcript Granting Summary Judgment*, *supra* note 14.

58. 536 F.2d 486 (2d Cir.), *cert. denied*, 429 U.S. 857 (1976).

59. *Id.* at 506-10.

60. *See id.*

61. *See id.* at 503.

62. *See id.* at 506-10.

63. *Id.* at 508-09.

soned that sheer effort would amount to non-trivial changes, and would thus satisfy the originality standard.⁶⁴

The Supreme Court substantially clarified the appropriate reach of copyright law for data and "fact based" compilations with its 1991 decision in *Feist*.⁶⁵ The Court in *Feist* first addressed the nature of the copyright protection at issue.⁶⁶ The Court emphasized that even where there is a copyright for compilations of this sort, the copyright will be a "thin copyright claim," leaving the facts unprotected because they were not the product of an act of authorship.⁶⁷

The Court summarily rejected the minority "sweat of the brow" theory.⁶⁸ Rather, it held that there is a Constitutional basis for copyright protection that depends on the degree of originality, plus some measure of creativity, in the copyrighted work.⁶⁹ The Court explained that the presentation of facts need not be innovative or surprising, but that the selection and arrangement must not be so mechanical or routine as to require no creativity whatsoever.⁷⁰ The Court concluded that the names and addresses found in a telephone book were uncopyrightable facts—not original creative efforts.⁷¹ The Court held that Rural Telephone's selection of facts and its arrangement of phone numbers, names, and addresses, involved no creativity and was therefore not original.⁷²

The first case to address the issue of West's potential copyright in its reporters, *West Publishing Co. v. Mead Data Central, Inc.*,⁷³ came down before the *Feist* decision. The district court held that West did have a copyright in the works.⁷⁴ The court found that West's selection, coordi-

64. See sources cited *supra* note 36.

65. 499 U.S. 340 (1991); see generally Ginsburg, *supra* note 3.

66. *Feist*, 499 U.S. at 348-49.

67. See *id.* at 349.

68. See *id.* at 353-54.

69. See *id.* at 358.

70. See *id.*

71. See *id.* at 361.

72. The requirement of a de minimis amount of originality does not imply that aesthetic or artistic elements must be present. See *Bleistein v. Donaldson Lithographic Co.*, 188 U.S. 239 (1903). However, as Justice Holmes notes in *Bleistein* "[p]ersonality always contains something unique; and it is the 'personal reaction' of the author upon his or her subject, the 'singularity' of the result produced by that interaction, which renders the work original and thus copyrightable." *Id.* at 250.

73. 799 F.2d 1219 (8th Cir. 1986), *cert. denied*, 479 U.S. 1070 (1987).

74. *Id.* Note that the court's decision was strengthened by a line of copyright cases during the 1980s which interpreted the Copyright Act as prohibiting computer software copying. See, e.g., *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1251 (3d Cir. 1983), *cert. dismissed*, 464 U.S. 1033 (1984); *Digidyne Corp. v. Data Gen-*

nation, and arrangement of case opinions in its case reporters constituted copyrightable expression.⁷⁵ In particular, the court found that Mead Data was infringing on the internal page number citations in West's case compilations.⁷⁶ The court ascribed a degree of creative intellectual effort to West's categorizing cases by subject matter, court, and circuit.⁷⁷ Immediately after losing the Eighth Circuit case, Mead Data proceeded to license pagination rights from West.⁷⁸

It may appear that the Eighth Circuit's holding in *Mead Data* is questionable after the Supreme Court's *Feist* decision. Nonetheless, a district court within the Eighth Circuit recently cited the *Mead Data* decision with approval. In *Oasis Publishing Co. v. West Publishing Co.*,⁷⁹ the court granted West's motion for partial summary judgment in a decision addressing the copyrightability of the arrangement and pagination of cases in West reporters.⁸⁰ Judge Magnusson held that the creativity standard was minimal and that the internal pagination included in West's reporters was part of the overall arrangement of cases.⁸¹ It was therefore protected by copyright. The court consequently found that the plaintiff's intended plan to incorporate cases and pagination from the West reporters into its CD-ROM legal reporters would violate West's copyright.⁸²

B. The Policy Conflict

At the heart of assessing West's copyright claims are two fundamental public policy questions: (1) should copyright law stretch far enough to protect a publisher who expends enormous effort creating a valuable database out of a set of facts that are already in the public domain?; and (2) should we seek to promote the dissemination of complete access to legal opinions—notwithstanding the adverse effect this has on the profits of publishers like West? This comment argues that the answer to the first question, rooted in the most recent body of legal jurisprudence on copy-

eral Corp., 734 F.2d 1336 (9th Cir. 1984); *Autoskill, Inc. v. National Educational Support Systems Inc.*, 793 F. Supp. 1557 (9th Cir. 1992).

75. See *Mead Data*, 799 F.2d. at 1222.

76. See *id.*

77. See *id.*

78. See *Patterson & Joyce*, *supra* note 3, at 722.

79. 924 F. Supp. 918, 928-31 (8th Cir. 1996).

80. See *id.* at 931.

81. See *id.* at 921-25.

82. *Id.* at 926-27. The plaintiff, Oasis Publishing Co., Inc., a publisher of CD-ROM legal materials, intended to publish CD-ROM-based reports of Florida court decisions incorporating certain features of two West reporters: (1) the *Southern Reporter* and (2) the *Florida Cases*. West held a certificate of copyright registration for the *Southern Reporter*, but not for *Florida Cases*. *Id.*

right standards, is no. The second question, however, is a more nuanced issue. Further, the potential answers to the problem have grown exponentially with the advent of new technology such as the Internet.

In arguing that the copyright law question should be resolved in its favor, West contends that the *Bender* court was imposing a standard that demanded significantly more than *Feist*'s "modicum" of originality⁸³ and far more than the distinguishable "non-trivial" variation required by derivative-work copyright protection. West further attempts to distinguish its work from what was at issue in *Feist* by arguing that its compilation of legal opinions required it to make certain "judgments."⁸⁴ These judgments, according to West, consisted of genuinely creative assessments of readability, clarity, completeness, availability of sources, and other subjective considerations related to making the reports more useful.⁸⁵ West contends that its "original" contributions, wholly apart from syllabi, headnotes, and key numbers, which unquestionably receive a copyright, include: (1) substantial updating, revision, and expansion of the citations in opinions, and the additions of new citations, based on innumerable independent editorial judgments; (2) West's addition to opinions, on a selective basis, of new material, created and/or compiled by West employees, reflecting subsequent case developments; (3) the addition to opinions of West-compiled reports of selected attorney related data—much of which contains no information whatsoever concerning attorneys; and (4) revision editing and reorganization of the procedural data in opinions (captions,

83. See *Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 346 (1991).

84. [T]he *Feist* court found that the alphabetized list followed an "age-old practice," one "so commonplace" as to be "practically inevitable." Indeed, the copyright claimant in *Feist* had no real choice how to arrange a white page directory, particularly given that state law prescribed the selection of data, and, in any event, only a few basic decisions were involved. In this case, West makes dozens of multi-part, variable judgments, and there is no evidence that any of West's choices are commonplace, "practically inevitable," dictated by law, or that they follow any external guidelines. On the contrary, the evidence of other publishers' practices confirms the originality and independence of West's choices.

Brief for U.S. Court of Appeals for the Second Circuit at 4 n.35, *Matthew Bender & Co. v. West Publishing Co.* (S.D.N.Y. 1997) (No. 97-7910).

85. Of course, West advances this reasoning in part because *Feist* holds that editorial elements that are "devoid of even the slightest trace" of originality will fail to qualify as being copyrightable. *Feist*, 499 U.S. at 362.

court lines, date, disposition lines, etc.) to render them more readable and useful.⁸⁶

The logic of West's response is somewhat specious. In its appellate brief, West's key rationale in support of its position is that the district court's analysis ignored "material dispositive evidence of West's originality—including case examples as well as hundreds of pages of memoranda reflecting West's ongoing, highly original editorial judgments in deciding how to revise and expand Opinions."⁸⁷ West's arguments do not meet the "originality" standard clearly laid out by Supreme Court jurisprudence and case law. Stretching the copyright laws far enough to cover West's editorial changes would be disingenuous. Under section 102, West's minor changes are probably insufficient to meet the originality requirement.⁸⁸

Nonetheless, two other courts have upheld West's copyright claims to the editorial changes challenged in *Bender*.⁸⁹ Perhaps their decisions are rooted in part by an examination of the second policy objective identified above: that we should strive to maximize public access to the law and legal decisions. Arguably these courts may recognize that West has historically provided a tremendous service to the legal community by providing compilations that have made opinions accessible in a way they never would have been otherwise. West may not have been able to perform this service if it had not had a monopoly on its work. Thus the grant of copyright to West for editorial changes and compilation efforts may actually have increased access.

The questions of fundamental justice underlying these concerns cut both ways. On one hand, it would seem "fundamentally unfair to allow HyperLaw to take advantage of the substantial time and expense West has invested in its reporters by engaging in wide-ranging copying of the opinions published by West."⁹⁰ However, "on the other hand, the opinions published by West are written, not by West, but by federal judges and it seems unfair to say that West can preclude anyone from copying what is basically a government document."⁹¹ One root problem is that of timing:

86. Brief for U.S. Court of Appeals for the Second Circuit at 4, *Matthew Bender & Co. v. West Publishing Co.* (S.D.N.Y. 1997) (No. 97-7910).

87. *Id.*

88. For an overview of the originality deficiency in West's editorial changes, see *Matthew Bender & Co. v. West Publishing Co.*, 42 U.S.P.Q.2d 1930, 1932-35 (S.D.N.Y. 1997).

89. See *West Publishing Co. v. Mead Data Central, Inc.*, 799 F.2d 1219 (8th Cir. 1986), *cert. denied*, 479 U.S. 1070 (1987); *Oasis Publishing Co., Inc. v. West Publishing Co.*, 924 F. Supp. 918 (D. Minn. 1996).

90. *Bender*, 42 U.S.P.Q.2d at 1932-35.

91. *Id.*

for up to three years after the initial release of an opinion by the Supreme Court, there simply is no standardized judicial citation format acceptable for use in court documents and legal publications.⁹² One or more private citation formats are generally required by federal courts. Further, the preferred citation is to West's *Supreme Court Reporter*.

The copyright laws arguably support the grant of monopolies in some cases with a long-term goal of increased access.⁹³ But in the case of government-produced works, the Copyright Act specifically reaffirms the importance of removing the government's monopoly on the information. In the 1976 Copyright Act, Congress codified its long-standing rule that government-issued law⁹⁴ is not copyrightable.⁹⁵ Matthew Bender and HyperLaw contend that publishers of statutes and judicial decisions do not create original "works of authorship." They maintain such publishers manufacture books. Accordingly, they argue a legal publisher could be a copyright owner only as an employer under the work for hire doctrine⁹⁶ or as an assignee of the author.⁹⁷ Under a works for hire logic, because state judges are employees of the United States rather than West, West cannot legally gain original copyright to their opinions. Furthermore, because judges are not authors for copyright purposes,⁹⁸ they have no copyright to assign to West.⁹⁹

Finally Congress arguably included the notice provisions of sections 401-403¹⁰⁰ of the Copyright Act to ensure that section 105 of the Copy-

92. This is true with the exceptions of private citations of the *Supreme Court Reporter*, *United States Reports*, *Lawyers Edition*, and *U.S. Law Week*.

93. See generally *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591 (1834).

94. Section 101 defines a "work of the United States Government" as a "work prepared by an officer or employee of the United States Government as part of that person's official duties." 17 U.S.C. § 101 (1994).

95. Section 105 of the Copyright Act provides that copyright protection is not available "for any work of the United States Government, but the United States Government is not precluded from receiving and holding copyrights transferred to it by assignment, bequest, or otherwise." *Id.* This rule dates back to *Wheaton*, the Supreme Court's first copyright case, where the Court held that law—whatever form its publication takes—is not an original work of authorship.

96. *Id.* § 201(b).

97. *Id.* § 201(d).

98. See *Banks v. Manchester*, 128 U.S. 244, 253 (1888) ("Judges ... can themselves have no ... proprietorship, as against the public at large, in the fruits of their judicial labors").

99. For a comparative discussion of the *Wheaton* and *Banks* cases, see Patterson & Joyce, *supra* note 3, at 734.

100. For more information, see HyperLaw, Inc., *Intervenor-Plaintiff HyperLaw, Inc.'s Trial Brief Challenge to West Text Copyright Claims - March 4, 1997* (visited Dec.

right Act would have meaning when works of the federal government were re-published by private publishers.¹⁰¹ HyperLaw contends that failure to meet this requirement is an omission of the notice statement called for in the provisions of section 403. There should be no great mystery regarding why section 403 was enacted—to prevent what West sought to preserve—that is, expropriating governmental works by vague and ill-defined variations.¹⁰²

III. TOWARD A UNIFORM CITATION STANDARD AND THE DIGITAL FUTURE OF CASE REPORTING

West Publishing and its Canadian parent, Thompson Corporation, have already filed a Brief on Appeal in the United States Court of Appeals for the Second Circuit.¹⁰³ However rapid technological change—especially as reflected in inexpensive and rapid distribution possibilities via the Internet's dynamic new “push” and “pull”¹⁰⁴ search capabilities in conjunction with its evolving hyperlink tools—may offer alternatives that could preempt the need for a Supreme Court adjudication of the current circuit split.

Bender provides a compelling illustration of the value of having a uniform citation standard for federal and state courts. Such a standard would

5, 1997) <<http://www.hyperlaw.com/hltribr.htm>>. In its trial brief, HyperLaw argued that section 403 of the Copyright Act was a partial or total bar to West's claim of copyright in the text of judicial decisions. Section 403 provides:

Whenever a work is published in copies or phonorecords consisting preponderantly of one or more works of the United States Government, the notice of copyright provided by §§ 401 or 402 shall also include a statement identifying, either affirmatively or negatively, those portions of the copies or phonorecords embodying any work or works protected under this title.

17 U.S.C. § 403.

101. HyperLaw, in its motion for declaratory relief to confirm the illegitimacy of West's copyright claims for its citations, page numbering, corrections, parallel citations, names of counsel, and other factual and identifying materials, notes that West omitted from its copyright notices in its opinions any identification, either affirmatively or negatively, of those portions of its case reports embodying any work or works of the federal judiciary, or those parts of the text of judicial opinions in which West claims copyright. See HyperLaw, Inc., *Intervenor-Plaintiff HyperLaw, Inc.'s Trial Brief Challenge to West Text Copyright Claims - March 4, 1997* (visited Dec. 5, 1997) <<http://www.hyperlaw.com/hltribr.htm>>.

102. See generally Patterson & Joyce, *supra* note 3.

103. See HyperLaw, Inc., *HyperLaw, Inc.* (visited Nov. 4, 1997) <<http://www.hyperlaw.com/index.htm#abouthl>>.

104. A pure push technology puts data on one's screen or in one's computer without the individual's having to ask for it. This is contrast with the search retrieval or “pull” technology that most current search engines employ.

go a long way towards resolving the two root issues described above. First, the machinery of jurisprudence and legal writing would not rely on the continued dominance of one private provider. Furthermore, with the efficient and inexpensive presence of the Internet, the legal community will arguably no longer need to so completely rely on publishers like West. Publication of legal information in an accessible way in a medium such as the Internet will not entail the tremendous resources the process has required in the past. Consequently, that resource could ensure a large measure of public access without having to stretch copyright law beyond all reasonable bounds to achieve that end.

A number of congressional bills towards this end have already been introduced.¹⁰⁵ The attraction of these proposals, particularly given the unfolding shift in legal publishing to the Internet, is the use of standardized public domain citations. One interesting proposal was introduced by House Representative Barney Frank in 1992.¹⁰⁶ This bill advocated the denial of copyright protection to names and numbers used to identify judicial opinions and statutes.¹⁰⁷ Supporters of the bill stressed the desirability of inexpensive public access to legal materials. Opponents responded that, in the long run, passage of the resolution would likely diminish incentives for private publishers to produce compilations of legal materials, particularly materials with smaller markets. The bill never made it past the Judiciary Committee.

On August 6, 1996, the American Bar Association's House of Delegates passed a motion to recommend a universal citation system.¹⁰⁸ The Association urged courts to adopt a universal citation system using sequential decision numbers for each year and internal paragraph numbers within a court decision.¹⁰⁹ Courts would assign numbers in any given decision when slip opinions were made publicly available by the court, via print publications or digital mediums such as CD-ROMs or the Internet. The report also recommended maintaining parallel citations to commonly used print sources.

This type of advocacy of a federally mandated citation system echoes the root policy concerns underlying *Bender*. The system would be equally

105. See HyperLaw, Inc., *Citation Reform* (visited Nov. 24, 1997) <<http://www.hyperlaw.com/hlreport.htm>>.

106. See Joel Silvermith, *Universal Citation* (visited Mar. 8, 1998) <<http://www.collegehill.com/ilp-news/silversmith.html>> (discussing H.R. 4426).

107. *Id.*

108. See American Bar Association, *Official Citation Resolutions* (visited Nov. 26, 1997) <<http://www.ABANET.ORG/citation>>.

109. *Id.*

adaptable to print and electronic case reports. Accordingly, it has the advantage of medium neutrality. This would set up a system in contrast to West's past luxury of exclusive rights vis-a-vis its monopoly clout as copyright holder. That clout was a significant barrier to entry for firms like Matthew Bender and HyperLaw. The law should not forestall such competitors from duplicating the efforts of compiling unoriginal data that is already in the public domain. Such efforts are intrinsic to the working and accessibility of our country's state¹¹⁰ or federal legal systems in an economy increasingly characterized by digital commerce. These and the public policy concerns reflected in the Copyright Act's sections 103 and 105 further support the district court's opinion in *Bender*.

110. See HyperLaw, Inc., *Brief For Amicus Curiae American Association Of Legal Publishers—Second Circuit Text Appeal*, Nov. 1997 (visited Feb. 17, 1998) <<http://www.hyperlaw.com/aalpbr.htm>>. Allowing legal publishers copyright privileges to state law creates other problems:

Although state judicial opinions are not the subject of this litigation, this Court may take judicial notice of West's claim for copyright of the opinions of state judges. ... A ruling for West in this case will serve as precedent for West's claim of copyright for state law. But in our federal system, states are sovereign entities ... [a]nd the sovereign that makes law has a duty to provide the public with access to that law. Thus, adopting West's argument, federal copyright for law that vests control of access to the law in a private publisher means two things: 1) The federal government has abdicated a sovereign duty and, in doing so, 2) the federal government has invaded the sovereignty of state governments. Section 105 prevents the first, section 103 prevents the second.

Id. (citations omitted).

SEGA ENTERPRISES V. MAPHIA

By Mara Gross

The growing use of digital transmission of information over computer networks and the Internet affects the balance of rights achieved under copyright law. The Internet and electronic bulletin boards provide means for rapid and inexpensive reproduction and transmission of information. On-line users can infringe more cheaply and easily than in print media, raising issues as to the proper standard for copyright infringement of works transmitted electronically. Copyright law presently provides no clear answers as to the extent of liability for Internet service providers (ISPs) and electronic bulletin board services (BBSs) when users infringe copyrights. The few cases that have dealt with on-line infringement have analyzed the issues under different frameworks and have come to conflicting results. While some cases have found ISPs and BBSs liable under a direct infringement theory, either for copying or distributing copyrighted material, other cases have analyzed the activities under contributory and vicarious liability infringement theories.

In *Sega Enterprises, v. MAPHIA*,¹ a district court examined these issues in the context of a BBS. The court found that a bulletin board operator had not copied any Sega computer games, but nonetheless found the operator, Chad Sherman, contributorily liable for willful infringement based on his material contribution to the users' infringement.² The court also found Sherman liable for trademark infringement, unfair competition, state law trade name infringement, and false designation of origin.³ While *Sega* involved the activities of a BBS operator and its subscribers, these issues apply equally to ISPs because courts have found both ISPs and BBSs liable as service providers based on the infringing activity of their users.

1. 948 F. Supp. 923 (N.D. Cal. 1996).
2. *See id.* at 936.
3. *See id.* at 939.

I. BACKGROUND ON BULLETIN BOARD SERVICES AND INTERNET SERVICE PROVIDERS

The Internet is not a single computer or computer network; instead, it "is an international network of interconnected computers."⁴ It is many separate networks that link together to form one large network of information. Approximately 40 million people used the Internet in 1996, and that number is expected to grow to 200 million people by 1999.⁵ Millions of documents are available on-line. Individuals can access the Internet in many ways. One popular route is to use an ISP, such as America Online or Prodigy. Some ISPs act simply as conduits to access the Internet; others also provide content available only to subscribers of their service. While some ISPs monitor and control for content, others do not.

A BBS consists of electronic storage media such as computer hard drives, connected by phone lines. A BBS operator provides access to information contained on the BBS, often in exchange for a fee.⁶ BBSs sometimes link to the Internet. Generally, however, users only connect to the BBS to which they dial up or to a specific network of BBSs. The owner of a BBS may provide the information available on its BBS; other times, users upload information to the BBS, making it available for other users. Also, users may download files from the BBS, which entails copying the information from the BBS machine onto the user's own computer.

II. SUMMARY OF THE CASE

Plaintiff Sega manufactures and sells video games.⁷ These games have two components: a console and individual game cartridges. The consoles play only Sega cartridges, and the consoles cannot be used to copy games. Sega sells the consoles and cartridges under the SEGA logo, its registered trademark, and owns copyrights to the game programs it develops.⁸ Sega does not authorize copying of its game programs.⁹

Defendant Sherman operated an electronic bulletin board, called MAPHIA.¹⁰ This bulletin board was open to the public and had approxi-

4. *Reno v. American Civil Liberties Union*, __U.S. __, 117 S. Ct. 2329, 2334 (1997).

5. *See id.*

6. *See Niva Elkin-Koren, Copyright Law and Social Dialogue on the Information Superhighway: The Case Against Copyright Liability of Bulletin Board Operators*, 13 CARDOZO ARTS & ENT. L.J. 345, 356 (1995).

7. *See Sega*, 948 F. Supp. at 926.

8. *See id.*

9. *See id.* at 927.

10. *See id.*

mately 400 regular users who uploaded and downloaded files, including Sega game programs, to and from the BBS.¹¹ At the time the BBS was seized pursuant to a court order, it contained 28 Sega games, including two with registered copyrights and six in pre-release, also known as beta versions.¹² Sherman knew that users uploaded and downloaded Sega games, and Sherman used the bulletin board as a marketplace for his business, Parsec Trading, to sell "Super Magic Drives."¹³ The Super Magic Drive is both an adapter and copier. The adapter copies Sega game programs from cartridges to floppy disks, and allows the user to play Sega games using floppy disks, instead of Sega cartridges.¹⁴ Users thus can play Sega games using the adapter and floppy disks, instead of using Sega's console and cartridges.

Sega claimed that Sherman had infringed its copyright in Sega's game programs.¹⁵ In considering the case, the court analyzed Sherman's activities under both direct and contributory infringement.

A. Direct Infringement

To establish direct infringement under section 106 of the Copyright Act, Sega needed to show: (1) it owned a valid copyright in the games on the BBS; and (2) Sherman copied the games.¹⁶ The Copyright Act provides that a certificate of copyright registration establishes a presumption of validity in a copyright.¹⁷ Accordingly, the court presumed that Sega owned valid copyrights in Jurassic Park and Sonic Spinball, the video games it had registered.¹⁸

The court found, following *MAI Systems Corp. v. Peak Computer, Inc.*,¹⁹ that copying occurs when information is "transferred from a permanent storage device to a computer's random access memory."²⁰ Using this test, it determined that copies were made when Sega's copyrighted game files were uploaded or downloaded from the BBS. Many have criticized the *MAI Systems* test because of a belief that making a temporary copy in random access memory (RAM) is not sufficiently fixed to implicate the

11. *See id.*

12. *See id.* at 928.

13. *See id.* at 928-29.

14. *See id.* at 929.

15. *See id.* at 926.

16. *See id.* at 931; *see also* Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp., 562 F.2d 1157, 1162 (9th Cir. 1977).

17. *See* 17 U.S.C. § 410(c) (1994).

18. *See Sega*, 948 F. Supp. at 931.

19. 991 F.2d 511 (9th Cir. 1993).

20. *Sega*, 948 F. Supp. at 931.

Copyright Act.²¹ However, the act of uploading or downloading files produces copies on floppy drives as well as RAM copies. Copying thus occurred in the present case whether one considers making RAM copies or making copies onto a more permanent storage device to constitute reproduction.

In determining that Sherman's activities did not constitute direct infringement, the court found that Sherman neither copied nor caused the copying to occur.²² Because the Copyright Act is a strict liability statute,²³ the court could have used the *MAI Systems* test to find direct copying by Sherman. In fact, the court earlier granted a preliminary injunction against Sherman based on probable success on the merits, stating in the earlier decision that Sega had established a prima facie case of direct infringement.²⁴ However, the court ultimately found no direct copying by Sherman, despite both the presence of a copy of Sega's games on Sherman's BBS and the fact that the computer automatically makes RAM copies on the BBS whenever users download files from the BBS.

Instead, the court determined that there "should be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party."²⁵ The court interpreted the statute as requiring more than the use of one's system to make copies, and found that knowledge of infringing activities and solicitation to infringe is insufficient to find that Sherman caused the copying. Under this interpretation, Sherman's actions do not implicate direct infringement.²⁶ The court further found that the contributory infringement doctrine provides a better framework for analyzing defendant's activities.²⁷

B. Contributory Infringement

Although the Copyright Act does not expressly impose liability for another's infringement, courts have found copyright liability for contributing

21. See 17 U.S.C. § 102 (requiring that works be "fixed in a tangible medium of expression" to be eligible for copyright protection); Ronald S. Katz & Janet A. Hart, *Ninth Circuit Eliminates Difference Between Software Copyright Use and Proliferation*, 12 *COMPUTER LAW* 16 (1995).

22. See *Sega*, 948 F. Supp. at 932.

23. See 17 U.S.C. § 504(c).

24. See *Sega Enterprises v. MAPHIA*, 857 F. Supp. 679, 686 (N.D. Cal. 1994).

25. *Sega*, 948 F. Supp. at 932 (quoting *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 907 F. Supp. 1361, 1370 (N.D. Cal. 1995)).

26. See *id.* at 932.

27. See *id.*

to infringing activity.²⁸ One who “induces, causes or materially contributes to the infringing conduct of another,” may be liable for contributory infringement.²⁹ Unlike direct infringement, contributory infringement requires knowledge of infringing activity.³⁰ Accordingly, the court considered whether Sherman: (1) knew of the users' infringing activity; and (2) “induced, caused, or materially contributed” to this activity.³¹

Sherman acknowledged that he knew users copied the games, thus satisfying the first element.³² The court then analyzed the second element. It noted that the test for contribution has traditionally been “substantial participation,” although the Ninth Circuit recently used a more lenient “participation” test, stating that “providing the cite and facilities for known infringing activity is sufficient to establish contributory infringement.”³³ The court here found that under either test, Sherman was liable because he “actively solicited users to upload authorized games, and provided a road map on his BBS for easy identification of Sega games available for downloading.”³⁴ The court based its finding on Sherman's participation in the users' infringement. It also noted that Sherman sold the Super Magic Drives through the BBS, and that another court has found selling such copying devices to constitute contributory infringement.³⁵

The court rejected Sherman's fair use defense, in which Sherman argued that the users simply played the games in their homes, and there was no indication of further distribution of the games.³⁶ The court analyzed the four fair use factors, considering: (1) the purpose and character of use; (2) the nature of the work; (3) the extent of the work copied; and (4) the effect on the market.³⁷ The court analyzed both Sherman's and the users'

28. *See Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 434-35 (1984).

29. *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2nd Cir. 1971).

30. *See id.*

31. *Sega*, 948 F. Supp. at 932.

32. *See id.*

33. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (finding liability for those who ran a swap meet where infringing activity occurred).

34. *Sega*, 948 F. Supp. at 933.

35. *See id.* (citing *Nintendo of America, Inc. v. Computer and Entertainment Inc.*, No. C96-0187 WD, 1996 WL 511619, at *4 (W.D. Wash. 1996)); *see generally Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439-41 (1984) (finding that the sale of copying equipment may constitute contributory infringement if the equipment is not capable of substantial noninfringing uses).

36. *See Sega*, 948 F. Supp. at 933.

37. *See id.* (citing 17 U.S.C. § 107 (1994)); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 576-80 (1994).

activities. If the users' actions constituted fair use, then the users did not directly infringe and Sherman could not be liable. Similarly, if Sherman's actions were fair use, he would not be liable.³⁸

The court found that all four statutory factors weighed against a finding of fair use for both Sherman and the users. First, it found the character of the use to be commercial for both. Sherman's activities were commercial because he induced downloading in order to sell the Super Magic Drives.³⁹ The users' activities were commercial because downloading the games allowed them to avoid buying Sega's game cartridges.⁴⁰ With respect to the nature of the copied work, the court found it to be at the core of intended copyright protection because it is creative as opposed to informational.⁴¹ As for the third element, because users copied the entire work, they necessarily took the "heart" of the creative work.⁴²

Finally, the court considered whether the use would have a substantially adverse effect on the market for the copyrighted games. Courts generally consider this factor the most important of the four factors.⁴³ The court found that the Super Magic Drives made it possible for users to avoid buying Sega cartridges, thus adversely impacting Sega's sales.⁴⁴ If the drives had other uses, they could not serve as the basis for finding Sega's market to be diminished. However, the court rejected Sherman's argument that the drives had significant non-infringing uses.⁴⁵ The court also rejected the argument that the user's copying was *de minimis*. It considered the aggregate of users' copying and found that widespread copying would substantially affect Sega sales.⁴⁶ The court did not distinguish whether this finding implicated fair use by the users or Sherman, stating simply that Sherman's conduct facilitated the users' conduct. It is likely that this factor weighs against both Sherman and the users, but the court's rejection of the fair use defense is supported in the decision even if the court intended only to implicate one or the other.

38. *See Sega*, 948 F. Supp. at 933.

39. *See id.* at 934.

40. *See id.*

41. *See id.*

42. *See id.* at 934-35.

43. *See id.* at 935 (citing *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 566 (1985)) (internal citation omitted).

44. *See id.*

45. *See id.*

46. *See id.* at 935-36.

Because the court found Sega established a prima facie case of contributory infringement, it did not reach the issue of vicarious liability.⁴⁷

C. Other Claims

The court also held Sherman liable for trademark infringement.⁴⁸ It based its finding on: (1) Sega's ownership of the SEGA trademark; and (2) Sherman's use of the mark, which "is likely to cause confusion or mistake among the public as to the origin of the goods."⁴⁹ The court found that the presence of the trademark was likely to confuse members of the public viewing the BBS or playing the copied game as to whether Sega was affiliated with the goods, and that Sherman knew the mark to identify Sega games and used it to identify game folders.⁵⁰

D. Remedies

Sega obtained a permanent injunction against Sherman under copyright, trademark, and state trade name law.⁵¹ This injunction prevented the return of Sherman's computer equipment in order to minimize the threat of continued violations.⁵² Under the Copyright Act, a court has discretion to award statutory damages for infringement.⁵³ The court followed *Nintendo of America v. Dragon Pacific Intl.*,⁵⁴ another case of willful infringement of video games, in awarding Sega \$5,000 for each instance of willful infringement.⁵⁵ Sega thus received \$10,000 for Sherman's infringement of Jurassic Park and Sonic Spinball. The court awarded monetary damages both because of the willful nature of Sherman's infringement and in order to prevent future infringements.⁵⁶ It also awarded Sega attorneys' fees for its copyright infringement and other claims.⁵⁷ The court further found that

47. *See id.* at 933.

48. *See id.* at 939.

49. *Id.* at 937.

50. *See id.* at 938. The court further found Sherman liable for false designation of origin under the Lanham Act, state law infringement under CAL. BUS. AND PROF. CODE § 14401 et seq., and state unfair competition under CAL. BUS. AND PROF. CODE § 17200 et seq. *See id.* at 939.

51. *See id.*

52. *See id.* at 940; 17 U.S.C. § 502 (1994).

53. A court may award between \$500 and \$20,000 for each work infringed. The court may increase the amount to up to \$100,000 for each work willfully infringed, and decrease the amount to as low as \$200 for unintentional infringement. *See* 17 U.S.C. § 504(c)(2).

54. 40 F.3d 1007 (9th Cir. 1994).

55. *See Sega*, 948 F. Supp. at 940; *Nintendo*, 40 F.3d at 1010.

56. *See Sega*, 948 F. Supp. at 940.

57. *See id.* at 940-41; 17 U.S.C. § 505.

Sega was entitled to treble damages or profits on its trademark claim, but did not award any damages because Sega presented no evidence regarding damages or profits.⁵⁸

III. INCONSISTENCY IN PRESENT CASE LAW

Several cases have dealt with service provider liability in copyright, but a federal appeals court has yet to consider the issue. The cases have come to conflicting results, in part because of differing views on what constitutes copying and in part because courts have varied on their interpretations of strict liability in copyright. As a result, some courts have found service providers directly liable for activities taking place using the services' machines, while others such as *Sega* have found that strict liability does not adequately assess the activities of the providers.

A. Direct Liability

Courts have used two distinct theories to find direct infringement. They have grounded findings of copying either: (1) in the fact that copies were made on the defendant's system; or (2) by inference, based on access to the copyrighted information and substantial similarity.⁵⁹ In a case similar to *Sega*, the court in *Central Point Software v. Nugent*⁶⁰ considered the activities of a bulletin board operator who knew of and encouraged infringing use. The *Nugent* court, however, did not consider the defendant's participation in any copying. Instead, it focused on the fact that the software was posted on the BBS and available for downloading. The court reasoned that the software was reproduced in the computer's memory without plaintiff's permission and found this reproduction to be sufficient in finding that Nugent had copied.⁶¹

In *Playboy Enterprises v. Frena*,⁶² one of the earliest cases to deal directly with this issue, a district court assessed whether a BBS operator had distributed and displayed copyrighted material. The display right prevents

58. See *Sega*, 948 F. Supp. at 941.

59. See, e.g., *Central Point Software v. Nugent*, 903 F. Supp. 1057 (E.D. Tex. 1995); *Playboy Enterprises v. Frena*, 839 F. Supp. 1552 (M.D. Fla. 1993). One court, published too late to be included in the text of this comment, found a bulletin board operator both directly and contributorily liable for distribution of copyrighted materials. The court held the operator directly liable because he actively participated in the infringement. See *Playboy Enterprises v. Russ Hardenburgh, Inc.*, 982 F. Supp. 503, 512-13 (N.D. Ohio 1997).

60. 903 F. Supp. 1057 (E.D. Tex. 1995).

61. See *id.* at 1059-60.

62. 839 F. Supp. 1552 (M.D. Fla. 1993).

unauthorized transmission of a display from one place to another, including showing a copy of a work.⁶³ The court used a traditional two-part analysis to determine whether Frena had copied Playboy photographs, considering: (1) whether Frena had access to the allegedly infringed work; and (2) how similar the works were.⁶⁴ The court determined that the Playboy photographs were widely accessible and thus presumed access by the defendant; it further found that the copies were substantially similar to the original photographs.⁶⁵ It then decided that Frena “supplied a product containing unauthorized copies of a copyrighted work,” and found unpersuasive Frena’s argument that he did not make the copies himself.⁶⁶

In *Playboy Enterprises v. Webbworld*,⁶⁷ a district court found copying because the owner of a web page sold access to copyrighted photographs he obtained from users on the web. Using the same two-part test as the court in *Frena*, the *Webbworld* court found that the defendant had copied because photographs substantially similar to the plaintiff’s were on Webbworld’s system.⁶⁸ This case is different from the others in which there was direct infringement because the owner controlled the images he sold. However, the court found that such control, as in *Frena*, was not necessary.⁶⁹

In *Religious Technology Center v. Netcom*,⁷⁰ an earlier case that informed the *Sega* court, a plaintiff sued both a BBS operator, Klemesrud, and the ISP, Netcom, that gave Internet access to the bulletin board. The court found no direct infringement for either the ISP or BBS operator, analogizing them to owners of a photocopier who allow people to copy on the machine.⁷¹ Photocopier owners are not directly liable for users’ copying because they do not cause the copying, though they may be liable as contributory infringers.⁷²

The *Netcom* court’s holding was not in direct opposition to the *Frena* decision because the *Frena* court looked at the right to distribute, not reproduce, copyrighted works.⁷³ However, the reasoning of the courts is incompatible. The *Netcom* court determined that a finding of public dis-

63. See 17 U.S.C. § 106(3) (1994).

64. See *Frena*, 839 F. Supp. at 1556.

65. See *id.*

66. *Id.*

67. 968 F. Supp. 1171, 1174-75 (N.D. Tex. 1997).

68. See *id.* at 1174.

69. See *id.*

70. 907 F. Supp. 1361 (N.D. Cal. 1995).

71. See *id.* at 1369.

72. See *id.*

73. See *id.*

tribution by an ISP or BBS would have the same problems as a finding of copying.⁷⁴ It found that only the subscriber who uploaded or downloaded the information should be directly liable because the activity of the ISP and BBS is automatic and indiscriminate.⁷⁵ Furthermore, the court in *Frena*, unlike *Netcom*, found copying to be a prerequisite to finding that *Frena* had distributed copyrighted material.⁷⁶

B. Contributory and Vicarious Liability

Once it found no direct infringement by the service provider, the *Netcom* court analyzed the ISP's and BBS's liability under contributory and vicarious infringement. The court found that the defendants would be liable for contributory infringement if they: (1) had knowledge of the infringing activity; and (2) "induce[d], cause[d] or materially contribute[d]" to the user's infringing conduct.⁷⁷ It denied summary judgment because it identified a genuine issue of fact as to whether *Netcom* and *Klemesrud* knew that the user had infringed.⁷⁸ Plaintiff had notified the defendants of the alleged infringement, but it was unclear to the court whether they knew or should have known that the material actually infringed because it may have been beyond defendants' ability to verify a claim of infringement.⁷⁹ Furthermore, the court found that, assuming defendants knew of the infringement and could have taken "simple measures" to prevent further infringement, *Netcom* and *Klemesrud* had substantially participated in the user's infringement and would be liable for contributory infringement.

Netcom is the only court that has considered vicarious liability in the context of ISPs and BBSs. Vicarious liability occurs when the service provider "(1) has the right and ability to control the infringer's acts, and (2) receives a direct financial benefit from the infringement."⁸⁰ Thus the plaintiff in *Netcom* would need to show that *Netcom* or *Klemesrud* could control postings either before or after posting. The court found that a genuine issue of fact existed as to both defendants' ability to control the information. It nonetheless dismissed the vicarious infringement claims with leave to amend. With regard to *Klemesrud*, the court dismissed because the plaintiff failed to allege that *Klemesrud* directly benefited finan-

74. *See id.* at 1371-72.

75. *See id.* at 1372.

76. *See id.*

77. *Id.* at 1373 (quoting *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

78. *See Netcom*, 907 F. Supp. at 1374-75, 1382.

79. *See id.* at 1374.

80. *Id.* at 1375.

cially by having infringing works on his BBS.⁸¹ And the court dismissed the claim against Netcom because Netcom's regulation-free policy, although it may attract copyright infringers, was insufficient as a matter of law to constitute a direct financial benefit.⁸²

There is no requirement of knowledge or contribution in vicarious liability. With regard to the right or ability of service providers to control infringement, the analysis may be the same as with contributory infringement. Because the volume of material passing through an ISP's system is so great, an ISP is unable to control infringing acts unless it receives notice of the infringement. Thus courts may interpret "right and ability to control" as requiring knowledge of infringement. The same may not be true of BBSs, however, because the volume of content is often much smaller. Although BBS operators, like ISPs, often do not control the information, courts may be more willing to say they have the ability to control the information.

In many cases, it may be harder to prove vicarious than contributory infringement because of the direct financial benefit requirement. A court could find direct financial benefit in a case like *Sega*, in which the BBS operator earned money directly because users infringed. If other courts accept the approach in *Netcom* and require that plaintiffs show more than a market advantage as a result of allowing copyright infringement, courts will not find vicarious infringement in many cases. This doctrine will only apply in extreme cases, and will not implicate the activities of most ISPs. It is unclear how courts will apply vicarious infringement to cases of ISPs and BBSs, however, because no case has fully analyzed their activities under the doctrine.

IV. DISCUSSION

The willfulness of the defendant's acts in *Sega* makes it an easy case for the court to find infringement. The bulletin board operator knew of and encouraged infringement, and he used his business to sell a device that allowed users to play Sega games using the infringing game programs. While the court found contributory infringement on a theory of substantial contribution to the infringement of another, it could have ruled on the ground that the Super Magic Drives were not capable of any substantial noninfringing uses. Were the court to deny the infringement claim, the decision would bode poorly for the copyright scheme's ability to protect copyrighted works. The case is instructive, however, in demonstrating an

81. *See id.* at 1382.

82. *See id.* at 1376.

effective approach to liability for service providers when the infringement occurred because of the acts of another.

The United States Constitution empowers Congress to "Promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."⁸³ Copyright law exists to balance incentives to authors with dissemination of information.⁸⁴ Alternatively stated, the purpose of the Copyright Act is to encourage creativity ultimately to benefit the public.⁸⁵

Proponents of stronger protection for copyright argue that service provider liability is necessary because new technology has made it easier to infringe a copyrighted work. As a result, many have concluded that the monopoly over the work must increase to compensate.⁸⁶ This view is reflected in the Report of the Working Group on Intellectual Property Rights, commonly known as the White Paper.⁸⁷ The White Paper contains recommendations on how to adapt copyright law to account for the changed copyright dynamic that has occurred with digital information transmission.⁸⁸ For example, proposals include treating temporary copies of digital works as copies and making service providers strictly liable for the copying done by its users.⁸⁹ In fact, the White Paper suggests that service providers are already liable under current copyright law, regardless of whether or not they know of infringing activity or take steps to prevent infringement.⁹⁰

The promulgation of the White Paper has not resulted in any substantial changes in copyright law.⁹¹ Furthermore, these recommendations, which the United States also brought forth as proposals for the WIPO

83. U.S. CONST., art. I, § 8, cl. 8.

84. See *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984); see also Andrea Sloan Pink, Comment, *Copyright Infringement Post Isoquantic Shift: Should Bulletin Board Services Be Liable?*, 43 UCLA L. REV. 587, 599 (1995).

85. See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

86. See Sean R. Calvert, Note, *A Digital World Out of Balance*, 13 SANTA CLARA COMPUTER & HIGH TECH. L. J. 545, 546 (May, 1997).

87. Working Group on Intellectual Property Rights (Bruce Lehman, Chair), *Intellectual Property and the National Information Infrastructure* 5 (1995). In 1993, President Clinton established the Information Infrastructure Task Force (IITF) to recommend policies for confronting intellectual property issues in information network communications systems. A subcommittee of the IITF, the Working Group on Intellectual Property Rights, wrote the White Paper. See *id.* at 1.

88. See *id.* at 211-21.

89. See *id.* at 218-20.

90. See Pamela Samuelson, *The Copyright Grab*, WIRED, Jan. 1996, at 134.

91. See Calvert, *supra* note 86 at 568.

Copyright Treaty, were not included in the final version of the treaty.⁹² Nonetheless, the debate about the proper level of protection is still raging.

For example, there is no consensus on whether and how to apply strict liability. Courts have been concerned that, without strict liability, parties could shield themselves from damages "by merely refraining from making inquiry."⁹³ Yet this justification for strict liability does not apply in the context of service provider liability. With the millions of messages traveling over the Internet, service providers cannot monitor every transmission over their services; it would be prohibitively expensive and probably impossible. Thus, a strict liability system cannot achieve its goal of encouraging inquiry. In fact, such a system would greatly inhibit the dissemination of information over the Internet if service providers restricted messages in order to insulate themselves from liability. Such an effect would directly contravene the purposes of copyright law. Furthermore, it would have First Amendment consequences, as restricting the flow of information over the Internet would have a chilling effect on speech.

Cases such as *Sega* and *Netcom* take a functional approach to service provider liability. Under a formalistic interpretation of copying, courts could find the defendants in these cases strictly liable for direct infringement because a copy was made on the service provider's system. However, such an interpretation does not account for how differently reproduction occurs in the digital environment as compared to print media. It also fails to acknowledge that the act of making a work publicly available on-line affects the rights of copyright holders, while the actual reproduction in RAM may not. Moreover, service provider liability is more appropriately analyzed under contributory or vicarious infringement because these paradigms focus on responsibility for actions taken by users who publicly post copyrighted information.⁹⁴

Sega and *Netcom* followed *MAI Systems* in finding that the making of a RAM copy constitutes reproduction. The *Netcom* court, however, dis-

92. For example, Article 7(2), which would have put temporary copies within protected reproduction right, was not included in the final version of the treaty. This proposal was rejected, many criticizing it for being so broad as to give patentlike protection to copyright holders. See Pamela Samuelson, *The U.S. Digital Agenda at WIPO*, 37 VA. INT'L L. J. 917, 923 (1997); WIPO Copyright Treaty, adopted Dec. 20, 1996, WIPO Doc. CRNR/DC/94; see also Julie Sheinblatt, *The WIPO Copyright Treaty*, 13 BERKELEY TECH. L.J. 535 (1998).

93. *Shapiro, Bernstein, & Co, Inc. v. H.L. Green Co., Inc.*, 316 F.2d 304, 308 (2d Cir. 1963) (quoting *De Acosta v. Brown*, 146 F.2d 408, 413 (2d Cir. 1944)).

94. *Sega Enterprises v. MAPHIA*, 948 F. Supp. 923, 932 (N.D. Cal. 1996); *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 907 F. Supp. 1361, 1370 (N.D. Cal. 1995).

tinguished *MAI Systems* by noting that the user in *MAI Systems* had caused the RAM copy to be made by pulling up the file, while in *Netcom* a copy was made incidentally on the system and the user caused the copying to occur.⁹⁵ As in *MAI Systems*, the *Netcom* and *Sega* courts placed direct liability on the user who initiated the reproduction, regardless of whether the operator of the system knew of the infringement. They reject the conclusion reached in *Nugent* that the mere setting up a system is sufficient to find that a service provider or operator has reproduced or distributed copyrighted material.

These courts furthermore reject the approach, used in the *Playboy* cases, of finding that access plus substantial similarity proves copying. While the test used in the *Playboy* cases makes sense in such areas as print media and music compositions, it does not translate well in the realm of electronic transmissions, where it is very common for users, instead of the ISP or BBS, to post information. The test is useful for determining whether copying has occurred, but not whether the service provider made the copies.

The lower protectionist approach, suggested here and used in *Sega*, rejects strict liability. However, service providers would still be liable when they learn of infringing activity and fail to take affirmative action. One problem with this lower protectionist approach is that, as noted in *Netcom*, it is difficult to verify an allegation of infringement.⁹⁶ Verification will become less of a concern as copyright owners begin to embed digital watermarks or serial numbers onto their works.⁹⁷ These marks identify copyrighted material, are difficult to remove, and make it possible for owners to trace copies to a particular source.⁹⁸ However, few works today have embedded marks.⁹⁹

Furthermore, service providers will still have the difficult task of determining whether a use constitutes infringement, such as when its use is fair. As a result, in the absence of legislation that would minimize the number of false accusations of infringement, service providers should only

95. See *Netcom*, 907 F. Supp. at 1368-69.

96. See *id.* at 1374.

97. An electronic watermark is digital information encoded in the data that produces a document. It acts like a fingerprint, allowing a copyright owner to recognize copies of his or her document, and is invisible to viewers. See Sheldon Burshtein, *Surfing the Internet: Copyright Issues in Canada*, 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 385, 394 (1997).

98. See *id.* at 394; Eric Schlachter, *The Intellectual Property Renaissance in Cyberspace: Why Copyright Law Could Be Unimportant on the Internet*, 12 BERKELEY TECH. L.J. 15, 44 (1997).

99. See Burshtein, *supra* note 97, at 394.

be liable when they fail to take action once they have verified an infringement. They should have the responsibility, once they learn of infringement, to take reasonable actions to verify infringement and remove infringing materials.¹⁰⁰

The courts, as well as Congress, have begun to address issues surrounding service provider liability in other areas of tort law. The court in *Zeran v. America Online, Inc.*¹⁰¹ discussed the chilling effect strict liability would have on electronic media.¹⁰² While it is unclear how companies would protect themselves from suit, the *Zeran* court stated, "Faced with potential liability for each message republished by their services, interactive computer service providers might choose to severely restrict the number and type of messages posted."¹⁰³ To combat this potential problem, Congress passed section 230 of the Communications Decency Act of 1996,¹⁰⁴ which protects service providers to avoid such restrictions on communication.¹⁰⁵

Congress has yet to pass a similar statute with regard to copyright infringement, resulting in significant inconsistencies in the case law. Because of these inconsistencies, and because of the difficulties involved in determining whether material is infringing, legislation is needed to establish a standard for the level of responsibility service providers have and provide penalties for false accusations of infringement. A new bill, entitled the Digital Copyright Clarification and Technology Education Act of 1997, was introduced in the Senate on September 3, 1997. This bill would add section 512 to the Copyright Act. Section 512(a)(1) would explicitly state that parties who provide electronic communications network services or facilities are not liable for direct, contributory, or vicarious copyright

100. The technology exists to remove individual postings without removing every message from the same computer or group of computers, as indicated by a recent agreement of ISPs. At the Internet Online Summit, industry groups covering 95% of home users agreed to remove postings of child pornography from their bulletin boards and services. See *Internet measures to protect children announced* (last modified Dec. 2, 1997) <<http://www.cnn.com/TECH/9712/02/internet.smut/index.html>>; *Internet Online Summit: Focus On Children* (last modified Dec. 3, 1997) <<http://www.kidsonline.org>>.

101. 129 F.3d 327 (4th Cir. 1997).

102. See *id.* at 333 (holding that an ISP is not strictly liable for defamatory content posted by a user).

103. *Id.*

104. See 47 U.S.C. § 230 (1996).

105. See *Zeran*, 129 F.3d at 333. The section states that service providers are not publishers or speakers of information provided by others, making service providers immune from liability "for its exercise of a publisher's traditional editorial functions[.]" *Id.* at 330; 47 U.S.C. § 230(c)(1).

infringement when they do not control the information.¹⁰⁶ Under section 512(b)(1), parties would not be liable for information posted by users even when they can control the information. They would, however, be liable when they fail to remove, disable, or block access to the material to the extent it is feasible and economically reasonable within ten days of receiving notice of the infringing activities, or after a court order.¹⁰⁷

This bill is problematic because it presumes allegations of infringement are true, and requires removal of the information. When an ISP removes allegedly infringing material, it is likely to sometimes remove noninfringing material, restricting the free flow of information. However, the bill provides specific requirements for notice and penalties for misrepresentation of an infringement.¹⁰⁸ This provision should help to minimize false accusations and the resulting removal of noninfringing works.

This legislation provides an alternative solution to the one suggested above and, if passed, will help clarify service providers' responsibilities and liability. Its future, however, is unclear, since it was only recently introduced, and the Judiciary Committee has not yet taken any action on the bill.¹⁰⁹

V. CONCLUSION

The U.S. Supreme Court has stated, "When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of [its] basic purpose [of stimulating artistic creativity for the general public]."¹¹⁰ The cases finding direct infringement overlook this important principle of statutory construction, taking rules from print media and applying them to the digital transmission context. Such formalism leads to overprotection and liability at the hands of those who do not control users' posting of infringing materials. To treat the copies made automatically on a system as infringing reproduction by the service provider mischaracterizes service providers' role. These copies are necessary for the functioning of a system responsible for vast dissemination of information, and should not form the basis of liability in the absence of knowledge of infringement and an ability to control the information. *Sega* is one of the first cases to properly interpret the role that service providers play in

106. See S. 1146, 105th Cong. § 102(a) (1997).

107. See *id.* § 102(b).

108. See *Id.*

109. See *Bill Summary and Status for the 105th Congress* (visited Jan. 29, 1998) <<http://thomas.loc.gov/cgi-bin/bdquery/z?d105:SN01146:@@L>>.

110. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

contributing to the infringing acts of users, and provides guidance on the level of responsibility to which service providers should be held.

DR. SEUSS ENTERPRISES V. PENGUIN BOOKS

By Gregory K. Jung

Sir Isaac Newton perhaps said it best: "If I have seen further than other men, it is by standing on the shoulders of giants." Society benefits by having works which transform existing material into a new product or which use a popular image to comment on current events.¹ Many copyright holders, on the other hand, do not want their works appropriated or imitated, for reasons ranging from economic motives to artistic integrity to personal embarrassment. *Dr. Seuss Enterprises v. Penguin Books*² is one of the first cases to address the acceptable limits of parody following the U.S. Supreme Court's clarification of the fair use doctrine in *Campbell v. Acuff-Rose Music, Inc.*³ The Supreme Court seemed to be expanding the fair use defense, focusing less on a formulaic application of the four statutory factors and looking to the reasons behind the doctrine, when it held that no one factor can create a presumption against fair use. The Ninth Circuit weakens the Supreme Court's holding by making the distinction between parody and satire paramount.

This comment examines the Ninth Circuit's approach to the fair use analysis as it applies to satires. Instead of considering the four factors and making a decision based upon the results of this analysis, the court began by drawing a categorical distinction between parody and satire. This comment will argue that the distinction between satire and parody is not

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1. For example, consider the "modern day" film versions of several of Shakespeare's works like *West Side Story* (*Romeo and Juliet*), *Ran* (*King Lear*), and *Richard III*. While copyright issues are not implicated because these original works have long since fallen into the public domain, they still demonstrate the public's need or desire for a reworking of existing material.

2. 109 F.3d 1394 (9th Cir. 1997) [hereinafter *Dr. Seuss II*], *aff'g* 924 F. Supp. 1559 (S.D. Cal. 1996) [hereinafter *Dr. Seuss I*], *cert. denied*, __ U.S. __, 118 S. Ct. 27 (1997).

3. 510 U.S. 569 (1994). A line of cases had been developed over the years which dealt with parody of copyrighted material, particularly in the entertainment industry and predominantly in the Second and the Ninth Circuits. *See, e.g.*, *Fisher v. Dees*, 794 F.2d 432 (9th Cir. 1986); *Walt Disney Productions v. Air Pirates*, 581 F.2d 751 (9th Cir. 1978); *Berlin v. E.C. Publications*, 329 F.2d 541 (2d Cir. 1964); *Benny v. Loew's Inc.*, 239 F.2d 532 (9th Cir. 1956); *Elsmere Music, Inc. v. Nat'l Broad. Co.*, 482 F. Supp. 741 (S.D.N.Y.), *aff'd*, 623 F.2d 252 (2d Cir. 1980). *Acuff-Rose* consolidated this line of parody cases into the general fair use analysis line of cases.

viable and hence creates an inappropriate limitation on the creation of satirical works.

I. BACKGROUND

In 1995, Alan Katz wrote and Chris Wrinn illustrated *The Cat NOT in the Hat! A Parody by Dr. Juice*, recounting the events surrounding the Nicole Simpson and Ronald Goldman slayings and the subsequent trial of O.J. Simpson.⁴ *The Cat NOT in the Hat!* was written in a style reminiscent of the works of Dr. Seuss, the pen name of Theodor Geisel. Dr. Seuss is well-known for his children's books which use rhymes and illustrations to tell stories of fanciful characters and situations.⁵ Katz had used rhymes and illustrations similar to those of Dr. Seuss in his book which supplied "a 'fresh new look' at the O.J. Simpson double-murder trial."⁶ Neither Katz nor Wrinn, nor their publisher, had sought or received permission to use any of Dr. Seuss' works, characters, or illustrations. *The Cat NOT in the Hat!* was, however, clearly labeled as a parody.

Dr. Seuss Enterprises (Seuss), which owns the copyright for the works of Dr. Seuss, filed suit in the United States District Court for the Southern District of California against Katz and Wrinn, as well as against Penguin Books and Dove Audio, the publisher and distributor, respectively, of *The Cat NOT in the Hat!* Seuss alleged copyright infringement, trademark infringement, and trademark dilution. Seuss sought and was granted a preliminary injunction preventing the defendants from publishing or distributing *The Cat NOT in the Hat!*

With respect to the copyright infringement claim, the district court first established that copying took place. It looked at each individual allegation of copyright infringement and found two similar elements in the text and three similar elements in the illustrations. The court then examined whether Seuss owned valid copyrights for these five elements, and it concluded that at least two protected elements of Seuss' works were incorporated into *The Cat NOT in the Hat!*⁷ Finally, the court considered the fair use defense for each protected element.

4. For a review of many of the books describing these events, see George Fisher, *The O.J. Simpson Corpus*, 49 STAN. L. REV. 971 (1997).

5. Dr. Seuss' works include: THE LORAX (1971), GREEN EGGS AND HAM (1960), THE CAT IN THE HAT (1957), HOW THE GRINCH STOLE CHRISTMAS (1957), HORTON HATCHES THE EGG (1940), and THE 500 HATS OF BARTHOLOMEW CUBBINS (1938).

6. *Dr. Seuss I*, 924 F. Supp. at 1561.

7. The two instances consist of the back cover of *The Cat NOT in the Hat!* which is strikingly similar to the famous cover of *The Cat in the Hat*. Specifically, *The Cat NOT in the Hat!* copies the stove-pipe hat, the expression and pose of the characters, and

The fair use defense is codified under section 107 of the Copyright Act. The section provides a non-exhaustive list of four factors which should be considered in finding fair use:

- (1) [T]he purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use on the potential market for or value of the copyrighted work.⁸

Before looking at the four factors, however, the district court in *Dr. Seuss I* drew a distinction between a parody and a satire. Whereas a parody uses elements of a prior work to criticize or comment on that work, a satire uses elements of a prior work to criticize or comment on another subject.⁹ Citing the former Ninth Circuit rule (prior to *Acuff-Rose*) and Justice Kennedy's concurrence in *Acuff-Rose*,¹⁰ the district court ruled that a satire would not receive fair use protection.

The argument which favors parodies over satires, according to the district court, is largely based on the premise that copyright holders would license use of their works in satires but not parodies. If a satirist could use others' copyrighted works without a license by claiming fair use, then an author would be deprived of the licensing fee he could have obtained. However, since an author would be reluctant to authorize a parody which criticizes or pokes fun at his own work, fair use is allowed for parodies. Hence, the argument goes, a satirist does not need the fair use defense in the same way that a parodist does. The district court continued, "[t]hus, while the unlicensed satirist deprives the author of potential license fees for derivative works, the parodist is presumed to operate within a market imperfection."¹¹

the passage "He said what he meant/A houseguest is faithful/One hundred percent," which is similar to the recurring theme of Dr. Seuss' *Horton Hatches the Egg*: "And I said what I meant ... /An elephant's faithful/One hundred per cent!" See *id.* at 1563-66.

8. 17 U.S.C. § 107 (1994).

9. See *Dr. Seuss I*, 924 F. Supp. at 1567. A satire uses the copyrighted material as a "weapon" with which to comment on society at large or some other object, while a parody uses the copyrighted material as the "target" of criticism. See generally Richard A. Posner, *When Is Parody Fair Use?*, 21 J. LEGAL STUD. 67, 71-72 (1992).

10. 510 U.S. 569, 596-600 (1994) (Kennedy, J., concurring).

11. *Dr. Seuss I*, 924 F. Supp. at 1569.

Keeping in mind this rationale which disfavors the fair use defense for satires, the district court applied the four statutory fair use factors to each infringing element. Of the two infringing elements, the court found one to be a satire, and therefore, not deserving of the fair use defense. Thus, Seuss had established copyright infringement. The court then proceeded to consider the claims of trademark infringement and trademark dilution.¹² Ultimately, it granted the preliminary injunction because, “[i]n copyright and trademark cases, irreparable injury is presumed upon a showing of likelihood of success,”¹³ and Seuss had shown a likelihood of success on the copyright claim.

II. THE NINTH CIRCUIT DECISION

The Ninth Circuit affirmed the district court’s decision to grant the preliminary injunction.¹⁴ In examining the copyright infringement claim, the court found that “substantial similarity” existed on both the objective and subjective levels,¹⁵ although the circuit court did not engage in the exacting analytic dissection that the district court applied. The circuit court then dismissed the defendants’ contention that certain elements (such as the title, poetic meter, design of the lettering, or the poetic style) are not copyrightable on the ground that “this kind of analytic dissection is not appropriate when conducting the subjective or ‘intrinsic test.’”¹⁶

Most importantly, however, the Ninth Circuit agreed with the district court’s fair use analysis. Acknowledging that the doctrine of fair use is “an

12. The district court ultimately found that a strong likelihood of success existed on the claim that the defendants took substantial protected expression from *The Cat in the Hat* (but not *Horton Hatches the Egg*, which may legitimately be a parodic use) and that Seuss would prevail at trial against a fair use defense. It also found that the trademark claims raised “serious questions presenting a fair ground for litigation, and that the balance of hardships favored Dr. Seuss.” *Id.* at 1562. It did not find a reasonable likelihood of success on the dilution claim.

13. *Id.* at 1574.

14. *See Dr. Seuss II*, 109 F.3d at 1394. While the Ninth Circuit considered both the copyright infringement and the trademark infringement claims, the latter had little significance for the outcome of the case. Even though the circuit court agreed with the district court that trademark issues surrounding the likelihood of confusion presented questions for litigation, the case never reached that stage. The copyright claim was sufficient grounds for the preliminary injunction.

15. *See id.* at 1398. The objective/subjective distinction is a refined version of the extrinsic/intrinsic test formulated in *Sid and Marty Krofft Television Productions, Inc., v. McDonald’s Corp.*, 562 F.2d 1157 (9th Cir. 1977), where the extrinsic test “asks if there is similarity of ideas” and the intrinsic test “asks if an ‘ordinary reasonable person’ would perceive a substantial taking of protected expression.” *Dr. Seuss II*, 109 F.3d at 1398.

16. *Id.* at 1399.

equitable rule of reason [and that] no generally applicable definition is possible,"¹⁷ the court considered each of the four statutory factors. In discussing the first factor, the purpose and character of the use, the court held that *The Cat NOT in the Hat!* did not comment on or criticize Dr. Seuss' works directly and therefore was not a parody. As a satire, *The Cat NOT in the Hat!* would not merit fair use protection. The second factor, the nature of the copyrighted work, was not significant in the analysis. The third factor, the amount and substantiality of the copying, was not evaluated directly. Instead, the court concerned itself with the defendants' justification for the copying, which it found unconvincing. The effect upon the potential market or value of the copyrighted work, the fourth factor, was found to favor Seuss because the defendants did not submit evidence in their favor.

III. DISCUSSION

The doctrine of fair use is at the crux of this case. Since the doctrine is an "equitable rule of reason,"¹⁸ it must be explored "in light of the purposes of copyright."¹⁹ Therefore, it is useful here to briefly trace the underlying theory behind the copyright system and the development of the fair use doctrine.

A. The Purposes of the Copyright System

The American copyright system derives from the Constitution, which gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."²⁰ The primary purpose of copyright, then, is utilitarian: to provide an incentive for writers (and inventors) to create works by insuring that they will reap the financial benefits from those works.²¹ These works would contribute to the

17. *Id.* (quoting H.R. REP. NO. 94-1476, 65 (1976)).

18. *Id.*

19. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 (1994).

20. U.S. CONST. art. I, § 8, cl. 8.

21. See generally ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW INTELLECTUAL AGE* 327-28 (1997) (asserting that the predominant philosophical framework for the American copyright system is utilitarian); Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies and Computer Programs*, 84 HARV. L. REV. 281 (1970). Some civil law countries, on the other hand, also emphasize the moral rights of an author. See Berne Convention for the Protection of Literary and Artistic Works, art. 6^{bis}(1), Sept. 9, 1886, as revised at Paris, July 24, 1971, 1161 U.N.T.S. 3, 36 (enabling the author to object to "any distortion, mutilation or other

growth of knowledge, and the "public is the intended ultimate beneficiary."²²

However, the irony in granting (limited) monopolies to authors in order to benefit the public has not gone unnoticed. One strong criticism of the copyright system charges that it imposes unfair and "unique restraints on liberty."²³ In other words, the difficult task of American copyright law can thus be seen as "primarily striving to achieve an optimal balance between fostering incentives for the creation of literary and artistic works and the optimal use and dissemination of such works."²⁴

B. The Fair Use Doctrine

The fair use doctrine is an attempt to balance these competing interests of the author and the public. As the Supreme Court noted, "The fair use doctrine thus 'permits [and requires] courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.'"²⁵ In *Folsom v. Marsh*,²⁶ Justice Joseph Story articulated the considerations for determining fair use which have since been codified in the Copyright Act: "look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work."²⁷

The fair use doctrine plays two main roles. First, it gives the public the permission to quote copyrighted works without being liable to the copyright owner. Most often the quotation comes in the context of a commentary on the copyrighted work, such as a book review. This justification for using copyrighted material is strengthened if the use occurs in a non-commercial setting, such as education, which clearly benefits the society at large.

Second, the fair use doctrine allows new, "transformative"²⁸ works to be created using the copyrighted material, for example, a parody or sat-

modification of, or other derogatory action in relation to [his] work, which would be prejudicial to his honor or reputation").

22. Pierre N. Leval, *Nimmer Lecture: Fair Use Rescued*, 44 UCLA L. REV. 1449, 1449 (1997).

23. Wendy Gordon, *An Inquiry into the Merits of Copyright: The Challenges of Consistency, Consent, and Encouragement Theory*, 41 STAN. L. REV. 1343, 1347 (1989).

24. MERGES, *supra* note 21, at 327-38.

25. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994) (brackets in original) (citation omitted).

26. 9 F. Cas. 342 (C.C.D. Mass. 1841).

27. *Id.* at 348.

28. Judge Pierre Leval explained this idea of a "transformative" work: ^c

ire.²⁹ The doctrine becomes more difficult to apply in this second function. Copyright protects only the expression and not the idea behind the expression. Hence copyright holders can claim that any use of their copyrighted expression constitutes a derivative work, to which they own all rights, and that there is no justification for condoning such uses. If someone wants to use elements from their works, their argument continues, that person is free to use the underlying idea, but not the expression. However, courts have repeatedly affirmed the social value of parody and satire which use elements of copyrighted works but are, in fact, wholly new and original creative works.³⁰ They have value to the public, and their creation therefore should be encouraged, especially if the originally copyrighted works are not superseded by the parody.

Perhaps because the American copyright system is based primarily on an economic framework, the economic analysis of the fair use doctrine provides compelling arguments for justifying fair use. The market failure theory, as put forth by Professor Wendy Gordon of Boston University School of Law, argues that fair use should be invoked when the incentive and dissemination purposes of copyright conflict and create a market failure.³¹ Under normal circumstances, a copyright holder will license the use of his work "if the revenues he could anticipate by exploiting the work himself would be less than the purchaser's bid."³² In certain cases, however, an author will refuse to license his work "out of a desire unrelated to the goals of copyright—notably, a desire to keep certain information from

The use must be productive and must employ the quoted matter in a different manner or for a different purpose from the original If, on the other hand, the secondary use adds value to the original—if the quoted matter is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings—this is the very type of activity that the fair use doctrine intends to protect for the enrichment of society.

Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990).

29. See *Acuff-Rose*, 510 U.S. at 579. ("[T]he goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works.")

30. See, e.g., *id.* at 579 ("Like less ostensibly humorous forms of criticism, [parody] can provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one."); *Berlin v. E.C. Publications*, 329 F.2d 541, 545 (2d Cir. 1964) ("[W]e believe that parody and satire are deserving of substantial freedom—both as entertainment and as a form of social and literary criticism.")

31. See generally Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82. COLUM. L. REV. 1600 (1982).

32. *Id.* at 1606.

the public,"³³ and market failure occurs. Often, such an anti-dissemination motive stems from a desire to prevent others from criticizing or commenting on the original work, and in those cases, "because the free flow of information is at stake, a strong case for fair use can be advanced."³⁴

As noted earlier, the Copyright Act, in section 107, allows fair use as a defense against claims of copyright infringement, listing four factors which may be considered by courts in deciding whether the use of copyrighted material is fair. The courts have, at different times, emphasized different factors to be more controlling than others, thereby making the fair use doctrine confusing. In *Sony Corp. of America v. Universal City Studios*,³⁵ a case brought by the film industry to enjoin the production of VCRs, the Supreme Court ruled that a viewer's recording of a program in order to watch it later ("time-shifting") was a fair use. This result seemed to hinge on the finding that such an action was not commercial use, making the first factor (the purpose and character of the use) the overriding one. In deciding that fair use did not apply in *Harper & Row Publishers, Inc. v. Nation Enterprises*,³⁶ the Court emphasized the fourth factor: "[T]he effect of the work upon potential market' ... is undoubtedly the single most important element of fair use."³⁷ The Second Circuit decided a landmark case against fair use, *American Geophysical Union v. Texaco, Inc.*,³⁸ in which a publisher successfully brought an infringement suit against a scientist working for an oil company for making personal photocopies, primarily on the grounds that the use was for commercial purposes (or at least in a commercial setting).

In 1994, the Supreme Court held in *Campbell v. Acuff-Rose Music*,³⁹ in which the publisher of singer Roy Orbison's song "Pretty Woman" sued the rap group 2 Live Crew for recording a parody, that a commercial use of parody may be fair.⁴⁰ The Court examined the doctrine of fair use carefully and clarified it, rejecting the notion that any one of the four factors would create a presumption against fair use. Thus, while not all parodic use may be fair, neither would its commercial nature give a presumption of unfair use.

33. *Id.* at 1634.

34. *Id.* at 1633.

35. 464 U.S. 417 (1984).

36. 471 U.S. 539 (1985).

37. *Id.* at 566 (citation omitted).

38. 60 F.3d 913 (2d Cir. 1994).

39. 510 U.S. 569 (1994).

40. *Id.* at 569-71.

In a concurring opinion, Justice Anthony Kennedy argued that satires should categorically be denied fair use protection. Then protection would be limited to those works (parodies) “whose very subject is the original composition and so necessitates some borrowing from it.”⁴¹ Such a rule would also resolve the problem of the potential loss of derivative licensing fees by copyright owners. Furthermore, Justice Kennedy voiced the concern that it may be too easy for copyists to exploit existing works, only to claim later that their work is a commentary on the original.

C. The Ninth Circuit’s Decision, Revisited

Although the Ninth Circuit invoked the Supreme Court’s *Acuff-Rose* decision, it did not follow *Acuff-Rose*’s important clarification of the fair use doctrine. Instead of considering each of the four factors of the fair use test and looking to the purpose of the copyright system in deciding whether the defendants’ use of Seuss’ copyrighted material was fair, the circuit court effectively based its decision on one point: that *The Cat NOT in the Hat!* was a satire rather than a parody. Accordingly, its consideration of the statutory factors was mechanical and conclusory.

1. Purpose and Character of the Use

The first element, the purpose and character of the use, was discussed in some detail. The court considered the difference between parody and satire. Noting the Supreme Court’s preference for parody over satire in *Acuff-Rose*, the Ninth Circuit concluded that *The Cat NOT in the Hat!* did not comment on the substance or style of Dr. Seuss’ works. However, the court made a jump in its reasoning here. The assumption made by the court was that, since *The Cat NOT in the Hat!* was not a parody, “there [was] no effort to create a transformative work with ‘new expression, meaning, or message.’”⁴² In other words, according to the Ninth Circuit, a satire would never be transformative. In turn, if the work is not transformative, it has little chance of qualifying for fair use protection since the satirist is unable to assert that he used the original as raw material to create a new work.

The assumption that a satire is not transformative is an unreliable one, since a satire, which uses the copyrighted work as a weapon rather than a target, may be as transformative as any parody. The fact that the object of criticism is something other than the underlying work has no bearing on the success of the satirist in creating a new and innovative work. While the Supreme Court in *Acuff-Rose* focused exclusively on parodies, it

41. *Id.* at 597 (Kennedy, J., concurring).

42. *Dr. Seuss II*, 109 F.3d at 1401 (citation omitted).

would be a mistake to think that only parodies, and not satires, would qualify as transformative works. In fact, the majority in *Acuff-Rose* kept open the possibility that a satire may merit fair use protection:

If ... the commentary has no critical bearing on the substance or style of the original composition ... the claim to fairness in borrowing from another's work diminishes accordingly (if it does not vanish), and other factors, like the extent of its commerciality, loom larger ... [S]atire can stand on its own two feet and so requires justification for the very act of borrowing.⁴³

The claim for fairness does not vanish automatically in the case of satires. A satirist will have more difficulty than a parodist in getting fair use protection, but whether there exists sufficient justification for borrowing must be determined in each case. The fact that Justice Kennedy wrote a concurring opinion in which he advocated denial of the fair use defense to satirists implies that the majority did not make the distinction.⁴⁴ The Ninth Circuit cited, but did not discuss, the above quotation from *Acuff-Rose*, using it instead as authority supporting the circuit's own decision for denying fair use protection on the basis that *A Cat NOT in the Hat!* did not comment on Dr. Seuss' works.

2. *The Nature of the Copyrighted Work*

In the case of parodies and satires, the copyrighted work is usually a well-known, creative, and expressive work. Thus, this second factor does not figure much into the determination of fair use in this case. The Ninth Circuit admitted as much. Yet, it proceeded to determine that the "creativity, imagination and originality embodied in *The Cat in the Hat* and its central character tilt[ed] the scale against fair use."⁴⁵ This is in contrast to the Supreme Court's neutral approach in *Acuff-Rose*, where the Court only saw the factor as establishing that Orbison's original creative expression fell within the "core of the copyright's protective purposes."⁴⁶

3. *Amount and Substantiality of the Portion Used in Relation to the Copyrighted Work*

The Ninth Circuit completely failed to examine this third factor. It commented that this factor was akin to the test of substantial similarity, which had been established previously using the objective/subjective test.

43. *Acuff-Rose*, 510 U.S. at 580-81.

44. *See id.* at 596-600 (Kennedy, J., concurring).

45. *Dr. Seuss II*, 109 F.3d at 1402.

46. *Acuff-Rose*, 510 U.S. at 586.

While this third factor may be related to the test for substantial similarity, the analysis that a court must conduct in assessing fair use involves determining whether the alleged infringer copied more than is reasonable in relation to the purpose of the copying. In the context of a parody or satire, the issue becomes “what else the parodist did besides go to the heart of the original.”⁴⁷ That is, the court must determine whether the parodist took only as much as necessary to conjure up the original or whether the parody consists mainly of a verbatim copying of the original. The Ninth Circuit went no further in this inquiry than repeating that there was a substantial similarity between Dr. Seuss’ works and *The Cat NOT in the Hat!*

The circuit court dwelled on “the persuasiveness of a parodist’s justification for the particular copying done.”⁴⁸ This emphasis was misplaced. The purpose of *Acuff-Rose*’s reference to the persuasiveness of the justification was to determine how much copying constituted necessity. The majority in *Acuff-Rose* recognized that, by its very nature, a parodist must take the “heart” of the original, that which “most readily conjures up the [original].”⁴⁹ Thus, a parody may not be found to be infringing even if it had taken the most recognizable and central portion of a copyrighted work. The Ninth Circuit did not address the issue of whether what was taken (which, according to the district court’s determination, was two or possibly three passages and illustrations) was excessive. It could have found that while *The Cat NOT in the Hat!* is a satire, the authors did not provide a convincing reason why they had to use Dr. Seuss’ expression at all. Then the court could have come to the same conclusion without making the assumption that no satire can receive fair use protection. Instead, all the Ninth Circuit did was repeat that *The Cat NOT in the Hat!* was not a parody.

4. *Effect of the Use upon the Potential Market or Value of the Copyrighted Work*

This final factor inquires whether the copyright owner is hurt by the allegedly infringing work.⁵⁰ Having determined that *The Cat NOT in the Hat!* was nontransformative and commercial, the Ninth Circuit concluded that the “market substitution is at least more certain, and market harm may

47. *Id.* at 589.

48. *Dr. Seuss II*, 109 F.3d at 1402 (quoting *Acuff-Rose*, 510 U.S. at 586).

49. *Acuff-Rose*, 510 U.S. at 588.

50. The Supreme Court, in *Acuff-Rose*, excluded market harm which results from the success of the parody in exposing the fault of the original from the fourth factor. See 510 U.S. at 591-92.

be more readily inferred."⁵¹ The Supreme Court, however, made it clear that while the defendants must produce favorable evidence about relevant markets, a silent record on this factor did not introduce a presumption of harm merely because of the commercial nature of the use.⁵² Market harm in this particular case cannot be so readily inferred, since no one would see *The Cat NOT in the Hat!* as a substitute for *The Cat in the Hat*.⁵³

The Ninth Circuit, despite giving the appearance of considering the four factors, did not apply them carefully in this case. Moreover, it did not take into account the principles behind the fair use doctrine. For example, the court did not address a concern central to this case: how would authors be hurt by clearly labeled satires? It also did not consider the other side of the equation: the incentive of the potential satirist. Ultimately, the court seems to have made the assumption at the outset of the case that *The Cat NOT in the Hat!* had no value as a work of literature (to use the term loosely) and, therefore, did not rigorously pursue the fair use doctrine. Otherwise, the court may have considered more seriously the possibility that the public may have benefited from having the book published, either as pure entertainment or, as the defendants asserted, as social commentary.

The Ninth Circuit's decision is problematic not because it came to a clearly erroneous decision. Rather, its shortcomings derive from a misapplication of the holding in *Acuff-Rose* which resulted from the court's reluctance to give the defendants the benefit of the doubt. The defendants claimed that *The Cat NOT in the Hat!* was a parody which commented on the works of Dr. Seuss: "The Parody's [sic] author felt that, by evoking the world of *The Cat in the Hat*, he could: (1) comment on the mix of frivolousness and moral gravity that characterized the culture's reaction to the events surrounding the Brown/Goldman murders"⁵⁴ The court found this an unconvincing "post-hoc" characterization.⁵⁵ However, this does not seem any more implausible than 2 Live Crew's characterization of its version of "Pretty Woman" as a criticism of the banality of Orbison's version. Other parodies have involved questionable or indeter-

51. *Dr. Seuss II*, 109 F.3d at 1403.

52. *See Acuff-Rose*, 510 U.S. at 590-91.

53. There is a question as to whether the public would regard *The Cat in the Hat* and other works by Dr. Seuss with less esteem, if it assumed that the two were somehow related. This is a trademark issue, and it is plausible that the plaintiffs would have prevailed on such a claim.

54. *Dr. Seuss II*, 109 F.3d at 1402.

55. *Id.*

minable motives. In *Elsmere Music, Inc. v. National Broadcasting Co.*,⁵⁶ the Second Circuit held that the "I Love Sodom" skit on the television program "Saturday Night Live" was a legitimate parody of the "I Love New York" campaign. That court did not require that the parody comment on the original: "[T]he issue to be resolved by the court is whether the use in question is a valid satire or parody, and not whether it is a parody of the copied song itself."⁵⁷ In *Fisher v. Dees*,⁵⁸ the parodic song "When Sonny Sniffs Glue" was deemed to be a fair use of "When Sunny Gets Blue."

The line between a parody done for legitimate reasons (to comment on the original) and a parody done to get attention or to avoid creating new material is not easily discernible, and it becomes even more blurred when satires are involved. The *Acuff-Rose* Court was aware of this difficulty: "[P]arody often shades into satire when society is lampooned through its creative artifacts ... and a work may contain both parodic and nonparodic elements."⁵⁹ The way to insure against making a hasty judgment on the parodic or satirical merit of a work is to consider all the factors. The Ninth Circuit, however, went through the steps with the bias that no satire would qualify for fair use protection. Hence its analysis was less than comprehensive.

Even assuming that *The Cat NOT in the Hat!* is clearly a satire rather than a parody, the policy of disallowing the fair use defense for satires (as adopted by the district court and the Ninth Circuit) does not stand up to careful analysis. First of all, the underlying assumption behind such a policy is that, in a genuine parody, use of copyrighted material is *essential* in order to make its point. The district court, in discussing the issue, wrote that taking copyrighted material "is necessary only when one of the targets of the satirist is the work itself, because only then is it fair to presume that the satirist has no alternative to infringement."⁶⁰ This assumption has the flavor of a First Amendment argument ("Copyright laws shouldn't be used to stifle criticism of works"). However, copyright does not prohibit expression of ideas, only particular forms of expression. The free speech argument does not go very far in justifying fair use for parodies because there are potentially infinite ways of expressing the same idea, and it is not necessary to use any protected expression to make a point. For example, 2 Live Crew could just as easily have sung about the banality of "Pretty

56. 482 F. Supp. 741 (S.D.N.Y.), *aff'd*, 623 F.2d 252 (2d Cir. 1980).

57. *Id.* at 746.

58. 794 F.2d 432 (9th Cir. 1986).

59. 510 U.S. 569, 581 (1994).

60. *Dr. Seuss I*, 924 F. Supp. at 1569.

Woman,” without employing elements from the original. It may not have been as effective, but it would have conveyed the same idea without using someone else’s copyrighted material. The key here, then, seems to be the effectiveness of the expression. The copyright system allows fair use protection for parody not because the idea could not be expressed otherwise, but because parody is a very effective way to communicate certain ideas. On this level, then, the distinction between parody and satire becomes artificial and without significance. A well-produced satire can be just as effective in making a generic idea dynamic and catchy, not to mention entertaining.⁶¹

A second and more persuasive argument for distinguishing between a parody and a satire is the potential loss of revenue from licensing derivative works for copyright holders. This argument, advanced also by the district court as well as Justice Kennedy in his concurring opinion in *Acuff-Rose*, relies on the market failure theory.⁶² It grants fair use to parody because an author may not readily license his work if it will be criticized. Judge Richard Posner also used this argument to justify fair use for parodies: “There is an obstruction [to a market tradeoff] when the parodied work is a target of the parodist’s criticism, for it may be in the private interest of the copyright owner, but not in the social interest, to suppress criticism of the work.”⁶³ The market failure theory applies just as well to satires as parodies.⁶⁴ An author is equally unlikely to license his work to a satirist who will use the work in a light unfavorable to the original. In the present case, Seuss would not want Dr. Seuss’ works associated with gruesome slayings and a sensational murder trial. While not all refusals to license can be labeled market failure, in some cases the refusal will result in impairing the public interest. A satire, as well as a parody, is crucial to the “free flow of information.”⁶⁵

61. Few would contend that Bugs Bunny and Elmer Fudd’s famous “Kill the Wabbit” episode, which uses the main theme from Richard Wagner’s *The Flight of the Valkyries*, is not entertaining. One could argue that the creators of the Looney Tunes/Warner Brothers cartoon were making fun of Wagner or operas in general (and they may have been), but a more likely reason for using the theme is that it made for a funny and memorable episode.

62. See *supra* text accompanying notes 31-34.

63. Posner, *supra* note 9, at 73 (emphasis in original).

64. At least one commentator, considering the fair use doctrine in an economic framework, dismisses the technical differences between parody and satire (“burlesque”) as irrelevant to the analysis. See Sheldon N. Light, *Parody, Burlesque, and the Economic Rationale for Copyright*, 11 CONN. L. REV. 615, 616 n.6 (1979).

65. Gordon, *supra* note 31, at 1633.

Justice Kennedy raised another problem which may result from allowing fair use defense for satires: free riding.⁶⁶ Certainly, one can imagine copyright holders being deprived of licensing fees because others are using their material without permission and hiding behind the guise of producing a satire. In this scenario, limiting the fair use protection to parodies would alleviate the problems to a certain extent. However, as noted earlier, the line between a parody and satire is not clear, nor is the line between a genuine and a sham parody. The problems of free riding and licensing will not be eliminated by prohibiting satires. Clever and talented copyists will continue to use copyrighted material, and as long as they include some arguably critical element (thereby making it a parody), they meet at least one hurdle in fair use recognition.

The focus of the fair use doctrine should not be on the potential loss of derivative work licensing fees or the fear that unscrupulous copyists will take advantage of the fair use doctrine. Rather, the copyright system would be better served to shift its attention to the consequences of having a rule which prohibits satires. Is the benefit worth eliminating an entire category of creative works? If no satire could receive fair use protection, the incentive to produce satires is seriously diminished, and fewer satires will be created. Furthermore, the quality of these satires may suffer, since the only ones being produced will be done with the permission of the copyright holder, and those are more likely to be the less controversial, provocative, or innovative ones.

As to the unscrupulous copyists, the doctrine still provides courts the power to deny fair use to those whose uses do not create genuinely transformative works. Permitting satirists to assert the fair use defense does not guarantee success in all cases. The role of the court is to sift through the various factors and make an equitable decision on a case-by-case basis. Certainly, the courts have the ability to detect when a satirist has encroached into the copyright owner's rightful derivative works market or when he has appropriated more than is necessary.

A final related consideration is the feasibility of reliably distinguishing between a parody and a satire. As noted repeatedly, that distinction is by no means easily ascertainable. The Supreme Court, in *Acuff-Rose*, sets the standard at whether a work "reasonably could be perceived as commenting on the original or criticizing it, to some degree."⁶⁷ This is a highly subject-

66. Free riding involves people using others' copyrighted work in order "to get attention or to avoid the drudgery in working up something fresh." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 580 (1994).

67. *Id.* at 583.

tive standard, one which, in light of the significance of its consequences, may not be worth keeping.

IV. CONCLUSION

The Cat NOT in the Hat! may be an attempt to exploit the popularity of the works of Dr. Seuss, and the defendants may not have a justifiable basis for appropriating elements from Seuss' copyrighted material. On the other hand, the defendants may have genuinely felt that making a parody or satire of Dr. Seuss' works was the best way to express their ideas. The court came to the conclusion that *The Cat NOT in the Hat!* was not a transformative work solely on the basis that it did not comment on or criticize the original. Perhaps a better way to have decided the case would have been to conclude that, even if it were a transformative work, the authors appropriated too much of the original (under the third factor), since they did not provide sufficient justification for using Seuss' works in the first place.

The Ninth Circuit's shortcoming lies in its assumption that satires do not merit fair use protection. The reasoning behind this assumption may be generally acceptable: authors should be able to license potential satirists to use their copyrighted works. However, the law needs to go beyond generalities if it seeks to create a rigid, bright-line rule. There may be cases where a satirist has legitimate, artistic reasons for using others' copyrighted material and where the satire would clearly fall under fair use considering the four factors. One response to this hypothetical is that an artist should have the right to control the use of his work, no matter how arbitrary his decisions be. This response, however, is inconsistent with the rationale for giving fair use protection to parodies, which ultimately is to enrich the public through creation of more works. There is no absolute reason why parodists need to use the original to criticize it. One obvious solution is to deny both parodies and satires fair use protection. However, that would be extreme and unnecessary. The courts are fully capable of sorting out which parody or satire needs to use the original in order to make some valuable contribution to the society, how much appropriation is acceptable, and whether such use may harm the market for the original.

The Supreme Court in *Acuff-Rose* put to rest the notion that any one factor is determinative of whether a work which uses copyrighted material deserves fair use protection. The Court thereby made the section 107 fair use analysis the appropriate test for evaluating parodies. It follows that the same treatment be given to satires as well. The recent trend seems to be to make the application of the fair use doctrine more reasonable and

fair. By retaining a rigid rule that denies fair use protection to satires, the Ninth Circuit is undermining the theory behind the copyright system, which is to promote the arts.

Distinguishing between parody and satire has, in this case, resulted in a decision which may have unforeseen consequences due to the popularity of Dr. Seuss' books. As the district court found, several elements of Dr. Seuss' works have fallen into the public domain. And, it may be argued, the patois of Dr. Seuss' works have become an integral part of the American vernacular. That is, his style and witty rhymes have become a *means* of communication in such a way that certain ideas may not be conveyed effectively without using them. Making commentary on Dr. Seuss' works (parody) a requisite for fair use may have a chilling effect on attempts to communicate using such patois.

GENENTECH, INC. V. CHIRON CORP.

By Rahul Pathak

A claim to a DNA molecule is construed as a claim to a DNA molecule, not as a claim to its expressed protein. So held Judge Rich of the Federal Circuit in *Genentech, Inc. v. Chiron Corp.*¹ reversing the district court.² When the district court construed an interference count to a DNA molecule at issue in both cases, it based its definition of the scope of the count on the protein expressed by the DNA molecule.³ Judge Rich disagreed stating that “[a]lthough a close relationship exists between a DNA construct and the protein it encodes, the two are not equal.”⁴

This claim construction case originated as a patent interference between Genentech and Chiron over claims to DNA constructs encoding modified forms of human insulin-like growth factor-I (IGF-I).⁵ The sole count of the interference was claim 22 of the Chiron application:

A DNA construct comprising a sequence coding for human insulin-like growth factor-I joined in proper reading frame with *Saccharomyces* alpha-factor secretory leader and processing signal sequence.⁶

Ideally, *Saccharomyces* cells expressing this construct secrete some form of human IGF-I.⁷ The Genentech application included a DNA construct coding for *Saccharomyces* alpha-factor secretory leader and processing sequences, human IGF-I, and, additionally, twenty-seven nucleotide bases

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1. 112 F.3d 495, 42 U.S.P.Q.2d (BNA) 1608 (Fed. Cir. 1997) [hereinafter *Genentech II*].

2. *Genentech, Inc. v. Chiron Corp.*, No. C-94-3334, 1995 WL 450846, *1 (N.D. Cal. July 19, 1995), *rev'd*, 112 F.3d 495, 42 U.S.P.Q.2d (BNA) 1608 (Fed. Cir. 1997) [hereinafter *Genentech I*].

3. See *Genentech II*, 112 F.3d at 500, 42 U.S.P.Q.2d at 1612-13.

4. See *id.* at 501, 42 U.S.P.Q.2d at 1613.

5. See *Genentech II*, 112 F.3d at 497, 42 U.S.P.Q.2d at 1609-10. The protein insulin-like growth factor-I acts on many tissues and organs. It has been used to treat many human diseases including growth deficiency, osteoporosis, catabolic disorders, and diabetes. It might also be useful for the treatment of brain trauma and certain neurodegenerative diseases including amyotrophic lateral-sclerosis and Alzheimer's disease. See Sylvain Dore et al., *Rediscovering an Old Friend, IGF-I: Potential Use in the Treatment of Neurodegenerative Diseases*, 20 TRENDS IN NEUROSCIENCES 326, 326 (1997).

6. *Genentech II*, 112 F.3d at 498, 42 U.S.P.Q.2d at 1610 (italics supplied).

7. See *id.* at 498, 42 U.S.P.Q.2d at 1610.

encoding a collagenase cleavage site.⁸ The addition of the sequence encoding the collagenase cleavage site results in the production of a "modified IGF-I" or a "fusion protein" rather than native human IGF-I.⁹ The pivotal issue of the opinion was the proper construction of the interference count—whether the Genentech construct was within the scope of the count after the addition of the twenty-seven nucleotides encoding the collagenase site.¹⁰ Judge Rich emphasized the distinction between the examination of a DNA construct and the examination of its expressed protein in holding that the Genentech construct is within the scope of the count.¹¹

In this case, the Federal Circuit developed standards for the construction of interference counts involving DNA inventions. Rather than follow the strict structural requirements that are applied to the conception and written description of DNA molecules, the court tailored a new standard to the unique characteristics of DNA inventions.

I. BACKGROUND OF THE INVENTIONS

DNA molecules are the stable molecular sources of information in biological organisms.¹² The information encoded in the nucleotides of the DNA sequence direct, among other processes, the production of protein molecules. DNA is first transcribed into messenger RNA, another information-carrying nucleic acid molecule. Messenger RNA molecules are then translated into a protein chain. Proteins are polymers consisting of amino acid monomers. Each amino acid monomer is one of twenty amino acids found in nature. At each position in the protein chain, the identity of the amino acid is encoded by one codon, or group of three nucleotides, in the messenger RNA chain. By varying the sequence of nucleotides in the DNA chain, one varies the nucleotides in the RNA chain and the amino acids in the final protein.

Recombinant DNA technology exploits the genetic machinery of living organisms to produce novel biomolecules. One can increase the amount of a particular protein in a cell or express a protein from one organism in a foreign organism. The techniques of genetic engineering enable the manipulation of DNA molecules. Pieces of DNA from one

8. *See id.*

9. *See id.*

10. *See id.* at 500, 42 U.S.P.Q.2d at 1612.

11. *See id.* at 501-02, 42 U.S.P.Q.2d at 1613-14.

12. For the Federal Circuit's background discussion of recombinant DNA technology, see generally *In re O'Farrell*, 853 F.2d 894, 895-99, 7 U.S.P.Q.2d (BNA) 1673, 1674-77 (Fed. Cir. 1988).

source can be joined, or ligated, to a DNA molecule from another source. For instance, DNA encoding a human protein can be ligated to sequences controlling the expression and processing of proteins in yeast. Proper expression of such a construct in yeast cells could result in the production of the human protein in yeast cells.

Human IGF-I is a protein that regulates the effects of human growth hormone.¹³ The seventy amino acid sequence of human IGF-I was published in 1978.¹⁴ The aim of both the Chiron invention and the Genentech invention is the production of some form of human IGF-I in transformed yeast cells.¹⁵

The yeast *Saccharomyces* naturally secretes a thirteen amino acid alpha-factor peptide.¹⁶ Alpha-factor is initially expressed as a polypeptide consisting of a secretory leader sequence followed by four copies of the alpha-factor peptide.¹⁷ The alpha-factor peptides are preceded by processing sequences of six or eight amino acids.¹⁸ These four processing sequences are recognized by enzymes that cleave the polypeptide to release four copies of mature alpha-factor peptide.¹⁹

Chiron's DNA construct replaces the yeast DNA encoding the four alpha-factor sequences and the three intervening processing sequences with DNA encoding one human IGF-I molecule.²⁰ The resulting construct encodes one polypeptide including the alpha-factor secretory leader sequence, one copy of the alpha-factor processing sequence, and human IGF-I.²¹ *Saccharomyces* cells transformed with a plasmid expressing this construct secrete human IGF-I.²² In contrast, Genentech's construct encodes the alpha-factor processing sequence, a collagenase cleavage site, and human IGF-I.²³ The additional collagenase cleavage site codes for a nine amino acid sequence cleaved by the enzyme collagenase.²⁴ *Saccharomyces* cells transformed with a plasmid expressing Genentech's con-

13. See *Genentech II*, 112 F.3d at 497-8, 42 U.S.P.Q.2d at 1610.

14. See Ernst Rinderknecht & Rene Humbel, *The Amino Acid Sequence of Human Insulin-like Growth Factor I and Its Structural Homology with Proinsulin*, 253 JOURNAL OF BIOLOGICAL CHEMISTRY 2769, 2771 (1978).

15. See *Genentech II*, 112 F.3d at 498, 42 U.S.P.Q.2d at 1610.

16. See *Genentech I*, 1995 WL 450846, at *1.

17. See *id.*

18. See *id.*

19. See *id.*

20. See *id.*

21. See *id.*

22. See *id.*

23. See *Genentech II*, 112 F.3d at 498, 42 U.S.P.Q.2d at 1610.

24. See *id.*

struct secrete a fusion protein version of human IGF-I including the nine amino acid collagenase cleavage site.²⁵

II. PROCEDURAL HISTORY—BOARD OF PATENT APPEALS AND INTERFERENCES

The purpose of an interference proceeding is to settle the issue of priority of invention when more than one person seeks a patent on substantially the same invention.²⁶ Application No. 06/922,199 was filed on October 23, 1986, with the benefit of Application No. 06/487,950 filed on April 25, 1983; this application was assigned to Chiron by inventors Philip J. Barr, James P. Merryweather, Guy Mullenbach, and Mickey S. Urdea (Barr).²⁷ Application No. 06/506,078 was filed on June 20, 1983, and assigned to Genentech by inventors James M. Lee, Axel Ullrich, and Arjun Singh (Lee).²⁸ Chiron was the senior party, and Genentech was the junior party.²⁹

Before the Board of Patent Appeals and Interferences (Board), Genentech as junior party filed evidence supporting its claim of priority.³⁰ Their evidence showed the invention of the Lee construct and the production of the modified IGF-I fusion protein prior to the effective filing date of the Chiron invention.³¹ However, they had not converted the IGF-I fusion protein to mature human IGF-I.³² Chiron in turn presented evidence of prior invention and attempted to substitute a newly named inventor to their claim.³³ Chiron also argued that Genentech's construct was outside the scope of the interference count because it encoded a fusion protein rather than the native protein when inserted into a plasmid and transformed into a yeast cell.³⁴ If Genentech's construct was outside the scope of the count, Chiron would prevail in the interference.³⁵

The Board held that the subject matter of the claim was comprised of two components: the DNA sequence coding for human IGF-I and the

25. *See id.*

26. *See Genentech I*, 1995 WL 450846, at *1.

27. *See Genentech II*, 112 F.3d at 497, 42 U.S.P.Q.2d at 1609-10.

28. *See id.*

29. *See id.* at 497, 42 U.S.P.Q.2d at 1610.

30. *See Genentech I*, 1995 WL 450846, at *2.

31. *See id.*

32. *See id.*

33. *See id.* at *3.

34. *See Genentech II*, 112 F.3d at 498, 42 U.S.P.Q.2d at 1611.

35. *See Genentech I*, 1995 WL 450846, at *4.

DNA sequence coding for the *Saccharomyces* processing sequences.³⁶ The Board also held that the term “comprising” permits the inclusion of other elements within the count.³⁷ Therefore, the interference count could be directed toward either the mature human protein or a fusion protein including the human sequence.³⁸ According to the Board, the Genentech construct fell within the scope of the count since it encoded human IGF-I as a fusion protein.³⁹ However, the Board rejected Genentech’s priority claim because they failed to show utility for the fusion protein.⁴⁰ The Board also restricted Chiron to its effective filing date as a sanction for failing to identify the inventor in its preliminary statement.⁴¹ As a result, the Board held that the subject matter of the count was invented by Chiron as senior party prior to invention by Genentech.⁴²

III. PROCEDURAL HISTORY - DISTRICT COURT

On appeal to the District Court for the Northern District of California, Genentech moved for summary judgment restricting Chiron to its effective filing date for failure to identify the inventor of the count according to Patent and Trademark Office procedures.⁴³ Chiron moved for summary judgment because Genentech’s invention was not within the scope of the interference count.⁴⁴ Again, “if Genentech’s DNA construct [was] not within the scope of the interference count, ... Genentech [could not] prevail in the interference.”⁴⁵

The district court granted Chiron’s motion for summary judgment.⁴⁶ The court held that Genentech’s construct was outside the plain meaning of the language of the count.⁴⁷ The district court found that the claimed construct must “code for” human IGF-I.⁴⁸ Since the Genentech construct coded for human IGF-I plus nine additional amino acids, the construct did not code for human IGF-I.⁴⁹ In addition, the court held that the term

36. *See id.* at *2.

37. *See id.*

38. *See id.*

39. *See id.*

40. *See id.* at *3.

41. *See id.* at *7.

42. *See id.* at *1.

43. *See id.*

44. *See id.*

45. *Genentech I*, 1995 WL 450846, at *4.

46. *See id.* at *6.

47. *See id.* at *4.

48. *See id.*

49. *See id.*

“joined” in a claim requires that two elements be directly connected.⁵⁰ Genentech’s construct had nucleotides between the alpha-factor sequences and the IGF-I sequence and was thus also outside the count for failing to join the two elements.⁵¹ Genentech’s arguments for broad construction of the claim terms “comprising” and “joined in proper reading frame” were dismissed by the court.⁵²

IV. OPINION

Judge Rich of the Federal Circuit reversed the district court and held that the Genentech construct is indeed within the scope of the interference count.⁵³ The case was remanded for further adjudication on other issues.⁵⁴

Genentech claimed that the district court’s interpretation of the interference count was improperly narrow.⁵⁵ They also claimed that Chiron did not enable under section 112 of the Patent Act, first paragraph, the invention of the count as defined by the district court.⁵⁶ The Federal Circuit disposed of the second claim by holding in favor of Genentech on the first claim.⁵⁷

As the court explained, in construing an interference count, one must look to the “language as a whole and consider grammatical structure and syntax.”⁵⁸ “In the absence of ambiguity, ... the language of the count should be given the broadest reasonable interpretation it will support,” and the court must “apply the language of the count in its most obvious sense.”⁵⁹ Only when the claim is ambiguous will the court resort to the application to construe the count.⁶⁰ The court did not even look to the specification to determine whether there was an ambiguity in the count.⁶¹ Both parties and the court agreed that no ambiguity existed in the interfer-

50. *See id.* at *5.

51. *See id.* at *5-6.

52. *See id.*

53. *See Genentech II*, 112 F.3d at 502, 42 U.S.P.Q.2d at 1614.

54. *See id.*

55. *See id.* at 499, 42 U.S.P.Q.2d at 1611.

56. *See id.*

57. *See id.*

58. *Id.* at 500, 42 U.S.P.Q.2d at 1612 (citing *Credle v. Bond*, 25 F.3d 1566, 1571, 30 U.S.P.Q.2d (BNA) 1911, 1915 (Fed. Cir. 1994)).

59. *Id.* at 500, 42 U.S.P.Q.2d at 1612 (citing *In re Baxter*, 656 F.2d 679, 686, 210 U.S.P.Q. (BNA) 795, 802 (C.C.P.A. 1981)).

60. *See Genentech II*, 112 F.3d at 500, 42 U.S.P.Q.2d at 1162.

61. *See id.*

ence count, and the court therefore construed the count according to the broadest reasonable interpretation that its language would support.⁶²

The court held that the district court's interpretation of the claim erroneously equated the DNA construct and the protein that it encoded.⁶³ While the district court had found that a DNA construct and the protein it produces are "inextricably intertwined since the DNA construct codes for and is defined by the protein it produces,"⁶⁴ the Federal Circuit stated that a DNA construct and the protein that it encodes are not equal.⁶⁵ The plain language of the count defined a DNA construct—not a protein.⁶⁶

The court held that, if all the DNA elements of the count are within a DNA construct, then that construct is within the scope of the count.⁶⁷ Genentech's construct included all of the DNA elements of the count.⁶⁸ Thus, it included both the sequence encoding human IGF-I and the sequence encoding the *Saccharomyces* alpha-factor secretory leader and processing sequence.⁶⁹ According to the court, the twenty-seven additional nucleotides encoding the collagenase cleavage in the Genentech construct did not remove the construct from the scope of the count.⁷⁰ The term "comprising" not only required the presence of all named elements in the count, but it also allowed the addition of other elements such as additional nucleotides.⁷¹ Furthermore, the court held that the phrase "joined in proper reading frame" meant simply that the nucleotides are read so that "the seventy amino acids of human IGF-I are incorporated in the proper sequence in the expressed protein."⁷² Thus, additional nucleotides coding for additional amino acids were not excluded from the scope of the count.⁷³ The court also held that the district court's construction of "joined" as "directly connected" is too narrow.⁷⁴ Instead, it held that the constructs within the count could have intervening nucleotide sequences

62. See *id.* at 500, 42 U.S.P.Q.2d at 1612.

63. See *id.* at 500-01, 42 U.S.P.Q.2d at 1612-13.

64. *Genentech I*, 1995 WL 450846, at *5.

65. See *Genentech II*, 112 F.3d at 501, 42 U.S.P.Q.2d at 1613.

66. See *id.*

67. See *id.*

68. See *id.*

69. See *id.*

70. See *id.*

71. See *id.*

72. *Id.*

73. See *id.*

74. See *id.*

between the elements as long as the proper reading frame was maintained between the two sequences.⁷⁵

The court distinguished the holding of *Genentech, Inc. v. Wellcome Foundation Ltd.*⁷⁶ which also dealt with the construction of a claim to a biotechnological invention.⁷⁷ Since the *Wellcome* court found one of the terms of the claim to be ambiguous, that court looked to the specification for guidance in the construction of the term.⁷⁸ In *Genentech II*, the court found no ambiguity in the claim terms and needed only to look to the plain meaning of the language of the court.⁷⁹ The court also found the definition of protein in the *Wellcome* case to be consistent with definition of the construct in this case.⁸⁰ In *Wellcome*, the phrase "human tissue plasminogen activator" (t-PA) was defined to be recombinant t-PA with the same structure as natural t-PA.⁸¹ The Genentech IGF-I construct similarly contained all of the codons for mature human IGF-I and thus the structure of natural IGF-I.⁸²

In sum, the court reversed the district court and held that the fusion protein was within the interference count.⁸³ The case was remanded for consideration of further issues such as the utility of the invention in Genentech's priority claim and Chiron's enablement of the count.⁸⁴

V. DISCUSSION

The case law surrounding the patentability of recombinant DNA molecules reflects the tension between the scientific understanding of the DNA molecule and the standards applied to DNA under the patent law regime. Current patent doctrine evaluates recombinant DNA inventions under the structural standards applied to chemical compounds,⁸⁵ while many molecular biologists might have only secondary interest in the chemical structure of their target genes.⁸⁶

75. *See id.*

76. 29 F.3d 1555, 31 U.S.P.Q.2d (BNA) 1161 (Fed. Cir. 1994).

77. *See Genentech II*, 112 F.3d at 501, 42 U.S.P.Q.2d at 1613.

78. *See id.*

79. *See id.*

80. *See id.* at 502, 42 U.S.P.Q.2d at 1613.

81. *See Wellcome*, 29 F.3d at 1563-64, 31 U.S.P.Q.2d at 1167-68.

82. *See Genentech II*, 112 F.3d at 502, 42 U.S.P.Q.2d at 1613.

83. *See id.* at 502, 42 U.S.P.Q.2d at 1614.

84. *See id.*

85. *See Peter F. Corless, Recombinant DNA Inventions After Fiers*, 16 HOUS. J. INT'L L. 509, 530 (1994).

86. *See id.* at 515.

In *Amgen, Inc. v. Chugai Pharmaceutical Co.*,⁸⁷ the Federal Circuit defined the standards necessary to show conception of a genetic invention.⁸⁸ The court characterized a gene as a chemical compound and applied standards from cases involving chemical inventions.⁸⁹ When the method of making a chemical compound involves conventional techniques routine to one skilled in the art of the invention, then the compound is conceived when its structure is described.⁹⁰ However, a molecular biologist cannot know the structure of a DNA molecule until the molecule is actually obtained and sequenced; hence conception of a gene usually requires actual reduction to practice.⁹¹ In *Amgen*, Amgen's evidence supporting its priority claim was found insufficient because it failed to show that Amgen had obtained the structure of the claimed gene.⁹²

In *Fiers v. Revel v. Sugano*,⁹³ the Federal Circuit also considered the conception of a DNA molecule. Fiers claimed a DNA sequence encoding a human protein.⁹⁴ The court did not allow Fiers to claim his date of conception because he did not disclose the actual nucleotide sequence of the DNA encoding that protein.⁹⁵ The court emphasized the chemical requirements for the disclosure of a DNA molecule stating that "conception of a DNA molecule, like conception of any chemical substance, requires a definition of that substance other than by its functional utility."⁹⁶ The court ignored the minimal interest a molecular biologist might have in the structure of a desired DNA sequence relative to interest in the expression of the encoded protein.⁹⁷ The court indicated that it might allow a product-by-process claim for a DNA molecule without disclosure of the structure of the DNA molecule itself.⁹⁸ In *Regents of the University of California v. Eli Lilly & Co.*,⁹⁹ the Federal Circuit further grounded the concep-

87. 927 F.2d 1200, 18 U.S.P.Q.2d (BNA) 1016 (Fed. Cir. 1991).

88. *See id.* at 1205-07, 18 U.S.P.Q.2d at 1020-22

89. *See id.* at 1206, 18 U.S.P.Q.2d at 1021.

90. *See Oka v. Youssefyeh*, 849 F.2d 581, 582, 7 U.S.P.Q.2d (BNA) 1169, 1171 (Fed. Cir. 1988).

91. *See Amgen*, 927 F.2d at 1206-07, 18 U.S.P.Q.2d at 1021-22.

92. *See id.* at 1207, 18 U.S.P.Q.2d at 1021.

93. 984 F.2d 1164, 25 U.S.P.Q.2d (BNA) 1601 (Fed. Cir. 1993).

94. *See id.* at 1168-69, 25 U.S.P.Q.2d at 1604-05

95. *See id.* at 1169, 25 U.S.P.Q.2d at 1604-05.

96. *See id.*, 25 U.S.P.Q.2d at 1604.

97. *See Corless, supra* note 85, at 522.

98. *See Fiers*, 984 F.2d at 1169, 25 U.S.P.Q.2d at 1604-05.

99. 119 F.3d 1559, 43 U.S.P.Q.2d (BNA) 1398 (Fed. Cir. 1997). *See Michael Delmas Plimier, Genentech, Inc. v. Novo Nordisk & University of California v. Eli Lilly and Co.*, 13 BERKELEY TECH. L.J. 149 (1998).

tion and written description requirements for recombinant DNA inventions in structural terms.

In interpreting the scope of the interference count in *Genentech, Inc. v. Chiron Corp.*, the Federal Circuit did not follow the strict structural requirements applied to the conception and written description of inventions involving DNA molecules. A structural interpretation of the interference count might narrow the scope of the count to an actual molecule disclosed in the claim. Any structural variation on this molecule, such as the addition of twenty-seven nucleotides encoding a protease cleavage site, would create a molecule outside the scope of the interference claim.

Instead, the Federal Circuit developed a standard appropriate for DNA molecules. The court first avoided the awkward standard applied by the district court of equating a DNA construct with its encoded protein. The court found new standards that reflect an understanding of DNA as a molecule with properties unlike those of conventional chemical compounds. The court loosened the strict disclosure requirements from *Amgen* and *Fiers* with a broad interpretation of the claim language in the interference count. Chiron was not required to disclose all possible variants of their DNA construct to have them included within the scope of the claim. Rather, the claim term "comprising" was read broadly but within reason to include DNA elements beyond those actually disclosed. The restrictions supplied by the phrase "joined in proper reading frame" sufficiently limit the scope of the claim. The recognition of the techniques applied to DNA in the art and the meaning of phrases like "joined in proper reading frame" might allow the court to elaborate appropriate standards of patent law for recombinant DNA inventions.

However, the holding of this case is limited. According to the legal standards for the construction of an interference count, the court's interpretation followed the broadest reasonable interpretation that the language of the count would support.¹⁰⁰ The court could not look to the written description of the invention or the breadth of the enablement of the invention in either application. The issues of Chiron's written description and enablement of the broadly interpreted interference count were not reached by the Federal Circuit in this case and might be considered on remand. Although the structural requirements applied to DNA inventions might be relaxed as the field of recombinant DNA advances,¹⁰¹ it is likely that the

100. See *Genentech II*, 112 F.3d at 500, 42 U.S.P.Q.2d at 1612 (citing *In re Baxter*, 656 F.2d 679, 686, 210 U.S.P.Q. (BNA) 795, 802 (C.C.P.A. 1981)).

101. See *Corless*, *supra* note 85, at 531. The *Amgen* and *Fiers* decisions dealt with recombinant DNA technology of 1982. See *id.* at 524. The relevant patent application in the *Lilly* decision was filed in 1977. See *Lilly*, 119 F.3d at 1562, 43 U.S.P.Q.2d at 1401.

count will be evaluated under the standards elaborated in *Amgen*, *Fiers*, and *Lilly*. Under those structural standards, the broadly construed count would not be adequately described or enabled beyond the disclosed DNA construct. As such, the broad construction of the count, although it comports with the plain meaning of the language of the count, has little meaning for the final determination of its scope. A molecular biologist might find some comfort in the results of the interpretation of the interference count in this case, but the narrow legal context of the holding gives little indication about change in the standards applied to the breadth of claims for recombinant DNA inventions.

The Chiron application had an effective filing date of 1983, and the Genentech application was filed in 1983. See *Genentech II*, 112 F.3d at 497, 42 U.S.P.Q.2d at 1609-10.

GENENTECH, INC. V. NOVO NORDISK & UNIVERSITY OF CALIFORNIA V. ELI LILLY AND CO.

By Michael Delmas Plimier

The Constitution states the policy justification behind the patent system, giving Congress the authority “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.”¹ Patents represent a bargain between society and the inventor. The inventor gives information to the public and receives a monopoly for a period of time. This tradeoff must be balanced. If inventors do not receive enough reward for sharing their inventions, they will choose not to disclose their inventions or not to invest in research. This will slow down the production and dissemination of innovations and progress. On the other hand, if inventors are allowed to claim more than what they have disclosed, future inventions may not be undertaken because the first inventor would reap the benefits of the later work.²

Part of the balancing act is performed through the first paragraph of section 112 of the Patent Act, which requires both enabling disclosure and a written description of the claimed invention.³ Written description and enablement are distinct requirements, but they share the function of limiting the scope of the inventor’s claim.

The enablement requirement ensures the public gets something in exchange for patent rights: knowledge of how to make and use the invention. Because one cannot claim something which has not been enabled,⁴

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1. U.S. CONST. art. I, § 8, cl. 8.

2. “Case law concerning biotechnology patents reflects the tension between the need for broad claims to meaningfully reward valuable (often medically significant) advances and the concern that granting broad claims will hinder further advances or disproportionately reward those who make small, but timely contributions.” Karen S. Canady, *The Wright Enabling Disclosure for Biotechnology Patents*, 4 FED. CIRCUIT B.J. 243, 250 (1994).

3. “The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same” 35 U.S.C. § 112 (1994).

4. The first paragraph section 112 “requires that the scope of the claims must bear a reasonable correlation to the scope of enablement provided by the specification to per-

the inventor is prevented from getting the rights to technology without sharing information on how to make and use it. The enabling disclosure does not have to lay out exactly how to make and use the claimed invention. All that is needed is enough information to allow those with skill in the art to make or use the invention without undue experimentation.⁵

In contrast, the written description does not necessarily provide the public with information of value. Instead, it acts to limit the breadth of the inventor's claims.⁶ Only what has been described can be claimed. The description must be clear enough to show that the inventor possessed the invention.⁷ The written description requirement prevents inventors from claiming what they have not envisioned. One can enable without describing, and describe without enabling. Together, the requirements set bounds on what can be claimed.

The holdings of *Genentech, Inc. v. Novo Nordisk*⁸ and *University of California v. Eli Lilly and Co.*⁹ illustrate the Federal Circuit's concern with granting overbroad patents and its use of the enablement and written description requirements to prevent this. Although the consequences of these cases have yet to be felt, they may reduce the incentive to invent because patent protection would require a large disclosure and result in only narrow protection.

sons of ordinary skill in the art." *In re Fisher*, 427 F.2d 833, 839, 166 U.S.P.Q. 18, 24 (C.C.P.A. 1970).

5. "That some experimentation is necessary does not constitute a lack of enablement; the amount of experimentation, however, must not be unduly extensive." *Amgen, Inc. v. Chugai Pharm. Co., Ltd.*, 927 F.2d 1200, 1212, 18 U.S.P.Q.2d 1016, 1026 (Fed. Cir. 1991).

6. "Adequate description of the invention guards against the inventor's overreaching by insisting that he recount his invention in such detail that his future claims can be determined to be encompassed within his original creation." *Rengo Co. v. Molins Mach. Co.*, 657 F.2d 535, 551, 211 U.S.P.Q. 303, 321 (3d Cir. 1981).

7. "The purpose of the 'written description' requirement is broader than to merely explain how to 'make and use'; the applicant must also convey with reasonable clarity to those skilled in the art that, as of the filing date sought, he or she was in possession of the invention." *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1563-64, 19 U.S.P.Q.2d 1111, 1117 (Fed. Cir. 1991).

8. 108 F.3d 1361, 42 U.S.P.Q.2d 1001 (Fed. Cir. 1997) [hereinafter *Novo II*].

9. 119 F.3d 1559, 43 U.S.P.Q.2d 1398 (Fed. Cir. 1997) [hereinafter *Lilly II*].

I. ENABLEMENT: *GENENTECH V. NOVO NORDISK*

A. Previous Opinions

At issue was the validity and infringement of Genentech's patent claiming genetically engineered human growth hormone (hGH). Two methods of making hGH were involved. The first is the direct expression of hGH. This is where DNA codes for the hGH protein alone.¹⁰ The second, the method Novo Nordisk (Novo) used, is the cleavable fusion expression of hGH. In this procedure, DNA codes for hGH bonded to other peptides (protein fragments), thereby forming a protein that is larger than hGH alone. These extra peptides are then removed using an enzyme,¹¹ resulting in essentially the same product as the first method: the hGH protein.¹²

Litigation began when Novo brought an action in the Southern District of New York seeking a declaratory judgment that Genentech's patent 4,601,980 (the '980 patent) was not being infringed and was invalid.¹³ The district court ruled Genentech would likely succeed on the merits with regard to infringement and validity.¹⁴

On appeal, the Federal Circuit reversed.¹⁵ Judge Lourie ruled that there was no infringement of the '980 patent, because it claimed only the direct expression of hGH—not the cleavable fusion expression which Novo used.¹⁶

The case returned to the district court where Genentech received an injunction against Novo under its newly issued U.S. Patent No. 5,424,199 ('199 patent).¹⁷ This patent has the same specification as the '980 patent, but explicitly claims the cleavable fusion expression of hGH, a fact Novo conceded.¹⁸ Its non-infringement defense gone, Novo argued that the pat-

10. See *Novo II*, 108 F.3d at 1363, 42 U.S.P.Q.2d at 1002-03.

11. This removal of the extra peptides with enzymes is the "cleavage."

12. See *id.* at 1363, 42 U.S.P.Q.2d at 1003.

13. See *Novo Nordisk of North America v. Genentech, Inc.*, CIV. A. No. 94 CIV. 8634 (CBM), 1995 WL 512171, at *1 (S.D.N.Y. Aug. 28, 1995).

14. See *id.* at *2.

15. See *Novo Nordisk of North America v. Genentech, Inc.*, 77 F.3d 1364, 37 U.S.P.Q.2d 1773 (Fed. Cir. 1996).

16. See *id.* at 1371, 37 U.S.P.Q.2d at 1779.

17. See *Genentech, Inc. v. Novo Nordisk*, 935 F. Supp. 260, 285 (S.D.N.Y. 1996) [hereinafter *Novo I*].

18. See *id.* at 265.

ent was not enabling,¹⁹ that it did not contain enough information for one skilled in the art to practice the invention without undue experimentation.²⁰

A reasonableness standard is used to decide whether undue experimentation is required.²¹ The court used the test laid out in *In re Wands*,²² which provided a list of eight factors for courts to consider. They are: (1) the quantity of experimentation necessary; (2) the amount of direction or guidance presented; (3) the presence or absence of working examples; (4) the nature of the invention; (5) the state of the prior art; (6) the relative skill of those in the art; (7) the predictability or unpredictability of the art; and (8) the breadth of the claims.²³

Under this test, the court concluded undue experimentation was not needed to practice the invention.²⁴ The court found that when combined with the skill of the art, the disclosure was adequate to teach how to add the extra protein sequence to the hGH.²⁵ The use of trypsin, the enzyme used to cleave the extra proteins, was found to be well-known.²⁶ The court also found that the conditions for using trypsin were listed in the package inserts included with purchases of trypsin as well as in standard references.²⁷

B. United States Court of Appeals, Federal Circuit

Not only did the Federal Circuit vacate the injunction, it also ruled the patent invalid for lack of enablement.²⁸ Judge Lourie ruled it would require undue experimentation for an ordinary person skilled in the art to practice the claimed invention.²⁹

The court found that there was not enough information in the specification as to what extra proteins should be added to the hGH.³⁰ Genentech's testimony established that one skilled in the art could make a short

19. Novo also argued the written description requirement was not met, but as that issue was not dealt with on appeal, it is not dealt with in this comment. *See Novo II*, 108 F.3d at 1368, 42 U.S.P.Q.2d at 1007.

20. *See Novo I*, 935 F. Supp. at 271.

21. *See id.* at 273.

22. 858 F.2d 731, 8 U.S.P.Q.2d 1400 (Fed. Cir. 1988).

23. *See id.* at 737, 8 U.S.P.Q.2d at 1404.

24. *See Novo I*, 935 F. Supp. at 273.

25. *See id.* at 274.

26. *See id.*

27. *See id.*

28. *See Novo II*, 108 F.3d at 1368, 42 U.S.P.Q.2d at 1007.

29. *See id.*

30. *See id.* at 1366, 42 U.S.P.Q.2d at 1005.

sequence of amino acids to be added, but did not discuss how much experimentation would be needed to create the longer sequence which was actually necessary for the cleavable fusion expression of hGH.³¹ The specification did not say which extra proteins should be attached to the hGH that would subsequently be cleaved.³² The court ruled that to find out would take extensive experimentation.³³

The court also ruled that the use of trypsin for cleaving proteins was not known. Novo's testimony established that at the time of the application, trypsin was only used to digest proteins, not to cleave them.³⁴ Genentech's reference to a British patent for information on using trypsin as a cleaving agent was found to be unresponsive, since the reference actually says that trypsin would not be appropriate in the cleavable fusion expression of hGH.³⁵ No reaction conditions for the use of trypsin in cleavable fusion expression were included in the specification.³⁶

Genentech argued that the knowledge of one skilled in the art would fill the gaps in the specification as to the extra proteins and the use of trypsin.³⁷ The court did not agree, and did not think the skill of the art was the proper focus.³⁸ Instead, the court looked at what was in the specification.³⁹ Minor details could be left out, but if no specific starting material or reaction conditions are given, undue experimentation is required.⁴⁰ The court also concluded that if the extra peptides and method of cleavage were within the skill of the art, they would have been disclosed in the specification.⁴¹

Judge Lourie also used the fact that no one was able to use cleavable fusion expression to produce any human proteins for nearly a year, or to produce hGH using this method for five years after the filing date, as evidence it was not within the skill of the art.⁴²

31. *See id.* at 1366, 42 U.S.P.Q.2d at 1005.

32. *See id.* at 1365, 42 U.S.P.Q.2d at 1004.

33. *See id.* at 1367, 42 U.S.P.Q.2d at 1006.

34. *See id.* at 1365, 42 U.S.P.Q.2d at 1004.

35. *See id.*

36. *See id.*

37. *See Novo II*, 108 F.3d at 1365, 42 U.S.P.Q.2d at 1004.

38. *See id.* at 1366, 42 U.S.P.Q.2d at 1005.

39. *See id.*

40. *See id.*

41. *See id.* at 1367, 42 U.S.P.Q.2d at 1006.

42. *See id.*

C. Discussion of *Novo*

The ruling seems to be based on a concern that the '199 patent tries to claim too much. The '199 patent uses the same specification as the '980 patent, changing the claim to include cleavable fusion expression of hGH.⁴³ Judge Lourie ruled the specification for the '980 patent lays out and then solves the problem of getting hGH without other proteins—the direct expression of hGH.⁴⁴ The specification mentions cleavable fusion expression, but this is not its focus.

There have been problems with nebulous specifications being allowed to mature to patents, not the least of which is allowing a patent holder to gain a large financial windfall without disclosing any useful information.⁴⁵ By limiting allowable claims to what the specification is clearly directed to, these problems will be avoided. It will ensure the patent trade is not one-sided, with patent holders giving little for their patent rights. In this case, it means limiting the claims to the direct expression of hGH.

However, the decision also creates problems. The question of how much experimentation is undue has long been fuzzy, with a reasonableness standard being applied to complex fact patterns. In 1988, the Federal Circuit tried to bring more structure to the test: to make it easier to apply and more predictable. It set out the list of eight *Wands* factors to accomplish this. These factors gave some guidance for what had to be included in patent specifications.

The Federal Circuit is no longer spending much time looking at whether or not undue experimentation is required.⁴⁶ In *Amgen v. Chugai*,⁴⁷ the court said that, "it is not necessary that a court review all the *Wands* factors to find a disclosure enabling. They are illustrative, not mandatory."⁴⁸ The factors have been further undercut to the point of being ignored in subsequent Federal Circuit cases.⁴⁹

43. See *Novo I*, 935 F. Supp. at 265.

44. See *Novo II*, 108 F.3d at 1366, 42 U.S.P.Q.2d at 1005.

45. See generally M. Scott Carey, *Ford Motor Co. v. Lemelson*, 13 BERKELEY TECH. L.J. 219 (1998).

46. "Another trend illustrated by *Amgen*, *Vaeck*, and *Goodman* is the refusal of the CAFC to conduct an extensive inquiry into the various undue experimentation factors" John C. Todaro, *Enablement in Biotechnology Cases After In Re Goodman*, 5 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1, 39 (1994).

47. 927 F.2d 1200, 18 U.S.P.Q.2d 1016 (Fed. Cir. 1991).

48. *Id.* at 1213, 18 U.S.P.Q.2d at 1027.

49. The *Wands* factors were not mentioned in the enablement discussion in *In re Wright*, 999 F.2d 1557, 27 U.S.P.Q.2d 1510 (Fed. Cir. 1993) or *In re Goodman*, 11 F.3d 1046, 29 U.S.P.Q.2d 2010 (Fed. Cir. 1993).

The trend away from the *Wands* factors continues in this case. Judge Lourie made no mention of *Wands* or of anything specific a court should look at when deciding the issue of undue experimentation. The decision gives no help to future patent applicants. By ignoring *Wands*, the Federal Circuit leaves biotech patent applicants wondering what is needed in their specification.⁵⁰

Unclear standards also could reduce the value of patents. Without clear standards, no patent will be clearly valid, and litigation challenging them may increase. Even if the patent is upheld, this possible litigation would increase the patent holder's costs and therefore decrease the benefit inventors receive from patents.

Judge Lourie does not address the fact that patent specifications often disclose more than one patentable invention. That the specification was already found to support one patent does not warrant the automatic conclusion that it does not support others; full consideration should be given to the question, with the reasoning laid out in the opinion. This decision reversing the district court's ruling is basically conclusory. The court held that the specification provided enablement for direct expression of hGH but only suggested cleavable fusion expression without enabling it. In doing so, the court discounted testimony of the skill in the art and treated the lack of explicit enabling directions as evidence it wasn't in the prior art. "A specification need not disclose what is well known in the art."⁵¹ Much of Genentech's argument was that the gaps in the specification would be filled by the knowledge practitioners had. The court dismissed this line of reasoning; "Genentech's arguments, focused almost exclusively on the level of skill in the art, ignore the essence of the enablement requirement."⁵²

If the courts place little weight on evidence of what the skill in the art is, applicants will not be able to rely on the skill in the art to fill gaps in the specification. This will require applicants to include information that they believe is possessed by those skilled in the art, forcing applicants to disclose more in the specification than they should have to.

Judge Lourie's stated that, "if the disclosure of a useful conjugate protein and the method for its cleavage were so clearly within the skill of the art, it would have been expressly disclosed in the specification."⁵³

50. "[Recent] CAFC decisions will leave applicants guessing as to what constitutes undue experimentation." Todaro, *supra* note 45, at 39.

51. *Novo II*, 108 F.3d at 1366, 42 U.S.P.Q.2d at 1005.

52. *Id.*

53. *Id.* at 1367, 42 U.S.P.Q.2d at 1006.

This seems to directly contradict the rule that if something is well known in the art, it doesn't have to be disclosed. Further, if an applicant does not disclose something because it is clearly within the skill of the art, Judge Lourie's reasoning would apparently take this as evidence that it is not within the skill of the art. The only way around this problem is to disclose everything involved in producing the invention, greatly increasing the size of specifications.

II. WRITTEN DESCRIPTION: *UNIVERSITY OF CALIFORNIA V. ELI LILLY & CO.*⁵⁴

A. District Court

The Regents of the University of California (UC) brought this action in the Northern District of California against Eli Lilly & Co. (Lilly) for infringement of patent 4,652,525 (the '525 patent).⁵⁵ It was transferred to the Southern District of Indiana on Lilly's motion.⁵⁶ Lilly argued that the patent claims for human, mammalian, and vertebrate insulin DNA were invalid due to lack of written description.⁵⁷

The '525 patent claims rat, human, mammalian, and vertebrate insulin DNA. Naming a DNA along with instructions on how to produce it is not enough to satisfy the written description requirement.⁵⁸ A description of the DNA itself is needed, such as nucleotide sequence. The '525 patent specification does include the nucleotide sequence for rat insulin DNA. The issue was whether giving the nucleotide sequence for the species, rat insulin DNA, is enough to allow the inventor to claim: (1) the genera of mammalian and vertebrate insulin DNA, which contain the species of rat insulin DNA; and (2) another species, human insulin DNA, within the genera.⁵⁹ The court concluded it did not.⁶⁰

The court pointed out that the rat insulin DNA sequence did not give an exact description of the human insulin DNA. Four codons are differ-

54. Although there were several issues in this case, this comment only deals with the written description requirement with respect to U.S. Patent No. 4,652,525. The case also dealt with U.S. Patent No. 4,431,740. It addressed jurisdiction, venue, and enforceability with respect to both patents, and whether U.S. Patent No. 4,431,740 was infringed. See *Lilly II*, 119 F.3d 1559, 43 U.S.P.Q.2d 1398.

55. See *University of California v. Eli Lilly and Co.*, 39 U.S.P.Q.2d 1225, 1227 (S.D. Ind. 1995) [hereinafter *Lilly I*].

56. See *id.*

57. See *id.* at 1241.

58. See *id.* at 1240.

59. See *id.*

60. See *id.* at 1241.

ent.⁶¹ Therefore, the court concluded the rat DNA sequence was not the precise definition of the human DNA sequence required under section 112 of the Patent Act. The court applied the same reasoning to the mammalian and vertebrate insulin DNA. The court ruled there are thousands of species within the vertebrate and mammalian genera, with insulin genes that are not identical, so the rat insulin DNA is not sufficient to describe them.⁶²

B. United States Court of Appeals, Federal Circuit

On appeal, the Federal Circuit upheld the ruling.⁶³ The court first dealt with claim 5, for human insulin DNA.⁶⁴ The specification tells how to produce this DNA,⁶⁵ but telling how to do something (enablement) is not the same as providing a written description.⁶⁶ The court said that although the specification includes the amino acid sequence of human insulin, this is not a written description either.⁶⁷ Disclosing enough information to make a claim obvious does not mean the written description requirement is satisfied.⁶⁸ The amino acid sequence of a protein plus the method for generating the DNA for that protein does not make the DNA obvious.⁶⁹ The court ruled that since rendering an invention obvious is not necessarily enough to meet the written description requirement, and the information given is not enough to render the invention obvious, the information given did not meet the written description requirement.⁷⁰

61. *See id.* A codon is a group of three DNA nucleotides that codes for one amino acid. There are 64 possible codons coding for 20 different amino acids—amino acids can be coded for by more than one codon. *See* Dr. Shaun D. Black, *The Genetic Code* (visited Feb. 11, 1998) <<http://pegasus.uthct.edu/ResUTHCT/Investigators/Sblack/geneticd.html>>.

62. *See Lilly I*, 39 U.S.P.Q.2d at 1241.

63. *See Lilly II*, 119 F.3d at 1559, 43 U.S.P.Q.2d at 1400.

64. *See id.* at 1567, 43 U.S.P.Q.2d at 1404.

65. Adequate enabling disclosure for the '525 patent was not challenged in this case or in the court below. *See Lilly I*, 39 U.S.P.Q.2d 1225; *Lilly II*, 119 F.3d 1559, 43 U.S.P.Q.2d 1398.

66. *See Lilly II*, 119 F.3d at 1567, 43 U.S.P.Q.2d at 1405.

67. *See id.* at 1567, 43 U.S.P.Q.2d at 1405. Since amino acids can be coded for by more than one codon, the amino acid sequence does not tell one what the nucleotide sequence is. For example, the nucleotide sequences of CGT, CGC, CGA, CGG, AGA, and AGG all code for the same amino acid, Arg. So an amino acid sequence will have many possible nucleotide sequences that code for it. *See* Dr. Shaun D. Black, *The Genetic Code* (visited Feb. 11, 1998) <<http://pegasus.uthct.edu/ResUTHCT/Investigators/Sblack/geneticd.html>>.

68. *See Lilly II*, 119 F.3d at 1567, 43 U.S.P.Q.2d at 1405.

69. *See id.*

70. *See id.*

The court made similar short work of claims 1, 2, 6, and 7, for vertebrate insulin DNA, and claim 4, for mammalian insulin DNA. UC argued that the written description of a species within a genus is enough to claim that genus.⁷¹ The written description of rat insulin DNA would therefore allow UC to claim the genera of mammalian and vertebrate insulin DNA. The court acknowledged that it is possible to claim a genus without providing a written description for each species within the genus.⁷² However, to do this requires a precise definition of the genus, such as which structural features characterize the genus.⁷³ The court ruled "Mammalian insulin DNA" is a functional description, not a description of the specific structural aspects that define the genus.⁷⁴ A functional description describes what the thing does, not what it is.⁷⁵ The court said that description of a DNA, "requires a kind of specificity usually achieved by means of the recitation of the sequence of nucleotides that make up the DNA."⁷⁶ Since only the nucleotide sequence of rat insulin DNA and functional genera are given in the specification, the court ruled the written description requirement had not been met.

C. Discussion of *Lilly*

The decision is doctrinally correct. Human, mammalian, and vertebrate insulin DNA are not described in the specification except by function. According to *Fiers v. Revel*,⁷⁷ a functional description is not enough; the DNA must be described more precisely.⁷⁸

Rat insulin DNA has a nucleotide sequence very close to that of human insulin DNA.⁷⁹ It is conceivable that the court could have decided that the dissimilarities are small enough for the rat DNA nucleotide sequence to serve as written description for the human insulin DNA claims. The court could even have said that mammalian and vertebrate insulin DNA were close enough to rat insulin DNA to have been adequately de-

71. See *id.* at 1567-68, 43 U.S.P.Q.2d at 1405.

72. See *id.* at 1568, 43 U.S.P.Q.2d at 1405.

73. See *id.* at 1568, 43 U.S.P.Q.2d at 1406.

74. See *id.*

75. See *id.*

76. *Id.* at 1569, 43 U.S.P.Q.2d at 1406.

77. 984 F.2d 1164, 25 U.S.P.Q.2d 1601 (Fed. Cir. 1993).

78. See *id.* at 1169, 25 U.S.P.Q.2d at 1604-05.

79. "The human insulin cDNA, for example, differs from the rat insulin cDNA by four codons." *Lilly I*, 39 U.S.P.Q.2d at 1241. There are 111 codons in the DNA sequence for human insulin. See *PubMed Nucleotide Query* (visited Feb. 2, 1998) <<http://www.ncbi.nlm.nih.gov/htbin-post/Entrez/query?uid=186431&form=6&db=n&Doptg>>.

scribed. However, if the court did this, there would be the risk of allowing the patentee to claim a genus not actually described. The actual DNA sequences were not known and the genera claimed were based on taxonomy, not necessarily on common insulin DNA properties.⁸⁰ UC did not provide any information as to what feature the various insulin DNA sequences have in common, so the court had no basis on which to rule that the rat DNA sequence was enough to define the genus.⁸¹ Since there was no evidence given as to how similar the rat insulin DNA structure was to human, mammalian, and vertebrate insulin DNA, the ruling was proper.

It remains to be seen whether the written description requirement would be fulfilled for broader genetic engineering patents if a court is given information defining a genus's structural similarity to a species. It is also unclear how rigorous a standard the information would have to meet.

The decision creates potential problems for DNA patents. With the difference of four codons out of over a hundred meaning the difference between infringement and non-infringement, the ruling gives only very narrow protection to genetic engineering patents. Because not every codon matters in the function of the protein, some could be changed and the patent dodged very easily.⁸² Patents held to be only as broad as the specific DNA nucleotide sequence disclosed have very little value.⁸³ Competitors may be able to make the product without spending much on research just by making a minor change in the DNA. With lower research costs, the competitor could charge a lower price. The inventor will have

80. "The principles upon which this taxonomic system is based are not necessarily coincident with suitability for the disclosed genetic manipulation." Brian P. O'Shaughnessy, *The False Inventive Genus: Developing a New Approach for Analyzing the Sufficiency of Patent Disclosure Within the Unpredictable Arts*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 147, 222 (Autumn, 1996).

81. "The proper inquiry is whether there is a key feature common to those members of the claimed genus and associated with the utility alleged." *Id.* at 210.

82. Biotechnology is a field where functionally equivalent variants abound. Despite the fact that at critical loci a single base change in a nucleic acid sequence or a single amino acid substitution in a protein can drastically alter function, many non-critical loci occur which tolerate all sorts of sequence variations without affecting function.

Lorance L. Greenlee, *Biotechnology Patent Law: Perspective of the First Seventeen Years, Prospective on the Next Seventeen Years*, 68 DENV. U. L. REV. 127, 133 (1991).

83. "A claim limited to one sequence, or even half a dozen functionally equivalent sequence variants, is virtually worthless if a competitor can simply make another functional variant outside the claim ... literally thousands of functionally equivalent sequence variants exist ... defining each of them is an impossible task" *Id.* at 133.

no incentive to invent, since the costs of research could not be recouped: biotechnology progress will likely slow.

The '525 patent has been published and tells how to make and use human insulin DNA. UC has given valuable information to society. By ruling that the patent is so narrow as to only include rat insulin DNA, UC received little in return. The incentive for future applicants in UC's position to file a patent is diminished, since UC gave up information and got nothing in return.

One may ask if the written description requirement should be eased or done away with in DNA cases. Insulin in many species is extremely similar.⁸⁴ Their DNAs may be similar enough that perhaps going through and finding the nucleotide sequences of many species would be repetitive, add little of value to the store of knowledge, and waste resources which could be better used for new research.⁸⁵ The written description requirement has been confusing.⁸⁶ Enablement can serve the role of preventing inventors from claiming too much.⁸⁷ Since it is confusing and perhaps unnecessary,⁸⁸ the removal of the written description requirement is something to be considered if the current rule turns out to allow only patents that are so narrow that they inhibit the pace of biotech research.

84. Human and bovine insulin, for example, are similar enough that until the recent development of recombinant methods for getting human insulin, diabetics relied on bovine insulin. See *LabSpec - Drugs* (visited Feb. 18, 1998) <http://labspec.co.za/_drugs.htm>.

85. For insulin DNA nucleotide sequences of various species (each web site corresponds to a separate species), see *PubMed Nucleotide Query* (visited Feb. 19, 1998) <<http://www.ncbi.nlm.nih.gov/htbin-post/Entrez/query?uid=202471&form=6&db=n&Dopt=g>>, <<http://www.ncbi.nlm.nih.gov/htbin-post/Entrez/query?uid=191273&form=6&db=n&Dopt=g>>, and <<http://www.ncbi.nlm.nih.gov/htbin-post/Entrez/query?uid=467970&form=6&db=n&Dopt=g>>.

86. With respect to the written description requirement: "[u]nfortunately, it is not so easy to tell what the law of the Federal Circuit is." *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1560, 19 U.S.P.Q.2d 1111, 1114 (Fed. Cir. 1991).

87. "And, of course, the regular enablement requirement seeks to relate patent scope to the underlying value of the patentee's disclosure." ROBERT P. MERGES, *PATENT LAW AND POLICY* 714 (2d ed. 1997).

88. "One may wonder what purpose a separate 'written description' requirement serves" *Vas-Cath*, 935 F.2d at 1560, 19 U.S.P.Q.2d at 1114. "The usual argument - that [the written description] gives notice to competitors concerning the scope of the applicant's intended claim scope - seems to miss the fact that parent patent applications are not disclosed." MERGES, *supra* note 84, at 714.

III. CONCLUSION

Read in combination, these two Federal Circuit cases illustrate Judge Lourie's concern with preventing overly broad patents. Only claims that are explicitly and completely enabled in the disclosure will be allowed. There is a de-emphasis on allowing outside information to fill in the enablement gaps. Only the specific DNA described by a nucleotide sequence will be covered by claims. These factors lead to very specific, narrow patents.

DNA patents are also in a state of uncertainty. The Federal Circuits standards for enablement and undue experimentation are unclear. The written description requirement only allows very narrow patents, so narrow and easily dodged as to be almost worthless. This may change if applicants develop a method for describing a category of DNA without having to give each nucleotide sequence.

If it does not change, the pace of fundamental biotechnology research may slow. However, if narrow patents create a slowdown in fundamental research, it should be at least somewhat offset by an increase in the development of specific uses for fundamental concepts.⁸⁹ Broad patents allow pioneering researchers to gain most of the rewards from their research, and therefore have more incentive for conducting it. Narrow patents mean that pioneering researchers will see the rewards go to those who come later with specific applications of the technology, therefore giving incentives to develop them.⁹⁰ Of course, there is a possibility that the patents would be so narrow as to worthless, which would provide no incentive for any research. It remains to be seen whether the current state of DNA patent law strikes the right balance between broad and narrow patents, between fundamental research and specific applications.

89. "Broad patents encourage fundamental research, and narrow patents encourage development." ROBERT COOTER & THOMAS ULEN, *LAW AND ECONOMICS* 121 (2d ed. 1997).

90. To illustrate, suppose that an investment of \$100,000 in research yields a pioneering invention that has no commercial use. Subsequently, an investment of \$50,000 in development yields an improvement that has commercial value of \$1 million. If the law grants broad patents, a patent for the pioneering invention would also cover the application, but if the law grants narrow patents, separate patents would be required for the pioneering invention and the application.

Id. at 121.

HOECHST-ROUSSEL PHARMACEUTICALS, INC. V. LEHMAN

By Matthew Hinsch

Included in the rights granted to a patent holder is the right to prevent others from making, using, offering for sale, or selling the patented invention.¹ The claims of a patent determine the property right from which others can be excluded.² A patent granted before June 8, 1995 has a term of 17 years from the day it was issued.³ Since June 8, 1995, when the Uruguay Round Agreement Act went into effect, the term of a patent is 20 years from the day the inventor files a patent application with the Patent and Trademark Office (PTO).⁴

Unlike most other inventions, drugs must be reviewed for safety by a governmental agency (such as the Food and Drug Administration (FDA)) before they can be commercially marketed.⁵ Thus, a drug cannot be marketed until several years after the term of its patent begins.⁶ As a result, holders of patents for pharmaceutical products effectively receive less than the full term of their patent.

There is some evidence that this effective reduction in drug patent terms reduces the incentive to invest in research for new drug products. For instance, a decline in the pharmaceutical industry was perceived after the 1962 expansion of FDA power to regulate drugs. Between 1958 and

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1. See 35 U.S.C. § 271(a) (1997); Frank M. Gasparo, *Markman v. Westview Instruments, Inc. and Its Procedural Shock Wave: The Markman Hearing*, 5 J. L. & POL'Y 723, 728 n.20 (1997).

2. See *Novo Nordisk of North America, Inc. v. Genentech, Inc.*, 77 F.3d 1364, 1369, 37 U.S.P.Q.2d (BNA) 1773, 1777 (1996).

3. See 35 U.S.C. § 154(c)(1).

4. See *id.*

5. See Susan E. Kopp, *The Drug Price Competition and Patent Term Restoration Act of 1984: Is It a Healthy Long Term Solution*, 71 J. PAT. OFF. SOC'Y 945, 949-51 (1989).

6. See James J. Wheaton, *Generic Competition and Pharmaceutical Innovation: The Drug Price Competition and Patent Term Restoration Act of 1984*, 35 CATH. U. L. REV. 433, 451 (1986) ("Much of the loss in effective patent life, if lost patent life is defined as the difference between effective patent life and seventeen years, is accounted for by the time during which innovating firms conduct the tests required to gain FDA approval.").

1979 the number of new chemical entities approved by the FDA fell by an estimated 81%.⁷ One commentator has argued:

The current three year lag time between the submission of a pioneer drug to the FDA and approval for introduction to the marketplace is simply unjustified. The three years, combined with the average seven to ten years of research expended to produce the drug, is far too great an investment of time and resources to be economically feasible—unless the drug is used in huge quantities. [citations omitted.]⁸

To address this problem, Congress enacted The Drug Competition and Patent Term Restoration Act of 1984, commonly known as the Hatch/Waxman Act.⁹ Title II of this Act includes section 156 of the Patent Act, which allows patent holders to restore some of the time lost in regulatory review to their patent term. In allowing for patent term restoration, Congress hoped to provide an increased incentive for drug research and innovation.¹⁰

To apply for patent term extension, the patent holder or its agent must file an application with the PTO within 60 days after FDA approval.¹¹ Section 156(a) permits the extension of a patent term if five conditions are met: (1) the term of the patent has not expired; (2) the term of the patent has not previously been extended; (3) an application has been submitted by the owner of the patent or its agent as described in section 156(d); (4) the product has been subject to a regulatory review before its commercial use; and (5) the commercial use is the first commercial use of the product unless the product is made by a new biotechnological procedure. Section 156(b) describes what patent rights are extended upon approval of the patent extension. According to the legislative history, section 156(b) provides that “[w]hen a product patent claiming the approved product is extended, the holder’s rights are limited to any use of the approved product which was approved before the expiration of the extended term of the patent”¹²

7. See *id.* at 450. Of course, this drop in FDA approvals could be due to the elimination of drugs that lack therapeutic value. See *id.*

8. Kopp, *supra* note 5, at 971.

9. See CHISUM, CHISUM ON PATENTS § 16.04[5] (1997).

10. See H.R. REP. NO. 98-857, pt. I, at 15 (1984) (“The purpose of Title II of the bill is to create a new incentive for increased expenditures for research and development of certain products which are subject to premarket governmental approval”).

11. See 35 U.S.C. § 156(d)(1) (1997).

12. See H.R. REP. NO. 98-857, pt. I, at 39 (1984).

Section 156(c) specifies the period of the extension of the patent term. One important component of this section is that the period of the extension is reduced by any time for which it is determined that the applicant for patent extension did not act with due diligence during the period of the regulatory review.¹³ The determination of due diligence, as required in the application by section 156(a)(3), is made under section 156(d). Section 156(d) requires that the application include, among other information, "a brief description of the activities undertaken by the applicant during the applicable regulatory review period with respect to the approved product and the significant dates applicable to such activities."¹⁴

BACKGROUND

In *Hoechst-Roussel Pharmaceuticals, Inc. v. Lehman*,¹⁵ the Federal Circuit considered how section 156 should be applied when a pharmaceutical patent holder applies for patent term extension based on a regulatory review period that it did not initiate. Hoechst-Roussel's (Hoechst) United States Patent No. 4,631,286 issued in 1986.¹⁶ It claims the drug 1-hydroxy-tacrine and a method of treating patients in need of memory enhancement.¹⁷ In 1993, Warner-Lambert completed an FDA review of tacrine hydrochloride (marketed as COGNEX), and Hoechst sued for infringement of the '286 patent.¹⁸ Hoechst's '286 patent does not claim tacrine hydrochloride.¹⁹ Tacrine hydrochloride, however, metabolizes into 1-hydroxy-tacrine and other compounds when it is ingested.²⁰ Thus, Hoechst sued under the theory that a patent is infringed by a drug that, upon ingestion, metabolizes into a chemical that is claimed in the patent.²¹ In 1994, a court entered a consent judgment in which Warner-Lambert admitted that tacrine hydrochloride infringes the '286 patent.²²

While in litigation, Hoechst applied for extension of its '286 patent under section 156 of the Patent Act for the period of the Warner-Lambert-

13. See 35 U.S.C. § 156(c)(1).

14. See *id.* § 156(d)(1)(D).

15. 109 F.3d 756, 42 U.S.P.Q.2d (BNA) 1220 (Fed. Cir. 1997).

16. See *id.* at 757, 42 U.S.P.Q.2d at 1221.

17. See *id.*

18. See *id.*

19. See *id.*

20. See 109 F.3d at 757, 42 U.S.P.Q.2d. at 1221-22.

21. See *id.*; see also *Zenith Lab., Inc. v. Bristol-Myers Squibb Co.*, 19 F.3d 1418, 30 U.S.P.Q.2d (BNA) 1285 (Fed. Cir. 1994) (finding that infringement may occur if a drug is metabolized *in vivo* into a product claimed by a patent).

22. See *Hoechst*, 109 F.3d at 757, 42 U.S.P.Q.2d at 1222.

initiated FDA review of tacrine hydrochloride.²³ In 1995, the Commissioner of the PTO denied Hoechst's application for patent term extension on two grounds. First, the Commissioner denied Hoechst's application because Hoechst was not involved in the regulatory approval process for tacrine hydrochloride.²⁴ Second, the application was refused because patent '286 did not claim tacrine hydrochloride.²⁵

Hoechst appealed the Commissioner's rejection to the district court and lost.²⁶ In an unpublished opinion, the district court held that Hoechst was not a proper applicant for patent term extension because the '286 patent did not claim tacrine hydrochloride²⁷ and because "a patent holder not attempting to market a product was not an intended beneficiary of [section] 156."²⁸ Hoechst subsequently appealed to the Federal Circuit.

THE MAJORITY DECISION

A majority of the Federal Circuit three-judge panel, in an opinion by Judge Clevenger, affirmed the district court's decision. The majority held that section 156(a) of the Patent Act requires a patent to claim a product that has been subject to regulatory approval in order to receive patent term extension. Section 156(a) states that "[t]he term of a patent which *claims a product* ... shall be extended if ... (4) the product has been subject to a regulatory review period before its commercial use or sale" (emphasis added). Therefore, the majority found that because Hoechst's '286 patent did not *claim* tacrine hydrochloride (the compound that was reviewed by the FDA), the '286 patent should not be extended.²⁹

The majority rejected Hoechst's argument that the legislative history of section 156 of the Patent Act supported a broader interpretation of "claims" to include any product that infringes the claims of a patent. Hoechst cited two sections in the legislative history that addressed how Congress intended "claims" to be interpreted. First, the legislative history states that "[t]he term 'claims' was selected because it is the term used in the patent law to describe the invention which the patent owner or its assignee may prevent others from making, using or selling during the sev-

23. *See id.*

24. *See id.*

25. *See id.* at 758, 42 U.S.P.Q.2d at 1222.

26. *See id.*

27. *See id.*

28. *Id.* at 758, 42 U.S.P.Q.2d at 1225.

29. *See id.* at 761, 42 U.S.P.Q.2d at 1224-25.

enteen year term of the patent”³⁰ Second, the legislative history states that “[t]he policy which the Committee seeks to implement ... is ... that the first patent ... which claims the approved product, in the sense that the approved product would infringe a claim of that patent ... is the patent which should be rewarded with the extension.”³¹ In rejecting this argument, the majority cited *Glaxo Operations UK, Ltd. v. Quigg*,³² and stated that the plain meaning of section 156 should be overridden only if there was an “*extraordinary showing of contrary intentions*.”³³

JUDGE NEWMAN’S CONCURRING OPINION

Judge Newman found the legislative history persuasive and thus disagreed with the majority. She noted that the purpose of section 156 was to extend the time during which a patent can be enforced against infringers and found that the majority’s plain reading of the section 156(a) was contrary to this purpose. She concluded that “[t]he word ‘claim’ is used in the statute for ... implementing this purpose, not to provide a loophole when the claim would be directly infringed only upon use of the FDA-approved product.”³⁴

According to Judge Newman, the district court was wrong when it held that “Hoechst-Roussel, not having itself sought regulatory market approval, could not apply for extension of the term of the ’286 patent.”³⁵ Judge Newman argued that, for instance, a licensee, and not the patent holder, could seek regulatory approval under section 156. Citing section 156(a)(3), she noted that an application can be submitted by the patent holder or its agent.³⁶ Therefore, according to Judge Newman, the statute provides for the scenario where the patent holder and marketing applicant are different, and therefore the district court was wrong when it held that a patent holder could not apply for patent extension if the patent holder had not sought regulatory market approval.

Furthermore, Judge Newman disagreed with the district court’s assertion that the applicant for regulatory market approval must have been the

30. *Id.* at 760, 42 U.S.P.Q.2d at 1224 (citing H.R. REP. NO. 98-857, pt. I, at 37 (1984)).

31. *Id.*

32. 706 F. Supp. 1224, 1227-28, 10 U.S.P.Q.2d (BNA) 1100, 1103 (E.D. Va. 1989), *aff’d*, 894 F.2d 392, 13 U.S.P.Q.2d (BNA) 1628 (Fed. Cir. 1990).

33. *See Hoechst*, 109 F.3d at 758, 42 U.S.P.Q.2d at 1223 (emphasis in original).

34. *Id.* at 764, 42 U.S.P.Q.2d at 1227 (Newman, J., concurring).

35. *Id.* at 761, 42 U.S.P.Q.2d at 1225 (Newman, J., concurring).

36. *See id.* (Newman, J., concurring).

patentee or its agent at the time the approval was sought.³⁷ Throughout section 156, the statute refers to a variety of contexts where an agent can act in the patent holder's absence. For instance, section 156(d)(1)(D) provides that the applicant or the marketing entity (i.e. the applicant for FDA approval) may contribute evidence of due diligence during the regulatory review period.³⁸ Thus an independent entity can apply for a regulatory market review and later become the patent holder's agent for patent term extension.

Nevertheless, Judge Newman argued that Hoechst's '286 patent was still not eligible for the patent term extension because section 156 requires that the market applicant participate in the application for patent term extension.³⁹ For instance, "section 156(d)(1)(D) requires that the applicant for extension provide a description of its activities during the regulatory review period and the dates of such activities; this description may be provided by the marketing entity when the patentee has not itself engaged in such activities."⁴⁰ According to Judge Newman, "it is the holder of market approval that is the primary intended beneficiary of section 156."⁴¹ Therefore, since Hoechst was not the marketing applicant and Warner-Lambert (who was the market applicant) did not participate in Hoechst's application, Hoechst could not successfully apply for patent term extension. Finally, Judge Newman rejected Hoechst's argument that 21 C.F.R. § 60.36(b), which states that "the actions of the marketing applicant shall be imputed to the applicant for patent term restoration," removes the need for participation of the marketing applicant.⁴² In sum, Judge Newman concurred in result only, finding both bases of the district court's judgment, as well as the majority's reasoning, incorrect.

DISCUSSION

Faced with a choice between the plain meaning of the statute and strong indications from the legislative history for a different reading of the statute, the Federal Circuit chose the plain meaning of the statute. This decision undercuts the policy goals of the Hatch/Waxman Act and is not consistent with the statutory scheme of the patent system. To meet these policy goals, Congress now must change the language of section 156(a) so

37. *See id.* (Newman, J., concurring).

38. *See id.* at 762, 42 U.S.P.Q.2d at 1225 (Newman, J., concurring).

39. *See id.* at 763, 42 U.S.P.Q.2d at 1226 (Newman, J., concurring).

40. *Id.* at 762, 42 U.S.P.Q.2d at 1225 (Newman, J., concurring).

41. *Id.* at 761, 42 U.S.P.Q.2d at 1225 (Newman, J., concurring).

42. *See id.* at 762, 42 U.S.P.Q.2d at 1226 (Newman, J., concurring).

that a patent may be extended for the regulatory review period of a product that infringes, but is not claimed by, the patent.

The Hatch/Waxman Act resulted from a Congressional compromise between the competing interests of the generic drug industry and research-based, patent-holding, pharmaceutical companies.⁴³ Title I and part of Title II of the Hatch/Waxman Act provided generic drug companies with an abbreviated generic drug approval process⁴⁴ and overruled *Roche Products, Inc. v. Bolar Pharmaceutical Co* by introducing section 271(e) of the Patent Act.⁴⁵ Section 271(e)(1) states that “[i]t shall not be an act of infringement to make, use, offer to sell, or sell ... a patented invention ... solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs”⁴⁶

The remainder of Title II of the Hatch/Waxman Act, on the other hand, was enacted to promote the interests of pharmaceutical companies that fund research for new drug development. These companies wanted the patent term of their drugs extended to restore the time that they could have marketed their drug but for the FDA regulatory review.⁴⁷ In effect, innovative pharmaceutical companies were not receiving the full benefit of the seventeen year patent term because they were not allowed to market their drugs until after a lengthy FDA review. To correct this discrepancy and thus to “create a new incentive for increased expenditures for research and development of ... products which are subject to premarket government approval,”⁴⁸ Congress enacted section 156 of the Patent Act to restore some of the patent term lost under government regulatory review. “The incentive is the restoration of some of the time lost on patent life while the product is awaiting pre-market approval.”⁴⁹ In sum, the statute was enacted to encourage pharmaceutical companies to fund more research in drug development.⁵⁰

43. See Kopp, *supra* note 5, at 946.

44. *Id.* at 955-60.

45. See *Hoechst*, 109 F.3d at 763, 42 U.S.P.Q.2d at 1226.

46. 35 U.S.C. § 271 (1997).

47. See Wheaton, *supra* note 6, at 451.

48. See H.R. REP. NO. 98-857, pt. I, at 15 (1984).

49. *Id.*

50. It is unclear what the actual effect of the Hatch/Waxman Act has been on the pharmaceutical industry. At least one commentator has argued that the conditions for patent term extension are too restrictive and that the rights granted are too vague for section 156 to be effective. See Kopp, *supra* note 5, at 968-69. This is supported by the finding that patent holders for approximately one third of new chemical entities approved by the FDA did not even bother to file for patent term extension. See Susan Kucukarslan

The majority in *Hoechst* had two choices with regard to section 156(a): it could uphold the plain meaning of the statute or it could have interpreted the statutory language to encompass the legislative intent that is enunciated in the legislative history. The court stated that an "extraordinary showing of contrary intentions" was necessary to interpret section 156(a) by anything but its plain meaning.⁵¹ The court held that Hoechst's argument did not meet that high standard.⁵² Although the court applied the correct standard, they arrived at the wrong result.

Courts have applied the "extraordinary showing" standard for many years.⁵³ In *Hoechst*, the court cited *Rubin v. U.S.*⁵⁴ and *Glaxo* for the "extraordinary showing" standard.⁵⁵ Neither case, however, sheds much light on application of the "extraordinary showing" standard. In *Rubin*, the Supreme Court addressed the question of whether pledging stock as collateral for a bank loan constituted an "offer or sale" as recited in the Securities Act of 1933.⁵⁶ The Court found that when the terms of the statute were unambiguous, "judicial inquiry is complete, except 'in 'rare and exceptional circumstances.'"⁵⁷ The petitioner, however, did not cite any legislative history indicating that Congress intended anything but the plain meaning of the statute.⁵⁸ The Court concluded that the legislative history and purposes of the Securities Act of 1933 were consistent with the plain meaning of the statute.⁵⁹ Therefore, the statute's plain meaning was upheld.⁶⁰

In *Glaxo*, the Federal Circuit decided whether a drug was the first drug product to be marketed under a patent, as required by section 156(a)(5) of

& Jacqueline Cole, *Patent Extension Under The Drug Price Competition And Patent Term Restoration Act Of 1984*, 49 FOOD & DRUG L.J. 511, 522 (1994). Others, however, have noted that pharmaceutical company research expenditures have increased since the passage of the Act. See Ralph A. Lewis, *The Emerging Effects Of The Drug Price Competition And Patent Term Restoration Act Of 1984*, 8 J. CONTEMP. HEALTH L. & POL'Y 361, 376 (1992).

51. See *Hoechst-Roussel Pharm., Inc. v. Lehman*, 109 F.3d 756, 760, 42 U.S.P.Q.2d (BNA) 1220, 1223 (Fed. Cir. 1997).

52. See 109 F.3d at 760, 42 U.S.P.Q.2d at 1224.

53. See, e.g., *Crooks v. Harrelson*, 282 U.S. 55, 60 (1930).

54. 449 U.S. 424 (1981).

55. See *Hoechst*, 109 F.3d at 760, 42 U.S.P.Q.2d at 1223.

56. See *Rubin*, 449 U.S. at 427-28.

57. *Id.* at 430.

58. See *id.*

59. See *id.* at 431.

60. See *id.*

the Patent Act for patent term extension.⁶¹ In attempting to deny patent term extension to the applicant, the Commissioner of the PTO argued for a statutory interpretation of section 156(f)(2) that was counter to the plain meaning of the statute.⁶² The Federal Circuit stated that the legislative history should be considered, "but only to determine whether a clear intent contrary to the plain meaning exists."⁶³ The court found that the legislative history did not provide an explanation of the language in question, but only provided a general policy for the entire Hatch/Waxman Act.⁶⁴ Thus, the court in *Glaxo* held that an extraordinary showing had not been made.⁶⁵

The Supreme Court case of *Garcia v. United States*⁶⁶ gives somewhat clearer guidance on how to apply the "extraordinary showing" standard. The Court discussed the role of legislative history in applying the "extraordinary showing" standard by stating: "In surveying legislative history we have repeatedly stated that the authoritative source for finding the Legislature's intent lies in the Committee Reports on the bill, which 'represent[t] the considered and collective understanding of those Congressmen involved in drafting and studying proposed legislation.'"⁶⁷ As in *Rubin* and *Glaxo*, however, there was no legislative history that addressed the statutory language at issue.⁶⁸ Therefore, in *Garcia*, the plain meaning of the statute was applied.⁶⁹

In contrast to the facts in *Garcia*, the Committee Report for section 156(a) addresses the exact controversy at issue in *Hoechst*, and indicates a *clear intent* for how that controversy should be resolved. The legislative history confirms that the authors of the statute intended that patent extension be conferred in the situation where "the approved product would *infringe* a claim of that patent."⁷⁰ This language is crystal clear. Certainly, this quotation from the legislative history is a clear intent by the legislature of a meaning contrary to the plain meaning of the statute, as required by *Glaxo*, *Rubin*, and *Garcia*.

61. See *Glaxo Operations UK, Ltd. v. Quigg*, 894 F.2d 392, 394, 10 U.S.P.Q.2d (BNA) 1628, 1629 (Fed. Cir. 1990).

62. See *id.*

63. See *id.* at 395, 10 U.S.P.Q.2d at 1630-31.

64. See *id.* at 396, 10 U.S.P.Q.2d at 1631.

65. See *id.* at 399-400, 10 U.S.P.Q.2d at 1633-34.

66. 69 U.S. 70 (1984).

67. *Id.* at 76 (quoting *Zuber v. Allen*, 396 U.S. 168, 186 (1969)).

68. See *Garcia*, 69 U.S. at 77.

69. See *id.*

70. See H.R. REP. NO. 98-857, pt. I, at 38 (1984) (emphasis added).

It is not clear why the majority does not state that it is adopting a textualist or other kind of approach that ignores the legislative history when interpreting statutory language.⁷¹ The fact that the majority states that it will apply a standard that looks to the legislative history and then proceeds to review that history suggests that the court believes that the legislative history should play some role in statutory interpretation. It is wrong for the court to "examine the legislative history to ensure that there exists no clearly expressed legislative intention contrary to the statutory language"⁷² and then ignore that the legislative history clearly differs with the plain meaning of section 156(a).

The majority's opinion appears even weaker when considered in the context of the function of the patent system. As Judge Newman notes in her concurring opinion, infringement is "the core of the patent system."⁷³ Certainly the patent system allows patent holders to prevent others from using techniques that are not even claimed in their patents (e.g., the doctrine of equivalents protects against activities that are similar to, but not the same as, what is claimed).⁷⁴ The patent system encourages innovation by allowing inventors protection from *infringement* of their patent claims. The Federal Circuit's ruling in *Hoechst* undercuts these policy goals. Now, under the ruling of *Hoechst*, a FDA-reviewed product that directly infringes the patent does not necessarily allow for patent term extension.⁷⁵ The patent is extended only if the invention is within the claims of the patent. Thus, "[t]he distinction drawn by the panel majority leads to the curious result that the '286 claims would be infringed for all purposes of Title

71. For instance, several courts have held that the legislative history should not be considered when interpreting statutes. See *United States v. Great N. Ry. Co.*, 343 U.S. 562, 575 (1952) ("It is our judicial function to apply statutes on the basis of what Congress has written, not what Congress might have written"); *Immigration and Naturalization Serv. v. Cardoza-Fonseca*, 480 U.S. 421, 452 (1987) (Scalia, J., concurring) (arguing against reviewing the legislative history when the statutory language is clear); *Unimed, Inc. v. Quigg*, 888 F.2d 826, 829, 12 U.S.P.Q.2d (BNA) 1644, 1646 (Fed. Cir. 1989) ("Even if the [legislative] history were contrary to the statutory language employed and passed, we would be bound by what the law says, not by what it 'should' have said"). For some of the reasons that commentators have suggested for ignoring legislative history, see W. David Slawson, *Legislative History And The Need To Bring Statutory Interpretation Under The Rule Of Law*, 44 STAN. L. REV. 383 (1992) and David A. Strauss, *Why Plain Meaning*, 72 NOTRE DAME L. REV. 1565 (1997).

72. *Hoechst-Roussel Pharm., Inc. v. Lehman*, 109 F.3d 756, 760, 42 U.S.P.Q.2d (BNA) 1220, 1223 (Fed. Cir. 1997).

73. *Id.* at 764, 42 U.S.P.Q.2d at 1227 (Newman, J., concurring).

74. See *Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co.*, ___ U.S. ___, 117 S. Ct. 1040, 41 U.S.P.Q.2d (BNA) 1865 (1997).

75. *Hoechst*, 109 F.3d at 764, 42 U.S.P.Q.2d at 1227.

35 except for [section] 156.”⁷⁶ As a result, pharmaceutical innovators will not receive the additional benefit that Congress intended to provide them by enacting the Hatch/Waxman Act. Unfortunately, in order to prevent an undeserving applicant from receiving patent term extension, the majority wrongly created a precedent that prevents patent term extension for regulatory reviews of products that infringe, but are not claimed by, a patent.

Judge Newman’s concurring opinion provides a better approach for applying section 156. This approach allows patent term extension for the regulatory review period of any product that infringes the patent. It also prevents patent holders from extending the term of their patents based on regulatory review periods that neither they nor their agents initiated. Thus, pharmaceutical innovators could receive the full incentive of patent term extension that the legislative history supports. Furthermore, by allowing patent term extension only in situations where the regulatory review applicant participates in the extension application process, patent holders such as Hoechst would not receive patent term extensions. Thus Hoechst, which did not lose any of its own time going through FDA review, would not benefit by receiving patent term extension. This would be a fair result.

On the other hand, an agent that licensed the same product from Hoechst and lost time by going through a regulatory review could recoup that time and maintain its license by receiving an extension. In this case, the licensee that lost time in the review process would reap the benefit of additional time to enjoy the advantages of its license. The patent term extension would reward those who went through the review process, thus creating an incentive to continue to produce and commercialize more innovative drug technologies. Judge Newman’s approach would fulfill the legislature’s policy goals that were instituted when Congress passed the Hatch/Waxman Act. The majority’s holding in *Hoechst*, on the other hand, undercuts these goals.

CONCLUSION

The court should have denied Hoechst’s application for patent term extension because the market applicant did not participate in the application for patent term extension. Unfortunately, the court in *Hoechst* came to the correct decision, but for the wrong reasons. Those wrong reasons are now precedent and undermine the Hatch/Waxman Act’s public policy goals of rewarding pharmaceutical innovators. It remains to be seen to

76. *Id.*

what extent this ruling will undermine Congress's goal of producing additional incentives to drug innovators.

HEWLETT-PACKARD CO. V. REPEAT-O-TYPE STENCIL MANUFACTURING CORP.

By Elaine Stracker

For many consumers, the purchase of a personal computer also encompasses the purchase of an inexpensive ink-jet printer. Because the hardware is generally sold for little or no margin, printer manufacturers depend on the sales of supplies, such as replacement ink-jet cartridges for these printers, to make a profit.¹ Aftermarket companies, which either refill spent cartridges or modify cartridges so that they can be refilled, pose a significant threat to the business prospects and profitability margins of printer manufacturers.

In *Hewlett-Packard Co. v. Repeat-O-Type Stencil Manufacturing Corp.*,² the U.S. Court of Appeals for the Federal Circuit recently affirmed the permissibility of such aftermarket modifications on patented ink-jet cartridges. The Federal Circuit held that modification of patented ink-jet cartridges to make them refillable “is more akin to permissible ‘repair’ than to impermissible reconstruction.”³

The court determined that Hewlett-Packard’s ink-jet pen claims read on Repeat-O-Type’s modified cartridges.⁴ Restricting its infringement analysis solely to repair and reconstruction, the court determined that modifying the cartridge constituted repair and, consequently, did not infringe.⁵ This decision impacts incentives to create and invent, the exclusivity of patent rights, and the effectiveness of blocking patents.

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1. See Greg Stohr, *H-P Loses Refilled Cartridges Fight*, THE N.Y. TIMES NEWS SERVICE, ¶4 (Sept. 8, 1997) <http://nytsyn.com/lilve/New3/226-08147_100001_26424.html> (Like other computer manufacturers, H-P depends on sales of supplies, because “you sell the hardware for little or no margin, and you make your margin on ink,” said Daniel Kunstler, an analyst with J.P. Morgan Securities.).

2. 123 F.3d 1445, 43 U.S.P.Q.2d (BNA) 1650 (Fed. Cir. 1997).

3. *Id.* at 1452, 43 U.S.P.Q.2d at 1656.

4. See *id.* at 1451, 43 U.S.P.Q.2d at 1655.

5. See *id.* at 1455, 43 U.S.P.Q.2d at 1659. However, the court did not address the other limitation on the implied license under the first sale doctrine, not to make the patented item, which is what HP was claiming that ROT had done.

I. STATEMENT OF THE FACTS

Hewlett-Packard (HP) manufactures and sells ink-jet printers and disposable ink-jet cartridges for its printers.⁶ The ink-jet cartridges are intended for one-time use and, once the ink is depleted, HP expected the cartridges would be discarded.⁷ Accompanying the cartridges was a disclaimer for any printer damage as a result of refilling and reusing the cartridges and a warning to discard old cartridges immediately.⁸

HP's cartridges use thermal ink-jet printing technology.⁹ The cartridges consist of a printhead with thermal resistors in a thin-film-semiconductor substrate and an ink reservoir.¹⁰ Electrical energy is provided to the cartridge by the printer.¹¹ This energy causes the thermal resistors to heat and the ink to boil, forming a vapor, which results in the release of ink droplets from the cartridge onto a receiving medium, such as paper.¹²

HP owns a number of patents covering this technology.¹³ These include patents on ink-jet printers, cartridges, and ink compositions.¹⁴ HP asserted that Repeat-O-Type (ROT) infringed twelve of these patents by modifying two of the HP print cartridges.¹⁵

ROT purchased two types of HP cartridges, the "Kukla" cartridge, model HP 51625A, and the "Stanley" cartridge, the HP 51608A.¹⁶ ROT converted the black-ink Stanley cartridge to a colored-ink cartridge and modified the cap on the Kukla cartridge so that the cartridge could be refilled.¹⁷ ROT obtained a patent on the method for modifying the HP cartridge and on the modified cartridge.¹⁸ ROT repackaged the cartridges in the original HP boxes and sold them with refill ink as refill kits, packaged in an outer box with a see-through window.¹⁹ On most of the kits, al-

6. *See id.* at 1446, 43 U.S.P.Q.2d at 1652.

7. *See id.*

8. *See id.*

9. *See id.*

10. *See id.*

11. *See id.*

12. *See id.*

13. *See id.*

14. *See id.*

15. *See id.* at 1449-50, 43 U.S.P.Q.2d at 1654.

16. *See id.* at 1448, 43 U.S.P.Q.2d at 1653.

17. *See id.* at 1449, 43 U.S.P.Q.2d at 1654.

18. *See id.* at 1448, 43 U.S.P.Q.2d at 1653.

19. *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 34 U.S.P.Q.2d (BNA) 1450, 1452 (N.D. Cal. 1995), *aff'd*, 123 F.3d 1445, 43 U.S.P.Q.2d (BNA) 1650 (Fed. Cir. 1997).

though not all, ROT placed its own logo.²⁰ The refillable nature of the kits made it possible for ROT to sell the kits for a substantial premium over the price of the original HP cartridges.²¹

II. THE DISTRICT COURT DECISION

HP brought suit against ROT in the United States District Court for the Northern District of California claiming patent and trademark infringement, false designation, false description, false representation, unfair competition, and deceptive trade practices.²² The district court granted summary judgment for HP on the trademark infringement claims.²³

HP also alleged that ROT infringed its patents but restricted its arguments to two of its patents, Patent No. 4,827,294 (the '294 patent) and Patent No. 4,931,811 (the '811 patent), for purposes of summary judgment.²⁴ The court stated that patent infringement had to be established before applying the repair versus reconstruction doctrine.²⁵ Determining

20. *See id.*

21. *See* Brief for Appellant at 20, *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 43 U.S.P.Q.2d 1650 (Fed. Cir. 1997) (No. 96-1379). Currently, ROT advertises its refill ink kit for the HP 51625A at \$39.95. *See Repeat-O-Type Refill Ink Systems & Compatible Cartridges* (visited Jan. 25, 1998) <<http://www.repeatotype.com/refill.html>>. One can purchase the HP 51625A cartridge in stores for \$29.89 (list price at Staples in Vacaville, CA on Jan. 25, 1998).

22. *See Hewlett-Packard*, 34 U.S.P.Q.2d at 1451. For purposes of this paper, only the trademark and patent infringement causes of action will be addressed as this was a motion for summary judgment and the court only dealt with the trademark and patent infringement claims.

23. *See id.* at 1454. The court stated that the only issue was whether ROT was using HP's trademark in a manner likely to cause confusion, mistake, or deception. *See id.* at 1453. The court applied the facts to the eight factor test propounded in *AMF Inc. v. Sleekcraft Boats*. *See id.* at 1453-54. "These factors are: (1) strength of the plaintiff's marks; (2) proximity of the goods; (3) similarity of the marks; (4) evidence of actual confusion, (5) marketing channels used; (6) type of goods and the degree of care likely to be exercised by the purchaser; (7) defendant's intent in selecting the marks; and (8) likelihood of expansion of the product lines. *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 (9th Cir. 1979)." *Hewlett-Packard*, 34 U.S.P.Q.2d at 1453. The court determined that the marks on the packages were similar, HP's registered trademarks were very strong marks, the marketing channels used by ROT were similar to those used by HP, and finally, although not necessary to prove infringement, that ROT intended to deceive the public. *See id.* at 1454. Thus, the court concluded that confusion was likely to result and that ROT had infringed HP's trademarks. *See id.*

24. *See Hewlett-Packard*, 34 U.S.P.Q.2d at 1452.

25. *See id.* at 1455. HP had argued that because ROT modified HP's product before there were any worn or spent parts; the modification could not be permissible repair and so must be impermissible reconstruction.

whether a patent claim is infringed requires a two-step analysis: “[f]irst, the claim must be properly construed to determine its scope and meaning. Second, the claim as properly construed must be compared to the accused device or process.”²⁶ In analyzing the claims in the patents, the court determined that because the ink, the cap, and the cartridge were not specifically claimed in the patents, the modified cartridges did not literally infringe, even though claim 2 of the '811 patent recited “a thermal ink-jet pen including ...” and the accompanying diagram illustrated a pen body housing and a cap.²⁷ Upon applying the doctrine of equivalents, the court again concluded that because the cap was not a patented element, there was no infringement. Summary judgment was then granted to ROT on the patent claims.²⁸

III. THE FEDERAL CIRCUIT DECISION

A. The Cartridge Modification

Only the summary judgment on the patent infringement claims was appealed.²⁹ HP first asserted that the district court erred in its interpretation of the claims of the '294 and '811 patents and then argued that ROT's modification created new cartridges with different properties, features, and performance characteristics and, as such, were not “authorized.”³⁰

The Federal Circuit agreed that the district court misconstrued the scope of the claims.³¹ The preamble of the claims state “an ink-jet pen including” and, because the word “including” in claim interpretation is synonymous with “comprising,” the claim can include unnamed components, such as the cap.³² In addition, the cap was depicted in the drawings of the patent.³³ The court then assumed, for purposes of analysis, that: (1) HP's patents read on ROT's modified cartridges, or in other words, everything in HP's patent claims appeared in the modified cartridge, and (2) that the modification of the cap involved “making” the “ink-jet pens” claimed in the '294 and '811 patents.³⁴ The court then said that the issue

26. *Carroll Touch, Inc. v. Electro Mechanical Sys.*, 15 F.3d 1573, 1576, 27 U.S.P.Q.2d 1836, 1839 (Fed. Cir. 1993).

27. *See Hewlett-Packard Co. v. Repeat-O-Type Mfg. Corp.*, 123 F.3d 1445, 1447-48, 43 U.S.P.Q.2d (BNA) 1650, 1653.

28. *See Hewlett-Packard*, 34 U.S.P.Q.2d at 1456.

29. *See Hewlett-Packard*, 123 F.3d at 1446, 43 U.S.P.Q.2d at 1651.

30. *See id.* at 1450-51, 43 U.S.P.Q.2d at 1652.

31. *See id.*

32. *See id.*

33. *See id.*

34. *See id.*

remaining was whether this modification was authorized or exceeded the scope of the implied license granted to purchasers.³⁵

The court then proceeded to analyze the case under the doctrine of repair and reconstruction. The court acknowledged that ROT's modification was not conventional repair or reconstruction because the caps were not broken or defective, nor was the combination, as a whole, spent.³⁶ However, the court concluded that the modification was more akin to "permissible 'repair'" than "impermissible 'reconstruction.'"³⁷

In support, the court determined that because the cartridges were not spent, the making could not be reconstruction.³⁸ The court cited *Wilbur-Ellis Co. v. Kuther*,³⁹ saying that ROT's modification was similar to the purchaser's in *Wilbur-Ellis Co.*, who had modified worn fish-canning machines to pack fish into smaller cans.⁴⁰ The court said this was permissible repair because it "bore on the useful capacity of the old combination, on which the royalty had been paid."⁴¹ The court concluded that ROT's modification simply improved the cartridge's usefulness and that HP failed to recognize a distinction between what it intended to be the life of the cartridge, as determined by the ink supply, and its actual useful life.⁴²

Likewise, the court rejected HP's argument "that the boundary between permissible repair and impermissible reconstruction turns on the intention of the patentee."⁴³ The court stated that although the Supreme

35. *See id.* Upon the sale of a patented item, an implied license is said to be created which allows or authorizes the purchaser to use, repair, and resell a product without violating the patentee's exclusive rights. Thus, repairing a patented item is permissible. However, reconstructing a patented item is said to be impermissible because it violates the exclusive right of the patentee not to have his item made by another. *See id.* at 1451, 43 U.S.P.Q.2d at 1655-56.

36. *See id.* at 1452, 43 U.S.P.Q.2d at 1656.

37. *Id.*

38. *See id.*

39. 377 U.S. 422 (1964).

40. *See Hewlett-Packard*, 123 F.3d at 1452, 43 U.S.P.Q.2d at 1656-57.

41. *Id.*, 43 U.S.P.Q.2d at 1657. The court never addresses the fact that the items modified were worn and that the packing size of the cans was not an aspect of the claims.

42. *See id.* However, the court does not address the distinction between useful capacity, as to scope of the patent claim, which is what the court in *Wilbur-Ellis* was addressing, as opposed to extending the useful lifespan of a patented product by modifications which is the issue in *Hewlett-Packard*. Also, this concept of "improved usefulness," as it is called by the court, would seem to be more akin to a dictionary definition of making, building, or reconstructing a product than to repairing the product, although this suggestion is contravening to the court's analysis.

43. *Id.*

Court spoke in terms of intent of the patentee in *Wilson*,⁴⁴ it focused on the nature of the device sold.⁴⁵ While in *American Cotton-Tie Co. v. Simmons*,⁴⁶ the Supreme Court again spoke in terms of patentee intent, later, in *Aro Manufacturing Co. v. Convertible Top Replacement Co.*,⁴⁷ the Court noted it was important that the devices “were marked ‘licensed to use once only.’”⁴⁸ The court stated that none of the decisions “of this court cited by HP suggest that a patentee’s intent alone limits the scope of the implied license that accompanies the sale of goods.”⁴⁹ Thus, the court concluded that “absent a restriction having contractual significance, a purchase carries with it the right to modify as long as reconstruction of a spent product does not occur” or as long as a new patented entity is not made.⁵⁰

The court then stated that while HP clearly intended the cartridges to be discarded after a single use, a noncontractual intention is not an enforceable restriction.⁵¹ Thus, the court concluded that a ruling in HP’s fa-

44. 50 U.S. (9 How.) 109 (1850).

45. See *Hewlett-Packard*, 123 F.3d at 1453, 43 U.S.P.Q.2d at 1657. In *Wilson*, 50 U.S. at 109, the Court held that replacement of worn cutting knives in a planing machine was permissible repair rather than of impermissible reconstruction because the inventor intended that the knives were to be replaced or repaired as required and that such repair when the “wearing or injury is partial, is restoration and not reconstruction.” *Id.* at 123. Replacing the temporary parts did not alter the identity of the machine, rather its identity is preserved even though not every part of the repaired machine contained its original material. See *id.* at 126. However, the Court also said that “when the material of the combination ceases to exist, in whatever way that may occur ... there is no right to rebuild the combination.” *Id.* at 123.

46. 106 U.S. (16 Otto) 89 (1882).

47. 365 U.S. 336, 343 (1961).

48. *Hewlett-Packard*, 123 F.3d at 1453, 43 U.S.P.Q.2d at 1657. In *American Cotton Tie*, 106 U.S. at 89, the plaintiff held a patent on a metallic tie and buckle combination for tying cotton bales and stamped in the middle of the buckle were the words, “Licensed to use once only.” *Id.* at 90-91. After the ties had served their “one-time” purpose, the user would sever the ties and discard them. See *id.* at 91. The defendant purchased the severed ties and riveted the bands back together for reuse. See *id.* The Court distinguished this reuse from the principle set out in *Wilson*, and held that, by severing the tie, the product was voluntarily destroyed, thus the defendant’s actions constituted reconstruction. See *id.* at 94.

49. *Hewlett-Packard*, 123 F.3d at 1454, 43 U.S.P.Q.2d at 1658.

50. *Id.* at 1453, 43 U.S.P.Q.2d at 1657.

51. See *id.* at 1453, 43 U.S.P.Q.2d at 1658. This comment by the court seems to imply that HP could restrict ROT or other purchasers from modifying the cartridges for repeat use by using in essence a “shrink wrap” agreement. Cf. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 24 U.S.P.Q.2d (BNA) 1173 (Fed. Cir. 1992). In *Mallinckrodt*, the court noted that Mallinckrodt’s sale of his patented product was conditional, as his products were marked “Single Use Only.” *Id.* at 701, 709, 24 U.S.P.Q.2d at 1173,

vor would deprive ROT of the right to use and resell its own property, which it purchased free of restriction.⁵²

B. The Remaining Patents In Suit

HP also claimed that ROT infringed its '503 ink patent.⁵³ The court upheld the summary judgment on the ink patent claims, stating that HP failed to provide any evidence that created a genuine issue of fact concerning whether the accused products contain inks which are covered by the asserted claims of the '503 patent.⁵⁴

Likewise, the court dismissed the claims of infringement on the remaining nine patents covering ink-jet cartridge components.⁵⁵ The court determined that HP had not introduced any evidence to show that ROT's

1180. In addition, the court stated that "[t]he principle of exhaustion of the patent right did not turn a conditional sale into an unconditional one." *Id.* at 706, 24 U.S.P.Q.2d at 1178. Thus, the court held that repair of a patented device would be impermissible if it was violating a license for single use, in that any reuse would be infringement. *See id.* at 709, 24 U.S.P.Q.2d at 1180.

52. *See id.*

53. *See Hewlett-Packard*, 123 F.3d at 1454, 43 U.S.P.Q.2d at 1658

54. *See id.* HP cited deposition testimony of two ROT chemists, including "admissions" of infringement. *Id.* One of the chemists later refuted his earlier testimony, saying he did not understand the examining attorney's use of the phrase "fall within the claims." *Id.* The court determined that the statement, made by the other chemist, that "there was a problem, there was patent infringement" regarding the ink-jet formula, was hardly an admission that the accused product infringed. *Id.* Generally, however, patent infringement is a question of fact and to be determined by a jury. In this instance, there appears to be dispute as to whether the above statements were admissions and therefore, based on the information presented in the opinion, this issue should arguably have been decided by the jury.

In addition, though not stated in the opinion, the deposition material also included the formulation for the alleged ink. *See* Brief for Appellant at 19, 45, *Hewlett-Packard Company v. Repeat-O-Type Stencil Manufacturing Corp.* 43 U.S.P.Q.2d 1650 (Fed. Cir. 1997) (No. 96-1379). HP proffered as evidence the Material Safety Data Sheet listing the ingredients of ROT's ink. *See id.* The ingredients were copied in material part verbatim from HP's data sheet. *Id.* The court should have compared the alleged ink formulation to the claims in the '503 patent. [Claim 1 is an open-end claim for an ink-jet ink comprising only three elements, with a final pH restriction. *See* U.S. Patent No. 5,108,503, issued Sept. 19, 1994. Thus, as long as this claim read on ROT's formulation, or stated in another way, as long as ROT's formulation contained these three elements, regardless of whether it had additional elements, and was within the requisite pH range, ROT would be infringing HP's ink claim.] At the very least, this proffered evidence should have been sufficient to create a genuine issue of material fact precluding summary judgment of noninfringement of the ink claims. As an interesting aside, ROT changed its formulation almost immediately upon notification of the patent infringement lawsuit against it in regard to HP's ink patent.

55. *See Hewlett-Packard*, 123 F.3d at 1454, 43 U.S.P.Q.2d at 1659.

modification constituted reconstruction of the patented cartridges and therefore, these claims were not infringed.⁵⁶

IV. DISCUSSION

A. The Court's Analysis

The Court, in analyzing HP's patent infringement claims, stated that because ROT had purchased the ink-jet cartridges, the patent exhaustion doctrine applied.⁵⁷ Thus, they concluded that the appropriate analysis of the alleged infringement was under the doctrine of repair and reconstruction.⁵⁸ Under patent exhaustion, an implied license between a patent owner and a buyer is created upon the authorized first sale of a patented product.⁵⁹ The right transferred by this implied license controls the exchange of the right to use an invention.⁶⁰ The sale of a product generally gives the purchaser the right to full use including resale of the purchased item without violating the patentee's exclusive rights.⁶¹ However, as stated by the Supreme Court in *Leeds & Catlin Co. v. Victor Talking Machine Co.*,⁶² "[t]he license granted to a purchaser of a patented combination is to preserve its fitness for use so far as it may be affected by wear or

56. *See id.*

57. *See id.* at 1451, 43 U.S.P.Q.2d at 1655-56.

58. *See id.*, 43 U.S.P.Q.2d at 1656.

59. *See* ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 210-11 (2d ed. 1991) (citing *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568 (Fed. Cir. 1988) and *Spindelfabrik Suessen-Stahlecker & Grill GmbH v. Schubert & Salzer Mas. Ak.*, 829 F.2d 1075 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1063 (1988)).

60. *See* ERNEST B. LIPSCOMB III, LIPSCOMB'S WALKER ON PATENTS §20:5, §20:14, (3d ed. 1987) (noting that many rules of express licenses are applicable to implied licenses).

61. *See* *United States v. Univis Lens Co.*, 316 U.S. 241, 249-50 (1942); *Adams v. Burke*, 84 U.S. 453, 456 (1873); *Bloomer v. McQuenwan*, 55 U.S. (14 How.) 539, 549-50 (1852) (holding that the patent monopoly was limited with respect to purchasers of the patented product); *see also*, *Intel Corp. v. ULSI Sys. Tech. Corp.*, 995 F.2d 1566, 1568, 27 U.S.P.Q.2d (BNA) 1136, 1138 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1092 (1994); *Brandt Consol., Inc. v. Agrimar Corp.*, 801 F. Supp. 164, 173, 24 U.S.P.Q.2d 1341, 1347-48 (C.D. Ill. 1992); *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 757, 197 U.S.P.Q. (BNA) 342, 434 (D.S.C. 1977), *aff'd*, 594 F.2d 979, 201 U.S.P.Q. 641 (4th Cir. 1979), *cert. denied*, 444 U.S. 1015 (1980); *Extractol Process v. Hiram Walker & Sons*, 153 F.2d 264, 265, 68 U.S.P.Q. (BNA) 128, 128 (7th Cir. 1946); *Southwestern Tool Co. v. Hughes Tool Co.*, 98 F.2d 42, 45 (10th Cir. 1938).

62. 213 U.S. 325 (1909), *overruled* on other grounds by *Merciod Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 668 (1944) (challenging the doctrine of contributory infringement).

breakage. Beyond this there is no license."⁶³ Thus, while this implied license allows a purchaser to use, repair, and resell a product, he cannot make or remake the patented product.⁶⁴

In interpreting the term "make," as it relates to patent infringement, courts have adopted the ordinary usage of the word "to create by putting together component parts."⁶⁵ Synonyms for "make," used by courts in analyzing for infringement, include "assemble," "build," "construct," "fabricate," and "manufacture."⁶⁶ Thus, the term "make" implies a process which culminates when the potentially infringing product is equivalent or identical to the patented invention.⁶⁷ After an authorized sale, the "make" issue arises primarily as a result of the repair or reconstruction of a patent combination.⁶⁸

63. *Id.* at 336.

64. See DONALD CHISUM & MICHAEL JACOBS, UNDERSTANDING INTELLECTUAL PROPERTY LAW: UNITED STATES §2F[3] (1992); see generally Jerome L. Jeffers, *Restriction of Propagation of Patented Bacteria Sold by the Patentee-Can It be Done?* 70 J. PAT. & TRADEMARK OFF. SOC'Y, 137 (1988); Mark A. Farley, *Infringement Questions Stemming from the Repair or Reconstruction of Patented Combinations*, 68 J. PAT. & TRADEMARK OFF. SOC'Y 149 (1986); Edmund J. Sease, *Patent Law: Repair-Reconstruction A Review, Analysis and Proposal*, 20 DRAKE L. REV. 85 (1970); Note, *Repair and Reconstruction of Patented Combinations*, 32 U. CHI. L. REV. 353 (1965); *Wilbur-Ellis Co. v. Kuther*, 377 U.S. 422 (1964); Note, *Repair and Reconstruction in Patented Combinations*, 23 U. PITT. L. REV. 184 (1961); *Westinghouse Electric & Mfg. Co. v. Hesser*, 131 F.2d 406, 56 U.S.P.Q. (BNA) 347 (6th Cir. 1942); *Marconi Wireless Tel. Co. v. United States*, 99 Ct. Cl. 1, 53 U.S.P.Q. (BNA) 246, modified, 63 S. Ct. 1393, 57 U.S.P.Q. (BNA) 471, *reh. den.* 320 U.S. 809 (1942); *C. & R. Research Corp. v. Write, Inc.*, 19 F.2d 380 (D. Del. 1927); *Cinema Patents Co. v. Craft Film Laboratories, Inc.*, 56 F.2d 265, 12 U.S.P.Q. (BNA) 501 (D. Del. 1932), *aff'd*, 64 F.2d 42, 17 U.S.P.Q. (BNA) 103 (3rd Cir. 1932); *Electric Vacuum Cleaner Co. v. Green*, 41 F. Supp. 562, 51 U.S.P.Q. (BNA) 123 (N.D. Ohio 1941), *amended on other grounds by* (6th Cir.) 132 F.2d 312, 56 U.S.P.Q. (BNA) 127, *cert. dismissed.* 319 U.S. 777; *J.F. Rowley Co. v. Rowley*, 18 F.2d 704 (3rd Cir. 1927); *De Forest Radio Tel. & Tel. Co. v. Radio Corporation of America*, 20 F.2d 598 (3rd Cir. 1927).

65. *Hughes Aircraft Co. v. United States*, 29 Fed. Cl. 197, 221 (1993) (quoting Webster's II New Riverside University Dictionary 718 (1984)); see also *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 10 (1913).

66. *Bergstrom v. Sears, Roebuck & Co.*, 496 F. Supp. 476, 493 (D. Minn. 1980); *Hughes Aircraft*, 29 Fed. Cl. at 221-22.

67. See Eitan Alexander Ogen, *Notes: Assembling A Theory Of Infringement: Third Party Liability Based On In Vivo Production Of Patented Pharmaceuticals*, 17 CARDOZO L. REV. 117, 128 (1995).

68. See *id.* at 129-30.

B. First Problem Associated With Restricting Analysis To The Doctrine of Repair and Reconstruction—Definitions of Terms

There are two major problems associated with the court restricting its analysis, in *Hewlett-Packard v. Repeat-O-Type*, to the doctrine of repair or reconstruction after an "authorized" sale. The first resides in the general definitions of repair and reconstruction. The word "repair," as used in connection with a patented article, means the restoration or replacement of worn-out parts.⁶⁹ More specifically, "repair" means "to restore to a sound or good state after decay, injury, dilapidation, or partial destruction."⁷⁰ The expense of replacement and the difficulty of installation are immaterial to the issue of repair.⁷¹ Rather, the condition of the device before and the nature of the device after the alleged repair are among factors that courts find significant.⁷²

The right to repair, however, is not absolute. Repairs so extensive that the identity of the article is lost amount to impermissible reconstruction.⁷³ Rebuilding an entirely worn article, and not merely an element of it constitutes reconstruction.⁷⁴ Likewise, the replacement of nonpatented parts in a patented combination to the extent that the new parts dominate the structural substance of the article also constitutes reconstruction.⁷⁵ Thus, reconstruction is considered to be a second creation of the patented entity and a direct infringement of the patent owner's right under 35 U.S.C. § 271.⁷⁶

69. See *Wilson v. Simpson*, 50 U.S. (9 How.) 109, 109 (1850); *Simpson v. Wilson*, 45 U.S. (4 How.) 709, 709 (1846); *Hughes Tool Co. v. Owen*, 39 F. Supp. 656, 658 (N.D. Tex. 1941); *Foglesong Mach. Co. v. J. D. Randall Co.*, 239 F. 893, 895 (6th Cir. 1917); *Goodyear Shoe Mach. Co. v. Jackson*, 112 F. 146, 150 (1st Cir. 1901).

70. *Missouri, K. & T. Ry. Co. of Texas v. Bryan*, 107 S.W. 572, 576 (Tex. Civ. App. 1908).

71. See *Aktiebolag v. E. J. Co.*, 121 F.3d 669, 672, 43 U.S.P.Q.2d (BNA) 1620, 1623 (Fed. Cir. 1997).

72. See *Aktiebolag*, 121 F.3d at 673, 43 U.S.P.Q.2d at 1623.

73. See *Ideal Wrapping Mach. Co. v. George Close Co.*, 23 F.2d 848, 850 (D. Mass. 1928).

74. See *Hughes Tool Co. v. Owen*, 123 F.2d 950, 953, 51 U.S.P.Q. (BNA) 487, 489 (5th Cir. 1941); *Hughes Tool Co. v. United Mach. Co.*, 35 F. Supp. 879, 885-86, 47 U.S.P.Q. (BNA) 74, 80 (N.D. Tex. 1939).

75. See *Southwestern Tool Co. v. Hughes Tool Co.*, 98 F.2d 42, 45 (10th Cir. 1938); *Automotive Parts Co. v. Wisconsin Axle Co.*, 81 F.2d 125, 127 (6th Cir. 1935); *Standard Stoker Co. v. Berkley Mach. Works & Foundry Co.*, 29 F. Supp. 349, 374-5 (E.D. Va. 1938).

76. See *Aro Mfg. Co v. Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961); *Lumms Indus., Inc. v. D.M. & E. Corp.*, 862 F.2d 267, 272, 8 U.S.P.Q.2d (BNA) 1983, 1986 (Fed. Cir. 1988); 35 U.S.C. § 271 (1997) (which states that "whoever

These definitions of repair and reconstruction presume that the alleged infringing product or at least one of the elements of which it is comprised has been used or worn in some way and subsequently repaired or reconstructed. Case law in this area is premised on the repaired or reconstructed product being used, worn, or spent. The court in *Universal Elec. Inc. v. Zenith Elec. Corp.*⁷⁷ held that “the law of repair is confined to repairing worn or broken parts.”⁷⁸ However, in *Hewlett-Packard* the modified ink-jet cartridges had not been used and the caps were not worn or deteriorated.⁷⁹ Thus, any attempt to analyze this case under the repair/reconstruction doctrine, which by definition requires a choice between a product that is partially used and a product that is completely spent, would logically result in the conclusion that modifying an unused product with new elements is closer to repair.

However, the definition of “make” in patent law is not so narrowly construed. The permissible repair doctrine was derived by the courts as an exception to the general ban on a purchaser’s right to *make* a patented product.⁸⁰ As such, this doctrine should not be construed as the sole context in which to assess “making” in infringement cases involving purchased items. Any process that culminates in a new patented product constitutes “making” of the product.⁸¹ Generally in infringement cases, excluding situations encompassing the patent exhaustion doctrine, the infringer “makes” the infringing device using new components.

HP argued that the cartridge made by ROT was not the same cartridge that they had sold. HP reasoned that the modified cartridges made by ROT had new properties, different features, and different performance characteristics, even though it fell within the scope of HP’s patent claims.⁸² In fact, ROT was able to obtain a patent on the modified cartridge and not just the method of modifying.⁸³ Thus, the patent provided evidence to support HP’s contention that the modified cartridge was new and distinct.

without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent”).

77. 846 F. Supp. 641, 30 U.S.P.Q.2d (BNA) 1853 (N.D. Ill. 1994).

78. *Id.* at 650, 30 U.S.P.Q.2d at 1860.

79. *See Hewlett-Packard v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445, 1452, 43 U.S.P.Q.2d (BNA) 1650, 1653 (Fed. Cir. 1997).

80. *See Hewlett-Packard v. Repeat-O-Type Stencil Mfg. Corp.*, 34 U.S.P.Q.2d 1450, 1455 (N.D. Cal. 1995).

81. *See Ogen, supra* note 67, at 128.

82. *See Hewlett-Packard*, 123 F.3d at 1450, 43 U.S.P.Q.2d at 1655.

83. *See id.* at 1448, 43 U.S.P.Q.2d at 1653.

Hypothetically, the two cartridges can be considered species of HP's generic ink-jet pen claim, wherein one species has a sealed cap and the other a removable cap. The qualification of the cap for one species (sealed) is mutually exclusive of the qualification of that same element for the other species (removable). This is analogous to a generic claim for a stool comprising a seat and three legs attached at one end to the seat, where in one species of the invention, the legs are untapered and in another species, the legs are tapered. That one species can be used to generate a second species under the same genus, as an alternative to making the new species from scratch, should not negate this action being considered a "second creation of the patented entity," where the patented entity is viewed as the genus claim. For example, routing the legs of the untapered stool so that they are tapered results in a new stool with different properties but still within the scope of the generic claim. However, analysis under the doctrine of repair and reconstruction would not be workable, as both stools are species of the generic claim and one is not making the untapered stool when one tapers the legs.

The court, while acknowledging that the modified cartridges fell within the scope of the patent claims, never addressed the issue of whether ROT's cartridge was new and different from the one it purchased. Unfortunately, the court restricted its analysis to repair or reconstruction of the purchased ink-jet cartridges and did not consider whether there might be a broader interpretation of unauthorized "making" of a patented product. Thus, this decision significantly expanded the repair doctrine to include replacement or modification of unworn and unused elements of a patented product.

C. Second Problem Associated With Restricting Analysis To The Doctrine Of Repair And Reconstruction—Indeterminate Scope

The second problem in using this analysis lies in the indeterminate scope of repair and reconstruction in the case law. The distinction between permissible repair and infringing reconstruction is generally nebulous and requires consideration of the special circumstances of each case.⁸⁴ In 1961, the Supreme Court took its last major look at the problem of repair and reconstruction in *Aro Manufacturing Co. v. Convertible Top Replacement* and concluded that "[m]ere replacement of individual unpat-

84. See *Micromatic Hone Corp. v. Mid-West Abrasive Co.*, 177 F.2d 934 (6th Cir. 1949); *Hughes Tool Co. v. Owen*, 123 F.2d 950 (5th Cir. 1941); *Automotive Parts Co. v. Wisconsin Axle Co.*, 81 F.2d 125 (6th Cir. 1935); *Morrin v. Robert White Eng'g Works*, 143 F. 519 (2d Cir. 1905); *Goodyear Shoe Mach. Co. v. Jackson*, 112 F. 146 (1st Cir. 1901); *Davis Elec. Works v. Edison Elec. Light Co.*, 60 F. 276 (1st Cir. 1894).

ented parts, one at a time, whether of the same part repeatedly or different parts successively, is no more than the lawful right of the owner to repair his property."⁸⁵ In deciding *Aro*, the Court rejected the various tests that lower courts had fashioned and considered the only relevant fact to be that a worn and unpatented part of a patented combination was replaced.⁸⁶

However, the value of *Aro* is dubious. Soon after *Aro* was decided, the Fifth and Ninth Circuits, in deciding two cases with the same facts, *Fromberg, Inc. v. Thornhill*⁸⁷ and *Fromberg, Inc. v. Gross Manufacturing Co.*,⁸⁸

85. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961). In *Aro*, the plaintiff owned the patent on the convertible top mechanism including the top fabric, mechanical support structure, and sealing mechanism. *See id.* at 337. While the support structure and sealing mechanism lasted the life of the car, the fabric generally wore out in three years. *See id.* at 337-38. The defendant sold replacement fabrics. *See id.* at 338. The district court found that replacement of the fabric constituted a reconstruction and thus a direct infringement. *See id.* Consequently, the defendant was guilty of contributory infringement. *See id.* The First Circuit affirmed and the Supreme Court reversed. *See id.* In reversing, the Court first noted that the defendant did not directly infringe because the fabrics were unpatented elements of a patented combination. *See id.* at 340. Second, the Court rejected the First Circuit's reasoning which gave significant weight to the qualitative factors such as relative life, cost, and importance of the individual components. *See id.* at 344. The First Circuit court had reasoned that "the life of the fabric is not so short, nor is the fabric so cheap, that we can safely assume that an owner would rationally believe that in replacing it he was making only a minor repair to his top structure." *Aro Mfg. Co. v. Convertible Top Replacement*, 270 F.2d 200, 205, 122 U.S.P.Q. (BNA) 536, 540-41 (1959). The Court then stated that "the maintenance of the 'use of the whole' of the patented combination through replacement of a spent, unpatented element does not constitute reconstruction." *Aro Mfg. Co.*, 365 U.S. at 346.

86. *See Aro Mfg. Co.*, 365 U.S. at 346. This rationale was contrary to previous decisions which had recognized that replacement of a worn part could amount to reconstruction. *See id.* at 363-64. As the dissent in *Aro* notes, the Court's rejection of the criteria formerly used to evaluate the facts, together with its clear statement that mere replacement of unpatented parts cannot amount to a reconstruction, seems to indicate that the entire patented combination must be rebuilt at once for infringement to result. *See id.* at 370. (Harlan, J., dissenting). The dissenters opined that "there is no single test to which all must yield; rather the determination is to be based upon the consideration of a number of factors" including the life of the replaced part in relation to the useful life of the whole combination, the cost of the component, the intention of the patent owner and the buyer as to the combination's perishable components, and other pertinent factors. *Id.* at 363-64. (Harlan, J., dissenting).

87. *See* 315 F.2d 407, 137 U.S.P.Q. (BNA) 84 (5th Cir. 1963). *Fromberg* patented a two part device, a metal tube and plug, to repair punctures in tubeless tires. *See id.* at 410, 137 U.S.P.Q. at 85-86. Once the plug is inserted in the tire the tube is useless unless refilled. *See id.* In *Thornhill* the Fifth Circuit held that: 1) sale of replacement plugs was contributory infringement; 2) that *American Cotton Tie* was controlling; and 3) the *Aro* test, while "beguiling," was insufficient as this particular patented device had a purpose for one-time use only. *See id.* at 412, 137 U.S.P.Q. at 87.

arrived at different outcomes. In most decisions since *Aro*, the courts, while citing the analysis and holding of *Aro*, appear to consider and weigh differently a variety of factors, and hence, have devised numerous "tests" for analyzing repair and reconstruction as opposed to the "single" test proposed in *Aro*.

For example, the Federal Circuit Court, using a variety of tests, has liberally expanded the repair doctrine over the past ten years to include replacing removable items under special circumstances and extensive replacements of worn components.⁸⁹ Just recently, the Federal Circuit in *Aktiebolag v. E.J. Co.*,⁹⁰ reiterated a list of factors to consider in determining whether a defendant has made a new article.⁹¹ Also over this same

88. 328 F.2d 803, 140 U.S.P.Q. (BNA) 641 (9th Cir. 1964). The Ninth Circuit in *Gross Mfg. Co.* disagreed with the Fifth Circuit and held that such a sale did not constitute either direct or contributory infringement. *See id.* at 807, 140 U.S.P.Q. at 644. The court stated that under *Aro* neither the intent of the patentee nor the "essence of the combination is controlling where one element of the combination is necessarily removed, while the other remains and is capable of further use." *Id.* at 808, 140 U.S.P.Q. at 645.

89. *Dana Corp. v. American Precision Co., Inc.*, 827 F.2d 755, 760, 3 U.S.P.Q.2d (BNA) 1852, 1856 (Fed. Cir. 1987) (holding that supplying new unpatented clutch parts for the use in rebuilding and repairing disassembled clutches was not contributory infringement because the rebuilding of the clutches was not demonstrated to be direct infringement of the patent); *Lumms Indus., Inc. v. D.M. & E. Corp.*, 862 F.2d 267, 8 U.S.P.Q.2d (BNA) 1983 (Fed. Cir. 1988) (holding that selling cutter reels specially designed to fit into a patented apparatus that cut continuous filament textile fiber bundles into uniform, short lengths was contributory infringement because this amounted to a second creation of the patented entity); *Everpure, Inc. v. Cuno, Inc.*, 875 F.2d 300, 10 U.S.P.Q.2d (BNA) 1855 (Fed. Cir. 1989), (holding that selling an adapter designed to attach replacement filter cartridges to the patent holder's filter unit, so that users could replace worn out filter cartridges, did not infringe a patent for the filtration equipment, even though the adapter modifies the filtering system somewhat); *FMC Corp. v. Up-Right Inc.*, 21 F.3d 1073, 1074, 30 U.S.P.Q.2d (BNA) 1361, 1361 (Fed. Cir. 1994), (holding that replacing parts in picking heads of grape harvesters qualifies as repair, rather than reconstruction, especially considering that the replaced parts wear out frequently); *Sage Products, Inc. v. Devon Industries, Inc.*, 45 F.3d 1575, 33 U.S.P.Q.2d (BNA) 1765 (Fed. Cir. 1995) (holding that a patent system of disposing of sharp medical instruments, by claiming a "removable" inner container, did not make replacement of the inner container impermissible reconstruction where the patentee intended that its customers dispose of the inner container); *Kendall Co. v. Progressive Med. Tech., Inc.*, 85 F.3d 1570, 1574, 38 U.S.P.Q.2d (BNA) 1917, 1921 (Fed. Cir. 1996) (holding that when the patent assignee sold its patented medical device for applying compressive pressure to patients' limbs to purchaser, without restrictions, the purchaser could replace the sleeves used with the device because reusing the original sleeves was not feasible due to risk of contamination).

90. 121 F.3d 669, 43 U.S.P.Q.2d (BNA)1620 (Fed. Cir. 1997).

91. *Id.* at 673, 43 U.S.P.Q.2d at 1623. "[T]here are a number of factors to consider ... including the nature of the actions by the defendant, the nature of the device and how

time frame, the court has expounded upon some restrictions to the right to repair a patented article, for example, when the replacement amounts to a second creation or when the sale is a conditioned sale.⁹² However, because each case either looks at a different combination of factors or places different weights on the various factors, there remains ambiguity as to the criteria courts use in determining reconstruction versus repair.

This problem of ambiguity is readily seen in the court's discussion of the role of "patentee intent" in *Hewlett-Packard*, as it relates to repair and reconstruction.⁹³ Intent of the patentee has been cited in a number of the court decisions as one of the determinate factors in distinguishing between repair and reconstruction.⁹⁴ In particular, the Federal Circuit in *FMC*

it is designed (namely, whether one of the components of the patented combination has a shorter useful life than the whole), whether a market has developed to manufacture or service that part at issue and objective evidence of the intent of the patentee." *Id.*

92. See *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709, 24 U.S.P.Q.2d (BNA) 1173, 1180 (Fed. Cir. 1992). The court held that repair of a patented device would be impermissible if it was violating a license for single use, in that any reuse would be infringement. See *id.* The court noted that "[t]he principle of exhaustion of the patent right did not turn a conditional sale into an unconditional one." *Id.* at 706, 24 U.S.P.Q.2d at 1178. Mallinckrodt's patented device was an apparatus for delivery of radioactive material to the lungs of a patient. See *id.* at 702, 24 U.S.P.Q.2d at 1174. The device traps and retains any radioactive exhalate and is marked "Single Use Only." *Id.* The hospital shipped the used manifold assemblies to Medipart, which treated them and replaced the filter, tubing, mouthpiece, and nose clip and shipped them back to the hospital. See *id.* Medipart contends that it was only servicing the apparatus. See *id.* However, the court stated that "when the structure is unlicensed ... the traditional rule is that even repair constitutes infringement." *Id.* at 709, 24 U.S.P.Q.2d at 1180.

In *Universal Elec. Inc. v. Zenith Elec. Corp.*, 846 F. Supp. 641, 30 U.S.P.Q.2d (BNA) 1853 (N.D. Ill. 1994), the court held that the customers did not directly infringe on the patent held by the manufacturer of remote control transmitters when they replaced broken transmitters with transmitters made by other manufacturers. See *id.* at 650, 30 U.S.P.Q.2d at 1860. Replacement of the broken transmitters was not a "second creation" of the patented entity, because the patented entity was a transmitter/receiver combination rather than a transmitter, and there was no evidence that the combination was spent once the transmitter was broken. See *id.* at 640-50, 30 U.S.P.Q.2d at 1859-60. The court also held that "the law of repair is confined to repairing worn or broken parts" and therefore did not extend to replacement of lost remotes. *Id.* at 650, 30 U.S.P.Q.2d at 1860.

93. See *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1452, 1453-54, 43 U.S.P.Q.2d (BNA) 1650, 1657-58 (Fed. Cir. 1997).

94. See, e.g., *Wilson v. Simpson* 50 U.S. (9 How.) 109, 125 (1850); *Micromatic Hone Corp. v. Mid-West Abrasive Co.*, 177 F.2d 934, 937, 83 U.S.P.Q. (BNA) 409, 412 (6th Cir. 1949); *Westinghouse Elec. & Mfg. Co. v. Hesser*, 131 F.2d 406, 410, 56 U.S.P.Q. (BNA) 347, 350 (6th Cir. 1942); *Payne v. Dickinson*, 109 F.2d 52, 54, 44 U.S.P.Q. (BNA) 181, 183 (3rd Cir. 1940), *cert. denied*, 310 U.S. 637 (1940); *Electric Auto-Lit Co. v. P & D. Mf. Co.*, 78 F.2d 700, 704 (2d Cir. 1935), *cert. denied*, 56 296 U.S. 648, *reh'g denied*, 296 U.S. 665 (1936); *Aro Mfg. Co. v. Convertible Top Replace-*

Corp. v. Up-Right Inc.,⁹⁵ in declining to establish a bright-line test, stated that it was “unwise, to attempt to lay down any rule” and that each case as it arises “must be decided in light of all the facts and circumstances presented” including “the condition of decay or destruction of the patented device” and the “fair and reasonable intention of the parties.”⁹⁶ However, Judge Lourie throws out HP’s argument that the boundary between ‘permissible repair’ and ‘impermissible reconstruction’ turns on the intention of the patentee. He states “[a]lthough at times speaking in terms of the intention of the inventor, the Court focused on the nature of the device sold.”⁹⁷ However, later in the discussion, Judge Lourie appears to modify his earlier statement about the significance and implications of patentee intent in analyzing repair and reconstruction. In explaining *Sage Products, Inc. v. Devon Industries, Inc.*,⁹⁸ he states that the “patentee’s intent was relevant ... to show that the patentee expected the product to be repaired.”⁹⁹ Inconstant statements, particularly within the same decision, regarding the interpretation of a factor only adds to the confusion about an already nebulous distinction between repair and reconstruction.

Furthermore, the court in *Hewlett-Packard* goes on to say that “[e]ach case turns on its own particular facts, but a seller’s intent, unless embodied in an enforceable contract, does not create a limitation on the right of a purchaser to use, sell, or modify a patented product as long as a reconstruction of the patented combination is avoided.”¹⁰⁰ However, this statement does not address the fact that this right to use, sell, or modify a patented product arises from an implied contract upon the sale of the item.¹⁰¹ And as discussed below, contract interpretation looks to the intent of the parties at the time the contract was formed.¹⁰² HP manifested its intent

ment, 365 U.S. 336, 363-64 (1961) (Brennan, J., dissenting); *Fromberg, Inc. v. Thornhill* 315 F.2d 407, 413, 137 U.S.P.Q. (BNA) 84, 86 (5th Cir. 1963); *Everpure, Inc. v. Cuno, Inc.*, 875 F.2d 300, 303, 10 U.S.P.Q.2d (BNA) 1855, 1857 (Fed. Cir. 1989); *FMC Corp. v. Up-Right Inc.*, 21 F.3d 1073, 1079, 30 U.S.P.Q.2d (BNA) 1361, 1365 (Fed. Cir. 1994); *Sage Products, Inc. v. Devon Industries, Inc.*, 45 F.3d 1575, 1578, 33 U.S.P.Q.2d (BNA) 1765, 1768 (Fed. Cir. 1995); *Aktiebolag v. E.J. Co.*, 121 F.3d 669, 673, 43 U.S.P.Q.2d (BNA) 1620, 1623 (Fed. Cir. 1997).

95. 21 F.3d 1073, 30 U.S.P.Q.2d (BNA) 1361 (Fed. Cir. 1994).

96. *Id.* at 1078-79, 30 U.S.P.Q.2d at 1365.

97. *Hewlett-Packard, Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445, 1453, 43 U.S.P.Q.2d (BNA) 1650, 1657 (Fed. Cir. 1997).

98. 45 F.3d 1575, 33 U.S.P.Q.2d (BNA) 1765 (Fed. Cir. 1995).

99. *Hewlett-Packard, Co.*, 123 F.3d at 1454, 43 U.S.P.Q.2d at 1658.

100. *Id.* at 1453, 43 U.S.P.Q.2d at 1658.

101. See HARMON, *supra* note 59, at 210-11.

102. See generally CORBIN ON CONTRACTS § 536 (West Supp. 1996); *Tin Decorating Co. v. Metal Package Corp.*, 29 F.2d 1006, 1007 (S.D.N.Y. 1928).

that the cartridges were not to be refilled by including a warning to discard old cartridges immediately and disclaiming any printer damage as a result of refilling or reusing the cartridges.¹⁰³ Thus, standard contract interpretation should lead to the conclusion that there was no authorization to undertake this type of modification.

D. Policy Considerations

Likewise, an analysis of the incentives for research and development reveals that the Federal Circuit could have rationalized curtailing the patent exhaustion doctrine and limiting the repair doctrine so as to exclude replacements of new and unworn parts. Protecting intellectual property is "fundamentally about incentives to invest and create" requiring substantial up-front investment and risk.¹⁰⁴

The U.S. Constitution and judicial decisions acknowledge the incentive theory in justifying protection of intellectual property. The Constitution expressly conditions the grant of power in the 'patent clause' on a particular end, namely "to promote the Progress of Science and useful Arts."¹⁰⁵ As the Supreme Court explained in *Mazer v. Stein*,¹⁰⁶ "[t]he economic philosophy behind the clause empowering Congress to grant patents ... is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare."¹⁰⁷ Thus, the government has created intellectual property rights to encourage inventors to invest in the production of new ideas.¹⁰⁸

Some commentators have argued that patent law is fundamental to the American economy, because, without patent law, the free market alone would not provide the incentive necessary to create better products.¹⁰⁹ Invention and creation require the investment of resources, which usually include the time of an inventor, and often expenditures on facilities, prototypes, supplies, and the like. In a private market economy, individuals will not invest in invention or creation unless a reasonable profit over cost

103. See *Hewlett-Packard, Co.*, 123 F.3d at 1453, 43 U.S.P.Q.2d at 1657.

104. See Mark. A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 993-94 (1997).

105. U.S. CONST. art. I, §8, cl. 8.

106. 347 U.S. 201 (1954).

107. *Id.* at 219 (1954) (quoting *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948) and U.S. CONST. art. I, §8, cl. 8).

108. See Lemley, *supra* note 104, at 997.

109. See generally, Nannette Diacovo, *Going Once, Going Twice, Sold: The First Sale Doctrine Defense in Right of Publicity Actions*, 12 U. MIAMI ENT. & SPORTS L. REV. 57 (1994); John W. Schlicher, *If Economic Welfare is the Goal, Will Economic Analysis Redefine Patent Law*, 6 J. PROPRIETARY RTS. 12 (1992).

is expected.¹¹⁰ Patent law, by granting the patentee the right to exclude others from making, using, or selling an invention, provides the incentive to invest in and produce new technology. This investment in and production of new technology creates new jobs and industries, and benefits trade which in turn helps to make the United States economy strong and stable.¹¹¹

Because a primary aim of patent law is to promote progress, courts have held that any arrangement which diminishes the incentive to invent is against the public interest.¹¹² In ruling in ROT's favor to avoid "depriving ROT of the right to use and resell its own property," the court decreased HP's incentives to invest the time in creating superior ink cartridges.¹¹³ This is readily apparent when one considers that ROT, by simply prying off the cap with a knife and modifying it slightly, is allowed under the rubric of repair to not only use the product for its intended use and lifetime but, in addition, is allowed to use the cartridge in excess of its intended life. Thus, ROT is able to reap the financial benefits of HP's investment in time, resources, and research and the profits of HP's anticipated repeat users market with minimal investment of its own resources. This case is not about a small competitor who has made a significant contribution and improvement to an invention and is trying to benefit society by making it available to the public. Rather, ROT seems to be attempting to enter the cartridge market as a free rider on another's significant investments in research, manufacturing, and marketing.

The courts are left with a difficult task of balancing the interests and rights of inventors and purchasers.¹¹⁴ While attempting to strike a balance between these rights, the courts should seek to promote ultimately what is in the public's best interest.¹¹⁵ One might argue that allowing competitors

110. See Lemley, *supra* note 104, at 994.

111. See Paulik v. Rizkalla, 760 F.2d 1270, 1276, 226 U.S.P.Q. (BNA) 224, 228 (Fed. Cir. 1985); see generally *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) (discussing how patent law promotes progress, new products, and new processes of manufacturing in the United States economy which in turn creates better lives for United States citizens).

112. See *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 646 (1947).

113. *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445, 1454, 43 U.S.P.Q.2d (BNA) 1650, 1658 (Fed. Cir. 1997).

114. The courts must guard against two extremes which are potentially equally prejudicial—the one, of depriving inventors of ability of their just merits and the reward of their ingenuity and labor, the other, of depriving a purchaser of his right to use, repair, and resell a product.

115. See *supra* notes 105 and 106.

to enter the market will spur innovation. In turn, this will result in better products at reduced prices or, at a minimum, provide extended use of an existing product and thereby provide a cost savings for the consumer.¹¹⁶

However, in the instant case, whether ROT's modification was an improvement at all is questionable. In spite of its patent on the modification technique and resultant cartridges, Judge Smith stated during the TRO hearing "[y]ou have modified the product as far as I can tell. Whether you've modified it to make it better or worse, I don't know."¹¹⁷ In addition, HP expressly warns on its instruction sheet that use of the ink cartridges, in this manner, may result in inferior print quality and damage to the printer.¹¹⁸ At the very least, ROT's modification is unlikely to be considered a radical improvement when compared to the ink-jet printing technology developed by HP. And yet, by holding that this type of modification is permissible repair, HP's incentive to design a superior product to last at least the life of the ink supply is decreased, while their incentive to raise prices, to recoup anticipated market losses, or to make an equal return on investment, is increased. Thus, decisions of this type which uphold the patent exhaustion doctrine without considering the public's best interest, the impact on incentives to invent, and whether the goals for establishing such a doctrine in the first place are being met, in the long term may result in inferior products at higher prices to the significant detriment of the public.

Another policy justification for limiting the scope of the repair doctrine under the facts of this case follows from the underlying rationale behind the first sale doctrine in patent law, the "just rewards" theory.¹¹⁹ Un-

116. See generally, Robert McGee, *An Economic Analysis of Protectionism in the United States with Implications for International Trade in Europe*, 26 GW J. INT'L L & ECON. 539 (1993); David Crane, *The New International Competitive Environment: A Canadian Perspective*, 21 CAN. - U.S. L.J. 15 (1995).

117. *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 34 U.S.P.Q.2d (BNA) 1450, 1451 (N.D. Cal. 1995).

118. As a result of the use of refilled cartridges and ink-refill products, HP has received numerous complaints from its customers regarding damage inflicted or poor performance caused by these products. See Brief for Appellant at 12, *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.* 43 U.S.P.Q.2d 1650 (Fed. Cir. 1997) (No. 96-1379). Thus, HP has had imposed upon it a financial cost of unanticipated printer repairs and an intangible cost of an unwarranted sullied reputation with some customers. See *id.*

119. See *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 661 (1895) (finding the first sale doctrine to be a viable defense, and that purchaser is free to resell machine without permission from patentee, because once patentee receives satisfactory compensation for his patented machine he has received all rights conferred to him by law). See generally, A. Samuel Oddi, *Un-Unified Economic Theories of Patents - The Not-Quite-*

der this theory, the patentee obtains certain exclusive rights for a limited time as an incentive and reward for inventing a patentable item.¹²⁰ During this time, the patentee can exploit the benefits conferred upon him by, for example, controlling the sale of his product. Upon the sale of a patented product, the value of which resides in its use, the royalty or payment received is considered to be "just reward" for its use.¹²¹ The question, then, is whether HP received, from the sale of the ink-jet cartridges to ROT, the value residing in the use of the cartridges. The Federal Circuit, when analyzing this case, does not directly address this issue.¹²² HP likely calculated into their selling price of the cartridges the useful life-expectancy of the cartridges as single use only, manufacturing costs, anticipated sales to new customers, and the repeat sales market. Upon setting a price based on a one-time use of the ink-jet cartridge, the selling price for the cartridge would not reflect multiple uses of the product and therefore HP, upon the sale of its cartridges, may not have received the value which resides in the multiple use of the cartridge sold. Thus, applying the first sale doctrine under these circumstances may not capture the intent of the doctrine. Instead, the application of the just rewards doctrine may better accomplish these goals.

Furthermore, while the first sale doctrine may remove a product from the patent monopoly, this does not preclude a conditional grant on the sale of the item.¹²³ Recently, the Federal Circuit confirmed that a "restriction on reuse is, as a matter of law enforceable."¹²⁴ While the unconditional sale of a patented product may exhaust the patentee's right regarding the product, the court also stated that "the principle of exhaustion of the patent

Holy Grail, 71 NOTRE DAME L. REV. 276 (1996); WARD S. BOWMAN JR., PATENT ANTITRUST LAW: A LEGAL AND ECONOMIC APPRAISAL (1971).

120. See 35 U.S.C. § 154(a)(2) (1997).

121. See *Keeler*, 157 U.S. at 661.

122. Although the Federal Circuit cites the Supreme Court decision in *Wilbur-Ellis Co. v. Kuther*, 377 U.S. 422 (1964) as support for their contention that ROT's modification is more kin to repair, the Federal Circuit does not address the fact that first, the parts in *Wilbur-Ellis Co.* were worn and secondly, that the modification made to the packing machine did not extend the useful capacity of the old combination in terms of useful lifespan. In *Wilbur-Ellis*, the modification only extended the scope as to size of can serviced and, as the can size was not part of the patented invention, there was no infringement. See *id.* at 424-25. However, as stated earlier the cap on the ink-jet cartridge was not worn and ROT's modification did extend the useful capacity of the sealed cartridge in terms of its lifespan.

123. See WILLIAM C. ROBINSON, THE LAW OF PATENTS FOR USEFUL INVENTIONS § 591-92, n.3; *id.* § 813.

124. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709, 24 U.S.P.Q.2d (BNA) 1173, 1180 (Fed. Cir. 1992).

right does not turn a conditional sale into an unconditional one."¹²⁵ Because the sale of a patented product evokes an implied license, the scope of the license is determined from the circumstances surrounding its creation and the intention of the parties.¹²⁶ The court determined that the basis for assessing the legality of an individual restriction is the "rule of reason" as related to the patentee's right to exclude from all or part of the patent grant.¹²⁷

In *Mallinckrodt*, the patented devices were clearly marked "Single Use Only."¹²⁸ While not as explicit, HP indicated that its cartridges were intended for "single use only," by placing a notice on the accompanying instructions that the cartridges were not meant to be refilled, warning against damages as a result of refilling, and advising the user to "discard old print cartridges immediately."¹²⁹ It is difficult, in light of these facts, to imagine that HP would intend for anyone buying its product to eliminate its market share by making a 'single use' product into a refillable and reusable product.¹³⁰ By reaching its conclusion, the court ignored the intent of HP at the time the agreement for the sale of its product was made. Ignoring intent flies in the face of contract interpretation principles.¹³¹ Using similar analysis, but applied to the reverse scenario, the court in *Everpure, Inc. v. Cuno, Inc.*¹³² stated that the purchasers had an implied license to use a filterhead with replacement cartridges.¹³³ The patentee, even though not expressly licensing the use, clearly did not intend the unit to be limited to the useful life of the filter element as evidenced by his own selling of replacement cartridges. Unlike the patentee in *Everpure*, HP does not sell replacement ink for their cartridges and does intend, as indicated by both their actions and statements, the unit to be limited to the useful life of the ink. The court could have reasonably held on the facts of this case that the

125. *Id.* at 706, 24 U.S.P.Q.2d at 1178.

126. *See Tin Decorating Co. v. Metal Package Corp.*, 29 F.2d 1006, 1007 (S.D.N.Y. 1928).

127. *See Mallinckrodt*, 976 F.2d at 706, 24 U.S.P.Q.2d at 1178. In *Mallinckrodt*, the patented devices, were clearly marked "Single Use Only," and sold directly to hospitals. *See id.* at 702, 24 U.S.P.Q.2d at 1174.

128. *Id.* at 702, 24 U.S.P.Q.2d at 1174.

129. *See Hewlett-Packard*, 123 F.3d at 1448, 43 U.S.P.Q.2d at 1653.

130. Indeed, as a consequence of this decision, one might reasonably expect HP's cartridge prices to change to compensate for the fact that some uses will now be multiple uses.

131. *See generally* CORBIN ON CONTRACTS § 536 (West Supp. 1996).

132. 705 F. Supp. 725 (D. Conn. 1988).

133. *Id.* at 732.

sale of the cartridges was conditional, and thereby limited ROT's use of the cartridges.

A ruling that making a modified ink-jet cartridge from a new and unused cartridge is not infringement but only repair when the modified cartridge falls within the scope of the patent claims of the unused cartridge, now allows any company which could not get or did not want to pay for a license to circumvent HP's patents and deprive HP of its market. This ruling limits the exclusive rights of the patentee as to the *making* of its patented product and makes insecure the scope of the patentee's grant of exclusion. A patentee with a product that can potentially be modified for repeat or extended use will need to consider the contingency that someone will come along and buy their product, incorporate such a modification, and sell the resultant product under the guise of repair, even though it falls within the scope of their claims. Thus, the initial inventor will need to either price their product anticipating a loss in market share, in the event that this occurs, or rethink their patent strategy when applying for patents.

The problem with rethinking one's patent strategy to account for this contingency is that this requires the initial inventor to anticipate not only what improvements will be made, but also how these improvements will be used against them. Generally, such improvements are patented and used as blocking patents.¹³⁴ The improvement patent grants exclusivity over its discrete subject matter while preserving the exclusionary force of the broad pioneer patent. This provides both sides with leverage to negotiate a transaction. Blocking patents balance the incentives for pioneers with the incentives for independent inventors to push pioneering technology forward.¹³⁵ However, the ruling in *Hewlett-Packard* distorts the balance between improver-pioneer bargaining. The person with the infringing blocking patent has the benefit of using the item and preventing the original patentee from using the improvement. This places the pioneering inventor at a competitive disadvantage and rebalances the competing interests of the patent grant by giving more weight to the interest of the improver than to the original patentee. Thus, the improver is now free to use and sell his improved product without the pioneering inventor being able to use the improvement even though the improvement is within the scope of his claims.

134. For example, see *Standard Oil v. United States*, 283 U.S. 163 (1931); *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723, 142 U.S.P.Q. (BNA) 421 (9th Cir. 1964).

135. See, Robert Merges, *Intellectual Property Rights and Bargaining Breakdown: The Case of Blocking Patents*, 62 TENN. L. REV. 75 (1994); WARD S. BOWMAN, JR., PATENT AND ANTITRUST LAW 201 (1973) (describing the economic forces that drive the holders of blocking patents together).

V. CONCLUSION

It remains to be seen whether the courts will continue to uphold this expansion of the repair doctrine to include repair of non-worn components of a patented combination. Expansion of this type impacts the exclusivity of a patentee's remaining rights upon the sale of a patented product, the incentives to invent and create, and the balance of blocking patent. The traditional operable repair and reconstruction standards served to limit the grant of implied license upon sale to protect the patentee's rights to control the *making* of his product. The court in *Hewlett-Packard* rebalanced the competing interests of the patent grant, giving more weight to the interests of the improver. The goals of patent protection would be better served by restraining the scope of repair to encompassing items that are worn, used, or broken, and analyzing construction of a product from new materials under a different standard.

However, until the courts or Congress rule otherwise, perhaps the decision in *Mallinckrodt* indicates the best means of protection for the patentee in HP's situation. The patentee should expressly limit the power of the licensee when entering into any licensing agreement, express or implied. Further support that this might be an effective means of protection is provided by *B. Braun Medical, Inc. v. Abbott Laboratories*,¹³⁶ where the Federal Circuit following their decision in *Mallinckrodt* stated

exhaustion doctrine ... does not apply to an expressly conditional sale In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee. As a result, express conditions accompanying the sale ... of a patented product are generally upheld.¹³⁷

For HP, this could probably be accomplished by placing notice on the outside packaging of its cartridges stating "for single use only." Placing express notice on the outside of its cartridge boxes would not necessarily prevent ROT from making the modifications and selling the cartridges. However, express notice upon sale would shift the burden to ROT to justify a substantially non-infringing use for modifying the cartridge to have a removable cap.

136. 124 F.3d 1419, 43 U.S.P.Q.2d (BNA) 1896 (Fed. Cir. 1997).

137. *Id.* at 1426, 43 U.S.P.Q.2d at 1901.

WARNER-JENKINSON COMPANY, INC. V. HILTON DAVIS CHEMICAL CO.

By Jing James Li

In a patent infringement case, when a patent's claim language reads on the accused product, the accused product literally infringes the patent.¹ In a case where there is no literal infringement, however, infringement is still possible under the doctrine of equivalents.²

Recently, the United States Supreme Court reviewed the doctrine of equivalents in *Warner-Jenkinson Company, Inc. v. Hilton Davis Chemical Co.*³ This comment explains that the Court clarified many controversial aspects surrounding the doctrine, but argues that the Court left some issues unresolved.

I. THE DOCTRINE OF EQUIVALENTS: HISTORY AND CONTROVERSIES

The origin of the doctrine of equivalents is often attributed to the Supreme Court's decision in *Winans v. Denmead*.⁴ The central question in *Winans* was whether a change in the form of a patented machine that took a product outside the literal description of a patent could still infringe the patent. The Court used a "mode of operation" test; that is, if the alleged infringing device embodies the mode of operation of the patented invention, producing "the same new and useful results" of the original inven-

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1. An "accused product" is the product that is alleged to infringe a patent. A patent claim "reads on" an accused product when the product encompasses all the elements of the patent claim. For patent infringement in general, see DONALD S. CHISUM, CHISUM ON PATENTS, § 16.02 (1996); ROBERT P. MERGES, PATENT LAW AND POLICY 825-966 (2d ed. 1997).

2. In general, infringement under the doctrine of equivalents is found if there is only insubstantial difference between the patented and the accused devices. See CHISUM, *supra* note 1; MERGES, *supra* note 1.

3. ___ U.S. ___, 117 S. Ct. 1040, 41 U.S.P.Q.2d (BNA) 1865 (1997).

4. 56 U.S. 330 (1853). In *Winans* the patented invention was a cylindrically-shaped freight car design. The Court held that the patent represented a new "mode of operation" that achieved nearly equal pressure in all directions by the entire load and therefore greatly increased the maximum load a car could carry. *Id.* at 333. The Court found that an octagonally-shaped car infringed the patent on the grounds that both the disclosed cylindrical form and the accused octagonal form were only different geometric embodiments of the patented invention. *Id.* at 334.

tion, it infringes the patent.⁵ Later, the Supreme Court reformulated the test as the so-called "function-way-result test:" "[O]ne thing is substantially the same as another, if it performs substantially the same function in substantially the same way to obtain the same result"⁶

The Supreme Court last looked at the doctrine of equivalents in *Graver Tank & Mfg. Co. v. Linde Air Products Co.*⁷ *Graver Tank* restated the policy grounds for the doctrine as preventing patent fraud through immaterial changes.⁸ The Court held that equivalency is an issue of fact and "must be determined against the context of the patent, the prior art, and the particular circumstances of the case."⁹ One important factor in determining equivalency, the Court held, is whether a person reasonably skilled in the art would have known the interchangeability of an element of the invention with its replacement in the accused product.¹⁰

Since *Graver Tank*, lower courts (especially the Court of Appeals for the Federal Circuit) have continued to refine the doctrine of equivalents. Over the years, there have been several notable doctrinal developments in this area. First, the scope of equivalency can encompass after-arising arts—equivalent replacement made possible by technologies developed after the patent grant.¹¹ Second, two constraints on the doctrine have been recognized. One is prior art (i.e., the scope of equivalency cannot be expanded into prior art); the other is prosecution history estoppel (i.e., if the patentee surrenders a subject matter to distinguish prior art, he cannot recover the subject matter through the doctrine of equivalents).¹² The Fed-

5. *See id.* at 341.

6. *Union Paper-Bag Machine Co. v. Murphy*, 97 U.S. 120, 125 (1877).

7. 339 U.S. 605, 85 U.S.P.Q. (BNA) 328 (1950) (upholding the lower court's finding that substitution of manganese silicate for magnesium silicate as a principle composition of a patented welding flux constituted infringement by equivalency, despite the fact that manganese was not included in the alkaline earth metal claimed by the patent).

8. *See id.* at 607, 85 U.S.P.Q. at 330 ("Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at the mercy of verbalism and would be subordinating substance to form.")

9. *Id.* at 609, 85 U.S.P.Q. at 330 ("Equivalence, in the patent law, is not the prisoner of a formula and is not an absolute to be considered in a vacuum.")

10. *See id.*, 85 U.S.P.Q. at 331.

11. *See, e.g., Hughes Aircraft Co. v. United States*, 717 F.2d 1351, 219 U.S.P.Q. (BNA) 473 (Fed. Cir. 1983) (finding that using post-invention computer technology to process data on board satellite is an equivalent of the patented invention that claimed a method involving transmitting the data back to earth for processing).

12. *See, e.g., Carman Industries, Inc. v. Wahl*, 724 F.2d 932, 942, 220 U.S.P.Q. (BNA) 481, 489 (Fed. Cir. 1983) ("The doctrine of equivalents is subject to two types of limitation which may prevent a finding of infringement: (1) estoppel based on the prose-

eral Circuit also developed an element-by-element comparison method to determine the equivalency of the whole device,¹³ based on the notion that "infringement requires that every limitation of a claim be met literally or by a substantial equivalent."¹⁴

There are many controversies surrounding the doctrine of equivalents. Some have argued that the doctrine lacks an adequate basis in law or policy.¹⁵ The most persuasive argument against the doctrine, however, is that it should be an equitable exception but not a general rule allowing patentees "a second bite at the apple."¹⁶ The so-called peripheral claiming practice in the United States¹⁷ has also been suggested to limit the doctrine's application.¹⁸

cution history of the patent ('file wrapper estoppel') and (2) invalidity of the claims according to the proposed construction in view of the prior art.").

13. The so-called element-by-element methodology refers to the equivalency test that breaks the patented invention into elements and finds equivalency only when the accused product contains all the elements or their equivalents. *See, e.g., Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931, 4 U.S.P.Q.2d (BNA) 1737 (Fed. Cir. 1987), *cert. denied*, 485 U.S. 961 (1988) (finding no equivalency because the patent for fruit sorting machine claimed an element of continuously tracking fruit positions while the accused device sorts fruits by storing sorting criteria in memories without continuously indicating the fruit positions).

14. *Intellical, Inc. v. Phonometrics, Inc.*, 952 F.2d 1384, 1389, 21 U.S.P.Q.2d 1383, 1387 (Fed. Cir. 1992).

15. *See, e.g., Kurt L. Glitzenstein, Article: A Normative and Positive Analysis of the Scope of the Doctrine of Equivalents*, 7 HARV. J. LAW TECH. 281 (1994) (arguing that the doctrine of equivalents should be eliminated on both constitutional and economical grounds). Many have argued that Congress has eliminated the doctrine by negative implication, because the Legislature has enacted section 112, ¶ 6 of the Patent Act, which authorizes that means-plus-function claims be construed to include equivalents of corresponding disclosure in the specification. *See, e.g., Hilton Davis Chemical Co. v. Warner-Jenkinson Co., Inc.*, 62 F.3d 1512, 1536, 35 U.S.P.Q.2d (BNA) 1641, 1663 (Fed. Cir. 1995) (Plager, J., dissenting) ("If Congress wanted to provide for equivalents to what is claimed it knew how to do it").

16. *See, e.g., Clarence J. Fleming, The Doctrine of Equivalents—Should it be Available in the Absence of Copying?*, 76 J. PAT. & TRADEMARK OFF. SOC'Y 233, 234 (1994).

17. Central claiming claims the point of novelty or the essence of the invention, while peripheral claiming delineates the metes and bounds of invention. *See ANTHONY W. DELLER, PATENT CLAIMS*, §§ 5 & 10 (2d ed. 1971).

18. It has been argued that the doctrine of equivalents is a rule applicable to the central claiming only and should be limited to exceptional cases in a peripheral claiming system as exists in the United States. *See, e.g., Hilton Davis*, 62 F.3d at 1565-67, 35 U.S.P.Q.2d at 1686 (Nies, J., dissenting) (arguing that change from central to peripheral claims was effected by the Patent Act of 1870 and that the change restricted the court's interpretation of patent coverage to the scope of claim); *see also DELLER, supra* note 17, § 11 (stating that under the peripheral definitional system the doctrine of equivalents narrows the scope of the claims instead of broadening it).

Controversies also arise from implementation of the doctrine of equivalents. Some have argued that the function-way-result test is inadequate and overbroad.¹⁹ Others argued that equivalency should be determined at the time of patent application and should not include after-arising art.²⁰ In relation to the proposed equitable nature of the doctrine, many have suggested that the issue of equivalency should be decided by judges, instead of by juries,²¹ and that the doctrine should not apply to independent developers.²²

II. THE WARNER-JENKINSON CASE

The controversies surrounding the doctrine of equivalents culminated in the Federal Circuit's decision in *Hilton Davis v. Warner-Jenkinson*.²³ The case involved a process patent owned by Hilton Davis which disclosed an ultrafiltration purification of a group of azo dyes for food staining purposes.²⁴ During the prosecution, the inventors added the phrase "at

19. See, e.g., *Hilton Davis*, 62 F.3d at 1546, 35 U.S.P.Q.2d at 1669 (Lourie, J., dissenting) (arguing that the function-way-result test does not reliably reflect what the invention is).

20. See, e.g., *id.* at 1572, 35 U.S.P.Q.2d at 1691 (Nies, J., dissenting) (arguing that the case law prior to *Graver Tank* was that equivalency had to be known at the date of the patent).

21. See, e.g., *id.* at 1543, 35 U.S.P.Q.2d at 1666 (Plager, J., dissenting) (arguing that application of the doctrine of equivalents lies exclusively in the court of equity and equity powers are exercisable only by judges).

22. See, e.g., *id.* at 1547, 35 U.S.P.Q.2d at 1671 (Lourie, J., dissenting) (arguing that an independent developer who unintentionally happens to come close to the claims of a patent should be treated differently because the purpose of doctrine of equivalents is to defeat piracy).

23. 62 F.3d 1512, 35 U.S.P.Q.2d, 1641 (Fed. Cir. 1995).

24. See U.S. Pat. No. 4,560,746. Claim 1 of the patent states:

1. In a process for the purification of a dye selected from the group consisting of [5 azo dye compounds] as the products resulting, respectively, from [5 chemical reactions], said dye being present in the resulting reaction mixtures, along with impurities, the improvement which comprises: subjecting an aqueous solution of the reaction mixture resulting from said coupling or said sulfonation to ultrafiltration through a membrane having a nominal pore diameter of 5-15 Angstroms under a hydrostatic pressure of approximately 200 to 400 p.s.i.g., at a pH from approximately 6.0 to 9.0, to thereby cause separation of said impurities from said dye, said impurities of a molecular size smaller than the nominal pore diameter passing into the permeate on the downstream side of said membrane and said dye remaining in the concentrate, and when substantially all said impurities have been removed from said concentrate, as evidenced by their essentially absence in said permeate, recovering said dye, in approximately 90% pu-

a pH from approximately 6.0 to 9.0²⁵ into Claim 1 of the patent to distinguish a prior art²⁶ that taught an ultrafiltration method for purifying polymeric colorants at a pH of from 9.0 to 13.²⁷ Warner-Jenkinson Company, Inc. independently developed its ultrafiltration process, which was essentially identical to Hilton Davis' patented process except that Warner's process operated at pH 5.²⁸ A jury found that Warner-Jenkinson infringed the patent under the doctrine of equivalents.²⁹

The Federal Circuit affirmed en banc by a 7 to 5 decision.³⁰ The majority's per curiam opinion addressed many important issues regarding the doctrine of equivalents. The court held that the function-way-result test is important, but not the only way to determine equivalency. Other factors, such as the interchangeability of elements, were also held relevant in considering the insubstantiality of the differences between patented and accused devices.³¹ The court further ruled that patent infringement is a strict liability violation that does not turn on the motive of the accused infringers. The court reemphasized that equivalency is an issue of fact for the jury, not a tool of equity to be applied at the court's discretion. The five dissenting judges wrote three separate opinions addressing many aspects of the doctrine, from its basic validity to testing criteria.³²

In a unanimous decision written by Justice Thomas,³³ the Supreme Court reversed and remanded the case, placing the burden on Hilton Davis to prove that the surrender of the pH range below pH 6 was not made to

rity from said concentrate by evaporation of said concentrate to dryness.

25. *Id.*

26. *See* U.S. Pat. No. 4,189,380. The patent claims a ultrafiltration process for purifying polymeric colorant of molecular weight above 1000 Dalton from solutions containing colorant precursors and degradation products. Claim 9 states the filtration conditions as "an inlet pressure of from 25 to 200 psig, and a temperature of from 10°C to 75°C and a feed pH of from 9.0 to 13."

27. *Hilton Davis*, 62 F.3d at 1515-16, 35 U.S.P.Q.2d at 1643.

28. *Id.*

29. *Id.*

30. *Id.* at 1512, 35 U.S.P.Q.2d at 1642. Judges Clevenger, Cowen, Mayer, Michel, Rader, and Schall filed the per curiam opinion. Judge Newman wrote a separate concurring opinion. Judge Plager wrote a dissenting opinion, in which Chief Judge Archer and Judges Rich and Lourie joined. Judge Lourie wrote a separate dissenting opinion, in which Judges Rich and Plager joined. Judge Nies filed a separate dissenting opinion, in which Chief Judge Archer joined in part.

31. The word "device" in this comment is used to denote all subject matters including machines and chemicals.

32. *Hilton Davis*, 62 F.3d at 1512-36, 35 U.S.P.Q.2d at 1661-99.

33. Justice Ginsberg filed a concurring opinion in which Justice Kennedy joined.

distinguish prior art.³⁴ Nevertheless, the Court restated the vitality of the doctrine of equivalents and affirmed the Federal Circuit's holdings regarding intent to infringe, after-arising art, the linguistic framework of the equivalency test, and the role of juries in finding equivalency.

III. THE VALIDITY OF THE DOCTRINE OF EQUIVALENTS

One of the most important holdings of *Warner-Jenkinson* was the affirmation of the doctrine of equivalents. The Supreme Court disposed of the argument that Congress intended to overrule *Graver Tank* by enacting the 1952 Patent Act. The Court held that the 1952 Patent Act is not materially different from the 1870 Act with regard to claiming, reissue, and the role of the Patent & Trademark Office (PTO) in examination.³⁵ The Court also held that the provision embodied in section 112, paragraph 6 of the Patent Act³⁶ was enacted to overrule *Halisburton Oil Well Cementing Co. v. Walker*,³⁷ which rejected means-plus-function claims.³⁸ The Court stated that the reference to "equivalents" in that provision was "no more than a prophylactic against potential side effects of that cure and that such limited congressional action should not be overread for negative implications."³⁹ The Court concluded that "[a]bsent something more compelling than the dubious negative inference offered by petitioner, the lengthy history of the doctrine of equivalents strongly supports adherence to [the doctrine]."⁴⁰

The following section attempts to provide support for the Court's decision with legal and historical arguments that, instead of being an "anomaly"⁴¹ in patent infringement inquiry, the doctrine of equivalents is in fact an integral part of the inquiry.

34. *Warner-Jenkinson Co., Inc. v. Hilton Davis Chemical Co.*, ___ U.S. ___, 117 S. Ct. 1040, 1050, 41 U.S.P.Q.2d (BNA), 1865, 1873 (1997).

35. *Id.* at 1051, 41 U.S.P.Q. at 1869-70.

36. 35 U.S.C. § 112, ¶ 6 (1994) ("An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts described in the specification and equivalents thereof.").

37. 329 U.S. 1, 71 U.S.P.Q. (BNA) 175 (1946).

38. For means-plus-function claim and the argument that it invalidates the doctrine of equivalents, see *supra* note 15.

39. *Warner-Jenkinson*, 117 S. Ct. at 1048, 41 U.S.P.Q.2d at 1871.

40. *Id.* at 1048-49, 41 U.S.P.Q.2d at 1871.

41. See *Royal Typewriter Co. v. Remington Rand, Inc.*, 168 F.2d 691, 691, 77 U.S.P.Q. 517, 518 (2nd. Cir. 1948) ("No doubt, [the doctrine of equivalents] is, strictly speaking, an anomaly; but it is one which courts have frankly faced and accepted almost from the beginning.").

A. Equivalency as the Conceptual Center of Infringement Inquiry

1. *Equivalency Was the Soul of Infringement Analysis*

It has been widely noted that prior to the Patent Act of 1836 the patent infringement inquiry was a test of equivalency.⁴² Infringement in that era was judged by a "substantial similarity" standard.⁴³ Reminiscent of the modern function-way-result test, the test for infringement then was "whether the given effect [was] produced substantially by the same mode of operation, and the same combination of powers."⁴⁴

After the Patent Act of 1836, applicants were required to "particularly" point out and "distinctly" claim their inventions.⁴⁵ By enacting such a requirement, the legislature intended to combat then-rampant patent frauds, including fraud by "slight immaterial alterations."⁴⁶ Hence, it is improbable that Congress, by requiring specified description, intended to eliminate the equivalency approach in patent infringement inquiry because the essence of that doctrine is to prevent evasion of patent infringement claims through the device of mere colorable changes.

The requirement for detailed specification, however, created the impression that the patented invention was only what the inventor specified or claimed. It was under these circumstances that the Supreme Court created the doctrine of equivalents in *Winans*.

42. For historical development of the doctrine of equivalents in general, see DONALD S. CHISUM, UNDERSTANDING INTELLECTUAL PROPERTY LAW, § 2B (1992); MERGES, *supra* note 1, at 917-18.

43. See *Lowell v. Lewis*, 15 F. Cas. 1018, 1021 (C.C.C. Mass. 1817) (Story, J., charging the jury) (stating that infringement judgement constituted the sole factual inquiry on whether the patented and accused machines were "substantially the same invention").

44. See *Odiorne v. Winkley*, 2 Gall. 51, 18 F. Cas. 581, 582 (C.C.D. Mass. 1814) (Story, J., charging the jury) ("Mere colorable differences, or slight improvements, cannot shake the right of the original inventor.").

45. See 35 U.S.C. § 112, ¶ 2 (1994). Similar language was first promulgated in the Patent Act of 1836, ch. 357, 5 STAT. 117, 119 (1836) ("[and the applicant must] particularly specify and point out the part, improvement, or combination, which he claims as his own invention or discovery."). It later was changed to "particularly point out and distinctively claim the part, improvement, or combination which he claims as his invention or discovery." Patent Act of 1870, ch. 230, 16 STAT. 198, 201 (1870).

46. See S. REP. NO. 338 (April 28, 1836) (stating that by requiring specific description of invention and bringing back patent examination for novelty Congress intended to combat four evils: (1) worthless and void patents; (2) infringement of the right of public and bona fide patentees by patent fraud; (3) alarming number of lawsuits because of (1) and (2); (4) patent fraud by slight immaterial alterations).

2. *Winans Preserved Instead of Created the Equivalency Approach*

The *Winans* Court justified its decision no differently than the pre-1836 legal analyses based on equivalency.⁴⁷ The Court noticed that an express provision in the 1793 Act, which stipulated that a patent can not be granted merely for a change of form, was not preserved in the 1836 Act.⁴⁸ But the Court held that this principle was a declaratory clause in the 1793 Act and should be an implicit part of every patent system.⁴⁹

It is remarkable that the *Winans* Court did not even mention how the requirement by the 1836 Act to “particularly specify and point out” the invention impacted its decision. The Court’s seemingly unremarkable rationale based on traditional “equivalency” analysis contrasts sharply with the widely-accepted view that the Court made a landmark decision that took patent scope outside the literal language of the claim. This indicates that the *Winans* Court did not believe that the 1836 Patent Act made any conceptual difference in the “equivalency” approach in an infringement suit. Thus, in contrast to the conventional wisdom that the doctrine is an “anomaly,” the Supreme Court treated it as the basic fabric of the infringement inquiry from its inception.

3. *Graver Tank: Continuation of the Equivalency Inquiry*

Graver Tank did not depart in principle from the *Winans* framework. The Court there stated that, “[i]f accused matter falls clearly within the claim, infringement is made out and that is the end of it.”⁵⁰ The question is, however, how to determine whether “the accused matter falls clearly within the claim.” There is no evidence that the Court meant that the issue should be decided completely by the literal language of the claim. On the contrary, the Court cited with approval *Westinghouse*⁵¹ in which the fact that claim language clearly read on the accused device did not end the in-

47. *Winans v. Denmead*, 56 U.S. 330, 341 (1853) (“It is generally true ... a patentee ... is understood to intend to claim, and does by law actually cover, not only the precise forms he has described, but all other forms which embody his invention.”).

48. *Id.*

49. *Id.* (“[T]hough this declaratory law was not reenacted in the Patent Act of 1836, it is a principle which necessarily makes part of every system of law granting patents for new inventions.”).

50. *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 85 U.S.P.Q. (BNA) 328 (1950).

51. *Boyden Power-Brake Co. v. Westinghouse*, 170 U.S. 537 (1898) (finding that Boyden’s improvement on Westinghouse’s patented train brake was literally covered by the patent, but nonetheless did not infringe because the improvement was a manifest departure from the principle of the Westinghouse patent).

quiry.⁵² So it seems that a more appropriate way of interpreting the Court's statement in *Graver Tank's* is that the inquiry of infringement comes to an end if the totality of the evidence, not just the patent's literal scope, indicates that the accused device falls within the claim.

4. Patent Claim as Prima Facie Definition of Patent Scope

The so-called "reverse doctrine of equivalents"⁵³ further supports the notion that an equivalency test is a basic component of infringement inquiry. Literal coverage of a device by a patent claim does not necessarily mean the accused device infringes if it is sufficiently different in principle from the disclosed one. This reverse application of the doctrine of equivalents illustrates that the ultimate nature of infringement inquiry is an inquiry of equivalency, or non-equivalency, between the patented and the accused devices.

Therefore, the equivalency inquiry in a patent infringement suit makes the patent claim a rebuttable presumption for patent scope. A matter literally falling outside a patent claim can still infringe the patent if it is substantially similar to the patented invention. In other words, the claim language of a patent, though not "a nose of wax,"⁵⁴ is not an ironclad definition of the patent coverage. It merely serves as a strong prima facie de-

52. *Graver Tank*, 339 U.S. at 609, 85 U.S.P.Q. at 330.

53. The leading Supreme Court case on reverse doctrine of equivalents is *Boyden Power-Brake Co. v. Westinghouse*, 170 U.S. 537 (1898). For modern application of the reverse doctrine by lower courts, see *Lessona Corp. v. United States*, 530 F.2d 896, 192 U.S.P.Q. (BNA) 672 (Ct. Cl. 1976) (finding no infringement despite the fact that the accused metal screen fit the claim language of "uniformly porous layer," because the pores on the accused screen had diameters larger than the range disclosed in the patent specification and because the pores in the accused screen performed the same function of the pores in the patented screen only in an incidental and insignificant way); *SRI Int'l v. Matsushita Elec. Corp. of Am.*, 775 F.2d 1107, 227 U.S.P.Q. (BNA) 577 (Fed. Cir. 1985) (affirming the validity of the reverse doctrine of equivalents); *Scripps Clinic & Research Found. v. Genentech, Inc.*, 927 F.2d 1565, 18 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1991) (reversing summary judgment of infringement on the ground that the much enhanced stability and reduced production cost warranted a trial to find whether the accused product had changed in principle); cf. *United States Steel Corp. v. Phillips Petroleum Co.*, 865 F.2d 1247, 9 U.S.P.Q.2d (BNA) 1461 (Fed. Cir. 1989) (rejecting a reverse equivalency defense based on the finding that the infringers made no change in principle). Like the doctrine of equivalents, the reverse doctrine of equivalents is sometimes tagged as an "equitable" doctrine. See, e.g., *Scripps*, 972 F.2d at 1581, 18 U.S.P.Q.2d at 1003. There is no clear evidence, however, that it is an equity rule exercisable only by judges in exceptional cases.

54. *White v. Dunbar*, 119 U.S. 47, 51 (1886) ("Some persons seem to suppose that a claim in a patent is like a nose of wax, which may be turned and twisted in any direction")

scription of the scope of the patent, which can be rebutted by other evidence in the quest for equivalency.

B. The Demise of the Equity View of the Doctrine of Equivalents

The notion that patent claim is only a rebuttable presumption for patent scope has always been dogged by the counter argument that the doctrine of equivalents is merely an equitable doctrine. Under the equity view, the doctrine is an exception to the rigid law that patent claim is the scope of the patent. This equity view was bolstered by two arguments. One is the anti-fraud policy⁵⁵ stated by *Graver Tank*⁵⁶; the other is the peripheral claiming method.⁵⁷

Warner-Jenkinson in essence dismissed both of the arguments for the equity view of the doctrine of equivalents. The Court affirmed the Federal Circuit's holding that the infringer's intent is irrelevant as to whether the doctrine of equivalents applies.⁵⁸ The Court also affirmed jury's role in determining equivalency.⁵⁹ Moreover, the Court dismissed the importance of the peripheral claiming method.⁶⁰ The Court's rulings have effectively quelled the "equity" view of the doctrine of equivalents.

The demise of the equity view not only lends support to the notion that the claim acts as the prima facie patent scope, it also has a significant implication for the status of the reverse doctrine of equivalents. Despite the fact that *Graver Tank* treated the reverse doctrine of equivalents as just one application of the doctrine of equivalents,⁶¹ the application of the re-

55. See *Graver Tank*, 339 U.S. at 607, 85 U.S.P.Q. at 330.

56. It is argued that based on the policy the doctrine of equivalents should be an equity tool for the judges to defeat intentional fraud by immaterial changes that take the accused device outside claim language. See *supra* notes 21-22.

57. For an explanation of the peripheral claiming, see *supra* note 17. For arguments that peripheral claiming precludes application of the doctrine of equivalents, see *supra* note 18.

58. *Warner-Jenkinson Co., Inc. v. Hilton Davis Chemical Co.*, ___ U.S. ___, 117 S. Ct. 1040, 1051, 41 U.S.P.Q.2d (BNA), 1865, 1873 (1997).

59. See *id.* at 1053, 41 U.S.P.Q.2d at 1874.

60. *Id.* at 1047 fn.4, 41 U.S.P.Q.2d at 1876 fn.4 ("The suggested change in claiming practice predates *Graver Tank*, is not of statutory origin, and seems merely to reflect narrower inventions in more crowded arts. Also, judicial recognition of so-called 'pioneer' patents suggests that the abandonment of 'central' claiming may be overstated.")

61. See *Graver Tank*, 339 U.S. at 608-09, 85 U.S.P.Q. at 330 ("[W]here a device is so far changed in principle from a patented article ... but nevertheless falls within the literal words of the claim, doctrine of equivalents may be used to restrict the claim and defeat the patentee's action for infringement.")

verse doctrine has been severely limited partially by the equity view.⁶² Thus removing the "equity" shroud from the doctrine of equivalents can potentially lead to an expansion of the utility of the reverse doctrine of equivalents.⁶³ If this turns out to be true, the reverse doctrine of equivalents can be expected to become a routine defense in infringement cases, just as the doctrine of equivalents has arguably become the "second bite at the apple" for patentees.

In sum, the Supreme Court has consistently regarded the issue of equivalency as an inherent part of the infringement inquiry, despite the statutory language changes in the Patent Act. At least, the Court has never expressed opinions to the contrary. The *Warner-Jenkinson* Court followed this legal tradition in rejecting the arguments against the validity of the doctrine of equivalents. However, as discussed in the next section, *Warner-Jenkinson* has delimited the application of the doctrine by enhancing the force of the prosecution history estoppel defense.⁶⁴

IV. PROSECUTION HISTORY ESTOPPEL: THE NEW REBUTTABLE PRESUMPTION

The old rule on prosecution estoppel was that the defendant could invoke the estoppel defense only if the prosecution history showed that the concession of the subject matter was made to distinguish prior art.⁶⁵ The peculiar problem of *Warner-Jenkinson* was that even though it was clear that the upper limit, pH 9, was added to distinguish the prior art, there was no evidence as to why the lower limit, pH 6, was added.⁶⁶ In deciding this issue, the Court held that, in a situation where no reason can be found in

62. The reverse doctrine of equivalents at present time is rarely applied. See *Ethyl Molded Prods. Co. v. Betts Package, Inc.*, 9 U.S.P.Q.2d 1001, 1026 (E.D. Ky. 1988) ("The reverse doctrine of equivalents, although frequently argued by infringers, has never been applied by the Federal Circuit.").

63. For an economic defense of the reverse doctrine of equivalents, see MERGES, *supra* note 1, at 943-49.

64. Prosecution history of a patent is the interchanges between the patentee and the PTO that are recorded in the file wrapper as part of the patent's public file. Prosecution history estoppel is an affirmative defense where the alleged infringer claims to have concluded that a particular subject matter is not covered by the patent by relying on the record in the prosecution history that the patentee surrendered the subject matter in an amendment to avoid rejection.

65. The rationale for the rule is, (1) the surrendered subject matter presumably is part of the prior art if its concession was necessary to avoid the prior art, and (2) the doctrine of equivalents can not cover prior art. For the prior art limitation on the doctrine of equivalents, see *supra* note 12.

66. *Warner-Jenkinson*, 117 S. Ct. at 1051, 41 U.S.P.Q.2d at 1868.

the file wrapper for a claim amendment during prosecution, the amendment is presumed to have been made to distinguish prior art.⁶⁷ The burden of rebutting the presumption is on the patentee.⁶⁸ The Court rested its decision on a policy ground that "claims do indeed serve both a definitional and a notice function."⁶⁹ The Court reasoned that a patent-holder should be estopped from reclaiming something he consciously surrendered unless he can establish that the concession was not made to avoid unpatentability based on prior art.

1. The New Rule Creates a New Species of Defense

On the surface the Court's holding does not depart significantly from the previous rules on prosecution history estoppel. After all, the new burden of proof on the patentee does not seem to be onerous because in an infringement suit the patentee has the ultimate burden of proof anyway. This comment, however, argues that the new rule in fact represents a significant change from the previous case law.

The new-mint judicial presumption produces a new species of defense that is no longer a true estoppel. Estoppel is an affirmative defense⁷⁰ for which the defendant has the burden of proving the requisite elements, which are reasonable reliance and change of position.⁷¹ To be sure, the Court affirmed the basic rule that a subject matter surrendered during prosecution becomes irretrievable by the doctrine of equivalents only when the concession was made to distinguish prior art.⁷² Under this basic rule, an alleged infringer should not be able to claim a reasonable reliance simply because the subject matter in question was surrendered in response to a rejection, because there are many kinds of rejections that are not based on prior art.⁷³ Furthermore, from the vantage point of the alleged infringer, under the new rule he no longer has a complete estoppel defense

67. *Id.*

68. *Id.*

69. *Id.*; 41 U.S.P.Q.2d at 1873.

70. See FED. R. CIV. P. 8(c).

71. The party claiming the estoppel must have relied on its adversary's conduct in such a manner as to change his position for the worse. The reliance must have been reasonable in that the party claiming the estoppel did not know or should not have known that its adversary's conduct was misleading. See, e.g., *Wilber National Bank v. United States*, 294 U.S. 120, 124-125, 55 S.Ct. 362, 364, 79 L.Ed. 798 (1935).

72. See *Warner-Jenkinson*, 117 S. Ct. at 1050, 41 U.S.P.Q.2d at 1871-72 ("[W]e see no substantial cause for requiring a more rigid rule invoking an estoppel regardless of the reasons for a change.").

73. For non-art based rejections, see THE MANUAL OF PATENT EXAMINATION PROCEEDINGS, § 706.03 (a)-(z).

anymore, even if he does have reasonable reliance, because the patentee can produce off-the-record evidence to nullify his estoppel defense.

2. *Can the New Rule Enhance Notice Function of Patent Claim?*

It is questionable whether the new rule would indeed enhance the notice function of a patent claim as the Court reasoned. Under the new rule, if an improver cannot find a reason for a concession in the file wrapper, he can assume that the conceded subject matter falls outside of the reach of the doctrine of equivalents. But he can still be found to infringe the patent if the patentee produces evidence that the concession was made for reasons not related to prior art.⁷⁴ Hence, the new rule does not help improvers very much, because they still face essentially the same degree of uncertainties in balancing the risk of infringement versus the benefit of improvement.

Concededly, the new rule helps alleged infringers when litigation arises because the patentee will lose if he cannot find a documented reason for the claim amendment. This help, however, hardly enhances the notice function of the patent claim.

Furthermore, the sudden change of rules will likely throw many patentees off balance because of inadequate past record keeping.⁷⁵ It will further increase the burden of future record keeping for the patentee. Thus, as this comment argues, the Supreme Court's new rebuttable presumption represents an unnecessary change of law, the cost of which will likely outweigh the benefit for the society as a whole.

V. THE TESTS FOR EQUIVALENCY

In dealing with the controversies surrounding legal tests for equivalency, the Court addressed three issues: (1) Whether the equivalency inquiry should focus on individual elements or the invention as a whole;⁷⁶ (2) whether the determination of interchangeability of elements of the accused and patented devices should be decided at the time of patent or at the time of infringement;⁷⁷ and (3) whether the test should be the function-way-result or the insubstantiality test.⁷⁸

74. There is ample possibility that a rejection was not based on the prior art.

75. See, e.g., *Warner-Jenkinson*, 117 S. Ct. at 1054, 41 U.S.P.Q.2d at 1876 (Ginsberg, J. concurring) (“[Y]ears after the fact, the patentee may find it difficult to establish an evidentiary basis that would overcome the new presumption.”).

76. *Id.* at 1049, 41 U.S.P.Q. at 1871.

77. *Id.* at 1052-53, 41 U.S.P.Q. at 1874.

78. *Id.* at 1954, 41 U.S.P.Q. at 1875.

A. Equivalency of Elements

The Court endorsed the late Judge Nies' proposal that the test of equivalency applies only to "the equivalency of an element or part of the invention with one that is substituted in the accused product or process."⁷⁹ It quoted with approval her argument that testing the equivalency of patents as a whole inevitably enlarges the scope of patent while testing equivalency of elements does not.⁸⁰

On the surface, the element equivalency approach would make the outcome of the doctrine of equivalents more limited and more predictable. There are, however, potential problems in implementing such a rule. The first problem is the vague definition of elements.⁸¹ The inquiry could turn too much on the language of claim drafting.⁸² Thus, for infringement litigation, the element-by-element approach will have a long way to go before the case-by-case doctrinal evolution delineates its contours of application.⁸³ For patent applicants, however, the endorsement by the Supreme Court of the element rule makes it very clear that they should draft their claims in the most integrated possible way so that the least number of elements can be extracted from the claim language. In this way, each element contains a relatively higher level of functionality and therefore has a larger ambit of equivalency.⁸⁴

79. *Hilton Davis Chemical Co. v. Warner-Jenkinson Co., Inc.*, 62 F.3d 1512, 1573, 35 U.S.P.Q.2d (BNA) 1641, 1692 (Fed. Cir. 1995) (Nies, J., dissenting).

80. *See Warner-Jenkinson*, 117 S. Ct. at 1049, 41 U.S.P.Q.2d at 1871.

81. *See, e.g., MERGES, supra note 1*, at 867-68 (summarizing three definitions of elements).

82. *See, e.g., CHISUM, supra note 42*, at 2-261 (arguing with two hypothetical tile claims that an element-by-element approach could potentially yield a different outcome for different claim drafting of the same invention).

83. This includes, *inter alia*, developing consistent ways of extracting and comparing elements, which are no simple tasks. *See, e.g., Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931, 4 U.S.P.Q.2d (BNA) 1737 (Fed. Cir. 1987), *cert. denied*, 485 U.S. 961 (1988); *cf. Corning Glass Works v. Sumitomo Electric U.S.A., Inc.*, 868 F.2d 1251, 9 U.S.P.Q.2d 1962 (Fed. Cir. 1989).

84. Take *Chisum's* hypothetical tile claims as an example.

Claim 1 is for 'A floor tile comprising a regular four-sided polygon with each side of approximately equal length.' Claim 2 is for: 'A floor tile comprising (a) a first side, (b) a second side, a first end of said second side joined at a first end of said first side, (c) a third side, a first end of said third side joined at a second end of said first side, and (d) a fourth side joined at a second end of said second side and a second end of said third side, wherein each of said sides are of approximately equal length.'

CHISUM, supra note 42. Claim 2 will have a much harder time to find equivalent if a court takes each side claim as an element.

The second problem is associated with the potential misuse or abuse of the element-to-element equivalency rule. This rule's emphasis on elements could possibly lead some lower courts to forget about the basic tenor of the doctrine of equivalents: that is, equivalency of elements must be determined in the context of the whole invention.⁸⁵ For example, the question of whether manganese is equivalent to magnesium or other alkaline earth metals can only be estimated by their functions in the invention as a whole. In many chemical processes, they are not equivalents.⁸⁶ Only when viewed as silicate salts and used as welding flux components can they be called equivalent, as in *Graver Tank*.⁸⁷ Therefore, precisely speaking, the ostensible inquiry into the equivalency of elements should be described as an inquiry into whether the accused device is equivalent to the patented invention as a whole, despite differences in the element in question. Hence, for the purpose of the doctrine of equivalents, it is not dispositive whether two elements or components are equivalent or different in isolation. Their equivalency is determined by the totality of the situation. The Federal Circuit now has the power and the duty to ensure correct applications of the element equivalency rule.

B. After-arising Art

The issue of whether interchangeability should be tested at the time of patent issuance or at the time of infringement boils down to the issue of whether equivalents should include after-arising art that becomes available after the patent grant. The Court agreed with the Federal Circuit that equivalency should be decided by the knowledge of skillful artisans at the time of infringement and therefore could include after-arising art.⁸⁸ The Court rested its decision on the ground that, like the reasonable person standard, the equivalency inquiry based on the knowledge of a skillful

85. See, e.g., *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 609, 85 U.S.P.Q. (BNA) 328, 330-31 (1950) ("What constitutes equivalency must be determined against the context of the patent, the prior art, and the particular circumstances of the case In determining equivalents, things equal to the same thing may not be equal to each other and, by the same token, things for most purposes different may sometimes be equivalents.") The *Warner-Jenkinson* Court also expressed a similar opinion. 117 S. Ct. at 1054, 41 U.S.P.Q.2d at 1875 ("An analysis of the role played by each element in the context of the specific patent claim will thus inform the inquiry as to whether a substitute element matches the function, way, and result of the claimed element").

86. For example, magnesium cannot equivalently substitute for manganese in manganese steel, while manganese cannot substitute for magnesium in enzymatic reactions requiring magnesium as a catalyst.

87. *Graver Tank*, 339 U.S. at 611-12, 85 U.S.P.Q. at 331.

88. See *Warner-Jenkinson*, 117 S. Ct. at 1052-53, 41 U.S.P.Q.2d at 1874.

practitioner is an objective inquiry.⁸⁹ Thus a skilled practitioner's knowledge is not relevant for its own sake, but rather for what it tells the fact-finder about the similarities or differences between those elements.

The Court's argument seems to beg the question of why the fact-finder should not listen to a person who was skillful in the art at the time of the invention, because the reasonable person standard is a qualified objective standard that takes account of time and circumstances.⁹⁰ The question here is whether the scope of the patent should include certain elements. The relevant time frame, if analogized to the reasonable person standard, would apparently be the time of the patent scope being created.⁹¹

Nonetheless, the Court's rule is probably sound. The rationale for its decision appears to lie in the general practice of patent scope interpretation. The scope of a patent is interpreted on the basis of technology at the time of infringement, but not at the time of patent.⁹² Because a thing equivalent "is the same as the thing itself,"⁹³ there is little reason to determine equivalents at a different time from the determination of literal scope. If the literal scope can include after-arising art, so should equivalency.⁹⁴

Moreover, there seem to be good policy reasons for the Court's rule. One of the major risks a patentee faces is that a minor equivalent replacement, made possible by later technological development, takes an accused device out of the literal scope of the patent. These risks are very difficult

89. *See id.*

90. For example, in a negligence case, the question is whether the defendant's alleged negligent conduct is something a reasonably prudent person would do in the defendant's situation at the time of the incidence in question. Therefore, if the event happened five years ago, the relevant question is what a reasonable person would have done five years ago under the same circumstance.

91. To be sure, the Patent Act uses the concept of the skilled practitioner to test enablement at the time of application. 35 U.S.C. § 112 (1994) ("The specification shall contain a written description of the invention ... in such full, clear, concise, and exact terms as to enable any person skilled in the art ... to make and use the same").

92. The claim language describing a technology could include different things at different times. The question is always whether the claim reads on the accused device at the time of infringement regardless of whether the accused device is made possible by after-arising art. For infringement in general, see *MERGES*, *supra* note 1, at 825.

93. *Warner-Jenkinson*, 117 S. Ct. at 1051, 41 U.S.P.Q.2d at 1873 (citing with approval *Machine Co. v. Murphy*, 97 U.S. 120, 125 (1877)).

94. In fact, in its first case that validates the concept that the scope of equivalency includes after-arising art, the Federal Circuit cited as authority its predecessor court's opinion on literal scope coverage of after-arising art. *See Hughes Aircraft Co. v. United States*, 717 F.2d 1351, 1365, 219 U.S.P.Q. (BNA) 473, 483 (Fed. Cir. 1983) (citing cases by the Court of Claims regarding literal scope coverage of partial variation in technique).

to minimize because the technical development involved is unknown and unpredictable at the time of patent application, and they usually happen in other fields. The risks could potentially work a great injustice on the patentee if the doctrine of equivalents does not allow for after-arising art. The risks could also deter research and development investment.

C. Linguistic Framework

The Court refused to referee the debate on whether the insubstantiality or the function-way-result test should be used to determine equivalency. The Court held that different linguistic frameworks might be desirable in different cases.⁹⁵ The crucial point, the Court ruled, is whether the test is probative of the equivalency of the elements in the accused and patented products.⁹⁶ This holding will probably not help the lower courts much in conducting the equivalency test. The Court has left further development of the test to the Federal Circuit.⁹⁷

This comment attempts to contribute somewhat to the ongoing discourse on the equivalency test. It postulates here that the function-way-result test is still a viable test suited for all patents and that the problem associated with the test arises from the way it has been applied.

1. *A Prerequisite for the Function-Way-Result Test*

The problem of the function-way-result test is adequately illustrated by Judge Lourie's chemical compounds hypothetical. He posited that two chemicals have totally different structures and yet perform the same function in the same way and obtain the same result. They are two different things and yet they are equivalents under the function-way-result test.⁹⁸

This hypothetical illustrates the need for a prerequisite for applying the test in situations where structure or composition is the material part of the invention. Under these circumstances, the first step should be to ascertain whether there is only a minor difference in structure or compositions be-

95. *Warner-Jenkinson*, 117 S. Ct. at 1954, 41 U.S.P.Q.2d at 1875.

96. *See id.*

97. *See id.* at 1954, U.S.P.Q.2d at 1875-76 ("We expect that the Federal Circuit will refine the formulation of the test for equivalence in the orderly course of case-by-case determinations, and we leave such refinement to that court's sound judgment in this area of its special expertise.")

98. *Hilton Davis Chemical Co. v. Warner-Jenkinson Co., Inc.*, 62 F.3d 1512, 1546, 35 U.S.P.Q.2d (BNA) 1641, 1669 (Fed. Cir. 1995) ("Except for process inventions, which perforce must be defined by their component procedural steps, inventions are generally defined by structure, i.e., by what they are, rather than by what they do. [The function-way-result test] is most useful in defining what an invention does, but it does not always tell what an invention is.")

tween the accused and patented devices. If the two things are very different in their composition or structure, they are two different things regardless of whether they perform the same function in the same way to obtain the same result. In a sense, this principle existed since *Winans*, which stated, "Where form and substance are inseparable, it is enough to look at the form only."⁹⁹ For chemical or composition patents, structure and compositions are "forms" but they are also the very substance invented. Anything that substantially deviates from the patented structure or composition becomes a different thing irrespective of functional similarities.

Even in *Graver Tank*, the Court did not draw its conclusion solely based on the function-way-result test. In its factual inquiry of equivalency, *Graver Tank* first found that the accused product was similar to the claimed invention, except that the accused product substituted silicates of calcium and manganese for silicates of calcium and magnesium.¹⁰⁰ The Court noted that "[i]n all other aspects, the two compositions are alike." It was after this conclusion of similar composition that the Court made the function-way-result inquiry.¹⁰¹

Therefore, before any function-way-result analysis, the first step of the equivalency inquiry should be an examination of the overall differences between the accused and claimed device to determine whether they are insignificant. If this inquiry leads to the conclusion that the accused and patented devices are substantially different in structure or composition, the function-way-result test should not be used. On the other hand, if the structure or composition of the two devices is not substantially different, then the function-way-result test should be applied.

99. *Winans v. Denmead*, 56 U.S. 330, 343 (1853).

100. 339 U.S. 695, 609, 85 U.S.P.Q. (BNA) 328, 331 (1950)

101. In *Graver Tank*, although manganese silicate was a major component in the accused composition, the specification of the patent reveals that many metal silicates including manganese silicate could be used although the preferred embodiment was alkaline earth metal silicates. The patent stated: "We have used calcium silicate and silicates of sodium, barium, iron, *manganese*, cobalt, magnesium, nickel and aluminum, both in binary and ternary combinations, in various proportions." (emphasis added) The patentee actually claimed all metal silicate, which was held invalid because not all silicates have such utility. Nevertheless, the major component of the invention was silicate, which worked with many metal element combinations including manganese. Therefore substituting manganese was indeed a minor change in the patented composition. See *Linde Air Products Co. v. Graver Tank & Mfg. Co., Inc.*, 86 F. Supp. 191, 75 U.S.P.Q. 231 (N.D. Ind. 1947). The dissent in *Graver Tank* erroneously focused on the weight composition of silicate manganese. See *Graver Tank*, 339 U.S. at 613, 85 U.S.P.Q. at 332.

2. *The Function-Way-Result Test as Check and Balance for the Doctrine of Equivalents*

Under the two-step analysis stated above, the function-way-result test plays two principal roles in the equivalency test. First, it serves to confirm an insubstantial difference found by examining the structures or compositions, and in borderline cases, provides additional comparative criteria. The second, perhaps more important, role of the test is to act as a check against overuse of the doctrine of equivalents in cases where two structurally similar things may have significantly different functionality. When the accused device differs only slightly from the claimed device in structure or composition, they are not necessarily equivalent. Minor changes in structure and composition can sometimes result in substantial improvement of the function the device performs, or the way it performs such a function, or the result it obtains. Thus to ask the function-way-result question under this circumstance is to ascertain whether the minor changes in structure or composition made any significant changes in the function, way, or result. An affirmative answer may take the accused device outside of the scope of the patent in spite of the minor differences in structure or composition. A negative answer, on the other hand, supports the inference that there is no substantial difference between the two devices.

Hence, the function-way-result test is not an obsolete test unsuited for chemical or biotech patents. Rather, misuse of the test has caused confusion. For example, in Judge Lourie's hypothetical about the two structurally different but functionally similar chemicals, the correct approach to the question of equivalency ought to begin with their structural differences and end there. A nonequivalency conclusion is merited solely based on the substantial difference between the structures of the two chemicals. It is irrelevant that they perform the identical function in the identical way to obtain the identical result. They are different things because their structures are substantially dissimilar, and structure is a material part of a chemical patent.

VI. CONCLUSION

The Supreme Court reaffirmed the vitality of the doctrine of equivalents, rejecting the argument that it is an equitable doctrine exercisable only by judges in extraordinary circumstances. This comment has argued in favor of the ruling by contending that the conceptual center of an infringement inquiry is an inquiry of equivalency. It also postulates that abolishment of the "equity" restriction on the doctrine would enable broader application of the reverse doctrine of equivalents.

The Court, however, delimited the application of the doctrine of equivalents. It endorsed the element-by-element approach for the equivalency test. It also created a judicial presumption that any concession of subject matter during patent prosecution is irretrievable by the doctrine of equivalents unless the patentee can prove that the concession was not made to distinguish prior art. This comment has suggested some areas of caution and some further refinements, in light of the Court's decision. Arguably, the new burden of production on the patentee will not achieve the Court's intended policy goal of enhancing the notice function of patent claim. Also, the element-by-element approach may be prone to misapplication and should be closely monitored by the Federal Circuit. Finally, courts should use a two-step equivalency inquiry combining an insubstantiality test for structure or composition and the function-way-result analysis.

FORD MOTOR CO. V. LEMELSON

By M. Scott Carey

In *Ford Motor Co. v Lemelson*,¹ Judge George, District Court of Nevada, held that he was without authority (judicial, congressional, or otherwise) to apply the equitable doctrine of laches² to limit 35 U.S.C. § 120.³ Because section 120 is one of the primary procedural mechanisms used to create so-called submarine patents,⁴ altering the patent system to prevent such abuses continues to be an area ripe with legislative,⁵ judicial,⁶ and academic debate.⁷ The GATT amendments to the Patent Act in 1995,⁸

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1. 42 U.S.P.Q.2d (BNA) 1706, 1707 (D. Nev. 1997).

2. Laches bars the prosecution of an action for relief where (1) the party claiming certain rights has unreasonably delayed the assertion of those rights, and (2) where such a delay resulted in prejudice to the adversarial party. Reliance or intent are not required elements of a laches defense. See *Lemelson*, 42 U.S.P.Q.2d at 1707.

3. Patent Act, 35 U.S.C. § 120 (1994). Section 120 is the statutory provision that permits an applicant to claim the priority of an earlier filed application provided the earlier filed application is still pending and specific mention is made referencing the earlier application. Entitled "Benefit of Earlier Filing Date in the United States" it states:

An applicant for patent for an invention disclosed in the manner provided by the first paragraph of Section 112 of this title in an application previously filed in the United States, or as provided by Section 363 of this title, which is filed by an inventor or inventors named in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application.

35 U.S.C. § 120.

4. Submarine patents are patents, which several years after their original disclosures are filed and upon issuance, automatically result in an infringing population, because the technology patent, believed to be in the public domain, is already in use.

5. See, e.g., CONG. REC. S2678 (daily ed. Mar. 3, 1997) (statement of Sen. Hatch); CONG. REC. H1719 (daily ed. Apr. 16, 1997) (statement of Rep. Rohrabacher).

6. See, e.g., *Advanced Cardiovascular Systems, Inc. v. Medtronic Inc.*, 41 U.S.P.Q.2d (BNA) 1770 (N.D. Cal. 1996); *Ford Motor Co. v. Lemelson*, 42 U.S.P.Q.2d (BNA) 1706 (D. Nev. 1997).

7. See, e.g., David L. Marcus, *Is the Submarine Patent Torpedoed?: Ford Motor Co. v. Lemelson and the Revival of Continuation Application Laches*, 70 TEMPLE L. REV. 521 (1997), Samuel C. Miller III, *Undue Delay in Prosecution of Patent Applications*, 74 J.PAT. & TRADEMARK OFF. SOC'Y 701 (1992).

which changed the patent term of 17 years from issuance to 20 years from filing, took most of the incentive out of the procedural gamesmanship engaged in by Lemelson. However, because technology cycles are becoming shorter and shorter, section 120 still remains susceptible to abuses similar to Lemelson's.⁹

The district court reached an incorrect result in finding that the court was without judicial or congressional authority to introduce the equitable doctrine of laches into the statutory scheme of section 120. The district court's holding was incorrect because: (1) judicial precedent permits the application of equitable doctrines for the type of behavior exhibited by Lemelson;¹⁰ (2) Congress has acted, both prior and subsequent to the 1952 Patent Act, to ameliorate the creation of submarine patents;¹¹ and (3) abuse of section 120 results in behavior which is contrary to the policy and purposes behind the patent system. Equity should have intervened to find the patents asserted against Ford unenforceable because of an undue delay in their prosecution.

I. THE MAGISTRATE DECISION

Ford Motor Co. sought a declaration from the court that certain patents held by independent inventor Jerome Lemelson were unenforceable on the grounds of laches for undue delay in prosecution.¹² Lemelson cross-motivated, seeking summary judgement against Ford Motor Co. on the issue of patent infringement.¹³ The eleven patents at issue pertained to "machine vision" and "Auto-ID" technologies.¹⁴

8. Uruguay Round Agreements Act, H.R. 5110, 103rd Cong. (1994); *see generally*, Patent Act 35 U.S.C. § 154.

9. For example, in rapidly moving industries such as the electronics, computer software, and biotechnology fields, a true submarine patentee would risk the loss of several years of his 20 year term. They may reap a financial windfall by waiting until dependency develops before surfacing their patent, thereby effectively extorting an entire market.

10. *See, e.g.*, Woodbridge v. United States, 263 U.S. 50 (1923); Webster Electric Co. v. Splitdorf Electrical Co., 264 U.S. 463 (1924); Wirebounds Patents Co. v. Saranac Automatic Machine Corp., 65 F.2d 904 (6th Cir. 1933); Mahn v. Harwood, 112 U.S. 354, (1884); Miller v. Brass Co., 104 U.S. 350 (1881).

11. *See* H.R. 6878, 76th Cong. (1939); The Omnibus Patent Act of 1997, S. 507, 105th Cong. (1997); The Century Patent System Improvement Act, H.R. 400, 105th Cong. (1997); Uruguay Round Agreements Act, H.R. 5110, 103rd Cong. (1994).

12. *See* Ford Motor Co. v. Lemelson, 40 U.S.P.Q.2d (BNA) 1349, 1350 (D. Nev. 1996).

13. *See id.*

14. *See id.* at 1351.

Lemelson began prosecution proceedings on these technologies in 1954 and 1956.¹⁵ From these original disclosures, the nine patents asserted against Ford issued,¹⁶ with up to fifty¹⁷ more still pending. The oldest claim asserted against Ford originated in the 1972 patent.¹⁸ The next claim arose in 1979.¹⁹ Two more surfaced in 1982.²⁰ Eighteen more claims arose in 1986; and twenty-two more in 1989 and beyond.²¹ Thus, twenty-two of the claims asserted against Ford appeared thirty-three years after the original disclosure.²² All the claims asserted against Ford claimed the benefit of the 1954 and 1956 disclosures for their priority.²³

However, both Ford and Lemelson agreed that nothing in Lemelson's prosecution practices was contrary to any statute or PTO practice. The sections of Title 35 that permit the behavior exhibited by Lemelson are sections 120 and 121. Section 120 allows an applicant to file a continuation of an earlier filed application while receiving the parent's filing date for its priority, provided the earlier application is still pending and the disclosure meets the requirement of Section 112 paragraph 1.²⁴ Section 121 allows an applicant to divide off certain claims in the original application while still receiving the parent's original filing date for its priority.²⁵

Ford asserted that the patents held by Lemelson were unenforceable because of undue delay in the prosecution of the majority of claims asserted against Ford. Ford asked the court to find the patents unenforceable under the equitable doctrine of laches in the absence of an explanation of why it took more than three decades to have the patents issue.

In answer to the moving parties, Judge George initially accepted the Magistrate's recommendation declaring Lemelson's patents unenforceable under the doctrine of laches and thus found Ford's activity non-infringing.²⁶ However, in light of Lemelson's motion for reconsideration, Judge George vacated his initial ruling and held in favor of Lemelson.

15. *See id.* at 1358.

16. *See id.* at 1350.

17. *See id.*

18. *See id.* at 1359.

19. *See id.*

20. *See id.*

21. *See id.*

22. *See id.* at 1360.

23. *See supra* note 4.

24. *See supra* note 3.

25. 35 U.S.C. § 121 (1997).

26. *See Lemelson*, 40 U.S.P.Q.2d (BNA) at 1349.

A. Construction of Continuation Statute in Light of Reissue Statute

Magistrate Atkins first ruled against Ford's suggestion that "the existence of section 251's two-year limitation on broadening claims on reissue operates to limit a patentee from bringing forth new claims from the original disclosure via a continuing application."²⁷ Ford had originally argued that any of Lemelson's prosecution practices which could have been achieved via the reissue statute are subject to the same two year statutory period in which to act. Thus, Ford contends that Lemelson's greater-than-two-year delay in introducing the broadened or different claims involving the subject matter from the 1954 and 1956 disclosures makes them unenforceable.

The Magistrate Judge was unable to find any express or implied statutory relationship between sections 120 and 121 and the reissue statute, and he therefore held that the "court cannot construe the reissue statute to *necessarily* limit the use of continuing applications."²⁸ Judge Atkins reached this conclusion because (1) sections 120 and 251 appear in different chapters and parts of Title 35, and (2) the reissue section is focused primarily toward fixing mistakes, whereas the continuation section is geared to "extend substantive patent rights by establishing an earlier effective filing date."²⁹

B. Laches as a Limitation on Continuing Applications

The doctrine of laches belongs to a family of equitable doctrines³⁰ the court has routinely applied to parties' patent prosecution practices.³¹ The equitable doctrine of laches³² is based on the maxim "equity aids the vigilant, not those who slumber on their rights."³³ Laches bars the prosecution of an action for relief where (1) the party claiming certain rights has un-

27. *Id.* at 1354.

28. *Id.* (emphasis added).

29. *Id.*

30. Inequitable Conduct, File Wrapper Estoppel, and Laches.

31. See generally *Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 9 U.S.P.Q.2d (BNA) 1384 (Fed. Cir. 1988) (inequitable conduct case); *Exhibit Supply Co. v. Ace Patents Corp.*, 315 U.S. 126, 52 U.S.P.Q. (BNA) 275 (1942) (application of file wrapper estoppel); *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020, 22 U.S.P.Q.2d (BNA) 1321 (Fed. Cir. 1992) (doctrine of laches).

32. Laches is usually asserted as a defense where the opposing party delays in bringing suit. See *Lemelson*, 40 U.S.P.Q.2d at 1355. However, equity has routinely been extended to cases involving the patent prosecution process. See *Kingsdown Medical Consultants v. Hollister, Inc.*, 863 F.2d 867, 9 U.S.P.Q.2d (BNA) 1384 (Fed. Cir. 1988).

33. HENRY L. MCCLINTOCK, *HANDBOOK ON THE PRINCIPLES OF EQUITY* 52 (2d ed. 1948).

reasonably delayed the assertion of those rights, and (2) where such delay resulted in prejudice to the adversarial party.³⁴ Statutes without an express period of limitation on the party's right to enforce his interest³⁵ are ripe for the application of the doctrine of laches.

The Magistrate Judge held that the Federal Circuit has never established an absolute prohibition against the application of equitable doctrines acting to limit an applicant's continuing application practice. According to Judge Atkins,³⁶ the Federal Circuit (and its predecessor court, the Court of Customs and Patent Appeals (CCPA)) expressed a prohibition against arbitrary restrictions by the PTO or the judiciary of continuing applications.³⁷

The Magistrate suggested that the case law hits the "mid-point" between Lemelson's extreme view that "no matter ... how many years from the filing of the first application to the surfacing of a brand new claim on similar subject matter, laches is not available in the face of the statutory scheme devised by Congress,"³⁸ and Ford's narrow view that new claims concerning the same subject matter must be filed within the two year term of the reissue statute.³⁹

1. *The Reasonableness of Lemelson's Delay.*

Lemelson's argument for reasonableness was twofold. First, the seven and four way restriction⁴⁰ imposed on his 1954 and 1956 disclosures, respectively, by the Patent Office caused the three-decade-plus delay in the patents' issuance. Second, he attacked the premise that a reasonableness

34. See *Advanced Cardiovascular Sys., Inc. v. SciMed Life Sys., Inc.*, 988 F.2d 1157, 1161-64, 26 U.S.P.Q.2d (BNA) 1038, 1041-42, (Fed. Cir. 1993) (holding laches applied to bringing suit for infringement).

35. See 1 DAN B. DOBBS, *LAW OF REMEDIES* § 2.4(4) (2d ed. 1993).

36. See *Lemelson*, 40 U.S.P.Q.2d at 1355.

37. See, e.g., *Studiengesellschaft Kohle mbH v. Northern Petrochemical Co.*, 784 F.2d 351, 228 U.S.P.Q. (BNA) 837 (Fed. Cir. 1986) (arbitrary restriction on when a continuing application can issue not upheld); *In re Henriksen*, 399 F.2d 253, 158 U.S.P.Q. (BNA) 224 (C.C.P.A. 1968) (arbitrary restriction on the number of continuing applications that may be co-pending not upheld); *Crown Cork & Seal Co. v. Ferdinand Gutmann Co.*, 304 U.S. 159, 37 U.S.P.Q. (BNA) 351 (1938) (arbitrarily setting two year limit on when an applicant must bring forth continuing application not upheld).

38. *Lemelson*, 40 U.S.P.Q.2d at 1355.

39. See *id.*

40. Restrictions occur when two or more independent and distinct inventions are claimed in one application. The examiner will require applicant to be restricted to one invention. The applicant selects what group he wants to proceed with prosecution, this group is called the elected claims and subsequent groups selected are called the divisional claims. See generally 35 U.S.C. § 121 (1994).

requirement attaches to continuing applications. Lemelson argued that *Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*⁴¹ and *Crown Cork & Seal Co. v. Ferdinand Gutmann Co.*⁴² support the practice of "looking at products currently on the market, and drafting new claims within the nomenclature of the early application in order to get new patents which encompass existing technology."⁴³

The Magistrate Judge found Lemelson's first argument to be without merit, since the groups Lemelson elected to prosecute first from the restrictions were those closest to the "Auto-ID" and "machine vision" claims asserted against Ford.⁴⁴

The Magistrate Judge ruled Lemelson's practice of "awaiting the development ... of products ... in the marketplace is [not a] reasonable excuse for delaying presentation of claims in applications to the patent office."⁴⁵ Magistrate Atkins was able to distinguish *Kingsdown* and *Crown Cork* from the facts of the case at hand. *Kingsdown* says only "that drawing claims to read on currently marketed technology is not *in itself* evidence of intent to act inequitably."⁴⁶ Magistrate Atkins distinguished *Crown* by stating that the applicant exercised diligence in drafting claims to create an interference with the competitors products in the Patent Office. She held the applicant in *Crown* was justified in doing so because he was attempting to settle the initial claims, and not to create an infringement in the marketplace.⁴⁷

2. Prejudice to Ford

Judge Atkins held that "Lemelson's continuing application practice imposes prejudice upon [Ford and] all manufacturers or users of related products because all technological advancement arguably related to his 1954 and 1956 applications must cease indefinitely, or until Lemelson himself ends the chain of co-pending applications."⁴⁸ Therefore, the Magistrate concluded the patents asserted against Ford were unenforceable.

41. 863 F.2d 867, 874, 9 U.S.P.Q.2d (BNA) 1384, 1390 (Fed. Cir. 1988), *cert denied*, 490 U.S. 1067 (1989).

42. 304 U.S. 159, 37 U.S.P.Q. (BNA) 351 (1938).

43. *Lemelson*, 40 U.S.P.Q.2d at 1360.

44. *See id.* at 1360 n.24.

45. *Id.* at 1361.

46. *Id.*

47. *See id.*

48. *Id.* at 1362.

II. THE DISTRICT COURT DECISION

The district court initially accepted the Magistrate's recommendation of unenforceability. Upon reconsideration, however, Judge George vacated the Magistrate's recommendation and held "the court should not intervene in equity to regulate [the statutory scheme allowing continuations where] Congress has not,"⁴⁹ thereby upholding the enforceability of Lemelson's patents and sanctioning Lemelson's prosecution practices. In arriving at this holding, Judge George considered only whether it was "appropriate to judicially introduce ... doctrines of equity into the statutory scheme of continuation practice."⁵⁰

A. Laches as a Limitation on Continuing Applications

Judge George upheld the enforceability of Lemelson's patents based on the court's reluctance to equitably restrict patent continuation practice and congressional intent in drafting section 120. He found that past cases revealed the judiciary's unwillingness to equitably restrict the continuation practice.⁵¹

Judge George relied on a 1950 "Preliminary Draft with Notes" Committee Print of the proposed revision and amendments of the patent laws in finding congressional intent to not limit the statutory scheme of continuing applications.⁵² In this draft, contained in section 120 was a terminal disclaimer provision stating that "[t]he term of the patent granted on said later application shall not extend beyond the date of the expiration of the patent, if any, which may be granted on the earlier application."⁵³ The district court held that removal of this language before the enactment of the 1952 Patent Act is evidence of Congress' intent not to place a statutory time

49. *Ford Motor Co. v. Lemelson*, 42 U.S.P.Q.2d (BNA) 1706, 1707 (D. Nev. 1997).

50. *Id.* at 1708.

51. *Id.*; see also *In re Hogan*, 559 F.2d 595, 194 U.S.P.Q. (BNA) 527 (C.C.P.A. 1977) (a chain of continuation applications extending over a 24 year period was upheld); *In re Henriksen*, 399 F.2d 253, 158 U.S.P.Q. (BNA) 224 (C.C.P.A. 1968) (the Federal Circuit's predecessor stated "it is unfortunate that a patent should be granted on an application depending upon another application filed over 20 years ago ... but the cure for this deplorable state of affairs rests with Congress, not with us."); *Studengesellgcraft Kohle mbH v. Northern Petrochemical Co.*, 784 F.2d 351, 228 U.S.P.Q. (BNA) 837 (Fed. Cir. 1987) (holding court was without authority to set an arbitrary limit to the length of a patent issuing from a continuation); *Advanced Cardiovascular Systems, Inc. v. Medtronic Inc.*, 41 U.S.P.Q.2d (BNA) 1770 (N.D. Cal. 1996) ("only Congress can determine what constitutes unreasonable delay in the filing of [a continuation] application. It is not for the Court to decide that the prosecution of a patent according to the rules of the PTO is unreasonable and inequitable.").

52. See *Lemelson*, 42 U.S.P.Q.2d at 1709.

53. *Id.*

limit on continuation practices.⁵⁴ Judge George held that “absent clear authority, it remains Congress’ prerogative to address problems inherent in its creation of the statutory right in this case.”⁵⁵

The district court further found itself unable to accept the Magistrate’s recommendation due to Judge Atkins’ strong reliance on *Webster Electric Co. v. Splittorf Electric Co.*⁵⁶ Judge George held the Magistrate court misapplied *Webster* to Lemelson’s situation because *Webster* not only involved protracted continuation practices but also an interference.⁵⁷ The Supreme Court in *Crown Cork*⁵⁸ had expressly limited the holding in *Webster* to cases involving the presence of intervening rights.⁵⁹ Because Lemelson’s patents were not tied to an interference or the presence of intervening rights, Judge George found the court unable to accept an unenforceability recommendation by the Magistrate grounded in *Webster*.

B. Reasonableness of the Application of Laches to Lemelson’s Delay

The Magistrate held that the lack of any reasonable explanation forwarded by Lemelson for the three-decades-plus delay resulted in such delay being unreasonable and thus his actions met the first prong of the laches test.⁶⁰ Judge George, however, held that such a holding was untenable, because it would shift the presumption of validity that attaches to all patents from Ford to Lemelson. The Magistrate Judge had found Lemelson’s delay unreasonable due to his practice of drafting claims to products currently in production or on the market, but Judge George found no grounds for unreasonableness on this basis because of the court-sanctioned practice of allowing applicants to “insert claims intended to cover a competitor’s product.”⁶¹

54. See *id.*; see also *In re Bauman*, 683 F.2d 405, 410 n.12 (C.C.P.A. 1982) (“The deletion of this provision indicates that Congress did not intend limitations such as patent expiration date ... to be imposed on the patent issuing on the continuation application.”)

55. *Lemelson*, 42 U.S.P.Q.2d at 1709.

56. 264 U.S. 463 (1924).

57. An interference proceeding is “[a] priority dispute between two or more inventors, all of whom claim to have been the first inventor of a particular invention.” ROBERT P. MERGES, *PATENT LAW AND POLICY* 38 (1997). Interference proceedings resolve the issue of who was the first to invent the particular invention.

58. 304 U.S. 159, 167, 37 U.S.P.Q. (BNA) 351 (1938).

59. Section 252 of the Patent Act “provides that when certain conditions are present a reissue shall not abridge or affect certain [intervening] rights of those who acted before the reissue was granted. One may be able to infringe a reissue patent if the court decides that equity dictates such a result.” MERGES, *supra* note 57, at 1119.

60. See *Lemelson*, 40 U.S.P.Q.2d at 1361.

61. *Kingsdown Medical Consultants Ltd. v. Hollister, Inc.*, 863 F.2d 867, 874, 9 U.S.P.Q.2d (BNA) 1384, 1390 (Fed. Cir. 1988), *cert denied*, 490 U.S. 1067 (1989).

III. DISCUSSION

The district court reached the incorrect result in finding the court was without judicial or congressional authority to introduce the equitable doctrine of laches into the statutory scheme of section 120. Judge George's ruling overly broadens the holdings of the case law on which he relies.

A. Laches as a Limitation on Continuing Applications

Judge George's holding that the courts have expressed a reluctance to equitably limit the statutory scheme for the continuation practice was correct. However, the courts have not set up an absolute bar to intervening in equity where the express language of the statute is silent. To reach his decision, Judge George read the holdings of a handful of cases, whose outcomes were very fact specific, too broadly.

1. *Cases which Implicitly Sanction Lemelson's Prosecution Practice*

Judge George began his analysis with *In re Hogan*. In *Hogan*, the court concluded that the PTO should have considered the disclosures of Hogan's 1953 and 1956 applications when addressing the issue of priority for his 1972 application. However, by doing so, the court implicitly upheld a chain of continuing applications extending over a twenty-four year period. Although *Hogan* implicitly sanctions a twenty-four year patent chain pendency, the question of laches and its application to section 120 was not before the court. Judge George further draws from *Hogan* for its affirmation of *United States v. American Bell Telephone Co.*⁶²

In *American Bell*, the court held that "[a] party seeking a right under the patent statutes may avail himself of all their provisions, and the courts may not deny him the benefit of a single one. These are questions not of natural but of purely statutory right."⁶³

The holding in *American Bell* was misapplied in Lemelson's case insofar as it pertained to the court's inability to deny the applicant of a single statutory patent provision. In *American Bell*, the issue was whether an applicant acted within a set statutory time period,⁶⁴ and if he did not, whether that was the result of some inaction on his part or proceedings in the Pat-

62. 167 U.S. 224 (1897).

63. *Id.* at 247.

64. *See id.* at 227 (issue of whether applicant had forfeited his 2 year disclosure window, provided for under section 4886 Rev. Stat., by patent issuing thirteen years after filing with the patent office. Court held delay was result of actions within patent office and laches could not be used to remove rights provided for by 2 year statutory window in section 4886, Rev. Stat.).

ent Office. The Court found the cause for the thirteen-year delay to rest with the Patent Office, and the applicant's inaction within the statutory period was without fault so he could not be denied any of the provisions enumerated in the patent statutes. The statutory provisions at issue in the *Lemelson* case were without express statutory periods, which was not the case in *Hogan* and *American Bell*. As such, they were ripe for the application of the doctrine of laches.⁶⁵ Lemelson's delay was further unlike the type seen in *American Bell*, because Lemelson was responsible for the three-decade-plus delay in the issuance of his claims.

Lemelson should have borne the responsibility for the delay because: (1) when Lemelson received the seven way restriction notice for his original application in 1956, the group he elected to prosecute was the group most closely associated with his "Auto-ID" and "machine vision" claims asserted against Ford; (2) the claims were not overly complex, so flushing out the specifics of his invention could not have been a reason for his delay; and (3) the language of his claims evolved to match what was occurring in the market with respect to these technologies.

Next Judge George cited the *In re Henriksen* for the proposition that "it is unfortunate that a patent should be granted on an application depending upon another application filed over 20 years ago ... but the cure for this deplorable state of affairs rests with Congress, not with [the judiciary]."⁶⁶ Judge George misapplied *Henriksen* for two reasons. First, the language cited was Judge Smith's dicta, not the holding of *Henriksen*. Thus, there exists no controlling authority that would prohibit applying the doctrine of laches. Second, the issue in *Henriksen* was whether an applicant can use section 120 to receive the benefit of a second preceding application in the chain of co-pending applications.⁶⁷ The court held that the "statute provides no limit to the number of applications that may be co-pending."⁶⁸ Thus, Judge George incorrectly invoked *Henriksen* to support his holding that the court had no authority to equitably limit continuing applications for unreasonable prosecution delay.

Neither *Hogan* nor *Henriksen* dealt with the application of laches to section 120 for the purpose of rendering patents unenforceable. Thus, Judge George's reading of *Hogan* and *Henrikson* as applied to Lemelson's patents was overly broad.

65. See 1 DAN B. DOBBS, LAW OF REMEDIES § 2.4(4) (2nd ed. 1993).

66. *Lemelson*, 42 U.S.P.Q.2d at 1708 (quoting *In re Henrikson*, 399 F.2d 253, 262, 158 U.S.P.Q. (BNA) 224, 231 (C.C.P.A. 1968)).

67. See *In re Henrikson*, 399 F.2d 253, 254, 158 U.S.P.Q. (BNA) 224, 225 (C.C.P.A. 1968).

68. *Id.* at 261.

2. Cases Applying Laches

Judge George drew heavily from *Crown Cork*,⁶⁹ and its express narrowing of *Webster*,⁷⁰ to dismiss the first prong of the laches inquiry and conclude that laches is not available to limit section 120.

Crown Cork answered the question of whether, "in the absence of intervening adverse rights, an excuse must be shown for a lapse of time of more than two years in presenting claims in a divisional application regularly filed and prosecuted in accordance with patent rules."⁷¹ The Supreme Court's decision in *Crown Cork* reigned in the Court's earlier *Webster* holding, which had appeared to arbitrarily restrict the filing of divisional applications to two years from initial disclosure.

The first prong of any laches analysis begins by asking if the delay was unreasonable. Judge George read *Crown Cork* to say that the question of reasonableness need never be asked, because the Supreme Court has held, absent intervening adverse rights, an excuse need not be shown.⁷² Thus, laches could not act to limit section 120 because Lemelson was not required to forward reasons explaining his three-decades-plus prosecution delays.

However, *Crown Cork* established a prohibition against arbitrarily restricting divisional and, by implication, continuation applications to a two-year window and; it did not call for the absolute prohibition of laches to prosecution delays. Therefore, *Crown Cork* did not prevent Judge George from applying the doctrine of laches to find the patents asserted against Ford unenforceable.

3. Cases which Defer to the Legislature

Judge George cited a series of cases for the proposition that the judiciary lacks the power to *arbitrarily* limit the statutory scheme of the continuation practice. In *Studiengesellschaft Kohle mbH v. Northern Petrochemical Co.*,⁷³ the court held that "it was without authority to set an arbitrary limit to the length of a patent issuing from a continuation."⁷⁴ *Studiengesellschaft* stated that "[i]f the law as it has been written by Congress

69. 304 U.S. 159 (1938).

70. 264 U.S. 463 (1924).

71. *Crown Cork*, 304 U.S. at 160.

72. *See Ford Motor Co. v. Lemelson*, 42 U.S.P.Q.2d (BNA) 1706, 1710 (D. Nev. 1997).

73. 784 F.2d 351, 228 U.S.P.Q. (BNA) 837 (Fed. Cir. 1986) *cert. denied*, 478 U.S. 1028 (1986).

74. *Lemelson*, 42 U.S.P.Q.2d at 1708.

creates anomalous situations, then it is for Congress to decide whether to change the law."⁷⁵

Studiengesellschaft involved the use of continuing applications that resulted in a patent issuing more than twenty years after the application was filed. However the result of this delay was intimately tied to the three interferences pertaining to the chain of applications that were ongoing while the application was pending.⁷⁶

Advanced Cardiovascular Systems, Inc., v. Medtronic Inc., a California district court decision post-dating the Magistrate's report and recommendation, held that the doctrine of laches could not be applied to the statutory scheme of the continuation practice.⁷⁷ It did so because "only Congress can determine what constitutes unreasonable delay in the filing of such an application. It is not for this Court to decide that the prosecution of a patent according to the rules of the PTO is unreasonable and inequitable."⁷⁸

4. Legislative Authority

Judge George cited *Studiengesellschaft* and *Advanced Cardiovascular* to remove the issue from the providence of the judiciary and place it into the congressional arena. The House and Senate Committee Reports from the 1952 Patent Act yield little insight into the congressional intent behind section 120. Both House Report 1923 and Senate Report 1979 state that "[s]ection 120 and 121 express in the statute certain matters which exist in the law today but which had not before been written into the statute, and in so doing make some minor changes in the concepts involved."⁷⁹ In the revised code section of the House and Senate reports, both state that section 120 is a new section that "represents the present law not expressed in the statute, except for the added requirement that the first application must be specifically mentioned in the second."⁸⁰ Section 120 passed both the House and Senate essentially unchanged from its originally drafted form and with almost no congressional floor debate.⁸¹ Thus, sections 120 and

75. *Id.* (quoting *Studiengesellschaft*, 784 F.2d at 357, 228 U.S.P.Q. at 837).

76. *See Studiengesellschaft*, 784 F.2d at 356.

77. *See Advanced Cardiovascular Systems, Inc. v. Medtronic, Inc.*, 41 U.S.P.Q.2d (BNA) 1770, 1774-75 (N.D. Cal. 1996).

78. *Lemelson*, 42 U.S.P.Q.2d at 1709-10 (quoting *Advanced Cardiovascular*, 41 U.S.P.Q.2d at 1774-75).

79. H.R. REP. NO. 82-1923, at 6 (1952), S. REP. NO. 82-1908, at 7 (1952).

80. H.R. REP. NO. 82-1923, at 20 (1952), S. REP. NO. 82-1908, at 21 (1952).

81. The only changes made to section 120 were, "any" was changed to "an" in referring to applications similarly entitled to the benefit of the filing date of the first appli-

121 codified existing judicial practice, which included the application of laches for unreasonable delays in prosecution.

However, taking such a position requires a review of the evolution of the continuation practice from its inception in 1863 to its codification in 1952. Currently, courts have only been willing to reach as far back as the 1952 Patent Act's genesis, in 1950, to discern intent. In the preliminary draft of the proposed revision and amendments of the patent laws, section 120 contained an additional sentence which said the term of any patent that was the result of a continuing application would end at the conclusion of the parent application's term.⁸² This is the so-called terminal disclaimer language that never made it into the final version of section 120. Because this language was excluded from the final version of section 120, some courts have held this to mean that Congress never intended a statutory time limit on the continuation practice.⁸³ Therefore, these courts refused to introduce equity into the statutory scheme. However, omission of the terminal disclaimer language could just as readily be construed to mean that Congress perceived the equitable origins of the continuation practice and wanted them preserved by codifying "present law not expressed in the statute."⁸⁴

In the absence of express congressional intent, a more reasoned approach to statutory interpretation is that attempted by the magistrate judge when she tried to show congressional intent by analogizing the reissue statute, section 251, to section 120. Magistrate Atkins' approach was similar to the time honored practice of *pari materia*, whereby laws on the same matter must be construed with reference to one another.⁸⁵ *Brenner v.*

ation, and 'on' was inserted." *In re Henriksen*, 399 F.2d at 258, 158 U.S.P.Q. (BNA) 224 (1968); see H.R. 7794, 82nd Cong., 2nd Sess. (1952).

82. An application for patent of an invention disclosed in the manner required by section 28 [now §112] of this title in an application previously filed in the United States by the same inventor shall have the same effect as though filed on the date of the prior application, if the later application is filed before the prior application is patented or abandoned, or proceedings thereon terminated, and if the applicant claims the benefit of the filing date of the prior application in said later application. The term of the patent granted on said later application shall not extend beyond the date of expiration of the patent if any, which may be granted on the earlier application.

Henriksen, 399 F.2d at fn.10, 158 U.S.P.Q. at fn.10.

83. See, e.g., *In re Bauman*, 683 F.2d 405, 214 U.S.P.Q. (BNA) 585 (C.C.P.A. 1982).

84. H.R. REP. NO. 82-1923, at 6 (1952); S. REP. NO. 82-1908, at 7 (1952).

85. See John C. Yoo, *Marshall's Plan: The Early Supreme Court and Statutory Interpretation*, 101 YALE L.J. 1607 (1992).

*Manson*⁸⁶ is one of the more noteworthy applications of *pari materia*. In *Brenner*, the Court held that “[s]ince [they found] no specific assistance in the legislative materials ..., [they were] remitted to an analysis of the problem in light of the general intent of Congress [and] the purposes of the patent system.”⁸⁷ However, Magistrate Atkins found such a task too tenuous because neither section mentions the practice authorized by the other and both appear in different chapters and parts of Title 35.⁸⁸

Lemelson’s prosecution practices cannot stand when interpreting section 120 in reference to the Patent Act in its entirety. Congress has acted on several occasions to circumvent prosecution practices like Lemelson’s.

First, starting from the Constitutional grant of patent rights, section 120 should not be construed to sanction such practices. By withholding his disclosure for several decades he adds nothing to the progress of science, and ultimately, to society. Thus, a statutory provision should not be construed to undermine its constitutional authority and purpose.

Second, section 133 entitled “Time for prosecuting application” may be just what the Magistrate judge was searching for in section 251. Section 133 is found in the same part of Title 35; Part II, “Patentability of Inventions” and in the chapter following section 120, entitled “Examination of Application.” Of significance in determining whether Congress intended to sanction or prohibit prosecution practices like Lemelson’s is the 1939 amendment to section 133.

In the 1939 amendment, the time to respond to an action by the Patent Office was shortened and the Commissioner of Patents was given discretionary control over the time in which an applicant had to reply to an office action or other communication with the Patent Office.⁸⁹ The significance of this amendment lies behind the congressional intent for altering the then-existing statutory scheme, as evidenced by the Floor debate in the House of Representatives lead by Representative Van Zandt.

Representative Van Zandt stated that for

many years past patentees have been severely criticized for permitting their patent applications to remain in the Patent Office for unnecessarily long periods of time so that *while the application has been lying in the Patent Office industry has been going ahead and making the articles in question covered by the application. Then when the patent is issued the manufacturing in-*

86. 383 U.S. 519 (1966).

87. *Id.* at 532.

88. *Ford Motor Co. v. Lemelson*, 40 U.S.P.Q.2d (BNA) 1349, 1354 (D. Nev. 1996).

89. 35 U.S.C. § 133 (1997).

dustry finds itself in the position of an infringer. This produces great uncertainty in industry, which should be remedied by the present bill, H.R. 6878. ... Several years ago the period allowed to answer a letter of the Patent Office was 1 year. ... This opportunity to wait a year before answering each letter from the Patent Office was taken advantage of by malingerers to such an extent that the period was later cut down to 6 months. ... Nevertheless, anywhere from 3 to 10 letters might be written to an applicant, and in view thereof it is manifest that even the period of 6 months for a reply to each office action of the Patent Office still gives opportunity for malingerers to hold their applications in the Patent Office for unnecessarily long periods. The present bill enables the Commissioner to fix the term for a period between 30 days and 6 months according to his discretion, ... [to be used] so that where the invention is of a complicated character, a longer time will be given to the applicant to reply to an official action, while when the amendment required is of minor nature, the Commissioner would be justified in setting the minimum period of 30 days as a term within which the necessary amendment should be made.⁹⁰

The amendment to section 133 was voted on after Representative Van Zandt's remarks and passed the House. H.R. 6878 passed the Senate with minimal changes⁹¹ and subsequently was signed into law August 7, 1939.

Section 133 facilitates the give and take between the applicant and the Patent Office.⁹² According to Lemelson's own attorneys, section 120 is an equitable doctrine designed by the court for the give and take relationship between the applicant and the Patent Office. It is often difficult to get claims allowed the first time around and applicants are not offered an indefinite number of office actions. At present, examiners on average allow two office actions before sending a final rejection. The continuation scheme allows applicants to try and get the claims they want without losing the priority date of their original application. Thus, the intent behind

90. CONG. REC. H.R. 6878 (daily ed. July 6, 1939) (statement of Rep. Van Zandt) (emphasis added).

91. "Amendment on page 1, line 6, after the word 'days' and the comma, to insert 'or any extensions thereof,' so as to make the bill read: Be it enacted, etc., that section 4894 of the Revised Statutes (35 U.S.C. § 37) be amended by inserting after 'six months', second occurrence, the words 'or such shorter time, not less than 30 days, or any extensions thereof, as shall be fixed by the commissioner of Patents in writing to the applicant.'" CONG. REC. 76th CONG. 1ST SESS. 10641-42 (1939).

92. *Locklin v. Switzer Bros. Inc.*, 299 F.2d 160, 167, 131 U.S.P.Q. (BNA) 294, 300 (9th Cir. 1961).

the amendment to section 133 suggests that Congress never intended continuation practices as exemplified by Lemelson.

Further evidence of congressional intent can be seen by observing the GATT amendments of 1995 to the Patent Act. After 1995, all patents filed in the United States will be granted a term of 20 years from filing, instead of 17 years from issuance. Thus between the 1939 and the 1995 amendments to the patent statutes, there is ample evidence to show Congress never intended the lying-in-wait patenting style exhibited by Lemelson.

IV. CONCLUSION

The district court incorrectly held that the court lacked authority to introduce the doctrine of laches into the statutory scheme of continuing applications. Judge George read the holdings of a handful of cases, whose outcomes were very fact specific, in an overly broad way to determine that he was without recourse to circumvent Lemelson's gamesmanship. The cases relied upon by Judge George all stand for the proposition that the court should not *arbitrarily* introduce laches into the statutory scheme of continuing applications by either limiting the time frame for when such an application may issue or attenuating the number of co-pending applications that may exist at any one time. Congressional intent both before and after the 1952 Patent Act shows an unwillingness to permit a lying-in-wait style of prosecution. Finally, policy dictates that allowance of Lemelson's patenting style runs counter to the Constitutional purpose of "promoting the sciences and useful arts."

MEMORANDUM OF UNDERSTANDING ON THE GENERIC TOP-LEVEL DOMAIN NAME SPACE OF THE INTERNET DOMAIN NAME SYSTEM

By Heather N. Mewes

As the Internet expands in size and commercial importance,¹ domain names promise to play a central role in the development of this sprawling network of networks. Whole businesses exist solely on the World Wide Web as virtual storefronts for financial services, books, software, and many other products.² Without a memorable domain name, especially one that incorporates a well-known trademark,³ these businesses would be out of business. Unique and colorful domain names capture the well-known maxim that the three most important factors to the success of any business are location, location, and location.

This comment addresses one recent proposal to enhance and expand the Domain Name System: the Memorandum of Understanding on the Generic Top-Level Domain Name Space of the Internet Domain Name System (gTLD-MoU).⁴ The first section briefly summarizes the status of

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1. The Internet today attracts some 35,000,000 users and 190,000 businesses. See Craig W. Harding, *Selected Issues in Electronic Commerce: New Technologies and Legal Paradigms*, 491 PLI/PAT 7, 9 (1997). By the year 2000 it is estimated that over \$500 billion in transactions will take place over networks. See *id.* For statistics on Internet and Web growth, see generally *Nielsen/CommerceNet Demographic Studies* (visited Jan. 27, 1998) <<http://www.commerce.net/nielsen/index.html>> (finding 23% of US/Canadian population uses the Internet and 15% have made purchases on-line); *GVU Center's WWW User Surveys* (visited Jan. 27, 1998) <http://www.cc.gatech.edu/gvu/user_surveys/> (surveying Web user demographics); *The Fourth WWW Consumer Survey* (visited Jan. 27, 1998) <<http://www-personal.umich.edu/~sgupta/hermes/survey4/>> (examining Web user attitudes toward commerce on the Internet).

2. See, e.g., *Amazon.com* (visited Jan. 27, 1998) <<http://www.amazon.com/>> (selling books); *E*Trade* (visited Jan. 27, 1998) <<http://www.etrade.com/>> (selling financial services); *Software.net* (visited Jan. 27, 1998) <<http://www.software.net/>> (selling software); *Virtual Vineyards* (visited Jan. 27, 1998) <<http://www.virtualvin.com/>> (selling wine).

3. See, e.g., *MTV Networks v. Curry*, 867 F. Supp. 202, 203 n.2 (S.D.N.Y. 1994) (explaining that a "domain name mirroring a corporate name may be a valuable corporate asset, as it facilitates communication with a customer base").

4. The Memorandum of Understanding on the Generic Top-Level Domain Name Space of the Internet Domain Name System (gTLD-MoU), as well as current information

the current Domain Name System. The second section identifies the movers behind the gTLD-MoU and their motivations. It also describes the provisions of the gTLD-MoU. The third section analyzes these provisions, paying particular attention to issues of Internet governance, trademark law, and competition. Finally, the fourth section offers some predictions concerning the ultimate fate of the gTLD-MoU.

I. WHAT'S IN A DOMAIN NAME?

Domain names⁵ are the addresses of virtual homes on the Internet. Examples include "inta.org" and "ibm.com." Domain names correspond to more forgettable Internet Protocol (IP) numbers, such as 169.229.97.112. Because IP numbers are difficult to remember, Internet users substitute unique domain names that are invisibly translated by Domain Name System servers,⁶ the domain name is "merely a human-friendly pseudonym for the computer's real ID."⁷

The ".org" or ".com" portion of the domain name is the top level domain (TLD). In the examples cited, "inta.org" refers to an organizational entity, the International Trademark Association and "ibm.com" refers to a commercial entity, International Business Machines. The identifier, "inta" and "ibm", is the second level domain (SLD). Both .com and .org are considered generic TLDs (gTLDs); country code TLDs like .fr (France) and

related to its implementation, can be found at the gTLD-MoU Web site at <<http://www.gtld-mou.org>>.

5. A domain name is defined as:

The unique name that identifies an Internet site. Domain Names always have 2 or more parts, separated by dots. The part on the left is the most specific, and the part on the right is the most general. A given machine may have more than one Domain Name but a given Domain Name points to only one machine.

ILC Glossary of Internet Terms (last modified July 9, 1997) <<http://www.matisse.net/files/glossary.html>>.

6. A server is a "computer, or a software package, that provides a specific kind of service to *client* software running on other computers. The term can refer to a particular piece of software, such as a [Web] server, or to the machine on which the software is running" *Id.*

7. Neil Randall, *How DNS Servers Work*, PC MAG., Sept. 24, 1996, at 217. The Internet Assigned Numbers Authority (IANA) coordinates IP address assignments under contract with the Defense Department. See *Hearing on Internet Domain Names (Part 1) Before the Subcomm. on Basic Research of the House Comm. on Science*, 105th Cong. (Sept. 25, 1997) [hereinafter *Hearing (Part 1)*] (statement of Jonathan B. Postel, Director, Internet Assigned Numbers Authority) (visited Oct. 5, 1997) <http://www.house.gov/science/postel_9-25.html>. See also *Internet Assigned Numbers Authority* (last modified Feb. 20, 1996) <<http://www.isi.edu/div7/iana/>>.

.us (United States), are non-generic because they refer to specific geographic areas.⁸

The Internet Network Information Center⁹ (InterNIC) currently assigns domain names for the .com (commercial), .edu (educational), .gov (governmental), .net (network), and .org (organizational) TLDs. Network Solutions, Inc. (NSI) administers InterNIC's domain name registration services under an exclusive agreement with the National Science Foundation. This cooperative agreement took effect in January 1993, but was modified in September 1995 in order to allow NSI to charge users for its services.¹⁰

II. A MODEST PROPOSAL: THE GTLD-MOU

A. The Players

Members of the Internet community, under the auspices of the Internet Society¹¹ (ISOC) and the Internet Assigned Numbers Authority¹² (IANA),

8. Historically, the .us TLD has been underused. United States governmental and educational entities use the .gov and .edu TLDs. United States commercial entities typically use the generic .com TLD. This has created enormous demand for .com domain names and has precipitated many recent trademark disputes. See World Intellectual Property Organization, *Meeting of Consultants on Trademarks and Internet Domain Names, First Session* (last modified Dec. 17, 1996) <<http://www.wipo.org/eng/internet/domains/tdnmcil.htm>>; see also *Network Solutions Registers Record Number of Internet Domain Names in 1997* (last modified Jan. 7, 1998) <http://www.netsol.com/news/pr_19980107.html> (reporting that Network Solutions, Inc. registered 960,000 new Internet domain names in 1997 and that nearly 90% were in the .com name space).

9. Established in 1993 as a collaborative project among AT&T, General Atomics, and Network Solutions, Inc., InterNIC provides directory and registration services for the Internet. It is supported by cooperative agreements with the National Science Foundation, a US governmental agency, and can be found at <<http://www.internic.net>>. See *About the InterNIC* (visited Jan. 27, 1998) <<http://www.internic.net/ds/about.html>>.

10. See *NSF Cooperative Agreement No. NCR-9218742* (last modified Dec. 10, 1997) <<http://rs.internic.net/nsf/agreement/>> (expiring September 30, 1998). Currently, NSI charges a registration fee of \$100 for a new domain name and an annual maintenance fee of \$50 for all registered domain names. See *Fee for Registration of Domain Names Policy* (last modified March 26, 1996) <<http://www.rs.internic.net/domain-info/fee-policy.html>>. For a summary of the domain name registration process itself, see *Registration Process Overview* (last modified Jan. 20, 1998) <<http://rs.internic.net/domain-info/domflow.html>>.

11. "The Internet Society is a non-governmental International organization for global cooperation and coordination for the Internet and its internetworking technologies and applications." *All About the Internet Society* (visited Jan. 27, 1998) <<http://www.isoc.org/isoc/>>. This organization came into existence in January 1992 and is made up of a diverse membership, including interested individuals, corporations, non-

created an International Ad-Hoc Committee¹³ (IAHC) to investigate proposals for an enhanced Domain Name System. In turn, the IAHC consulted with the Internet community through conferences and electronic mailing lists.¹⁴ The IAHC's efforts cumulated in the gTLD-MoU, signed by ISOC and IANA in May 1997.

B. Their Motivations

1. *Internationalizing the Internet*

Though the Internet was initially developed by the United States government,¹⁵ it has since become the backbone for an international communication network that gives little significance to national boundaries. The IAHC charter identifies the Domain Name System as an "international resource" and mandates that the IAHC "will at all times operate with that perspective."¹⁶ The gTLD-MoU reflects this thinking; it declares the Internet TLD name space a "public resource ... subject to the public trust" and provides for "global distribution of [domain name] registrars."¹⁷

profit organizations, and government agencies. See *All About the Internet Society: Frequently Asked Questions* (visited Jan. 27, 1998) <<http://www.isoc.org/isoc/general/>>.

12. "The Internet Assigned Numbers Authority (IANA) is the central coordinator for the assignment of unique parameter values for Internet protocols." Jonathan B. Postel, *IANA-Overview* (last modified Oct. 11, 1996) <<http://www.isi.edu/div7/iana/overview.html>>. Chartered by the Internet Society and the Federal Network Council, the IANA is operated by the Information Sciences Institute of the University of Southern California. See *id.*

13. The IAHC, now dissolved, included members named by ISOC, IANA, the Internet Architecture Board, the Federal Networking Council, the International Telecommunication Union, the International Trademark Association, and the World Intellectual Property Organization. See *IAHC Home* (last modified May 26, 1997) <<http://www.iahc.org/>>.

14. See generally *IAHC Mailing List and Related Lists* (last modified Mar. 29, 1997) <<http://www.iahc.org/mail-lists.html>> (cataloguing IAHC mailing lists and other domain name-related, electronic mailing lists); *gTLD-MoU Mailing Lists* (last modified Aug. 25, 1997) <<http://www.gtld-mou.org/docs/maillist.htm>> (providing access to current gTLD-MoU discussion and announcement mailing lists and archives); WIPO, *Trademarks and Internet Domain Names* (visited Jan. 27, 1998) <<http://www.wipo.org/eng/internet/domains/index.htm>> (chronicling WIPO consultative meetings on trademarks and Internet domain names).

15. The Defense Department funded the creation and development of the Internet through the (Defense) Advanced Research Projects Administration. See Barry M. Leiner et al., *A Brief History of the Internet: Origins of the Internet* (last modified Feb. 20, 1997) <<http://www.isoc.org/internet-history/brief.html>>.

16. *IAHC: Description of Working Group* [hereinafter *IAHC, Charter*] (last modified Nov. 20, 1996) <<http://www.iahc.org/iahc-charter.html>>.

17. *gTLD-MoU*, *supra* note 4, at § 2(a), § 2(e).

2. *Quieting the domain name wars*

As the Internet, and more particularly, the World Wide Web, has grown both in size and commercial importance,¹⁸ domain name disputes have risen to the forefront, usually in the guise of suits for trademark infringement and dilution.¹⁹ The borderless character of the Internet has also created numerous jurisdictional concerns.²⁰ The IAHC's charter recognizes that the "recent explosive commercialization of the Internet has produced a requirement for enhanced assignment procedures."²¹ It also notes that a "complicating factor is that the human-friendly quality of Domain Name strings has also made them commercially valuable."²² By increasing the number of domain names available, the gTLD-MoU seeks to limit the number of disputes.

3. *Breaking the NSI monopoly*

NSI's monopoly on the assignment of the .com, .net and .org TLDs and its institution of registration fees in 1995²³ inspired numerous proposals for the expansion of TLDs, including the gTLD-MoU.²⁴

C. An Overview of the gTLD-MoU

The gTLD-MoU declares that "current and future Internet name space stakeholders can benefit most from a self-regulatory and market-oriented approach to Internet domain name registration services."²⁵ This self-regulatory framework consists of a gTLD depository, a Policy Advisory Board (PAB), a Policy Oversight Committee (POC), a Council of Registrars (CORE), and Administrative Domain Name Challenge Panels (ACPs).

18. *See supra* note 2.

19. *See generally* Ughetta Manzone, *Panavision International, L.P. v. Toeppen*, 13 BERKELEY TECH. L.J. 249 (1998) (analyzing domain name disputes and trademark dilution law in light of *Panavision Int'l, L.P. v. Toeppen*, 945 F. Supp. 1296 (C.D. Cal. 1996)).

20. *See generally* Colleen Reilly, *Bensusan v. King*, 13 BERKELEY TECH. L.J. 271 (1998) (analyzing personal jurisdiction on the Internet in light of *Bensusan Restaurant Corp. v. King*, 126 F.3d 25 (2d. Cir. 1997)); Anindita Dutta, *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 13 BERKELEY TECH. L.J. 289 (1998) (analyzing personal jurisdiction on the Internet in light of *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997)).

21. *IAHC, Charter, supra* note 16.

22. *Id.*

23. *See supra* note 9.

24. *See Hearing (Part I), supra* note 7.

25. *gTLD-MoU, supra* note 4, at § 2(d).

*Depository.*²⁶ The depository for the gTLD-MoU is the Secretary-General of the International Telecommunications Union (ITU), a specialized agency of the United Nations. The ITU is committed to circulating the gTLD-MoU for signature, to maintaining a list of Signatories,²⁷ and to cooperating in the gTLD-MoU's implementation.

*Policy Advisory Board.*²⁸ Signatories of the gTLD-MoU may choose to participate as members of the PAB. Decision-making is by "rough consensus."²⁹ However, the PAB's role is solely advisory.

*Policy Oversight Committee.*³⁰ The POC is the central policy-making body for this regulatory framework. Its membership is restricted,³¹ and its decisions require a supermajority. The role of the POC is to provide oversight for the CORE and its Registrars, principally through the CORE-MoU.³² It is required to consult with the PAB and CORE. The principal powers of the POC include: (1) the power to change the number of gTLDs, and to approve names of new gTLDs; (2) the power to change the number of Registrars, to establish new terms and conditions for applications by entities desiring to become Registrars and to remove Registrars who do not operate consistently with the gTLD-MoU and CORE-MoU; and (3) the power to recommend amendments to the gTLD-MoU.³³

*Council of Registrars.*³⁴ CORE is composed of recognized Registrars,³⁵ and has been established in Switzerland. The principal power of CORE-gTLD Registrars is to assign SLDs in any gTLD created under the provisions of the gTLD-MoU or the CORE-MoU "on a fair-use, first-

26. See *id.* § 4.

27. For a current list of signatories to the gTLD-MoU, see *International Telecommunications Union: List of Signatories of the Generic Top Level Domain Memorandum of Understanding* (last modified Jan. 19, 1998) <<http://www3.itu.int/net-itu/gtld-mou/signat.htm>>.

28. See *gTLD-MoU*, *supra* note 4, at § 5.

29. *Id.* § 5(c).

30. See *id.* § 6.

31. Appointments are reserved to various organizations: IANA (2), ISOC (2), Depository (1), Internet Architecture Board (2), CORE (2), ITU (1), WIPO (1), and ITNA (1). See *gTLD-MoU*, *supra* note 4, at § 6(g).

32. See *gTLD-MoU*, *supra* note 4, at § 6(a); see also *CORE-MoU* (visited Jan. 27, 1998) <<http://www.gtld-mou.org/docs/core-mou.htm>>.

33. See *gTLD-MoU*, *supra* note 4, at § 6(j).

34. See *id.* § 7.

35. For a list of current Registrars, see *gTLD Registrar Selection Results* (visited Jan. 27, 1998) <<http://www.gtld-mou.org/docs/reg-results.html>> (listing 88 Registrars from around the world). A Registrar is "authorized to enter and modify the Second Level Domain (SLD) data maintained by a Registry, in response to requests by entities seeking to be assigned a SLD." *gTLD-MoU*, *supra* note 4, at § 1(f).

come, first-served basis.”³⁶ Registrars are required to sign the CORE-MoU.³⁷

*Administrative Domain Name Challenge Panels.*³⁸ ACPs will be established to administer a policy such that:

a second-level domain name in any of the CORE-gTLDs which is identical or closely similar to an alphanumeric string that, for the purposes of this policy, is deemed to be internationally known, and for which demonstrable intellectual property rights exist, may be held or used only by, or with the authorization of, the owner of such demonstrable intellectual property rights.³⁹

Registrars will be bound by the decisions of the ACPs. The procedures for creating and bringing challenges before the panels shall be administered by WIPO’s Arbitration and Mediation Center. However, it is specifically noted that ACP decision will not “inhibit, affect or prevent” the exercise of national or regional courts.⁴⁰

The gTLD-MoU calls for the POC to create an additional set of gTLDs once the gTLD-MoU enters into force. In a review of new gTLD’s, the POC selected seven new gTLDs:⁴¹

- .firm for businesses or firms
- .shop for businesses offering goods to purchase
- .web for entities emphasizing activities related to the Web⁴²
- .arts for entities emphasizing cultural and entertainment activities
- .rec for entities emphasizing recreation/entertainment activities
- .info for entities providing information services

36. *gTLD-MoU*, *supra* note 4 at § 7(e).

37. *See id.* § 7(c).

38. *See id.* § 8.

39. *Id.* § 2(f); *see also id.* § 8(a).

40. *Id.* § 8(c).

41. *See Notice 97-02: Review of new generic Top Level Domains* (last modified Jan. 12, 1998) <<http://www.gtld-mou.org/docs/rfc-results.htm#97-02>>.

42. The .web gTLD has already been the subject of suit. Image Online Design, Inc. sued the IANA and IAHC for breach of contract, unfair competition, and antitrust violations. It claimed an interest in the .web TLD, since it had already begun registration of .web SLDs allegedly with the consent of the IANA. *See Image Online Design, Inc. v. Internet Assigned Number Authority*, No. CV 080380 (CA Super. Ct., San Luis Obispo Cty.) (TRO denied, May 1, 1997); *CA Judge Refuses to Block Implementation of Domain Name Overhaul*, 1997 Andrews Computer & Online Indus. Litig. Rep. 24101 (May 6, 1997).

.nom for those wishing individual or personal nomenclature.

The gTLD-MoU took effect when ISOC and IANA signed the MoU on May 1, 1997.⁴³ All amendments to the gTLD-MoU must be initiated by the POC and are subject to signature by ISOC and IANA.⁴⁴

III. DISCUSSION

A. By Whose Authority?

As the Internet grows in commercial importance, the question of who will govern and maintain this rapidly developing network of networks has become increasingly vital. The drafters of the gTLD-MoU adopted a method of decision-making long-used by ISOC and the Internet Engineering Task Force to develop Internet technical standards.⁴⁵ However, where vital commercial and policy interests are implicated, as here, there are serious concerns that this ad-hoc, "rough" consensus approach is inadequate. One detractor commented, "[gTLD-MoU supporters] clearly indicated that governance is theirs to simply claim and acquire on their own initiative—exclusively and in perpetuity."⁴⁶ Yet ISOC, IAHC, and the current POC are largely unaccountable. With limited membership and no "official" mandate, their seizure of this supposedly "public resource" called the Domain Name System is suspect.

The diverse membership of the IAHC was no doubt intended to address this criticism and incorporate countervailing interests so as to arrive at a legitimate and workable solution. However, the failure to include national governments in the decision-making process, and the participation of United Nations specialized agencies seems rather to reinforce the concern that this is a self-appointed, unaccountable, and illegitimate decision-making body. The IAHC does take into account the growing international culture of the Internet, but it does not take into account the heightened interest of national governments. This can be seen by the European Union's and the United States' reaction to the proposal—both expressed serious

43. See *Domain Name Plan Inked, But Questions Remain*, 3 No. 7 *Multimedia Strategist* 1 (May 1997) (57 organizations sign gTLD-MoU).

44. *gTLD-MoU*, *supra* note 4, at § 11.

45. See D. Crocker, *Making Standards the IETF Way* (visited Jan. 27, 1998) <<http://www.isoc.org/internet/standards/papers/crocker-on-standards.shtml>> for a detailed explanation of the Internet Engineering Task Force's standards-making process.

46. *Hearing on Internet Domain Names (Part 2) Before the Subcomm. on Basic Research of the House Comm. on Science*, 105th Cong. (Sept. 30, 1997) (testimony of Anthony M. Rutkowski, World Internet Alliance) (visited Nov. 23, 1997) <http://www.house.gov/science/rutkowski_9-30.html>.

reservations, particularly to the signature of the gTLD-MoU by WIPO and the ITU.⁴⁷ Without endorsement by the United States, the proposal could be significantly undercut, especially if the United States blocks the addition of the new gTLDs to the authoritative root servers which translate domain names into IP numbers. This would mean that the majority of Internet users would not be able to access those sites.

The release of the United States government Green Paper on Internet Names and Addresses⁴⁸ casts further doubt on the eventual success of the gTLD-MoU. This report specifically notes that “the decision to add new top-level domains cannot continue to be made on an ad hoc basis by entities or individuals that are not formally accountable to the Internet Community.”⁴⁹ Furthermore, the Green Paper restricts the expansion of new registries, such as CORE, to a single top-level domain; it also limits the number of new registries to five.⁵⁰ The gTLD-MoU’s place in this schema is far from clear.

However, despite deficiencies in process, the gTLD-MoU may yet garner the approval of Internet users. The proposal can only succeed if these users find value in the new gTLD name space. It is this consensus that will lend legitimacy to the proposal, and encourage others to participate in the system. This participation, in turn, will lead to network externalities—the utility of the gTLD name space will increase as more users

47. See Rebecca Vesely, *US Seeks Alternative Domain-Name Plan*, WIRED NEWS (May 2, 1997) <<http://www.wired.com/news/topfram/3603.html>> (“As a result of objections voiced by the United States and the European Union, both international agencies on Thursday refrained from their planned signing of the agreement.”). See also Dan Brekke, *Domain-Plan Chief Sees US, EU Backing*, WIRED NEWS (May 13, 1997) <<http://www.wired.com/news/news/politics/story/3817.html>> (“Both [the US and the EU] called for more time to study the system before it goes into effect.”).

48. *A Proposal to Improve Technical Management of Internet Names and Addresses: Discussion Draft* (last modified Jan. 30, 1998) <<http://www.ntia.doc.gov/ntiahome/domainname/dnsdrft.htm>>.

49. *Id.* In addition, the Green Paper proposes the creation of a not-for-profit corporation to manage so-called “coordinated functions.” These functions would include “oversee[ing] policy for determining, based on objective criteria clearly established in the new organization’s charter, the circumstances under which new top-level domains are added to the root system.” *Id.* See also *Comments on the Registration and Administration of Internet Domain Names* (visited Feb. 16, 1998) <<http://www.ntia.doc.gov/ntiahome/domainname/domainname.htm>> (archiving public comments on domain name system policy options).

50. See *supra* note 48.

register gTLD domain names.⁵¹ In essence, the market will decide whether the gTLD-MoU is a good proposal.

B. Trademark Wars II?

The rapid expansion of the Web and the popularity of the .com name space have fueled many domain name disputes as the number of viable or memorable domain names has become depleted.⁵² The gTLD-MoU attempts to solve this scarcity problem by expanding the available domain name space. Businesses unable to register their own name or trademark as a .com address can now register it as a .firm or .shop address. A key problem in these domain name disputes is that a single name can be registered by many businesses as a trademark as long as the mark passes the likelihood of confusion standard.⁵³ However, only one trademark holder, usually the first-comer or the stronger mark, can register the domain name in the .com name space because domain names must be unique. The gTLD-MoU makes it possible for more than one trademark holder to register the same SLD by creating alternatives to .com.

It is unclear, however, that the gTLD-MoU will solve the problems posed by recent litigation. Those cases which deal with intentional pirating of domain names⁵⁴ typically involve so-called "famous" trademarks, protected under the Federal Trademark Dilution Act.⁵⁵ Suddenly, these

51. Network externalities arise where "the utility that a given user derives from the good depends upon the number of other users who are in the same 'network' as is he or she." Michael L. Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424, 424 (June 1985). Classic examples include the telephone and other communications systems. *See id.* In this case, the good is a gTLD-MoU domain name. If only a few such domain names exist, it would be unlikely that many DNS servers would list these names and most Internet users would be unable to access them. In contrast, if many gTLD-MoU domain names exist, DNS servers would be more likely to list these names, thereby increasing accessibility. In addition, Internet users and consumers would be more likely to recognize these gTLDs and use them as indexing tools in browsing the Internet, i.e. employing the formulae "anyfirm.firm" and "anyshop.shop;" this would increase the value of the gTLD-MoU domain names by attracting more traffic to the gTLD-MoU name space.

52. *See, e.g.,* Panavision Int'l, L.P. v. Toeppen, 945 F. Supp. 1296 (C.D. Cal. 1996); Planned Parenthood v. Bucci, 42 U.S.P.Q.2d (BNA) 1430 (1997).

53. *See, e.g.,* Data Concepts, Inc. v. Digital Consulting, Inc., No. 3-96-0429 (M.D. Tenn. May 20, 1997) (finding likelihood of confusion between data management software providers contesting use of "dci.com"); Comp Examiner Agency, Inc. v. Juris, Inc., No. 96-0213-WMB, 1996 WL 376600 (C.D. Cal. April 26, 1996) (applying likelihood of confusion analysis to domain name dispute over "juris.com").

54. *See, e.g.,* Intermatic, Inc. v. Toeppen, 40 U.S.P.Q.2d (BNA) 1412 (N.D. Ill. 1996); Panavision Int'l, L.P. v. Toeppen, 945 F. Supp. 1296 (C.D. Cal. 1996).

55. 15 U.S.C. § 1125(c) (1995).

trademark owners will again face the problem of pirating, this time in seven new gTLDs. The gTLD-MoU attempts to address this problem in its dispute policy, protecting “internationally known” trademarks. But whether “internationally known” and “famous” are co-extensive remains to be seen. In any case, CORE Registrars will not police their registrations for conformance with this policy.⁵⁶ This puts the burden on “famous” trademark owners to register their marks in the new gTLDs or to shoulder the transaction costs arising from dispute resolution and litigation in the case of domain name pirates. Dispute resolution may be less costly in this framework because the ACPs are designed to resolve these disputes without litigation. Nonetheless, uncertainty will remain.

The addition of seven new TLDs is also unlikely to solve more traditional likelihood of confusion cases. While the additional categorization may prove effective in some instances, the similarity of the gTLDs may further confuse consumers. First, the .com and .firm gTLDs are indistinguishable. If two businesses with the same name and similar products register as acme.com and acme.firm, there is little hope that the consumer will be able to find the right one and every expectation that the consumer will be confused. Second, many of the gTLDs overlap. For example, NBC falls into almost every single one of the proposed gTLDs. It is a business (.firm); it sells many products related to its television offerings (.shop); it offers cultural programming (.arts); its primary business is entertainment (.rec); it distributes news (.info); and it provides on-line content and activities related to its business (.web). Where will consumers go to find such an entity?

Finally, there is some concern as to the role of the ACPs in resolving domain name disputes. While the gTLD-MoU provides that decisions of the ACPs shall not “inhibit, affect or prevent the power of the appropriate national or regional courts to hear cases interpreting and enforcing intellectual property rights that fall within their jurisdiction,”⁵⁷ CORE Registrars are nonetheless obligated to respect the decisions of the ACPs.⁵⁸ Additional jurisdictional problems arise out of the incorporation of CORE in Switzerland.

56. See *CORE-MoU*, *supra* note 32, at § 6(g) (“CORE Registrars will not examine applications for second-level domain names for conformance with the policy stated in Article 2(f) above.”).

57. *gTLD-MoU*, *supra* note 4, at § 8(c).

58. See *id.* § 8(b); *CORE-MoU*, *supra* note 32, at § 7(c).

C. A New Monopoly?

NSI's institution of domain name registration fees was a primary motivating force behind the creation of the gTLD-MoU. This practice ran counter to a culture and tradition that valued an unregulated and free Internet. While the gTLD-MoU does not break NSI's monopoly on the registration of .com, .net, and .org gTLDs, it does provide some competition.⁵⁹ The effectiveness of the gTLD-MoU's attack on NSI's monopoly will very much depend on its popularity with Internet users. For many years, .com has been the only game in town for commercial entities. Not only does the .com name space provide an effective directory of businesses on the Internet,⁶⁰ it also has acquired premium status as well as commercial value, mostly due to network externalities. It may therefore prove difficult to challenge NSI's position, at least until actual competition in the .com, .net, and .org gTLDs arises.

There is also some concern that the gTLD-MoU will prove to be yet another NSI. In a recent suit instigated by Image Online Design, the IANA and the IAHC faced claims of unfair competition and antitrust violations for the "appropriation" of the .web gTLD.⁶¹ Image Online Design claimed that it had previously been granted the right to become a registry for addresses in the .web TLD.⁶² The judge denied Image Online Design's request for a Temporary Restraining Order,⁶³ but the implication that the gTLD-MoU may be claiming an *exclusive* right to create and administer new gTLDs, regardless of previous claimants, is troublesome. Nonetheless, the institution of multiple Registrars for the new gTLDs is pro-competitive and will hopefully produce consumer benefits.⁶⁴

59. There is also some indication that the gTLD-MoU may enter into registration of these gTLDs following the expiration of NSI's contract in 1998. See *gTLD-MoU*, *supra* note 4, at § 10(a) ("Pending the expiration or appropriate amendment of the Cooperative Agreement under which the '.com' '.org' and '.net' gTLDs are presently administered, the '.com', '.org' and '.net' gTLDs shall not be subject to the provisions of this MoU.").

60. Often, rather than resorting to a search engine, users simply try the formula "www.companyname.com" when searching for a business on the Web. With the introduction of multiple gTLDs, this de facto directory may encourage companies to continue to register in the .com name space where possible.

61. See *supra* note 42.

62. See *id.*

63. See *id.*

64. The US Green Paper on Internet Names and Addresses also addresses the problem of competition, recognizing that "[w]here possible, market mechanisms that support competition and consumer choice should drive the technical management of the Internet" *A Proposal to Improve Technical Management of Internet Names and Addresses: Discussion Draft* (last modified Jan. 30, 1998) <<http://www.ntia.doc.gov/ntiahome/> do-

IV. CONCLUSION

The gTLD-MoU is flawed, but not beyond redemption. Problems of accountability and legitimacy may be overcome if the proposal proves amenable to Internet users. Representation on the POC should be expanded and diversified, however, to incorporate the many constituencies which have a stake in the Domain Name System. While this may prove difficult administratively, it can only add to the likelihood of the gTLD-MoUs success. Furthermore, placement of the new gTLDs in the Domain Name System root servers is absolutely critical to the success of this proposal. This means that the gTLD-MoU must also attract governmental support as the US government may have the ability, if not the authority, to block such an action.

Trademark disputes will most likely continue to plague domain name registrations. The effectiveness of the ACPs will play a central role in limiting such disputes in the new gTLDs. Stakeholders may be wary of such panels, however, and continue to bring these cases to the courts where ultimately the rules of law will have to be settled.

Effective competition in the registration of domain names will largely depend on the popularity of the new gTLDs and the willingness of registrants and Internet users to defect from the .com name space. Ideally, the pro-competitive motivations of the gTLD-MoU will prevent any monopolistic and anti-competitive practices by the POC, though its move to shut down alternative proposals to expand the Domain Name System is cause for concern. Ultimately, however, Internet users will determine the fate of the gTLD-MoU.

mainname/dnsdrft.htm>. This report endorses competition among registrars wholeheartedly, but balks at a market-driven registry system, tentatively recommending limited experimentation. *Id.*

PANAVISION INTERNATIONAL, L.P. v. TOEPPEN

By Ughetta Manzone

“It[’s] ... like a gold rush: Two thousand requests a month are coming in to stake claim to a name on the Internet, nearly 10 times as many as a year ago.”¹ The Internet is a network of approximately 15,000 computers consisting of distinct web sites, each of which has its own numerical and corresponding alphanumeric address, commonly known as a domain name.² As a result of this rush to claim domain names on the Internet, the assignment of Internet domain names has resurrected debates over the allocation of property rights. Businesses have a particular interest in having easily identifiable domain names. “[A] domain name mirroring a corporate name may be a valuable corporate asset, as it facilitates communication with a customer base.”³ The use of domain names to facilitate advertising and sales is already well-documented.⁴ As a result of the structure of the Internet, and the potential for profit from its use, both the assignment of domain names and, more specifically, the use of trademarks as domain names are increasingly important issues.

The assignment of domain names has been structured on a first-come, first-served basis. *Panavision International, L.P. v. Toeppen*⁵ illustrates some of the difficulties that arise as a result of applying this first-come, first-served approach in the context of the Internet. *Panavision* raises three issues that will be addressed in this comment. First, how should property rights regarding Internet domain names be assigned? Second, can the established trademark dilution analysis be applied to domain name disputes involving famous trademarks on the Internet? And third, did the

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1. James W. Marcovitz, *Ronald@McDonalds.com—“Owning a Bitchin’” Corporate Trademark as an Internet Address—Infringement?*, 17 CARDOZO L. REV. 85, 85 (1995) (quoting Joshua Quittner, *Making a Name on the Internet*, NEWSDAY, Oct. 7, 1994, at A4).

2. See generally *ACLU v. Reno*, 929 F. Supp. 824, 830-48 (E.D. Pa. 1996), *aff’d*, 117 S. Ct. 2329 (1997).

3. See *MTV Networks v. Curry*, 867 F. Supp. 202, 203-04 n.2 (S.D.N.Y. 1994).

4. See, e.g., *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161, 162-63 (D. Conn. 1996) (advertising computer technology and support services); *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1121 (W.D. Pa. 1997) (selling a news service); *Amazon.com* (visited Jan. 15, 1998) <<http://www.amazon.com/>> (selling more book titles than other book stores).

5. 945 F. Supp. 1296 (C.D. Cal. 1996).

court correctly apply the dilution law in this case? Before discussing these issues, this comment will provide a description of the case as well as a discussion of dilution law.

I. CASE SUMMARY

In order to understand the conflict at issue in *Panavision*, it is first necessary to identify the parties and their respective roles. Panavision International (Panavision) is a limited partnership that produces film and television equipment.⁶ Panavision owns the federally registered trademarks "panavision" and "panaflex."⁷ In December of 1995, Dennis Toepfen registered the domain names "panavision.com" and subsequently "panaflex.com" with Network Solutions, Inc. (NSI).⁸ He had not been authorized by Panavision to use either of the trademarks.⁹ Toepfen has, in fact, registered over 200 domain names incorporating others' trademarks.¹⁰

NSI was a co-defendant in this case due to its role as the assignor of Internet domain names.¹¹ NSI's registration procedure entails asking applicants to confirm: (1) that the applicant has the authority to use the proposed name; (2) that use of such name will not interfere with any third party rights, including trademark rights; and (3) that he or she does not seek to use the domain name for any unlawful purpose.¹² NSI does not, however, verify an applicant's claims.¹³

6. *See id.* at 1298-99.

7. *See id.* at 1298.

8. *See id.* at 1300.

9. *See id.*

10. Some of the many Internet domain names that Toepfen registered with NSI include: aircanada.com, anaheimstadium.com, arriflex.com, australiaopen.com, camdenyards.com, deltaairlines.com, eddiebauer.com, flydelta.com, frenchopen.com, lufthansa.com, neiman-marcus.com, northwestairlines.com, and yankeestadium.com. *See id.*

11. NSI administers its domain name registration services under an exclusive agreement with the National Science Foundation. *See NSF Cooperative Agreement Table of Contents* (last modified July 28, 1997) <<http://rs.internic.net/nsf/agreement/>>. This cooperative agreement took effect in January 1993. *See id.*

12. *See Panavision*, 945 F. Supp. at 1299-1300.

13. *See id.* In *Panavision*, NSI was not involved in the summary judgment motions. *See id.* In a subsequent motion, the court granted summary judgment to NSI on Panavision's claim for negligent interference with prospective economic advantage. *See Panavision Int'l, L.P. v. Toepfen*, 41 U.S.P.Q.2d (BNA) 1310, 1314 (C.D. Cal. 1996). No published *Panavision* opinion discusses possible federal and state trademark claims against NSI. However, another court had held that NSI is not liable for direct nor con-

After registering the domain names, Toeppen established two web sites.¹⁴ Under the domain name "panavision.com," Toeppen's site consisted of an aerial picture of Pana, Illinois.¹⁵ Under the domain name "panaflex.com," Toeppen's web site simply contained the word "hello."¹⁶ Panavision subsequently decided to establish its own web site for advertising and selling its products, and it wanted to use the domain name "panavision.com."¹⁷ Upon finding that Toeppen had already registered that exact domain name, Panavision contacted Toeppen, asking him to relinquish his ownership of the domain name.¹⁸ Toeppen demanded \$13,000 in exchange for cessation of the use of the domain name.¹⁹ Panavision then filed this suit claiming that Toeppen was diluting its trademarks by using them for his domain names.²⁰

II. THE DISTRICT COURT'S APPROACH AND HOLDINGS

The district court framed the dilution issue as whether "the defendant violated federal ... law by intentionally registering the plaintiff's trademarks as his Internet domain names for the purpose of exacting payment from the plaintiff in exchange for the termination of the registrations of the domain names."²¹ The court then broke this issue into three components according to the Federal Trademark Dilution Act of 1995 (Dilution Act) that added section 43(c) to the Lanham Act.²² In order to extend protection from dilution to Panavision's marks, the court had to answer the following three questions affirmatively: (1) Is the "panavision" trademark famous?; (2) Is Toeppen's use of the "panavision" trademark a commer-

tributory infringement based upon its registration procedures. *See Lockheed Martin Corp. v. Network Solutions, Inc.*, 44 U.S.P.Q.2d (BNA) 1865 (C. D. Cal. 1997).

14. *See Panavision*, 945 F. Supp. at 1300.

15. *See id.*

16. *See id.*

17. *See id.*

18. *See id.*

19. *See id.*

20. *See id.*

21. *See id.* at 1298. Panavision also invoked California trademark law, however, the court held that California trademark law is substantially similar to federal law and proceeded to consider only federal law. *See id.* at 1301 n.1.

22. Section 43(c) of the Lanham Act provides that "the owner of a famous mark shall be entitled ... to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive qualities of the mark" 15 U.S.C.A. § 1125(c)(1) (1996).

cial use?; and (3) Did Toeppen's use of "panavision" as a domain name actually dilute the trademark?

On the basis of several of the eight non-exclusive factors set forth in the Dilution Act, the district court held that the "panavision" trademark was famous.²³ The court noted that Panavision had continuously used the mark since 1954.²⁴ Panavision's extensive advertising included a display of the "panavision" trademark at the end of every movie that used its filming products.²⁵ The court also relied on the fact that "panavision" is not a word found in the dictionary, indicating that it was an inventive word meriting stronger protection.²⁶ Even if "panavision" were a descriptive mark, defined as a word, picture, or symbol that directly describes an aspect of the good, the mark would be protectable because it had a strongly established secondary meaning as affiliated with photographic equipment.²⁷

The district court next held that Toeppen's use of the marks was a commercial use.²⁸ The court considered, but rejected, the possibility that Toeppen's use of Panavision's trademarks fell under one of the fair use exceptions contained in the Dilution Act.²⁹ The fair use defenses to dilution include uses for non-commercial purposes, comparative commercial advertising, or a newsworthy commentary.³⁰ Toeppen was neither trying to sell a comparable product in the film making industry nor was he at-

23. The Dilution Act lists eight non-exclusive factors for courts to consider in determining whether the mark is famous:

- (A) the degree of inherent or acquired distinctiveness of the mark;
- (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;
- (C) the duration and extent of advertising and publicity of the mark;
- (D) the geographical extent of the trading area in which the mark is used;
- (E) the channels of trade for the goods or services with which the mark is used;
- (F) the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought;
- (G) the nature and extent of the use of the same or similar marks by third parties;
- (H) whether the mark was registered under [federal law].

15 U.S.C.A. § 1125(c)(1) (1996).

24. *See Panavision*, 945 F. Supp. at 1303.

25. *See id.*

26. *See id.*; THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 11.24[1] (4th ed. 1997) (stating that the more unique and distinctive the mark, the greater its impression on the public's consciousness thus meriting more extensive protection).

27. *See Panavision*, 945 F. Supp. at 1303.

28. *See id.*

29. *See id.*

30. *See* 15 U.S.C.A. § 1125(c)(4) (1996).

tempting to distribute news about Panavision to the public. The court asserted that if Toeppen had simply registered the domain names but not demanded any money for their use, his actions would not have been considered commercial.³¹ Instead, according to the court, Toeppen's "business" was the registration of this and other domain names with the intent of selling them to the trademark owners who wanted to use them as their own domain names.³²

Finally, the district court held that Toeppen's use of "panavision.com" actually diluted Panavision's federally registered "panavision" trademark. However, the court did not reach this conclusion through traditional trademark dilution analysis. The two established categories of trademark dilution are blurring and tarnishment.³³ Blurring occurs when a mark's selling power and value is "whittled" away by some unauthorized use of the mark.³⁴ Tarnishment occurs when there is no connection between the two products but the second user of the trademark has attached it to a product of lesser quality or of dubious background thus detracting from the good name and reputation of the first user's product.³⁵

Courts have begun to recognize that trademarks may be protected from other types of dilution besides blurring or tarnishment. In *Deere & Co. v. MTD Products*,³⁶ the court pointed out that tarnishment and blurring do not represent the full range of uses that dilute a mark. In order to determine whether dilution has occurred, the court must consider the nature of the alteration. In this case, the court determined that dilution occurred because Panavision lost the only possible channel for it to use its well-known trademark to reach its customer base on the Internet when Toeppen usurped the domain name. At the same time, consumers who might seek out information about Panavision were harmed by the fact that they would instead find either an aerial picture of Pana, Illinois or the greeting "hello."

31. See *Panavision*, 945 F. Supp. at 1303.

32. See *id.* at 1300.

33. See *id.* at 1304.

34. See *Mead Data Central, Inc. v. Toyota Motor Sales, USA, Inc.*, 875 F.2d 1026 (2d Cir. 1989). The court defined blurring as the "whittling away of an established trademark's selling power through its unauthorized use by others upon dissimilar products" and provided as examples of this practice, "DuPont shoes," "Buick aspirin," and "Kodak pianos." See *id.* at 1031.

35. See generally *Hasbro, Inc. v. Internet Entertainment Group, Ltd.*, 40 U.S.P.Q.2d (BNA) 1479, 1480 (W.D. Wash. 1996) (holding that the defendant had tarnished the trademark "Candyland" by naming his pornographic web site "candyland.com").

36. 41 F.3d 39 (2d Cir. 1994).

III. DILUTION LAW

Before addressing the assignment of property rights regarding domain names and the appropriateness of applying trademark dilution law to domain names, it is worthwhile to review dilution law. In 1995, Congress enacted the Federal Trademark Dilution Act of 1995 (Dilution Act) that added section 43(c) to the Lanham Act.³⁷ This amendment to the Lanham Act stated that, "the owner of a famous mark shall be entitled ... to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark"³⁸

Prior to 1995, while protection from dilution existed in some states,³⁹ federal trademark protection consisted only of protection from trademark infringement when one could prove that subsequent uses of the same or a similar mark caused a "likelihood of confusion" among consumers.⁴⁰ Trademark dilution law is distinct from trademark infringement law in two significant ways. First, the plaintiff does not need to establish potential consumer confusion. In other words, Panavision would not have to prove that its consumers would confuse Toeppen's web site with their product in order to prove that Toeppen harmed or diluted its trademark. Second, unlike traditional trademark infringement, the plaintiff does not have to prove that the defendant was using the trademark for a competing product.

In order to acquire this enhanced protection, the trademark owner must prove that the trademark is so well-known that it attained a distinctiveness attributable to the mark itself.⁴¹ In order to qualify for this unique status, a trademark must have "reach[ed] the level of fame and distinctiveness (either nationally or within its market) such that the myth surrounding the mark's 'quality image' extends beyond its related goods or services."⁴² "Coca-Cola" is an example of such a famous trademark. The trademark has been attached to products unrelated to the soft drink market, such as sportswear products, thus evoking "Coca-Cola's" images of free-spirited

37. Prior to 1995, several states provided trademark dilution protection. *See, e.g.*, *Mead Data Central, Inc. v. Toyota Motor Sales, USA, Inc.*, 875 F.2d 1026 (2d Cir. 1989) (applying New York law); *Wedgwood Homes, Inc. v. Lund*, 659 P.2d 377 (Or. 1983).

38. *See* 15 U.S.C.A. § 1125(c)(1) (1996).

39. *See* H.R. REP. NO. 104-374, § 5 (1995).

40. *See* MCCARTHY, *supra* note 26, § 2.33.

41. This uniqueness found in well-known trademarks has been defined as "persona" and described as a trademark property that goes beyond "source identification by achieving a separate quality image." Simone A. Rose, *Will Atlas Shrug? Dilution Protection for "Famous" Trademarks: Anti-Competitive "Monopoly" or Earned "Property" Right?*, 47 FLA. L. REV. 653, 715 (1995).

42. *Id.*

and youthfulness in association with the sportswear products.⁴³ Dilution protection provides owners of famous trademarks a recourse against unauthorized users of the trademark whose use diminishes the distinctiveness and reputation of the trademark.⁴⁴

Hence, by providing protection in the absence of consumer confusion, trademark dilution law expands the bundle of rights granted to owners of famous trademarks.⁴⁵ Some mistakenly argue that this expansion of rights to trademark owners exceeds the intent of Congress in enacting the Lanham Act to the extent that it provides a monopoly right to trademark owners.⁴⁶

There are compelling justifications for the expansion of trademark protection under the Dilution Act. To begin with, because of the patchwork of state laws on dilution, Congress was concerned about the "unpredictable and inadequate results for the trademark owner"⁴⁷ as well as the

43. *See id.* at 711.

44. *See* 15 U.S.C.A. §1125(c)(1) (1996).

45. For example, compare *Interstellar Starship Services, Ltd v. Epix, Inc.*, No. 97-107-FR, 1997 WL 736486 (D. Or. Nov. 20, 1997), in which the court concluded that a domain name was confusingly similar to a trademark but found no trademark infringement because the Internet site was advertising different products from the plaintiff's products with *Comp Examiner Agency, Inc. v. Juris, Inc.*, No 96-0213-WMB (CTX), 1996 WL 376600 (C.D. Cal. May 22, 1996) in which the court held that the defendant's use of the plaintiff's trademark as a domain name for a site that sold, distributed, and advertised goods to the same types of consumers as the plaintiff created a likelihood of consumer confusion and constituted trademark infringement. Dilution law obviates the need to prove consumer confusion or the presence of competing products.

46. *See generally* Kenneth Port, *The 'Unnatural' Expansion of Trademark Rights: Is a Federal Dilution Statute Necessary?*, 18 SETON HALL LEGIS. J. 433 (1994). Port criticizes dilution protection by arguing that trademark protection was never intended to be an "in gross" property right. In his view, trademark owners are not entitled to monopolies over the use of their trademark because such a monopoly right might be an oppressive restriction on language. Port argues that providing trademark owners with protection from dilution grants just such a monopoly. *See id.* at 466. It is also interesting to note that there exists a long history of accusations of monopoly aimed at trademarks in general that are unfounded. McCarthy notes, "[i]f there were a general consensus that 'monopoly' merely meant any area of legally enforced exclusive property rights, then the word might be of some use. However, when most judges use the term 'monopoly,' they are using it in its unfavorable, competitively destructive sense." *See MCCARTHY, supra* note 26, at § 2:10.

47. *See* H.R. REP. NO. 104-374, § 5 (1995). In fact, the House Report on the bill stated that it intended to, "bring uniformity and consistency to the protection of famous marks ... because famous marks ordinarily are used on a nationwide basis and anti-dilution protection is currently only available on a patch-quilt system of protection." *Id.* § 5.

possibilities for forum shopping in dilution litigation.⁴⁸ Next, providing dilution protection is consistent with our nation's involvement in international agreements concerning intellectual property rights. The Dilution Act brought the United States within the requirements of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) section of the General Agreement on Tariffs and Trade (GATT).⁴⁹ Finally, Congress provided safeguards against a rampant expansion of trademark rights. For example, a trademark must be famous in order to qualify for protection from dilution. The statute sets forth eight non-exclusive factors for courts to consider in order to curtail the application of trademark dilution protection to unworthy marks.⁵⁰

Furthermore, the Dilution Act achieves this expansion of protection while still adhering to the policies underlying trademark protection: the prevention of deception of the public, the protection of the interests of trademark owners in not having the value of their marks misappropriated, and the promotion of competition and economic efficiency for the good of the general public.⁵¹ In a marketplace where trademarks frequently appear independent of the product or service that they represent, there is increased potential for confusion about what exactly the trademark represents.⁵² By granting owners of famous trademarks control over the use of the image associated with their marks, the public can rely on the "quality image" associated with that mark because it does not get "blurred," "tarnished," or destroyed as in *Panavision*.⁵³ At the same time, these owners have greater incentives to build up the value and recognition of their marks because they are better insulated from misappropriation of their trademark or its goodwill once they have attained the level of a "famous" mark.⁵⁴ Contrary to the argument that protection from dilution grants anti-competitive

48. "Protection for famous marks should not depend on whether the forum where suit is filed has a dilution statute. This simply encourages forum-shopping and increases the amount of litigation." *Id.* § 5.

49. See Susan L. Serad, *One Year After Dilution's Entry into Federal Trademark Law*, 32 WAKE FOREST L. REV. 215, 222 (1997). The General Agreement on Tariffs and Trade (GATT) is the main international trade agreement. See MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 647 (1997).

50. See Dilution Act *supra* note 23.

51. See MCCARTHY, *supra* note 26, § 2.01. Trademarks promote competition by enabling the buyer to distinguish between competing goods. See Courtenay Brian Allen, *Holiday Inns, Inc. v. 800 Reservation, Inc.: Defining Use of a Mark and the Source of Confusion in Trademark Infringement*, 49 BAYLOR L. REV. 847, 856 (1997).

52. See generally Rose, *supra* note 41 at 709-17.

53. See *id.* at 723; *Panavision Int'l, L.P. v. Toeppen*, 945 F.Supp. 1296, 1304 (C.D. Cal. 1996).

54. See 15 U.S.C.A. § 1125(c)(1) (1996).

rights,⁵⁵ such protection from “subliminal confusion” actually increases competition and efficiency and benefits consumers.⁵⁶ “Easily identified trademarks reduce the costs consumers incur in searching for what they desire, and the lower the cost of search the more competitive the market.”⁵⁷

IV. DISCUSSION

The underlying property issue at stake in *Panavision* concerns the assignment of property rights over this new type of property, domain names. The current first-come, first-served system falls short of promoting either efficient use of the Internet or viable trademark protection. Applying trademark analysis is a more appropriate mechanism for regulating ownership of Internet domain names. Although *Panavision* correctly applies dilution law to domain names, it leaves some issues unresolved.

A. First-Come, First-Served Approach to Domain Names Undermines Trademark Policy Goals

Panavision is a good illustration of how the first-come, first-served assignment of domain names endangers the trademark policies of: (1) protecting the public from deception; (2) protecting the interests of owners of famous trademarks from misappropriation; and (3) promoting competition and market efficiency. Under the current domain name system, there exists a very limited number of top level domain names.⁵⁸ The value of a trademark to its owner on the Internet is largely usurped if another person takes it as his or her domain name. In *Panavision*, when Toeppen registered “panavision.com,” Panavision was unable to rely on its famous

55. See generally Rose, *supra* note 41, at 683-720. This argument is premised on the traditional view that trademarks do not have any rights “in gross” separable from the particular business or service they represent. There is, however, mounting evidence that separate value exists in the persona of a trademark and that owners of famous trademarks should have some control over the use of that persona.

56. See *id.* at 720.

57. See Daniel M. McClure, *Trademarks and Competition: The Recent History*, 59 SPG LAW & CONTEMP. PROBS. 13, 29 (1996).

58. The currently available top level domain names are: .com, .net, .org, .edu, .gov, .mil, and .int. See Stuart D. Levi & Jose Esteves, *The Domain Name System and Trademarks*, 482 PLI/PAT 123, 125 (1997). Currently, businesses like Panavision have no choice but to register under the .com top level domain name. This problem may change as the International Ad Hoc Committee has proposed to introduce new top level domain names. See generally Heather Mewes, *Memorandum of Understanding on the Generic Top-Level Domain Name Space of the Internet Domain Name System*, 13 BERKELEY TECH. L.J. 235 (1998).

trademark to reach the public; conversely, the public could not rely on the well-known trademark to retrieve information about Panavision. Of course, Panavision could decide to use some variation of its trademark such as "panavisionfilm.com." However, Toeppen would still control the web site that most Internet users would access when seeking information about Panavision. This situation raises three distinct problems. First, the public is harmed by the fact that the information it is receiving is not controlled at all by Panavision as they expect, thus increasing the potential for deception. Second, despite its history of use and investment in its trademark, Panavision cannot protect its trademark from dilution on the Internet simply because an unauthorized user registered the domain name first. Third, market competition and efficiency are compromised by Panavision's inability to easily reach its customer base on the Internet. It would take the Internet user more time and energy, through trial and error, to find the information she or he is seeking under "panavisionfilm.com." Thus, the first-come, first-served system of allocating domain names can, as it did in this case, cause detriment to the public, the owners of famous trademarks, and the market. The public is denied efficient and reliable information based on well-known trademarks. The owners of famous marks are limited in their ability to reach their customer bases as well as the protection of the mark's independent image that they have worked to establish. Finally, the market is less efficient because of the higher cost of information. This is increasingly significant given the rapid growth of the Internet as a means for executing commercial transactions.⁵⁹

B. Dilution Law Should Apply to Domain Names

By examining NSI's litigation difficulties,⁶⁰ it is evident that assigning domain names without effective assessment of an applicant's prior use of a trademark, or lack thereof, is not a sustainable policy. Rather than rewarding the first person who attempts to register a domain name, the allocation of property rights over Internet domain names should favor those that have exerted greater efforts in establishing the distinctive qualities and fame of a trademark by applying trademark analysis.

59. See generally *supra* note 4.

60. Another case where NSI was implicated in a trademark dilution cause of action is *Lockheed Martin Corp. v. Network Solutions, Inc.*, 44 U.S.P.Q.2d (BNA) 1865 (C. D. Cal. 1997). In this case, Lockheed claimed that NSI had induced dilution by the party that registered "skunkworks.net" without being authorized to use Lockheed's federally registered trademark, "skunkworks." The court concluded that this claim against NSI was tenuous at best. *Id.* at 18.

In order to understand how incentives surrounding domain names should be structured, one must view the property value inherent in domain names in the context of the Internet as a whole. The Internet is an unusual market because "the optimal number of 'Internets' in the free market is one."⁶¹ If there were two or more Internet systems, an Internet user would have to go to multiple sources to find information or conduct commercial transactions. Because there is only one Internet, the network becomes more valuable with each additional user and the information that user brings with himself or herself.⁶² Facilitating easy and reliable Internet use through a logical and user friendly domain name system encourages more people to use the Internet. Increased participation on the Internet will also foster increased commercial use of the Internet because the potential customer base is larger.

Applying trademark analysis to the allocation of domain names provides better incentives to those seeking to register domain names. Domain names can be compared to trademarks in the sense that they do not require great efforts to "invent." Unlike a patent which requires a novel and non-obvious technical advance,⁶³ almost anyone can create a trademark or a domain name. To register a domain name, one must represent that he or she is authorized to use the name he or she intends to register, pay approximately \$100, and establish and maintain a web site under that domain name.⁶⁴ Toeppen demonstrated the ease with which an individual can register a domain name by the fact that he was able to register over 200 names in a short period of time.⁶⁵ The lack of effort that Toeppen exerted is also reflected in the fact that he did the bare minimum in terms of maintaining a web site.⁶⁶

Toeppen's lack of efforts in registering "panavision.com" and "panaflex.com" is contrasted by Panavision's substantial investment over many years in building up the value of its marks. The facts that the court considered in determining that the "panavision" marks were "famous" also illustrate the amount of labor that Panavision exerted in regard to the marks. Both marks were created by Panavision. They are not found in the

61. See Mark Lemley, *Antitrust and the Internet Standardization Problem*, 28 CONN. L. REV. 1041, 1045 (1996).

62. See *id.* at 1045.

63. See Federal Patent Act, 35 U.S.C. § 102 (1994) (novelty requirement); 35 U.S.C. § 103 (1994) (non-obviousness requirement).

64. *InterNIC Registration and Renewal (Re-registration) Fees: Fact Sheet* (visited Feb. 12, 1998) <<http://internic.net/fees/facts.html>>.

65. See *Panavision Int'l, L.P. v. Toeppen*, 945 F. Supp. 1296, 1300 (C.D. Cal. 1996).

66. See *id.* at 1299.

dictionary.⁶⁷ Panavision registered its trademarks.⁶⁸ Furthermore, Panavision advertised its marks extensively to the "general public, individuals such as producers and directors, and to companies such as studios, television networks, and production companies."⁶⁹ A principal method of advertisement is the display of the Panavision mark at the end of every film that uses Panavision products.⁷⁰

Favoring those who have built up a trademark benefits not only the owners of famous trademarks, but also the public using the Internet. The more famous the domain name, the more people will think to access the site. This will enlarge the potential audience or customer base. At the same time, the public benefits from easier access to information on the Internet based on their common knowledge. Thus, the assignment of property rights over domain names needs to focus less on providing rewards for people who register first and focus more on providing rewards for those who accomplish the more challenging task of building up the fame of the trademark used as the domain name.

Giving priority to well-known trademarks in the registration of domain names encourages competition and market efficiency. Under the first-come, first-served system, customers' inability to find information about a product or service based upon the known trademark frustrates business opportunities available on the Internet. If consumers cannot easily find information about the product or service they seek, they are likely to revert to more traditional methods of finding such information or not even try at all. If enough consumers are similarly frustrated, the use of the Internet for advertising and business involving famous marks could decrease overall. Even the owner of a famous trademark, who should have the least problem in reaching its customer base on the Internet, would be unable to effectively communicate with consumers because someone expended little energy to register the domain name first.

Finally, applying trademark analysis to the allocation of domain names would eliminate existing incentives which reward inefficiency and free riding. Currently, owners of famous trademarks have incentives to take defensive and inefficient measures to protect their presence on the Internet. In order to protect themselves against people like Toeppen, companies like Panavision would have to register every variation of their trademarks as a separate domain name. There is already evidence that under

67. *See id.* at 1303.

68. *See id.* at 1302-03.

69. *See id.* at 1303.

70. *See id.*

the first-come, first-served system, many Fortune 500 companies have started to adopt this defensive and inefficient strategy.⁷¹ For example, Kraft has registered 150 domain names and Proctor & Gamble Co. has registered 200.⁷² Under the current system, free riders have the potential of unfairly benefiting from the hard work of a famous trademark owner who built up the mark. A policy shift in allocating domain names would also end rewards to people like Toeppen who exploit the current first-come, first-served system.⁷³

C. The Court's Application of Dilution Law

Although the *Panavision* court reached the proper outcome in this case, its discussion of the famousness of the "panaflex" mark and Toeppen's "commercial" use of Panavision's mark was incomplete.

The court glossed over several important issues surrounding the famousness of the trademarks in question. It was correct in determining that "panavision" was a famous trademark worthy of protection from dilution. The court went through several of the eight non-exclusive factors for determining if a mark is "famous." However there was little mention of the "panaflex" mark. For instance, at the end of films which use Panavision products, it is typical that only the "panavision" mark appears. Thus, it is arguable that Toeppen was only diluting the "panavision" mark and not both marks. Furthermore, it is important to maintain the standards for "famous" trademarks that warrant protection from dilution. If the standards are too relaxed, then criticisms of dilution law—that it extends a monopoly over use of the trademark—become more valid. On the other hand, there has been no discussion regarding protection for less famous marks which can be easily taken as another's domain name. Do owners of less famous marks have any legitimate way to protect themselves against others registering their marks as domain names? In other words, the court should have paid more attention to the famousness of the trademarks. A more lucid decision regarding whether "panaflex" qualified for dilution

71. See Ian Ballon, *Intellectual Property Protection and Related Third Party Liability*, 482 PLI/PAT 559, 612 (1997).

72. See *id.*

73. It is relevant to note that Toeppen was not the only one to take advantage of the lack of protection for famous trademarks in the domain name registration process. For example, "mcdonalds.com" was registered by a Wired magazine editor, "mci.com" was initially registered by competitor Sprint although it was later rescinded, and "kaplan.com" was similarly registered by its competitor, Princeton Review, who gave up the domain name only after arbitration proceedings and did not have to pay any damages. See *id.* at 611.

protection would have set a clearer precedent for granting trademark priority in the domain naming process.

The court was also correct in concluding that Toeppen's use of "panavision" diluted the mark. The court accurately distinguished Toeppen's use from traditional blurring or tarnishment and described the dilution as uniquely applicable to the Internet. It is true that Panavision's best opportunity for reaching its customers through the established channels of the Internet was usurped by Toeppen. As a result, the court noted, Toeppen "eliminate[d] the capacity of the Panavision marks to identify and distinguish Panavision's goods and services on the Internet."⁷⁴ A foreseeable problem with the application of this holding to future cases is that if the top level domain name structure is expanded,⁷⁵ this rationale for applying dilution law will no longer be relevant. If there were more top level domain names beyond ".com" available to commercial enterprises, then Panavision would not have lost its only opportunity to advertise on the Internet using its trademarks.

Even though Toeppen's actions were not commercial in the sense that he was not trying to sell a product under the Panavision mark, the court was correct in concluding that his actions nonetheless satisfied the requirements of the Dilution Act. The Dilution Act stipulates that the owner of a famous trademark has injunctive rights only when dilution of that mark occurs through another's "commercial use in commerce."⁷⁶ This language creates two distinct requirements that must be satisfied. First, a "commercial" use needs to be established because certain non-commercial uses, usually constitutionally protected speech, are protected from dilution claims.⁷⁷ In this case, Toeppen's "business" consisted of registering others' trademarks as domain names and then charging those trademark owners for the use of those domain names.⁷⁸ Toeppen has, in fact, registered approximately 240 Internet domain names, many of which were well-known trademarks, "without seeking permission from any entity that has previously used the names."⁷⁹ At the same time, the court stated that the mere registration of the domain name itself would not have constituted a

74. See *Panavision Int'l, L.P. v. Toeppen*, 945 F. Supp. 1296, 1304 (C.D. Cal. 1996).

75. See generally Mewes, *supra* note 58.

76. See 15 U.S.C.A. § 1125(c)(1) (1996).

77. See *id.* § 1125(c)(4).

78. See Kimberly Alacantara, *Trademarks in Cyberspace*, 486 PLI/PAT 429, 436 (1997). The product that Toeppen was attempting to sell was the trademark itself. See generally, Robert C. Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C. L. REV. 603 (1983).

79. See *Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227, 1230 (N.D. Ill. 1996).

commercial use. The court did not fully address this issue because it was not at stake in the case at hand. It is unclear whether simply registering another's famous trademark would fulfill the "commercial" use requirement of the Dilution Act.

The second part of the commercial requirement of the Dilution Act is that the mark must have been used "in commerce."⁸⁰ This stems from the fact that federal trademark protection has been rooted in the Commerce Clause of the United States Constitution.⁸¹ This requirement is usually easier to satisfy. It is already well established that the Internet is now used for commerce.⁸² Thus the Internet may be considered a "channel" of commerce. Indeed, in *Intermatic Inc. v. Toeppen*,⁸³ the court found that Toeppen's use of the Internet satisfied the 'in commerce' requirement of Section 43(c) of the Lanham Act "[b]ecause Internet communications transmit instantaneously on a worldwide basis there is little question that the 'in commerce' requirement would be met in a typical Internet message, be it trademark infringement or false advertising."⁸⁴ Other courts, have also noted that the definition of "in commerce" under the Lanham Act is known to be broad and have sweeping reach.⁸⁵

Finding Toeppen's actions to satisfy both the "commercial" and "in commerce" use requirements sets an important precedent. Unauthorized users are not able to register famous trademarks as domain names by claiming a non-commercial use and then attempt to sell them back to the rightful owners.

V. CONCLUSION

This case revolves around the growing importance of the Internet and the assignment of domain names. In this context, controversies over dilution law as well as the assignment of property rights in general are brought to light. The discussion of dilution law highlights the necessity of dilution protection for the overall protection of trademarks while the discussion of the incentive structure in the allocation of domain names highlights the

80. See 15 U.S.C.A. § 1125(c)(1) (1996).

81. See MERGES, *supra* note 49, at 524.

82. See *supra* note 4; Craig W. Harding, *Selected Issues in Electronic Commerce: New Technologies and Legal Paradigms*, 491 PLI/PAT 7, 9 (1997).

83. 947 F. Supp. 1227 (N.D. Ill. 1996).

84. See *id.* at 1238-39 (quoting 1 GILSON, TRADEMARK PROTECTION & PRACTICE, § 5.11[2] (1996)).

85. See *Steele v. Bulova Watch Co.*, 344 U.S. 280, 283 (1952); *Planned Parenthood v. Bucci*, 42 U.S.P.Q.2d (BNA) 1430, 1441 (S.D.N.Y. 1997).

need for the court to reward those who have exerted labor over those who are the first to possess.

This case is also monumental as part of the evolving law regarding the Internet. While this is a fairly straightforward case involving a person clearly attempting to profit at the trademark owner's expense, one can easily foresee complications that will arise in more ambiguous cases. For example, what would have happened if Toeppen had not attempted to charge Panavision \$13,000? At the same time that Panavision's best access to its consumers over the Internet would be taken, there would arguably be no commercial use, thereby avoiding the application of dilution law. Another interesting and related issue arises out of the proposed introduction of other top level domain names such as ".shop", ".firm" and ".web."⁸⁶ Will the new category of dilution created by this court be altered by the introduction of other top level domain names?

86. See generally Mewes, *supra* note 58.

PERSONAL JURISDICTION AND THE INTERNET: AN INTRODUCTION

By Brian Covotta

Over 35,000,000 consumers and 190,000 businesses presently use the Internet.¹ This concentration of consumers and producers in cyberspace has led to the phenomenal growth of electronic commerce, including electronic data interchange, on-line retailing, and electronic financial services such as home banking, electronic funds transfer, and payment processing.² With the growth of electronic commerce also came a rising tide of litigation arising out of these transactions. One of the primary issues in many of these cases is whether the defendant has sufficient minimum contacts with the forum state such that the court can exercise personal jurisdiction over the distant defendant.³ At the present time, it is difficult for busi-

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1. See Craig W. Harding, Selected Issues in Electronic Commerce: New Technologies and Legal Paradigms, 491 PLI/PAT 7, 9 (1997).

2. See *id.* at 10. In 1996, 220 billion dollars in transactions took place over the Internet. See *id.* at 9. Investment bankers estimate that by the year 2000, over \$500 billion in transactions will occur over the Internet. See *id.* Indeed, the Supreme Court of the United States has observed that “[t]he Web is thus comparable ... to ... a sprawling mall offering goods and services.” *Reno v. American Civil Liberties Union*, ___ U.S. ___, 117 S. Ct. 2329, 2335 (1997). The nature of the transactions occurring over the Internet continues to evolve. For example, in the past year, at least two Internet-based broker-dealers, IPO.Net and Wit Capital, have experimented with initial public offerings of securities directly to the public from the underwriter. See *Internet IPOs: Hip or Hype?*, AMERICAN BANKER, Nov. 10, 1997, at 40. At the present time, credit cards are used to pay for the vast majority of electronic transactions. See Harding, *supra* note 1, at 20. However, the potential development of electronic cash (e-cash) should reduce the transaction costs for merchants associated with the use of credit cards for purchases under \$10. See *id.* at 20-21. E-cash is the name given to the process through which “[c]urrency is downloaded (or withdrawn) from a user’s bank account and stored on the user’s hard drive as encrypted digital information.... When the user goes to pay for something, the digital currency is sent to the merchant, which passes it on to the bank for validation.” *Id.* at 21. The development of e-cash should further accelerate the rapid growth of electronic commerce.

3. See, e.g., *Bensusan Restaurant Corp. v. King*, 126 F.3d 25 (2d Cir. 1997) (finding no personal jurisdiction); *Cybersell, Inc. v. Cybersell, Inc.* 130 F.3d 414 (9th Cir. 1997) (finding no personal jurisdiction); *CompuServe, Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996) (asserting personal jurisdiction); *Gary Scott Int’l Inc. v. Baroudi*, No. CIV.A.97-11549-EFH, 1997 WL 710369 (D. Mass. Nov. 13, 1997) (asserting personal jurisdiction); *Telco Communications v. An Apple A Day*, No. 97-542-A, 1997 WL 595086 (E.D. Va. Sept. 24 1997) (asserting personal jurisdiction); *Weber v. Jolly Hotels*, No. 96-2582, 1997 WL 574950 (D.N.J. Sept. 12, 1997) (finding no personal jurisdiction);

nesses conducting commerce over the Internet to assess their risks of exposure to suit in a distant forum.⁴ Until personal jurisdiction analysis is consistently applied to contacts arising from transactions over the Internet, the threat of defending suits in any state where the defendant's web site is accessible may serve to slow the rise of electronic commerce.

A court cannot assert personal jurisdiction over a defendant unless there is statutory authorization for the exercise of that jurisdiction.⁵ In general, a federal district court must comply with the personal jurisdiction statute of the state in which the district court sits.⁶ Despite this necessity for statutory authorization, the due process clause of the Fourteenth Amendment⁷ constrains a court's ability to assert personal jurisdiction

American Network, Inc. v. Access America/Connect Atlanta, Inc. 975 F. Supp. 494 (S.D.N.Y. 1997) (asserting personal jurisdiction); Expert Pages v. Buckalew, No. C-97-2109-VRW, 1997 WL 488011 (N.D. Cal. Aug. 6, 1997) (finding no personal jurisdiction); Hobby Lobby Stores, Inc. v. Boto Co., Ltd., 968 F. Supp. 1356 (W.D. Ark. 1997) (finding no personal jurisdiction); Resuscitation Technologies, Inc. v. Continental Health Care Corp., No. IP96-1457-C-M/S, 1997 WL 148567 (S.D. Ind. Mar. 24, 1997) (asserting personal jurisdiction); Digital Equipment Corp. v. AltaVista Technology, Inc., 960 F. Supp. 456 (D. Mass. 1997) (asserting personal jurisdiction); Hearst Corp. v. Goldberger, No. 96 CIV. 3620 (PKL)(AJP), 1997 WL 97097 (S.D.N.Y. Feb. 26, 1997) (finding no personal jurisdiction); Cody v. Ward, 954 F. Supp. 43 (D. Conn. 1997) (asserting personal jurisdiction); Zippo Mfg. Co. v. Zippo Dot Com, Inc., 952 F. Supp. 1119 (W.D. Pa. 1997) (asserting personal jurisdiction); IDS Life Ins. Co. v. SunAmerica, Inc., 958 F. Supp. 1258 (N.D. Ill. 1997) (finding no personal jurisdiction); Smith v. Hobby Lobby Stores, Inc., 968 F. Supp. 1356 (W.D. Ark. 1997) (finding no personal jurisdiction); Heroes, Inc. v. Heroes Found., 958 F. Supp. 1 (D.D.C. 1996) (asserting personal jurisdiction); Edias Software, Int'l, L.L.C. v. Basis Int'l Ltd., 947 F. Supp. 413 (D. Ariz. 1996) (asserting personal jurisdiction); Panavision Int'l L.P. v. Toeppen, 938 F. Supp. 616 (C.D. Cal. 1996) (asserting personal jurisdiction); Maritz, Inc. v. Cybergold, Inc., 947 F. Supp. 1328 (E.D. Mo. 1996) (asserting personal jurisdiction); Inset Sys., Inc. v. Instruction Set, Inc., 937 F. Supp. 161 (D. Conn. 1996) (asserting personal jurisdiction); Naxos Resources (USA) Ltd. v. Southam, Inc., No. CV 96-2314 WJR (CMx), 1996 WL 662451 (C.D. Cal. Aug. 16, 1996) (finding no personal jurisdiction); McDonough v. Fallon McElligott, Inc., 40 U.S.P.Q.2d (BNA) 1826 (S.D. Cal. 1996) (finding no personal jurisdiction); State v. Granite Gate Resorts, Inc., 568 N.W.2d 715 (Minn. Ct. App. 1997) (asserting personal jurisdiction); Richard Howard, Inc. v. Hogg, No. 12-96-5, 1996 WL 689231 (Ohio Ct. App. Nov. 19, 1996) (finding no personal jurisdiction).

4. See cases and holdings cited *supra* note 3.

5. See GEOFFREY C. HAZARD, JR. ET AL., CASES AND MATERIALS ON PLEADING AND PROCEDURE: STATE AND FEDERAL 287 (7th ed. 1994).

6. See FED. R. CIV. P. 4(e). There are exceptions to this general rule in which a federal statute grants nationwide personal jurisdiction. See, e.g., 15 U.S.C. § 25 (1994) (antitrust); 15 U.S.C. § 77v(a) (1994) (securities); 28 U.S.C. § 1335 (1994) (interpleader).

7. U.S. CONST. amend. XIV, § 1 ("nor shall any State deprive any person of life, liberty, or property, without due process of law.").

over a defendant.⁸ Because states and nations are defined as political and legal entities in terms of their geographical boundaries, presence of the person or thing within the state has always been important to personal jurisdiction analysis.⁹ Indeed, in the landmark case of *Pennoyer v. Neff*,¹⁰ the Supreme Court of the United States held that “no State can exercise direct jurisdiction and authority over persons or property without its territory.”¹¹ However, personal jurisdiction analysis has proven sensitive to technological advancements. Subsequent to the Court’s holding in *Pennoyer*, the increasing use of the train and the inventions of the automobile and the airplane, created more opportunities for potential defendants to have effects in multiple states and reduced the burden upon these defendants to defend the suits.¹²

In response to these new circumstances, the Supreme Court abandoned the rigid formulation of personal jurisdiction espoused in *Pennoyer*. Instead, the Court held that

due process requires only that in order to subject a defendant to a judgment in personam, if he be not present within the territory of the forum, he have certain minimum contacts with it such that the maintenance of the suit does not offend ‘traditional notions of fair play and substantial justice.’¹³

These minimum contacts must be evaluated on a case-by-case basis. However, certain principles are clear. In order to comport with “traditional notions of fair play and substantial justice,” the defendant must purposefully avail itself of the privileges of conducting activities within the

8. See, e.g., *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945) (holding that the due process clause permitted the state of Washington to assert jurisdiction over a Delaware corporation conducting business in Washington); *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 291 (1980) (holding that the due process clause prohibited the state of Oklahoma from exercising personal jurisdiction over a non-resident automobile retailer and its wholesale distributor); *Insurance Corp. of Ireland v. Compagnie des Bauxites de Guinee*, 456 U.S. 694, 702 n.10 (1982) (explaining that the personal jurisdiction requirement serves to protect the individual liberty interest of the defendant against the burdens of litigating in a distant or inconvenient forum and is not concerned with principles of federalism).

9. See RESTATEMENT (SECOND) OF JUDGMENTS § 4 cmt. a (1982).

10. 95 U.S. (5 Otto) 714 (1877).

11. *Id.* at 722.

12. See, e.g., *McGee v. International Life Ins. Co.*, 355 U.S. 220, 222-23 (1957); *Hanson v. Denckla*, 357 U.S. 235, 250-51 (1958); *Shaffer v. Heitner*, 433 U.S. 186, 210-03 (1977).

13. *International Shoe*, 326 U.S. at 316 (quoting *Milliken v. Meyer*, 311 U.S. 457, 463 (1940)).

forum state.¹⁴ Moreover, the unilateral activity of those who claim some relationship with a defendant¹⁵ and placing products in the stream-of-commerce with knowledge that they will reach the forum state cannot satisfy these minimum contacts.¹⁶

With the rising globalization of the world economy, courts were granted even more flexibility to address additional factors beyond the defendant's minimum contacts, including the burden on the defendant of defending suit within the forum state, the forum state's interest in adjudicating the dispute, the plaintiff's interest in obtaining convenient and effective relief, the interest of the interstate judicial system in the efficient resolution of controversies, and the shared interests of the states in furthering fundamental substantive policies.¹⁷ After considering these factors, a court may assert jurisdiction upon a lesser showing of minimum contacts.¹⁸ Conversely, these factors may defeat jurisdiction even if a defendant has established minimum contacts with the forum state.¹⁹

A major new technological innovation of the 1990s is the Internet.²⁰ Because the Internet transcends territorial boundaries, courts have been confronted with difficult personal jurisdiction issues and the results have been far from consistent.²¹ Two of these cases have been selected for in-depth analysis: *Bensusan Restaurant Corp. v. King*²² and *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*²³ In *Bensusan*, the Second Circuit held that the New York district court lacked jurisdiction over a Missouri

14. See, e.g., *Denckla*, 357 U.S. at 253.

15. See, e.g., *id.* (Florida courts did not have personal jurisdiction over a Delaware trustee despite the fact that the settlor of the trust moved to Florida and continued to conduct business with the trustee); see also *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 298 (1980) (Oklahoma courts did not have personal jurisdiction over a nonresident automobile retailer and its wholesale distributor when their only connection with Oklahoma was the fact that an automobile sold in New York to New York residents became involved in an accident in Oklahoma).

16. See *Asahi Metal Industry Co. v. Superior Court*, 480 U.S. 102, 108-13 (1987) (plurality).

17. See, e.g., *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 476-78 (1985); *Asahi*, 480 U.S. at 113-16.

18. See *Burger King*, 471 U.S. at 476-78.

19. See *Asahi*, 480 U.S. at 113-16 (holding that California lacked jurisdiction over a Japanese manufacturer even if the manufacturer had established minimum contacts with California because these other factors revealed the unreasonableness of the assertion of jurisdiction).

20. See *Reno v. American Civil Liberties Union*, ___ U.S. ___, 117 S. Ct. 2329, 2334 (1997) (chronicling the exponential growth of the Internet).

21. See cases cited *supra* note 3.

22. 126 F.3d 25 (2d Cir. 1997).

23. 952 F. Supp. 1119 (W.D. Pa. 1997).

resident whose only contact with New York was the placing of a web site on the Internet.²⁴ In contrast, in *Zippo Manufacturing*, the district court in Pennsylvania held that it could constitutionally assert jurisdiction over a California resident whose contacts with Pennsylvania occurred almost exclusively over the Internet.²⁵ Specifically, three thousand Pennsylvania residents subscribed to the defendant's Internet news service and the defendant contracted with seven Pennsylvania Internet access providers to permit these subscribers to access the news service.²⁶ The case comments explore how personal jurisdiction analysis should be tailored to accommodate this new technology.

24. See *Bensusan*, 126 F.3d at 27.

25. See *Zippo Manufacturing*, 952 F. Supp. at 1127.

26. See *id.* at 1121.

BENSUSAN RESTAURANT CORP. V. KING

By Colleen Reilly

Since its inception over 25 years ago, the Internet has been largely a self-governed institution.¹ Legislative forays into cyberspace² have demonstrated the difficulty of effective state governance of a medium of communication and, more recently, commerce,³ that continues to evolve at breakneck speed. That pace has only increased with the advent of the World Wide Web (web).⁴

The judiciary has also struggled to tailor traditional legal frameworks to this new technology. Conflicting results in Internet personal jurisdiction cases⁵ have made it difficult for Internet actors to structure their be-

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1. See generally Henry H. Perritt, Jr., *Cyberspace Self-Government: Town Hall Democracy or Rediscovered Royalism?*, 12 BERKELEY TECH. L.J. 413 (discussing the relation between the Internet and regulation and arguing that self-governance is the desirable result).

2. See, e.g., Communications Decency Act, 47 U.S.C.A. §§ 151-614 (West Supp. 1997). Several months after its passage, the Supreme Court held that several provisions of the Act violated the First Amendment. See *Reno v. American Civil Liberties Union*, ___ U.S. ___, 117 S. Ct. 2329 (1997).

3. See Dale M. Cendali & James D. Arbogast, *'Net Use Raises Issues of Jurisdiction*, NAT'L L.J., Oct. 28, 1996, at C7, C11 (stating that "already brisk commerce over the Internet is expected to increase exponentially as secure credit card transactions and other forms of electronic payment are perfected").

4. See *What Are You Doing on the Web?*, INC., June 1996, at 124 (citing a recent study that indicates that half of the people in the United States and Canada who use the World Wide Web do so for business purposes).

5. See, e.g., *Cybersell v. Cybersell*, 130 F.3d 414 (9th Cir. 1997) (finding no personal jurisdiction); *Bensusan Restaurant Corp. v. King*, 126 F.3d 25 (2d Cir. 1997) (finding no personal jurisdiction); *CompuServe, Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996) (asserting personal jurisdiction); *Gary Scott Int'l Inc. v. Baroudi*, 981 F. Supp. 714 (D. Mass. 1997) (asserting personal jurisdiction); *American Network, Inc. v. Access America/Connect Atlanta, Inc.*, 975 F. Supp. 494 (S.D.N.Y. 1997) (asserting personal jurisdiction); *Telco Communications v. An Apple A Day*, 977 F. Supp. 404 (E.D. Va. 1997) (asserting personal jurisdiction); *Weber v. Jolly Hotels*, 977 F. Supp. 327 (D.N.J. 1997) (finding no personal jurisdiction); *Hobby Lobby Stores, Inc. v. Boto Co.*, 968 F. Supp. 1356 (W.D. Ark. 1997) (finding no personal jurisdiction); *Digital Equip. Corp. v. AltaVista Technology, Inc.*, 960 F. Supp. 456 (D. Mass. 1997) (asserting personal jurisdiction); *IDS Life Ins. Co. v. SunAmerica, Inc.*, 958 F. Supp. 1258 (N.D. Ill. 1997) (finding no personal jurisdiction); *Heroes, Inc. v. Heroes Foundation*, 958 F. Supp. 1 (D.D.C. 1996) (asserting personal jurisdiction); *Cody v. Ward*, 954 F. Supp. 43 (D. Conn. 1997) (asserting personal jurisdiction); *Zippo Mfg. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119

havior. The issue is complicated by the laissez-faire approach that these actors have come to expect as an integral part of the Internet culture.

That era seems to be coming to a close, however, as merchants of all kinds rush to the Internet to display their wares.⁶ With widespread web advertising and commerce come claims of trademark infringement⁷ and breach of contract.⁸ Among the threshold issues that a court must consider in many of these cases is whether it can exert personal jurisdiction over a defendant that merely maintains a web presence in the forum while conducting its business from a distant forum.⁹

If it is considered to be good economic policy to encourage entrepreneurs to use the Internet as a marketing and sales channel, an approach must be developed that will allow them to analyze effectively the risk of doing so. If courts continue to engage in the speculative application of

(W.D. Penn. 1997) (asserting personal jurisdiction); *Maritz, Inc. v. CyberGold, Inc.*, 947 F. Supp. 1328 (E.D. Mo.), *reconsideration denied*, 947 F. Supp. 1338 (1996) (asserting personal jurisdiction); *EDIAS Software Int'l, L.L.C. v. Basis Int'l Ltd.*, 947 F. Supp. 413 (D. Ariz. 1996) (asserting personal jurisdiction); *Playboy Enterprises v. Chuckleberry Publ'g, Inc.*, 939 F. Supp. 1032 (S.D.N.Y. 1996) (asserting personal jurisdiction); *Panavision Int'l L.P. v. Toeppen*, 938 F. Supp. 616 (C.D. Cal. 1996) (asserting personal jurisdiction); *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161 (D. Conn. 1996) (asserting personal jurisdiction); *SF Hotel Co., L.P. v. Energy Investments*, 45 U.S.P.Q.2d 1308 (D. Kan. Nov. 19, 1997) (finding no personal jurisdiction); *Transcraft Corp. v. Doonan Trailer Corp.*, 45 U.S.P.Q.2d (BNA) 1097 (N.D. Ill. Nov. 17, 1997) (finding no personal jurisdiction); *Hasbro, Inc. v. Clue Computing, Inc.*, No. 97-10065-DPW, 1997 U.S. Dist. LEXIS 18857 (D. Mass. Sept. 30, 1997) (asserting personal jurisdiction); *Expert Pages v. Buckalew*, No. C-97-2109-VRW, 1997 WL 488011 (N.D. Cal. Aug. 6, 1997) (finding no personal jurisdiction); *Agar Corp. v. Multi-Fluid, Inc.*, 44 U.S.P.Q.2d 1158 (S.D. Tex. July 30, 1997) (finding no personal jurisdiction); *Resuscitation Technologies, Inc. v. Continental Health Care Corp.*, No. IP 96-1457-C-M/S, 1997 WL 148567 (S.D. Ind. Mar. 24, 1997) (asserting personal jurisdiction); *Hearst Corp. v. Goldberger*, No. 96 Civ. 3620 (PKL)(AJP), 1997 WL 97097 (S.D.N.Y. Feb. 26, 1997) (finding no personal jurisdiction); *McDonough v. Fallon McElligott, Inc.*, 40 U.S.P.Q.2d 1826 (S.D. Cal. Aug. 5, 1996) (finding no personal jurisdiction); *Minnesota v. Granite Gate Resorts, Inc.*, 568 N.W.2d 715 (Minn. App. 1997) (asserting personal jurisdiction). For a discussion of a number of these cases, see David G. Post & Dawn C. Nunziato, *Personal Jurisdiction on the Internet* (last modified October, 1997) <<http://www.cli.org/DPost/jcases.html>>.

6. According to Ziff Davis, the amount of revenue generated from Internet commerce totaled \$2.6 billion in 1996; that number is expected to climb to \$220 billion by the year 2002. See *Cyberstats for November 1997* (viewed January 29, 1998) <<http://www.zdnet.com/icom/cyberstats/1997/11/>>.

7. See, e.g., *AltaVista*, 960 F. Supp. at 461; *Zippo Dot Com*, 952 F. Supp. at 1121.

8. See, e.g., *AltaVista*, 960 F. Supp. at 461.

9. See, e.g., *Bensusan*, 126 F.3d at 27 [hereinafter *Bensusan II*].

personal jurisdiction analysis, businesses may be driven off the Internet or, worse yet, discouraged from hopping aboard in the first place.

In *Bensusan v. King*,¹⁰ the United States Court of Appeals for the Second Circuit affirmed the holding of a district court in the Southern District of New York that the state could not assert personal jurisdiction over a defendant whose only contacts with New York consisted of a passive web presence.¹¹ Reasoning that the defendant had not purposefully availed himself of the laws of New York, the three-judge panel dismissed the case with little discussion.¹²

Although the case is not particularly controversial—most commentators agree that the court reached the appropriate conclusion¹³—the result is nevertheless critical because it was the first decision reached on such facts at the circuit court level.¹⁴ It stands in direct opposition to a case involving similar facts that was decided in the Eastern District of Missouri.¹⁵

This comment first discusses the merits of the *Bensusan* decisions. It then compares and contrasts some of the other cases that have grappled with the jurisdictional issue.¹⁶ Finally, it formulates a test that can be used by courts, Internet actors, and potential Internet actors to determine whether personal jurisdiction exists on a given set of facts.¹⁷

10. 126 F.3d 25 (2d Cir. 1997).

11. *See id.* at 27.

12. *See id.* at 27-29.

13. *See, e.g.,* Gwenn M. Kalow, *From the Internet to Court: Exercising Jurisdiction Over World Wide Web Communications*, 65 *FORDHAM L. REV.* 2241, 2264-65 (1997) (approving of the *Bensusan II* decision). *But cf.* Bryce A. Lenox, *Personal Jurisdiction in Cyberspace: Teaching the Stream of Commerce Dog New Internet Tricks: CompuServe, Inc. v. Patterson*, 89 *F.3d* 1257 (6th Cir. 1996), 22 *DAYTON L. REV.* 331, 342 n.109 (1997) (disagreeing with the test used by the court in *Bensusan II*, and implicitly disagreeing with the result).

14. Since the case was decided in September 1997, the Ninth Circuit has reached a similar result in a case with a relatively similar level of Internet activity. *See Cybersell v. Cybersell*, 130 F.3d 414 (9th Cir. 1997).

15. *See Maritz, Inc. v. CyberGold, Inc.*, 947 F. Supp. 1328 (E.D. Mo.), *reconsideration denied*, 947 F. Supp. 1338 (1996). Some commentators distinguish *Maritz* on the grounds that visitors to the site were encouraged to add their address to a mailing list. *See, e.g.,* Sean M. Flower, Note, *When Does Internet Activity Establish the Necessary Minimum Contact Necessary to Confer Personal Jurisdiction?: Maritz, Inc. v. CyberGold, Inc.*, 62 *MO. L. REV.* 845, 847 (1997).

16. *See* cases and holdings cited *supra* note 5.

17. It should be noted, however, that these cases are necessarily fact-intensive—especially considering the rate of change in the technology and how it is exploited—and that any test(s) developed must be periodically evaluated and adjusted according to such changes.

I. *BENSUSAN V. KING*

Plaintiff Bensusan Restaurant Corp. (Bensusan) owns a successful jazz club in Manhattan called "The Blue Note."¹⁸ In May 1985, Bensusan registered "The Blue Note" as a federal trademark for "cabaret services."¹⁹ Defendant Richard B. King (King) owns a small jazz club of the same name in Columbia, Missouri, which he has operated there since 1980.²⁰

In April 1996, King created and began to maintain a web page in Missouri, which resided on a server in Missouri.²¹ The site was not password or otherwise protected and could therefore be viewed by anyone with an Internet connection.²² The site contained information about the club, including its address and telephone number; a schedule of upcoming events; and a toll-free number to call for tickets.²³

Bensusan sued soon thereafter, asserting claims for trademark infringement, trademark dilution, and unfair competition.²⁴ King moved to dismiss for lack of personal jurisdiction.²⁵

The district court granted the motion after considering two provisions of the New York long-arm statute and undertaking a due process analysis. The two relevant provisions of the long-arm statute were section 302(a)(2) and section 302(a)(3).²⁶ Section 302(a)(2) permits a court to exercise personal jurisdiction over any non-domiciliary who "commits a tortious act within the state" as long as the cause of action asserted "arises from the tortious act."²⁷ Section 302(a)(3) permits a court to exercise personal jurisdiction over any non-domiciliary for tortious acts committed outside the state that cause injury in the state if the non-domiciliary "expects or should reasonably expect the act to have consequences in the state and derives substantial revenue from interstate or international commerce."²⁸

Section 302(a)(2) is notoriously favorable to distant defendants. Most courts in the state have interpreted the statute to cover only those who are

18. See *Bensusan Restaurant Corp. v. King*, 937 F. Supp. 295, 297 (S.D.N.Y. 1996), *aff'd*, 126 F.3d 25 (2d Cir. 1997) [hereinafter *Bensusan I*].

19. See *Bensusan II*, 126 F.3d at 26.

20. See *id.*

21. See *Bensusan I*, 937 F. Supp. at 297.

22. See *id.*

23. See *id.*

24. See *Bensusan II*, 126 F.3d at 27.

25. See *Bensusan I*, 937 F. Supp. at 297; see also FED. R. CIV. P. 12(b)(2).

26. See *Bensusan I* at 299.

27. *Bensusan I*, 937 F. Supp. at 299 (quoting N.Y. C.P.L.R. § 302(a) (McKinney 1996)). For a discussion of New York's long-arm statute, see generally DAVID D. SIEGEL, *NEW YORK PRACTICE* §§ 84-94 (2d ed. 1991).

28. *Id.* (quoting N.Y. C.P.L.R. § 302(a)(3)(ii) (McKinney 1996)).

actually present and commit the tortious act within the physical boundaries of the state.²⁹ The district court in *Bensusan I* refrained from taking such an expansive view but did come to the conclusion that King was beyond this section of the long-arm statute. The court analogized the case to an offering for sale, in which case “an offering for sale of even one copy of an infringing product in New York, even if no sale results, is sufficient to vest a court with jurisdiction over the alleged infringer.”³⁰ However, the court found that the mere creation and maintenance of a web site—even though it may be accessible in New York or worldwide—which included a telephone number to order the allegedly infringing product did not constitute an offer to sell the product in New York.³¹ Most importantly, the court stated that “even assuming that the user was confused about the relationship of the Missouri club to the one in New York, such an act of infringement would have occurred in Missouri, *not* New York.”³²

The court further found that section 302(a)(3) did not reach King either. To “expect[] or ... reasonably expect” his act to have consequences in New York, the court found that King would have had to make “a discernable [*sic*] effort ... to serve, directly or indirectly, a market in the forum state.”³³ The court did not find that King had made such an effort, nor did it find that he derived a substantial amount of his revenue from interstate commerce.³⁴ In its final evaluation of the long-arm statute, the court also failed to find that Bensusan had sustained a “significant eco-

29. See *Carlson v. Cuevas*, 932 F. Supp. 76, 80 (S.D.N.Y. 1996) (applying New York law); *Platt Corp. v. Platt*, 17 N.Y.2d 234, 237 (Sup. Ct. 1966); *Kramer v. Vogl*, 17 N.Y.2d 27, 31 (Sup. Ct. 1966); *Feathers v. McLucas*, 15 N.Y.2d 443, 460-62 (Sup. Ct. 1965). The official Practice Commentary to N.Y. C.P.L.R. explains the reach of the statute as follows:

[I]f a New Jersey domiciliary were to lob a bazooka shell across the Hudson River at Grant's tomb, *Feathers* would appear to bar the New York courts from asserting personal jurisdiction over the New Jersey domiciliary in an action by an injured New York plaintiff As construed by the *Feathers* decision, jurisdiction cannot be asserted over a nonresident under this provision unless the nonresident commits an act in this state. This is tantamount to a requirement that the defendant or his agent be physically present in New York

N.Y. C.P.L.R. § 302, cmt. 17 (McKinney 1996).

30. *Bensusan I*, 937 F. Supp. at 299.

31. *See id.*

32. *Id.* (emphasis added). The court noted that an affirmative effort to market a product is distinct from supplying accessible information. *See id.*

33. *Bensusan I*, 937 F. Supp. at 300 (quoting *Dariento v. Wise Shoe Stores, Inc.*, 74 A.D.2d 342, 346 (2d Dep't 1980)).

34. *See Bensusan I*, 937 F. Supp. at 300.

conomic injury," which also would have been necessary to assert jurisdiction over King.³⁵

In addition to evaluating the validity of asserting jurisdiction under the New York long-arm statute, the court also analyzed the case from a due process perspective.³⁶ Here, the court held that even if the long-arm statute could reach King, asserting personal jurisdiction over him would violate the principles of due process:

King has done nothing to purposefully avail himself of the benefits of New York. King, like numerous others, simply created a Web site and permitted anyone who could find it to access it. Creating a site, like placing a product into the stream of commerce, may be felt nationwide—or even worldwide—but, *without more, it is not an act purposefully directed towards the forum state.* [Citations omitted.] There are no allegations that King actively sought to encourage New Yorkers to access his site, or that he conducted any business—let alone a continuous and systematic part of its business—in New York. There is in fact no suggestion that King has *any presence of any kind* in New York other than the Web site that can be accessed worldwide.³⁷

The Second Circuit affirmed the decision of the district court and denied personal jurisdiction over King. In evaluating the possibility of jurisdiction under the New York long-arm statute, the court applied an even blunter test, one that advocated that section 302 could reach only tortious acts performed by a defendant who was physically present in New York when he performed the wrongful act.³⁸ Consequently, the court concluded that "[e]ven if Bensusan suffered injury in New York, that does not establish a tortious act in the state of New York within the meaning of § 302(a)(2)."³⁹

In its discussion of section 302(a)(3)(ii), the court noted that Bensusan had not established that King derived substantial revenues from interstate

35. *See id.*

36. The due process clause of the Fourteenth Amendment of the United States Constitution also constrains a court's ability to assert personal jurisdiction over a distant defendant. *See, e.g., Asahi Metal Industry Co. v. Superior Court*, 480 U.S. 102, 113-15 (1987) (plurality); *Insurance Corp. of Ireland v. Compagnie des Bauxites de Guinée*, 456 U.S. 694, 702 n.10 (1982); *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 291 (1980); *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945).

37. *Bensusan I*, 937 F. Supp. at 301 (citing *Asahi Metal Industry Co. v. Superior Court*, 480 U.S. 102, 112 (1987)) (emphasis added).

38. *See Feathers v. McLucas*, 15 N.Y.2d 443 (Sup. Ct. 1965).

39. *Bensusan II*, 126 F.3d at 29.

commerce, a requirement it stated "is intended to exclude non-domiciliaries whose business operations are of a local character."⁴⁰ The court opined that King "unquestionably" fell into this category.⁴¹

Having found that application of the New York long-arm statute precluded the possibility of asserting jurisdiction over King, the circuit court did not undertake a due process analysis before affirming the decision of the district court.

II. DISCUSSION

Courts have tended to evaluate personal jurisdiction cases in the Internet context according to several different tests. The popularity of a particular standard varies from jurisdiction to jurisdiction, and some courts also combine them. Some of the more prominent tests that have been used are the solicitation or sales test, the effects-based test, and the "passive presence only" test.

A. Solicitation/Sales Test

Several courts have based their decisions regarding the propriety of personal jurisdiction over a defendant upon whether the defendant had solicited or actually made sales in a distant forum via Internet contacts.⁴² In *CompuServe, Inc. v. Patterson*,⁴³ the Sixth Circuit found that a Texas Internet user and subscriber to CompuServe, an on-line service located and incorporated in Ohio, was subject to personal jurisdiction in Ohio. In its interpretation, the court focused on the fact that Patterson, who had no physical contacts with Ohio, had nonetheless specifically targeted Ohio by not only subscribing to the service, but also by entering into a separate contract—also via the Internet—with CompuServe to distribute shareware via their network.⁴⁴

In *Inset Systems, Inc. v. Instruction Set, Inc.*,⁴⁵ a district court in Connecticut exercised jurisdiction over a defendant whose only contacts with Connecticut were a web site and a toll-free telephone number, both of

40. *Id.* (quoting Report of the Administrative Board of the Judicial Conference of the State of New York for the Judicial Year July 1, 1965 through June 30, 1966, Legislative Document (1967) No. 90).

41. *Bensusan II*, 126 F.3d at 29.

42. *See, e.g.*, *CompuServe, Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996); *Zippo Mfg. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997); *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161 (D. Conn. 1996).

43. 89 F.3d 1257 (6th Cir. 1996).

44. *Id.* at 1264-65.

45. 937 F. Supp. 161 (D. Conn. 1996).

which advertised its services. The court in *Inset Systems* held that the mere existence of the defendant's web site meant that the defendant had "purposefully availed itself of the privilege of doing business in Connecticut."⁴⁶

In *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*,⁴⁷ the subject of the following comment, plaintiff Zippo, a cigarette lighter manufacturer, sued defendant Dot Com, an Internet news service, for trademark infringement and dilution. The Pennsylvania district court asserted jurisdiction over the defendant, a California corporation, based on the fact that Dot Com had posted information about its services on its web site and entered into on-line subscription contracts with approximately 3,000 Pennsylvania residents as well as several service contracts with Internet service providers in Pennsylvania.⁴⁸

The major problem with the solicitation and sales test is that courts apply varying standards of what exactly constitutes a solicitation or a sale. One interpretation would be that simply having a web site could constitute a solicitation, if not a sale. If only large companies that were national in scope were using the Internet as a marketing and sales channel, this might well be a sound position. However, this simply is not the case. One of the most beneficial features of the Internet is that one can distribute large amounts of information to a great number of people very quickly, at a marginal cost approaching zero. Someone like the proprietor of a small-town jazz club, however, does not use the Internet to advertise to or solicit sales from persons in distant states. One is still reaping the benefits of the low cost of information distribution—the difference is simply that his or her pool of targeted consumers is smaller. One does not anticipate that he or she will be subject to suit in a distant forum; nor can one easily prevent New Yorkers from viewing his or her web site if they choose to do so.⁴⁹

In this context, the Connecticut court's decision in *Inset Systems* is the most suspect. If it is true that there are 190,000 businesses currently connected to the Internet,⁵⁰ it pushes the bounds of reason to assume that all 190,000 have purposefully availed themselves of the privilege of doing

46. *Id.* at 165.

47. 952 F. Supp. 1119 (W.D. Pa. 1997).

48. *See id.* at 1121, 1128.

49. It is nearly impossible to "screen" viewers out of a web site according to their geographic locations, because a domain name is only a useful indicator of where a particular machine is located on its network, not of geographic location. *See* WILLIAM J. MITCHELL, CITY OF BITS 8-9 (1995).

50. *See* Craig W. Harding, *Selected Issues in Electronic Commerce: New Technologies and Legal Paradigms*, 491 PLI/PAT 7, 9 (1997).

business in Connecticut merely by having an Internet presence. It is not feasible to limit one's web presence to physical state boundaries.

B. Effects-Based Test

The effects-based test⁵¹ concentrates on the aftermath of the out-of-state conduct that occurs, rather than "purposeful availment of the benefits of the laws" of the distant forum. An example of its application can be found in *Panavision International, L.P. v. Toeppen*.⁵²

In *Panavision*, the arguably entrepreneurial defendant purchased a large number of trademarked Internet domain names⁵³ and essentially held them hostage until the companies with those names attempted to register the locations themselves, only to find that Toeppen was already the owner.⁵⁴ He then offered to sell them at a price which was much higher than what he had paid—he attempted to charge Panavision \$13,000 for a site that cost him between fifty and one hundred dollars to register⁵⁵—but probably lower than what the company would be willing to pay for consumers easily to locate it on the web, and definitely lower than the potential costs of litigation.⁵⁶ Toeppen, an Illinois resident, did not have any substantial contacts with California.⁵⁷ Nevertheless, the California district court held that personal jurisdiction over Toeppen was "proper because Toeppen's out of state conduct was intended to, and did, result in harmful effects in California."⁵⁸

The effects-based test is most often invoked when the defendant is found to have caused damage to the plaintiff in the plaintiff's jurisdic-

51. The effects-based test was established in *Calder v. Jones*, 465 U.S. 783 (1984), in which it was referred to as the "effects test." In that case, the Court held that a reporter and an editor, both Florida residents, were subject to personal jurisdiction in California for an allegedly defamatory article that they had written for publication in a national magazine. The Court held that jurisdiction in California was proper because California was "the focal point of both the story and of the harm suffered." *Id.* at 789.

52. 938 F. Supp. 616 (C.D. Cal. 1996).

53. A domain name is the "address" for the location at which a web site can be found by an Internet user. Toeppen, for example, purchased the domain names "panavision.com" and "panaflex.com," among others. *See id.* at 619. For an in-depth discussion of the *Panavision* case, see Ughetta Manzone, *Panavision International, L.P. v. Toeppen*, 13 BERKELEY TECH. L.J. 249 (1998).

54. *See Panavision*, 938 F. Supp. at 619.

55. *See id.*

56. *See Daniel R. Pote, Note, A Domain by Any Other Name: The Federal Trademark Dilution Act Applied to Internet Domain Names*, 37 JURIMETRICS J. 301, 308 (1997).

57. *See Panavision*, 938 F. Supp. at 620.

58. *Id.* at 622.

tion.⁵⁹ The court in *Toeppen* found that the defendant, although he had not actually used the trademark to solicit business, nevertheless knew or should have known that his actions would be damaging to Panavision, which conducted a major portion of its business in California.⁶⁰

The effects-based test can be an effective tool, but its usefulness is limited to those cases in which an Internet presence has been found to have caused damage even though the defendant has not actually committed a tort. As such, it is inapplicable to most of the Internet personal jurisdiction cases decided to date. Nor does it provide a basis to conduct a due process analysis, as the defendant is effectively considered to have waived the right to have the court consider the burden that will be imposed on him or her by being forced to litigate in the distant forum.

C. "Passive Presence Only" Test

The "passive presence only" test appears to be the most clear-cut of the tests, at least from a due process standpoint. The test evaluates the extent of the defendant's web presence and attempts to determine if the proprietor is directing its marketing at a particular jurisdiction.⁶¹ Difficulties do arise, however, particularly in situations in which a court launches a preemptive strike against a web merchant who is not yet conducting any business via the Internet.⁶²

In *Hearst v. Goldberger*,⁶³ the district court in the Southern District of New York declined to assert jurisdiction over defendant Ari Goldberger, a resident of New Jersey who worked in Philadelphia. Goldberger had established a web site called "EsqWire.com," which Hearst claimed in-

59. See *id.*; see also *Digital Equip. Corp. v. AltaVista Technology, Inc.*, 960 F. Supp. 456 (D. Mass. 1997) (discussing the appropriateness of asserting personal jurisdiction over AltaVista based partially on the fact that it had been found to have infringed Digital's trademark); *Maritz, Inc. v. CyberGold, Inc.*, 947 F. Supp. 1328 (E.D. Mo.), *reconsideration denied*, 947 F. Supp. 1338 (E.D. Mo. 1996) (the fact that defendant CyberGold was found to have committed a tort against the plaintiff factored into the court's decision to find personal jurisdiction appropriate).

60. See *Panavision*, 938 F. Supp. at 621-22.

61. This type of test is commonly employed in many of the Internet jurisdiction cases in which the defendant maintains a non-interactive web site, although none of the cases have specifically referred to it as such.

62. See *Maritz*, 947 F. Supp. at 1333 (asserting personal jurisdiction over defendant CyberGold, which was advertising future services via its web site). *But cf.* *Hearst v. Goldberger*, No. 96 Civ. 3620 (PKL)(AJP), 1997 WL 97097 (S.D.N.Y. Feb. 26, 1997) (granting a motion to dismiss for lack of personal jurisdiction where a defendant was advertising future services via his web site).

63. No. 96 Civ. 3620 (PKL)(AJP), 1997 WL 97097 (S.D.N.Y. Feb. 26, 1997).

fringed on its trademark for *Esquire* magazine.⁶⁴ Again, the New York long-arm statute governed. The court reasoned that “[e]ven if Goldberger’s Internet web site could be considered an ‘offer for sale’ where, as here, Goldberger has no produce [*sic*] or service yet available for sale, jurisdiction does not exist in New York based merely on his placing the offer on the Internet outside New York.”⁶⁵

A district court in the Eastern District of Missouri reached the opposite result in *Maritz, Inc. v. CyberGold, Inc.*⁶⁶ At the time the claim was filed, CyberGold was planning to roll out a web-based service that “paid” future members—in electronic cash—to view and interact with Internet advertisements.⁶⁷ The service was not yet operational as of the date of the court’s opinion.⁶⁸ In finding personal jurisdiction appropriate, the court, placing emphasis on the fact that the site was available for viewing in Missouri and in fact had been visited by residents of the state,⁶⁹ reasoned not only that CyberGold could anticipate being subject to litigation in a Missouri court,⁷⁰ but also that subjecting the company to jurisdiction in Missouri did not offend traditional notions of fair play and substantial justice.⁷¹

The state of Minnesota has taken an aggressive stance against out-of-state Internet actors, particularly those it sees as attempting to promote on-line activities that allegedly are harmful to Minnesota residents.⁷² For example, in *Minnesota v. Granite Gate Resorts, Inc.*,⁷³ the court found that asserting jurisdiction was reasonable because the defendants, who were advertising their on-line gambling service, had made a “clear effort to

64. *See id.* at *1.

65. *See id.* at *13.

66. 947 F. Supp. 1328 (E.D. Mo. 1996).

67. Interview with Andre Marquis, Director of Marketing, CyberGold, in Berkeley, Cal. (July 1996).

68. *See Maritz*, 947 F. Supp. at 1330. If the service had, in fact, been operational at the time the suit was brought, and if CyberGold had purposefully solicited and gained customers in Missouri, the result reached by the district court might be easier to justify.

69. *See id.* at 1334.

70. *See id.*

71. *See id.* (citing *Burger King v. Rudzewicz*, 471 U.S. 462, 476-78 (1985)). *Maritz* is a good example of a court combining two or more tests—here, the “passive presence only” and the effects-based tests—as the court also concluded that jurisdiction was proper “because the allegedly infringing activities have produced an effect in Missouri ... [causing] Maritz economic injury.” *Id.* at 1331.

72. *See* Bradley A. Slutsky, *Jurisdiction Over Commerce on the Internet* (last modified June 6, 1997) <<http://www.kslaw.com/menu/jurisdic.htm>>.

73. 568 N.W.2d 715 (Minn. App. 1997).

reach and seek potential profit from Minnesota consumers"⁷⁴ There was evidence that Minnesota residents had accessed the web site, but no evidence that any had actually initiated a transaction with defendants' service, WagerNet.⁷⁵

The biggest problem with the "passive presence only" test is that courts often disagree about what constitutes a passive presence. Some, such as the district court in *Hearst*, decline to assert personal jurisdiction where the defendant is merely advertising future services he or she intends to offer via the Internet.⁷⁶ Others, such as the district court in *Maritz*, consider it proper to assert jurisdiction over a business doing much the same thing.⁷⁷ With such different interpretations of similar sets of facts, and considering the inherently borderless nature of the Internet, the test does not provide a standard by which Internet actors can structure their behavior.

D. Assessing the Tests

As noted earlier, the common law development of personal jurisdiction doctrine has historically been strongly influenced and perhaps even driven by advances in technology.⁷⁸ The doctrine's emphasis has evolved from concerns about the preservation of federalism to concerns about safeguarding the due process rights of distant defendants.⁷⁹ Several of the decisions regarding the applicability of personal jurisdiction in cases of Internet contacts, including *Bensusan*, discuss these matters in terms reminiscent of the landmark personal jurisdiction cases,⁸⁰ particularly *Asahi Metal Industry Co. v. Superior Court*.⁸¹

74. *Id.* at 720.

75. *See id.* at 718-19. An employee from the Minnesota Attorney General's office had deliberately called the number posted on the WagerNet web site to see if the company would place him on its mailing list, which it did, but the service was not yet operational. *See On-Line Gambling Firm Subject to Minnesota Jurisdiction, District Court Rules*, 14 NO. 2 COMPUTER LAW. 23, 24 (1997).

76. *See Hearst Corp. v. Goldberger*, No. 96 Civ. 3620 (PKL)(AJP), 1997 WL 97097 at *31, *37 (S.D.N.Y. Feb. 26, 1997).

77. *See Maritz*, 947 F. Supp. at 1333-34.

78. *See cases cited supra* note 12 of Brian Covotta, *Personal Jurisdiction and the Internet: An Introduction*, 13 BERKELEY TECH. L.J. 265 (1998).

79. *See supra* note 36.

80. *See, e.g., IDS Life Ins. Co. v. SunAmerica, Inc.*, 958 F. Supp. 1258, 1270 (N.D. Ill. 1997); *Hobby Lobby Stores, Inc. v. Boto Co.*, 968 F. Supp. 1356, 1362 (W.D. Ark. 1997); *Transcraft Corp. v. Doonan Trailer Corp.*, 45 U.S.P.Q.2d (BNA) 1097 (N.D. Ill. Nov. 17, 1997).

81. 480 U.S. 102 (1987) (plurality).

In *Bensusan I*, for example, the district court's minimum contacts analysis considered three factors: purposeful availment, reasonableness, and systematic and continuous conducting of business within the forum state.⁸² Except for the additional third prong, this closely resembles the plurality approach in *Asahi*.⁸³ When the Second Circuit reviewed the case on appeal, the justices based their decision affirming the district court by concentrating solely on the New York long-arm statute, without conducting an additional minimum contacts/due process analysis.⁸⁴

Several commentators who have reviewed the Internet personal jurisdiction jurisprudence have reached the conclusion that the purposeful availment and reasonableness requirements of the plurality opinion in *Asahi* should not be held to govern in Internet cases;⁸⁵ at least one suggests that the standard set out in Justice Brennan's concurrence should be the applicable test in these cases.⁸⁶

Justice Brennan's concurrence in *Asahi*, which is nearly as well-known as the plurality opinion, reached the same result but under a very different standard. Instead of the purposeful availment and reasonableness standards advanced by Justice O'Connor in the plurality opinion, Brennan suggested a less restrictive "stream of commerce" test.⁸⁷ Brennan concluded, "[T]he stream of commerce refers not to unpredictable currents or eddies, but to the regular and anticipated flow of products from manufacture to distribution to retail sale."⁸⁸ Stated simply, if products placed in the stream of commerce regularly move from manufacturer to distributor to consumer in an anticipated fashion, then the minimum contacts test is satisfied and no additional purposeful availment needs to be shown.

Applying this test to Internet advertising and transactions, however, proves problematic. Using the Brennan test, one would have to assume that placing a web site for view on the Internet, whether or not the information was specifically aimed at any particular forum, amounted to submitting oneself to jurisdiction in all fifty states. This is an unacceptable result for at least two reasons. First, it simply does not square with our

82. See *Bensusan I*, 937 F. Supp. at 300-01 (quoting *Independent Nat'l Distributors, Inc. v. Black Rain Communications, Inc.*, No. 94 Civ. 8464, 1995 WL 571449, at *5 (S.D.N.Y. Sept. 28, 1995)).

83. See *Asahi*, 480 U.S. at 108-13.

84. See *Bensusan II*, 126 F.3d at 27.

85. See, e.g., Lenox, *supra* note 13, at 342-43; David Thatch, Note and Comment, *Personal Jurisdiction and the World-Wide Web: Bits (and Bytes) of Minimum Contacts*, 23 RUTGERS COMPUTER & TECH. L.J. 143, 160-61 (1997).

86. See Lenox, *supra* note 13, at 340-42.

87. See *Asahi*, 480 U.S. at 116-17.

88. *Id.* at 117.

traditional conception of due process. The factors which are usually reviewed when a defendant challenges the assertion of personal jurisdiction are "significant activities" in a particular jurisdiction,⁸⁹ a "substantial connection" with the forum,⁹⁰ or creation of "continuing obligations" with residents of the forum,⁹¹ any of which can create a situation in which the defendant is "shielded by 'the benefits and protections' of the forum's laws."⁹² Once a defendant qualifies for these benefits and protections, it has an obligation to respond to a suit brought against it in that particular jurisdiction.⁹³

Viewed in this light, the results reached in the *Maritz* and the *Inset Systems* cases are troublesome. In *Maritz*, defendant CyberGold had not yet begun to offer services in Missouri or any other state,⁹⁴ so it is unclear how a court could have come to the conclusion that it had conducted "significant activities" or formed a "substantial connection" with the forum. Had CyberGold already initiated the service, it would have been obligated to make electronic payments to those people who viewed and interacted with Internet ads selected by the company.⁹⁵ This might have allowed a court to determine that it had created "continuing obligations" with residents of Missouri. But without such a justification on which to base its decision, it does not seem that the court reached a decision which comports with our "traditional notions of fair play and substantial justice."⁹⁶

89. See *Burger King v. Rudzewicz*, 471 U.S. 462, 475-76 (1985) (where a defendant has deliberately engaged in significant activities in a particular forum, he has purposefully availed himself of the benefits of the protection of the laws of the forum state); see also *Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 781 (1984) (selling and distributing a substantial number of copies of a magazine in a particular forum is significant activity which renders the defendant subject to personal jurisdiction in the forum).

90. See *Burger King*, 471 U.S. at 475 (jurisdiction is proper where defendant's activities create a "substantial connection" with the forum state); cf. *Kulko v. Superior Court*, 436 U.S. 84, 97 (1978) (personal jurisdiction is improper when there is "virtually no connection with the forum State").

91. See *Burger King*, 471 U.S. at 475-76; see also *Keeton*, 465 U.S. at 781.

92. See *Burger King*, 471 U.S. at 476; see also *International Shoe Co. v. Washington*, 326 U.S. 310, 319 (1945) ("to the extent that a corporation exercises the privilege of conducting activities within a state, it enjoys the benefits and protection of the laws of that state").

93. See *Burger King*, 471 U.S. at 476 (a defendant who purposefully avails himself of the benefits and protections of the laws of the forum state can fairly be made to "submit to the burdens of litigation in that forum as well").

94. See *Maritz, Inc. v. CyberGold, Inc.*, 947 F. Supp. 1328, 1330 (E.D. Mo. 1996).

95. See *supra* note 67.

96. *International Shoe Co. v. Washington*, 326 U.S. 310, 320 (1945) (quoting *Miliken v. Meyer*, 311 U.S. 457, 463 (1940)).

In *Inset Systems*, the court seemed to think adequate its assumption that the defendant had established minimum contacts simply by virtue of the fact that any of the estimated 10,000 Connecticut residents who were connected to the Internet could have seen its web site, let alone done business with the company.⁹⁷ In fact, neither the *Inset Systems* nor the *Maritz* courts undertook any significant due process analysis. Contrast this with the approach of the district court in *Bensusan*, which found no jurisdiction under the New York long-arm statute but nevertheless proceeded to conduct a due process analysis, noting in dictum that "asserting personal jurisdiction over King in this forum would violate the Due Process Clause of the United States Constitution."⁹⁸

Second, the inherent unpredictability and wide scope of this type of approach is likely to result in an artificial restriction of commerce on the Internet, which is undesirable from a public policy perspective. Existing companies who want to expand onto the Internet as a marketing or sales channel, as well as new companies looking to start up entirely web-based operations, will have to factor in the potential for litigation expenses in any of the fifty states when conducting the economic analysis necessary to make such a decision. An approach which, in effect, minimizes the minimum contacts test and risks running afoul of due process concerns will result in fewer businesses—especially small or newly formed businesses—that will be willing to run the risk of being subject to liability in any U.S. jurisdiction. If the Due Process Clause is intended to protect individuals' liberty interests and to guarantee "fair and orderly administration of the laws,"⁹⁹ it is unacceptable that the concepts of due process and minimum contacts can be de-emphasized simply because the Internet provides a way of doing business that is easier, less expensive, and more efficient.

As stated in part II.A., it is difficult for an entity with an Internet presence to control who will be able to view its information, solicitation, or sales material, whichever the case may be.¹⁰⁰ For this reason, some commentators suggest that courts should be able to assert jurisdiction over a person or entity that creates a web site only in his or her own state;¹⁰¹ some, feeling a more expansive view is necessary, opine that the determi-

97. See *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161, 165 (D. Conn. 1996).

98. *Bensusan I*, 937 F. Supp. 295, 300.

99. *International Shoe*, 326 U.S. at 319.

100. See *supra* note 49.

101. See, e.g., Leif Swedlow, Note, *Three Paradigms of Presence: A Solution for Personal Jurisdiction on the Internet*, 22 OKLA. CITY U. L. REV. 337, 385-86 (1997).

nation should depend on whether the defendant knew or should have known that it benefited somehow from its site's accessibility in the foreign jurisdiction.¹⁰² This is an essential element of an Internet personal jurisdiction analysis, considering the problem of controlling who gains access to information once it is placed on a web site. When placed in the context of a particular set of facts, its importance becomes clear.

Consider the effects of this type of analysis on a slight variation of the facts in *Bensusan*.¹⁰³ Suppose that King not only offered a way to buy tickets to live shows via his web site, but also provided the service of mailing the tickets to the buyers. If Bensusan could have demonstrated that New Yorkers had purchased tickets over King's web site to be sent to them by mail—necessarily inputting their names and addresses—and that King had then mailed tickets to New York residents, it could have argued that the defendant knew or should have known that he had benefited from the foreign jurisdiction.¹⁰⁴

A "knew or should have known" standard is essential in Internet personal jurisdiction cases because of the borderless nature of the medium. Because the creator of a web site may not predict nor easily control who will access the site, she cannot foresee litigation regarding its content in any particular forum other than her own.

E. A Proposed Test

Applying a test such as the one suggested by Justice Brennan in *Asahi* would result in overbroad exercise of jurisdiction by extending the reach of long-arm statutes without regard for traditional due process concerns. A better test is a variation of Justice O'Connor's articulation of the plurality approach in that case. Most importantly, however, courts may not be given leeway to downplay due process concerns, especially considering

102. See, e.g., Thatch, *supra* note 85. Thatch endorses the view of Justice Stevens' concurrence in *Asahi Metal Industry Co. v. Superior Court*, 480 U.S. 102 (1987) (plurality). See *id.* at 174.

103. The district court alluded to King's lack of intent to market or sell to anyone other than local residents when it stated, "There are no allegations that King actively sought to encourage New Yorkers to access his site" *Bensusan I*, 937 F. Supp. at 301. The Second Circuit implicitly agreed: "King's 'Blue Note' cafe was unquestionably a local operation." *Bensusan II*, 126 F.3d at 29.

104. Of course, this would not in and of itself be dispositive to an assertion of personal jurisdiction; the court also would have considered a broader due process analysis in which it would consider the extent of King's contacts with New York. See, e.g., *Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 774-75 (1984). Furthermore, considering the restrictive nature of New York's long-arm statute, a finding of personal jurisdiction would probably still have been unlikely.

the newness and rapid pace of change of Internet technology. Until the understanding of the technology has resulted in a consistent body of jurisprudence, courts have a responsibility to undertake an in-depth due process analysis in these necessarily fact-intensive cases and must resist the temptation to extend the reach of a long-arm statute beyond the limits of due process.

In addition, courts must take into account the knowledge or intent of the web site proprietor. When this is taken into account, it will yield fairer results because it will ensure that non-resident defendants are subject to suit only in those jurisdictions with which they intended to, as well as actually did, communicate.

III. CONCLUSION

The most important consideration for any test by which one can judge the appropriateness of personal jurisdiction in a given situation is that the test must allow actors to structure their behavior. Under the proposed test outlined above, a court could never assert personal jurisdiction over a foreign defendant who had established only a passive Internet presence. Without intent to reach a certain audience, it is difficult to justify subjecting someone to personal jurisdiction in a distant forum. If a Missouri jazz club proprietor sets up a web site designed to appeal only to local patrons, he should not be subject to personal jurisdiction in New York or any other foreign jurisdiction.

In all other cases, the analysis will be necessarily fact-intensive. Courts might begin by asking if the defendant has contacts with the distant forum that are not Internet-based. If so, and if these are substantive enough to justify a finding of personal jurisdiction, the result is simple. Of course, the more difficult cases will be those in which no other contacts exist.

When there is no basis to assert personal jurisdiction except Internet contacts, the court must carefully investigate the nature of the contacts. If a company's web site, for instance, generated significant sales of products or services, or if it has facilitated the rise of continuing obligations from persons in a distant forum, a finding of personal jurisdiction will be appropriate.¹⁰⁵ Overall, the judiciary must be willing and committed to looking at the Internet as an unprecedented development in technology which not only warrants but demands a close investigation of the rationale

105. See generally *Burger King v. Rudzewicz*, 471 U.S. 462 (1985).

behind personal jurisdiction and how it applies to this new and unique medium.

Finally, until courts have made a more solid determination of what constitutes an appropriate standard for asserting personal jurisdiction based solely on Internet contacts, Internet actors would be well advised to place jurisdictionally-focused disclaimers on their sites. A typical disclaimer might read, "By accessing this file, you have entered a server located in the state of California. Disputes arising over the content herein will be governed exclusively by the laws of the state of California." At the present time, no disclaimer of this kind has yet been tested in court, but it would likely be of some value, especially in cases in which other evidence of minimum contacts is thin.

ZIPPO MANUFACTURING CO. V. ZIPPO DOT COM, INC.

By Anindita Dutta

Because a substantial number of commercial transactions occur over the Internet,¹ courts must refine personal jurisdiction analysis to account for these new non-physical interactions between a defendant and a forum state. Unfortunately, recent Internet case law has failed to reach a consistent standard so that Internet users can tailor their actions on the World Wide Web to avoid litigation in distant courts across the United States and even the world. In establishing personal jurisdiction over a defendant, the defendant must have sufficient contacts with the forum state.² However, courts have failed to achieve a uniform understanding of what “sufficient” contacts means on the Internet. Also, in their attempts to redefine the traditional framework of personal jurisdiction to apply to the Internet, courts have to a large extent ignored the unique nature of the World Wide Web.

In *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*,³ the court did not alter its personal jurisdiction analysis, although the defendant’s business existed almost exclusively on the Internet. Moreover, the court failed to address certain inherent characteristics of the Internet, such as cost effectiveness and time savings, when considering whether the exercise of jurisdiction over the defendant would be reasonable. The *Zippo* court should have examined more closely the nature of Dot Com’s business on the Internet before it decided to exercise personal jurisdiction.

I. PROCEDURAL HISTORY

In *Zippo*, the United States District Court for the Western District of Pennsylvania held that Pennsylvania’s long-arm statute⁴ could permissibly reach Zippo Dot Com, a California corporation with contacts in Pennsylvania through the Internet, and that the court had personal jurisdiction over the defendant.⁵

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1. See, e.g., *Reno v. American Civil Liberties Union*, __ U.S. __, 117 S. Ct. 2329, 2335 (1997) (describing the Internet as a “sprawling mall offering goods and services”).

2. See, e.g., *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945).

3. 952 F. Supp. 1119 (W.D. Pa. 1997).

4. See 42 PA. CONS. STAT. ANN. § 5322 (1981).

5. See *Zippo*, 952 F. Supp. at 1128.

The plaintiff, Zippo Manufacturing (Manufacturing), filed a complaint against the defendant, Zippo Dot Com (Dot Com), alleging trademark dilution, infringement, false designation, a cause of action based on state law trademark dilution, and seeking an equitable accounting and imposition of a constructive trust.⁶ The defendant moved to dismiss for lack of personal jurisdiction and improper venue pursuant to Rule 12(b)(2) of the Federal Rules of Civil Procedure.⁷ The court denied the defendant's motion.⁸

II. FACTUAL BACKGROUND

Manufacturing, a producer of "Zippo" tobacco lighters, is a Pennsylvania corporation with its principal place of business in Pennsylvania.⁹ Dot Com operates an Internet Web site and news service and registered with Network Solutions, Inc. the domain names "zippo.com," "zippo.net," and "zippone.com" for use on the Internet.¹⁰

Dot Com's Web site contains information about the company, advertisements, and an application for its Internet news service.¹¹ This service consists of a three-tiered membership: public/free, "Original," and "Super."¹² A customer who would like to subscribe to either the "Original" or "Super" level of service can complete an on-line application and pay by credit card over the Internet or by telephone.¹³ Once the application is processed, the subscriber is assigned a password so that she can view or download messages stored on defendant's server in California.¹⁴

Dot Com's contacts with Pennsylvania occur almost exclusively over the Internet. Defendant's offices, employees, and servers are all located in California.¹⁵ Advertising in Pennsylvania consists of posting information about its service on its Web page, accessible to any Pennsylvania resident via the Internet.¹⁶ Among the 140,000 paying subscribers worldwide, Pennsylvania residents carve out only two percent (3000 subscribers) of Dot Com's pool of customers.¹⁷ Also, Dot Com entered into agreements

6. *See id.* at 1121.

7. *See id.*

8. *See id.*

9. *See id.*

10. *See id.*

11. *See id.*

12. *See id.*

13. *See id.*

14. *See Zippo*, 952 F. Supp. at 1121.

15. *See id.*

16. *See id.*

17. *See id.*

with seven Internet access providers in Pennsylvania to permit its subscribers to access Dot Com's news service, two of which are located in the Western District of Pennsylvania.¹⁸

Manufacturing bases its trademark claims on Dot Com's use of the word "Zippo" in many locations in its Web site and in the headings of Internet newsgroup messages that have been posted by Dot Com subscribers. When a subscriber views or downloads a message, the word "Zippo" appears in various sections of the heading.

III. JURISDICTIONAL BORDERS ON THE INTERNET

In seeking to assert jurisdiction over a non-resident defendant, a federal district court must comply with the long-arm statute of the state in which the district court sits.¹⁹ The Pennsylvania long-arm statute permits the exercise of jurisdiction over non-resident defendants to the "fullest extent allowed under the Constitution of the United States."²⁰ Under the traditional personal jurisdiction framework, a court's constitutional ability to exercise jurisdiction over a non-resident depends upon three factors: (1) the non-resident must have sufficient contacts with the state; (2) the claim against the defendant must arise out of such contacts; and (3) the exercise of jurisdiction must be reasonable.²¹ The court in *Zippo* states that the scope of personal jurisdiction on the Internet is "directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet."²² In determining this scope, the court utilizes a sliding scale analysis based upon previous case law regarding personal jurisdiction over the Internet.

At one end of the scale are situations where the defendant simply posts information on a Web site. In *Bensusan Restaurant Corp., v. King*,²³ the operator of a New York jazz club sued the operator of a Missouri jazz club of the same name for trademark infringement based upon his use of the name on a Web site. The Web site at issue contained information about the defendant's club, as well as events and ticket information.²⁴ However, the site was not interactive, and the court declined to assert personal juris-

18. *See id.*

19. *See* FED. R. CIV. P. 4(e).

20. 42 PA. CONS. STAT. ANN. § 5332(b) (1981).

21. *See, e.g.,* Mellon Bank (East) PSFS, N.A. v. Farino, 960 F.2d 1217, 1221 (3d Cir. 1992).

22. *Zippo*, 952 F. Supp. at 1124.

23. 126 F.3d 25 (2d Cir. 1997).

24. *See* Bensusan Restaurant Corp. v. King, 937 F. Supp. 295, 297 (S.D.N.Y. 1996), *aff'd*, 126 F.3d 25 (2d Cir. 1997).

diction over the non-resident.²⁵ The court reasoned that passive Web sites do not meet the standard of purposeful availment established under the traditional personal jurisdiction framework.²⁶

At the other end of the scale are situations where the defendant is clearly engaged in business over the Internet. In *Compuserve, Inc. v. Patterson*,²⁷ the Sixth Circuit addressed the significance of engaging in commercial transactions over the Internet. In that case, the defendant, a Texas resident, entered into a contract to distribute shareware through Compuserve's Internet server located in Ohio.²⁸ When Compuserve later began to market a software product similar to that of the defendant's, the defendant threatened to sue.²⁹ However, Compuserve sought a declaratory judgment in the state of Ohio.³⁰ The Sixth Circuit reversed the district court's decision to dismiss for lack of personal jurisdiction, holding that the defendant had purposefully directed his business activities toward Ohio by knowingly entering into a contract with an Ohio resident and then "deliberately and repeatedly" transmitting files to Ohio.³¹

The middle ground between the two outer ends of the scale is occupied by interactive Web sites where a user can exchange information with the host computer. In these cases, jurisdiction is determined by examining the level of interactivity and the commercial nature of the exchange of information that occurs on the Web site. In *Maritz, Inc. v. Cybergold, Inc.*,³² the defendant used a Web site as a promotion for its upcoming service. The defendant intended to charge advertisers and provide users with incentives to view the advertisements.³³ Even though the service was not yet in operation, users were encouraged to add their address to a mailing list to receive work-in-progress reports.³⁴ In this case, the court held that jurisdiction was valid because the defendant's conduct was equivalent to active solicitations and promotional activities designed to develop a mailing list of users.³⁵ Also, the court reasoned that because the defendant in-

25. *See id.* at 297.

26. *See id.* at 299.

27. 89 F.3d 1257 (6th Cir. 1996).

28. *See id.* at 1260.

29. *See id.* at 1261.

30. *See id.* at 1259.

31. *See id.* at 1264-66.

32. 947 F. Supp. 1328 (E.D. Mo. 1996).

33. *See id.* at 1330.

34. *See id.*

35. *See id.* at 1333-35.

discriminately responded to every user who accessed the site, the defendant should be subject to its jurisdiction.³⁶

Among the existing case law, *Inset Systems, Inc. v. Instruction Set*³⁷ symbolizes the high water mark of the exercise of personal jurisdiction in cases involving the Internet. In *Inset*, a Connecticut corporation sued a Massachusetts corporation in Connecticut for trademark infringement based upon the use of a domain name.³⁸ The non-resident's contacts with Connecticut involved a toll-free number and the posting of a Web site that was accessible to approximately 10,000 Connecticut residents.³⁹ The court held that personal jurisdiction was nonetheless valid because the defendant's advertisements on the Internet constituted the purposeful doing of business in Connecticut.⁴⁰ The court reasoned that unlike television or radio, advertisements on the Internet are continuously available to any user.⁴¹

IV. THE DISTRICT COURT'S RATIONALE

The court in *Zippo* found that this case was most analogous to *Compu-serve*, because like *Patterson*, *Dot Com* had purposefully directed its business activities toward the forum state.⁴² The court reasoned that because *Dot Com* contracted with approximately 3000 subscribers and seven access providers in Pennsylvania, *Dot Com*'s electronic commerce constituted the purposeful availment of the privilege of doing business in Pennsylvania.⁴³ The court allowed specific jurisdiction over *Dot Com* because *Manufacturing's* cause of action arose out of such contacts.

The court also determined that *Dot Com*'s contacts with Pennsylvania were not fortuitous because *Dot Com* repeatedly and consciously chose to process Pennsylvania residents' applications and accept their payments.⁴⁴ It was under no obligation to sell its services to Pennsylvania residents. Jurisdiction was reasonable because if *Dot Com* determined that the risk of being subject to jurisdiction in Pennsylvania was too great, it could

36. *See id.* at 1333.

37. 937 F. Supp. 161 (D. Conn. 1996).

38. *See id.* at 162-63.

39. *See id.* at 163.

40. *See id.* at 165.

41. *See id.*

42. *See Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1125 (W.D. Pa. 1997).

43. *See id.* at 1126.

44. *See id.* at 1126-27.

have examined each on-line application and filtered out any subscribers who were Pennsylvania residents.

V. UNIQUE NATURE OF DOT COM'S BUSINESS

Prior to analyzing the district court's rationale, it is necessary to understand the unique nature of Dot Com's business on the Internet. Zippo Dot Com provides a news service that can be accessed by anyone with a modem. Unlike a software company that advertises its products over the Internet, and then conducts a normal business in the physical world, Dot Com's business exists exclusively in cyberspace. Dot Com does not produce and mail publications to subscribers, or advertise its services on television or radio. It is a virtual business, and it relies on the cost-effectiveness and time-saving qualities of the World Wide Web to survive. Thus, it would be unfair to subject Dot Com to the same personal jurisdiction analysis as other traditional businesses.

In his article about jurisdiction, Dan Burk coins the phrase "geographic transparency" when discussing why disputes regarding the Internet transgress traditional jurisdiction law.⁴⁵ Internet addresses do not refer to a physical address, but a logical order on the network.⁴⁶ Also, in order to promote efficient access on the Web, servers will cache information from frequently accessed sites, and store copies of it.⁴⁷ When a user attempts to access the site, the information may come from the original server, or from a cache on a different server. The server from which the cache is retrieved could actually be located physically farther away from the original server, but logically closer.⁴⁸

In addition to the indeterminacy of a resource's physical location, the location of a user can also elude geographical borders. For example, features that permit remote access and anonymous login remove a Web site's ability to screen users by geographic region.⁴⁹ Thus, any routine user of the Internet may easily disguise her geographical location in order to access a Web site that blocks access from her original physical location. This facet of the Internet renders useless the ability of a Web site owner to screen or block client requests according to geographic location. It would

45. See Dan L. Burk, *Jurisdiction in a World Without Borders*, 1 VA.J.L. & TECH. 3, ¶ 6 (1997) <<http://www.student.virginia.edu/~vjolt/vol1/BURK.html>>.

46. See David R. Johnson & David G. Post, *Law and Borders-The Rise of Law in Cyberspace*, 48 STAN. L. REV. 1367, 1374 (1996).

47. Caching is a method by which a server downloads and temporarily stores a frequently accessed site from the network.

48. See Burk, *supra* note 45, ¶ 16.

49. See *id.* ¶ 18.

be unfair to expect a host to reasonably anticipate being hailed into court in a geographical location to which it was ignorant.

The *Zippo* court also suggests that Dot Com could decide with whom it chose to do business, but given the nature of the Internet, this statement is both unfair and untrue. The facts of *Zippo* reveal that each paying subscriber of the news service completed an on-line application, and was then assigned a password. However, a password only identified what level of news service the subscriber was permitted to access, not where the subscriber was located. When used as a protectionist measure against certain jurisdictions, passwords usually fail.⁵⁰ The *Zippo* court fails to mention whether geographical location was asked for on the questionnaire, but even if it was, any protectionist measure would require manual efforts, stripping the Internet of many of its automated time-saving advantages of information distribution.

The *Zippo* opinion demonstrates the difficulties associated with applying traditional personal jurisdiction analysis to the Internet. First, Dot Com should not have been expected to reasonably anticipate being summoned to court in Pennsylvania because Dot Com had no reasonable way of discerning the geographical location of its users. Second, the *Zippo* court's recommendation that Dot Com manually review each of its 140,000 subscribers would defeat some of the efficiencies gained by conducting a business over the Internet. Such a process could greatly hinder the success of a business that exists exclusively in cyberspace. Finally, unlike traditional jurisdiction cases, where the defendant reaches out into another state to solicit business, Internet cases work in reverse. The Web user accesses the site, and the host does not control who will constitute its user population. Thus, under a minimum contacts test, the purposeful availment requirement becomes more complicated.

VI. MISAPPLICATION OF THE SLIDING SCALE ANALYSIS IN *ZIPPO*

The *Zippo* court attempted to apply to Dot Com's situation the sliding scale analysis employed in other personal jurisdiction cases involving the Internet. The court reasoned that Dot Com's contacts with Pennsylvania amounted to the type of deliberate and repeated contacts that were found to subject the defendant to the court's jurisdiction in *Compuserve*. However, the *Compuserve* opinion is distinguishable because it was based on vastly different facts. In *Compuserve*, the defendant, Patterson, and

50. See *id.* ¶ 45; see also Bradley A. Slutsky, *Jurisdiction Over Commerce on the Internet* (last modified June 6, 1997) <<http://www.kslaw.com/menu/jurisdic.html>>.

Compuserve entered into a distribution contract which put Patterson on notice that the agreement was governed by Ohio law.⁵¹ Also, for a period of approximately three years, Patterson sent software via electronic links to the Compuserve system in Ohio, and he advertised and sold his product through that system.⁵² Some of these product sales occurred in Ohio.⁵³ The *Compuserve* court assumed that standing alone, none of these three occurrences would establish minimum contacts. Instead, the court relied upon the fact that Patterson's contacts with Compuserve were deliberate and repeated.⁵⁴

The *Zippo* court misinterpreted this standard which required that the defendant's contacts be "deliberate and repeated." Each of Patterson's contacts individually was insufficient, but in totality they provided evidence of directed activity towards Ohio. As Judge Stein explained in *Bensusan*, Patterson "specifically targeted Ohio."⁵⁵ Conversely, in *Zippo*, Dot Com did not specifically target Pennsylvania. Dot Com's Web site targeted a nationwide audience, with over 140,000 subscribers across the United States. Further, the contracts with Pennsylvania access providers were a necessary step that Dot Com would have taken in many states in order to facilitate its business on the Internet. Unlike Patterson, who chose to direct his business activities towards Ohio, Dot Com did not deliberately and repeatedly choose to deal with Pennsylvania.

If the *Zippo* court had accurately applied the *Compuserve* analysis, it would have closely examined all of Dot Com's business activities. Dot Com did not target Pennsylvania residents. Instead, Pennsylvania residents would find Dot Com's Web site on the Internet and subscribe to its news service, as did approximately 137,000 other nationwide subscribers. By allowing jurisdiction over Dot Com in Pennsylvania, the *Zippo* court is violating the principle set forth in *Asahi Metal Industry Co. v. Superior Court*,⁵⁶ that asserting jurisdiction over a defendant whose only contact with the forum state is the placement of a product (in this case a news service) into the stream of commerce, without more, violates principles of due process. The *Zippo* court justified its position by pointing to the access provider contracts, but Dot Com presumably entered into similar

51. See *Compuserve, Inc. v. Patterson*, 89 F.3d 1257, 1264 (6th Cir. 1996).

52. See *id.* at 1264-65.

53. See *id.*

54. See *id.*

55. *Bensusan Restaurant Corp. v. King*, 937 F. Supp. 295, 301 (S.D.N.Y. 1996), *aff'd*, 126 F.3d 25 (2d Cir. 1997).

56. 480 U.S. 102 (1987) (plurality).

agreements across the nation. In effect, the *Zippo* rationale makes Dot Com vulnerable to nationwide jurisdiction.

Instead of finding that Dot Com engaged in deliberate and repeated contacts with Pennsylvania, the court should have closely analyzed the level of interactivity and the commercial nature of the exchange of information to determine whether the exercise of jurisdiction would be reasonable. Unfortunately, the cases decided to date have not been consistent in determining what level of activity is necessary to establish minimum contacts. In both *Inset* and *Maritz*, the courts asserted jurisdiction. However, subsequent cases have reasoned that the defendants' contacts in both cases were insufficient to establish personal jurisdiction under traditional notions of fair play and due process. In *Hearst Corp. v. Goldberger*,⁵⁷ the court declined to follow the *Inset* opinion because the defendant's only contacts with the forum state were a Web site and an 800 number.⁵⁸ The court also refused to follow the *Maritz* opinion because the defendant's only contact with the forum state consisted of a Web site that provided information about Cybergold's upcoming service.⁵⁹

In both situations, the *Hearst* court reasoned that anyone with access (or a telephone in the case of *Inset*), including residents of the forum state, could have contacted the defendants' Web sites. The court acknowledged the rationale in both of these cases, that "through their web sites, defendants consciously decided to transmit advertising information to all users ... thereby (allegedly) ... purposefully availing themselves of the privilege of doing business with the forum state."⁶⁰ However, to allow such an assertion of jurisdiction in these cases would in effect create a national or even worldwide jurisdiction.⁶¹ Thus, every plaintiff could sue in her home court every non-resident defendant who owned a Web site. Based upon the more well-reasoned analysis of *Hearst*, the *Zippo* court should not have included either the *Inset* or *Maritz* opinions in its own personal jurisdiction analysis.

Instead, a defendant should have more than a passive Web presence before a court can assert personal jurisdiction over the non-resident defendant. For example, in *EDIAS Software Int'l, L.L.C. v. BASIS Int'l Ltd.*,⁶² a defamation case, the defendant's contacts with the forum state were much greater than that of Dot Com. BASIS's contacts with Arizona included a

57. No. 96 CIV. 3620 (PKL)(AJP), 1997 WL 97097 (S.D.N.Y. Feb. 26, 1997).

58. *See id.* at *20.

59. *See id.*

60. *Id.*

61. *See id.*

62. 947 F. Supp. 413 (D. Ariz. 1996).

contract with an Arizona company, phone, fax, and e-mail transactions, visits to Arizona, and sales to Arizona residents that totaled approximately \$50,000.⁶³

Upon first glance, the fact pattern in *American Network, Inc. v. Access America/Connect Atlanta, Inc.*,⁶⁴ seems comparable to that of *Zippo*. In *American Network*, the plaintiff, a New York access provider, asserted claims of trademark infringement and unfair competition against the defendant, a Georgia corporation that provides similar services.⁶⁵ Access America claimed that out of its 7500 subscribers worldwide, only six (0.08%) were located in New York and they contributed only \$150 per month to its monthly revenue of \$195,000.⁶⁶ Dot Com was in a similar position, in that only 3000 of its 140,000 (2%) subscribers were in Pennsylvania. Clearly, Dot Com exceeds the percentage mark established by *American Network*. However, *Zippo* is still distinguishable because in *American Network*, the defendant mailed to each subscriber a software package and a written copy of the subscriber agreement. The activity of mailing software packages distinguishes Access America's transactions from that of Dot Com's, which occurred almost exclusively on the Internet. In its discussion of purposeful availment, the court in *American Network* pointed specifically to the mailings when concluding that the defendant purposefully directed its activity towards New York.⁶⁷ Access America's Web site was included in a minimum contacts analysis, but it was the physical mailing of products that was the lynch pin of the court's rationale in allowing jurisdiction.

Finally, in *Digital Equipment Corp., v. AltaVista Technology, Inc.*,⁶⁸ the court based its finding of jurisdiction on the totality of the defendant's contacts, which included "a contract with a Massachusetts corporation, reflecting an agreement to apply Massachusetts law, soliciting business through its Web site, including Massachusetts business, and three sales to Massachusetts residents."⁶⁹ However, the thrust of the court's argument focused on the defendant's blatant violation of a licensing agreement which prohibited AltaVista from selling goods or services on its Web site. This, combined with the fact that the defendant's Web site was virtually identical to the plaintiff's, increasing the threat of trademark infringement

63. *See id.* at 415.

64. 975 F. Supp. 494 (S.D.N.Y. 1997).

65. *See id.* at 495-96.

66. *See id.*

67. *See id.* at 498-99.

68. 960 F. Supp. 456 (D. Mass. 1997).

69. *Id.* at 462.

and dilution, seemed to weigh heavily in the court's analysis. The forum court's interest in adjudicating this dispute was significant because Digital was one of the largest corporations in Massachusetts, and was in a position to suffer greatly from the alleged tort of trademark infringement.⁷⁰

Thus, both the cases before and after *Zippo* fail to provide a coherent standard by which the *Zippo* case should have been decided. In all of the cases, the courts either used non-Internet activities as part of their minimum contacts analysis, or found jurisdiction based upon other grounds.

VII. PURPOSEFUL AVAILMENT IN ZIPPO

In the absence of a clear definition of what constitutes "sufficient contacts" on the Internet, we must still determine whether the court in *Zippo* should have exercised jurisdiction over Dot Com. The first question that should be answered is whether *Zippo* purposefully availed itself of the laws of Pennsylvania. Personal jurisdiction is not based upon random, fortuitous contacts, but instead upon deliberate, purposeful actions by the defendant.⁷¹ Thus, any defendant who reaches outside of her state and intentionally creates ongoing relationships and obligations with citizens of another state should be subject to the laws of that state.⁷² Under this standard, the *Zippo* court held that Dot Com purposefully availed itself of Pennsylvania law. However, Dot Com did not reach outside of California and intentionally create ongoing relationships with Pennsylvania residents. Neither did it target and direct its activity towards Pennsylvania. Instead, Dot Com simply posted a Web site, and interested users who found the site while Web browsing would intentionally contact and initiate a relationship with Dot Com.

Admittedly, Dot Com intentionally created "ongoing relationships" with Pennsylvania access providers. However, the court did not go into any detail about the character of these relationships. Did Dot Com employees engage in extensive negotiations and communications with the providers throughout the duration of the contract? Or was the relationship established through a simple, unilateral transaction on the Internet? Contracting with access providers may be a quick and effortless process, to the point that the Web site host may not even be put on notice that she has entered into a contract that is governed by a specific state's laws. In this situation, it would violate traditional notions of fair play and due process to subject Dot Com to jurisdiction in a foreign court.

70. See *id.* at 471.

71. See *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 475 (1985).

72. See *Travelers Health Ass'n. v. Virginia*, 339 U.S. 643, 647 (1950).

Although the *Zippo* court found that Dot Com could have reasonably anticipated being hailed into a foreign court, the nature of the Internet erodes the element of foreseeability. Due to remote access and anonymous logins, it is virtually impossible for a Web site host to police her borders for uninvited users. Dot Com placed its Web site into the electronic stream of commerce, but after that, it had little control over where its information would flow. The *Zippo* court dismissed Dot Com's claim that its contacts with Pennsylvania were random and fortuitous by analogizing the passage of information on the Internet to a driver driving a car through different states.⁷³ However, the two situations are not analogous. The Internet must be judged by a different standard than automobiles because by granting jurisdiction based upon such reasoning, the *Zippo* court subjected Dot Com to nationwide jurisdiction. A car is a physical entity that is completely within the control of the driver. Conversely, information on the Web is not tangible or even visible until downloaded onto a computer, and even then the user never knows exactly what server or access provider brought the information to her.

VIII. IS THE EXERCISE OF JURISDICTION REASONABLE?

In determining whether the exercise of jurisdiction is reasonable, a court must consider certain factors, including the burden on the defendant, the plaintiff's interest in obtaining convenient and effective relief, the forum state's interest in adjudicating the dispute, and the shared interest of the several states in promoting social policies.⁷⁴ In this case, a balance must be struck between the burden on Dot Com and Manufacturing's interest in obtaining convenient and effective relief. If jurisdiction was not granted in Pennsylvania, would a relatively large company like Manufacturing be unreasonably inconvenienced? Even worse, could the nature of transactions prevent Manufacturing from bringing a cause of action against the defendant in any convenient forum because certain minimum standards of contact are not established? On the other hand, would it be an undue burden to subject Dot Com to jurisdiction in every state in which it had both subscribers and access provider agreements?

Whereas the answers to these questions are more fact specific, the shared interests of the several states in promoting social policy elicits a unanimous answer: the exercise of jurisdiction should be such that future courts can apply a consistent personal jurisdiction standard to Internet

73. See *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1126 (W.D. Pa. 1997).

74. See *World Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 292 (1980).

cases. The best way to promote social policy would be to create a uniform standard so that Web site owners will know how to shape their commercial transactions to avoid jurisdiction in foreign courts.

How should future courts balance a plaintiff's interest in obtaining convenient and effective relief, a defendant Web site owner's interest in avoiding the burden of jurisdiction in every state in which its Web site is accessed, and the states collective interest in creating a uniform standard of personal jurisdiction on the Internet? Existing case law regarding personal jurisdiction suggests that there is no easy answer to this question. However, because the majority of personal jurisdiction cases have been decided in favor of the plaintiff, our attention should be focused on how courts could prevent defendant Web site owners from being subjected to nationwide jurisdiction.

The first step that a court should take regarding a personal jurisdiction case on the Internet is to closely examine all of the business activities of the defendant. A court must analyze the nature of the defendant's business contacts to determine what would constitute purposeful availment for that specific business. For instance, if a defendant's contacts with the forum state exist almost exclusively over the Internet, a court should not find jurisdiction over the defendant. In *Zippo*, the court based its jurisdiction on Dot Com's Internet related contacts with Pennsylvania, running the risk of subjecting Dot Com to a nationwide jurisdiction.

If, however, the defendant's contacts involve other types of non-Internet activities, such as contractual agreements, phone and mail solicitation, or product disbursement through the postal system, a court may fairly exercise jurisdiction over the defendant, depending upon the level of interaction with the forum state. In *American Network*, the defendant mailed to each subscriber a software package and a written copy of the subscriber agreement. These contacts exceeded the realm of an Internet based business, and the court was justified in exercising jurisdiction over the defendant. However, in examining the type of non-Internet activities engaged in by a defendant, a court should determine whether these activities were intrinsic to the unique nature of a business that exists primarily on the Internet, or unrelated to the additional contacts the defendant had with the forum state. For example, in *Zippo*, Dot Com entered into agreements with access providers in Pennsylvania, but these contacts were necessary so that Dot Com's Web page could be accessed by Pennsylvania residents.

A court should next determine whether the defendant Web site owner purposefully directed its activities toward the forum state. Although some Web site owners place advertisements about their Web pages on the Inter-

net, other Web site owners are passive in that they do not solicit browsers. Instead, a Web browser may have accessed the Web page on her own initiative, using a search engine or hyperlink from a different Web page to find it. A court should not subject an Internet business to jurisdiction in the forum state if the defendant simply posted a Web site, and a browser accessed the Web page on her own initiative, because a Web site owner should not be liable for contacts that were not under its control. Some Web sites ask for personal information from browsers who access its sites, but a court must look at what was asked. If geographical information was included, a court should determine whether the Web site owner had the ability to exclude browsers based upon their location, without unreasonably burdening its business. If so, then the defendant Web site owner had some amount of control over who it conducted business with over the Internet, and a court could weigh this factor in favor of exercising jurisdiction.

Upon concluding this fact-intensive analysis, a court should ask whether the defendant Web site owner could have reasonably avoided contact with the forum state without injuring the advantages of its business. It would be unfair to subject a business like Zippo Dot Com, which existed solely on the Internet, to the same standards as a franchise corporation like McDonald's, whose Web page is insignificant in comparison to all of its other commercial activities. McDonald's does not rely on its Web page as its sole form of promotion and advertisement; television and radio commercials, free merchandise, and promotional activities are only a few of the numerous ways that McDonald's sells its burgers. On the other hand, Zippo Dot Com relies on its Web page as its primary source of advertisement and business contact. The advantage of an Internet business is that it can reach a wide audience with little cost or time investment. A court should not impose standards that will destroy this facet of the Internet, because it will destroy the business itself and discourage future entrepreneurs from utilizing the Internet.

Finally, a court should ask whether subjecting a defendant Web site owner to the forum state's jurisdiction will subject the defendant to nationwide jurisdiction. If Zippo Dot Com can be haled into a Pennsylvania court for its contacts with the forum state, what will prevent it from being pulled into any state with which it has similar contacts? A court must find something more purposeful in a defendant's contacts with the forum state than a Web page and other minor contacts that are indispensable to a business that exists primarily on the Internet.

IX. CONCLUSION

Given the chaotic status of the case law that currently exists, it is understandable why the court's opinion in *Zippo* breeds only more confusion. The problem is not only with how the court applies the traditional analysis of personal jurisdiction to the Internet, but also with how the court ignores the fact that Dot Com is a unique type of business that exists almost exclusively in cyberspace. Before any consistent body of law can be developed to address jurisdictional disputes, courts must begin to understand how the Internet works. Moreover, courts must recast personal jurisdiction analysis to encompass the unique characteristics of the Internet that allow it to transcend traditional geographical borders.

THE ECONOMIC ESPIONAGE ACT OF 1996

By Spencer Simon

The development and production of proprietary economic information is an integral part of virtually every aspect of United States trade, commerce, and business and, hence, is essential to maintaining the health and competitiveness of critical segments of the United States economy. The theft, misappropriation, and wrongful receipt, transfer, and use of United States proprietary economic information, particularly by foreign governments and their agents and instrumentalities, but also by domestic malefactors, directly imperils the health and competitiveness of our economy.¹

The Economic Espionage Act of 1996 (EEA),² signed into law by President Bill Clinton on October 11, 1996, creates two new federal criminal offenses involving the theft of trade secrets. The EEA has two primary goals: (1) prevention of trade secret theft specifically by a foreign government agent or instrumentality or person acting on behalf of a foreign government, and (2) general protection from theft of trade secrets by anyone.³ The EEA gives the U.S. Department of Justice broad authority to prosecute trade secret theft occurring both domestically and abroad, as well as over the Internet.⁴ It applies to conduct occurring outside the United States if the offender is a U.S. citizen or corporation or if any act in furtherance of the offense was committed in the United States.

I. NEED FOR FEDERAL TRADE SECRET LEGISLATION

The EEA was passed to fill a large hole in trade secret law that had been enlarged by the emergence of new information technologies. Prior to passage of the EEA, most federal trade secret theft cases were prosecuted

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1. *Hearing on Economic Espionage, February 28, 1996 Before the Senate Select Committee on Intelligence and Senate Committee on the Judiciary, Subcommittee on Terrorism, Technology, and Government Information, 104th Cong. (1996)* (statement of Louis J. Freeh, Director, Federal Bureau of Investigation) [hereinafter *Hearings*].

2. 18 U.S.C.A. §§ 1831-39 (West Supp. 1997).

3. *See id.* §§ 1831-32 (West Supp. 1997).

4. *See Ian C. Ballon, The Economic Espionage Act of 1996*, 471 PLI/PAT 755, 761 (1997).

under the Interstate Transportation of Stolen Property Act,⁵ which was not designed nor intended to apply to intellectual property. Because of the lack of a federal statute, various state laws, mostly based on some variation of the Uniform Trade Secrets Act,⁶ were utilized to fill the gap. However, these state laws were not adequate to combat the increasing problem of trade secret misappropriation.

The problem of foreign economic espionage has grown significantly since the end of the Cold War. Testifying before joint hearings by the Senate Select Committee on Intelligence and the Senate Committee on the Judiciary, Subcommittee on Terrorism, Technology, and Government Information for the EEA's passage in early 1996, Federal Bureau of Investigation Director Louis Freeh stated that the Bureau's investigations of economic espionage cases had doubled in the previous year from 400 to 800, and twenty-three countries had been involved.⁷ He claimed that foreign governments are actively targeting U.S. industry and the U.S. government to steal "critical technologies, data, and information in order to provide their own industrial sectors with a competitive advantage."⁸ According to Freeh and other law enforcement officials, former military spies have been redeployed by foreign governments to the "commercial world, presumably ready to use their skills in other ways."⁹ The losses to U.S. industry from foreign economic espionage is estimated at nearly \$100 billion per year.¹⁰

A. Interstate Transportation of Stolen Property Act

The principal problem before the enactment of the EEA was that no federal statute directly addressed economic espionage or otherwise protected proprietary information in a systematic manner. Federal prosecutors principally relied upon the Interstate Transportation of Stolen Property Act (ITSP) to combat trade secret theft.¹¹ The ITSP was passed in the 1930s in an effort to prevent criminals from moving stolen property across state lines in attempts to evade the jurisdiction of state and local law enforcement officials. It was not enacted to protect proprietary information

5. 18 U.S.C.A. §§ 2314-15.

6. UNIF. TRADE SECRETS ACT § 1-12.

7. See *Hearings*, *supra* note 1.

8. See *id.*

9. James H.A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177, 178 (1997).

10. See Jeff Augustini, *From Goldfinger to Butterfinger: The Legal and Policy Issues Surrounding Proposals to Use the CIA for Economic Espionage*, 26 LAW & POL'Y INT'L BUS. 459, 459 (1995).

11. 18 U.S.C.A. §§ 2314-15; see also *Dowling v. United States*, 473 U.S. 207 (1985); *United States v. Brown*, 925 F.2d 1301 (10th Cir. 1991).

in an increasingly digital world. The main problem with the use of the ITSP for prosecution of trade secret misappropriation is that the statute applies only to "goods, wares, or merchandise."¹² Consequently, prosecutors found it ill-suited to deal with thefts involving intellectual property, which by its nature is generally not physically transported from place to place. Further, courts have been reluctant to extend the reach of the ITSP to intangible property.¹³ Following the Supreme Court's interpretation of the statutory language of the ITSP six years earlier,¹⁴ the Tenth Circuit stated that "the element of physical 'goods, wares, or merchandise' in §§2314 and 2315 is critical. The limitation which this places on the reach of the ITSP is imposed by statute itself, and must be observed."¹⁵

B. Wire Fraud and Mail Fraud Statutes

Other federal laws commonly-used to combat trade secret misappropriation were the Wire Fraud and Mail Fraud statutes.¹⁶ These statutes have been somewhat more useful for prosecutors than the ITSP because they do not define "property" so narrowly.¹⁷ The laws have other limitations which detract from their use in trade secret prosecutions, such as the requirement that wire or mail transmission is used in the commission of the thefts.¹⁸ In addition, both statutes requires an intent to defraud as well as the use of either the mail or wire, radio, or television.¹⁹ This fraud element is another significant limitation because many trade secret thefts involve merely the copying of vital information and not a permanent loss of the information itself.

C. State Laws

State laws, on the other hand, were expressly designed to combat trade secret misappropriation. The principal state trade secrets model is found in section 757 of the Restatement of Torts, entitled Misappropriation of Trade Secrets. According to the Restatement, a trade secret "may consist of any formula, pattern, device, or compilation of information which is

12. 18 U.S.C.A. §§ 2314-15.

13. See the results in *Dowling*, 473 U.S. at 207; *Brown*, 925 F.2d. at 1301.

14. See *Dowling*, 473 U.S. at 207.

15. *Brown*, 925 F.2d at 1309.

16. 18 U.S.C.A. §§ 1341 & 1343.

17. "Property" is left undefined and without descriptive limitations such as the ITSP's "physical goods, wares, or merchandise" in these statutes. *Id.* §§ 1341 & 1343; see also *United States v. Seidlitz*, 589 F.2d 152, 160 (4th Cir. 1978). In this case, the defendant was charged with fraud by wire. The court found that the computer system involved did constitute property.

18. 18 U.S.C.A. §§ 1341 & 1343.

19. See *id.*

used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."²⁰

Today, most states have some form of trade secret protections,²¹ and most states have enacted some form of the Uniform Trade Secrets Act (UTSA).²² The intent in proposing the UTSA was to codify existing common law standards and to provide a uniform approach to trade secret misappropriation among the states, providing for both civil and criminal penalties.²³ The UTSA narrows the definition of a trade secret through the inclusion of two additional standards that must be met. A trade secret is defined as:

information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
- (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.²⁴

The UTSA did not produce uniformity. As one commentator observed, the "trade secret protection granted in each state is far from uniform relative to the other states. This often leads to the result that the ability to recover for theft of a trade secret becomes a choice of law or a contract interpretation question."²⁵ This issue becomes more acute when the theft involves a foreign person, entity, or nation. States have neither the jurisdictional authority nor resources to prosecute violations international in scope.

20. RESTATEMENT OF TORTS § 757, cmt. b (1939). "It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers." *Id.*

21. See Pooley, *supra* note 9, at 186; see also Gerald J. Mossinghoff et al., *The Economic Espionage Act: A New Federal Regime of Trade Secret Protection*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 191, 194 (1997).

22. See Gerald J. Mossinghoff et al., *The Economic Espionage Act: A New Federal Regime of Trade Secret Protection*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 191, 194 (1997).

23. See *id.* at 196.

24. UNIF. TRADE SECRETS ACT § 1(4) (West Supp. 1997).

25. Mossinghoff, *supra* note 21, at 196.

II. LEGISLATIVE HISTORY

Two major hearings were held to consider the need for federal legislation to prevent the theft of trade secrets as a result of economic espionage. The first, held on February 28, 1996, was a joint hearing before the Senate Select Committee on Intelligence and the Senate Judiciary Subcommittee on Terrorism, Technology, and Government Information.²⁶ The second hearing was held before the Subcommittee on Crime of the House Judiciary Committee on May 9, 1996.²⁷ The lead witness in both hearings was FBI Director Louis J. Freeh. A number of industry leaders, primarily representing Silicon Valley and aerospace companies, supported Director Freeh's contention that federal legislation was necessary to combat the growing scourge of economic espionage by both domestic and, especially, foreign agents and entities.²⁸

The hearings documented the two major underpinnings of the legislation. First, foreign governments, through a variety of means, are actively involved in stealing critical technologies, data, and information from U.S. companies or the U.S. Government for the economic benefit of their own industrial sectors.²⁹ Second, federal laws then on the books—including the ITSP and the Mail Fraud and Wire Fraud statutes—were of limited use in prosecuting acts of economic espionage.³⁰

Additionally, state laws protecting trade secrets were determined to be inadequate. As the Senate Judiciary Committee concluded:

What State law there is protects proprietary economic information only haphazardly. The majority of States have some form of civil remedy for the theft of such information - either adopting some version of the Uniform Trade Secrets Act, acknowledging a tort for the misappropriation of the information, or enforcing various contractual arrangements dealing with trade secrets. These civil remedies, however, often are insufficient. Many companies choose to forgo civil suits because the thief is essentially judgment proof ... or too difficult to pursue In addition, companies often do not have the resources or the time to bring suit. They also frequently do not have the investigative re-

26. See S. REP. NO. 104-359, at 6 (1996).

27. See H.R. REP. NO. 104-788, at 12-13 (1996).

28. See S. REP. NO. 104-359, at 6 (1996).

29. See *id.* It is interesting to note that the U.S. itself has been accused of active involvement in economic espionage activities abroad, most notably in France. See Peter Schweizer, *The Growth of Economic Espionage: America is Target Number One*, FOREIGN AFF., Jan. 11, 1996, at 10.

30. See S. REP. NO. 104-359, at 6 (1996).

sources to pursue a case. Even if a company does bring suit, the civil penalties often are absorbed by the offender as a cost of doing business and the stolen information retained for continued use. Only a few States have any form of criminal law dealing with the theft of this type of information. Most such laws are only misdemeanors, and they are rarely used by State prosecutors.

Federal criminal law is needed because of the international and interstate nature of this activity, because of the sophisticated techniques used to steal proprietary economic information, and because of the national implications of the theft. Moreover, a Federal criminal statute will provide a comprehensive approach to this problem—with clear extraterritoriality, criminal forfeiture, and import-export sanction provisions.³¹

III. DISCUSSION OF THE EEA

A. Economic Espionage

Section 1831 of the EEA, titled “Economic Espionage,” criminalizes acts done with the intent to benefit any foreign government, instrumentality, or agent. Culpability is determined with reference to section 1831(a):

(a) In general. Whoever, intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent, knowingly -

(1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains a trade secret;

(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a trade secret;

(3) receives, buys, or possesses a trade secret, knowing the same to have been stolen or appropriated, obtained, or converted without authorization;

(4) attempts to commit any offense described in any of paragraphs (1) through (3); or

(5) conspires with one or more other persons to commit any offense described in any of paragraphs (1) through (3), and one or

31. *Id.* at 12.

more of such persons do any act to effect the object of the conspiracy.³²

The EEA provides a list of examples of violative acts, but the legislative history states that these examples were not intended to be exhaustive. Rather the examples serve as illustrative guidelines.³³

B. Theft of Trade Secrets

Section 1832 of the EEA, titled "Theft of Trade Secrets," pertains to domestic acts and makes the same conduct described in section 1831 a crime regardless of whether the theft is meant to benefit a foreign government. Section 1832 differs from section 1831 by including stipulations that the goal of the misappropriation is to harm the owner of the trade secret and to economically benefit someone other than the owner of the trade secret.³⁴

C. Definition of Trade Secrets

The definition of trade secrets under the EEA is broader than that contained in the UTSA because it includes the new technological methods by which trade secrets can now be created and stored. A trade secret is defined under the EEA to mean "all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing"³⁵ Like the UTSA, the EEA definition requires that the owner of the information take undefined "reasonable measures" to keep the information secret and that the information has independent economic value, actual or potential, because it is not generally known to the public or readily ascertainable through legal means.³⁶ Under the EEA, "secret" means

32. 18 U.S.C.A. § 1831 (West Supp. 1997).

33. See H.R. REP. NO. 104-788, at 11-12 (1996).

34. Specifically, it requires "intent to convert a trade secret, that is related to or included in a product that is produced for or placed in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret." 18 U.S.C.A. § 1832.

35. *Id.* § 1839. Also note that "[t]hese general categories of information are included ... for illustrative purposes and should not be read to limit the definition of trade secret." H.R. REP. NO. 104-788, at 12-13 (1996).

36. While it is up to the court to determine in each case whether reasonable efforts were made to protect the information, the legislative history states: "[t]he fact that the owner did not exhaust every conceivable means by which the information could be kept

that "the information was not generally known to the public or to the business, scientific, or educational community in which the owner might seek to use the information."³⁷

D. Mens Rea Requirement

Both new crimes require specific states of mind. As stated above, section 1832, (which relates to domestic violations) contains two intent elements, both of which must be present for conduct to fall within the domestic prong of the statute.³⁸ The perpetrator must intend to convert a trade secret to the economic benefit of "anyone other than the owner" and also intend or know that the offense will injure the owner of the trade secret.³⁹ Section 1831, the foreign violations regulation, requires only that the perpetrator intend, know, or have reason to know that the trade secret theft will benefit a foreign government, instrumentality, or agent. Unlike section 1832, section 1831 contains no requirement that the offender intend or know that the theft will injure the owner of the trade secret.⁴⁰ Presumably, this was done to lower the bar in cases involving international economic espionage.

E. Penalties

The EEA's most noticeable and perhaps significant effect is to implement stiff fines and imprisonment for offenders. Violations of the EEA are treated as serious crimes.

Section 1831 violations exact significantly greater penalties than do section 1832 violations. This can be interpreted as a judgment by Congress that foreign economic espionage is a more severe transgression than wholly domestic trade secret thefts.⁴¹ Section 1831 specifically imputes a maximum fine of \$500,000 per convicted violation for individuals and, for corporations, a maximum fine of \$10,000,000 per convicted violation.⁴² Individual criminal liability under section 1831 is set at a maximum of fifteen years per violation.⁴³

Section 1832 fines, while lesser than their foreign espionage counterparts, are still significant. The maximum individual fine is not specifically

secure does not mean that the information does not satisfy the requirement." H.R. REP. NO. 104-788, at 12-13 (1996).

37. *Id.* at 13.

38. 18 U.S.C.A. § 1832.

39. *Id.*

40. 18 U.S.C.A. § 1831.

41. *See* Pooley, *supra* note 9, at 202.

42. *See id.*

43. *See id.*

set, but it is implied that the maximum fine for felonies is applicable: \$250,000 per violation.⁴⁴ Corporate liability is set at a maximum of \$5,000,000 per violation.⁴⁵

The legislative history indicates that these criminal fines should be set pursuant to the federal fines provision,⁴⁶ where the fine should be set at the greater of twice the value of the loss to the trade secret owner or twice the gain to the perpetrator if this amount is greater than the fines provision of the EEA.⁴⁷ Furthermore, the legislative history suggests that fines above the stated maximums could be imposed on corporations, "in cases where the loss to the trade secret owner was particularly high," by relying on the federal fines provision rather than the fines provided for in the EEA.⁴⁸

Individuals may face substantial terms of imprisonment in addition to criminal fines. Individual criminal liability under section 1831 is set at a maximum of fifteen years per violation. Section 1832 violators are subject to a maximum of ten years per violation.

In addition, section 1834 of the EEA requires a court to order forfeiture of any proceeds obtained directly or indirectly from the offense.⁴⁹ Further, the EEA allows courts to order forfeiture of any property used or intended to be used in the commission of the offense.⁵⁰ Such forfeitures are governed by section 413 of the Comprehensive Drug Abuse Prevention and Control Act of 1970, except for subsections (d) and (j) of that section.⁵¹ These forfeitures do not go toward compensating the actual victim of the trade secret misappropriation, although there is an indication in the legislative history that such victims may be able to petition the government for restitution based on the proceeds from the sale of forfeited property.⁵²

F. Confidentiality and Injunctive Relief

Section 1835 specifically provides for the protection of trade secrets during the prosecution of any offense under the EEA. This provision was

44. *See id.* at 201; *see also* 18 U.S.C.A. § 3571(b)(3) (The federal fines provision serves as a guideline to courts in the assessment of fines.).

45. *See* 18 U.S.C.A. § 1832.

46. *See* 142 CONG. REC. S12201-03, S12213 (1996) (referencing 18 U.S.C.A. § 3571(d)).

47. *See* Pooley, *supra* note 9, at 201; *see also* 18 U.S.C.A. § 3571(d).

48. *See* Pooley, *supra* note 9, at 201 (citing 142 CONG. REC. S12201-03, S12213 (1996)).

49. *See* 18 U.S.C.A. § 1834.

50. *See id.*

51. *See* 18 U.S.C.A. § 1834(b); *see also* 21 U.S.C.A. § 853 (West Supp. 1997).

52. *See* 142 CONG. REC. S12201-03, S12213 (1996).

added to protect trade secret owners from further disclosure of the trade secret(s) at issue, beyond the actual violation itself, and possibly to encourage trade secret owners, who otherwise would be wary of further disclosure, to be forthcoming in the event of a misappropriation.⁵³ Section 1835 further allows the Attorney General to instigate separate civil proceedings to enjoin continued trade secret violations during prosecution.⁵⁴

G. Territorial Jurisdiction

Section 1836 confers expansive jurisdiction on federal courts that is not limited to the territorial or maritime boundaries of the United States.⁵⁵ The statute provides for exclusive federal jurisdiction and is intended to punish conduct occurring in the United States, or outside of the United States if the defendant is a U.S. citizen or permanent resident alien or an organization substantially owned or controlled by U.S. citizens or permanent resident aliens, or incorporated in the United States.⁵⁶ Interestingly, the EEA also grants federal jurisdiction to acts primarily foreign in nature.⁵⁷ If any single act in furtherance of an action or scheme to misappropriate trade secrets occurred in the United States, it would be actionable as an EEA violation.⁵⁸ For example, a trade secret theft involving the electronic transfer or routing by any means of the secret merely through the U.S. on its way to another foreign locale would constitute a violation of the statute. Even more curious is the EEA's extension to acts committed entirely in foreign countries, where the defendant is either a United States' corporation or a citizen or permanent resident alien of the United States. These acts can lead to EEA violations even in the absence of any other connection between the misappropriation and the United States.⁵⁹ Violations similar to the last two examples will probably be rare, as it seems unlikely that the Department of Justice would pursue or have the resources to pursue such acts.

H. Preemption

Section 1837 explicitly states that the EEA should not be construed in any manner to preempt or displace any other remedies.⁶⁰ This statute is

53. See *Hearings*, *supra* note 1.

54. See 18 U.S.C.A. § 1835.

55. See *id.* § 1836.

56. See *id.*

57. See *id.*

58. See *id.*

59. This would also mean that U.S. economic espionage agents abroad are liable under the EEA. See *supra* note 27.

60. See 18 U.S.C.A. § 1837.

not intended to preempt any claims based on state law or under any other federal law.

IV. LIMITATIONS OF THE EEA

The EEA does not protect trade secrets related to services (as opposed to goods), negative know-how, or reverse engineering. Furthermore, it does not address the needs of U.S. corporations operating abroad from trade secret theft. It also fails to adequately address the rights of victims for monetary loss sustained as a result of the theft and misappropriation of their trade secrets.

To qualify under section 1832, trade secrets must be “related to or included in a product that is produced for or placed in interstate or foreign commerce.”⁶¹ Because trade secrets explicitly must be embodied in a product in the stream of commerce, protection is limited if the trade secret relates to a rendering of services rather than a produced ware that contains or uses the secret. As noted by some commentators, “[t]his means that the EEA arguably does not cover either ‘negative know-how’ or information discovered but not [currently] used by a company.”⁶² It is interesting to note that both of these are protected under the UTSA. It should be questioned why these were purposefully left without protection in the EEA, as the drafters substantially borrowed from the UTSA in writing this statute.

Some commentators have also noted that sections 1831 and 1832(a)(2) (which are identical) “arguably prohibit[] many forms of heretofore lawful reverse engineering activity.”⁶³ The EEA could be used to prosecute reverse-engineering procedures that currently are legal. Such procedures are not mentioned in the statute at all. Reverse engineering often involves acts prohibited under subsection (a)(2)⁶⁴ undertaken on publicly available merchandise. Formerly legal “reverse engineering ... may well involve [the now] prohibited ‘sketching, drawing, or photographing’ of the trade secret”⁶⁵ Because the legislative history reveals that Congress did not intend to infringe on the legitimate interests of private businesses, compe-

61. *Id.* § 1832(a).

62. Pooley, *supra* note 9, at 200.

63. *Id.* at 195.

64. 18 U.S.C.A. §§ 1831 & 1832(a)(2); (criminalizing the acts of anyone who “without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a trade secret”).

65. Pooley, *supra* note 9, at 195.

tition, and commerce,⁶⁶ the EEA should be amended to explicitly exempt reverse engineering from the scope of the statute.

Second, U.S. corporations with offices abroad are not protected under the EEA. If trade secrets are stolen from a U.S. company operating in a foreign country, the corporation has no legal protections if the theft is not perpetrated by a U.S. citizen, a permanent resident alien, or an organization incorporated in the U.S., and no part of the theft occurs within the U.S. If the EEA is to extend to acts entirely beyond territorial boundaries, there should be a provision protecting the interests of U.S. corporations operating abroad.

The last significant limitation of the EEA involves the lack of any civil remedies for victims of trade secret theft and misappropriation. All fines and forfeitures go to the government under the aforementioned Comprehensive Drug Abuse Prevention and Control Act of 1970.⁶⁷ The only compensatory remedy for the injured party or parties under federal law is the possibility that such victims may be able to petition the government for restitution based on the proceeds from the sale of property forfeited under section 1834 of the EEA, as indicated in the legislative history.⁶⁸ Barring this, the only recourse for trade misappropriation victims is filing an action under state civil law, which can be prohibitively expensive and often ineffective in substantially compensating the victim for real losses sustained.⁶⁹ The EEA should be amended to correct this oversight. A federal law should specifically and adequately address the losses sustained by victims of trade secret theft in the same manner that the EEA protects the U.S. economy, in general, by imposing such stiff penalties for acts of foreign economic espionage.

V. CONCLUSION

The Economic Espionage Act of 1996 is a comprehensive device to combat trade secret misappropriation. It is particularly harsh toward perpetrators of foreign economic espionage, as evidenced by the significantly more severe penalties imposed. Another indication of the slant toward protection against foreign economic espionage is the near primary focus

66. See 142 CONG. REC. S12201-03, S12212 (1996).

67. See 21 U.S.C.A. § 853.

68. See 142 CONG. REC. S12201-03, S12213 (1996).

69. See S. REP. NO. 104-359, at 12 (1996) (Senate Judiciary Committee's conclusion on the effectiveness of state civil remedies).

on the foreign threat in discussions used to espouse passage of the statute.⁷⁰

There is much give and take in the statute, as it balances competing interests to preserve overall fairness. For example, while making convictions slightly more difficult and trade secret owners' roles more burdensome by placing the victim's secrecy maintenance conduct under scrutiny, the overall effect provides reasonable protection for potential defendants who utilize, rather than misappropriate, an alleged but not actual trade secret. Steps were taken in the drafting to avoid application to "innocent innovators or to individuals who seek to capitalize on the personal knowledge, skill, or abilities they may have developed."⁷¹ The EEA does not criminalize the use of knowledge or skills developed while employed at another company or the use of generic business knowledge to compete with former employers. On the other hand, the EEA does criminalize "the acts of employees who leave their employment and use their knowledge about specific products or processes in order to duplicate them or develop similar goods for themselves or a new employer in order to compete with their prior employer."⁷²

Overall, despite its limitations, the EEA should prove to be a substantial advance in the fight against industrial espionage. It has created a national standard governing trade secret misappropriation, supplementing the multitude of federal and state laws that were previously used to prosecute trade secret misappropriators with only mild results. In so doing, the EEA has filled a significant gap in the protection of trade secrets in the global information age.

70. See *Hearings*, *supra* note 1.

71. H.R. REP. NO. 104-788, at 8 (1996).

72. *Id.* at 8.

ASTAIRE V. BEST FILM & VIDEO CORP.

By Ping Hin Yu

The right of publicity is the right of an individual to exploit the commercial value of her image, likeness, or persona. Emerging less than a half century ago,¹ the right of publicity is well established at common law² and is a vital economic right in entertainment law.³

California offers three separate rights of publicity.⁴ Publicity rights for living personalities were codified in 1972 under section 3344 of the Civil Code. In 1985, rights for deceased personalities were recognized in permitting publicity rights to descend to heirs under section 990. Finally, broad publicity rights outside the statutes that developed historically still exist at common law.⁵

The scope of the publicity rights extended to living and deceased personalities differs as well.⁶ Section 990 contains subsection (n), which exempts a whole class of media from publicity rights liability. Section 3344 does not contain parallel exemptions.

More than a decade after California enacted section 990, *Astaire v. Best Film & Video Corp.*⁷ threatens the vitality of descendible publicity rights. In a case of first impression on the scope of subsection 990(n), the United States Court of Appeals for the Ninth Circuit circumscribed the rights of deceased personalities by resuscitating moribund doctrinal and policy rationale that section 990 had otherwise laid to rest.

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1. The United States Supreme Court first articulated the doctrine of publicity rights in 1953 in *Haelan Laboratories, Inc. v. Topps Chewing Gum, Inc.*, 202 F.2d 866 (2d Cir.), *cert. denied*, 346 U.S. 816 (1953).

2. Publicity rights exist statutorily in fourteen states and at common law in eleven states. See J.T. MCCARTHY, *THE RIGHTS OF PUBLICITY AND PRIVACY* §§ 6.1, 6.2 (1997) (Supp. June 1997).

3. See Melville B. Nimmer, *The Right of Publicity*, 19 LAW & CONTEMP. PROBS. 203 (1954); James L. Swanson, *Are the California Right of Publicity Statutes Unconstitutional?: A Second Look at Some First Amendment Problems*, 20 BEV. HILLS B.J. 234 (1986).

4. See Stephen M. Lobbin, *The Right(s) of Publicity in California: Is Three Really Greater than One?*, 2 UCLA ENT. L. REV. 157 (1995).

5. "The remedies provided for in this section are cumulative and shall be in addition to any others provided for by law." CAL. CIV. CODE § 3344(g) (West Supp. 1997). The identical language appears in subsection 990(m).

6. See Swanson, *supra* note 3.

7. No. 95-56633, 1997 U.S. App. LEXIS 40083 (9th Cir. Feb. 19, 1998).

To be sure, *Astaire* is bound by the statutory text and its holding merely reflects the shortcomings of section 990. *Astaire* points out the deficiencies of a statute that attempts to protect freedom of expression merely by enumerating a class of media to be protected rather than by enunciating the First Amendment theory underlying that protection. *Astaire* also reveals the anachronism of a statute that could not anticipate the emerging technologies that would transform the entertainment and information industries.

Nonetheless, the Ninth Circuit had opportunity to bring coherence to section 990 and advance the jurisprudence of descendible publicity rights. Instead, the court interpreted section 990 by adopting a literal reading that problematically dissected the statute, was neither textually nor analytically consistent, and could disjoint any body of doctrine in this area of law. What remains of post-mortem publicity rights in the wake of *Astaire* will depend on future courts' willingness to preserve the corpus of section 990.

I. CALIFORNIA'S PUBLICITY RIGHTS STATUTES

Under section 3344, one cannot use another living person's "name, voice, signature, photograph, or likeness" for advertising purposes without consent.⁸ Deceased personalities are afforded similar protection under section 990, which grants heirs and transferees the control of the deceased personalities' publicity rights.⁹

8. CAL. CIV. CODE § 3344(a).

9. Section 990 provides, in relevant part:

(a) Any person who uses a deceased personality's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for the purposes of advertising or selling, or soliciting purchases of, products, merchandise, goods, or services, without prior consent from the person or persons specified in subdivision (c), shall be liable for any damages sustained by the person or persons injured as a result thereof

(b) The rights recognized under this section are property rights

...

(i) As used in this section, "photograph" means any photograph or photographic reproduction, still or moving, or any video tape or live television transmission, of any person, such that the deceased personality is readily identifiable. A deceased personality shall be deemed to be readily identifiable from a photograph when one who views the photograph with the naked eye can reasonably determine who the person depicted in the photograph is.

The right to control the economic use of one's personality in California is limited to commercial exploitation in products or merchandise. For both living and deceased personalities, California's publicity rights protect only against certain commercial uses.¹⁰ Even when the use falls in a "commercial medium"—defined in subsection 990(k) as a material that is "commercially sponsored or contains paid advertising"—no consent is required unless the use of the persona is "directly connected with the commercial sponsorship or with the paid advertising."¹¹

A. Section 990

The limitations placed on the unauthorized use of a persona for commercial purposes implicate First Amendment rights.¹² Under section 990, uses of a deceased personality enjoy explicit and broad First Amendment exemptions. Subsection 990(j) exempts use in "any news, public affairs, or sports broadcast or account, or any political campaign."¹³

(j) For purposes of this section, a use of a name, voice, signature, photograph, or likeness in connection with any news, public affairs, or sports broadcast or account, or any political campaign, shall not constitute a use for which consent is required under subdivision (a).

(k) The use of a name, voice, signature, photograph, or likeness in a commercial medium shall not constitute a use for which consent is required under subdivision (a) solely because the material containing such use is commercially sponsored or contains paid advertising. Rather ... whether or not the use ... was so directly connected with the commercial sponsorship or with the paid advertising as to constitute a use for which consent is required under subdivision (a).

....
CAL. CIV. CODE § 990 (West Supp. 1997).

10. Both sections provide in nearly identical language against the unconsented use of a personality "on or in products, merchandise, or goods" or for purposes of "advertising or selling, or soliciting purchases" of such goods or services. CAL. CIV. CODE §§ 990(a), 3344(a).

11. CAL. CIV. CODE §§ 990(k), 3344(e).

12. See generally Peter L. Felcher & Edward L. Rubin, *Privacy, Publicity, and the Portrayal of Real People by the Media*, 88 YALE L.J. 1577 (1979); Swanson, *supra* note 3; Jeff Sanders, *By Force of Persona: How the Right of Publicity Undermines the First Amendment*, 28 BEV. HILLS B.J. 13 (1994).

13. CAL. CIV. CODE § 990(j); see also CAL. CIV. CODE § 3344(d) (living personalities).

Subsection 990(n) enumerates an entire class of per se medium-based and subject-matter exemptions for media traditionally protected by the First Amendment.¹⁴ Subsection 990(n) provides:

(n) This section shall not apply to the use of a deceased personality's name, voice, signature, photograph, or likeness, in any of the following instances:

(1) A play, book, magazine, newspaper, musical composition, film, radio or television program, other than an advertisement or commercial announcement not exempt under paragraph (4).

(2) Material that is of political or newsworthy value.

(3) Single and original works of fine art.

(4) An advertisement or commercial announcement for a use permitted by paragraph (1), (2), or (3).¹⁵

Specifically, the first prong of subsection (n)(1) exempts all uses of a deceased persona in a play, book, magazine, newspaper, musical composition, film, radio, or television program. The second prong of subsection (n)(1), when read with paragraph (4), further exempts the advertisements and commercial announcements of these plays, books, magazines, etc. However, also under this first prong of subsection (n)(1), unauthorized use in all other advertisements or commercial announcements is prohibited.

No parallel exemptions exist under the California statute for uses of living personalities. This disparity of First Amendment protections for living versus deceased personalities has not escaped commentary.¹⁶ While living personalities could pursue a right of publicity claim against a book, newspaper, magazine, or film, their heirs would be barred from pursuing such a claim under subsection 990(n)(1).¹⁷

B. Scope of Subsection 990(n)

Section 990 gives no guidance as to how the exemptions in subsection (n)(1) would relate to the other exemptions under section 990. While subsection (n)(1) exempts unauthorized use on the basis of the type of media, other subsections (specifically, (j), (k), and (n)(2) through (n)(4)) exempt on the basis of the content, purpose, or nature of the expression. Subsec-

14. See Jerome E. Weinstein, *Commercial Appropriation of Name or Likeness Revisited*, 22 BEV. HILLS B.J. 192, 213-14 (1988); Swanson, *supra* note 3, at 240-41 & n.51.

15. CAL. CIV. CODE § 990(n).

16. See Swanson, *supra* note 3, at 241.

17. See *id.*

tion (n)(1), with its broad medium-based exemptions, would seem to engulf the narrow content-based exemptions.

Subsection (n)(1) has puzzled and troubled commentators.¹⁸ According to Professor McCarthy, subsection (n)(1) on its face is "so broad and all-inclusive that it is difficult to conceive of forms of communication that are not included."¹⁹ Subsection (n)(1) would exempt a class of media that could otherwise be liable as a "product," under subsection (a), or as a "commercial medium," under subsection (k).

What is clear, though, is that these statutory contradictions arose from and reflect the competing strands of thought on descendible publicity rights as enunciated by the California Supreme Court and Legislature.

II. HISTORY OF SECTION 990

The codification of section 990 finds its origins in the California Supreme Court's rejection of the doctrine that publicity rights could descend to heirs. By 1972, California had codified the right of publicity for living personalities under section 3344. In 1984, the Supreme Court held in *Lugosi v. Universal Pictures*²⁰ that publicity rights were not descendible. Chief Justice Bird provided the dissent which was to become the basis of section 990. In 1985, the California legislature enacted section 990, overruling *Lugosi*.

Nevertheless, section 990 codifies specific concerns raised by the *Lugosi* majority and dissenting opinions. It parallels the language and logic of the opinions in *Lugosi* and a companion case, *Guglielmi v. Spelling-Goldberg Productions*.²¹

A. Section 990 and Property/Privacy Rights

Section 990 provides that "rights recognized under this section are property rights freely transferable."²² Thus section 990 rejects the notion that publicity rights are a form of privacy rights, as asserted by the *Lugosi* majority. *Lugosi* held that the right to exploit name and likeness is "personal to the artist" and must be exercised, if at all, by him during his life-

18. "The truly troublesome provision is Subsection (n)(1). There has not been any judicial interpretation of this Subsection What, then, was the intent of the legislature in tacking this language onto the bill almost the very last moment?" Weinstein, *supra* note 14, at 213-14.

19. MCCARTHY, *supra* note 2, § 6.4 [F][3][b].

20. 603 P.2d 425 (Cal. 1979).

21. 603 P.2d 454 (Cal. 1979).

22. CAL. CIV. CODE § 990(b).

time.²³ While the court endorsed the notion that one could create economic worth in one's name or likeness, the "very decision to exploit name and likeness is a personal one."²⁴ As a right of choice, the court reasoned, the right to the economic value of one's persona is "embraced in the law of privacy."²⁵

Instead, section 990 adopts the *Lugosi* dissent's theory of publicity rights. Chief Justice Bird dissented from *Lugosi*, arguing that the majority conflated the rights of publicity and privacy. The dissent asserted that the appropriation of an individual's likeness for another's commercial advantage "often intrudes on interests distinctly different than those protected by the right of privacy."²⁶ The dissent argued that the "fundamental objection is not that the commercial use is offensive, but that the individual has not been compensated."²⁷

Thus, to the extent that section 990 protects noneconomic harm, it does so within the context of unauthorized use in commercial products. The *Lugosi* dissent recognized certain "noneconomic injuries" related to commercial misappropriation.²⁸ The legislative history of section 990 reflects this concern as well, protecting against commercial exploitation of persona "subjected to abuse or ridicule in the form of a marketed product."²⁹

23. *Lugosi*, 603 P.2d at 431.

24. *Id.* at 430.

25. *Id.* at 428. "The so-called right of publicity means in essence that the reaction of the public to name and likeness ... endows the name and likeness of the person involved with commercially exploitable opportunities. The protection of name and likeness from unwarranted intrusion or exploitation is the heart of the law of privacy." *Id.* at 431.

26. *Id.* at 437 (Bird, C.J., dissenting). Chief Justice Bird continued, the "gravamen of the harm flowing from an unauthorized commercial use of a prominent individual's likeness in most cases is the loss of potential financial gain, not mental anguish." *Id.* at 438-39 (Bird, C.J., dissenting).

27. *Id.* at 439 (Bird, C.J., dissenting).

28. *Id.* Noneconomic harm ranges from commercial use that is undesirable or offensive to unauthorized use that inhibits one's efforts to control the public projection of one's identity. *Id.* at 439 n.11 (Bird, C.J., dissenting).

29. "The bill is intended to address circumstances in which (a) commercial gain is had through the exploitation of the name ... or likeness of a celebrity ... or (b) ... subjected to abuse or ridicule in the form of a marketed product. Such goods or services typically involved ... on posters, T-shirts, porcelain plates, and other collectibles; in toys, gadgets, and other merchandise." Staff of Assembly Comm. on Judiciary, 1983-84 Reg. Sess., Report on S.B. 613 at 3-4 (Campbell) (as amended Aug. 15, 1983) (Cal. 1984) [hereinafter STAFF REPORT].

B. Section 990 and First Amendment Rights

Section 990 also addresses the First Amendment concerns that the *Lugosi* majority and dissent raised. The *Lugosi* majority was concerned whether "society's interest in the free dissemination of ideas ... would be served" if publicity rights automatically descended.³⁰ In her dissent, Chief Justice Bird wrote that she was "sensitive to the fact that enforcement of the right of publicity may conflict with freedom of expression in some cases."³¹

The legislative history of section 990 re-enacts the First Amendment dialogue between the majority and the dissent in *Lugosi*. The earliest manifestation of the subsection (n)(1) language in Senate Bill 613, which enacted section 990, provided:

Nothing in this section shall be construed to derogate from any rights protected by constitutional guarantees of freedom of speech or freedom of the press, such as the right to use a deceased personality's name, voice, signature, photograph, or likeness in a play, book, magazine, newspaper, film, television program, or similar medium of expression, to the extent the use is protected by the constitutional guarantees of freedom of speech or freedom of the press.³²

Eventually, subsection 990(n)(1) was amended to its current version, which does not contain the language explicitly defining the scope of its exemption to constitutionally protected uses, nor to the class of "medium of expression."³³

III. THE CASE: *ASTAIRE V. BEST FILM & VIDEO CORP.*

It was in this context of the doctrinal tension and statutory ambiguity of subsection (n)(1) that the Ninth Circuit established a bright-line rule in *Astaire v. Best Film & Video Corp.* Subsection (n)(1) provides per se exemptions for the enumerated media ("play, book, magazine, newspaper, musical composition, film, radio or television program") irrespective of their content or a commercial motive in their use. Furthermore, all advertisements of the exempted media are likewise exempt.

30. *Lugosi*, 603 P.2d at 431.

31. *Id.* at 449 (Bird, C.J., dissenting).

32. S.B. 613, 1983-84 Reg. Sess. (as amended Aug. 15, 1983). (Cal. 1984).

33. *See id.* (as amended July 3, 1984).

A. Facts of *Astaire*

Robyn Astaire, widow of dancer and actor Fred Astaire, pursued nine years of litigation, against Best Film & Video Corporation. In 1965, Fred Astaire granted Ronby Corporation an exclusive license to use his name in connection with dance studios and related activities.³⁴ Fred Astaire died in 1987 and Robyn succeeded to all rights under section 990.³⁵ In 1989, Best, a New York corporation that manufactures, markets, and distributes prerecorded videotapes, entered into an agreement with Ronby to produce a series of dance instructional videotapes using the Fred Astaire Dance Studios name and licenses.³⁶

Since October 1989, Best has been manufacturing and distributing a series of videotapes known as the "Fred Astaire Dance Series." Each videotape is packaged in a box labeled "Fred Astaire Franchised Dance Studios."³⁷ The videotapes, each about thirty minutes long, begin with the Best logo and the title "Fred Astaire Dance Studios Presents How to Dance Series." The videotape is prefaced by an introductory segment containing ninety seconds of footage, taken from clips in the public domain, specifically, from two of Astaire's films in which he is dancing. Some still photographs of Astaire follow, then the narrator introduces the series, and the instructional portion of the video begins.³⁸

In 1989, Mrs. Astaire sued Best in the United States District Court for the Central District of California, alleging that Best's use of Fred Astaire's image in the clips violated her section 990 rights.³⁹ She conceded that Best's use of Astaire's name and still photographs were authorized under Astaire's agreement with Ronby. But she argued that Best's use of the Astaire clips in the videotapes: (1) was "on or in products, merchandise, or goods" within the meaning of subsection 990(a); (2) violated the "for purposes of advertising or selling, or soliciting purchases" prong of subsection (a); (3) violated subsection (k) which prohibits use when the "material containing the use is commercially sponsored or contains paid advertising;" (4) was not exempt under subsection (n)(1) because videotapes are not covered; (5) and, even if a videotape is a "film" within the meaning of subsection (n)(1), was prohibited because subsection (n)(1), according to

34. *See Astaire*, 1997 U.S. App. LEXIS 40083, at *2.

35. *See id.* at *4.

36. *See id.* at *3.

37. *See id.*

38. *See id.* at *3-4.

39. *See id.* at *4.

its legislative history, exempts only legitimate historical, fictional, and biographical accounts of deceased celebrities.⁴⁰

Best challenged every claim and also defended on the grounds that Mrs. Astaire's section 990 claims were preempted by the federal Copyright Act and that Best's use was protected by the First Amendment.

B. District Court Ruling

In an unpublished order arising out of cross motions for summary judgment, the district court granted Mrs. Astaire's motion, holding that Best's use violated section 990. The district court found that Best's use in the videotapes: (1) was "on or in products, merchandise or goods" within the meaning of subsection (a); (2) was not an "advertising or selling, or soliciting" in violation of subsection (a); (3) thus was not a medium that contains commercially sponsored material or paid advertising under subsection (k); and (4) most importantly, was not exempt under subsection 990(n) because the court would not include videotapes in the definition of "film."⁴¹ The court did not discuss the question of the legislative aims of the subsection (n)(1) exemptions.

The court ruled that Mrs. Astaire's section 990 claim was not preempted by the federal Copyright Act.⁴² Moreover, the court held that the First Amendment did not protect Best's use of Astaire's likeness.⁴³

Both sides appealed. Mrs. Astaire argued that the district court erred when it concluded that Best's use of the Astaire film clips did not violate the "advertising, selling, or soliciting" prong of subsection (a).⁴⁴ Mrs. Astaire further contended that the legislative history of Senate Bill 613, the legislation that enacted section 990 in 1984, supported the district court's conclusion that subsection (n)(1) creates a limited exception for "legitimate historical, fictional, and biographical accounts of deceased celebrities."⁴⁵ Best argued in turn that the district court erred when it concluded that its use of the Astaire film clips violated the "on or in products, merchandise, or goods" prong of the section 990(a).⁴⁶ Best urged that the district court erred when it concluded that its use of the Astaire film clips was not exempt under subsection (n).⁴⁷

40. *See id.* at *17.

41. *See id.* at *6.

42. *See id.*

43. *See id.*

44. *See id.* at *7.

45. *See id.* at *17.

46. *See id.* at *7.

47. *See id.*

C. Ninth Circuit Holding

The Ninth Circuit reversed the district court's decision. Judge Wiggins wrote for the panel, holding that Best's use of Astaire's image was exempt from liability pursuant to subsection (n). The Court did not reach the other issues, reasoning that once it ruled on the subsection (n) exemption issue, it needed to go no further.⁴⁸

Mrs. Astaire petitioned for rehearing and suggested rehearing en banc. Judge Wiggins, again writing for the same three-judge panel, amended his opinion on February 19, 1998, affirming its holding in its entirety but specifying that the "holding in this case is narrow and driven by the unusual facts" presented.⁴⁹

The Ninth Circuit found that the use of Fred Astaire film clips in a commercial dance instructional videotape was exempt from liability under subsection (n) because the clips were used to advertise the video itself, rather than another product. The court based its decision on statutory interpretation, which it conducted de novo.

1. *Scope of Subsection (n)(1)*

The court first found that videotapes were included within the meaning of "film" under subsection (n)(1), which expressly exempts use in a "film" or "television program," but not a "videotape." The court reasoned that to interpret subsection (n)(1) to exempt a film or television program but not a videotape would create an "absurd result" where a motion picture would be exempt from section 990 liability when it is shown in a theater or on cable television but not when someone rents it at a video store and plays it on a VCR. In addition, it found subsection (n)(1) appeared to be inconsistent with subsection (i), which defines "photograph" broadly to include "any photographic reproduction, still or moving, of any video tape or live television transmission" for purposes of identifying the deceased personality. The court concluded that it would be "anomalous if the definition of photograph included a videotape recording of a film but 'film' did not."⁵⁰

2. *Advertising Exemptions Under Subsection (n)*

Next, the court considered the advertisement exemptions under subsections (n)(1) and (n)(4). The court read subsection (n)(4) on its face to exempt advertisements and commercial announcements for uses permitted under subsection (n)(1). The court reasoned that, because Best's video-

48. *See id.*

49. *See id.* at *16.

50. *See id.* at *12-13.

tapes were among the uses exempted by the first prong of subsection (n)(1), subsection (n)(4) applied, even if Best's use of the Astaire film clips were an advertisement or a commercial announcement. Without deciding the issue, the court assumed that Best's use was an advertisement or commercial announcement, in which case the use was only "an advertisement for the videotapes themselves rather than some other product."⁵¹

3. *Legislative Intent*

In support of its interpretation, the court concluded that the Legislature's removal of the broad constitutional protection language from amended versions of Senate Bill 613 demonstrated an intent "to adopt a broader exemption that was not limited to constitutionally protected uses."⁵² Thus the legislative history would not support Mrs. Astaire's contentions that the (n)(1) exemptions were limited to "legitimate historical, fictional, and biographical accounts of deceased celebrities."⁵³

D. *Dissenting Opinion*

The dissent by Judge Schroeder assailed both the majority's reading of the statute as well as the commercial implications of the holding. The dissent assumed without deciding that subsection (n)(1) includes videotapes within the meaning of "film." However, the dissent argued that subsection (n)(4) exempts only those advertisements or commercial announcements for which there was a separate use of the persona.

The dissent focused on the notion of when a name or likeness is used "in" something. Subsection (n) provides that liability does not attach to use "in any" play, film, etc.⁵⁴ The footage of Astaire, the dissent urged, was not used "in" the dance instruction body of the video; rather, it was merely "prefatory" to promote the "accompanying" videotape which did not otherwise use Astaire's image. The dissent reasoned that had the clip been "physically separated" from the underlying medium, it would be clear that the clip was a commercial announcement of something unrelated to any exempted use.⁵⁵

Furthermore, the dissent criticized the result that would arise from the majority's reasoning. One could with impunity "hawk a videotape on fashion for the next century by introducing it with footage of Jacqueline

51. *See id.* at *14.

52. *See id.* at *20.

53. *Id.* at *17.

54. CAL. CIV. CODE § 990(n) (emphasis added).

55. *Astaire*, 1997 U.S. App. LEXIS 40083, at *28 (Schroeder, J., dissenting).

Kennedy.”⁵⁶ The dissent urged that the policy underlying the statute was intended to “prevent such exploitation, not immunize it.”⁵⁷

IV. DISCUSSION

Astaire was anomalous in its result and erroneous in its reasoning. In this informational age of electronic and digital commerce, the dichotomy between commercial products and expressive/informational media is less and less tenable. Applying the logic of *Astaire* would eviscerate section 990.

A. Scope of Subsection (n)(1)

The court misconstrued statutory text and intent to include videotapes within the meaning of “film” under subsection (n)(1). In considering whether “videotape” is encompassed by “film,” the court argued that it would be “anomalous if the definition of photograph included a videotape recording of a film but ‘film’ did not.” But the court failed to grasp how the nature of videotapes could logically be treated differently under section 990.

The court’s facile analogy was flawed because section 990 provides cogent reasons for the distinctions. Subsection (i) is concerned with cataloging a genus of reproductive media (of which photographs, films, videotapes are species) in which the identification of a person could be an issue. As such, photographs, films, and videotapes are all qualitatively alike in that they could reproduce and contain infringing images. On the other hand, subsection (n) is normative in scope; it seeks to exempt specific media in which the infringing use of a persona would be irrelevant. As such, it is logically consistent for the legislature to deem some media (such as film) deserving of protection, while others (photographs and videotapes) not, even though all these media could reproduce the identical content. Films are exempt under subsection (n)(1) as film per se, not as a reproductive medium. There is no logical contradiction in the fact that section 990 could analytically group films, videotapes, and photographs in one subsection but not in another.

The court’s error permeated the rest of its reasoning. For example, the court argued that it would be absurd that a television program shown at home would be exempt whereas a videotape of that same program played at home would not. That argument rested on dubious grounds: (1) there is

56. *Id.*

57. *Id.*

no other motivating basis for differentiating videotapes from broadcast works aside from their content; and (2) an anachronistic reading of legislative intent.

The identical content in videotaping and broadcasting belies an enormous commercial difference. The content of a videotape that is being broadcast could be duplicated for free by the public. Demand for the actual product may diminish because the public has either taken the information or deemed the information not worthy of the price. The content of a videotape being broadcast is like the content of a television program or film similarly disseminated. A decision to disseminate the content of the videotape would depend on commercial rather than technical feasibility. It is not obvious that merchandisers would choose to broadcast a videotape. Thus it is logical that the legislature should exempt a medium based on some commercial factor rather than the medium's content.

Section 990's disparate treatment of videotapes is not only logically consistent, it is historically consistent as well. S.B. 613 was introduced in 1983, before the United States Supreme Court's decision in *Sony Corp. v. Universal City Studios, Inc.*⁵⁸ At the time section 990 was drafted, the issue was not settled over the First Amendment and commercial implications of home videotaping. It was until almost a year after S.B. 613 was introduced before the United States Supreme Court found that home use recording of material broadcast over the airwaves "served the public interest in increasing access to television programming, an interest that is consistent with the First Amendment policy."⁵⁹ *Sony* also held that in-home videotaping, or "time-shifting for private home use must be characterized as a noncommercial, nonprofit activity ... that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work." Given the historical context, the California Legislature could have reasonably excluded videotapes from subsection (n)(1). If there are convincing textual, logical, or commercial reasons to include videotapes among the (n)(1) exemptions, the *Astaire* court did not provide them.

B. Advertising Exemptions under Subsection (n)

The *Astaire* court did not seem to appreciate the full reach and import of its holding. On the one hand, the court averred that its holding was "narrow and driven by the unusual facts,"⁶⁰ implicitly acknowledging that the result it reached was anomalous. At the same time, the court stressed that its holding was based on de novo interpretation of the statute, aimed at

58. 464 U.S. 417 (1984).

59. *Id.* at 425 (citation omitted).

60. *Astaire*, 1997 U.S. App. LEXIS 40083, at *16.

being "reasonable" and "conform[ing] to the spirit of the act."⁶¹ The court would have its holding to be both narrow and generally applicable.

First of all, the court maintained that its holding was limited to the unusual facts that: (1) Astaire had licensed the use of his name to the dance studios; (2) the film clips that Best used were in the public domain; and (3) the videotapes were related to the licensed use.⁶² The first factor is irrelevant because the statutory exemptions presume unauthorized use. The second factor is insubstantial because the use of computer-generated images of celebrities based solely on the animator's artistic skills would evade copyright claims. The third factor would contradict the core of the holding, which is, that the plain meaning of subsection (n)(1) does not require any relatedness between the use and the celebrity. Finally, the court protested that to hold otherwise would unwisely require courts to "make a content-based decision every time."⁶³ Yet the court engaged in precisely this kind of content-based judgment in holding for Best.

At the same time, the court insisted that its holding was based on the "ordinary and usual meaning"⁶⁴ of the statute. If the court is right that all it had done was determine the meaning of the "plain language" of the statute,⁶⁵ then the apparently clear intent and logic of the statute should always apply no matter what the facts are. Thus the same statutory reading that compelled the results in *Astaire* should equally compel the results in a different case.

Nonetheless, the court wrote assuredly that no "absurdity ... will arise from our interpretation."⁶⁶ But it is far from obvious that *Astaire's* interpretation of section 990, taken to its logical conclusions, could foreclose incongruous consequences. One logical result, the dissent suggested, is that a celebrity's name and photograph could now be used freely to advertise any film, however unconnected to the celebrity.⁶⁷ Among other implications of *Astaire* is that the extent of the use of the persona becomes irrelevant. One could splice a two second shot of a celebrity into a film and then use the persona extensively for later advertising. One could merely mention the name of a celebrity in passing in the exempted medium and then use extensively other aspects of that persona to advertise that exempted medium. For example, Best could have said in the narrated por-

61. *Id.* at *12 (citations omitted).

62. *Id.* at *16.

63. *Id.*

64. *Id.* at *22.

65. *Id.* at *16.

66. *Id.*

67. *Id.* at *28.

tion of the videotape, "Fred Astaire was a legendary dancer," with nothing more, and presumably, that would be enough to trigger the exemption to use the images of Astaire in subsequent advertising. Second, since the advertisement does not have to be separated from the product under *Astaire*, every self-advertising (n)(1) product would be exempt (for example, every how-to magazine, self-help book, instructional videotape that co-opted a deceased celebrity's persona). Similarly, pure advertisements would be exempt (for example, an infomercial for Best's videotapes). Because a large quantity of advertising takes place in a (n)(1) medium, subsection (n) would, in effect, exempt most uses.⁶⁸

The court summarily dismissed any possibility of absurdity; but it could only do so by insisting that the holding be limited to the particular facts of *Astaire*.⁶⁹ To be sure, later courts can always limit the holding of *Astaire*, but not if they remain faithful to the reasoning of the holding, which is presumably mandated by the "plain meaning" of section 990.

The court adhered to the tenet that statutory interpretation should not "result in absurd consequences which the Legislature did not intend."⁷⁰ By explicitly limiting its holding, the court implicitly recognized the absurdity that could result from its reading of subsection (n)(1). The court wished to back away from its holding at the very moment that the logical consequence of its "plain meaning" interpretation of subsection (n)(1) threatened to undermine the intent of section 990.

C. Legislative Intent

The court argued that because the Legislature removed the broad constitutional protection language from amended versions of Senate Bill 613, it demonstrated an intent to adopt a broader exemption that was not limited to constitutionally protected uses. The court argued that "the evolution of subsection (n) demonstrates that the interpretation of the statute we conclude is required by the plain language is consistent with the Legislature's intent."⁷¹

But the court construed legislative history as casually as it did statutory text. The crux of the criticism coming from the staff reports to S.B. 613 questioned the relevancy of the constitutional language not the legitimacy of the constitutional intent. The staff report argued that as a matter of litigation practicality and jurisprudential reality, "irrespective of this stated intent [of S.B. 613], a defendant who has used a person's name,

68. See Weinstein, *supra* note 14, at 213.

69. *Astaire*, 1997 U.S. App. LEXIS 40083, at *16.

70. *Id.* at *12 (citation omitted).

71. *Id.* at *20.

voice, etc. without authorization may assert a First Amendment privilege. Is not this section of the bill superfluous?"⁷² Also, a staff report criticized the vagueness of the phrase "similar medium of expression."⁷³ Thus, far from demonstrating an intent to broaden the scope of exemption, the legislative evolution of the text of subsection (n)(1) instead reveals the stripping away of supposedly irrelevant language from a list of core First Amendment media. Still, even if the scope of exemptions could be broadened, logically, it would be the species of each of the enumerated media, not the genus of all media that could be analogized to the enumerated media. So while "film" would be broadened to include all films, irrespective of content or purpose, "film" would not be broadened to include videotapes.

The court paid scant attention to the very structure of section 990, which is permeated by the legislature's attempt to reconcile the tension between proprietary rights and First Amendment protection. It is a tension that arises out of the California Supreme Court's jurisprudence on descendible publicity rights. Section 990 as a whole distinguishes between commercial products and expressive media.⁷⁴ Accordingly, subsection 990(a) only protects against unauthorized use in "products, merchandise, or goods." Thus subsection (n)(1) can be read to codify *Lugosi's* concerns over informational media.⁷⁵ It follows that subsection (n)(4) should codify the *Guglielmi* concern about advertising in connection with commercial products and expressive media.⁷⁶ Thus subsection (n)(1) distinguishes between advertisements for the enumerated exempted media and all other advertisements, the former of which is then exempted by subsection

72. STAFF REPORT, *supra* note 29, at 2.

73. *Id.* (as amended June 18, 1984), at 6.

74. In her *Lugosi* dissent, Chief Justice Bird drew the First Amendment boundary for use "in connection with the sale of such objects as plastic toy pencil sharpeners Such conduct hardly implicates the First Amendment." *Lugosi v. Universal Pictures*, 603 P.2d 425, 449 (Cal. 1979) (Bird, C.J., dissenting). This "unauthorized exploitation of plaintiffs' proprietary interest in these commercial merchandising products is no[t] ... insulated from suit by the constitutional guarantees of freedom of expression." *Id.* (Bird, C.J., dissenting).

75. The California Supreme Court noted, in connection with its concerns about the "free dissemination of ideas," that "there is no common law right of action for a publication concerning one who is already dead." *Id.* at 429 (quoting PROSSER, LAW OF TORTS 815 (4th ed. 1971)).

76. Chief Justice Bird, in her concurring opinion in *Guglielmi* exempted a use "to advertise [a] particular film ... not a case in which a celebrity's name is used to promote or endorse a collateral commercial product or is otherwise associated with a product or service in an advertisement." *Guglielmi v. Spelling-Goldberg Productions*, 603 P.2d 454, 457 n.6 (Cal. 1979) (Bird, C.J., concurring).

(n)(4). Similarly, subsection (k) forbids advertising use in a "commercial medium."

D. Property and Privacy Rights

Offering policy justifications, the Court echoed the same dispute that animated the *Lugosi* majority and dissent: property rights versus privacy rights. The Ninth Circuit was not troubled by Best's profit motives, recognizing that Best placed these film clips in its videotapes to make the videotapes more salable.⁷⁷ In short, the court held that whether the use was included "to increase the marketability of a product cannot be the test" of whether it is exempt from section 990 liability.⁷⁸ Rather, the court was satisfied by the fact that Best's use "did not subject Fred Astaire to abuse or ridicule ... like the exploitative marketing" uses proscribed by legislative intent.⁷⁹ It is remarkable that *Astaire* should reclaim the doctrine of privacy rights in the service of interpreting section 990 in order to deny Mrs. Astaire's post-mortem property rights claim. The property doctrine of publicity rights was to have been firmly established with the enactment of section 990.

V. CONCLUSION

There is little disagreement that subsection (n) is poorly drafted, if not incorrectly drafted, in light of its manifest First Amendment goals. But whether the language of subsection (n) compels the *Astaire* interpretation is far from self-evident given the court's flawed rationale. The court's reading fails its own self-directed test of avoiding absurd consequences, and thus does not make the case for a decisive interpretation of subsection (n).

It is an ongoing question whether subsection (n) achieves its First Amendment purposes or overprotects. *Astaire* shows that when the medium/product does not fall into traditional categories and significant financial interests are at stake, even a clear rule like (n)(1) will do nothing to dissuade the persistent plaintiff or deter the profit-oriented defendant. As Internet technology blurs the line between commerce, entertainment, and information, the boundaries of subsection (n)(1) will continue to be tested for First Amendment use as well as for descensible publicity rights.

It remains to be seen whether other courts will follow *Astaire* in expansively reading the (n)(1) exemptions to go beyond videotapes. By *As-*

77. *Astaire*, 1997 U.S. App. LEXIS 40083, at *2.

78. *Id.*

79. *Id.*

taire's reasoning, Internet web sites, CD-ROMS, and other multi-media products could all be analogized to "film," "videotape," or "television program." Internet web sites and tied-in off-line multi-media products are particularly compatible to the kind of self-referential uses of advertising permitted in *Astaire*. The World Wide Web is a medium that tends to collapse the differences among the advertising function, expressive content, and commercial purpose of a product. Indeed, cyberspace transactions involve less the commerce of products than the sale of entertainment and information. The demarcation that section 990 attempts to make, between commercial and informational media, becomes increasingly untenable in the Internet age.

To be sure, courts will have to steer between the Scylla of subsection (a) and the Charybdis of subsection (n) to safeguard the competing interests of publicity and First Amendment rights. On the one hand, if courts strictly read the (n)(1) exemptions to exclude any new media, then the First Amendment protection will become increasingly irrelevant, because what could otherwise be classified as a First Amendment media would be subsumed under the category of "product" or "merchandise" under subsection (a). On the other hand, if courts continue to expansively construe the (n)(1) exemptions, then the publicity rights protection will also become increasingly diluted, because what could otherwise be classified as a merchandise or product would be subsumed under the category of (n)(1) media.

The Legislature should amend subsection (n) to recuperate the excised language of First Amendment protection. The legislative report criticizing the original language assumed too much. Defendants have indeed availed themselves to the First Amendment defense regardless of the constitutional language; but the court has been equally disinclined to find such legislative intent without that language. Subsection (n) should be a rule of construction, rather than a per se exemption to section 990. Subsection (n) would then be a savings clause to assure that section 990 is not construed to reach constitutionally protected speech.

Absent such an amendment, courts will have to continue to balance First Amendment rights against rights of heirs to control the publicity rights of their ancestors. Every decision may well rehearse the debate over descendible publicity rights that section 990 was supposed to have resolved more than a decade ago.

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ANTITRUST

IMAGE TECHNICAL SERVICES, INC. V. EASTMAN KODAK CO.

By Jennifer E. Gully

The ten-year saga of Eastman Kodak (Kodak) Co.'s legal battle with Image Technical Services has generated the well-known principles that a single brand of a product or service can be a relevant market under the Sherman Act,¹ the "fall" of Chicago School antitrust analysis,² and that summary judgment motions do not place a special burden on plaintiffs.³

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1. See *Eastman Kodak Co. v. Image Technical Services, Inc.* 504 U.S. 451, 481-82 (1992) [hereinafter *Kodak*].

2. See, e.g., Ronald S. Katz & Janet S. Arnold, *Eastman Kodak v. ITS: The Downfall of the Chicago School*, 9 No. 7 COMPUTER LAW. 1 (July 1992); Eleanor M. Fox, *Eastman Kodak Company v. Image Technical Service, Inc.—Information Failure as Soul or Hook?*, 62 ANTITRUST L.J. 759 (1994); Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515 (1985); Lawrence T. Festa, *Eastman Kodak Co. v. Image Technical Services, Inc.: The Decline and Fall of the Chicago Empire?* 68 NOTRE DAME L. REV. 619 (1993); cf. Carl Shapiro, *Aftermarkets and Consumer Welfare: Making Sense of Kodak*, 63 ANTITRUST L.J. 483 (1995). But see Herbert Hovenkamp, *Market Power in Aftermarkets: Antitrust Policy and the Kodak Case*, 40 UCLA L. REV. 1447 (1993).

3. See *Kodak*, 504 U.S. at 468-69. See also *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586 (1986). In *Matsushita*, the Supreme Court held that if a court determines a plaintiff's underlying theory is economically implausible, to defeat a summary judgment motion the plaintiff must "do more than simply show that there is some metaphysical doubt as to the material facts." *Id.* at 586. Indeed, the plaintiff must produce unambiguous evidence that "inference of conspiracy is reasonable in light of the competing inferences of independent action or collusive action that could not have harmed" it. *Id.* at 588. Although some commentators did not see *Matsushita* as a "special set of instructions" about the burden of proof in summary judgment motions, under its rule, "the percentage of antitrust cases resolved by summary judgment (most often on the defendant's motion) increased dramatically." HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION & ITS PRACTICE § 16.8b. (1994) (citing Calkins, *Equilibrating Tendencies in the Antitrust System, with Special Attention to Summary Judgment and to Motions to Dismiss*, in PRIVATE ANTITRUST LITIGATION: NEW EVIDENCE, NEW LEARNING 208-211, n.7 (L. White, ed. 1988)). The Supreme Court clarified *Matsushita* in *Kodak*, explaining "[t]he Court did not hold that if the moving party enunciated any economic theory supporting its behavior, regardless of its accuracy reflecting the actual market, it is entitled to summary judgment. *Matsushita* demands only that the nonmoving party's inferences be reasonable in order to reach the jury . . ." See *Kodak*, 504 U.S. at 468.

The case gave rise to another ruling in August 1997 when the United States Court of Appeals for the Ninth Circuit considered it for the second time.⁴ The Ninth Circuit affirmed a jury verdict that awarded independent service organizations (ISOs) \$71.8 million in treble damages on section 2 Sherman Act claims and upheld, with minor modifications, a ten year permanent injunction that requires Kodak to sell the ISOs all parts for its copier and micrographic machines at reasonable, non-monopoly prices and without term or price discrimination.⁵

At issue in this case was whether Kodak used its monopoly in the photocopier and micrographic parts market to monopolize, or attempt to monopolize, the service market. The Ninth Circuit considered, on first impression, the relationship between section 2 Sherman Act monopolization claims and the intellectual property (IP) defense offered by Kodak. The court held that IP rights, such as those afforded by patents and copyrights, constitute a presumptively legitimate business justification for refusing to deal with competitors.⁶ The antitrust plaintiff may rebut the presumptive justification.

On its face, the court's willingness to grant the presumption in favor of intellectual property holders signals the court's support of strong IP rights. The court suggests that technology companies, free to develop their legally granted monopolies under the patent and copyright laws into any number of aftermarkets that "naturally" flow from them, can strategically structure their long-term business plans without concern for the antitrust laws. The court's decision, however, is far from a strong rule in favor of technology companies with patents and copyrights and may be of limited practical value. The Ninth Circuit concluded that the ISOs in this case effectively rebutted the presumption, but it did so without a clear test or explanation to make its reasoning transparent. Without a test to articulate the values underlying the very existence of a rebuttable presumption, or the patent/copyright behavior most offensive to antitrust law, the court's holding offers only provisional guidance to the technology community. Moreover, the court's holding says very little about how courts or companies should resolve what it acknowledges as the "obvious tension"⁷ between antitrust law and the law of patents and copyright. Specifically, the

4. *See* Image Technical Services, Inc. v. Eastman Kodak Co., 125 F.3d 1195 (9th Cir. 1997) [hereinafter *ITS*].

5. *See id.*

6. *See id.* at 1218.

7. *Id.* at 1215 (quoting *United States v. Westinghouse Electric Corp.*, 648 F.2d 642, 646 (9th Cir. 1981)).

court's analysis does not clarify the scope of patents and copyrights in a section 2 Sherman Act context.

I. BACKGROUND

Kodak manufactures, sells, and services high volume photocopiers and micrographic equipment. Insofar as the micrographic and software programs that operate on Kodak machines are not compatible with competitors' machines and cannot be used interchangeably with parts for those machines, Kodak equipment is unique.⁸ Nevertheless, intrabrand competition in the photocopier and micrographic markets is strong, and Kodak's competitors include Xerox, IBM, and Canon.⁹

Prior to 1982, Kodak serviced all of its micrographic and copier equipment but would sell parts to any party that wanted to use them to repair Kodak equipment. It is not clear from the record whether Kodak ever licensed its parts. Relying on Kodak's practice of selling replacement parts, ISOs entered the service market.¹⁰ The ISOs maintained regular inventories of Kodak parts and were able to compete significantly with Kodak by 1984 and 1985, often offering service for as little as half of Kodak's price.¹¹ Some customers expressed that ISO service was better and less expensive than Kodak service.¹² In 1985, faced with increased competition from ISOs, Kodak reviewed its replacement parts policy and decided not to sell replacement parts to ISOs or to customers who used ISOs.¹³ Kodak also secured agreements from its contracted original-equipment manufacturers not to sell parts to ISOs.¹⁴ The Ninth Circuit concluded that "[t]hese parts restrictions limited the ISOs' ability to compete in the service market for Kodak machines. Competition in the service market requires the service providers have ready access to all parts."¹⁵ The ISOs filed suit in 1987 against Kodak for severely limiting, and virtually eliminating, the availability of replacement parts for Kodak's equipment.

8. See *Kodak*, 504 U.S. at 456-57.

9. See *ITS*, 125 F.3d at 1200.

10. See *Image Technical Services, Inc. v. Eastman Kodak Co.*, 903 F.2d 612, 614 (9th Cir. 1990).

11. See *id.*

12. See *id.*; see also *Kodak*, 504 U.S. at 457-58; *ITS*, 125 F.3d at 1200.

13. See *Kodak*, 504 U.S. at 457-58.

14. See *ITS*, 125 F.3d at 1200, 1207 (Kodak controlled the sale of original equipment through tooling clauses, engineering clauses, and other proprietary contracts).

15. *Id.* at 1200.

The ISOs alleged that Kodak violated sections 1 and 2 of the Sherman Act¹⁶ by tying the sale of service for its machines to the sale of parts and by monopolizing, or attempting to monopolize, the sale of service and parts for the machines. The District Court for the Northern District of California entered summary judgment for Kodak.¹⁷ The United States Court of Appeals for the Ninth Circuit reversed and remanded.¹⁸ The United States Supreme Court granted certiorari and affirmed.¹⁹

On remand, the District Court for the Northern District of California found Kodak had violated section 2 of the Sherman Act, awarded the ISOs trebled damages, and drafted a permanent ten-year injunction against Kodak.²⁰ Kodak filed a timely appeal with the United States Court of Appeals for the Ninth Circuit challenging the jury verdict, the ISOs' evidence, jury instructions, damage awards, and the permanent injunction. On August 26, 1997, the Ninth Circuit affirmed the jury decision, reversed in part, and remanded with instructions to modify the injunction.

II. THE NINTH CIRCUIT'S DECISION

Although it considered a number of challenges to the jury verdict and district court's injunction,²¹ the most significant aspect of the Ninth Circuit's review of this case was its affirmation of Kodak's liability under section 2 of the Sherman Act and its consideration, although ultimate rejection, of Kodak's IP defense.

A. ISOs' Claims

Under section 2 of the Sherman Act, "[e]very person who shall monopolize or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States" is guilty of an antitrust violation.²² Mere possession of monopoly power, however, is not a section 2 violation and the section does not prohibit "natural" monopolies that result from a superior

16. 15 U.S.C. §§ 1, 2 (1988 ed., Supp. II).

17. *See* Image Technical Services, Inc. v. Eastman Kodak Co., No. C-87-1686-WWS, 1988 WL 156332 (N.D. Cal. 1988).

18. *See* Image Technical Services, Inc. v. Eastman Kodak Co., 903 F.2d 612 (9th Cir. 1990).

19. *See* Kodak, 504 U.S. at 451.

20. *See* Image Technical Service, Inc. v. Eastman Kodak, Co., No. C87-1686 AWT, 1996 WL 101173 (N.D. Cal. 1996).

21. *See* ITS, 125 F.3d at 1220-27.

22. 15 U.S.C. § 2 (1988 ed., Supp. II).

product, good business decisions, historic accident,²³ or IP rights. Thus, the ISOs had to prove that Kodak not only possessed monopoly power in a relevant market, but that it also acted anticompetitively to get or maintain that power.²⁴

Monopoly power is the power to control price or exclude competition in a relevant market²⁵ or the power "to force a purchaser to do something that he would not do in a competitive market."²⁶ Although monopoly power is often measured by market power, market power, in itself, is not determinative of monopoly power. The Ninth Circuit held that:

[t]o demonstrate market power by circumstantial evidence, plaintiffs must 1) define the relevant market, 2) show that the defendant owns a dominant share of that market, and 3) show that there are significant barriers to entry and show that existing competitors lack the capacity to increase their output in the short run.²⁷

The Ninth Circuit started its analysis of the relevant market, "the field in which meaningful competition exists,"²⁸ from two principles established by the Supreme Court when it considered the case: first, service and parts can constitute separate markets; and, second, a single brand can constitute its own market.²⁹ The Ninth Circuit accepted the ISOs' definition of the relevant markets and held that the relevant market included "all parts."³⁰ It did so because, from the commercially realistic perspective of the Kodak machine owner or service provider, there must be access to all parts to compete in the service market. The Ninth Circuit thus rejected Kodak's proposition that each individual part constituted its own relevant market and that there were thousands of individual parts markets.³¹ Instead, it found that there were two relevant parts markets: the photocopier parts market and the micrographic parts market.³²

After noting that courts usually require a 65% market share to establish a *prima facie* showing of market power, the Ninth Circuit found that

23. See *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966).

24. See *ITS*, 125 F.3d at 1202 (citing *Rebel Oil Co., Inc. v. Atlantic Richfield, Co.*, 51 F.3d 1421, 1434 (9th Cir. 1995)).

25. See *United States v. E.I. du Pont*, 351 U.S. 377, 391-95 (1956).

26. *Jefferson Parish Hospital Dist. v. Hyde*, 466 U.S. 2, 13-14 (1984).

27. *ITS*, 125 F.3d at 1202-03.

28. *Id.*

29. See *id.* at 1203; see also *Kodak*, 504 U.S. at 462-63, 481-82 (1992).

30. *ITS*, 125 F.3d at 1203-04; see also *supra* note 15 and accompanying text.

31. See *ITS*, 125 F.3d at 1203-04.

32. See *id.* at 1203.

Kodak had a dominant market share in the relevant markets. Kodak met this second element of market power "easily" because "Kodak controls nearly 100% of the parts market and 80% to 90% of the service market, with no readily available substitutes."³³ Although it was possible to draw two inconsistent conclusions from the evidence the ISOs offered about Kodak's possession of market share, the Ninth Circuit held that substantial evidence supported the jury's finding that Kodak controlled a monopoly share in the market for Kodak parts.³⁴

The Ninth Circuit concluded its market power analysis by noting that there were significant barriers to entry in the parts and service markets, especially after Kodak changed its parts policies. "Kodak has 220 patents and controls its designs and tools, brand name power and manufacturing ability[,] ... controls original equipment manufacturers through contracts," and operates on an economy of scale.³⁵ These characteristics of Kodak's monopoly, in the aggregate, made it unlikely, if not impossible, that ISOs could enter and compete in the service market for photocopier and micrographic machines if parts were no longer available.

Once the Ninth Circuit determined that Kodak possessed monopoly power in the relevant parts markets, it considered whether Kodak engaged in exclusionary conduct and used that monopoly power "to foreclose competition, gain competitive advantage, or destroy competitors."³⁶ It analyzed Kodak's use of monopoly power primarily under a leveraging theory, although it also reviewed Kodak's actions under a unilateral refusal to deal theory.

*Jefferson Parish Hospital District v. Hyde*³⁷ defined leveraging "as a supplier's ability to induce his customer for one product to buy a second product from him that would not otherwise be purchased solely on the merit of that second product."³⁸ Based on the number of customers who chose ISOs for their service needs, it is clear that at least some Kodak machine owners did not choose Kodak service on its merit alone.³⁹ For those customers, Kodak's refusal to sell parts to the ISOs forced them to purchase Kodak service solely because they had purchased Kodak machines

33. *Id.* at 1206 (citing *Kodak*, 504 U.S. at 481).

34. *See ITS*, 125 F.3d at 1206-07.

35. *Id.* at 1208.

36. *Kodak*, 504 U.S. at 482-83 (quoting *United States v. Griffith*, 334 U.S. 100, 107 (1948)).

37. 466 U.S. 2 (1984).

38. *Id.* at 14 (quoting V.P. AREEDA & D. TURNER, *ANTITRUST LAW* ¶ 1134a, at 202 (1980)).

39. *See Kodak*, 504 U.S. at 457.

and needed Kodak parts. The Ninth Circuit agreed with the ISOs and the Supreme Court that, in this regard, Kodak used its parts monopoly to gain or attempt to gain a monopoly in the service market.⁴⁰

Under its precedent in *Alaska Airlines, Inc. v. United Airlines, Inc.*,⁴¹ the Ninth Circuit could not find a section 2 violation unless Kodak leveraged its monopoly from one market to monopolize or attempt to monopolize another.⁴² Kodak had a 95% share of the Kodak photocopier service market, an 88% share of the micrographic service market, and several ISOs left the service market or restricted their service because of the unavailability of parts.⁴³ Based on that information, the Ninth Circuit was satisfied that Kodak actually established a monopoly in the service market based on its monopoly in the parts market and thus met the *Alaska Airlines* leveraging test.⁴⁴

Once the Ninth Circuit concluded that Kodak, with its monopoly power, had engaged in exclusionary conduct by changing its parts policy and refusing to sell its parts, the central issue in the court's review of the district court's decision was whether or not Kodak had a legitimate business justification for refusing to deal with the ISOs. Absent a legitimate business justification, exclusionary conduct is inferred from a monopolist's refusal to deal.⁴⁵ Even if there is a stated business justification, the antitrust plaintiff can rebut it by showing that it either fails to legitimately promote competition or that it is pretextual.⁴⁶

B. Kodak's Defense

Kodak argued not only that it had such a justification, but that the jury instructions did not allow the jury to give adequate weight to it. Kodak objected to the fact that all of its parts, regardless of whether they were patented or copyrighted, were viewed the same by the district court and that the jury was told "the fact that some of the replacement parts are patented or copyrighted does not provide Kodak with a defense against any of

40. See *ITS*, 125 F.3d at 1208-12.

41. 948 F.2d 536 (9th Cir. 1991).

42. See *id.* The Ninth Circuit's ruling in *Alaska Airlines* rejected the Second Circuit's more lenient holding in *Berkey Photo Inc. v. Eastman Kodak Co.*, 603 F.2d 263 (2d Cir. 1979), that section 2 liability could be established if a firm used its monopoly power in one market to gain a mere advantage in another, even if that advantage did not constitute a monopolization or an attempted monopolization of the second market.

43. See *ITS*, 125 F.3d at 1212.

44. See *id.*

45. See *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985).

46. See *Kodak*, 504 U.S. at 483-84 (citing *Image Technical Services, Inc. v. Eastman Kodak Co.*, 903 F.2d 612, 618 (9th Cir. 1990)).

th[e] antitrust claims" if the jury were to find that Kodak misused its parts monopoly and monopolized, or attempted to monopolize, the service market.⁴⁷

When it decided *Kodak*, the United States Supreme Court indicated in a lengthy footnote that market power achieved through some "natural and legal advantage such as a patent, copyright or business acumen" was not immune from the reach of antitrust laws if the purveyor of that power used it to expand from one market into another.⁴⁸ The Court concluded that in a leveraging analysis, aftermarket were not different from any other separate market.⁴⁹ For the purpose of analyzing the relationship between antitrust and patent and copyright law, the Ninth Circuit reasoned that the Court's statement, although made in the context of a section 1 Sherman Act tying claim, applied in a section 2 leveraging context.

After reviewing the policies behind antitrust laws, as well as those behind the patent and copyright laws, the Ninth Circuit concluded that IP rights should be given "some weight" as a legitimate business justification and not explicitly removed from jury consideration.⁵⁰ To that end, the Ninth Circuit adopted a rebuttable presumption whereby firms with patents and copyrights may refuse to deal with competitors under the aegis of protecting their proprietary rights.⁵¹ A similar rule was adopted by the First Circuit in *Data General v. Grumman Systems Support*⁵² where the court explained that it did not adopt a rule that always gave those with patents or copyrights an unquestioned defense to antitrust laws because "there may be rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act."⁵³

The Ninth Circuit acknowledged the principle that patent and copyright holders categorically may refuse to sell or license the protected work, and that no court has imposed antitrust liability for a unilateral refusal to

47. *ITS*, 125 F.3d at 1214. Kodak denied that its conduct and parts policy constituted exclusionary conduct and argued that even if its actions were seen as prima facie exclusionary conduct, its parts policy was justified because it existed to guard Kodak against inadequate service, to remove inventory costs, to prevent ISOs from free-riding on Kodak's investment in copier and micrographic machines, and to protect its patented and copyrighted parts. Kodak only appealed the jury's consideration of the latter justification.

48. *Kodak*, 504 U.S. at 479 n.29.

49. *See id.*

50. *ITS*, 125 F.3d at 1217.

51. *See id.* at 1217-18.

52. 36 F.3d 1147 (1st Cir. 1994).

53. *Id.* at 1187 n.64.

sell or license such work.⁵⁴ Although this first principle informs the court's presumption in favor of patent and copyright holders, it is limited by a second principle, which recognizes that holding patents and copyrights does not place a company beyond the reach of antitrust laws. If the patent or copyright is acquired by fraud, or used to extend the lawful and statutorily granted monopoly beyond the scope of the patent, the patentee or copyright holder will be open to antitrust liability.⁵⁵

Because the ISOs did not challenge the validity or enforceability of Kodak's patents and copyrights, the Ninth Circuit implicitly reasoned that the ISOs could overcome the presumptive validity of Kodak's refusal to deal only if their evidence showed that Kodak's proffered "justification" was really a pretextual excuse for its exclusionary conduct and therefore not excluded from antitrust liability. The court weighed the following evidentiary considerations: First, Kodak's parts manager testified that protecting IP rights "did not cross [his] mind" when Kodak started its exclusionary parts policy; second, Kodak did not distinguish between the "proprietary" parts covered by patent or copyright and those covered by contract; and third, the defense was too broad—photocopier and micrographic machines use thousands of parts of which only 65 were patented.⁵⁶ Based on these reasons, the Ninth Circuit concluded "it is more probable than not that the jury would have found Kodak's presumptively valid business justification rebutted on grounds of pretext."⁵⁷

54. See *ITS*, 125 F.3d at 1216; see, e.g., *Data General*, 36 F.3d at 1147 (holding manufacturer's refusal to license its software was not a monopolization violation); *United States v. Westinghouse Electric*, 648 F.2d 642, 647 (9th Cir. 1981) (to avoid an antitrust violation a patentee is not required to "grant further licenses to potential competitor merely because it has granted them some license"); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981) (holding where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws); *Mallinckrodt v. Medipart*, 976 F.2d 700 (Fed. Cir. 1992) (holding that prohibiting buyer from reusing device was enforceable under patent law if manufacturer's restrictions was reasonably within patent grant).

55. See *Data General*, 36 F.3d at 1186; see also *Westinghouse*, 648 F.2d at 647; *Mercoid v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665 (1944) (holding that although a patent grants the holder a limited monopoly, "the protection of the public in a system of free enterprise ... denies to the patentee after issuance the power to use it in such a way as to acquire a monopoly which is not plainly within the terms of the grant. The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly.").

56. *ITS*, 125 F.3d at 1219-20. The court noted that in other cases, the protection of IP rights was more narrowly tailored to the actual IP portfolio.

57. *Id.* The Ninth Circuit found that while the district court's failure to give any weight to Kodak's IP rights was an abuse of discretion, the error was harmless. Under

III. DISCUSSION

The Ninth Circuit made several conceptual decisions in its analysis of the ISOs' claims and Kodak's IP defense. The first was to consider Kodak's alleged monopolization behavior under a leveraging theory. Although the Supreme Court indicated that such a theory was theoretically legitimate because parts and service could constitute two different markets,⁵⁸ it is not clear from an economic standpoint that such a theory is the best way to analyze Kodak's behavior. The leveraging theory implies that by extending its monopolization from one market into another, Kodak could extend or increase its monopoly profits. Presumably, the imperialistic motivation to move from one market to another is not simply power for its own sake, but for what the power can be used to extract: higher monopoly profits. But any profits Kodak would reap as a monopolist in the service market would also be available to it because of its monopoly in the parts markets; it simply could have charged ISOs and Kodak machine owners higher prices for its photocopier and micrographic parts or licensed them with restrictions. Because parts for Kodak machines are not interchangeable with parts from other machines, customers would have been forced to buy at whatever monopoly price Kodak established.⁵⁹

Once the Ninth Circuit accepted the leveraging theory in the section 2 context, however, it had to address Kodak's IP defense within a certain framework—a framework that made the court's analysis conceptually murky. A leveraging analysis presupposes at least two markets. There can be a limited, legitimate monopoly in the first market without antitrust repercussion. Antitrust liability may follow, however, if the monopoly in the legitimate market is extended, renegade style, into a second market through exclusionary conduct. In this case, Kodak extended its parts monopoly into the service market by refusing to sell parts to the ISOs. The court concluded that Kodak's movement to monopolize the service market

Jenkins v. Union Pacific R. Co., 22 F.3d 206, 210 (9th Cir. 1994), a jury instruction error does not require reversal if it is more probably than not harmless.

58. See *Kodak*, 504 U.S. at 463.

59. In its *Kodak* decision, the Supreme Court seemingly rejected the "one monopoly profit" idea not necessarily because of any theoretical shortcoming, but because Kodak failed to present any data to support its position that competition in the equipment market prevented it from leveraging its monopoly into the derivative parts and service markets. Kodak argued that it "could not raise the prices of service and parts above the level that would be charged in a competitive market because any increase in profits from a higher price in the aftermarket at least would be offset by a corresponding loss in profits from lower equipment sales." *Kodak*, 504 U.S. at 466.

was justified, at least presumptively, because of its stated desire to protect its proprietary rights.

Because the court did not engage in a nuanced consideration of the substantive relationship between antitrust and IP law, it was forced to follow a more formal approach that allowed it only four analytical options.⁶⁰ First, it could allow IP rights to work as an absolute defense that ended the antitrust inquiry. Second, it could allow the presumption that IP rights constitute a legitimate business justification for exclusionary conduct and allow the antitrust plaintiff to rebut it. Third, it could presume that IP rights do not constitute a legitimate business justification for such conduct unless the antitrust defendant can prove that they do. Fourth, it could refuse to recognize IP rights as a legitimate reason a firm might engage in exclusionary conduct. The court chose the second option.

The Ninth Circuit correctly dismissed the fourth option of not allowing IP rights to play *any* role in an antitrust defense. To do so would be to undermine the public interest in the patent and copyright statutes.⁶¹ While it is not the case that such statutes should always be allowed to trump antitrust law, it would equally be a mistake to adopt a *per se* rule that excluded them from what a court might consider when conducting an inquiry under section 2 of the Sherman Act.

The court could not easily adopt the first position either. If the service market were properly within the scope of the patent and copyright, and IP rights were an absolute defense to the antitrust inquiry, the court's leveraging analysis would be misplaced entirely, but for different reasons than those stated earlier. Antitrust law, at least as the Ninth Circuit approached it, would have nothing else to say in this case. Kodak could not be liable for section 2 monopolization or attempted monopolization under a leveraging theory because monopolies in the parts market and the service market both would be within the scope of the monopoly granted to it by the patent and copyright statutes.

It might very well be the case that the Ninth Circuit did not want to be in a position where the antitrust laws had nothing else to say and where

60. The Court speaks only in broad terms about the goals of antitrust, patent, and copyright law and does not grapple with how the incentives of each should affect the others. See *ITS*, 125 F.3d at 1214-15.

61. See *ITS*, 125 F.3d at 1214-16 ("Patent laws 'reward the inventor with the power to exclude others from making, using or selling [a patented] invention throughout the United States'" and the Copyright Act "encompasses the right to 'refrain from vending or licensing' as the owner may 'content [itself] with simply exercising the right to exclude others from its property.'"). The idea is that if the IP holder were easily liable under antitrust law, there might be less incentive to invent.

Kodak, once it waved its patents and copyrights to the jury during trial, had free run of any vertical market it chose to pursue. Thus, under the second option, the court made the concession that IP rights should be considered a legitimate business justification. The court said, however, that (1) the presumption was rebuttable and (2) the antitrust plaintiff can overcome it in the same way that one can overcome patent and copyright enforcement in general—by showing fraud or pretext.⁶²

But to frame the analysis in this manner side-steps the intellectual property question most implicated by this case: Is the service market in or out of the monopoly scope granted by Kodak's patents and copyrights? The court noted:

[p]arts and service here have been proven separate markets in the antitrust context, but this does not resolve the question whether the service market falls 'reasonably within the patent [or copyright] grant' for the purpose of determining the extent of the exclusive rights conveyed ... These are separate questions, which may result in contrary answers. At the border of intellectual property monopolies and antitrust markets lies a field of dissonance yet to be harmonized by statute or the Supreme Court.⁶³

The Ninth Circuit's analysis does not harmonize this "field of dissonance" directly. Kodak's behavior was condemned, and its IP defense rejected, not because the court found that the limited scope of its patents and copyrights did not extend to aftermarkets, but because the court did not find its defense convincing based on the evidence. Considering the patents and copyrights only within the context of deciding whether Kodak's defense was pretextual, however, prevented the court from looking more substantively at whether or not the scope of those rights *should* have extended to the service market.

The Ninth Circuit acknowledged that it is unlawful to extend a patent or a copyright beyond the scope of its grant, but the court did not address what the hard-edged limits of the scope are, which markets are close enough to the "heart of the property right"⁶⁴ to be given protection from antitrust liability, and which ones are too far away. There may well be a limit to the number of markets a patent or copyright holder can monopolize,⁶⁵ a point at which the relationship between the "heart of the property

62. *See id.* at 1219.

63. *Id.* at 1217.

64. *Id.*

65. *United States v. Westinghouse Electric*, 648 F.2d 642, 646 (9th Cir. 1981) ("[T]he use of a patent to acquire a monopoly which is not plainly within the terms of the

right” and the derivative market is too tenuous to warrant legal protection. But that limit will never be identified by the court’s analysis of Kodak’s behavior under a rubric of pretext.

After this decision, however, lower courts only have the pretextual rule. In many ways, it seemingly becomes the surrogate for a scope analysis. The evidentiary factors the court considered to find pretext, however, while certainly sensitive to the “actual market realities”⁶⁶ faced by the ISOs, are necessarily highly specific to this case. As a result, it is not clear that they offer much insight or guidance as to how this court will, or any other court should, review firms’ actions for pretext.

Based on the factors in this case, the Ninth Circuit reached the right outcome: Kodak must sell or license parts to the ISOs. It even reached it for some of the right reasons, namely that Kodak’s defense was too broad.⁶⁷ But, it might have reached that outcome under the third analytical option, which the court, without an explanation, chose not to use. Even though it was confined to the context of a pretextual analysis, the court should have looked at the purpose and effect of patents and copyrights and to whether the monopoly needed to be extended to the service market to protect that purpose and effect. Such an analysis would have been more likely under the third option because the court would have reviewed the evidence presented by the antitrust defendant.

One purpose of the patent and copyright system is to offer the inventor some incentive to disclose her work and make it available to the public. The court notes that one of the incentives under the patent system is the manner in which the patent monopoly allows the inventor to recoup, with profit, “the often enormous costs in terms of time, research and development.”⁶⁸ Thus, in assessing whether Kodak’s defense was pretextual, the court also should have considered whether Kodak needed to monopolize the service market as well as the parts market to meet its research and development costs and thus effectuate the value of its patents or copyrights. Presumably, Kodak could have recouped its costs in the parts market alone.

grant, as by a tying [or leveraging] agreement, may violate the antitrust laws as may an agreement among patent holders or licensees to set prices or to refuse to grant licenses except on condition that royalties be paid on unpatented products. Nor may a patentee attempt to monopolize an industry by acquiring all present and future patents relevant to that industry.”) (citations omitted).

66. *ITS*, 125 F.3d at 1218 (quoting *Kodak*, 504 U.S. at 466-67).

67. See *supra* note 56 and accompanying text.

68. *ITS*, 125 F.3d at 1218.

If there were no way for Kodak to recoup its investment in developing parts and machines other than to effectuate its patent and copyright monopoly in the service market, there would be strong reasons for allowing it to do so. It might be the case that the short-term harm to consumers of allowing Kodak to monopolize the parts and the service markets is less than the long-term harm of not providing firms like Kodak with adequate incentive to enter a competitive market and develop new products. It is not entirely clear, however, that the patent and copyright systems should be used to subsidize Kodak's inability to compete in the service market against the ISOs, who might provide better service to consumers for less money.⁶⁹

The court also should have considered whether the patented or copyrighted parts were designed for a service context, which might have given Kodak a more convincing reason to monopolize the service market. In *Triad Systems Corporation v. Southeastern Express Company*,⁷⁰ the court's primary reason for extending Triad's software copyright in a product market to the service market was that the software was intended for use in the service market. Triad's software was service software, and, by using it, Southeastern was "using it for the very purpose for which, and in precisely the manner in which, it was designed to be used. As a result, the copies made by Southeastern while servicing Triad computers ... undoubtedly diminished the value of Triad's copyright."⁷¹ Because of the close relationship between the product and the service market, the court held that it was within the scope of the original monopoly granted by the copyright. In the present case, however, it is not clear whether there was a close relationship between a part designed for a machine and the service of that machine, nor is it clear whether the value of Kodak's patents or copyrights was diminished at all by sale of parts to ISOs. Kodak retained the ability to sell or license the products at a monopoly price.

IV. CONCLUSION

The Ninth Circuit's decision in this case is significant because it found that patents and copyrights constitute a presumptively legitimate business justification for a firm to leverage its monopoly between two markets without violating section 2 of the Sherman Act. Unfortunately, given the importance of attributing more weight to the actual market realities in each case rather than to theory, the lack of any clear test that an antitrust plain-

69. See *Kodak*, 504 U.S. at 456.

70. 64 F.3d 1330 (9th Cir. 1995).

71. *Id.* at 1337.

tiff must meet to rebut the presumption, and the court's unwillingness to address the limits of patent or copyright scopes, it is not clear that the Ninth Circuit's ruling will be of much practical use to the technology companies most likely to be affected by it.

UNITED STATES V. MICROSOFT CORPORATION

By Paula L. Blizzard

Judicial review of antitrust consent decrees is important for technology companies, particularly those in the computer industry. This is true for several reasons. First, the computer industry is subject to frequent antitrust scrutiny. The computer industry is largely characterized as a network industry, where large networks of compatible products are required for the market to develop and function.¹ Network industries present antitrust concerns because they tend to become concentrated, dominated by the standard-setting product or company, and the compatibility requirements can lead to exchanges between competitors that are indicative of cartel behavior.

Second, computer products have relatively short lifetimes, with new innovations quickly overtaking previous versions. The products are also heavily marketed and advertised. These characteristics lead to considerable press reporting and what is commonly referred to as "hype." This hype can make celebrities out of computer company presidents and bring technology and antitrust issues to the attention of the general population. This in turn puts pressure on the Department of Justice and the Judiciary to deal with the popular issues, which are not always synonymous with the best antitrust issues.

Lastly, full trials on the merits of antitrust actions can be lengthy and expensive. High technology start-up firms cannot afford a lengthy trial to cloud their reputation as well as take the time, money, and attention of top executives. Quick settlements are particularly appealing. Judicial review of such settlements, in an industry characterized by large, dominant firms

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1. The classic example of a network industry is the telephone system. In order for the market to function, the telephones and systems must conform to standards and be compatible from house to house, or else no one will want or be able to use the phones. Network industries have several important antitrust characteristics. Large networks are more attractive to consumers because they appear more stable and less likely to fail or become outdated, and these large networks tend to get larger. Compatibility with other products also increases the attractiveness of the product. Cooperation among producers is often required to achieve this compatibility. For more information on network industries, see Charles E. Biggio, Department of Justice Antitrust Division, Address entitled *Antitrust and Networks* at Antitrust for Hi-Tech Companies (Feb. 2, 1996) (visited Jan. 31, 1998) <<http://www.usdoj.gov/atr/speeches/biggiospc.txt>>.

and extensive hype, is of significant interest. Companies need to know that a hard-fought settlement will not be thrown out by the courts based on the hype.

I. PROCEDURAL HISTORY AND ANTITRUST ALLEGATIONS

In *United States v. Microsoft Corp.*,² the United States Court of Appeals for the District of Columbia Circuit held that the district court exceeded its authority under the Tunney Act³ in refusing to enter the proposed consent decree between the Microsoft Corporation and the Department of Justice (DOJ). The district court had refused to enter the decree because it determined that the decree was not in the public interest.⁴ As required under the Tunney Act, a proposed antitrust consent decree between the government and a private party in a civil proceeding must be found to be in the public interest in order to be entered. The court of appeals reversed, finding both that the district judge had exceeded his authority and that the decree was in the public interest. The decree was entered on remand in August 1995.⁵ Recently, the DOJ filed a contempt action against Microsoft for violating the terms of this 1995 consent decree.⁶

The DOJ complaint and proposed settlement were the result of an extensive investigation.⁷ The complaint and the proposed consent decree

2. 56 F.3d 1448 (D.C. Cir. 1995) [hereinafter *Microsoft II*].

3. Antitrust Procedures and Penalties Act of 1974, 15 U.S.C. § 16(b)-(h) (1997).

4. See 159 F.R.D. 318 (D.D.C. 1995) [hereinafter *Microsoft I*].

5. See *United States v. Microsoft Corp.*, No. 94-1561, 1995 WL 505998 (D.D.C. Aug. 21, 1995).

6. This contempt action is still being litigated and is not the focus of this comment. The action focuses on alleged tying arrangements between Microsoft's Windows operating system and its web browser, Internet Explorer. It also alleges that Microsoft's current non-disclosure agreements are hindering the enforcement of the 1995 decree. For more information on the contempt action, see Department of Justice, *U.S. v. Microsoft* (visited Jan. 31, 1998) <http://www.usdoj.gov/atr/cases3/micros/ms_index.htm> and Microsoft Corp., *Microsoft Feature Story* (visited Jan. 31, 1998) <<http://www.microsoft.com/corpinfo/doj/doj.htm>>.

7. The DOJ began their investigation in 1993, following a Federal Trade Commission (FTC) investigation that had started in 1990 but ended when the FTC deadlocked 2-2 on whether to bring a complaint. "The Justice Department issued twenty-one civil investigative demands to Microsoft and third parties, interviewed more than one hundred people, and deposed twenty-two individuals. The investigation consumed 14,000 attorney hours, 5,500 paralegal hours and 3,650 economist hours." David Bender, *The Microsoft Antitrust Wars*, INTELLECTUAL PROPERTY ANTITRUST (PLI Patents, Copyrights & Literary Property Course Handbook Series, 1995).

were filed on the same day in August 1994.⁸ The complaint charged a violation of section 1 and section 2 of the Sherman Act,⁹ alleging both an illegal restraint of trade and a monopolization offense. The substance of the antitrust violations was Microsoft's use of "per-processor" licenses with computer manufacturers. These licenses required the manufacturer to pay Microsoft for each processor sold, regardless of whether it contained a Microsoft operating system. Thus, if a computer manufacturer wished to sell a competing operating system, it had to pay the license fee for both the competing product and the Microsoft product. Given Microsoft's monopoly power in the operating systems market,¹⁰ computer manufacturers could not risk losing their Microsoft license agreements. In addition, the DOJ alleged that Microsoft's non-disclosure agreements with software developers concerning proprietary operating systems data were overly restrictive and anti-competitive.

The proposed consent decree required Microsoft to stop per-processor licensing and instead use per-copy licenses. It additionally prevented Microsoft from tying the license for its operating system to any of its other software products. Microsoft's non-disclosure agreements were also required to be less restrictive and shorter in duration. As is normal for consent decrees, Microsoft did not admit any wrongdoing in any of the areas.

II. OVERVIEW OF TUNNEY ACT

The Tunney Act requires certain actions by both the Executive branch and the courts before any antitrust consent decree can be entered. The Executive branch, in the form of the DOJ and the Federal Trade Commission (FTC), is required to publish for public comment information concerning how and why they have entered into the consent decree. The courts are required to review the consent decree to determine if it is in the public interest.

8. See Department of Justice, *Complaint* (visited Jan. 31, 1998) <<http://www.usdoj.gov/atr/cases3/micros/0046.htm>>; Department of Justice, *Final Judgment* (visited Jan. 31, 1998) <<http://www.usdoj.gov/atr/cases3/micros/0047.htm>>. The proposed consent decree and the final judgment eventually entered were identical.

9. 15 U.S.C. §§ 1, 2 (1997).

10. Microsoft has monopoly power in the operating systems market for personal computers where its MS-DOS and Windows products dominate. The DOJ estimated Microsoft's market share in the operating systems market at over 70% worldwide for the previous ten years. See Department of Justice, *Complaint*, ¶ 14, 15 (visited Jan. 31, 1998) <<http://www.usdoj.gov/atr/cases3/micros/0046.htm>>. Microsoft also has significant market power in other areas of the software industry, with products such as Microsoft Word and Excel, and its World Wide Web browser Internet Explorer.

The Tunney Act was passed in 1974 as a means of providing additional scrutiny to antitrust consent decrees agreed to by the government. At the time of passage, approximately eighty percent of the judgments obtained by the Antitrust Division were consent decrees.¹¹ Prior to enactment of the Tunney Act, courts exercised little power in reviewing decrees. There were several questionable cases that led Congress to consider the issue. In 1967, the DOJ settled a case with a consent decree that was referred to as a "ninety percent capitulation."¹² Then in 1972, a consent decree was clouded by allegations that the government had settled in exchange for contributions to the Republican party, and worries over whether the suit would damage the company's stock price.¹³ Consequently, after hearings by Congress, the Tunney Act was enacted in 1974. According to the hearings, the goal of the Tunney Act was to make the courts "an independent force rather than a rubber stamp" in reviewing consent decrees.¹⁴

The Tunney Act provisions require various steps at different stages of the process. When the consent decree is filed, the government must also file a competitive impact statement describing the alleged violation of the antitrust laws, the relief the consent decree will provide, and any alternatives considered by the government.¹⁵ The government must then publish the consent decree in the Federal Register and elsewhere for a sixty-day comment period, and respond to all the comments.¹⁶

At the end of the comment period, the court must decide if the consent decree is in the public interest.¹⁷ It may consider the competitive impact of the decree, including termination of the alleged antitrust violations, provisions for enforcement and modification, duration of the relief sought, and the anticipated effects of alternative remedies considered. In addition,

11. See J. Noonan, *Judicial Review of Antitrust Consent Decrees: Reconciling Judicial Responsibility with Executive Discretion*, 35 HASTINGS L.J. 133, 143 (1983).

12. *United States v. First National Bank and Trust Co.*, 280 F. Supp. 260, 263 (E.D. Ky. 1967).

13. See *United States v. International Telephone and Telegraph Corp.*, No. 13,320, 1971 U.S. Dist. LEXIS 11506 (D. Conn. Sep. 24, 1971). For a review of the history of antitrust consent decrees leading up to the Tunney Act, see L. Anderson, *United States v. Microsoft, Antitrust Consent Decrees, and the Need for a Proper Scope of Judicial Review*, 65 ANTITRUST L.J. 1, 6-8 (1996).

14. *The Antitrust Procedures and Penalties Act: Hearings on S. 782 and S. 1008 Before the Subcomm. on Antitrust and Monopoly of the Senate Comm. on the Judiciary, 93rd Cong. 1* (1973) (statement of Senator J. Tunney).

15. See 15 U.S.C. § 16(b) (1997).

16. See *id.* § 16(b), (c) & (d).

17. See *id.* § 16(e).

it may consider anything else that bears on the adequacy of the decree, including the impact on the general public in addition to individuals alleging specific injury from the antitrust violation. One of the public benefits explicitly allowed to be considered is the benefit of carrying the case through to trial.

The method the court may use to make the public interest determination is broad and far-reaching.¹⁸ The court may take expert testimony and request input from any individual or group on any aspect of the decree. It may also authorize participation by interested persons in any appropriate manner. In general, it may take such action in the public interest as the court may deem appropriate.

III. DISTRICT COURT OPINION

The District Court for the District of Columbia conducted a hearing to address the public interest determination in January of 1995. The judge was concerned that the consent decree did not address many of what he believed were Microsoft's anticompetitive practices. In particular, the judge was concerned about vaporware: the practice of announcing a product to consumers before the product is ready. The purpose of a vaporware announcement is to keep consumers from buying competing products and convince them to wait for the announced product. The judge learned about vaporware and its antitrust implications not from the DOJ complaint or other court documents, but from a limited amount of independent research. This independent research appeared to consist mostly of reading the book *Hard Drive*.¹⁹ In a pre-hearing order, the court asked the parties to explain why neither the complaint nor the proposed consent decree addressed vaporware concerns.²⁰

18. See *id.* § 16(f).

19. J. WALLACE & J. ERICKSON, *HARD DRIVE: BILL GATES AND THE MAKING OF THE MICROSOFT EMPIRE* (1992). "At the first substantive status conference on September 29, 1994, the district judge informed the parties that over the summer he had read a book about Microsoft—*Hard Drive*—because he 'thought it would be a good idea maybe to know as much about Microsoft as probably they're going to know about me.'" [citation omitted by court]. Much of the ensuing discussion focused on accusations against Microsoft contained in the book. The district judge asked whether the government's lawyers had read the book and whether they had investigated the allegations made by its authors." *Microsoft II*, 56 F.3d at 1452-53; see generally L. Anderson, *supra* note 13.

20. See *United States v. Microsoft Corp.*, No. 94-1564, 1995 WL 61165 (D.D.C. Jan. 19, 1995).

In making the public interest determination, the court relied on the test announced in *United States v. Gillette*.²¹ "It is not for the Court to determine whether the settlement is the best possible in the Court's view, but instead whether it is 'within the reaches of the public interest.'"²² However, it also found that based on the "language of the statute, its legislative history, precedent [and] common sense" the court may look beyond the face of the complaint in evaluating the public interest.²³ In defining the role of the Judiciary, it found that "Congress passed the Tunney Act so that the courts would play an independent role in the review of consent decrees as opposed to serving as a mere rubber stamp."²⁴

During the hearing, the judge requested more information than the DOJ was willing to provide. When he asked questions about vaporware, the DOJ "refused to disclose what it knew about the practice or what investigation it had conducted with respect to it."²⁵ The judge referred to this lack of response as the "Government's 'stonewalling' position."²⁶ Furthermore, he stated that "this is clearly the kind of case that Congress had in mind when it passed the Tunney Act. ... The picture that emerges from these proceedings is that the U.S. Government is either incapable or unwilling to deal effectively with a potential threat to this nation's economic well-being."²⁷

Following the hearing, the district court found that the consent decree was not in the public interest and refused to enter it. It determined: (1) the DOJ had not provided it with sufficient information to make the required public interest determination; (2) the scope of the proposed consent decree was too narrow; (3) the proposed decree was not an effective antitrust remedy; and (4) the proposed enforcement and compliance mechanisms were not sufficient.²⁸

IV. COURT OF APPEALS DECISION

Both Microsoft and the DOJ appealed. The Court of Appeals for the District of Columbia Circuit allowed several *amici* to appear in opposition

21. 406 F. Supp. 713 (D. Mass. 1975).

22. *Microsoft I*, 159 F.R.D. at 329 (quoting *Gillette*, 406 F. Supp at 16).

23. *Microsoft I*, 159 F.R.D. at 330.

24. *Id.* at 329.

25. *Id.* at 335.

26. *Id.* at 338.

27. *Id.* at 337.

28. *See id.* at 332.

to Microsoft and the DOJ.²⁹ The main issue was whether the district court had exceeded its authority under the Tunney Act in refusing to enter the decree. The court of appeals agreed with the appellants and reversed and remanded.

The court of appeals held that the district court was not permitted to “reach beyond the complaint to evaluate claims that the government did not make and to inquire as to why they were not made.”³⁰ The court found that “Congress did not mean for a district judge to construct his own hypothetical case and then evaluate the decree against that case.”³¹ By inquiring after the vaporware allegations, the district court was in essence broadening the complaint beyond what was brought by the DOJ.

The court of appeals based this limitation at least in part on separation of powers grounds. Despite its lack of precedential value, the court chose to quote with approval the dissent of then-Justice Rehnquist in the AT&T antitrust settlement.³² Rehnquist’s dissent “expressed grave doubt as to the Act’s constitutionality because without a judicial finding of illegality ... the statute does not supply a judicially manageable standard for review of the decree and the considerations that led the Department of Justice to settle are not amenable to judicial review.”³³ Furthermore, the court noted that “even when a court is explicitly authorized to review government action under the Administrative Procedure Act, ‘there must be a strong showing of bad faith or improper behavior’ before the court may ‘inquir[e] into the mental processes of administrative decisionmakers.’”³⁴ Here, there was no claim of bad faith, and in fact the district judge was inquiring into the minds of the DOJ, pressing them for information about the vaporware investigation. The court further noted that the ability of the dis-

29. The district court had earlier allowed I.D.E. Corporation, the Computer & Communications Industry Association (CCIA), and several anonymous computer companies represented by the law firm of Wilson Sonsini Goodrich & Rosati to appear as *amici* pursuant to 15 U.S.C. § 16(f)(3) (1997) (authorizing participation by interested persons in any manner and extent which serves the public interest as the court may deem appropriate). The court of appeals, noting that there would otherwise be no appellee, allowed the *amici* to oppose appellants Microsoft and the DOJ. See *Microsoft II*, 56 F.3d at 1455.

30. *Microsoft II*, 56 F.3d at 1459.

31. *Id.*

32. See generally *Maryland v. United States*, 460 U.S. 1001 (1983) (Rehnquist, J., dissenting) [hereinafter *AT&T II*], *aff’g* *United States v. AT&T*, 552 F. Supp. 131 (D.D.C. 1982) [hereinafter *AT&T I*].

33. *Microsoft II*, 56 F.3d at 1459 (citations omitted).

34. *Id.* (quoting *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402, 420 (1971)).

strict court to review the consent decree in the first place is completely dependent on the DOJ exercise of its prosecutorial discretion.³⁵

The court also disagreed with the district court's finding that the consent decree was not an effective antitrust remedy in that it did not effectively pry open the market to competition. Referring again to Rehnquist's *AT&T II* dissent, the court noted that "there are no findings that the defendant has actually engaged in illegal practices."³⁶ Without a finding that the defendant has done anything wrong, "for the district judge to assume that the allegations in the complaint have been formally made out is quite unwarranted."³⁷ Thus if the allegations cannot be assumed true, it is hard to see how an effective antitrust remedy for unproved allegations can even be determined.

In summing up its holding, the court of appeals set a narrow standard, based on constitutional grounds, for when a district judge could refuse a consent decree.

[W]hen the government is challenged for not bringing as extensive an action as it might, a district judge must be careful not to exceed his or her constitutional role. A decree, even entered as a pretrial settlement, is a judicial act, and therefore the district judge is not obliged to accept one that, on its face and even after government explanation, appears to make a mockery of judicial power. Short of that eventuality, the Tunney Act cannot be interpreted as an authorization for a district judge to assume the role of Attorney General.³⁸

This "mockery" standard arose in opposition to the district court's demand for additional information about vaporware and its belief that the decree was not an effective antitrust remedy. Both inquiries are forbidden under such a mockery standard.

However, the court of appeals did note several inquiries which were appropriate under the Tunney Act. "A district judge pondering a proposed consent decree understandably would and should pay special attention to the decree's clarity."³⁹ The rationale being that the district judge will be the one presiding over the implementation of the decree and the task needs to be reasonably manageable.

35. See *Microsoft II*, 56 F.3d at 1459-60.

36. *Id.* at 1460-61 (citing *AT&T II*, 460 U.S. at 1004 (Rehnquist, J., dissenting)).

37. *Id.* at 1461.

38. *Id.* at 1462.

39. *Id.* at 1461.

Similarly, the court “would expect a district court to pay close attention to the compliance mechanisms in a consent decree.”⁴⁰ In the instant case, however, the court did not agree with the district judge that Microsoft’s existing legal staff would not be effective compliance monitors. It noted that the district judge “believed the decree should seek to fundamentally alter Microsoft’s culture, perhaps even reduce its competitive zeal. Suffice it to say, those objectives exceed any legitimate concerns about actual compliance with the decree.”⁴¹

The DOJ’s economics expert had assured the court that the decree appropriately addressed and remedied the anticompetitive effects charged in the complaint.⁴² The court of appeals found the expert had provided enough of a factual foundation for the judgment call made by the DOJ. Having not found any of the district court’s other rationales to be viable objections, the court found the decree to be in the public interest and ordered it to be entered on remand.⁴³

V. DISCUSSION

The court of appeals correctly reversed the district court for exceeding its authority under the Tunney Act, and put forth a narrow standard that effectively reduces the impact of the public interest determination to a negligible level. To place this standard in context, this comment reviews recent public interest determination case law, examines the constitutionality of the Tunney Act, and compares it to the “mockery” standard announced in *Microsoft II*.

A. Public Interest Determination Case Law

Different tests have been developed by the courts in interpreting the Tunney Act. The disparity is in large part due to the undefined terms and lack of guidance on how a public interest determination should be made.⁴⁴ For instance, the Act does not give any guidance as to when a consent decree would be in the public interest or when a trial would be better.

40. *Id.* at 1462.

41. *Id.*

42. *See id.* at 1461.

43. *See id.* at 1462.

44. *See AT&TI*, 552 F. Supp. at 149 (stating that the statute “provides relatively little guidance regarding the meaning of ‘public interest’ in this context”); 2 AREEDA & HOVENKAMP, ANTITRUST LAW, ¶ 348g (rev. ed. 1995) (stating that the statute “does not tell the judge how he is to appraise a settlement without trying the case and without himself allocating the Justice Department’s resources.”).

The test adopted by the court of appeals is referred to as the "reaches of public interest" or the *Gillette* test:

It is not the court's duty to determine whether this is the best possible settlement that could have been obtained if, say, the government had bargained a little harder. The court is not settling the case. It is determining whether the settlement achieved is within the reaches of the public interest.⁴⁵

Such a test gives considerable leeway to the government.

In applying the *Gillette* test, one district court gave even more deferential treatment to the government.⁴⁶ It found "one highly significant factor is the degree to which the proposed decree advances and is consistent with the government's original prayer for relief."⁴⁷ In that case, the complaint was filed some two years before the consent decree was filed. The rationale was that a settlement that met most of the original goals of the DOJ, as defined in their complaint, arrived at after two years of pre-trial discovery and motions, would likely be a reasonable and hard-fought settlement. It is less certain how such a rationale would apply in a case such as *Microsoft II*, where the complaint and the consent decree were filed on the same day.⁴⁸

A more independent test was set forth in the 1982 *AT&T I*⁴⁹ decision. The court found that the term "public interest" should be construed in terms of the antitrust laws.⁵⁰ Moreover, "if the decree meets the requirements for an antitrust remedy—that is, if it effectively opens the relevant markets to competition and prevents the recurrence of anticompetitive activity, all without imposing undue and unnecessary burdens upon other aspects of the public interest—it will be approved."⁵¹

The *AT&T I* test requires an independent look at the substance of the allegations and the decree to see if it satisfies the goals of the antitrust laws. This is a much less deferential standard than the previous tests. However, the *AT&T I* court also carefully described how the *AT&T I* case deserved somewhat unusual treatment. First, it noted that AT&T was "the

45. *United States v. Gillette*, 406 F. Supp. 713, 716 (D.Mass. 1975).

46. *See United States v. NBC*, 449 F. Supp. 1127 (C.D. Cal. 1978).

47. *Id.* at 1144.

48. It has been noted that "the practical effect of the court of appeals decision is to permit the Department of Justice to evade meaningful Tunney Act review by filing a complaint tailored to the negotiated consent decree." James Rob Savin, *Tunney Act '96: Two Decades of Judicial Misapplication*, 46 EMORY L.J. 363, 364 (1997).

49. 552 F. Supp. 131 (D.D.C. 1982).

50. *See id.* at 149.

51. *Id.* at 173.

largest corporation in the world” and there was a large “potential impact of the proposed decree on a vast and crucial sector of the economy.”⁵² Second, the court was uniquely situated to understand the substance of the case because it had “already heard what probably amounts to well over ninety percent of the parties’ evidence both quantitatively and qualitatively, as well as all of their legal arguments.”⁵³ Lastly, the history of the parties and the particular way in which the consent decree was filed did not “foster a sense of confidence that the assessment of the settlement and its implications may be left entirely to AT&T and the Department of Justice.”⁵⁴

The district court in *AT&T I* went on to request numerous substantive modifications of the consent decree.⁵⁵ The decision was appealed directly to the Supreme Court by various competitors of AT&T and several states.⁵⁶ The Supreme Court affirmed the decision without opinion, but three Justices dissented, led by then-Justice Rehnquist, and addressed the unconstitutionality of the Act.⁵⁷

B. Constitutionality of Tunney Act

Rehnquist’s dissent in *AT&T II*, while having no precedential value, provides a strong argument that the public interest provisions of the Act are unconstitutional.⁵⁸ Rehnquist states that “it is not clear to me that this standard [as set by the district court] or any other standard the District Court could have devised, admits of resolution by a court exercising the judicial power established by Article III of the Constitution.”⁵⁹ He continues by pointing out that because the case has been settled before trial, “there has been no judicial finding of relevant markets, closed or otherwise, to be opened or of anticompetitive activity to be prevented. The

52. *Id.* at 151-52.

53. *Id.* at 152.

54. *Id.* at 153.

55. These included modifications designed to ensure the newly independent Bells would be financially healthy, prohibitions related to marketing equipment, yellow pages, and electronic publishing, and sua sponte judicial enforcement. For an overview of the AT&T consent decree, see L. Anderson, *supra* note 13, at 20-25.

56. The competitors, as intervenors in the suit, were able to appeal directly to the Supreme Court pursuant to 15 U.S.C. § 29(b) (1997). The states were able to appeal directly on the ground that the decree preempted state regulatory authority.

57. See *AT&T II*, 460 U.S. at 1001 (Rehnquist, J., dissenting).

58. Note that the portions of the Tunney Act requiring actions by the Executive branch, i.e., publishing the decree for public comment and submitting an analysis of alternatives considered, are not at issue. It is only the public interest determination portions that require the Judiciary to act which present separation of powers issues.

59. *AT&T II*, 460 U.S. at 1104.

District Court seems to have assumed first that there was an antitrust violation and second that it knew the scope and effects of the violation.”⁶⁰ This is the same argument made by the *Microsoft II* court—that it is meaningless for the judge to look for an effective antitrust remedy when he cannot even assume the allegations in the complaint are valid.

The dissent continues by noting that the “question assigned to the district courts by the Act is a classic example of a question committed to the Executive.”⁶¹ Such questions have been nonjusticiable since the days of *Marbury v. Madison*.⁶² More recently in *Baker v. Carr*,⁶³ the Court noted that a lack of judicially discoverable and manageable standards, or the impossibility of deciding without an initial policy determination, would also yield nonjusticiable political questions.⁶⁴ The dissent notes that

there is no standard by which the benefits to the public from a ‘better’ settlement of a lawsuit ... can be balanced against the risk of an adverse decision, the need for a speedy resolution of the case, the benefits obtained in the settlement, and the availability of the Department’s resources for other cases.⁶⁵

Similarly, an initial policy decision is required because the entire question of whether to bring a lawsuit at all is within the prosecutorial discretion. Without a judicially manageable standard, and because it requires an initial policy decision, the question of what is in the public interest is nonjusticiable.

C. Mockery Standard

The court of appeals test for determining if a consent decree is in the public interest states that unless the decree makes a mockery of judicial power, it should be entered.⁶⁶ The court also makes allowances for issues of compliance mechanisms or clarity, but the central issue is whether the court can examine the effectiveness of the antitrust remedy. Clearly it cannot under the “mockery” standard, nor can it under Justice Rehnquist’s constitutional analysis. This standard is significantly narrower than the *AT&T I* standard relied upon by the district court. However, as noted by

60. *Id.*

61. *Id.* at 1105.

62. 5 U.S. (1 Cranch) 137, 170 (1803) (“The province of the court is, solely, to decide on the rights of individuals, not to inquire how the executive, or executive officers, perform duties in which they have a discretion.”).

63. 369 U.S. 186 (1962).

64. *See id.* at 217.

65. *AT&T II*, 460 U.S. at 1105-06 (Rehnquist, J., dissenting).

66. *See Microsoft II*, 56 F.3d at 1462.

the *AT&T I* court, there is substantial ground to distinguish *AT&T I* from most antitrust consent decrees.⁶⁷

The *Microsoft II* court, by adopting the “mockery” standard and adopting much of Rehnquist’s dissent in *AT&T II*, has reduced the public interest determination of the Tunney Act to a negligible inquiry. Under such a standard, the courts have no more power to reject a consent decree than they did prior to passage of the Act. The authority rests on the court’s inherent equitable powers to reject settlements that make a mockery of the Judiciary itself—a power which the courts have always had and which applies to every judicial act.

VI. CONCLUSION

In *United States v. Microsoft*, the court of appeals set a narrow standard for when a court can find a decree not to be in the public interest. This standard requires that unless the decree, on its face and even after government explanation, makes a mockery of judicial power, it should be entered. The impact of this standard is that the DOJ has wide ranging latitude to settle cases as it sees best, given its limited resources. This is an appropriate standard. Anything else puts matters of Executive discretion into the hands of the Judiciary. If Congress is concerned with the DOJ’s settlement of antitrust cases, then the solution should be with the Executive, rather than with the Judiciary.

This decision also bodes well for technology companies. While some members of the computer industry may have wanted a more robust consent decree against Microsoft, the issue of judicial review took precedence in this case. Companies need to know that the courts will not evaluate proposed consent decrees based on the latest hype or the popular press. The DOJ conducted an extensive investigation of Microsoft and then painstakingly negotiated a consent decree. The district court exceeded its Article II powers and based its findings upon a limited amount of independent research. The latter cannot be allowed to derail the former.

67. See *AT&T I*, 460 U.S. at 151 (“This is not an ordinary antitrust case.”).

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FIRST AMENDMENT

RENO V. ACLU

By David K. Djavaherian

Increasingly, the American legal system's ability to adapt to technological changes is strained the dynamic nature of technology. When faced with rapid development, lawmakers find themselves struggling to keep up with the pace of innovation. In the ambit of this struggle, *Reno v. ACLU*,¹ which marks the United States Supreme Court's first brush with regulation of the Internet, should be considered a legal milestone. In *Reno*, the Court was called upon to apply the First Amendment to this new medium of communications—to decide how much leeway the government has in regulating on-line content. The case pitted an amalgam of free speech activists against the Communications Decency Act of 1996 (CDA).² Even before the CDA became law, it was widely suspected that it would be struck down on First Amendment grounds if enacted.³ The Court in *Reno* confirmed these suspicions by holding the CDA unconstitutional.⁴ In the process, the Court issued an important statement on the Internet as a medium of communications: expressive content on the Internet is entitled to the full protection of the First Amendment—the same degree of protection as that afforded to print. But this mandate gives little indication as to how to solve the problem that led to enactment of the CDA: protecting children from on-line smut. Thus, in addition to examining and explaining the Court's First Amendment argument, this comment discusses the various methods of Internet content regulation that are presently available.

I. LEGISLATIVE BACKGROUND

Senator James Exon (D-Neb.) introduced the CDA on February 1, 1995.⁵ Senator Exon drummed up support for the CDA by passing around

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1. ___ U.S. ___, 117 S. Ct. 2329 (1997).

2. 47 U.S.C.A. § 223 (West Supp. 1997).

3. See, e.g., Robert Cannon, *The Legislative History of Senator Exon's Communications Decency Act: Regulating Barbarians on the Information Superhighway*, 49 FED. COMM. L.J. 51, 67 (1996) (quoting Speaker of the House Newt Gingrich, who argued that the CDA "is clearly a violation of free speech I don't think it is a serious way to discuss a serious issue, which is, how do you maintain the right of free speech for adults while also protecting children in a medium which is available to both?").

4. *Reno*, 117 S. Ct. at 2351.

5. See Cannon, *supra* note 3, at 52, 57.

his "Blue Book," a collection of pornography gathered from the Internet.⁶ Despite some early resistance,⁷ the Act was included in the Senate's version of the telecommunications bill.⁸ However, the Act encountered stronger opposition in the House.⁹ The House passed the Online Family Empowerment Amendment, which "proclaimed an Internet free of government interference," but included no method of enforcing its claims, and exempted the CDA from its purview.¹⁰ However, in a joint conference committee replete with CDA supporters,¹¹ the CDA and the Online Family Empowerment Amendment (both with a few minor adjustments) were together incorporated into the final version of the Telecommunications Act.¹² Despite the previous opposition to the CDA in the House, the Telecommunications Act of 1996, which incorporated the CDA, became law on February 8, 1996.¹³ That same day, the ACLU and nineteen other plaintiffs filed suit against the Attorney General, challenging the constitutionality of the CDA's provisions.¹⁴

6. See Cannon, *supra* note 3, at 64. The Blue Book "is theorized to have helped reluctant senators vote for the CDA. No senator wanted to make what could be construed as a pro-pornography vote." *Id.* at 64.

7. Senator Leahy introduced a competing amendment which proposed the federal government take no additional efforts to regulate the Internet, and accused the CDA of catering to individuals phobic of on-line pornography. See Cannon, *supra* note 3, at 65-66.

8. See Cannon, *supra* note 3, at 71 (citing 141 CONG. REC. S8386-87, S8347 (daily ed. June 14, 1995)).

9. See *Reno*, 117 S. Ct. at 2338 n.24 (discussing opposition in House). It is suggested that the House was more resistant to Internet regulation because of its generally younger and more Internet-savvy composition. See Cannon, *supra* note 3, at 67.

10. Cannon, *supra* note 3, at 67-69 (criticizing the act as "a bill without a verb" and noting it "specifically and curiously stated that '[n]othing in this section shall be construed to impair the enforcement of section 223 of Title 47,' the very statute the CDA sought to amend.")

11. Senators Exon and Gordon, co-sponsors of the CDA, were named to the Telecommunications conference committee, and all of the other senators on the committee had voted for the CDA. The lone opponent of the CDA on the committee was Rep. White, who co-sponsored the Online Family Empowerment Amendment. See *id.* at 91.

12. See *id.* at 92.

13. Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (codified as amended in scattered sections of 47 U.S.C., 15 U.S.C. §§ 18, 5714, and § 18 U.S.C. §§ 1462, 1465, 2422). The Telecommunications Act consists of seven titles, outlining a broad array of regulatory and deregulatory policies for a number of media. The CDA is codified in Title V. The full effect of the Telecommunications Act on previous United States Code sections, as well as the range of the CDA, is listed in 47 U.S.C.A. § 609 (West Supp. 1997).

14. *ACLU v. Reno*, 929 F. Supp. 824, 826 (E.D. Pa. 1996), *aff'd*, 117 S. Ct. 2329 (1997).

Two provisions of the CDA were challenged in *Reno*. Section 223(a)(1)(b) (the “indecent transmission” provision) prohibits the creation or solicitation, and initiation of “indecent or obscene” transmissions, “knowing that the recipient is under 18 years of age.”¹⁵ Violating this provision required actual knowledge that the recipient was a minor. Section 223(d)(1) (the “patently offensive display” provision) prohibits the knowing sending or displaying of messages, “in a manner that is available to persons under 18 years of age,” which depict or describe “sexual or excretory activity or organs” in a way that is “patently offensive” in the context of “contemporary community standards.”¹⁶ Unlike the indecent transmission provision, violation of the patently offensive display provision would occur even if the speech was not actually directed at youths, so long as the defendant knew that the communication would be available to minors.

Violation of the CDA is punishable by criminal fines and up to two years imprisonment.¹⁷ However, two affirmative defenses limit the application of these provisions. “Good faith, reasonable, effective, and appropriate actions” to prevent access by minors to otherwise actionable communications,¹⁸ or use of specified screening methods such as requiring adult access codes or credit card numbers,¹⁹ prevent prosecution under both the indecent transmission and patently offensive display provisions.

II. CASE SUMMARY

A. Doctrinal Background

The plaintiffs argued that the CDA was facially invalid because it was both “vague” and “overbroad.” Vague laws violate the Fifth Amendment’s due process standards.²⁰ Though absolute clarity of law is unattainable given its linguistic nature, procedural due process mandates that statutory commands be drawn with clarity sufficient to (1) provide citizens

15. 47 U.S.C.A. § 223(a)(1)(b) (West Supp. 1997).

16. *Id.* § 223(d)(1).

17. *Id.* § 223 (a), (d).

18. *Id.* § 223(e)(5)(a).

19. *Id.* § 223(e)(5)(b).

20. “No person shall ... be deprived of life, liberty, or property, without due process of law.” U.S. CONST. amend. V.

with notice of the commands of the law,²¹ and (2) prevent excessive discretion in the enforcement of the law.²²

Overbroad laws violate the First Amendment.²³ Unless the First Amendment is implicated, a facial challenge to a statute will not succeed unless the challenger can prove that the statute has no constitutionally acceptable applications.²⁴ However, pursuant to overbreadth doctrine, a statute is subject to facial invalidation if (1) it burdens protected expression; (2) it lacks narrow tailoring—that is, if the burden on expression is overbroad in relation to the statute’s “plainly legitimate sweep,” and (3) no narrowing construction is available.²⁵

B. The District Court’s Decision

Pursuant to a statutorily mandated procedure for judicial review, the challenge to the CDA led to creation of a novel judicial panel. Though a single judge initially handled the suit, a facial challenge brought against the CDA sparked the formation of a three-judge panel to hold the trial.²⁶

When the ACLU and the other plaintiffs first filed suit in the Eastern District of Pennsylvania, District Court Judge Buckwalter was assigned to

21. See *Connally v. General Const. Co.*, 269 U.S. 385, 391 (1926) (a law couched “in terms so vague that men of common intelligence must necessarily guess at its meaning” violates due process).

22. See *Kolender v. Lawson*, 461 U.S. 352, 358 (1983) (vague criminal statutes threaten due process by enabling “policemen, prosecutors, and juries to pursue their personal predilections”).

23. Congress shall make no laws ... abridging the freedom of speech.” U.S. CONST. amend I. “Speech” is interpreted broadly to encompass many forms of “expression.” See, e.g., *United States ex rel. Milwaukee Social Democratic Publ’g Co. v. Burleson*, 255 U.S. 407, 431 (1921) (Brandeis, J., dissenting) (first articulating the speech-as-expression interpretation).

24. See *United States v. Salerno*, 481 U.S. 739, 745 (1987) (regulations not implicating the First Amendment are facially invalid only if there is no set of circumstances under which the law would be valid). But see Michael C. Dorf, *Facial Challenges to State and Federal Statutes*, 46 STAN. L. REV. 235, 236 (1994) (“[T]he *Salerno* ‘no set of circumstances’ principle does not accurately characterize the standard for deciding facial challenges.”).

25. See *Broadrick v. Oklahoma*, 413 U.S. 601, 615-16 (1973); see generally Richard H. Fallon, *Making Sense of Overbreadth*, 100 YALE L.J. 850, 863 (1991).

26. Notwithstanding any other provision of law, any civil action challenging the constitutionality, on its face, of this title, or any provision thereof, shall be heard by a district court of 3 judges convened pursuant to the provisions of section 2284 of title 28, United States Code.” Telecommunications Act of 1996, Pub. L. No. 104-104, § 561(a), 110 Stat. 56, 142-43 (codified as a note to 47 U.S.C. § 223). The referenced section provides that “A single judge may conduct all proceedings except the trial.” 28 U.S.C. § 2284(b)(3) (1994).

the case. Finding the statute's indecency provision unconstitutionally vague, he issued a temporary restraining order against enforcement of the CDA soon after the case was filed.²⁷ The three-judge panel was then convened for trial; it consisted of Judge Buckwalter, District Judge Dalzell, and Chief Judge Sloviter of the Court of Appeals for the Third Circuit.²⁸

The panel unanimously granted a preliminary injunction against enforcement of the CDA.²⁹ Together, the panel made extensive factual findings,³⁰ but each judge on the panel wrote a separate opinion. Judge Buckwalter and Chief Judge Sloviter found the CDA unconstitutionally overbroad under the First Amendment and unconstitutionally vague under the Fifth Amendment.³¹ Judge Dalzell found the CDA overbroad but not vague.³² His opinion extols the speech-enhancing and democratic character of the Internet, and concludes that "any regulation of protected speech on this new medium [would be unconstitutional]."³³

C. The Supreme Court Meets the Internet

Pursuant to "fast-track" review provisions applicable to the CDA,³⁴ the government directly appealed the district panel's decision to the Supreme Court. The Court unanimously held the CDA unconstitutional as overbroad.³⁵ It did not, however, reach the question of the CDA's vagueness, except indirectly, as a factor to be considered in determining the CDA's overbreadth.³⁶

27. *ACLU v. Reno*, 929 F. Supp. 824, 826 (E.D. Pa. 1996), *aff'd*, 117 S. Ct. 2329 (1997).

28. *See id.* at 826-27.

29. *See id.* at 849 ("[P]laintiffs have shown irreparable injury, no party has any interest in enforcement of an unconstitutional law, and therefore the public interest will be served by granting this preliminary injunction.").

30. *See id.* at 830-49. The court's findings related to the nature of the Internet, Internet content, and the viability of various types of filtering software. The Supreme Court relied on many of the trial court's factual assertions. *See Reno v. ACLU*, ___ U.S. ___, 117 S. Ct. 2329, 2334-37 (1997).

31. *ACLU*, 929 F. Supp. at 858-59 (Judge Buckwalter), 857 (Judge Sloviter).

32. *See id.* at 867-69, 883.

33. *Id.* at 867.

34. "Notwithstanding any other provision of law, an interlocutory or final judgment, decree, or order of the court of 3 judges . . . holding this title or an amendment made by this title, or any provision thereof, unconstitutional shall be reviewable as a matter of right by direct appeal to the Supreme Court." Telecommunications Act of 1996, Pub. L. No. 104-104, § 561(b), 110 Stat. 56, 143 (codified as a note to 47 U.S.C. § 223).

35. Six justices joined Justice Stevens's opinion. Justice O'Connor, joined by Chief Justice Rehnquist, filed a concurrence holding the CDA unconstitutional on somewhat narrower grounds than the majority.

36. *See Reno*, 117 S. Ct. at 2343-45.

Discussion of the case will proceed in three parts, paralleling the three criteria for overbreadth. Part II.C.1. will consider whether the CDA burdens speech protected by the First Amendment, and if so, whether full First Amendment protection is justified. Part II.C.2. will discuss the burden imposed by the CDA in relation to the government interest it serves. Part II.C.3. will examine the possibility of judicially narrowing the scope of the CDA.

1. *The CDA Regulates Protected Expression*

It is well established that obscene expression is not protected under the First Amendment.³⁷ Thus the plaintiffs in *Reno* did not challenge the CDA provisions regulating on-line obscenity.³⁸ But not all sexually explicit material is obscene, and the CDA's regulation of "indecent" and "patently offensive"³⁹ material burden expression protected by the First Amendment.

However, the government did have a compelling interest in enacting the CDA: protecting minors from "indecent" and "patently offensive" expression.⁴⁰ Even though such speech is protected by the First Amendment when adults are involved, the scope of minors' First Amendment rights is less extensive.⁴¹

Moreover, speech harmful to minors can be regulated more stringently in some media than it can be in others.⁴² Over the past thirty years, the Supreme Court has fashioned a "medium-specific" approach to content

37. See, e.g., *Chaplinsky v. New Hampshire*, 315 U.S. 568, 571-72 (1942). Obscenity is defined under a three-part test, all parts of which must be met: (1) The average person, applying contemporary community standards, would find the work, taken as a whole, appeals to the prurient interest; (2) the work depicts or describes, in a patently offensive way, sexual conduct specifically defined by applicable state law; and (3) the work, taken as a whole, lacks serious literary artistic, political, or scientific value. See *Miller v. California*, 413 U.S. 15, 24 (1973). Under this definition, only depictions or descriptions of "hard core" sexual conduct are obscene. See *id.* at 27-28.

38. See *Reno*, 117 S. Ct. at 2349. Obscenity is oft regulated in other contexts. See, e.g., 18 U.S.C. § 1465 (1994) (prohibiting transportation in commerce of obscene material); *id.* § 1466 (1994) (prohibiting engaging in the business of selling obscene materials).

39. It is true that the "patently offensive" language in the CDA incorporates some of the language of the *Miller* test for obscenity, see *supra* note 37, but, as the Court points out, incorporating one element of the three-pronged *Miller* test is not sufficient. See *Reno*, 117 S. Ct. at 2345.

40. See *Ginsberg v. New York*, 390 U.S. 629, 638-39 (1968) (establishing government interest in protecting minors from sexually indecent speech).

41. See, e.g., *id.* at 639-40.

42. For a discussion of the rationale which led the Court to tailor First Amendment protection to the media involved, see *infra* part IV(A).

regulation. Print has always received the full quantum of First Amendment protection.⁴³ But in an approach that began with *Red Lion Broadcasting Co. v. FCC*⁴⁴ and was refined in *FCC v. Pacifica Foundation*,⁴⁵ the Court found that broadcasting's history of governmental regulation, the scarcity of bandwidths available, and the intrusive nature of the medium justify affording a lesser degree of First Amendment protection to broadcast expression.⁴⁶ More recently, the Court extended this medium-specific approach to find content on cable television more constitutionally protected than broadcasting, but nevertheless not so constitutionally insulated as printed content.⁴⁷ Because the Internet has no history of lesser protection,⁴⁸ no comparable bandwidth limitations, and because accessing indecent expression on the Internet usually requires a "series of affirmative steps,"⁴⁹ the Court held the Internet, as a medium, most analogous to print, and therefore deserving of the strongest First Amendment protection.⁵⁰

2. *The CDA's Regulation of Protected Expression is Overbroad*

The Court found that a number of factors contributed to making the CDA an overbroad law subject to facial invalidation.⁵¹ Specifically, one problem with the CDA was that it was somewhat vague.⁵² Congress' failure to define the standards by which "indecent" or "patently offensive" material would be adjudged, and confusion between the two standards Congress used to regulate communications left the Court weary of the "chilling effect" that the CDA's commands may have on the exercise of free speech.⁵³ The resulting uncertainty in applying the CDA "undermines the likelihood that the CDA has been carefully tailored to the congres-

43. See, e.g., *Miami Herald Publishing Co. v. Tornillo*, 418 U.S. 241, 258 (1974).

44. 395 U.S. 367 (1969).

45. 438 U.S. 726 (1978).

46. See *id.* at 741 n.17 (1978) ("[I]t is well settled that the First Amendment has a special meaning in the broadcasting context.").

47. See *Turner Broadcasting System, Inc. v. FCC*, 512 U.S. 622, 637-662 (1994).

48. *Reno v. ACLU*, ___ U.S. ___, 117 S. Ct. 2329, 2342 (1997).

49. *Id.*

50. *Id.* at 2343-44. This finding, and its ramifications, will be discussed further *infra* part III(A).

51. This multi-faceted approach, common in First Amendment jurisprudence, has led some scholars to decry First Amendment doctrine as "infinitely complex." See, e.g. Fallon, *supra* note 25, at 864. It has led others to describe the doctrine as effectively a balancing methodology. See, e.g., S. SHIFFRIN, *THE FIRST AMENDMENT, DEMOCRACY, AND ROMANCE* 9-45 (1990), J. ELY, *DEMOCRACY AND DISTRUST* 105-16 (1980) (criticizing the balancing approach).

52. The Court, however, did not reach the question as to whether the CDA was so vague as to violate the Fifth Amendment.

53. *Reno*, 117 S. Ct. at 2344.

sional goal of protecting minors from potentially harmful materials.”⁵⁴ In other words, the CDA’s vagueness contributes to its overbreadth. The Court, however, avoids quantifying the ramifications of its finding.

Next, the Court begins a more formal analysis of the CDA’s overbreadth. The problem confronted was that the CDA’s regulations, though aimed at protecting children, would have the effect of limiting adults’ access to speech that they have a constitutional right to receive. Because the Court found that the CDA’s mandates were “content-specific”—that is, they were aimed specifically at the content of the regulated expression, rather than at its “secondary effects”⁵⁵—the CDA would be overbroad unless “narrowly tailored” to achieve the compelling governmental interest of protecting minors from harmful speech on the Internet.⁵⁶ Moreover, given the CDA’s vague character and the full protection afforded the Internet as a medium, it is especially important that the means not outpace the ends; the government may not “reduc[e] the adult population ... to ... only what is fit for children.”⁵⁷ The Court invoked its strictest standard of scrutiny, concluding:

In order to deny minors access to potentially harmful speech, the CDA effectively suppresses a large amount of speech that adults have a constitutional right to receive and to address to one another. That burden on adult speech is unacceptable if *less restrictive alternatives* would be at least as effective in achieving the legitimate purpose that the statute was enacted to serve.⁵⁸

Alternative methods of Internet content regulation, such as “tagging” and filtering software, were then considered.⁵⁹ Because the Court determined that the government failed to prove that such methods would not be as ef-

54. *Id.*

55. *Id.* at 2342 (distinguishing *Renton v. Playtime Theaters*, 475 U.S. 41 (1986)). *But see Reno*, 117 S. Ct. at 2351-57 (O’Connor, J., concurring and dissenting) (analyzing the CDA as a form of “cyberzoning” with the purpose of establishing “adult zones” on the Internet, rather than of regulating content). Regulations aimed at the “secondary effects” of expression (“content-neutral” regulations) are subject to a lesser degree of judicial scrutiny than “content specific” regulations; content-neutral regulations are constitutional if they serve a substantial governmental interest, and do not unreasonably limit alternative channels of communication. *See, e.g., Renton*, 475 U.S. at 47; *Clark v. Community for Creative Non-Violence*, 468 U.S. 288, 293 (1984).

56. *See Broadrick v. Oklahoma*, 413 U.S. 601, 615-16 (1973).

57. *Reno*, 117 S. Ct. at 2346 (quoting *Denver Area Ed. Telecommunications Consortium, Inc. v. FCC*, 116 S. Ct. 2374, 2393 (1996)).

58. *Reno*, 117 S. Ct. at 2346 (emphasis added).

59. For a discussion of such technologies, see *infra* part III(B).

fective as the CDA at protecting minors from indecent and patently offensive expression on the Internet, the CDA was held overbroad.⁶⁰

3. *Only a Trivial Narrowing Construction is Available*

The government, as an argument of last resort, asked the Court to use the CDA's severability clause⁶¹ to remove its overbroad elements, and to construe non-severable terms as narrowly as possible.⁶² The Court essentially refused to do so, arguing that it is beyond the Court's province to do the sort of substantive revision that would be required in order to salvage a material portion of the CDA.⁶³ Instead the "patently offensive display" and "indecent transmission" provisions were found facially invalid. With these provisions struck, only the CDA's regulation of obscenity, which, as noted above, receives no protection under the First Amendment, was upheld.⁶⁴

III. DISCUSSION

A. The Medium-Specific Scrutiny Approach as Applied to the Internet

The Court's opinion in *Reno v. ACLU* begins with the proposition that the Internet is entitled to the most stringent degree of protection available under the First Amendment. Justification for heightened regulation of other mediums has been threefold: (1) historical regulation; (2) scarcity of access;⁶⁵ and (3) the "captive audience" or "invasive nature" problem.⁶⁶

The historical argument is weak both theoretically and as applied to the Internet. Theoretically, it is unclear why past governmental regulation

60. *Reno*, 117 S. Ct. at 2347. *But see infra* part III(B) (discussing availability of alternatives to the CDA); Eugene Volokh, "Freedom of Speech, Shielding Children, and Transcending Balancing," 1997 SUP. CT. REV. (forthcoming 1998) (arguing that the alternatives considered by the Court are not presently available or effective, and so, factually, no "less restrictive alternatives" to the CDA are available).

61. "If any provision of this chapter or the application thereof to any person or circumstances is held invalid, the remainder of the chapter and the application of such provision to other persons or circumstances shall not be affected thereby." 47 U.S.C. § 608 (1994)

62. *See Reno*, 117 S. Ct. at 2350.

63. *See id.*

64. *See id.*

65. That is, in the broadcast context, there are a limited number of available frequencies (channels) from which "speakers" can communicate, so permitting indecent speech would necessarily come at the expense of other types of expression. *See Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 388 (1969).

66. *See Reno*, 117 S. Ct. at 2343.

of a medium should serve as a justification for infringing on constitutional rights. And practically, the Internet, as a relatively new medium, has no history of significant governmental regulation.⁶⁷ Likewise, the access argument is inapplicable to on-line communications because bandwidth limitations comparable to those that affect broadcasting are not present.⁶⁸

Applying the third argument to the Internet is more complicated. Relying on the trial Court's findings of fact, the Court finds that content on the Internet is seldom encountered by accident.⁶⁹ However, seemingly innocuous net-searches such as "teen," "eagle," or "candy" may lead users directly and unwittingly to sexually explicit web sites.⁷⁰ Moreover, mass e-mail advertisements or "spam" often contain a variety of pornographic solicitations.⁷¹ Though the Court correctly finds that the Internet is not as invasive as broadcasting,⁷² it overestimates a user's ability to control the content that is received.

Nevertheless, the Court is satisfied with its finding that broadcasting is a more "invasive" medium than the Internet, and extends full First Amendment protection to the Internet. This will have three ramifications. First, as attested to by the failure of the CDA, it will be more difficult to enact Internet content-regulations. Governmental regulations will have to

67. See *id.* at 2344. It is true, however, that the Internet is the child of ARPANET, which was funded by the government. See *ACLU v. Reno*, 959 F. Supp. 824, 831-32 (E.D. Pa. 1996), *aff'd*, 117 S. Ct. 2329 (1997). Thus some sort of ownership justification may seem plausible. However, a variety of considerations make such a theory of very limited weight. First, the Internet has been free from government control for a number of years, and has been operating without material governmental interference during that time. Thus, even if the government was initially entitled to control its content, the right to do so may have been abandoned or adversely possessed. Second, the prevalence and value of the Internet is not attributable to the government, but rather to the private users that have made it widespread. Cf. *Lotus Devel. Corp. v. Borland Intl., Inc.*, 49 F.3d 807, 821 (1st Cir. 1995) (Boudin, J., concurring) ("[I]t is hard to see why customers who have learned the Lotus menu and devised macros for it should remain captive of Lotus because of an investment in learning made by the users and not by Lotus."). Third, First Amendment protections are not trumped by governmental assertions of property rights when the property is a "public forum." See *Perry Education Assn. v. Perry Local Educators' Assn.*, 460 U.S. 37, 45-46 (1983); David J. Goldstone, *A Funny Thing Happened on the Way to the Cyber Forum: Public vs. Private in Cyberspace Speech*, 69 U. COLO. L. REV. 1, 7-10 (1998) (discussing application of public forum doctrine to Internet).

68. See *Reno*, 117 S. Ct. at 2343.

69. See *id.* at 2343 (citing *ACLU*, 929 F. Supp. at 844).

70. See, e.g., Brad Stone, *Coping With the Internet*, NEWSWEEK EXTRA, Winter 1997, at 15 ("type in the word 'teen' and sex sites are mixed in with your results").

71. See *id.* at 20.

72. See *Reno*, 117 S. Ct. at 2343.

survive strict scrutiny, and so the power of Congress and the states to regulate the Internet will be more constrained in the future.

Second, this difficulty will spur the development and use of filtering technologies and other private means of shielding unwanted content.⁷³ Parents, schools, and even libraries⁷⁴ are already hurrying to find and implement effective means of content regulation.⁷⁵ The more stringently the Internet is protected from public regulation, the more important these private measures will become in regulating content.

Third, the Court's medium-tailored analysis of the First Amendment will become much less significant. As the Internet grows, it is continually incorporating other media, such as television, and as it comes to offer a viable alternative to broadcasting and cable, those industries will begin televising their programs over the Internet. Programs on "Internet TV," unlike those carried on traditional mediums, will be fully protected by the First Amendment, and there will be little content transmitted via broadcast or cable that is not also on the Internet.⁷⁶ Thus, eventually, it is unlikely that a significant portion of expression will be burdened with the lesser degree of First Amendment protection afforded to broadcast and cable.

B. Regulating Internet Content After *Reno v. ACLU*:

As noted above, the full protection afforded the Internet as a medium will spur the development of private means of protecting minors from harmful content.⁷⁷ There are currently three general methods of doing so,

73. See *infra* part III(B).

74. There have been a number of controversies involving libraries and the adoption of filtering technologies. Libraries have been attacked from both sides: Those libraries that have introduced filtering software have been criticized by free speech activists for discouraging the exchange of ideas. Those that have not have been hounded by activists who claim that the librarians are distributing pornography of minors. See Jim Rendon, *No Place is Safe*, WIRED, Dec. 1997, at 102. The American Library Association has criticized filtering software as imprecise and arbitrary. See *id.*

75. See, e.g., Glenn Kubota, *Public School Use of Internet Filtering Software: Book Banning Reincarnated?*, 17 LOYOLA L.A. ENT. L.J. 687, 687-89 and accompanying notes (1997) (many school districts already use some form of filtering software).

76. Cf. *Denver Area Educational Telecommunications Consortium v. FCC*, ___ U.S. ___, 116 S. Ct. 2374, 2402 (1996) (Souter, J., concurring) ("[W]e have to accept the likelihood that the media of communication will become less categorical and more protean.")

77. See *supra* part III(A). Cf. Jane Black, "Lewd and Rude: Blocking the Bad Without Booting the Good," NEWSWEEKEXTRA, Winter 1997, at 21 ("In Cyberspace, where anarchy rules and even a typo can lead to a pornography site, parents need help in constructing kid-safe zones."). A number of technology and media companies have recently embarked on a public relations campaign design to educate parents to install filtering products on their computers. See Rajiv Chandrasekaran, *Internet Firms to Kid-Proof Sex Sites*, S.F. CHRON, Dec. 1, 1997, at A1.

each of which will be considered in turn: (1) coercion, or what has been termed "low-tech" regulation;⁷⁸ (2) verification of age and/or identity; and (3) a variety of forms of "filtering" software. A discussion of their attributes and shortcomings helps demonstrate that none of the three methods is as effective as the CDA would have been at shielding minors from harmful on-line content. If this is so, then there are no less restrictive alternatives *at least as effective* as the CDA, and the Court's finding to the contrary⁷⁹ is in error.

1. "Low-Tech" Regulation

The simplest form of regulation is coercion. While coercive legislation such as the CDA is constrained by the *Reno* opinion, parents, schools, and other Internet access providers can use coercive measures to regulate the content that is actually accessed on their computers. Parents, for example, can formulate "house rules" for their children's Internet use, and establish consequences for breaking those rules.⁸⁰

Such a method may be feasible on a grander scale. For example, the Los Angeles Unified School District recently established an "Acceptable Use Policy" that students and parents must sign prior to the students' receiving Internet access.⁸¹ The policy establishes rules against intentionally accessing pornographic materials, and violations are punished by the cancellation of access privileges.⁸² The key to regulatory authority here is not only the fact that all users are minors, but also that access is considered a "privilege," and so students cannot refuse to be constrained by the terms of the use agreement.

However, as with all coercive measures, "low-tech" regulation can only be as effective as its enforcement mechanism. Monitoring the usage habits of minors is probably impractical, and minors might still access indecent materials on unmonitored computers (for example, at friends' houses). These problems leave "low-tech" efforts to regulate on-line content in need of an effective supplement.

2. Verification Methods

Another method of restricting minors' access to harmful on-line materials is to require that some method of age verification be used at sites that

78. Kubota, *supra* note 75, at 695.

79. See *Reno v. ACLU*, ___ U.S. ___, 117 S. Ct. 2329, 2347 (1997); see also *supra* part II(C)(2).

80. See Stone, *supra* note 70, at 20.

81. See Kubota, *supra* note 75, at 695-96.

82. See *id.* at 696.

contain indecent expression, such as the use of credit cards or of a personal identification password. The district court considered such a requirement, but found that current methods of verification are too expensive, and would thus impose an unfair burden on non-commercial content providers.⁸³ Furthermore, requiring credit card verification would restrict the access of adults that do not have credit cards,⁸⁴ and requiring credit cards or personal identification numbers might restrict the access of adults concerned with their privacy.⁸⁵ And, as the Supreme Court noted, there is little "evidence that these verification techniques actually preclude minors from posing as adults."⁸⁶ This array of problems makes a verification-based methodology for controlling Internet content of limited usefulness.

Nevertheless, legislation has recently been proposed which would institute a mandatory regime of verification for all commercial providers of materials "harmful to minors."⁸⁷ Currently, most commercial sites require a credit card, but the proposed legislation would also require use of a verification method before display of the "teaser" images commonly found in the publicly accessible areas of commercial sites.⁸⁸ Critics argue that the bill is vague because it fails to define its "harmful to minors" standard, and also unfair because it burdens commercial sites without restricting the provision of "harmful" materials at free sites.⁸⁹ Given these problems and those discussed above, such a legislatively mandated system of verification should fail to pass *Reno's* constitutional test.

3. Filtering Software

Generally, filtering software is designed to limit a user's access to Internet sites that contain sexually explicit content, and it is currently the most promising method of Internet content regulation.⁹⁰ Such software is commercially available from a number of companies, and most will soon include compatibility with the Platform for Internet Content Selection

83. See *ACLU v. Reno*, 929 F. Supp. 824, 846 (E.D. Pa. 1996), *aff'd*, 117 S. Ct. 2329 (1997).

84. See *id.*

85. See *id.* at 847.

86. *Reno*, 117 S. Ct. at 2349; see also *ACLU*, 929 F. Supp. at 847.

87. See Jon Schwartz, *Another Bid to Ban Web Porn*, S.F. CHRON., Nov. 14, 1997 at B1 (discussing "Son of CDA" legislation introduced by Senator Dan Coates).

88. See *id.* at B1.

89. See *id.* at B2.

90. See, e.g., Chandrasekaran, *supra* note 77, at A11; Andrew L. Shapiro, *Letter from Aspen: Blocking Software Triggers a Rocky Mountain High*, WIRED, Nov. 1997, at 118 (quoting Ralph Reed, head of the Christian Coalition, stating "[t]he wave of the future is going to be filtering software.").

(PICS), a rating system that is rapidly developing on the Internet.⁹¹ Filtering software cannot only block certain "x"-rated sites (or restrict a user to sites that have been rated decent⁹²), but also can prevent the use of "inappropriate" search terms to access unrated content.⁹³ Moreover, some filtering software products keep a log of attempted violations.⁹⁴ Despite these variations, three primary methods of filtering content can generally be discerned: (a) ratings-based blocking or "tagging"; (b) search-term blocking; and (c) image filtering. None are exceptionally effective at restricting minors' access to indecent material.

a) Ratings-based blocking/tagging

Ratings can be either self-imposed or issued by third parties, but both methodologies are similarly problematic. Self-rating involves the voluntary or mandatory rating of content by a web-site administrator,⁹⁵ while third party rating would involve some rating "authority." Both methods would require filtering software queued to the protocol of the particular rating system.⁹⁶

91. See *ACLU*, 929 F. Supp. at 838-39 (discussing PICS). Some filtering software is already compatible with PICS. See *id.* at 840 (Cyber Patrol); see also Shapiro, *supra* note 90, at 118 ("Browser kings Netscape and Microsoft have said they will rely on PICS, a technical protocol that allows for easy and effective labeling and blocking of content.").

92. For example, the search engine "Yahoo!" offers a "kid-safe" version called "Yahooligans!" that retrieves only pre-approved sites, and can be accessed at <<http://www.yahooligans.com>>.

93. See Kubota, *supra* note 75, at 696; Black, *supra* note 77, at 21 (explaining the features of five different filtering products).

94. See Black, *supra* note 77, at 21.

95. A mandatory system of self-rating would likely be held unconstitutional after *Reno*. First, the problems involved in categorizing speech would make a statute mandating self-rating arguably vague; as one commentator put it, "[s]elf-rating would be subjective and annoying, and it would impose a frigid chill on free expression." See Shapiro, *supra* note 90, at 118. The trial court also considered the constitutionality of mandatory self-rating. It concluded that self-rating would be "extremely burdensome" for many Internet speakers, and that its "feasibility and effectiveness" had not been established. See *ACLU*, 929 F. Supp. at 847.

96. See *ACLU*, 929 F. Supp. at 848; Kubota, *supra* note 75, at 701-02. Such a system would work by embedding a string of characters in the URL or HTML, see *ACLU*, 929 F. Supp. at 847, or through the creation of a new top-level domain name such as ".xxx". The Generic Top-Level Domain Society, the entity charged with the creation of new top-level domain names, see Heather Mewes, *Memorandum of Understanding on the Generic Top-Level Domain Name Space of the Internet Domain Name System*, 13 BERKELEY TECH. L.J. 235 (1998), is considering and taking public comments on just such a proposal.

One problem with ratings-based blocking is that it invites censorship. Currently, rating of content on the Internet is performed primarily by the private companies that make and sell filtering software. It has been argued that allowing software makers to exert such power over the receipt of speech has, ironically, imposed a greater burden on First Amendment values than the CDA.⁹⁷ However, the decision to purchase and employ filtering software is voluntary, and no First Amendment values are threatened by a personal decision to forgo the receipt of certain types of speech. A more real threat to First Amendment values occurs when the standards used to identify and rate indecent content are not disclosed to the user of a filtering product. For example, a filtering product could block access to all sites that involve "abortion" or "family planning." Though such censorship is acceptable if consumers are aware of its existence, software designers arguably should be required to divulge their filtering criteria. However, the highly complicated nature of filtering programs makes it unlikely that users will fully understand the filtering criteria even if divulged. These problems are exacerbated when a governmental actor employs the software.⁹⁸

Another problem with ratings-based blocking is that, depending on the methodology involved, access to Internet materials will be either under- or over-inclusive.⁹⁹ Filtering software using a ratings-based system can either (a) only allow access to rated sites, or (b) not allow access to rated sites. The first methodology excludes too much speech by restricting the materials available on the Internet to those that have been positively rated—that is, there are a multitude of "childsafes" sites that would be excluded under such a system.¹⁰⁰ The second methodology excludes too little content; material "harmful to minors" will still be accessible because such material will often be found on unrated sites. On balance, although ratings-based software continues to become a more effective tool for blocking content "harmful to minors," problems associated with the rating process will prevent ratings-based blocking from providing the "global" solution to Internet content sought by the CDA.

97. See Amy Harmon, *Technology to Let Engineers Filter the Web and Judge Content*, N.Y. TIMES, Jan. 19, 1998, at C1.

98. See Kubota, *supra* note 75, at 710-14 (applying rationale of book-banning cases to public school's use of filtering software).

99. See *id.*, at 697-703 (discussing methodologies).

100. Note, however, that the more prevalent this methodology is, the greater incentive content providers will have to self-rate, because otherwise they will not be able to reach those using the software.

b) Search term blocking

Most filtering products incorporate a method of preventing searches for indecent material.¹⁰¹ For example, such software might prevent a search for "sex," and so prevent a user from retrieving links to "sex"-related sites. This "if you can't find it you can't see it" methodology is only partially effective. First, search term blocking does not prevent access to sites whose addresses are already known. Moreover, as noted above, seemingly innocuous search terms often lead to pornographic links.¹⁰² Thus search term blocking does not provide a significant bar to minors' access of on-line indecency.

c) Image recognition

Another type of filtering software, which was not discussed in either the district court's or Supreme Court's opinion, is image recognition software. Image recognition is still a nascent field,¹⁰³ but such software is likely to become a viable method of information retrieval, as well as a helpful supplement to traditional text-based searching.¹⁰⁴

Three methods of image recognition have been employed. The first works by comparing a sample image to other images in order to find similar images.¹⁰⁵ This method is "limited to finding superficially related images," and "is not very useful."¹⁰⁶ The second relies on the general appearance of the image—its "regions of near-constant color and texture" or the "stuff" that makes it up.¹⁰⁷ Such software can be fairly successful at image recognition, and a variety of programs have been developed using a "stuff"-based methodology.¹⁰⁸ The third methodology searches directly

101. See Black, *supra* note 77, at 21 (describing methods employed by six filtering products).

102. See *supra* note 70 and accompanying text.

103. See David Forsyth, et al., *Searching for Digital Pictures*, 276 SCIENTIFIC AMERICAN 6, 72 (1997) ("Unfortunately, current understanding of how to recognize objects in images falls far short of [its goal].")

104. "Ultimately, it should be possible to obtain a picture of a pouncing leopard by simply filling in a form ("spotty," "feline body plan," "leaping"), submitting it to a search engine and waiting for a selection of appropriate pictures to come back. This goal is achievable." *Id.* at 77.

105. See *id.* at 72.

106. *Id.* at 73.

107. *Id.* Thus a search for a sailboat might require specifying a large region of blue with a small region of yellow.

108. IBM (Query by Image Content) and MIT (Photobook) researchers have developed such programs. See *id.* However, proponents of the third methodology have argued that "stuff" based searching is still plagued by a variety of problems which will make it unable to "provide a sufficient foundation for content-based retrieval." *Id.* at 73-74.

for objects, such as horses or water, though it may also include “stuff”-based searching as a supplement. It is both the most promising from an information retrieval perspective, and the most difficult to implement.¹⁰⁹

Image recognition technology can be applied in a filtering context. Nudity, in fact, is rather easy to detect because “skin has a very limited range of colors, and essentially no texture,” and because the body has a rather distinct “spatial layout.”¹¹⁰ At least one object recognition program has been developed that identifies nudity with a fair amount of regularity.¹¹¹ As image recognition technology progresses, it may become a rather effective method of filtering content on the Internet. But image recognition software is still highly developmental, and its eventual effectiveness cannot yet be determined.

IV. CONCLUSION

Neither “low-tech” regulation, nor verification, nor filtering software bars minors’ access to harmful on-line content as effectively as would the CDA. Low-tech regulation will not provide a significant bar to minors’ receipt of on-line content because minors’ usage will be too difficult to monitor. Similarly, verification methods are costly, restrictive, and somewhat ineffective. While filtering technologies are better at blocking unwanted content than the other two methods, problems associated with the various types of filtering software leave it less effective than the CDA would have been. So, under the Court’s strict-scrutiny “alternatives” test, whereby a statute is held facially invalid if less restrictive alternatives that are *at least as effective* could be employed in furthering the governmental interest served by the statute,¹¹² the CDA should have been upheld.¹¹³ As

109. See *id.* at 73-77. The most pressing difficulty is that of “perceptual grouping”—grouping relevant regions and shapes together for analysis.

110. David Forsyth & Margaret Fleck, *Finding People and Animals Using Body and Action Plans* (visited Dec. 1, 1997) <<http://http.cs.berkeley.edu/~daf.html>>.

111. See Forsyth, *supra* note 103, at 76-77 (“The program finds nude people in 40 percent of those images that contain them and in only 4 percent of those that do not.”); see also David A. Forsyth & Margaret Fleck, *Finding Naked People*, INT’L J. COMPUTER VISION (forthcoming 1998) (currently available at <<http://http.cs.berkeley.edu/~daf.html>>).

112. See *Reno v. ACLU*, __ U.S. __, 117 S. Ct. 2329, 2347-48 (1997).

113. This suggests some questions: First, will such alternatives be available in the near or distant future? It is possible that a combination of verification and emerging filtering technologies will eventually provide an adequate bar to minors’ access of harmful content, but that is an open question. Second, *should* the “less restrictive alternatives” test require that the alternative be “at least as effective,” or merely that they be “nearly” or “substantially” as effective? Volokh argues that the *Reno* decision demonstrates the

Eugene Volokh notes, "fairly effective, reasonably effective, not too awfully ineffective" alternatives are available, but no present method of content regulation is *as effective* as the CDA. Thus "the Court is, on the facts, simply wrong."¹¹⁴ Whether this is viewed as a fatal error or fortuitous oversight, a survey of available methods of Internet content regulation demonstrates that the Court's factual assertion is indeed incorrect.

Reno v. ACLU is most notable for holding the Internet subject to the most stringent degree of First Amendment protection. This finding will severely limit governmental involvement in regulating content on the Internet, and so force the development of private regulatory measures. Though a variety of tools are currently available for the private regulation of Internet content, and more effective tools are being developed, no method currently available is likely to block minors' receipt of "harmful" on-line content as effectively as the CDA. The Court's decision in *Reno*, which assumes that there are *effective* alternatives, is therefore based on a factually incorrect finding. Nevertheless, responsibility for Internet content regulation has been decisively shifted to the private sector.

poverty of the less restrictive alternatives test, but also criticizes a "nearly as effective" approach, advocating instead a "balancing" approach. See Volokh, *supra* note 60, at §§ 2-4.

114. *Id.* at § II(A). Volokh does not consider the full gamut of methods available to regulate Internet content, concentrating instead on those specifically considered by the Court.

FREE SPEECH COALITION V. RENO

By Gary Geating

A college student decides to create a pictorial of Romeo and Juliet in a sexual embrace for her art class. She turns on her computer and scans in two photographs of her and her boyfriend naked from the waist up. Then using graphics software, she alters their pictures to create new images resembling adolescents, and poses them in a loving embrace in an Elizabethan bedroom. Has she produced child pornography? Her boyfriend returns from a trip to Japan with ten *manga*, Japanese comic books, and gives them out to fellow language students to practice reading Japanese. Each *manga* contains about ten short comic stories ranging from baseball to superheroes. At least one story in each *manga* depicts a young high school girl who must battle evil and in the process usually slips out of her school girl uniform. Has the boyfriend just distributed child pornography? Does child pornography need to depict an actual child engaged in sexual activity, and if it does not, how do we avoid the conclusion that we are punishing mere thought and not conduct?

Past federal child pornography statutes have tracked the constitutional limits set forth by the Supreme Court. The first child pornography statute, the Sexual Exploitation of Children Act enacted in 1977, prohibited only pornographic material that was obscene under the *Miller* test.¹ In 1982, the Supreme Court separated child pornography from pornography governed by the *Miller* test, creating a special class of pornography that can be prohibited regardless of whether it is obscene or not.² Congress responded to the Supreme Court's decision with the Child Protection Act of 1984, which removed the obscenity requirement from the federal child pornog-

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1. See Debra D. Burke, *The Criminalization of Virtual Child Pornography: A Constitutional Question*, 34 HARV. J. ON LEGIS. 439, 449-50 (1997). In *Miller v. California*, Miller v. California, 413 U.S. 15 (1973), the Supreme Court set forth constitutional guidelines for statutes regulating obscenity on how to determine if material is obscene. The basic guidelines for the trier of fact are: (a) whether the "average person, applying contemporary community standards" would find that the work, taken as a whole, appeals to the prurient interest; (b) whether the work depicts or describes, in a patently offensive way, sexual conduct specifically defined by the applicable state law; and (c) whether the work, taken as a whole, lacks serious literary, artistic, political, or scientific value. See *id.* at 24.

2. See *New York v. Ferber*, 458 U.S. 747, 764-65 (1982).

raphy statute.³ In a 1990 decision, the Supreme Court upheld the constitutionality of prohibiting the private possession of child pornography.⁴ Congress then amended the child pornography statute to prohibit the possession of three or more pieces of child pornography.⁵

In 1996, Congress leaped ahead of the Supreme Court by expanding the federal statute's definition of child pornography to include simulated child pornography, which is child pornography made without the participation of an actual child. The inclusion of simulated child pornography in the statute's definition of child pornography appears to be beyond the scope of pornographic material that the Supreme Court has categorized as child pornography.⁶ Why has Congress decided to leap ahead of the Supreme Court after following its lead in the area of child pornography for twenty years? Technology has created new possibilities in the child porn industry. Computer graphics software can create lifelike images, which until now could only be expected from photographs. Therefore, Congress has taken the first step to face these new computer-generated simulations in hopes that Supreme Court will follow.⁷ In *Free Speech Coalition v. Reno*,⁸ a district court in the Northern District of California took this step with Congress by upholding the constitutionality of prohibiting simulated child pornography.

I. BACKGROUND

In *Free Speech Coalition v. Reno*, the plaintiffs filed a First Amendment challenge to the new definition of child pornography contained in the Child Pornography Prevention Act of 1996 (CPPA).⁹ Under the CPPA, photographs, film, videos, computer-generated pictures, and pictures fall within the statute's definition of child pornography if: (a) their production involves the use of a minor in sexually explicit conduct, (b) they depict what is or appears to be a minor engaging in sexually explicit conduct, (c)

3. See Burke, *supra* note 1, at 449-50.

4. See Osborne v. Ohio, 495 U.S. 103, 111 (1990); *but cf.* Stanley v. Georgia, 394 U.S. 557, 568 (1969) (holding private possession of obscene materials may not be banned).

5. Burke, *supra* note 1, at 451.

6. See Ferber, 458 U.S. at 764-65.

7. See 142 CONG. REC. S11840-41 (daily ed. Sept. 30, 1996) (statement of Sen. Hatch).

8. No. C 97-0281, 1997 WL 487758 (N.D. Cal. Aug. 12, 1997).

9. See *id.* at *1. The plaintiffs include an association that defends First Amendment rights, a publisher of a book dealing with nudism, and individual artists whose works include nude photographs and paintings. See *id.*

they have been modified to make it appear that an identifiable minor is engaging in sexually explicit conduct, or (d) they are advertised, promoted, presented, described, or distributed in such a manner that conveys the impression that the material is a visual depiction of a minor engaging in sexually explicit conduct.¹⁰ The plaintiffs argued that these provisions constitute impermissible content-based regulations, and that they are vague and overbroad.¹¹ Both the plaintiffs and the government defendants moved for summary judgment.¹² Senior District Judge Conti held that the CPPA did not violate the First Amendment and granted the defendants' motion for summary judgment.¹³

A. Content-Neutral Standard of Review

The district court did not address whether the CPPA's definition of child pornography includes material beyond the scope of the Supreme Court's category of child pornography.¹⁴ Instead, the district court began its discussion by determining the standard of review under which to scrutinize the CPPA's contested provisions.¹⁵ The district court found that the CPPA is a content-neutral rather than a content-based regulation, and held that "the contested provisions of the CPPA survive the intermediate scrutiny set forth by the Supreme Court for content-neutral regulations."¹⁶

The district court decided that the contested provisions of the CPPA are content-neutral because they can be justified without reference to the content of the regulated speech.¹⁷ The aim of regulating computer-generated pornography centers on preventing the devastating secondary

10. See 18 U.S.C. § 2256(8) (1997).

11. See *Free Speech Coalition*, 1997 WL 487758, at *1.

12. See *id.*

13. See *id.* at *7

14. See *infra* note 38.

15. The district court succinctly decided that the plaintiffs had standing to bring this pre-enforcement challenge to the CPPA. The defendants argued that the plaintiffs' activities fell within the affirmative defense provided by the statute and therefore they had suffered no injury to confer standing. See *Free Speech Coalition*, 1997 WL 487758, at *2. The plaintiffs countered that they had been injured by the CPPA because they had stopped distribution and production of some materials due to fear of prosecution. See *id.* at *3. In addition, the plaintiffs argued that the affirmative defense does not protect people who consume and distribute the potentially illegal material because they cannot meet its requirements. See *id.* In the First Amendment context, a party may challenge a statute's overbreadth by claiming it may be unconstitutionally applied to other persons not involved in the case. See *Massachusetts v. Oakes*, 491 U.S. 576, 581 (1989).

16. See *Free Speech Coalition*, 1997 WL 487758, at *4-5.

17. See *id.* at *4.

effects that such material has on children and society.¹⁸ Even though no child participated in making the simulations, simulated child pornography nonetheless exploits and degrades children, stimulates and fans the sexual appetites of child molesters and pedophiles, and can be used as a tool to break down a child's resistance to participating in sexual activity.¹⁹ The district court concluded that the CPPA is designed to counteract the effects that simulated child pornography has on the children seduced by it and the pedophiles who view it, and its purpose is not to regulate the ideas themselves.²⁰

Then, the district court laid out three requirements that content-neutral legislation must pass to comply with the intermediate standard of review: (1) the restrictions must advance important governmental interests, (2) they must not burden substantially more speech than necessary to further those government interests, and (3) they must leave open alternative channels for communication of the information.²¹

The district court found that the CPPA advanced important governmental interests and did not burden more speech than necessary to further them.²² Relying on the Supreme Court's decision in *New York v. Ferber*²³ and congressional reports, the district court found that the government has a compelling interest in protecting children from sexual exploitation.²⁴ The burdens placed on any protected speech are minimized by the detailed definitions of "sexually explicit conduct" and "child pornography."²⁵ In addition, the affirmative defense laid out by the CPPA further narrows the range of conduct regulated by the provisions.²⁶

Finally, the district court decided that the CPPA did leave open alternative channels for communication.²⁷ The district court reasoned that be-

18. *See id.*

19. *See id.* at *1, 4.

20. *See id.* at *4.

21. *See id.* at *3-5.

22. *See id.* at *4.

23. 458 U.S. 747, 756-57 (1982) (finding that the state has interest in protecting well being of children).

24. *See Free Speech Coalition*, 1997 WL 487758, at *4.

25. *Id.* at *4. An affirmative defense can be raised if "(1) the alleged child pornography was produced using an actual person or persons engaging in sexually explicit conduct; (2) each such person was an adult at the time the material was produced; and (3) the defendant did not advertise, promote, describe, or distribute the material in such a manner as to convey the impression that it is or contains a visual depiction of a minor engaging in sexually explicit conduct." 18 U.S.C. § 2252A(c) (1997).

26. *See Free Speech Coalition*, 1997 WL 487758, at *5.

27. *See id.*

cause plaintiffs' material did not use actual minors and it was not marketed as child pornography, their activities could be conformed to fit within the affirmative defense provided by the CPPA.²⁸ Thus, the affirmative defense left an alternative outlet for this type of expression.²⁹

B. Overbroad and Vague

After classifying the CPPA as content-neutral and ruling that it passed this intermediate level of scrutiny, the district court turned to the plaintiffs' next arguments that the CPPA is overbroad and vague. Regulations that prohibit constitutionally protected speech in addition to speech that may legitimately be prohibited are considered unconstitutionally overbroad.³⁰ In dismissing the plaintiffs' overbreadth argument, the district court reasoned that because the CPPA is content-neutral it may permissibly regulate protected speech in order to prevent the secondary dangers of simulated child pornography.³¹ Because the CPPA's provisions are narrowly tailored to only prohibit those works necessary to prevent these secondary dangers (and the district court believed that there was little chance that the CPPA would deter works devoid of these dangers), the statute only covers speech which may be prohibited.³²

Next, the district court held that the CPPA is not unconstitutionally vague.³³ A statute is unconstitutionally vague if it does not give a person of ordinary intelligence a reasonable opportunity to know what is prohibited so that he may act accordingly.³⁴ According to the district court, the CPPA contained all of the elements that the Supreme Court requires child pornography legislation to contain in order to pass constitutional muster: (1) the CPPA clearly defines the conduct prohibited as the depiction of minors engaged in sexually explicit conduct, (2) it limits the visual depictions prohibited to persons under the age of eighteen, and (3) it describes what constitutes sexual conduct.³⁵ The CPPA has merely expanded visual

28. *See id.*

29. *See id.*

30. *See Grayned v. City of Rockford*, 408 U.S. 104, 114-15 (1972).

31. *See Free Speech Coalition*, 1997 WL 487758, at *6.

32. *See id.*

33. *See id.*

34. *See Grayned*, 408 U.S. at 108.

35. *See Free Speech Coalition*, 1997 WL 487758, at *6. The Supreme Court in *Ferber* required that child pornography legislation adequately define the conduct to be prohibited, "be limited to works that visually depict sexual conduct by children below a specified age," and define and limit the category of sexual conduct proscribed. *New York v. Ferber*, 458 U.S. 747, 764 (1982).

depiction to include images produced by artificial means.³⁶ Therefore, the CPPA gives all the required notice a child pornography statute is directed to give.³⁷

II. DISCUSSION

In order to evaluate the constitutionality of the CPPA, the first issue that needs to be addressed is what constitutes unprotected child pornography as set out by the Supreme Court's decision in *New York v. Ferber*. The district court skipped this issue and jumped straight to the second issue.³⁸ The second issue is whether the CPPA's definition of child pornography includes material outside the scope of the Supreme Court's definition of child pornography. If so, the CPPA regulates potentially protected speech. When statutes regulate protected speech, they are classified as either content-neutral or content-based, which affects the level of constitutional scrutiny they receive. Finally, an investigation must be made into whether the CPPA's inclusion of simulated child pornography in its definition of child pornography has rendered the statute unconstitutionally vague or overbroad.

A. Application of *New York v. Ferber* to the CPPA

In *Ferber*, the Supreme Court separated child pornography from pornography governed by the *Miller* standard, placing it in a special category of speech that can be banned regardless of whether or not it is obscene.³⁹ The Supreme Court provided five reasons why attempts to legislate child pornography should be given this extra leeway.⁴⁰ First, "[t]he prevention of sexual exploitation and abuse of children constitutes a government objective of surpassing importance," because "the use of children as subjects

36. See *Free Speech Coalition*, 1997 WL 487758, at *6.

37. See *id.*

38. The district court's analysis dives right into the standard of review that should be used to evaluate legislation that infringes on protected speech, and skips the first step of determining whether the CPPA's definition of child pornography conflicts with the Supreme Court's definition of child pornography. If simulated child pornography fits within the Supreme Court's parameters of what constitutes child pornography, then the CPPA's regulations would not infringe on any protected speech and there would be no First Amendment issue. Because the district court begins its discussion by choosing the standard of review for legislation infringing on protected speech, there is an implicit decision that simulated child pornography does not qualify as unprotected child pornography. Otherwise, the district court would not have needed to reach the second step of choosing a standard of review for legislation infringing on the First Amendment.

39. *New York v. Ferber*, 458 U.S. 747, 764-65 (1982).

40. See *id.* at 756-64.

of pornographic materials is harmful to the physiological, emotional, and mental health of the child."⁴¹ Second, the distribution of visual depictions of children engaged in sexual activity is related to the sexual abuse of children in two ways: materials produced are a permanent record of the child's participation and the harm is exacerbated by their circulation, and the distribution network must be shut down if the production of materials requiring sexual abuse of children is to be eliminated.⁴² Third, the advertising and selling of child pornography play an integral part in the production of these materials.⁴³ Fourth, "[t]he value of permitting live performances and photographic reproductions of children engaged in lewd sexual conduct is exceedingly modest, if not de minimis."⁴⁴ Fifth, "[r]ecognizing and classifying child pornography as a category of material outside the protection of First Amendment is not, incompatible with our earlier decisions."⁴⁵ In all of these considerations, the Supreme Court emphasized the participation of the child.

Next, the Supreme Court noted that "the distribution or descriptions of sexual conduct, not otherwise obscene, which do not involve live performance or photographic or other visual reproduction of live performances, retains First Amendment protection."⁴⁶ When dealing with the question of whether children engaged in sexual conduct could ever pose an important and necessary part of an educational, scientific, or artistic work, the Supreme Court observed that "a person over the statutory age who perhaps looked younger could be utilized" or "[s]imulation outside of the prohibition of the statute could provide another alternative."⁴⁷ Thus, the Supreme Court has limited this new category of unprotected speech, child pornography, to a visual depiction of an actual minor.⁴⁸

Turning to the CPPA's four provisions defining child pornography, three of the four provisions prohibit situations where a child did not actually engage in sexually explicit conduct, 18 U.S.C. § 2256(8)(B)-(D). They define child pornography as any visual depiction which (B) depicts what "is, or appears to be [a minor]" engaging in sexually explicit con-

41. See *id.* at 757-58.

42. See *id.* at 759.

43. See *id.* at 761.

44. *Id.* at 762.

45. *Id.* at 763.

46. *Id.* at 764-65.

47. *Id.* at 763.

48. See Burke, *supra* note 1, at 459-61; Ronald W. Adelman, *The Constitutionality of Congressional Efforts to Ban Computer-Generated Child Pornography: A First Amendment Assessment of S.1237*, 14 J. MARSHALL L.J. COMPUTER & INFO L. 483, 487 (1996).

duct, (C) has been modified to make it appear that an identifiable minor is engaging in sexually explicit conduct, or (D) is advertised, promoted, presented, described, or distributed in such a manner that conveys the impression that the material is a visual depiction of a minor engaging in sexually explicit conduct.⁴⁹

The material covered by provisions (D) and (C) appears to fall within the Supreme Court's category of unprotected child pornography. Provision (D) is based on falsely advertising that the simulated child pornography is a depiction of an actual child engaging in sexual conduct.⁵⁰ As one commentator observed, "since nonobscene speech can be considered obscene and unprotected if it is pandered as such, then there appears no reason why similarly pandered virtual child pornography should not be treated as actual."⁵¹ Thus, if simulated child pornography is considered actual child pornography, it falls squarely within *Ferber's* category of child pornography. Also, the conduct defined in (D) may be unprotected speech because of "the fact that commercial speech does not enjoy full First Amendment protection and false advertising enjoys none."⁵²

Provision (C) centers on taking an actual child's image and placing it in an artificial setting where the child appears to be engaged in sexual conduct.⁵³ This situation directly raises the *Ferber* Court's rationale for granting more leeway when regulating child pornography.⁵⁴ Altered pictures of an identifiable minor still form a "permanent record" where "the harm is exacerbated by their circulation."⁵⁵ Because the identifiable minor provision focuses on an actual child who will suffer harm, this places it within *Ferber's* definition of child pornography. Some legislators within Congress also believed provision (C) fits squarely within *Ferber*.⁵⁶ The identifiable minor provision was included as a safeguard in case provision

49. 18 U.S.C. § 2256(8)(B)-(D) (1994).

50. See 18 U.S.C. § 2256(8)(D).

51. *Burke, supra* note 1, at 469; see also *Ginzburg v. United States*, 383 U.S. 463, 472 (1966) (finding that a book advertised as obscene can be found obscene even though evidence pointed towards scientific merit).

52. *Burke, supra* note 1, at 469.

53. See 18 U.S.C. § 2256(8)(C). The scenario in 2256(8)(C) may sound odd, but with today's graphics software, it is quite easy to scan a photograph into a computer, cut a person out of the photograph, and paste him into a different image.

54. See *Burke, supra* note 1, at 469.

55. *New York v. Ferber*, 458 U.S. 747, 759 (1982).

56. See 142 CONG. REC. S11840-41 (daily ed. Sept. 30, 1996) (statement of Sen. Hatch).

(B)'s broader definition of "is, or appears to be [a minor]" is struck down by Supreme Court.⁵⁷

By contrast, provision (B)'s definition includes protected speech. Defining child pornography as "is, or appears to be [a minor]" prohibits pornographic material not included within Supreme Court's category of child pornography because the material does contain a visual depiction of an actual child.⁵⁸ The Supreme Court's language in *Ferber* directly places pictures of simulated children in the realm of potentially protected speech.⁵⁹ Because a depiction of simulated children engaged in sexual conduct does not fall within the *Ferber* definition of child pornography, this type of speech retains First Amendment protection unless it is obscene. Using the *Miller* standard,⁶⁰ would the average person, applying contemporary community standards, find that all depictions of simulated children engaged in sexual conduct appeal to the prurient interest, are patently offensive, and lack serious value?⁶¹ Considering the two earlier examples of the morphed Romeo and Juliet and the Japanese comic books, it is possible that a community would find these pornographic materials nonobscene, and therefore they could constitute protected speech under *Miller*.

The district court reached the conclusion that the entire CPPA was constitutional.⁶² However, the district court did not compare the statute's new provisions defining child pornography with the Supreme Court's definition of child pornography. Provisions (D) and (C) prohibit unprotected speech and thus they should withstand the plaintiffs' First Amendment challenge.

B. Standard of Review: Content-Neutral versus Content-Based

Because 2256(8)(B)'s definition of "is, or appears" to be a minor includes protected speech, the CPPA's regulation of this protected speech must undergo constitutional scrutiny. Statutes regulating protected speech can be divided into two categories: content-neutral and content-based. Content-neutral regulations are subject to an intermediate level of scru-

57. *See id.*

58. *See* Burke, *supra* note 1, at 459.

59. "[T]he distribution or descriptions of sexual conduct, not otherwise obscene, which do not involve live performance or photographic or other visual reproduction of live performances, retains First Amendment protection." *New York v. Ferber*, 458 U.S. 747, 764-65 (1982).

60. *See* *Miller v. California*, 413 U.S. 15, 24-25; *see also supra* note 1.

61. *See* Burke, *supra* note 1, at 457.

62. *See* *Free Speech Coalition v. Reno*, No. C 97-0281, 1997 WL 487758, at *7 (N.D. Cal. Aug. 12, 1997).

tiny⁶³ because they prohibit speech for reasons unrelated to the content of the speech.⁶⁴ Content-based regulations prohibit speech based on its content, and therefore they are subject to strict scrutiny.⁶⁵ Content-based regulations are presumptively invalid⁶⁶ and only survive constitutional review if they promote a "compelling interest" and employ the "least restrictive means to further the articulated interest."⁶⁷

The district court incorrectly classified the CPPA as a content-neutral regulation.⁶⁸ The district court held that the CPPA was content-neutral because it targeted the secondary effects of simulated child pornography, and thus CPPA's regulation of simulated child pornography could be justified without reference to the content of simulated child pornography.⁶⁹ According to the district court, simulated child pornography produces secondary effects because it exploits and degrades children, encourages pedophiles to molest children by whetting their appetites, and can be used by child molesters to convince a resistant child to participate in sexual activities.⁷⁰

Banning simulated child pornography because it can be used as a tool to entice child victims probably qualifies as a justification not related to the content of the speech. Under this justification, the regulation aims at the criminal ways that pedophiles use the material and not the material itself.⁷¹ However, the other two justifications target the content of simulated child pornography, not its secondary effects.⁷² First, when the government bans simulated child pornography because it exploits and degrades children as sexual objects, the government is making a determination about which conduct to prohibit based on the message the material conveys. Under the district court's rationale, a statute outlawing pornography could be deemed content-neutral if its aim was preventing the ex-

63. See *United States v. O'Brien*, 391 U.S. 367, 376-77 (1968).

64. See *Ward v. Rock Against Racism*, 491 U.S. 781, 791 (1989).

65. See *Turner Broadcasting System, Inc. v. FCC*, 512 U.S. 622, 641-42 (1994).

66. See *R.A.V. v. City of St. Paul, Minn.*, 505 U.S. 377, 382 (1992).

67. *Sable Communications v. FCC*, 492 U.S. 115, 126 (1989).

68. See *Free Speech Coalition v. Reno*, No. C 97-0281, 1997 WL 487758, at *4 (N.D. Cal. Aug. 12, 1997).

69. See *id.*

70. See *id.*

71. See *City of Renton v. Playtime Theatres, Inc.*, 475 U.S. 41, 48 (1986) (finding that a city ordinance restricting the placement of adult theaters was aimed at the crime associated with these theaters and not the message of the films they show).

72. See *Turner Broadcasting System, Inc. v. FCC*, 512 U.S. 622, 643 (1994) (reasoning that "as a general rule, laws that by their terms distinguish favored speech from disfavored speech on the basis of the ideas or views expressed are content-based").

ploitation of women as sexual objects.⁷³ Second, the Supreme Court has stated that viewers' reactions to the speech do not qualify as secondary effects of speech.⁷⁴ Therefore, the effect that simulated child pornography has on pedophiles does not constitute a secondary effect unrelated to the content of the speech. By attempting to protect a pedophile from himself by regulating the material he can view, the government is making decisions about which material is suitable based on its content.

Moreover, the CPPA does not allow any expression if simulated persons are used. Provision (B)'s definition completely bans simulated child pornography retaining First Amendment protection, and the affirmative defense provided by the CPPA requires the use of actual adults.⁷⁵ Statutes that have been deemed content-neutral restrict merely the time, place, and/or manner of the protected speech rather than banning it completely.⁷⁶ In fact, the Supreme Court has questioned whether a statute that imposes a complete ban on protected speech could ever be deemed content-neutral.⁷⁷

Because the CPPA's prohibition of protected speech cannot be analyzed as content-neutral, the CPPA should be analyzed as a content-based regulation. Because it is content-based, provision (B)'s "is, or appears to be [a minor]" definition is presumptively invalid⁷⁸ and only survives constitutional review if it promotes a "compelling interest" and employs the "least restrictive means to further the articulated interest."⁷⁹ There are two compelling governmental interests that should be considered.

First, the government may have a compelling interest in preventing pedophiles from using simulated child pornography to entice children to participate in sexual activity.⁸⁰ This argument has its basis in the Supreme

73. *But cf.* *American Booksellers Ass'n v. Hudnut*, 771 F.2d 323, 325-32 (7th Cir. 1985) (treating an ordinance banning pornography which depicts the sexual subordination of women, in order to prevent the exploitation of women, as a content-based regulation); Brennan Neville, *Anti-Pornography Legislation as Content Discriminating under R.A.V.*, 5 KAN. J.L. & PUB. POL'Y 121, 128 (1995) (arguing that anti-pornography legislation is a content-based legislation because it seeks to prohibit expression based on its message, the sexually explicit subordination of women).

74. *See R.A.V. v. City of St. Paul, Minn.*, 505 U.S. 377, 394 (1992) (citing *Boos v. Barry*, 485 U.S. 312, 321 (1988)).

75. 18 U.S.C. § 2252A(c) (1994).

76. *See Ward v. Rock Against Racism*, 491 U.S. 781, 791-93 (1989); *Playtime Theatres, Inc.*, 475 U.S. at 54; *American Library Ass'n v. Reno*, 33 F.3d 78, 86-88 (D.C. Cir. 1994).

77. *See R.A.V.*, 505 U.S. at 394.

78. *Id.* at 382.

79. *Sable Communications v. FCC*, 492 U.S. 115, 126 (1989).

80. *See Adelman, supra* note 48, at 488-89; *Burke, supra* note 1, at 465; David B. Johnson, *Why the Possession of Computer-Generated Child Pornography Can Be Con-*

Court's decision in *Osborne v. Ohio*,⁸¹ where the Court "specifically cited the use of child pornography to seduce children as a valid state interest in support of the Ohio law that criminalized private possession."⁸² However, the *Osborne* situation differs in a significant way from that presented here. In *Osborne*, the state law prohibited the private possession of unprotected child pornography, and so the case turned on weighing the right of privacy against the government's interest in protecting children, specifically preventing the material from being used to seduce further victims.⁸³ In contrast, the CPPA does not deal with unprotected speech because a non-obscene depiction of simulated children engaged in sexual conduct retains First Amendment protection. Pedophiles also use adult pornography as a tool to seduce children.⁸⁴ Such use of this protected speech has not justified its suppression, so why should it justify the suppression of simulated child pornography retaining protection?⁸⁵ First Amendment protection should trump this governmental interest.⁸⁶

Second, the government may need the "is, or appears to be [a minor]" definition of child pornography to successfully prosecute child pornogra-

stitutionally Prohibited, 4 ALB. L.J. SCI. & TECH. 311, 327 (1994); John C. Scheller, *PC Peep Show: Computers, Privacy, and Child Pornography*, 27 J. MARSHALL L. REV. 989, 1000 (1994).

81. 495 U.S. 103, 111 (1990).

82. Burke, *supra* note 1, at 466.

83. See *Osborne*, 495 U.S. at 108-11.

84. See *id.* at 145 n.18 (Brennan, J., dissenting); Burke, *supra* note 1, at 466.

85. See *Osborne*, 495 U.S. at 145 n.18 (Brennan, J., dissenting); Burke, *supra* note 1, at 466.

86. One commentator has argued that computers create an evil new spin on child pornography's use as tool to seduce children. See Johnson, *supra* note 80, at 327. Because computer graphics software can produce a picture of the victim's sibling or best friends partaking in sexual conduct, these pictures can prove much more persuasive in convincing the child victim that this conduct is acceptable and fun. See *id.* Therefore, the government's interest increases tremendously when computer simulations are involved. See *id.* However, Because these types of morphed images would entail an identifiable child, they fit within § 2256(8)(C). Because (C) prohibits only unprotected speech, no compelling interest is required to regulate it. Therefore, this line of argument is not relevant to the discussion of the constitutionality of § 2256(8)(B).

Another commentator has attacked the validity of the assumption that simulated child pornography will be used to entice children. See Adelman, *supra* note 48, at 490-92. Simulated child pornography is just as likely to satisfy a pedophile's needs and reduce the likelihood of engaging in child abuse. See *id.* at 491-92. The report Congress based their findings on in formulating the CPPA did not provide conclusive evidence that simulated child pornography would be used in this fashion. See *id.* at 490-92. Therefore, without further evidence this reason cannot qualify as a compelling interest. See *id.* at 488-89.

phy cases in the future.⁸⁷ Computer graphics technology has already advanced to the point where it is difficult to differentiate between a photograph of an actual event and a computer generated image of a virtual event.⁸⁸ In the future, it might be impossible to distinguish between an image of a simulated child and an image of a real child.⁸⁹ Under the pre-CPPA child pornography statute, the prosecutor had to prove the depiction was of an actual minor.⁹⁰ As graphics software programs grow more powerful, thereby making simulations easier to create, the spread of simulated child pornography could make the prosecutor's burden of proof impossible without § 2256(8)(B). A criminal defendant could always raise the defense that his material is simulated, requiring the prosecutor to prove that it is real.

The CPPA is not the first legislation in which Congress has reacted to the needs of prosecutors in child pornography cases. A 1990 amendment to the Child Protection and Obscenity Enforcement Act of 1988 requires "producers of materials depicting sexually explicit acts to maintain certain records documenting the names and ages of the persons portrayed and to attach statements to the materials indicating where the records are located."⁹¹ Congress amended the statute because both distributors and producers could avoid prosecution by claiming ignorance to the child performer's true age or that they had been deceived.⁹² Contrary to the CPPA, the Child Protection and Obscenity Enforcement Act was deemed content-neutral because it did not actually ban any form of protected speech.⁹³

The treatment of this 1990 amendment sheds light on why the government's interest in provision (B)'s definition should fail to pass content-based scrutiny. The impossibility of proving the picture is not a simulation should qualify as a compelling government interest, so the next question is whether it employs the "least restrictive means to further the articulated interest." Provision (B)'s definition completely bans simulated child pornography retaining First Amendment protection. The law could require that producers and distributors of simulated child pornography keep records indicating that the material is a simulation and place the burden on the defendant to prove the material is a simulation through these

87. *Burke, supra note 1, at 471-72; Johnson, supra note 80, at 328-29.*

88. *See Burke, supra note 1, at 471.*

89. *See id.*

90. *See United States v. Lamb, 945 F. Supp. 441, 454 (N.D.N.Y. 1996).*

91. *American Library Ass'n v. Reno, 33 F.3d 78, 81 (D.C. Cir. 1994); see 18 U.S.C. § 2257 (1988 & Supp. II 1990).*

92. *See id.*

93. *See id. at 86.*

records. Therefore, CPPA does not employ the least restrictive means to ensure that prosecutors will successfully be able to prove their case in the future.

The CPPA's regulation of simulated child pornography retaining First Amendment protection cannot be termed content-neutral, and therefore it must be analyzed as a content-based regulation. Section 2256(8)(B)'s definition of "is, or appears to be [a minor]" cannot not survive the strict constitutional scrutiny required of content-based legislation and should be struck down.

C. The Overbreadth and Vagueness of the "is, or appears to be [a Minor]" Definition

Even though section 2256(8)(B)'s definition of "is, or appears to be [a minor]" should not pass constitutional scrutiny, it still should be determined whether this definition makes the statute overbroad or unconstitutionally vague. Regulations that prohibit constitutionally protected speech in addition to speech that may legitimately be prohibited are considered overbroad.⁹⁴ Because the overbreadth doctrine is used to invalidate a statute, the Supreme Court has limited the availability of this drastic remedy; in order to invoke this doctrine, the statute's overbreadth must not only be real but substantial as well, especially where speech is joined with conduct.⁹⁵ Because the "is, or appears to be [a minor]" definition bans an entire field of protected speech—nonobscene depictions of simulated children—its overbreadth appears substantial.

Second, a statute is unconstitutionally vague if it does not give a person of ordinary intelligence a reasonable opportunity to know what is prohibited so that he or she may act accordingly.⁹⁶ A vague statute regulating speech raises special concerns, especially when it has criminal penalties.⁹⁷ The fear of criminal sanctions may cause a party to decline to exercise protected constitutional rights and thus have a chilling effect on free speech.⁹⁸

The Supreme Court requires that child pornography statutes contain "some element of scienter on the part of the defendant."⁹⁹ In *United States*

94. See *Grayned v. City of Rockford*, 408 U.S. 104, 114-15 (1972).

95. See *Broadrick v. Oklahoma*, 413 U.S. 601, 615-16 (1973).

96. See *Grayned*, 408 U.S. at 108.

97. See *Reno v. American Civil Liberties Union*, ___ U.S. ___, 117 S. Ct. 2329, 2344-45 (1997).

98. See *id.*

99. *New York v. Ferber*, 458 U.S. 747, 765 (1982).

v. *X-Citement Video, Inc.*,¹⁰⁰ a case dealing with the pre-CPPA version of the federal child pornography statute, the Supreme Court held that the statute's term "knowingly" applied to the age of the performer depicted in the material.¹⁰¹ Although the CPPA altered the statute, the CPPA should contain some form of scienter as to the age of the participants.¹⁰²

If the scienter requirement is "knowing" the age of the participants, the "is, or appears to be [a minor]" definition of child pornography may have blurred this requirement.¹⁰³ If the child-like persona is a cartoon character, how can a person know the age of this performer? Or if the child-like persona is an adult morphed to look like a teenager, how can a person know the age of this person when this character is not real? Thus, a person of ordinary intelligence would have difficulty discerning the age of the performers and not be sure whether his or her conduct falls within the prohibitions of the CPPA. The "is, or appears to be [a minor]" definition reads the *mens rea* knowingly out of the statute, thereby resulting in strict liability because of the difficulty of discerning the age of a simulated person. However, the scienter requirement of child pornography statute does not have to be knowingly; the *mens rea* could be recklessness.¹⁰⁴ If the "is, or appears to be [a minor]" definition were paired with recklessness, the vagueness risk might be reduced. A person who cannot discern the age of performers could at least be able to discern when it might be a minor and take reasonable precautions.

III. CONCLUSION

The CPPA goes too far in trying to prevent the dangers technology now makes possible. While the identifiable minor and the false advertising definitions of child pornography only prohibit unprotected child pornography, the "is, or appears to be [a minor]" definition bans a whole field of expression protected by the First Amendment. Depictions of simulated

100. 513 U.S. 64 (1994).

101. *Id.* at 78.

102. "The majority [in *X-Citement Video, Inc.*] was correct to conclude that the provision governing distributors of pornography required scienter as to the age of minority. The First Amendment does not permit Congress to impose onerous criminal sanctions on the basis of strict liability where doing so would chill protected speech." Christina Egan, *Level of Scienter Required for Child Pornography Distributors: The Supreme Court's Interpretation of "Knowingly" in 18 U.S.C. § 2252*, 86 J. CRIM. L. & CRIMINOLOGY 1341, 1370 (1996); see also *X-Citement Video, Inc.*, 513 U.S. at 78 (noting that a statute void of a scienter requirement as to the age of the performers would raise constitutional doubts).

103. See Burke, *supra* note 1, at 453-54.

104. See Egan, *supra* note 102, at 1366-67.

minors involves nothing more than expressions of thought which should not be prohibited if they are not obscene.

BERNSTEIN V. UNITED STATES DEPARTMENT OF STATE

By Patrick Ian Ross

Is computer source code a constitutionally protected form of “speech”? Do government controls on the export of electronic source code violate a programmer’s constitutional rights? The court in *Bernstein v. United States Department of State*¹ decided the answer to both questions is “yes.” The court reasoned that source code is a language and therefore, by definition, speech. It bolstered this claim with analogies to recipes, music, and copyright law.

If the court is right, and electronic source code is speech, then the government’s power to regulate its distribution will be greatly restricted. Distributing source code—that is, “speaking”—becomes a constitutionally protected activity. Further, government licensing requirements for the export of encryption software, like those recently declared unconstitutional,² are prior restraints with a “heavy presumption’ against [their] constitutional validity.”³

Although it may have reached the right judgment, the *Bernstein I* court decided too quickly that source code is by definition speech. Such a holding is too sweeping in scope. What matters most in deciding whether source code is speech is (1) the form in which computer code is distributed, and (2) to whom it is addressed. Source code is not automatically a “language” that should be afforded First Amendment protection because it is often distributed in executable form and used simply as a machine, and not used as communication between humans.

I. BACKGROUND

Daniel Bernstein, while a graduate student and teaching assistant at the University of California at Berkeley, wrote a strong encryption algorithm

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1. 922 F. Supp. 1426 (N.D. Cal. 1996) [hereinafter *Bernstein I*].

2. See *Bernstein v. United States Dep’t of State*, 945 F. Supp. 1279 (N.D. Cal. 1996) [hereinafter *Bernstein II*]; *Bernstein v. United States Dep’t of State*, 974 F. Supp. 1288 (N.D. Cal. 1997) [hereinafter *Bernstein III*].

3. *Organization for a Better Austin v. Keefe*, 402 U.S. 415, 419 (1971) (quoting *Carroll v. President and Comm’rs of Princess Anne*, 393 U.S. 175, 181 (1968)); see also *FW/PBS, Inc. v. Dallas*, 493 U.S. 215 (1990).

he named "Snuffle."⁴ He wrote it in the high-level computer language "C." Bernstein engineered Snuffle to be capable of both encrypting and decrypting data.⁵

Encryption is an application of the science of cryptography. "Encryption basically involves running a readable message known as 'plaintext' through a computer program that translates the message according to an equation or algorithm into unreadable 'ciphertext;'"⁶ decryption reverses the process. Cryptography has several uses. It ensures data integrity (prevents changing or tampering with a message), authenticates users (stamps a message with a reliable digital signature), facilitates nonrepudiation (links a specific message with a specific sender), and maintains confidentiality (makes a message unreadable to all but the intended recipient).⁷ The technology has obvious uses in an electronic age, for it allows one to make reliable and secure digital transactions.

Unreadable messages, however, threaten the government's surveillance power. Encryption technology enables foreigners to communicate securely by sending messages safe from detection by federal agencies responsible for monitoring such communications. As a result, the United States has for many years regulated the export of encryption software for reasons of national security. The United States government requires anyone to obtain an export license if he or she wants to distribute strong encryption software in a way that can reach foreigners.⁸ Posting software on the Internet is an example. These government regulations stop most distribution of strong encryption software because most distribution channels can be accessed by foreigners. The government agencies responsible for regulating the export of encryption were given absolute discretion to decide whether to grant export licenses.⁹ They had no deadlines for making

4. See *Bernstein I*, 922 F. Supp. at 1429.

5. See *id.*

6. *Bernstein II*, 945 F. Supp. at 1282.

7. See *id.*

8. When this litigation began, the Department of State regulated the export of encryption software by classifying it as a munition. See International Traffic in Arms Regulations (ITAR), 22 C.F.R. §§ 120-30 (1994). Just before the court invalidated these regulations in *Bernstein II*, President Clinton shifted encryption export controls to the Department of Commerce. See Exec. Order No. 13,026, 21 Fed. Reg. 58,767 (1996) (order authorizing shift of export controls from State to Commerce); 61 Fed. Reg. 68,572 (1996), (to be codified at 15 C.F.R. pts. 730-774) (regulation implementing executive order). The new Department of Commerce regulations were struck down in *Bernstein III*. See 974 F. Supp. at 1310.

9. See *Bernstein II*, 945 F. Supp. at 1289.

a decision, no guidelines were given (so decisions could be arbitrary), and the governing statute explicitly precluded judicial review.¹⁰

Bernstein wanted to post the Snuffle algorithm on the Internet so his students could access and download it.¹¹ Accordingly, he submitted a commodity jurisdiction request to the Department of State to ascertain whether Snuffle was subject to government regulation.¹² The Department of State replied that Snuffle was subject to regulation, and denied Bernstein permission to distribute his software.¹³ After many months of "copious and contentious correspondence,"¹⁴ Bernstein filed suit, claiming the government's licensing scheme violated his First Amendment rights.

In *Bernstein I*, the District Court for the Northern District of California ruled on the Department of State's motion to dismiss for lack of justiciability. In the course of this opinion, the court held that source code is speech for First Amendment purposes.¹⁵ In *Bernstein II & III*, involving cross-motions for summary judgment, the court held that the government licensing schemes, which it called "a paradigm of standardless discretion," constituted illegal prior restraint on speech.¹⁶ The interesting holding is that of *Bernstein I*—that source code is speech.¹⁷

10. *See id.* at 1289-90.

11. *See id.* at 1296.

12. *See Bernstein I*, 922 F. Supp. at 1430.

13. *See id.* Bernstein also submitted commodity jurisdiction requests for three accompanying texts, written in English, which described how the Snuffle system works and how it is used. *See id.* The Department of State originally claimed to regulate not only Bernstein's source code but also his English papers, and it denied him permission to distribute anything. *See id.* at 1433-34. Approximately two years later, after Bernstein filed suit but before trial began, the Department of State disavowed this decision. *See id.* The court noted "[i]t is disquieting that an item defendants now contend could not be subject to regulation was apparently categorized as a defense article and subject to licensing for nearly two years, and was only reclassified after plaintiff initiated this action." *Id.* at 1434.

14. *Id.* at 1430.

15. *See id.* at 1436.

16. *Bernstein II*, 945 F. Supp. at 1289; *see Bernstein III*, 974 F. Supp. at 1308.

17. Notice that the issue in *Bernstein* is not whether the government may keep someone from "exporting" an encrypted message. The issue is *not* whether one can speak confidentially. The use of encryption software is not addressed by this case, only its export.

II. THE COURT'S REASONING

The court decided very quickly that source code is speech. It dismissed the government's conduct analysis,¹⁸ stating that "[i]t would be convoluted indeed to characterize Snuffle as conduct in order to determine how expressive it is when, at least formally, it appears to be speech."¹⁹ The court relied on the following language from *Yniguez v. Arizonans for Official English*²⁰ in making its decision:

Of course, speech in any language consists of the "expressive conduct" of vibrating one's vocal chords, moving one's mouth and thereby making sounds, or of putting pen to paper, or hand to keyboard. Yet the fact that such "conduct" is shaped by language—that is, a sophisticated and complex system of understood meanings—is what makes it speech. Language is by definition speech, and the regulation of any language is the regulation of speech.²¹

The court applied the reasoning of *Yniguez* to source code in this crucial paragraph: "[T]he particular language one chooses [does not] change the nature of language for First Amendment purposes. This court can find no meaningful difference between computer language, particularly high-level languages ... and German or French. All participate in a complex system of understood meanings within specific communities."²²

The court presumably reached this conclusion because source code contains "[t]he expression of ideas, commands [and] objectives,"²³ and can be read and understood by computer programmers, although it does not explain its reasoning in any detail. The holding is quite sweeping, for the court would extend the reasoning even to object code, a form of software usually read by computers, but very rarely by humans:

Even object code, which directly instructs the computer, operates as a "language." When the source code is converted into the object code "language," the object program still contains the text

18. It should be noted that even conduct may be protected under the First Amendment if there is an intent to convey a particular message and the likelihood is great that the message will be understood. *See, e.g., Texas v. Johnson*, 491 U.S. 397 (1987) (evaluating the communicative aspects of flag burning).

19. *Bernstein I*, 922 F. Supp. at 1435.

20. 69 F.3d 920 (9th Cir. 1995) (en banc), *vacated as moot*, ___ U.S. ___, 117 S. Ct. 1055 (1997).

21. *Bernstein I*, 922 F. Supp. at 1435 (quoting *Yniguez*, 69 F.3d at 934-35).

22. *Bernstein I*, 922 F. Supp. at 1435.

23. *Id.*

of the source program. The expression of ideas, commands, objectives and other contents are merely translated into machine-readable code.²⁴

The court defended its claim that computer code is language and language is speech with analogies to recipes, music, and copyright law. These analogies were meant to show that the functionality of code does not render it non-speech. First, the court pointed out that “[i]nstructions, do-it-yourself manuals, recipes, even technical information about hydrogen bomb construction”²⁵ are functional and also speech. Therefore, even if Snuffle “is essentially functional, that does not remove it from the realm of speech.”²⁶

The court strengthened the argument by analogizing source code to the music scroll of a player piano. “The music inscribed in code on the roll of a player piano is no less protected [by the First Amendment] for being wholly functional. Like source code converted to object code, it ‘communicates’ to and directs the instrument itself, rather than the musician, to produce the music.”²⁷ Both the recipe and music analogies support the proposition that a “language” that actually allows one to do something, like “play music or make lasagna,”²⁸ or indeed, encrypt data, is nonetheless speech.

The court made a final analogy to copyright law. The court argued that software, whether defined as source code or object code, is protected by copyright. Copyright protects the “expression” of a computer program. It follows that “[t]he ‘expression’ of an idea ... connotes the ‘speaking’ of an idea.”²⁹ The court recognized the danger in this analogy, but concluded that it still provided support for its decision. “While copyright and First Amendment law are by no means coextensive, and the analogy between them should not be stretched too far, copyright law does lend support to the conclusion that source code is a means of original expression.”³⁰

24. *Id.*

25. *Id.*

26. *Id.*

27. *Id.* Music is speech protected by the First Amendment. See *Ward v. Rock Against Racism*, 491 U.S. 781, 790 (1989).

28. *Bernstein I*, 922 F. Supp. at 1436.

29. *Id.*

30. *Id.*

III. DISCUSSION

The court explicitly offered these three analogies to show only that source code's functionality does not render it non-speech. This limited claim is true. But the court's analogies do more than this—they also implicitly operate to persuade us that source code *is* speech. The analogies are all we have to rely on; nothing else is offered in support of the holding beyond the court's statement that "at least formally, [source code] appears to be speech."³¹

But under close examination, the court's analogies neither persuade that source code is speech nor provide any meaningful critical tools for deciding the issue. The court's analogies miss the underlying question whether code is or is not a form of human communication. This question must be addressed directly through a factual analysis of the form in which source code is distributed and to whom it is addressed.

A. Counteranalogy³²

Part of the problem with the court's analysis is its exclusive reliance on analogies. Unfortunately, analogies can easily be fashioned to support either the argument that computer code is speech or that it is not. To illustrate the point, consider that encryption software is like a machine that places messages into locked envelopes. Readable messages are put into an unreadable, encoded (locked) form.³³ It is important to understand that computer software—including encryption software—is functionally indistinguishable from hardware. Software is like a sophisticated machine engineered to perform a specific task. As leading authorities on computer technology and law have written,

[P]rograms are, in fact, machines (entities that bring about useful results, i.e. behavior) that have been constructed in a medium of text (source and object code). The engineering designs embodied in programs could as easily be implemented in hardware as

31. *Id.*

32. In this and the subsection that follows, the terms "source code," "electronic source code," and "software" are used semi-interchangeably. The meaning of "source code" and "object code" are consistently conflated. These concepts contain differences that matter a great deal—in fact, the First Amendment analysis partly turns on these differences. These issues will be addressed *infra*.

33. As the court wrote, "Encryption basically involves running a readable message known as 'plaintext' through a computer program that translates the message according to an equation or algorithm into unreadable 'ciphertext.'" *Bernstein II*, 974 F. Supp. at 1282.

software, and the user would be unable to distinguish between the two.³⁴

Encryption software is therefore something like a lock-making machine.

Locks are not speech, and neither are the machines that make them. Although there may be an expressive element in locking something up (keep out), this element does not turn such conduct into speech.³⁵ The government may regulate the export of lock-making machines if it so desires.

The same analysis can be applied to encryption. But the analogy does not decide the issue, because it focuses on the functional aspects of software and not the communicative aspects of it. Therefore the analogy assumes what it purports to prove, and begs the question whether source code is speech. If read with skepticism, the court's analogies also miss or beg the question. And with a few tweaks, they can easily be used to support the opposite argument.

B. Criticism of the Court's Three Analogies

First, the court draws an analogy between source code and an instruction manual or recipe, which are certainly protected speech. But notice that recipes are not machines that perform tasks. Recipes convey information from one person to another—information that tells another person how to engage in conduct, perhaps how to build a machine. Source code, on the other hand, is much more like the machine itself. Consider an imperfect analogy: an instruction manual about how to build a bomb does not actually build the bomb, whereas cryptographic source code generates object code that actually encrypts.³⁶ The court uses the recipe analogy to

34. Pamela Samuelson et al., *A Manifesto Concerning the Legal Protection of Computer Programs*, 94 COLUM. L. REV. 2308, 2316 (1994).

35. Notice that most pure conduct can be described as having expressive elements. To cite an extreme example, political murder has quite a strong expressive element, but this does not make it speech for First Amendment purposes.

36. The analogy is imperfect because what encryption produces is not a weapon but confidential speech. The First Amendment status of confidential speech has not been adjudicated, although the right to speak anonymously has been upheld, as has the right to speak a language others do not understand. See *McIntyre v. Ohio Elections Comm'n*, 514 U.S. 334 (1995); *Talley v. California*, 362 U.S. 60 (1960) (upholding the right to speak anonymously); see also *Yniguez v. Arizonans for Official English*, 69 F.3d 920 (9th Cir. 1995) (en banc), *vacated as moot*, ___ U.S. ___, 117 S. Ct. 1055 (1997) (upholding the right to speak Spanish in an English-speaking environment). It is an interesting question whether confidential speech enjoys First Amendment protection, but this question, and the incidentally related question whether a right to speak confidentially extends to the export of encryption software, are beyond the scope of this comment.

conceal rather than highlight this difference. But the sophisticated behavior of a computer program, behavior that produces sophisticated results, strains the analogy to recipes precisely at the juncture between communication and function. By ignoring the interplay between these two characteristics, the court's analogy begs the question it is meant to answer.

Next, the court draws an analogy between source code and the music scroll of a player piano. But this analogy does not necessarily help the court because one can spin the analogy a number of different ways. Consider that encrypting code is like a music scroll-making machine: both change a message (data or music) into an encoded form. Similarly, decrypting code is like a player piano: both change an encoded message into data or music. One might conclude from this analysis that just as the government may regulate the export of music scroll-making machines or player pianos, it may regulate the export of cryptographic code. To continue spinning the analogy, perhaps music scrolls are not like source code but like encrypted messages, because they are encoded music. Or perhaps music scrolls are more like *decrypted* messages because any old player piano will play the music (music scroll as ASCII file). But if music scrolls are like messages then the analogy is not useful, because the status of messages was not at issue in *Bernstein*. Finally, perhaps music scrolls are in fact more like computer instructions than messages. After all, the scroll directs the piano like a program directs a computer.

The conceptual problem here is that music scrolls are hybrid objects. They are both a program and a message. Insofar as they are a message, they are protected speech; but insofar as they are just programs, they are unprotected machines. Similar reasoning can be applied to source code. But unfortunately, the music scroll analogy does not provide any basis for deciding whether source code is more like speech or more like machinery.³⁷ It only illustrates the problem.

Finally, the court argues that source code's protection under copyright law lends support to the claim that source code is speech. But consider that the creativity protected by software copyrights is not the same as the speech protected in books. Instead, the "expressiveness" of software means the ingenuity expressed in a complex engineering design. "For all

37. It would be a more difficult case if an encryption program were inextricably bound up with the text of the encrypted message in the way program and message are bound together in a music scroll.

its parallels to literature and art, computer programming is at base engineering—it involves the construction of a machine.”³⁸

Furthermore, it has long been recognized that copyright is not a perfect doctrinal box for protecting software for exactly this reason.³⁹ Therefore we should hesitate before drawing too many conclusions from the fact that software is protected this way. The *Bernstein* case can be read as an example of the absurdity we get if we take the relationship between software and copyright too seriously. Consider that the holding in *Bernstein I*, if taken to its logical conclusion, may create real doctrinal imprecision. For example, as software patents proliferate,⁴⁰ granting software First Amendment status becomes quite conceptually awkward. Consider the following counterintuitive proposition: if software is held to be speech, and software can be patented, then certain kinds of speech can be patented. Although this statement contains no logical inconsistency, it certainly muddies First Amendment doctrine. Again, the court’s analogy merely flags, rather than resolves, the issues raised in this case.

Where does all this analogy spinning leave us? No further than where we began. The court’s reliance on analogies that can easily be construed in a contrary fashion weakens its arguments. The question the court should have focused on is whether the source code is essentially communicative or functional.

C. Is Source Code Speech or Engineering?

The *Bernstein* court’s analogies point to but do not directly tackle the real questions. The First Amendment issue turns on whether electronic source code is more like a machine or a language: more functional or communicative. But to whom is source code addressed? And in what sense is source code functional? The answers to these questions are critical to deciding if source code deserves constitutional protection as speech. If source code boils down to communication between humans, then it deserves First Amendment protection. But if it is merely the engineering of a machine, it does not.

Unfortunately, the problem does not admit of one answer. The status of source code varies from case to case because code is recorded in many

38. ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 850 (1997).

39. For an extended discussion of the need to develop a new intellectual property right specifically for software, see generally Samuelson, *supra* note 34.

40. For an example of how close courts have come to sidestepping the rule against algorithm patents laid down in *Gottschalk v. Benson*, 409 U.S. 63 (1972), see *In re Alapat*, 33 F.3d 1526 (Fed. Cir. 1994) (en banc).

forms. At one extreme source code may be incomplete and fragmentary and written down on paper. As such it may be primarily communicative—the notes from a brain-storming session. At the other extreme source code may be recorded to disk in a complete and compilable form. Therefore it may be primarily functional and ready to run on a computer. The First Amendment status of each kind of code should be different.

The line between functional and non-functional code is unavoidably somewhat arbitrary. Source code is at least one step away from finished, compiled, fully-functioning object code. But electronic source code that is ready to compile merely needs a few keystrokes to generate object code—the equivalent of flipping an “on” switch.⁴¹ Code used for this purpose can fairly easily be characterized as “essentially functional.” The hard cases come when source code is more than one step away from object code, when enablement is not quite as simple. What if two affirmative steps are required to generate object code, or three, or twenty? At what point does source code shift from essentially functional to essentially communicative? At what point does source code shift from being like a constitutionally unprotected machine needing to be flipped on, or perhaps unprotected machine parts (“some assembly required”), to a constitutionally protected recipe or instruction manual? This is a tough question—one which may not admit of a bright line rule. It requires a very fact-based inquiry. But it is the kind of analysis that courts should make.

Wherever the line is drawn, executable code generally can be regulated by the government. This is because such code is usually addressed to *computers*, not people, and therefore does not qualify as speech. The distinction between source code and object code should not necessarily make a difference for this analysis. Consider that programmers write in source code and not object code because it is a happy convenience. High-level languages make it possible to author complex software that otherwise would be far too labor-intensive to create. But such source code is still ultimately addressed to the machine. The only sense in which such code “communicates” is that it enables a general tool (the computer) to do a particular task (say, encrypt data). This is not speech. This is engineering, and it does not merit First Amendment protection.

This argument stands even in the face of the *Bernstein* court’s claim that source code is a “language.” The *Yniguez* court defined “language” as

41. In this sense, cryptographic source code is like a machine that makes a machine (the object code) that makes locked envelopes.

a “complex system of understood meanings.”⁴² Of course, the word “understood” implies the existence of someone who understands. But a computer is not something that understands, and so human-to-computer communication is not what the First Amendment is designed to protect.⁴³ Therefore, at least when addressed to computers, electronic source code is not a language in the sense “German or French” are because it does not involve human-to-human communication.

All of this is not to say that source code is never communicative, and that source code is only addressed to computers. Although one commentator has written that “it is not possible to create communications, thoughts, or ideas in cryptographic source code,”⁴⁴ he is wrong. People do communicate to each other in source code, and they publish their ideas about programming in books. It is not seriously disputed that these publications are speech accorded full First Amendment protection.

Nor does the analysis change the result in *Bernstein I*. This comment does not address what happens if source code is thoroughly communicative *and* functional, both language and machine.⁴⁵ Even fully functional source code is not always addressed to computers—sometimes people communicate to each other in executable (compilable) source code. Suppose, for example, someone wants to explain to others how a cryptographic computer algorithm should best be written. He might electronically communicate a program, perhaps written in “C,” to other people: perhaps his students. This, of course, is exactly what Daniel Bernstein planned to do. The court in *Bernstein I* was therefore correct to analyze Snuffle as speech. This comment is merely a warning not to read the holding too broadly in the future, and does not disagree with the judgment.

IV. CONCLUSION

The court may well have reached the correct result in *Bernstein I* by refusing to enforce the government’s licensing schemes regulating the export of encryption software. But in handing down its judgment, the court created a holding too sweeping in scope. Not all source code is speech protected by the First Amendment. Rather, to decide which examples of

42. *Yniguez v. Arizonans for Official English*, 69 F.3d 920, 935 (9th Cir. 1995) (en banc), *vacated as moot*, ___ U.S. ___, 117 S. Ct. 1055 (1997).

43. There is no need to delve into the philosophy of mind here—even if one were to argue that a computer can understand, nevertheless it is not a mind guaranteed First Amendment protection. Computer understanding is not something the law cares about.

44. John P. Collins, Note, *Speaking in Code*, 106 YALE L.J. 2691, 2694 (1997).

45. The prior restraint issue, which drove the court’s decisions in *Bernstein I & II*, is also not discussed in this comment.

source code deserve First Amendment protection, future courts should engage in a detailed factual analysis of (1) the form in which source code is distributed, and (2) to whom source code is addressed.

CYBER PROMOTIONS, INC. V. AMERICA ONLINE, INC.

By Richard C. Lee

Due to its low costs, high speed, and relative convenience, electronic communication via the Internet is rapidly becoming one of the most important modes of communication in the United States and throughout the world.¹ As the number of on-line users explodes, businesses are looking for ways to capitalize on market opportunities associated with Internet communications. This entrepreneurial behavior has given rise to a new set of legal problems.

In *Cyber Promotions, Inc. v. America Online, Inc.*,² the District Court for the Eastern District of Pennsylvania held that the First Amendment of the United States Constitution does not guarantee a right to freely disseminate unsolicited electronic messages (widely known as e-mails) to subscribers of on-line services.³ During a later motion, the court also found that there was little likelihood that America Online had violated section 2 of the Sherman Act.⁴ This case marks the first legal defeat for unsolicited commercial e-mail (junk e-mail or spam) advertisers (spammers), and was widely welcomed on the Internet as a major victory for the numerous Internet users who vigorously oppose the practice.⁵

Cyber Promotions is significant in that it is the first case where the junk e-mail receivers' Internet Service Provider (the receiving ISP), rather than the recipients themselves, is the plaintiff. Prior to this case, junk e-mails were considered similar to junk mails and junk faxes in that in-

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1. See, e.g., Michael W. Carroll, *Garbage In: Emerging Media and Regulation of Unsolicited Commercial Solicitations*, 11 BERKELEY TECH. L.J. 233, 253 (1996).

2. 948 F. Supp. 436 (E.D. Pa. 1996) [hereinafter *Cyber I*].

3. See *id.* at 456.

4. See 948 F. Supp. 456, 464-65 (E.D. Pa. 1996) [hereinafter *Cyber II*].

5. See, e.g., newsgroup *news.admin.net-abuse.e-mail*. Unsolicited e-mails have generated much concern among privacy advocates. Net privacy fighters (antispammers) are a particularly vocal and active group; many entities related with junk mails have received paralyzing system attacks, viruses, and even physical threats. See Janet Kornblum, *AGIS Turns Back On Spam* (visited Feb. 11, 1998) <<http://www.news.com/News/Item/0,4,16629,00.html>>; Janet Kornblum, *CompuServe Given "Death Penalty"* (visited Feb. 11, 1998) <<http://www.news.com/News/Item/0,4,16545,00.html>>. The level of concern over this activity, however, seems to be disproportionate to the actual damage done to the average e-mail user's privacy. See discussion *infra* Part IV.

fringement upon the recipients' privacy was perceived to be the central issue.⁶ Message recipients naturally appeared to be the proper plaintiffs to seek compensation via actions over e-mail abuses, just as they were the proper plaintiffs in suits over junk letters and faxes. In this case, however, junk e-mail disputes became clearly distinguishable from other unsolicited-transmission disputes. It was recognized that unlike other forms of unwanted solicitations, junk e-mail solicitations not only burden a party other than the recipients, but also place a much more concentrated economic burden on that party. The receiving ISP, rather than the e-mail recipient, was acknowledged as "the legitimate spam victim," or the party bearing the true costs resulting from unsolicited e-mail messages. This case and other similar disputes that followed have essentially put the receiving ISP in a position to bring lawsuits against anyone who sends messages that it considers unacceptable.⁷

This dispute also demonstrates how ineffective the market can be in regulating undesirable on-line conduct, and how the court may not be the best forum for addressing the junk e-mail issue. While broad prohibitive bulk e-mail regulation may provide a quick answer, the most efficient solution to the problem raised in this case is legislation that assists the market in a limited capacity, by only ensuring that technology can successfully block unsolicited messages before recipients incur unnecessary costs.

I. FACTS AND PROCEDURAL HISTORY

The plaintiff, Cyber Promotions (Cyber), was the largest company specializing in sending bulk commercial e-mails for advertisers.⁸ The defendant, America Online (AOL), was the largest provider of Internet ac-

6. For a recipient-oriented discussion treating unsolicited commercial solicitations primarily as invasions of user privacy, see Carroll, *supra* note 1 at 234. A "tragedy of the commons" will eventually result, the article predicts, because junk e-mails degrade the users' Internet experience.

7. Since this case, it has become more common for ISPs to take spammers to court. See, e.g., Janet Kornblum, *AOL Sues More Spammers* (visited Feb. 11, 1998) <<http://www.news.com/News/Item/0,4,17872,00.html>>. Recently AOL moved beyond suing spammers for sending messages that are unsolicited and started to file complaints based on the content of their messages. See, e.g., Janet Kornblum, *AOL Sues Porn Spammers* (visited Mar. 6, 1998) <<http://www.news.com/News/Item/0,4,18578,00.html>>.

8. Incorporated in 1996 and swiftly expanded to serve 8,000 advertisers by 1997, Cyber Promotions was the largest service of its kind before it went offline in the same year due to its inability to secure its own ISP server, and its founder, Sanford Wallace, is generally referred to on the net as the "Spam King." See Janet Kornblum, *Spamford Speaks* (visited Feb. 11, 1998) <<http://www.news.com/News/Item/0,4,18578,00.html>>.

cess.⁹ AOL provided proprietary content to its subscribers as an on-line service provider.¹⁰ To increase revenue beyond its membership fees, AOL also sold rights to advertisers to send unsolicited advertisements to its subscribers.¹¹ AOL users regularly received AOL-endorsed junk e-mail messages called “marketing pop-up messages” unless they took affirmative steps to block them.¹²

Without paying AOL for the privilege, Cyber sent unsolicited e-mail messages to AOL subscribers.¹³ In response to user complaints, AOL decided to implement a new program so that its users would not be exposed to junk e-mails unless they expressly asked for them.¹⁴ In addition, it packed all the undeliverable messages into a huge file and sent the file back to Cyber’s e-mail account in retaliation, paralyzing servers of Cyber’s ISP.¹⁵ As a direct result of this, Cyber’s ISP terminated Cyber’s account.¹⁶

Cyber filed suit against AOL in the Eastern District of Pennsylvania, alleging violation of the Computer Fraud and Abuse Act, intentional interference with contractual relations, tortious interference with prospective contractual relations, and unfair competition.¹⁷ AOL responded by filing suit in the Eastern District of Virginia, alleging service and trade name infringement, service mark and trade name dilution, false designation of origin, false advertising, unfair competition, misappropriation, conversion,

9. A recent tabulation shows that AOL has more than 11 million subscribers and is still the largest on-line service provider in the world. See Yahoo! Finance, *Latest Media Metrix Report Underscores America Online’s Leadership in Cyberspace* (visited Feb. 12, 1998) <http://biz.yahoo.com/bw/980121/aol_networ_1.html>.

10. See *Cyber I*, 948 F. Supp. at 439.

11. See *Cyber II*, 948 F. Supp. at 460.

12. See *id.*

13. See *id.* at 459.

14. See *id.*

15. See *Cyber I*, 948 F. Supp. at 437. This is known as “e-mail bombing”: the recipient’s server becomes overloaded by a file larger than its maximum capacity, and shuts down.

16. Since then, Cyber has struggled to locate other ISPs willing to provide service to it. In September of 1997, Cyber sued one of its ISPs after the ISP breached its contract with Cyber and terminated Cyber’s account because it had received constant system attacks and personal threats for servicing Cyber. Cyber won, but was still dropped from its service after the contract expired, and has yet to get back on-line. See Courtney Macavinta, *Spammer Back Online, Temporarily* (visited Mar. 6, 1998) <<http://www.news.com/News/Item/0,4,14907,00.html>>. Earlier this year, Wallace tried to set up his own provider, but was shut down several hours after its announcement. See Janet Kornblum, *Spam Site Killed Under Threats* (visited Feb. 11, 1998) <<http://www.news.com/News/Item/0,4,18233,00.html>>.

17. See *Cyber I*, 948 F. Supp. at 437.

unjust enrichment, and violations of the Virginia Consumer Protection Act, the Electronic Communications Privacy Act, the Computer Fraud and Abuse Act, and the Virginia Computer Crimes Act.¹⁸ Both parties sought injunctions and damages. The two cases were subsequently consolidated in the Eastern District of Pennsylvania. AOL filed a summary judgment motion against Cyber's First Amendment claim for its right to freely send e-mail messages.¹⁹ On November 4, 1996, Judge Charles Weiner held that Cyber had no right to freely send e-mail to AOL subscribers under the free speech guarantees of the U.S. Constitution, the Pennsylvania constitution, or the Virginia constitution; however, he gave Cyber ten days to produce alternative theories to support its right to send its junk e-mails.²⁰ Cyber promptly proposed a new antitrust monopolization theory, and sought a temporary restraining order against AOL. On November 26, 1996, the court found little likelihood of success on the merits of Cyber's antitrust claim and denied the temporary restraining order.²¹ Cyber subsequently filed for reconsideration on the free speech issue, but its motion was denied on December 20, 1996.²²

During this time, other major ISPs also initiated suit against Cyber. By February 3, 1997, three providers had sued Cyber and one court had enjoined Cyber from sending messages to Compuserve, one of the largest ISPs.²³ On February 4, 1997, AOL and Cyber settled. The parties agreed that Cyber could continue sending messages to AOL customers, but its messages would be blocked from AOL users unless they expressly asked for them. Cyber further agreed not to evade AOL's blockage.²⁴

II. THE COURT'S ANALYSIS

The First Amendment to the United States Constitution states: "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press."²⁵ In interpreting and analyzing the First Amendment, the U.S. Supreme Court has recognized that "the constitutional guarantee of free

18. *See id.* at 437-38.

19. *See id.* at 438.

20. *See id.* at 446-47.

21. *See Cyber II*, 948 F. Supp. at 464-65.

22. *See Cyber I*, 948 F. Supp. at 456.

23. *See* Courtney Macavinta, *Another Setback for Spam King* (visited Feb. 11, 1998) <<http://www.news.com/News/Item/0,4,7595,00.html>>.

24. *See* Courtney Macavinta, *Spam King and AOL Agree to Disagree* (visited Feb. 11, 1998) <<http://www.news.com/News/Item/0,4,7648,00.html>>.

25. U.S. CONST. amend. I.

speech is a guarantee only against abridgment by government, federal or state"²⁶ and "erects no shields against mere private conduct."²⁷ Thus, before proceeding further into a First Amendment analysis, Judge Weiner first had to determine whether AOL was a state actor and whether its activities constituted state activities. The judge found that this was not the case, as the parties stipulated that the government owned no part of AOL and did not participate in its business decisions.²⁸

Nonetheless, under certain circumstances, private property can be considered the equivalent of a public forum for purposes of the First Amendment.²⁹ Because AOL was not a public entity, Judge Weiner considered whether its activities may "be fairly treated as that of the state itself" because there was "a sufficiently close nexus" between the state and AOL.³⁰ In *Mark v. Borough of Hatboro*,³¹ the Third Circuit observed that the Supreme Court uses three distinct tests in determining whether there has been state action.³² Applying the three tests to the facts of this case, the judge found that the first test, whether AOL "exercise[d] ... the exclusive prerogative of the state," was clearly not met.³³ The judge further concluded that AOL did not act with the help of or in concert with state officials,³⁴ nor did the government so far insinuate itself into a position of interdependence with AOL to be recognized as a joint participant in its activities.³⁵ Because none of the three tests were met, the judge did not proceed with any further First Amendment analysis, and concluded that Cyber had no free speech right to send unsolicited e-mail to AOL's members.³⁶

26. *Hudgens v. NLRB*, 424 U.S. 507, 513 (1976).

27. *Shelley v. Kraemer*, 334 U.S. 1, 13 (1948).

28. *See Cyber I*, 948 F. Supp. at 441.

29. *See Blum v. Yaretsky*, 457 U.S. 991, 1004 (1982).

30. *Cyber I*, 948 F. Supp. at 441 (quoting *Blum v. Yaretsky*, 457 U.S. at 1004).

31. 51 F.3d 1137, 1142 (3d Cir. 1995). The Eastern District of Pennsylvania lies within the Third Circuit and thus is bound by the circuit's opinions.

32. The first test, the "exclusive public function test," considers whether the challenged entity performs functions exclusively those of the government. The second test considers whether the state directly aids or acts in concert with the challenged entity in performing its actions. The final test, the "joint participation test," considers whether the state's involvement otherwise is so substantial that the state can fairly be treated as a "joint participant" in the action. *See id.*

33. *See Cyber I*, 948 F. Supp. at 441-43.

34. *See id.* at 444.

35. *See id.* at 444-45.

36. *See id.* at 445.

Subsequent to the court's disposal of the free speech issue, Cyber raised an alternative theory that section 2 of the Sherman Act³⁷ would allow it to send unsolicited messages, alleging that AOL had an "essential facility" and had "refused to deal," and sought a temporary restraining order.³⁸

In order to prevail under section 2, Cyber had to show that: (1) AOL had monopoly power in the relevant market and (2) AOL acquired or maintained that monopoly power by deliberate conduct.³⁹ Judge Weiner first struck down Cyber's definition of the relevant market, finding that Cyber and AOL were not competitors and that there were numerous alternative ways for Cyber to reach AOL subscribers.⁴⁰ The court also determined that AOL did not possess the monopoly power in this market, because AOL did not have the ability to charge supra-competitive prices.⁴¹ Furthermore, even if AOL had monopoly power, it had not willfully acquired such power.⁴² Based on Cyber's failure to show these elements, Judge Weiner declared that there was little likelihood that AOL could be considered a monopoly in this case.⁴³

Instead of stopping his analysis there, which would have been sufficient to dispose of the antitrust issue, Judge Weiner proceeded to examine elements of Cyber's essential facilities claim. Under the essential facilities or "bottleneck" doctrine, Cyber had to further show, "(1) control of the essential facility by [the] monopolist, (2) the competitor's inability practically or reasonably to duplicate the essential facility; (3) denial of the use of the facility to a competitor; and (4) the feasibility of providing the facility."⁴⁴ The judge first concluded that even if Cyber could prove AOL was a monopolist in the relevant market, the resources which AOL controlled were not "essential facilities" within the meaning of section 2.⁴⁵ He further concluded that even if AOL could be considered a monopoly for purposes of the Sherman Act, Cyber could duplicate the resources that AOL controlled.⁴⁶ Moreover, the judge did not believe Cyber was com-

37. 15 U.S.C. § 2 (1994). The Sherman Act prohibits monopolization.

38. *See Cyber II*, 948 F. Supp. at 457, 460.

39. *See generally* 15 U.S.C. § 2 (1994). *See also* *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966).

40. *See Cyber II*, 948 F. Supp. at 461-62.

41. *See id.* at 462.

42. *See id.* at 463.

43. *See id.* at 464.

44. *Id.* at 460-61 (quoting *Ideal Dairy Farms, Inc. v. John Labatt, Ltd.*, 90 F.3d 737, 748 (3d Cir. 1996)).

45. *See Cyber II*, 948 F. Supp. at 463.

46. *See id.*

pletely prevented from sending e-mail advertisements to AOL subscribers.⁴⁷ Finally, he found that AOL was unable to provide Cyber Promotions with free access without undue difficulties.⁴⁸ The court essentially concluded that Cyber would be unlikely to succeed on any element or sub-element of the antitrust claim, and denied Cyber's motion for temporary injunctive relief.⁴⁹

III. DISCUSSION OF THE COURT'S REASONING

The court's conclusion that AOL clearly was not a state-actor equivalent and that Cyber's free speech rights were not a genuine issue in this case is quite sensible. Nevertheless, there is a question as to whether Judge Weiner went too far in his ruling.⁵⁰ Whether a party has a right to engage in a particular mode of speech, and whether a "medium" or a "forum" has the right to block this speech, should be two separate issues. There is a practical difference between a court stating that Cyber has no right to send e-mails in the first place, and a court allowing AOL to block the messages but recognizing Cyber's right to send them. The judge appears to have merged the two issues together and arrived at a conclusion that may unfairly disadvantage Cyber and other senders of bulk e-mail messages.⁵¹ Instead, he should have distinguished between these two issues and analyzed them separately.

47. *See id.*

48. *See id.*

49. *See id.* at 464-65. Since the denial of Cyber's temporary restraining order was merely a procedural point and there was not a direct ruling on the merits, this comment will instead focus on the First Amendment issues of this case.

50. Mike Godwin, staff counsel with the Electronic Frontier Foundation, thought that it was the "right outcome but the wrong reasoning." *See Janet Kornblum, Junk Mailer Down For The Count* (visited Feb. 12, 1998) <<http://www.news.com/News/Item/0,4,5059,00.html>>.

51. The *Cyber I* opinion started with this passage:

These cases present the novel issue of whether, under the First Amendment to the United States Constitution, one private company has the unfettered right to send unsolicited e-mail advertisements to subscribers of another private online company over the Internet and whether the private online company has the right to block the e-mail advertisements from reaching its members."

Cyber I, 948 F. Supp. at 437. It ended with this passage:

Pursuant to 28 U.S.C. Sec. 1292(b), the following question is certified for an immediate appeal: Whether, under the First Amendment to the United States Constitution, one private company has the unfettered right to send unsolicited e-mail advertisements over the Internet to the e-mail servers of a private online company and whether the private on-

Although it is true that AOL was neither a state actor nor a state actor equivalent, this does not necessarily mean that Cyber had “no right ... to send unsolicited e-mail to AOL’s members.”⁵² The state actor/private entity distinction means that AOL is free to take, at its own discretion, appropriate steps to block Cyber’s messages on its own private property. Cyber had the right to send, but did not have a right to prevent its messages from being blocked on private properties.

The bulk of costs associated with unsolicited e-mail messages is borne by the receiving ISP, which must do so passively and unwillingly.⁵³ However, one must also look at the origin of the Internet’s pricing and cost structure. When the Internet first came into being, its access and e-mail usage was limited to academic and governmental users; services were intended to be free and each participating ISP voluntarily absorbed all costs for its users.⁵⁴ E-mail abuse existed and was punished, but such issues were always dealt with privately between individual users and their own ISPs. For example, a receiver experiencing e-mail abuse would report the incident to the sender’s ISP, who would then conduct an investigation and take appropriate steps to stop the abuse.⁵⁵

Over time, the original non-commercial nature of the Internet waned, but the cost-sharing expectation remained. Commercial ISPs conformed to the existing cost-sharing structure when they entered the Internet service market. As Cyber noted, ISPs voluntarily connected themselves to the Internet, and chose to provide their customers with the ability to send and receive e-mails. Upon payment of a certain fee, users expect their ISPs to assume both the costs and the risks associated with such e-mail usage, unless the users violate either the account agreement or the ISP policy.

line company has the right to block the e-mail advertisements from reaching its members.

Id. at 456. The court’s choice of the singular forms of the words “issue” and “question” is indicative of how it merged the two issued together. Further, nowhere in the opinion did the court analyze these two issues separately.

52. *Id.* at 445.

53. In postal mail deliveries, the U.S. Postal Service acts as both the sender’s carrier and the recipient’s carrier, and the bulk of the costs associated with delivery have been paid and accounted for by the sender’s postage. In e-mail deliveries, however, different ISPs separately assume the delivery costs, and receiving ISPs passively pay for at least half of the costs associated. See discussion *infra* Part IV.

54. For example, U.C. Berkeley still provides its faculty, students, and staff with free accounts. See U.C. Berkeley, *UC Berkeley and UCLink Computer Use Policies - Terms and Conditions* (visited Feb. 12, 1998) <<http://uclink5.berkeley.edu/policies.html#SEC1>>.

55. See generally Carroll, *supra* note 1, at 254-57 (describing informal enforcement of Internet norms).

It can thus be argued that if there exists a duty to reasonably use e-mails, a sender owes this duty to its own ISP, and not to the receiving ISP. Cyber therefore should have as much right to send e-mails as any other user on the Internet, regardless of the volume or contents of its messages. Of course, each receiving ISP is also entitled to block undesired e-mails because it owes a duty only to its own subscribers; where messages are unsolicited or undesired by the recipient, the receiving ISP is under no duty to deliver the sender's e-mails.⁵⁶

Judge Weiner's ruling appears narrow because it is specifically limited to the facts of this case and to the issues raised by the parties. Despite his ruling that Cyber's free speech rights would not be a valid defense to AOL's counterclaims, he did not bar Cyber from sending messages. Nonetheless, his opinion says more than it seems to on the surface. By holding that Cyber did not have the "unfettered right ... to invade AOL's private property"⁵⁷ while discussing extensively the costs incurred by AOL because of Cyber's unsolicited messages,⁵⁸ Judge Weiner essentially found Cyber's actions to be tortious. Thus, even without explicitly ruling on these issues, the opinion effectively exposed Cyber to potential conversion and misappropriation suits from other receiving ISPs, because the decision's strong language could provide support for other courts to issue injunctions. Indeed, since the issuance of this ruling, other courts, quoting Judge Weiner's order, have blocked Cyber from sending messages to a number of ISPs.⁵⁹

IV. POLICY IMPLICATIONS

Although Judge Weiner's three memorandum opinions have been widely hailed on the Internet as a major victory for e-mail users over the junk e-mailers, the opinions do not discuss the issue of user privacy. Cyber was denied the right to send e-mail not necessarily because its messages were unsolicited or unwanted by the recipients, but rather because Cyber failed to pay AOL for the privileges to send them. This means that whether particular messages are allowable will depend on the receiving ISPs, and not on the intended recipients of the actual messages. Recipi-

56. Where messages desired by the recipients are blocked by their ISPs, the issue can similarly be resolved between the recipient and the ISPs. Cf. Janet Kornblum, *Spam Nets Catching Innocents* (visited Feb. 12, 1998) <<http://www.news.com/News/Item/0,4,13966,00.html>>.

57. *Cyber I*, 948 F. Supp. at 456.

58. *See id.* at 452.

59. *See, e.g., Compuserve v. Cyber Promotions*, 962 F. Supp. 1015, 1028 (S.D. Ohio 1997).

ents' in-box privacy is left substantially unprotected.⁶⁰ Here, the court's implicit determination that the receiving ISP assumes the economic burden and risks associated with e-mail communications becomes significant. The decision effectively gives the right to control the sources of e-mail messages to the ISPs, rather than to the end users who receive the messages.

From the cost-allocation perspective, if there is a right to control, it is logical to give it to the receiving ISP and not individual users. Any losses that individual e-mail recipients suffer from invasion of their privacy rights are de minimis, as opposed to the costs concentrated on the receiving ISPs. The costs borne by individual subscribers are primarily their on-line time, which some argue does amount to real money.⁶¹ However, several factors weigh against this argument. It used to be the case that many on-line users paid incrementally for time spent on the Internet. The largest on-line providers introduced flat-rate pricing roughly at the same time this lawsuit was filed, however, and the vast majority of Internet users now pay flat-rate subscription. The average hourly cost for on-line access is about 80 cents per hour for AOL members,⁶² and deletion of even an in-box full of junk e-mails generally only takes a matter of seconds.⁶³ The costs incurred on the users are even less than those associated with receiving junk postal mail, while the privacy implications are comparably slim.⁶⁴ A recent on-line survey report shows that the majority of users

60. Recipients can only seek indirect privacy protection through their ISP, and rely on the ISP-provided mechanisms to assure that their mailboxes are not littered with unsolicited e-mail. Fortunately, so far the ISPs, in the midst of fierce market competition, seem to have generally been responsive to their own users. Cf. Janet Kornblum, *Spam Nets Catching Innocents* (visited Feb. 12, 1998) <<http://www.news.com/News/Item/0,4,13966,00.html>>.

61. See, e.g., Coalition Against Unsolicited Commercial Email, *Join the Fight Against Spam!* (visited Mar. 6, 1998) <<http://www.cauce.org>>.

62. See Yahoo! Finance, *AOL Slightly Tops Expectations Despite Expense Growth* (visited Feb. 11, 1998) <http://biz.yahoo.com/finance/980210/earnings_a_1.html>. Even for those users who still pay incrementally for their time, the market rate is less than \$2.50 per hour. See *id.*

63. Many e-mail services, especially the web e-mail services rapidly gaining popularity, now provide easy mass-deletion of messages. See, e.g., Yahoo! Mail, *Online Support - How do I delete mail?* (visited Feb. 12, 1998) <<http://mail.yahoo.com/help/ym/i/CASE=612.html>>.

64. See, e.g., *Lamont v. Comm'r of Motor Vehicles*, 269 F. Supp. 880, 883 (S.D.N.Y. 1967):

There is no captive quality in the plight of which plaintiff complains. The mail box, however noxious its advertising contents often seem to judges as well as other people, is hardly the kind of enclave that requires constitutional defense to protect 'the privacies of life.' The

simply delete undesired e-mails, and although they find the messages annoying, they do not necessarily consider them either invasions of their privacy or a burden on their time and money.⁶⁵

ISPs can further argue that the recipients' subscription fees only cover reasonable use of the resources of the ISP, and not this kind of "irresponsible abuse." Out of the costs of the various resources involved in communication,⁶⁶ message storage before recipient retrieval is the most expensive aspect of e-mail transmissions. The costs for this are paid by the receiving ISPs, and these costs multiply in bulk e-mail situations.⁶⁷ Therefore, the receiving ISPs, not the subscribers, assume the costs and risks associated with activities that go beyond reasonable uses. Indeed, the ISPs have to constantly purchase new machines in response to demands associated with these activities. Users will argue that ISPs, as profit-seeking businesses, will adjust the prices they charge to reflect their costs, and recipients eventually will pay for the costs in the form of increased service charges. However, in view of the fierce market competition, ISPs would more likely absorb most of these costs through decreased profit margins than pass the costs directly onto their customers and risk deterioration of its subscriber base.⁶⁸ From this perspective, it is reasonable to let the receiv-

short, though regular, journey from mail box to trash can ... is an acceptable burden, at least so far as the Constitution is concerned.

65. The most recent study by the Graphics, Visibility and Usability Center of the Georgia Institute of Technology (GVU) shows 61% of recipients delete junk e-mails without opening them, and 11% actually read them. See GVU's WWW User Surveys, *Attitudes Toward Spamming* (visited Feb. 12, 1998) <http://www.gvu.gatech.edu/user_surveys/survey-1997-04/graphs/privacy/Attitudes_Towards_Spamming.html>.

66. These costs, for example, would include costs for media containing messages; labor involved in duplicating, compiling, and sending messages; message storage before physical delivery; costs for physical delivery of messages; message storage before the recipients receive messages; recipient's retrieval of messages; recipient's disposal/storage of messages after retrieval.

67. This is due to the fact that in multiple e-mail deliveries, message duplication occurs as the messages are sent from the sending ISP to the receiving ISP. One message on the sending ISP merely gets copied many times onto the receiving ISP, incurring huge storage costs in bulk e-mail situations. See Jesse Berst, *Get on Board the Multicast Bandwagon* (visited Feb. 17, 1998) <http://www.zdnet.com/anchordesk/story/story_1751.html>.

68. A mass migration of users would be highly visible in the ISP market, and aside from the obvious decrease of subscription revenues, it could result in loss of goodwill, decreased ISP ranking and bad publicity, and significant loss of advertising revenues. AOL recently raised its unlimited access fee by a mere 10%, in response to a tripling of usage since the introduction of its unlimited access plan several years ago. Many other ISPs are not planning to follow. See Yahoo! Finance-Business Wire, *AOL to Increase*

ing ISP, as opposed to the recipients, decide what messages should be delivered and which ones should not.

Nonetheless, a question remains as to whether it is wise to find that sending mass e-mail constitutes a per se unacceptable invasion of an ISP's private property. Logically, this implies that any incoming e-mail is an invasion of a receiving ISP's property unless explicitly permitted by the ISP. This in effect leaves the receiving ISP with the sole power to permit or deny messages based on whether the senders have paid enough to cover their costs. Senders who send messages that are too large, or those who send messages to too many users—as determined by the receiving ISP—could thus be sued in court to recover the “damage” done to the ISPs property, regardless of whether the recipients solicit or in fact desire such messages. The potential “chilling effect” on the e-mail senders could run contrary to the policy underlying the Internet: namely, encouraging the free flow of ideas and expression through high efficiency, fast speed, low costs, and minimal external control.

V. DESIRABILITY OF LIMITED REGULATION

Absent governmental regulation on e-mail abuse, courts will inevitably become guardians of the orderly functioning of the Internet (as the facts of *Cyber Promotions* demonstrate). However, *Cyber Promotions* also illustrates why society should not leave this matter to the court system. Parties will litigate to allocate costs and damages, which could be costly in terms of both time and money to all involved. Moreover, rather than leaving the power to control to message recipients, courts will inevitably have to place this power on whoever bears the most concentrated costs, potentially disappointing societal expectations.

Furthermore, despite high-profile court defeats, numerous new junk e-mail senders are proliferating.⁶⁹ Given the high costs of initiating lawsuits, it is increasingly evident that litigation is not a realistic weapon against junk e-mailers. Barriers to entry are virtually non-existent for spammers and chances of recovery from these individuals are usually low. Junk e-mailers realize this fact, and litigation is quickly losing its deterrent effects. Market regulation appears to be the only means left, and it is not difficult to see that private entities alone cannot adequately address the

Price for Unlimited Use by \$2 Monthly Starting in April (visited Mar. 6, 1998) <http://biz.yahoo.com/bw/980209/america_on_2.html>.

69. Commentators liken the situation to “removing water from the *Titanic* with a bucket.” Janet Kornblum, *FTC Issues Warning to Spammers* (visited Feb. 12, 1998) <<http://www.news.com/News/Item/0,4,18886,00.html>>.

problem.⁷⁰ As *Cyber Promotions* has shown, technology which filters out messages by identifiable parts in the message may not solve this problem because there are numerous ways of circumventing attempts to block the messages.⁷¹ While the settlement of this case appears to demonstrate that it is possible to resolve junk e-mail disputes by private contract alone, this does not mean that similar results can always be reached without extensive litigation.

The heart of the problem is that reliance on the courts' injunction/damages approach will only be effective in allocating costs between parties, rather than decreasing them altogether. Private or market solutions would effectively decrease costs for everyone, but they alone are inadequate to force compliance. These approaches are either inefficient or ineffective, and they could both impose enormous additional costs on society.

Internet regulation may appear the most efficient solution to this problem. A number of bills have been introduced to regulate the Internet.⁷² The content of these proposed bills includes expanding Congress' junk-fax ban in 1991 to junk e-mails,⁷³ requiring receiving ISPs to install filtering software, and establishing a regime in which recipients can easily collect damages from junk e-mailers.⁷⁴ Blanket proposals such as a full ban on junk e-mails, however, will likely be subjected to vigorous constitutional challenges before they could be implemented.⁷⁵

70. For a discussion on private regulation of electronic junk mail, see Carroll, *supra* note 1, at 254-59 (listing cultural "netiquette" regulation, vigilante regulation, structural regulation through ISP agreements, and market regulation via filters).

71. Cyber generally utilized the tactics of "spoofing," which entailed disguising the sender e-mail address and making messages appear as if they came from another AOL user, a CompuServe user, or any user of Cyber's choice. This practice incurred even more costs on AOL, because in situations where messages were undeliverable (which was quite common due to the large turnover rate of AOL subscribers), AOL computers tried in vain to return the messages to the nonexistent addresses Cyber had made up.

72. For a listing of the bills introduced so far, see Coalition Against Unsolicited Commercial Email, *Spam Bill Analysis* (visited Feb. 12, 1998) <<http://www.cauce.org/why.html#smith>>.

73. See generally the Telephone Consumer Protection Act, Pub. L. No. 102-243, 105 Stat. 2394 (1991) (codified at 47 U.S.C. § 227 (1994)). This Act outlawed all unsolicited fax solicitations. It was challenged in court, but was upheld in *Destination Ventures, Ltd. v. FCC*, 46 F.3d 54, 56 (9th Cir. 1995).

74. See Coalition Against Unsolicited Commercial Email, *supra* note 72.

75. See, e.g., Mary M. Luria, *Controlling Web Advertising: Spamming, Linking, Framing, and Privacy*, 14 COMPUTER LAW. 10, 12 (1997). Further discussion of these proposals and their constitutional implications is beyond the scope of this comment. For an extensive treatment on governmental bans, the First Amendment, and court scrutiny,

The most efficient solution to this problem is not direct regulation on the act of sending e-mail. Rather, the ideal legislation would merely make it either technologically or legally impossible to circumvent the recipients' attempt to identify and block specific kinds of messages. Such legislation could encompass the prevention of e-mail software and Internet browsers from incorporating features enabling users to override settings showing the real source of e-mail messages.⁷⁶ Congress could also require indications in e-mail subject headers that content is unsolicited or commercial, or directly prohibit senders from hiding their identities.⁷⁷ Undesired messages can thus successfully be filtered out before costs are incurred on the receiving ISP, because if senders are prevented from evading recipient filters, market technology is advanced enough to do the rest. By adopting a limited form of legislation specifically tailored to assist the market in self-regulation and thereby ensuring the effectiveness of the technological solutions, all will benefit from the resulting efficiency. Recipients regain from their ISPs the power to directly control the kind of messages they receive, ISPs decrease their costs to process the messages and maintaining their systems, junk mailers can openly display the source of the messages, and the industry's need for litigation will be minimal.⁷⁸

VI. CONCLUSION

Absent regulations and dramatic changes in the cost and pricing structure of the Internet, the future significance of this issue will depend

see Carroll, *supra* note 1, at 252-62 (arguing that only a limited form of regulation is likely to pass intermediate scrutiny).

76. The reason that "spoofing" is so prevalent and consequently the effective blocking of e-mail is so difficult is precisely because it is extremely easy to "spoof." Many of the popular e-mail software, such as Netscape Mail, Microsoft Exchange, and Eudora Pro, allow users to enter their own identity, affiliated organization and most importantly, return e-mail address. As a result, it becomes practically impossible for recipients and their ISPs to block messages based on sender's e-mail address, if the senders choose to falsify the information. On non-commercial ISPs, it is impossible to send messages out without revealing the senders' identity and address, making abuses easy to track. See, e.g., U.C. Berkeley, *UC Berkeley and UCLink Computer Policies - UCLink Personal Names Policy* (visited Feb. 12, 1998) <<http://uclink5.berkeley.edu/policies.html#SEC4>>.

77. The "labeling requirement" is a common feature of the bills currently in Congress. See Luria, *supra* note 75, at 12.

78. Many have proposed systems where junk e-mails can be legitimized. However, these proposals tend to depend heavily, if not completely, upon spammers' voluntary cooperation. Their feasibility is therefore questionable at best. See Janet Kornblum, *More Attempts to Legitimize Spam* (visited Feb. 11, 1998) <<http://www.news.com/News/Item/0,4,18634,00.html>>.

largely on technological developments in the industry. As discussed above, this revolves around relative costs for various resources involved in the transmission of messages. As hard drives or other storage devices become more available at lower prices, storage costs of both the users and their ISPs will decrease. As computing technology progresses⁷⁹ and more potent hardware and software become available at lower cost, all costs should decrease, most noticeably the duplication and transmission costs. These developments will reduce the burden on ISP servers, minimizing the chances of suspension of service due to server overload (which means both enormous costs to the ISP and inconvenience of all subscribers).

The effect of developments in networking, on the other hand, is controversial. As bandwidth increases and modem technology advances, spammers will perceive that sending larger e-mail messages containing multimedia files is more feasible. Thus, with increased network speed and decreased network costs, junk e-mail can be expected to grow in size. Although the user access and e-mail delivery costs will decrease with the lower networking costs and higher efficiency, whether this will offset the growth of junk-mail file size remains to be seen.

While the continual cost significance of the junk e-mail problem is uncertain, *Cyber Promotions* demonstrates the need for limited legislation to assist the industry to decrease costs involved in e-mail communication. Society cannot rely on the market to work this out. Without effective means to implement self-regulation, those who circumvent the rules may still reap rewards. Society cannot rely on lawsuits or courts to solve the problem. Litigation is expensive and lengthy; it increases, rather than decreases, the overall burden that society must bear. The junk e-mail problem clearly demands a much more comprehensive, constructive, and efficient solution.

79. Widespread adoption of powerful new protocols such as IP Multicasting, for example, greatly reduces e-mail transmission loads on the ISP servers. See generally Berst, *supra* note 67.

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TELECOMMUNICATIONS LAW

IOWA UTILITIES BOARD V. FCC

By Wang Su

The telecommunications industry has been surrounded by the jurisdictional battle between the states and the Federal Communications Commission (FCC) for a long time. The discrepancy in the rules, statutes, and policies issued by these different authorities may result in billions of dollars of gain or loss for large companies conducting business in this industry. The enactment of the Telecommunications Act of 1996 (the 1996 Act)¹ reshaped the border and altered the jurisdictional line in many ways, thus making a long-time controversy again the subject of vibrant debate. *Iowa Utilities Board v. FCC*,² a major case decided after the 1996 Act, involves the jurisdictional dispute between the FCC and the states. Its decision will have a significant effect on the interpretation of the 1996 Act itself as well as on the FCC's preemption power in light of the 1996 Act. The extent to which its opinion will be accepted will determine the FCC's and the states' roles in regulating the telecommunications industry, and thus will influence the telecommunications industry significantly.

I. THE EIGHTH CIRCUIT'S DECISION

Iowa Utilities Board and other petitioners, consisting largely of incumbent Local Exchange Carriers (LECs) and state utility commissions from across the country, appealed to the United States Court of Appeals for the Eighth Circuit for review of an order of the Federal Communications Commission. This order contained price rules that required the state commissions to calculate the cost that an incumbent LEC may charge its competitors when making its facilities available to them.³ The petitioners maintained that the FCC had no jurisdiction over the prices that an incumbent LEC may charge its competitors for interconnection, unbundled access, resale, and transport and termination of calls.⁴ They also asserted that the service was intrastate in nature,⁵ so that the FCC was denied jurisdiction by section 2(b) of the Communications Act of 1934 (the 1934

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1. Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (codified at 47 U.S.C.A. § 151 (West Supp. 1996)).

2. 120 F.3d 753 (8th Cir. 1997).

3. See 47 C.F.R. §§ 51.503, 51.505 (1996).

4. See *Iowa Utilities Board*, 120 F.3d at 792-93.

5. See *id.* at 793.

Act).⁶ The FCC argued that the 1934 Act grants it parallel jurisdiction to promulgate pricing rules regarding local telephone service, and that section 2(b) does not function as a jurisdictional bar to prevent the Commission from issuing the pricing rules at issue.⁷

In *Iowa Utilities Board*, after denying the FCC's motion to vacate the temporary stay of the operation and effect of the pricing provisions, the Eighth Circuit overturned several provisions of the FCC's First Report and Order.⁸ In holding that the FCC "exceeded its jurisdiction in promulgating the pricing rules" regarding local telephone service,⁹ the court examined both the plain language of the 1996 Act and the impossibility exception¹⁰ to section 2(b) of the 1934 Act. After concluding that the plain language of the 1996 Act conferred no jurisdiction to the FCC over intrastate pricing regulation,¹¹ the Eighth Circuit then ruled that the FCC was not entitled to the impossibility exception,¹² and that section 2(b) of the 1934 Act continued to be a jurisdictional bar that is "hog tight, horse high, and bull strong."¹³

A. The Plain Language of the 1996 Act

The Eighth Circuit first maintained that the plain language of the 1996 Act did not confer the FCC jurisdiction over intrastate price regulation.¹⁴ In its answer, the FCC did not argue that the states had no pricing authority over interconnection arrangements; instead, they argued that subsection 251(d)(1) of the 1996 Act established shared or parallel jurisdiction between the states and the FCC,¹⁵ and the general rulemaking provisions, namely subsections 154(i), 201(b), and 303(c), also provided the FCC with the authority to promulgate pricing rules relating to intrastate interconnection arrangements.¹⁶ The FCC was responsible for issuing general rules governing the rate-making procedure, while the states were required to follow the FCC in calculating their actual prices.¹⁷ The court disagreed.

6. 47 U.S.C.A. § 151 (West Supp. 1996).

7. See *Iowa Utilities Board*, 120 F.3d at 794.

8. See *id.* at 792, 819-20.

9. *Id.* at 794.

10. See *infra* note 33 and accompanying text.

11. See *Iowa Utilities Board*, 120 F.3d at 794-96.

12. See *id.* at 796-800.

13. *Id.* at 800.

14. See *id.* at 794-96.

15. See *id.* at 794.

16. See *id.*

17. See *id.*

Writing the opinion for a three-judge panel, Judge Hanson first pointed out that “subsection 251(d)(1) operates primarily as a time constraint, directing the Commission to complete expeditiously its rulemaking regarding only the areas in section 251 where Congress expressly called for the FCC’s involvement,”¹⁸ and “nowhere in section 251 is the FCC authorized specifically to issue rules governing the rates for interconnection, unbundled access, and resale, and the transport and termination of telecommunications traffic.”¹⁹ Judge Hanson then went on to argue that “while subsection 201(b) does grant the FCC jurisdiction over charges regarding communications services, those services are expressly limited to interstate or foreign communications services by subsection 201(a).”²⁰ Meanwhile, subsections 154(i) or 303(r) “merely supplies the FCC with ancillary authority” to issue regulations that may be necessary to fulfill its legislative purposes contained elsewhere in the statute.²¹ “Neither subsection confers additional substantive authority on the FCC.”²² Moreover, Judge Hanson saw the absence of any reference to the FCC in the related sections of the 1996 Act as an expressed intent of Congress that the FCC should not participate in determining the prices that the incumbent LECs would be able to charge for opening their networks to new entrants.²³

B. Section 2(b) and the Impossibility Exception

The Eighth Circuit next ruled that the section 2(b) hurdle which excluded the FCC from intrastate telecommunications market was still in effect, and that the FCC was not entitled to the narrow exception of impossibility.²⁴

Section 2(b) expressly excludes the FCC’s jurisdiction over “charges, classifications, practices, services, facilities, or regulations for or in connection with intrastate communications service.”²⁵ To overcome this hurdle, the FCC argued that section 2(b) was no longer enforceable in this context because Congress had expressly granted it jurisdiction over intrastate pricing regulation in the 1996 Act.²⁶ Moreover, the FCC argued that even if section 2(b) was applicable in this context, the FCC was still entitled to the impossibility exception because the subject matter at issue can-

18. *Id.*

19. *Iowa Utilities Board*, 120 F.3d at 794.

20. *Id.* at 795.

21. *Id.*

22. *Id.*

23. *See id.*

24. *See id.* at 796-800.

25. 47 U.S.C. § 152(b) (1994).

26. *See Iowa Utilities Board*, 120 F.3d at 793-94.

not be separated into interstate and intrastate components, and the rules and statutes promulgated by the states, if not preempted, would have negative effects on the FCC's legitimate legislation purpose.²⁷

In rejecting the FCC's argument, Judge Hanson first maintained that section 2(b) of the 1934 Act was still applicable.²⁸ Relying on the United States Supreme Court's statement in *Louisiana Public Service Commission v. FCC*²⁹ that the effect of section 2(b) could only be excluded by Congress' direct modification of that section or unambiguous grant of authority to the FCC,³⁰ Judge Hanson reasoned that because no language in the 1996 Act expressly conferred authority to regulate intrastate interconnection pricing to the FCC, the FCC was barred from such regulation by section 2(b).³¹ Judge Hanson further reasoned that "a federal statute's mere application to intrastate telecommunication matters is insufficient to confer intrastate jurisdiction upon the FCC," and that "the statute must also directly grant to FCC such intrastate authority in order to overcome the operation of section 2(b)," because section 2(b) was a limit on the FCC's jurisdiction rather than a limit on Congress.³²

Then, Judge Hanson went on to address the impossibility exception. In its *Louisiana Public Service* opinion, the Supreme Court offered a narrow exception to section 2(b). This exception allowed the FCC to regulate the intrastate telecommunications market when it was impossible to separate the subject matter into interstate and intrastate components and the coexistence of both the FCC's and the states' regulations on the same subject matter would impede the FCC from fulfilling its legislative duties imposed by Congress.³³ Judge Hanson recognized this narrow exception, but he argued that "telecommunication rate-making traditionally has been capable of being separated into its interstate and intrastate components."³⁴ Further, Judge Hanson determined that the FCC did not meet the burden of showing the negative effect on its legitimate interstate regulatory goals because the states are allowed to establish different methods to calculate intrastate interconnection rates.³⁵

27. *See id.* at 796-800.

28. *See id.* at 796-98.

29. 476 U.S. 355 (1986).

30. *See id.* at 377.

31. *See Iowa Utilities Board*, 120 F.3d at 796-98.

32. *Id.* at 798.

33. *See Louisiana Public Service*, 476 U.S. at 374-76.

34. *Iowa Utilities Board*, 120 F.3d at 798.

35. *See id.*

II. DISCUSSION

The Eighth Circuit adopted a textual approach to interpret the language of the 1996 Act. It ignored the extensive effect of section 253 of the 1996 Act and the intent of Congress to bring competition into the intrastate telecommunications market. Also, the Eighth Circuit's interpretation of the impossibility exception to section 2(b) of the 1934 Act is too narrow. Because of the expressed intent of Congress to erode the monopolistic nature of local telecommunications service by introducing competition into this market,³⁶ and to establish a national standard in the regulation of the telecommunication service market,³⁷ the Eighth Circuit should define the FCC's preemption power in a broader way so that the FCC can effectively carry out its duty to implement these congressional intentions.

A. The Plain Language of the 1996 Act

The Telecommunications Act of 1996 was designed to erode the monopolistic nature of the local telephone service industry by promoting nationwide free competition.³⁸ In several important respects, the 1996 Act changes the traditional division of labor between the FCC and the states and "alters the bright line between inter- and intrastate services."³⁹

Section 251(d)(1) of the 1996 Act provides that "[w]ithin 6 months after February 8, 1996, the Commission shall complete all actions necessary to establish regulations to implement the requirements of this section."⁴⁰ Section 252(c)(1) provides that:

[i]n resolving by arbitration under subsection (b) of this section any open issues and imposing conditions upon the parties to the agreement, a state commission shall ensure that such resolution and conditions meet the requirements of section 251 of this title, including the regulations prescribed by the Commission pursuant to section 251 of this title.⁴¹

36. See generally 47 U.S.C.A. § 151 (West Supp. 1996); Statement by President William J. Clinton Upon Signing S. 652, 32 WEEKLY COMP. PRES. DOC. 218 (Feb. 12, 1996); *Iowa Utilities Board*, 120 F.3d at 791.

37. See 141 CONG. REC. S8174 (daily ed. June 12, 1995) (statement of Sen. Hollings) ("We are trying to get uniformity, understanding, open competition in interstate ... and intrastate ... telecommunications.").

38. See generally 47 U.S.C.A. § 151.

39. Phillip Rosario & Mark F. Kohler, *The Telecommunications Act of 1996: A State Perspective*, 29 CONN. L. REV. 331, 332-33 (1996).

40. 47 U.S.C.A. § 251.

41. *Id.* § 252.

The Eighth Circuit interpreted section 251(d)(1) as merely a time constraint requiring the FCC to complete all actions necessary within the specified period,⁴² and section 252(c)(1) as nothing more than a grant of jurisdiction to the FCC over the actions expressly enumerated in section 251.⁴³ Although this interpretation is still within the possible readings of the plain text, it is almost the narrowest interpretation that can be derived from these two sections. It is truly questionable that Congress intended such a narrow reading when composing these two sections.⁴⁴

Besides its narrow interpretation of subsections 251(d)(1) and 252(c)(1), the Eighth Circuit also ignored the extensive effect of section 253 of the 1996 Act. Subsection 253(a) provides that “[n]o state or local statute or regulation, or other state or local legal requirement, may prohibit or have the effect of prohibiting the ability of any entity to provide any interstate or intrastate telecommunications service.”⁴⁵ It would be difficult to imagine language broader than this. Although “prohibit” may be a high standard, by using the phrase “or have the effect of prohibiting,” Congress allows FCC preemption even when state regulations prevent interconnection in an indirect way.⁴⁶

Subsection 253(b) provides that “[n]othing in this section shall affect the ability of a State to impose, on a competitively neutral basis ... requirements necessary to ... ensure the continued quality of telecommunications services, and safeguard the rights of consumers.”⁴⁷ This subsection seems to have limited subsection (a)’s broad effect to a certain degree, but Congress then subjects both of these subsections to the FCC’s preemption power in subsection (d), which provides that “[i]f ... the Commission determines that a State or local government has permitted or imposed any statute, regulation, or legal requirement that violates subsection (a) or (b) of this section, the Commission shall preempt ... to the extent necessary to correct such violation or inconsistency.”⁴⁸

By enacting section 253, Congress expressly provided leeway for the FCC to enter into intrastate telecommunication regulation.⁴⁹ However, due to the inherent conflict between subsection 253(a) and 253(b), it is

42. See *Iowa Utilities Board v. FCC*, 120 F.3d. 753, 794 (8th Cir. 1997).

43. See *id.* at 794-95.

44. See Duane McLaughlin, *FCC Jurisdiction Over Local Telephone Under the 1996 Act: Fenced Off?*, 97 COLUM. L. REV. 2210, 2248-49 (1997).

45. 47 U.S.C.A. § 253(a) (West Supp. 1996).

46. *Id.*

47. *Id.* § 253(b).

48. *Id.* § 253(d).

49. See generally *id.* § 253.

still not very clear to what extent the FCC is permitted to regulate intrastate telecommunications services. In order to clarify the ambiguity, congressional intent should be examined to determine the proper balance between intrastate and interstate regulations.

Congress had two conflicting concerns when drafting section 253. One is the possibility of making the FCC's preemption power overbroad.⁵⁰ Another is the FCC's indispensable role in promoting nationwide free competition.⁵¹ During the floor debate, both the House and the Senate were aware of the possible overbroad preemption power granted to the FCC by section 253.⁵² One amendment to this section would have eliminated the authority of the FCC to preempt state or local regulations that were considered to be entry barriers.⁵³ However, Senator Pressler, author of the Senate's proposed legislation, indicated that only uniform federal rules would be able to provide the stability and certainty that are crucial to the development of a competitive nationwide telecommunications market, and "the authority granted to the FCC ... is critical if we are going to open those markets, because a lot of states and cities and local governments may well engage in certain practices that encourage a monopoly or that demand certain things from the business trying to do business."⁵⁴ As a result, the final draft is a compromise between these two concerns. Section 253 first grants the FCC broad preemption power in subsections (a) and (d), then cuts off the FCC's preemption power with regard to regulations related to public rights-of-way, and puts an emphasis on state regulations if the subject matter is closely related to consumer rights or the quality of telecommunications services.⁵⁵ This indicates that Congress knowingly allowed the FCC broad preemption power on issues directly related to the 1996 Act's primary goal of promoting competition, but reserved the major power to the states with respect to issues of consumer protection.⁵⁶ Congress' expressed intent to establish a predictable national standard also buttressed this interpretation.⁵⁷ The FCC, as a national

50. See 141 CONG. REC. S8172, S8175 (1995).

51. See 141 CONG. REC. S8134-01, S8174 (1995).

52. See generally H.R. CONF. REP. No. 104-458 (1996); 141 CONG. REC. S8172, S8175 (1995).

53. See 141 CONG. REC. S8170 (1995).

54. See 141 CONG. REC. S8134-01 (1995).

55. See generally 47 U.S.C.A. § 253 (West Supp. 1996).

56. See Walt Saproonov et al., *Summary of the Telecommunications Act of 1996 and the Federal Communications Commission's Interconnection Rules*, 1014A PLI/CORP 17, 27 (1997).

57. See *supra* text accompanying note 54.

agency, is in a much better position than the states to create such a standard.

Interconnection price regulation is neither related to public rights-of-way, nor closely associated with consumer rights. Although it has an arguably close relationship with the quality of telecommunications services, these regulations are more likely to fall within the category of regulations which directly deal with introducing competition to the intrastate telecommunications market. As discussed above, Congress intended the FCC to have broad preemption power on these regulations. Otherwise, the FCC's congressionally imposed duties to promote nationwide free competition will be frustrated, especially at the local level.

One possible concern is that the FCC may exceed its jurisdictional limit by promulgating blanket preemption regulations. This concern is not necessary because of four main reasons. First, if Congress believes it has granted too broad of a preemption power to the FCC, Congress can limit it by itself. Second, the 1996 Act requires the FCC to review the efficacy of its regulations every two years to eliminate unnecessary regulations.⁵⁸ Third, capricious interpretation of FCC's preemption power is subject to the scrutiny of the federal courts.⁵⁹ Finally, if the FCC is declined jurisdiction, the states will have absolute power over intrastate price regulations. However, the states are much less reliable than the FCC to introduce competition into local telecommunications markets.⁶⁰

B. Section 2(b) and the Impossibility Exception

Section 2(b) of the 1934 Act provides that "nothing in this chapter shall be construed to apply or to give the Commission jurisdiction with respect to charges, classifications, practices, services, facilities, or regulations for or in connection with intrastate communication service by wire or radio of any carrier"⁶¹ This section is traditionally considered to be a jurisdictional bar that prevents the FCC from entering intrastate telecom-

58. See 47 U.S.C.A. §§ 160-61.

59. See 5 U.S.C. § 706 (1994).

60. See *supra* text accompanying note 54; McLaughlin, *supra* note 44, at 2234 ("Whatever their opinion of the FCC, the sponsors of the bill in the Senate seemed to have even less confidence in the states to usher in the changes necessary to bring competition, and they successfully defended the power of the FCC to preempt state regulations."); Henry H. Bartlett, *The Public Interest and the Introduction of Competition into Local Telephone Networks*, 5 COMLCON 251, 259 (1997) ("The FCC correctly asserts an incumbent LEC has little economic incentive to help newcomers to enter its market and take away part of its market share; it would more than likely charge unreasonable rates or refuse to connect a competitor at all.").

61. 47 U.S.C. § 152(b).

munication regulation. In its *Louisiana Public Service* opinion, the Supreme Court spelled out the impossibility exception to section 2(b), which allows the FCC to preempt intrastate telecommunication regulations when it is impossible to separate the intrastate and interstate components of the subject matter which is being regulated, and the state regulations will have a negative effect on interstate telecommunications market if not preempted.⁶²

As to the impossibility exception, it is still not very clear what standard should be used to determine whether the subject matter could be separated into interstate and intrastate elements. In *Louisiana Public Service*, the Supreme Court cited with approval a Fourth Circuit opinion, which indicated that if, as a matter of economics and practicality of operation, it is not feasible to limit the use into either interstate or intrastate elements, it could be considered as inseverable.⁶³ This theory appears to have been accepted by the Ninth Circuit in *People of the State of California v. FCC*.⁶⁴ In that case, the court recognized that if the effect of a state regulation on a intrastate subject matter was such that a carrier's interstate operations would, as a practical matter, be affected in a manner inconsistent with federal policy, inseverability can be found on this base only.⁶⁵ This kind of impossibility test is referred to as "Inseverability of Effect."⁶⁶

One critical question that is left unresolved is to what extent a state regulation must affect the carrier's interstate operations before the intrastate and interstate components of the use can be considered inseverable. The Eighth Circuit was right to say that "the fact that the local competition provisions of the Act may have a tangential impact on interstate services is not sufficient to overcome the operation of section 2(b)."⁶⁷ However, there must be a limit beyond which the states' impact would be impermissible. Absent clear direction from both the legislative history and the common law on what exactly the limit should be, considerations should be given to federal policy and this issue should be treated as an issue of fact that will be resolved on a case-by-case basis.

The tension between section 2(b) of the 1934 Act and section 253 of the 1996 Act is obvious. Given the reality that every local regulation that

62. See *supra* text accompanying note 33.

63. See *Louisiana Pub. Serv. Comm'n v. FCC*, 476 U.S. 355, 376 (1986) (citing *North Carolina Util. Comm'n v. FCC*, 537 F.2d 787, 793 (4th Cir. 1976)).

64. 905 F.2d 1217 (9th Cir. 1990).

65. See *id.* at 1242-44.

66. Michael J. Zpevak, *FCC Preemption after Louisiana PSC*, 45 FED. COM. L.J. 185, 199 (1993).

67. *Iowa Utilities Board v. FCC*, 120 F.3d 753, 800 (8th Cir. 1997).

may be considered a barrier to entry is somehow related to the "charges, classifications, practices, services, [or] facilities"⁶⁸ of intrastate communication, section 253 can hardly have any substantial meaning if section 2(b) is left untouched. On one hand, the Senate Committee Report stated that "[c]hanges in technology and consumer preferences have made the 1934 Act a historical anachronism."⁶⁹ On the other hand, Congress did nothing to directly invalidate section 2(b). To effectively enforce federal statutes, there must be a clear, predictable interpretation of these statutes. The intent of Congress is key when trying to find such an interpretation.

One primary purpose of the 1996 Act is to introduce competition into intrastate telecommunications market.⁷⁰ As discussed above, a better interpretation of congressional intent is that the FCC should be given broad preemption power over issues that directly affect competition, while the states should be the principal players with respect to regulations dealing with public rights-of-way, consumer protection, and the quality of telecommunications service. This interpretation will give section 2(b) of the 1934 Act not only a reasonable amount of deference, but also allow the FCC to carry out its congressionally delegated duty. Under these policy considerations, the Eighth Circuit should have interpreted the inseparability issue of the impossibility exception in a manner that allows the FCC to overcome section 2(b)'s effect. This may be the only way to achieve a consistent result under both section 253 of the 1996 Act and section 2(b) of the 1934 Act. Otherwise, the FCC's attempts to enforce competition under the requirements of the 1996 Act will be frustrated.⁷¹

III. CONCLUSION

"[President] Clinton said the 1996 Act was 'truly revolutionary legislation that will bring the future to our doorstep.'⁷² Section 253 of the 1996 Act extends the FCC's jurisdiction into intrastate telecommunications regulation entitling the FCC to preempt any state regulations that "prohibit or have the effect of prohibiting the ability of any entity to pro-

68. 47 U.S.C. § 152(b) (1994).

69. S. REP. NO. 104-23, at 2 (1995); *see also* Bartlett, *supra* note 60, at 253 ("The 1934 Act incorporated the premise that telephone service was best served by a single firm who could provide better and lower cost services than competing suppliers.") (citing 141 CONG. REC. S7881 (daily ed. June 7, 1995)).

70. *See generally* 47 U.S.C.A. § 151 (West Supp. 1996).

71. *See* McLaughin, *supra* note 44, at 2248.

72. Thomas G. Krattenmaker, *The Telecommunication Act of 1996*, 29 CONN. L. REV. 123, 123 (1996) (citations omitted).

vide any interstate or intrastate telecommunications service.”⁷³ The Eighth Circuit, without addressing the overall spirit of the 1996 Act, interpreted the FCC’s preemption power in a way that is unduly narrow. Because there is still no convincing guidance on what the new jurisdictional line between the FCC and the states should be after the 1996 Act, it is foreseeable that future litigation will continue to arise in similar contexts.

73. 47 U.S.C.A. § 253(a) (West Supp. 1996).

TURNER BROADCASTING V. FCC

By Adam Pliska

In *Turner Broadcasting v. FCC*¹ cable operators challenged the must-carry provisions of the Cable Television Consumer Protection Act of 1992 (the Cable Act)² as being unconstitutional on First Amendment grounds. The Cable Act requires cable companies to carry the signals of local broadcast stations on their cable systems.³ After a second review by the United States Supreme Court,⁴ in an opinion by Justice Kennedy, the Court held that the Cable Act had survived the intermediate scrutiny test and therefore was constitutional.⁵

Taken together, the *Turner* decisions are important in two respects. First, they articulate the standard of scrutiny for regulation of cable technology.⁶ Secondly and commensurately, the Court addressed the level of deference applied to congressional evidence. The Court's handling of these points should provide clues into what will be considered justifiable First Amendment regulation of media technology in the future.⁷ However, it is hardly clear that the standards the Court articulated and the tests that it applied in reaching its conclusion were one in the same. This is particularly important when one considers the growing influence the government will almost certainly have on future communication technologies.⁸ As a

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1. 512 U.S. 622 (1994) [hereinafter *Turner I*].

2. 47 U.S.C.A. §§ 534, 553 (West Supp. 1996).

3. *See id.* § 534.

4. *See Turner Broadcasting v. FCC*, __ U.S. __, 117 S. Ct. 1174 (1997) [hereinafter *Turner II*].

5. *See id.* at 1183.

6. *See Turner I*, 512 U.S. at 662 ("the appropriate standard by which to evaluate the constitutionality of must-carry is the intermediate level of scrutiny").

7. These clues might be especially helpful in light of recent cases. *See, e.g.*, *Adarand Construction v. Peña*, 515 U.S. 200, 227 (1995) (apparently rejecting race-based regulatory remedies by declaring that "[t]o the extent that *Metro Broadcasting* is inconsistent with that holding, it is overruled" (construing *Metro Broadcasting v. FCC*, 497 U.S. 547 (1990))).

8. For example, the scope of the FCC's power has continued to broaden. Originally, the FCC refused to exercise any control over cable companies, arguing that cable companies were not "common carriers" or broadcasters. *See* Holli K. Sands, *The Supreme Court Turns its Back on the First Amendment, The 1992 Cable Act and the First Amendment: Turner Broadcasting System, Inc. v. FCC*, 3 VILL. SPORTS & ENT. L.J. 295, 296 (1996). However, today it seems "fairly clear that neither 'broadcaster' nor 'common

result, future application of the scrutiny and deference standards, and even the very existence of such standards, remain in question. Because new technologies like cable possess "undefined potential to affect the way we communicate and develop our intellectual resources,"⁹ the understanding of the Court's decision is critical to the communications medium.

This comment first provides a brief description of the regulated technology under the Cable Act. Next it examines the relevant case history for the Court's articulation of a scrutiny standard and discusses how the Court's unclear commitment to congressional, evidentiary deference will affect that level of scrutiny. Finally, it concludes with a discussion of the potential future ramifications of the *Turner* decision.

I. TECHNOLOGY REGULATED UNDER THE MUST-CARRY RULES

The Cable Act specifically affects two technologies: television broadcasting and cable signal distribution. Sections 534 and 535 of the Cable Act require cable companies to carry local broadcast stations on their cable systems.¹⁰ A basic assessment of the regulated technology will be helpful in understanding the Court's justification for applying intermediate scrutiny.

"Broadcast stations radiate electromagnetic signals from a central transmitting antenna. These signals can be captured, in turn, by any television set within the antenna's range."¹¹ This is the basic form of broadcast television. It traditionally has been dominated by the major networks, but also provides consumers with local broadcast stations. Broadcasting has benefits as well as drawbacks for consumers. On the positive side, the programming is a public good and is therefore available to everyone without cost. On the down side, signal quality can be affected by distance and other forms of signal interference.

"Cable systems, by contrast, rely upon a physical, point to point connection between a transmission facility and the television sets of individuals subscribers."¹² The two primary benefits of cable are a lack of signal interference and the ability to provide subscribers with many more sta-

carrier' has any certain, objective meaning." THOMAS G. KRATTENMAKER, TELECOMMUNICATIONS LAW AND POLICY 22 (2d ed. 1998).

9. *Turner I*, 512 U.S. at 627.

10. See 47 U.S.C.A. §§ 534, 535 (West Supp. 1996).

11. *Turner I*, 512 U.S. at 627.

12. *Id.* at 627-28.

tions.¹³ For practical purposes, cable companies are usually given a temporary monopoly in a certain geographic area.¹⁴

Although cable operators and broadcasters may have started out as complements,¹⁵ they have emerged as competitors. One of the concerns that regulators have with cable is its potential for “bottlenecking” or “gatekeeping.”¹⁶ This describes the unequal market power that cable companies have over broadcasters. Most Americans receive cable or broadcast stations through cable television. While most cable systems rely on viewers’ monthly payments to cover operating costs, the success of broadcast television is determined by advertising and the number of viewers. Thus, access is crucial for broadcast television. However, if cable companies refuse to carry the signals of broadcasters, rather than altering their television reception equipment, viewers may cease watching broadcast stations altogether. This is supported by empirical data that show the market shift from traditional broadcasting to cable television.¹⁷ Because both broadcast and cable television program the same or virtually the same type of product, these two mediums have become intertwined.

II. THE CABLE ACT AND MUST CARRY RULES

By enacting the Cable Act, Congress set out to “amend the Communications Act of 1934 to provide increased consumer protection and promote competition in the cable television and related markets.”¹⁸ The proposed act

[a]mong other things ... subjects the cable industry to rate regulation by the Federal Communications Commission (FCC) and by municipal franchising authorities; prohibits municipalities from awarding exclusive franchises to cable operators; imposes various restrictions on cable programmers that are affiliated with cable operators ... and directs the FCC to develop and promul-

13. *See id.* at 629.

14. *See* 47 U.S.C.A. § 521(a)(2); *see also* *Turner I*, 512 U.S. at 631.

15. Cable companies brought broadcast signals to viewers who would normally not be able to see them and broadcasters brought programming that cable subscribers wanted to watch.

16. *See* Laurence H. Winer, *The Red Lion of Cable, and Beyond?*—*Turner Broadcasting v. FCC*, 15 CARODZO ARTS & ENT. L.J. 1, 48-50 (1997).

17. *See generally* HUGH MALCOLM BEVILLE, JR., AUDIENCE RATINGS: RADIO, TELEVISION, CABLE (Lawrence Erlbaum Associates eds., 1988); *see also* S. REP. NO. 92, at 1135 (1991).

18. 47 U.S.C.A. § 534 (quoting preamble).

gate regulations imposing minimum technical standards for cable operators.¹⁹

In drafting the legislation, Congress was obviously concerned about the growing market power of the cable industry.²⁰ Providing a guide for courts examining congressional intent, Congress provided a Statement of Policy:

It is the policy of the Congress in this Act to ... (1) promote the viability to the public of a diversity of views and information through cable television and other video distribution media; (2) rely on the marketplace, to the maximum extent feasible, to achieve that availability; (3) ensure that cable operators continue to expand, where economically justified, their capacity and the programs offered over their cable systems; (4) where cable television systems are not subject to effective competition, ensure that consumer interests are protected in receipt of cable service; and (5) ensure that cable television operators do not have undue market power vis-à-vis video programmers and consumers.²¹

With these goals in mind, section 534(a) of the Cable Act provides that "each cable operator shall carry, on the cable system of that operator, the signals of the local commercial television stations and qualified low powered stations."²² Carriage is at the discretion of cable operators subject to certain limitations.²³ "A cable operator ... with 12 or fewer usable activated channels shall carry ... three local commercial television stations."²⁴ If three commercial stations are not present, then stations with more than 35 channels must carry two low powered stations.²⁵ Those cable systems that offer fewer than 35 stations must carry at least one low powered station.²⁶

Other requirements compel cable operators to provide undistorted signal quality and to assign broadcast stations a corresponding number on the

19. *Turner I*, 512 U.S. at 630.

20. *See id.* at 633.

21. 47 U.S.C.A. § 521(b)(1-5).

22. *Id.* § 534(a).

23. *See id.*

24. *Id.* § 534(b)(2).

25. *See id.* § 534(c)(B). Low powered stations usually are defined as local broadcasters with relatively weak broadcast signals. *See id.* § 534(h)(2)(A-F).

26. *See id.* § 534(c)(A).

cable system as the broadcast station would use in broadcasting.²⁷ Other restrictions prevent cable companies from receiving a fee for carriage.²⁸ However, cable companies with fewer than 300 subscribers are not effected by the must-carry rules.²⁹

Section 535 of the Cable Act imposes almost identical standards on cable operators for the carriage of "noncommercial educational television stations."³⁰ Subject to few exceptions, cable companies are required to carry "any qualified local noncommercial educational television station requesting carriage."³¹ In sum, "[t]aken together ... [sections 534 and 535] subject all but the smallest cable systems nationwide to must-carry obligations, and confer must-carry privileges on all full power broadcasters operating within the same television market as a qualified cable system."³²

The goals and effect of the must-carry rule are both social and economical. For years courts have recognized that "the diversity of views and information on the airwaves serves important First Amendment goals."³³ Here, the goals have social benefits, but are primarily a result of governmental interest in preserving a competitive market. The ultimate effect of the must-carry rules is to impose a duty on cable operators to carry competing signals.

III. CASE HISTORY

The cable industry has argued that the Cable Act represents an infringement of First Amendment rights.³⁴ Cable operators have viewed cable systems and broadcasters as competing "voices" and therefore believe that any regulation that favors a competitor signals over their own is tantamount to censorship, deserving of the highest degree of scrutiny.³⁵ The FCC, on the other hand has seen the must-carry regulation as neces-

27. *See id.* § 534(b)(6). For example, a broadcast station that is normally assigned to channel four on the broadcast spectrum must also be assigned to channel four on the cable system.

28. *See id.* § 534(b).

29. *See id.* § 534(b)(1)(A).

30. *Id.* § 535(a).

31. *Id.* § 535(a)(1).

32. *Turner I*, 512 U.S. at 632.

33. *Metro Broadcasting, Inc. v. FCC*, 497 U.S. 547, 567 (1990).

34. *See Turner Broadcasting v. FCC*, 819 F. Supp. 32, 39 (D.D.C. 1993).

35. *See id.*

sary to further the justifiable government's interest in preserving the broadcast medium.³⁶

As a result of this conflict, a three-judge panel reviewed the case pursuant to section 555 of the Cable Act.³⁷ The court dismissed the complaint, citing among other things, the "de minimis" nature of the regulations and the unwillingness of the court to "pass judgment upon the wisdom of the policies the national legislature ha[d] chosen to pursue in such endeavors."³⁸ The United States Supreme Court immediately granted direct review.³⁹

A. *Turner I*

Turner I did not resolve the conflict between the government and the cable operators because the Court determined that issues of material fact still needed to be resolved.⁴⁰ Still, *Turner I* is important because it determined the standard upon which First Amendment challenges to cable regulation would be evaluated. At the outset, the Court announced that "[b]ecause the must-carry provisions impose special obligations upon cable operators and special burdens upon cable programmers, some measure of heightened First Amendment scrutiny is demanded."⁴¹ In the remainder of the opinion, the Court determined what the standard should be and how that standard should be applied.

Although the Court was quite clear that it would judge regulation of speech only under the most "rigorous scrutiny,"⁴² the Court stated that "regulations that are unrelated to the content of speech are subject to an intermediate level of scrutiny."⁴³ *Turner I* clarified the issue when the Court found that the must-carry rules fell under this second category.⁴⁴ It was reasoned that the "the privileges conferred by the must-carry rules ... [were] unrelated to content."⁴⁵ Therefore, the Court agreed with the district court that intermediate scrutiny was the appropriate standard for the

36. See *Turner Broadcasting v. FCC*, No. 95-992, 1996 WL 587661, at *22 (U.S. Oral Arg., Oct. 7, 1996).

37. 47 U.S.C.A. § 555(c)(1) (West Supp. 1996) ("Notwithstanding any other provision of law, any civil action challenging the constitutionality of section 534 or 535 of this title or any provision thereof shall be heard by a district court of three judges.").

38. *Turner Broadcasting*, 819 F. Supp. at 33, 39.

39. See *Turner Broadcasting v. FCC*, 502 U.S. 952 (1995).

40. See *Turner I*, 512 U.S. at 626-27.

41. *Id.* at 641.

42. See *id.* at 642.

43. *Id.*

44. See *id.*

45. *Id.* at 645.

regulation of the speech of cable operators. Although the Court noted the technical and market distinctions between cable operators and broadcasters,⁴⁶ the Court found a guideline in *United States v. O'Brien*⁴⁷ which fashioned this new standard in the broadcast context.⁴⁸

Under *O'Brien*, a content-neutral regulation will be sustained if it advances "important governmental interests unrelated to the suppression of free speech and does not burden substantially more speech than necessary to further those interests."⁴⁹ *O'Brien* provides a four part test to determine if: (1) "the regulation ... is within the constitutional power of the government;" (2) it "furthers an important or substantial governmental interest;" (3) it "is unrelated to the suppression of free speech;" and (4) if the alleged restrictions on speech are "no greater than is essential to the furtherance of that interest."⁵⁰

The Court found that the must-carry provisions met the first two prongs of the *O'Brien* test. The Court cited Congress' assertion that the must-carry regulations served three interrelated interests: (1) preserving the benefits of free, over-the-air local broadcast television; (2) promoting the widespread dissemination of information from a multiplicity of sources; and (3) promoting fair competition in the market for television.⁵¹ With these factors in mind, the Court reasoned that "[t]he interest in maintaining the local broadcasting structure does not evaporate simply because cable has come upon the scene," and pointed out that "nearly 40 percent of American households still rely on broadcast stations as their exclusive source of television programming."⁵² It next asserted that "assuring that the public has access to a multiplicity of information sources is a governmental purpose of the highest order," reasoning that it "promotes values central to the First Amendment."⁵³ Most importantly, the Court recognized "the Government's interest in eliminating restraints on fair competition is always substantial, even when the individuals or entities subject to particular regulations are engaged in expressive activity protected by the First Amendment."⁵⁴

46. *See id.* at 627-29.

47. 391 U.S. 367 (1968).

48. *See Turner I*, 512 U.S. at 662-68.

49. *Turner II*, 117 S. Ct. at 1186.

50. *O'Brien*, 391 U.S. at 377; *accord* *Red Lion Broadcasting v. FCC*, 395 U.S. 367 (1969).

51. *See Turner I*, 512 U.S. at 662.

52. *Id.* at 663.

53. *Id.*

54. *Id.* at 664.

The Court dismissed the cable operator's arguments that it was unconstitutional for the must-carry provisions to compel them to carry unwanted speech.⁵⁵ In reaching its conclusion, the Court rejected arguments based on *Miami Herald Publishing Co. v. Tornillo*⁵⁶ and *Pacific Gas & Electric Co. v. Public Utilities Commission of California*⁵⁷ (cases which found it unconstitutional to compel a broadcaster or publisher to carry unwanted and averse speech based on content).⁵⁸ Instead, the Court in *Turner I* found the regulations applicable to the cable industry were distinguishable due to the content-neutral nature of these regulations.⁵⁹

The Court dedicated a great deal of time to addressing the narrow tailoring factor of the test. The Court reasoned that "the First Amendment, subject only to narrow and well-understood exceptions, does not countenance governmental control over the content of messages expressed by private individuals."⁶⁰ Despite the Court's warning, it did not concede that the must-carry rules were tantamount to the regulation of content-regulated speech. In rejecting this proposition, the Court addressed (and ultimately rejected) several arguments raised by the cable industry appellants.⁶¹

Because, even under intermediate scrutiny the government is prohibited from fashioning a regulation that is overly broad, the Court reiterated the idea that "[w]hen the Government defends a regulation on speech as a means to redress past harms or prevent anticipated harms, it must do more than simply 'posit the existence of the disease sought to be cured.'"⁶² Therefore, the Court concluded that "in applying *O'Brien* scrutiny we must ask first whether the government has adequately shown that the economic health of local broadcasting is in genuine jeopardy and in need of the protections afforded by must-carry."⁶³ In addition, the Court stressed the significant technological differences between publishers and cable operators, pointing to the ability of cable operators to block access to broadcast competitors and the potential for abuse.⁶⁴

55. *See id.* at 653.

56. 418 U.S. 241 (1974).

57. 475 U.S. 1 (1986).

58. *See Turner I*, 512 U.S. at 655.

59. *See id.* at 654.

60. *Id.* at 641.

61. *See id.* at 653-61.

62. *Id.* at 664 (quoting *Quincy Cable TV, Inc. v. FCC*, 768 F.2d 1434, 1455 (D.C. Cir. 1985)).

63. *Id.* at 664-65.

64. *See id.* at 656-57.

Related to the suppression prong, the Court likewise rejected arguments that the must-carry rules were unconstitutional because they favored one medium over another and that cable operators were getting disfavored treatment. With respect to alleged preferences for broadcasters, the Court asserted that the only significant question was whether "Congress preferred broadcasters over cable programmers based on the content of programming each group offers."⁶⁵ The Court flatly stated that the answer to this question was "no."⁶⁶ With respect to the "disfavored treatment" of cable operators, the Court asserted that "heightened scrutiny is unwarranted when the differential treatment is 'justified by some special characteristic of' the particular medium being regulated."⁶⁷ To the Court, the cable industry met this test. The Court asserted, "[t]he must-carry provisions, as we have explained above, are justified by special characteristics of the cable medium" and again pointed to "the bottleneck monopoly power exercised by cable operators and the dangers this power poses to the viability of broadcast television."⁶⁸

The Court concluded that it was not in the position to rule on the fourth part of the *O'Brien* test, narrow tailoring, because the record had not provided sufficient information.⁶⁹ Based on the record, the Court stated that it was unable to determine if the must-carry rules suppressed more speech than was necessary or how effective the less-restrictive means were.⁷⁰ Some of the information that the Court suggested it was looking for included: additional evidence of financial harm to broadcasters;⁷¹ the extent to which cable operators' current system would be affected;⁷² and the extent that "cable operators can satisfy their must-carry obligations by devoting previously unused channel capacity to the carriage of local broadcasters."⁷³ In short, the majority in *Turner I* believed "that [while] the Government's asserted interests are important in the abstract [that] does not mean ... that the must-carry rules will in fact advance those interests."⁷⁴

In the end, the Court remanded the case for additional fact-finding because it felt that "genuine issues of material fact still [needed] to be re-

65. *Id.* at 658-59.

66. *Id.* at 659.

67. *Turner I*, 512 U.S. at 660.

68. *Id.* at 661.

69. *See id.*

70. *See id.* at 668.

71. *See id.* at 667.

72. *See id.* at 668.

73. *Id.*

74. *Id.* at 664.

solved on the record.”⁷⁵ For Congress to regulate speech, it would have to “demonstrate that the recited harms are real, not merely conjectural, and that the regulation will in fact alleviate these harms in a direct and material way.”⁷⁶ Although the Court acknowledged “substantial deference to the predictive judgments of Congress,”⁷⁷ it asserted that “while [such] predictive judgments are entitled to substantial deference [it] does not mean, however, that they are insulated from meaningful judicial review altogether.”⁷⁸ Furthermore, it articulated that the purpose of this review is to “assure that, in formulating its judgments, Congress has drawn reasonable inferences based on substantial evidence.”⁷⁹

In Justice O’Conner’s dissent, she claimed that “[t]he question is not whether there will be control over who gets to speak over cable ... [but] who will have this control.”⁸⁰ The dissent even acknowledged the legitimacy of some First Amendment regulation of truly content-neutral regulation.⁸¹ However, to the dissent, the must-carry rules do not earn the content-neutral classification.⁸² Justice O’Connor believed that “preferences for diversity of viewpoints, for localism, for educational programming, and for news and public affairs all make reference to content.”⁸³ The dissent also took issue with the congressional evidence. The fact that Congress did not reveal a preference for a certain content was inapposite to the dissent, which stated, “when a content-based justification appears on the statute’s face, we cannot ignore it because another, content-neutral justification is present.”⁸⁴

The dissent concluded that even if the must-carry rules were judged by the content-neutral standard, it still would have failed. It stated that “[t]he must-carry provisions are fatally overbroad, even under a content-neutral analysis.”⁸⁵ The dissent illustrated the point by demonstrating that cable companies that do not engage in non-competitive actions would be subject

75. *Id.* at 668.

76. *Turner I*, 512 U.S. at 664 (citing *Quincy Cable TV, Inc. v. FCC*, 768 F.2d 1434, 1455 (D.C. Cir. 1985)).

77. *Turner I*, 512 U.S. at 665.

78. *Id.* at 666.

79. *Id.*

80. *Id.* at 683 (O’Connor, J., dissenting).

81. *See id.*

82. *See Turner I*, 512 U.S. at 674 (“I cannot avoid the conclusion that its preference for broadcasters over cable programmers is justified with reference to content.”).

83. *Id.* at 676.

84. *Id.* at 679.

85. *Id.* at 683.

to regulation.⁸⁶ In this sense, the dissent seems to suggest that individualized antitrust litigation would be the better tool in remedying market failures.

Therefore, with the majority concluding that intermediate scrutiny should apply to the First Amendment regulation of cable, and the asserted state interest accepted, the case was remanded for further fact-finding regarding content-neutrality and narrow tailoring.⁸⁷

B. *Turner II*

On remand, the district court concluded that the must-carry provisions withstood constitutional scrutiny.⁸⁸ Likewise, when the case returned to the Supreme Court, the Court found that the record supported Congress' predictive remedies and did not burden more speech than was necessary. Therefore, the Court concluded that the must-carry provisions were constitutional.⁸⁹ The Court began by reaffirming its commitment to the *O'Brien* test,⁹⁰ but this time it had the benefit of even more extensive fact-finding.⁹¹ Similarly, the Court reaffirmed its decision that "preserving the benefits of free, over-the-air local broadcast television, ... promoting the widespread dissemination of information from a multiplicity of sources, and ... promoting fair competition" represented a compelling government interest.⁹² Moreover, the Court cited Congress' conclusion that there had been a market shift from broadcast to cable television.⁹³

In light of the extensive record, the Court seemed more comfortable in dismissing the arguments of the cable industry. This time, the Court did not hesitate when forming its position on the question of narrow tailoring. Although the Court agreed with the cable operators that at least some evidence suggested that the broadcast industry continued to grow, the Court was nevertheless content that "a reasonable interpretation is that expansion in the cable industry was causing harm to broadcasting."⁹⁴ The Court was

86. *See id.* at 681.

87. *See id.* at 668.

88. *See Turner Broadcasting v. FCC*, 910 F. Supp. 734, 751 (D.D.C. 1995).

89. *See Turner I*, 117 S. Ct. at 1183.

90. *See id.* at 1186.

91. *See generally Turner Broadcasting*, 910 F. Supp. at 734. For example, the district court used "the more than 18,000 page record which Congress compiled over 3 years of hearings" in concluding that Congress could have drawn the reasonable inference that the must-carry rule was necessary. *Id.* at 751.

92. *Turner II*, 117 S. Ct. at 1186.

93. *See id.* at 1199-1203.

94. *Id.* at 1197.

likewise unimpressed by arguments that alternatives to the must-carry rule might have existed.

One of the differences between *Turner I* and *Turner II* was the extent of deference to Congress. The Court in *Turner I* believed that there was compelling interest, but expressed doubts about the necessity of a remedy.⁹⁵ In contrast, the Court in *Turner II* flatly asserted that “[j]udgments about how competing economic interests are to be reconciled in the complex and fast-changing field of television are for Congress to make.”⁹⁶ Therefore, although a significant portion of the opinion is spent debunking the alternatives to the must-carry rule,⁹⁷ it does not appear that the effectiveness of any of the alternatives would have mattered anyway.⁹⁸

Justice Breyer’s concurrence went even further in deferring to congressional findings. He did not deny that “the compulsory carriage that creates the ‘guarantee’ extracts a serious First Amendment price,” adding that “[i]t interferes with the protected interests of the cable operators to choose their own programming; it prevents displaced cable program providers from obtaining an audience; and it will sometimes prevent some cable viewers from watching what, in its absence, would have been their preferred set of programs.”⁹⁹ Still, Justice Breyer was satisfied that the governmental interest in preserving a diverse information forum is sufficient to justify the must-carry rules.¹⁰⁰

IV. DISCUSSION

At the heart of the intermediate scrutiny test lies the idea that the degree of permissible governmental regulation should not exceed the boundaries of the evil it seeks to remedy.¹⁰¹ Because courts must determine the degree of fit between the regulation and the evil sought to be remedied, the amount of deference given to congressional findings will undoubtedly have a significant impact on the ultimate effect of intermediate scrutiny. Certainly, intermediate scrutiny appears to accept some degree of evidentiary deference in favor of Congress.¹⁰² Likewise, the Supreme Court has stated that “[a] court reviewing an agency’s adjudicative action should accept the agency’s factual findings if those findings are

95. See *Turner I*, 512 U.S. at 668.

96. *Turner II*, 117 S. Ct. at 1203.

97. See *id.* at 1200-03.

98. See generally *id.* at 1203.

99. *Id.* at 1204 (Breyer, J., concurring).

100. See *id.* at 1203-04.

101. See *id.* at 1196.

102. See *Turner II*, 117 S. Ct. at 1203.

supported by substantial evidence on the record as a whole.”¹⁰³ On the other hand, “[t]he obvious danger [in too much congressional deference] is that congressional findings might be passed as boilerplate, with ‘substantial evidence’ cobbled together by proponents of the legislation.”¹⁰⁴ If this happens, the heightened intermediate scrutiny standard required for First Amendment media regulation becomes quite analogous to minimal scrutiny. Minimal scrutiny:

Grants a great deal of deference to actions of the other branches of government and requires only that they justify their actions by a valid or legitimate state interest achieved through reasonable means. In practice, minimal scrutiny usually operates as no scrutiny at all and defers totally to the other branches of government.¹⁰⁵

In many ways, *Turner I* represents a more traditionally conservative approach for evaluating evidence for its First Amendment regulatory weight. This standard has permitted Congress to regulate broadcast television, but has at the same time tried to provide objective prerequisites. It “teaches that the First Amendment embodies an overarching commitment to protect speech from Government regulation through close judicial scrutiny, thereby enforcing the Constitution’s constraints, but without imposing judicial formulae so rigid that they become a straightjacket that disables Government from responding to serious problems.”¹⁰⁶

The Court explained that the independent judgment of the facts was meant to “assure that, in formulating its judgments, Congress has drawn reasonable inferences based on substantial evidence.”¹⁰⁷ This was not the standard the Court appeared to adopt in *Turner II*. At first, the standards articulated might seem to correspond, but a closer inspection shows that they do not. *Turner II* marks a shift from the reliance of objective standards for evidence toward a standard based on the more subjective conclusions of Congress. The Court in *Turner II* was far more willing to accept the record as truth, thereby concentrating less on the quality of the evidence itself.¹⁰⁸ The Court asserted that “the question is whether the legis-

103. *Arkansas v. Oklahoma*, 503 U.S. 91, 113 (1992).

104. J.I.B., *Constitutional Substantial-Evidence Review? Lessons From the Supreme Court’s Turner Broadcasting Decisions*, 97 COLUM. L. REV. 1162, 1179 (1997).

105. Jeffrey M. Sharman, *The Theory of Low-Valued Speech*, 48 SMU L. REV. 297, 330 (1995).

106. *Denver Area Education Consortium v. FCC*, ___ U.S. ___, 116 S. Ct. 2374, 2385 (1996).

107. *Turner I*, 512 U.S. at 666.

108. *See Turner II*, 117 S. Ct. at 1196.

lative conclusion was reasonable and supported by substantial evidence in the record before Congress."¹⁰⁹ Although the textual difference between the cases was slight, the result is very different. Whereas the Court in *Turner I* wanted proof that "the threat to broadcast television is real,"¹¹⁰ the Court in *Turner II* merely wanted to know if the legislative conclusions were reasonable. Suddenly, Congress is in the position of both creator of the record and judge.

Because narrow tailoring determinations are largely based on the degree of deference, greater deference gives Congress greater latitude in passing legislation. In *Turner I*, the evidence was "critical to the narrow tailoring step of the *O'Brien* analysis" and was thereby essential in fashioning the proper remedy.¹¹¹ The Court in *Turner II* indeed examined the evidence it sought in the earlier case. However, this greater deference made it much easier for the Court to accept the assertion that broadcast stations were likely to be dropped without must-carry protection,¹¹² or that the burden on cable operators was slight.¹¹³ The Court seemed willing to act as little more than a rubber stamp, catching only the most egregious abuses of regulation. The Court's attitude can best be summed up in its declaration that it was "not at liberty to substitute ... [its] judgment for the reasonable conclusion of a legislative body."¹¹⁴

These cases will most likely be cited as benchmarks of government regulation of developing media technologies. But taken together, they create conflicting signals. On one hand, the Court is willing to rest the entire outcome of a case on the presentation of facts that are not much different than those with which it started. On the other hand, it appears these facts have relatively little significance in making its ultimate conclusion. Perhaps the Court is suggesting that certain prerequisite evidence does have to exist in order for regulation to be constitutional. If that is the case, these requirements seem to be mere formalities. Or perhaps the Court has simply articulated two standards—the objective standard of *Turner I* and the subjective standard of *Turner II*.

109. *Id.*

110. *Turner I*, 512 U.S. at 665.

111. *Id.* at 668.

112. *See Turner I*, 117 S. Ct. at 1197.

113. *See id.* at 1198.

114. *Id.* at 1197.

V. CONCLUSION

The need for regulation of media technology has long been recognized.¹¹⁵ To be sure, “[a]mong the most important functions of the Supreme Court are to craft and apply constitutional doctrine.”¹¹⁶ The need for clarity of standards is obvious. After *Turner I & II*, however, any hope for a definite standard is smashed. On one hand, intermediate scrutiny is said to apply to cable regulation. On the other hand, a confusing and seemingly high degree of deference transforms that standard into something analogous to minimal scrutiny. Because the right of speech is at stake, the Court’s willingness to defer to congressional evidence and thus affect the efficacy of intermediate review must not be overlooked.

In fairness to the Court, the problematic nature of these decisions probably stems from an earnest attempt to regulate an alternative medium with traditional, broadcast regulation. Perhaps unique aspects of the cable industry and its importance in American society make it difficult to judge on any objective scale. On the other hand, the same argument could be made for radio or television broadcasting. Regardless, it is clear that while applying an old standard to a new medium may vary in efficacy, articulating two standards (or none at all) is certain to be problematic.

The *Turner* cases left unanswered a major question they set out to define: what is the standard for evaluating congressional evidence in First Amendment media regulation. As media technology continues to develop, the Court will certainly have to readdress that question. Looking ahead, it has been suggested that “[r]ather than trying to treat cyberspace under a single doctrine, courts, litigants, and legislators should be sensitive to a variety of legal doctrines and carefully apply those doctrines in light of the distinct characteristics of the implicated cyber forum.”¹¹⁷ Perhaps this augurs the fate of the cable industry as well. Regardless of which method is best, hopefully on the next consideration of this issue, a clear standard will be fashioned. If that is the case, the media industry will gain the consistency it requires and the boundaries of government regulation into commercial speech rights will be, at least for a time, clear. Without any

115. See *Red Lion Broadcasting v. FCC*, 395 U.S. 367, 388-90 (1969) (“[B]ecause of the scarcity of [electromagnetic] frequencies, the Government is permitted to put restraints on the licensees in favor of others whose views should be expressed on this unique medium.”); *National Broadcasting Co. v. United States*, 319 U.S. 190, 215 (1943); *FCC v. League of Women Voters of California*, 468 U.S. 364, 377 (1984).

116. Richard A. Fallon, Jr., *Foreword: Implementing the Constitution*, 111 HARV. L. REV. 56, 56 (1997).

117. David J. Goldstone, *A Funny Thing Happened on the Way to the Cyber Forum: Public v. Private in Cyberspace Speech*, 69 U. COLO. L. REV. 1, 4 (1998).

true clue as to the reasonableness of evidence, any evidence standard articulated in these cases is meaningless. The future of communications technology demands clarification.

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BIOTECHNOLOGY AND MEDICAL DEVICES

1997 CALIFORNIA LEGISLATIVE SERVICE 688 (WEST) - HUMAN CLONING

By Kenton Abel

Dolly the Sheep was born July 5, 1996, in Edinburgh, Scotland.¹ Seven months later, it was announced that Dolly was the first delayed genetic twin of an adult mammal.² In other words, Dolly is a clone. Because the technique used to clone one mammal might be used to clone another mammal,³ Dolly's arrival created a great deal of public discussion about the possibility of cloning humans.⁴ This possibility aroused a wide mix of reactions, ranging from fascination and hope to alarm and horror.⁵ Within weeks of the Dolly announcement, legislation banning human cloning was proposed at both the federal⁶ and state levels.⁷ However, much of the public speculation and concern seemingly waned by Decem-

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1. See Ian Wilmut et al., *Viable Offspring Derived from Fetal and Adult Mammalian Cells*, 385 NATURE 810 (1997).

2. See *id.* at 812.

3. See Robert Winston, *The Promise of Cloning for Human Medicine: Not a Moral Threat but an Exciting Challenge*, 314 BRIT. MED. J. 913 (1997).

4. For example, a search of the world wide web on Mar. 3, 1998 using AltaVista with the key words "human cloning" resulted in 68,132 documents. For a sample of articles discussing human cloning, see NATIONAL BIOETHICS ADVISORY COMMISSION - CLONING HUMAN BEINGS 90 n.10 (1997) [hereinafter NBAC].

5. See Tristanne Walliser, *Emerging Technologies, Emerging Debates - Clones: Not How, But When* (visited Mar. 6, 1998) <<http://www.abcnews.com/sections/living/cloning1205/index.html>>.

6. Federal bills introduced in the wake of the Dolly announcement include S.B. 368, 105th Cong. (1997); H.R. 922, 105th Cong. (1997); H.R. 923, 105th Cong. (1997).

7. State bills introduced include: S.B. 511, 1997 Leg., Reg. Sess. (Ala. 1997); A.B. 1082, 1997 Leg., Reg. Sess. (Ala. 1997); S.J.R. 14, 1997-98 Leg., 1st Sess. (Cal. 1997); S.C.R. 39, 1997-98 Leg., 1st Sess. (Cal. 1997); S.B. 1344, 1997-98 Leg., 1st Sess. (Cal. 1997) (enacted); A.B. 1251, 1997-98 Leg., 1st Sess. (Cal. 1997); H.B. 1237, 1997-98 Leg., 1st Sess. (Fla. 1997); H.B. 2235, 90th Leg., 1st Sess. (Ill. 1997); H.B. 1829, 90th Leg., 1st Sess. (Ill. 1997); S.B. 134, 118th Leg., 1st Sess. (Me. 1997); H.J.R. 28, 1997-98 Leg., 1st Sess. (Md. 1997); H.B. 4846, 89th Leg., 1st Sess. (Mich. 1997); H.B. 4962, 89th Leg., 1st Sess. (Mich. 1997); H.B. 824, 89th Leg., 1st Sess. (Mo. 1997); A.B. 2849, 207th Leg., Reg. Sess. (N.J. 1997); S.B. 2877, 220th Leg., Reg. Sess. (N.Y. 1997); A.B. 5383, 220th Leg., Reg. Sess. (N.Y. 1997); S.B. 782, 1997-98 Leg., 1st Sess. (N.C. 1997); S.B. 1017, 69th Leg., 1st Sess. (Or. 1997); H.B. 3617, 112th Leg., 1st Sess. (S.C. 1997); S.B. 410, 73rd Leg., 1st Sess. (W.Va. 1997).

ber 1997.⁸ For some people, the first human clone became a matter of when, not if.⁹ Like the genie, the science of cloning was out of the bottle and not likely to be put back in again. Emphasizing this fact, Chicago physicist Richard Seed announced in January 1998, that he was ready to open a human cloning clinic.¹⁰ Once again, human cloning became headline news¹¹ and a new flurry of legislation to ban human cloning was proposed at both the federal¹² and state levels.¹³

8. See Gina Kolata, *On Cloning Humans, 'Never' Turns Swiftly into 'Why Not'*, N.Y. TIMES, Dec. 2, 1997, at A1.

9. See Tristanne Walliser, *Emerging Technologies, Emerging Debates - Clones: Not How, But When* (visited Mar. 6, 1998) <<http://www.abcnews.com/sections/living/cloning1205/index.html>>; see also Laurence Tribe, *Second Thoughts on Cloning*, N.Y. TIMES, Dec. 5, 1997, at A31; Winston, *supra* note 3, at 913.

10. "God made man in his own image. God intended for man to become one with God. Cloning and the reprogramming of DNA is the first serious step on becoming one with God." *Welcome to the Clone Age!* (visited Mar 9, 1998) <<http://www.teleport.com/features/clones/>> (quoting Richard Seed on National Public Radio, Jan. 6, 1998). The religious view Dr. Seed espouses contrasts to the view of other religious commentators, discussed *infra* Part IV.

11. President Clinton insisted that science cannot be allowed to trump moral values and urged Congress on January 10, 1998, to stop Chicago physicist Richard Seed from trying to clone a human being. The news that independent scientist Richard Seed would begin work on human cloning is "profoundly troubling," Clinton said in his weekly radio address. "Personally, I believe that human cloning raises deep concerns given our cherished concepts of faith and humanity. Scientific advancement does not occur in a moral vacuum ... We must move with caution, care and deep concern about the impact of our actions." Sandra Sobieraj, *Clinton Urges Ban on Human Cloning* (visited Mar 6, 1998) <<http://www.abcnews.com/sections/us/clintonradio0110/index.html>>.

12. Federal bills introduced in the wake of Richard Seed's announcement include S.B. 1574, 105th Cong. (1998); S.B. 1599, 105th Cong. (1998); S.B. 1601, 105th Cong. (1998); S.B. 1602, 105th Cong. (1998); S.B. 1611, 105th Cong. (1998); and H.R. 3133, 105th Cong. (1998).

13. State legislative proposals include: S.B. 8, 1998 Leg., Reg. Sess. (Ala. 1998); S.B. 68, 1998 Leg., Reg. Sess. (Ala. 1998); S.J.R. 6, 1998 Leg., Reg. Sess. (Ala. 1998); H.B. 5475, 1998 Leg., Reg. Sess. (Conn. 1998); S.B. 241, 139th Leg., 2nd Sess. (Del. 1998); H.B. 1508, 144th Leg., 2nd Sess. (Ga. 1998); S.B. 1230, 90th Leg., 2nd Sess. (Ill. 1998); S.B. 1243, 90th Leg., 2nd Sess. (Ill. 1998); S.B. 411, 110th Leg., 2nd Sess. (Ind. 1998); H.B. 3206, 19th Leg., 2nd Sess. (Haw. 1998); H.B. 2846, 77th Leg., 2nd Sess. (Kan. 1998); H.J.R. 11, 1998 Leg., Reg. Sess. (Md. 1998); S.B. 864, 89th Leg., 2nd Sess. (Mich. 1998); H.B. 5475, 89th Leg., 2nd Sess. (Mich. 1998); H.R. 197, 89th Leg., 2nd Sess. (Mich. 1998); H.B. 198, 89th Leg., 2nd Sess. (Mich. 1998); H.C.R. 80, 89th Leg., 2nd Sess. (Mich. 1998); H.B. 2730, 80th Leg., 2nd Sess. (Minn. 1998); S.B. 2423, 80th Leg., 2nd Sess. (Minn. 1998); H.B. 996, 1998 Leg., Reg. Sess. (Miss. 1998); H.B. 1658, 155th Leg., 2nd Sess. (N.H. 1998); A.B. 329, 208th Leg., Reg. Sess. (N.J. 1998); S.B. 5993, 221st Leg., Reg. Sess. (N.Y. 1998); A.B. 9116, 221st Leg., Reg. Sess. (N.Y. 1998); S.B. 218, 122nd Leg., 2nd Sess. (Ohio 1998); H.B. 675, 122nd Leg., 2nd Sess. (Ohio 1998); H.B. 2128, 182nd Leg., 2nd Sess. (Pa. 1998); H.B. 7123, 1997-98 Leg., 2nd Sess.

While many are calling for an international ban on human cloning,¹⁴ there is still division as to the correct course of action.¹⁵ When attempting to address the new advance of adult mammalian cloning, commentators caution against legislation attempting to ban human cloning with overly broad language which could ban basic medical research.¹⁶ So far, it appears caution has prevailed.¹⁷ As of February 1998, California was the only U.S. jurisdiction to enact legislation placing a moratorium on human

(R.I. 1998); S.B. 2208, 100th Leg., 2nd Sess. (Tenn. 1998); S.B. 2295, 100th Leg., 2nd Sess. (Tenn. 1998); H.B. 2198, 100th Leg., 2nd Sess. (Tenn. 1998); H.B. 2281 100th Leg., 2nd Sess. (Tenn. 1998); A.B. 769, 93rd Leg., 2nd Sess. (Wis. 1998); H.B. 752, 1998 Leg., Reg. Sess. (Va. 1998).

14. French President Jacques Chirac called for a ban on human cloning when he addressed a European conference of national ethics committees in Paris on January 12, 1998. Likewise, Pope John Paul II called for all countries to ban human cloning shortly after Dolly's announcement. Nineteen of the 40 members of the Council of Europe signed a treaty to ban human cloning less than a week after Seed's announcement. The signing had been planned for months, but Seed's announcement added greater significance for some of the signatory countries. The January 12, 1998 treaty states that cloning is "contrary to human dignity and thus constitutes a misuse of biology and medicine." Countries that signed were Denmark, Estonia, Finland, France, Greece, Iceland, Italy, Latvia, Luxembourg, Macedonia, Moldova, Norway, Portugal, Romania, San Marino, Slovenia, Spain, Sweden and Turkey. See Joseph Schuman, *Countries Sign Cloning Ban* (visited Mar. 6, 1998) <<http://www.abcnews.com/sections/scitech/cloning0112/index.html>>.

15. For example, England and Germany both refused to sign the European agreement, but for opposite reasons. England because the treaty is too strict, Germany because the treaty is not strict enough. See *id.* The difference of opinion is partly because technology advances will often stretch existing laws and challenge traditional legal definitions. See Marjorie Shultz, *Reproductive Technology and Intent-Based Parenthood: An Opportunity for Gender Neutrality*, 1990 WIS. L. REV. 297, 300 (1990) (discussing how advances in reproductive technologies have often challenged existing legal definitions).

16. See, e.g., Luran Neergard, *No Human Cloning in the Offing* (visited Mar. 6, 1998) <<http://www.abcnews.com/sections/scitech/cloning0119/index.html>>. "If they are going to do this, come up with legislation that bans cloning but protects research," said Dr. Benjamin Younger of the American Society for Reproductive Medicine. One of scientists' biggest alarms in 1997 came from Florida, where House Bill 1237 proposed making any cloning of human DNA a felony. Cloning human genetic material is standard practice in genetics research, the making of critical medicines, and even police DNA fingerprinting. The bill was withdrawn after its authors "realized this would have stopped biomedical research in Florida in its tracks," said Carl Feldbaum of Biotechnology Industry Organization. *Id.*

17. The concern about over-broad legislation defeated Senate Bill 1601 on Feb. 11, 1998, by a 42 to 54 vote. See 144 CONG. REC. S599-05 (1998). This bill would have banned somatic cell nuclear transfer for human cells, a technique used as part of research on: diabetes; leukemia; sickle cell anemia; Alzheimer's disease; Parkinson's disease; multiple sclerosis; spinal cord injuries; liver disease; severe burns; muscular dystrophy; arthritis; and heart disease. See *id.* (statement of Sen. Thurmond).

cloning.¹⁸ This comment will examine the science of cloning, the California moratorium on cloning a human being, some implications of human cloning, and legal challenges to human cloning laws that might arise.

I. THE SCIENCE OF CLONING

The word "clone" in the context of biotechnology has many meanings. One definition of a "clone" is an exact copy of a molecule, gene, cell, plant, animal, or human being.¹⁹ For many years scientists have cloned molecules, genes, cells, plants, and, in limited circumstances, animals.²⁰ The advance that Dolly so vividly demonstrates is that a fully developed animal can be produced from the somatic cell of an adult, something never achieved before.²¹ The technique used to create Dolly is called somatic cell nuclear transfer. In that technique, the haploid nucleus of an egg cell is replaced with the diploid nucleus of a somatic cell.²² While there are differences between species in the success of nuclear transfer,²³ the technique used to create Dolly might be successful in creating a human being. Even though Dolly was the only live birth from 277 nuclear transfers, Ian Wilmut's lab has already reported more than a three-times greater success rate in the live births after implantation in the womb.²⁴ If this trend continues, cloning may soon have as high a success rate as other reproductive techniques. Another advance in cloning technology, reported by Neal First in January 1998, was the use of enucleated cow eggs to produce

18. 1997 Cal. Legis. Serv. 688 (West) was signed on Oct. 4, 1997, by Governor Wilson.

19. It is beyond the scope of this comment to review in detail the science which lead to Dolly. For a more complete explanation of the science of cloning, see NBAC, *supra* note 4, at 13-38 and Appendix A.

20. See J. Gurdon et al., *The Developmental Capacity of Nuclei Transplanted from Keratinized Skin Cells of Adult Frogs*, 34 J EMBRYOL. EXP. MORPH. 93-112 (1975); see also R. Prather et al., *Nuclear Transplantation in Early Pig Embryos*, 41 BIOL. REPROD. 414-18 (1989).

21. See Wilmut, *supra* note 1, at 810.

22. See *id.*

23. See NBAC, *supra* note 4, at 17-21.

24. Dolly was the only live birth out of 29 embryos implanted, a 3.4% success rate. See Wilmut, *supra* note 1, at 810. The same group reported the creation of transgenic sheep, with seven live births out of 67 implanted embryos, a 10.4% success rate. The seven live births were out of 14 embryos to develop into fetuses. See Angelika Schnieke et al., *Human Factor IX Transgenic Sheep Produced by Transfer of Nuclei from Transfected Fetal Fibroblasts*, 278 SCIENCE 2130 (1997). As the title points out, these Factor IX transgenic sheep are from fetal cells and not adult cells. *Id.*

preimplantation-state embryos with DNA from sheep, pigs, and monkeys.²⁵ This advance creates the possibility of using non-human egg cells for cloning a human being.²⁶

The technology involved in cloning somatic cells will almost certainly have a profound impact on the biotechnology and agriculture industries.²⁷ One advantage of cloning is the production of genetically identical animals for basic scientific research.²⁸ The use of adult animal cloning may also stimulate commercial interest when applied to livestock breeding.²⁹ A third advantage is that cloning holds potential for improving the propagation of transgenic livestock.³⁰ Furthermore, transgenic animals may be valuable for organ transplantation to humans.³¹ Fourth, cloning adult animals has potential to aid in generating targeted gene alternations.³² Fifth, since the basic processes of cellular replication and sequential specialization are not well understood, using cloning technology for basic research

25. See Linda Carroll, *Cow Eggs Used to Clone Other Animals* (visited Mar. 6, 1998) <<http://www.msnbc.com/news/137711.asp#BODY>>.

26. See *id.*

27. See Robert Reno, *Fear of Cloning is Mystifying*, AUSTIN-AMERICAN STATESMAN, Jan. 28, 1998, available in 1998 WL 3594692.

28. The genetic variation between animals can make it difficult to interpret experimental results in animal models, and may at times lead to incorrect conclusions. Inbred mice have been used for many years because they are essentially genetically identical. Inbreeding larger animals is difficult, expensive, and time consuming because of the long gestation times and small number of offspring. Having genetically identical animals will eliminate experimental variations caused by genetic differences in test animals and aid in confirmation of results by other laboratories.

29. Spreading advantageous traits in livestock has a very long historical standing, and cloning will add one more means of accomplishing this. See NBAC, *supra* note 4, at 25. A caution involving the cloning prize livestock is that if this technique became wide spread, steps would need to be taken to ensure the genetic pool remains diverse. If a pool of livestock all contain the same genetic weakness against a pathogen, entire herds could be infected and die quickly. A genetically diverse population increases the chances of multiple animals having resistance to a given pathogen.

30. Molly & Polly, transgenic ewes, produce human factor IX in their milk. It will be considerably more cost effective than current methods to use livestock to produce pharmaceutically important proteins, with insulin, factor VIII, and factor IX as just three examples. See Schnieke, *supra* note 24, at 2130.

31. For example, it may someday be possible to produce pigs which grow hearts suitable for transplant into humans. See NBAC, *supra* note 4, at 26.

32. Gene targeting is an important tool in understanding normal gene function and one use is to better understand human genetic diseases. Somatic cell nuclear transfer may help decrease the time and cost of these experiments. See M. Capecchi, *The New Mouse Genetics: Altering the Genome by Gene Targeting*, 5 TRENDS IN GENETICS 70-76, (1989).

in this area may help develop new therapies to treat human diseases.³³ Finally, cloning from adult cells could potentially reverse the extinction of some animal species.³⁴ Freezing cells from endangered animals will help ensure these animals can be reproduced after they have gone extinct in the wild.³⁵ With somatic cell nuclear transfer, extinction does not need to be forever.³⁶

II. SUMMARY OF THE CALIFORNIA HUMAN CLONING BAN

Out of the flurry of legislation proposed in the wake of Dolly's announcement,³⁷ California was the only jurisdiction in the United States to adopt a law banning human cloning.³⁸ The California law banning the cloning of a human being incorporates the major recommendations of the National Bioethics Advisory Commission (NBAC).³⁹ Section 1 summarizes the purpose of California's cloning law:

It is the intent of the Legislature to place a five-year moratorium on the cloning of an entire human being in order to evaluate the profound medical, ethical, and social implications that such a possibility raises. It is not the intent of the Legislature that this moratorium apply to the cloning of human cells, human tissue, or human organs that would not result in the replication of an entire human being.^[40]

The law implements the moratorium on cloning an entire human being in three ways: first, human cloning constitutes unprofessional conduct; second, business licenses will be revoked for a violation of the morato-

33. See NBAC, *supra* note 4, at 28-29.

34. See Winston, *supra* note 3, at 913.

35. If the technique reported by Neal First succeeds, cloning could take place without needing a donor egg from the same species. Thus, a cheetah or perhaps a woolly mammoth could be cloned using an enucleated cow egg. See Linda Carroll, *Cow Eggs Used to Clone Other Animals* (visited Mar. 6, 1998) <<http://www.msnbc.com/news/137711.asp#BODY>>.

36. To bring a species back from extinction requires the preservation of viable nuclei. Thus, the woolly mammoth might be brought back because frozen mammoths have been found. In contrast, dinosaurs could not be produced currently because no surviving cells have been found yet.

37. See *supra* notes 6, 7 and accompanying text.

38. As of February 1998, no other human cloning laws had been enacted within the United States.

39. See NBAC, *supra* note 4, at 109. The NBAC is a group of scientists, ethicists and theologians created by President Clinton in order to advise the President on policy issues relating to biotechnology.

40. 1997 Cal. Legis. Serv. 688 (West).

rium; and finally, a violator can be held to a fine of \$1,000,000 or more. In keeping with the NBAC recommendation, the California law has a five-year sunset clause, so that the law repeals itself on January 1, 2003. This law does not make cloning a human being a criminal act. However, existing law in California regulates medical experimentation on humans,⁴¹ and cloning a human being, or attempting to clone a human being, would most likely be viewed as human experimentation.⁴²

Section 5 of the California cloning act adds Chapter 1.4 to Division 20 of the California Health and Safety Code:

24185. (a) No person shall clone a human being.

(b) No person shall purchase or sell an ovum, zygote, embryo, or fetus for the purpose of cloning a human being.^[43]

(c) For purposes of this section, "clone" means the practice of creating or attempting to create a human being by transferring the nucleus from a human cell from whatever source into a human egg cell ^[44] from which the nucleus has been removed for the purpose of, or to implant, the resulting product to initiate a pregnancy that could result in the birth of a human being.

24187. For violations in Section 24185, the State Director of Health Services may,^[45] after appropriate notice and opportunity for hearing, by order, levy administrative penalties as follows:

41. S.B. 1344, 1997-98 Leg., 1st Sess. (Cal. 1997) (Preamble); *see also* Nuremberg Code, 1946-49. While the federal government has guidelines on human experimentation in 45 C.F.R. Part 46 (1996), these only apply to federally funded research institutions, voluntarily complying institutions, or to pharmaceuticals or devices that need Food and Drug Administration [hereinafter FDA] approval.

42. In response to Richard Seed's announced plans to open human cloning clinics, the FDA claimed it has jurisdiction over human cloning. As one editorial pointed out, this assertion is "highly dubious, resting on the twisted supposition that anyone trying to clone a person needs what the FDA calls 'Investigative New Drug' authority, really a license to conduct clinical trials of new drugs. But if no new drugs are used, it is hard to see why." Editorial, *Legislate Carefully*, BOSTON HERALD, Jan. 24, 1998, available in 1998 WL 7335433.

43. This paragraph extends the jurisdictional reach of this law by making it illegal for anyone in California to buy or sell the needed components of a human cloning experiment to anyone inside or outside California.

44. The specific reference to "human egg cell" may need to be modified to "egg cell" in light of the recent announcements by Neal First of the cloning of mammals using enucleated cow eggs. *See* Linda Carroll, *Cow Eggs Used to Clone Other Animals* (visited Mar. 6, 1998) <<http://www.msnbc.com/news/137711.asp#BODY>>.

45. The plain reading of the word "may" leaves administrative penalties under the discretion of the Director of Health Services.

(a) If the violator is a corporation, firm, clinic, hospital, laboratory, or research facility, by a civil penalty of not more than ^{146]} one million dollars (\$1,000,000) or the amount applicable amount under subdivision (c), whichever is greater.

(b) If the violator is an individual, by a civil penalty of not more than two hundred fifty thousand dollars (\$250,000) or the amount applicable amount under subdivision (c), whichever is greater.

(c) If any violator derives pecuniary gain from a violation of this section, the violator may be assessed a civil penalty of not more than an amount equal to the amount of the gross gain multiplied by two.

(d) The administrative penalties shall be paid to the General Fund.

The narrow definition of "clone" in section 24185(c) is important because it means that this law does not target basic medical research that uses cloning technology.⁴⁷ The new law only prevents human cloning as applied to assisted reproduction.⁴⁸

Section 2 of the California cloning act modified California Business and Professions Code section 2260.5(a) to read: "A violation Section 24185 of the Health and Safety Code, relating to human cloning, constitutes unprofessional conduct."⁴⁹ Sections 3 and 4 were added to California Business and Professions Code sections 16004⁵⁰ and 16105.⁵¹ Both sections now read: "Any license issued to a business pursuant to this chapter shall be revoked for a violation of Section 24185 of the Health and

46. A plain language reading of "not more than" would allow a fine of less than \$1 to satisfy this section.

47. Cloning cells to create a new section of skin for burn victims is not a violation of the law. Cloning a prize bull or a favorite pet is likewise legal. Transgenic animals like Molly & Polly, ewes that produce human factor IX in their milk, are legal. *See generally* Schnieke, *supra* note 24. Research into cloning a new heart or kidney is not a violation. While cloning research for tissue and organ generation may involve the use of somatic cell nuclear transfer, it does not violate the California law because a researcher pursuing these goals would not be using cloning technology to initiate a pregnancy.

48. If Richard Seed tried to clone a person in California, this would be a clear violation of California Health and Safety Code § 24185.

49. According to the Medical Practice Act, unprofessional conduct would cause a violator to go before a review board for discipline. A penalty for unprofessional conduct can range from educational training to revocation of a medical license. *See* CAL. BUS. & PROF. CODE § 2000 (West 1990 & Supp. 1998).

50. Section 16004 authorizes a city to issue an operating license to a business.

51. Section 16105 authorizes a county to issue an operating license to a business.

Safety Code, relating to human cloning.”⁵² All of these sections contain the sunset clause: “This [section] shall remain in effect only until January 1, 2003, and as of that date, is repealed, unless a later enacted statute, that is enacted before January 1, 2003, deletes or extends that date.”

III. MEDICAL IMPLICATIONS OF HUMAN CLONING

As discussed above, cloning technology holds promise for human medicine in several areas: regeneration and repair of diseased or damaged tissue and organs;⁵³ organ and tissue transplantation;⁵⁴ cell-based therapies;⁵⁵ and assisted reproduction.⁵⁶ In the rush to ban cloning a human being, several legislative proposals could have stopped all of the above—not just assisted reproduction.

While the technology of cloning holds promise, there are several scientific uncertainties involved in attempting to clone humans. First, it is not known yet whether cloning will ever work well in humans.⁵⁷ Also, the combination of the genetic imprinting phenomenon and the nuclear transfer technique could potentially increase the rate of cancer and genetic conditions.⁵⁸ Dolly shows it is possible for an animal to successfully develop from a somatic cell, yet it remains to be seen if there are any long term problems associated with a possible disruption of the genetic imprint.

52. In a practical sense, losing the ability to conduct business in California may be more of a deterrent to a company than a one time \$1,000,000 fine. While the fines may or may not be levied against any company or person violating the law, the business license and unprofessional conduct clauses are not discretionary.

53. See 144 CONG. REC. S599-05 (1998) (statement of Sen. Feinstein).

54. Every 18 minutes in America, a new name is added to the list of those waiting for an organ transplant. Every two hours, someone on that list dies because there was no organ available. Gary Anderson from the University of California, Davis, is using cloning techniques to try to create a pig whose heart can be transplanted into humans. See Darragh Johnson, *Another Day, Another Double? Some People See a Time Coming when Cloning No Longer Sparks Controversy*, THE SACRAMENTO BEE, Jan. 28, 1998, available in 1998 WL 8806682.

55. See 144 CONG. REC. S599-05 (1998) (statement of Sen. Mack).

56. 1997 Cal. Legis. Serv. 688 (West).

57. Nuclear transfer does not work as well in mice as it does in larger domestic animals. While this may be due to the level of effort directed at nuclear transfer in domestic animals, there may be true species differences which could cause the success rate in humans to always remain lower than some other species. See NBAC, *supra* note 4, at 23.

58. Genetic imprinting is where genes from the father and genes from the mother are not equivalent in their effects on development. See D. Solter, *Differential Imprinting and Expression of Maternal and Paternal Genomes*, 22 ANN. REV. OF GENETICS 127-46 (1988).

Furthermore, cellular aging may affect the age of the donor nuclei and thus the age of all the cells in the new animal. To put it another way, on Dolly's first birthday, it is not yet known if the cells in her body were closer to those of a normal one year old sheep, those of a normal seven year old sheep, or somewhere in between.⁵⁹ In light of the above uncertainties, the NBAC unanimously agreed that there is no scientific justification at this time for attempting to produce a human child using somatic cell nuclear transfer.⁶⁰

IV. ETHICAL AND SOCIAL IMPLICATIONS OF HUMAN CLONING

As one might expect, there is no clear moral consensus regarding human cloning.⁶¹ The probability of achieving a moral consensus in the United States will likely remain practically zero because neither moral philosophers nor religious scholars can agree on what is the best moral code from which to start an analysis.⁶²

Many people responded to Dolly's announcement with reactions based upon the incorrect belief that a child or even a fully grown adult, identical in thought, appearance, and action to an already existing person, could be

59. Cellular aging involves a shortening of the ends of the chromosomes, the telomeres, as well as other genetic changes. Germ cells have special pathways and enzymes to evade cellular aging. By fusing the nucleus of a somatic cell with an enucleated egg cell, it is possible that cellular aging is completely reversed. However, only time and further research will show if cellular aging has an increased negative effect on animals created through somatic cell nuclear transfer. See NBAC, *supra* note 4, at 23; see also Winston, *supra* note 3, at 913.

60. Until the technique is dramatically improved in animal models, it is difficult to find a compelling justification to attempt cloning in humans. One example of a high-risk technique with a compelling justification is cancer treatment. Some types of cancer treatment involve very high risks to the patient, but these risks are outweighed by the alternative where the patient will die of cancer without treatment. Unlike cancer treatment, the risks of birth defects, early cancer, and early cellular death by using somatic cell nuclear transfer are not outweighed by the alternative of creating a child through another reproductive technique. See NBAC, *supra* note 4, at 65.

61. It is beyond the scope of this comment to completely examine all aspects of the ethical and social implications of human cloning. For review of the ethical and religious arguments about human cloning, see NBAC, *supra* note 4, at 39-85.

62. See, e.g., Michael Broyde, *Cloning People: A Jewish Law Analysis of the Issues*, 30 CONN. L. REV. 503 (1998); PAUL RAMSEY, *FABRICATED MAN: THE ETHICS OF GENETIC CONTROL* (1970); Leon Kass, *The Wisdom of Repugnance*, THE NEW REPUBLIC, 17-26 (June 2, 1997); HANS JONAS, *PHILOSOPHICAL ESSAYS* 153-63 (1974); Francis Pizzulli, *Asexual Reproduction and Genetic Engineering: A Constitutional Assessment of the Technology of Cloning*, 47 S. CAL. L. REV. 476-584 (1974).

produced. However, the belief that genes alone determine all aspects of a person is false.⁶³ Other arguments used against human cloning are often resemble arguments raised against previous advances in reproductive technologies⁶⁴ such as *in vitro* fertilization or artificial insemination.⁶⁵ Additional religious and ethical concerns about human cloning include potentially undermining the family unit,⁶⁶ diminished personal autonomy and individuality for the child,⁶⁷ and the temptation to manipulate others

63. Identical twins are clones, but there are differences in personality, preferences, appearance, and even fingerprints. See Robert Wachbroit, *Human Cloning Isn't as Scary as It Sounds*, THE WASH. POST, Mar. 2, 1997, at C1. The interactions of genes with each other and the environment are extremely complex. For example, a female having a genetic predisposition for breast cancer does not have a 100% chance of developing breast cancer—her environment plays a very significant role as well. Even by knowing the complete genome of a person at birth, it would be impossible to predict what that person would be like as an adult. See NBAC, *supra* note 4, at 32.

64. See Darragh Johnson, *Another Day, Another Double? Some People See a Time Coming when Cloning No Longer Sparks Controversy*, THE SACRAMENTO BEE, Jan. 28, 1998, available in 1998 WL 8806682; see also Shultz, *supra* note 15, at 333-47.

65. The Catholic Church views cloning as morally wrong, in keeping with its position that all forms of artificial reproduction are morally wrong, including artificial insemination, *in vitro* fertilization, and surrogate motherhood. See RELIGION & ARTIFICIAL REPRODUCTION: AN INQUIRY INTO THE VATICAN 'INSTRUCTION ON RESPECT FOR HUMAN LIFE IN ITS ORIGIN & ON THE DIGNITY OF HUMAN REPRODUCTION' 157-65 (T. Shannon & L. Cahill eds. 1988).

66. See NBAC, *supra* note 4, at 68-70. While many of the ethical objections to human cloning are connected with a concern about the breakdown of the family unit, there are some situations where human cloning would be the only way to preserve the family unit. For example, suppose a child falls victim to a viral infection and, as a result, is in need of a bone marrow transplant in order to live. No compatible donor is found, so the parents want to clone the child. If successful, the new child will be a perfect match for the transplant and there is no significant risk or discomfort caused by bone marrow donation. The net result is two healthy identical twins of different ages, both loved by their parents. Any moral argument concerned about the health and safety of a child might likely favor saving the sick child with the use of cloning technology.

67. See MARTHA NUSSBAUM, ARISTOTELIAN SOCIAL DEMOCRACY, LIBERALISM AND THE GOOD 27-226 (R. Bruce Douglass et al., eds., 1990). In rebuttal to the idea cloning would decrease individuality, assume for a moment that genetic twins did not exist in nature and person used current scientific techniques to separate an early human blastocyst, implanted both resulting blastocysts and genetically identical twins were born. In a world without naturally occurring genetic twins, a hue and cry would likely be raised about the immorality of creating two identical people and the loss of individuality. However, experience shows that individuality is not diminished and personal autonomy is not compromised when genetic twins are born. Even with an extremely similar environment, genetic twins have many differences. Given the complex interactions between genes and the environment, a delayed genetic twin would have even more differences than naturally occurring identical twins.

as if they are merely objects and not people.⁶⁸ Another area of concern is that, if cloning becomes widespread, it might open the door to eugenics.⁶⁹

On the other hand, arguments against a ban on human cloning include: the presumption that individual liberty should be upheld,⁷⁰ that human reproduction is of a particularly private nature and should be maintained,⁷¹ that scientific inquiry must remain free,⁷² that there are some exceptional cases where a valid reason for creating a child through human cloning is so compelling it transcends moral objections,⁷³ and that many objections are mere speculation and unproven.⁷⁴

Religious and social perspectives differ in paradigm, modes of reasoning, and conclusions. Thus, some scholars hold fundamental beliefs and norms which provide a clear negative answer to the question of clon-

68. See George Annas, *Human Cloning: Should the United States Legislate Against It? Yes: Individual Dignity Demands Nothing Less*, 83 ABA J. 80 (1997). But see John Robertson, *Human Cloning: Should the United States Legislate Against It? No: The Potential for Good is Too Compelling*, 83 ABA J. 81 (1997). Concerns about treating children as objects overlook the simple fact that this has always happened. Even the statement, "This is my child," implies ownership. It is also true that parents often have extremely high expectations for their naturally conceived children. It could be argued a child created through cloning would be in a better position to resist these high expectations since they would be a genetic sibling, or even a genetic parent, to the person with these expectations.

69. The concerns about eugenics and future genetic manipulations will exist even if no one ever clones a human being. While human cloning may "open the door" to an increased interest in eugenics, a ban on human cloning would not "close the door" on eugenics. The prospect of somatic cell nuclear transfer in humans likewise increases the possibility of genetic manipulation and creating a race of super-humans or half-humans. These issues are beyond the scope of this comment. With or without a ban on human cloning, eugenics and genetic manipulations are issues we will need to address, perhaps in the not so distant future. See NBAC, *supra* note 4, at 74.

70. Personal liberty is one of the most important values shared by United States citizens. Yet the value of personal liberty is not supreme. Competing against it can be the values of equality, nonmaleficence, and others. Even commentators who argue personal liberty requires us to leave a decision to create a child through cloning still recognize nonmaleficence as a limit to liberty. See NBAC, *supra* note 4, at 76; see also Susan Wolf, *Ban Cloning? Why NBAC Is Wrong*, 27 HASTINGS CENTER REPORT, 12 (1997).

71. There is a presumption that human reproduction is of a particularly private nature and should be maintained. See generally Shultz, *supra* note 15.

72. See Natasha Lisman, *Freedom of Scientific Research: A Frontier Issue in First Amendment Law*, 35 BOSTON BAR J. 4 (1991).

73. Jewish law maintains there is a duty to heal, and infertility is viewed as an illness. Thus, Jewish scholars are generally opposed to a ban on human cloning and would prefer to have decisions made on a case-by-case basis. See Broyde, *supra* note 62, at 505.

74. See NBAC, *supra* note 4, at 81.

ing humans, some believe that more reflection is needed in order to evaluate the prospect of human cloning,⁷⁵ and some believe that if cloning becomes technically feasible, it should be made available to those who need it.⁷⁶ A unanimous consensus on human cloning will probably never exist.

V. CONSTITUTIONAL CHALLENGES

A law banning human cloning, if challenged, will probably be contested on various constitutional grounds.⁷⁷ Legislation without clear limits may be unconstitutionally vague.⁷⁸ Also, a ban on research may infringe the freedom of scientific inquiry under the First Amendment.⁷⁹ Furthermore, a large measure of constitutional protection in the liberty to reproduce has been given to couples and individuals.⁸⁰ Finally, any federal legislation may exceed the limits of federal power, especially since medicine has traditionally remained one of the state powers.⁸¹

Freedom of inquiry has a long history of support in the United States.⁸² Both the tradition of freedom of expression found in the First Amendment

75. "It is not good to have zeal without knowledge, nor to be hasty and miss the way." *Proverbs* 19:2 (New International Version). See Broyde, *supra* note 62, at 503.

76. See, e.g., Broyde, *supra* note 62, at 503.

77. See Wolf, *supra* note 70, at 13.

78. Vague laws ... violate due process in three ways. First, they fail to give adequate notice of precisely what conduct is being prohibited The second problem with vague statutes is that ... they invite arbitrary and discriminatory enforcement by the police, judges, and juries Last, vague standards of unlawful conduct will inevitably cause people to 'steer far wider of the unlawful zone ... than if the boundaries of the forbidden areas were clearly marked.' *Grayned v. Rockford*, 408 U.S. 104, 109 (1972). This is an especially dangerous consequence of vague statutes that encroach upon constitutional rights.

Lifchez v. Hartigan, 735 F. Supp. 1381, 1364 (N.D. Ill. 1990), *aff'd* without opinion, 914 F.2d 260 (7th Cir. 1990), cert. denied sub nom. *Scholberg v. Lifchez*, 498 U.S. 1069 (1991).

79. See generally Lisman, *supra* note 72; Richard Delgado & David Millen, *God, Galileo, and Government: Toward Constitutional Protection for Scientific Inquiry*, 53 WASH. L. REV. 349-404 (1978); James Ferguson, *Science and Technological Expression: A Problem in First Amendment Theory*, 16 HARV. CIV. RTS.-CIV. LIB. L. REV. 519 (1981).

80. See, JOHN ROBERTSON, *CHILDREN OF CHOICE: FREEDOM AND THE NEW REPRODUCTIVE TECHNOLOGIES* (1994); see also *Lifchez*, 735 F. Supp. at 1364 (constitutional protection for reproductive technologies).

81. See, e.g., *United States v. Lopez*, 514 U.S. 549 (1995) (holding a federal law unconstitutional because it violated the Tenth Amendment).

82. See *Branzburg v. Hayes*, 408 U.S. 665, 705 (1972) (holding the government had to show a compelling interest to overcome the First Amendment); see also *Griswold v.*

and the tradition of scientific inquiry share a common genesis in the philosophy of Enlightenment.⁸³ The nature of scientific inquiry is consistent with well-established principles extending the First Amendment to a variety of "ideational pursuits."⁸⁴ The fact that scientific experimentation constitutes "conduct" rather than "speech" probably does not exclude it from the protective penumbra of the First Amendment.⁸⁵ Freedom of inquiry assumes, however, an ethical and responsible pursuit of knowledge, which has not always been achieved.⁸⁶ A presumption in favor of freedom of inquiry is beneficial to the promotion of scientific advancement. However, this presumption is rebuttable by values such as nonmaleficence and safety. Both state governments and the federal government regulate research methods in order to safeguard against irresponsible pursuits of knowledge.⁸⁷ Provided the government exercises its legitimate regulatory powers in a manner designed to create the least burden possible on protected rights, the First Amendment permits restrictions on the time, place, and manner of expression.⁸⁸

Connecticut, 381 U.S. 479 (1965); *Meyer v. Nebraska*, 262 U.S. 390 (1923) (holding the Fourteenth Amendment encompasses freedom to "acquire useful knowledge ... and generally to enjoy those privileges long recognized at common law as essential to the orderly pursuit of happiness by free men."); *Henely v. Wise*, 303 F. Supp. 62 (N.D. Ind. 1969). The provisions of the First Amendment have been held applicable to the states through incorporation into the Due Process Clause of the Fourteenth Amendment.

83. See Lisman, *supra* note 72, at 4. Speech and science are both facets of the same commitment of Enlightenment to the pursuit of human purposes through the rational method. *Id.*

The colonists conceived the right to freedom of speech, press, assembly, and petition as vital to the process of discovering truth, through exposure to all facts, open discussion, and testing of opinions. ... The process is essentially the method of science. The theory of freedom of expression, indeed, developed in conjunction with, and as an integral part of, the growth of the scientific method. Locke, following Hobbes, based his philosophical and political theories on the premises of science.

Thomas Emerson, *Colonial Intentions and Current Realities of the First Amendment*, 125 U. PENN. L. REV. 737, 740-41 (1977).

84. Lisman, *supra* note 72, at 4.

85. *Id.*

86. The Tuskegee Syphilis Study remains one of the most outrageous examples of disregard of basic ethical principles of conduct, not to mention violations of standards for ethical research. In this study, the United States Public Health Service decided to study the effects of untreated syphilis on human subjects even after a cure had been found. See (visited Feb. 16, 1998) <<http://www.ssc.msu.edu/~sw/mlk/tuskg.htm>>.

87. As a result of the Tuskegee experiment, the regulations on working with human subjects were completely rewritten for Health, Education, and Welfare. See *id.*

88. See Lisman, *supra* note 72, at 7.

Another ground for challenging anti-cloning laws could be the constitutional right to privacy, which includes the deeply personal choice of deciding to raise a family. Courts have given a high measure of constitutionally-based protection to a person's choice of whether and when to bear children.⁸⁹ Some commentators respond that cloning is merely a form of replication and not reproduction, thus they argue it should not receive any constitutional protection.⁹⁰ This view is based upon the idea that reproduction is sexual and collaborative, where cloning is asexual. A constitutional distinction between "asexual" cloning, *in vitro* fertilization, and sexual coitus, however, would miss the point that all of these techniques could potentially result in the birth of a human child who would be entitled to every right all children are born with,⁹¹ irrespective of how the child was conceived.

The California law would most likely withstand these types of constitutional challenges. Also, because it is a state law, it avoids any Tenth Amendment challenges.⁹² It would also likely survive freedom of scientific inquiry based on the First Amendment, given the scientific uncertainty about potential harm to the child. Concerns about that harm would probably constitute a justifiable state interest. Moreover, while the constitutional right to privacy may protect a woman's right to choose cloning as a form of procreation in the future, the hazards involved with cloning at this time likely outweigh that right. One additional factor in favor of the constitutionality of the California law is its sunset clause limits the length of the state's intrusion into potentially protected rights.⁹³

89. See *Griswold*, 381 U.S. at 485-86. While the Supreme Court has given states more room to regulate abortions, it has not overruled *Roe v. Wade*, 410 U.S. 113 (1973). Also, successful cloning involves a woman's choice to bear a child, not the choice not to bear a child.

90. See Leon Kass, *The Wisdom of Repugnance*, THE NEW REPUBLIC, June 2, 1997 at 17-26; see also Annas, *supra* note 68, at 80.

91. "Novels such as *Frankenstein* and *Brave New World*, and films such as *Jurassic Park* and *Bladerunner* have prepared the public to discuss deep ethical issues in human cloning." Annas, *supra* note 68, at 80. However, in the above fictional works of literature, people created through alternative reproductive methods do not have the same rights as those "naturally" born. This argument fails to notice that those born with the assistance of *in vitro* fertilization, or other reproductive technology, have the same rights as every other human.

92. The Tenth Amendment reserves to the states any powers not specifically granted by the Constitution to the federal government.

93. A ban without a time limit is not in keeping with constraining liberty as little as possible while serving the public interest. Also, cloning may soon become a safe technique, so the medically based state interest in interfering with freedom of scientific inquiry and reproduction might become invalid.

Legislation banning human cloning is currently pending in several states and before Congress. Constitutional challenges to these may vary in success, depending upon how carefully a specific law is drafted. If a state adopts legislation similar to the broad cloning ban recently proposed in Senate Bill 1601,⁹⁴ introduced by Senators Bond (R-Mo.) and Frist (R-Tenn.), there are multiple reasons such a law to might be unconstitutional.

VI. AFTER JANUARY 1, 2003

It is impossible to predict exactly what the technology of cloning will be like in five years. Given the rapid pace at which science can advance, it is very possible a child will have been born using somatic cell nuclear transport within the next five years. If scientifically possible, human cloning is almost certainly only a matter of time. Laws completely banning the cloning of a human being may expend a great deal of energy, time, and money, but in the end, will prevent very little. Legislators' time might be better focused on regulating the research of cloning in labs within United States jurisdictions. The alternative could end up sending the practice underground or to foreign jurisdictions.

94. 105th Cong. (1998). In breaking ranks along with 11 other Republicans and voting against this bill, Sen. Strom Thurmond (R - S.C.) said his daughter had diabetes, and "we need to investigate [human cloning legislation] more thoroughly so that we do not deny our citizens and our loved ones of any possible life saving research." *See* 144 CONG. REC. S599-05.

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BUSINESS LAW

VIZCAINO V. MICROSOFT

By Renate M. de Haas

Increasingly, in the software industry and other sectors of the economy, corporations are relying less upon traditional employees and more upon temporary and contingent workers. These changes in the workplace have important implications for employee benefits. *Vizcaino v. Microsoft*¹ raises such issues in a prominent way.

Temporary and contingent workers include part-time workers, workers leased from temporary employment agencies, independent contractors, freelancers, and others who work outside the traditional employment domain. As companies try to keep operating costs down, they rely on temporary workers more and more. Some estimate that 20-30% of the workforce is now made up of temporary workers.² The numbers are increasing: the growth rate of contingent employment was at least 40% greater than that of the workforce as a whole during 1988, and has continued to climb since then.³

According to the National Association of Temporary Services, 24% of temporary workers are "professionals or other highly skilled workers."⁴ In the high technology industry in Silicon Valley, temporary workers constitute up to 40% of the workforce.⁵ Many of these high technology contingent employees are independent contractors who have less access to benefits from their employers.⁶ The flexibility of working as an independent contractor and receiving more cash up front may outweigh the effects of not receiving benefits, motivating independent contractors to sign agreements that deny them these benefits.

New start-up companies that are unable to hire full-time employees due to capital and cash flow restrictions may turn to independent contractors to fill their employment needs. Other more established companies

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1. 120 F.3d 1006 (9th Cir. 1997) (en banc) [hereinafter *Vizcaino II*].
2. See Richard N. Belous, *The Rise of the Contingent Workforce: The Key Challenges and Opportunities*, 52 WASH. & LEE L. REV. 863, 867 (1995).
3. See Eileen Silverstein & Peter Goselin, *Intentionally Impermanent Employment and the Paradox of Productivity*, 26 STETSON L. REV. 1, 6-7 (1996).
4. Susan Diesenhause, *In a Shaky Economy, Even Professionals Are Temps*, N.Y. TIMES, May 16, 1993, at C3.
5. David Klein, (Marketplace radio broadcast, Aug. 26, 1997).
6. See *id.*

may use contingent workers to keep costs down or to manage seasonal demand for employees. Regardless of the reason they are hired, contingent employees raise many concerns for the company and for any attorney representing that company. The *Vizcaino* decision is important not for its precedential value to temporary workers seeking employee benefits, but for bringing attention to concerns that must be addressed when dealing with a contingent workforce. If the largest software company in the world can fall prey to employee classification problems, it can happen to any company, unless one takes precautions to avoid the type of claims brought by these temporary workers in *Vizcaino v. Microsoft*.

I. THE CASE

In *Vizcaino*, eight individuals, classified by Microsoft Corporation as independent contractors, sued the company on behalf of themselves and a court-certified class claiming that they were entitled to savings benefits under Microsoft's Savings Plus Plan (SPP), an Employee Retirement Income Security Act (ERISA) plan, and stock option benefits under Microsoft's Employee Stock Purchase Plan (ESPP).⁷ The workers based both of their claims on the theory that they were not independent contractors, but common law employees.⁸

Each plaintiff signed two agreements at the time of hire: a "Microsoft Corporation Independent Contractor Copyright Assignment and Non-Disclosure Agreement" and an "Independent Contractor/Freelancer Information" document.⁹ The non-disclosure agreement provided that the worker "agrees to be responsible for all federal and state taxes, withholding, social security, insurance and other benefits."¹⁰ The information document stated that "as an Independent Contractor to Microsoft, you are self-employed and are responsible to pay all your own insurance and benefits."¹¹ In addition, the plaintiffs received more cash on an hourly basis than regular employees.¹²

Microsoft integrated these independent contractors into its workforce. The independent contractors were required to work on-site, worked on teams with regular employees, performed identical functions to regular

7. See *Vizcaino II*, 120 F.3d at 1006.

8. See *id.*

9. *Vizcaino v. Microsoft*, 97 F.3d 1187, 1190 (9th Cir. 1996) [hereinafter *Vizcaino I*].

10. *Id.*

11. *Id.*

12. See *Vizcaino II*, 120 F.3d 1019.

employees, and maintained the same hours as regular employees.¹³ The independent contractors did differ from regular employees in some respects: they wore badges of different colors than regular employees, had different e-mail account addresses, were not invited to official company functions, were not paid salaries, and were not allowed to assign their work to others.¹⁴ Further, they were not paid through Microsoft's payroll department, instead receiving payment for their services by submitting invoices to Microsoft's accounts receivable department.¹⁵

Microsoft made benefit plans available to employees of the company. One such plan was the SPP, which Microsoft elected to establish in accordance with ERISA.¹⁶ ERISA defines an employment benefit plan as "(1) a plan or program, (2) established or maintained by an employer (3) for the purpose of providing to its participants (4) benefits, through the purchase of insurance or otherwise, (5) in the event of sickness, accident, disability, death, unemployment, vacation, or in the event of retirement."¹⁷ Microsoft's SPP was open to all employees "on the United States payroll of the employer."¹⁸ Microsoft believed that because the temporary workers were paid through the accounts receivable department, and not its payroll department, they were not eligible to participate in the SPP.¹⁹

A second plan offered by Microsoft was its ESPP, which allowed employees to purchase Microsoft stock at 85% of its fair market value.²⁰ Not an ERISA plan, the ESPP conferred benefits in accordance with section 423 of the Internal Revenue Code,²¹ which requires the ESPP be open to all employees of the company.²² However, because Microsoft did not consider the workers to be employees, they were not permitted to participate in the ESPP.²³

In 1989 and 1990, the Internal Revenue Service (IRS) examined Microsoft's employment records to determine whether the company was in compliance with the tax laws. The IRS used common law principles to

13. See *Vizcaino I*, 97 F.3d at 1190.

14. See *id.*

15. See *id.*

16. See *Vizcaino II*, 120 F.3d at 1013.

17. Rita B. Gylys, *Employee Benefits: What They Look Like Today and How They Will Change Tomorrow*, in *LITIGATION 1997*, at 21, 214 (PLI Litig. & Admin. Practice Course Handbook Series No. H4-5259, 1997 (quoting 29 U.S.C. § 1002(1) (1994))).

18. See *Vizcaino II*, 120 F.3d at 1013.

19. See *id.* at 1010.

20. See *Vizcaino I*, 97 F.3d at 1191.

21. 26 U.S.C. § 423 (1994).

22. See *Vizcaino II*, 120 F.3d at 1014.

23. See *id.* at 1014-15.

determine that Microsoft's independent contractors were not temporary employees, but common law employees.²⁴ The IRS uses a twenty-factor test to determine if a worker is a common law employee.²⁵ Generally, in applying its twenty-factor test, the IRS assesses the manner and means by which the product is created, including whether the work is performed on-site, whether the worker pays for office supplies and machines, whether hours are set by the worker or the company, and so on.²⁶ Typically, if the worker exercises a great deal of control over her employment, she is an independent contractor; if the hiring party has more control, the worker is an employee. There are also several other tests, such as the agency test and the economic realities test, that use similar factors to determine whether an individual is an employee of a company.²⁷ Microsoft had substantial control over the working conditions of its temporary workers, thus, as a matter of law, the IRS determined that the workers were employees, not independent contractors.²⁸

Microsoft issued W-2 forms to the workers and paid the employer's share of FICA taxes to the government in an effort to comply with the IRS decision.²⁹ Microsoft also realized that because the workers were employees, it had to change its system.³⁰ Workers affected by the IRS decision were either converted into full-time employees, rehired through a temporary agency, or were terminated.³¹ After learning of the IRS ruling, reclassified workers sued Microsoft in an effort to get various permanent benefits, including access to the SPP and the ESPP.³²

A. Procedural History

1. Plan Administrator

When the reclassified workers approached the company with their demands, Microsoft rejected the workers' claim for inclusion in the SPP and

24. *See id.* at 1008.

25. *See* Rev. Rul. 87-41, 1987-1 C.B. 296 (1987).

26. *See id.*

27. *See, e.g.*, RESTATEMENT (SECOND) OF AGENCY § 220(2) (1957); *Equal Employment Opportunity Commission v. Fawn Vendors, Inc.*, 965 F. Supp. 909 (S.D. Tex. 1996). The agency test uses the principles of agency law to determine whether a worker would be considered an agent of the employer. The economic realities test considers the economic realities of the work relationship and the extent to which an employer control the means by which the work is produced.

28. *Vizcaino II*, 120 F.3d at 1008.

29. *See id.*

30. *See id.*

31. *See id.* at 1009.

32. *See id.*

the ESPP, maintaining that the workers were independent contractors who should receive no benefits from the company.³³ The workers sought review of Microsoft's denial through the Microsoft SPP administrator.³⁴ The plan administrator decided that the workers were not eligible to participate in the SPP or the ESPP because they had contractually waived their rights to benefits and were not "regular full-time employees in approved headcount positions."³⁵ Although ruling only "technically" on SPP plan participation, the plan administrator stated that the workers would be excluded from the ESPP for the same reasons.³⁶

2. District Court

Following cross-motions for summary judgment, the district court referred the matter to a magistrate judge.³⁷ The magistrate judge recommended that an award be made in favor of the plaintiffs on both the SPP and ESPP claims.³⁸ The district court, however, declined to adopt the magistrate judge's recommendation, rejected the plaintiff's motion for summary judgment, and granted Microsoft's motion for summary judgment.³⁹ The plaintiffs then appealed the district court's ruling with respect to the SPP and ESPP claims.⁴⁰

3. Ninth Circuit Court of Appeals

The Ninth Circuit Court of Appeals found that although the Microsoft plan gave the plan administrator discretion to construe whether workers were entitled to benefits, the plan administrator did not apply "on the United States payroll of the employer," the phrase on which [SPP] plan eligibility depended.⁴¹ Microsoft believed that the workers were not eligible to participate in the SPP because they were not paid through the payroll department but the accounts receivable department.⁴² The first time

33. See *Vizcaino*, 97 F.3d at 1191.

34. See *id.* ERISA requires that a beneficiary exhaust all administrative remedies before filing suit, therefore the plaintiffs were required to appeal to the plan administrator before filing suit against Microsoft. The plaintiffs sought review specifically from the SPP administrator because only the SPP was an ERISA plan. See 29 U.S.C. § 1133(2) (1994). See also *Medical Center-West, Inc. v. Cluett, Peabody & Co., Inc.*, 814 F. Supp. 109 (N.D. Ga. 1993).

35. *Vizcaino I*, 97 F.3d at 1191(citations omitted).

36. *Id.*

37. See *id.*

38. See *id.*

39. See *id.* at 1192.

40. See *id.*

41. *Id.* at 1193.

42. See *id.*

Microsoft argued this theory was during its motion for summary judgment,⁴³ thus, the plan administrator never applied this phrase to the workers. The court then decided that because this crucial phrase was subject to more than one interpretation, it would consider extrinsic evidence that may shed light on its meaning.⁴⁴ The court concluded that the ERISA guidelines entitled all persons employed by Microsoft and paid from its United States accounts to participate in the SPP, regardless of whether they were paid through a payroll account or accounts receivable.⁴⁵

The court decided further that the workers should not have been excluded from the ESPP.⁴⁶ Although the workers had contractually agreed to waive this benefit, the court found that these agreements did not exclude the workers from the ESPP because they inaccurately labeled workers as "independent contractors."⁴⁷ Because all employees could participate in the ESPP, the temporary workers, as common law employees, should not have been excluded.⁴⁸ The court also found that the provision contained in the workers' agreements that the workers would be "responsible for ... other benefits" was not inconsistent with their participation in the ESPP.⁴⁹ The employee makes the payment for stock issued to them pursuant to the ESPP; therefore, the worker is still responsible for these other benefits.⁵⁰

Judge Reinhardt, the author of the majority opinion, took a firm position against "the practice of hiring temporary employees or independent contractors as a means of avoiding payment of employee benefits, and thereby increasing their profits."⁵¹ In a strong dissent, Judge Trott felt that because the workers and Microsoft had unambiguous, written agreements as to what benefits the workers would and would not receive, it would be a violation of the constitutional right of freedom to contract to hold these contracts unenforceable.⁵² He believed that "the majority seems to overlook the constitutional right of private parties freely to enter into contracts of their own choice and benefit."⁵³

43. *See id.*

44. *Vizcaino I*, 97 F.3d at 1194.

45. *See id.* at 1196.

46. *See id.* at 1197.

47. *Id.* at 1198.

48. *See id.*

49. *Id.*

50. *See id.*

51. *Id.* at 1187.

52. *See id.* at 1202-03.

53. *Vizcaino I*, 97 F.3d at 1203.

4. *En Banc Rehearing by Ninth Circuit*

Microsoft next petitioned for a rehearing en banc.⁵⁴ Upon the rehearing, the Ninth Circuit held that Microsoft's recognition that the workers were employees and not independent contractors made them eligible for ERISA benefits under the SPP.⁵⁵ Although the workers, as employees, were entitled to participate in the SPP, that participation was subject to their being "on the United States payroll of the employer."⁵⁶ The court here determined that the phrase "on the United States payroll of the employer" must be construed in the first instance by the plan administrator and not by the court as held in *Vizcaino I*.⁵⁷ The administrator never applied this phrase to the plaintiffs; therefore, the court did not look at extrinsic evidence to determine what the phrase meant within the context of plan benefits,⁵⁸ as the court did in *Vizcaino I*.⁵⁹ Finally, the court held that:

any remaining issues regarding the rights of a particular worker in the ESPP and his available remedies must be decided by the district court on remand. However, any remaining issues regarding the right of any or all of the [w]orkers to participate in the SPP must be decided by the plan administrator.⁶⁰

The dissent viewed the ESPP issue as a simple contract case.⁶¹ Because no law mandated that Microsoft give these benefits to employees to begin with, the workers were only eligible to participate in the ESPP to the extent they contracted with Microsoft to do so. Here, however, the workers specifically waived their benefit of participating in the ESPP. Therefore, the workers could not be allowed to reap the benefit of a plan for which they knowingly waived participation.

II. RECENT CASES INVOLVING EMPLOYEE CLASSIFICATION

In order to avoid the mistakes made by Microsoft, one must understand what situations may generate claims such as those advanced in

54. See *Microsoft Employees Who Were Misclassified as Independent Contractors Get Benefits*, 5 No. 5 ERISA LITIG. REP. 10 (1996) [hereinafter *Microsoft Employees*].

55. See *Vizcaino II*, 120 F.3d at 1013.

56. See *id.* at 1013.

57. *Id.*

58. See *Vizcaino II*, 120 F.3d at 1013.

59. See *Vizcaino I*, 97 F.3d at 1194.

60. *Id.* at 1015.

61. See *id.* at 1019.

Vizcaino I and *Vizcaino II*. There have been several cases that wrestle with employee classification issues similar to those presented by *Vizcaino I* and *Vizcaino II*. Courts in these cases have applied various tests with similar factors for determining whether a worker is an employee under the common law. Because each court must examine the various factors and apply them to the facts of each case, such inquiries are very fact-specific.

In *Nationwide Mutual Insurance Company v. Darden*,⁶² a former agent for Nationwide Mutual brought an action under ERISA to recover retirement benefits. The U.S. Supreme Court found that because ERISA only defines an employee as "any individual employed by an employer,"⁶³ the "term 'employee' as used in ERISA incorporates traditional agency law criteria for identifying master-servant relationships."⁶⁴ In applying these criteria "all of the incidents of the employment relationship must be assessed and weighed with no one factor being decisive."⁶⁵ In order to identify whether an individual is an employee, the Court applied a test that was previously laid out in *Community for Creative Non-Violence v. Reid*.⁶⁶ This test was essentially the same as the twenty-factor IRS test.

In a similar case, the Eleventh Circuit found there was a genuine dispute of material fact regarding Honeywell's authority over the manner and means by which plaintiff Daughtrey discharged her duties under a consultant agreement.⁶⁷ Although she had signed an agreement indicating that she was not an employee of Honeywell, Daughtrey sought to recover employee benefits from the company. The court held that "the employment

62. 503 U.S. 318 (1992).

63. *Id.* at 318

64. *Id.*

65. *Id.* at 319.

66. 490 U.S. 730 (1989).

In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party's right to control the manner and means by which the product is accomplished. Among the other factors relevant to the inquiry are: the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party's discretion over when and how long to work; the method of payment; the hired party's role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party.

Darden, 503 U.S. at 1348 (quoting *Community for Creative Non-Violence v. Reid*, 490 U.S. at 751-52).

67. See *Daughtrey v. Honeywell, Inc.*, 3 F.3d 1488 (11th Cir. 1993).

status of an individual for the purposes of ERISA is not determined by the label used in the contract between the parties.”⁶⁸ The court decided that a factors analysis approach was necessary and it applied the same test used in *Vizcaino II* and *Darden*.⁶⁹ The court determined that the company controlled many aspects of the worker's employment, as the company furnished all equipment and supplies, required the work be done on-site and did not allow workers to offer services to other companies.⁷⁰

In *Equal Employment Opportunity Commission v. Fawn Vendors, Inc.*,⁷¹ the court analogized the requirements for a Title VII action to the factor test for determining whether a worker is an employee. Although the worker had signed an “Independent Sales Representative Agreement,” the EEOC believed her to be an employee.⁷² *Fawn Vendors* is similar to *Microsoft* in that the court in each case had to determine whether an individual was an employee, despite the existence of a contract stating that the individual was, in fact, an independent contractor.⁷³ The court then applied a hybrid common law/economics realities test outlined in *Diggs v. Harris Hospital-Methodist, Inc.*,⁷⁴ which utilizes essentially the same factors as the common law test and the IRS test.⁷⁵ The factors indicated that the plaintiff was, in fact, an employee.⁷⁶

In *Holt v. Winpisinger*,⁷⁷ a former employee brought an action to recover pension benefits.⁷⁸ Holt was a part-time administrative assistant.⁷⁹ Because the company had a policy against part-time employees, Holt was

68. *Id.* at 1492.

69. *See id.*

70. *See id.* at 1493.

71. 965 F. Supp. 909 (S.D. Tex. 1996).

72. *Id.* at 911. The existence of an employer-employee relationship is a prerequisite to bringing a claim under Title VII.

73. *See id.* at 911-12.

74. 847 F.2d 270, 272 (5th Cir. 1988).

75. *Fawn Vendors*, 965 F. Supp at 910-11.

76. Although the individual was paid on commission basis and sales agreement indicated that she was an “independent agent,” her employer had a right to control the manner and means by which work was to be performed, which is the most important factor in the common law test. Important facts included: that her position required little skill; her work was an integral part of company's business; corporation monitored her activities by requiring her to submit daily reports, providing her with leads, instructing her as to the details of sales approach she was to take, and did not permit her to work for any other company. *See Fawn Vendors*, 965 F. Supp at 912.

77. 811 F.2d 1532 (D.C. Cir. 1987).

78. *See id.* at 1533.

79. *See id.*

paid from a general fund used to pay outside contractors.⁸⁰ After working part-time for one year, Holt became a regular full-time employee.⁸¹ The *Holt* court held that the common law rules of agency, as stated in the Restatement Second of Agency, must be applied to determine employee status for purposes of ERISA.⁸² The intent of the parties was one factor, but it was not dispositive as to employment status, as the defendants had claimed.⁸³ Therefore, the court decided that Holt was an employee.

Although the foregoing cases utilized a factors analysis present in the IRS, common law, economic realities and agency tests, there are cases where the court did not use the factors analysis in making their decisions. In *Abraham v. Exxon Corp.*,⁸⁴ the Fifth Circuit held that leased employees do not necessarily enjoy the same benefits as full-time employees. The plan at issue specifically excluded leased employees, and ERISA permits such exclusion if it is not on the basis of age or length of service, so long as the employee is at least 21 years of age and has completed at least one year of service to that company.⁸⁵

Also, in *Clark v. DuPont*,⁸⁶ a worker was disqualified due to the plain language of the plan. The plan in *Clark* was available only to "any full-time employee on the [pay]roll as of 12/1/85 who continues to work at

80. *See id.* at 1534.

81. *See id.*

82. *See id.* at 1540-41. These factors are:

(a) the extent of control which, by the agreement, the master may exercise over the details of the work;

(b) whether or not the one employed is engaged in a distinct occupation or business;

(c) the kind of occupation, with reference to whether, in the locality, the work is usually done under the direction of the employer or by a specialist without supervision;

(d) the skill required in the particular occupation;

(e) whether the employer or the workman supplies the instrumentalities, tools, and the place of work for the person doing the work;

(f) the length of time for which the person is employed;

(g) the method of payment, whether by the time or by the job;

(h) whether or not the work is part of the regular business of the employer;

(i) whether or not the parties believe they are creating the relation of master and servant; and

(j) whether the principal is or is not in business.

Restatement (Second) of Agency § 220(2) (1957).

83. *See Holt*, 811 F.2d at 1540-41.

84. 85 F.3d 1126 (5th Cir. 1996).

85. *See id.* at 1130 (quoting 29 U.S.C. §1052(a)(1)(A) (1994)).

86. No. 95-2845, 1997 WL 6958 (4th Cir. Jan. 9, 1997).

least 20 hours a week on a regular basis.”⁸⁷ Clark was not on the payroll of the company, was not an employee, and therefore was excluded from the plan.

It may not be necessary for a court to apply any test if it finds the provisions of a plan or an agreement to be very clear. When a court must use a test, however, all courts rely on the common law factors test, illustrated in the IRS, common law, economics realities, and agency tests. Because courts use essentially the same test, results differ only to the extent specific facts in each case differ. Little guidance can be gained from specific cases because of this fact-intensive inquiry.

III. PRACTITIONER'S POINT OF VIEW

The change in the structure of the workforce is especially prevalent in high technology industries. Because of the enormous shift from traditional employees to a contingent workforce, companies and the attorneys representing them must be careful to avoid the type of problems that arose in *Vizcaino I* and *Vizcaino II*. The following discussion includes some suggestions to guard against such claims.

A. Waiver

Although the majority believed waiver was not an issue in *Vizcaino II*,⁸⁸ waivers are still an option for practitioners drawing up agreements with independent contractors. Waiver is a tool commonly used by employers to protect against former workers suing for benefits.⁸⁹ Waiver, however, is not always effective at avoiding litigation when a worker is reclassified. In *Vizcaino I* and *Vizcaino II*, the workers had signed waivers expressly denying benefits from the company.⁹⁰ These waivers were ineffective because they were predicated on the mistaken premise that the workers were “independent contractors.” If an employee is later reclassified, the agreement must be valid *despite* being based on the mistaken premise of independent contractor status.⁹¹

In general, specific provisions usually prevail over general provisions, and there is a long-held right to freedom of contract.⁹² The court in

87. *Id.* at *3.

88. Because Microsoft agreed to reclassify the workers, the court did not address whether the waivers would have been effective. Both Microsoft and the plaintiffs stipulated that there was no waiver issue. See *Vizcaino II*, 120 F.3d at 1012.

89. See *Microsoft Employees*, *supra* note 54, at 15.

90. See *Vizcaino I*, 97 F.3d at 1190.

91. See *Vizcaino II*, 120 F.3d at 1012.

92. See *Microsoft Employees*, *supra* note 54, at 14.

Vizcaino II, however, expressed doubt that an employee could waive ERISA and other benefits without being subject to special strict scrutiny.⁹³

In enacting ERISA, Congress sought to protect employees and encourage participation in retirement plans. As one court observed, "Congress intended 'that minimum standards be provided assuring the equitable character of such plans'"⁹⁴ These types of waiver inquiries, therefore, must be colored by issues of equity due to the vastly different bargaining positions of the worker and the company. There is a great potential for fiduciary abuse in these cases. Often, the plan administrator is acting on the company's behalf, as well as a fiduciary for the employee. There may be grave public policy concerns if an employer is allowed to circumvent the ERISA protections provided to employees by contracting away these benefits.

In *Amaro v. Continental Can Co.*,⁹⁵ it was precisely Congress' intent to safeguard employee benefits that led the Ninth Circuit to hold that benefits could not be waived. The court held that because the Congressional intent in enacting ERISA was to protect employees, minimum protection standards of ERISA cannot be waived.⁹⁶ The court in *Amaro* did not "believe Congress intended that these minimum standards could be eliminated by contract. ERISA is intended to protect the interests of the pension plan participants by improving the equitable character ... of such plans by requiring them to [meet certain standards]"⁹⁷

But there is precedent that ERISA and other benefits can, in fact, be waived by an employee.⁹⁸ Even though ERISA was enacted to provide protection for employees, there are several instances where courts have held that ERISA benefits can be waived. The Second Circuit has held that a waiver of *all* ERISA plan participation is permissible. In *Laniok v. Advisory Committee of the Brainerd Mfg. Co. Pension Plan*,⁹⁹ the court held it is permissible for an individual to waive participation in the company's pension plan even though he was clearly eligible under the plan document. Laniok had relinquished his right to participate in the ERISA pension plan by executing a written waiver when hired by the company.¹⁰⁰ The Second

93. See *Vizcaino II*, 120 F.3d at 1012.

94. *Amaro v. Continental Can Co.*, 724 F.2d 747, 752 (9th Cir. 1984) (quoting section 2 of ERISA, 29 U.S.C. § 1001(a) (1994)).

95. *Id.*

96. See *id.* at 749-50.

97. *Id.* at 752 (quoting Section 2 of ERISA, 29 U.S.C. § 1001(c)) (1994).

98. *Microsoft Employees*, supra note 54, at 14.

99. 935 F.2d 1360 (2nd Cir. 1991).

100. See *id.* at 1363.

Circuit looked at the same ERISA provision that the Ninth Circuit examined in *Amaro*, and found that:

[a]llowing an eligible individual to decline to participate and to waive his right to do so does not seem to us to be inconsistent with the purposes of ERISA. ... Allowing an individual to relinquish his opportunity to 'fulfill[] whatever conditions are required' to qualify for benefits is not inconsistent with protecting the legitimate expectations of those who are entitled to benefits.

....

Moreover, ERISA does not require that a worker be offered any particular retirement benefits. Although the Congress that enacted ERISA sought to improve the equitable character of private retirement plans and to encourage increased participation in them, it also recognized that such plans were voluntary on the part of the employee. Since ERISA did not change the voluntariness of an employer's decision to offer benefits, we are hesitant to conclude that ERISA was intended to prohibit an employee from declining to accept the offer.¹⁰¹

The court in *Laniok* found support for its decision in precedent upholding an individual's ability to settle or waive a claim of discrimination in violation of the Age Discrimination in Employment Act or Title VIII, as long as the waiver is made knowingly and voluntarily.¹⁰² These cases list several factors that a court can use to determine whether the waiver in the settlement is made knowingly and voluntarily. Such factors compel courts to consider some of the equitable and bargaining position issues that are present in waiver cases

In *Leavitt v. Northwestern Bell Telephone Co.*,¹⁰³ a worker voluntarily terminated his employment and signed a separation agreement and general release of any known or unknown claims of any nature in exchange for \$15,000. The Eighth Circuit looked at the totality of the circumstances to make certain that the fiduciary did not obtain the release in violation of his duties to the beneficiary.¹⁰⁴

101. *Id.* at 1365 (citations omitted).

102. *See id.* (citing *Gilmer v. Interstate/Johnson Lane Corp.*, 111 S.Ct. 1647, 1653 (1991); *Alexander v. Gardener Denver Co.*, 415 U.S. 36, 52 (1974); *Borman v. AT&T Communications, Inc.*, 875 F.2d 399, 402 (2d Cir. 1989), *cert. denied* 493 U.S. 924 (1989); *Coventry v. United States Steel Corp.*, 856 F.2d 514, 522 (3d Cir. 1988)).

103. 921 F.2d 160 (8th Cir. 1990).

104. *See id.* at 162. The factors listed by the court include:

Additionally, in *Gaynor v. Ephrata Community Hospital*,¹⁰⁵ a Pennsylvania district court held that the parties may bargain regarding whether an employee can be a participant in an ERISA benefits plan.¹⁰⁶ The fiduciary has a duty to explain all ramifications of not participating; however, there is no such duty when the employee has consulted with counsel.¹⁰⁷ The court in *Gaynor* also noted that its decision was supported by the ERISA provisions that prohibit waiver of *vested* benefits, but not participation.¹⁰⁸

Even though ERISA benefits are allowed to be waived, courts still enforce protection for employees. A spousal waiver of benefits is allowed by ERISA, but certain requirements must be met. The court confronted this issue in *Lasche v. George W. Lasche Basic Profit Sharing Plan*.¹⁰⁹ The court held that a spousal waiver of benefits was effective only if it was witnessed by the plan representative or a notary public, according to ERISA regulations.¹¹⁰ Because there must be strict compliance with specific ERISA requirements in order to protect a spouse, the intent of the parties is not controlling.¹¹¹ This decision, in effect, allows the waivers of rights granted by ERISA, but maintains close safeguards to protect workers.

Additionally, in *Sharkey v. Ultramar Energy Ltd., Lasmco PLC, Lasmco (Aul Ltd.)*,¹¹² the court held that the "validity of waiver of pension benefits under ERISA is subject to closer scrutiny than waiver of general contract claims. The essential question is 'whether, in the totality of circum-

-
- 1) the employee's education, and business experience;
 - 2) the employee's input in negotiating the terms of the release;
 - 3) the clarity of the release language;
 - 4) the amount of time the employee had for deliberation before signing the release;
 - 5) whether the employee knew of his rights under the plan and relevant facts when he signed the release;
 - 6) whether the employee had an opportunity to consult an attorney;
 - 7) whether the employee received adequate consideration for the release; and
 - 8) whether the release was induced by improper conduct on employer's part.

105. 690 F. Supp. 373 (E.D. Pa. 1988).

106. *See id.* at 376 (quoting *Shaw v. Delta Airlines, Inc.*, 463 U.S. 85, 91 (1983)).

107. *See Gaynor*, 640 F. Supp at 376.

108. *See id.* at 380 (citing 29 U.S.C. § 1053(a) (1994) (emphasis added)).

109. 111 F.3d 863 (11th Cir. 1997).

110. *See id.* at 867.

111. *See id.* (citing 29 U.S.C. § 1055(c)(2)(A) (1994)).

112. 70 F.3d 226 (2d Cir. 1995).

stances, the individual's waiver of his right can be characterized as knowing and voluntary."¹¹³ The court decided that the same level of scrutiny applies to waivers of severance claims under ERISA.¹¹⁴

Because there is some support for waivers of ERISA and other benefits, practitioners should take great care in drafting these documents. The waivers in *Vizcaino II* were not effective because they were based on the incorrect classification of the workers as "independent contractors."¹¹⁵ Waivers should be drafted in order to avoid having to pay retroactive benefits. Many benefit plans have ambiguous language that can cause problems. For example, one commentator observed: "suppose an employer's pension plan is available to all 'Employees' with one year of service. The definition of 'Employee' states that it includes 'all employees, excluding employees subject to collective bargaining agreements where the collective bargaining agreement does not provide for participation in the Plan.'"¹¹⁶ This plan language does not address the individual hired as an independent contractor who is later reclassified as a common law employee. Better plan language would include a provision that would address this situation. The ERISA Litigation Reporter suggests plan language such as: "an individual should only be considered an Employee for the purpose of the Plan if the person is a common law employee of the employer who is also initially treated as a common law employee on the payroll records of the employer."¹¹⁷

This language reflects the intentions of the parties at the beginning of the employment relationship. But intent is only one factor considered by courts when determining whether a worker is a common law employee. It may be wise to include a provision in all employment agreements with independent contractors that "the cash payments to them represent their sole compensation, even if they are eventually reclassified as employees."¹¹⁸ There would still be no plan eligibility because the employer did not originally treat the worker as a common law employee. This language may protect an employer in the event that an individual convinces a court that she is not an independent contractor but a common law employee.¹¹⁹

113. *Id.* at 231 (citations omitted) (quoting *Laniok*, 935 F.2d at 1368).

114. *See Sharkey*, 70 F. Supp. at 376.

115. *See Vizcaino II*, 120 F.3d at 1012.

116. *Microsoft Employees*, *supra note 54*, at 10.

117. *Id.*

118. *Id.* at 15.

119. There are, however, different considerations if the employer obtains workers through a temporary staffing agency. The employer may not be able to modify employment contracts with leased employees because the worker often contracts with the

B. Other Suggestions to Clearly Distinguish Temporary Workers from Employees

Practitioners should encourage clients to define categories of workers clearly, especially in plan language defining who is eligible to participate in the benefit plan. Some suggestions are included above, but companies should also pay attention to other firm literature, such as training manuals, employee handbooks, and other documents. Probably the most effective policy for a company to adopt is also one of the easiest to implement: make sure that independent contractors really are working independently.

Companies should establish a pay structure for contingent workers that is different from that for permanent employees. Although this did not protect Microsoft, which paid employees through a payroll department and independent contractors through accounts receivable, it is one of the factors that courts use in determining if an individual is an employee. Paying workers from a different department not only establishes the intent of the parties (another factor considered by courts), but also emphasizes the difference between employees and contingent workers.

It is also important to review all contracts and agreements in light of any changes that are made in order to differentiate employees and contingent workers. Once a practitioner has established the proper language to use to distinguish among segments of the workforce of a company, it is crucial that all literature, contracts and agreements reflect the chosen language. All written documents should be cohesive in order to preclude lawsuits due to conflicting statements as to who is an employee. Specific employment agreements, especially, should reflect these changes.¹²⁰

C. Small Companies

Small companies may have a hard time differentiating independent contractors from employees. Many new companies and start-ups do not have differentiated pay accounts with which to pay different types of workers. It is crucial that small companies and start-ups have adequate counseling to avoid mistakes that may prove costly later. While it may be

agency, while the agency contracts with the company. A practitioner may need to discuss these issues with the client and the temporary agency to determine if and how the contingent workers contract may be modified. See Arthur Rutowski & Barbara Long Rutowski, *Employees or Independent Contractors for ERISA Purposes—What about Leased Employees?*, 11 No. 12 EMPULI 1 (1996).

120. It is also worth noting that one should think carefully about agreeing to reclassify workers in an effort to quickly resolve IRS disputes. This reclassification may open the door for workers who were denied benefits to sue, but this discussion is beyond the scope of this comment.

difficult and expensive to set up a different pay account, the risks of not establishing procedures to distinguish between independent contractors and employees may prove to be even greater.

There are many things small companies can do to make the distinction among different classes of workers. Several of the suggestions above should not be very difficult to implement. For example, making certain that there are clearly differentiated language for independent contractors in company literature is not expensive nor difficult to do. Although the tests that courts use to determine a worker's status have different names, they all contain relatively the same factors. These factors determine the manner and means by which the work product is created. Companies using independent contractors should be aware of these factors in order to create a work environment that is truly independent and not merely a label for an individual who is actually an employee.

IV. CONCLUSION

Due to the changes in the make up of the workforce, there will be more litigation like that in *Vizcaino I* and *Vizcaino II*. Unless there is a clear delineation between regular employees and contingent employees, any company can be susceptible to such lawsuits. Although there remains ambiguity regarding the waivability of benefit programs, *Vizcaino I* and *Vizcaino II* make clear that employee agreements should be carefully drafted to minimize such risks and best convey the parties' intentions.

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FOREIGN AND INTERNATIONAL LAW

LEY FEDERAL DEL DERECHO DE AUTOR

By Peter Smith

On March 24, 1997, Mexico enacted its new Federal Copyright Law (1997 Law).¹ The new law calls for stiffer fines for copyright infringement and is augmented by reforms to the penal code making certain copyright violations a criminal offense. In light of Mexico's painful history of intellectual property abuse and its long-standing unwillingness to address this problem,² there is concern that the new law will do little to hamper the widespread infringement of U.S. copyrights.³ In short, Mexico has promised to improve the situation in the past and failed. Whether the current effort to reform will prove more effective turns on whether Mexico can address structural impediments to intellectual property protection and the extent to which domestic and international pressures will enable this effort to remain on track.

I. THE LACK OF ADEQUATE INTELLECTUAL PROPERTY PROTECTION IN MEXICO

Mexico is one of the world's largest markets for pirated intellectual property.⁴ U.S. industry experts estimate that Mexico's failure to provide adequate intellectual property protection costs U.S. music, film, and software industries almost half-a-billion dollars per year.⁵ In fact, one Mexico City neighborhood sold 66 million pirated cassettes last year for more than \$85 million.⁶ During the same period, Mexico's entire legitimate recording industry sold only 30 million cassettes.⁷ U.S. industry experts also estimate that the losses in Mexico from pirated video games alone were

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1. See "Ley Federal del Derecho de Autor," D.O., 24 de Marzo de 1997.

2. See Recent Int'l Developments, *Mexican Enforcement of Intellectual Property Rights*, 8 No. 5 J. PROPRIETARY RTS. 32 (1996) [hereinafter Recent Developments].

3. See *Intellectual Property Enforcement Seen as Insufficient, Experts Say*, WORLD INTELLECTUAL PROPERTY REPORT, May 1997, at 155 [hereinafter *Enforcement Seen as Insufficient*].

4. See *id.*

5. See *Fighting a Formidable Force; U.S. Commerce Drowning in Mexico's Piracy*, AUSTIN AMERICAN STATESMAN, Apr. 28, 1996, at 6G; see also *Intellectual Property Enforcement Seen as Insufficient*, *supra* note 3, at 155.

6. See *Fighting a Formidable Force; U.S. Commerce Drowning in Mexico's Piracy*, AUSTIN AMERICAN STATESMAN, Apr. 28, 1996, at 6G.

7. See *id.*

more than \$100 million in 1995⁸ and that the losses due to the theft of business software has surpassed the \$200 million mark.⁹ In fact, software piracy is the greatest single threat to the advancement of the software industry worldwide.¹⁰ Worldwide losses due to piracy surpassed the \$15 billion mark in 1994 and have continued to increase.¹¹

There will be little incentive for corporations to invest in the development and implementation of improved technology and new works if existing technology and works can be taken without compensation.¹² As commercial and technological changes make piracy easier and more lucrative, this problem will intensify.¹³ Because the development and sale of intellectual property will be a significant source of economic growth in the future, any threats to this burgeoning industry may have substantial economic effects worldwide.

Inadequate intellectual property protection is particularly alarming to the United States for a number of reasons. First, as a pioneer in the development of intellectual property, the United States has a competitive advantage in this field. When intellectual property is pirated abroad, the thefts usually occur at the expense of U.S. companies. Second, the role and potential of information products in international trade have increased significantly.¹⁴ Third, as foreign markets expand so do the opportunities for unauthorized copying.¹⁵ Fourth, the development of relatively inexpensive means of copying has made piracy more profitable.¹⁶ Fifth, re-

8. See Recent Developments, *supra* note 2, at 32.

9. See Robert Holleyman, *Software Piracy Abroad: Challenges and Opportunities*, in PLI'S SECOND ANN. INST. FOR INTELL. PROP. LAW 1996, at 425 (PLI Patents., Copyrights, Trademarks, & Literary Prop. Course Handbook Series, No. G4-3961 (1996)).

10. See *id.* at 422.

11. See *id.*

12. See *id.* at 438 n.11. (citing Chair's Conclusions, G7 Ministerial Conference on Feb. 26, 1995, providing high levels of legal and technical protection of creative content will be one of the essential conditions to ensure the necessary climate for investment needed for development of the information society).

13. See Gabriel Garcia, Comment, *Economic Development and the Course of Intellectual Property Protections in Mexico*, 27 TEX. INT'L L.J. 701, 715 (1992).

14. See *id.* (citing INTELLECTUAL PROPERTY RIGHTS, GLOBAL CONSENSUS, GLOBAL CONFLICT?, 4 (Michael R. Gadbow & Timothy J. Richards eds., 1988) for the fact that the percentage of U.S. exports containing valuable intellectual property rose from 9.9% in 1947 to 27.4% in 1986.)

15. See *id.*

16. See *id.*

search and development costs continue to increase.¹⁷ When the results of these costly investments are pirated, the copyright holder suffers a greater loss while the pirate is rewarded with higher profit margins.¹⁸ As the above statistics demonstrate, Mexico's lackluster intellectual property protection costs the United States dearly; therefore, Mexico's inability to improve the situation is of great concern in this country.

II. OVERVIEW OF MEXICO'S COPYRIGHT REGIME

In 1991, the antiquated Mexican Copyright Law of 1963 was modernized.¹⁹ As a result, Mexican copyright law encompasses all of the major areas of intellectual property protected by the United States.²⁰ The copyright regime established under the new code has continued this trend. The 1997 Law states, that under the auspices of Article 28 of the Mexican Constitution, copyright protection has been created to foster national culture and to protect the works of various types of authors and artists.²¹

Title I of the 1997 Law defines the general guidelines for protection. All original works susceptible to being reproduced in any form or medium may receive protection,²² and the protection begins as soon as the works are affixed upon a tangible medium.²³ All subject matter is divided into original and derivative works,²⁴ and non-Mexican authors are given an express grant of protection.²⁵

Authors are defined in Title II as the person creating the literary or artistic work.²⁶ Protected matter includes literary, musical, pictorial, dance, ballet, cartoons, architecture, photography, film, radio, or television.²⁷ In contrast, ideas, concepts, formulas, methods, systems, processes, inven-

17. See *id.* (citing INTELLECTUAL PROPERTY RIGHTS, GLOBAL CONSENSUS, GLOBAL CONFLICT?, 4-5 n.5 (Michael R. Gadbow & Timothy J. Richards eds., 1988) for the fact that in the U.S. semiconductor industry, the ratio of research and development to sales was 7.4% in 1980 and rose to 14% in 1986.)

18. See *id.*

19. See "Ley Federal del Derecho de Autor," D.O. , 17 de Juli 1991 reformed "Ley Federal del Derecho de Autor," D.O. , 1963.

20. See Donald L. Dubuque, Comment, *The Implication of NAFTA to Intellectual Property Protection*, 5 J. INT'L L. & PRAC. 137, 138-39 (1996).

21. See "Ley Federal del Derecho de Autor," D.O. , 24 de Marzo de 1997, art. 1.

22. See *id.* art. 3.

23. See *id.* art. 5.

24. See *id.* art. 4.

25. See *id.* art. 7 (foreign owners of copyrights enjoy the same protections as Mexican nationals).

26. See *id.* art. 12.

27. See "Ley Federal del Derecho de Autor," D.O. , 24 de Marzo de 1997, art. 13.

tions, business plans, sovereign banners and symbols, isolated names or sentences, or texts of legislation receive no protection.²⁸ The law stipulates that protected works must bear the legend D.R. followed by the symbol "©," the name and address of the copyright owner, and the year of the first publication.²⁹ However, in keeping with the spirit of the Berne Convention, a violation of this rule will only result in sanctions by the respective government agency, not in a default of rights.³⁰ In addition, Mexican law contains a moral rights provision³¹ granting the author some degree of control over his or her work even if it has been sold or licensed to another party.³² An author has exclusive rights in the exploitation of the work including the rights to copy, distribute, adapt, perform and display the work.³³ In most instances, this authority remains valid for the life of the author plus 75 years.³⁴

Assignments and licenses are allowed, and their regulation is discussed in Title III. Although the rules vary from industry to industry, the courts are instructed to construe them in favor of the authors.³⁵ The law even has a provision limiting assignments to five years unless the relevant parties have contracted otherwise.³⁶ Title IV discusses the process of protection and creates standing for copyright owners to bring infringement actions.³⁷ Each medium is discussed separately. Protection for computer software is expressly provided, and in direct contrast to the U.S. Supreme Court's ruling in *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*,³⁸ the facts in databases are protected for five years.³⁹

A number of the limitations to copyright protection are discussed in Title VI. If it is not possible for a party to obtain permission for the use of copyrighted works for the advancement of science, culture, or national

28. *See id.* art. 14.

29. *See id.* art. 17.

30. *See id.*

31. *See id.* art. 19-21.

32. Gloria DELGADO DE CANTU, HISTORIA DE MEXICO 50-61 (1987) (explaining that the inclusion of moral rights is not surprising in light of the French influence over Mexican law during the reign of Maximilian, a French-supported European aristocrat who ruled Mexico during the 1860s).

33. *See* "Ley Federal del Derecho de Autor," D.O., 24 de Marzo de 1997, art. 24-27.

34. *See id.* art. 29.

35. *See id.* art. 31.

36. *See id.* art. 29 (duration) & art. 33 (assignments).

37. *See id.* art. 77.

38. 499 U.S. 340 (1991) (holding that facts inside of a database are not protected in the United States).

39. *See* "Ley Federal del Derecho de Autor," D.O., 24 de Marzo de 1997, art. 108.

education, the Secretary of Public Education may authorize publication.⁴⁰ In addition, a number of fair use type exceptions are spelled out in detail,⁴¹ and the use of all public domain works is expressly authorized.⁴² Additional titles of the 1997 Law discuss a number of ancillary points in greater detail, and the text of the statute concludes with a detailed description of enforcement procedures.

In summary, the text of the 1997 Law creates a blanket of protection with very few variations from its U.S. counterpart, and most of these variations provide for broader, not narrower, protection.⁴³ Based upon this legal framework, casual observers might conclude that Mexico is a bastion of copyright protection; however, even the most comprehensive legal code is meaningless if it is not enforced, and the Mexican copyright law is no exception.

III. ADDRESSING MEXICO'S ENFORCEMENT PROBLEMS

Most of Mexico's comprehensive copyright protections have been in place for almost seven years, and they have done very little to disrupt Mexico's annual theft of \$500 million in U.S. copyrights.⁴⁴ According to a 1996 report from the International Intellectual Property Alliance (IIPA), Mexico still needs major reform of the police and judicial agencies as well as modifications to the procedure and penalties included in the copyright law itself.⁴⁵ It is uncertain if the new law will solve these problems.

According to Robert Holleyman, a noted intellectual property scholar, there are a number of steps that developing nations such as Mexico should follow to adequately enforce intellectual property protections. The goal of these guidelines is to guarantee enforcement and provide copyright holders an efficient means of protecting their rights. First, the government agencies, charged with enforcing the new laws must be given the necessary tools. The most important of these tools is the authority to perform random unannounced searches once preliminary evidence of infringement has been established.⁴⁶ This measure is essential because the nature of intellectual property makes it easy for pirates to destroy inculpatory evi-

40. *See id.* art. 147.

41. *See id.* arts. 148-51.

42. *See id.* art. 152.

43. *See id.* arts. 19-21 (moral rights), 29 (75-year duration), 33 (assignment), 108 (facts in databases).

44. *See Fighting a Formidable Force; U.S. Commerce Drowning in Mexico's Piracy*, AUSTIN AMERICAN STATESMAN, Apr. 28, 1996, at 6G.

45. *See Recent Developments*, *supra* note 2, at 32.

46. *See Holleyman*, *supra* note 9, at 441.

dence if they have prior notice of a search. Second, copyright holders must have the right to enjoin infringing activity upon a showing of sufficient cause.⁴⁷ Third, the level of possible civil damages must be high enough to adequately compensate the rights holders.⁴⁸ Fourth, high criminal sanctions must be established and imposed in order to deter piracy, and fifth, the enforcement system procedures must be modern and efficient.⁴⁹ In many legal systems, the resources and time necessary to pursue an infringement complaint serve as a disincentive to any action by the rights holder.⁵⁰ Until 1997, these requirements were not adequately met in Mexico.⁵¹

In an effort to ward off a NAFTA dispute resolution proceeding, the December 1997 Law attempts to address the enforcement concerns.⁵² Under the old regime, the maximum fine for infringement was 500 times the daily minimum wage, or \$1,500,⁵³ a paltry sum in the million-dollar piracy industry. The 1997 Law creates a maximum fine of 15,000 times the daily minimum wage, or \$45,000.⁵⁴ The same piece of legislation also amends Mexico's penal code to provide for six months to six years of imprisonment for copyright violations.⁵⁵

Aside from raising the potential risks to copyright violators, the process of obtaining relief has been streamlined, and civil authorities have been given greater authority to investigate and convict copyright infringers. For example, two government agencies have been delegated the task of enforcement and regulation: the National Copyright Institute and the Mexican Institute for Industrial Property (IMPI).⁵⁶ The first agency is a division of the ministry of education while the second is part of the commerce ministry.⁵⁷ In addition, as a complement to the Mexican federal courts, a preliminary voluntary conciliation process, as well as an alterna-

47. *See id.*

48. *See id.*

49. *See id.* at 441-42.

50. *See id.*

51. *See Recent Developments, supra* note 2, at 32.

52. *See id.*; *see also Copyright Law Stiffens Penalties, But Critics Call Law Insufficient*, WORLD INTELLECTUAL PROPERTY REPORT, Feb. 1997, at 45 [hereinafter *Copyright Law Stiffens*].

53. *See Recent Developments, Mexico's New Copyright Law Increases Protections*, 9 NO. 3 J. PROPRIETARY RTS. 19, 19 (1997).

54. *See id.*; *see also* "Ley Federal del Derecho de Autor," D.O., 24 de Marzo de 1997, art. 230.

55. *See Recent Developments, Mexico's New Copyright Law Increases Protections*, 9 NO. 3 J. PROPRIETARY RTS. 19, 19 (1997).

56. *See* "Ley Federal del Derecho de Autor," D.O., 24 de Marzo de 1997, art. 2.

57. *See Copyright Law Stiffens, supra* note 52, at 45.

tive arbitration procedure, will be established to help resolve copyright conflicts.⁵⁸ Such a system may provide a quick cost-effective means of relief. Furthermore, both agencies as well as the Mexican federal courts have been given extended powers to evaluate infringement actions and assess fines if necessary. Under the appropriate circumstances, they now have the authority to impose sanctions, issue preliminary restraining orders and injunctions, seize infringing materials, perform on-site inspections, and force discovery.⁵⁹

At first glance, the new law appears to be a sign of pending improvement; however, uncertainty still exists. First, the law has some shortcomings. For example, dividing the enforcement of the new measures between two government agencies may be problematic. Many experts fear that this "complicated and unnecessary interaction between two institutions" will only serve to complicate the relief process.⁶⁰ In addition, the timing of the law has caused concern. Because it was drafted at exactly the same time that the World Intellectual Property Organization's Diplomatic Conference in Geneva was updating the Berne Convention, the new law must already be amended to include the relevant changes.⁶¹

Although the above flaws in the text of the law must be addressed, the issue of greatest concern is the Mexican government's dedication to intellectual property protection. The Mexican government has created the necessary tools to protect copyrights, but implementing these changes will require federal resources and resolve.⁶² Mexico has no legal tradition of intellectual property protection, and there are very few experts to help resolve disputes.⁶³ The law cannot force the judiciary to act quickly. It will not guarantee that arbitration hearings are conducted fairly or that bureaucratic officials will perform their duties as expected. No mere law can do that. Likewise, eradicating piracy may involve substantial short-term costs and increased unemployment.⁶⁴ Mexican consumers will have to be weaned from their dependence on pirated goods, and this may lead to political opposition. The new law may call for the creation of an efficient copyright enforcement system, but unless the federal government commits

58. See "Ley Federal del Derecho de Autor," D.O., 24 de Marzo de 1997, arts. 217-220.

59. See *id.* arts. 1, 210, & 234; see also "Acuerdo Por El que Se Delegan Facultades En El Director De Asuntos Juridicos Del Instituto Mexicano De La Propiedad Industrial," D.O., 2 de Mayo de 1997, art 1.

60. *Copyright Law Stiffens*, *supra* note 52, at 45.

61. See *id.*

62. See *Enforcement Seen as Insufficient*, *supra* note 3, at 155.

63. See *id.*

64. See Garcia, *supra* note 13, at 712-13.

the necessary money and clout to the relevant enforcement agencies, the inefficiencies and corruption that have hampered previous enforcement efforts may remain.

Fortunately, there is evidence that the Mexican government is going to take this commitment seriously and improve its record. First, Mexico's adoption of an export-led economic development strategy will necessitate raising copyright protection standards. Second, Mexico's membership in the North American Free Trade Agreement (NAFTA) will keep pressure on the Mexican government to implement improvements to Mexico's intellectual property system.

IV. MEXICO'S ADOPTION OF AN EXPORT-LED ECONOMY WILL PROMOTE COPYRIGHT PROTECTION

Mexico's previous disdain for copyright protection stemmed from its domestic economic policy. The Mexican political system grants significant power to its President to pursue his political agenda.⁶⁵ During the 1970s, Mexican President Luis Escheverria experimented with "import substitution industrialization" (ISI) as a means of promoting domestic development. The resulting "Escheverrian Wall" of protectionist tariffs, subsidies, and limits on foreign investment was an attempt to promote domestic industrialization by severely curtailing foreign competition and exploitation.⁶⁶

Escheverria's experiment had adverse consequences for intellectual property protection. Like many developing countries, Mexico was convinced that adopting weak national policies for intellectual property would promote industrialization by reducing costs to domestic industry, quelling the competitive advantage of foreign firms, giving domestic firms access to greater technology, and decreasing dependence upon foreign technology.⁶⁷ As part of this grand scheme, the Patent and Trademark Law of 1976 was passed. Based on the rationale that technology belongs to all mankind, the new law deemed all proprietary rights to ideas or concepts unacceptable, especially if those ideas and concepts were held by developed nations.⁶⁸ In addition, the 1963 Copyright Act was not revised even though it did not provide express protection to computer programs, sound

65. *See id.* at 704.

66. *See id.* at p. 721-23.

67. *See id.* at 711 (citing ROBERT M. SHERWOOD, INTELLECTUAL PROPERTY AND ECONOMIC DEVELOPMENT 159 (1990)).

68. *See Garcia, supra* note 13, at 728.

recordings, or video recordings.⁶⁹ The fallout of this drastic neglect of intellectual property protection is still felt today.

Escheverrian's experiment did generate a boom in Mexican domestic industry, but it was short-lived. When developed nations realized that their property rights would not be protected by Mexican laws, they invested elsewhere. Without foreign capital and "know-how," the Mexican industry that developed behind the Escheverrian Wall was second rate, inefficient, and unable to compete on the world market.⁷⁰ By 1982, Mexico was on the brink of financial ruin.⁷¹ The ISI model was discredited.⁷²

Mexico's new economic policy supports strengthening all intellectual property protection. Since the end of the Escheverrian Administration, Mexico has adopted "export-led industrialization fueled by foreign investment and technology."⁷³ This model involves an exchange of interests.⁷⁴ To foster its development, Mexico needs foreign investment to provide employment, technology, and capital. Mexico's potentially low production costs make it an ideal place for multinational corporations to invest. However, foreign businesses made it clear that, before they would invest significant capital, Mexico had to create an environment conducive to such investment. Aside from reduced tariffs and fewer restrictions on foreign ownership, intellectual property protection needed to be improved.⁷⁵

Starting with President Miguel de la Madrid and continuing with President Salinas de Gortari, Mexico has sought to address the needs of foreign investors by dismantling the Escheverrian Wall and opening the domestic economy. In 1991, as part of this general policy, Mexico finally amended the 1963 Copyright Law.⁷⁶ Copyright protection would include the works of interpreters, performers, and producers of sound and video recordings. Protection was expressly extended to sound recordings, movies, computer software, and computer programs. These revisions also

69. See "Ley Federal del Derecho de Autor," D.O. , 17 de Juli 1991 reformed "Ley Federal del Derecho de Autor," D.O. , 1963.

70. See Garcia, *supra* note 13, at 704.

71. See *id.* at 721.

72. See *id.* at 721-22.

73. *Id.* at 722.

74. See *id.* at n.78 (citing MICHAEL P. TODARO, ECONOMIC DEVELOPMENT IN THE THIRD WORLD 427-51 (1989) to discuss trade liberalization as a means of generating rapid export growth and economic development).

75. Garcia, *supra* note 13, at 730.

76. See "Ley Federal del Derecho de Autor," D.O. , 17 de Juli 1991 reformed "Ley Federal del Derecho de Autor," D.O., 1963.

granted copyright owners exclusive rights to reproduction, distribution, and rentals for a term of fifty years, and stiffened the criminal and civil penalties for infringement.⁷⁷ In 1991, Mexico made an even bolder statement of its dedication to intellectual property protection by repealing the extremely protectionist 1976 Patent and Trademark Law.⁷⁸ Foreign businesses have responded with increased investment, and the United States removed Mexico from the United States Trade Representatives' list of nations with the worst intellectual property protection.⁷⁹

The 1997 Federal Copyright Law was another step in the progression toward intellectual property protection. As long as Mexico maintains its present economic policy, the application of federal resources to the fight against piracy can be expected. However, as supporters of Escheverrian's Wall learned in the 1980s, uncertainty in Mexico can lead to dramatic policy changes, and Mexico continues to be politically and economically volatile. As recently as 1994, there was a peasant uprising in the Chiapas region, a series of political assassinations, and a stock market crash.⁸⁰ Drug dealers still hold a tremendous amount of power, and in 1997, the Institutional Revolutionary Party (PRI) lost its working majority in the lower house of the national legislature for the first time in sixty-eight years.⁸¹ The present Mexican government has adopted an economic policy that mandates a strong intellectual property protection regime, but, in light of Mexican history and some more recent developments, it would be premature to rule out the possibility of another policy shift.

V. INTERNATIONAL INFLUENCE WILL REINFORCE MEXICO'S COMMITMENT TO COPYRIGHT PROTECTION

Pressure from the United States will encourage Mexico to follow through on its commitment to intellectual property protection. The United States has made intellectual property protection an integral part of its international trade policy.⁸² There are three means by which the United States has tried to improve the situation: (1) extraterritorial enforcement

77. *See id.*

78. *See* "Derecho por el que se Reforma y Adiciona la Ley de Invenciones y Marcas," D.O., 16 de Enero 1987.

79. *See* Garcia, *supra* note 13, at 731.

80. *See* Michael Elliot & Tim Padgett, *Breaking a Stranglehold*, NEWSWEEK, Aug. 22, 1994, at 36; *see also* Marc Levinson, *A Crash That's Contagious*, NEWSWEEK, Jan. 23, 1995, at 36.

81. *See* Martha Brant, *Liposuctioned to Death*, NEWSWEEK, July 21, 1997, at 43.

82. *See* Garcia, *supra* note 13, at 716.

of U.S. intellectual property legislation; (2) bilateral pressure; and (3) international agreements.

U.S. firms suffering from international piracy have sought relief in U.S. courts, but it is a generally accepted principle that the U.S. Copyright Act does not have an extraterritorial effect. In the past, U.S. courts would consider these causes of action and determine whether it was appropriate for the U.S. judicial system to become involved.⁸³ However, the 1994 opinion in *Subafilms, Ltd. v. MGM-Pathe Communications*⁸⁴ ushered in an era of judicial restraint. *Subafilms* concluded that the legislature, wishing to avoid international unrest, purposely refrained from incorporating extraterritorial application into the U.S. Copyright Act.⁸⁵ This decision has made suits in U.S. courts for infringement outside of the United States nearly impossible.⁸⁶

Bilateral agreements and the threat of sanctions have also been used to encourage adequate levels of protection. The United States Trade Act of 1974 authorizes the United States Trade Representative (USTR) to investigate unfair trade practices in other countries.⁸⁷ The Act also permits the USTR to impose retaliatory sanctions under certain circumstances.⁸⁸ Subsequent revisions to the act, referred to as Special 301 and Super 301, have extended the USTR's responsibilities.⁸⁹ Under Super 301, the USTR must not only investigate unfair trade practices, but also initiate proceedings against the nations displaying the most egregiously unfair practices.⁹⁰

For political and strategic reasons, the U.S. Executive branch has been hesitant to invoke its sanctioning power. For instance, despite political pressure to sanction Mexico, President Clinton has refused, fearing that the possible adverse economic fallout and negative attention would jeopardize U.S. acceptance of NAFTA.⁹¹ Additionally, it is very difficult for the U.S. President to impose sanctions when relations with strategically important nations are involved. The President must consider national and regional security as well as fair trade.

83. See Dubuque, *supra* note 20, at 150.

84. See 24 F.3d 1088 (9th Cir. 1994).

85. See *id.* at 1089.

86. See Dubuque, *supra* note 20, at 152-53.

87. See United States Trade Act of 1974, 19 U.S.C. § 2412 (1978).

88. See *id.*

89. See JOHN H. JACKSON ET AL., LEGAL PROBLEMS OF INTERNATIONAL ECONOMIC RELATIONS 817-18 (3d ed., 1995).

90. See *id.* at 818.

91. See *Fighting a Formidable Force: U.S. Commerce Drowning in Mexico's Piracy*, AUSTIN AMERICAN STATESMAN, Apr. 28, 1996, at 6G.

Recently, the favored means of securing adequate intellectual property protection has been bilateral and multilateral agreements. The General Agreement on Tariffs and Trade (GATT) is an international trade agreement that fosters reduced trade barriers through multilateral negotiations, and its offspring, the World Trade Organization (WTO), is a mechanism for enforcing these measures and resolving disputes between member states. A new and important feature of the WTO is the agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). TRIPS mandates that all WTO members will provide a minimum level of intellectual property protection.⁹² In addition, Mexico has joined the United States and Canada in NAFTA. Chapter 17 of NAFTA stipulates with great specificity that each member state must provide adequate intellectual property protection by enacting and enforcing strict laws against piracy.⁹³

As part of its open market strategy, Mexico has joined both the WTO and NAFTA, and, like most developing nations, Mexico is being pressured to conform to the intellectual property provisions of these two agreements. Because NAFTA is the more stringent of the two agreements and takes priority if any conflicts arise, it is the preferred means of improving copyright protection in Mexico.⁹⁴ NAFTA requires each member state to grant its domestic administrative and judicial authorities broad powers to protect intellectual property within its borders. NAFTA stipulates that these domestic government entities be given the power to confiscate goods without compensation, order injunctions, take preventative measures, exclude importation of infringing goods, and award damages plus attorney's fees and costs.⁹⁵ NAFTA also mandates that Mexico end its traditional practice of not recognizing pretrial relief.⁹⁶ Aside from granting the necessary enforcement powers, NAFTA provides a specific list of procedures and remedies that simplify the complaint process and provide private parties with the "strongest mechanisms to achieve transnational justice."⁹⁷ NAFTA also requires cooperation among member states and includes provision for the mutual extension of technical assistance, including the training of personnel.⁹⁸ This assistance is crucial in

92. See Dubuque, *supra* note 20, at 145-46.

93. See *id.* at 146-67.

94. See *id.* at 146.

95. See *id.* at 147-48.

96. See *id.*

97. James A.R. Nafziger, *NAFTA's Regime for Intellectual Property*, 19 HOUS. J. INT'L L. 807, 822 (1997).

98. See North American Free Trade Agreement Between the Government of the United States of America, the Government of Canada and the Government of the United Mexican States, art. 1719, 1995 WL 522861, Dec. 17, 1992.

Mexico, where no tradition of intellectual property protection exists and resources are limited.

NAFTA does not establish a central or uniform system of dispute resolution. Chapter 17 describes the minimum standards of protection, enforcement, and due process, but it leaves the actual work to the agencies and courts of the member states.⁹⁹ If, however, a member state fails to provide effective access to relief, dissatisfied parties may seek inter-governmental dispute resolution as described in Chapter 20.¹⁰⁰

Chapter 20 establishes the Free Trade Commission and states that one of its duties is to “resolve disputes” that may arise regarding the interpretation and application of NAFTA.¹⁰¹ Article 2004 provides that, if a member nation finds that any benefit it “could reasonably have expected to accrue” from the agreement is being “nullified or impaired,” that nation may seek recourse under this dispute settlement process.¹⁰² Intellectual property protection is expressly listed as one of the benefits that a nation could “reasonably expect to accrue” from the treaty.¹⁰³ If the commission is unable to resolve the conflict in a timely manner, then a five-member arbitration panel shall be formed.¹⁰⁴ The panel will examine the issue within 20 days from the date it is requested and issue a published report within 135 days.¹⁰⁵ The report will detail the measures to be adopted to improve the situation and a failure to comply will result in a suspension of “benefits of equivalent effect.”¹⁰⁶ In other words, if Mexico fails to implement the intellectual property guidelines described in Chapter 17 of NAFTA, the United States can seek redress from a multi-national NAFTA panel, and, if Mexico defies this panel’s decision, sanctions will be imposed.

In addition, the previously mentioned NAFTA panel has the authority to review matters from judicial and administrative proceedings within the respective member states.¹⁰⁷ Therefore, U.S. corporations, not just the U.S. government, may ask the NAFTA panel to intervene and review decisions and actions by Mexican agencies and civil courts.¹⁰⁸ This provi-

99. *See id.* arts. 1714-16.

100. *See id.* art. 2005.

101. *See id.* art. 2001.

102. *Id.* at ANNEX 2004.

103. *See id.*

104. *See id.* arts. 2007-08, 2011.

105. *See id.* art. 2016-17.

106. *See id.* art. 2018-19.

107. *See id.* art. 2020.

108. *See id.*

sion will allow U.S. companies to seek redress without involving the U.S. government, saving time and money as well as limiting political interference.

Mexico's new law is an obvious attempt to comply with NAFTA. The groundwork for protection described in Chapter 17 was used as a model for the enforcement aspects of the new law and these provisions were rapidly adopted to avert the threat of a Chapter 20 dispute.¹⁰⁹ This willingness to acquiesce is a sign of Mexico's commitment to copyright reform. Mexico has crafted its legislation around the NAFTA standards and responded to the promise of increased trade and technical assistance as well as the threat of an international arbitration proceeding. This willingness to cooperate suggests that Mexico is taking its NAFTA obligations seriously and will follow through with adequate support of its anti-piracy campaign.

VI. CONCLUSION

The text of Mexico's new Federal Copyright Law establishes comprehensive protections similar to those afforded works in the United States. The law also grants the government increased enforcement powers and provides for stiff civil and criminal penalties for infringement. However, because of the political, judicial, and economic realities in modern Mexico, the success of these measures depends upon the Mexican government's dedication to the crusade against piracy.

Mexico may finally be ready to commit the necessary resources to improve the situation. As long as the domestic economy is centered around export-led growth, it will be in Mexico's best interest to provide adequate copyright protection. In addition, Mexico's membership in NAFTA requires immediate improvement in its copyright protection scheme, and, in light of Mexico's professed willingness to abide by its NAFTA commitments, a sufficient effort and subsequent improvement should be forthcoming.

109. See *Enforcement Seen as Insufficient*, *supra* note 3, at 155; see also *Copyright Law Stiffens*, *supra* note 52, at 45.

1997 CANADIAN COPYRIGHT ACT REVISIONS

By Kimberly Hancock

The 1997 amendments to Canada's Copyright Act have caused concern for the United States Trade Representative (USTR) that Canada will not fulfill its intellectual property treaty obligations with the United States. These amendments complete the implementation of the recommendations set forth in the 1985 sub-committee report entitled *A Charter of Rights for Creators (Charter)*.¹ The *Charter* based its recommendations on the following principles: "give more emphasis and reward to creative activity," "clarify and extend moral rights," "make the application of copyright principles as general as possible," "avoid improper extensions of copyright protection," and "recognize the major importance of cultural enterprises."² The Charter brought about two phases of amendments to the Copyright Act.³

Bill C-32 marks the completion of Phase II of the modernization of Canadian copyright law and is the culmination of ten years of negotiation and compromise. Bill C-32 received Royal Assent after its passage through the Senate on April 25, 1997.⁴ The overall effect of the bill is to strengthen intellectual property protection by increasing the rights and powers of copyright owners as well as creating new rights. This includes

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1. See STANDING COMMITTEE ON COMMUNICATIONS AND CULTURE, CANADA HOUSE OF COMMONS, REPORT OF THE SUB-COMMITTEE ON THE REVISION OF COPYRIGHT, A CHARTER OF RIGHTS FOR CREATORS 4 (Issue No. 27, 1st Session, 33rd Parliament, 1985)

2. *Id.*

3. Phase I changes were implemented in 1988 and included an exhibition right for artistic works, express protection of computer programs, enhanced moral rights, creation of a new Copyright Board, increased criminal sanctions, improvement of the collective administration of copyright and abolition of compulsory licenses for the recording of musical works. There will also be a Phase III, beyond the scope of the Charter, which will deal with new digital technologies and the Internet as the final phase of modernization. These phases will not be discussed in this comment as they have not caused concern for the USTR. See Canadian Heritage News Releases Viewer, *Cultural Community to Benefit as Copyright Bill Receives Royal Assent 2* (April 25, 1997) <<http://pch-inet.pch.gc.ca/cgi-win/dgcom.exe?View:7NR027E>>; see also *Copyright Law Enacted; United States May Challenge Law in NAFTA or WTO*, Patent, Trademark & Copyright Law Daily (BNA) 4 (May 29, 1997).

4. See generally Canadian Heritage News Releases Viewer, *supra* note 3.

the recognition of public performance rights for performers and producers of sound recordings for the first time in Canada.

In order to establish a context for the American reader, this comment will first provide an overview of the origins of Canadian copyright law. Then it will compare Canadian copyright law with United States copyright law. Next, this comment will review the most significant amendments to the Canadian Copyright Act. Finally, this comment will consider whether some of the amendments violate Canada's intellectual property treaty obligations with the United States or simply indicate an evolving, higher level of international copyright protection.

I. ORIGINS OF CANADIAN COPYRIGHT LAW

Copyright law in Canada originates under section 91(23) of the Constitution Act of 1867 which grants parliament exclusive jurisdiction in matters of copyright.⁵ It is now covered in one federal statute, the Copyright Act, which was enacted in 1924 and not substantially modified until 1988 under Phase I of the Copyright Amendment Act.⁶ In addition to amendments enacted in 1988 under Phase I of the modernization of Canadian copyright law, Canada has amended its Copyright Act in order to comply with provisions of the Canada-United States Free Trade Agreement⁷, the North American Free Trade Agreement⁸ (NAFTA), and the Trade-Related Intellectual Property Rights (TRIPS) of the General Agreement on Tariffs and Trade⁹ (GATT). Other international commit-

5. See 1 MELVILLE B. NIMMER & PAUL EDWARD GELLER, INTERNATIONAL COPYRIGHT LAW AND PRACTICE, CAN-7, § 1[1] (Paul Edward Geller ed., Release No. 9, October 1997).

6. See *id.*

7. The Canada-U.S. Free Trade Agreement Implementation Act of 1988 amended the Canadian Copyright Act to include the provision of right to equitable remuneration (royalties) of copyright owners when radio and TV signals are retransmitted by cable and satellite companies as well as the expansion of the concept of public communication to all forms of telecommunications. See Canadian Heritage News Releases Viewer, *supra* note 3, at 2; see also NIMMER & GELLER, *supra* note 5, at CAN-11.

8. The NAFTA Implementation Act of 1993 amended the Canadian Copyright Act to include a new rental right for producers of sound recordings and computer programs, protection for databases, criminal and civil sanctions against decoding scrambled programs carried by satellite, and increased protection against imported pirated works. See NIMMER & GELLER, *supra* note 5, at CAN-12.

9. The W.T.O. Agreement Implementation Act of 1994 amended the Canadian Copyright Act to include the provision of national treatment under Canadian copyright laws to citizens and residents of all WTO member countries and performers' copyright in unauthorized audio recordings and live transmission of their performance. See Canadian

ments of Canada include adherence to the Berne Convention¹⁰ since 1931 and the Universal Copyright Convention¹¹ since 1962. Under Canadian law, all treaties must be implemented by legislation to be effective. A legislative statute will prevail over a treaty provision, although a statute passed to implement a treaty is interpreted in light of that treaty.¹²

Canada's copyright law has been influenced by both the common law, Anglo-Saxon copyright tradition,¹³ and the author's right tradition (*droit d'auteur*)¹⁴ of the European civil law countries.¹⁵ Although Canada's 1924 Copyright Act was based on the Copyright Act of the United Kingdom of 1911, the Canadian province of Quebec developed a civil law system owing to its history as a former French colony.¹⁶ Due to this civil law influ-

Heritage News Releases Viewer, *supra* note 3, at 2; *see also* NIMMER & GELLER, *supra* note 5, at CAN-12.

10. The Berne Convention is the first multilateral copyright agreement, dating from 1886. Member countries are required to provide minimum rights as designated in the convention on the basis of national treatment. It has been revised several times, most recently in 1971, by the Paris Act. Canada currently adheres to the 1928 Rome Act level of the convention but is expected to soon adhere to the more recent Paris Act. For further discussion, *see* NIMMER & GELLER, *supra* note 5, at INT-36-38, §§ 2[3][a]-[3][b], and CAN-71, § 6[2].

11. This convention, dating from 1952, was intended to attract non-Berne convention countries, particularly the United States, while allowing Berne convention countries to maintain their high level of protection. It was revised in 1971 in Paris. *See* S.M. STEWART, INTERNATIONAL COPYRIGHT AND NEIGHBOURING RIGHTS 146-47 (2d ed. 1989).

12. *See* NIMMER & GELLER *supra* note 5, CAN-10, § 1[2].

13. The philosophy underlying the common law, Anglo-Saxon tradition is the need to protect the investment of the creator of a work. Restricting others' ability to copy creative and original works gives incentive for the creation of works. The creator is guaranteed to reap the benefit from his investment. Moreover, the public will benefit from the diversity of works created. The modern common law copyright system is based on the United Kingdom's Statute of Queen Anne (1709) and is found in all the English-speaking countries and many of the British Commonwealth countries. *See* STEWART, *supra* note 11, at 8-9.

14. The author's rights tradition is not based on such economic principles. Rather, the right serves to protect the personality of the author. It is a natural and individual right. The author's right tradition, known as *droit d'auteur*, was born from the French Revolution. This tradition is mainly found in the European civil law countries. The purest form of the author's rights tradition is found in the Latin countries of Europe (France, Italy, Spain, and Portugal) and Latin American countries. Variations on this tradition are also found in the Germanic countries, Nordic countries, and Japan. *See* STEWART, *supra* note 11, at 7, 9.

15. *See* Stephen Fraser, *The Copyright Battle: Emerging International Rules and Roadblocks on the Global Information Infrastructure*, 15 J. MARSHALL J. COMPUTER & INFO. L. 759, 801 (1997).

16. *See id.*

ence, Canadian courts' interpretations of Canadian copyright provisions have included references to French and other civil law authorities.¹⁷

II. CANADIAN COPYRIGHT LAW AND ITS COMPARISON TO UNITED STATES COPYRIGHT LAW

Similar to United States copyright law, copyright in Canada subsists in "every original literary, dramatic, musical and artistic work."¹⁸ Computer programs are protectable as literary works.¹⁹ Public performances are also protected.²⁰ As in the United States, protection does not extend to ideas, only to the form of the expression of ideas.²¹ The four major rights conferred by copyright are the sole right to produce, reproduce, perform, and publish a work or any substantial part thereof.²²

The basic requirements for a work to qualify for copyright protection are originality, fixation, the nationality of the creator, and the place of publication. Originality means that the author created the work and did not copy any other work. Originality does not require novelty or inventiveness.²³ This level of originality is less than the "modicum of creativity" threshold mandated by the United States Supreme Court in *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*²⁴ In Canada, industriousness or "sweat of the brow" has been sufficient to meet the originality requirement.²⁵ However, this analysis has changed for works created after 1993 due to a new definition for "compilation" as required by NAFTA. Since 1994, in compliance with NAFTA, Art. 1705(1), the Copyright Act

17. See *id.* at 802.

18. Copyright Act, R.S.C., ch. C-42, § 5(1) (1985) (Can.); 17 U.S.C. § 102 (1996).

19. See W.L. Hayhurst, *Differences Between United States and Canadian Intellectual Property Laws - Real and Apparent*, 11 CANADA-UNITED STATES L.J. 91, 119 n. 165 (1986) (citing *IBM v. Ordinateurkres Spirales*, 80 C.P.R.2d 187 (Fed. Ct. Trial D. 1984); *Dynabec v. La Societe d'Informatique R.D.G.*, 6 C.P.R.3d 322 (C.A. 1985)).

20. See Copyright Act, R.S.C., ch. C-42, § 3 (1985) (Can.).

21. See ROGER T. HUGHES, Q.C. & SUSAN J. PEACOCK, *HUGHES ON COPYRIGHT AND INDUSTRIAL DESIGN* 351 n.2 (1984) (including service issues 1984-1997) (citing *Bradale Distribution Enterprises v. Safety First Inc.* (1987), 18 CIPR 71 at 91 (Que SC) and *Fletcher v. Polka Dot Fabrics Ltd.* (1993), 51 CPR (3d) 241 at 247 (Ont Gen Div); 17 U.S.C. § 102(b) (1996).

22. See Copyright Act, R.S.C., ch. C-42, § 3(1) (1985) (Can.).

23. See NIMMER & GELLER, *supra* note 5, at CAN-13, § 2[1][b].

24. 499 U.S. 340 (1991) (denying copyright protection to a telephone directory because selection, coordination, and arrangement of the white pages do not satisfy minimum constitutional standards for originality).

25. See HUGHES & PEACOCK, *supra* note 21, at 351 n.3-1 (citing *U & R Tax Services Ltd. v. H & R Block Canada Inc.* (1995), 62 C.P.R. (3d) 257 (Fed. T.D.) (extending copyright protection to a privately created tax form)).

defines a "compilation" as a work resulting from the selection or arrangement of data, or of literary, dramatic, musical, or artistic works.²⁶ Subsequent case law states that the court should ask whether the degree of skill involved in the selection and arrangement of the portions for a compilation are sufficiently original.²⁷ Consequently, a Canadian federal court did not protect yellow-pages telephone directories because the gathering and arrangement of the information was unoriginal as it required only minimal skill, judgment, or labor.²⁸

The fixation requirement is not in the Copyright Act but has been developed through Canadian case law²⁹ as opposed to the United States where it is codified.³⁰ Finally, protection extends only to an author who is a Canadian citizen or resident or a citizen or resident of any treaty country.³¹

In compliance with the Berne Convention, works do not need to be registered in order to be protected. However, registration is advantageous because it creates two presumptions: (1) that copyright subsists in a work and (2) that the name appearing on the certificate of registration is the owner of the copyright in that work.³²

Canada has a provision similar to the United States' fair use³³ provision entitled "fair dealing," although it is a narrower concept.³⁴ Copyright is not infringed where the purpose of the use is research, private study, criticism, review, or newspaper summary.³⁵ Unlike the United States fair use provision, the Canadian "fair dealing" provision does not present factors to consider to determine if a use is fair. If the use is not for one of the

26. See Copyright Act, R.S.C. ch. C-42, § 2 (1985) (Can.) (definition of "compilation" inserted by NAFTA Implementation Act, S.C. 1993, c. 44, s. 53(2)).

27. See NIMMER & GELLER, *supra* note 5, at CAN-14, § 2[1][b], (citing Prism Hospital Software, Inc. v. Hospital Medical Records Institute (1994) 57 C.P.R. (3d) 129, 270-1 (B.C.)).

28. See NIMMER & GELLER, *supra* note 5, at CAN-15, § 2(1)(b), (citing Tele-Direct Publications Ltd. v. American Business Information Inc. (1996) 113 F.T.R. 123 (Fed. Ct.)).

29. See NIMMER & GELLER, *supra* note 5, at CAN-13, § 2[1][b].

30. See 17 U.S.C. § 102(a) (1996).

31. See Copyright Act, R.S.C., ch. C-42 § 5 (1985) (Can.).

32. See Copyright Act, R.S.C., ch. C-42, § 34.1 (1985), amended by S.C. 1997, c. 24, § 20(1) (Can.).

33. See 17 U.S.C. § 107 (1996).

34. See HAYHURST, *supra* note 19, at 122.

35. Copyright Act, R.S.C., ch. C-42, § 29-29.2 (1985), amended by S.C. 1997, c. 24, § 18(1) (Can.).

five listed purposes, then it is not a fair dealing exception to copyright infringement.³⁶

The most noteworthy discrepancy in copyright protection afforded by the United States and Canada arises in the area of moral rights. Moral rights³⁷ are those given to protect an author's personality in a work, and they derive from author's rights regimes. Canada extends the right of integrity, the right to be associated with a work as its author or under a pseudonym, and the right to remain anonymous to authors of all works.³⁸ An author's right to integrity is infringed when a work is "to the prejudice of the honour or reputation of the author, (a) distorted, mutilated or otherwise modified; or (b) used in association with a product, service, cause or institution."³⁹ Canada was one of the first nations to adopt moral rights as a part of its 1931 copyright legislation.⁴⁰ The recognition of moral rights in Canadian case law even predated the Berne Convention moral rights article.⁴¹

The United States has only recognized moral rights for certain works of visual arts under the Visual Artists Rights Act⁴² (VARA) since 1990 as a necessity for its accession to the Berne Convention. The right to attribution under U.S. copyright law is similar to the right to association under Canadian copyright law. Under the U.S. VARA, an author of a work of visual art has the right to claim authorship of her work and to prevent the use of her name with any work of visual art she did not create.⁴³ The right of integrity is limited to the right to prevent: (1) the intentional distortion, mutilation or other modification of a work which would be prejudicial to the author's honor or reputation, (2) the use of the author's name with the work in the event of a distortion, mutilation, or other modification, and (3) any intentional or grossly negligent destruction of a work of recognized

36. See HAYHURST, *supra* note 19, at 122.

37. Moral rights "stem from the fact that the work is a reflection of the personality of the creator, just as much as the economic rights reflect the author's need to keep body and soul together." STEWART, *supra* note 11, at 72 (citing *WIPO Guide to Berne* para 6 *bis*. I.).

38. See Copyright Act, R.S.C., ch. C-42, §14.1(1) (1985) (Can.).

39. *Id.* at § 28.2(1).

40. See Stephen Fraser, *supra* note 15, at 803, n.281 (citing The Copyright Act Amendment, 1931, 21-22 Geo. V, c. 8, assented to 11 June 1931, at s. 5 (Can.)).

41. See *id.* at 802, n.275, 276 (citing *Le Sueur v. Morang & Co.*, 45 S.C.R. 95 (1911)).

42. See 17 U.S.C. § 106A.

43. See *id.* § 106A(a)(1)(A)-(B).

stature.⁴⁴ The rights of integrity and attribution are reserved solely for authors of works of visual art.⁴⁵

III. BILL C-32 1997 REVISIONS

As Phase II of the modernization of Canadian copyright law, Bill C-32 contains one of the most comprehensive and detailed amendments to many facets of Canada's copyright law.⁴⁶ A main focus of the bill, however, is to follow through on government commitments to the cultural sector, established in the *Charter's* principles, by enhancing protection for Canadian authors, performers, and producers.⁴⁷

A. Performers' And Producers' Rights

Part II of the new legislation grants public performance rights in sound recordings to performers and "sound recording makers."⁴⁸ Previously, only authors of the underlying musical work enjoyed this right and the attendant concurrent remuneration from royalties. These types of rights are generally known as neighboring rights⁴⁹ and are recognized in most of the civil law countries. Canada's decision to categorize these new rights as "copyrights" instead of "neighboring rights" has been criticized for confusing the conceptual differences between these two sets of rights.⁵⁰ This

44. See *id.* § 106A(a)(2)-(3).

45. See *id.* § 106A(b).

46. See Proceedings of the Standing Senate Committee on Transport and Communications, *Issue 17 - Ninth Report of the Committee* 1, April 21, 1997, <<http://www.parl.gc.ca/english/senate/com-e/tran-e/17rp-e.htm>>.

47. See Canadian Heritage News Releases Viewer, *supra* note 3, at 3.

48. See Copyright Act, R.S.C., ch. C-42, §§ 15, 18 (1985), amended by S.C. 1997, c. 24, § 14 (Can.). "Sound recording makers," the term used in the legislation, is understood to mean sound recording producers. "Maker," in relation to a sound recording, is defined as "the person by whom the arrangements necessary for the first fixation of the sounds are undertaken." Copyright Act, R.S.C., ch. C-42, § 2 (1985), amended by S.C. 1997, c. 24, § 1(2).

49. Defined as rights to "protect the interests of performers, producers of phonograms and broadcasting organizations in relation to their activities in connection with the public use of [their] works, all kinds of artists' presentations or the communication to the public of events, information, and any sounds or images." WIPO, GLOSSARY OF TERMS OF THE LAW OF COPYRIGHT & NEIGHBORING RIGHTS 164 (1980).

50. See NORMAND TAMARO, THE ANNOTATED COPYRIGHT ACT xxxi, n.7 (1997) ("Infringement of copyright is treated as an infringement of property right actionable by the copyright owner. An infringement of performers' right and of the rights of a person having recording rights is actionable by the person entitled to the right as a breach of statutory duty.").

conceptual crossover probably derives from Canada's dual heritage as a common law and a civil law country.

Performers and producers of sound recordings will now be entitled to royalty payments from any public performance of the sound recording.⁵¹ Both broadcasters and commercial establishments, including bars, night-clubs, discotheques, hotels, and airlines, must now make payments for performers' and producers' rights to a collective society responsible for licensing the sound recordings.⁵² The royalty is set by the Copyright Board⁵³ and will be split 50/50 between the performer and producer of the sound recording.⁵⁴ Each broadcaster will now have to pay annual royalties in the amount of \$100 on the first \$1.25 million of revenues, and in an amount to be set by the Copyright Board for revenues in excess of \$1.25 million.⁵⁵ These new rates will be phased in gradually over a period of three years.⁵⁶ About 65% of Canadian radio stations will pay a flat annual fee of only \$100.⁵⁷

The addition of these rights brings Canada in line with the 1961 Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations, generally known as the Rome Convention. The Rome Convention is the primary international convention regarding the protection of neighboring rights. Signatories to the convention agree to provide minimum protection of neighboring rights, as provided for in the convention, to citizens of all other signatories. Canadian performers and producers will be eligible to receive royalties when their sound recordings are performed or broadcast in the other Rome Convention countries. Conversely, Canada is required to pay royalties to performers and producers from other Rome Convention countries whose sound recordings are performed or broadcast in Canada. The United States is not a signatory to the Rome Convention.

Canada has designated in the Copyright Act that the rights to remuneration for public performances by performers and producers of sound recordings are available only to citizens or permanent residents of Canada

51. See Copyright Act, R.S.C., ch. C-42, § 19 (1985) amended by S.C. 1997, c. 24, § 14.

52. See *id.* § 19(2).

53. The Copyright Board as an administrative tribunal charged with the broad duty of establishing fees, rates, or royalties. See HUGHES & PEACOCK, *supra* note 22, at 459.

54. See Copyright Act, R.S.C., ch. C-42, § 19(3) (1985) amended by S.C. 1997, c. 24, § 14 (Can.).

55. See *id.* at § 68.1(1).

56. See *id.*

57. See Proceedings of the Senate Standing Committee, *supra* note 46, at 2.

or Rome Convention countries.⁵⁸ These rights are available to non-Canadian or Rome Convention citizens strictly on the basis of reciprocity.⁵⁹ The United States only provides a limited performance right for digital sound recordings under the Digital Performing Right in the Sound Recordings Act of 1995.⁶⁰ Consequently, American performers and producers should receive royalties only for interactive or subscription digital performances in Canada.

B. Levy On Blank Audio Media

Part VIII of the new bill gives a right of remuneration to authors (composers and lyricists), performers, and makers of sound recordings with respect to private copying.⁶¹ All manufacturers and importers of blank audio recording media will be liable to pay a levy to a collecting body upon selling the blank media in Canada.⁶² Distributions from this collecting body will then be made to the collective societies representing eligible authors, performers, and makers.⁶³ The amount of the levy and the collecting body are to be determined by the Copyright Board after consultations with all interested parties.⁶⁴

As to the remuneration right of eligible authors, performers, and makers of sound recordings for private copying,⁶⁵ eligible performers and makers are defined only as citizens and permanent residents of Canada or any country who grants substantially equivalent rights.⁶⁶ The Canadian Minister can also choose to grant rights to citizens of another country equivalent to the rights granted by that country to Canadian citizens.⁶⁷ The United States offers this remuneration right to copyright owners in the

58. See Copyright Act, R.S.C., ch. C-42, § 20 (1985) amended by S.C. 1997, c. 24, § 14 (Can.).

59. See *id.* § 22. For a definition of reciprocity, see *infra* note 103 and accompanying text.

60. This act allows for a public performance right for performers and producers of sound recordings for digital audio transmissions, see 17 U.S.C. § 106(6) (1996), through interactive, see *id.* § 114(j)(4) (1996), and subscription services, see *id.* § 114(j)(8) (1996). Analog broadcasts, non-interactive digital broadcasts, and transmissions to business establishments are exempt, see *id.* § 114(d)(1) (1996).

61. See Copyright Act, R.S.C., ch. C-42, § 81(1) (1985) amended by S.C. 1997, c. 24, § 50 (Can.).

62. See *id.* § 82(1).

63. See *id.* § 84.

64. See *id.* § 83.

65. See *id.* § 81.

66. See *id.* § 79, § 85(1).

67. See Copyright Act, R.S.C., ch. C-42, § 85(2) (1985) amended by S.C. 1997, c. 24, § 50 (Can.).

musical composition, performers (both featured and non-featured), and copyright owners in the sound recording⁶⁸ from levies on digital audio tape recorders and recording media under the Audio Home Recording Act of 1992.⁶⁹ In contrast to the new Canadian law, the United States levy is only collected on digital audio recording devices and media. The United States does not treat foreigners any different than its own citizens under this act.⁷⁰ Thus, Canada should grant some kind of reciprocal right to the United States based on the remuneration rights afforded Canadian citizens from the digital audio recording devices and media levies.

C. Exceptions To Copyright Infringement

Bill C-32 has increased the number of exceptions for special users of copyrighted material. Non-profit educational institutions are now allowed to: (1) reproduce copyrighted materials for purposes of instruction, test, or examination;⁷¹ (2) reproduce and use news or news commentary programs from radio or television for educational use for a period of one year from the date of taping;⁷² and (3) reproduce, without permission, all other types of programs for examination for a period of up to thirty days. If the copy will be used for educational purposes after the thirty-day period, the institution will have to pay a royalty set by the Copyright Board.⁷³ Non-profit libraries, archives, and museums will be able to make copies for their permanent collections,⁷⁴ reproduce an entire newspaper or magazine article at least one year old for the purpose of private study or research,⁷⁵ and make a single copy of an article from a scientific, technical, or scholarly periodical at any time.⁷⁶

All the above mentioned institutions are also granted limited liability regarding the public use of self-serve copiers as long as the institution obtains the applicable reprographic license and publicly post notices warning of copyright infringement.⁷⁷ Additionally, persons with perceptual dis-

68. See 17 U.S.C. §§1001, 1006 (1996).

69. See *id.* §§ 1001-10.

70. See *id.*

71. See Copyright Act, R.S.C., ch. C-42, § 29.4 (1985) amended by S.C. 1997, c. 24, § 18(1) (Can.).

72. See *id.* § 29.6.

73. See *id.* § 29.7.

74. See *id.* § 30.1(1).

75. See *id.* § 30.2.

76. See *id.*

77. See Copyright Act, R.S.C., ch. C-42, § 30.3 (1985) amended by S.C. 1997, c. 24, § 18(1) (Can.).

abilities are now able to copy a work in an alternative format (such as Braille or a talking book).⁷⁸

Broadcasters are also given special exceptions under the new legislation. The "ephemeral recording" exception allows broadcasters to tape a program, without permission or authorization, for later broadcast within a 30-day period.⁷⁹ The "transfer of formats" exception allows broadcasters to transfer a sound recording onto a format which is more technically suitable for broadcasting, without permission of the copyright holder, for use and retention for a 30-day period.⁸⁰ Retention of either an ephemeral copy or a transfer of format copy past the 30-day period requires the permission of the copyright owner.⁸¹ Neither of these exemptions will apply if a collective society exists to grant a recording license.⁸²

D. Restrictions On Parallel Importation Of Books

Under Part III of the new legislation, the rights of authors and exclusive distributors are protected as to the parallel importation of books.⁸³ Parallel importation refers to the importation of books into Canada without the consent of the copyright holder, even though the books were originally published in their country of origin with the copyright holder's consent. Only authors' rights were protected under the old copyright law. Extending this right to distributors recognizes and protects the great investment of obtaining exclusive rights to import and distribute.

This provision does not apply to used books, except possibly to certain used textbooks. Used textbooks are exempt from the law's immediate implementation but are subject to future inclusion by a reservation of a regulation right to the government. If the importation of used textbooks becomes a problem, the government can enact a regulation preventing their parallel importation, thereby protecting the market for Canadian university textbooks.⁸⁴

E. Remedies And Other Technical Measures

The Bill contains several improved new remedies for copyright infringement. As proof of damages and profits may be difficult or expensive to prove, a new option of statutory damages ranging from \$500 to

78. *See id.* § 32.

79. *See id.* § 30.8.

80. *See id.* § 30.9.

81. *See id.* §§ 30.8(4), 30.9(4).

82. *See id.* §§ 30.8(8), 30.9(6).

83. *See* Copyright Act, R.S.C., ch. C-42, § 27.1 (1985) amended by S.C. 1997, c. 24, § 18(1) (Can.).

84. *See* Proceedings of the Senate Standing Committee, *supra* note 46, at 2.

\$20,000 provides a guaranteed minimum recovery once infringement is proven.⁸⁵ The wording of the statute is almost identical to the United States copyright law for statutory damages.⁸⁶ Additionally, the bill provides for a wider injunction⁸⁷ and for summary procedures.⁸⁸

Additional amendments include the extension of sound recording rental rights to performers of musical works,⁸⁹ the grant of statutory protection to performers for their contractual rights to remuneration for the use of their performances incorporated into cinematographic works,⁹⁰ the phasing out of perpetual protection of unpublished works,⁹¹ and the extension of copyright protection in photographs to the life of the author plus 50 years.⁹²

IV. PUBLIC PERFORMANCE RIGHT AND RIGHT TO REMUNERATION FOR PERFORMERS AND PRODUCERS: TREATY VIOLATIONS OR INTERNATIONAL COPYRIGHT PROTECTION EVOLUTION?

Some of the above revisions bring Canada more closely in line with United States copyright law. In particular, the increased exemptions for copyright infringement for non-profit libraries, archives and museums,⁹³ the "ephemeral recording" exemptions for broadcasters,⁹⁴ the exemption for reproduction in an alternate format for persons with perceptual disabilities,⁹⁵ and the provision of statutory damages⁹⁶ all bring Canada closer to United States copyright law. Nevertheless, at least two of the

85. See Copyright Act, R.S.C., ch. C-42, § 38.1 (1985) amended by S.C. 1997, c. 24, § 20(1) (Can.).

86. See 17 U.S.C. § 504 (1996) (allowing up to \$20,000 for innocent infringement and \$100,000 for willful infringement).

87. See Copyright Act, R.S.C., ch. C-42, § 39.1 (1985) amended by S.C. 1997, c. 24, § 20(1) (Can.).

88. See *id.* § 34(4).

89. See *id.* § 15(1)(c) amended by S.C. 1997, c. 24, § 14 (Can.).

90. See *id.* § 17.

91. See *id.* § 7 amended by S.C. 1997, c. 24, § 6 (Can.).

92. See *id.* § 10 amended by S.C. 1997, c. 24, § 7 (Can.).

93. See Copyright Act, R.S.C., ch. C-42, §§ 30.1, 30.2, 30.21, 30.3 (1985) amended by S.C. 1997, c. 24, s. 18(1) (Can.); 17 U.S.C. § 108 (1996). However, the U.S. provision does not refer to museums.

94. See Copyright Act, R.S.C., ch. C-42, § 30.8 (1985) amended by S.C. 1997, c. 24, s. 18(1) (Can.); 17 U.S.C. § 112 (1996).

95. See Copyright Act, ch. C-42, § 32 (1985) amended by S.C. 1997, c. 24, § 19 (Can.); 17 U.S.C. § 121 (1996).

96. See Copyright Act, ch. C-42, § 38.1 (1985) amended by S.C. 1997, c. 24, s. 20(1) (Can.); 17 U.S.C. § 504(c) (1996).

new provisions serve to increase the gap between the two countries' copyright laws. The enactment of public performance rights for performers and producers of sound recordings and the general levy on all blank audio media, both with rights to remuneration, create a rift as these rights are only recognized in the United States in a much more limited form.⁹⁷

Ms. Charlene Barshefsky, the USTR, has stated that both of these provisions violate Canada's intellectual property treaty obligations to the United States because they violate the principle of national treatment.⁹⁸ Moreover, Ms. Barshefsky has stated that the United States is considering taking action either under NAFTA or the World Trade Organization (WTO).⁹⁹ On April 30, 1997, the USTR began a Special 301¹⁰⁰ out-of-cycle review of these new Canadian intellectual property provisions and consultations with U.S. industry.¹⁰¹

The most significant question is whether Canada has in fact violated its intellectual property treaty obligations to the United States with the new provisions for public performance rights and rights to remuneration for performers and producers of sound recordings, as U.S. performers and producers currently do not enjoy these general remuneration rights domestically or internationally. Despite the USTR's threats, Canada's new rights for remuneration for public performances under the principle of reciprocity violate neither of these treaty obligations.

Canada has international intellectual property treaty obligations to the United States under both NAFTA and TRIPS. National treatment is the principle of the Berne Convention, the Rome Convention, NAFTA and TRIPS. National treatment, as used in international copyright conventions, means that persons protected by the convention can claim in all contracting states the protection that the law of that state grants to its own

97. Due to the extensive scope of these two amendments, this comment will only discuss the new public performance rights and rights to remuneration granted to performers and producers of sound recordings.

98. See *Copyright Law Enacted: United States May Challenge Law in NAFTA or WTO*, *supra* note 3, at 2.

99. See *id.*

100. See 19 U.S.C. § 2411 et seq. This U.S. code provision, commonly known as "Special 301", requires the USTR to identify "priority foreign countries" which deny "adequate and effective" intellectual property rights and initiate investigation of those countries. See JOHN H. JACKSON, WILLIAM J. DAVEY, & ALAN O. SYKES, JR., *LEGAL PROBLEMS OF INTERNATIONAL ECONOMIC RELATIONS CASES, MATERIAL AND TEXT* 832 (3d. ed. 1995).

101. See OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, *1998 TRADE POLICY AGENDA & 1997 ANNUAL REPORT OF THE PRESIDENT OF THE UNITED STATES ON THE TRADE AGREEMENTS PROGRAM* 228 (1997).

nationals.¹⁰² However, the principle of national treatment may be limited by the rule of reciprocity. Reciprocity means that country A will protect works originating in country B only to the extent that country B protects works originating in country A.¹⁰³

NAFTA's Chapter 17 is dedicated to the protection of intellectual property. Article 1703 states that each party shall accord national treatment to the nationals of other parties regarding the protection and enforcement of all intellectual property rights. Intellectual property rights are defined in Article 1721 to include copyrights and "related rights" (not further defined). It is arguable that "related rights" is meant to include neighboring rights of performers and producers. Thus, on its face, the Canadian provisions would seem to violate NAFTA as the rights are not granted to foreign nationals on the basis of national treatment.

There are two specific NAFTA provisions, however, which provide possibilities for exemptions from the rule of national treatment. Article 1703, the national treatment article, provides that national treatment shall be the rule "except that a Party may limit rights of performers of another Party in respect of secondary uses of sound recordings to those rights its nationals are accorded in the territory of such other Party." Secondary uses of sound recordings are then defined under Article 1721 as "the use directly for broadcasting or for any other public communication of a sound recording." Canada would not be in violation of NAFTA if it agrees to grant limited reciprocity to United States performers as allowed under the new bill.¹⁰⁴ Because the NAFTA exception refers only to "performers," Canada would still be in violation of national treatment as to sound recording producers.

The second NAFTA provision which would exempt these provisions from national treatment is the "cultural exemption." Article 2106 gives Canada the right not to implement any NAFTA intellectual property provisions if they affect "cultural industries" as defined in Article 2107.¹⁰⁵

102. See STEWART, *supra* note 11, at 38.

103. See 3 PAUL GOLDSTEIN, COPYRIGHT § 16.1 (2d ed. 1996).

104. See Copyright Act, R.S.C., ch. C-42, § 22(2) (1985) amended by S.C. 1997, c. 24, § 14 (Can.) which gives the Minister the ability to grant limited reciprocity to countries which do not confer benefits substantially equivalent to those conferred by Canada. This would mean that Canada could only be obliged to pay United States performers public performance royalties on digital media or remuneration from home taping levies on digital tapes because this would match the rights granted by the United States to Canadian nationals.

105. For purposes of this Chapter: cultural industries means any person engaged in any of the following activities:

Canada can characterize the new rights created by Bill C-32 as those for a cultural industry and thus exempt from national treatment obligations under NAFTA. However, NAFTA article 2106 allows the United States to take "any measure of equivalent commercial effect" in response to measures adopted or maintained with respect to cultural industries.

The TRIPS agreement of the GATT to which both Canada and the United States are parties, sets out minimum levels of intellectual property protection standards to be granted by each member country. Article 3 of TRIPS calls for national treatment with the exception that "[i]n the respect of performers, producers of phonograms and broadcasting organizations, this obligation only applies in respect of the rights provided under this Agreement."¹⁰⁶ Article 14(1) gives performers the right to prevent unauthorized recordings of their live performances. Article 14(2) gives sound recording producers the right to authorize or prohibit any reproduction of the sound recording. The remuneration rights for performers and producers granted by Canada is not a minimum right required by TRIPS. Canada is thus not in violation of TRIPS by not providing national treatment for these new rights.

The final analysis of any reaction to a perceived NAFTA or TRIPS violation must recognize that Article 2005(1) of NAFTA states that "disputes regarding any matter arising under both this Agreement and the General Agreement on Tariffs and Trade ... may be settled in either forum

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- (a) the publication, distribution, or sale of books, magazines, periodicals or newspapers in print or machine readable form but not including the sole activity of printing or typesetting any of the foregoing;
 - (b) the production, distribution, sale or exhibition of film or video recordings;
 - (c) the production, distribution, sale or exhibition of audio or video music recordings;
 - (d) the publication, distribution or sale of music in print or machine readable form; or
 - (e) radio communication in which the transmissions are intended for direct reception by the general public, and all radio television and cable broadcasting undertakings and all satellite programming and broadcast network services.

North American Free Trade Agreement, Article 2107, 1995 WL 522861.

106. The United States tried to incorporate national treatment protection for performances of sound recordings into the GATT. United States copyright owners would have had performance rights in sound recordings in all countries party to the TRIPS agreement. These efforts failed and the United States' efforts in this area almost caused the entire TRIPS negotiations to collapse. See Rebecca F. Martin, Note, *The Digital Performance Right in the Sound Recordings Act of 1995: Can it Protect United States Sound Recording Copyright Owners in a Global Market?*, 14 CARDOZO ARTS & ENT. L. J. 733, 760 n.169 (1996).

at the discretion of the complaining Party.” Articles 2005(3) and (4) further provide that the responding party does not have to agree to the choice of forum nor does it have any mechanism to challenge the choice of forum unless the disagreement involves environmental or health and safety matters. The United States could choose to bring an action against Canada under the WTO dispute mechanism that would effectively prevent Canada’s ability to invoke the cultural exemption under NAFTA.¹⁰⁷

The United States is one of the few developed nations that does not grant a public performance right in sound recordings to performers and producers. Approximately 75 nations recognize public performance rights in sound recordings, including at least nine European Community member states, Japan and Taiwan.¹⁰⁸ The trend in these countries has been, in the international context, to grant these rights and any subsequent performance royalties only on reciprocity as opposed to national treatment.¹⁰⁹ As the United States does not grant public performance royalties on sound recordings, these countries find it necessary to rely on the principle of reciprocity so as to prevent a substantial outflow of royalties to United States copyright owners without any flow of royalties back to their copyright owners.¹¹⁰

Historically, national treatment has been the rule of international copyright conventions, such as the Berne and Rome Conventions, in order to promote ideas, science, and creativity around the world for their own sake.¹¹¹ The objective has been to harmonize minimum levels of international intellectual property protection.¹¹² Reciprocity has always existed as an exception to this general rule. The Berne Convention still contains exceptions for rights to be granted on the principle of reciprocity, such as

107. The US Trade Representative decided to use the WTO dispute settlement mechanism rather than NAFTA when Canada enacted a bill taxing split run magazine editions more like foreign periodicals. Split run magazines are editions in which the content is still essentially the same as the American version with only Canadian advertisements replacing American advertisements. The magazines are then passed off as “Canadian” versions and not taxed as foreign periodicals. See *WTO: Kantor asks for Consultations on Canadian Split-Run Tax Dispute*, 13 Int’l Trade Rep. (BNA) 11 d2, 420 (March 13, 1996).

108. See William H. O’Dowd, Note, *The Need for a Public Performance Right in Sound Recordings*, 31 HARV. J. ON LEGIS. 249, 261 n.51 (1994).

109. See Martin, *supra* note 106, at 764, n.190 (citing WILLIAM F. PATRY, COPYRIGHT LAW AND PRACTICE 1235-36 (1994)).

110. See *id.*

111. See Jean-Francois Verstrynge, *The Spring 1993 Horace S. Manages Lecture - The European Commission’s Direction on Copyright and Neighboring Rights: Toward the Regime of the Twenty-First Century*, 17 COLUM.-VLA J.S. & ARTS 187, 202 (1993).

112. See *id.*

droit de suite.¹¹³ The Rome Convention exempts remuneration for public performance of sound recordings from national treatment.¹¹⁴ The reasoning behind these exceptions to the national treatment rule is that there was no international consensus on securing such higher levels of protection internationally.¹¹⁵ Countries consequently were not willing to extend national treatment when other countries would only provide a lower level of protection.¹¹⁶ Only after minimum protection standards have been agreed upon can the principle of national treatment be fairly reinstated. As observed by one commentator:

Reciprocity can therefore be seen as an intermediate stage which allows for an increase in copyright protection in a situation in which general agreement on the increased level of protection cannot be obtained. It also can be an interim leverage for increasing protection in the long run. Once general agreement on an increased level of protection is possible, one can easily and securely return to the rule of national treatment.¹¹⁷

Given that the common international objective is to better long term overall copyright protection, invoking accusations of violation of national treatment in order to make claims for higher levels of protection, while domestically maintaining lower levels, should not be tolerated in the international community.¹¹⁸

Following this analysis, the United States must recognize that it is behind the rest of the world in this area of intellectual property protection and should not be able to invoke the false protection of national treatment simply because these rights have now been enacted in a border country. Article 101 of NAFTA states the agreement's main purpose as the establishment of a free trade zone. Article 1701(1) further declares that each party is to ensure nationals of other parties "adequate protection and enforcement of intellectual property rights, while ensuring that measures to enforce intellectual property rights do not themselves become barriers to legitimate trade." Canada's new rights of remuneration given to performers and producers of sound recordings for public performances and home taping do not create any barriers to legitimate trade. Exportation of sound

113. *See id.*

114. *See id.* at 203.

115. *See id.*

116. *See id.*

117. Jean-Francois Verstrynge, *The Spring 1993 Horace S. Manages Lecture - The European Commission's Direction on Copyright and Neighboring Rights: Toward the Regime of the Twenty-First Century*, 17 COLUM.-VLA J.S. & ARTS 187, 204 (1993).

118. *See id.*

recordings and audio recording media shall continue uninhibited. Canada is justified to immunize these new rights from national treatment under the cultural exemption. Canada has the sovereign right to protect its cultural industries in order to further cultural development and control its own cultural destiny.¹¹⁹ The United States has no equitable course of action in response to the new Canadian legislation except to examine its own failure to provide this higher level of protection to its citizens.

119. See Stephen Fraser, *Berne, CFTA, NAFTA & GATT: The Implications of Copyright Droit Moral and Cultural Exemptions in International Trade Law*, 18 HASTINGS COMM/ENT L.J. 287, 319 (1996).

THE WIPO COPYRIGHT TREATY

By Julie S. Sheinblatt

The World Intellectual Property Organization (WIPO), an arm of the United Nations created to deal with international intellectual property issues, adopted two new treaties dealing with copyright law on December 20, 1996.¹ The treaties were created in response to the arrival of the digital age, which has made information a key business asset, expanded international commerce, and enabled faster and easier copying of copyrighted work. The value of harmonizing global copyright law has grown accordingly.² The Copyright Treaty was formed both to harmonize global copyright law and to extend that law into the digital domain.³ The Treaty builds on the Berne Convention for the Protection of Literary and Artistic Works (the Berne Convention), which set out some international copyright standards in 1886.⁴

The United States played an important role in the drafting of the Treaty and is expected to ratify it. The Copyright Treaty will be incorporated into an already evolving United States copyright law; U.S. courts have been struggling to interpret portions of the Copyright Act in terms of the growing digital environment, and the government has been attempting to create new standards in the area. Groups supporting wide dissemination of information, such as the Digital Future Coalition and the Home Recording Rights Coalition, have lobbied for minimal copyright protection in the digital environment.⁵ Groups such as content providers have countered with the idea that maximum copyright protection is necessary as an

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1. See WIPO Copyright Treaty, *adopted* Dec. 20, 1996, WIPO Doc. CRNR/DC/94 [hereinafter Copyright Treaty]; WIPO Performances and Phonograms Treaty, *adopted* Dec. 20, 1996, CRNR/DC/95. WIPO declined to adopt another proposed treaty dealing with copyright protection of databases.

2. See BUREAU OF NATIONAL AFFAIRS, INC., *INTERNATIONAL TREATIES ON INTELLECTUAL PROPERTY 1* (Marshall A. Leaffer ed., 2d ed. 1997).

3. See Jeffrey P. Cunard et al., *WIPO Treaties Raise International Copyright Norms*, N.Y.L.J., Mar. 10, 1997 at S4.

4. See Berne Convention for the Protection of Literary and Artistic Works, *opened for signature* Sept. 9, 1886, 828 U.N.T.S. 221, S. Treaty Doc. No. 99-27, 99th Cong. (1986) (revised at Paris, July 24, 1979) art. 8, 9, 11, 12 [hereinafter Berne].

5. See, e.g., *Digital Future Coalition* (last modified Nov. 26, 1997) <<http://www.ari.net/dfc>> (providing information about the Digital Future Coalition); *Home Recording Rights Coalition* (last modified Jan. 20, 1998) <<http://www.hrrc.org>> (Home Recording Rights Coalition's home page).

incentive to create copyrightable works and to allow them to be disseminated on the Internet.

I. THE WORLD INTELLECTUAL PROPERTY ORGANIZATION

WIPO is one of the sixteen specialized agencies of the United Nations (UN) system of organizations. Headquartered in Geneva, WIPO was established during the Stockholm Convention of 1967, and entered into force in 1970.⁶ With its specialized knowledge and expertise in the field of intellectual property, WIPO's goal is to maintain and increase respect for intellectual property throughout the world, fostering industrial and cultural development by stimulating creative activity and facilitating the transfer of technology and the dissemination of literary and artistic works.⁷

WIPO's functions include promotion of intergovernmental cooperation in the administration of intellectual property rights, as well as substantive and programming activities such as establishing expert commissions, preparing studies, and publishing a monthly journal.⁸ WIPO also creates and administers international treaties, such as the 1996 Copyright Treaty.⁹

II. THE PRESENT STATE AND SOURCES OF INTERNATIONAL COPYRIGHT LAW

A. The Berne Convention

The Berne Convention was established in 1886 in Berne, Switzerland, and entered into force on December 5, 1887.¹⁰ The United States joined Berne in March of 1989.¹¹ Berne, administered by WIPO, was the first treaty to attempt to harmonize international copyright law. As of January 1, 1996, 117 states were party to Berne.¹²

Berne protects literary and artistic works, requiring member nations to protect the right of reproduction, translation, adaptation, public performance, public recitation, broadcasting, and film. It sets out exclusive rights for copyright owners,¹³ and limits those rights through a fair use provi-

6. See WIPO, INTELLECTUAL PROPERTY READING MATERIAL 31 (1995).

7. See *id.* at 33.

8. See *id.*

9. See *id.*

10. See BUREAU OF NATIONAL AFFAIRS, INC., *supra* note 2, at 357-58.

11. See *id.*

12. *Id.*

13. See Berne, *supra* note 4, art. 8, 9, 11, 12, 14.

sion.¹⁴ It ensures that no formalities such as notice or registration may be required of foreign nationals. It adheres to national treatment, so that each member nation must give the same copyright protection to works from other member nations as it does to domestic works.¹⁵ WIPO's new Copyright Treaty is a special agreement within Article 20 of Berne.¹⁶

B. The World Trade Organization's TRIPS

Concerns with the enforcement of WIPO's treaties led to the establishment of the GATT Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in 1994. TRIPS entered into force on January 1, 1995, and is administered by the World Trade Organization (WTO), which the United States joined in 1994.¹⁷ TRIPS requires members to comply with the Berne Convention (except for a provision granting authors moral rights).¹⁸ TRIPS sets out general international copyright protections. It protects expression but not ideas, methods of operation, or mathematical concepts,¹⁹ and it protects computer programs as literary works.²⁰

III. SUMMARY OF WIPO'S NON-CONTROVERSIAL PROVISIONS

WIPO's members gathered in Geneva to create new rules and interpret existing ones to accommodate "new economic, social, cultural and technological developments."²¹ The Copyright Treaty is a special agreement meant to increase the rights and obligations of its members, authorized under Berne's Article 20.²² It consists of 25 Articles, and WIPO published along with it the Agreed Statements Concerning the WIPO Copyright Treaty, which attempts to clarify some of the articles in the treaty.

Much of the Copyright Treaty globally extends law already in force in the United States. As in the Berne Convention and section 102 of the Copyright Act, the Copyright Treaty protects expressions and not ideas,

14. *See id.* art. 9.

15. *See id.* art. 5.

16. *See id.* art. 20.

17. *See* BUREAU OF INTERNATIONAL AFFAIRS, INC., *supra* note 2, at 12.

18. *See* General Agreement on Tariffs and Trade: Agreement on Trade-Related Aspects of Intellectual Property Rights, Dec. 15, 1993, 33 I.L.M. 81 art. 9 (1994) [hereinafter TRIPS].

19. *See id.*

20. *See id.* art. 10.

21. Copyright Treaty, *supra* note 1, pmbl.

22. *See id.* art. 1.

methods of operation, or mathematical concepts.²³ Article 3 of the Treaty incorporates Articles 2 to 6 of the Berne Convention, which consist mainly of procedural rules, such as the rule that parties cannot impose formalities on the nationals of other parties as a condition for claiming protection.²⁴

Article 4 of the Treaty ensures that copyright protection is extended to computer programs, by explaining that they are "literary works" under Article 2 of the Berne Convention.²⁵ The Berne Convention does not list computer programs in its non-exhaustive list,²⁶ but notes that literary works include "every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression."²⁷ Section 117 of the Copyright Act allows for the copyrightability of computer programs,²⁸ and TRIPS protects computer programs as well.²⁹

Article 5 of the Copyright Treaty protects original compilations of data (databases) that incorporate copyrightable authorship.³⁰ As in section 103 of the Copyright Act, this protection does not extend to the data or material itself.³¹ Article 5 adds to the Copyright Act by noting that the protection is extended by virtue of the compilation's selection and arrangement, but this idea is already embodied in U.S. copyright law in *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*³² TRIPS also extends copyright protection to authors' original selection and arrangement of compilations.³³ The Treaty's global database protection appears to be similar to database protection in the U.S. To the extent that that protection is unclear, WIPO's decision not to adopt a Database Treaty at this time suggests that it will remain unclear at least in the near future.

Article 6 of the Copyright Treaty provides a right of distribution for all categories of works through sale or transfer of ownership. It notes that the

23. *See id.* art. 2.

24. *See Berne, supra* note 4, art. 5.

25. *See Copyright Treaty, supra* note 1, art. 4.

26. Berne's article 2 list of enumerated literary works begins with "such as."

27. *See Berne, supra* note 4, art. 2.

28. *See* 17 U.S.C. § 117 (1994).

29. *See TRIPS, supra* note 17, art. 10.

30. *See Copyright Treaty, supra* note 1, art. 5.

31. *See* 17 U.S.C. § 103 (1994).

32. 499 U.S. 340, 348 (1991) (determining that an alphabetically listed compilation of phone numbers was not protectable in part because it did not incorporate any creativity in selection or arrangement).

33. *See TRIPS, supra* note 17, art. 10 (protecting compilations of data "which by reason of their selection or arrangement of their contents constitute intellectual creations").

Contracting Parties are free to create a first sale doctrine.³⁴ Berne only provides a right of distribution for cinematographic rights.³⁵ Section 106 of the Copyright Act provides a right of distribution for copies of any copyrighted work.³⁶ Section 109 presents the first sale doctrine: distribution rights of the copyright owner end after the first sale of a work.³⁷ By providing an “exclusive right of authorizing the making available to the public” of originals and copies and allowing for a restriction of that right after the “first sale or other transfer of ownership” of the work,³⁸ Article 6 of the Treaty seems to be in accord with U.S. law providing an “exclusive ... [right] ... to distribute copies”³⁹ qualified by allowing the owner of lawful copies to “sell or otherwise dispose” of them “without the authority of the copyright owner.”⁴⁰

Article 7 provides an exclusive post-first-sale right of rental for computer programs, cinematographic works, and works embodied in phonograms.⁴¹ Section 109(b) of the Copyright Act also provides for such an exception to the doctrine of first sale in the case of record or computer program rentals.⁴²

34. See Copyright Treaty, *supra* note 1, art. 6 (“Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership. Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right ... applies after the first sale”).

35. See Berne, *supra* note 4, art. 14.

36. See 17 U.S.C. § 106 (1994) (providing that the owner of a copyright has the “exclusive ... [right] ... to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending”).

37. See *id.* § 109(a) (providing that “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord”).

38. Copyright Treaty, *supra* note 1, art. 6.

39. 17 U.S.C. § 106 (1994).

40. 17 U.S.C. § 109 (1994).

41. See Copyright Treaty, *supra* note 1, art. 7 (“Authors of computer programs; cinematographic works; and works embodied in phonograms as determined in the national law of Contracting Parties, shall enjoy the exclusive right of authorizing commercial rental to the public of the originals or copies of their works.”).

42. See 17 U.S.C. § 109(b) (1994) (“[N]either the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program ... may ... dispose of, or authorize disposal of, the possession of that phonorecord or computer program ... by rental, lease, or lending”).

IV. SUMMARY OF WIPO'S CONTROVERSIAL ISSUES

A. Temporary Copies

The WIPO Copyright Treaty incorporates the "exclusive right of authorizing the reproduction"⁴³ of protected works set forth in Article 9 of the Berne Convention.⁴⁴ Section 106 of the Copyright Act sets out an "exclusive" right "to reproduce the copyrighted work" as well.⁴⁵ The United States' general exclusive right of reproduction, then, seems to be in accord with the Treaty's exclusive right of reproduction.

U.S. law, however, is still unclear as to whether or not temporary copies created automatically in a computer's random access memory (RAM) during the running or transmission of a program are infringing reproductions. In *MAI Systems Corp. v. Peak Computer Inc.*,⁴⁶ the Ninth Circuit held that transitory copies in RAM created in the loading or running of a program were copies which infringed the right of reproduction. These copies may satisfy the Copyright Act's section 106 requirement of fixation because they are accessible until the computer is turned off—thus being "sufficiently permanent" to be perceived "for a period of more than transitory duration."⁴⁷ However, the Seventh Circuit has suggested that the rule related in *MAI* might be narrow, and that the use of dedicated phone lines and dumb terminals to access programs could be a way to circumvent the rule.⁴⁸ Also, commentators have taken issue with the holding in *MAI* on several grounds, and suggested that it be overruled. Many argue that assigning liability for the "reproduction" of temporary copies is equivalent to creating copyright liability for reading a book, and that the *MAI* court

43. Berne, *supra* note 4, art. 9.

44. The Copyright Treaty in Article 1 incorporates Berne's Article 9 right of reproduction by stating that parties will comply with Articles 1 to 21 of Berne. See Copyright Treaty, *supra* note 1, art. 1(4).

45. 17 U.S.C. § 106 (1997).

46. 991 F. 2d 511, 517-18 (9th Cir. 1993).

47. 17 U.S.C. § 101 (1994) (explaining that a "work is 'fixed' in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration"); MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.08[A][1], at 8-113 to 8-115 (1997).

48. See *NLFC, Inc. v. Devcom Mid-America, Inc.*, 45 F. 3d 231, 235-36 (7th Cir. 1995) (explaining that a party which did not download software onto its own computers to manipulate it but instead accessed the software via dumb terminals or dedicated phone lines to accomplish the same manipulation had not reproduced the software in its own computers' RAM, and so had not violated the right of reproduction).

ignored an obvious application of the doctrine of fair use.⁴⁹ Commentators have also argued both that such copies are not really fixed, and that there is no need to assign liability because such transitory copying will not undermine a work's market value.⁵⁰

The hotly contested proposed Article 7, which would have expressly stated that transitory reproductions are copies in violation of the right of reproduction, was eventually dropped from the Treaty.⁵¹ However, the Agreed Statements that WIPO produced along with the Copyright Treaty maintain that temporary copies are infringements, stating that "the storage of a protected work in digital form in an electronic medium constitutes a reproduction within the meaning of Article 9 of the Berne Convention."⁵² While this statement would seem to bring the Copyright Treaty's reproduction right into accord with *MAI*, it is unclear what weight the Agreed Statements will carry, considering the decision not to include such a clarification in the Treaty itself.

Those in favor of minimal copyright protection are concerned that if the Treaty is interpreted to mean that all temporary copies are reproductions, liability will spread quickly to every user of the Internet.⁵³ It would be impossible for a user to download or run a copyrighted program without incurring liability. While the fair use defense in U.S. law should protect most users rightfully utilizing copyrighted works,⁵⁴ the parties in favor of minimal protection fear, as discussed below, that fair use may not survive all aspects of the WIPO Treaty. Those in favor of maximal copyright protection argue that fair use would still exist in most situations, and that only users committing flagrant violations of the right to reproduction for commercial use would be prosecuted.

49. See, e.g., Bradley J. Nicholson, *The Ghost in the Machine: MAI Systems Corp. v. Peak Computer, Inc. and the Problem of Copying in RAM*, 10 HIGH TECH. L.J. 147, 170 (1995). Fair use is a defense of infringement, provided for in the Copyright Act, for purposes such as criticism, comment, news reporting, teaching, scholarship or research. See 17 U.S.C. § 107 (1994).

50. See *id.* at 173-74.

51. See *WIPO Releases Treaty Proposals on Transmission Right, Databases*, (BNA Int'l, London, England), 10 WIPR 375, Nov. 1996 (discussing proposed draft treaty).

52. Agreed Statements Concerning the WIPO Copyright Treaty, Dec. 20, 1996, World Intellectual Property Organization, Concerning Article 1(4).

53. See *Digital Future Coalition* (last updated Nov. 26, 1997) <<http://www.dfc.org>>.

54. Though note that fair use was not applied to defend the use in *MAI*.

B. Service Provider Liability

Service providers fear that the new Copyright Treaty might render them liable when infringing copies are posted on the Internet. In part, this fear stems from the Treaty's grant of an exclusive right authorizing "any communication to the public of their works, by wire or wireless means" under Article 8.⁵⁵ Such an exclusive grant may create a right not previously available under U.S. law.⁵⁶ The Berne Convention provides varying protection for different kinds of communications and works, but nothing like such an exclusive right,⁵⁷ which seems to dictate that an unauthorized posting of copyrighted material on the World Wide Web would be a violation of the treaty.⁵⁸ The uncertainty of the scope of such a new right, then, is part of what makes service providers fear that they might be held liable for the posting of infringing material on the Web.

Another basis for service providers' concerns stems from the treatment of access providers' liability under the U.S. copyright laws' rights of reproduction, distribution, display, and performance.⁵⁹ Courts have declined to find service providers contributorily liable for users' unlawful posting of copyrighted information on the Web when those service providers lacked knowledge of the infringing activity.⁶⁰ Such holdings are not surprising because U.S. law requires knowledge of infringing activity along with inducement or material contribution for a party to be found contributorily liable based on participation in an infringement.⁶¹ But direct liability for service providers in the United States whose users violate copyright laws is a possibility. One court found an on-line bulletin board operator directly liable for infringing distribution and public display rights when customers used it to access copyrighted material.⁶² In *Playboy Enterprises v. Frena*, the court found that the defendant bulletin board operator had violated the plaintiff's distribution right though the operator had supplied only a service, and not a material embodiment of the work.⁶³ Also in *Playboy*, the court found that the bulletin board operator had vio-

55. Copyright Treaty, *supra* note 1, art. 8.

56. *See* Cunard, *supra* note 3, at S4.

57. *See* Agreed Statements of the Diplomatic Conference that Adopted the Treaty, April 12, 1997, S. TREATY DOC. NO. 105-17. (submitting the WIPO Treaties to the Senate).

58. *See* Cunard, *supra* note 3, at S4.

59. *See* 17 U.S.C. § 106 (1994).

60. *See, e.g.,* *Playboy Enterprises, Inc. v. Frena*, 839 F. Supp. 1552, 1554.

61. *See* NIMMER & NIMMER, *supra* note 47, § 12.04[A][2][a], 12-72 to 12-76.

62. *See* *Playboy*, 839 F. Supp. at 1557 (M.D. Fla. 1993).

63. *See id.*

lated the plaintiff's right to public display, although it is arguable that the public display was really the user's, and not necessarily the operator's.⁶⁴ However, in *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*,⁶⁵ another court refused to find an Internet service provider directly liable when a user posted information which may have infringed the Church of Scientology's copyright. Netcom, the Internet service provider, provided an unmonitored system which sent out copies such that postings of the information became available throughout the world.⁶⁶ Although direct liability for copyright infringement is a strict liability standard, the court in *Religious Technology* held the Internet service provider not liable because there was no "volition or causation" by Netcom, which was "merely used to create a copy by a third party."⁶⁷ The court also noted that it was "practically impossible" for Internet service providers to screen out infringing material.⁶⁸

The Copyright Treaty's Article 8 right of communication to the public may, under *Playboy*, increase the basis of direct liability for service providers. Under *Religious Technology*'s reasoning, though, service providers without knowledge or direct contribution and without practical ability to police the Internet should still not be held liable. Because the Copyright Treaty does not specifically speak to the issue of Internet service provider liability, resolution of the issue remains unclear in the United States. Groups in favor of minimal copyright protection argue along the lines presented in *Religious Technology* that it would be unfair and impractical to make service providers liable. Service providers, under this argument, are just common carriers of information, and should be regulated similarly to telephone companies, which are not responsible for the legal status of content traveling through the telephone lines. Those in favor of strong copyright protection maintain that copyright infringement is a strict liability rule, and that strict liability is a necessary incentive to content providers to continue to make information available on the Internet. Also, while it may be "practically impossible" for Internet service providers to police the Internet for infringing materials, those service providers may still be the most efficient policers. Ultimately, the issue's resolution calls for a

64. See NIMMER & NIMMER, *supra* note 47, § 12.04[A][3][e], 12-101 to 12-107.

65. 907 F. Supp. 1361 (N.D. Cal. 1995).

66. See *id.* at 1367-68.

67. *Id.* at 1369-70.

68. *Id.* at 1372-73.

political judgment as to where liability should end and begin,⁶⁹ a judgment which arguably should be made by a legislative body.

C. Prohibition Against Circumvention of Security Devices

Article 11 of the Copyright Treaty provides that parties must provide "adequate legal protection and effective legal remedies" against circumvention of technologically based security measures used to prevent copyright infringement.⁷⁰ The Copyright Act already prohibits certain circumvention devices—under Section 1002, it prohibits the importation, manufacture, or distribution of a device with the primary purpose of circumventing a certain "Copy Management System."⁷¹ Those who favor minimal copyright protection argue that broader direct liability levied against those who circumvent security devices will lead to contributory liability being levied against those who make and sell devices used to circumvent copyright security. The result might stifle technological innovation.

In the United States, courts have held that a party can be liable for contributory infringement if they know or have reason to know of a third party's infringing activity, and induce, materially contribute to, or further those infringing acts.⁷² However, a party providing a device to others who use it to infringe a copyrighted work is not liable for contributory infringement if the device "is capable of commercially significant noninfringing uses."⁷³ In *Sony* the Supreme Court held that the distributors of videotape recorders were not liable as contributory infringers based on videotape users infringing the copyright of certain programs by copying them with their VCRs.⁷⁴ The Court found that movie studios authorized time-shifting⁷⁵ which qualified as a significant noninfringing use of the videotape recorders.⁷⁶

The Clinton Administration's White Paper proposed to change the U.S. standard for contributory liability in cases like *Sony* to a standard under which a device provider would be liable if the device's "primary pur-

69. See, e.g., NIMMER & NIMMER, *supra* note 47, § 12.04[A][3][e], 12-101 to 12-107.

70. Copyright Treaty, *supra* note 1, art. 11

71. 17 U.S.C. § 1002 (1997).

72. See, e.g., *Gershwin Publishing Corp. v. Columbia Artists Mgt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

73. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

74. *See id.*

75. Time-shifting is the taping of a program for the purpose of watching it at a later time.

76. *See Sony*, 464 U.S. at 443.

pose or effect” was to infringe.⁷⁷ The White Paper’s proposal would place a higher hurdle in front of device makers trying to escape a charge of contributory infringement. Those who prefer minimal copyright protection argue that the potential makers of the next new device might be discouraged from creating anything people might possibly use to infringe, thereby stifling technological innovation. *Sony* might have come out differently under the White Paper’s standard, cutting off the VCR market and with it the many other noninfringing uses later discovered.

Article 11 of the Copyright Treaty does not contain language limiting liability to those devices or methods of circumvention that do not have substantial non-infringing uses, which would be consistent with the holding in *Sony*. Neither does the Treaty incorporate the White Paper’s standard of assigning liability if a device’s primary use is to infringe. Whether or not either U.S. law as it stands according to *Sony* or U.S. law as it may be changed in the future by proposals like the White Paper would be consistent with the Treaty, then, is unclear. The impact of Article 11 on U.S. law may depend on legislation chosen to implement the Treaty.

D. Fair Use

The Copyright Treaty does not specifically address the issue of fair use. U.S. law, through section 107 of the Copyright Act, provides a fair use defense of infringement “for purposes such as criticism, comment, news reporting, teaching, scholarship, or research.”⁷⁸ The defense’s purpose is to allow courts to avoid rigidly applying the Copyright Act when it would stifle the creativity that copyright law is meant to foster.⁷⁹ A determination of whether or not a use is fair involves a case-by-case analysis of the following factors: the purpose and character of the use; the nature of the copyrighted work; the amount of the part used in relation to the

77. See Working Group on Intellectual Property Rights (Bruce Lehman, Chair), *Intellectual Property and the National Information Infrastructure* 230 (1995) [hereinafter White Paper]. The Clinton Administration formed a National Information Infrastructure Task Force (IITF) to recommend policy regarding communications in the new global information infrastructure. In 1995 the IITF put forward the White Paper, which suggested strengthening copyright protection in the digital environment, and was therefore backed by content providers. *Id.* at 1. The White Paper failed to graduate from the Senate committee level. See *Digital Future Coalition* (last modified Nov. 26, 1997) <<http://www.ari.net/dfc>>.

78. 17 U.S.C. § 107 (1994).

79. See NIMMER & NIMMER, *supra* note 47, § 13.05, 13-149.

copyrighted work as a whole; and the effect of the use upon the potential market for or value of the copyrighted work.⁸⁰

One potential application of the fair use defense is ephemeral reproduction.⁸¹ If temporary copies do infringe the right of reproduction under U.S. law and the WIPO Copyright Treaty, it is possible that they are a fair use. One commentator has suggested a fortuitous use may be fair because the work does not supplant the function of the original work and is unlikely to affect its market.⁸² However, at least one case has refrained from applying the doctrine of fair use to ephemeral copying.⁸³ Parties supporting minimal copyright protection fear that the Copyright Treaty may lead to the treating of ephemeral copies as infringements, and yet may not extend the fair use defense to them.

Another application of the fair use defense is reverse engineering.⁸⁴ Other parties are free to use the unprotected elements of a work, and this includes taking the work's ideas (rather than expression) and shaping them into a new work.⁸⁵ In order to take apart certain works, like computer programs, some reproduction or adaptation of the works is necessary. *Sega Enterprises Ltd. v. Accolade, Inc.*⁸⁶ held that when there is no other readily available mechanism for achieving the permissible purpose of manipulating a work's code, the infringing copy created during the reverse engineering process can be defended by the fair use doctrine.

Backers of minimal copyright protection fear that the fair use defense for reverse engineering may be stifled by the Copyright Treaty's expansion of the scope of infringement. As noted, Article 11 of the Treaty provides that parties must provide "adequate legal protection and effective legal remedies" against circumvention of technologically based security measures used to prevent copyright infringement.⁸⁷ Article 12 of the Treaty requires member states to have remedies against persons having grounds to know they have removed or altered electronic rights manage-

80. See, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994); 17 U.S.C. § 107 (1)-(4) (1997).

81. For example, where temporary copies are created in a computer's RAM during the running of a program. See *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).

82. See *NIMMER & NIMMER*, *supra* note 47, § 13.05[D][3], 13-228 to 13-229.

83. See *MAI*, 991 F.2d at 511 (lacking discussion of fair use).

84. Reverse engineering is the process of examining and taking apart a work in order to understand and build on its ideas. See *NIMMER & NIMMER*, *supra* note 47, § 13.05[D][4], 13-230 to 13-238.

85. See *id.*

86. 977 F.2d 1510, 1527-28 (9th Cir. 1992).

87. Copyright Treaty, *supra* note 1, art. 11.

ment information without authority or distributed such works.⁸⁸ In order to reverse engineer a computer program, most users will need to circumvent copyright protection or alter rights management information. The U.S. fair use defense purports to apply to all exclusive rights listed in section 106 of the Copyright Act,⁸⁹ but the rights to prevent circumvention of copyright protection or alteration of rights management information dictated by the Copyright Treaty are not listed in the Copyright Act's section 106.⁹⁰ Fair use, therefore, does not necessarily apply to these new methods of infringement. If it does not, then there is a danger that fair use will no longer apply to many cases of reverse engineering following implementation of the Treaty.

While the Copyright Treaty does not explicitly provide for a doctrine of fair use, neither does it limit the doctrine of fair use as suggested by the White Paper. The White Paper intimated that fair use should only apply in instances of market failure, when licenses for the use could not be obtained.⁹¹ Rather, Article 10 of the Treaty allows the Contracting Parties to provide for limitations and exceptions that do not conflict with a normal exploitation of the work or unreasonably prejudice the author.⁹² By doing so, the Treaty leaves open the door for the application of the fair use defense to temporary reproduction, to reproduction incidental to reverse engineering (where it currently applies in the U.S. under *Sega*), and even to circumvention of copyright protection or alteration of rights management information. Whether or not fair use in the U.S. will apply to these situations following implementation of the Treaty will likely depend on which legislation is chosen to implement the Treaty.

V. PRESENT STATUS OF COPYRIGHT TREATY AND POTENTIAL IMPLEMENTING LEGISLATION

A. Further Steps Necessary for Treaty to Become Law in US

Under Article 20 of the Copyright Treaty, the Treaty will enter into force three months after 30 instruments of ratification or accession by

88. *See id.* art. 12.

89. 17 U.S.C. § 107 (1994) (providing that "[n]otwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work ... is not an infringement of copyright").

90. 17 U.S.C. § 106 (1994) (enumerating the rights to reproduce, prepare derivative works based on, distribute copies of, perform publicly, and display publicly certain copyrighted works).

91. *See White Paper, supra* note 77, at 79-82.

92. Copyright Treaty, *supra* note 1, art. 10.

States have been deposited.⁹³ The Treaty was introduced into the U.S. Senate for ratification on July 28, 1997.⁹⁴ The Treaty is not self-executing in the United States, so even if the Senate ratifies it with a two thirds vote, Congress needs to enact enabling legislation to ensure that U.S. law is in compliance with the Treaty.

B. Proposed Implementing Legislation

Due to the Treaty's general language concerning controversial issues, there is disagreement as to what implementing legislation is required in order to bring U.S. law into compliance with the Treaty. Groups on either side of the minimum/maximum protection debate have been suggesting implementing legislation in accord with their ideals. These suggestions, fueled by the various lobbying groups, arguably go much further to change U.S. law than is necessary to bring U.S. law into conformity with the Treaty.

So far, three pieces of implementing legislation have been suggested. On July 29, 1997, Representative Coble introduced H.R. 2281, the WIPO Copyright Treaties Implementation Act. This bill would prohibit the manufacture or sale of any service or device designed primarily to circumvent copyright protection, which may have other uses as long as those uses are "limited."⁹⁵ It would change *Sony's* rule (of no contributory infringement if there are substantial non-infringing uses) to the White Paper's rule (of liability if the primary use of the device infringes.) It would further prohibit intentional removal or alteration of copyright management information, or alteration of that information by a party knowing such acts will induce or conceal infringement.⁹⁶ This prohibition is called for by the Treaty's Article 12 requirement that parties provide remedies for knowing removal or alteration of rights management information. Finally, H.R. 2281 provides damages for violations, and gives the court discretion to lower or eradicate any damages award where the violator is found to have not known and not had any reason to be aware she was committing a violation.⁹⁷

On September 3, 1997, Senator Ashcroft introduced S. 1146, The Digital Copyright Clarification and Technology Education Act of 1997. This bill, backed by the Digital Future Coalition and the Home Recording

93. *Id.* art. 20.

94. See Agreed Statements of the Diplomatic Conference that Adopted the Treaty, April 12, 1997, S. TREATY DOC. NO. 105-17.

95. H.R. 2281, 105th Cong. § 3 (1997) (amending 17 U.S.C. § 1201).

96. *Id.* § 3 (amending 17 U.S.C. § 1202).

97. *Id.* § 3 (amending 17 U.S.C. § 1203).

Rights Coalition, groups devoted to the dissemination of works to the public, was an attempt to limit possible liability of service providers and to limit liability for users of the Internet in general by ensuring a fair use defense to copyright infringement. Under S. 1146, service providers are not liable for direct or contributory infringement unless they receive a specified, formality-laden form of notice and do not do what they reasonably can to limit the infringement.⁹⁸ Section 202 of S. 1146 provides that fair use shall exist as a defense, and in that defense the means of performance, display, or distribution are irrelevant, ensuring the fair use defense's application in the digital environment. Section 204 builds on the idea of fair use by providing exceptions for educational use. Section 305 provides that transitory, incidental digital copies made in the course of the use of a work otherwise lawful are not infringements. Section 1201 notes that it is an infringement to circumvent copyright protection, but not to manufacture or distribute an infringement device. Section 1202 provides that a party may not knowingly, intending to mislead or induce infringement, remove or alter any copyright management or distribute material that has been altered.⁹⁹ This requirement of specific intent ensures that accidental infringement cannot occur in this area.

On November 13, 1997, Representative Boucher introduced H.R. 3048, The Digital Era Copyright Enhancement Act. This bill, also backed by the Digital Future Coalition, provides that if a party knowingly removes or alters "any effective technological measure" used by a copyright owner to protect his work, for the purpose of aiding an infringement or committing one, that party is liable for copyright infringement.¹⁰⁰ As in S. 1146, H.R. 3048 requires specific knowledge and intent in altering copyright management information for that act to be an infringement, thus preventing a finding of infringement for an accidental occurrence.¹⁰¹ The bill also adds analog or digital transmissions to those items protected by the fair use defense,¹⁰² to ensure that fair use will apply in the digital environment. The legislation also provides that ephemeral digital copies are not infringements.¹⁰³ It restricts the use of shrinkwrap licenses, providing that they are not enforceable when they limit dissemination of uncop-

98. S. 1146, 105th Cong. § 101 (1997).

99. *See id.*

100. H.R. 3048, 105th Cong. § 8 (1997) (amending 17 U.S.C. § 1202).

101. *Id.*

102. *See id.* § 2.

103. *See id.* § 5.

rightable material, or when they restrict the Copyright Act's exclusive rights.¹⁰⁴

VI. CONCLUSION

In an attempt to harmonize global copyright norms, WIPO drafted a Copyright Treaty which may affect U.S. copyright law in several ways, depending on Congress' use of language in any Treaty implementing legislation. Two sides came into the talks in Geneva fighting the well-worn copyright battle of dissemination versus protection. The correct balance needed to be struck because, while the ultimate purpose of copyright protection is to disseminate more information amongst the public, copyright can only achieve that goal by protecting information strongly enough to provide incentives to authors to produce and provide information. Unfortunately, with regard to some of the most important issues in global copyright protection, the WIPO Copyright treaty led to very few actual resolutions. The Treaty does prohibit circumvention of security devices. It does prohibit knowing alteration or removal of electronic rights management information. But the Treaty itself does not clarify the issues of the fair use defense or potential service provider liability. It does not even mention, notwithstanding the Agreed Statements, the important issue of the status of ephemeral copies. Both sides of the minimum/maximum protection debate have attempted to claim victory in the WIPO arena, noting that the other side's agenda has not been explicitly adopted. The fight between the two sides rages on in the United States under the guise of interpreting the Treaty and creating U.S. law to comply with it. However, the fact that the Treaty might be interpreted in so many different ways—from the highly protectionist H.R. 2281 to the freely disseminating H.R. 3048—reveals the primary disappointment of the WIPO Copyright Treaty. It fails in important ways to unify global copyright law.

104. *See id.* § 7.

THE EUROPEAN UNION DATABASE DIRECTIVE

By Mark Schneider

Directive 96/9/EC on the Legal Protection of Databases¹ (the Directive) by the European Union (EU) constitutes a noteworthy event in the evolution of database protection worldwide. First, the Directive provides uniform copyright protection among EU Member States² for the creative selection and arrangement of a database in a manner similar to United States copyright law.³ More remarkably, however, the Directive goes substantially further by establishing a *sui generis*⁴ right against unauthorized extraction of the contents of a database for a term of fifteen years from the date of creation of the database.⁵ In contrast to the copyright protection, acquisition of the *sui generis* right is based on a "sweat of the brow" theory and its fifteen-year term is renewable on a perpetual basis following subsequent "substantial investments" in the database.⁶

While European states have been legislating under a prescribed deadline to achieve compliance with the Directive in 1998, the United States Congress and the World Intellectual Property Organization have been unsuccessful in adopting proposals for database protection that would provide equivalent U.S. protection.⁷ Many agree that continued development

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1. See Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the Legal Protection of Databases, 1996 O.J. (L 77) 20 [hereinafter Database Directive].

2. See Thomas Hoeren, *EU Leads World Towards Database Production: Despite US objections, International Sui Generis System is Needed*, IP WORLDWIDE July-Aug. 1997 (visited Nov. 1996) <<http://www.ljx.com/copyright/7-8eudbase.html>>. The Directive will apply to the fifteen states of the European Union as well as to the additional states of the European Economic Area (i.e., Iceland, Liechtenstein, and Norway). Additionally, central and eastern European states have agreed to provide an equivalent level of protection by December 31, 1999. The Directive will apply at least indirectly to thirty countries. See *id.*

3. See, e.g., 17 U.S.C. § 102(a) (1994); *Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340 (1991) (rejecting "sweat of the brow" doctrine as a legal basis for protecting database contents).

4. "Sui generis" is defined as "of its own kind or class." BLACK'S LAW DICTIONARY 1434 (6th ed. 1990).

5. See Database Directive, *supra* note 1, art. 10(1).

6. See *id.* arts. 7(1), 10(3).

7. See, e.g., Proposal Submitted by the European Community and its Member States to the World Intellectual Property Organization Committee of Experts on a Possible Protocol to the Berne Convention, 6th Sess., Geneva, WIPO Doc. BCP/CE/VI/13,

of the information industry in the digital era requires a new form of protection for database makers.⁸ Notwithstanding its commercial impact in Europe, the EU Database Directive may serve as a model of what database protection should or should not look like for other countries. Moreover, the fact that the Directive requires non-EU member states to offer an equivalent level of protection in order to enjoy the benefits of the sui generis right has created pressure for worldwide acceptance of the European model of database protection.⁹

I. BACKGROUND TO THE DATABASE DIRECTIVE

Broadly speaking, lawmaking by way of Directive in the EU seeks uniformity among national laws of Member States on the grounds that "inequalities and/or inadequacies among them justify intervention."¹⁰ The EU attempts to do this by way of "harmonization." In other words, the EU accomplishes uniformity by requiring the enactment of national laws to comply with Directives.¹¹ The Database Directive arose from the differ-

Feb. 1-9, 1996; Collections of Information Antipiracy Act of 1997, H.R. REP. NO. 105-2652 (1997); Database Investment and Intellectual Property Antipiracy Act of 1996, H.R. REP. NO. 104-3531 (1996); *see also infra* Part III of this comment.

8. *See, e.g.*, Hoeren, *supra* note 2 ("There is a clear need to safeguard databases, and such safeguards would best be established on a global basis."); E. Leonard Rubin, *U.S. Fails to Guard Data Base Henhouse: Other Nations Seek to Protect Compilations of Facts, but Congress Lays an Egg in Failing to Take Up Legislation to Circumvent Feist*, NATIONAL LAW JOURNAL at B07 (June 9, 1997) <<http://www.ljx.com/copyright/0609feist.html>> ("The United States . . . must hurry. The huge developing markets of the EU and the Pacific Rim intensify global competition. Solutions to this new technological dilemma are attainable, but only if Congress reaches out and grabs them."); Lisa H. Greene & Steven J. Rizzi, *Database Protection Developments: Proposals Stall in the United States and WIPO*, 9 No. 1 J. PROPRIETARY RTS. 2, 7 (1997) ("[A] new form of legal protection is needed . . ."); J.H. Reichman & Paula Samuelson, *Intellectual Property Rights in Data?* 50 VAND. L. REV. 51, 55 (1997) ("While this Article accordingly agrees that database makers need a new form of protection, it contends that the current European and United States initiatives are seriously flawed.").

9. For further discussion, see *infra* Part III of this comment.

10. W.R. Cornish, *European Community Directive on Database Protection*, 21 COLUM.-VLA J.L. & Arts 1, 1 (1996).

11. *See* Robert Carolina, *The European Database Directive: An Introduction for Practitioners*, 8 No. 9 J. PROPRIETARY RTS. 17, 17 (1996).

It is not a truly "federal" system as that term is understood in the United States or Canada. As a result, Europeans have, in most legal areas including most parts of computer law, chosen "harmonization" of individual Member State laws rather than "preemption" as their primary means of achieving a single marketplace.

Id.

ing levels of legal protection that existed in the various Member States for databases. In response, the European Commission has aimed to harmonize EU law among all Members through the adoption of uniform provisions for the protection of databases. Moreover, in the context of the internal European market, the Commission has sought greater protection for the capital investment required for database production and continued profit incentive for the producers.¹²

The Recitals of the Directive offered several justifications for the harmonization measure.¹³ To begin with, existing legislation in the Member States was deemed insufficient to protect databases, and even where such protection existed, it had different attributes.¹⁴ These differences thwarted the functioning of the internal European market by impeding efforts to provide on-line database goods and services throughout the Community.¹⁵ Additionally, the Recitals noted that such differences could become more pronounced through Member States' independent legislative acts.¹⁶ Furthermore, unharmonized intellectual property rights with respect to differences in scope and conditions of protection were considered a barrier to the free movement of goods and services within the Community.¹⁷

The Directive was also a response to advances in digital technology.¹⁸ Databases were becoming an increasingly valuable and profitable product.¹⁹ Indeed, the electronic information industry was one of the fastest growing sectors of the economy.²⁰ At the same time, computer technology made electronically-stored data compilations vulnerable to piracy. The low cost and simplicity of copying data made it easy for free-riding competitors to exploit the efforts of original data compilers.²¹ Because the

12. *See id.*

13. *See Database Directive, supra* note 1, Recitals. Recitals are the official comments accompanying a directive and are useful for determining legislative intent.

14. *See id.* Recital 1. For example, the United Kingdom recognized the "sweat of the brow" approach and routinely granted fifty-year copyright protection for works such as printed directories or database printouts under this scheme while most other countries in Europe offered no comparable protection. *See M. Matthew Wayman, International Database Protection: A Multilateral Treaty Solution to the United States' Dilemma*, 37 SANTA CLARA L. REV. 427, 439-40 (1997).

15. *See Database Directive, supra* note 1, Recital 2.

16. *See id.* Recital 3.

17. *See id.* Recital 4.

18. *See id.* Recitals 7-12, 38-40.

19. *See Carolina, supra* note 11, at 17.

20. *See Debra B. Rosler, The European Union's Proposed Directive for the Legal Protection of Databases: A New Threat to the Free Flow of Information*, 10 HIGH TECH. L.J. 105, 111 (1995).

21. *See id.* at 106; Reichman & Samuelson, *supra* note 8, at 66.

production of databases could be such an expensive, laborious, and time-consuming enterprise, the Database Directive grew out of the demand for a form of protection that would provide incentive for investing in database creation.²²

The Database Directive is the most recent in a series of directives that has attempted to form a legal framework in the European Union to respond to modern technological challenges.²³ Other recent directives have pertained to intellectual property rights in the EU, including Council Directive on the legal protection of computer programs,²⁴ Council Directive on the rental right and lending right and certain rights related to copyright in the field of intellectual property,²⁵ Council Directive on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission,²⁶ and the Council Directive harmonizing the term of protection for copyright and certain related rights.²⁷ Along with the Database Directive, this procession of directives aims to form a uniform and comprehensive legal regime for contending with proprietary issues in the modern digital era.

With regard to the legal effect and authority of directives generally, it is important to note that a directive is not a self-executing law, but rather a direction to EU Members to amend their law as necessary to bring it in accordance with the directive. Although the legal effect of a directive is harmonization of Community law, the methods chosen by Member States to implement the directive may vary substantially.²⁸ Therefore, practitioners cannot rely on a directive as a statement of the law applicable to a commercial transaction.²⁹ Directives can serve, however, as useful points of general guidance for planning a business operation in Europe. Additionally, they function in a practical way as advance notice of an impending change in the law.³⁰

A. History of the Directive

During the 1980's, the European Commission began to investigate intellectual property protection in relation to the growing technology indus-

22. See Rosler, *supra* note 20, at 106.

23. See Robert Bond, *EC Database Law and the Information Society*, Sec. 3, (visited Oct. 1997) <<http://dialspace.dial.pipex.com/town/place/ps92/databas.htm>>.

24. Council Directive 91/250.

25. Council Directive 92/100.

26. Council Directive 93/83.

27. Council Directive 93/98.

28. See Carolina, *supra* note 11, at 17.

29. See *id.*

30. See *id.*

try in Europe.³¹ In its 1988 publication *Green Paper on Copyright and the Challenge of Technology: Copyright Issues Requiring Immediate Attention*, the Commission proposed that alteration of intellectual property rights within the Community would be necessary in order to facilitate the "free movement of information."³² Following a series of hearings involving the participation of information industry representatives,³³ the Commission drafted a proposal in 1992.³⁴ This proposal provided uniform copyright protection for the creative formal elements of a database in accordance with the Berne Convention for the Protection of Literary and Artistic Works, while simultaneously introducing a new *sui generis* protection against unauthorized use of the database contents throughout the Community.³⁵ The *sui generis* right was based on the Scandinavian states' "Catalog rule" from the 1960's, which granted to noncopyrightable compilations short-term protection against reproduction and identical imitation.³⁶

The 1992 proposal limited protection to electronic databases exclusively and provided a term of ten years for the *sui generis* protection.³⁷ It subsequently encountered opposition primarily from the United Kingdom, where electronic and non-electronic databases alike enjoyed a lengthy fifty-year term of protection under the broad and generous British copyright scheme.³⁸ A coalition of lobbyists, including the Confederation of British Industry, the Direct Marketing Association, and the Periodical Publishers Association, argued that, as it stood, the proposal would reduce drastically the level of database protection granted under British law.³⁹ At that time, the United Kingdom's database industry accounted for 60% of the EU's database business.⁴⁰

31. See Rosler, *supra* note 20, at 106.

32. COM(88)172 final.

33. A majority of representatives testifying at the Commission hearings on Database protection favored the enhancement of copyright protection for databases over *sui generis* protection. The Commission went forward with *sui generis* legislation despite this widespread opposition. See Rosler, *supra* note 20, at 106.

34. See Commission Proposal for a Council Directive on the Legal Protection of Databases, COM(92)24 final at 2 [hereinafter 1992 Proposal].

35. See Berne Convention for the Protection of Literary and Artistic Works (1971) [hereinafter Berne Convention].

36. See Hoeren, *supra* note 8; Reichman & Samuelson, *supra* note 8, at 74.

37. See 1992 Proposal, *supra* note 34, art. 1(1).

38. See Wayman, *supra* note 14, at 439.

39. See *id.*

40. See *id.*

The Commission responded by amending the proposal to enhance the *sui generis* protection. It expanded the *sui generis* term of protection from ten to fifteen years. The Commission also broadened the definition of database to include non-electronic—in addition to electronic—databases. By late 1994, the proposal had become an important plank of the European Commission and Council Information society initiatives, and in 1995, political agreement on the proposal resulted in the rapid progress.⁴¹ The EU Council of Ministers formally adopted it as a Directive in March 1996.

II. THE DATABASE DIRECTIVE

The Directive defines a database as “a collection of works, data or other independent materials arranged in a systematic or methodical way and capable of being individually accessed by electronic or other means.”⁴² Both electronic and non-electronic databases fall within this definition. The ambiguous language of the Directive, however, leaves the scope of protection relatively uncertain at this time. Indeed, some have argued that its broad definition would include not only CD-ROM-based multimedia collections, electronic and paper library card catalogs, and the like, but also World Wide Web sites, or even a library itself.⁴³ In any case, it is doubtful that recordings or audiovisual, cinematographic, literary, or musical works will fall within the scope of the Directive because these are not collections of “independent” works.⁴⁴ The Recitals state explicitly that a compilation of several musical performances on CD does not qualify as a database.⁴⁵ Similarly, the Directive does not protect computer programs “used in the making or operation of databases.”⁴⁶

A. Copyright Protection under the Directive

Copyright for databases under the Directive is a form of author’s right which protects the original selection or arrangement of contents, but not the contents themselves.⁴⁷ The term of protection is seventy years after

41. See Robert Bond, *The Database Directive* (visited Oct. 1, 1997), <<http://www.hobsonaudley.co.uk/lawyrs/databas.htm>>.

42. Database Directive, *supra* note 1, art. 1(2).

43. See Carolina, *supra* note 11, at 18; Bond, *supra* note 41.

44. See Database Directive, *supra* note 1, Recital 17.

45. See *id.* Recital 19.

46. *Id.* art. 1(3).

47. See *id.* art. 3. The Directive provides the following with respect to copyright:
Art. 3 (1): ... databases which, by reason of the selection or arrangement of their contents, constitute the author’s own intellectual creation

the death of the author.⁴⁸ According to the Recitals, the sole question that determines copyright protection is whether the structure of the database is the author's own original intellectual creation, and no further aesthetic or qualitative criteria should be applied.⁴⁹ As under U.S. copyright law since *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*,⁵⁰ the threshold for protection requires a non-trivial level of creativity. Consequently, most collections of factual data, particularly those arranged in a predictably-ordered manner, fail to have the requisite originality to merit copyright protection. Copyright for "works" contained within a database remain unaffected with respect to the eligibility of the database for copyright protection.⁵¹

The harmonization measure prescribed by the Directive eliminates existing differences in the copyright law within the Community. Most notably, it derogates the "sweat of the brow" copyright regime in the United Kingdom and Ireland.⁵² The "sweat of the brow" approach under British law has protected the effort that goes into the creation of a work rather than the artistic value of its content.⁵³ Consequently, the British regime has required a lower standard of eligibility than that traditionally required in most of continental Europe, where, as in the U.S., the emphasis has been on the creative input of the author.⁵⁴ The Directive fails to specify, however, what level of creativity is necessary to merit copyright protection, and thus the standard is presently unclear. Presumably, the Directive has left the standard for determining copyright eligibility open for the

shall be protected as such by copyright. No other criteria shall be applied to determine their eligibility for that protection.

Art. 3(2): The copyright protection of databases ... shall not extend to their contents and shall be without prejudice to any rights subsisting in those contents themselves.

Id.

48. See Database Directive, *supra* note 1, Recital 25. Because this right falls within the Berne Convention for the Protection of Literary Works, the term of protection is the life of the author plus seventy years. See Berne Convention, *supra* note 35, art. 7.

49. See Database Directive, *supra* note 1, Recitals 15 & 16.

50. 499 U.S. 340 (1991).

51. See Database Directive, *supra* note 1, Recital 27. Similarly, the *sui generis* right does not extend copyright protection to the data. *Id.* Recital 45.

52. See Cornish, *supra* note 10, at 5.

53. See Carolina, *supra* note 11, at 18-19. Robert Carolina points out that case law in France, the Netherlands, Germany, and Belgium has asserted that compilations such as a dictionary or a calendar of sports matches do not display the necessary creativity for copyright protection. See *id.*

54. See *id.*

Member State legislatures and the European Court of Justice to develop further.⁵⁵

The Directive provides the author of a database protected by copyright with a number of exclusive authorization rights including the following: temporary or permanent reproduction by any means and in any form, in whole or in part; translation, adaptation, arrangement or any other alteration; any form of distribution to the public of the database or copies thereof (subject to first sale exhaustion); and any reproduction, distribution, communication, display or performance to the public of a translation, adaptation, arrangement, or other alteration.⁵⁶ A lawful user of the database, however, may perform any of the acts above if they are necessary to access or use the contents of the database.⁵⁷ Arguably, the Directive gives the Member States the option to craft additional exceptions, including those for fair use.⁵⁸

B. Sui Generis Protection Under the Directive

The Directive requires Member States to provide a new proprietary right for the protection of database contents. In order to obtain this sui generis right, a database maker must show that there has been a "substantial investment" in either the obtaining, verification, or presentation of the contents.⁵⁹ In contrast to copyright protection, the Directive prescribes a "sweat of the brow" approach to allocating the sui generis right.⁶⁰ Rather than defining what constitutes a "substantial investment," however, the Directive says little more than that this determination is to be made qualitatively and/or quantitatively.⁶¹ The sui generis right applies irrespective of the database's eligibility for copyright or other protection.⁶² The right is also transferable, assignable, and may be granted under contractual license.⁶³

55. See *id.* at 19; G.M. Hunsucker, *The European Database Directive: Regional Stepping Stone to an International Model?*, 7 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 697, 727 (1997).

56. See Database Directive, *supra* note 1, art. 5.

57. See *id.* art. 6(1).

58. See *id.* art. 6(2).

59. See *id.* art. 7(1).

60. See *id.* Recital 39.

61. See *id.* art. 7(1). Recital 40 states that "such investment may consist in the deployment of financial resources and/or the expenditure of time, effort and energy." *Id.* Recital 40.

62. See Carolina, *supra* note 11, at 20-21.

63. See Database Directive, *supra* note 1, art. 7(3).

This is not the first instance of *sui generis* protection for databases in Europe. Germany has employed competition law to prevent a competitor from using substantial parts of a database for commercial uses.⁶⁴ As noted above, the Scandinavian states have offered *sui generis* protection under the Catalog rule since the 1960s. This rule grants protection to the producer of a sizable database even if the collection does not exhibit creativity.⁶⁵

Sui generis protection under the Directive gives the database maker the right "to prevent extraction and/or re-utilization of the whole or of a substantial part" of the database contents.⁶⁶ Actions relating only to insubstantial parts are therefore non-infringing.⁶⁷ An "extraction" involves either the permanent or temporary transfer of all or a substantial part of the contents of a database to another medium by any means or in any form.⁶⁸ Even the viewing of database contents on-screen constitutes an action subject to authorization by the rightholder because it involves the transfer of all or a substantial part of the contents to another medium.⁶⁹ "Re-utilization" means any form of making available to the public all or a substantial part of the contents of a database by the distribution of copies, by renting, or by other forms of transmission, including on-line.⁷⁰ However, the first sale of a copy of the database by the rightholder exhausts the right to control resale of that copy within the Community.⁷¹ Furthermore, public lending is specifically excluded from definitions of either extraction or re-utilization.⁷²

The term of protection for the *sui generis* right begins when the database is completed and ends fifteen years from the first of January follow-

64. See Hoerden, *supra* note 8; See generally RALF JERSCH, ERGÄNZEDER LEISTUNGSSCHUTZ UND COMPUTER SOFTWARE (1993).

65. See Hoerden, *supra* note 8; Reichman & Samuelson, *supra* note 8 at 74-75.

66. See Database Directive, *supra* note 1, art. 7(1).

67. But note that some actions involving only insubstantial parts may be infringing if they are "repeated and systematic." The Directive states in pertinent part:

Article 7(5): The repeated and systematic extraction and/or re-utilization of insubstantial parts of the contents ... implying acts which conflict with normal exploitation of that database or which unreasonably prejudice the legitimate interests of the maker of the database will not be permitted.

Database Directive, *supra* note 1, art. 7(5).

68. See *id.* art. 7(2)(a).

69. See *id.* Recital 44.

70. See *id.* art. 7(2)(b).

71. See *id.*

72. See *id.*

ing the date of completion.⁷³ If the database is made available to the public before the fifteen-year term expires, then a new fifteen-year term begins from the first of January following the date that the database was first made available to the public.⁷⁴ Interestingly, any substantial change to the contents of the database that constitutes a "substantial new investment" entitles the database to a new fifteen-year term of protection.⁷⁵ Depending on what level of investment is ultimately required to be "substantial," the provision for a renewable *sui generis* right could last in perpetuity if the contents are regularly updated.

Member States ostensibly have the option of providing a fair use exemption to the *sui generis* right as they do for copyright.⁷⁶ The Directive, however, restricts acts by lawful users that "conflict with normal exploitation of the database" or "unreasonably prejudice the legitimate interests of the database maker."⁷⁷ This is the case even for insubstantial parts of the contents if the use is repeated and systematic.⁷⁸ Professors J.H. Reichman and Pamela Samuelson have argued that the Directive may foreclose potential "fair" uses should database owners maintain that such use interferes with their right to exploit the database by charging for each use.⁷⁹

C. Protection of EU Non-member Databases

Because copyright protection falls within the Berne Convention for the Protection of Literary Works, not only EU nationals, but also nationals of other countries belonging to the Berne Convention are beneficiaries of copyright protection under the Directive.⁸⁰

By contrast, the Directive limits the *sui generis* right to database makers or rightholders who are nationals of a Member State or who have their residence in the territory of the Community.⁸¹ Entities seeking the right must have been formed in accordance with the law of a Member State and have their registered office, central administration or principal place of business within the Community; a company having only its registered office in the Community must have operations linked on an ongoing basis with the economy of a Member State.⁸²

73. Database Directive, *supra* note 1, art. 10(1).

74. *See id.* art. 10(2).

75. *See id.* art. 10(3).

76. *See id.* art. 9.

77. *Id.* art. 8(2).

78. *See id.* art. 7(5).

79. *See* Reichman & Samuelson, *supra* note 8, at nn.173-75 and accompanying text.

80. *See* Berne Convention, *supra* note 35, art. 7(8).

81. *See* Database Directive, *supra* note 1, art. 11(1).

82. *See id.* art. 11(2). The Directive states in pertinent part:

Individuals outside the EU and entities, including wholly-owned subsidiaries, not meeting the above requirements may not claim the *sui generis* right unless they reside or were incorporated or formed in a jurisdiction which provides comparable protection for EU databases.⁸³ The EU Council may conclude reciprocal arrangements with countries that have an equivalent form of protection upon a proposal from the Commission.⁸⁴ This so-called reciprocity provision has placed additional pressure upon countries outside the EU to adopt a similar *sui generis* right for databases in order to take advantage of EU protection.⁸⁵

D. Impact of the Directive in Practice

Some practitioners who have written about the Database Directive have noted that the change in law has important practical implications. For example, the Directive may create serious problems for the makers of U.S. database and CD-ROM products because of the different levels of protection for Member-State and non-Member-State works.⁸⁶

According to Robert Carolina, although Article 5 of the Directive grants a database copyright owner the right to authorize reproductions "in any means and in any form, in whole or in part," the owner would not necessarily have the right to authorize acts that would potentially infringe on an underlying copyright in the database contents.⁸⁷ Therefore, such an owner should secure the permission of all rightholders in the contents before authorizing or carrying out a reproduction of the collection.⁸⁸

Similarly, Robert Bond has suggested that publishers of EU databases should make suitable contractual arrangements with employees and third

Art. 11 (2): [The *sui generis* right] shall also apply to companies and firms formed in accordance with a law of a Member State and having their registered office, central administration or principal place of business within the Community; however, where such a company or firm has only its registered office in the territory of the Community, its operations must be genuinely linked in an ongoing basis with the economy of a Member State.

Id. Nowhere, however, does the Directive define what it means to be "linked in an ongoing basis." *See id.*

83. *See id.* Recital 56; Carolina, *supra* note 11, at 22.

84. *See* Database Directive, *supra* note 1, art. 11(3); Dinah Nissen & Jamie Barber, *The EC Database Directive* (visited May 1, 1996) <<http://www.gold.net/users/af82/may96.htm>>.

85. *See* Hoerden, *supra* note 8.

86. *See* Anna Kraske & Thomas A. Unger, *Protecting Works on CD-ROM and Internet*, 2 No. 5 INTELL. PROP. STRATEGIST 8, 9 (1996).

87. Database Directive, *supra* note 1, art. 5.

88. *See* Carolina, *supra* note 11, at 20.

parties to cover copyright and moral rights issues to ensure that all database material can be fully exploited.⁸⁹ They should keep an audit trail of the work allocated to a database, the criteria used to determine selection, and all expenses.⁹⁰ They should also keep proof of the date of creation or publication of a database and of any subsequent updates or verification efforts.⁹¹ Furthermore, databases should contain any required copyright legend, and copyright registration, if required, should also take place.⁹²

III. PROSPECTS FOR DATABASE PROTECTION IN THE U.S.

The reciprocal requirement of the Database Directive has created pressure on the United States to adopt *sui generis* protection. But even without such pressure, many agree that U.S. databases are in need of greater protection.⁹³

A. Proposals

1. WIPO

In December 1996, the World Intellectual Property Organization (WIPO), a specialized agency of the United Nations, held a diplomatic conference to discuss changes to the Berne Convention involving three proposed treaties.⁹⁴ The WIPO conference resulted in the adoption of a copyright treaty and a treaty on the production and performance of sound recordings.⁹⁵ Although the agenda also included negotiations on a database treaty, the WIPO Draft Database Treaty was the only one that the conference did not enact. The database treaty resembled the Database Directive in many respects and, had it been adopted, would have introduced an international *sui generis* system of database protection that would have included the United States in its scope of coverage.⁹⁶ It was deferred,

89. See Bond, *supra* note 23, § 8.

90. See *id.*

91. See *id.*

92. See *id.*

93. See sources cited *supra* note 8.

94. See *id.* The conference was entitled "Diplomatic Conference on Certain Copyright and Neighboring Rights Questions." See also Wayman, *supra* note 14, at 428-29.

95. The two treaties that were adopted were the WIPO Copyright Treaty, which clarified the rights of authors in the digital environment, and the WIPO Performers and Phonograms Treaty, which increased protection for performers and producers of sound recordings. See generally Julie Sheinblatt, *The WIPO Copyright Treaty*, 13 BERKELEY TECH. L.J. 535 (1998).

96. See Wayman, *supra* note 14, at 450. According to the author of this article, many of the Draft Treaty provisions were modeled after the EU Database Directive such

however, due to the protests of several groups including the American Association of Law Libraries (AALL).⁹⁷ Despite the conference's failure to reach agreement on the Draft Treaty, delegates expressed their interest in continuing to examine the prospect of a *sui generis* system of databases protection at an international level.⁹⁸

2. U.S. Congress

Representative Howard Coble introduced the Database Investment and Intellectual Property Antipiracy Act of 1996 (H.R. 3531) during the 104th Congress to strengthen database protection in the U.S.⁹⁹ Having attributes similar to the Database Directive, the bill proposed a term of protection of twenty-five years. A controversial aspect of H.R. 3531 was that, rather than requiring a "substantial investment" as the Database Directive and WIPO Draft Treaty specify, it would have extended protection for another twenty-five year term for each time the database underwent a change of "commercial significance."¹⁰⁰ The bill was not successful.

Representative Coble has introduced a new database protection enhancement bill in the 105th Congress entitled the Collections of Information Antipiracy Act (H.R. 2652).¹⁰¹ This bill claims to differ radically from H.R. 3531 because it is "grounded in unfair competition principles as a complement to copyright," rather than a new form of *sui generis* protection.¹⁰²

B. The Domestic Debate

Opposition by the American Association of Law Libraries to the *sui generis* regime proposed by the WIPO Draft Database Treaty and H.R. 3531 focused on four key points.¹⁰³ First, it would legislatively change the result in *Feist*, which held that originality is required for copyright pro-

as the fifteen-year term of protection. See Hunsucker, *supra* note 55, at 722 ("[T]he WIPO Proposal generally tracks the Database Directive"). But cf. Reichman & Samuelson, *supra* note 8, at 110 ("in most respects [the Draft Treaty] adhered more closely to the United States model than the European model.").

97. See Julius J. Marke, *Database Protection Acts and the 105th Congress*, NEW YORK LAW JOURNAL (March 18, 1997) <<http://www.ljx.com/copyright/0318dbase.html>>. The arguments of the AALL are discussed in greater detail *infra*.

98. See Hoerden, *supra* note 8. See also Recommendation concerning databases adopted by the Diplomatic Conference on December 20, 1996, CRNR/DC/100.

99. H.R. REP. NO. 104-3531 (1996).

100. See Hunsucker, *supra* note 55, at 732.

101. H.R. REP. NO. 105-2652 (1997).

102. See Introduction of the Collections of Information Antipiracy Act, Remarks (October 9, 1997).

103. See Marke, *supra* note 97.

tection and that "sweat of the brow" is not sufficient.¹⁰⁴ Second, it would provide factual data with greater protection than has traditionally been contemplated by Congress or the courts. Third, the term of protection, renewable each time a significant change were made to the database, would provide protection that could last in perpetuity. And finally, there would be the potential for monopoly over public data because government information created outside a government agency would be protected.¹⁰⁵

Similarly, the Digital Future Coalition has raised several concerns surrounding the proposals of H.R. 2652.¹⁰⁶ Analogous to the EU Database Directive, the bill's bar against uses or extractions that would "harm" the database maker's actual or potential market may eliminate traditionally "fair" uses by educational, scientific, or cultural institutions. It would also give proprietary rights in data currently in the public domain, and thereby actually harm the market for the database. Further, the broad subject matter covered by the bill would include not only databases and other factual compilations, but also a wide range of copyrightable works subject to Copyright Act limitations and exceptions to exclusive rights.¹⁰⁷

IV. CONCLUSION

Alongside similar U.S. and international proposals under consideration, the passage of the European Union Database Directive constitutes a noteworthy development in the field of international intellectual property rights. Although its ultimate scope remains unclear, the Directive's sui generis protection of database contents is a bold and controversial step with significant commercial ramifications. It remains to be seen whether comparable protection will eventually be implemented in the United States and to what extent such protection resembles the European approach.

104. See *Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340 (1991).

105. See *Marke*, *supra* note 97. Under H.R. 3531, protected data would include basic scientific data such as weather information compiled by the National Oceanic and Atmospheric Administration.

106. See Digital Future Coalition, *Letter to Chairman Coble re H.R. 2652* (visited Oct. 30, 1997) <<http://www.ari.net/dfc/docs/dbaslet.htm>>.

107. See *id.*