

# BERKELEY TECHNOLOGY LAW JOURNAL

VOLUME 14

NUMBER 1

ANNUAL REVIEW 1999

## TABLE OF CONTENTS

### I. INTELLECTUAL PROPERTY

#### A. Copyright

##### 1. *Constitutional Issues*

###### a) Sovereign immunity

- CHAVEZ V. ARTE PUBLICO PRESS.....3

###### b) Right to jury trial

- FELTNER V. COLUMBIA PICTURES TELEVISION, INC.....23

##### 2. *Derivative Works*

###### a) Popular culture derivatives

- CASTLE ROCK ENTERTAINMENT, INC. V. CAROL PUBLISHING GROUP, INC. ....43

##### 3. *Defenses*

###### a) First sale

- QUALITY KING DISTRIBUTORS, INC. V. L'ANZA RESEARCH INTERNATIONAL.....65

#### B. Patent

##### 1. *Claim Construction*

###### a) Standard of review

- CYBOR CORP. V. FAS TECHNOLOGIES, INC. ....87

###### b) Extrinsic evidence

- BELL & HOWELL V. ALTEK .....103

##### 2. *Patentability*

###### a) Written description

- GENTRY GALLERY, INC. V. BERKLINE CORP. ....123

- HYATT V. BOONE .....137

###### b) Business models

- STATE STREET BANK & TRUST CO. V. SIGNATURE FINANCIAL GROUP, INC. ....153

##### 3. *Infringement*

###### a) Doctrine of equivalents

- CHIUMINATTA CONCRETE CONCEPTS INC. V. CARDINAL INDUSTRIES, INC. & DAWN EQUIPMENT CO. V. KENTUCKY FARMS, INC.....173

- YBM MAGNEX, INC. V. INTERNATIONAL TRADE COMMISSION ..191

##### 4. *Defenses*

###### a) Inequitable conduct

- NOBELPHARMA AB V. IMPLANT INNOVATIONS, INC. ....209

C. Trademark	
1. Defenses	
a) Public domain	
• THOMAS & BETTS CORP. V. PANDUIT CORP.....	229
2. Domain Name	
a) Dilution	
• AVERY DENNISON CORP. V. SUMPTON.....	247
3. Personal Jurisdiction	
a) Minimum contacts	
• CYBERSELL, INC. V. CYBERSELL, INC. ....	267
D. Trade Secret	
1. Non-compete Agreements	
a) California law	
• APPLICATION GROUP, INC. V. HUNTER GROUP, INC.....	283
II. ANTITRUST	
1. Sherman Act Violations	
a) Monopolization	
• UNITED STATES V. MICROSOFT .....	303
b) Essential facilities doctrine	
• INTERGRAPH CORP. V. INTEL CORP. ....	323
III. FIRST AMENDMENT	
1. Limiting Internet Access	
a) Public libraries	
• MAINSTREAM LOUDOUN V. BOARD OF TRUSTEES OF THE LOUDOUN COUNTY LIBRARY.....	347
b) Public universities	
• LOVING V. BOREN .....	371
2. Internet Crime Statutes	
a) Child pornography	
• UNITED STATES V. HILTON.....	385
b) Fraud	
• AMERICAN CIVIL LIBERTIES UNION OF GEORGIA V. MILLER .....	403
IV. TELECOMMUNICATIONS	
1. Internet Service Providers	
a) Access charge exemption	
• SOUTHWESTERN BELL V. FCC.....	421
V. BIOTECHNOLOGY AND MEDICAL DEVICES	
1. Patenting Lifeforms	
a) Chimeras	
• THE PATENTABILITY OF HUMAN-ANIMAL CHIMERAS .....	443
VI. BUSINESS LAW	
1. Electronic Commerce	
a) Digital signatures	
• RECENT DEVELOPMENTS IN DIGITAL SIGNATURE LEGISLATION AND ELECTRONIC COMMERCE .....	463
b) Internet Service Provider liability	
• BLUMENTHAL V. DRUDGE .....	483

**BERKELEY TECHNOLOGY LAW JOURNAL**  
**ANNUAL REVIEW OF LAW AND TECHNOLOGY**

**INTELLECTUAL PROPERTY**



## CHAVEZ V. ARTE PUBLICO PRESS

By Bart W. Wise

*Chavez v. Arte Publico Press* (“*Chavez II*”)<sup>1</sup> represents a collision of federalism with the rights of the individual. In this case, the desire to maintain states’ sovereignty through Eleventh Amendment immunity is at odds with the protection of the individual’s property rights. The question at issue is whether the property guarantee of the Fourteenth Amendment provide a way to pierce the Eleventh Amendment bar on a private copyright infringement suit against an unconsenting state in federal court.

In *Chavez II*, the plaintiff, Denise Chavez, brought suit in federal court against the publishing arm of the University of Houston to enforce her property right in a copyrighted play.<sup>2</sup> The Fifth Circuit held that it lacked jurisdiction over the suit based on immunity provided to the state university by the Eleventh Amendment.<sup>3</sup> The court based this decision primarily on a determination that a property interest in a copyright is not a property right protected by Section 1 of the Fourteenth Amendment.<sup>4</sup> A careful reading of the case, however, exposes a strong underlying policy of deference to states’ rights. This Note contends that the Fifth Circuit did not analyze the property interest in a copyright and instead improperly focused on the protection of state sovereignty. Such an analysis of copyright law would have demonstrated that a copyright is a well-established property interest that, although now a federalized property interest, satisfies the requirements for designation as property under the Fourteenth Amendment.<sup>5</sup>

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. 157 F.3d 282 (5th Cir. 1998). On October 1, 1998 the Fifth Circuit agreed to rehear the case en banc. See *5th Circuit to Reconsider Issue of State Immunity under Copyright, Lanham Acts*, 7 No. 2 Mealey’s Litig. Rep.: Intell Prop. 7, Oct. 19, 1998.

2. See *Chavez*, 157 F.3d at 284.

3. See *id.* at 291.

4. See *id.* at 289.

5. The issues in *Chavez II* are similar to those in *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 148 F.3d 1343, 47 U.S.P.Q.2d 1161 (Fed. Cir. 1998) (holding that a patent is property under the Fourteenth Amendment, thereby allowing use of the Fourteenth Amendment as authority for abrogation of states’ Eleventh Amendment immunity), *cert. granted*, 67 U.S.L.W. 3259 (U.S. Jan. 8, 1999) (No. 98-531).

## I. STATE IMMUNITY AND THE ELEVENTH AMENDMENT

The determinative issue in *Chavez II* is whether the provision of the Copyright Act that abrogates states' Eleventh Amendment immunity in copyright infringement suits is constitutionally valid.<sup>6</sup> If this provision is valid, then the case is properly within the jurisdiction of the federal courts and Chavez can proceed with the infringement suit. If the provision is held to be unconstitutional, Chavez may not be able to protect her copyright property.<sup>7</sup>

The Eleventh Amendment to the Constitution provides a bar to lawsuits brought in federal court against the states.<sup>8</sup> While the language of the amendment seems only to prohibit diversity actions, the Supreme Court has adopted a broader reading, using the amendment to also bar suits by in-state citizens based on federal law.<sup>9</sup> Despite this broad constitutional bar, federal courts recognized several exceptions that allowed them jurisdiction over private suits against the states. The two most common excep-

---

6. See 17 U.S.C. §§ 501(a), 511(a) (1994).

7. Because jurisdiction over copyright suits resides exclusively in the federal courts, 28 U.S.C. § 1338 (1994), it is possible that no direct remedies would be available to the infringed copyright holder if federal jurisdiction is barred by Eleventh Amendment immunity. This concern was addressed in the majority opinion of *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), in response to a statement by Justice Stevens in his dissent that "persons harmed by state violations of federal copyright, bankruptcy, and antitrust laws have no remedy" if the Eleventh Amendment bars a federal forum for suits on these matters. *Id.* at 77 n.1. The Court cited the doctrine of *Ex Parte Young* as an alternative remedy. *See id.* at 71 n.16. The *Ex Parte Young* doctrine allows a private suit seeking injunction against a state official by permitting the fiction that the official is not a state entity. *See generally* Vicki C. Jackson, *Coeur D'Alene, Federal Courts and the Supremacy of Federal Law: The Competing Paradigms of Chief Justices Marshall and Rehnquist*, 15 CONST. COMMENT. 301 (1998).

8. The amendment states, "The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State." U.S. CONST. amend. XI. *See generally* William Burnham, "Beam Me Up, There's No Intelligent Life Here": A Dialogue on the Eleventh Amendment with Lawyers from Mars, 75 NEB. L. REV. 551 (1996).

9. *See* *Hans v. Louisiana*, 134 U.S. 1, 21 (1890) (holding that the Eleventh Amendment prohibits suits by in-state citizens as well as by out-of-state citizens). *See generally* William A. Fletcher, *A Historical Interpretation of the Eleventh Amendment: A Narrow Construction of an Affirmative Grant of Jurisdiction Rather Than a Prohibition Against Jurisdiction*, 35 STAN. L. REV. 1033 (1983) (arguing that the Eleventh Amendment was meant to clarify that Article III jurisdiction did not authorize diversity suits by citizens against states and was not meant to generally prohibit the federal courts' exercise of "both party-based and subject matter-based jurisdiction over private citizens' suits against the states").

tions<sup>10</sup> were to find congressional authority in the Commerce Clause of the Constitution<sup>11</sup> or in the Fourteenth Amendment<sup>12</sup> to overcome Eleventh immunity.

The Supreme Court recognized Commerce Clause authority for Congress to abrogate states' Eleventh Amendment rights in *Pennsylvania v. Union Gas Company*.<sup>13</sup> The Court allowed Pennsylvania to be sued in federal court by a contractor over a dispute arising from an environmental cleanup regulated by the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA),<sup>14</sup> a federal statute that imposed liability upon states and expressly abrogated their Eleventh Amendment immunity.<sup>15</sup> The Court held that the Commerce Clause empowered Congress to hold states liable in federal courts based on the theory that the states, in ratifying the Constitution, had agreed to congressional regulation in the area of interstate commerce.<sup>16</sup>

The second source of authority that provided Congress with the power to abrogate state's Eleventh Amendment immunity is Section 5 of the Fourteenth Amendment.<sup>17</sup> In *Fitzpatrick v. Bitzer*,<sup>18</sup> the Supreme Court held that the Eleventh Amendment is "necessarily limited by the enforcement provisions of the Fourteenth Amendment"<sup>19</sup> and that Congress may rely on the Fourteenth Amendment to "provide for private suits against

---

10. Another theory that provided Congress with the authority to abrogate is the *Parden* doctrine. This doctrine derived from the Supreme Court case *Parden v. Terminal Railway*, 377 U.S. 184 (1964), and relies on a finding of implied consent by the state for suit in federal court. In *Parden*, the Court held that the state of Alabama "subjected itself to the commerce power of the federal government" by engaging in the interstate railroad business. *Id.* at 193 (citing *Maurice v. State*, 43 Cal. App. 2d 270, 275 (Cal. Dist. Ct. App. 1941)). The *Parden* doctrine was considerably weakened by several subsequent Supreme Court cases and is now of questionable status. See *Welch v. Texas Dept. of Highways and Pub. Transp.*, 483 U.S. 468, 478 (1987); *Employees v. Missouri Dept. of Pub. Health and Welfare*, 411 U.S. 279, 285 (1973).

11. U.S. CONST. art. I, § 8, cl. 3.

12. U.S. CONST. amend. XIV. The Fourteenth Amendment was ratified in 1868 as one of a trio of constitutional amendments (Thirteenth, Fourteenth, and Fifteenth) ratified in the aftermath of the Civil War with the goal of protecting individuals against state governments. See U.S. CONST. amends. XIII, XIV, XV.

13. 491 U.S. 1 (1989).

14. 42 U.S.C. §§ 9601-9675 (1994).

15. See *Union Gas*, 491 U.S. at 7-8.

16. See *id.* at 19-20.

17. U.S. CONST. amend. XIV, § 5 ("The Congress shall have power to enforce, by appropriate legislation, the provisions of this article.").

18. 427 U.S. 445 (1976).

19. *Id.* at 456.

States.”<sup>20</sup> The use of Section 5 of the Fourteenth Amendment to abrogate Eleventh Amendment immunity has been affirmed in subsequent cases.<sup>21</sup>

The Eleventh Amendment abrogation landscape changed dramatically in 1996 when the Supreme Court squarely overruled *Union Gas in Seminole Tribe v. Florida*.<sup>22</sup> The Court in *Seminole Tribe* significantly restricted the ability of Congress to abrogate states’ immunity,<sup>23</sup> holding that “Article I cannot be used to circumvent the constitutional limitations placed upon federal jurisdiction.”<sup>24</sup> This expressly prohibited the use of the Commerce Clause as authority for congressional abrogation of Eleventh Amendment immunity.<sup>25</sup> *Seminole Tribe*, however, continued to recognize the use of the Fourteenth Amendment to provide jurisdiction over states in private suits.<sup>26</sup> The Court noted that “under the Fourteenth Amendment, . . . Congress’ authority to abrogate is undisputed.”<sup>27</sup>

Thus, the Fourteenth Amendment appears to be the only door open for overcoming state immunity to private suits. Two requirements must be satisfied for Congress to abrogate states’ Eleventh Amendment immunity through the Fourteenth Amendment.<sup>28</sup> First, the language of the legislation in question, the Copyright Act in this case, must unequivocally demonstrate Congress’ intent to abrogate immunity.<sup>29</sup> Second, Congress must have a valid grant of power from the Fourteenth Amendment to take such action.<sup>30</sup>

### A. The Language of the Copyright Act

When Congress intends to abrogate state Eleventh Amendment immunity, it must clearly demonstrate that intent. In *Atascadero State Hospital*

---

20. *Id.*

21. *See, e.g., Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 55-56 (1996); *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 238 (1985).

22. 517 U.S. 44 (1996).

23. *See id.* at 72-73.

24. *Id.* at 73.

25. The ruling also placed in question the validity of asserting a *Parden* waiver of immunity. Because the *Parden* doctrine was based on Congress’ Article I authority to create legislation that governed state activity, the doctrine might run afoul of *Seminole Tribe* by utilizing Congress’ Article I power to overcome a state’s Eleventh Amendment immunity.

26. *See Seminole Tribe of Florida*, 517 U.S. at 59.

27. *Id.* at 71 n.15.

28. *See U.S. ex rel. Stevens v. State of Vt. Agency of Natural Resources*, 162 F.3d 195, 213 (2d Cir. 1998) (Weinstein, J., dissenting) (discussing abrogation of the Eleventh Amendment after *Seminole Tribe*).

29. *See Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 55 (1996).

30. *See id.* at 58.

*v. Scanlon*,<sup>31</sup> the Supreme Court held that “Congress may abrogate the States’ constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute.”<sup>32</sup> By requiring Congress to unequivocally state its intention to abrogate immunity, the Court is protecting the “constitutionally mandated balance of power”<sup>33</sup> between states and the federal government. The Court has consistently reaffirmed this stance.<sup>34</sup>

Prior to 1990, this requirement for clarity of intent to abrogate Eleventh Amendment immunity prevented several copyright infringement cases from being heard in federal courts.<sup>35</sup> At that time, the Copyright Act provided that “[a]nyone who violates the exclusive rights of the copyright owner” is liable for copyright infringement.<sup>36</sup> This language did not explicitly include states as potential defendants. Congress responded to these concerns and passed the Copyright Clarification Act in 1990, amending the Copyright Act.<sup>37</sup> The new language specifies that “‘anyone’ includes any State [or] any instrumentality of a State.”<sup>38</sup> Moreover, the amendments also added section 511, which states that “[a]ny State [or] any instrumentality of a State ... shall not be immune, under the Eleventh Amendment of the Constitution of the United States ... from suit in Federal court by any person.”<sup>39</sup> Congress passed an analogous amendment to the Patent Act in 1992.<sup>40</sup>

---

31. 473 U.S. 234 (1985).

32. *Id.* at 242.

33. *Id.* (citing *Garcia v. San Antonio Metro. Transit Auth.*, 469 U.S. 528, 547 (1985)).

34. *See, e.g., Seminole Tribe of Florida*, 517 U.S. at 55-57; *Dellmuth v. Muth*, 491 U.S. 223, 230-31 (1989); *Welch v. Texas Dept. of Highways and Pub. Transp.*, 483 U.S. 468, 478 (1987).

35. *See Lane v. First National Bank of Boston*, 871 F.2d 166, 174 (1st Cir. 1989); *BV Eng’g v. UCLA*, 858 F.2d 1394, 1396 (9th Cir. 1988); *Richard Anderson Photography v. Brown*, 852 F.2d 114, 129 (4th Cir. 1988).

36. 17 U.S.C. § 501(a) (1976) (amended 1990).

37. *See Copyright Clarification Act*, Pub. L. No. 101-553, 104 Stat. 2749 (1990) (codified at 17 U.S.C. §§ 501(a), 511 (1998)); Kurt E. Springmann, *The Impact of Seminole on Intellectual Property Infringement by State Actors: The Interaction of Article I, Article III, the Eleventh Amendment, and the Fourteenth Amendment*, 29 ARIZ. ST. L. J. 889, 896-97 (1997).

38. 17 U.S.C. § 501(a) (1998).

39. 17 U.S.C. § 511(a) (1998).

40. *See Patent and Plant Variety Protection Clarification Act*, Pub. L. No. 102-560, § 2(a)(2), 106 Stat. 4230 (1992) (codified at 35 U.S.C. § 296(a) (1994)).

## B. Authority under the Fourteenth Amendment to Abrogate a State's Eleventh Amendment Immunity

Once a statute is found to demonstrate clear intent to abrogate Eleventh Amendment immunity, a court must then determine whether Congress had valid authority for this abrogation. Because abrogation can no longer be based on the Commerce Clause, a court must examine Congress' authority under the Fourteenth Amendment.<sup>41</sup> Section 1 of the Fourteenth Amendment states "nor shall any State deprive any person of life, liberty, or property, without due process of law."<sup>42</sup> These rights are enforceable under section 5 of the Amendment, which grants Congress the "power to enforce, by appropriate legislation, the provisions of this article."<sup>43</sup>

The Supreme Court placed an important limitation on Congress' ability to use the Fourteenth Amendment's grant of enforcement authority in *City of Boerne v. Flores*.<sup>44</sup> In addressing the relationship between Congress' Article I legislative power and the Fourteenth Amendment, the Court declared that Congress "has been given the power 'to enforce,' not the power to determine what constitutes a constitutional violation."<sup>45</sup> The Court continued, "[i]f Congress could define its own powers by altering the Fourteenth Amendment's meaning, no longer would the Constitution be 'superior paramount law, unchangeable by ordinary means.'"<sup>46</sup> Thus, the Fifth Circuit in *Chavez II* had to confront whether there are constitutional limitations on the role Congress can play in determining the meaning and scope of the term "property" in the Fourteenth Amendment.

The scope of the enforcement power granted by section 5 of the Fourteenth Amendment was set forth in *Ex parte Virginia*.<sup>47</sup> The Court stated that

[w]hatever legislation is appropriate, that is, adapted to carry out the objects the amendments have in view, whatever tends to enforce submission to the prohibitions they contain, and to secure to all persons the enjoyment of perfect equality of civil rights and the equal protection of the laws against State denial or inva-

---

41. See *supra* notes 17-27 and accompanying text.

42. U.S. CONST. amend. XIV, § 1.

43. *Id.* § 5.

44. 117 S. Ct. 2157 (1997).

45. *Id.* at 2164.

46. *Id.* at 2168 (quoting *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 177 (1803)).

47. 100 U.S. 339 (1879).

sion, if not prohibited, is brought within the domain of congressional power.<sup>48</sup>

This standard focuses Fourteenth Amendment section 5 analysis on the objective of the legislation in question and the means used by the legislation in achieving that objective.<sup>49</sup> For *Chavez II*, this means that the provisions of the Copyright Act abrogating states' Eleventh Amendment immunity must be intended to protect a deprivation without due process or just compensation of a protected "property" interest.<sup>50</sup> In addition, the provisions must be adapted to carry out, or enforce, the protection of the protected interest.<sup>51</sup> Here, the provisions would enable the plaintiff to bring suit in federal court to protect her copyright. This Note examines the critical first step of this analysis, the determination of whether copyrights are property interests protected by the Fourteenth Amendment.

## II. CHAVEZ V. ARTE PUBLICO PRESS (CHAVEZ II)

Denise Chavez is an author who entered into a publishing agreement with Arte Publico Press, which is a publisher owned by and "legally indistinguishable from the University [of Houston]."<sup>52</sup> Several printings were done of her book *The Last of the Menu Girls*.<sup>53</sup> Chavez was dissatisfied with the quality of these printings and refused to allow any further printing, citing as justification a provision of their printing agreement that specified the number of copies to be printed.<sup>54</sup> The University claimed that the contract did not limit the number of copies to be printed and proceeded to plan another printing.<sup>55</sup> Chavez filed for declaratory judgment, dam-

---

48. *Id.* at 345-46. See also *City of Boerne*, 117 S. Ct. at 2163.

49. See *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 148 F.3d 1343, 1348, 47 U.S.P.Q.2d 1161, 1165 (Fed. Cir. 1998).

50. See *Chicago, B & Q. R. Co. v. City of Chicago*, 166 U.S. 226, 235 (1897) (holding that the Fourteenth Amendment extends the protections of the Fifth Amendment). See also *Dolan v. City of Tigard*, 512 U.S. 374, 383 (1994).

51. See *City of Boerne v. Flores*, 117 S. Ct. 2157, 2164 (1997).

52. *Chavez v. Arte Publico Press*, 59 F.3d 539, 540 (5th Cir. 1995), vacated by *Univ. of Houston v. Chavez*, 517 U.S. 1184 (1996).

53. See *id.* at 540.

54. The contract between Chavez and Arte Publico Press stated that "the University shall have the exclusive right [to] publish the book for a term of at least five years and that only the University may terminate the contract during that term." *Id.* at 541 n.2. An addendum specified that 2000 paperbacks were to be published. See *id.*

55. See *id.*

ages, and an injunction for, *inter alia*, copyright infringement against the University.<sup>56</sup>

Chavez sued in the United States District Court for the Southern District of Texas under federal question and supplemental jurisdiction.<sup>57</sup> As a public entity, the University claimed state immunity based on the Eleventh Amendment and moved for dismissal of the case.<sup>58</sup> When the district court denied the motion to dismiss, the University made an interlocutory appeal to the Fifth Circuit Court of Appeals.<sup>59</sup> In *Chavez I*, the Fifth Circuit Court affirmed the denial of the University's motion to dismiss, holding that Congress could use its Article I powers to abrogate state immunity based on *Union Gas*<sup>60</sup> and that the University had waived its right to immunity based on the express language in the Copyright and Lanham Acts in accordance with the *Parden* doctrine.<sup>61</sup> The Supreme Court granted certiorari and remanded the case to the Fifth Circuit for reconsideration in light of its decision in *Seminole Tribe*.<sup>62</sup> This second decision by the Fifth Circuit (*Chavez II*)<sup>63</sup> is the focus of this Note.

The Fifth Circuit began its analysis by noting Congress' amendments to the Copyright Act.<sup>64</sup> It held that the language of the amended Copyright Act is sufficiently explicit to fulfill the requirement of clear congressional intent to abrogate Eleventh Amendment immunity.<sup>65</sup> Chavez claimed that the *Parden* doctrine of implied waiver survived *Seminole Tribe* and provided the necessary authority for Congress to abrogate. She alternatively asserted that the Fourteenth Amendment empowers Congress to abrogate state immunity. While the court addressed both of these issues in its deci-

---

56. *See id.* In addition, the University had published a collection of plays identifying Chavez as the one who selected the plays. *See id.* In response, Chavez also filed a claim for the violation of her right to not have her name misappropriated under the Lanham Act. *See id.* This issue will not be discussed in this Note.

57. *See Chavez v. Arte Publico Press*, 59 F.3d 539, 541 n.2. (5th Cir. 1995), *vacated* by *University of Houston v. Chavez*, 517 U.S. 1184 (1996) (granting certiorari).

58. *See id.*

59. *See id.* at 541.

60. *See id.* at 546.

61. *See id.* See also *supra* note 10 for a brief description of the *Parden* doctrine.

62. *See University of Houston v. Chavez*, 517 U.S. 1184. (1996).

63. *See Chavez v. Arte Publico Press*, 157 F.3d 282 (5th Cir. 1998).

64. *See id.* at 285. The court also addressed a Lanham Act trademark claim brought by Chavez. While the Lanham Act issues are related to the issues in the copyright claim, the Lanham Act claim is outside the scope of this discussion and will not be examined in this Note.

65. *See id.*

sion, this Note will only focus on the Fourteenth Amendment justification for Eleventh Amendment abrogation.<sup>66</sup>

The court considered whether the Copyright Act's abrogation of immunity was authorized under section 5 of the Fourteenth Amendment.<sup>67</sup> The court began this analysis by asking whether the Arte Publico Press' breach of contract deprived Chavez of her constitutional property rights without due process, thus authorizing the use of section 5 to empower Congress' abrogation of the state's Eleventh Amendment immunity.<sup>68</sup> The first step examined whether "Chavez's breach of copyright action" was a property interest protected by the Fourteenth Amendment.<sup>69</sup>

The court began by conceding that "[c]opyrights are indeed a species of property."<sup>70</sup> However, it stated that "the extent to which they [copyrights] are protectable against the states raises troubling issues."<sup>71</sup> In apparent support of this, the court cited a footnote in *Seminole Tribe* noting that there has been an "absence of caselaw authority over the past 200 years dealing with enforcement of copyrights in federal courts against the states."<sup>72</sup> From this, the court derived the implication that "there has been no [such] claim against states in the federal courts."<sup>73</sup> The court then, however, cited a court of appeals case that held a copyright interest to be protectable under the Fourteenth Amendment.<sup>74</sup> In addition, the court analogized copyright property interests to property interests in trade secrets,<sup>75</sup> concluding that copyrights were "intangible property that, for some purposes at least, receives constitutional protection."<sup>76</sup>

66. In *Chavez II*, the Fifth Circuit held that *Seminole Tribe* invalidated the use of the *Parden* doctrine, declaring "that Congress cannot condition states' activities that are regulable by federal law upon their 'implied consent' to being sued in federal court." *Id.* at 287.

67. *See id.*

68. *See id.*

69. *See Chavez v. Arte Publico Press*, 157 F.3d 282, 287 (5th Cir. 1998).

70. *Id.* at 288.

71. *Id.*

72. *Id.* The footnote in question stated that "there is no established tradition in the lower federal courts of allowing enforcement of those federal statutes [copyright, bankruptcy and antitrust] against the States." *Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 73 n.16 (1996).

73. *Chavez*, 157 F.3d at 288.

74. *See id.* (citing *Roth v. Pritikin*, 710 F.2d 934, 939 (2d Cir. 1983)).

75. *See Chavez v. Arte Publico Press*, 157 F.3d 282, 288 (5th Cir. 1998).

76. *Id.* (citing *Ruckelshaus v. Monsanto*, 467 U.S. 986, 1003-04 (1984) (holding that trade secrets are property protected by the Fifth Amendment)). The court next proceeded into a discussion of a possible breach of contract claim that Chavez could assert in state court. *See id.* at 288-89. The relevance of this discussion to the issues at hand is dif-

The court next addressed whether “a copyright infringement claim is property protected by the Due Process Clause.”<sup>77</sup> It held that copyrights are not property protected by the Fourteenth Amendment.<sup>78</sup> The court’s reasoning centered on the fact that Congress created the property interest in a copyright by using its Article I powers.<sup>79</sup> The court expressed concern that if Congress is allowed to abrogate states’ immunity based on Article I powers, then “Congress could easily legislate “property” interests and then attempt to subject states to suit in federal court for the violation of such interests.”<sup>80</sup> This would, in essence, be a “direct end-run” around the *Seminole Tribe* holding.<sup>81</sup> The court concluded this analysis by stating that it could not distinguish between copyright property interests and any other type of Congressionally-created property interests that could be used to abrogate Eleventh Amendment immunity.<sup>82</sup> The court did note, however, that a district court had held that the provision of the Patent Act abrogating states’ Eleventh Amendment immunity was authorized by Section 5 of the Fourteenth Amendment, but did not attempt to distinguish this holding.<sup>83</sup>

The court concluded its opinion by describing several options that could provide effective protection of copyrights against state infringers. The court first cited the doctrine of *Ex Parte Young*,<sup>84</sup> which would allow a copyright holder to sue a state official in federal court for injunctive relief. It also restated that a suit on a copyright contract may be brought in state court. Additionally, the federal government could sue the state in federal court to enforce the copyright law. The court lastly noted that Congress could give concurrent jurisdiction to state courts to hear copyright claims.

---

difficult to discern. The court’s major point seems to be that the alternative claim of breach of contract was available to Chavez.

77. *Id.* at 289.

78. *See id.*

79. Congress relied on its 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” as stated in the Copyright and Patent Clause of the Constitution. *See* U.S. CONST. art. I, § 8, cl. 8.

80. *Chavez*, 157 F.3d at 289.

81. *Chavez v. Arte Publico Press*, 157 F.3d 282, 289 (5th Cir. 1998).

82. *See id.*

83. *See id.* at 290 (citing *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 948 F. Supp. 400 (D.N.J. 1996)). The court also cited dicta in another district court opinion that stated that section 5 empowered the abrogation of states’ immunity by the Patent Act. *See id.* (citing *Genentech, Inc. v. Regents of the Univ. of Cal.*, 939 F. Supp. 639, 643 (S.D. Ind. 1996)).

84. 209 U.S. 123 (1908). *See supra* note 7 for discussion of the *Ex Parte Young* doctrine.

In a dissent filed six months after the decision in *Chavez II*, Judge Wisdom argued that Congress does have authority under section 5 to abrogate state immunity.<sup>85</sup> He stated that “[i]t may be that this allows an end-run around *Seminole*, but this end-run is one grounded in the text of the Constitution and well-established precedent.”<sup>86</sup> This conclusion was based on the grounds that “[p]rotecting copyright and trademark holders from infringement by an arm of the state government is a legitimate legislative objective under section 5.”<sup>87</sup>

### III. ANALYSIS OF THE DECISION IN *CHAVEZ II*

In *Chavez II*, the Fifth Circuit held that a copyright infringement claim could not be brought against a state entity because the Eleventh Amendment provides immunity to the state. This holding was essentially based on the court’s determination that copyrights are not property interests protected by the Fourteenth Amendment. While the court’s rationale for its holding was somewhat unclear, the motivation for the holding is revealed by a careful study of the opinion.

The court recognized a potential constitutional problem with the placement of copyrights under the Fourteenth Amendment.<sup>88</sup> The holdings of *Seminole Tribe* and *City of Boerne* restrict the ability of Congress to determine the constitutional limitations on its own powers.<sup>89</sup> Viewed broadly, these two cases can be construed to prohibit Congress from defining in any way what is encompassed by the term “property” in the Fourteenth Amendment. Since the property rights in a grant of a copyright were established by Congress using its Article I, clause 8 power, the validity of including copyrights within the Fourteenth Amendment then becomes questionable.

The court erred by relying on this argument without pursuing an analysis of the property aspects of copyrights. The court revealed the true basis for its holding when it stated that

85. See *Chavez v. Arte Publico Press*, 157 F.3d 282, 289 (5th Cir. 1998) (Wisdom, J., dissenting).

86. *Id.* at 297-98.

87. *Id.* at 296.

88. This problem is also relevant to an analysis of the property interests of patents. See *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 148 F.3d 1343, 1351-52, 47 U.S.P.Q.2d 1161, 1166-68 (Fed. Cir. 1998), *cert. granted*, 67 U.S.L.W. 3259 (U.S. Jan. 8, 1999) (No. 98-531).

89. See *supra* Part I. See also *City of Boerne v. Flores*, 117 S. Ct. 2157, 2164 (1997); *Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 73 (1996).

[a] separate problem besets the contention that a copyright infringement claim is property protected by the Due Process Clause [the Fourteenth Amendment].... If it rests on the uniqueness of the property interest created by federal law, which is the source of Chavez's copyright, then it is a direct end-run around Seminole's holding that Article I powers may not be employed to avoid the Eleventh Amendment's limit on the federal judicial power.<sup>90</sup>

It appears that the real concern of the Fifth Circuit in *Chavez II* was the possibility that weakening the limitations on Congress could open the door to greater intrusion into the state's sovereign domain. This concern is revealed by several subsequent points made by the court. The court reasoned, "If a state's conduct impacting on a business always implicated the Fourteenth Amendment, Congress would have almost *unrestricted power* to subject states to suit through the exercise of its abrogation power."<sup>91</sup> Similarly, the court found that "[i]f the Fourteenth Amendment is held to apply so broadly as to justify Congress' enactment of the Bankruptcy Code as a requirement of due process, then the same argument *would justify every federal enforcement scheme* as a requirement of due process under the Fourteenth Amendment."<sup>92</sup> The court decided that it did not "perceive ... [any distinction] between her [Chavez's] copyright infringement claim and *any other tangible or intangible interests* that could give rise to Eleventh Amendment abrogation provisions in this way."<sup>93</sup> Finally, the court ended its analysis by stating that "*Seminole* condemns Congress' effort to force unconsenting states into federal court as the price of doing business regulated by the ... Copyright [Act]."<sup>94</sup> In response to these fears, the court adopted a broad interpretation of *Seminole Tribe*.

The concerns of the Fifth Circuit are legitimate and real. If Congress were allowed unfettered power to define property interests that are under the Fourteenth Amendment, Eleventh Amendment immunity would mean little as Congress could abrogate it with relative ease.<sup>95</sup> However, by al-

---

90. *Chavez v. Arte Publico Press*, 157 F.3d 282, 289 (5th Cir. 1998).

91. *Id.* at 289 (quoting *College Savings Bank v. Florida Prepaid Postsecondary Educ. Bd.*, 131 F.3d 353, 361 (3rd Cir.)) (emphasis added).

92. *Id.* at 290 (quoting *In re Creative Goldsmiths*, 119 F.3d 1140, 1146-47 (4th Cir. 1997)) (emphasis added).

93. *Id.* at 289 (emphasis added).

94. *Id.* at 291.

95. The courts have held a wide variety of interests to be property rights protectable by the Fourteenth or Fifth Amendments. *See, e.g.*, *Cleveland Bd. of Educ. v. Lauderhill*, 470 U.S. 532, 538 (1985) (right to a governmental job if only terminable with cause); *Berg v. Shearer*, 755 F.2d 1343, 1345 (8th Cir. 1985) (unemployment benefits); *Myers v.*

lowing its policy considerations to override actual analysis of the property interest of copyrights, the court effectively withdrew constitutional protection from a well-established property right. In addition to diminishing copyright holders' rights, this result adds inconsistency and confusion to Fourteenth Amendment jurisprudence. An analysis of the property aspects of copyright justifies the protection of copyrights by the Fourteenth Amendment, yet maintains barriers against subjecting states to the "unrestricted power" of the federal government.

## A. Analysis of a Copyright's Property Aspects

### 1. *Copyrights as property*

Copyrights possess many characteristics that are similar to "real" property.<sup>96</sup> Copyrights can be owned<sup>97</sup> and sold.<sup>98</sup> Copyrights have economic value that can be realized by leasing and renting.<sup>99</sup> The interests of a copyright may be divided and transferred in part and are heritable.<sup>100</sup> Most importantly, the holder of a copyright has the legal power to exclude others.<sup>101</sup> While the copyright holder cannot prohibit access to any particular physical copy of her work, she can prevent others from copying<sup>102</sup> or performing<sup>103</sup> the works, and from doing a number of other actions affecting the expression of her ideas.<sup>104</sup> In addition, there is widespread legal

---

City of Alcoa, 752 F.2d 196, 198 (6th Cir. 1985) (right to continued electric service if state law only permits the electricity to be cut off with cause); *Holbrook v. Pitt*, 643 F.2d 1261, 1278-79 (7th Cir. 1984) (subsidized housing payments); *Reed v. Village of Shorewood*, 704 F.2d 943, 948 (7th Cir. 1983) (renewal of liquor license); *Stevens v. Hunt*, 646 F.2d 1168, 1169 (6th Cir. 1981) (law student has a constitutional property interest in continuing education); *Buxton v. Lowell*, 559 F. Supp. 979, 993-94 (S.D. Ind. 1983) (right to use the designation Ph.D.); *Hixon v. Durbin*, 560 F. Supp. 654 (E.D. Pa. 1983) (contract for counseling services creates property).

96. For an extensive discussion of the property interests in copyrights see Timothy J. Brennan, *Copyright, Property, and the Right to Deny*, 68 CHI.-KENT L. REV. 675 (1993).

97. See 17 U.S.C. § 201(a) (1994).

98. See *id.* § 106(3).

99. See *id.*

100. See *id.* § 201(d).

101. The right to exclude has been termed one of the most important property rights. See *Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979) (referring to the right to exclude others as "one of the most essential sticks in the bundle of rights that are commonly characterized as property.").

102. See 17 U.S.C. § 106(1).

103. See *id.* § 106(4).

104. Other exclusionary rights provided to copyright holders include the right to derivative works, the right to distribute, and the right to display. See 17 U.S.C. §§ 106(2), 106(3), 106(5).

recognition of copyrights as a property interest.<sup>105</sup> For example, many states refer to copyrights as property subject to depletion.<sup>106</sup> Finally, the reliance and expectation interests that have developed around the copyright system need to be considered.<sup>107</sup> Only the rare author would devote time and energy to the creation of a work if she did not expect any legal protection for her investment.<sup>108</sup>

In *Chavez II*, the Fifth Circuit conceded that copyrights are property.<sup>109</sup> However, the court questioned whether copyrights qualify as constitutionally protected property.<sup>110</sup> The Fifth Circuit's decision, then, turns on the distinction between property in general and constitutional property.<sup>111</sup> In fact, the court made an even finer distinction by stating that "[b]y analogy [to trade secrets], copyrights constitute intangible property that, for some purposes at least, receives constitutional protection."<sup>112</sup> The court, however, did not explain exactly what delineated intangible property that receives constitutional protection from intangible property that does not, and this is one of the key shortcomings of the opinion.

## 2. *Copyrights as constitutional property*

The critical issue of *Chavez II* is what, precisely, qualifies an interest as constitutional, or more specifically Fourteenth Amendment, property?

105. In Judge Wisdom's dissent in *Chavez II*, he declared that "[o]ver the course of many years, and in many different contexts, copyrights and trademarks have been treated as a form of 'property.'" *Chavez v. Arte Publico Press*, 157 F.3d 282, 296 (5th Cir. 1998) (Wisdom, J., dissenting).

106. See *infra* note 134. Copyrights have also been designated property in state courts. See *infra* note 135 and accompanying text.

107. See generally D. Benjamin Barros, Note, *Defining "Property" in the Just Compensation Clause*, 63 FORDHAM L. REV. 1853 (1995) (discussing but rejecting the use of expectation as a basis for determining constitutional property).

108. Similarly, publishers and movie studios are likely to be quite reluctant to invest in advertising and distribution of their works with copyright protection because they are easily copied and produced.

109. See *Chavez*, 157 F.3d at 288.

110. See *id.*

111. Because the Fifth Circuit concluded that copyrights are not constitutionally protected property interests, it did not need to pursue a takings analysis any further. If the court had determined that copyrights did qualify for Fourteenth Amendment protection, it would have had to analyze whether the state's publishing company had "taken" the copyright property without just compensation or due process. See generally John T. Cross, *Intellectual Property and the Eleventh Amendment after Seminole Tribe*, 47 DEPAUL L. REV. 519 (1998) (providing a detailed and well-thought out consideration of the effect of *Seminole Tribe* on intellectual property rights). This issue is outside the scope of this Note.

112. *Chavez v. Arte Publico Press*, 157 F.3d 282, 288 (5th Cir. 1998).

Two lines of analysis can be followed in addressing this question. First, a review of the intent behind the Fourteenth Amendment supports that the word “property” extends to copyright. In addition, copyrights are shown to be a well-established property interest that Congress merely recognized in forming a federal system of copyright protection.

a) Copyrights fall within the meaning of “property” under the Fourteenth Amendment

The Fourteenth Amendment can be viewed as a voluntary diminution of power and sovereignty by the states,<sup>113</sup> specifically a diminution of their sovereignty with respect to life, liberty and property interests.<sup>114</sup> However, the amendment merely refers to “property” without qualification or definition. This makes it important to determine the intent for the meaning of “property” as used in the amendment. In contrast to typical legislation, constitutional amendments are ratified by the states<sup>115</sup> and presumably reflect the popular will of those states. Therefore, it is necessary to examine whether property was generally thought to include copyrights at the time the Fourteenth Amendment was ratified. The Federal Circuit in *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*<sup>116</sup> utilized precisely this type of reasoning to reject a *Seminole Tribe*-type argument when it stated, “Unlike many forms of property only recently recognized, patents were certainly considered property at the time of the adoption of the Fourteenth Amendment in 1868.”<sup>117</sup>

Even at the time of the ratification of the Fourteenth Amendment, copyrights were a long-established property interest with origins that dated back to England and the Statute of Anne in 1710.<sup>118</sup> As discussed below, copyright laws were established in the United States even prior to the Constitution.<sup>119</sup> Not only are copyrights described in the Constitution, the Copyright Act was one of the first pieces of legislation passed by the Con-

113. See *Fitzpatrick v. Bitzer*, 427 U.S. 445, 453-55 (1976). The limitation of Eleventh Amendment immunity by the Fourteenth Amendment was a critical determination by the Court in holding that the Eleventh Amendment did not bar a suit under the Civil Rights Act against the state of Connecticut. See *id.* at 456.

114. See U.S. CONST. amend. XIV, § 1.

115. Amendments to the federal Constitution must be ratified by either the state legislatures or state Constitutional conventions of three-fourths of the states. See U.S. CONST. art. V.

116. 148 F.3d 1343, 47 U.S.P.Q.2d 1161 (Fed. Cir. 1998), *cert. granted*, 67 U.S.L.W. 3259 (U.S. Jan. 8, 1999) (No. 98-531).

117. *Id.* at 1352.

118. See BRUCE W. BUGBEE, *THE GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW* 53-54 (1967).

119. See *infra* note 123 and accompanying text.

gress.<sup>120</sup> In the judicial system, copyrights were well-established as property interests by 1868, as demonstrated by the extensive discussion of copyright property interests in *Wheaton v. Peters*,<sup>121</sup> an 1834 Supreme Court case. The fact that copyrights were within the contemplation of the general public at the time the Fourteenth Amendment was ratified is supported by the presence of articles in popular magazines that discussed the property aspects of copyrights.<sup>122</sup> These considerations lend strong support to the contention that the term “property” was intended to include such an established property interest as copyrights.

b) Copyrights are not a ‘mere’ federal creation

Copyrights are more properly seen as a recognized property interest for which a federal system of protection was established than a mere “creation” of Congress. Copyrights were originally products of state law. Eleven of the original thirteen states established state copyright statutes prior to the Constitution.<sup>123</sup> Many of these statutes explicitly recognized copyrights as property interests.<sup>124</sup> However, when a federal system of copyrights was established by the Copyright Act of 1790, these state laws were effectively preempted, and the states eventually repealed these laws.<sup>125</sup> Justice Thompson of the Supreme Court commented on the basis for the copyright interest in his dissent in *Wheaton*.<sup>126</sup> He stated that “[a]ll laws on this subject purport to be made securing to authors and proprietors such copyright. They presuppose the existence of a right, which is to be secured, and not a right originally created by the act.”<sup>127</sup>

120. See BUGBEE, *supra* note 118, at 125-38 (discussing the enactment of the Copyright Act in detail).

121. 33 U.S. (8 Pet.) 591 (1834).

122. See, e.g., *Copyright Property*, ATHENAEUM, #1883, Nov. 28, 1863 at 720-21; *Who Owns an Author's Ideas?*, 4 NATION 520 (1867); *Ideal Property*, 22 ATLANTIC MONTHLY 656-67 (1868); *Literary Piracy*, 1 AM. LITERARY GAZETTE 98 (1863); *Literary pirates*, ATHENAEUM, #2042, Dec. 1866, p. 840-41; *Violations of Literary Property*, CONTIN. MONTHLY, v.6, Sept. 1864, p. 336-55; S. Irenaeus Prime *The Right of Copyright; a Concise Statement of the Question*, 11 PUTNAM'S MAG. 635-36 (1868).

123. See BUGBEE, *supra* note 118 at 108-22. See also PHILLIP WITTENBERG, *THE PROTECTION OF LITERARY PROPERTY* 32-33 (1978).

124. See BUGBEE, *supra* note 118, at 108-22 (explaining that Maryland enacted “an [a]ct respecting literary property,” New Hampshire stipulated that literary works were the “sole property” of the author, South Carolina protected “the property in every such book, North Carolina passed “[a]n [a]ct for securing Literary Property,” and Virginia secured “the authors of literary works an exclusive property therein”).

125. See *id.* at 124. Connecticut did not repeal its copyright statute until 1812. See *id.* at 124.

126. See *Wheaton*, 33 U.S. at 685.

127. *Id.* at 685.

The idea that the Copyright Act merely secures the recognized property interest already inherent in a copyright fulfills the Supreme Court's interpretation of what constitutes a protected property interest.<sup>128</sup> The term "property" in the Fourteenth Amendment has expanded over time.<sup>129</sup> With the growth of the modern regulatory and welfare state, many intangible interests are now protected by the Fourteenth Amendment.<sup>130</sup> Many of these interests bear far less resemblance to traditional conceptions of property than do copyrights. The Supreme Court attempted to define the requirements for these interests to be within the Fourteenth Amendment.<sup>131</sup> The major criterion seems to be that property "interests attain this constitutional status by virtue of the fact that they have been initially recognized and protected by state law"<sup>132</sup> or some other source independent of the Constitution.<sup>133</sup>

Copyrights can be analyzed by these requirements. As discussed above, copyrights are actually a creation of state and common law. Although the federal copyright system preempts these laws, states do recognize and refer to the property interest in a copyright in statutes<sup>134</sup> and state court holdings.<sup>135</sup> In addition, a common law copyright (literary property) co-exists with the statutory copyright, although the expanding copyright regime has substantially reduced the scope and importance of this protec-

---

128. See Gregory Gelfand, 'Taking' Informational Property Through Discovery, 66 WASH. U. L.Q. 703, 712-24 (1988) (arguing that a finding of constitutional property "results from constitutional interpretation").

129. Judge Posner discussed the evolving nature of Fourteenth Amendment property in *Patterson v. Portch*, 853 F.2d 1399, 1404-05 (1988). See generally Molly S. McUsic, *The Ghost of Lochner: Modern Takings Doctrine and its Impact on Economic Legislation*, 76 B.U. L. REV. 605 (1996).

130. See *supra* note 95.

131. See *Paul v. Davis*, 424 U.S. 693, 710-11 (1976); *Board of Regents of State Colleges v. Roth*, 408 U.S. 564, 577-78 (1972); *Perry v. Sinderman*, 408 U.S. 593, 601-02 (1972).

132. *Paul*, 424 U.S. at 710. See, e.g., *Cleveland Bd. of Educ. v. Lauderhill*, 470 U.S. 532, 538 (1985) (holding that an Ohio statute creating a civil service job that was terminable only with cause created a protectable property interest).

133. See *Board of Regents of State Colleges*, 408 U.S. at 577.

134. Some states refer to copyrights as property subject to depletion. See, e.g., CAL. CIV. CODE § 731.12 (West 1998); 20 PA. STAT. ANN. § 8103 (West 1999); TEX. PROP. CODE ANN. § 113.109 (West 1998). See also N.Y. TAX LAW § 2055(d)(4) (McKinney 1999) (stating that "works of art and their copyrights are to be treated as separate properties in certain cases").

135. See, e.g., *In re Marriage of Worth*, 195 Cal. App. 3d 768 (1987) (holding that copyrights are community property); *Simmons v. Sikes*, 56 S.W.2d 193, 196 (Tex. 1932) (holding that "a copyright is enjoyable as a legal estate, as other movable property").

tion.<sup>136</sup> The independent sources of recognition of copyright as a property interest should satisfy the Supreme Court's definition of Fourteenth Amendment property.

### 3. *The Fifth Circuit's rejection of a property analysis*

Despite these arguments for designating copyrights as constitutional property, the court in *Chavez II* instead relied on a broad reading of *Seminole Tribe* to justify a policy-driven determination that reached the opposite conclusion. The court's reasoning, however, yields several objectionable results. First, it relies on an asymmetric logic that confers the power on Congress to remove constitutional protection from an established property interest by legislating under its Article I powers, but not the power to create a constitutional property interest. It is much more consistent to find that Congress neither can confer nor remove the constitutionality of a property interest through its actions.<sup>137</sup> Second, the Fifth Circuit's reasoning creates a distinction between property protected under the Fourteenth Amendment and property protected under the Fifth Amendment, a division unsupported in the caselaw.<sup>138</sup> Indeed, it is well-accepted that the Fourteenth Amendment extends the protections of the Fifth Amendment against the states.<sup>139</sup> This fractures constitutional property jurisprudence, creating inconsistency and confusion. Finally, and most seriously, it produces an injustice in that copyright holders and, if the logic of the decision is extended to patents, patent holders will be barred from protecting their rights against infringing states. It does not seem appropriate for a property interest to be denied constitutional protection merely because Congress chose to erect a national system of protection for that interest. Rather, con-

---

136. See *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591 (1834), for an extensive discussion of common law copyright, statutory copyright and their interrelationship.

137. By using Congress' decision to federalize copyrights as the basis for removing Fourteenth Amendment protection from copyrights, the Fifth Circuit is essentially relying on Congress to "determine what constitutes a constitutional violation." *City of Boerne v. Flores*, 117 S. Ct. 2157, 2164 (1997). This, of course, directly contradicts the teachings of *City of Boerne*.

138. Because *Seminole Tribe* addressed the issue of state immunity, it should not affect federal takings law based on the Fifth Amendment. As this eliminates the major objection of the court, the Fifth Circuit would presumably find copyrights to be protected under the Fifth Amendment.

139. See *Chicago, B & Q. R. Co. v. City of Chicago*, 166 U.S. 226, 235 (1897) (holding that "[d]ue process of law, as applied to judicial proceedings instituted for the taking of private property for public use means, therefore, such process as recognizes the right of the owner to be compensated if his property be wrested from him and transferred to the public"). See also *Dolan v. City of Tigard*, 512 U.S. 374, 383 (1994).

stitutional protection should be based on the merits of the property interest itself.

#### IV. CONCLUSION

The decision by the Fifth Circuit Court of Appeals in *Chavez II* produces a significant exception to the property protection provided by the copyright regime to owners of copyrightable material. By so doing, the court weakened the property aspects of copyrights.<sup>140</sup> Careful examination of the reasoning of the court demonstrates that the court subordinated the analysis of the property interests of copyrights, focusing instead on the preservation of state sovereignty from federal intrusion. An analysis of the statutory language of the Fourteenth Amendment and of the basis for copyrights leads to the conclusion that copyrights rise to the level of constitutional property. In addition, the use of this analysis maintains sufficient barriers to congressional creation of new "property" interests and preserves the state sovereignty about which the court seems to be so concerned. In this way, the rights and interests of the copyright holder can be maintained without emaciating the Eleventh Amendment.

---

140. This is not necessarily an insignificant practical problem as many universities have publishing houses. The problem is potentially very significant when patents are considered due to the extensive number of research labs associated with universities.



## FELTNER V. COLUMBIA PICTURES TELEVISION, INC.

By Karen M. Calloway

As intellectual property law expands into the next millennium, the procedure for awarding statutory copyright damages has emerged from a confrontation with roots in both 18th Century English law and 20th Century American television re-runs. In *Feltner v. Columbia Pictures Television, Inc.*<sup>1</sup>, the United States Supreme Court held that while the federal Copyright Act of 1976 does not grant the right to a jury trial on the issue of statutory copyright damages, the Seventh Amendment does provide such a right. This holding resolved a split among Federal Courts of Appeal, where the majority of circuits had held the statutory damages provided in 17 U.S.C. section 504(c) may be awarded without a jury trial.<sup>2</sup>

Statutory damages arose as a tool for plaintiffs to protect intellectual property that, although difficult to value, was entitled to protection by the Copyright Act. While policy considerations support judicial determination of these damages, Seventh Amendment jurisprudence compelled the Court's decision in *Feltner*. Although the decision introduces doubt about both the administration of section 504(c) and its ability to achieve policy goals, the provision remains largely a plaintiff's tool.

### I. BACKGROUND

The *Feltner* case posed the question of whether statutory copyright damages are best characterized as legal or equitable in nature. This question had relevance because the language of the Seventh Amendment

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. 118 S.Ct. 1279, 1288 (1998).

2. Appeal Courts holding that statutory damages may be awarded without a jury trial: *Columbia Pictures Television v. Krypton Broadcasting, Inc.*, 106 F.3d 284, 293 (9th Cir. 1997); *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829, 852-53 (11th Cir. 1990); *Oboler v. Goldin*, 714 F.2d 211, 313 (2d. Cir. 1983); *Twentieth Century Music Corp. v. Frith*, 645 F.2d 6, 7 (5th Cir. 1981); *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1177 (9th Cir. 1977). Appeals courts holding that the Seventh Amendment provides a right to a jury trial: *Cass County Music Co. v. C.H.L.R., Inc.*, 88 F.3d 635, 644 (8th Cir. 1996); *Video Views, Inc. v. Studio 21, Ltd.*, 925 F.2d 1010, 1014-16 (7th Cir. 1991); *Gnossos Music v. Mitken, Inc.*, 653 F.2d 117, 121 (4th Cir. 1981).

clearly provides a right to a jury trial for actions that are legal in nature.<sup>3</sup> The Supreme Court has ruled that the Seventh Amendment “preserves” the right to trial by jury as it existed in 1791, as well as extending to modern causes of action.<sup>4</sup> Consequently, the right to a jury trial will attach to any statutory provision if the provision involves rights and remedies comparable to those heard in 18th Century English courts of law.<sup>5</sup> This comparative analysis overrides any policy concerns that might have driven enactment of the statute as an equitable or legal issue. Thus, if the analysis persuades the court that a statutory provision has a legal nature, then the court must determine whether the statute is susceptible to a legal interpretation.<sup>6</sup> Where such an interpretation is not reasonably possible, the court holds the statutory provision unconstitutional.<sup>7</sup>

### A. Lower Court Decisions

Turning to the *Feltner* case, the facts center around the television broadcasting industry. C. Elvin Feltner owns Krypton International Corporation, which in turn owns three television stations located in the southeast.<sup>8</sup> Columbia Pictures Television (Columbia) licensed several television programs to these stations including “Who’s the Boss,” “Silver Spoons,” “Hart to Hart,” and “T.J. Hooker.”<sup>9</sup> The stations became delinquent in paying royalties, and Columbia tried to terminate the licensing agreements.<sup>10</sup> The stations continued to broadcast the programs, and Columbia filed suit in the United States District Court for the Central District of California.<sup>11</sup>

---

3. U.S. CONST. amend. VII. A right to a jury trial does not exist for claims that assert an equitable right. *See Curtis v. Loether*, 415 U.S. 189, 193 (1974).

4. *See id.* at 193-95.

5. *See id.* at 194-96. The court determines the legal nature of a provision by first considering pre-merger custom with respect to the issue, and then evaluates whether the remedy provided is best characterized as legal or equitable. *See infra* notes 49-52 and accompanying text.

6. *See Curtis*, 415 U.S. at 192, n. 6.

7. *See United States ex rel. Atty. Gen. v. Delaware & Hudson Co.*, 213 U.S. 366, 407-08 (1909).

8. *See Columbia Pictures Television v. Krypton Broadcasting, Inc.*, 106 F.3d 284, 288 (9th Cir. 1997). Krypton International and its subsidiaries (Krypton Broadcasting, Inc., Krypton Broadcasting of Birmingham, Inc., Krypton Broadcasting Of Jacksonville, Inc., and Krypton Broadcasting of Fort Pierce, Inc.) constitute the “Krypton defendants.” *Id.*

9. *See id.*

10. *See id.* at 290-91.

11. *See id.* at 288. Columbia initially named Krypton, the television stations, various Krypton subsidiaries, and officers of Krypton as defendants. During litigation, Columbia dropped all causes of action except the copyright claims against Feltner. Columbia pur-

The district court found Feltner vicariously and contributorily liable for willful copyright infringement on the part of the Krypton defendants, and granted summary judgement in favor of Columbia on liability.<sup>12</sup> Columbia elected to recover statutory damages under section 504(c) of the Copyright Act.<sup>13</sup> The district court denied Feltner's request for a jury trial on the issue of statutory damages,<sup>14</sup> and, after a two day bench trial, the court awarded Columbia \$8.8 million dollars in statutory damages, along with over \$750,000 in attorneys fees and costs.<sup>15</sup>

On appeal to the Ninth Circuit, Feltner argued that the district court erred in denying his request for a jury trial on the issue of statutory damages.<sup>16</sup> Specifically, Feltner claimed that the district court both misinterpreted section 504(c), and deprived him of his Seventh Amendment right to a jury trial.<sup>17</sup> Writing for the court, Judge Brunetti rejected both of these arguments.<sup>18</sup> The court affirmed an earlier Ninth Circuit decision that placed determination of statutory damages for copyright infringement in

---

sued several means of relief under the Copyright Act of 1976 (Copyright Act): 17 U.S.C. §§ 502 (1996) (permanent injunction), 503 (1996) (impoundment of all copies of the program), 504 (actual damages or statutory damages), and 505 (1996) (costs and attorney's fees). *See id.*

12. *See id.*

13. *See id.* The Copyright Act of 1976 states (emphasis added):

[T]he copyright owner may elect, at any time before final judgement is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work ...in a sum of not less than \$500 or more than \$20,000 *as the court considers just*. For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.

[W]here the copyright owner sustains the burden of proving...that infringement was committed willfully, *the court in its discretion* may increase the award...to a sum of not more than \$100,000. ...where the infringer sustains the burden of proving...*the court at its discretion* may reduce the award...to a sum of not less than \$200.

17 U.S.C. § 504(c) (1996).

14. *See Columbia Pictures Television v. Krypton Broadcasting, Inc.*, 106 F.3d. 284, 292 (9th Cir. 1997).

15. *See id.* at 288. Federal District Judge Edward Rafeedie fined Feltner \$20,000 for each of 440 television episodes broadcast after Columbia terminated the license. *See id.* Under 17 U.S.C. § 504(c), Feltner could have been liable for \$500 up to \$100,000 per willfully infringed copyright violation. *See supra* note 13.

16. *See Columbia Pictures Television*, 106 F.3d. at 292. Feltner's appeal also unsuccessfully challenged several of the district court's rulings on subject matter jurisdiction, venue, summary judgement, and willfulness. *See id.*

17. *See id.*

18. *See id.* The three judge panel consisted of Jerome Farris, Melvin Brunetti and Alex Kozinski.

the hands of the court, not the jury.<sup>19</sup> Although the earlier case interpreted the 1909 Copyright Act, the court declined to distinguish that case from the present action.<sup>20</sup>

Moving to the issue of whether Feltner had been denied a Seventh Amendment right to jury trial, the court first acknowledged that a difference of opinion existed among federal appeals courts as to whether section 504(c) damages can be awarded without a jury trial.<sup>21</sup> Judge Brunetti then simply stated that the court agreed with the cases finding such damages to be outside the realm of the Seventh Amendment because they are equitable in nature.<sup>22</sup>

In sum, the court affirmed the district court's decision in all respects except for the award of attorney's fees to Columbia.<sup>23</sup> Feltner appealed, and the Supreme Court of the United States granted Feltner's petition for writ of *certiorari* to decide whether a right to jury trial exists when a copyright owner elects to recover statutory damages.

## B. The Supreme Court Decision

Writing for a unanimous court, Justice Clarence Thomas reviewed both the Copyright Act and common law precedent for awarding monetary relief in copyright actions.<sup>24</sup> To begin the analysis, the Court looked to discern whether Congress intended to grant a right to jury trial under sec-

---

19. *See id.* at 292-93 (citing *Sid & Marty Krofft Television v. McDonald's Corp.*, 562 F.2d 1157, 1177 (1977)).

20. *See Columbia Pictures Television v. Krypton Broadcasting, Inc.*, 106 F.3d. 284, 293 (9th Cir. 1997). Feltner argued that the case did not control because 1909 Act allowed the court to elect statutory damages, while the 1976 Act allowed the plaintiff to unilaterally elect statutory damages. *See id.* In response, the court reasoned that the phrase "as the court considers just" from the 1976 Copyright Act does not differ from the language "as to the court shall appear just" in § 101(b) of the 1909 Act. *Id.* The court underscored that *Krofft* governed the present case by noting "[i]f Congress intended to overrule *Krofft*...it would have altered this language." *Id.* (referring to *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157 (9th Cir. 1977)).

21. *See id.* at 293.

22. *See id.* The court also cited the Nimmer treatise as listing allocation of the decision to the judge as the "better view." MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.04[C] (1998).

23. *See Columbia Pictures Television*, 106 F.3d. at 292, 296. The court remanded the fee award for the lower court to provide enough detail to explain the amount of the fee. *See id.*

24. *See Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1281 (1998). Justice Scalia filed an opinion concurring in the judgment. *See id.*

tion 504(c).<sup>25</sup> An examination of the plain language of section 504(c) found no mention of juries within the provision.<sup>26</sup> The Court reasoned that the use of the word “court” could not be interpreted to mean jury because section 504(c) associated the word “court” with the use of discretion.<sup>27</sup> Similarly, other remedies provided for in the Act associated the word “court” with traditionally equitable remedies.<sup>28</sup> In contrast, provisions in the Act providing traditional legal relief did not use the term “court.”<sup>29</sup>

The Court also considered the respondent’s contention that case law provided a basis to grant a right to a jury trial.<sup>30</sup> Specifically, the respondent relied on case law holding that a statutory right to a jury trial can exist even when the language of the statute appears to authorize an equitable remedy.<sup>31</sup> The Court distinguished the statute examined in the prior case from section 504(c) on two grounds.<sup>32</sup> First, the statute in question made explicit reference to another statute that had been interpreted to grant a right to jury trial.<sup>33</sup> Second, the statute used the word “legal,” which denotes legal relief or rights.<sup>34</sup>

Finally, the Court identified two additional factors they held consistent with an inability to interpret section 504(c) as providing for a right to jury trial.<sup>35</sup> First, the Court noted the split on this issue among the Federal Courts of Appeal.<sup>36</sup> Second, the Court found it unlikely that Congress intended that a jury be reconvened to make a determination of statutory damages after a plaintiff reviewed the jury verdict on actual damages.<sup>37</sup> In

---

25. See *id.* at 1283. The Court must evaluate whether “a construction of the statute is fairly possible by which the [constitutional] question may be avoided.” *Curtis v. Loether*, 415 U.S. 189, 192, n.6 (1974).

26. See *Feltner*, 118 S.Ct. at 1283.

27. See *id.* (citing *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 232 (1952) (“judicial discretion” necessary for “court’s choice between a computed measure of damage and that imputed by” the Copyright Act of 1909)).

28. See *id.* at 1283-84. See 17 U.S.C. §§ 502 (injunctions), 503 (impoundment and destruction), 505 (award of attorney’s fees) (1996).

29. See *Feltner*, 118 S.Ct. at 1284. See 17 U.S.C. § 504(b) (actual damages and profits); *NIMMER & NIMMER*, *supra* note 22, § 12.10[B].

30. See *Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1284 (1998).

31. See *id.* (reviewing *Lorillard v. Pons*, 434 U.S. 575, 576 (1978) which involved an action for unpaid wages under the Age Discrimination Act of 1967, 29 U.S.C. § 621 *et seq.*) (1996). The cited provision of the Act authorizes the court to “...grant such legal or equitable relief as may be appropriate.” 29 U.S.C. § 626(b) (1996).

32. See *Feltner*, 118 S.Ct. at 1284.

33. See *id.*

34. See *id.*

35. See *id.* at 1283, 1284.

36. See *Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1283 (1998).

37. See *id.* at 1284; see *supra* note 13.

sum, the Court held that section 504(c) cannot be read to provide a right to jury trial for statutory damages.<sup>38</sup>

Concurring in the judgement, Justice Antonin Scalia argued that section 504(c) could be read to authorize jury determination for statutory damages.<sup>39</sup> Justice Scalia explained that the word “court” can expansively include both judge and jury.<sup>40</sup> Recognizing that the text of section 504(c) does not provide clear evidence that “court” is used this way, Justice Scalia reasoned that an absence of such an indication does not “compel” a finding that the broad definition is constitutionally impossible.<sup>41</sup>

In addition, Justice Scalia investigated the legislative history of section 504(c).<sup>42</sup> He declared section 504(c) a “direct descendant” of a remedy in an 1856 copyright statute for unauthorized performance of dramatic compositions.<sup>43</sup> This statute provided a statutory floor for damages to range “as to the court ... shall appear to be just....”<sup>44</sup> Justice Scalia concluded that “[b]ecause such actions were historically tried at law, it seem[ed] clear that this original statute permitted juries to assess such damages.”<sup>45</sup> Furthermore, because subsequent revisions of the Copyright Act preserved the phrase “as to the court ... shall appear to be just,” Scalia argued that no reason existed to “insist” upon a different reading that would not preserve the right to jury trial.<sup>46</sup> Justice Scalia further explained that this interpretation did not have to be the preferable construction to avoid the constitutional question, it merely had to be reasonable.<sup>47</sup>

However, the majority did reach the constitutional question. The Court first observed that the Seventh Amendment grants a right to a jury trial “[i]n Suits at common law.”<sup>48</sup> Case law has defined “suits at common law” to include both common law causes of action, and actions analogous to those causes of action “ordinarily decided in English law courts in the

---

38. *See id.*

39. *See id.* at 1288.

40. *See id.* (citing BLACK'S LAW DICTIONARY 318 (5th ed. 1979)).

41. *See id.* at 1289.

42. *See Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1289 (1998).

43. *See id.* (citing the Act of Aug. 18, 1856, ch. 169, 11 STAT. 138, 139 (1856)).

44. *Id.*

45. *Id.*

46. *Id.* at 1289.

47. *See id.* at 1289-90. Justice Scalia reviewed the doctrine of constitutional doubt, which allows adoption of a statutory interpretation that is reasonable, but not necessarily the best, in order to avoid reaching the conclusion that a statute is unconstitutional. *See id.* (citing the Scalia dissent in *Almendarez-Torres v. United States*, 118 S.Ct. 1219, 1243-44 (1998)).

48. *See Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1284 (1998).

late 18th Century, as opposed to those heard by courts of equity or admiralty."<sup>49</sup> The Court used a two-prong test to determine whether the statutory copyright damages remedy fell within the realm of a suit at common law.<sup>50</sup> The first prong compares the statutory action with 18th Century actions brought in English courts prior to the merger of the courts of equity and law.<sup>51</sup> The second prong evaluates whether the remedy has an equitable or legal nature.<sup>52</sup>

Justice Thomas first established that actions granting monetary relief for copyright infringement have been available in England since the 17th century, and in the United States since before the adoption of the Seventh Amendment.<sup>53</sup> Thomas reviewed English case law that supported the contention that these suits were tried in courts of law.<sup>54</sup> Similarly, the Court recognized that copyright statutes adopted by twelve of the original thirteen United States provided a cause of action for damages, but did not refer to equity jurisdiction.<sup>55</sup> Instead, the Court found sufficient evidence to suggest that these actions were tried before a jury.<sup>56</sup> In addition, three of the statutes provided for an award from a statutory range.<sup>57</sup> No direct evidence of practice under these statutes was cited, and the Court found no reason to believe that these damages were not also recovered as an action at law.<sup>58</sup> Case law and statutory language under the 1790 and 1831 versions of the federal U.S. Copyright Act also supported a legal remedy.<sup>59</sup> Thus, the Court concluded that precedent established the practice of trying actions for copyright damages before juries.<sup>60</sup>

---

49. *See id.* (quoting *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 42 (1989), which cited *Curtis v. Loether*, 415 U.S. 189, 193 (1974)).

50. *See id.*

51. *See id.*

52. *See id.*

53. *See id.* at 1284-85.

54. *See Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1284-85 (1998).

55. *See id.* at 1285.

56. *See id.* at 1285-86. The Court cited express language in three of the statutes (*i.e.* Connecticut, Georgia, and New York). *See id.* The Court relied on the traditional interpretation of language providing that damages be recovered in an "action of debt" as meaning a legal remedy (*i.e.* statutes from Massachusetts, New Hampshire, Rhode Island, and South Carolina). *Id.* The Court also cited case law to support the legal nature of statutory damages. *See id.* (citing *Hudson v. Patten*, 1 Root 133 (Conn.Super. 1789)).

57. *See id.* at 1286 (referring to the Massachusetts, New Hampshire and Rhode Island state statutes).

58. *See id.*

59. *See id.*

60. *See Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1288 (1998).

Columbia did not dispute this historical evidence, and did not argue that an analogy could be drawn between section 504(c) damages and any historical cause of action for monetary relief recognized by the Court as equitable.<sup>61</sup> Instead, the opinion indicates that Columbia focused on the second part of the Seventh Amendment analysis: the nature of the remedy sought.<sup>62</sup> The Court explained that it recognized a "general rule" that monetary relief is legal, and that statutory damages can serve traditionally legal purposes.<sup>63</sup> Cited case law also suggested that monetary relief does not become equitable because it is discretionary.<sup>64</sup> Finally, the Court again observed that juries consistently determined the amount of copyright damages under both the 1790 and 1831 Acts.<sup>65</sup>

To counter, Columbia asserted that under *Tull v. United States*<sup>66</sup>, Congress could constitutionally authorize trial judges to assess the amount of statutory penalties, even though juries had previously assessed the amount.<sup>67</sup> In addition to positing that this portion of the *Tull* opinion might be *dicta*, the Court distinguished *Tull* on two grounds: 1) unlike the present action, in *Tull* no evidence was presented to the court suggesting a historical basis for jury determination of civil penalties paid to the government, and 2) awarding of such penalties could be viewed as analogous to the role of sentencing in criminal actions, a traditional role for judges.<sup>68</sup> Thus, analysis under both prongs of the Seventh Amendment test persuaded the Court to hold that a party has a right to have a jury on all issues

---

61. *See id.* at 1286.

62. *See id.* at 1286-87.

63. *See id.* at 1287 (citing *Teamsters v. Terry*, 494 U.S. 558, 570 (1990) (recognizing that monetary relief is generally legal); *see also id.* (citing *Tull v. United States*, 481 U.S. 412, 422 (1987) (holding that remedies intended to punish were issued by courts of law, not equity)).

64. *See id.* (citing *Tull v. United States*, 481 U.S. 412, 422 n.7 (1987), *Coryell v. Colbaugh*, 1 N.J.L. 77 (1791), and *Dimick v. Schiedt*, 293 U.S. 474, 480 (1935) (stating that the common law rule at time of adoption of Constitution provided that in cases where the amount of damages "...was uncertain[,] their assessment was a matter ...within the province of the jury...."))).

65. *See id.* at 1287.

66. 481 U.S. 412 (1987).

67. *See Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1287-88 (1998). *Tull* involved liability for civil penalties under the Clean Water Act, 33 U.S.C. §§ 1251, 1319(d) (1987). 481 U.S. 412, 414 (1987). 33 U.S.C. § 1319(d) provides penalties of up to \$10,000 per day during the period of the violation. In *Tull*, the Court held that the Seventh Amendment grants a right to jury trial on all issues relating to liability for these penalties. 481 U.S. at 427. The opinion then suggested that Congress could constitutionally authorize judges to determine the amount of the penalty. *See id.* at 422-23.

68. *See Feltner*, 118 S.Ct. at 1288.

concerning an award of statutory damages in order “to preserve the ‘substance of the common-law right of trial by jury.’”<sup>69</sup>

## II. DISCUSSION

While the Court could not have avoided ruling that section 504(c) damages were legal in nature, leeway did exist to find the provision constitutional. In fact, Justice Scalia argued for “reserv[ing] the constitutional issue for another day.”<sup>70</sup> To understand why this might have been desirable, it is instructive to examine the rationale behind the enactment of this statutory remedy. In addition, a comparison of these policy goals with the Court’s actual holding helps to predict the practical impact of the *Feltner* decision.

### A. The Seventh Amendment Analysis: Absolute Primacy of Tradition

Regardless of the Congressional intent behind enactment of a statutory provision, the Supreme Court has proclaimed that the Seventh Amendment requires a jury trial when the remedy bears the indicia of legal relief.<sup>71</sup> Under *Granfinanciera, S.A. v. Nordberg*, a statutory provision can escape a legal label if it has no roots in 18th Century actions brought before courts of law, or if the remedy has an equitable nature.<sup>72</sup> Provisions allowing statutory damages for copyright infringement have existed as actions in English courts of law since 1710.<sup>73</sup> Justice Thomas found plausible support for a similar tradition in Colonial America.<sup>74</sup> The *Feltner*

---

69. *See id.* (citing *Tull*, 481 U.S. at 426). On remand to the Ninth Circuit, Feltner filed a petition to recover attorney’s fees under 17 U.S.C. § 505 of the Copyright Act. *See Columbia Pictures Television v. Krypton Broadcasting of Birmingham, Inc.*, 152 F.3d 1171, 1171-72 (9th Cir. 1998).

Feltner argued that as the prevailing party in the Supreme Court case, he could recover attorney’s fees accrued in defending his right to a jury trial. *See id.* The court denied this petition, reasoning that 17 U.S.C. § 505 applied to a party prevailing in an infringement suit. *See id.* In other words, the Supreme Court decision did not change Feltner’s liability for copyright infringement. In accordance with the Supreme Court decision, the Ninth Circuit remanded the case to the District Court for jury proceedings to determine statutory damages. *See id.*

70. *Feltner*, 118 S.Ct. at 1289 (quoting from the Scalia concurrence).

71. *See Curtis v. Loether*, 415 U.S. 189, 194 (1974).

72. *See* 492 U.S. 33, 42 (1989).

73. *See Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1285 (1998). (explaining that the 1710 Statute of Anne provided damages for copyright infringement in the amount of “one Penny for every Sheet which shall be found in [the infringer’s] custody....”). *See supra* notes 53-59 and accompanying text.

74. *See supra* note 55.

opinion states that Columbia did not attempt to dispute this 200-year-old line of evidence.<sup>75</sup>

Columbia might have attempted to overcome this evidence by drawing an analogy with a historically equitable action, or by making an argument that section 504(c) had no 18th Century roots of any kind. Curiously, the *Feltner* Court itself offered actions for disgorgement of improper profits as an example of an historical action for monetary relief characterized as equitable.<sup>76</sup> Alternatively, previous commentators have contended that section 504(c) has no 18th Century counterpart.<sup>77</sup> For example, prior statutory remedies, as well as the 1909 "in lieu" provision, generally tied availability of statutory relief to proof of actual damages or the defendant's profits.<sup>78</sup> Section 504(c) allows the plaintiff to receive an award regardless of the presence or the absence of such proof.<sup>79</sup> Thus, section 504(c) might provide a modern cause of action with no pre-merger correlate.<sup>80</sup> If so, then the Court could have determined that pre-merger history does not provide a basis on which to declare section 504(c) as equitable or legal.

Shifting to the second prong of the test, the remedy provided by section 504(c) has both legal and equitable elements. For example, the granting of relief in the form of a monetary award is consistent with a traditional action at law.<sup>81</sup> In contrast, allowing the court to assign damages based on discretionary factors beyond actual losses suggests an equitable

---

75. See *Feltner*, 118 S.Ct. at 1286.

76. See *id.*

77. See Andrew W. Stumpff, *The Availability of Jury Trials in Copyright Infringement Cases: Limiting the Scope of the Seventh Amendment*, 83 MICH. L. REV. 1950, 1958-61 (1985) (arguing that pre-1909 awards of discretionary relief were tied to actual, provable damages, while 17 U.S.C. § 504(c) damages may be recovered absent any showing of loss due to the infringement; thus, no historical analogies exist for 17 U.S.C. § 504(c) damages). Cf. William Patry, *The Right to a Jury in Copyright Cases*, 29 J. COPYRIGHT SOC'Y. 139, 173-77 (1981) (arguing that the 1909 enactment did not create a relief without historical precedent).

78. See NIMMER & NIMMER, *supra* note 22, § 14.04[B][1], at 14-90 (clarifying that availability of statutory damages under 1909 Act was discretionary with the court, and largely dependent on proof of actual damages and profits, while the plaintiff elects 17 U.S.C. § 504(c) damages).

79. See H.R. Rep. No. 94-1476, at 161 (1976) (stating that the plaintiff is not obliged to submit proof of damages or profits when opting for an award of statutory damages).

80. See Stumpff, *supra* note 76, at 1958-61. The Court's recent subtraction of patent claim interpretation from the traditionally legal nature of patent infringement suggests that the Court might have been amenable to such an argument. See discussion *infra* text accompanying notes 122-29.

81. See *Teamsters v. Terry*, 494 U.S. 558, 570, 579 (1990); *Curtis v. Loether*, 415 U.S. 189, 196 (1974).

remedy.<sup>82</sup> Nevertheless, a general rule exists that monetary relief is legal.<sup>83</sup> The Court has identified two exceptions to this rule: monetary awards linked to injunctive relief, and purely restitutionary actions.<sup>84</sup> Both the fact that a separate provision under the Act provides injunctive relief, and the significance of the potential monetary penalties under section 504(c) argue against the first exception.<sup>85</sup> As to the second exception, two federal courts have held section 504(c) damages restitutionary in nature.<sup>86</sup> However, legislative history explains that section 504(c) damages primarily serve as a punitive sanction on infringers, not as a vehicle to make the copyright owner whole.<sup>87</sup> Thus, this second prong is dispositive, and the Court correctly held that section 504(c) damages did not constitute an exception to the general rule.

Correspondingly, the transcript strongly indicates that the Court considered section 504(c) to run afoul of the Seventh Amendment primarily because of the potential to bypass a cause of action with undisputed roots in courts of law.<sup>88</sup> Specifically, the Court takes issue with the ability of the plaintiff to unilaterally elect statutory damages, which if held equitable, would deprive the defendant of the 200-year tradition of having a jury determine actual damages.<sup>89</sup> Thus, the Court focuses on preserving the common-law right to trial for actual damages at the expense of entertaining much argument characterizing the action for statutory damages.<sup>90</sup> This reasoning parallels that of earlier rulings in which the Court held that the constitutional right to jury trial could not be lost in actions presenting both legal and equitable claims.<sup>91</sup> Therefore, the specific statutory construction

---

82. See D. DOBBS, HANDBOOK ON THE LAW OF REMEDIES § 2.1, at 28 (1973).

83. See *Teamsters*, 494 U.S. at 570.

84. See *Tull v. United States*, 481 U.S. 412, 424 (1987).

85. See *id.* Courts in equity could provide monetary awards that were incidental to injunctive relief. See *id.* *Tull* held that a potential penalty of \$22 million was too significant to be incidental to the injunctive relief. *Id.* at 424-25.

86. See *Glazier v. First Media Corp.*, 532 F.Supp 63 (D. Del. 1982); *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 U.S. 1 (1979).

87. See H.R. Rep. No. 94-1476, at 163 (1976) (establishing a floor for liability “preserves [17 U.S.C § 504(c)’s] intended deterrent effect”); S. Rep. No. 100-352, at 47 (1988) (noting that the increases in the statutory damages amount enacted in 1988 were driven by a desire to “retain the deterrent effect against potential infringers that Congress intended to create in the 1976 copyright revision”)

88. See *Feltner v. Columbia Pictures, Inc.*, No. 96-1768, 1998 WL 29550, at \*41-43 (U.S. Oral Arg. Jan. 21, 1998).

89. See *id.*

90. See *id.*

91. See *Beacon Theatres v. Westover*, 359 U.S. 500, 509-11 (1959) (holding that in a mixed action, jury trial cannot be collaterally estopped by hearing the equitable claims

that allows for unilateral preclusion of a legal right would have compelled the Court's ruling that section 504(c) damages require jury determination regardless of any analyses, historical arguments or policy concerns that could have been considered.

### B. The Statutory Interpretation Analysis: A "Fairly Possible" Legal Reading

Nonetheless, the Court did not have to rule section 504(c) unconstitutional. As Justice Scalia explained in his concurrence, the "fairly possible" standard simply requires the adoption of a reasonable statutory interpretation, not the adoption of the preferable interpretation.<sup>92</sup> The majority opinion and other authorities agree that the text of section 504(c) does not explicitly define the word "court" to exclude juries.<sup>93</sup> Of note, the Court has held that statutory references to "court" do not necessarily exclude the possibility of a right to a jury trial.<sup>94</sup> Thus, an application of a broad definition of "court" to include judge and jury seems "fairly possible." Similarly, precedent allows statutory association of the word "court" with potentially discretionary damages without automatically imposing a label of "equitable" relief.<sup>95</sup> For example, when asked to interpret the remedies provision provided under Title VIII of the Civil Rights Act of 1968, the Court did not find that the association of the word "court" with the grant of relief "as it deems appropriate" ruled out a jury trial.<sup>96</sup> Again, provision of a right to a jury trial seems "fairly possible" under statutory construction.

---

first); *Dairy Queen v. Wood*, 369 U.S. 469, 479-80 (1962) (holding that in actions presenting both legal and equitable claims, the right to jury trial could not be lost by declaring the legal issue "incidental" to the equitable issue).

92. See *Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1289-90 (1998); see *supra* note 47.

93. See *Feltner*, 118 S.Ct. at 1283; NIMMER & NIMMER, *supra* note 22, § 14.04[C], at 14-62.

94. See *Curtis v. Loether*, 415 U.S. 189, 189-90 (1974); *Tull v. United States*, 481 U.S. 412, 417 (1987).

95. See *id.*

96. *Curtis*, 415 U.S. at 189-90, 192-93. The Court interpreted 42 U.S.C. § 3612 (1988), which provides in part that "[t]he court may grant as relief, as it deems appropriate, any permanent or temporary injunction, temporary restraining order ... actual damages and not more than \$1,000 punitive damages, together with court costs and reasonable attorney fees." *Id.* This provision bears great similarity to the range of remedies available under the Copyright Act. See 17 U.S.C. §§ 502 (injunction), 504(b) (actual damages), 504(c) (providing for statutory damages that increase with a finding of "willfulness" on the part of the defendant, arguably making them punitive), and 505 (providing costs and attorney's fees for the prevailing party) (1996).

Next, as Justice Scalia suggests, the statutory history allows avoidance of the constitutional question.<sup>97</sup> As proclaimed by the Court, Congressional incorporation of a prior law into a new law assumes knowledge of the prior law's interpretation.<sup>98</sup> The 1976 Copyright Act adopted the discretionary language for statutory damages provided in section 25(b) of the 1909 Copyright Act.<sup>99</sup> The 1909 statute granted plaintiffs the option of damages "in lieu of actual damages and profits ... as to the court shall appear just" for all cases of copyright infringement.<sup>100</sup> The Court previously traced the 1909 statutory damages provision to a provision from 1856 that protected dramatic compositions.<sup>101</sup> The 1856 provision provided a floor for liability, along with the ability to award damages "as to the court ... appear to be just."<sup>102</sup> Of interest, the 1856 Act provided an "action on the case," which has traditionally been associated with a jury trial.<sup>103</sup> Consistent with this view, the Second Circuit held that the 1909 statutory damages provision could be interpreted to include a right to a jury trial.<sup>104</sup> Consequently, at the time Congress enacted the 1976 Act, it is "fairly possible" to conclude that Congress knew that section 504(c) could be "susceptible" to a legal interpretation.<sup>105</sup> Congress could have specified whether section 504(c) granted legal or equitable relief, but the language and legislative history remain silent on the issue.<sup>106</sup> Of note, Congress did attempt to retroactively define section 504(c) damages as a jury issue when providing such a right for a similar infringement remedy for semiconductor chips.<sup>107</sup>

---

97. See *Feltner*, 118 S.Ct. at 1289. The majority does not consider this line of evidence. See *id.*

98. See *Lorillard v. Pons*, 434 U.S. 575, 581 (1978).

99. See *supra* note 13; see *infra* note 101.

100. Act of March 4, 1909, ch. 320, 35 STAT. 1081 (1909).

101. See *L.A. Westerman Co. v. Dispatch Printing Co.*, 249 U.S. 100, 107-08 (1919).

102. Act of Aug. 18, 1856, ch. 169, 11 STAT. 138, 139 (1856).

103. *Id.* See F.W. MAITLAND, *THE FORMS OF ACTION AT COMMON LAW* 65-7 (1909).

104. See *Mail & Express v. Life Publishing Co.*, 192 F.899, 901 (2d Cir. 1912). However, the Court did comment that it found the language of the statute "somewhat obscure". *Id.*

105. *Feltner v. Columbia Pictures Television, Inc.*, 118 S.Ct. 1279, 1289 (1998).

106. See H.R. Rep. No. 94-1476, at 162 (1976) (using the word "court" in conjunction with both statutory and actual damages). See also *NIMMER & NIMMER*, *supra* note 22, § 14.04[C], at 14-62 (affirms silence of 1976 Copyright and Committee reports).

107. See *NIMMER & NIMMER*, *supra* note 22, § 8A.10[B], N.13 at 8A-50. The Semiconductor Protection Act (SCPA) of 1984 explicitly provides for a right to jury trial for statutory damages associated with unlawful copying of semiconductor chips. See *id.* The House Report for the SCPA states: "In using the term 'court' in [the statutory damages

In light of the “cardinal rule” that the Court has a duty to avoid the constitutional question if possible, the Court should have ruled that section 504(c) provided a right to a jury trial.<sup>108</sup> Such a ruling would have allowed the statute to avoid “constitutional infirmity.”<sup>109</sup> By moving to the Seventh Amendment analysis, the Court has effectively ruled section 504(c) unconstitutional, creating new doubt as to the mechanics of statutory damage awards under the Copyright Act.<sup>110</sup> In particular, the Court does not make it clear whether the statutory floor and ceiling for damages has survived the *Feltner* decision.<sup>111</sup>

### C. The Practical Analysis: Does *Feltner* Impact the Copyright Scheme?

The fixed range for statutory damages reflects Congressional recognition of the frequently difficult task of assigning a monetary value to everything that falls under the protection granted by the Copyright Act.<sup>112</sup> In the absence of this guaranteed monetary relief, the copyright owner might actually find that the Act provides the anomaly of protection without meaningful remedy.<sup>113</sup> For example, downloading a copyrighted work from the Internet onto a computer desktop may simultaneously infringe a copyright owner’s reproduction, performance and display rights.<sup>114</sup> The copyright owner has a clear-cut action for infringement, but little incentive to bring suit if relief is based on the value of this single act. This scenario also provides the infringer with little incentive to respect the copyright scheme. Providing the guarantee of a floor and ceiling for damages gives the copyright owner and the infringer a yardstick by which to measure the worth of investing in the copyright system. The statutory minimum can also be said to reflect how much the public is willing to pay for protecting any single work whose value may not be realized in monetary terms.

---

provision]... it is the intent of the committee, as under 17 U.S.C. § 504(c), that there be a right to a jury where requested.” *Id.*

108. See *United States ex rel. Atty. Gen. v. Delaware & Hudson Co.*, 213 U.S. 366, 407-08 (1909) (avoiding the constitutional question is a duty of the Court).

109. See *id.* at 407.

110. The procedural issues raised by this ruling are beyond the scope of this Note.

111. See *infra* note 118.

112. See PAUL GOLDSTEIN, 2 COPYRIGHT § 12.2, at 12:34 (2d ed. 1996).

113. See NIMMER & NIMMER, *supra* note 22, § 14.02[A], at 14-15.

114. See *id.* § 8.24[A], at 8-354.

Consistent with the goal of encouraging copyright owners to police their rights, section 504(c) has favored the plaintiff.<sup>115</sup> In particular, the copyright owner could choose to avoid the burden of proving actual damages.<sup>116</sup> This ability became increasingly significant when infringement involved novel technology that did not have an accepted value. Likewise, election of statutory damages avoided the problem of teasing out the value of copyrighted works “embedded” in a larger context.<sup>117</sup> In addition, the ability to elect statutory damages at any time before final judgement gave the owner the choice of relying on the statutory minimum if the jury did not return a satisfactory verdict for actual damages.<sup>118</sup> In other words, section 504(c) provided the plaintiff with the proverbial “two bites at the apple.”

Despite the Court’s focus on preserving 200-year old traditional legal rights at the expense of any policy considerations, statutory damages remain a tool for the modern plaintiff to protect rights in ever-evolving forms of intellectual property. Specifically, the plaintiff still has a guarantee of two assessments of monetary damages from which to choose, and can continue to avoid the burden of proving actual damages or profits. Likewise, the ruling does not appear to preclude having a judge decide the award if both parties agree to waive the jury trial. While not completely certain, the *Feltner* decision probably retains the guaranteed statutory floor and ceiling for awards.<sup>119</sup> Thus, the pre-*Feltner* economic analysis for an

---

115. See *id.* § 14.02[A], at 14-13. In general, 17 U.S.C. § 504(c) provides four rights: 1) an ability for the plaintiff to elect statutory damages at any time before final judgement is rendered, 2) a guaranteed floor and ceiling for infringement damages, 3) a limit of one award for infringement of a particular work, regardless of the number of infringements of that work, and 4) the opportunity to prove the infringement was willful, thereby raising the ceiling and floor damage levels. See H.R. Rep. No. 94-1476, at 162 (1976).

116. See NIMMER & NIMMER, *supra* note 22, § 14.04[B][1][a], at 14-51. The language of 17 U.S.C. § 504(a)(2) and (c) guarantees some award of statutory damages regardless of whether the plaintiff demonstrates any monetary harm, and irrespective of the defendant’s conduct. See *id.*

117. See Roger D. Blair & Thomas F. Cotter, *An Economic Analysis of Damages Rules in Intellectual Property Law*, 39 WM. & MARY L. REV. 1585, 1652 (1998). Blair and Cotter provide an instructive example of this problem: the local bar providing copyrighted music for its patrons earns a profit of \$10,000. “What part of the profit is due to the music and what part is due to its favorable locations, its service, its world-class chicken wings and so on?” *Id.*

118. See NIMMER & NIMMER, *supra* note 22, § 14.04[A], at 14-19; Branch v. Olgilvy & Mather, Inc., 772 F.Supp. 1359 (S.D.N.Y. 1991) (opting for an award of \$10,000 in statutory damages and \$116,729 for attorney’s fees after rejecting a nominal jury verdict of one dollar).

119. See *Feltner v. Columbia Pictures, Inc.*, U.S. 118 S.Ct. 1279, 1288 (1998). The Court held that a right to a jury trial exists “on all issues pertinent to an award of statutory

individual participant remains arguably the same: the copyright owner has a guaranteed minimum by which to determine the worth of pursuing an infringement action, and the infringer has a guaranteed penalty range against which to weigh her copyright violation.

However, the Court's decision does preclude the ability of a plaintiff to unilaterally avoid a jury determination of the precise amount of statutory damages to be awarded. Congress specified that statutory copyright damages could be adjusted according to the "circumstances of the case."<sup>120</sup> In general, the arguments contained in the amicus briefs submitted in *Feltner* state that judges should make these adjustments because judges have experience weighing multiple factors to reach a fair result, can look to previous experience with copyright law, and can take overall policy concerns into consideration when reaching a verdict.<sup>121</sup> Further, the arguments continue by reasoning that assigning statutory damages determination to juries can lead to a lack of uniform interpretation across the nation, creating uncertainty for copyright participants.<sup>122</sup> These concerns seem valid, and parallel the arguments raised when the Court confronted a similar judicial allocation issue in the patent arena.<sup>123</sup>

Specifically, in *Markman* the Court confronted the question of whether interpretation of patent claim construction fell into the province of judge or jury.<sup>124</sup> Finding historical evidence unpersuasive, the Court looked to

---

damages...including the amount itself." *Id.* Whether this means that the jury must pinpoint the award within the statutory range or can venture beyond those bounds remains to be clarified. If the *Feltner* decision did remove the statutory bounds, a jury could be presented with the puzzle of assigning damages in the absence of any proof of harm or profit. In reality, evidence would certainly be presented, thus blurring or erasing the distinction between actual and statutory damages.

120. See H.R. Rep. No. 94-1476, at 161.

121. See Amicus Brief of the International Anticounterfeiting Coalition for Respondent at \*22-25, *Feltner v. Columbia Pictures Television, Inc.*, U.S. 118 S.Ct. 1279 (1998) (No. 97-1768); Amicus Brief of the Intellectual Property Law Association for Respondent at \*15-16, *Feltner v. Columbia Pictures Television, Inc.*, U.S. 118 S.Ct. 1279 (1998) (No. 97-1768); Amicus Brief of the National Football League, the National Basketball Association, the National Hockey League, and the Office of the Commissioner of Baseball for Respondent at \*26-29, *Feltner v. Columbia Pictures Television, Inc.*, U.S. 118 S.Ct. 1279 (1998) (No. 97-1768).

122. See Amicus Brief of The American Society of Composers, Authors and Publishers for Respondent at \*19, *Feltner v. Columbia Pictures Television, Inc.*, U.S. 118 S.Ct. 1279 (1998) (No. 97-1768).

123. See *Markman v. Westview Instruments, Inc.*, 116 S.Ct. 1384, 1385 (1996).

124. See *id.* at 1385, 1388. The Court reasoned that while "two centuries" of history clearly mandated a jury trial in an action for infringement, interpretation of the patent claim itself could be teased out of the general action and considered as a separate issue. *Id.*

precedent, relative interpretive skills of judges and juries, and statutory policies.<sup>125</sup> As in the *Feltner* case, the Court found precedent inconclusive.<sup>126</sup> However, reducing claim construction to an issue of who can better interpret written instruments, the Court concluded that judges are better suited to this task because they “often” construe written instruments, and have been involved in shaping the “special doctrines” relating to patent claims.<sup>127</sup> Although juries bring a special ability to judge human demeanor and reflect community standards, the Court remained unpersuaded that these skills significantly aided analysis of document construction.<sup>128</sup> Finally, the Court stressed that allocating all construction elements to a judge fostered consistency and uniformity.<sup>129</sup> Otherwise, a “zone of uncertainty” could surround the patent and obscure what the patentee actually owned, what the public would eventually receive, and what others could invent without infringing.<sup>130</sup>

Applying the *Markman* criteria to copyright damages does not immediately suggest that it makes any difference whether a judge or a jury decides the award. If we assume that in holding section 504(c) unconstitutional that the Court preserved both the monetary limits and the ability of the plaintiff to forgo proof of damages or profits, the court can simply award the statutory minimum. This does not appear to require any of the special skills identified above. Arguably, by setting a discrete range, Congress has already rendered the choice of any point within the range a secondary consideration. In other words, the “yardstick” by which a copyright participant evaluates the decision to enforce or infringe a copyright remains intact. Thus, the simple presence of discretion along this yardstick does not conclusively point towards judge or jury.<sup>131</sup>

On the other hand, the broad discretion inherent in applying this yardstick does argue for employment of judicial skills. Relying on the liability floor alone may not realistically enforce the copyright scheme. Specifically, Congress balanced the copyright equation of incentives, deterrents and public use by providing a very broad value range through which to funnel the entire spectrum of copyrightable subject matter.<sup>132</sup> In practice,

---

125. *See id.* at 1393.

126. *See id.* at 1395.

127. *Id.*

128. *See id.* at 1395-96.

129. *See Markman v. Westview Instruments, Inc.*, 116 S.Ct. 1384, 1396 (1996).

130. *Id.*

131. However, if the *Feltner* decision did abolish the maxima and minima, the absolute discretion involved in setting damages does favor the special skills of the judge.

132. *See supra* note 86. Congress increased the statutory minimums and maximums in 1988. *See id.* Also, Congress has carved out exceptions to this “general funnel.” *See*

case law suggests that courts have anchored statutory awards to some indicator of value that relates to the specific subject matter under copyright protection.<sup>133</sup> The awards also reflect a balance between preventing a windfall to the individual plaintiff, and setting the award high enough to offset deficits in overall copyright detection and enforcement.<sup>134</sup> Empirically, it is difficult to say whether allocation to judge or jury produced this pattern.<sup>135</sup> However, absent a judge's ability to refer to precedent and policy, juries are not likely to produce results that provide any consistent guidance for participants in the copyright system. On a practical level, knowing that precedent will narrow the \$500 to \$20,000 damage range tempers a "zone of uncertainty" that most certainly influences the decision to infringe and enforce a copyright in a given subject area.

Although policy considerations strongly point towards judicial determination of statutory damages, the Court in *Feltner* ruled that parties had a right to jury determination. In fact, the oral argument makes it very clear that the Court found no explanation for why a copyright plaintiff would "fear" juries, and considered the arguments for judicial determination advanced by the amicus briefs "puzzling."<sup>136</sup> Perhaps defining terms in patent claims pose more complex issues than copyright valuation puzzles. Perhaps the *Feltner* decision represents a lost opportunity to showcase the complexity of modern copyright law. Most certainly the case highlights the pitfalls inherent in a provision that combines equitable and legal remedies. In any event, predictability and consistency in statutory damage

---

generally ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 1020-23 (1997). For example, the Semiconductor Chip Act of 1984 provides a separate monetary remedy for unlawful infringement of semiconductor chips. *See id.* Copyright protection already protected some aspects of these works. *See id.*

133. *See* Blair & Cotter, *supra* note 116, at 1660-69. The authors reviewed awards under 17 U.S.C. § 504(c) from 1992 through 1997. *See id.* Courts appear to have mitigated the harm of one award for all infringements of a single work by awarding damages at the higher end of the statutory range where the defendant has infringed a single work repeatedly, or over a long period of time. *See id.* Secondly, where actual damages can be estimated and detection costs are high, courts appear to fix statutory damages at roughly double or triple the actual damage amount. *See id.* Caselaw suggests that courts tend to award damages in the lower range where evidence does not provide some idea of the economic loss or gain from the infringement, and the infringement does not fall into the first category. *See id.* Thus, the courts appear to have interpreted 17 U.S.C. § 504(c) in ways that are consistent with the main goal of American copyright law by ensuring that the granted monopoly does not unduly cost the public. *See id.*

134. *See id.*

135. *See id.*

136. *See* *Feltner v. Columbia Pictures, Inc.*, No. 96-1768, 1998 WL 29550, at \*44-46, \*49 (1998). The Court contrasts this posture with the pro-jury bent of tort plaintiffs. *See id.*

awards must now be left largely to the legislative process.<sup>137</sup> As a broad stroke, legislation is poorly suited to resolve the idiosyncratic issues posed by current and future copyright cases. It remains to be seen how the *Feltner* decision will impact business strategies and innovation by creators who have relied on the copyright scheme to protect intellectual property whose value runs ahead of the general public's experience.

### III. CONCLUSION

The *Feltner* decision simply says that parties have a right to a jury determination on all aspects of damages for statutory copyright infringement. The Court has resolved a practical point of statutory interpretation, but the ruling introduced new doubt about copyright infringement damages. First of all, the Court did not explain exactly how the ruling affects the rights Congress provided in section 504(c). In particular, did the statutory maxima and minima for damages survive the constitutional analysis? Most importantly, the ruling mandates jury determination of damages without resolving the question of whether juries are better suited to this task. Policy concerns argue for judicial determination, but the clear language of the Court indicates that statutory copyright damages will remain a legal remedy until uncoupled from the 18th Century right to jury trial for actual damages. Nevertheless, section 504(c) retains its pro-plaintiff roots. A plaintiff still has a guarantee of two bites at the compensation apple for infringement of works technology pushes into the realm of copyright protection, regardless of whether society can contemporaneously recognize their value or not.

---

137. See, e.g., MERGES, *supra* note 131.



## CASTLE ROCK ENTERTAINMENT, INC. V. CAROL PUBLISHING GROUP, INC.

*By Elisa Vitanza*

### I. INTRODUCTION

Society benefits from the creation and dissemination of new, creative works. The Federal copyright system serves primarily to enhance the public interest through the promotion of creativity.<sup>1</sup> Copyright laws struggle to strike a balance between granting exclusive property rights and enhancing the public domain so that the next generation of artists can use pre-existing works to generate more creativity.<sup>2</sup> The Copyright Act<sup>3</sup> provides authors with incentives to create and share their creativity with the public through the grant of exclusive rights, including the right to prepare derivative works.<sup>4</sup> Derivative artists also require incentives to invest in

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. See U.S. CONST. art. I, § 8, cl. 8 (providing that “Congress shall have Power . . . To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”) (emphasis added).

2. See Landes & Posner, *An Economic Analysis of Copyright*, 18 J. LEGAL STUD. 325-33, 344-46 (1989). Landes and Posner argue that copyright protection attempts to efficiently balance the benefits of creating new works with the losses from limiting access and the costs of administering copyright protection. *Id.* The economic theory of copyright is the dominant theory in the United States. However, commentators, particularly outside the United States, rely on moral or personal rights theories to justify copyright protection. See Mark Lemley, *The Economics of Improvement in Property Law*, 75 TEX L. REV. 989, 1031 (1997). Countries that adhere to the Berne Convention guarantee rights of attribution and integrity to its authors. See Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, art. 6bis, reprinted in WORLD INTELLECTUAL PROPERTY ORGANIZATION, GUIDE TO THE BERNE CONVENTION FOR THE PROTECTION OF LITERARY AND ARTISTIC WORKS (Paris Act, 1971) 177 (1978). In the United States, moral rights are a secondary consideration. See ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 12 (1<sup>st</sup> ed. 1997). Congress has enacted only limited protections of attribution and integrity interests for visual artists. See Visual Artists Rights Act of 1990, 17 U.S.C. § 106A (1994). Moral rights equivalents also operate to a limited extent in various US copyright doctrines. See ROBERT GORMAN & JANE GINSBURG, COPYRIGHT FOR THE NINETIES 477-79 (4<sup>th</sup> ed. 1993).

3. 17 U.S.C. §101 et seq. (1976).

4. See 17 U.S.C. 106 (2) (1976). According to the Copyright Act, a derivative work is “a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art

creations that build on pre-existing works and overprotection of initial works will likely result in under-investment in derivative works.<sup>5</sup> This results in a detriment to the public interest.

It is natural for creative activity to build on prevalent elements of society, such as popular culture and popular television programming. Elements of popular culture become so entrenched in our everyday lives that we come to think of them as our own.<sup>6</sup> In fact, copyright owners of television shows send their fictional worlds and characters into our homes every week and ask us to embrace them and to make them an indispensable part of our lives.<sup>7</sup> Vocabularies and experiences once introduced through the mouths of fictional characters translate into integrated parts of our reality.<sup>8</sup> Many artists have incorporated these assimilated images and vocabularies into a variety of derivative works including fan guide books. These popular culture derivatives represent a flourishing field of creative activity and serve the copyright system's basic purpose of enhancing and expanding the public domain of creative works.

This comment examines the copyright system's current approach to derivative works based on popular culture topics through an analysis of the Second Circuit's decision in *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*<sup>9</sup> The approach taken by the Second Circuit does not adequately address the special nature of popular culture works, including the blurred line between fact and fiction, the reduced need to pro-

---

reproduction, abridgement, condensation, or any other form in which a work may be recast, transformed, or adapted." 17 U.S.C. § 101 (1976).

5. See generally Paul Goldstein, *Derivative Rights and Derivative Works in Copyright*, 30 J. COPR. SOCIETY 209 (1983) (describing the copyright law's response to the modern expansion of derivative works and the uneven provision of derivative rights by the courts).

6. See HENRY JENKINS, *TEXTUAL POACHERS TELEVISION FANS & PARTICIPATORY CULTURE* 279 (1992); NEIL POSTMAN, *AMUSING OURSELVES TO DEATH: PUBLIC DISCOURSE IN THE AGE OF SHOW BUSINESS* 87 (1985). Postman argues that the medium of television is shaping the very nature of public discourse. "Television...has made entertainment itself the natural format for the representation of all experience." *Id.* See also BRYON REEVES & CLIFFORD NASS, *THE MEDIA EQUATION: HOW PEOPLE TREAT COMPUTERS, TELEVISION AND NEW MEDIA LIKE REAL PEOPLE AND PLACES* (1996) (arguing that mass media is so pervasive that the public treats what they see as real to the extent that even the media devices themselves are assigned human qualities).

7. The NBC slogan for their highest rated shows on broadcast television is "Must see TV." ABC encourages viewership with the repeated "We Love TV." CBS beckons its audience with "Welcome Home."

8. See JENKINS, *supra* note 5, at 50-85 (providing an explanation of how television shows and movies become real to fans, through the development of social meaning and social interaction).

9. 150 F.3d 132, (2d Cir. 1998), [hereinafter *Castle Rock II*].

vide incentives to create mass media entertainment, the social significance of permissible use of cultural vocabularies, and the extreme fan interest and creativity in this field. Continued application of the present idea-expression, substantial similarity and fair use doctrines to popular culture derivatives will prevent use of appropriated cultural material without proper consideration. Both the Courts and Congress may need to rethink their approach to popular culture works in order to best serve the public interest and promote overall creative activity.

## II. BACKGROUND

After watching the *Seinfeld*<sup>10</sup> television series for several years, Beth Golub created and published a trivia book, the *Seinfeld Aptitude Test* (“SAT”). In 643 questions and answers, the SAT tests the reader’s knowledge of the *Seinfeld* characters’ quirks and the events depicted in the show.<sup>11</sup> For example, the SAT asks what candy Kramer snacks on and then drops while observing a surgical procedure on the balcony (junior mints).<sup>12</sup> The SAT’s questions are divided into five levels of difficulty<sup>13</sup>

---

10. *Seinfeld* is a situation comedy that aired on NBC for nine years, and ended its phenomenally successful run in 1998. The series traced the daily lives of four friends, Jerry Seinfeld, Elaine Benes, George Costanza and Cosmo Kramer; these friends lived in New York, and in each episode confronted life’s “daily, petty annoyances.” See *Castle Rock Entertainment v. Carol Publishing*, 955 F. Supp. 260, 262 (S.D.N.Y. 1997), [hereinafter *Castle Rock I*]. The show was often described as a show about nothing. See e.g., ‘*Sein’ Off*, HOLLYWOOD REPORTER, May 14, 1998, at S3. A typical episode of the show simply followed the characters around a parking garage looking for their car. See *Seinfeld: The Parking Garage* (NBC television broadcast, Oct. 30, 1991).

11. The front cover of the SAT, describes the book as containing “[h]undreds of spectacular questions of minute details from TV’s greatest show about absolutely nothing.” The back cover asks:

Just how well do you command buzzwords, peccadilloes, petty annoyances, and triflingly complex escapades of Jerry Seinfeld, Elaine Benes, George Costanza and Kramer—the fabulously neurotic foursome that makes the offbeat hit TV series *Seinfeld* tick? If you think you know the answers—and really keep track of *Seinfeld* minutiae—challenge yourself and your friends with these 550 questions and 10 extra matching quizzes. NO, The *Seinfeld* Aptitude test can’t tell you whether you’re Master of your Domain, but it will certify your status as King or Queen of *Seinfeld* trivia. So twist open a Snapple, double-dip a chip, and open this book to satisfy your between-episode cravings.

See *Castle Rock II*, 150 F.3d at 136.

12. See *Castle Rock II*, 150 F.3d at 135 n.12.

13. “Wuss Questions”, “This, That, and the Other Questions”, “Tough Monkey Questions”, “Atomic Wedgie Questions”, and “Master of Your Domain Questions.” The categories also represent references to the show. *Id.* at 135.

with material drawn from eighty-four episodes, including some direct quotations of the show's dialogue.

Castle Rock Entertainment<sup>14</sup> engaged in highly selective marketing for *Seinfeld*. It licensed only one book, *The Entertainment Weekly Seinfeld Companion*, and one CD-ROM containing discussions of the show. When the *SAT* was first published, NBC requested free copies of the *SAT* to distribute as a promotion. However, in February 1995, Castle Rock filed suit alleging copyright infringement and state unfair competition.<sup>15</sup> The district court granted Castle Rock's motion for summary judgement on the issue of copyright infringement, finding that the *SAT* appropriated original expression from *Seinfeld* and that no "fair use" defense was available. The district court also awarded damages and permanently enjoined Carol from publishing or distributing the *SAT*<sup>16</sup>.

### A. The District Court Decision

The district court first evaluated whether the defendants improperly appropriated original, creative material from the television series. Golub admitted to taking notes from the *Seinfeld* episodes and quoting dialogue from the show in her trivia book.<sup>17</sup> Thus, the court focused its inquiry on whether the *SAT* copied elements of *Seinfeld* that were original.<sup>18</sup> The court considered a previous line of cases that drew the line between unprotectable facts and protectable expression.<sup>19</sup> *Feist Publications, Inc. v. Rural Telephone Services, Inc.* defined "facts" as material that does not owe its origin to an act of authorship.<sup>20</sup> Following *Feist*, the district court rejected the defendants' contention that the *SAT* merely tests readers on the show's underlying facts and ideas. The court noted that the *SAT* does not ask "factual" questions, such as who acts in the program, but rather asks questions about "expressive" material such as what Jerry places on

---

14. Castle Rock Entertainment produced the show and owns the copyright for each episode of the series.

15. See *Castle Rock I*, 955 F. Supp. at 261.

16. See *Castle Rock II*, 150 F.3d at 135.

17. See *Castle Rock I*, 955 F. Supp. at 263.

18. See *id.* at 264.

19. See *Feist Publications, Inc. v. Rural Telephone Serv., Inc.*, 499 U.S. 340, 347 (1991) (discussing that white page listings of names and phone numbers are unprotectable facts); *Harper and Row Publishers v. Nation Enterprises*, 471 U.S. 539, 549 (1985) (finding infringement where defendant published magazine article which did not merely include facts revealed by President Ford in his as yet unpublished memoirs, but which excerpted the President's expression of those facts); *Worth v. Selchow & Rightor Co.*, 827 F.2d 569 (9th Cir. 1987) (finding no infringement where defendant incorporated facts chronicled in plaintiff's reference books into a trivia game).

20. See *Feist*, 499 U.S. at 347.

Elaine's leg during a piano recital.<sup>21</sup> This is material created by the show's writers. "[U]nlike facts depicted in a biography, historical text or compilation,... *Seinfeld* is fiction."<sup>22</sup> The district court found that the *SAT* infringed on the *Seinfeld* copyright because it uses fictional content that is protectable expression.

The district court also considered the fair use defense under section 107 of the Copyright Act, examining each of the four relevant factors.<sup>23</sup> The court first found that the purpose or character of the use factor favored the defendants. The *SAT* qualified as "criticism, comment, scholarship, or research."<sup>24</sup> The court warned against subjective judgements about quality and noted that a work should be equally eligible for fair use protection whether testing the knowledge of Castle Rock's *Seinfeld* or Shakespeare's *Hamlet*.<sup>25</sup> In addition, the court found that *SAT* was transformative, it added something new, and of a different character than the television program.<sup>26</sup>

However, the court found that the remaining three factors favored the plaintiffs. The nature of the copyrighted work—a fictional television show—was creative. In addition, the court found that the amount and substantiality of the portion used was significant. Here, the court relied on its previous finding of substantial similarity although it proceeded to evaluate

---

21. See *Castle Rock II*, 150 F.3d at 139.

22. See *Castle Rock I*, 955 F. Supp. at 266.

23. See 17 U.S.C. § 107 (1976). The statute provides:

in determining whether the use made of a work in any particular case is fair use the factors to be considered shall include—1) the purpose or character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes, 2) the nature of the copyrighted work; 3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and 4) the effect of the use upon the potential market for or value of the copyright work.

*Id.*

24. See 17 U.S.C. § 107 (1976). The statute provides:

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.

*Id.*

25. See *Castle Rock I*, 955 F. Supp at 267.

26. The Supreme Court in *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994), defined transformative as whether, "the new work merely 'supersedes the objects' of the original creation, or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message." *Id.* at 579.

the borrowed material contained in the *SAT* from both a quantitative and qualitative perspective.<sup>27</sup> The court found that the *SAT* borrowed a substantial portion because it appropriated essential elements and captured the essence of *Seinfeld*, “that there is humor in the mundane, seemingly trivial, aspects of every day life.”<sup>28</sup> Although the book transformed the program by converting its elements into a trivia format, “[s]imply put, without *Seinfeld*, there can be no *SAT*.”<sup>29</sup>

Finally, the court analyzed what it termed the most important element of the fair use analysis, the effect of the use upon the potential market for or value of the copyright work.<sup>30</sup> The court agreed that the book complements *Seinfeld*, that it has not diminished interest in the show, and that it is of value to a regular viewer of *Seinfeld*. It also agreed that the book fills a market in which the creators have expressed little interest. However, the court emphasized that copyright law protects an artist’s expression, which includes deciding whether to create additional materials from his or her original work. Creators of original works control derivative uses that they would in general develop or license others to develop.<sup>31</sup> However, parody and critical works, by their nature, are probably better developed by persons other than the copyright owner and are not protectable. As the *SAT* does not criticize the show, but pays homage to it, the show’s creators could develop this complementary material. The court determined that the fourth factor and the overall analysis did not support a finding of fair use.

## B. The Second Circuit Decision

The Second Circuit affirmed the district court’s judgment in favor of Castle Rock, finding unlawful copying without fair use.<sup>32</sup> The Second Circuit began its infringement analysis by evaluating whether the *SAT* copied sufficient material to be considered substantially similar to the television program. The court applied the “de minimis” test outlined in *Ringgold v.*

---

27. Quantitative analysis includes an assessment in numbers or percentages of how much of the copyrighted work has been incorporated into the derivative work. See *Harper & Row*, 471 U.S. at 564-66; Qualitative analysis assesses the value of the borrowed material to the copyrighted work. Even small amounts of material taken from the original work can be substantial, if what is appropriated constitutes the “heart” of the original work. *Id.* at 564-66.

28. See *Castle Rock I*, 955 F. Supp. at 269.

29. *Id.* at 269.

30. See *Castle Rock I*, 955 F. Supp. at 270-71.

31. See *id.* at 271 (quoting *Campbell*, 510 U.S. at 592).

32. See *Castle Rock II*, 150 F.3d at 135.

*Black Entertainment Television Inc.*<sup>33</sup> This test examines whether the amount copied was more than de minimis and whether the material copied was expression or idea. Analyzing the material borrowed from the television series as a whole, the court found that the 643 fragments taken from the series plainly crossed the quantitative threshold. In its qualitative assessment of the copied material, the Second Circuit did not expand upon the district court's analysis of the fact-expression distinction. The Second Circuit opinion reiterated the district court's application of *Feist*—unlike listings in a telephone book, each “fact” tested in the trivia book owes its origin to an act of authorship by *Seinfeld's* writers. However, the Second Circuit did acknowledge the special nature of popular culture derivatives. The court noted the blurred line between unprotected fact and protected creative expression by alluding to the real political discourse between Murphy Brown, a fictional single, working mother and then Vice President Dan Quayle.<sup>34</sup>

The Second Circuit also considered the fair use defense. It began its analysis with the Constitution. It found that, ultimately, judicial assessment of fair use should turn on whether copyright's goal of promoting the Progress of Science and the useful Arts “...would be better served by allowing the use than by preventing it.”<sup>35</sup>

Contrary to the district court, the Second Circuit did not find any transformative purpose to the *SAT*. It described the book as merely repackaging *Seinfeld* to entertain *Seinfeld* viewers. Further, the appellate court rejected the district court's classification of the *SAT* as “criticism, comment, scholarship, or research.” Instead, the Second Circuit applied a test requiring both a transformative and educational purpose, conflating two elements of the analysis. The court suggested that a critical analysis of the show or a research guide may have qualified as a transformative, educational pur-

---

33. See *Ringgold v. Black Entertainment Television, Inc.*, 126 F.3d 70, 75 (2d Cir. 1997).

34. *Murphy Brown* was a successful situation comedy in the 1980's and 1990's that followed the lives of Murphy Brown, a television newswoman, and her co-workers. The cited incident arose when the character Murphy Brown was about to become an unwed mother. In a public speech, Vice-President Quayle accused the television character Murphy Brown of corrupting the nation's morals by having a child out of wedlock. See David G. Savage, *Quayle Vows White House Will Fight To End Legal Abortion* L.A. TIMES, June 12, 1992, at 18. The comment sparked a media frenzy and a fictional response from the TV character to the vice president's comments about family values and his criticisms of her choice. See Tom Shales, *Murphy Brown's Quayle Shoot; Season Opener a Sanctimonious Letdown* THE WASH. POST, Sept. 22, 1992, at B1; *Quayle and the boomerang thing* THE BOSTON GLOBE, May 21, 1992 at 20.

35. See *Castle Rock II*, 150 F.3d at 141.

pose. However, the *SAT* did not try to expose *Seinfeld's* “nothingness” or educate the public, it “simply pose[d] trivia questions.”<sup>36</sup> Finally, the court found the *SAT's* creative contribution of levels of difficulty and hiding correct answers among false ones as minimal, and further evidence of a lack of transformative, educational purpose.

The Second Circuit also rejected the district court's reasoning that a finding of substantial similarity in the infringement analysis “should suffice for a determination that the third fair use factor favors the plaintiff.”<sup>37</sup> Because a court will not reach the question of fair use until there has been a finding of substantial similarity, the third factor would always favor the original copyright owner under the district court's standard. Thus, the Second Circuit applied a more restrictive standard to the third factor's analysis.<sup>38</sup> The court noted that an examination of the amount and substantiality of the portion of the copyrighted work used must focus on whether “[t]he extent of ... copying is consistent with or *no more than necessary* to further ‘the purpose and character of the use.’”<sup>39</sup> Although the court questioned the validity of classifying the *SAT* as a commentary, the court still applied this “no more than necessary” standard to the *SAT*. The Second Circuit found the *SAT's* use of 643 show fragments excessive to expose *Seinfeld's* nothingness in a critical commentary.

Finally, the Second Circuit examined the effect of the *SAT* on the potential markets of the television series. The court focused its analysis on whether a secondary use, such as the *SAT*, “usurps or substitutes for the market of the original work.” The court held that the *SAT* substituted for a derivative market the copyright owner “would in general develop or license others to develop.”<sup>40</sup> Castle Rock could develop promotional, en-

---

36. See *Castle Rock II*, 150 F.3d at 143.

37. See *id.* at 144 (quoting *Castle Rock I*, 955 F. Supp. at 269-70 (quoting *Twin Peaks*, 996 F.2d at 1377)).

38. This standard was developed in *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994). In *Campbell*, the Supreme Court determined that a “parody must be able to conjure up at least enough of the [the] original work to make the object of its critical wit recognizable” *Id.* at 588. The *Campbell* standard is overly restrictive as applied to derivative works as a whole. Parodies are just one special form of derivative works, which the courts have considered fair use of the pre-existing material. It is non-sensical to focus fair use analysis of all types of derivative works on the “amount” of material necessary to conjure a remembrance of it. Derivative artists build on pre-existing materials in various ways. It is the artist who chooses what is necessary to promote the new creativity activity. The court should focus its analysis on what value has been added to the work, not an arbitrary threshold.

39. See *Castle Rock II*, 150 F.3d at 144 (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586-87 (1994)).

40. See *id.* at 145 (quoting *Campbell*, 510 U.S. at 592).

tertaining material on its own. Fair use does not protect works such as the *SAT*.

### III. DISCUSSION

The *SAT* is just one example of many creative works derived from copyright protected popular culture subjects. Television shows and movies such as *Seinfeld*, *Star Trek*, *The X-Files*, and *Star Wars* have enjoyed wide popularity and generated tremendous fan interest.<sup>41</sup> These shows have elicited hundreds of creative extensions of the programs, from newsgroups discussing last week's episode, to fan fiction sites composing new plot twists and published paper-guide books. Owners of the copyrights for *Star Wars*, *Star Trek*, and *The X-Files* have taken advantage of this derivative works right to create movies, books, and even action figures based on their original creations. They have also engaged in selective enforcement of their copyrights, permitting, for example, many fan web sites.<sup>42</sup>

*Castle Rock* is one of three recent cases in which the court has specifically analyzed copyright infringement claims involving fan books based on popular television series. *Twin Peaks Productions Inc. v. Publications International*<sup>43</sup> involved the book, *Welcome to Twin Peaks*, which contained detailed plot summaries of the first eight episode of the short-run, cult television show and some commentary on the show's popularity, music and creators. *Paramount Pictures Corp. v. Carol Publishing Group*<sup>44</sup>

---

41. A web search for "Seinfeld" yielded 708,400 hits on January 29, 1998. Similarly, a web search for "X-Files" yielded 173,625 hits, including episode guides, frequently asked questions, in-joke lists, quizzes, role playing, cartoons, comic strips and fan fiction.

42. See *Paramount Pictures v. Carol Publishing*, No. 97-CV-8500 SAS SC., 1998 WL 357337, at \*1 (S.D.N.Y. 1998). (noting that Paramount Pictures, the owner of the *Star Trek* properties, has engaged in selective enforcement of its intellectual property rights.)

43. 996 F.2d 1366 (2d Cir. 1993).

44. 1998 WL 357337, at \*1. In 1997, Ramer, a devoted Trekker, created the "The Joy of Trek: How to Enhance Your Relations with a STAR TREK Fan." Paramount filed a motion for a preliminary injunction. The court found the *Joy of Trek* substantially similar to *Star Trek*. The district court applied the test for substantial similarity in *Knitwaves v. Lollytogs Ltd.*, 71 F.3d 996, 1001 (2d Cir. 1995), "whether a lay observer would recognize the alleged copy as having been appropriated from the copyrighted work." The book both directly quoted dialogue like "live long and prosper" and "make it so" and copied fictitious facts through retelling of the story. The *Joy of Trek* is such a book. In its fair use analysis, the court recognized that Ramer, was motivated to a large extent, by a desire to help others understand the typical Trekker. This genuine motivation to serve a broader public purpose helped balance the book's commercial nature. However, the court

involved the book, *The Joy of Trek: How to Enhance your Relations with a Star Trek Fan*, which contained commentaries on the Star Trek shows and movies, advice on how to relate to a trekker, and descriptions of major plots, personalities, alien species and technologies that appeared throughout the show's thirty-year history. In each case, the court found that the derivative book infringed the original and that no fair use defense was available.

These three cases illustrate the limitations of current derivative rights doctrines in the context of popular culture works. The structure of the current analysis stacks the deck against unauthorized popular culture derivatives—such works will almost always be substantially similar to the original because the work is designed to evoke the original's character and style. This approach does not adequately address the special nature of popular culture works, including the blurred line between fact and fiction, the reduced need to provide incentives to create television series, the social significance of permissible use of cultural vocabularies and the extreme fan interest and creativity in this field. Continued application of current idea-expression, substantial similarity and fair use doctrines to popular culture derivatives will prevent findings of non-infringing use.

#### A. Serving the Goals of the Copyright System

Popular culture derivatives serve the copyright system's basic purpose of enhancing and expanding the public domain of creative works. In fact, these works represent a flourishing field of creative activity.<sup>45</sup> This creative activity is often discounted as less valuable to the creative bank because it does not fall into traditional categories of high art.<sup>46</sup> The addition of original material ranges from the creativity involved in organizing and compiling detailed summaries of a television show's history to the composition of new stories involving the show's characters.<sup>47</sup> Popular culture subjects engage the public on a massive scale, including more people in

---

Ramer's motivation and humorous retelling of the Star Trek stories did not add enough transformative value to warrant a finding of fair use.

45. See Rebecca Tushnet, *Legal Fictions: Copyright, Fan Fiction, and a New Common Law*, 17 LOY.L.A. ENT. L.J. 651 (1997) (providing extensive discussion of fan fiction and the functions it serves for authors and audiences, and arguing for copyright protection for non-commercial fan fiction).

46. See JENKINS, *supra* note 5, at 53, 18-19; See also Tushnet, *supra* note 45, at 666.

47. Other creative products include trivia books, role playing, crossword puzzles, character guides, cartoons, comic strips, discussion groups, discussion books, new plots and stories.

the creative process than might ever have participated.<sup>48</sup> If popular culture derivatives encourage creativity and wide-scale participation, what justifies the copyright system's limitation on this creativity? Copyright should respect these creative endeavors and encourage their contribution to the public domain. A finding of permissible use in an individual case should depend on a balancing of the competing policy goals of the copyright system. As a starting point, courts must restructure their analysis of popular culture works to allow for the possibility of non-infringing uses.

**B. Rethinking the Infringement Analysis: Should popular culture symbols be available for public use?**

Application of a traditional infringement analysis does not allow fan compendiums to qualify as creative, non-infringing uses. Developing a workable approach to popular culture derivatives involves a re-evaluation of what should constitute protectable expression and unprotected ideas.

Generally, copyright law allows for the free use of the underlying ideas of a creative work. Section 102(b) states that “[i]n no case does copyright protection for an original work of authorship extend to any idea ... regardless of the form in which it is described, explained, illustrated, or embodied in such work.”<sup>49</sup> This provision allows others to use ideas in the creation of new works, thereby benefiting the public interest. A person cannot copyright the idea of two young lovers, from different backgrounds and fighting families, who unsuccessfully overcome adversity to be together. However, the author can obtain a copyright for his or her particular expression of that idea such as the creators of *Romeo and Juliet* and *West Side Story*.<sup>50</sup> Copyright law also does not extend protection to facts, which were defined by the Supreme Court in *Feist* as material that does not owe its origin to an act of authorship.<sup>51</sup> In the infringement analysis, the court first identifies the protectable elements of the work distinguishing unprotected ideas and facts from protectable expression. The court finds unlaw-

---

48. See Tushnet, *supra* note 45, at 655 n.28-29 (“Unlike ‘high’ art, fan fiction draws on popular culture in ways that are easy for large communities to understand and enjoy. Modern technology allows fans to reach other similar minds at minimal cost.) See JENKINS, *supra* note 5 (discussing the scope and breadth of fan activities).

49. The Supreme Court first examined the idea-expression dichotomy in *Baker v. Shelden*, 101 U.S. 99 (1880). In that case, the court held that the author of a new ledger accounting system could receive copyright protection for the expression of his system in his explanatory book, but not for the ideas that the book described.

50. See 4 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* §13.03[A][1][b], at 13-33 (Sept. 1998).

51. See *Feist*, 499 U.S. at 347.

ful infringement when a derivative artist has used enough *protectable material* to identify a derivative work as substantially similar to the original

The Second Circuit in *Castle Rock* ended its analysis of the idea-expression dichotomy too abruptly by asserting that the content of the *SAT* owes its origins to a writer and therefore is protected expression. The line between fact or idea and fictional expression in a popular culture work cannot be so easily drawn. At a certain point, fictional worlds become so prevalent in everyday lives that people consider them a part of reality.<sup>52</sup> Through the public's embrace, these works become something more than the bare expression portrayed in a broadcast of a television program.<sup>53</sup> Intuitively, it is easy to understand the characterization of some popular television show's as "having a life of their own" when you look to the frenzy shows like *Star Trek* and *Seinfeld* have generated.<sup>54</sup>

The courts have not been entirely blind to the problem posed by popular culture works in their idea-expression analyses. Even the district court in *Castle Rock* noted that "defendants have identified a rather creative and original way in which to capitalize upon the development of a 'TV culture' in our society; a culture in which the distinction between fiction and fact is of declining consequence, and in which people are as concerned with the details of the former as the latter."<sup>55</sup> The Second Circuit also acknowledged the melding of fact and fiction alluding to the "real" political discourse between Vice President Quayle and the fictional char-

---

52. See JENKINS, *supra* note 5, at 18, ("Fans seemingly blur the boundaries between fact and fiction, speaking of characters as if they had an existence apart from their textual manifestations, entering into the realm of the fiction as if it were tangible place they can inhabit and explore...What may make all of this particularly damning is that fans cannot as a group be dismissed as intellectually inferior; they often are highly educated, articulate people who come from the middle classes..."). See also *id.* at 23-24, (discussing how fans become active participants in the construction and circulation of meaning and cease to simply be an audience for popular texts); *id.* at 277-87 (summarizing the nature of fandom and discussing how the nature of fandom challenges media industry's claims to hold copyrights).

53. See *id.* at 279 ("Once television characters enter into a broader circulation, intrude into our living rooms, pervade the fabric of our society, they belong to their audience and not simply to the artists who originated them.").

54. From the day Jerry Seinfeld announced the 1997-1998 television season would be the last, news about the show made lead headlines on television shows, in *People* and other news magazines, and newspapers. "Even the august *New York Times*, judged the newsworthiness of the story by placing it on top of its first page. The next day it followed up the with a long string of just-plain-folks interviews chronicling the reactions of the program's about-to-be bereaved fans and [made it] the lead editorial ... the day after that." Frank Reuven, *After Seinfeld*, THE NEW LEADER, Jan. 26, 1998, at 20.

55. See *Castle Rock I*, 955 F. Supp. at 268.

acter Murphy Brown.<sup>56</sup> These comments reflect an understanding that fiction and reality are not always separable. However, the copyright system continues to preserve this separation; if something is expression, it cannot be used in a popular culture derivative work.<sup>57</sup>

Courts have had difficulty drawing the line between idea and expression.<sup>58</sup> However, instead of protecting less and preserving a greater public domain, these courts have often protected more. In *Metro-Goldwyn-Mayer, Inc. v. American Honda Motor Co.*,<sup>59</sup> the owners of the James Bond properties filed a copyright infringement suit against Honda. They sought a preliminary injunction to prevent the airing of a Honda del Sol sports car commercial that included "a fast-paced helicopter chase scene featuring a suave [British] hero and an attractive heroine, as well as a menacing and grotesque villain."<sup>60</sup> In their motion for summary judgment, the plaintiffs alleged that the Honda commercial infringed on the James Bond's copyright because it borrowed the *expression* of the character delineated in those films. The court held that ideas of a high-thrill chase, with an ultra cool, charming action hero who likes high-tech gadgetry expressed James Bond's unique character and warranted copyright protection.<sup>61</sup> While James Bond does appear to present a unique case for the protection of a selection and arrangement of common ideas, overprotection of this popular culture work may stifle further creativity.

It may be impossible for the copyright system to adopt an easily applied and appropriate standard to distinguish between idea and expression in popular culture contexts. While the material included in the *SAT*, the *Joy of Trek*, and other fan guide books for television shows clearly owes its origin to an act of authorship, at some point this material should not be protected as expression because of its widespread incorporation into social vocabularies. The public interest goals of encouraging creativity and permitting use of cultural symbols require courts to begin development of criteria to reassess protectable elements of popular culture works. The dif-

---

56. See *supra* note 34.

57. Owners of original popular culture works face conflicting incentives—"[t]he owners of popular culture forms, which constitute our most widely shared culture ... are in the contradictory position of encouraging the widespread uses of Batman, Superman, and Snow White. But when those forms are used spontaneously ... the owners want to take them back." See Tushnet, *supra* note 45, at 686 n.7 (quoting JANE M. GAINES, *CONTESTED CULTURE: THE IMAGE, THE VOICE, AND THE LAW* 228 (1991)).

58. See Jonathan S. Katz, *Expanded Notions of Copyright Protection: Idea Protection within the Copyright Act*, 77 B.U.L. REV. 873, 876 (1997).

59. 900 F. Supp. 1287 (C.D. Cal. 1995).

60. See *id.* at 1291.

61. See *id.* at 1295-97.

ficuity is identifying usable criteria. The first step to developing a workable standard is openness to the possible transformation of protected expression into unprotected idea. The next step might include a consideration of several factors, including how long a work has been available to the public, the degree of measurable popularity, or the amount of intimate incorporation of show's content into social consciousness. However, these factors are difficult to measure. How engrained in the minds of the public does a work have to be in order to be available for use? Should copyright owners automatically give up control over a work's integrity and profit because they have created a popular work? A alternative standard might provide for use of popular culture expression only as an exception to a general rule against permissive use. At some point, it is fair for someone other than the copyright owner to use this new public product for a new creative purpose. However, developing a workable standard to determine the point at which popular expression becomes a public product may continue to prevent the courts from changing their approach to popular culture derivatives.

The *SAT* provides a good illustration of expression that might be reclassified usable material. *Seinfeld* reached the heights of popular culture enthusiasm. Knowledge of *Seinfeld*'s antics not only became regular water cooler fodder but also was appropriated by the public as its own. The creators asked the television audience to embrace the character's lives, profited widely from this embrace, but then asked the court to limit how audience members could further engage in this fictional world. The *SAT* used what was already an intimate part of the viewer's reality.

### C. Rethinking the Fair Use Analysis

The Second Circuit's focus on the overall goals of the copyright system was proper. However, the standards applied by the Second Circuit does not provide a satisfactory framework to assess popular culture derivatives. Popular culture derivatives serve the copyright system's basic purpose of enhancing the public domain through the creation and exchange of creative works. In fact, these works represent a flourishing field of creative activity that involves intense interest from people who may not have otherwise participated in creative activity.<sup>62</sup> Fair use analysis must at least allow for the possibility of non-infringing use of fan derivatives of popular culture material.

---

62. See Tushnet, *supra* note 45, at 655 n.28-29; JENKINS, *supra* note 5 (discussing the scope and breadth of fan activities).

1. *Recognizing Transformative Value in Popular Culture Works*

The courts' application of the first fair use factor unnecessarily weighs against the granting of derivative rights to artists who use works of popular culture. First, it leads to improper value judgments about what constitutes "criticism, comment, scholarship, or research." Second, it ignores the "transformative" value of derivative works.

In *Castle Rock*, *Twin Peaks*, and *Paramount Pictures*, the courts acknowledged that popular culture derivative works may lead to unfair subjective judgments about the purpose and character of the use. In fact, these courts caution that such works should be judged equally in an assessment of educational purpose, regardless of their subject matter. Despite this self-awareness of potential prejudice, the Second Circuit failed to find an educational purpose in its review of *Welcome to Twin Peaks* and the *SAT*.<sup>63</sup> It appears that the Second Circuit would have found an educational purpose if the *SAT* had challenged a reader's knowledge of the details of Shakespeare's plots, characters, and themes—but not *Seinfeld's*. The district court in *Castle Rock* correctly set aside cultural bias in finding that the *SAT* had an educational purpose. In order for popular culture derivative works to survive fair use analysis, courts must fairly evaluate a work without elitist notions of suitable subject matter.<sup>64</sup> However, a finding of educational purpose should not automatically weigh the first factor in the infringer's favor. The district court in *Castle Rock* correctly identified the central inquiry of the first factor as an evaluation of the "transformative" nature of the work.

Evaluation of a work's transformative value focuses the analysis on the creative content added to the pre-existing work. The more transformative a work, the more creative content contributed to the public domain. A

---

63. See Tushnet, *supra* note 45, at 666, ("Any evaluation of productive use must also address the contempt and distaste in which fans are held, especially by the cultural elites.... Indeed, if all popular fiction had to pass judges' tests of worthiness, it is doubtful that more than a small percentage would be found creative.")

64. In *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239 (1903), Justice Holmes wrote

It would be a dangerous undertaking for persons trained only to the law to constitute themselves as the final judges of the worth of pictorial illustrations, outside the narrowest and most obvious limits. At one extreme, some works of genius would be sure to miss appreciation. Their very novelty would make them repulsive until the public had learned the new language in which the author spoke ... at the other end, copyright would be denied to pictures which appealed to the public less educated than the judge....

*Id.* at 251-52.

work is transformative when it adds something new to another work with a further purpose or different character, altering the first with new expression meaning or message.<sup>65</sup> Fan derivatives of popular culture works include varying degrees of creativity from the regurgitation of plots of the first eight episodes of *Twin Peak* as in *Welcome to Twin Peak*, to the summary of 30 years of Star Trek fictional history in the *Joy of Trek*, to the creation of new stories in web fan fiction.

If the goal of the copyright system is to encourage creative activity, then substantial improvements on previous works, even if they borrow the heart of the pre-existing work, contribute to the overall creative bank. While incentives to create popular culture derivatives do not appear to be a problem, the copyright system does not sanction this creative activity and vigorous enforcement could ultimately eliminate it. Given the importance of and prevalence of works that build on existing works, the fair use defense should be interpreted to allow more improvers to share in the value of the work.

Derivative rights doctrine should begin by focusing on what has been added to the work rather than on what has been taken.<sup>66</sup> Mark Lemley's "radical improver rule"<sup>67</sup> provides a useful framework to balance the relative contributions made by the original copyright owner and the improver. The "radical improver rule" allows copyright doctrine to focus on the value of the new work and its relative contribution.<sup>68</sup> The courts' current approach ends the fair use analysis when a market harm is identified without a relative balancing of harm against added value.<sup>69</sup> If an improver has added substantial value to a pre-existing work, that value should be re-

---

65. See *Campbell*, 510 U.S. at 577.

66. See Mark Lemley, *The Economics of Improvement in Property Law*, 75 TEX L. REV. 989 (1997). Lemley uses Tom Stoppard's play *Rosencrantz and Guildenstern are Dead* to illustrate the value of shifting focus from what has been taken to what has been added. He notes,

The entire play focuses on two minor characters from Shakespeare's Hamlet, telling their story (and in the process, telling portions of Hamlet from a different perspective). Hamlet is of course in the public domain ... [but] one can imagine the author of the underlying work wishing to capture the value of Stoppard's work as well, on the theory that it is after all derivative of his masterpiece. Such a copyright claim should fail, not because there is no copying (there is), but because the principal value of Stoppard's play lies not in what he has taken, but in what he has added.

See *id.* at 1080.

67. See *id.* at 1075-77.

68. See *id.* at 1077.

69. See *id.* at 1075.

warded and weighed favorably against market harm. This test requires careful balancing. If a derivative work adds substantial value but eviscerates a copyright owner's licensing market, then fair use should not be allowed. This rule can apply to both popular culture and non-popular culture derivatives.

Since popular culture derivatives use the "heart" of the pre-existing work, it seems fair to require the addition of a substantial level of creative content to qualify for fair use. Although the copyright owner may lose some value through unlicensed use, the overall system benefits from the addition of substantial creative content and the encouragement of a flourishing field of creative activity. In *Castle Rock*, the district court found that Golub's contribution of levels of difficulty and wrong answers possessed transformative value. The appellate court conflated the educational purpose and transformative analysis to require a transformative educational purpose, such as critical commentary on the show's nothingness. Neither approach helps define the right level of creativity to qualify for fair use. Under a "radical" improver rule, it is unclear whether Golub's creative additions to *Seinfeld* should be considered substantial, even though they do transform *Seinfeld*. While the *SAT* required substantial time and effort to bring together minutiae in a clever format, only the organization, headings, and wrong answers can be counted as new creative content. This type of creativity is probably not enough to justify a limitation on the creator's control over his or her work. A stronger argument can probably be made for a work like the *Joy of Trek*, which contains both traditional and protectable commentary as well as previously unprotectable summaries of fictional histories highlighting and synthesizing material from 30 years of television shows and movies. A stronger argument can also be made for a work of fan fiction that uses a show's characters but creates original plots and dialogue.

2. *Review of "amount and substantiality of the portion used in relation to the copyrighted work as a whole" in the fair use analysis*

If courts continue to apply the substantial similarity finding in the infringement analysis to their consideration of the third fair use factor as the district court did in *Castle Rock*, then the third factor will always weigh heavily against popular culture derivative works. The Second Circuit rejected this rule, focusing instead on whether the derivative work borrowed "more than necessary" in order to serve its suggested purpose. The Second Circuit arrived at the correct standard for derivative popular culture works.

### 3. *Balancing Market Effect*

The Copyright Act provides copyright owners with monopoly control over their works in order to encourage investment in creativity. However, the full power of this monopoly may not be necessary to encourage investment in the creation of mass appeal products. Television programs and movies are part of a well-functioning market.<sup>70</sup> More permissive fair use of popular culture subjects will not likely limit the creation of the original works, the television series themselves.<sup>71</sup> The success of television shows is dependent on an interested and engaged audience.<sup>72</sup> Derivative works both reflect and feed on audience engagement. The copyright owner may not need as much control to invest in creation. However, an incentive system would be ineffective if the author could not depend on a certain level of return on their investment. There is room to allow *some* popular culture derivative works to exist. The difficult question is how much. What ends up as fair use of a popular show may be limited to very few works because of the effect on incentives. For example, fair use may be limited to works

---

70. See John Steele Gordon, *What Desi Wrought*, AMERICAN HERITAGE, Dec. 1, 1998, at 20. In 1998, one movie's (*Titanic*) worldwide box office was over a billion dollars. \$1.7 billion dollars was paid for the syndication rights to *Seinfeld*. See Joe Schlosser, *The funny money in off-net: Seinfeld leads way as broadcasters and cable pony up and up for high profile sitcoms*, BROADCASTING AND CABLE, Feb. 23, 1998 at 18. The syndication market for network television shows has never been as lucrative. Industry sources say that the price per episode for the broadcast of *Seinfeld* in syndication will shatter financial records surpassing its first cycle price of \$3-4 million per episode. There are more buyers and television stations in the market that ever before. Shows are selling at higher prices, earlier in their run to both broadcast and cable networks.

71. Networks stand to reap tremendous potential payoff for developing a successful television series from the advertising revenue and syndication rights alone. *Seinfeld* generated 200 million a year in profits for NBC. The syndication rights sold for \$1.7 billion. See *Forever Seinfeld in the absurd sitcom universe created by Jerry Seinfeld (and Larry David), warm fuzzy were banished, and only laughter ruled*, PEOPLE, May 14, 1998, at 8. In addition, one successful TV series can anchor otherwise poor-performing shows to generate revenue. *Seinfeld* anchored the Thursday night line-up on NBC providing boosts to several shows which would not have commanded as high an advertising price or generated as much revenue. See Reuven, *supra* note 54, at 20. Networks will not likely stop vying for this revenue and participating in television production all together if fans are allowed limited use of facts from the show to create a derivative work, like a trivia book.

72. See Reuven, *supra* note 54, at 20. *Seinfeld's* consistent success in the Nielsen ratings (which measure a television's show share of audience), translated into heavy advertising revenue. Commercial success is dependent on fan engagement in the product. Fan interest has also saved shows from cancellation and enabled programs to have commercial success. For example, fan interest in *Star Trek* brought the show back on the air after NBC cancelled the series. See JENKINS, *supra* note 5, at 28.

that test the meaning of phrases like “yada, yada, yada”<sup>73</sup> which once originated in the mouth of a fictional character but now are a part of our social vocabulary. The court’s inability to find a workable approach to incorporate this creativity while protecting the copyright owner’s rights to derivative markets may be the biggest obstacle to finding that a fan work is fair use.

Copyright reserves all markets for the copyright owner that the copyright owner would in general develop for their work.<sup>74</sup> Fan derivatives are usually thought to fall into an area that the copyright owner could develop. However, a fan work is likely to have a different quality that cannot be reproduced by the original creator.<sup>75</sup> Courts have identified parodies and critical commentaries as fair uses that are better exploited by someone other than the copyright owner. Perhaps a fan is uniquely equipped to feed the demands of other fans in a way the copyright owner can not. One commentator writes, “Fans often see these commercial publications as hackwork lacking the affection, dedication, and rigor fans bring to similar projects. As a result, they supplement rather than displace the amateur guides.”<sup>76</sup> Left to their own economic choices, as in the case of *Seinfeld*, the copyright owner may engage in little or no effort to develop derivative markets. Even when more substantial effort has been made, the copyright owner’s development of fan materials may not be enough to satiate interest. Although fans have developed these works in spite of copyright’s prohibitions, the system should formally accommodate these creative activities.

The copyright owner will no longer be able to totally control the integrity of their work if the system provides for more fair use of popular culture material. Allowing others to appropriate copyrighted material affects

---

73. Yada, Yada, Yada is a versatile phrase which means to cut a long story short, which as the advantage of succinctness but the disadvantage that crucial information may be left out. See *Yada, Yada, Yada from Buck Naked to bad naked, from spongeworthy to skiksappeal, Seinfeld thrived on a love of words, words, words*, PEOPLE, May 14, 1998, at 34.

74. See *Campbell*, 510 U.S. at 592.

75. See JENKINS, *supra* note 5, at 69-70. (“When professional program guides appear, they lack both the accuracy and detail of the fan versions; such books typically make mistakes such as misnaming minor characters, providing vague or misleading explanations for motivations, and distorting narrative actions and their consequences.”) Jenkins also argues that fans should be allowed to appropriate the works. This appropriation allows viewers to remake the works so that the material can better speak to the audience’s culture interest and more fully address their desires. *Id.* at 278-79. Fan material becomes a cultural discourse through the collaboration and exchange among the fan communities.

76. See JENKINS, *supra* note 5 at 70.

not only the moral protections afforded to copyright owners but the economic power of their works. An unauthorized fan book could get elements of the show wrong or tarnish the show's image. Further, artists who enjoy mainstream popularity may lose control over their expressions simply because they are successful. The implication may be that if your work is poorly received, you will have perfect control; if it is popular, derivative artists will have some liberty to make fair use of it. This loss may be an inevitable risk of production and promotion of popular culture works.<sup>77</sup> The copyright owner's loss of control is a real concern. This concern should be balanced against whether the system would be better served by allowing the work or not. If the potential loss of integrity diminishes the original work's overall value or discourages creation of the original work, then that loss should also be measured against the creative contribution of the derivative work. If the total creative value available to the public is increased without substantial injury to the original creator, then fair use should be permitted.

Works based on popular television programs that are published and sold in the marketplace can understandably be characterized as a profit-motivated use of copyrighted material. They appear to entertain and are derived from commercially successful originals. They are sometimes sold for profit. However, fan works, even if sold for profit, can be created for non-monetary reasons.<sup>78</sup> For example, in *Paramount Pictures*, the district court acknowledged that Ramer, the *Joy of Trek's* author, appeared genuinely motivated by a desire to educate people about Star Trek.<sup>79</sup> Other fan

---

77. See Tushnet, *supra* note 45, at 686 n.7 (quoting JANE M. GAINES, *CONTESTED CULTURE: THE IMAGE, THE VOICE, AND THE LAW* 228 (1991)) ("The owners of popular culture forms, which constitute our most widely shared culture...are in the contradictory position of encouraging the widespread uses of Batman, Superman, and Snow White. But when those forms are used spontaneously...the owners want to take them back."); Rochelle Dreyfuss, *We are Symbols and Inhabit Symbols, So should we be paying rent? Deconstructing the Lanham Act and rights of publicity*, 20 COLUM.-V.L.A.J.L. & ARTS 123 (1996). The law has increasingly privatized more and more of our culture's symbolic resources out of the public domain. Dreyfuss warns against the trend of the court's affirmation of private ownership of cultural symbols. *Id.* at 129. The purveyor of the image should not be able to capture the entire value of an image. The audience should also be able to benefit from a cultural symbol because the audience often provides an image the strength of its meaning. *Id.* at 140-42.

78. See JENKINS, *supra* note 5, at 154-56, 162-177. "Almost as striking is how writing becomes a social activity for these fans, functioning simultaneously as a form of personal expression and as a source of collective identity...." *Id.* at 154. Jenkins describes numerous ways and reasons why fans appropriate material. *Id.* at 162-77.

79. In addition, "[w]hile The Joy of Trek's publishers undoubtedly hope to realize a profit, this fact is not dispositive as many traditional educational publishers, whose prod-

derivatives like web fan fiction are typically completely non-commercial and probably motivated by a love of the show. Courts have interpreted the effect on potential markets generously, denying a finding of fair use for any impact on a market the copyright owner might develop.<sup>80</sup> With the current application of this factor, fair use of popular culture works can not be granted. The analysis should be changed to allow for the possibility of fair use.

The market effect factor should be decided in favor of a derivative artist if a finding of fair use best serves the goals of the copyright system. A derivative work that adds substantial creative content to the pre-existing work serves the public interest. The value of the additional creative content should be measured against the influence the market loss will have on copyright owner's willingness to invest in creation. The comparison should not simply begin and end with the identification of market effect. All market effects should not be equated with a significant decline in the initial copyright owner's investment in creative activity. Given the level of creative interest in this field and the social significance of allowing the audience to use their own cultural vocabulary, fair use analysis should permit a finding of fair use, even if it is only available in select cases.

#### IV. CONCLUSION

Copyright owners of television show send their fictional worlds and characters into our homes every week and ask us to embrace them, to make them an indispensable part of our lives. However, the copyright system imposes arbitrary limits on what the audience can do with these fictional worlds. Popular culture derivatives provide a flourishing field of creative activity. To serve the overall goals of the system, the copyright law should welcome this creativity. If the courts continue to apply traditional infringement and fair use analysis to popular culture derivative works, a good deal of creative expression will be shut down without appropriate consideration. Derivative artists will not have an outlet for their own expression.

---

ucts are often deemed to be fair use, are profit motivated." See *Paramount Pictures*, 1998 WL 357337, at \*5.

80. See *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 930-31 (2d Cir. 1995) (reserving derivative markets for the copyright owner that are traditional, reasonable or likely to be developed).



## QUALITY KING DISTRIBUTORS, INC. V. L'ANZA RESEARCH INTERNATIONAL

By Christopher Morris

In *Quality King Distributors, Inc v. L'anza Research International, Inc.*,<sup>1</sup> shampoo, conditioner, and hair gel took center stage as the Court ruled on whether the 'first sale' doctrine of 17 U.S.C. § 109 provided a defense to the unauthorized importation of copyrighted goods.<sup>2</sup> Specifically at issue was whether section 109<sup>3</sup> of the Copyright Act limits section 602(a),<sup>4</sup> or whether the rights granted by section 602(a) are independent of

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. \_\_ U.S. \_\_, 118 S. Ct. 1125 (1998).
  2. The first sale doctrine of 17 U.S.C. § 109(a) provides:
    - (a) Notwithstanding the provisions of section 106(3), 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.
- 17 U.S.C. § 109(a) (1995).
3. *See supra* note 2.
  4. The relevant portion of 17 U.S.C. § 602(a) provides that
    - (a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to--
      - (1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use; (2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or (3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).
- 17 U.S.C. § 602(a) (1995).

section 106.<sup>5</sup> Section 106 provides that the owner of a copyright shall enjoy certain rights, one of which is power over distribution. While generally these rights are exclusive, the Copyright Act does subject them to limitations. One of the most important is the 'first sale' doctrine. First sale means that once an initial sale has taken place, the copyright owner loses the ability to control subsequent transfers of ownership. Another portion of the Copyright Act, section 602, deals with importation of copyrighted items. This section makes it illegal to import works without the copyright owner's permission. Prior to *Quality King*, it was unclear whether section 602 applied after a first sale had taken place.

In a unanimous decision, the Court ruled that the first sale doctrine does provide a defense to a claim of infringement arising in connection with unauthorized importation of goods.<sup>6</sup> In so holding, the Court resolved a split between the Ninth and Second Circuits on this issue. The Court also answered the important question of whether gray market imports of copyrighted material was permissible.<sup>7</sup> In finding that such imports were legal,

---

5. The relevant portion of 17 U.S.C. § 106 provides that 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; (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 (1995).

6. See *Quality King*, 118 S. Ct. at 1134.

7. The gray market has been described in several different ways and has generally come to refer to the situation in which goods, bearing an authorized trademark or embodying an authorized copy of copyrighted material, and intended for sale outside the United States, have instead entered the country without the consent of the trademark or copyright owner. See, e.g., Donna Hintz, *Battling Gray Market Goods with Copyright Law*, 57 ALB. L. REV. 1187 (1994); Christopher Mohr, *Gray Market Goods and Copyright Law: An End Run Around K Mart v. Cartier*, 45 CATH. U. L. REV. 561, 561 (1996).

Gray market goods are not counterfeits, but rather are genuine products, distinguishable from the U.S version only in the sense that that they were intended for sale abroad. The reintroduction generally comes about when third parties purchase the products from an authorized or unauthorized foreign distributor. Upon re-entry into the United

the Court dealt a serious blow to gray market opponents. As a result of the *Quality King* decision, there is now no legal remedy by which the copyright owner can prevent the unauthorized U.S. importation of her products once the initial sale has occurred.<sup>8</sup>

## I. CASE HISTORY

### A. Background Facts

The respondent in *Quality King*, L'anza Research International ("L'anza"), is a California based corporation engaged in the business of manufacturing and selling hair care items.<sup>9</sup> The labels affixed to these products were copyrighted. In the United States, L'anza sold exclusively through a network of authorized distributors, consisting entirely of professional beauty and barber salons and colleges.<sup>10</sup> As a condition of the right to sell L'anza products, these distributors agreed to market the wares only within a certain limited geographical area and only through "authorized channels." L'anza claimed that it "ha[d] advertised extensively in the United States market to create and maintain a reputation for selling exclusive high quality products which [were] only available through the authorized channels of distribution."<sup>11</sup>

---

States, the imported items compete directly in the market with the trademark holder's authorized goods. *See, e.g.*, Mohr, at 561; Hintz, at 1188.

There is a substantial body of literature on the subject. *See generally* Daniel De Vito & Benjamin Marks, *Preventing Gray Market Imports After Quality King Distributors, Inc. v. L'anza Research International Inc.*, 10 N.O. 5 J. PROPRIETY RTS. 2 (1998); Shashank Upadhye, *Rewriting the Lanham Act to Prohibit the Importation of All Gray Market Goods*, 20 SETON HALL LEGIS. J. 59 (1996); Paul Lansing & Joseph Gabriella, *Clarifying Gray Market Gray Areas*, 31 AM. BUS. L.J. 313, 314 (1993); Gilbert Lee Sandler, *Gray Market Goods: The Controversy Will Continue*, 13 BROOK. J. INT'L L. 267 (1987).

8. *See* Johnson & Johnson Products Inc. v. DAL Int'l Trading Co., 798 F.2d 633 (1st Cir. 1992) (holding that the U.C.C. does not require the purchaser of goods to investigate the title of the seller); K Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988) (upholding Customs Service interpretation of the Tariff Act which allows the importation of trademark goods so long as they were manufactured by the trademark owner or affiliate); Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) (holding that Section 42 of Lanham Act does not bar importation of trademarked items as long as goods are genuine).

9. *See* *Quality King Distributors, Inc. v. L'anza Research International*, \_\_\_ U.S. \_\_\_, 118 S. Ct. 1125, 1127 (1998).

10. *See id.*

11. *See* Brief for Respondent at 5, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

L'anza also maintained a distribution system to market its products abroad. Sales outside of the United States were discounted in price and were also made through distributors limited to certain geographical territories.<sup>12</sup> The goods at the center of the *Quality King* dispute were originally intended for foreign sale under this type of arrangement. After the initial export, they passed through several intermediaries and eventually ended up with a British company, L. Intertrade, for distribution in Malta.<sup>13</sup> Somehow a portion of the L'anza shipment was acquired from L. Intertrade by Priva Corporation, a United States company located in California. Priva then sold those goods to the Petitioner, Quality King Distributors ("Quality King"), Inc., a discount wholesaler based in Ronkonkoma, New York.

After acquiring the L'anza products, Quality King sold them to various discount retail drug stores. In January 1994, L'anza copyrighted the labels on at least some of those products.<sup>14</sup> According to L'anza, it was one month later, in February of 1994, that they discovered the unauthorized sales.<sup>15</sup>

## B. Procedural History

On February 7, 1994, L'anza filed a complaint against Quality King in the Central District of California. The suit charged that Quality King had violated its "exclusive rights under 17 U.S.C. §§ 106, 501, and 602(a) [of the Copyright Act] to reproduce and distribute copyrighted material in the United States."<sup>16</sup> Quality King filed a response in which it asserted that its

---

12. See *Quality King*, 118 S. Ct. at 1127. The goods in question were manufactured by L'anza itself in the United States. L'anza maintains that the discount is "a reflection of the fact that the company's advertising focuses on the United States, and that through its advertising and promotional activities in the United States, L'anza has already established a high quality distribution network in the United States." See Brief for Respondent at 6, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

13. It is not clear whether or not the goods actually arrived in Malta. The most that can be said is that somehow, the L'anza products made their way back into the United States. According to L'anza, the transaction with L. Intertrade included a contract to limit sales to Malta. However, subsequent sales of the goods did not contain copies of this agreement. The upshot of this is that the petitioner was not put on notice that the goods were not to be re-imported into the United States. See Brief for Petitioner at 4, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

14. See *L'anza Research Int'l, Inc. v. Quality King Distrib., Inc.*, 1995 WL 908331 (C.D.Cal. 1995) (District Court Order).

15. See Brief for Respondent at 6, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

16. See *id.* at 32(a). (Respondent's First Amended Complaint).

actions were protected by 17 U.S.C. § 109(a), the “first sale” doctrine, which allows the buyer of a product to “sell or otherwise dispose of” the item(s) purchased.<sup>17</sup> L’anza moved for summary judgment on the issue of whether the first sale principle provided a defense to Quality King’s actions.<sup>18</sup> The court granted the motion, reasoning that section 602 of the Copyright Act was intended to protect not only pirated items, but legally produced products imported into the United States without the permission of the manufacturer.<sup>19</sup> Based on this logic, the court found that the first sale doctrine did not extinguish the copyright owner’s right to prohibit unauthorized importation of copies.<sup>20</sup>

The decision was subsequently appealed by Quality King. The Ninth Circuit affirmed the ruling and held that “section 602(a) would be rendered meaningless if section 109(a) were found to supersede the prohibition on importation.”<sup>21</sup> In doing so, the court specifically rejected a contrary decision of the Third Circuit, *Sebastian Int’l Inc. v. Consumer Contacts Ltd.*<sup>22</sup>

## II. A SPLIT BETWEEN CIRCUITS

### A. Ninth Circuit Rule

Section 106(3) of the Copyright Act grants to the owner of a copyright the exclusive right to distribute that work or product.<sup>23</sup> This right, however, is subject to certain limitations, among them 17 U.S.C. § 109(a), which holds that: “(a) Notwithstanding the provisions of section 106(3), 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.”<sup>24</sup> This ‘first sale’ provision allows

---

17. See Brief for Petitioner at 44a, *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470) (Petitioner’s Answer to First Amended Complaint).

18. See *L’anza Research Int’l, Inc. v. Quality King Distrib., Inc.*, 1995 WL 908331 (C.D.Cal. 1995) (District Court Order).

19. See *id.* at \*3.

20. The court also entered a permanent injunction which prevented Quality King from ever importing or selling specified L’anza products. See *id.* at \*2.

21. See *L’anza Research Int’l, Inc. v. Quality King Distrib.*, 98 F.3d 1109, 1114 (9th Cir. 1996).

22. 847 F.2d 1093 (3d Cir. 1988).

23. See 17 U.S.C. § 106 (1995).

24. 17 U.S.C. § 109(a) (1995).

that once a copyrighted item has been lawfully purchased, the buyer may sell or dispose of the product as he or she desires.

The Ninth Circuit, in *L'anza Research International, Inc. v. Quality King Distributors, Inc.*,<sup>25</sup> was faced with whether section 109 limits section 602(a), or whether the rights granted by section 602(a) are independent of section 106. The Ninth Circuit came to the conclusion that the latter was the more correct interpretation and that the first sale doctrine was inapplicable to situations in which goods were imported into the United States without the copyright holder's permission.<sup>26</sup> In doing so, the court explicitly rejected the district court's finding that the L'anza sale had occurred outside the United States and thus not under the 'title' of section 106.<sup>27</sup> Instead, the appeals court affirmed the lower court decision based upon the belief that, "section 602(a) would be rendered meaningless if section 109(a) were found to supersede the prohibition on importation in this case."<sup>28</sup> The court reasoned that:

[j]ust as in the example offered by [*Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*],<sup>29</sup> the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels, notwithstanding the fact that the imported products were manufactured in the United States and sold by L'anza. As a result, it would contradict the congressional intent underlying §§ 106(3), 109(a) and 602(a) if we were to hold that § 109(a) barred liability under § 602(a) in this case.<sup>30</sup>

In support of this, the court found the legislative history to suggest that section 602 was not intended to be limited in scope by section 109(a)<sup>31</sup> The court was also persuaded by the argument that absent a right to control importation, L'anza would not receive the "full value" of its product.<sup>32</sup> Because imports affect the price and quantity of goods available for sale,

---

25. 98 F.3d 1109 (9th Cir. 1996).

26. *See id.* at 1116-17.

27. *See id.* at 1109.

28. *See id.* at 1114.

29. 832 F.Supp. 1378 (C.D. Cal.1993).

30. *See L'anza Research Int'l, Inc. v. Quality King Distrib.*, 98 F.3d 1109, 1114 (9th Cir. 1996).

31. *See id.* at 1115.

32. *See id.*

the Ninth Circuit found that Quality King's actions prevented L'anza from fully realizing the rights granted to a copyright owner under section 106.<sup>33</sup>

### B. Third Circuit Rule

The Ninth Circuit's decision was in direct conflict with the conclusion drawn by the Third Circuit in *Sebastian Int'l, Inc. v. Consumer Contacts*.<sup>34</sup> Sebastian was a manufacturer of hair care items sold exclusively in professional salons. In 1987, Sebastian entered into an oral agreement with the defendant, Consumer Contacts, to distribute their wares to hair care salons in South Africa. The agreement specifically limited the scope of the defendant's marketing to that country. Consumer Contacts received a shipment from Sebastian and, in direct violation of the their understanding, immediately returned the goods to the United States for resale. Sebastian discovered this and brought an action alleging copyright infringement.<sup>35</sup>

The district court held for Sebastian, finding that the copyright holder had a right to control importation of copies regardless of where those copies were made and in spite of the occurrence of a "first sale."<sup>36</sup> The Third Circuit overturned the lower court ruling, finding instead that although, "at first glance, section 602(a)--the importation clause--appears to clash with the first sale doctrine. We conclude, nonetheless, that the two provisions were intended to function interdependently and may be read in harmony with each other."<sup>37</sup> The Third Circuit reasoned that

[n]othing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a 'reward for his work.' Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive 'a more adequate award' than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.<sup>38</sup>

---

33. *See id.* at 1116.

34. 847 F.2d 1093 (3d Cir. 1988).

35. *See id.* at 1094.

36. *See Sebastian Int'l. Inc. v. Consumer Contacts Ltd.*, 664 F. Supp. 909, 920 (D.N.J. 1987).

37. *See Sebastian Int'l. Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093, 1097 (3d Cir. 1988).

38. *See id.* at 1099.

More importantly the court determined that, as a matter of statutory interpretation, the first sale defense applied to goods exported and subsequently re-imported. The court reasoned that, “[s]ection 602(a) does not purport to create a right in addition to those conferred by section 106(3), but states that unauthorized importation is an infringement of “the exclusive [section 106(3)] right to distribute copies.”<sup>39</sup> Because that exclusive right is specifically limited by the first sale provisions of section 109(a), “it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.”<sup>40</sup> In so ruling, the court acknowledged that the real issue was not the Copyright Act, but rather the legal viability of the gray market.<sup>41</sup> The resolution of such a controversy was, in the court’s view, a matter better resolved on its merits by Congress than “by judicial extension of the Copyright Act’s limited monopoly.”<sup>42</sup>

### III. SUPREME COURT DECISION

The Court began its treatment of the legal issues implicated in the dispute by noting that it was confronted with an unusual case in that L’anza was attempting to use copyright law to protect the integrity of its marketing efforts.<sup>43</sup> According to the Court however, this fact had no bearing on the proper interpretation of the relevant statutory provisions.<sup>44</sup> The Court then turned to the text of section 602(a).

The Court noted that the relevant portion of section 602(a) provides that unauthorized importation under that section was an infringement of the exclusive right to distribute copies granted by section 106.<sup>45</sup> The Court further observed that the introductory language of section 106 stated explicitly that the exclusive rights of that section are limited by sections 107 through 120.<sup>46</sup> This includes the first sale doctrine embodied in section 109(a). The Court, consistent with the reasoning offered by the Third Cir-

---

39. *See id.*

40. *See id.*

41. *See id.* (“This twist has created the anomalous situation in which the dispute at hand superficially targets a product’s label, but in reality rages over the product itself.”).

42. *See id.*

43. *See Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, \_\_ U.S. \_\_, 118 S. Ct. 1125, 1128 (1998). The real significance of the dispute is illustrated by the amicus briefs filed with the Court: Recording Industry of America, Motion Picture Association, Business Software Alliance, Wal-Mart Stores, Target Stores, and National Consumers League, among others.

44. *See id.* at 1134.

45. *See id.* at 1130.

46. *See id.*

cuit, concluded that the literal text of section 602(a) is, "simply inapplicable to both domestic and foreign owners of L'anza's products who decide to import them and resell them in the United States."<sup>47</sup>

L'anza advanced a contrary interpretation and argued that the language of the Copyright Act should be construed to disallow sales of the nature made by Quality King.<sup>48</sup> According to the Court L'anza's brief centered around two main contentions; "(1) that section 602(a), and particularly its three exceptions, are superfluous if limited by the first sale doctrine; and (2) that the text of section 501 defining an "infringer" refers separately to violations of section 106, on the one hand, and to imports in violation of section 602."<sup>49</sup> However, the Court found both of these arguments thoroughly unpersuasive, stating that "neither adequately explained why the words 'under section 106' appear in section 602(a)."<sup>50</sup>

With respect to L'anza's first contention, the Court located several flaws. L'anza's interpretation was based upon the fact that prior to the enactment of section 602(a), other portions of the Copyright Act already prohibited importation of piratical or unauthorized copies.<sup>51</sup> According to this argument, if section 602(a) only prohibited piratical copies, it would be a redundant addition to the Act.<sup>52</sup> The Court found that because "importation" almost always implies that a first sale has taken place, there is no need for section 602(a) in the face of section 602(b).<sup>53</sup> The Court however stated that it is not accurate to characterize the two sections as overlapping completely. Instead, they held that the language of section 602(a) is broader in its scope than other portions of the Copyright Act, and thus a necessary supplement to the coverage afforded by the present laws.

According to the Court, there are three main differences between the two statutes. The first is that section 602(a) is more comprehensive than section 602(b) in that at the very least, it provide a private remedy against

---

47. *See id.*

48. *See generally* Brief for Respondent, Quality King Distrib., Inc. v. L'anza Research Int'l, Inc., 118 S. Ct. 1125 (1998) (No. 96-1470).

49. *See* Quality King Distrib., Inc. v. L'anza Research Int'l, Inc., \_\_ U.S. \_\_, 118 S. Ct. 1125, 1131 (1998).

50. *See id.*

51. *See* 17 U.S.C. § 106 (1995); 17 U.S.C. § 107 (1995).

52. *See* Brief for the United States as Amicus Curiae Supporting Respondent, at 16, Quality King Distrib., Inc. v. L'anza Research Int'l, Inc., 118 S. Ct. 1125 (1998) (No. 96-1470); *See* Brief for Respondent at 19-27, Quality King Distrib., Inc. v. L'anza Research Int'l, Inc., 118 S. Ct. 1125 (1998) (No.96-1470). *See also* 17 U.S.C. § 602(b) (1995); 17 U.S.C. § 106 (1995) (prohibiting importation of piratical copies).

53. *See* Quality King Distrib., Inc. v. L'anza Research Int'l, Inc., \_\_ U.S. \_\_, 118 S. Ct. 1125, 1131 (1998).

piratical copies.<sup>54</sup> Second, the Court found that section 109 grants an affirmative right only to the “owner” of a lawfully made copy. Thus it does not provide a defense to a potential section 602(a) action brought against a non-owner “bailee, licensee, consignee, or one whose possession of the copy was lawful.”<sup>55</sup> Finally, the Court states that section 602(a) differs from section 106 because it applies the Copyright Act to copies that are neither piratical nor “lawfully made under this title,” but rather manufactured under the laws of another country.<sup>56</sup> In sum, although the Court found that the first sale doctrine of section 109(a) and the exceptions of section 602(a) are coextensive in certain situations, they also found that there is independent meaning that broadens the scope of section 602(a) beyond that of section 109(a).

In addressing L’anza’s second argument the Court focused on the interrelationship between the language of sections 106, 602 and section 501.<sup>57</sup> The Court found that the language of section 501 is consistent with the interpretation of section 602 as distinct from section 106.<sup>58</sup> The Court reasons that since section 501 contains the words “or who imports ... in violation of section 602” after phrasing that addresses violations of section 106A(a), it suggests that the two were distinct.<sup>59</sup> According to this theory, if Congress had viewed section 602 as dependent upon section 106, a more appropriate phrasing would have been “including one who imports.”<sup>60</sup> Ultimately, the Court rejected this argument stating that other

---

54. *See id.* See 17 U.S.C. § 602(b) (1995) (vests enforcement of its prohibitions in the Customs Service).

55. *See Quality King*, 118 S. Ct. at 1131.

56. *See id.*

57. *See* 17 U.S.C. § 501 (1995) (providing remedies for infringement of copyright).

58. *See Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, \_\_ U.S. \_\_, 118 S. Ct. 1125, 1131 (1998). The relevant section reads:

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. For purposes of this chapter (other than section 506), any reference to copyright shall be deemed to include the rights conferred by section 106A(a).

17 U.S.C. § 501(a) (1995).

59. *See* Brief for the United States as Amicus Curiae Supporting Respondent at p. 8-9, *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470) (17 U.S.C. § 106(A) deals with the rights of authors to attribution and integrity. section 106(A) differs in substance from section 106 and was intended to grant to certain authors rights to attribution and integrity).

60. *See Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, \_\_ U.S. \_\_, 118 S. Ct. 1125, 1132 (1998).

sections of the Act provide much stronger evidence of congressional intent. Foremost among this was the fact that "section 602(a) unambiguously states that the prohibited importation is an infringement of the exclusive distribution right 'under section 106, actionable under section 502.'"<sup>61</sup> Further, in contrast to the ambiguous reference to section 602, another section of the Copyright Act, section 106(A) explicitly states that it is independent of the "exclusive rights provided in section 106."<sup>62</sup> The Court found that the contrast in the language between section 106(A) and section 602 strongly indicates that only section 106(A), and not section 602, describes a right independent of section 106.<sup>63</sup>

Of even greater importance, in the eyes of the Court, is the fact that the "exclusive rights" provision contained in section 109 are subject to a variety of exceptions besides the first sale doctrine.<sup>64</sup> If section 602 existed independent from section 106, all the defenses available in a copyright action are foreclosed to importers.

Finally, the Court addresses the contention made by the Solicitor General that the act of importation is not a "sale or disposal" of the copy as required by section 109(a).<sup>65</sup> The Court found this argument "unpersuasive."<sup>66</sup> In a typical commercial transaction, the shipper transfers "possession, custody, control and title" to the products. The Court found that an ordinary interpretation of the right to "sell or dispose of the possession" of the item "surely includes the right to ship it to another person in another country."<sup>67</sup> In addition, the Court found the Solicitor General's reading at odds with the general philosophy underlying the first sale doctrine, that being once a copyright owner places a product in the stream of commerce, she exhausts her statutory right to control the distribution.<sup>68</sup>

---

61. *See id.*

62. 17 U.S.C. § 106(A) (1995).

63. *See Quality King*, 118 S. Ct. at 1132.

64. *See* 17 U.S.C. §§ 107-120 (1995) (providing affirmative defenses of fair use, performance, academic research, etc.).

65. *See* Brief for the United States as Amicus Curiae Supporting Respondent at 8-15, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

66. *See Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, \_\_ U.S. \_\_, 118 S. Ct. 1125, 1133 (1998).

67. *See id.* at 1134.

68. *See id.*

## IV. DISCUSSION

### A. Statutory Analysis

The Court concluded its statutory analysis of the Copyright Act with the terse observation that “[i]n sum, we are not persuaded by either L’anza’s or the Solicitor General’s textual argument.”<sup>69</sup> This conclusion is, as a matter of statutory interpretation, almost certainly the correct one. In support of the position that section 602(a) provided a remedy against Quality King’s actions, L’anza made arguments under three separate theories: (1) statutory interpretation; (2) legislative history; and (3) public policy.<sup>70</sup> Although L’anza appeared to have attached equal importance to all three, the Court seemed concerned with really only one, that of statutory interpretation.<sup>71</sup> The reason for this is obvious. The language of section 602(a) states clearly that unauthorized importation of copyrighted material is an infringement upon the “exclusive right to distribute copies or phonorecords under section 106.”<sup>72</sup> Any contrary statutory construction must present strong evidence to rebut the presumption that the section should be interpreted on its face.<sup>73</sup> L’anza sought to do this by providing several possible interpretations of the language. L’anza’s contentions, however, really centered on one basic argument.

Sections 602(a)(1), (2) and (3), exempt from violation of the law unauthorized importations of copyrighted materials for use in certain limited situations (such as scholarly, religious or educational pursuits).<sup>74</sup> If, according to L’anza, Congress had really intended for the fair use defense to apply in the context of section 602, then such exceptions would be superfluous.<sup>75</sup> The Court noted three ways in which section 602(a) could be interpreted as being broader than existing statutory provisions. One section 602(a) provides a private remedy to copyright holders not granted in sec-

---

69. *See id.*

70. *See generally*, Brief for Respondent at 20-27, *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470) (explaining the statutory interpretation, legislative history and public policy with regards to section 602(a)).

71. *See Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 118 S. Ct. 1125, 1134 (1998).

72. 17 U.S.C. § 106(a) (1995).

73. *See Sony Corp. of Am. v. Universal City Studios Inc.* 464 U.S. 417, 431 (1984) (“The judiciary’s reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme.”)

74. *See supra* note 4. (17 U.S.C. § 602(a) (1995) provides exceptions to the importation prohibition).

75. *See* Brief for Respondent at 20, *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

tion 602(b); two first sale provides no defense to a section 602(a) against a bailee, licensee, consignee, or one whose possession was unlawful; and three section 602 can be applied to copies lawfully made under a foreign title.<sup>76</sup>

Although a case can be made that these extensions are at best, somewhat limited, the possibility of such an interpretation casts sufficient doubt to rebut the argument that section 602(a) is clearly redundant. However, it appears that the defenses available under section 602(a)(1)-(3) are in some ways *less* broad than those traditionally available to alleged infringers. Thus the interpretation urged by L'anza leads to several unusual conclusions. L'anza's interpretation would mean that because sections 107-120 do not apply to section 602, section 602 was the only portion of the copyright law for which there is not a fair use defense. L'anza attempted to defuse this argument by claiming that section 602(a)(1)-(3) provides a defense very similar to the 'fair use' found in section 107.<sup>77</sup> The problem with this claim is that the respective code sections do not exactly track one another, with the effect being that certain activities protected by section 107 are not permitted under section 602(a). Quality King's counsel in oral argument demonstrated this fact when he pointed out that section 602, as interpreted by L'anza, would not permit the importation of a *London Times* book review containing copyrighted excerpts.<sup>78</sup>

The incongruity between section 107 and section 602(a)(1)-(3) did not go unnoticed by L'anza's counsel.<sup>79</sup> However, the lack of a fair use defense is an inevitable conclusion to be drawn from that contention. In fact, other elements of L'anza's argument lead to the inference that this absence is deliberate. The text of section 602(a)(3) contains a specific reference to section 108(g)(2).<sup>80</sup> L'anza claimed that this is an indication that Congress

---

76. See text accompanying *supra* notes 51 through 53.

77. See Brief for Respondent at 24-25, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

78. See United States Supreme Court Official Transcript at \*48, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

79. See *id.* at \*22.

80. Section 108(g)(2) provides:

(g) The rights of reproduction and distribution under this section extend to the isolated and unrelated reproduction or distribution of a single copy or phonorecord of the same material on separate occasions, but do not extend to cases where the library or archives, or its employee—

(2) engages in the systematic reproduction or distribution of single or multiple copies or phonorecords of material described in subsection (d): Provided, That nothing in this clause prevents a library or archives from participating in interlibrary arrangements that do not have, as their purpose or effect, that the library or archives receiving such copies or

did not intend for the provisions of section 602 to be limited by sections 107-120.<sup>81</sup> L'anza reasoned that the inclusion of a reference to section 108(g)(2) demonstrated that if Congress had meant for section 109 to apply to section 602, such an intent would have been explicitly stated.<sup>82</sup> This, according to the brief filed with the Court, suggests that Congress selectively preserved the elements of sections 107-120 that it wished to see embodied in section 602.

L'anza's argument requires the conclusion that Congress wished to base the fair use defense upon where the copyrighted material was acquired. In fact, L'anza's position means that by the explicit reference to section 108(g), Congress did not fail to reference section 107 by oversight, but rather by specific rejection. This theory seems fundamentally at odds with the purpose of limited monopoly granted by the Copyright Act.<sup>83</sup> Although the public has received no benefit, the fact that the material was intended for foreign distribution will give the copyright holder a greater array of legal rights than what is available to the owner of material distributed domestically. Such a conclusion is contrary to the idea that the ultimate aim of copyright law is to "stimulate artistic creativity for the general public good."<sup>84</sup>

In addition, there appears to be a plausible alternative interpretation to the section 108(g) reference. Section 108(g) states that:

importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

---

phonorecords for distribution does so in such aggregate quantities as to substitute for a subscription to or purchase of such work.

17 U.S.C. § 108(g)(2) (1995).

81. See Brief for Respondent at 23, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

82. See *id.*

83. The Court noted this, stating that such an interpretation would create a result counter to the goals of copyright law by inhibiting access to ideas without a corresponding benefit. See *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, \_\_\_ U.S. \_\_\_, 118 S. Ct. 1125, 1133 n.24 (1998).

84. See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). (holding that public playing of radio broadcast was not performance).

Based on this language, it could be argued that the citation to section 108(g) serves the purpose of providing a ready definition of a specific violation, not a substantive limit on the provisions of section 106. Further, it seems that if Congress had really intended section 602(a) as a right distinct from section 106, it would have done more than indicate so by use of a negative inference drawn from a single reference to section 108. To suggest that this reference indicates a congressional intent to abrogate sections 107 through 120 places too much weight on controvertible evidence in derogation of the plain language of the statute.

Moreover, in other portions of the Copyright Act, Congress has been explicit when it has intended a code section to operate independently of section 106. Section 106A states that, “[s]ubject to section 107 and *independent of the exclusive rights provided in section 106*, the author of a work of visual art....”<sup>85</sup> Two points should be noted about this excerpt. First, L’anza’s argument asked the Court to assume that although Congress was able to specifically exempt section 106A from section 106, it was only able to do so by negative inference in section 602. Second, in exempting section 106A from section 106, Congress specifically preserved the fair use defense of section 107. L’anza’s argument suggests that while Congress thought enough of fair use to preserve it in this context, it did not intend to do so if copyrighted material was imported into the United States without authorization.

Several other statutory arguments put forth by the Solicitor General and L’anza are worth addressing briefly. L’anza contended that distribution of the goods outside of the United States did not meet the requirement of section 106, that sale or distribution be “lawfully made under this title.”<sup>86</sup> Plaintiffs in several cases have successfully adopted this argument.<sup>87</sup> However, this position was rejected by the Ninth Circuit and has been criticized by numerous commentators.<sup>88</sup> Possibly for this reason, the Court did not address the issue. Both the Solicitor General and the Respondent’s argued at length that the “sell or otherwise dispose of” lan-

---

85. 17 U.S.C. § 106A (1995).

86. See Brief for Petitioner at 27, *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

87. See *e.g.*, *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991); *T.B. Harms Co. v. Jem Records, Inc.*, 655 F.Supp. 1575, 1583 (D.N.J. 1987); *Columbia Broad. Sys., Inc. v. Scorpio Music Distrib., Inc.*, 569 F.Supp. 47, 49 (E.D.Pa. 1983), *aff’d*, 738 F.2d 421 (3d Cir. 1984).

88. See *L’anza Research Int’l, Inc. v. Quality King Distrib., Inc.*, 98 F.3d 1109, 1115 (9th Cir. 1996); See also MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT*, § 8.12(B)(6) at 8-166 (1997); PAUL GOLDSTEIN, 1, *COPYRIGHT* § 5.6.1, at 604 (1989).

guage of section 109(a) did not include the act of importation.<sup>89</sup> The government's theory was that acts of importation and to "sell or dispose" are not coextensive. Because of this importation is not an act covered under section 109 and thus no first sale defense was available to Quality King. The Court held otherwise, finding that absent evidence to the contrary, there was not a basis on which to deduce a desire of Congress to give a narrow scope to the 'first sale' defense.

## B. Legislative History

In addition to its statutory argument, L'anza raised numerous points regarding the legislative history of section 602. Close examination, however, reveals this history to be ambiguous. As the Ninth Circuit noted, the legislative record of the Copyright Act says nothing explicit as to the interaction between sections 602(a) and 109(a).<sup>90</sup> The Ninth Circuit was able to locate evidence Congress intended the two sections to operate independent of one another.<sup>91</sup> However, the evidence relied upon by the Ninth Circuit came from panel discussion statements made by record company executives testifying in favor of section 602.<sup>92</sup> These statements carry little weight in adducing Congressional intent, and in fact, were left out of the official House and Senate reports.

While there is no direct evidence in the legislative history of Congressional intent, there are some possible inferences to be drawn from other portions of the Copyright Act. L'anza made a very promising argument regarding the legislative history of section 501.<sup>93</sup> Specifically, section

---

89. See Brief for the United States as Amicus Curiae Supporting Respondent at 8-15, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

90. See Brief for Respondent at 29, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470) (citing *L'anza Research Int'l, Inc. v. Quality King Distrib., Inc.*, 98 F.3d 1109, 1116 (9th Cir. 1996)). See generally H.R. Rep. No. 94-1476 (1976); S. Rep. No. 94-473 (1976). Respondent and petitioner devoted considerable energy to debating the implications of various House and Senate committee reports. None of these reports dealt directly with sections 602 and 109 and thus are of limited persuasive value. See generally Brief for Respondent, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470); Brief for Petitioner, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

91. See *L'anza Research Int'l, Inc. v. Quality King Distrib., Inc.*, 98 F.3d 1109, 1116 (9th Cir. 1996).

92. See *id.*

93. See Brief for Respondent at 19-27, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998) (No. 96-1470).

501(a) enumerates what constitutes an infringement of copyright under the code:

“Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author as the case may be.”<sup>94</sup>

L'anza argued that section 501(a) supported the conclusion that sections 602 and 106 should be read independently of one another. Further evidence of this is provided in a quotation from the House Report on the bill, which states that, “Under the latter section an unauthorized importation of copies or phonorecords acquired abroad is an infringement of the exclusive right of distribution under certain circumstances.”<sup>95</sup> L'anza's argument was that section 501 treats sections 602 and 106 as being distinct, thereby evincing a Congressional intent to do the same. Had Congress not intended to do so, the more logical construction would be to include both sections 106 and 602 in the same definition.

The problem with this, as the Supreme Court noted, is that section 106(A), refers to “the exclusive rights provided in section 106.”<sup>96</sup> Thus even though section 501 seems to treat section 106(A) as distinct from section 106, the language of section 106(A) does not treat it as being such. Without supporting evidence in either the legislative history or the statutory language, the language of section 501 cannot by itself be taken to indicate a specific Congressional intent to distinguish sections 106 and 602. This is especially true when considered in conjunction with the fact that other portions of the Copyright Act suggest an opposite conclusion. In particular, the legislative history that accompanies section 109 indicates a Congressional desire to maintain a strong form of the first sale principle: “as section 109 makes clear, the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.”<sup>97</sup> This means, for example, that “the outright sale of an authorized copy of a book frees it from the copyright control over the resale price or other conditions of its future disposition.”<sup>98</sup>

---

94. 17 U.S.C. § 501 (1995).

95. See H.R. Rep. No. 94-1476 at 271 (1976).

96. See *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, \_\_\_ U.S. \_\_\_, 118 S. Ct. 1125, 1130 (1998); 17 U.S.C. § 106(A)(a) (1995).

97. See H.R. Rep. No. 94-1476 at 271 (1976); S.Rep. 94-473 at 58-59 (1976).

98. See H.R. Rep. No. 94-1476 at 79 (1976); S.Rep. 94-473 at 71 (1976).

### C. Policy Implications

Although not addressed specifically by the Court, the policy issues implicated by *Quality King* are key in analyzing the decision.<sup>99</sup> A review of the basic purpose of copyright law demonstrates that the Court was correct on this front as well. Regardless of the supposed negatives of the gray market, copyright law is not the proper means with which to address them. The Ninth Circuit came to a different conclusion because the court failed to place enough emphasis on the idea that the fundamental purpose of copyright law is to “promote the useful arts.”<sup>100</sup> In order to achieve this result, the law grants to the owner of a copyright a limited monopoly.<sup>101</sup> However, this is done only to achieve the ultimate purpose of enhancing the public good.<sup>102</sup> The interplay between these two concepts was summarized very well in *Sebastian*. As the court explained:

“The copyright statutes have been amended repeatedly in an attempt to balance the authors' interest in the control and exploitation of their writings with society's competing stake in the free flow of ideas, information and commerce. Ultimately, the copyright law regards financial reward to the owner as a secondary consideration.”<sup>103</sup>

The interpretation of section 602 adopted by the Ninth Circuit and urged by L'anza does little to further the goal of consumer benefit. On a practical level, the labels themselves import very little of the creative ex-

---

99. The Court deliberately ignored all issues except for statutory construction. *See Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125, 1134 (1998). (“...whether or not we think it would be wise policy to provide statutory protection for such price discrimination is not a matter that is relevant to our duty to interpret the text of the Copyright Act.”)

100. U.S. CONST. art I, § 8, cl. 8.

101. *See Quality King* at 1135; *See also Sony Corp. of Am. v. Universal City Studios Inc.*, 464 U.S. 417, 429 (1984) (“[Copyright law] is intended to motivate the creative activity of authors and inventors by the provision of a special award, and to allow the public access to the products of this genius after the limited period of exclusive controls has expired.”).

102. *See Wheaton v. Peters*, 33 U.S. (8 Pet.) 591 (1834) (“But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.”). *See also Fox Film Corp. v. Doyal*, 286 U.S. 123, 127, (1932) (“The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.”).

103. *Sebastian Int'l. Inc. v. Consumer Contacts Ltd.*, 847 F.2d. 1093, 1094 (3d Cir. 1998).

pression that the law is intended to foster.<sup>104</sup> This is not to say that copyright law should not protect items of minimal creativity. However, when determining the proper interpretation of section 602, it is relevant to ask to what end the law is being used. In this case the protection sought is not actually for the copyrighted item, but rather for the L'anza products. In this way copyright law is really being used to protect marketing strategy. So the question becomes whether this justifies the extension of a limited monopoly to the copyright owner. If the copyrighted elements are of only ancillary concern, the public benefit in creative expression is minimal.

The counter argument is that the public benefits from the Ninth Circuit decision because manufacturers can command higher prices and thus have greater incentives to advertise, perform product support, and create brands.<sup>105</sup> While this may be true, this is not a public benefit relevant to copyright law. For instance, the underlying assumption of the first sale doctrine is the idea that the copyright owner will receive full value at the time of initial purchase.<sup>106</sup> Once this has occurred, the owner protection model gives way to the general legal disapproval of restraints upon the alienation of property.<sup>107</sup> In this manner the incentive doctrine and public benefit goals are both satisfied. With gray market situations, the initial sale has taken place and the owner has been compensated. The fact that the owner cannot receive additional profit does not in any way alter the incentive to create. The position argued by L'anza would, as the Supreme Court noted, merely extend L'anza's monopoly without providing a corresponding benefit to the public.<sup>108</sup> As the *Sebastian* court noted, the copyright owner who sells abroad should not receive "a more adequate reward' than those who sell domestically."<sup>109</sup>

However, there seems to be a clear detriment to the public in this type of system. A close reading of the Ninth Circuit opinion seems to imply that price discrimination is permissible. While this may be true under trademark, it is a premise that runs contrary to copyright law's societal

---

104. The labels do fit the technical definition of the statute in that they are an "original work of authorship fixed in a tangible medium of express." 17 U.S.C. § 102 (1995).

105. In short, all the goals of trademark law. See 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2.01[2], at 2-3 to 2-10 (1996).

106. See GOLDSTEIN, *supra* note 88, COPYRIGHT § 5.5, at 5:100-5:101 (1998).

107. See *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 832 F. Supp. 1378, 1388 (C.D. Cal. 1993). See generally GOLDSTEIN, *supra* note 88, at 5:106-5:107.

108. See *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, \_\_\_ U.S. \_\_\_, 118 S. Ct. 1125, 1133 (1998) (citing *Sony Corp. of America v. Universal City Studios Inc.*, 464 U.S. 417 (1984)).

109. See *Sebastian Int'l. Inc. v. Consumer Contacts Ltd*, 847 F.2d 1093,1099 (3d Cir. 1988).

benefit ideal.<sup>110</sup> The Ninth Circuit decision was premised on the idea that a copyright holder is prevented from realizing the full value of its products intended for domestic sale.<sup>111</sup> There are several problems with this, the most obvious being that the Copyright Act says nothing at all about "full value." However, even if full value is a concern of copyright law, it appears difficult for the court to determine what exactly that is. Since it is not normally the role of the court to address the adequacy of consideration, there appears little basis for the Ninth Circuit's position.

## V. CONCLUSION

What then does the future hold for gray market goods in the wake of the *Quality King* decision? Barring some sort of congressional action, there are now no legal remedies available to prevent the unauthorized reimportation of domestically manufactured goods.<sup>112</sup> Efforts to forestall such imports through the use of tariff, contract, trademark, and now copyright law have failed. At present, the only area of legal uncertainty with respect to gray goods is the status of products manufactured abroad and imported into the United States without the authorization of the copyright holder.<sup>113</sup> Several lower courts have held that a "first sale" defense does not apply in that context and it is possible that the Supreme Court might do the same.<sup>114</sup> In her concurrence, Justice Ginsberg cited several sources,

---

110. See *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) ("The sole interest of the United States and the primary objective in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.")

111. See *Sebastian Int'l. Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093, 1116-17 (3d Cir. 1988). Low cost imports suppress the price capable of being charged on identical domestic versions of the product. See Shubha Ghosh, *An Economic Analysis of the Common Control Market Exception to Gray Market Exclusion*, 15 U. PA. J. INT'L BUS. L. 373 (1994).

112. This, however, assumes that there are no 'material' differences between the products intended for the export market and those intended for the domestic market. Goods that are not similar can possibly be excluded under either the Tariff Act or the Lanham Act. See *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986).

113. See *L'anza Research Int. v. Quality King Dist., Inc.*, 118 S. Ct. 1125, 1135 (1998) (Ginsberg, J., concurring).

114. See generally *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991) (finding that first sale does not provide a defense to goods manufactured abroad); *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.* 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd* without opinion, 738 F.2d 424 (3d Cir. 1984) (holding that "lawfully made under this title" does not extend first sale defense to goods manufactured abroad). See also *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 479, 481 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995) (holding that section 602 bars products manufactured abroad).

which argued that the Copyright Act does not apply to goods, manufactured abroad, indicating perhaps her feelings on the subject.<sup>115</sup> This question, however, involves issues of extra-territoriality and international law upon which the *Quality King* holding has somewhat limited bearing.

More generally, there is a question of whether there will be some sort of congressional response to the *Quality King* decision. Shortly after *Quality King* was announced, an amendment was introduced to H.R. 2281 ("Digital Millennium Copyright Act") which would have limited the first sale defense to products distributed in the United States.<sup>116</sup> This however was dropped from the final version of the bill amidst complaints from industry that the amendment was taken up without sufficient public debate. Absent, however, a change at the congressional level, there seems little that can be done to stop *Quality King* type imports.<sup>117</sup>

Regardless of the future legal status of the gray market, *Quality King* was a correctly decided case. Although certain other interpretations do exist, the statutory construction found by the Court was the most logical and the one that aligned most closely with the intent of the statute. The decision arrived at by the Court corrected a Ninth Circuit opinion that erred in both statutory construction and policy analysis. In doing so the Court properly interpreted the law in a manner that sets section 602 consistent with the rest of the Copyright Act.

---

115. See *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125, 1135 (1998). See generally GOLDSTEIN, *supra* note 88, at 16:1-16:2 (1998) ("Copyright protection is territorial. The rights granted by the United States Copyright Act extend no farther than the nation's borders.")

116. The proposed amendment to section 109 read in relevant part:

Notwithstanding the provisions of section 106(3), the owner of a particular lawfully made copy or phonorecord that has been *distributed in the United States* by the authority of the copyright owner, or any person authorized by the owner of that copy or phonorecord, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

(visited Dec. 5, 1998) <<http://thomas.loc.gov/cgi-bin/query>>.

117. Some have suggested that limited remedies may be found in state consumer protection laws. However, these laws are generally quite narrow in their scope and operate to protect consumers rather than manufactures. See *De Vito and Marks*, *supra* note 4, at 6. There has also been precedent, albeit quite limited, for barring gray market imports through an action before the International Trade Commission (ITC). See *In re Certain Alkaline Batteries*, 225 U.S.P.Q. (BNA) 823 (1984) (the court, relying on a variety of theoretical basis, held that Duracell could enjoin the sale of batteries manufactured by its foreign subsidiary on the grounds that consumers might be confused about the place of manufacture). However, President Reagan overturned this decision. See 19 U.S.C. § 1337(j) (1994) (all ITC decisions are subject to Presidential veto).



## CYBOR CORP. V. FAS TECHNOLOGIES, INC.

By Matthew R. Hulse

Since 1995, 38.3% of all patent claim construction appeals to the Federal Circuit have resulted in reversals in whole or in part.<sup>1</sup> Despite this high reversal rate, the Federal Circuit recently held, in *Cybor Corp. v. FAS Technologies, Inc.*,<sup>2</sup> that claim construction should be reviewed *de novo*<sup>3</sup> because it is a question of law.<sup>4</sup> Because *de novo* review enables the Federal Circuit to ignore the claim constructions of district courts, the *Cybor* decision likely will serve to sustain or increase the rate of claim construction reversals on appeal.

The Federal Circuit unwisely decided *Cybor* because it misinterpreted prior case law on the issue and ignored the factual inquiries that are common in claim construction proceedings. Instead, the Federal Circuit should have adopted a mixed review standard for claim construction that grants deference to those parts of a judge's claim construction that are based upon findings of fact. For all other aspects of claim construction, the court should apply a *de novo* standard of review.

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1476, 46 U.S.P.Q.2d (BNA) 1169, 1192 (Fed. Cir. 1998) (Rader, J., dissenting).

2. 138 F.3d 1448, 46 U.S.P.Q.2d (BNA) 1169 (Fed. Cir. 1998).

3. *De novo*, or plenary, review means that the reviewing court does not defer to the lower court or agency's ruling in question. Questions of law are subject to *de novo* appellate review. A clearly erroneous, or deferential, review means that although there is evidence to support a finding, the reviewing court may reverse a finding if, on the entire evidence, the reviewing court is left with the definite and firm conviction that a mistake has been committed. See ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 852 (4th ed. 1998); FED. R. CIV. P. 52(a) ("Findings of fact ... shall not be set aside unless clearly erroneous.").

4. A question of law "is usually defined as a statement of a general principle or rule, predicated in advance, awaiting application to particular facts as they may arise." *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 1009, 34 U.S.P.Q.2d (BNA) 1321, 1353 (Fed. Cir. 1995) (en banc) (Newman, J., dissenting). In contrast, a finding of fact is a "reality of events or things the actual occurrence or existence of which is to be determined by evidence." *Id.* Therefore, "the law is a general proposition, while the fact is a case-specific inquiry." *Id.*

## I. BACKGROUND CASE LAW

### A. The *Markman I* Decision

Prior to *Markman v. Westview Instruments, Inc.*<sup>5</sup> ("*Markman I*"), Federal Circuit opinions were inconsistent on the issue of claim construction being a legal, factual, or mixed issue.<sup>6</sup> In *Markman I*, the Federal Circuit held that the construction of patent claims is a question of law to be decided by a judge.<sup>7</sup> The court held that the appeals court should review an interpretation of a patent claim *de novo*.<sup>8</sup> Judge Archer's majority opinion relied upon various lines of reasoning. First, juries should not interpret patent claims because it is a fundamental principle of American law that "the construction of a written evidence is exclusively with the court."<sup>9</sup> A

---

5. 52 F.3d 967, 34 U.S.P.Q.2d (BNA) 1321 (Fed. Cir. 1995) (en banc), *aff'd* 116 S. Ct. 1384, 38 U.S.P.Q.2d (BNA) 1461 (1996).

6. In the Federal Circuit's first case deciding an issue of claim construction, *SSIH Equipment S.A. v. United States Int'l Trade Comm'n*, 718 F.2d 365, 218 U.S.P.Q. (BNA) 678 (Fed. Cir. 1983), the Federal Circuit explicitly stated that the construction of a patent claim was an issue of law. Numerous Federal Circuit cases have followed the authority of *SSIH*. See, e.g., *SRI Int'l v. Matsushita Elec. Corp. of America*, 775 F.2d 1107, 1118-22, 227 U.S.P.Q. (BNA) 577, 582-84 (Fed. Cir. 1985) (en banc); *Kalman v. Kimberly-Clark Corp.*, 713 F.2d 760, 770-71, 218 U.S.P.Q. (BNA) 781, 788 (Fed. Cir. 1983); *Fromson v. Advance Offset Plate, Inc.*, 720 F.2d 1565, 1569-71, 219 U.S.P.Q. (BNA) 1137, 1140-42 (Fed. Cir. 1983). In *McGill Inc. v. John Zink Co.*, 736 F.2d 666, 221 U.S.P.Q. (BNA) 944 (Fed. Cir. 1984), the Federal Circuit stated for the first time that claim construction had underlying factual inquiries that must be submitted to a jury. See *id.* A line of cases developed that relied upon *McGill* and stated that sometimes there were jury-triable factual issues in claim construction, and these factual questions should be reviewed for clear error. See, e.g., *Tol-O-Matic, Inc. v. Proma Produkt-Und Mktg. Gesellschaft m.b.H.*, 945 F.2d 1546, 1549, 20 U.S.P.Q.2d (BNA) 1332, 1335 (Fed. Cir. 1991); *Bio-Rad Labs, Inc. v. Nicolet Instrument Corp.*, 739 F.2d 604, 614, 222 U.S.P.Q. (BNA) 654, 661-62 (Fed. Cir. 1984). Another line of Federal Circuit cases has followed the earlier pronouncements that claim construction is solely a question of law that should be decided by a judge. See, e.g., *Read v. Portec, Inc.*, 970 F.2d 816, 822-23, 23 U.S.P.Q.2d (BNA) 1426, 1432 (Fed. Cir. 1992); *Specialty Composites v. Cabot Corp.*, 845 F.2d 981, 986, 6 U.S.P.Q.2d (BNA) 1601, 1604 (Fed. Cir. 1988). Moreover, the Supreme Court has held that claim construction is a matter of law. See *Winans v. Denmead*, 56 U.S. (15 How.) 330, 338 (1854) ("[W]hat is the thing to be patented ... is a question of law.").

7. See *Markman v. Westview Instruments, Inc.*, 52 F.3d at 970-71, 34 U.S.P.Q.2d at 1322.

8. See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 979, 34 U.S.P.Q.2d (BNA) 1321, 1329 (Fed. Cir. 1995).

9. *Id.* at 978, 34 U.S.P.Q.2d at 1328 (quoting *Levy v. Gadsby*, 7 U.S. (3 Cranch) 180, 186 (1805)).

patent is a fully-integrated written instrument,<sup>10</sup> and therefore appellate courts may interpret written documents as a matter of law.<sup>11</sup> Second, because a patent is a government grant of rights to the patentee, the judge essentially defines the legal rights created by the patent document on behalf of the federal government.<sup>12</sup> A judge is a superior actor to determine the scope of these rights because of the serious consequences that can result from infringement of patent rights.<sup>13</sup> Finally, Judge Archer reasoned that a judge should construe patent claims as a matter of law because a patentee's competitors should be able to ascertain the scope of the patent claims with a reasonable degree of certainty.<sup>14</sup> Competitors should have the ability to understand the scope of a patent claim by analyzing, with the aid of established rules of construction, the patent and prosecution history.<sup>15</sup> Competitors should arrive at a legally-accurate claim construction because a judge, trained in the law, also would apply established rules of construction while construing a patent claim if infringement litigation occurred.<sup>16</sup>

### **B. The *Markman II* Decision**

In *Markman v. Westview Instruments, Inc.*<sup>17</sup> ("*Markman II*"), the sole issue on appeal to the Supreme Court was whether the interpretation of a patent claim is a matter of law reserved entirely for the court, or is subject to a Seventh Amendment guarantee that a jury will determine the meaning of a patent claim.<sup>18</sup> The Supreme Court held that the construction of a patent, including terms of art within a claim, is exclusively within the province of the court.<sup>19</sup>

---

10. See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 978, 34 U.S.P.Q.2d (BNA) 1321, 1328 (Fed. Cir. 1995) (en banc).

11. See *id.* at 978, 34 U.S.P.Q.2d at 1328 (citing *Eddy v. Prudence Bonds Corp.*, 165 F.2d 157, 163 (2d Cir. 1947) (Learned Hand, J.)).

12. See *id.*

13. See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 978, 34 U.S.P.Q.2d (BNA) 1321, 1328 (Fed. Cir. 1995) ("There is much wisdom to the rule that the construction of a patent should be a legal matter for a court.... Infringement of the patentee's right to exclude carries with it the potential for serious consequences.").

14. See *id.*

15. See *id.*

16. See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 978-79, 34 U.S.P.Q.2d (BNA) 1321, 1328-29 (Fed. Cir. 1995) (en banc).

17. 517 U.S. 370, 38 U.S.P.Q.2d (BNA) 1461 (1996).

18. See *Markman v. Westview Instruments, Inc.*, 517 U.S. at 372, 38 U.S.P.Q.2d at 1463.

19. See *id.*

In its unanimous ruling, the Supreme Court noted that when an issue “falls somewhere between a pristine legal standard and a simple historical fact, the fact/law distinction at times has turned on a determination that, as a matter of the sound administration of justice, one judicial actor is better positioned than another to decide the issue in question.”<sup>20</sup> Despite noting that claim construction is a “mongrel practice” of fact and law,<sup>21</sup> the Court concluded that, for the purposes of construing the meaning of a patent claim, judges are better suited to find the acquired meaning of patent terms.<sup>22</sup>

The *Markman II* decision did not directly address the issue of the proper standard of review to be used by an appellate court for claim construction. Because the standard of review for claim construction was not an issue on appeal, the *Markman II* decision arguably did not affirm the *de novo* standard.

### C. Federal Circuit Decisions After *Markman II*, But Before *Cybor*

After *Markman II*, panels of the Federal Circuit generally used the *de novo* standard of review for claim construction that *Markman I* laid down.<sup>23</sup> However, in some cases, the Federal Circuit applied a clearly erroneous standard to findings considered to be factual in nature that were incident to a judge’s claim construction.<sup>24</sup> For instance, in *Wiener v. NEC Electronics, Inc.*,<sup>25</sup> Judge Rader justified his use of a clearly erroneous standard by citing the *Markman II* decision.<sup>26</sup>

---

20. *Id.* at 388, 38 U.S.P.Q.2d at 1470 (quoting *Miller v. Fenton*, 474 U.S. 104, 114 (1985)).

21. *See id.* at 378, 38 U.S.P.Q.2d at 1465.

22. *See Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 388, 38 U.S.P.Q.2d (BNA) 1461, 1470 (1996).

23. *See, e.g., Serrano v. Telular Corp.*, 111 F.3d 1578, 1582, 42 U.S.P.Q.2d (BNA) 1538, 1541 (Fed. Cir. 1997) (citing *Markman I* for the proposition that “[c]laim construction is a question of law, which [the Federal Circuit] review[s] de novo”).

24. *See Eastman Kodak Co. v. Goodyear Tire & Rubber Co.*, 114 F.3d 1547, 1555-56, 42 U.S.P.Q.2d (BNA) 1737, 1742 (Fed. Cir. 1997); *Serrano v. Telular Corp.*, 111 F.3d 1578, 1586, 42 U.S.P.Q.2d (BNA) 1538, 1544 (Fed. Cir. 1997) (Mayer, J., concurring); *Wiener v. NEC Elecs. Inc.*, 102 F.3d 534, 539, 41 U.S.P.Q.2d (BNA) 1023, 1026 (Fed. Cir. 1996); *Metaullics Sys. Co. v. Cooper*, 100 F.3d 938, 939, 40 U.S.P.Q.2d (BNA) 1798, 1799 (Fed. Cir. 1996).

25. 102 F.3d 534, 41 U.S.P.Q.2d (BNA) 1023 (Fed. Cir. 1996).

26. *See id.* at 539, 41 U.S.P.Q.2d at 1026 (quoting *Miller v. Fenton*, 474 U.S. 104, 114 (1985)) (noting that claim construction “falls somewhere between a pristine legal standard and a simple historical fact”).

## II. THE *CYBOR* CASE

### A. The District Court Decision

Cybor Corporation sued FAS Technologies, Inc. and asked for a declaratory judgment of non-infringement, invalidity, and unenforceability of U.S. Patent No. 5,167,837 (“the ’837 patent”).<sup>27</sup> FAS Technologies, Inc. counterclaimed for infringement of all twenty claims of the ’837 patent and sought damages and injunctive relief.<sup>28</sup> The ’837 patent disclosed a method and device for dispensing industrial liquids.<sup>29</sup> The primary application for the patented inventions was to dispense small quantities of liquid onto semiconductor wafers.<sup>30</sup> The jury found that all of the claims were valid and that Cybor Corporation infringed all of the claims literally or under the doctrine of equivalents.<sup>31</sup> Cybor Corporation appealed the judgment of the district court that Cybor Corporation’s product infringed the claims of the ’837 patent.<sup>32</sup>

---

27. See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1453, 1476, 46 U.S.P.Q.2d (BNA) 1169, 1172 (Fed. Cir. 1998).

28. See *id.*

29. Claim 1 is representative and reads:

1. In a device for filtering and dispensing fluid in a precisely controlled manner, the combination of:

first pumping means;

second pumping means in fluid communication with said first pumping means; and filtering means between said first and second pumping means, whereby said first pumping means pumps the fluid through said filtering means to said second pumping means;

in which each of said first and second pumping means includes surfaces that contact the fluid, said surfaces being of materials that are non-contaminating to industrial fluids which are viscous and/or high purity and/or sensitive to molecular shear; and comprising means to enable said second pumping means to collect and/or dispense the fluid, or both, at rates or during periods of operation, or both, which are independent of rates or periods of operation, or both, respectively, of said first pumping means.

*Id.* at 1451, 46 U.S.P.Q.2d at 1171.

30. See *id.*

31. See *id.* at 1453, 46 U.S.P.Q.2d at 1172.

32. See *id.* at 1451, 46 U.S.P.Q.2d at 1171.

## B. THE FEDERAL CIRCUIT DECISION

### 1. *The Majority Opinion*

The Federal Circuit decided *Cybor en banc* in order to resolve the conflicting standards applied by different panels of the Federal Circuit.<sup>33</sup> The Federal Circuit affirmed the district court's judgment that Cybor Corporation's product infringed all of the claims of the '837 patent.<sup>34</sup> In so doing, the Federal Circuit concluded that the Supreme Court's decision in *Markman II* fully supported the Federal Circuit's conclusion in *Markman I* that claim construction, as a purely legal issue, is subject to *de novo* appellate review.

The Federal Circuit in *Cybor* considered three primary arguments before concluding that the *de novo* standard of review was good law. First, it rejected the argument that the *Markman II* decision suggested that factual underpinnings exist in claim construction.<sup>35</sup> In *Markman II*, the Supreme Court stated that claim construction may not easily be characterized as either pure law or simple fact.<sup>36</sup> These statements, according to the Federal Circuit, merely show that the determination of whether claim construction is a question of law or fact is not simple.<sup>37</sup> The *Markman II* decision addressed the issue of under which category, fact or law, claim construction should fall;<sup>38</sup> it did not address whether claim construction includes two components, fact and law.<sup>39</sup>

Second, the Federal Circuit reasoned that claim construction is a pure issue of law because of the role of expert testimony in claim construction.<sup>40</sup> The Federal Circuit noted that juries play an important role in evaluating the credibility of a witness.<sup>41</sup> In the context of claim construction, however, the Federal Circuit reasoned that credibility determinations are unlikely to be made in the context of claim construction because "any credibility determinations will be subsumed within the necessarily sophisticated analysis of the whole document, required by the standard construc-

---

33. See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1454-55, 46 U.S.P.Q.2d (BNA) 1169, 1173 (Fed. Cir. 1998).

34. See *id.*

35. See *id.* at 1455, 46 U.S.P.Q.2d at 1173.

36. See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 388, 38 U.S.P.Q.2d (BNA) 1461, 1470 (1996).

37. See *Cybor*, 138 F.3d at 1455, 46 U.S.P.Q.2d at 1173.

38. See *id.*

39. See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1455, 1454-55, 46 U.S.P.Q.2d (BNA) 1169, 1173 (Fed. Cir. 1998)

40. See *id.*

41. See *id.*

tion rule that a term can be defined only in a way that comports with the instrument as a whole.”<sup>42</sup> Although the Federal Circuit did not elaborate on this argument, a judge presumably is not making credibility judgments about witnesses because the judge is simply comparing their testimony to the contents of the patent document.

Finally, the Federal Circuit concluded that an alternative reading of the *Markman II* decision also would support a *de novo* standard of review for claim construction.<sup>43</sup> The Supreme Court’s primary concern in *Markman II* was the Seventh Amendment issue of whether a party had a right to a jury trial on claim construction because of any potential factual issues involved.<sup>44</sup> Since the *Markman II* decision did not address the appellate standard of review, the Federal Circuit reasoned that *Markman II* can be read as addressing solely the respective roles of the judge and jury at the trial level and not the relationship between the district courts and the Federal Circuit.<sup>45</sup> The Federal Circuit reasoned that because *Markman II* affirmed its holding in all respects, even a narrow view of *Markman II* leaves the appropriate standard of review to be *de novo*.<sup>46</sup>

## 2. Concurring Opinions

In Judge Plager’s concurring opinion, he noted that even though the Federal Circuit reviews claim constructions *de novo*, the trial judge’s view will still carry weight.<sup>47</sup> Moreover, “[t]hat weight may vary depending on the care, as shown in the record, with which that view was developed, and the information on which it is based.”<sup>48</sup> In what appears to be an effort to downplay the impact of the *Cybor* decision, Judge Plager stated that the majority opinion merely reaffirms the view that the appellate court and attorneys will not waste time debating whether the trial court’s information base constitutes findings of “fact” or conclusions of “law.”<sup>49</sup> Judge Plager opined that the *Cybor* decision will simplify the method by which trial and appellate courts address claim construction.<sup>50</sup> Judge Bryson’s

---

42. *Id.* at 1456, 46 U.S.P.Q.2d at 1174 (quoting *Markman v. Westview Indus., Inc.*, 517 U.S. 370, 389, 38 U.S.P.Q.2d (BNA) 1461, 1470 (1996)).

43. *See id.* at 1456, 46 U.S.P.Q.2d at 1174.

44. *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1455, 1456, 46 U.S.P.Q.2d (BNA) 1169, 1174 (Fed. Cir. 1998).

45. *See id.*

46. *See id.*

47. *See id.* at 1462, 46 U.S.P.Q.2d at 1180.

48. *Id.*

49. *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1455, 1462, 46 U.S.P.Q.2d (BNA) 1169, 1180 (Fed. Cir. 1998)

50. *See id.* at 1463, 46 U.S.P.Q.2d at 1180.

concurrence argued that, although claim construction is an issue of law, the Federal Circuit will not disregard the work done by district courts in claim construction.<sup>51</sup> Also, Judge Bryson reasoned that the *Cybor* decision allows the Federal Circuit to give weight to all district courts' claim constructions.<sup>52</sup> Judge Bryson noted that reviewing courts frequently give significant weight to lower courts' judgments about legal issues, and he offered three examples.<sup>53</sup> First, the Supreme Court may defer to the construction of a state statute adopted by the regional court of appeals that includes that state.<sup>54</sup> Second, the Federal Circuit affords great respect and careful consideration to the interpretation of a contract by a Board of Contract Appeals.<sup>55</sup> Third, the Supreme Court frequently leaves the refinement of patent law up to the Federal Circuit.<sup>56</sup> Judge Bryson reasoned that the *Cybor* decision means that, with respect to certain aspects of claim construction, the district court may be better situated than the Federal Circuit to make a judgment.<sup>57</sup> Where the district court is better situated than the Federal Circuit, the Federal Circuit "should be cautious about substituting [its] judgment for that of the district court."<sup>58</sup>

Chief Judge Mayer argued, in a concurrence in the judgment, that the Federal Circuit's standard of review for claim construction is controlled by the Supreme Court's *Markman II* decision, not the Federal Circuit's *Markman I* decision.<sup>59</sup> Chief Judge Mayer opined that the Supreme Court chose not to accept the formulation of claim construction as a pure question of law to be decided *de novo* on appeal.<sup>60</sup> Under the *Markman II* standard, according to Chief Judge Mayer, a district court may make factual determinations that are more than just incident to claim construction.<sup>61</sup> For instance, a judge may need to weigh conflicting evidence about the understanding of one skilled in the art at the time the patentee filed the applica-

---

51. *See id.*

52. *See id.*

53. *See id.*

54. *See id.* at 1463, 46 U.S.P.Q.2d at 1180 (citing *Propper v. Clark*, 337 U.S. 472, 486-87 (1949)).

55. *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1455, 1463, 46 U.S.P.Q.2d (BNA) 1169, 1180-81 (Fed. Cir. 1998) (citing *Alvin, Ltd. v. United States Postal Serv.*, 816 F.2d 1562 (Fed. Cir. 1987)).

56. *See id.* at 1463, 46 U.S.P.Q.2d at 1181 (citing *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997)).

57. *See id.* at 1463, 46 U.S.P.Q.2d at 1181.

58. *Id.*

59. *See id.* at 1464, 46 U.S.P.Q.2d at 1181.

60. *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1455, 1464, 46 U.S.P.Q.2d (BNA) 1169, 1181 (Fed. Cir. 1998).

61. *See id.* at 1464, 46 U.S.P.Q.2d at 1182.

tion.<sup>62</sup> In such a case, the *Markman II* standard just requires the judge to resolve the issue, not the jury.<sup>63</sup> When a judge does make factual determinations, those facts are entitled to greater deference in a *de novo* standard of review.<sup>64</sup>

### 3. *The Dissent*

In Judge Rader's dissent, he argued that the Supreme Court's language in *Markman II* repeatedly suggested that claim construction is not a pure issue of law.<sup>65</sup> Furthermore, Judge Rader argued that *de novo* review undermines the trial process as the "main event," and this result would undermine predictability in patent litigation.<sup>66</sup> According to Judge Rader, *Markman I* potentially promised to create early certainty about the meaning of patent claims, and this certainty was beneficial because it would generate early settlement of patent lawsuits.<sup>67</sup> Parties would be more willing to settle the case at an earlier stage because the parties could reasonably predict the likelihood of a favorable judgment.<sup>68</sup> This predictability did not occur, according to Judge Rader, because claim construction is subject to *de novo* review by the Federal Circuit.<sup>69</sup> Therefore, a trial court's early claim interpretation provides no certainty at all, and the claim construction is not certain until after a decision by the Federal Circuit.<sup>70</sup>

Judge Rader argued that the Federal Circuit should take a "functional approach" to setting a standard of review for claim construction.<sup>71</sup> Although he did not define the elements of a "functional approach," he analyzed the issue in the following way. Judge Rader noted that the trial judge, not the Federal Circuit judge, enjoys a potentially superior position to engage in claim construction.<sup>72</sup> Judge Rader argued that the trial judge might be in a better position to determine claim constructions because he or she has tools to acquire and evaluate evidence that the Federal Circuit

---

62. *See id.*

63. *See id.*

64. *See id.*

65. *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1455, 1473, 46 U.S.P.Q.2d (BNA) 1169, 1189 (Fed. Cir. 1998).

66. *See id.*

67. *See id.* at 1475, 46 U.S.P.Q.2d at 1191.

68. *See id.*

69. *See id.* at 1476, 46 U.S.P.Q.2d at 1192.

70. *See id.*

71. *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1455, 1477, 46 U.S.P.Q.2d (BNA) 1169, 1193 (Fed. Cir. 1998).

72. *See id.*

lacks.<sup>73</sup> Therefore, Judge Rader reasoned that the institutional advantages of the district court over the Federal Circuit support deference to the district court's claim constructions.<sup>74</sup> Judge Rader concluded that, by according some deference to the district court's claim construction, the Federal Circuit can restore the district court's prominence in claim construction and create more certainty at an early stage of patent litigation.<sup>75</sup>

### III. DISCUSSION

The *Cybor* majority unwisely held that a court should utilize a *de novo* standard of review for all claim constructions. In so holding, the Federal Circuit ignored the factual underpinnings of claim construction that frequently arise. In light of these factual elements of claim construction, the Federal Circuit should have adopted a mixed *de novo*/clear error standard of review for claim constructions.

#### A. Disagreements Regarding *Markman II*

Even though the Federal Circuit presumably decided *Cybor en banc* in order to clarify the proper standard of review, the multiple written opinions evidences a clear split among the court regarding the correct legal standard. First, the judges have distinctly different views about the meaning of the Supreme Court's decision in *Markman II*. In Judge Archer's majority opinion, he reasoned that the Supreme Court's reference to claim construction as a "mongrel practice" is a prefatory comment by the Court indicating that claim construction is difficult to characterize as a question of law or fact.<sup>76</sup> Therefore, he rejected the notion that the Supreme Court's language supports the view that claim construction includes findings of

---

73. *See id.* at 1477-78, 46 U.S.P.Q.2d at 1193.

Trial judges can spend hundreds of hours reading and rereading all kinds of source material, receiving tutorials on technology from leading scientists, formally questioning technical experts, examining on site the operation of the principles of the claimed invention, and deliberating over the meaning of the claim language. If district judges are not satisfied with the proofs proffered by the parties, they are not bound to a prepared record but may compel additional presentations or even employ their own court-appointed expert. An appellate court has none of these advantages. It cannot depart from the record of the trial proceedings. To properly marshal its resources, the appellate bench must enforce strict time and page limits in oral and written presentations.

*Id.*

74. *See id.* at 1478.

75. *See id.*

76. *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1455, 1455, 46 U.S.P.Q.2d (BNA) 1169, 1174 (Fed. Cir. 1998).

fact and law.<sup>77</sup> In sharp contrast, Chief Judge Mayer's concurrence in the judgment cites the Supreme Court's reference to a "mongrel practice" as showing that the Court refused to "bluntly force the square peg of claim construction into the round hole of fact or law."<sup>78</sup> Therefore, Chief Judge Mayer argued that the Supreme Court rejected the Federal Circuit's previous view of claim construction as a pure question of law to be decided *de novo*.<sup>79</sup> In his dissent, Judge Rader also opined that the Supreme Court's reference to claim construction as a "mongrel practice" shows that the Court views claim construction as "not as purely legal matter."<sup>80</sup>

Although the *Cybor* court's majority opinion dismissed any notion of claim construction that included factual findings, Judge Rader's dissent pointed to a clear example of a finding of fact: credibility determinations of expert witnesses.

When two experts testify differently as to the meaning of a technical term, and the court embraces the view of one, the other, or neither while construing a patent claim as a matter of law, the court has engaged in weighing evidence and making credibility determinations.... But when the Federal Circuit Court of Appeals states that the trial court does not do something that the trial court does and must do to perform the judicial function, the court knowingly enters a land of sophistry and fiction.<sup>81</sup>

While the Federal Circuit has held that expert testimony is only intended to aid a court in understanding the claims, and a court might not pay any deference to such testimony,<sup>82</sup> Judge Rader's dissenting opinion is more aligned with the realities of patent litigation. When a judge faces conflicting testimony from experts, and he or she accepts the testimony of one over the other, it seems disingenuous to argue that credibility determinations are not being made.

The *Cybor* majority responded to this concern by stating that credibility determinations necessarily would be subsumed within the patent

---

77. *See id.*

78. *Id.* at 1464 n.10, 46 U.S.P.Q.2d at 1197 n.10.

79. *See id.* at 1464, 46 U.S.P.Q.2d at 1182.

80. *Id.* at 1473, 46 U.S.P.Q.2d at 1189.

81. *Id.* at 1475, 46 U.S.P.Q.2d at 1191 (citing *Lucas Aerospace, Ltd. v. Unison Indus., LP*, 890 F. Supp. 329, 333-34 n.7 (D. Del. 1995)).

82. *See Vitronics Corp. v. Conceptor, Inc.*, 90 F.3d 1576, 1584, 39 U.S.P.Q.2d (BNA) 1573, 1578 (Fed. Cir. 1996) ("[E]xtrinsic evidence in general, and expert testimony in particular, may be used only to help the court come to the proper understanding of the claims.... Indeed, where the patent documents are unambiguous, expert testimony regarding the meaning of a claim is entitled to no weight.").

document.<sup>83</sup> This position could be interpreted to mean that a court will choose the testimony of one expert over another based upon how well the testimony comports with the patent claims, specification, and prosecution history. However, the comparison of the expert testimony to the intrinsic evidence is unlikely to be helpful because the intrinsic evidence must be ambiguous before expert testimony may be used. The judge inevitably will compare the expert testimonies against each other, instead of against the intrinsic evidence, when deciding which testimony is more persuasive. Therefore, the Federal Circuit's position that a trial judge does not make credibility judgments regarding the testimony of expert witnesses for claim construction does not match reality. Numerous trial courts and legal commentators have shared this sentiment.<sup>84</sup>

### B. Degree of Deference to the Trial Court

Concurring opinions by Judges Plager and Bryson undercut the *Cybor* majority's simple rule of *de novo* review. Judge Plager argued that even though the Federal Circuit utilizes a *de novo* standard of review, "common sense dictates that the trial judge's view will carry weight."<sup>85</sup> The amount of informal deference that a reviewing court will use is a function of the trial court's care with which it developed the claim construction and the information on which it based that construction.<sup>86</sup> However, if claim construction purely is a question of law, then the Federal Circuit does not need to grant any deference to the trial court's claim construction. Unfortunately, Judge Plager does not provide any clarification on this issue, but his opinion supports the idea that the Federal Circuit will apply a *de novo* standard in name only. In fact, Judge Plager stated that the *Cybor* major-

---

83. See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1456, 46 U.S.P.Q.2d (BNA) 1169, 1174 (Fed. Cir. 1998) (citing *Markman II*, 517 U.S. 370, 389, 38 U.S.P.Q.2d (BNA) 1461, 1470 (1996)).

84. See *Elf Atochem North Am., Inc. v. Libbey-Owens-Ford Co.*, 894 F. Supp. 844, 857, 37 U.S.P.Q.2d (BNA) 1065, 1075 (D. Del. 1997); *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litigation*, 831 F. Supp. 1354, 1359, 28 U.S.P.Q.2d (BNA) 1801, 1805 (N.D. Ill. 1993). See generally Gregory D. Leibold, *In Juries We Do Not Trust: Appellate Review of Patent-Infringement Litigation*, 67 U. COLO. L. REV. 623 (1996) (arguing that trial judges make credibility determinations when trial judges hear expert witness testimony); Louis S. Silvestri, *A Statutory Solution to the Mischief of Markman v. Westview Instruments, Inc.*, 63 BROOK. L. REV. 279 (1997) (arguing that claim construction is a mixed fact/law issue); William R. Zimmerman, *Unifying Markman and Warner-Jenkinson: A Revised Approach to the Doctrine of Equivalents*, 11 HARV. J.L. & TECH. 185 (1997) (arguing that the Federal Circuit should expressly allow extrinsic evidence and encourage district courts to assess this evidence explicitly).

85. *Cybor*, 138 F.3d at 1462, 46 U.S.P.Q.2d at 1180.

86. See *id.*

ity's opinion is merely intended to eliminate the time-consuming practice of arguing whether elements of a particular claim construction includes findings of fact or conclusions of law.<sup>87</sup> Thus, as a practical matter, Judge Plager's reading of the *Cybor* decision would not alter the allegedly common practice of granting informal deference to some trial judges' decisions regarding claim construction.

Judge Bryson's concurring opinion further supports Judge Plager's position that a reviewing court should grant some amount of deference to a trial judge's claim construction. Judge Bryson argued that "[s]imply because a particular issue is denominated a question of law does not mean that the reviewing court will attach no weight to the conclusion reached by the tribunal it reviews."<sup>88</sup> Instead of adopting a strict view of *de novo* review, Judge Bryson pointed to three examples where appellate courts apply a deferential standard to some types of questions of law that ordinarily would be reviewed *de novo*.<sup>89</sup> Judge Bryson's examples are not very compelling when one considers the rationale for deference. In all three examples, the appellate court presumably grants deference because the lower court is more familiar with the particular law at issue.

For example, the Ninth Circuit Court of Appeals likely hears more cases dealing with interpretations of California law than does the Supreme Court. Therefore, the Ninth Circuit would have more familiarity with particular aspects of California state law, and the Supreme Court appropriately should defer to the Ninth Circuit's expertise. However, Judge Bryson cannot be arguing for deference to a trial judge's claim interpretation based upon the greater familiarity of district courts with patent law than the Federal Circuit Court of Appeals. The Federal Circuit frequently hears patent cases whereas most district courts rarely handle them. As a result, Judge Bryson's reasoning for informal deference to a trial judge's claim construction is not persuasive.

Judge Bryson concluded that, if claim construction turns on an issue such as a credibility judgment between two expert witnesses, "it would be entirely appropriate—and consistent with [the Federal Circuit's] characterization of claim construction as a question of law—to factor into [the Federal Circuit's] legal analysis the district court's superior access to one of the pertinent tools of construction."<sup>90</sup> To which tool of construction does the trial court have superior access? The only reasonable answer to

---

87. *See id.*

88. *Id.* at 1463, 46 U.S.P.Q.2d at 1180.

89. *See supra* Part II.B.2.

90. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1455, 1463, 46 U.S.P.Q.2d (BNA) 1169, 1180 (Fed. Cir. 1998).

that question must be credibility determinations. Such a determination is a finding of fact that the trier of fact ordinarily decides. Judge Bryson's concurrence fails to explain why the appellate court needs to create a fiction that credibility is simply a tool of legal construction and not, as generally accepted,<sup>91</sup> a factual inquiry.

### C. Policy Concerns

Judge Rader's dissent discusses many policy concerns that militate in favor of some deference in claim construction. First, Judge Rader reasoned that the American court system is based upon the trial as being the "main event."<sup>92</sup> Presumably, this means that the trial stage should be the principal place where a case is won or lost. If the trial is not the "main event," and the crucial point in litigation is at the appellate level, then cases are predominately being decided by appellate judges.

*De novo* review creates much more uncertainty than a deferential standard because an appellate judge has unconstrained freedom, under a *de novo* standard, to reverse the claim constructions of a trial judge. Therefore, even if a trial judge construed a patent's claim in a way that was unfavorable to one of the parties, that party has a second chance to get a favorable construction on appeal. If a court used a deferential standard, then the parties would be much more certain, after the claim construction phase of the trial, about the meaning of the claims. Under the *Cybor* rule, a *de novo* standard gives both parties much less of an incentive to settle the case prior to appellate review. If a court used a deferential standard for those elements of the claim construction that were based upon factual findings, then the parties would have a stronger understanding of how the case likely would result.

One may argue that a mixed *de novo*/deferential standard would not alleviate the disincentive to settle a patent litigation because substantial portions of the claim construction would likely be based upon pure conclusions of law subject to *de novo* review. For the constructions subject to *de novo* review, the parties would also have a disincentive to settle the case because of the uncertainty regarding how the case would eventually

---

91. See ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 855 (4th ed. 1998) ("Where credibility determinations are involved, it is especially important to observe the rule of clear error. Determining the weight and credibility of the evidence is the special province of the trier of fact.") (citing *Para-Ordnance Mfg. v. SGS Importers Int'l, Inc.*, 73 F.3d 1085 (Fed. Cir. 1995)).

92. See *Cybor*, 138 F.3d at 1477, 46 U.S.P.Q.2d at 1194. See generally Silvestri, *supra* note 84, at 279 (arguing that the characterization of claim construction as a matter of law has created the problem of relegating the trial to be a tryout instead of the "main event").

be decided upon appeal. However, a mixed standard would provide more certainty regarding the claim constructions for the very types of claims that are most prone to be reversed on appeal.

For example, a trial judge should only consider expert testimony regarding the meaning of claim terms when the intrinsic evidence (patent and prosecution history) leaves the meaning of the claim term ambiguous.<sup>93</sup> If a judge relies upon conflicting expert testimony to reach a decision, he or she inevitably will make credibility determinations.<sup>94</sup> If an appellate judge reads the trial record when reviewing the claim constructions of the trial judge, the appellate judge has no means by which he or she can assess the credibility of the witnesses. Therefore, the appellate judge has a smaller set of information on which to base a decision, and he or she is more likely to come to a different decision than the lower court than he or she would if judges at both levels relied upon the same set of information when making a judgment.

#### IV. CONCLUSION

The Federal Circuit unwisely decided *Cybor* from legal, practical, and policy standpoints. The Federal Circuit misconstrued the *Markman II* decision in an effort to justify a *de novo* standard of review. Moreover, the Federal Circuit ignored the fact-finding that frequently is an important element of claim construction. Instead of achieving the goal of improving the process of patent infringement litigation, the *Cybor* decision ironically has made patent litigation a much more uncertain process for both the courts and litigants. The perverse incentives created by a *de novo* standard will inevitably lead to a more burdened judiciary and increased litigation expenses for the parties.

The *Cybor* court should have adopted a mixed review standard for claim construction. A reviewing court should first decide which claim constructions were based upon findings of fact and which were based upon conclusions of law. If a trial court based a construction purely upon conclusions of law, then the appellate court may review the construction *de novo*. However, if a trial court based a construction upon a finding of fact, then a reviewing court should utilize a deferential standard of review. For instance, the Federal Circuit should defer to the district court where a claim construction is based upon the conflicting testimony of expert wit-

---

93. See *Vitronics*, 90 F.3d at 1584, 39 U.S.P.Q.2d at 1578 (stating that "where the patent documents are unambiguous, expert testimony regarding the meaning of a claim is entitled to no weight").

94. See *Cybor*, 138 F.3d at 1475, 46 U.S.P.Q.2d at 1191.

nesses. In such a case, the Federal Circuit lacks the capability to assess the credibility of the live witnesses. Therefore, the Federal Circuit should defer in its review of the claim construction because the trial record lacks the credibility information on which the trial judge based his or her decision. A mixed review standard would be superior in promoting the values of clarity and predictability in patent litigation than pure *de novo* review.

## BELL & HOWELL V. ALTEK

By Jennifer Urban

### I. INTRODUCTION

In *Bell & Howell Document Management Products Co. v. Altek Systems*,<sup>1</sup> the Federal Circuit reversed a district court decision denying a preliminary injunction brought by Bell & Howell Document Management Products Co. against Keystone Jackets for patent infringement. In its decision, the court criticized the district court for relying on expert testimony when construing the claims at issue. Such criticism is representative of a continuing difficulty in patent litigation: the proper courtroom procedures for patent claim construction.

Claim construction is decided as a matter of law rather than a matter of fact; therefore, according to recent caselaw, the use of expert testimony in construing claims is available to the judge only rarely. Despite being aimed at increasing certainty for trial participants, this general rule and the Federal Circuit's application of it, have resulted in uncertainty, and much confusion on the federal bench and among patent litigants. Although the reasoning behind the present rule is sound, the technical nature of patent claims creates difficulties in the application of the rule. Consequently, the present confusion will not be resolved until the technical complexities of claim construction are realistically addressed.

### II. HISTORICAL UNDERPINNINGS

#### A. Claim Construction as a Matter of Law

Literal patent infringement analysis involves two steps: 1) the proper construction of the claim at issue; and 2) a determination of whether or not the accused product or process infringes the properly construed claim.<sup>2</sup> Early Supreme Court decisions,<sup>3</sup> and numerous subsequent district court

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. 132 F.3d 701, 45 U.S.P.Q.2d (BNA) 1033 (Fed. Cir. 1997).

2. See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 976, 34 U.S.P.Q.2d (BNA) 1321, 1326 (Fed. Cir. 1995) (en banc), *aff'd*, 517 U.S. 370, 391 (1996).

3. See, e.g., *Coup v. Royer*, 155 U.S. 565, 577 (1895); *Bates v. Coe*, 98 U.S. 31, 38-39 (1878) (“[I]t is the province of the court to determine what the subject matter is....”); *Winans v. Denmead*, 56 U.S. (15 How.) 330, 338 (1853) (describing the court’s

decisions, have repeatedly stated that patent claim interpretation is a matter of law.<sup>4</sup>

A fundamental reason why claim interpretation is a matter of law is that the patent grant of governmental rights to the patent holder is considered analogous to a statutory grant of rights, which are construed by the court alone.<sup>5</sup> Other central reasons justifying claim interpretation as a matter of law are rooted in the overarching principles behind patent law itself: that it is desirable for the public to benefit from the technological invention,<sup>6</sup> and that patent protection is provided as an incentive for innovation.<sup>7</sup> In order to meet these goals, patents must be integrated documents which can be construed without reference to outside information,<sup>8</sup> allow-

---

determination of what a patented device is as a "question of law, to be determined by the court, construing the letters-patent, and the description of the invention and the specification of the claim annexed to them."); *Silby v. Foote*, 55 U.S. (14 How.) 218, 225 (1852) ("The construction of the claim was undoubtedly for the court.").

4. *See, e.g., Snellman v. Ricoh Company, Ltd.*, 862 F.2d 283, 287, 8 U.S.P.Q.2d (BNA) 1996, 2000 (Fed. Cir. 1988) ("[C]laim interpretation is a question of law..."); *Mannesmann Demag Corp. v. Engineered Metal Products Co., Inc.*, 793 F.2d 1279, 1282, 230 U.S.P.Q. (BNA) 45, 46 (Fed. Cir. 1986) ("The threshold question of claim interpretation is, on appeal, reviewed for legal correctness."); *Windsurfing International, Inc. v. AMF Inc.*, 782 F.2d 995, 1000, 228 U.S.P.Q. (BNA) 562, 566 (Fed. Cir. 1986) ("Claim interpretation is question of law"); *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 866, 228 U.S.P.Q. (BNA) 90, 93 (Fed. Cir. 1985) ("Claim interpretation, a threshold inquiry when resolving infringement, is a question of law.... Hence, when interpreting 'anaerobic' we need not defer to the district court under a 'clearly erroneous' standard."); *Molinaro v. Fannon/Courier Corp.*, 745 F.2d 651, 654, 223 U.S.P.Q. (BNA) 706, 707 (Fed. Cir. 1984) ("Claim interpretation ... is an issue of law..."); *ACS Hospital Sys., Inc. v. Montefiore Hospital*, 732 F.2d 1572, 1577, 221 U.S.P.Q. (BNA) 929, 932 (Fed. Cir. 1984) ("Claim construction is a question of law."); *Raytheon Co. v. Roper Corp.*, 724 F.2d 951, 956, 220 U.S.P.Q. (BNA) 592, 596 (Fed. Cir. 1983) ("Claim interpretation is a legal matter subject to review free of the clearly erroneous standard applicable to fact findings."); *Ebeling v. Pak-Mor Mfg. Co.*, 683 F.2d 909, 911 (5th Cir. 1982) ("[C]onstruction of patent claims is a question of law..."); *Stern Lighting, Inc. v. Allied Elec. Supply, Inc.*, 431 F.2d 539 (5th Cir. 1970) ("But there are rare cases in which an appellate court may consider infringement directly. One such case is that in which the construction of the patent, itself a question of law, is the main determinant.").

5. *See Markman*, 52 F.3d at 985-87, 34 U.S.P.Q.2d at 1336 ("The more appropriate analogy for interpreting patent claims is the statutory interpretation analogy. Statutory interpretation is a matter of law strictly for the court. There can be only one correct interpretation of a statute that applies to all persons.").

6. *See* ROBERT P. MERGES, ET. AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE*, 123 (1997).

7. *See id.* at 135. The theory is that, without the limited monopoly and attending economic benefits conferred by patent protection, inventors will lack the requisite incentive to invest in creating and marketing new products. *See id.* at 135.

8. *See Vanderveer v. Erie Malleable Iron Co.*, 238 F.2d 510, 514 (3d Cir. 1956).

ing someone reasonably skilled in the art to understand and reproduce the invention.<sup>9</sup> Just as a statute should have “one interpretation ... that applies to all persons,”<sup>10</sup> a patent claim should have only one interpretation that applies to all who are skilled in the art. If it has more than one interpretation, then the claim does not properly define the parameters of the property right conveyed by the patent. The claim, therefore, does not meet important notice requirements—it fails to inform the inventor who wishes to invent around the patent exactly what intellectual property is already owned by the patent holder.

A claim need not, however, be completely understandable when considered in the absence of all other information. The modern view is that both the prosecution history<sup>11</sup> and the state of the prior art<sup>12</sup> are to be considered when interpreting patent claims.<sup>13</sup> As the Federal Circuit stated in 1987, “It is [the] interpretation based on established facts that constitutes a legal conclusion reviewable as a matter of law.”<sup>14</sup> Because of this need to consider factual questions prior to construing the claims, courts have, historically, often hinged their legal claim constructions on these underlying questions of fact.<sup>15</sup> And, stating that factual findings must be made in or-

---

9. See 35 U.S.C. § 112 (1994) (requiring the specifications to “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 ... to make and use the same....”).

10. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 986, 34 U.S.P.Q.2d (BNA) 1321, 1336 (Fed. Cir. 1995) (en banc), *aff'd*, 517 U.S. 370, 391 (1996).

11. See *Graham v. John Deere*, 383 U.S. 1, 33 (1966).

12. See *Autogiro Co. of America v. United States*, 384 F.2d 391, 399, 155 U.S.P.Q. (BNA) 697, 704 (Ct. Cl. 1967).

13. Prosecution history consists of the negotiations between the inventor and the PTO. “Prior art” consists of previous inventions, publications, etc.

14. *Perini America Inc. v. Paper Converting Machine Co.*, 832 F.2d 581, 584, 4 U.S.P.Q.2d (BNA) 1621, 1624 (Fed. Cir. 1987).

15. Perhaps the most famous articulation of this idea was formulated by the Supreme Court in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 378 (1996), describing claim construction as a “mongrel practice” between fact and law. *Id.* See also *H.H. Robertson, Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 389, 2 U.S.P.Q.2d (BNA) 1926, 1929 (Fed. Cir. 1987) (“Claim construction is reviewed as a matter of law.... However, interpretation of a claim may depend on evidentiary material about which there is a factual dispute, requiring resolution of factual issues as a basis for interpretation of the claim.”); *Studiengesellschaft Kohle v. Eastman Kodak Co.*, 616 F.2d 1315, 1324, 206 U.S.P.Q. (BNA) 577, 585 (5th Cir. 1980). (“The construction of a patent is a matter of law.... Of course, factual findings may be employed in arriving at the patent’s proper construction.”).

der to interpret claims, courts have left these findings, and even the actual claim constructions, to the jury.<sup>16</sup>

## B. The Historical Use of Expert Testimony in Claim Construction

Because of the factual nature of infringement claims, it has been historically commonplace to use expert testimony to aid in findings of fact such as construing the prior art,<sup>17</sup> finding the level of ordinary skill in the art, and even during the legal process of interpreting the claims at issue in patent litigation and in proceedings before the PTO.<sup>18</sup> Courts have also used extrinsic evidence, including expert testimony, to decide the questions of fact upon which the legal claim constructions rest.<sup>19</sup> As Judge Learned Hand stated in 1920, however:

[T]he judge should understand what the specifications say. That is the only permissible use of expert testimony which we recognize. When the judge has understood the specifications, he cannot avoid the responsibility of deciding himself all questions of infringement and anticipation, and the testimony of experts upon these issues is inevitably a burdensome experience.<sup>20</sup>

The fact that judges shoulder this responsibility, as well as the perceived partisan nature of expert testimony,<sup>21</sup> has resulted in a confusing hodge-

---

16. See, e.g., *Palumbo v. Don-Joy Co.*, 762 F.2d 969, 974, 226 U.S.P.Q. (BNA) 5, 8 (Fed. Cir. 1985) (stating that when a dispute arises as to the meaning of a claim term, "an underlying factual question arises, and construction of the claim should be left to the trier or jury under appropriate instruction."); *McGill, Inc. v. John Zink Co.*, 736 F.2d 666, 671-72, 221 U.S.P.Q. (BNA) 944, 948 (Fed. Cir. 1984) ("If the language of the claims is undisputed, the district court could interpret or construe the undisputed claims as a matter of law.... If, however, the meaning of a term of art in the claims is disputed and extrinsic evidence is needed to explain the meaning, construction of the claims could be left to a jury...."); *Continental Conveyor & Equip. Co., Inc. v. Prather Sheet Metal Works, Inc.*, 709 F.2d 403 (5th Cir. 1983) (finding that it is not error to allow a jury to consider the question of the meaning of a term in the claim along with the factual question of infringement); *Baker Oil Tools Inc. v. TRW Inc.*, 673 F. Supp. 1061, 1067, 3 U.S.P.Q.2d (BNA) 1691, 1695 (N.D. Okla. 1987) ("[E]xpert witnesses may be used to construe claims....").

17. See, e.g., *Control Components v. Valtek, Inc.*, 609 F.2d 763 (5th Cir. 1980) (citing expert testimony); *Autogiro Co. of America v. U.S.*, 384 F.2d 391, 155 U.S.P.Q. (BNA) 697 (Ct. Cl. 1967).

18. See DONALD S. CHISUM, CHISUM ON PATENTS § 5.04[4] (1998).

19. See *supra* note 16.

20. *Kohn v. Eimer*, 265 F. 900, 902 (2d Cir. 1920).

21. See *Eagle Iron Works v. McInahan Corp.*, 429 F.2d 1375, 1380-81 (3d Cir. 1970); HERBERT F. SCHWARTZ, PATENT LAW & PRACTICE, 134 (2d ed. 1995) (recom-

podge of case law. Some cases suggest that the use of experts be limited, or avoided all together<sup>22</sup> Other cases, however, suggest that experts are necessary to the process of interpreting claims.<sup>23</sup>

A middle ground is the increased use of court-appointed experts,<sup>24</sup> which may provide a less biased source of information about the technology than partisan experts. Courts must take care, however, that experts do not actually undertake the claim construction. This last restriction is imperative, especially since recent caselaw, discussed in Part III, *infra*, states that factual determinations must be clearly divorced from claim construction, which is a matter of law.

---

mending that the number of expert witnesses be limited to avoid confusion, especially if they correct one another's testimony on the same subject).

22. See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1455-56 n.3, 46 U.S.P.Q.2d (BNA) 1169, 1173 n.3 (Fed. Cir. 1998) (reaffirming that extrinsic evidence including expert testimony may only be used to aid the court in understanding the technology, and is not to be relied upon for purposes of claim interpretation); *Methode Electronics, Inc. v. Elco Corp.*, 385 F.2d 138, 140 (3d Cir. 1967) ("The meaning of words in a claim is not necessarily determined on the opinion of experts...."); *Minnesota Mining & Mfg. Co. v. Carborundum Co.*, 155 F.2d 746, 749 (3d Cir. 1946) ("[T]he words of a patent application, like the words of specific claims therein, always raise a question of law for the court and may not be determined by the opinion of experts."); *Solomon v. Renstrom*, 150 F.2d 805, 808 (8th Cir. 1945) ("The interpretation of the claims of a patent is not to be determined by the opinion of experts, but is a question of law for the court."); *Eli Lilly & Co. v. A.H. Robins Co.*, 228 U.S.P.Q. (BNA) 757, 760 (E.D. Va. 1985) (finding interpretation of the claim at issue by the examiner who was involved in the prosecution to be "of little help to the Court in interpreting the claims of the patent in suit. The responsibility is that of the courts.").

23. See *Baker Oil Tools Inc. v. TRW Inc.*, 673 F. Supp. 1061, 1067 (N.D. Okla. 1987) ("[E]xpert witnesses may be used to construe claims.... The expert must first be shown to be a person skilled in the art to which the invention pertains before his testimony should be given any weight ... because the specification and claims are addressed to such persons."); *Howes v. Medical Components, Inc.*, 227 U.S.P.Q. (BNA) 246 (E.D. Pa. 1985); *Max Daetwyler Corp. v. Input Graphics, Inc.*, 583 F. Supp. 446, 450 (E.D. Pa. 1984) ("Although the question of whether a patent has been infringed is an issue of fact, the construction of a patent is a question of law.... The only exception to this rule is *when extrinsic evidence is necessary* to resolve a dispute about a term of art in the claim.") (emphasis added); *Biuro Projektow Zakladow Przerobki Mechanicznej Wegla "Separatork" v. UOP, Inc.*, 203 U.S.P.Q. (BNA) 175, 177 (N.D. Ill. 1979) ("[C]onstruction of a patent claim is a question of law for the court *if extrinsic evidence is not needed to resolve a dispute about terms of art in the claim.*") (emphasis added).

24. See FED. R. EVID. 706 ("The court may appoint an expert witness agreed upon by the parties, and may appoint expert witnesses of its own selection.").

### III. MARKMAN AND VITRONICS

#### A. *Markman* and Claim Construction

In 1996, the Supreme Court decided *Markman v. Westview Instruments, Inc.*,<sup>25</sup> finally laying to rest any argument about whether claim interpretation was an issue of fact or law. Rejecting a Seventh Amendment claim that the jury should decide the meaning of a disputed claim for which expert testimony was provided, the Court stated that “the interpretation of a so-called patent claim, the portion of the patent that defines the scope of the patentee’s rights, is a matter of law reserved entirely for the court.”<sup>26</sup>

While *Markman* left no doubt that the court, rather than a jury, is to construe patent claims, district courts have been left with little guidance in how to accomplish this goal.<sup>27</sup> For example, in *Elf Atochem North America, Inc. v. Libbey-Owens-Ford Co.*,<sup>28</sup> the district court suggested that *Markman* gave it three options: 1) “the court can attempt to resolve these disputes on the paper record;”<sup>29</sup> 2) “the court can hold a trial to resolve the disputes;”<sup>30</sup> or 3) the court “can wait until trial and attempt to resolve claim disputes the evening before the jury must be instructed.”<sup>31</sup>

District courts have often opted for the second choice, holding “*Markman* hearings” in order to decide claim construction before the infringement trial begins.<sup>32</sup> According to the court in *Elf Atochem*, this option serves multiple purposes: 1) it avoids the “serious practical problems of how to adequately and fairly rule on these difficult and vitally important issues ... while a jury waits;”<sup>33</sup> and 2) “[allows] the Federal Circuit to review the claim interpretation issue before trying the case to a jury, in order to avoid wasting ... time because the court erroneously instructed the jury

---

25. 517 U.S. 371 (1996).

26. *Id.* at 372.

27. See *Ethicon Endo-Surgery v. United States Surgical Corp.*, 93 F.3d 1572, 1577, 40 U.S.P.Q.2d (BNA) 1019, 1022 (Fed. Cir. 1996); *Moll v. Northern Telecom Inc.*, 37 U.S.P.Q.2d (BNA) 1839, 1842 (E.D. Pa. 1995) (“While the *Markman* decision holds that the court, rather than that jury, should interpret the claims, the opinion does not explicitly prescribe how this should be accomplished....”).

28. 894 F. Supp. 844 (D. Del. 1995).

29. *Id.* at 850.

30. *Id.*

31. *Id.*

32. See *Ethicon Endo-Surgery*, 93 F.3d at 1577, 40 U.S.P.Q.2d at 1842. The practice of using a pre-trial hearing was pioneered by the Delaware district court in *Elf Atochem*.

33. *Elf Atochem*, 894 F. Supp. at 858, 37 U.S.P.Q.2d at 1075.

on the meaning of a claim term.”<sup>34</sup> Trial courts do not, however, have an obligation to decide upon a final interpretation of claims early in the case. Instead, the court may interpret the claims at a later date, “when the parties have presented a full picture of the claimed invention and prior art.”<sup>35</sup>

### B. Evidentiary Procedure for Claim Construction: *Vitronics*

In *Vitronics Corp. v. Conceptronic, Inc.*,<sup>36</sup> the Federal Circuit provided guidelines for interpreting claims, stating that “a court has numerous sources that it may properly utilize for guidance.”<sup>37</sup> First, the court should look to the intrinsic evidence, defined as the patent itself, including the claims, the specification, and the prosecution history.<sup>38</sup> Among this information, the words of the claims, both asserted and nonasserted, are considered first.<sup>39</sup> Generally, words are given their ordinary meaning,<sup>40</sup> but a patentee is free to act as his or her “own lexicographer,”<sup>41</sup> giving the words special definitions, as long as those special definitions are clearly stated in the specification.<sup>42</sup> In order to identify and understand these special definitions, one must review the specification, which “acts as a dictionary when it expressly defines terms used in the claims or when it de-

---

34. *Elf Atochem North America, Inc. v. Libbey-Owens-Ford Co.*, 894 F. Supp. 844 (D. Del. 1995). To date, however, the Federal Circuit has refused to take any such certified questions. See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1479, 46 U.S.P.Q.2d (BNA) 1169, 1194 (Fed. Cir. 1998) (Newman, J., additional view). Note that this situation may encourage district court judges to adopt a claim construction which results in a finding of non-infringement, solely for the purpose of having the Federal Circuit review the claim construction prior to a full trial.

35. *Sofamor Danek Group, Inc. v. DePuy-Motech, Inc.*, 74 F.3d 1216, 1221, 37 U.S.P.Q.2d (BNA) 1529, 1532 (Fed. Cir. 1996).

36. 90 F.3d 1576, 39 U.S.P.Q.2d (BNA) 1573 (Fed. Cir. 1996).

37. *Id.* at 1582, 39 U.S.P.Q.2d at 1576.

38. *See id.*

39. *See id.*

40. The ordinary meaning for a “technical term used in a patent document is interpreted as having the meaning that is would be given by persons experienced in the field of the invention....” *Id.* at 1582, U.S.P.Q.2d at 1576-77 (quoting *Hoechst Celanese Corp. v. BP Chems. Ltd.*, 78 F.3d 1575, 1578, 38 U.S.P.Q.2d (BNA) 1126, 1129 (Fed. Cir. 1996)).

41. *Id.* at 1582, 39 U.S.P.Q.2d at 1577 (citing *Hoechst Celanese*, 78 F.3d at 1578, 38 U.S.P.Q.2d at 1129).

42. *See Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1582, 39 U.S.P.Q.2d (BNA) 1573, 1577 (Fed. Cir. 1996). These definitions may even be “contrary to or inconsistent with one or more of their ordinary meanings.” *Hormone Research Found., Inc. v. Genentech, Inc.*, 904 F.2d 1558, 1563, 15 U.S.P.Q.2d (BNA) 1032, 1043 (Fed. Cir. 1990).

finer terms by implication,<sup>43</sup> and is thus “the single best guide to the meaning of a disputed term.”<sup>44</sup> Finally, the court may consider the patent’s prosecution history, including any express representations made by the applicant regarding the scope of the claims,<sup>45</sup> and the prior art cited in the prosecution history if necessary.<sup>46</sup>

According to the court, this intrinsic evidence will usually resolve any ambiguities in the claim language.<sup>47</sup> Further, the intrinsic evidence constitutes the public record of the patentee’s claim, and the court may not allow it to be altered by extrinsic evidence, such as expert testimony.<sup>48</sup> If the public record is altered (by either the patentee or the alleged infringer offering incorrect expert testimony), then the public’s right to design around what is claimed in the public record would be rendered meaningless.<sup>49</sup> Therefore, it is usually improper to rely on extrinsic evidence as an aid in claim interpretation,<sup>50</sup> and such evidence should be used only if the claims remain truly ambiguous after all of the intrinsic evidence has been considered.<sup>51</sup> In addition, even if expert testimony is admissible, it may not be considered for the purposes of claim construction if it is inconsis-

---

43. *Vitronics Corp.* 90 F.3d at 1582, 39 U.S.P.Q.2d at 1577 (citing *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 979, 34 U.S.P.Q.2d (BNA) 1321, 1330 (Fed. Cir. 1995)).

44. *Id.* at 1582, 39 U.S.P.Q.2d at 1577.

45. *See id.* at 1582-83, 39 U.S.P.Q.2d at 1577.

46. *See id.* at 1583, 39 U.S.P.Q.2d at 1577, (citing *Autogiro Co. of America v. United States*, 384 F.2d 391, 399, 155 U.S.P.Q. (BNA) 697, 704 (Ct. Cl. 1967)).

47. *See Vitronics Corp. v. Conceptor, Inc.*, 90 F.3d 1576, 1583, 39 U.S.P.Q.2d (BNA) 1573, 1577 (Fed. Cir. 1996) (quoting *Hormone Research Found., Inc. v. Genentech, Inc.*, 904 F.2d 1558, 1562, 15 U.S.P.Q.2d 1039, 1043 (“Claim interpretation involves review of the specification, the prosecution history, the claims ... and, if necessary, other extrinsic evidence, such as expert testimony.”)).

48. Other examples of extrinsic evidence are treatises and dictionaries. Like experts, these may be consulted by judges for the purpose of better understanding the underlying technology. Judges may also rely on dictionary definitions, as long as they do not contradict “any definition found in or ascertained by a reading of the patent documents.” *Id.* at 1584 n.6, 39 U.S.P.Q.2d at 1578 n.6.

49. *See id.* at 1583, 39 U.S.P.Q.2d at 1577.

50. *See id.* at 1583, 39 U.S.P.Q.2d at 1577 (citing *Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211, 1216, 36 U.S.P.Q.2d (BNA) 1225, 1228 (Fed. Cir. 1995) (“In construing the claims we look to the language of the claims, the specification, and the prosecution history. Extrinsic evidence may also be considered, if needed to assist in determining the meaning or scope of technical terms in the claims.”); *Hormone Research Found.*, 904 F.2d at 1562, 15 U.S.P.Q.2d at 1043 (“Claim interpretation involves a review of the specification, the prosecution history, the claims ... and, if necessary, other extrinsic evidence, such as expert testimony.”)).

51. *See Vitronics Corp.*, 90 F.3d at 1584, 39 U.S.P.Q.2d at 1578.

tent with the specification or if it varies or contradicts the claim language.<sup>52</sup>

Prior art may also be used to demonstrate how those skilled in the art use disputed terms. This is acceptable whether or not the prior art was cited in the specification or the file history,<sup>53</sup> however, like expert testimony, it may not to be used “when the disputed terms can be understood from a careful reading of the public record.”<sup>54</sup> In *Vitronics*, the court states that prior art can be useful, and may also

make it unnecessary to rely on expert testimony and may save much trial time. As compared to expert testimony, which often only indicates what a particular expert believes a term means, prior art references may also be more indicative of what those skilled in the art generally believe a certain term means.<sup>55</sup>

In general, the court finds prior art documents and dictionaries to be “more objective and reliable guides” than expert testimony.<sup>56</sup> Indeed, the court states that “these sources ... are to be preferred over opinion testimony ... opinion testimony on claim construction should be treated with the utmost caution, for it is no better than opinion testimony on the meaning of statutory terms.”<sup>57</sup>

*Vitronics*, however, distinguishes the extrinsic evidence used for interpreting claims from the same kinds of evidence used to “help in understanding the technology.”<sup>58</sup> The judge may always use expert testimony as an aid in understanding the technology being claimed.<sup>59</sup> But, as discussed

---

52. *See id.* (citing *Southwall v. Tech, Inc. v. Cardinal IG Co.*, 54 F.3d 1570, 34 U.S.P.Q.2d (BNA) 1673 (Fed. Cir. 1995)).

53. *See id.* at 1584, 39 U.S.P.Q.2d at 1578.

54. *Id.* at 1584, 39 U.S.P.Q.2d at 1579 (citing *Kearns v. Chrysler Corp.*, 32 F.3d 1541, 1547, 31 U.S.P.Q.2d (BNA) 1746, 1750 (Fed. Cir. 1994)).

55. *Id.* at 1584, 39 U.S.P.Q.2d at 1579, (quoting *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 983, 34 U.S.P.Q.2d (BNA) 1321, 1332-33 (Fed. Cir. 1995) 1332-33 (“First the testimony of Markman and his patent attorney on the proper construction of the claims is entitled to no deference.... This testimony about construction, however, amounts to no more than legal opinion—it is precisely the process of construction that the court must undertake.”)).

56. *Id.* at 1585, 39 U.S.P.Q.2d at 1579.

57. *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1585, 39 U.S.P.Q.2d (BNA) 1573, 1579 (Fed. Cir. 1996). In part, the court finds this because these sources are “available to the public in advance of litigation.” *Id.*

58. *Id.* at 1585, 39 U.S.P.Q.2d. at 1579.

59. *See id.* at 1584, 39 U.S.P.Q.2d at 1578 (“[E]xtrinsic evidence in general, and expert testimony in particular, may be used only to help the court come to the proper understanding of the claims....”). *See also* *Mantech Environmental Corp. v. Hudson Envi-*

*infra*, it seems unlikely that the expert's testimony regarding the technology itself would never influence the judge's interpretation of the claim language.

### C. The Use of Expert Testimony Today

Despite the *Vitronics* paradigm, the Federal Circuit has overruled district courts on the issue of claim interpretation at a rate of nearly 40% during recent years.<sup>60</sup> When overruling these decisions, the Federal Circuit has frequently criticized the district judges' improper use of expert testimony.<sup>61</sup> Therefore, district judges have been forced to carefully consider their use of expert testimony, even for the purposes of understanding the technology.

Practitioners, too, have been forced to rethink their litigation strategies since *Markman* was decided.<sup>62</sup> Expert testimony, however, remains an important tool for the litigator, as evidenced by professional writings on the subject.<sup>63</sup> Therefore, in order to introduce expert testimony during claim construction proceedings, attorneys attempt to establish at the onset that

---

ronmental Services, Inc., 152 F.3d 1368, 1373, 47 U.S.P.Q.2d (BNA) 1732, 1737 (Fed. Cir. 1998) (finding the district court "legally correct both in admitting and accepting the testimony of the parties' expert witnesses 'for the purpose of background in the technical area at issue...").

60. See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1476, 46 U.S.P.Q.2d (BNA) 1169, 1192 (Fed. Cir. 1998) (Rader, J., dissenting).

61. See, e.g., *Donnelly Corp. v. Gentex Corp.*, No. 97-1391, U.S. Dist. LEXIS 22382, at \*22 (Fed. Cir. Sep. 11, 1998); *Bell & Howell Document Management Prod. Co. v. Altek Sys.*, 132 F.3d 701, 705, 45 U.S.P.Q.2d (BNA) 1033, 1037 (Fed. Cir. 1997); *J.T. Eaton & Co., Inc. v. Atlantic Paste & Glue Co.*, 106 F.3d 1563, 1570, 41 U.S.P.Q.2d (BNA) 1641, 1646 (Fed. Cir. 1997) (overturning a district court claim construction that was based on expert testimony).

62. See, e.g., David J. Brezner, *Presenting the Witnesses Special to a Patent Trial*, 531 PLI/PAT 61, 68 (1998) ("As *Markman* was decided only three years ago, litigators are still weighing the pros and cons of various approaches to claim interpretation."); Thomas L. Creel & Michael Shih, *Markman's Continuing Seas of Change*, 489 PLI/PAT 133, 145 (1997) ("In light of the new *Markman* rules, a practitioner must think carefully about how and when to present the issue of claim construction ... [and] how to present technical evidence to a judge in order to help the court read the claims as one of ordinary skill in the art would. It seems that district courts are willing to allow expert testimony ... to help it [sic] understand the technology and technical terms.").

63. See Brezner, *supra* note 62 at 74 ("The technical expert continues to be a powerful tool for use during a *Markman* hearing.").

claim language is ambiguous—these ambiguities will allow them to introduce expert testimony under the *Vitronics* rules.<sup>64</sup>

#### IV. CASE SUMMARY

##### A. Background

Through assignment, Bell & Howell owns U.S. Patent Nos. 4,523,401 and 4,452,666,<sup>65</sup> which claim jackets for holding microfiche strips (the '401 patent), and a method for producing these jackets (the '666 patent).<sup>66</sup> The jackets consist of transparent top and bottom panels held together by "in situ" ribs of plastic.<sup>67</sup> The ribs form channels which hold the microfiche in place within the jackets; the thickness of the microfiche strips that can be placed within the jackets is determined by the thickness of the ribs.<sup>68</sup>

The '401 and '666 patents are continuations of the same application.<sup>69</sup> They have the same written description, and each patent contains one independent claim.<sup>70</sup> The claim limitation at issue in the instant case is the

---

64. *See id.* at 75 ("[I]n order to set a foundation for use of expert testimony on the meaning of specific claim limitations, it is imperative for the party to establish an ambiguity in each of the limitations for which such testimony is offered.")

65. *See Bell & Howell Document Management Prods. Co. v. Altek Sys.*, No. 96-C3385, U.S. Dist. LEXIS 15484, at \*2 (E. D. Ill. October 17, 1996).

66. *See Bell & Howell Document Management Prod. Co. v. Altek Sys.*, 132 F.3d 701, 702, 45 U.S.P.Q.2d (BNA) 1033, 1035 (Fed. Cir. 1997).

67. *Id.*

68. *See id.* at 703, 45 U.S.P.Q.2d at 1035.

69. *See id.* at 703 n.1, 45 U.S.P.Q.2d at 1035 n.1.

70. *See id.* at 703 n.2, 45 U.S.P.Q.2d at 1035 n.2. Claim 1 of the '401 patent is as follows:

1. A multi-channel transparent jacket for accommodating microfilm strips having a predetermined thickness and a predetermined width and whose length is no greater than the length of the jacket, said jacket comprising:

(A) top and bottom rectangular panels in superposed relation formed of flexible polyester film having predetermined polymeric properties; and

(B) a plurality of in situ ribs formed of moldable plastic material compatible with the material of said panels and integrally bonded thereto to form a unitary structure free of adhesive or other bonding agents and in which the properties of said panels are unimpaired, said ribs maintaining said panels in parallel planes to define open-end channels whose width is substantially equal to the width of said strips, said ribs having a thickness substantially equal to the thickness of said

requirement that the in situ ribs be “integrally bonded ... free of adhesive” to the panels.<sup>71</sup> Arguing that Keystone Jackets, Inc. was producing jackets “integrally bonded” to panels, Bell & Howell sued Keystone, alleging infringement of the ’401 and ’666 patents, and moved for a preliminary injunction.<sup>72</sup> Keystone argued that because its jackets have no intermingling of the molecules of the rib and panel materials, they are “mechanically,” rather than “integrally” bonded, and so do not infringe the ’401 and ’666 patents.<sup>73</sup>

Both parties presented expert testimony to support their interpretations of the claims.<sup>74</sup> Keystone’s expert witness, Dr. Robin McCarley, testified that mechanical bonding occurs when two micro-roughened surfaces come together and one is heated—the molten material then flows into the grooves on the roughened surface of the other material, forming many bonds.<sup>75</sup> Integral bonding, according to Dr. McCarley, occurs when the molecules of two materials intermingle, obliterating the interface between

---

strips, each channel having an entry slot cut into said bottom panel adjacent the front end of the jacket.

U.S. Patent No. 4,523,401, issued June 18, 1985. Claim 1 of the ’666 patent is as follows:

1. A method of producing individual multi-channel transparent jackets for accommodating microfilm strips having a predetermined thickness and width, each jacket being composed of front and rear rectangular panels in superposed relation formed of flexible transparent polyethylene terephthalate film having predetermined polymeric properties, the method comprising the steps of:

(A) directing a plurality of spaced extruded molten streams of moldable polyester material ... onto the surface of a first web... [;]

(B) advancing said first web carrying said streams concurrently with a second web of panel material into combining rolls having an adjustable nip...;

(C) adjusting said nip with reference to the cross-sectional area of the streams to effect compression and flattening thereof between said webs ... to a degree forming in situ ribs ... being integrally bonded to each of said webs to create a unitary combined web free of adhesive and other bonding agents...; and

(D) transversely sectioning said combined web to form open-ended channels in a stip-receiving [sic] condition, thereby defining said individual jackets.

U.S. Patent No. 4,452,666, issued June 5, 1984.

71. *Bell & Howell*, 132 F.3d 7 at, 703, 45 U.S.P.Q.2d at 1035-36.

72. *Bell & Howell Document Management Prod. Co. v. Altek Sys.*, 132 F.3d 701, 703, 45 U.S.P.Q.2d (BNA) 1033, 1035 (Fed. Cir. 1997).

73. *Id.* at 703-04, 45 U.S.P.Q.2d at 1036.

74. *See Bell & Howell Document Management Prods. Co. v. Altek Sys.*, No. 96-C3385, U.S. Dist. LEXIS 15484, at \*4 (E. D. Ill. October 17, 1996).

75. *See id.*

them.<sup>76</sup> Thus, Dr. McCarley concluded that Keystone's product employed mechanical bonding, with no intermingling of molecules.<sup>77</sup>

Bell & Howell's witness, Dr. John Muzzy, testified that integral bonding occurs when "you can't define the interface anymore."<sup>78</sup> On cross-examination, he admitted that the interface between the rib and panel materials of Keystone's product was discernible when observed with an electron micrograph—as such, Keystone's product did not involve integral bonding of this kind.<sup>79</sup> He stated, however, that the accused product had "an integral bond in the manner in which 'integral bond' is defined in the patent:"<sup>80</sup> a bond created by a rib material that served by itself as an adhesive, rather than by using other adhesives.<sup>81</sup>

### B. The District Court's Decision

Relying on the expert testimony to interpret the meaning of "integrally bonded ... free of adhesive," the United States District Court for the Northern District of Illinois denied Bell & Howell's motion for a preliminary injunction, adopting a claim construction that favored Keystone.<sup>82</sup> The district court decided that "chemists have a clear definition of 'integral bonding.' It means exactly what both Dr. Muzzy and Dr. McCarley agreed that it means: that the two surfaces unite by an exchange of molecules so as to obliterate the interface between them."<sup>83</sup> In addition, the district court stated that construing "integrally bonded" to necessarily mean that there was no adhesive would mean that the phrase "free of adhesive" in the claim was "superfluous."<sup>84</sup> This construction of the claim meant that "actual integral bonding into a single unitary piece of material" was required for infringement to occur; however, the district court thought it clear that Keystone's product was *mechanically* bonded.<sup>85</sup> Therefore, it decided that Bell & Howell had not established the clear likelihood of infringement necessary to grant a preliminary injunction.<sup>86</sup>

---

76. *See id.*

77. *See id.*

78. *Id.*

79. *See id.* at \*5.

80. *Bell & Howell Document Management Prods. Co. v. Altek Sys.*, No. 96-C3385, U.S. Dist. LEXIS 15484, at \*5 (E. D. Ill. October 17, 1996).

81. *See id.*

82. *Id.* at \*12.

83. *Id.* at \*8-\*9.

84. *Id.* at \*10-\*11.

85. *Bell & Howell Document Management Prod. Co. v. Altek Sys.*, 132 F.3d 701, 704, 45 U.S.P.Q.2d (BNA) 1033, 1036 (Fed. Cir. 1997).

86. *See id.*

### C. The Federal Circuit's Decision

The Federal Circuit reversed, stating that the district court erred in relying on expert testimony to construe the claim language. Stating that "reliance on extrinsic evidence<sup>87</sup> is proper only when the claim language remains genuinely ambiguous after consideration of the intrinsic evidence,"<sup>88</sup> the court held, "[B]ecause the intrinsic evidence unambiguously defines the disputed claim limitation, the district court's reliance on the expert testimony of McCarley and Muzzy to contradict the intrinsic evidence when interpreting the claims was error."<sup>89</sup>

The Federal Circuit explained its rationale for the rule that the use of extrinsic evidence in claim construction is usually improper by reference to the "notice" function of patents.<sup>90</sup> In order for the public's right to design around the patent to be a meaningful one, knowledge available to the public must be sufficient. Later inventors must have access to a public record that is reasonably clear and reliable so that those later inventors know exactly what is covered by the patent—what rights are already owned, and what constitutes novel, patentable material.<sup>91</sup> Claims that remain ambiguous to the reader even after the specifications and file wrapper have been considered fail to serve this purpose. Similarly, allowing expert testimony to change the meaning of the claims renders this right meaningless, allowing both enforcers and infringers to construe the patent in a way that falls outside of that which could have been understood from the public record.<sup>92</sup>

According to the Federal Circuit, the use of extrinsic evidence is allowable only if the claim language is "genuinely ambiguous" after consid-

---

87. "Extrinsic evidence is that evidence which is external to the patent and file history, such as expert testimony, inventor testimony, dictionaries, and technical treatises and articles." *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1584, 39 U.S.P.Q.2d (BNA) 1573, 1578 (Fed. Cir. 1996), *quoted in Bell & Howell*, 132 F.3d at 706 n.5, 45 U.S.P.Q.2d at 1037 n.5. Prior art may also constitute extrinsic evidence. *See Bell & Howell*, 132 F.3d at 706, 45 U.S.P.Q.2d at 1037 (citing *Vitronics Corp.*, 90 F.3d at 1584-85 n.5, 39 U.S.P.Q.2d at 1578-79 n.5).

88. *Bell & Howell*, 132 F.3d at 706, 45 U.S.P.Q.2d at 1038.

89. *Id.* at 707, 45 U.S.P.Q.2d at 1039.

90. *See id.* at 706, 45 U.S.P.Q.2d at 1037-38 ("[C]ompetitors are entitled to review the public record, apply the established rules of claim construction, ascertain the scope of the patentee's claimed invention and, thus, design around the claimed invention.").

91. *See Bell & Howell Document Management Prod. Co. v. Altek Sys.*, 132 F.3d 701, 706, 45 U.S.P.Q.2d (BNA) 1033, 1037-38 (Fed. Cir. 1997).

92. *See Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1583, 39 U.S.P.Q.2d (BNA) 1573, 1577 (Fed. Cir. 1996) ("Allowing the public record to be altered or changed by extrinsic evidence introduced at trial, such as expert testimony, would make this right meaningless.") (citations omitted).

eration of all of the intrinsic evidence.<sup>93</sup> In *Bell & Howell*, the court did not find the intrinsic evidence to be ambiguous. Pointing to the specifications<sup>94</sup> and the prosecution history,<sup>95</sup> the court decided that “integrally bonded ... free of adhesive” meant that “the ribs bond to the panels without the use of a separate adhesive layer between the ribs and the panels.”<sup>96</sup> Further, it did not find “free of adhesive” to be superfluous to “integrally bonded,” but that those phrases existed as “mutually enforcing definitions.”<sup>97</sup>

Because the Federal Circuit’s claim construction tended to support *Bell & Howell*, the court remanded to the district court, asking it for a decision on whether or not to issue the preliminary injunction against *Keystone*. On remand, the district court decided to grant *Bell & Howell*’s motion for a preliminary injunction.<sup>98</sup>

## V. DISCUSSION

### A. The “Ambiguity” Requirement

*Markman* was intended to create certainty and predictability in patent litigation<sup>99</sup> but, instead, confusion reigns. Despite the genuine usefulness of the *Vitronics* paradigm, the nature of claim construction creates uncertainty which has yet to be resolved by the Federal Circuit. Scientific language is like any trade jargon—each field has its own lexicon. Hence, it is eminently likely that words will be used in ways that differ from lay use, or that they will be completely unfamiliar to individuals outside of the field in which particular patents issue. This inherent uncertainty is com-

---

93. See *Bell & Howell*, 132 F.3d at 706, 45 U.S.P.Q.2d at 1039.

94. “In the jacket [of the prior art], preformed plastic or paper ribs are adhesively secured to the top and bottom panels. Hence, the ... ribs act as carriers for an adhesive agent to effect lamination....” *Id.* at 706, 45 U.S.P.Q.2d at 1038.

95. “Several references in the prosecution history show that by using the term ‘integrally bonded,’ the patentee was attempting to distinguish its claims over the paper-ribbed prior art that used a separate adhesive layer between the ribs and the panels.” *Id.* at 707, 45 U.S.P.Q.2d at 1038.

96. See *Bell & Howell Document Management Prod. Co. v. Altek Sys.*, 132 F.3d 701, 707, 45 U.S.P.Q.2d (BNA) 1033, 1038 (Fed. Cir. 1997).

97. *Id.* at 707, 45 U.S.P.Q.2d at 1039.

98. *Bell & Howell Document Management Prod. Company v. Altek Sys.*, No. 96C-3385, U.S. Dist. LEXIS 457 (1998).

99. Part of Judge Archer’s reasoning in *Markman* was that “a judge, trained in the law, will ... apply the established rules of construction, and in that way arrive at the *true and consistent scope* of the patent owner’s rights to be given legal effect.” *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 978, 34 U.S.P.Q.2d (BNA) 1321, 1329 (Fed. Cir. 1995).

pounded by the fact that technology and science change at an extremely rapid pace: new terms and new meanings for existing terms are, arguably, created and discarded more rapidly than those outside the field can learn them.<sup>100</sup>

This already substantial hurdle for judges attempting to interpret claim language is actually still higher. At its simplest level, claim drafting requires “not only understanding the essence of current technology, but also understanding the essence of past technology, then drawing in words the perceived distinction between current and past technology.”<sup>101</sup> But the goal of a claim drafter is broader than simply describing the technology at hand—it is to create and define the parameters of a property right.<sup>102</sup> For this reason, he or she attempts to distinguish a new technology from the present state of the art while simultaneously defining it broadly enough to capture the greatest property right available to the patentee.<sup>103</sup> The result of this complex mental process is, hopefully, an accurate reflection of the distinction between old and new technologies that also gives the patentee claims with the broadest possible scope. Therefore, accurately construing a claim is likely to be a complex process, requiring the interpreter to: 1) understand the underlying technology; 2) understand the language used in the given field to describe the underlying technology; 3) understand the state of the art in which the claimed invention exists; and 4) understand the parameters of the (presumably) unique place occupied within that field by the claimed invention. While the specification and prosecution history will no doubt be of great help in this endeavor, the subtleties of scientific jargon are likely to be difficult to tease out, resulting in one judge’s am-

---

100. Practitioners understand that this uncertainty exists, and that it is a source of the ambiguity necessary for introducing expert testimony into evidence. *See, e.g.,* Brezner, *supra* note 62, at 76 (“Claim terms having a peculiar meaning in the technical field, terms of approximation defining the scope of range limitations in a claim, as well as means-plus-function limitations are all possible sources of claim ambiguities that may lend themselves to the use of technical expert testimony.”).

101. Bradley D. Lytle & Gregory J. Maier, *The Strategic Use of Means-Plus-Function Claims*, 80 J. PAT. & TRADEMARK OFF. SOC’Y 241, 241 (1998).

102. *See, e.g., Markman*, 52 F.3d at 978, 34 U.S.P.Q.2d at 1329 (citing 35 U.S.C. § 154 (1984) (“A patent is a government grant of rights to the patentee.”)).

103. *See* ROBERT P. MERGES, *PATENT LAW AND POLICY* 14 (1997) (“The overall goal when drafting claims is to make them as broad as the Patent Office will allow.”). This complexity can make it quite difficult for claim drafters to write an accurate specification. *See* Robert D. Katz and Steven J. Lee, *Advanced Claim Drafting and Amendment Writing for Chemical Inventions*, 464 PLI/PAT 335, 339 (1996) (“Because of the numerous challenges presented by patent claim drafting, the Supreme Court long ago recognized that a patent specification is one of the most difficult legal documents to draw with accuracy.”) (citing *Topliff v. Topliff*, 145 U.S. 156 (1892)).

biguous claim being another's perfectly clear and understandable claim.<sup>104</sup> *Vitronics'* reasonable-sounding requirement that the claim language be ambiguous before extrinsic evidence is allowed, then, may cause more confusion (over what is "ambiguous") than certainty.

It is true that the specification and prosecution history will help the judge, and in some (or even many) cases, will result in a reduced need for expert testimony. This is not, however, the panacea that we might hope. First, the fact remains that the judge will almost always be required to learn a new technology in order to decide the case. Further, in *Bell & Howell*, the district court looked to the specification and the prosecution history and found only more uncertainty—in order to work around the prior art and avoid obviousness, the patentee had extensively debated with the PTO over the meaning of "integral."<sup>105</sup>

In light of the above, the Federal Circuit's finding in *Bell & Howell* that the district court erred in relying on expert testimony to construe the claim language "integrally bonded ... free of adhesive" because the intrinsic evidence was "clear and unambiguous,"<sup>106</sup> while reasonable and perhaps correct, is not necessarily the right answer. Notably, the district court did not find the intrinsic evidence sufficient for the purposes of claim construction. Given the patentee's debate with the PTO, and the fact that the district court's reading of the specification did not show that the "inventor merely meant that the in situ ribs were merely to adhere to the panels without an adhesive,"<sup>107</sup> it seems quite reasonable for the court to desire guidance from extrinsic sources. As both the district court's and the Federal Circuit's opinions are reasonable given the evidence, the case at hand is illustrative of the inherent ambiguity that results when judges, who are not themselves experts in the field wherein the patent issued, attempt to make the fine distinctions necessary to properly construe patent claims. Pragmatically and realistically, claim language and intrinsic evidence that

---

104. For example, in *Eastman Kodak v. Goodyear*, 114 F.3d 1547, 1552, 42 U.S.P.Q. 2d (BNA) 1737, 1739-43 (1997) the majority, even after considering the specification and the prosecution history, found the claims sufficiently ambiguous to warrant expert testimony. The dissent, however, stated that the "claim is clear on its face, when read in light of the specification...." *Id.* at 1561, 42 U.S.P.Q.2d at 1747 (Lourie, J., dissenting-in-part).

105. See *Bell & Howell Document Management Prods. Co. v. Altek Sys.*, No. 96-C3385 U.S. Dist. LEXIS 15484 at \*11 (E. D. Ill. October 17, 1996). The patentee wished to rely on Webster's Third Edition International Dictionary, and argued that the term "integral bonding," itself, precluded adhesives. *Id.*

106. *Bell & Howell Document Management Prod. Co. v. Altek Sys.*, 132 F.3d 701, 705, 45 U.S.P.Q.2d (BNA) 1033, 1037 (Fed. Cir. 1997).

107. *Bell & Howell*, U.S. Dist. LEXIS at \*11-\*12.

all judges would find “clear and unambiguous” seems likely to be rare outside of relatively simple technologies.

Judge Michel, the author of *Vitronics*, stated that it is often read too narrowly—that extrinsic evidence may be used, but may not vary the meaning of the claims.<sup>108</sup> That evidence, however, may not be introduced at all unless the claim language remains ambiguous after consideration of the intrinsic evidence.<sup>109</sup> As it stands, this rule encourages litigators to attempt to “introduce” ambiguity during the technology tutorial,<sup>110</sup> a strategy that is likely to increase judicial confusion rather than prevent it. In addition, it will result in the claim language, itself, becoming unnecessarily confusing.

### **B. Evidence Presented To Explain The Technology May Color Judges’ Constructions, Even If It Does Not Directly Address Claim Interpretation.**

To understand the underlying technology will often be to decide the construction of the claims. Teaching the judge the lexicon of any given technology will necessarily result in the judge relying upon that teaching during claim construction. Therefore, limiting expert testimony to teaching the technology is not likely to produce a claim construction unbiased by extrinsic evidence. Further, litigators’ strategies will lead them to use teaching the technology as a way to introduce ambiguity into the claims.<sup>111</sup>

Even if ambiguity is not introduced by the litigants’ teaching, the judge’s understanding of the technology is necessarily based on extrinsic evidence. This occurs because patents are written for those with ordinary skill in the art,<sup>112</sup> and the judge must gain a sufficient level of knowledge in the relevant art for the patent to be understandable. The judge’s understanding of the claim language will necessarily be rooted in his or her understanding of the technology, an understanding that is likely to differ

---

108. Judge Paul Michel, Remarks at a *Berkeley Technology Law Journal* and Berkeley Center for Law and Technology sponsored Forum (Nov. 11, 1998).

109. See *Vitronics Corp. v. Conception, Inc.*, 90 F.3d 1576, 1584, 39 U.S.P.Q.2d (BNA) 1573, 1578 (Fed. Cir. 1996) (“Only if there were still some genuine ambiguity in the claims, after consideration of all available intrinsic evidence, should the trial court have resorted to extrinsic evidence, such as expert testimony, in order to construe [the] claim.”).

110. See *supra* note 64 and accompanying text.

111. See *id.*

112. See, e.g., *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 986, 34 U.S.P.Q.2d (BNA) 1321, 1335 (Fed. Cir. 1995) (“ideally there should be no ‘ambiguity’ in claim language to one of ordinary skill in the art that would require resort to evidence outside the specification and prosecution history.”) (emphasis added).

based upon the teachings of experts and other extrinsic evidence. "Integral bonding," as the district judge said, means exactly what both Dr. Muzzy and Dr. McCarley say it means.<sup>113</sup> The claim language, however, has differing legal meanings, depending upon whether Dr. Muzzy's or Dr. McCarley's teachings hold more weight. The district court's greatest mistake may have been made, not by choosing one expert's testimony over another, but by characterizing their testimonies as claim interpretations, rather than background evidence. If this is the case, then the goal to limit expert claim interpretation is not being met by the *Vitronics* rule. In fact, the result may be even more damaging than overt expert interpretation, because the experts' biased viewpoints, reflected in their teachings, do not seem to be as biased as they would if they were contained within posited claim constructions. Therefore, they may be viewed with less scrutiny on appeal, allowing one side a kind of "back-door" claim interpretation. As with the ambiguity requirement, the theory behind allowing experts for the purpose of "understanding the technology"<sup>114</sup> is sound, but the reality is sobering.

## VI. CONCLUSION

Patent cases in general, and claim constructions in particular, are an understandable source of frustration for federal district judges.<sup>115</sup> The technology described by claim language is often complex, and outside the experience of the judge who must construe it. Experts are very likely necessary to aid in judges' understanding, but using partisan experts imparts the risk that the experts' testimony will vary the meaning of claim language in favor of their clients. This risk is compounded by judges' likely unfamiliarity with the scientific jargon of the field in which the patent issued—this unfamiliarity may make it difficult for the judges to distinguish between partisan experts.

This problem is particularly thorny because carefully articulated rules (such as those in *Vitronics*), while certainly helpful, do not reach the underlying problem: patent claims are written to be understood by those skilled in the art, and expert help of some type is very likely to be necessary. One possible solution is the use of court-appointed experts. Another

---

113. See *supra* note 83.

114. See *supra* notes 58-59.

115. See JAMES M. AMEND, PATENT LAW: A PRIMER FOR FEDERAL DISTRICT COURT JUDGES 20 (forthcoming 1999). ("Judicial frustration is evident in [patent cases] because, although there is a general acknowledgement that experts may be necessary in patent cases, courts frequently feel that experts are usurping their role and offering legal conclusions.").

possibility is the use of special masters.<sup>116</sup> Finally, some suggest a federal district bench of expert judges, analogous to the Federal Circuit.<sup>117</sup> All of these, and especially the last, address the underlying problem as identified by this Note. Each proposed solution also has its attendant difficulties, some of which (such as the expense and legal intricacies involved in creating an expert bench) are quite daunting. In this increasingly technology and intellectual property-driven economy, however, the need for predictability in patent litigation (and, therefore, claim interpretation) is too strong to justify the present confusion surrounding the use of expert testimony in patent claim construction. The problem is, undeniably, a challenging one; it is also undeniably important, and must be addressed.

---

116. *But see* United States v. Microsoft, 147 F.2d 935, 955 (D.C. Cir. 1998) (finding the district court's use of a special master an abuse of discretion, in part because "it is very doubtful that complexity tends to legitimate references to a master at all.").

117. *See, e.g.*, Edward V. Di Lello, Note, *Fighting Fire with Firefighters: A Proposal for Expert Judges at the Trial Level*, 93 COLUM. L. REV. 473 (1993).

## GENTRY GALLERY, INC. V. BERKLINE CORP.

By *Cindy I. Liu*

Patents are worth less today than they were last year. In particular, poorly drafted patents are limited by patent scope. Patent scope, which is affected by the disclosure doctrine and infringement analysis, largely governs the economic worth of a patent.<sup>1</sup> 35 U.S.C. § 112 is increasingly invoked to define patent scope through the specification, rather than through the claims.<sup>2</sup> In *Gentry Gallery, Inc. v. Berkline Corp.*,<sup>3</sup> the Federal Circuit narrowed the scope of patents through the written description requirement of section 112 by announcing an omitted element test.<sup>4</sup> This test mandates that an “essential” element be included in every claim of a patent.<sup>5</sup> The Federal Circuit confined patent scope by proclaiming that “claims may be no broader than the supporting disclosure, and therefore that a narrow disclosure will limit claim breadth.”<sup>6</sup>

### I. BACKGROUND

Claims, which delineate the legal boundaries of an invention, define the scope of patents.<sup>7</sup> Section 112 mandates that a patent consists of claims and a specification, which comprise “a written description of the invention.”<sup>8</sup> The written description requirement provides that “the description must clearly allow persons of ordinary skill in the art to recognize that [the applicant] invented what is claimed.”<sup>9</sup> Fulfillment of the re-

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. See generally Robert H. Merges and Richard R. Nelson, *On the Complex Economics of Patent Scope*, 90 COLUM. L. REV. 839 (1990).

2. See Welsey W. Whitmyer Jr., *Only Obvious Variations Infringe*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 645, 649 (1998).

3. 134 F.3d 1473, 45 U.S.P.Q.2d (BNA) 1498 (Fed. Cir. 1998).

4. See *id.* at 1479-80, 45 U.S.P.Q.2d at 1503. The test was named the “omitted element test” by the court in *Reiffin v. Microsoft Corp.*, 48 U.S.P.Q.2d 1274, 1277 (N.D. Cal. 1998).

5. See *Gentry*, 134 F.3d at 1479-80, 45 U.S.P.Q.2d at 1503.

6. *Id.* at 1480, 45 U.S.P.Q.2d at 1503.

7. See 35 U.S.C. § 112, ¶ 2 (1998) (“The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.”).

8. 35 U.S.C. § 112, ¶¶ 1-2 (1998). See also DONALD S. CHISUM, *PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY, AND INFRINGEMENT* § 7.04 (1998).

9. *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1563, 19 U.S.P.Q.2d (BNA) 1111, 1116 (Fed. Cir. 1991) (citations omitted).

quirement is a question of fact.<sup>10</sup> The standard for review at the appellate level is the clearly erroneous standard.<sup>11</sup>

The written description requirement is primarily invoked in three situations. First, when an application is filed, any claims added after filing must be supported by the original specification.<sup>12</sup> Second, when a foreign application is filed in the United States or a continuation application is filed, claims in a later-filed application must have support in the specification in the earlier-filed foreign or United States applications under 35 U.S.C. § 119 or 35 U.S.C. § 120, respectively.<sup>13</sup> Third, when an interference action is invoked, claim(s) at issue in the interference need adequate support in the specification.<sup>14</sup>

The origin of a written description requirement separate from an enablement requirement was first articulated in *In re Ruschig*.<sup>15</sup> In *Ruschig*, the appellants presumed that the patent rejection was based on the enablement requirement, but the *Ruschig* court stated that the issue was “whether the specification discloses the compound to [a person skilled in the art], specifically, as something appellants actually invented.”<sup>16</sup> In other words, “[d]oes the specification convey clearly to those skilled in the art, to whom it is addressed, in any way, the information that appellants in-

---

10. *See id.* at 1563, 19 U.S.P.Q.2d at 1116.

11. *See id.*

12. *See* CHISUM, *supra* note 8, § 7.04.

13. *See Vas-Cath*, 935 F.2d at 1560, 19 U.S.P.Q.2d at 1114. *See generally* Alton D. Rollins, 35 U.S.C. § 120—*The Description Requirement*, 64 J. PAT. & TRADEMARK OFF. SOC'Y 656 (1982), for discussion of interaction of 35 U.S.C. § 112 ¶ 1 with 35 U.S.C. § 120.

14. *See Vas-Cath*, 935 F.2d at 1560, 19 U.S.P.Q.2d at 1114.

15. 379 F.2d 990, 154 U.S.P.Q. (BNA) 118 (C.C.P.A. 1967). *See generally* *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1560-64, 19 U.S.P.Q.2d (BNA) 1111, 1114-17 (Fed. Cir. 1991), CHISUM, *supra* note 8, § 7.04[1], Janice M. Mueller, *The Evolving Application of the Written Description Requirement to Biotechnological Inventions*, 13 BERKELEY TECH. L.J. 615, 616-28 (1998), and Laurence H. Pretty, *The Recline and Fall of Mechanical Genus Claim Scope Under “Written Description” in the Sofa Case*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 469, 470-74 (1998), for a historical overview of the development of written description jurisprudence. *Compare* Lance Leonard Barry, *A Picture is Worth A Thousand Words: Vas-Cath, Inc. v. Mahurkar*, 76 J. PAT. & TRADEMARK OFF. SOC'Y 5, 16-18 (1994) (arguing that separate requirement accords with germane statutory and case law) *with* Kevin S. Rhoades, *The Section 112 “Description Requirement”—A Misbegotten Provision Confirmed*, 74 J. PAT. & TRADEMARK OFF. SOC'Y 869 (1992) (arguing against a separate written description requirement).

16. *In re Ruschig*, 379 F.2d at 995, 154 U.S.P.Q. at 123.

vented that specific compound?"<sup>17</sup> A specification can enable, although not describe, the invention.<sup>18</sup>

The rationale for a separate written description requirement is two-fold.<sup>19</sup> First, historically, a written description was required in patents at a time when claims were not required.<sup>20</sup> Second, the written description requirement "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."<sup>21</sup>

## II. GENTRY GALLERY, INC. V. BERKLINE CORP.

The Gentry Gallery ("Gentry") owns U.S. Patent 5,064,244, claiming a sectional sofa with a pair of reclining seats facing in the same direction.<sup>22</sup> Prior to Gentry's invention, reclining seats were located at the opposite

---

17. *Id.* at 996, 154 U.S.P.Q. at 123.

18. *See In re DiLeone*, 436 F.2d 1404, 1405, 168 U.S.P.Q. (BNA) 592, 593 (C.C.P.A. 1971).

19. *See Vas-Cath*, 935 F.2d at 1560-61, 19 U.S.P.Q.2d at 1114-15; Mueller, *supra* note 15, at 618-23.

20. *See Vas-Cath*, 935 F.2d at 1560, 19 U.S.P.Q.2d at 1114.

21. *See Rengo Co. v. Molins Mach. Co.*, 657 F.2d 535, 551, 211 U.S.P.Q. (BNA) 303, 321 (3d Cir.), *cert. denied*, 454 U.S. 1055 (1981).

22. The broadest claim of the patent, claim 1, reads:

A sectional sofa comprising:

a pair of reclining seats disposed in parallel relationship with one another in a double reclining seat sofa section, said double reclining seat sofa section being without an arm at one end whereby a second sofa section of the sectional sofa can be placed in abutting relationship with the end of the double reclining seat sofa section without an arm so as to form a continuation thereof,

each of said reclining seats having a backrest and seat cushion and movable between upright and reclined positions, said backrests and seat cushions of the pair of reclining sets lying in respective common planes when the seats are in the same positions,

a fixed console disposed in the double reclining seat sofa section between the pair of reclining seats and with the console and reclining seats together comprising a unitary structure,

said console including an armrest portion for each of the reclining seats, said arm rests remaining fixed when the reclining seats move from one to another of their positions,

and a pair of control means, one for each reclining seat; mounted on the double reclining seat sofa section and each readily accessible to an occupant of its respective reclining seat and when actuated causing the respective reclining seat to move from the upright to the reclined position.

U.S. Patent No. 5,064,244, issued Nov. 12, 1991.

ends of a L-shaped sectional sofa because the adjustment controls needed to be on the arms of the recliners, and arms had to be at the exposed ends of the linear sections.<sup>23</sup> This arrangement caused the two recliners to face in different directions and, thus, caused occupants of the recliners to turn their heads to watch television.<sup>24</sup> The inventor, James Sproule ("Sproule"), solved this problem by inserting a fixed console to house the controls of both recliners between the two recliners so that the recliners could face in the same direction.<sup>25</sup>

Berkline Corp. ("Berkline") manufactures a sectional sofa with two parallel recliners.<sup>26</sup> A seat separates the two recliners and houses the controls for both recliners.<sup>27</sup> The seat has a back cushion that pivots down onto the seat to serve as a tabletop.<sup>28</sup>

### A. District Court Decision

Gentry sued Berkline for infringement in the United States District Court for Massachusetts.<sup>29</sup> The district court granted Berkline's motion for summary judgment on the grounds of non-infringement, but declined to find Gentry's patent invalid and unenforceable.<sup>30</sup> The court held that Berkline's sofas neither infringed Gentry's patent literally nor under the doctrine of equivalents.<sup>31</sup> The sofas did not have a "fixed console" as defined by Sproule in a Petition to Make Special ("PTMS"),<sup>32</sup> which distin-

---

23. See *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1474-75, 45 U.S.P.Q.2d (BNA) 1498, 1499 (Fed. Cir. 1998).

24. See *id.* at 1475, 45 U.S.P.Q.2d at 1499.

25. See *id.*

26. See *id.* at 1475, 45 U.S.P.Q.2d at 1499-1500.

27. See *id.*

28. See *id.*

29. See *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1475, 45 U.S.P.Q.2d (BNA) 1498, 1499 (Fed. Cir. 1998). Berkline's earlier action in the United States District Court for the Middle District of North Carolina had sought a declaration that the patent was invalid and not infringed. This action was transferred to the District of Massachusetts and consolidated with Gentry's suit. Berkline added a counterclaim alleging inequitable conduct. See *id.* at 1475, 45 U.S.P.Q.2d at 1500.

30. See *Gentry Gallery, Inc. v. Berkline Corp.*, 30 U.S.P.Q.2d (BNA) 1132 (D. Mass. 1994) (Gentry I).

31. See *id.* at 1136-38.

32. New applications are examined in the order filed. See U.S. DEPARTMENT OF COMMERCE, MANUAL OF PATENT EXAMINING PROCEDURES § 708.02 at 700-69 (6th ed. rev. 1997) [hereinafter MPEP]. A Petition To Make Special (PTMS) allows an earlier examination under certain conditions. See 37 C.F.R. § 1.102 (1997). These conditions include prospective manufacture, actual infringement, applicant's health, applicant's age, environmental quality, energy, inventions relating to recombinant DNA, superconductiv-

guished a prior art reference, U.S. Patent 3,8744,747 (“Brennan”), from Sproule’s invention.<sup>33</sup>

In a bench trial,<sup>34</sup> the district court held that the patent was valid because Sproule’s invention was nonobvious<sup>35</sup> and novel.<sup>36</sup> The court held Gentry did not engage in inequitable conduct<sup>37</sup> but denied attorney fees to Gentry.<sup>38</sup> Furthermore, the court held that Gentry’s claims that did not limit the location of the controls to the console were valid under 35 U.S.C. § 112, ¶ 1.<sup>39</sup> The court cited *Ethicon Endo-Surgery, Inc. v. U.S. Surgical Corp.*<sup>40</sup> to frame the issue.<sup>41</sup> According to *Ethicon Endo-Surgery*, a broad claim is allowable, while a claim not supported by the specification is not.<sup>42</sup> The claims in Gentry’s patent were directed to an “inside” recliner and covered controls in other locations.<sup>43</sup> Such claims were supported by an embodiment describing the control on the console.<sup>44</sup>

Gentry appealed the non-infringement and attorney fees decisions, while Berkline cross-appealed the invalidity decision.<sup>45</sup>

## B. Federal Circuit Decision

The Federal Circuit in *Gentry* affirmed the district court’s findings of non-infringement and non-obviousness and its denial of attorney fees.<sup>46</sup> However, the Federal Circuit reversed the district court ruling on written

---

ity technologies, inventions relating to HIV/ AIDS and cancer, inventions for countering terrorism, and biotechnology applications from small entities. See MPEP § 708.02.

33. See *Gentry I*, 30 U.S.P.Q.2d at 1137.

34. See *Gentry Gallery, Inc. v. Berkline Corp.*, 939 F. Supp. 98, 100, 41 U.S.P.Q.2d (BNA) 1345, 1347 (D. Mass. 1996) (*Gentry I*).

35. See *id.* at 105, 41 U.S.P.Q.2d at 1351.

36. See *id.* at 100, 41 U.S.P.Q.2d at 1347.

37. See *id.* at 100-01, 41 U.S.P.Q.2d at 1347-48. Berkline failed to prove its contentions that Gentry deliberately did not disclose a prior art reference and a pending patent application. See *id.*

38. See *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1476, 45 U.S.P.Q.2d (BNA) 1498, 1500 (Fed. Cir. 1998).

39. See *Gentry II*, 939 F. Supp. at 106, 41 U.S.P.Q.2d at 1352.

40. 93 F.3d 1572, 40 U.S.P.Q.2d (BNA) 1019 (Fed. Cir. 1996).

41. See *Gentry Gallery, Inc. v. Berkline Corp.*, 939 F. Supp. 98, 105, 41 U.S.P.Q.2d (BNA) 1345, 1351 (D. Mass. 1996) (*Gentry II*).

42. See *Ethicon Endo-Surgery*, 939 F.3d at 1582 n.7, 40 U.S.P.Q.2d at 1027 n.7.

43. See *Gentry II*, 939 F. Supp. at 106, 41 U.S.P.Q.2d at 1352.

44. See *id.*

45. See *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1475-76, 45 U.S.P.Q.2d (BNA) 1498, 1500 (Fed. Cir. 1998).

46. See *id.* at 1474, 45 U.S.P.Q.2d at 1499.

description as required by 35 U.S.C. §112, ¶1 under a clearly erroneous standard.<sup>47</sup>

The Federal Circuit upheld the district court decision of non-infringement. Although Berkline's sofas meet the "fixed" limitation, they do not have a "console."<sup>48</sup> The court accepted Gentry's definition of "fixed" because the explanatory clause in the claim comported with Gentry's characterization of "fixed" as requiring that the console be attached to the recliners.<sup>49</sup> Berkline's interpretation of "console" as defined in the PTMS prevailed.<sup>50</sup> Sproule had distinguished a prior art reference, Brennan, by arguing that Brennan's invention did not have a console because it showed "a complete center seat with a tray unit in its back."<sup>51</sup> The court found that Berkline's fold-down tray table was indistinguishable from Brennan's tray unit.<sup>52</sup> Because Berkline's sofas did not have a console as defined by Gentry during the prosecution history, Berkline did not infringe Gentry's patent.<sup>53</sup>

The Federal Circuit affirmed the district court holding of nonobviousness. Obviousness is determined by four factors: the scope and content of prior art, differences between the prior art and the claims, the level of ordinary skill in the art, and secondary considerations.<sup>54</sup> A combination of prior art references is obvious if "the prior art would have suggested to those of ordinary skill in the art that they should make the claimed composition or device, or carry out the claimed process"<sup>55</sup> and if "the prior art would also have revealed that in so making or carrying out, those of ordinary skill would have a reasonable expectation of success."<sup>56</sup> Berkline did not overcome the statutory presumption of validity by showing obviousness because the combination of prior art references did not suggest a

---

47. *See id.*

48. *See id.* at 1477, 45 U.S.P.Q.2d at 1501. In addition, prosecution history estoppel resulting from the PTMS precludes infringement under the doctrine of equivalents. *See id.*

49. *See id.*

50. *See id.*

51. *See Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1477, 45 U.S.P.Q.2d (BNA) 1498, 1501 (Fed. Cir. 1998).

52. *See id.*

53. *See id.*

54. *See Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966). Secondary considerations include commercial success, long felt but unsolved needs, and failure of others. *See id.* at 17-18.

55. *In re Vaeck*, 947 F.2d 488, 493, 20 U.S.P.Q.2d (BNA) 1438, 1442 (Fed. Cir. 1991).

56. *Id.*

“fixed console.”<sup>57</sup> In addition, expert testimony showed that the recliner in U.S. Patent 4,668,009 (“Talley”) opened prematurely when the combination of the Talley recliner in a sectional sofa was attempted.<sup>58</sup>

The Federal Circuit reversed the district court ruling on patent validity based on the written description requirement. The written description requirement was not met for claims in which the location of the recliner control was not on the console, and, therefore, those claims were invalid.<sup>59</sup> The court cited *Lockwood v. American Airlines, Inc.*<sup>60</sup> and *Regents of the Univ. of Cal. v. Eli Lilly & Co.*,<sup>61</sup> a biochemical case, to support its proposition that “the scope of the right to exclude may be limited by a narrow disclosure.”<sup>62</sup>

In analyzing whether the patent disclosure limits the patent claim, the court looked at the original disclosure, the original claim, and the inventor’s testimony.<sup>63</sup> The original disclosure showed only one location for the controls, on the console, and stated that the purpose of the console is to house the controls.<sup>64</sup> The broadest original claim located the controls on the console.<sup>65</sup> Sproule himself testified at trial that he considered the console as the location for the controls.<sup>66</sup> The court concluded that the disclosure limits the claims to those in which the recliner control is located on the console of the sofa.<sup>67</sup>

The court rebutted Gentry’s reliance on *Ethicon Endo-Surgery* and *In re Rasmussen*.<sup>68</sup> According to the court, *Ethicon Endo-Surgery* permits an applicant to draft a claim broadly only if the missing limitation from the claim was not an essential element of the invention.<sup>69</sup> Furthermore, the written description in *Rasmussen* was satisfied because the missing limitation was unimportant.<sup>70</sup> Consequently, in *Gentry*, because the missing

---

57. See *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1478, 45 U.S.P.Q.2d (BNA) 1498, 1502 (Fed. Cir. 1998).

58. See *id.* at 1478, 45 U.S.P.Q.2d at 1502.

59. See *id.* at 1480, 45 U.S.P.Q.2d at 1504.

60. 107 F.3d 1565, 41 U.S.P.Q.2d (BNA) 1961 (Fed. Cir. 1997).

61. 119 F.3d 1559, 43 U.S.P.Q.2d (BNA) 1398 (Fed. Cir. 1997).

62. *Gentry*, 134 F.3d at 1479, 45 U.S.P.Q.2d at 1503.

63. See *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1479, 45 U.S.P.Q.2d (BNA) 1498, 1503 (Fed. Cir. 1998).

64. See *id.*

65. See *id.*

66. See *id.*

67. See *id.*

68. 650 F.2d 1212, 211 U.S.P.Q. (BNA) 323 (C.C.P.A. 1981).

69. See *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1479, 45 U.S.P.Q.2d (BNA) 1498, 1503 (Fed. Cir. 1998).

70. See *id.* at 1480, 45 U.S.P.Q.2d at 1503.

limitation was an essential element, the patent was invalid.<sup>71</sup> The court concluded that *Ethicon Endo-Surgery* and *Rasmussen* established that “claims may be no broader than the supporting disclosure, and therefore that a narrow disclosure will limit claim breadth.”<sup>72</sup>

The Federal Circuit declined to rehear the case *en banc*.<sup>73</sup> The Supreme Court has yet to grant or deny certiorari.<sup>74</sup>

### III. DISCUSSION

#### A. Omitted Element Test

##### 1. Omitted Element Test

The court in *Gentry* introduced a new test, the omitted element test, into written description jurisprudence.<sup>75</sup> If an element of an invention is essential, then that element limits claim breadth.<sup>76</sup> As support for its new test, the court relied on *Ethicon Endo-Surgery* and *Rasmussen*, which stated that the disclosure of an element does not serve to limit claim breadth. However, neither court used the term “essential” in its analysis. Nevertheless, the omitted element test is supported by the two cases.

The situation in *Ethicon Endo-Surgery* was remarkably similar to the situation in *Gentry*. The issue in *Ethicon Endo-Surgery* was whether the location of a device was limited to the one disclosed in the specification.<sup>77</sup> The court in *Ethicon Endo-Surgery* applied a subjective test, stating that the device was not limited to the location disclosed in the specification if the inventor did not consider the location to be an element of his invention.<sup>78</sup> The court distinguished between broad claims, which are permissi-

---

71. See *id.* at 1480, 45 U.S.P.Q.2d at 1503-04.

72. *Id.* at 1480, 45 U.S.P.Q.2d at 1503.

73. See *id.* at 1473, 45 U.S.P.Q.2d at 1498.

74. See *Reiffin v. Microsoft Corp.*, 48 U.S.P.Q.2d (BNA) 1274, 1277 n.3 (N.D. Cal. 1998).

75. The test was first named the “omitted element test” by the court in *Reiffin v. Microsoft Corp.*, 48 U.S.P.Q.2d (BNA) 1274, 1277 (N.D. Cal. 1998); but see John D. Vandenberg and James E. Geringer, *Biplane Sinks Submarine: The Omitted Element Prong of Patent Law’s Written Description Requirement*, SD20 A.L.I.-A.B.A. Course of Study 245, 248-49 (1998) (arguing that the omitted element test has been the law for at least one hundred years).

76. See *Gentry Gallery, Inc. v. Berklene Corp.*, 134 F.3d 1473, 1479-80, 45 U.S.P.Q.2d (BNA) 1498, 1503 (Fed. Cir. 1998).

77. See *Ethicon Endo-Surgery, Inc. v. U.S. Surgical Corp.*, 93 F.3d 1572, 1582 n.7, 40 U.S.P.Q.2d (BNA) 1019, 1027 n.7 (Fed. Cir. 1996).

78. See *id.*

ble, and claims unsupported by the specification, which are not.<sup>79</sup> The distinction between broad and unsupported claims depends on whether the disputed limitation is an element of the invention.<sup>80</sup> If the limitation is not an element of the invention, then the inventor is entitled to a patent claim as broadly as permitted by the prior art.<sup>81</sup> A broad claim may be supported by the specification even though it does not disclose other potential embodiments.<sup>82</sup>

If Sproule did not consider the precise location of the controls to be an element of his invention, then he is allowed to write a broad claim excluding the location of the controls as a limitation. While the claim may be read as broad rather than unsupported, the evidence cited by the Federal Circuit does not support this view,<sup>83</sup> relied on by the district court. The Federal Circuit thought that the limitation of the console location was an element of the invention, while the district court did not. Therefore, the district court held that a broad claim to a recliner that maintained its stability was supported by the disclosure of two recliners with a console between them.<sup>84</sup>

In addition, if one skilled in the art understands that it is unimportant how an element is accomplished so long as the element is accomplished, then the claim breadth would not be limited by the disclosure.<sup>85</sup> This objective test was applied in *Rasmussen*, where it was unimportant how the element was accomplished.<sup>86</sup> The "how" was important in *Gentry* given the difficulties of producing a sectional sofa with parallel recliners.<sup>87</sup>

---

79. *See id.*

80. *See id.*

81. *See id.*

82. *See id.*

83. *See Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1479, 45 U.S.P.Q.2d (BNA) 1498, 1503 (Fed. Cir. 1998).

84. *See Gentry Gallery Inc. v. Berkline Corp.*, 939 F. Supp. 98, 106 (D. Mass. 1996) (*Gentry II*).

85. *See In re Rasmussen*, 650 F.2d 1212, 1215, 211 U.S.P.Q. (BNA) 323, 327 (C.C.P.A. 1981).

86. *See id.*

87. *See Gentry II*, 939 F. Supp. at 103, 41 U.S.P.Q.2d at 1349. The district court commented on the long felt need for two recliners facing the same direction on a sectional sofa. *See id.* at 104, 41 U.S.P.Q.2d at 1350-51. However, no furniture company had been able to accomplish this seemingly simple task. *See id.* at 104, 41 U.S.P.Q.2d at 1350. Industrial sofa designer Billy Metts had tried other configurations, such as locating the controls on the side of the wedge and under the cushion, but these locations did not work. *See id.* at 103, 41 U.S.P.Q.2d at 1349.

## 2. *Standard used in the omitted element test*

Less than six months after *Gentry*, the United States District Court for the Northern District of California issued a summary judgment in *Reiffin v. Microsoft Corp.*,<sup>88</sup> almost entirely based on *Gentry's* omitted element test.<sup>89</sup> The court in *Reiffin* interpreted *Gentry* to hold that patent claims were invalid if "they omit an element that someone skilled in the art would understand to be essential to the invention as originally disclosed."<sup>90</sup> The court did not have the benefit of the inventor's testimony, so it focused its analysis on the patent itself in invalidating Reiffin's patent for omission of four essential elements.<sup>91</sup>

The omitted element test is problematic in that it is uncertain whether the applicable standard is a subjective or objective one. The Federal Circuit derived the omitted element test from the analyses of the *Ethicon Endo-Surgery* and *Rasmussen* cases.<sup>92</sup> In *Ethicon Endo-Surgery*, the court used a subjective test, one that depends on whether the *applicant* considered the limitation to be an element of the invention.<sup>93</sup> In contrast, in *Rasmussen*, the court applied an objective test, whether "one skilled in the art who read [the] specification would understand that it is unimportant how the layers are adhered, so long as they are adhered."<sup>94</sup>

It is unclear whether the *Gentry* court employed an objective or subjective standard in its analysis. The court looked at the original disclosure and the original claim to determine whether the location of the console controls was an essential element of the invention.<sup>95</sup> In addition, Sproule's own subjective interpretation, his testimony at trial, lent weight to the significance of the element.<sup>96</sup> However, the court did not indicate whether it

---

88. 48 U.S.P.Q.2d (BNA) 1274 (N.D. Cal. 1988).

89. *See id.* at 1277-78.

90. *Id.* at 1277 (citations omitted).

91. *See id.* at 1279-80. Specifically, the court examined the "Summary of the Invention," "Object of the Invention," "Description of Prior Art," background, and title sections in the original disclosure for references to the importance of the four elements. In addition, the original claims directly or indirectly reference the four elements. *See id.* at 1279.

92. *See Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1479-80, 45 U.S.P.Q.2d (BNA) 1498, 1503 (Fed. Cir. 1998).

93. *See Ethicon Endo-Surgery, Inc. v. U.S. Surgical Corp.*, 93 F.3d 1572, 1582 n.7, 40 U.S.P.Q.2d (BNA) 1019, 1027 n.7 (Fed. Cir. 1996).

94. *In re Rasmussen*, 650 F.2d 1212, 1215, 211 U.S.P.Q. (BNA) 323, 327 (C.C.P.A. 1981).

95. *See Gentry*, 134 F.3d at 1479, 45 U.S.P.Q.2d at 1503.

96. *See id.* *See also* Pretty, *supra* note 15, at 478-79 ("To adopt a subjective test for 'written description' as to what the inventor subjectively considered 'essential' in terms

looked at the evidence from the viewpoint of the inventor (subjective) or one skilled in the art (objective). On the contrary, the court added to the confusion by stating later in the case that *both* Sproule, the inventor, considered and one skilled in the art would consider the location to be essential.<sup>97</sup>

This contradiction is further compounded in the *Reiffin* case. The *Reiffin* court stated that *Gentry's* omitted element test was a purely objective one: whether "a person skilled in the art would have understood those elements to be essential to the disclosed invention."<sup>98</sup> However, the court supported *Gentry's* rule by citing *Ethicon Endo-Surgery*, where a subjective test is applied.<sup>99</sup> The *Reiffin* court ignored this difference and proceeded to announce that the *Ethicon Endo-Surgery* test was to be analyzed from either an objective or subjective viewpoint.<sup>100</sup>

In order to be consistent with written description precedent, the omitted element test should be a purely objective one. To meet the written description requirement, "the description must clearly allow persons of ordinary skill in the art to recognize that [the applicant] invented what is claimed."<sup>101</sup> This requirement is purportedly an objective test,<sup>102</sup> and the omitted element test in the written description requirement should be similarly objective. An objective standard would conform to other standards, such as the obviousness and enablement standards, in patentability analysis.<sup>103</sup> In an obviousness determination, an invention is not patentable if it is obvious to "a person having ordinary skill in the art."<sup>104</sup> Similarly, for enablement purposes, the specification must enable "any person skilled in the art" to make and use the invention.<sup>105</sup>

---

of elements not recited in his claimed invention at the time of filing will open a Pandora's box of inquiry in litigation and discovery.").

97. See *Gentry*, 134 F.3d at 1479, 1480, 45 U.S.P.Q.2d at 1503.

98. *Reiffin v. Microsoft Corp.*, 48 U.S.P.Q.2d (BNA) 1274, 1277 (N.D. Cal. 1998).

99. See *id.*

100. See *id.*

101. *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1563, 19 U.S.P.Q.2d (BNA) 1111, 1116 (Fed. Cir. 1991) (citations omitted).

102. But see Rhoades, *supra* note 15, at 893-94 ("The possession standard shifts the focus from those skilled in the art—the specification's audience—to the inventor."); Harris A. Pitlick, *Looking Beyond Blazemarks on Trees—It's Time to Revisit the Description Requirement in the Wake of Warner-Jenkinson*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 625, 635 (1997) (quoting Rhoades).

103. By contrast, the best mode requirement is a mixed objective and subjective test. See 35 U.S.C. § 112 ¶ 1 (1998) ("The specification ... shall set forth the best mode contemplated by the inventor of carrying out his invention.").

104. See 35 U.S.C. § 103(a) (1998).

105. See 35 U.S.C. § 112 ¶ 1 (1998).

### 3. *Implications of the omitted element test*

The application of the *Gentry* omitted element test has many potential effects on patent prosecutors and litigators. Accused infringers should examine the file history of a patent to determine whether the asserted claims are missing limitations that were in the broadest original claims.<sup>106</sup> Patent attorneys would be well advised to omit the "objects of the invention" section of a specification<sup>107</sup> and list several alternative embodiments in the specification.<sup>108</sup> In addition, inventors may have to expend time and money to create routine variations obvious to one skilled in the art so that patent attorneys would have sufficient alternative embodiments to satisfy the *Gentry* omitted element test.<sup>109</sup> This expenditure of inventor's time may result in lost opportunity costs for the inventors to innovate.<sup>110</sup>

## B. Persuasiveness of Reliance on *Lockwood* and *Eli Lilly*

### 1. *Different factual situation in Lockwood*

The court cited *Lockwood* to support its proclamation that claim breadth is limited by a narrow disclosure.<sup>111</sup> However, in *Lockwood*, the inventor claimed an individual terminal with a video disk player but disclosed a television set with a keypad.<sup>112</sup> The disclosed invention was simply not an embodiment of the claimed invention. The inventor failed the written description test because an inventor cannot claim an invention different from the one disclosed in the specification.<sup>113</sup> In contrast, Sproule did disclose an embodiment of his claimed invention as required by 35 U.S.C. § 112, but his claims were limited by the specific embodiment of the invention he disclosed.

---

106. See Jeffrey R. Kuester, *Effective § 102, 103, 112 Defenses: What can Defendants Do to Win with Them Today?*, 531 PLI/PAT 933, 953 (1998).

107. See James C. Pistorino, *Recent Developments in Patent Law*, 6 TEX. INTELL. PROP. L.J. 355, 364-65 (1998) ("The court's consideration of the 'purpose' of the invention and its limiting effect in this case should cause practitioners to further avoid the already suspect practice of listing 'objects of the invention' in the specification.")

108. See Laurence H. Pretty, *The Judicial Attack on Infringement*, 531 PLI/PAT 219, 246-47 (1998).

109. See Interview with Robert P. Merges, Wilson Sonsini Professor of Law, University of California at Berkeley (Boalt Hall), in Berkeley, Cal. (Dec. 2, 1998).

110. *Id.*

111. "[C]laims may be no broader than ... supporting disclosure, and therefore ... a narrow disclosure will limit claim breadth." *Gentry Gallery, Inc. v. Berklene Corp.*, 134 F.3d 1473, 1480, 45 U.S.P.Q.2d (BNA) 1498, 1503 (Fed. Cir. 1998).

112. See *Lockwood v. American Airlines, Inc.*, 107 F.3d 1565, 1572, 41 U.S.P.Q.2d (BNA) 1961, 1966 (Fed. Cir. 1997).

113. See *id.*

## 2. *Implications of Reliance on Eli Lilly*

The court in *Gentry* hinted that the distinction between predictable and unpredictable art in the written description requirement is irrelevant by citing *Eli Lilly*, a case from the unpredictable biochemical arts, in support of its proposition that claims may be limited by a narrow disclosure.<sup>114</sup> However, the court in *Eli Lilly* refused to follow *Utter v. Hiraga*,<sup>115</sup> a case from the predictable arts, because such a case has no relation to one with complex biochemical claims.<sup>116</sup> Since the *Gentry* patent also involves predictable art, the *Gentry* court should have followed *Utter*, rather than *Eli Lilly*.<sup>117</sup> If the *Gentry* court had followed *Utter*, it is likely that the *Gentry* patent would have been valid.<sup>118</sup>

The Federal Circuit's reliance on *Eli Lilly* in *Gentry* extends the limitations on written description in the unpredictable arts to the predictable arts.<sup>119</sup> *Eli Lilly* stands for the proposition that the description of one member of a group is not necessarily sufficient to claim the entire group in the unpredictable arts.<sup>120</sup> The *Gentry* patent claimed a sectional sofa with two parallel reclining seats, but described only one specific embodiment, a sofa with the control mechanism located on a console.<sup>121</sup> In invalidating the *Gentry* patent, the Federal Circuit effectively narrowed patent scope to the specific embodiment in the written disclosure by requiring that every claim embody every "essential" element.<sup>122</sup> The Federal Circuit not only

---

114. See *Gentry Gallery*, 134 F.3d at 1479, 45 U.S.P.Q.2d at 1503.

115. 845 F.2d 993, 6 U.S.P.Q.2d (BNA) 1709 (Fed. Cir. 1988).

116. See *Regents of the Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1568, 43 U.S.P.Q.2d (BNA) 1398, 1406 (Fed. Cir. 1997).

117. Interestingly enough, *Reiffin v. Microsoft Corp.*, 48 U.S.P.Q.2d (BNA) 1274, 1277 (1998), cited two cases from older case law to support its application of the *Gentry* omitted element test, both in the unpredictable arts. See *U.S. Industrial Chemicals, Inc. v. Carbide & Carbon Chemicals Corp.*, 315 U.S. 668 (1942); *In re Sus*, 306 F.2d 494, 134 U.S.P.Q. (BNA) 301 (C.C.P.A. 1962).

118. See *Pretty*, *supra* note 15, at 477.

119. See generally *Pretty*, *supra* note 15; Laurence H. *Pretty*, *Federal Circuit Narrows the Protection of Patents Closer Toward Their Specific Disclosures*, 16 NO. 3 INTELL. PROP. L. NEWSL. 8 (1998) ("[The] court's extension in *Gentry* of its 'written description' reasoning from the unpredictable art of biochemistry to the predictable art of machinery is contrary to its own case law [because] [c]hanging the location of mechanical controls on a sofa [is obvious to person of ordinary skill in predictable art of machinery].").

120. See *Eli Lilly*, 119 F.3d at 1568, 43 U.S.P.Q.2d at 1405.

121. See U.S. Patent No. 5,064,244, issued Nov. 12, 1991.

122. See *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1479-80, 45 U.S.P.Q.2d (BNA) 1498, 1503 (Fed. Cir. 1998).

followed *Eli Lilly* in limiting claim breadth<sup>123</sup> but also further narrowed patents through its newly announced omitted element test.

#### IV. CONCLUSION

The *Gentry* court announced a new test, the omitted element test, citing *Ethicon Endo-Surgery*, *Rasmussen*, *Lockwood* and *Eli Lilly* as precedent. If an element is "essential" to the invention, then the element must be included in the claims. While neither the *Ethicon Endo-Surgery* court nor the *Rasmussen* court employed the term "essential" in its analysis, the cases do adequately support the *Gentry* omitted element test. The use of *Eli Lilly* as precedent may signal a harmonization of the written description requirement for the predictable and unpredictable arts. Although the *Gentry* court introduced this new test, the objectivity or subjectivity of the standard has yet to be resolved.

---

123. See Mueller, *supra* note 15, 615 (1998) ("The *Lilly* decision may profoundly limit the scope of protection available for new gene inventions; viewed in tandem with recent decisions interpreting the enablement requirement of § 112 of the Patent Act, it represents the latest advance in an ominous trend towards imposition of uniquely heightened patentability requirements for biotechnological inventions."). See also Michael Delmas Plumber, Note, *Genetic, Inc. v. Novo Nordisk & University of California v. Eli Lilly and Co.*, 13 BERKELEY TECH. L.J. 149, 159 (1998) (noting that the *Eli Lilly* "ruling gives only very narrow protection to genetic engineering patents").

## HYATT V. BOONE

*By Salima Merani*

“Unfortunately, it is not so easy to tell what the law of the Federal Circuit is,” lamented Judge Easterbrook in his analysis of the written description requirement.<sup>1</sup> The written description requirement, codified in section 112 of the Patent Act, provides that a patent application must 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 ... to make and use the same.”<sup>2</sup>

The precise standard used by the courts in determining the sufficiency of the written description requirement has been the subject of much controversy. Some courts have used the apparently lenient standard that an adequate disclosure need only “reasonably convey to the artisan” that the applicant has possession of the invention.<sup>3</sup> In contrast, other courts have adopted a seemingly more stringent “necessary and only reasonable construction” measure.<sup>4</sup> In *Hyatt v. Boone*,<sup>5</sup> Judge Pauline Newman attempted to reconcile the apparently divergent written description standards.<sup>6</sup> She concluded that the various expressions used to define a sufficient written description in prior cases did not set divergent standards for compliance with section 112.<sup>7</sup> Judge Newman emphasized that, in all cases, the purpose of the written description was to ensure that the inventor had possession of the specific subject matter claimed by him.<sup>8</sup> As such, any debate

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. *Vas-Cath Inc. v. Mahurkar*, 745 F. Supp. 517, 522 (N.D. Ill. 1990), *rev'd* 935 F.2d 1555, 19 U.S.P.Q.2d (BNA) 1111 (Fed. Cir. 1991).

2. 35 U.S.C. § 112 (1998).

3. *See Fujikawa v. Wattanasin*, 93 F.3d 1559, 1570, 39 U.S.P.Q.2d (BNA) 1895, 1904 (Fed. Cir. 1996) (“[T]he disclosure need only reasonably convey to persons skilled in the art that the inventor had possession of the subject matter in question.”). *See also* *Fiers v. Revel*, 984 F.2d 1164, 1170, 25 U.S.P.Q.2d (BNA) 1601, 1606 (Fed. Cir. 1993); *In re Ruschig*, 379 F.2d 990, 996, 154 U.S.P.Q. (BNA) 118, 123 (C.C.P.A. 1967) (“Does the specification convey clearly to those skilled in the art, to whom it is addressed, in any way, the information that appellants invented that specific compound.”).

4. *In re Wertheim*, 646 F.2d 527, 538-539, 209 U.S.P.Q. (BNA) 554, 565 (C.C.P.A. 1981).

5. 146 F.3d 1348, 47 U.S.P.Q.2d (BNA) 1128 (Fed. Cir. 1998).

6. *See id.* at 1354, 47 U.S.P.Q.2d at 1132.

7. *See id.*

8. *See id.*

over the precise standard of the written description requirement is misguided; the only issue is whether or not the inventor had possession of the claimed subject matter at the time of filing. Although Judge Newman's approach to the written description requirement may not eliminate the debate over the written description requirement, it will certainly help provide some clarity to an otherwise amorphous standard.

## I. BACKGROUND

Gilbert P. Hyatt, holder of United States Patent No. 4,942,516 entitled "Single Chip Integrated Circuit Computer Architecture" ("the '516 patent")<sup>9</sup> and Gary W. Boone, holder of patent application Serial No. 07/473,541 entitled "Variable Function Programmed Systems" ("the '541 application")<sup>10</sup> were the opposing parties in *Hyatt*. Boone initiated an interference contest after Hyatt's '516 patent was issued.<sup>11</sup> A patent interference is a proceeding in the Patent and Trademark Office ("PTO") that is instituted when two or more applications claim the same subject matter.<sup>12</sup> An interference can relate to some portion or all of the claims in an application or a patent.<sup>13</sup>

According to procedure,<sup>14</sup> Boone copied some of Hyatt's pending claims into his pending application and requested a declaration of interference.<sup>15</sup> The patent examiner then declared the interference.<sup>16</sup>

The contested invention in *Hyatt* consisted of a computer on a chip formed on a single integrated circuit chip, with specified circuits and functions.<sup>17</sup> The interference count<sup>18</sup> was as follows:

A computer on a chip comprising:  
an integrated circuit chip having a computer implemented thereon;

---

9. *See id.* at 1350-1351, 47 U.S.P.Q.2d at 1129.

10. *See id.* at 1351, 47 U.S.P.Q.2d at 1129.

11. *See Hyatt v. Boone*, 146 F.3d 1348, 1351, 47 U.S.P.Q.2d (BNA) 1128, 1129 (Fed. Cir. 1998).

12. *See* 37 C.F.R. § 1.601(i) (1998).

13. *See* 37 C.F.R. § 1.606 (1998).

14. *See* 37 C.F.R. § 1.607(a) (1998).

15. *See Hyatt*, 146 F.3d 1348 at 1351, 47 U.S.P.Q.2d at 1129.

16. *See id.*

17. *See Hyatt v. Boone*, 146 F.3d 1348, 1351, 47 U.S.P.Q.2d (BNA) 1128, 1129 (Fed. Cir. 1998).

18. A count, for the purposes of an interference proceeding, "defines the interfering subject matter between two or more applications or between one or more applications and one or more patents." 37 C.F.R. § 1.601(f) (1998).

an integrated circuit main memory storing computer instructions, wherein said integrated circuit main memory is included on said integrated circuit chip;

an integrated circuit operand memory storing operands, wherein said integrated circuit operand memory is included on said integrated circuit chip; and

an integrated circuit processing the operands stored by said integrated circuit operand memory in response to the instructions stored in said integrated circuit main memory, wherein said processing circuit is included on said integrated circuit chip.<sup>19</sup>

In accordance with 35 U.S.C. § 135(a), the Board of Patent Appeals and Interferences (“Board”) is the first administrative body to determine questions of priority.<sup>20</sup> The primary purpose of an interference proceeding is to determine which party was the first to invent the subject matter.<sup>21</sup> In the United States, the right to a patent derives from priority of invention, not priority of patent application filing.<sup>22</sup> Invention, for this purpose, encompasses two concepts: conception and reduction to practice.<sup>23</sup> Reduction to practice may be actual or constructive.<sup>24</sup> Actual reduction to practice involves the embodiment of the invention in an actual working version,<sup>25</sup> whereas the filing of the patent application serves as constructive reduction to practice.<sup>26</sup>

The filing of a patent application has the legal effect of constructively serving as both conception and reduction to practice of the subject matter described in the application.<sup>27</sup> Therefore, the inventor does not have to provide proof of either conception or actual reduction to practice when relying on the content of the patent application, unless a date earlier than the filing date is sought to be established.<sup>28</sup> When a party to an interference seeks the benefit of an earlier-filed United States patent application, the earlier application must comply with the legal requirements for support

---

19. See *Hyatt* at 1351, 47 U.S.P.Q.2d at 1129.

20. See 35 U.S.C § 135(a) (1998).

21. See DONALD S. CHISUM, CHISUM ON PATENTS § 10.09[1][a] (1998).

22. See *id.* § 10.03[1].

23. See *id.*

24. See *id.*

25. See *id.* § 10.06.

26. See *id.* § 10.05[1].

27. See *Kawai v. Metlestics*, 480 F.2d 880, 885, 178 U.S.P.Q. (BNA) 158, 162 (C.C.P.A. 1973).

28. See *Hyatt v. Boone*, 146 F.3d 1348, 1352, 47 U.S.P.Q.2d (BNA) 1128, 1130 (Fed. Cir. 1998).

of the interference count.<sup>29</sup> Accordingly, the earlier application must contain a written description of the subject matter of the interference count, and must meet the enablement requirement.<sup>30</sup> The sufficiency of the requisite written description in Hyatt's '881 application was at issue in *Hyatt*.<sup>31</sup>

In the present case, both Hyatt and Boone claimed the benefit of earlier-filed patent applications and relied on those applications as constructive reduction to practice.<sup>32</sup> Through a chain of nine prior applications, Boone was granted an effective filing date of July 19, 1971.<sup>33</sup> The Board granted Hyatt an effective filing date, through a chain of four prior applications, of December 14, 1977.<sup>34</sup> Hyatt claimed the benefit of a December 28, 1970 filing date based upon his application No. 05/101,881 ("the '881 application").<sup>35</sup>

## II. PROCEDURAL HISTORY

In Hyatt's original '881 application, claim 40 described a data processing system implemented on a single integrated circuit chip.<sup>36</sup> Although other electronic data systems were described in detail, the '881 specification did not include any other mention of a single integrated circuit chip.<sup>37</sup> Hyatt argued that the text of claim 40 did indeed describe the subject matter of the interference count. Hyatt contended that: 1) the "read only memory means" of claim 40 was the same as the "integrated circuit main memory storing computer instructions" of the count, 2) the "alterable memory means" of claim 40 was the same as the "integrated circuit operand and memory storing operands" of the count, and 3) the "program means" of claim 40 was the same as the "integrated circuit processing circuit" of

---

29. *See id.*

30. Section 120 states that for a benefit of an earlier filing date in the United States, "an application 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 ... shall have the same effect, as to such invention, as though filed on the date of the prior application...." 35 U.S.C. § 120 (1998).

31. *See Hyatt*, 146 F.3d at 1352, 47 U.S.P.Q.2d at 1130.

32. *See id.* at 1351, 47 U.S.P.Q.2d at 1129.

33. *See id.* at 1351-1352, 47 U.S.P.Q.2d at 1129.

34. *See Hyatt v. Boone*, 146 F.3d 1348, 1352, 47 U.S.P.Q.2d (BNA) 1128, 1129 (Fed. Cir. 1998).

35. *See id.*

36. *See id.* at 1352, 47 U.S.P.Q.2d at 1130. Claim 40 reads, "An electronic data processing system including read only memory means, alterable memory means and program means, said system being implemented on a single integrated circuit chip." *Id.*

37. *See id.* at 1353, 47 U.S.P.Q.2d at 1130.

the count.<sup>38</sup> Hyatt asserted that his '881 specification contained extensive descriptions of various computer circuits, which supplemented the text of claim 40 by describing a computer consisting of various "integrated circuits mounted on multiple printed circuit boards and comprising a physically distributed, operatively dispersed system."<sup>39</sup>

The Board defined a sufficient written description under section 112 as "the 'necessary and only reasonable construction' that would be given it by a person skilled in the art is one that clearly supports each positive limitation in the count."<sup>40</sup> The Board determined that claim 40 "could be read as describing subject matter other than that of the count"<sup>41</sup> and, as such, "did not establish that Hyatt was in possession of the invention of the count."<sup>42</sup> Further, the Board found that the relevant descriptions that were absent from claim 40 were not provided elsewhere in the '881 specification, and that the "systems and circuitry neither describe nor suggest a computer on a single chip."<sup>43</sup> The Board concluded that "while two memories and a computer program may generally constitute a data processing system of some sort, they do not describe the invention set forth by the count."<sup>44</sup>

Hyatt and Boone submitted opposing views of the knowledge of one of ordinary skill in the field at the time the '881 patent application was filed.<sup>45</sup> Hyatt's witnesses testified that "a person of skill in this field would have known that the program means processed the operands in accordance with the read-only memory instructions, and would have easily understood that the program means, read only memory means, and alterable memory means cooperate in the way stated in the count."<sup>46</sup> The Board determined that although Hyatt's witnesses testified that the concept that a data processing system must include some sort of processing circuit was well-known, they did not establish "whether a data processing system must necessarily include the specific processing circuit required by the count."<sup>47</sup>

---

38. *See id.*

39. *Id.*

40. Hyatt v. Boone, 146 F.3d 1348, 1353, 47 U.S.P.Q.2d (BNA) 1128, 1130-31 (Fed. Cir. 1998).

41. *Id.* at 1353, 47 U.S.P.Q.2d at 1131.

42. *Id.*

43. *Id.*

44. *Id.*

45. *See id.* at 1354, 47 U.S.P.Q.2d at 1131.

46. Hyatt v. Boone, 146 F.3d 1348, 1354, 47 U.S.P.Q.2d (BNA) 1128, 1131 (Fed. Cir. 1998).

47. *Id.*

The Board rejected Hyatt's argument, which was supported by witness testimony, that "the absent description would have been apparent to persons of skill in this field."<sup>48</sup> The Board reasoned that "if 'program means' can be a circuit (processor) that responds to a program as indicated by [Hyatt's] witnesses, it is at least as likely that it can be a memory that merely stores a program without processing operands."<sup>49</sup> Further, the Board ruled that witness testimony cannot be used to provide facts which the specification itself should provide.<sup>50</sup> Though courts have held that known details need not be disclosed in a patent specification,<sup>51</sup> the Board concluded that the content of the missing subject matter was not merely known details, but rather significant claim limitations.<sup>52</sup> The Board found that "the missing subject matter was not shown to be part of the prior art that would be understood as part of the description of the subject matter of the count."<sup>53</sup> Consequently, the Board did not grant Hyatt priority as to his '881 application and canceled the relevant claims of his '516 patent.<sup>54</sup> Hyatt disputed the denial of priority and contested the filing date awarded to Boone.<sup>55</sup>

After Boone initiated an interference with Hyatt and after Boone's '541 application was rejected on the ground of double patenting, Boone moved for permission to convert his '541 application to a Statutory Invention Registration ("SIR").<sup>56</sup> A SIR permits an inventor to waive the rights to receive a patent while still preserving the opportunity to contest priority through interference proceedings.<sup>57</sup> Boone contended that the conversion of his '541 application to a SIR "removed the only obstacle to patentability raised by the double patenting rejection, i.e. that of extension of effective patent life."<sup>58</sup> Since a SIR is not an enforceable patent, it would not effectively extend Boone's right to exclude others from practicing the invention.<sup>59</sup> A SIR would only preserve Boone's ability to practice his own

---

48. *Id.* at 1353, 47 U.S.P.Q.2d at 1131.

49. *Id.*

50. *See id.*

51. *See In re Eltgroth*, 419 F.2d 918, 921, 164 U.S.P.Q. (BNA) 221, 223, (C.C.P.A. 1970).

52. *See Hyatt v. Boone*, 146 F.3d 1348, 1354, 47 U.S.P.Q.2d (BNA) 1128, 1132 (Fed. Cir. 1998).

53. *Id.*

54. *See id.* at 1351-52, 47 U.S.P.Q.2d at 1129.

55. *See id.* at 1352, 47 U.S.P.Q.2d at 1129.

56. *See id.* at 1356-1357, 47 U.S.P.Q.2d at 1134.

57. *See* 35 U.S.C. § 157 (1998).

58. *Hyatt v. Boone*, 146 F.3d 1348, 1357, 47 U.S.P.Q.2d (BNA) 1128, 1134 (Fed. Cir. 1998).

59. *See id.*

prior invention as against any later inventor and prevent a later inventor from obtaining a patent on the invention.<sup>60</sup> Boone argued that he was entitled to a decision as to patentability even though he would not obtain a patent.<sup>61</sup> Because Boone had requested a SIR, the Board refused to rule on the patentability of Boone's claims.<sup>62</sup> Boone challenged the Board's refusal to enter judgment of patentability.<sup>63</sup>

### III. THE FEDERAL CIRCUIT OPINION

Hyatt appealed the decision of the Board, which entered judgment against Hyatt and canceled the relevant claims of his '516 patent.<sup>64</sup> Boone cross-appealed the Board's entry of judgment against him.<sup>65</sup> The Federal Circuit affirmed the Board's judgment against Hyatt, but modified the Board's judgment to declare Boone the prevailing party in the interference.<sup>66</sup>

As discussed earlier, both Hyatt and Boone claimed the benefit of earlier-filed patent applications and relied on these applications as constructive reduction to practice.<sup>67</sup> Judge Newman of the Federal Circuit established that conception was not at issue in the appeal, and that neither party presented evidence of actual reduction to practice.<sup>68</sup> The only issue was each party's entitlement to certain asserted dates of constructive reduction to practice. The Federal Circuit reviewed the Board's findings under the standard of clear error because compliance with the written description requirement is a question of fact.<sup>69</sup>

Judge Newman stated that "for an earlier-filed application to serve as constructive reduction to practice of the subject matter of an interference count, the applicant must describe the subject matter of the count in terms that establish that he was in possession of the later-claimed invention, including all of the elements and limitations presented in the count, at the

---

60. *See id.* at 1356, 47 U.S.P.Q.2d at 1134.

61. *See id.*

62. *See id.* at 1356-57, 47 U.S.P.Q.2d at 1134.

63. *See id.*

64. *See Hyatt v. Boone*, 146 F.3d 1348, 1351, 47 U.S.P.Q.2d (BNA) 1128, 1129 (Fed. Cir. 1998).

65. *See id.*

66. *See id.*

67. *See id.*

68. *See id.*

69. *See Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1563, 19 U.S.P.Q.2d (BNA) 1111, 1116 (Fed. Cir. 1991).

time of the earlier filing.”<sup>70</sup> Although the court agreed with Hyatt’s contention that known details do not have to be included in a patent specification,<sup>71</sup> Judge Newman stated that when an explicit limitation in an interference count is not present in the earlier written description, a person of ordinary skill must have understood, at the time of filing, that the description requires that limitation.<sup>72</sup> Further, Judge Newman emphasized that in order to establish priority, a sufficient written description must unambiguously describe all limitations of the count.<sup>73</sup> The Federal Circuit did not find clear error in the Board’s decision that the missing subject matter was unknown details.<sup>74</sup> The court determined that significant claim limitations were absent from Hyatt’s application, and that “the missing subject matter was not shown to be part of the prior art that would be understood as part of the description of the subject matter of the count.”<sup>75</sup>

Hyatt argued that even if the Board’s findings were not in error as to the content of the written description, the Board applied an erroneous legal standard in requiring that the specification “necessarily” describe the entire subject matter of the count.<sup>76</sup> Relying on *Vas-Cath Inc. v. Mahurkar*, Hyatt claimed that he only needed to “convey with reasonable clarity to those skilled in the art that, as of the filing date sought, he ... was in possession of the invention.”<sup>77</sup> Hyatt contended that he fulfilled this prerequisite because claim 40 of his ’881 application reasonably conveyed to persons of skill in this field that he possessed the invention of the count.<sup>78</sup> Hyatt stated that “reasonably conveys to the artisan” is a less rigorous and more reasonable determinant of the written description requirement than the “necessary and only reasonable construction” standard that the Board applied.<sup>79</sup>

Examination of case history reveals that a number of different expressions, including the “reasonably conveys to the artisan” and the “necessary

---

70. *Hyatt v. Boone*, 146 F.3d 1348, 1353, 47 U.S.P.Q.2d (BNA) 1128, 1131 (Fed. Cir. 1998).

71. *See id.* (citing *In re Eltgroth* 419 F.2d 918, 921, 164 U.S.P.Q. (BNA) 221, 223 (C.C.P.A. 1970)).

72. *See Hyatt*, 146 F.3d at 1353, 47 U.S.P.Q.2d at 1131.

73. *See id.* at 1354, 47 U.S.P.Q.2d at 1131.

74. *See id.* at 1354, 47 U.S.P.Q.2d at 1131-1132.

75. *Id.*

76. *See Hyatt v. Boone*, 146 F.3d 1348, 1354, 47 U.S.P.Q.2d (BNA) 1128, 1132 (Fed. Cir. 1998).

77. *Id.* (quoting *Vas-Cath v. Mahurkar*, 935 F.2d 1555, 1563-1564, 19 U.S.P.Q.2d (BNA) 1111, 1117 (Fed. Cir. 1991)).

78. *See Hyatt*, 146 F.3d at 1354, 47 U.S.P.Q.2d at 1132.

79. *See Hyatt*, 146 F.3d at 1354, 47 U.S.P.Q.2d at 1132.

and only reasonable construction” have been used by various courts.<sup>80</sup> In an attempt to reconcile the apparently diverging standards of the written description requirement, Judge Newman emphasized that, in all cases, the purpose of the description requirement is “to ensure that the inventor had possession, as of the filing date of the application relied on, of the specific subject matter later claimed by him.”<sup>81</sup> Thus, the Federal Circuit held that “the written description must include all of the limitations of the interference count, or the applicant must show that any absent text is necessarily comprehended in the description provided and would have been so understood at the time the patent application was filed.”<sup>82</sup> The court concluded that the Board did not clearly err in finding that the written description of Hyatt’s ’881 application did not establish that Hyatt possessed the entire subject matter of the count, and thus affirmed the denial to Hyatt of the benefit of the ’881 application date as constructive reduction to practice of the interference count.<sup>83</sup>

With regard to Boone’s cross-appeal, the Federal Circuit affirmed the Board’s decision that Boone was not entitled to a patent on the ’541 application.<sup>84</sup> The court stated that although an inventor may withdraw a SIR application at any time before the PTO announces its intent to publish it, this option was foreclosed to Boone because of the intervening interference proceeding.<sup>85</sup> Because Boone requested a SIR which he could not withdraw, the Board correctly ruled that Boone was not entitled to a patent.<sup>86</sup> The Federal Circuit decided, however, that the Board was required to determine which party had prevailed on the issue of priority.<sup>87</sup> In fact, the Federal Circuit concluded that the Board had, in fact, decided priority.<sup>88</sup> Although Boone was not entitled to a patent, an adjudication of priority in his favor was permissible. Hence, the Federal Circuit modified the

---

80. *See id.*

81. *Id.* at 1354, 47 U.S.P.Q.2d at 1132 (quoting *In re Edwards*, 568 F.2d 1349, 1351-1352, 196 U.S.P.Q. (BNA) 465, 467 (C.C.P.A. 1978)).

82. *Hyatt v. Boone*, 146 F.3d 1348, 1354-55, 47 U.S.P.Q.2d (BNA) 1128, 1132 (Fed. Cir. 1998).

83. *See id.* at 1355, 47 U.S.P.Q.2d at 1132.

84. *See id.* at 1357, 47 U.S.P.Q.2d at 1134.

85. *See id.*

86. *See id.*

87. *See id.*

88. *See Hyatt v. Boone*, 146 F.3d 1348, 1357, 47 U.S.P.Q.2d (BNA) 1128, 1134 (Fed. Cir. 1998). Because the Board held that Hyatt was not entitled to his ’881 application date, and confirmed that Boone was entitled to the benefit of his ’565 application date of July 19, 1971, priority had been decided. *See id.*

Board's judgment to state that priority as to the count was awarded to Boone.<sup>89</sup>

#### IV. DISCUSSION

In *Hyatt*, Judge Newman evaluated the various expressions used to define the sufficiency of the written description requirement for purposes of section 112. A clear and consistent written description standard is indispensable to inventors and practitioners in both the preparation and litigation of patent applications. The written description requirement frequently becomes an issue of contention in three circumstances.<sup>90</sup> First, a written description question is likely to arise when claims not presented at time of filing are presented at a later time.<sup>91</sup> Second, problems occur in cases in which patent applicants seek the benefit of the filing date of an earlier-filed application.<sup>92</sup> Finally, as in *Hyatt*, a written description question may arise in an interference proceeding in which one party must support the claim of the interference count.<sup>93</sup>

Admittedly, the Federal Circuit has used different expressions in describing a sufficient written description.<sup>94</sup> Judge Newman, however, "[did] not view these various expressions as setting divergent standards for compliance with [section] 112."<sup>95</sup> She emphasized that, in all cases, the purpose of the written description requirement was to ensure that the inventor had possession of the claimed invention at the time of the application filing date.<sup>96</sup> Analysis of historical and policy rationale of section 112 supports Judge Newman's view of the written description requirement.

##### A. The Written Description Requirement: History and Policy Rationale

Consideration of the historical and policy rationale of the written description requirement facilitates reconciliation of apparently inconsistent standards.<sup>97</sup> The Patent Act of 1793 required that a patent applicant "de-

---

89. *See id.*

90. *See Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1560, 19 U.S.P.Q.2d (BNA) 1111, 1114 (Fed. Cir. 1991).

91. *See id.*

92. *See id.*

93. *See id.*

94. *See Hyatt v. Boone*, 146 F.3d 1348, 1354, 47 U.S.P.Q.2d (BNA) 1128, 1132 (Fed. Cir. 1998).

95. *Id.*

96. *See id.*

97. *Cf. Janice M. Mueller, The Evolving Application of the Written Description Requirement to Biotechnological Inventions*, 13 BERKELEY TECH. L.J. 615, 618-623 (Spring

liver a written description of his invention ... in such full, clear and exact terms, as to distinguish the same from all things before known, and to enable any person skilled in the art ... to make, compound and use the same."<sup>98</sup> Based on this requirement, the Supreme Court in *Evans v. Eaton*<sup>99</sup> identified the two goals of a patent specification. The first object was "to enable artizans [sic] to make and use [the invention]...."<sup>100</sup> The second aim of the specification, as interpreted by the *Evans* court, highlighted the underlying policy behind the written description requirement. The *Evans* court stated that an inventor must "put the public in possession of what the party claims as his own invention, so as to ascertain if he claims anything that is in common use, or is already known."<sup>101</sup> Thus, the Supreme Court enunciated a "notice" function of a patent specification which would presumably "guard against prejudice or injury from the use of an invention which the party may otherwise innocently suppose not to be patented."<sup>102</sup> The written description was necessary, then, to both warn "an innocent purchaser, or other person using a machine, of his infringement of the patent" and to prevent the inventor from "pretending that his invention is more than what it really is."<sup>103</sup> At the time *Evans* was decided, claims were not required, and the written description served to put the public on notice of the scope of the patentee's invention.<sup>104</sup>

The Patent Act of 1870 expressly required the inclusion of claims.<sup>105</sup> In this "post-claim" era, the United States Court of Customs and Patent Appeals ("CCPA") differentiated the two goals of the patent specification in *In re Ruschig*,<sup>106</sup> decided in 1967. The CCPA held that the "make and use," or enablement provision, was separate from the written description provision.<sup>107</sup> The court emphasized that "the question is not whether [one skilled in the art] would be so enabled but whether the specification discloses the [invention] to him, specifically, as something appellants actually invented."<sup>108</sup> The pertinent question in determining the sufficiency of

---

1998) (discussing the purpose and development of the written description requirement in relation to biotechnological inventions).

98. Patent Act of 1793, § 3, 1 Stat. 318, 321 (repealed 1836).

99. 20 U.S. (7 Wheat.) 356 (1822).

100. *Id.* at 433.

101. *Id.* at 434.

102. *Id.*

103. *Id.*

104. *See* Mueller, *supra* note 97, at 619-620.

105. *See id.*

106. 379 F.2d 990, 995-996, 154 U.S.P.Q. (BNA) 118, 123 (C.C.P.A. 1967).

107. *See id.*

108. *Id.* at 995, 154 U.S.P.Q. at 123.

the written description then became: "does the specification convey clearly to those skilled in the art, to whom it is addressed, *in any way*, the information that appellants invented that specific [invention claimed]?"<sup>109</sup>

Hence, the written description requirement evolved from a notice requirement, as described in *Evans*, to a requirement that the inventor demonstrate that he or she was in possession of the invention at the time of the application filing date.<sup>110</sup> Thus, Judge Newman's proposal that the fundamental principle underlying the written description requirement is that the inventor show that he was in possession of the claimed subject matter is consonant with the modern function and policy rationale of the written description requirement.

### **B. Precedential Analysis of the Various Expressions Used to Define a Sufficient Written Description**

An analysis of case history reveals that courts have used a number of different written description standards, including the "necessary and only reasonable construction" standard used by the Board in the instant case and the "reasonably conveys to the artisan" standard championed by *Hyatt*.<sup>111</sup> In *Vas-Cath*, the court stated that the applicant must "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."<sup>112</sup> Similarly, a number of courts have also stated that "the disclosure need only reasonably convey to persons skilled in the art that the inventor had possession of the subject matter in question."<sup>113</sup> But, courts have also adopted a seemingly more stringent approach in stating that the disclosure relied on must constitute "a full, clear, concise and exact description in accordance with [section] 112, first paragraph, of the invention claimed."<sup>114</sup>

---

109. *Id.* at 996, 154 U.S.P.Q. at 123 (emphasis added).

110. *See* Mueller, *supra* note 97, at 620.

111. *See* Hyatt v. Boone, 146 F.3d 1348, 1354, 47 U.S.P.Q.2d (BNA) 1128, 1132 (Fed. Cir. 1998).

112. *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1563-1564, 19 U.S.P.Q.2d (BNA) 1111, 1117 (Fed. Cir. 1991).

113. *See* Fujikawa v. Wattanasin, 93 F.3d 1559, 1570, 39 U.S.P.Q.2d (BNA) 1895, 1904 (Fed. Cir. 1996); *Fiers v. Revel*, 984 F.2d 1164, 1170, 25 U.S.P.Q.2d (BNA) 1601, 1606 (Fed. Cir. 1993) (same); *In re Kaslow*, 707 F.2d 1366, 1375, 217 U.S.P.Q. (BNA) 1089, 1096 (Fed. Cir. 1983); *In re Ruschig*, 379 F.2d 990, 996, 154 U.S.P.Q. (BNA) 118, 123 (C.C.P.A. 1967) ("Does the specification convey clearly to those skilled in the art, to whom it is addressed, in any way, the information that appellants invented that specific compound?").

114. *In re Wertheim*, 646 F.2d 527, 538-539, 209 U.S.P.Q. (BNA) 554, 565 (C.C.P.A. 1981).

As stated earlier, the *Ruschig* court noted that a specification must “convey clearly to those skilled in the art” that the applicant invented the claimed invention.<sup>115</sup> At first glance, this statement seems to exemplify a less rigorous standard than a “necessary and only reasonable construction” standard. Closer examination of the *Ruschig* decision, however, suggests that the underlying legal philosophy was much more stringent. In declaring a particular written description to be inadequate, Judge Rich provided the following colorful analogy:

It is an old custom in the woods to mark trails by making blaze marks on the trees. It is no help in finding a trail or in finding one’s way through the woods where the trails have disappeared—or have not yet been made, which is more like the case here—to be confronted simply by a large number of unmarked trees. Appellants are pointing to trees. We are looking for blaze marks which single out particular trees. We see none.<sup>116</sup>

As in the *Ruschig* decision, purportedly lenient written description requirements can be unveiled to reveal more rigorous standards in a number of cases following *In re Ruschig*. For instance, in *Fujikawa v. Wattanasi*, the Federal Circuit stated that “ipsis verbis disclosure is not necessary to satisfy the written description requirement of section 112. Instead, the disclosure need only reasonably convey to persons skilled in the art that the inventor had possession of the subject matter in question.”<sup>117</sup> However, the *Fujikawa* court, extending the *Ruschig* analogy, proclaimed that “it is easy to bypass a tree in the forest, even one that lies close to the trail, unless the point at which one must leave the trail to find the tree is well marked.”<sup>118</sup> Hence, an adequate written description must not only direct one to the proposed tree in particular, but also teach the point at which one should leave the trail to find it.<sup>119</sup> Moreover, the *Fujikawa* court stated that even if, in hindsight, a particular substitution, invention, or embellishment seems simple and foreseeable, it must have been clear to one of ordinary skill at the time of the disclosure.<sup>120</sup>

---

115. *In re Ruschig* 379 F.2d at 996, 154 U.S.P.Q. at 123.

116. *Id.* at 994-995, 154 U.S.P.Q. at 122.

117. *Fujikawa*, 93 F.3d at 1570, 39 U.S.P.Q.2d at 1904 (citing *In re Edwards*, 568 F.2d 1349, 1351-52, 196 U.S.P.Q. (BNA) 465, 467 (C.C.P.A. 1978)).

118. *Id.* at 1571, 39 U.S.P.Q.2d at 1905.

119. *See Fujikawa v. Wattanasi*, 93 F.3d 1559, 1571, 39 U.S.P.Q.2d (BNA) 1895, 1905 (Fed. Cir. 1996).

120. *See id.*

In *Fiers v. Revel*, the Federal Circuit also used a “reasonably conveys to the artisan” standard.<sup>121</sup> However, the court noted that correspondence between the language of the count and language in the specification was insufficient to satisfy the written description requirement when none of that language *particularly* described the contested claim.<sup>122</sup> Extrapolating this sentiment to *Hyatt*, Hyatt’s contention that the language of claim 40 corresponded to the subject matter of the interference count remains unpersuasive.

Judge Newman’s position that compliance with section 112 requires a demonstration that the inventor was in possession of the claimed subject matter even comports with the views expressed in *Vas-Cath*—the very case on which Hyatt relies. Although the standard in *Vas-Cath* appears to be “reasonably conveys to the artisan,” the *Vas-Cath* court ruled that “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.”<sup>123</sup>

Recently, legal scholars have expressed concern that the Federal Circuit is moving towards a heightened written description requirement, particularly in the field of biotechnology.<sup>124</sup> In *Regents of the University of California v. Eli Lilly*,<sup>125</sup> the court held that a functional description of DNA was inadequate for the purposes of section 112. Instead, a sufficient description of DNA required “specificity usually achieved by means of the recitation of the sequence of nucleotides that make up the DNA.”<sup>126</sup> Although, the *Lilly* court’s elevation of the written description requirement is a valid concern in biotechnology patents, Judge Newman did not extrapolate this newly evolved heightened standard to *Hyatt*. Rather, by emphasizing that an inventor demonstrate possession of the claimed invention, she reverted back to the roots of the written description requirement.

---

121. See *Fiers v. Revel*, 984 F.2d 1164, 1170, 25 U.S.P.Q.2d (BNA) 1601, 1606 (Fed. Cir. 1993).

122. See *id.* at 1171, 25 U.S.P.Q.2d at 1606.

123. *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1563-1564, 19 U.S.P.Q.2d (BNA) 1111, 1117 (Fed. Cir. 1991) (emphasis added).

124. See generally Mueller, *supra* note 97 (stating that the Federal Circuit’s decision in *Regents of the Univ. of Cal. v. Eli Lilly* established rigorous rules for description of biotechnological inventions, and contorted the written description requirement away from its historical and policy rationale). See generally Michael Delmas Plimier, Note, *Genentech, Inc. v. Novo Nordisk & University of California v. Eli Lilly and Co.*, 13 BERKELEY TECH. L.J. 149 (1998) (discussing the implications of recent Federal Circuit decisions which illustrate the court’s reluctance in granting overly broad patents).

125. 119 F.3d 1559, 43 U.S.P.Q.2d 1398 (Fed. Cir. 1997).

126. *Id.* at 1569, 43 U.S.P.Q.2d at 1406.

Although precedent has used different phrases in describing a sufficient written description, the underlying principle in these cases is not malleable. In line with Judge Newman's approach, these previous cases established that an inventor must prove that he or she was in possession of the claimed invention at the time of filing.

## V. CONCLUSION

In *Hyatt*, the Federal Circuit attempted to reconcile the apparently divergent written description standards that have been advanced by previous decisions. Judge Newman enunciated that the written description, in all cases, served to verify that the inventor had possession of the claimed subject matter.<sup>127</sup> In light of the policy reasons for the written description requirement, debate over precisely which standard should be used is misguided; the real issue is whether the inventor had possession of the claimed subject matter at the time of filing. In the instant case, it is not clear that *Hyatt* did.

It is unlikely that the opinion in *Hyatt* will quell the debate over the written description requirement. Opposing parties will inevitably debate the "true" meaning of the phrase "the inventor had possession." The opinion in *Hyatt* would have been more complete had Judge Newman offered a clear definition of how the Federal Circuit defines "possession." Nonetheless, Judge Newman's approach to the written description requirement is a step towards enlightening both inventors and practitioners as to "what the law of the Federal Circuit is."<sup>128</sup>

---

127. See *Hyatt v. Boone*, 146 F.3d 1348, 1354, 47 U.S.P.Q.2d (BNA) 1128, 1132 (Fed. Cir. 1998).

128. *Vas-Cath Inc. v. Mahurkar*, 745 F. Supp. 517, 522 (N.D. Ill. 1990), *rev'd* 935 F.2d 1555, 19 U.S.P.Q.2d (BNA) 1111 (Fed. Cir. 1991).



# STATE STREET BANK & TRUST CO. V. SIGNATURE FINANCIAL GROUP, INC.

*By Francisc Marius Keeley-Domokos*

## I. INTRODUCTION

During my second year of law school I invented a new method for skipping classes. I am currently considering patenting my new invention, and here is the first claim:

1. A data processing system for selecting classes to be skipped while engaged in a full-time legal educational program, comprising:

(a) computer processor means for processing data;

(b) first means for inputting:

(i) a student's class schedule and statistical data collected from previous students regarding the utility of attending particular classes;

(ii) data estimating the usefulness of relevant commercial outlines; and

(iii) desired holidays; and

(c) second means for processing data to determine a hierarchical list of times of days, days and whole school weeks which can be skipped by a student with minimal adverse educational impact.

In light of *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*<sup>1</sup>, which liberalized patentability of methods for doing business, my invention might actually be patentable. Indeed, the United States Patent and Trademark Office ("PTO") recently has been issuing an unprecedented number of business-related patents, covering a surprisingly wide range of areas of innovation. While the nature of the inventions disclosed in some of these patents might appear to transcend the conventional understanding of patentability, many of these patents are likely to be upheld in light of *State Street* if challenged in court. This sudden liberalization of business-related inventions, however, has also created a controversy.

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. 149 F.3d 1368, 47 U.S.P.Q.2d (BNA) 1596 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999).

Normative questions related to the desirability and impact of the *State Street* decision are already being raised, and the dispute is likely to intensify in the future.

*State Street* also relaxed the standards of patentability for inventions comprised of mathematical algorithms. While refining the process of patentability analysis, the court in *State Street* requested that the already disfavored *Freeman-Walter-Abele* test for patentability of mathematical inventions be fully abandoned. It is not clear, however, that the court has provided a satisfactory replacement for the *Freeman-Walter-Abele* test.

In addition to providing an overview of the *State Street* decisions, this paper discusses the analysis of the Federal Circuit and attempts to assess the impact of the *State Street* ruling upon the field of patent law.

## II. BACKGROUND

### A. Discussion of the Patent

Signature's patent ("the '056 patent")<sup>2</sup> discloses a data processing system which implements an investment structure for efficient administration of large-scale portfolios of mutual funds. Signature's system performs a set of elaborate calculations required to maintain a complex investment portfolio. Signature's system initializes itself daily by determining and allocating the assets of the portfolio's individual funds based on the most recent records. Signature's system then determines the percentage share that each fund constitutes in the portfolio, while accounting for dynamic changes in the value of individual investment securities and in the asset value of each fund. Signature's data processing system continuously monitors and records relevant data pertaining to individual investment funds to facilitate annual accounting and tax assessment.

The '056 patent contains an independent claim and five dependent claims. All claims are drafted in means-plus-function language,<sup>3</sup> as per-

---

2. U.S. Patent No. 5,193,056, issued Mar. 9, 1993.

3. Section 112 ¶6 permits claims to be expressed as means for performing functions, and does not require a recital of specific structures or acts employed in actually performing such functions. Instead, section 112 specifies that the claims must be construed to cover the structures and acts described in the patent's technical specification. See 35 U.S.C. § 112 ¶6 (1994). Means-plus-function claims usually enable the patentability of devices even when inventions consist exclusively of processes. While means-plus-function claims constitute powerful tools for the protection of innovation, the doctrine of equivalents only confers such claims a limited reach beyond the actual invention disclosed in the patent application.

mitted by section 112, paragraph 6.<sup>4</sup> Signature's claims disclose an apparatus (i.e., device or machine) by reference to devices described in the patent's technical specification. The '056 claims also mention a number of hardware components, including a computer system, computer memory and computer peripherals.

## B. The District Court Decision

### 1. Facts

State Street Bank initially engaged in negotiations with Signature for licensing of the invention disclosed in the '056 patent.<sup>5</sup> When negotiations broke down, State Street brought an action seeking a declaratory judgment that the '056 patent was invalid under 35 U.S.C. § 101 because it claimed an unpatentable mathematical algorithm.<sup>6</sup>

### 2. Court's analysis

The district court described the central issue in the case to be whether computer software that performed mathematical and accounting functions running on a computer was patentable subject matter under 35 U.S.C. § 101.<sup>7</sup> In holding that the '056 patent was invalid, the court concluded that Signature's invention was both a method of doing business and a mathematical algorithm, both of which the court regarded as unpatentable.<sup>8</sup>

#### a) Unpatentable Mathematical Algorithm

In the first part of the opinion, the court concluded that the '056 patent constituted an unpatentable mathematical algorithm and declared the patent invalid. In this process, the court relied on the *Freeman-Walter-Abele* test ("*Freeman test*"),<sup>9</sup> which provides that patentability of an invention

4. "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 in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof." 35 U.S.C. § 112 ¶6 (1994).

5. See *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 927 F. Supp. 502, 506, 38 U.S.P.Q.2d (BNA) 1530, 1534 (D. Mass. 1996).

6. See *id.* at 504, 38 U.S.P.Q.2d at 1532. State Street Bank also accused Signature of inequitable conduct and patent misuse. See *id.* Signature countersued, accusing State Street Bank of engaging in unfair and deceptive trade practices by filing suit, and also sought a declaratory judgment that State Street Bank had agreed to license the '056 patent. See *id.* at 504, 38 U.S.P.Q.2d at 1532.

7. See *id.* at 506, 38 U.S.P.Q.2d at 1534.

8. See *id.* at 516, 38 U.S.P.Q.2d at 1542.

9. The *Freeman-Walter-Abele* test for patentability under 35 U.S.C. § 101 was developed by federal courts in the course of three related decisions. See *In re Freeman*,

encompassing a mathematical algorithm depends on whether the algorithm is applied to or limited by physical elements or process steps.<sup>10</sup> The court embraced the *Freeman* test by stating that the test was “the best guidepost for determining the patentability of computer software.”<sup>11</sup>

The district court next distinguished the invention in the '056 patent from prior mathematical inventions rendered statutory by the Federal Circuit.<sup>12</sup> The court eventually concluded that the invention disclosed in the '056 patent did not involve the transformation or conversion of subject matter representative of physical activity and that a change of one set of numbers into another was insufficient to warrant patent protection.<sup>13</sup> Consequently, the court held that the '056 patent was invalid because it disclosed nothing more than a non-patentable mathematical algorithm.<sup>14</sup>

#### b) Unpatentable business method

The district court next considered whether the '056 patent fell within the scope of “the long established principle that “business ‘plans’ and ‘systems’ are not patentable,”<sup>15</sup> and concluded that the '056 patent qualified as an unpatentable business method. To support this conclusion, the

---

573 F.2d 1237, 197 U.S.P.Q. (BNA) 464 (C.C.P.A. 1978); *In re* Walter, 618 F.2d 758, 205 U.S.P.Q. (BNA) 397 (C.C.P.A. 1980); *In re* Abele, 684 F.2d 902, 214 U.S.P.Q. 682 (BNA) (C.C.P.A. 1982).

10. *State Street*, 927 F. Supp. at 510, 38 U.S.P.Q.2d at 1537.

11. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 927 F. Supp. 502, 511, 38 U.S.P.Q.2d (BNA) 1530, 1538 (D. Mass. 1996).

12. *See id.* at 514, 38 U.S.P.Q.2d at 1540-41. (discussing patents upheld in *In re* Alappat, 33 F.3d 1526, 31 U.S.P.Q.2d (BNA) 1545 (Fed. Cir. 1994) (en banc) (computer data converted to be displayed on a monitor), *Arrhythmia Research Technology Inc. v. Corazonix Corp.*, 958 F.2d 1053, 22 U.S.P.Q.2d (BNA) 1033 (Fed. Cir. 1992) (digital data processed to analyze electrocardiograph signals), and *In re* Taner, 681 F.2d 787, 214 U.S.P.Q. (BNA) 678 (C.C.P.A. 1982) (computer-implemented method of seismic exploration)).

13. *See id.* at 515, 38 U.S.P.Q.2d at 1541-42.

14. *See id.* at 515, 38 U.S.P.Q.2d at 1542.

15. *Id.* (quoting DONALD S. CHISUM, PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY AND INFRINGEMENT § 1.03[5] (1990) (stating that business methods are not patentable even though they may not be dependent upon the aesthetic, emotional, or judgmental reactions of a human). *See also* ERNEST BAINBRIDGE LIPSCOMB III, WALKER ON PATENTS § 2:17 (3d ed. 1984) (“[A] ‘system’ or method of transacting business is not an ‘art,’ [i.e., process] nor does it come within any other designation of patentable subject matter apart from the physical means of conducting the system.”); PETER D. RONSENBERG, PATENT LAW FUNDAMENTALS § 6.02[3] (2d ed. 1995) (“Whereas an apparatus or system capable of performing a business function may comprise patentable subject matter, the law remains that a method of doing business whether or not generated by an apparatus or system does not constitute patentable subject matter.”).

court reviewed a number of cases which, as the court stated, “while not holding explicitly on [grounds of a business method exception], recognize the validity of that rule.”<sup>16</sup> The court, however, summarily dismissed in a “*but see*” reference both a previous court decision which had upheld a patent remarkably similar to the ’056 patent and a solid dissenting opinion which had called for the elimination of the business method exception.<sup>17</sup>

The court finally ruled that the ’056 patent was invalid since the invention disclosed therein was an abstract idea which was both a nonpatentable mathematical algorithm and a nonpatentable method of doing business.<sup>18</sup> The court also dismissed Signature’s two counterclaims.<sup>19</sup> Signature subsequently appealed.

### C. The Federal Circuit Decision

#### 1. *The ’056 patent discloses a machine*

The Federal Circuit commenced its analysis by considering the district court’s classification of the ’056 patent claims as process claims, despite their means-plus-function structure. The court noted that machine claims comprising means clauses may only be reasonably viewed as process claims if no supporting structure exists in the technical disclosure.<sup>20</sup> The court concluded that the technical description of the ’056 patent fully supported the conclusion that the patent claims and their equivalents described a machine.<sup>21</sup>

The court, however, specified that patentability of an invention did not depend on the invention’s classification as a process or a machine. Instead, patentability depended on whether the invention fell “within one of the

---

16. *State Street*, 927 F. Supp. at 515, 38 U.S.P.Q.2d at 1542.

17. *See State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 927 F. Supp. 502, 515-16, 38 U.S.P.Q.2d (BNA) 1530, 1542 (D. Mass. 1996) (discussing *Paine, Webber, Jackson & Curtis, Inc. v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 564 F. Supp. 1358, 218 U.S.P.Q. (BNA) 212 (D. Del. 1983) (holding patentable a computerized system for combining packages of popular financial services) and *In re Schrader*, 22 F.3d 290, 297, 30 U.S.P.Q.2d (BNA) 1455, 1462 (Fed. Cir. 1994) (Newman, J., dissenting) (urging that the method of doing business exception be eliminated as error prone, redundant and obsolete)).

18. *See id.* at 516, 38 U.S.P.Q.2d at 1542.

19. *See id.* at 517, 38 U.S.P.Q.2d at 1543.

20. *See State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1371, 47 U.S.P.Q.2d (BNA) 1596, 1599 (Fed. Cir. 1998) (quoting *In re Alappat*, 33 F.3d 1526, 1540-41, 31 U.S.P.Q.2d (BNA) 1545, 1555 (Fed. Cir. 1994) (en banc)), *cert. denied*, 119 S. Ct. 851 (1999).

21. *See id.*

four enumerated categories of patentable subject matter [in 35 U.S.C. § 101], 'machine' and 'process' being such categories."<sup>22</sup>

### 2. *Statutory interpretation of 35 U.S.C. § 101*

The court next turned to the statutory language of section 101.<sup>23</sup> The court engaged in extensive statutory analysis in an apparent attempt to assess the statutory basis for the two "judicially-created exceptions to statutory subject matter" that the district court relied on in its decision, namely the "mathematical algorithm" exception and the "business method" exception.<sup>24</sup> The court noted that the "plain and unambiguous meaning of [section] 101 is that any invention falling within one of the four<sup>25</sup> stated categories of statutory subject matter may be patented...."<sup>26</sup> The court then stated that, "The repetitive use of expansive term 'any' in [section] 101 shows Congress' intent not to place any restrictions on the subject matter ... beyond those specifically recited in [section] 101."<sup>27</sup> The court further noted that the Supreme Court had previously decided that "Congress intended [section] 101 to extend to 'anything under the sun that is made by man.'"<sup>28</sup> The court finally concluded that "it is improper to read limitations into [section] 101 ... where ... Congress clearly did not intend such limitations."<sup>29</sup>

### 3. *The '056 patent is not subject to the mathematical algorithm exception*

- a) The mathematical algorithm produces a "concrete, useful and tangible result"

After the Federal Circuit alluded that it disapproved of the limitations that the district court had imposed upon section 101, the court turned to

22. *Id.* at 1372, 47 U.S.P.Q.2d at 1600.

23. "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." 35 U.S.C. § 101 (1994).

24. *State Street*, 149 F.3d at 1372-73, 47 U.S.P.Q.2d at 1600.

25. The four categories of patentable subject matter permitted by section 101 are processes, machines, manufactures and compositions of matter. *See* 35 U.S.C. § 101 (1994).

26. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1372, 47 U.S.P.Q.2d (BNA) 1596, 1600 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999).

27. *Id.* at 1373, 47 U.S.P.Q.2d at 1600.

28. *Id.* (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980)).

29. *Id.* (citing *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980)).

the first of these limitations, the mathematical algorithm exception. The court noted that the Supreme Court had ruled that mathematical algorithms are not patentable subject matter to the extent that they are just abstract ideas.<sup>30</sup> The court further noted that in order for a mathematical algorithm to be patentable, the algorithm must be reduced to a practical application, such that it generates a “useful, concrete and tangible result.”<sup>31</sup> The usefulness of results, which is also an essential requirement of section 101, played a central role in the remaining part of the court’s analysis.

The court then reviewed a number of its prior decisions centered around the usefulness of results of mathematical algorithms. In *In re Alappat*,<sup>32</sup> the court had held that data transformed by a machine through a series of mathematical calculations to produce a smooth waveform display on a rasterizer monitor constituted a practical application of an abstract idea because it produced “a useful, concrete and tangible result.” The court also mentioned its decision in *Arrhythmia Research Technology Inc. v. Corazonix Corp.*,<sup>33</sup> where it had held that the transformation of electrocardiograph signals from a patient’s heartbeat by a machine through a series of mathematical calculations constituted a practical application of an abstract idea, because it corresponded to “a useful, concrete or tangible result”—the condition of the patient’s heart.

Following the structure of its decisions in *Alappat* and *Arrhythmia*, the court ruled that in the present case,

[T]he transformation of data, representing discrete dollar amounts by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces ‘a useful, concrete and tangible result’—a final share price ... relied upon by regulatory authorities and in subsequent trades.<sup>34</sup>

---

30. See *id.* (quoting *Diamond v. Diehr*, 450 U.S. 175 (1981)).

31. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1373, 47 U.S.P.Q.2d (BNA) 1596, 1600-01 (quoting *In re Alappat*, 33 F.3d 1526, 1544, 31 U.S.P.Q.2d (BNA) 1545, 1557 (Fed. Cir. 1994) (en banc)), *cert. denied*, 119 S. Ct. 851 (1999).

32. 33 F. 3d 1526, 31 U.S.P.Q.2d 1545 (Fed. Cir. 1994).

33. 958 F.2d 1053, 22 U.S.P.Q.2d at 1033 (Fed. Cir. 1992).

34. *State Street*, 149 F.3d at 1373, 47 U.S.P.Q.2d at 1601.

#### 4. *Application of the Freeman-Walter-Abele test by the District Court was inappropriate*

Once the court indicated that it was going to uphold the validity of the '056 patent against the mathematical algorithm challenge, the court took the opportunity to discredit the *Freeman* test.<sup>35</sup> The court engaged in a comprehensive historical review of the development and evolution of the *Freeman* test. The court recalled that the *Freeman* test was developed by the Court of Customs and Patent Appeals in the aftermath of *Gottschalk v. Benson*<sup>36</sup> and *Parker v. Flook*,<sup>37</sup> and subsequently adopted by the Federal Circuit to identify unpatentable mathematical algorithms.<sup>38</sup> Noting a number of inconsistent applications of the *Freeman* test by different courts,<sup>39</sup> the Federal Circuit stated that after *Diamond v. Diehr*<sup>40</sup> and *Diamond v. Chakrabarty*,<sup>41</sup> the test "has little, if any, applicability to determining the presence of statutory subject matter."<sup>42</sup>

Noting that application of the *Freeman* test only enables identification of mathematical algorithms, the court reiterated the importance of the test of usefulness of results. Specifically, the court stated that "the mere fact that a claimed invention involves [an algorithm], in and of itself, would not render it nonstatutory subject matter unless, of course, its operation does not produce a 'useful, concrete and tangible result.'"<sup>43</sup>

The court next attempted to provide guidelines for claim construction and interpretation. The court initially advised that "the question of whether a claim encompasses statutory subject matter should not focus on which of the four categories of subject matter a claim is directed to...."<sup>44</sup> The court, however, also stated that "the subject matter *must* fall into at least one

---

35. *See supra* note 9.

36. 409 U.S. 63 (1972).

37. 437 U.S. 584 (1978).

38. *See State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1374, 47 U.S.P.Q.2d (BNA) 1596, 1601 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999).

39. *See id.* at 1374 n.5, 47 U.S.P.Q.2d at 1601 n.5 (discussing *In re Abele*, 684 F.2d 902, 214 U.S.P.Q. (BNA) 682 (C.C.P.A. 1982), *In re Taner*, 681 F.2d 787, 214 U.S.P.Q. (BNA) 678 (C.C.P.A. 1982) and *In re Meyer*, 688 F.2d 789, 215 U.S.P.Q. (BNA) 193 (C.C.P.A. 1982)).

40. 450 U.S. 175 (1981).

41. 447 U.S. 303 (1980).

42. *See State Street*, 149 F.3d at 1374, 47 U.S.P.Q.2d at 1601.

43. *Id.* at 1374, 47 U.S.P.Q.2d at 1602 (quoting *In re Alappat*, 33 F.3d 1526, 1544, 31 U.S.P.Q.2d (BNA) 1545, 1557 (Fed. Cir. 1994) (en banc)). *See In re Iwanashi*, 888 F.2d 1370, 1374, 12 U.S.P.Q.2d 1908, 1911 (Fed. Cir. 1989).

44. *State Street*, 149 F.3d at 1375, 47 U.S.P.Q.2d at 1602.

category of statutory subject matter.”<sup>45</sup> The court then noted that the ’056 patent claims recited a machine, which “for purposes of [the court’s] analysis” was sufficient to qualify the patent as statutory subject matter.<sup>46</sup>

The court then advised that inquiries into patentability of inventions should concentrate on “the essential characteristics of the subject matter, in particular, its practical utility.”<sup>47</sup> The court recalled that the invention disclosed in the ’056 patent “admittedly [produced] a ‘useful, concrete, and tangible result.’”<sup>48</sup> The court finally concluded that utility of results rendered the ’056 patent valid, “even if the useful result [was] expressed in numbers, such as price, profit, percentage, cost, or loss.”<sup>49</sup>

##### 5. *The court overruled the business method exception*

The Federal Circuit turned next to the judicially-created business method exception to subject matter. The court stated in decisive terms that “[the court took] this opportunity to lay this ill-conceived exception to rest.”<sup>50</sup> The Federal Circuit justified its disfavor of the business method exception by noting that the doctrine had “merely represented the application of some general, but no longer applicable legal principle ... which was eliminated by [35 U.S.C.] § 103.”<sup>51</sup>

The court recalled Judge Newmann’s dissenting opinion in *In re Schrader* which had described the business method exception as “an unwarranted encumbrance to the definition of statutory subject matter in section 101, that [should have been] discarded as error-prone, redundant, and obsolete.”<sup>52</sup> A retrospective analysis of the opinion reveals that the Court of Appeals closely followed Judge Newman’s recommendations by eliminating the business method exception and requiring instead strict adherence to the relevant statutory provisions.<sup>53</sup>

45. *Id.* at 1375 n.9, 47 U.S.P.Q.2d at 1602 n.9 (emphasis added).

46. *Id.* at 1375, 47 U.S.P.Q.2d at 1602.

47. *Id.*

48. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1375, 47 U.S.P.Q.2d (BNA) 1596, 1602 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999).

49. *See id.* at 1375, 47 U.S.P.Q.2d at 1602.

50. *Id.*

51. *Id.* Section 103 further specifies conditions for patentability, including the requirement that inventions must exhibit non-obviousness to be patentable. *See* 35 U.S.C. § 103 (1994).

52. *Id.* at 1375 n.10, 47 U.S.P.Q.2d at 1603 n.10 (quoting *In re Schrader*, 22 F.3d 290, 298, 30 U.S.P.Q.2d (BNA) 1455, 1462 (Fed. Cir. 1994) (Newman, J., dissenting)).

53. While calling for the elimination of the business method exception, Judge Newman had noted, “Patentability does not turn on whether the claimed method does ‘business’ ..., but on whether the method ... meets the requirements of patentability as set

The court noted that the business method exception had never constituted a determinative ground for rejection of patentability by the Federal Circuit.<sup>54</sup> Instead, cases had generally been decided on different grounds.<sup>55</sup> The court stated that, "Even the case frequently cited as establishing the business method exception ... did not rely on the exception to strike the patent."<sup>56</sup>

The court rejected State Street Bank's argument that the business method exception had been conclusively acknowledged in *In re Maucorps*<sup>57</sup> and *In re Meyer*<sup>58</sup> by stating that the two cases were actually decided based on an antiquated analysis under the mathematical algorithm exception.<sup>59</sup> The court further noted that the *Maucorps* and *Meyer* decisions had relied on the *Freeman* test, a test which the court had essentially demolished in the first part of the *State Street* decision.

The court appeared to acknowledge that the business method exception had been judicially established in *In re Patton*,<sup>60</sup> where the Court of Customs and Patent Appeals had decided that a business method was not patentable subject matter when separated from the means for implementing the method. The court, however, rejected this precedent by stating that

---

forth in sections 102, 103, and 112 of the Patent Act." *In re Schrader*, 22 F.3d at 298, 30 U.S.P.Q.2d at 1462.

54. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1375, 47 U.S.P.Q.2d (BNA) 1596, 1603 (Fed. Cir. 1998) (quoting Rinaldo Del Gallo, III, *Are "Methods of Doing Business" finally out of Business as a Statutory Rejection?*, 38 IDEA 403, 435 (1998)).

55. *See id.* at 1375-76, 47 U.S.P.Q.2d at 1603. The court reviewed a number of decisions consistent with the conclusion that patentability had generally been decided without relying on the business method exception. *See In re Howard*, 394 F.2d 869, 157 U.S.P.Q. (BNA) 615 (C.C.P.A. 1968) (decided on grounds of novelty). *See also* *Dann v. Johnston*, 425 U.S. 219 (1976) (holding patent invalid under 35 U.S.C. § 103); *In re Schrader*, 22 F.3d 290, 30 U.S.P.Q.2d (BNA) 1455 (Fed. Cir. 1994) (decided on the mathematical algorithm exception); *In re Chatfield*, 545 F.2d 152, 191 U.S.P.Q. (BNA) 730 (C.C.P.A. 1976); *Loew's Drive-In Theatres v. Park-In Theatres*, 174 F.2d 547 (1st Cir. 1949) (decided on grounds of novelty); *In re Patton*, 127 F.2d 324 (C.C.P.A. 1942) (decided on grounds of novelty); *In re Wait*, 73 F.2d 982 (C.C.P.A. 1934) (decided on grounds of novelty); *Berardini v. Tocci*, 190 F. 329 (C.C.S.D.N.Y. 1911); *Ex parte Murray*, 9 U.S.P.Q.2d 1819 (BNA) (B.P.A.I. 1988) (decided on grounds of obviousness and novelty).

56. *State Street*, 149 F.3d at 1376, 47 U.S.P.Q.2d at 1603 (quoting *Hotel Security Checking Co. v. Lorraine Co.*, 160 F. 467 (2d Cir. 1908)).

57. 609 F.2d 481, 203 U.S.P.Q. (BNA) 812 (C.C.P.A. 1982).

58. 688 F.2d 789, 215 U.S.P.Q. (BNA) 193 (C.C.P.A. 1982).

59. *See State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1376, 47 U.S.P.Q.2d (BNA) 1596, 1603 (Fed. Cir. 1998).

60. 127 F.2d 324 (C.C.P.A. 1942).

“the jurisprudence does not require the creation of a distinct business class of unpatentable subject matter.”<sup>61</sup>

The Federal Circuit next addressed the lower court’s concern that the ’056 patent was so broad that it “foreclose[d] virtually any computer-implemented accounting method necessary to manage [similar] type[s] of financial structure[s].”<sup>62</sup> The court pointed out that the scope of a patent’s claims must be evaluated under sections 102, 103 and 112, and not under section 101, as the district court had done.<sup>63</sup>

The Federal Circuit also discussed a relevant change in the newest edition of the PTO’s *Manual of Patent Examining Procedures* (“MPEP”), which now states: “Claims should not be categorized as methods of doing business. Instead such claims should be treated like any other process claims.”<sup>64</sup> The court expressed its accord with this modification of the MPEP, and seemed to derive confidence from it. The court’s endorsement of this new provision in the MPEP was consistent with the court’s favorable review of the decision in *Paine, Webber, Jackson & Curtiss v. Merrill Lynch*,<sup>65</sup> where the *Paine* court had upheld a patent for a computerized system of cash management which exhibited many characteristics of a business method.<sup>66</sup>

The Federal Circuit concluded its analysis by stating, “Whether the claims are directed to subject matter within [section] 101 should not turn on whether the claimed subject matter does ‘business’ instead of something else.”<sup>67</sup> While abolishing the business method exception and refining the judicial standards for patentability of mathematical inventions, the Federal Circuit reversed the district court’s decision by upholding the validity of the ’056 patent, and remanded the case back to the district court.<sup>68</sup>

61. *State Street*, 149 F.3d at 1376 n.15, 47 U.S.P.Q.2d at 1604 n.15.

62. *Id.* at 1376-77, 47 U.S.P.Q.2d at 1604 (quoting *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 927 F. Supp. 502, 516, 38 U.S.P.Q.2d (BNA) 1530, 1542 (D. Mass. 1996)).

63. *See id.* at 1377, 47 U.S.P.Q.2d at 1604.

64. Examination Guidelines, 61 Fed. Reg. 7478, 7479 (1996).

65. 564 F. Supp. 1358 (D. Del. 1983).

66. *See State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1376 n.13, 47 U.S.P.Q.2d (BNA) 1596, 1603 n.13 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999).

67. *Id.* at 1377, 47 U.S.P.Q.2d at 1604.

68. *See id.*

### III. DISCUSSION

#### A. Mathematical Algorithms: The Demise of the Freeman-Walter-Abele Test

The Federal Circuit demolished the *Freeman* test by stating that the test had “little, if any, applicability to determining the presence of statutory subject matter.”<sup>69</sup> The court advised that the analysis of patentability should not center on identification of a specific category of subject matter (i.e., process, machine, manufacture, or composition of matter). Instead, the court suggested that analysis of patentability should be concerned with “the essential characteristics of the subject matter, in particular, its practical utility.”<sup>70</sup> The court, however, also stated that “the subject matter *must* fall into at least one category of statutory subject matter.”<sup>71</sup>

Consequently, in order to perform an analysis of utility of result, as the Federal Circuit required, a court must initially ensure that the invention falls “into at least one category of statutory subject matter.” The court in *State Street* further advised that after identification of a process or machine, an analysis of patentability should focus on the characteristics of the subject matter, e.g., utility. This implies that when inventions involve mathematical algorithms, courts must initially identify the presence of the mathematical algorithms, which are processes, and then ensure that they achieve some useful result.

The process for determining the presence of mathematical algorithms in claims cannot be formalized. In a widely-read concurring opinion in *Arrhythmia Research Technology v. Corazonix Corp.*, Judge Rader criticized the *Freeman* test as depending upon the definition of an “algorithm,” because the definition of mathematical algorithms was vague and without a “statutory anchor” in the categories defined in section 101.<sup>72</sup>

While Judge Rader’s criticism of the *Freeman* test was justified, the same statements also expose the inadequacy of searching for mathematical algorithms within inventions in general. When a court is unable to define what the court is looking for, how can the court find it? Because the court in *State Street* actually required identification of processes and not necessarily of algorithms, courts might attempt to circumvent the search for mathematical algorithms completely. If a court were to focus directly on

---

69. *Id.* at 1374, 47 U.S.P.Q.2d at 1601.

70. *Id.* at 1375, 47 U.S.P.Q.2d at 1602.

71. *Id.* at 1375 n.9, 47 U.S.P.Q.2d at 1602 n.9 (emphasis added).

72. *See Arrhythmia Research Technology v. Corazonix Corp.*, 958 F.2d 1053, 1063, 22 U.S.P.Q.2d (BNA) 1033, 1041 (Fed. Cir. 1992).

identifying processes within an invention reciting mathematical algorithms, however, such an analysis would again consist of heuristic and arbitrary inquiries. No formal approach to the identification of processes exists, either. Consequently, the first step in the analysis suggested by the *State Street* must contend with ambiguity and uncertainty, at least on a conceptual level.

*State Street's* suggestion that patentability analysis should commence with the identification of processes within mathematical inventions raises further concerns. Most inventions center around processes, so a simple inquiry into the existence of processes would fail to serve as a discriminating tool and would not perform any practical function. Consequently, a search for processes within inventions could become a mere formality in the context of patent law. Emphasizing form over substance undermines the fundamental legal quest for truth grounded in substantive reality. Additionally, Copyright law already provides adequate protection for form and expression, so patent law should not duplicate this protection even at a conceptual level.

### **B. The Business Method Exception: 110 Years of Unjustified Confusion**

New discoveries, even when revolutionary, are sometimes old. China, for example, long ago discovered furnaces for making steel, gunpowder and the cannon. More than eight centuries later, when these inventions were rediscovered in Europe, they sparked the industrial revolution. Similarly, the Federal Circuit rediscovered in the *State Street* decision guidelines provided by the Supreme Court 110 years earlier. In an era of increased economic globalization, when computerized financial transactions involve staggering amounts, the *State Street* court's discovery could also spark a technological revolution which might one day be known as the "computerized business revolution."

The business method exception was a judicially-created doctrine which should have never existed. In the first case involving issues regarding the patentability of business-related subject matter to reach the Supreme Court, *Munson v. City of New York*,<sup>73</sup> the Court suggested the correct approach to determine patent validity. In *Munson*, the Court considered the validity of a patent for a method for filing coupons by pasting the coupons in serial order on consecutively numbered pages of blank books.<sup>74</sup>

---

73. 124 U.S. 601 (1888).

74. *See id.* at 604.

The Court declared the patent invalid, concluding that the invention lacked the requisite novelty in light of filing methods in existence at that time.<sup>75</sup>

While the *Munson* Court expressly declined to rule on whether the method for filing coupons actually qualified as patentable subject matter, the Court alluded that the correct approach to this determination involved direct analysis of the statute.<sup>76</sup> Without acknowledging the decision in *Munson*, the Federal Circuit indicated unambiguously in *State Street* that patentability should indeed be assessed by closely observing the relevant statutes. Specifically, the court in *State Street* liberally qualified the '056 patent claims as machine claims by strictly applying 35 U.S.C. § 112, ¶6,<sup>77</sup> and then read section 101 literally to permit patentability of a machine.

The fact that the court in *State Street* ignored *Munson* is surprising in light of the fact that federal courts have acknowledged *Munson* in the past. In *Cincinnati Traction Co. v. Pope*,<sup>78</sup> a federal court rendered valid a patent for a railway transfer ticket by ruling that a specific item used in a "method of doing business" was a "manufacture," which was deemed to be a patentable process.<sup>79</sup> While this ruling appears confusing, it probably indicates that the court in *Cincinnati* deemed the invention patentable and searched for a plausible reason to so hold.

A significant aspect of the *Cincinnati* decision is that the court followed the process outlined by the Supreme Court in *Munson*, and assessed patentability based on direct application of the relevant statute. It is also noteworthy that *Cincinnati* was the first case involving a business method to be decided in the aftermath of *Hotel Security Checking Co. v. Lorraine Co.*,<sup>80</sup> which is widely acknowledged to have originated the business method exception doctrine in dicta. Therefore, courts did not immediately deviate from the correct line of patentability analysis after the business method exception originated.

Twenty one years after *Cincinnati*, in *In re Wait*,<sup>81</sup> a federal court again outlined the correct procedure for determining the patentability of inventions comprising business methods. *Wait* involved a method for sale of commodities by coordinating the offer and acceptance at a central loca-

---

75. *See id.* at 604-05.

76. *See id.*

77. *See supra* note 3.

78. 210 F. 443 (6th Cir. 1913).

79. *See id.* at 446.

80. 160 F. 467 (2d Cir. 1908).

81. 73 F.2d 982 (C.C.P.A. 1934).

tion. The *Wait* court found no novelty in the invention and invalidated the patent.<sup>82</sup>

While the court in *State Street* court acknowledged the *Wait* decision,<sup>83</sup> it failed to point out that the court in *Wait* had unequivocally acknowledged that the business method exception had been an innocuous artifact of dicta: "However inviting [the concept of a business method exception] may be, the court does not deem it proper to deviate from its usual practice of determining only the relevant questions presented by the application actually before it, avoiding dicta in so far as possible."<sup>84</sup> The court in *Wait* actually had gone one step further and had specified that business methods "might present patentable novelty"<sup>85</sup> It is remarkable that the Federal Circuit in *State Street* neglected to point out such strong support in prior case law for its position, especially since the court insisted that the business method exception had been nothing more than dicta.

### C. Patentability of Business Methods: A Normative Analysis

The Federal Circuit's decision that business methods are patentable has settled a judicial dilemma, but has only defined the framework for the normative analysis and criticism that are sure to follow. The practical consequences of the fact that business methods are now patentable cannot be fully ascertained yet. A number of general observations, however, can still be made regarding the social, economic and legal contexts in which the *State Street* decision fits.

One of the fundamental purposes of intellectual property law is to preserve inventors' incentives to innovate. Supporters of the *State Street* decision are likely to argue that the ability to protect business methods will probably encourage further innovation in the context of competitive business practices. Specifically, if companies in a specific field realize that a competitor has developed a better business model, but that model is protected from duplication, the companies are likely to strive to develop new approaches to commercial enterprise in order to remain competitive. This process would likely increase efficiency across the whole economic spectrum.

The conceptual difficulty associated with this argument is that the incentive to innovate in a functional business context is inherently embed-

---

82. *See id.* at 983.

83. *See State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1376 n.15, 47 U.S.P.Q.2d (BNA) 1596, 1604 n.15 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999).

84. *In re Wait*, 73 F.2d at 982.

85. *Id.* at 983.

ded in the nature of the economic system: commercial entities which succeed in developing more efficient business models prosper at the expense of their competitors. This survival-of-the-fittest economic model permeates all aspects of business operations, and is reflected in the ubiquitous approach to increasing productivity that corporate America has developed. Once investments in new technology cease to provide further improvements in productivity, and when stock prices or earnings stagnate, companies announce layoffs and restructure their operations. The purpose is usually to streamline some section of the business operations, e.g., reducing managerial costs. Consequently, companies are likely to develop new business methods whether or not these methods can be patented. Indeed, companies have been refining their business practices since long before the *State Street* decision.

The type of business methods that are likely to benefit from the *State Street* decision, however, are probably more material than just general functional operating schemes. The court in *State Street* repeatedly reiterated the utility of the invention disclosed in Signature's patent, while concurrently emphasizing the concreteness and materiality of the result that the invention achieved.<sup>86</sup> The *State Street* decision seems to indicate that to be patentable, business methods must achieve concrete and material results in addition to being useful. If this interpretation is correct, it would probably be difficult for a company to prove that a general operating business plan developed by that company deserves patent protection. To satisfy the requirements of concreteness and materiality, such a company would probably have to provide conclusive evidence that the new business method decreases operating costs, increases productivity, or achieves some other tangible economic benefit. Such an analysis would probably involve complex forecasting techniques and rely on economic assumptions and projections. The speculative nature of such endeavors probably reduces the likelihood that companies will attempt to patent general business operating methods. Instead, the business methods that will continue to be patented will probably involve computer software, and will also qualify as machines through proper use of means-plus-function claims.

Another objection directed to the patentability of business methods notes that patentability of methods of doing business amounts to a protection of the fundamental tools for economic competition and progress. Specifically, preventing use of basic commercial mechanisms erodes the concept of a free market economy, which constitutes the essence of American

---

86. See, e.g., *State Street*, 149 F.3d at 1375, 47 U.S.P.Q.2d at 1602. (“[Signature’s invention] admittedly produces a “useful, concrete, and tangible result.”)

society. This concern is valid and justified. Protection of business methods, however, is conceptually similar to protection of technological innovation, which is broadly permitted under patent law. While general business methods are essential for the economic existence of commercial entities, technology and innovation are quintessential to human progress and survival. Since inventors of new technology have an undisputed right to limited protection of their ideas, it is difficult to argue that inventors of new business methods should be denied similar rights simply because such methods serve a fundamental commercial role. Because patentability of technological innovations is subject to certain restrictions, protection of business methods should also be appropriately limited, but should not be unilaterally denied.

The Federal Circuit concluded, ‘Whether the claims are directed to subject matter within [section] 101 should not turn on whether the claimed subject matter does ‘business’ instead of something else.’<sup>87</sup> Indeed, nothing in the patent statutes suggests that business methods should be given any special treatment. A retroactive review of the court’s approach to statutory analysis in *State Street* reveals that the court’s ruling that business methods are just ordinary methods for purposes of patentability should not have been surprising.

In concluding that section 101 should be broadly construed,<sup>88</sup> the Federal Circuit seemed to conduct its analysis in a framework generally consistent with new textualism.<sup>89</sup> The court initially concentrated on the statutory language, specifically on the “plain and unambiguous meaning of [section] 101....”<sup>90</sup> The court then employed grammar canons of statutory construction and concluded that, “The repetitive use of expansive term ‘any’ in [section] 101 shows Congress’ intent not to place any restrictions on the subject matter ... beyond those specifically recited in [section] 101.”<sup>91</sup> The court then adopted an intentionalist<sup>92</sup> tool for statutory analysis, and considered the legislative intent behind section 101.<sup>93</sup>

87. *Id.* at 1377, 47 U.S.P.Q.2d at 1604.

88. *See id.* at 1372-73, 47 U.S.P.Q.2d at 1600.

89. New textualism is a theory of statutory interpretation which emerged in the 1980s. New textualism seeks to interpret statutory language according to its plain meaning, as construed in the context of the whole statute. *See* WILLIAM N. ESKRIDGE, JR. & PHILIP P. FRICKEY, *CASES AND MATERIALS ON LEGISLATION, STATUTES AND THE CREATION OF PUBLIC POLICY* 586-87 (1995). The Supreme Court has adopted new textualism to a significant extent, but not completely. *See id.* at 634-35.

90. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1372, 47 U.S.P.Q.2d (BNA) 1596, 1600 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999).

91. *Id.* at 1373, 47 U.S.P.Q.2d at 1600.

Given the absence of references to business methods in section 101 and the court's textualist approach to statutory interpretation, the *State Street* decision was inevitable. Criticism addressed to the court in *State Street*, therefore, is probably unwarranted. If patentability of business methods is fundamentally undesirable in a social or economic context, the judicial branch might not be adequately equipped to remedy it. Congress, as the legislative body, is the appropriate forum where competing ideas and policies should be exposed and debated. For example, overprotection of intellectual property might actually impair economic growth,<sup>94</sup> so permitting patentability of business methods could negatively impact economic progress. Congress, however, is best qualified to consider and define the United States' national interests and to formulate appropriate legislation. Until then, *State Street* remains a lucid and solid decision.

#### **D. *State Street's* Effect on the Patentability of Business and Mathematical Inventions**

*State Street* appears to have relaxed the standard of patentability for inventions reciting business methods and mathematical algorithms. In light of *State Street*, courts must now undergo a two-step inquiry: 1) determine whether the invention recites statutory subject matter (e.g., process or machine); and 2) determine whether the invention generates "a useful, concrete and tangible result." The usefulness of results appears to be a low threshold for patentability, as illustrated by the court's conclusion that "the transformation of data, representing discrete dollar amounts ... into a final share price" is patentable.

A retrospective analysis of previous cases involving mathematical algorithms and business methods suggests that many of these cases would probably be decided differently today using the standard defined by *State Street*. For example, in *Parker v. Flook*, the Supreme Court considered a method claim for updating an alarm limit involved in a process for the catalytic conversion of hydrocarbons. The only novelty in the *Flook* patent consisted of a mathematical algorithm employed in the computation of the alarm limit. The Court denied the patent based on the now abandoned

---

92. Intentionalism is a theory of statutory interpretation which advocates interpretation of statutes in a manner consistent with the original intent of the drafters of the statute. See ESKRIDGE, *supra* note 84, at 514.

93. See *State Street*, 149 F.3d at 1376 n.13, 47 U.S.P.Q.2d at 1603 n.13 (discussing S. Rep. No. 82-1979 at 5 (1952) and H.R. Rep. No. 82-1923 at 6 (1952)).

94. See, e.g., ANNALIE SAXENIAN, REGIONAL ADVANTAGE, CULTURE AND COMPETITION IN SILICON VALLEY AND ROUTE 128 (1998) (arguing that the decreased regulation in California contributed to the superior economic success of Silicon Valley as compared to Route 128 in Massachusetts).

“point of novelty test,” which held that a mathematical algorithm “cannot support a patent unless some other inventive concept exists in the algorithm’s application.”<sup>95</sup>

In light of *State Street*, the patent in *Flook* should have been upheld. The mathematical algorithm employed in the *Flook* invention enabled the accurate determination of abnormal conditions during a process of chemical conversion of hydrocarbons, which was definitely “a useful, concrete and tangible result.” If the prospect of qualifying a Supreme Court decision as wrong based on a ruling by the Federal Circuit appears unsettling, it might be useful to recall that *Flook* was decided 20 years before *State Street*, in an era when automation and modern technology were just emerging. Additionally, the *State Street* decision was authored by Judge Rich, the same person who had drafted the modern patent code in 1952.

*State Street*’s effects on patentability of new inventions cannot be fully assessed yet. It appears, however, that the PTO will be more lenient with inventions consisting exclusively of software. The standard for patentability of software under sections 102, 103 and 112 will probably remain high, however, and the technical disclosure should still be an essential component of properly drafted applications.

The standards pertaining to the patentability of inventions involving business methods have probably been significantly relaxed, too.<sup>96</sup> The PTO has recently granted an unprecedented number of business-related patents, covering a surprisingly broad inventive spectrum.<sup>97</sup> In light of

---

95. *Parker v. Flook*, 437 U.S. 584, 594 (1978). The point of novelty test essentially assumed that any mathematical algorithm was part of the prior art. *See id.*

96. A brief review of recent patents involving business methods illustrates the PTO’s increased leniency and the broad spectrum of patentable inventions. For example, the PTO recently allowed the patentability of a system for on-line, Internet commerce, where offers to buy can be instantly accepted by sellers. The selling merchants have instant access to buyers’ monetary accounts, and upon completion of the transaction can debit the selling price in real-time. *See* U.S. Patent No. 5,724,424, issued March 3, 1998. Another intriguing patent was recently issued for a system for buying and selling the attention of computer users in a computer network. Essentially, the invention manages a process through which computer users receive monetary compensation for viewing advertisements delivered to their computers in real-time. *See* U.S. Patent No. 5,794,210, issued August 11, 1998. It is noteworthy that both of these patents disclose “systems,” even though the inventions themselves constitute nothing more than methods. Much like the invention in the ’056 patent, these inventions were disguised as machines in order to circumvent the PTO’s pre-*State Street* reluctance to grant patents for mathematical algorithms.

97. The PTO’s official statistics show a dramatic increase in the number of business-related patents that have been issued recently. Following are statistics for the period between 1994-97: 1994—146; 1995—204; 1996—232; 1997—2150. *See* United States

*State Street*, it is unlikely that these patents will be challenged in court under section 101. However, if these patents are challenged, the patents may be upheld. Law firms specializing in intellectual property protection and patent licensing will probably experience an increase in the demand for their services.

#### IV. CONCLUSION

*State Street* continues a trend of judicial leniency towards patentability. The court in *State Street* rendered an incisive decision which both eliminated the judicial concept of a business method exception and demolished the traditional *Freeman-Walter-Abele* test for patentability of mathematical inventions. While the court's analysis was probably not perfect, the judicial basis and the validity of the final decision cannot be contested. The academic debate concerning the social, economic and legal implications of the *State Street* decision, which is certain to erupt, should probably not focus on the acts of the judicial branch. Instead, commentators concerned with the patentability of business methods should realize that Congress constitutes the appropriate forum where such policy issues should be considered.

CHIUMINATTA CONCRETE CONCEPTS INC. V.  
CARDINAL INDUSTRIES, INC. &  
DAWN EQUIPMENT CO. V. KENTUCKY FARMS, INC.

By Jason Schultz

Last year, the Supreme Court affirmed the doctrine of equivalents (“DOE”) in *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*<sup>1</sup> and put to rest speculations of its demise in the patent law.<sup>2</sup> The Court stated, however, that the doctrine, as it has come to be applied in the last 50 years, “has taken on a life of its own, unbounded by the patent claims.”<sup>3</sup> Concerned that broad application of the DOE might undermine the definitional and public-notice functions of the statutory claiming requirement,<sup>4</sup> the Court imposed several substantive restrictions on the doctrine, including prosecution history estoppel and element-by-element analysis.<sup>5</sup>

The Court also suggested that, when appropriate, district courts could impose further restrictions on the doctrine by granting summary judgment and judgment as a matter of law (“JMOL”), and through the use of special verdict forms for juries.<sup>6</sup> It was left to the Federal Circuit to determine the appropriate circumstances for such limitations.<sup>7</sup>

In the last year, the Federal Circuit has used several cases to impose such restrictions on the DOE.<sup>8</sup> Among these were *Dawn Equipment Co. v.*

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. 520 U.S. 17 (1997).

2. *See id.* at 21.

3. *Id.* at 28-29.

4. *See* 35 U.S.C. § 112 (1998).

5. *See Warner-Jenkinson*, 520 U.S. at 29, 40-41. Prosecution history estoppel bars a patentee from later recovering subject matter under the DOE that was surrendered during prosecution. *See id.* at 40-41. Element-by-element analysis requires that “[e]ach element contained in a patent claim is deemed material to defining the scope of the patented invention, and thus the doctrine of equivalents must be applied to individual elements of the claim, not to the invention as a whole.” *Id.*

6. *See Warner-Jenkinson*, 520 U.S. at 39 n.8.

7. *See id.*

8. *See e.g.*, *Vehicular Technologies Corp v. Titan Wheel International Inc.*, 141 F.3d 1084, 46 U.S.P.Q.2d (BNA) 1257 (Fed. Cir. 1998) (holding that the written description of the invention can limit the range of equivalent functions available under the DOE); *Brunswick Corp v. U.S.*, 152 F.3d 946, 46 U.S.P.Q.2d (BNA) 1446 (Fed. Cir. 1998) (holding that subject matter disclosed in the specification but not claimed is dedicated to the public and not recoverable under the DOE).

*Kentucky Farms, Inc.*<sup>9</sup> and *Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.*<sup>10</sup> In *Dawn* and *Chiuminatta*, the Federal Circuit restricted the DOE in order to clarify the often confusing overlap of means-plus-function equivalents<sup>11</sup> and DOE equivalents, eliminating the DOE when the two equivalents are coextensive. It also eliminated availability of the DOE for technologies in existence when a patent issues but not disclosed in the specification of the patent. The *Dawn* decision also included three additional views speculating as to future restrictions on overlaps between the two analyses.

## I. BACKGROUND

### A. The Doctrine of Equivalents

Patents create incentives for invention.<sup>12</sup> By offering the reward of excluding others from making, using, selling, offering for sale, or importing a patented invention,<sup>13</sup> patents allow creators of new devices and processes to share their innovations with the world in exchange for a time-limited ownership. Underlying this system of disclosure and reward is the implicit assumption that the world will know exactly what the invention is in order to determine what rights the patent protects.<sup>14</sup> To support this assumption, the Patent and Trademark Office (PTO) publishes patents to

---

9. 140 F.3d 1009, 46 U.S.P.Q.2d (BNA) 1109 (Fed. Cir. 1998).

10. 145 F.3d 1303, 46 U.S.P.Q.2d (BNA) 1752 (Fed. Cir. 1998).

11. Means-plus-function claims describe patented inventions by referring to what they do (the function) in the language of the claim and giving an example of how they do it (the means) in the specification. See 35 U.S.C. 112 ¶ 6 (1998) ("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 in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof."). A combination describes two separate but dependent elements, such as: a tool comprising: a blade; and a handle. See also *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 27 (1997) ("Thus, an applicant can describe an element of his invention by the result accomplished or the function served, rather than describing the item or element to be used (e.g., 'a means for connecting Part A to Part B,' rather than 'a two-penny nail').").

12. See U.S. CONST. art I., § 8, cl. 8 ("Congress shall have power ... to promote the Progress of Science and the useful Arts....").

13. See 35 U.S.C. § 271(a) (1998).

14. See *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 29-30 (1997). See generally DONALD S. CHISUM, CHISUM ON PATENTS § 8.02[3] (1996); *Merrill v. Yeomans*, 94 U.S. 568 (1877).

alert the world to intellectual property that is off limits from that day forth without consent of the owner.<sup>15</sup>

Yet there is a problem with enforcing this system. Often a given invention does not provide the sole means for arriving at the result it achieves. Particularly when the patent proves lucrative, other devices or processes may spring up that perform similar functions or produce similar results. These inventions push up against the walls of the patent claim, calling out for courts to define the difference between infringement and neighborly juxtaposition.

This problem is particularly acute in industries where innovation occurs at a rapid pace.<sup>16</sup> Unless policed carefully, devices that perform similar functions and achieve similar results to patented inventions threaten to undermine the exclusivity of the patentee's rights and thereby potentially diminish the value of obtaining the patent in the first place. Such alternative technologies cannot always be anticipated by inventors in the filing of their claims and thus may not be included in the literal scope of the patent. Therefore, to distinguish between those new products that genuinely escape infringement and those that encroach on the patent rights of others, U.S. courts have created an equitable doctrine—the doctrine of equivalents.<sup>17</sup>

### 1. *Finding infringement under the doctrine*

Ordinarily, patent infringement suits are based on literal infringement, which occurs when an accused product falls exactly within the patent's claims.<sup>18</sup> There are, however, many situations where an accused product would correspond exactly to the patent claims but for insubstantial differences between the two. Under these circumstances, a patent owner may sue for infringement under the doctrine of equivalents.<sup>19</sup>

The Supreme Court recently explained the application of the DOE. In *Warner-Jenkinson*, the Court held that an accused device may infringe un-

15. See 35 U.S.C. § 151 (1998).

16. See, e.g., *Texas Instruments, Inc. v. United States Int'l Trade Comm'n*, 805 F.2d 1558, 1570, 231 U.S.P.Q. (BNA) 833, 840 (Fed. Cir. 1986) (“[Texas Instruments] argues that in ‘fast-moving’ arts infringers should not be permitted to avoid liability by arguing that the improved elements substituted [for the patented elements don’t infringe].... [T]o fail to find infringement under these circumstances ‘will emasculate electronics patents....’”).

17. See *Warner-Jenkinson*, 520 U.S. at 21; *Winans v. Denmead*, 56 U.S. (15 How.) 330 (1853) (establishing the DOE). See also *Graver Tank & Mfg. Co. v. Linde Air Products*, 339 U.S. 605 (1950) (reaffirming the DOE).

18. See CHISUM, *supra* note 14, § 16.02[1][a][ii].

19. See CHISUM, *supra* note 14, § 18.04.

der the doctrine of equivalents if, at the time of infringement,<sup>20</sup> each and every claimed element<sup>21</sup> or its equivalent was present in the accused device.<sup>22</sup> Courts can look to three recognized tests to help determine this: “insubstantial differences,”<sup>23</sup> “interchangeability,”<sup>24</sup> and “function-way-result.”<sup>25</sup>

The central test applied in determining equivalence is the insubstantial differences test.<sup>26</sup> This test requires the trier of fact to determine if the differences between the accused product or process and each element of the patent claim are merely insubstantial.<sup>27</sup> Similarly, the interchangeability test asks whether one skilled in the art of the invention would conclude that the aspects that differentiate the accused device or process from the patent are simply part of a selection of choices, none of which offer a significant advantage over others.<sup>28</sup> Under the function-way-result test, courts consider whether the accused device performs substantially the same function in substantially the same way to achieve substantially the same

---

20. See *Warner-Jenkinson*, 520 U.S. at 37.

21. The Supreme Court and the Federal Circuit often interchange the words “limitation” and “element” regarding the individual boundaries of patent claims. See *Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1015 n.1, 46 U.S.P.Q.2d (BNA) 1109, 1112 n.1 (Fed. Cir. 1998). For simplicity and consistency, I will use element.

22. See *Warner-Jenkinson*, 520 U.S. at 29. The general inquiry to be undertaken in such a comparison is: “Does the accused product or process contain elements identical or equivalent to each claimed element of the patented invention?” *Id.* at 40. Courts should also consider the context of the patent, the prior art, and the particular circumstances of the case. See *id.* at 24. Moreover, “[e]quivalence, in the patent law, is not the prisoner of a formula and is not an absolute to be considered in a vacuum.” *Id.* at 24-25.

23. *Id.* at 39-40.

24. *Id.* at 24-25.

25. *Id.* at 39-40.

26. See *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1521- 22, 35 U.S.P.Q.2d (BNA) 1641, 1648 (Fed. Cir. 1995).

27. “[W]hen there are no substantial differences between the claimed and accused products or processes, ‘they are the same’ in the eyes of the patent law.” *Id.* at 1528, 35 U.S.P.Q.2d at 1653 (citations omitted). While the insubstantial differences test has been approved by both the Federal Circuit and the Supreme Court, it has also been criticized by the Supreme Court as offering “little additional guidance as to what might render any given difference ‘insubstantial.’” See *Warner-Jenkinson*, 520 U.S. at 40.

28. See *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 24-25 (1997) (citing *Graver Tank & Mfg. Co. v. Linde Air Products*, 339 U.S. 605, 609 (1950)). For example, consider a claim element for a furniture construction patent that reads a means for connecting two pieces of wood, and describes a nail as the corresponding means in the specification. If one skilled in the art of carpentry would just as easily use a screw to connect the two pieces of wood, the two could be considered interchangeable and therefore equivalent.

result as the element in the patent claim.<sup>29</sup> The Court in *Warner-Jenkinson* directed the Federal Circuit to decide when and how to apply each test.<sup>30</sup>

## II. THE CASES

### A. Coextensive Equivalents and Contemporary Technologies:

Chiuminatta Concrete Concepts, Inc., Edward Chiuminatta, and Alan Chiuminatta (“Chiuminatta”) own a patent (“the ’499 patent”)<sup>31</sup> relating to an apparatus for cutting concrete before it has completely cured to a hardened condition.<sup>32</sup> The patent describes a rotary saw with two significant features.<sup>33</sup> First, the leading edge of the saw rotates upward, preventing displaced wet concrete from accumulating in the groove created by the saw (thereby increasing the rate of cutting and eliminating jamming of the blade).<sup>34</sup> Second, the saw has an attached flat support surface which applies downward pressure to the point where the saw blade emerges from the concrete in order to prevent the blade from damaging the concrete (commonly referred to as raveling, chipping, spalling, or cracking).<sup>35</sup>

The relevant element of the ’499 patent appears in means-plus-function language and reads:

means connected to the saw for supporting the surface of the concrete adjacent the leading edge of the cutting blade to inhibit

---

29. See *Hilton Davis*, 62 F.3d at 1518, 35 U.S.P.Q.2d at 1649. For example, consider a claim element for a pen that reads a means for permanently writing words in ink on paper surfaces, and describes a ball-point pen as the corresponding structure. A felt-tip pen would infringe such a patent under the DOE if it performed substantially the same function (writing words on paper surfaces) in substantially the same way (applying ink to paper) to produce substantially the same result (words permanently written on paper). In *Warner-Jenkinson*, the Supreme Court approved of the function-way-result test for analyzing mechanical inventions. See *Warner-Jenkinson*, 520 U.S. at 39.

30. See *Warner-Jenkinson*, 520 U.S. at 40. (“We expect 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 refinements to that court’s sound judgment in the area of its special expertise.”) Prior to *Warner-Jenkinson*, however, the Federal Circuit had suggested that choosing which test to apply and how dispositive it should be were normally questions of fact for the judge or jury to assess. See *Hilton Davis*, 62 F.3d at 1520-22, 35 U.S.P.Q.2d 1648-49. See also *Graver Tank*, 339 U.S. at 609.

31. See U.S. Pat. B1 5,056,499 (Issued Oct. 15, 1991).

32. See *Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.*, 145 F.3d 1303, 1305, 46 U.S.P.Q.2d (BNA) 1752, 1753 (Fed. Cir. 1998).

33. See *id.*

34. See *id.*

35. See *id.* at 1305, 46 U.S.P.Q.2d at 1753-54.

chipping, spalling, or cracking of the concrete surface during cutting.<sup>36</sup>

The structure disclosed in the specification corresponding to the "means connected" element is a skid plate.<sup>37</sup> According to the specification:

The saw blade extends through a ... slot in the skid plate, in order to project into and cut the concrete below the skid plate. The dimensions of the slot in the skid plate are selected to support the concrete immediately adjacent the saw blade so as to prevent cracking of the concrete as it is cut.<sup>38</sup>

Cardinal Industries, Inc. and Green Machine Corporation (Cardinal) manufacture and sell the accused device, called the Green Machine saw.<sup>39</sup> This saw also has a rotary blade that rotates upward.<sup>40</sup> However, instead of a flat support surface to apply downward pressure to the concrete, the Green Machine employs two small wheels mounted adjacent to the leading edge of the saw blade.<sup>41</sup> The wheels also support the surface of the concrete while the blade cuts in order to prevent raveling, chipping, spalling or cracking.<sup>42</sup>

Chiuminatta sued Cardinal for both literal and DOE infringement.<sup>43</sup> The district court found the accused device literally infringed the claimed invention, and granted summary judgment for Chiuminatta.<sup>44</sup> Cardinal appealed and the Federal Circuit granted review.<sup>45</sup>

### 1. *The Federal Circuit decision*

The Federal Circuit held that determination of the claimed function<sup>46</sup> in a means-plus-function claim and of the corresponding structure in the

---

36. *Id.* at 1305-06, 46 U.S.P.Q.2d at 1754.

37. *See id.*

38. U.S. Patent No. 5,056,499, col. 3, ll. 8-27, issued Oct. 15, 1991.

39. *See Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.*, 145 F.3d 1303, 1306, 46 U.S.P.Q.2d (BNA) 1752, 1754 (Fed. Cir. 1998).

40. *See id.*

41. *See id.*

42. *See id.*

43. *See id.* at 1305, 46 U.S.P.Q.2d at 1754.

44. *See id.* at 1307, 46 U.S.P.Q.2d at 1755.

45. *See Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.*, 145 F.3d 1303, 1307, 46 U.S.P.Q.2d (BNA) 1752, 1755 (Fed. Cir. 1998).

46. *See id.* at 1308, 46 U.S.P.Q.2d at 1755 (citing *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 46 U.S.P.Q.2d (BNA) 1169 (Fed. Cir. 1998) (en banc) and *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 979, 34 U.S.P.Q.2d (BNA) 1321, 1328-29 (Fed. Cir. 1995) (en banc), *aff'd*, 517 U.S. 370 (1996)).

specification<sup>47</sup> were matters of claim construction and therefore questions of law, reviewable de novo. The court then stated that the function outlined in the claim was “supporting the surface of the concrete adjacent to the leading edge of the cutting blade to inhibit chipping, spalling, or cracking of the concrete surface during cutting”<sup>48</sup> and the corresponding means was the skid plate.<sup>49</sup> Having identified the appropriate function and structure of the claim, the court held that the wheels of the Green Machine were not equivalent structures to the skid plate because the differences between the two were substantial and reversed the district court’s ruling.<sup>50</sup>

a) Coextensive equivalents

Although the district court did not reach the issue of infringement under the DOE because it found literal infringement, the Federal Circuit went on to consider this issue.<sup>51</sup> The court held that “although an equivalence analysis under [section] 112 ¶ 6 and the doctrine of equivalents are not [completely] coextensive (for example, [section] 112 ¶ 6, requires identical, not equivalent function) and have different origins and purposes, their tests for equivalence are closely related” and thus apply similar analyses.<sup>52</sup> Because structural equivalents are coextensive to both literal and DOE infringement of a means-plus function claim, the court held that “a finding of a lack of literal infringement for lack of equivalent structure ... may preclude a finding of equivalence under the

---

47. *See id.* at 1308, 46 U.S.P.Q.2d at 1756 (citing *B. Braun Med., Inc. v. Abbott Lab.*, 124 F.3d 1419, 1424-25, 43 U.S.P.Q.2d (BNA) 1896, 1900 (Fed. Cir. 1997)); *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 977 n.8, 34 U.S.P.Q.2d (BNA) 1321, 1327 n.8 (Fed. Cir. 1995). The court left open the question of whether the inquiry as to whether a particular accused structure is equivalent to the disclosed structure is a question of law or fact. *See id.* at 1309, 46 U.S.P.Q.2d at 1756. *See also Markman*, 52 F.3d at 977 n.8, 34 U.S.P.Q.2d at 1327 n.8.

48. *Chiuminata*, 145 F.3d at 1308, 46 U.S.P.Q.2d at 1756.

49. *See id.* The court then concluded that the district court had erroneously identified the corresponding structure in broad functional language as “a support surface or plate ... in movable contact with the surface of the concrete,” rather than as a physical structure, the skid plate. *Id.*

50. *See id.* at 1308, 46 U.S.P.Q.2d at 1757 (stating that the accused device has soft compressible wheels that are round and roll over the concrete while the skid plate is hard, predominantly flat and skids along the concrete).

51. *See Chiuminata Concrete Concepts, Inc. v. Cardinal Industries, Inc.*, 145 F.3d 1303, 1310, 46 U.S.P.Q.2d (BNA) 1752, 1757 (Fed. Cir. 1998).

52. *Id.* (citing *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 28 (1997)).

doctrine of equivalents” as a matter of law.<sup>53</sup> For example, the moveable wheels of the Green Machine were not equivalent to the plaintiff’s skid plate structure under a literal infringement analysis, therefore the court held they could not be found equivalent under the DOE.<sup>54</sup>

b) Contemporary technologies

The court then discussed another restriction on the DOE. The court held that technological advancements arising after issuance of a patent may qualify as equivalents under the DOE but not as structural equivalents.<sup>55</sup> Conversely, in cases where the technology of the accused device was available at the time the patent issued (as in *Chiuminatta*), “a finding of non-equivalence for [section] 112 ¶ 6 ... should preclude a contrary finding under the doctrine of equivalents.”<sup>56</sup> In other words, any technology contemporary to the patented invention cannot infringe under the DOE if it is not disclosed as a structural equivalent. The moveable wheels in Cardinal’s device were readily available when the ’499 patent issued. Therefore the court’s rejection of literal infringement precluded infringement under the DOE.<sup>57</sup>

**B. Jury Confusion, Special Verdicts, and the Question of General Applicability:**

Dawn Equipment Company (“Dawn”) manufactures an apparatus for adjusting farm implements.<sup>58</sup> Farm implements typically consist of a pair of wheels with sharp teeth attached to the front of a planting machine.<sup>59</sup> As the machine moves forward, the wheels spin and clear the path for the planter, allowing for smooth and consistent seeding.<sup>60</sup>

Dawn received U. S. Patent No. 5,129,282 (“the ’282 patent”), entitled “Mechanism for Selectively Repositioning a Farm Implement.”<sup>61</sup> The

---

53. *Id. See also id.* at 1311, 46 U.S.P.Q.2d at 1758 (citing *Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1018, 46 U.S.P.Q.2d 1109, 1115 (Fed. Cir. 1998) (Plager, J., additional view)).

54. *See id.* at 1311, 46 U.S.P.Q.2d at 1758.

55. *See id.* at 1310, 46 U.S.P.Q.2d at 1758. The court, however, did not explore the practical application of this rule, because the case before it did not deal with later-developed technologies. *See id.* at 1311, 46 U.S.P.Q.2d at 1758.

56. *Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.*, 145 F.3d 1303, 1311, 46 U.S.P.Q.2d (BNA) 1752, 1758 (Fed. Cir. 1998).

57. *See id.*

58. *See Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1010, 46 U.S.P.Q.2d (BNA) 1109, 1110 (Fed. Cir. 1998).

59. *See id.*

60. *See id.*

61. *Id.*

relevant claim element for the device was presented in means-plus-function form.<sup>62</sup> It stated:

means for locking the connecting means in one of the first and second positions and for selectively releasing the connecting means to allow the connecting means to be slid into the other of the first and second positions therefor.<sup>63</sup>

The device disclosed in the specification was a spring-loaded rotating pin and slot configuration with a handle to facilitate compression and rotation.<sup>64</sup> To adjust the height of the implement from the raised position to the lowered position, the user pushes the handle downward against the spring so that the pin moves adjacent to the slot and then turns the handle to rotate the pin clockwise into the lowered position.<sup>65</sup>

Kentucky Farms Incorporated (“Kentucky Farms”) also makes an apparatus for adjusting farm implements.<sup>66</sup> Kentucky Farms’ method of adjustment consists of a multi-holed connecting bar which telescopes within a rectangular sleeve, connected by a removable pin.<sup>67</sup> To adjust the height of the implement, the user removes the pin, slides the sleeve up or down over the connecting bar to the new height and reinserts the pin through both bar and sleeve.<sup>68</sup>

Dawn sued Kentucky Farms for infringement of the ’282 patent both literally and under the DOE.<sup>69</sup> At trial, the judge submitted interrogatories to the jury asking for simple yes or no answers on literal and/or DOE infringement.<sup>70</sup> The jury returned its verdict, answering “no” to literal infringement and “yes” to DOE infringement.<sup>71</sup> Kentucky Farms filed a motion for JMOL on the DOE verdict.<sup>72</sup> The trial judge denied the motion.<sup>73</sup> Kentucky Farms then appealed the decision to the Federal Circuit.<sup>74</sup>

62. *See id.* at 1010, 46 U.S.P.Q.2d at 1111.

63. *Id.* at 1011, 46 U.S.P.Q.2d at 1110.

64. *See Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1011, 46 U.S.P.Q.2d (BNA) 1109, 1110 (Fed. Cir. 1998).

65. *See id.* at 1010, 46 U.S.P.Q.2d at 1110.

66. *See id.* at 1012, 46 U.S.P.Q.2d at 1111.

67. *See id.*

68. *Id.* at 1014, 46 U.S.P.Q.2d at 1111.

69. *See id.* at 1010, 46 U.S.P.Q.2d at 1110.

70. *See Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1010, 46 U.S.P.Q.2d (BNA) 1109, 1110 (Fed. Cir. 1998).

71. *Id.*

72. *See id.*

73. *See Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1010, 46 U.S.P.Q.2d (BNA) 1109, 1110 (Fed. Cir. 1998).

74. *See id.*

### 1. *The Federal Circuit decision*

In comparing the patent and the accused device,<sup>75</sup> the court held that the differences between the two were substantial.<sup>76</sup> The court stated that the specification of the '282 patent distinguished the patented invention from prior art systems that used "multi-hole pinned height adjustment" mechanisms.<sup>77</sup> Also, the fact that the '282 patent itself touted the invention as superior over multi-holed pin systems by reducing adjustment time, preventing misadjustment and eliminating the potential loss of the pins, supported a finding of non-equivalence.<sup>78</sup>

In reaching its conclusion, the court assumed that it was proper to apply the DOE to a claim drafted in means-plus-function form.<sup>79</sup> It noted, however, that such an assumption is not settled law and referred to the additional opinions of Judges Plager, Newman, and Michel discussing the subject in detail.<sup>80</sup>

#### a) Judge Plager's additional view

In the first of three additional views on the applicability of the doctrine of equivalents to means-plus-function claims, Judge Plager noted that this area of law is both "confused and confusing," especially to juries.<sup>81</sup> Judge

---

75. *See id.* at 1015, 46 U.S.P.Q.2d at 1113. Assuming the plaintiff's construction, the court found the relevant function claimed in the '282 patent to be "locking and releasing." *Id.* The corresponding structure included a rotatable shaft, a metal pin, and a slot for the pin to fit within. *See id.*

76. *See Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1016, 46 U.S.P.Q.2d (BNA) 1109, 1113-14 (Fed. Cir. 1998). For example, the patented device is permanently fixed to its rotatable shaft and is locked into and released from engagement with the slot by rotating the shaft with a handle. *See id.* Kentucky Farms' device requires that the pin which serves as the attaching agent not be attached to anything permanently and be inserted in and removed from the holes in the sleeve by hand. *See id.* Additionally, the court found that while the functions of the two apparatuses were the same (i.e., locking and releasing a connecting member), the ways they functioned were not—one compression and rotation, the other removal and insertion. *See id.*

77. *See id.* at 1016, 46 U.S.P.Q.2d at 1114.

78. *See id.*

79. *See id.* at 1015 n.2, 46 U.S.P.Q.2d at 1113 n.2.

80. *See id.*

81. *Id.* at 1018, 46 U.S.P.Q.2d at 1115. This was the case in *Dawn*. There, the jury found that despite identical functions, Kentucky Farms was not liable for literal infringement under the structural equivalence test but was liable for infringement under the DOE. *See id.* Yet it would seem impossible for the same product to somehow not be equivalent to the "means" of the means-plus-function claim (literal infringement) and at the same time equivalent to both the "means" and the "function" of the entire claim (infringement under the DOE). In returning inconsistent verdicts, the jury demonstrated the confusion associated with the two doctrines.

Plager attributed the source of this confusion to two previous Federal Circuit decisions attempting to distinguish between the tests for structural and DOE equivalence: *Valmont Industries, Inc. v. Reinke Manufacturing Co.*<sup>82</sup> and *Alpex Computer Corp. v. Nintendo Co.*<sup>83</sup> In *Valmont*, the court held that the function-way-result test applies only to the DOE and not to a structural equivalents analysis, because the latter requires identical functions between the claim and the accused device.<sup>84</sup> The court in *Alpex* agreed, holding that structural equivalence compares the accused product to the structure disclosed in the patent specification, whereas the DOE compares the accused product to the invention as a whole.<sup>85</sup>

Yet, Judge Plager argued that because the Patent Act demands means-plus-function elements be construed in light of the specified structure, there is no appreciable difference between a test comparing the structure and a test comparing the claim element.<sup>86</sup> Without a discernable difference, there is no reason to allow the function-way-result test in one instance and not the other.<sup>87</sup> Additionally, Judge Plager pointed out that the previous distinction between structural equivalents applying to only the specific element and DOE equivalents applying to the invention as a whole is invalid under the *Warner-Jenkinson* “element-by-element” rule.<sup>88</sup>

Given these overlaps and the inability to distinguish between the two tests, Judge Plager concluded that two different tests for equivalency are far too confusing for triers of fact, especially when each provides a test essentially similar to the other.<sup>89</sup> He advocated applying only the structural equivalency test to means-plus-function claims.<sup>90</sup>

82. 983 F.2d 1039, 25 U.S.P.Q.2d (BNA) 1451 (Fed. Cir. 1993).

83. 102 F.3d 1214, 40 U.S.P.Q.2d (BNA) 1667 (Fed. Cir. 1996).

84. See *Valmont*, 983 F.2d at 1043, 25 U.S.P.Q.2d at 1455.

85. See *Alpex*, 102 F.3d at 1222, 40 U.S.P.Q.2d at 1673.

86. See *Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1019, 46 U.S.P.Q.2d (BNA) 1109, 1116 (Fed. Cir. 1998) (“[T]hese perceived distinctions appear to be either nonexistent or without significance, or are at least beyond what we can reasonably expect the triers of fact to sensibly discern.”).

87. See *id.* (“[While acknowledging that Section 112 requires identical function,] it is not readily apparent why use of the “way” and “result” parts of the tripartite test, to the extent that test is useful at all, would not also be helpful in the § 112 ¶ 6 context.”).

88. *Id.* at 1019 n.3, 46 U.S.P.Q.2d at 1116 n.3.

89. See *id.* at 1019, 46 U.S.P.Q.2d at 1117.

90. See *id.* at 1021-22, 46 U.S.P.Q.2d at 1118. Judge Plager does note, however, that *Dawn* does not present a case of an accused device having a function different from that specified in the claim that would call upon the court to determine whether a § 112 ¶ 6 claim element is limited to the “specified function,” or whether it can also encompass an equivalent function under the DOE. *Id.* at 1022 n.5, 46 U.S.P.Q.2d at 1118 n.5.

b) Judge Newman's view

Judge Newman disagreed with Judge Plager.<sup>91</sup> She stated that eliminating the application of the DOE to means-plus-function claims would move the Federal Circuit away from established *stare decisis* and add uncertainty to an already difficult area of law.<sup>92</sup> Judge Newman argued that the two rules have clear and distinct origins, purposes, and applications.<sup>93</sup> Any problem of jury confusion can be solved, she suggested, with more explicit special verdicts, not new, judge-made law.<sup>94</sup>

c) Judge Michel's view

Judge Michel took no position on the views of Judges Plager and Newman but instead posed a policy-based question: does applying the DOE analysis to means-plus-function language give greater protection to patent owners than Congress intended?<sup>95</sup> Fair patent protection, Judge Michel wrote, relies upon accurate notice to the public concerning what is protected.<sup>96</sup> Competing firms will often rely upon the patent file to ascertain the outer limits of a claim in order to avoid the risk of potential infringing activities.<sup>97</sup> Well-defined limits are particularly important for those patents incorporating means-plus-function language because the claim language alone does not define the scope of protection but instead relies on the description of the corresponding structure in the specification.<sup>98</sup> Allowing further broadening of the claim via the DOE would only continue to obfuscate the exact boundaries of infringement, potentially vitiating the essential role of the notice function.<sup>99</sup> Thus, according to Judge Michel, the unanswered question of whether courts should apply the DOE to § 112 ¶ 6 claims will continue to undermine the notice function

---

91. *See id.* at 1022, 46 U.S.P.Q.2d at 1118.

92. *See Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1022, 46 U.S.P.Q.2d (BNA) 1109, 1118 (Fed. Cir. 1998).

93. *See id.*

94. *See id.* at 1022, 46 U.S.P.Q.2d at 1119.

95. *See id.* at 1023, 46 U.S.P.Q.2d at 1119. For example, did Congress intend to include the protection against insubstantial differences in the "equivalents thereof" language of section 112 ¶ 6 and therefore not intend such claims to receive additional protection against equivalent functions under the DOE?

96. *See id.* ("Market participants as well as judges and jurors must be able to ascertain what subject matter is covered by the right to exclude.")

97. *See id.*

98. *See Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1023, 46 U.S.P.Q.2d (BNA) 1109, 1119 (Fed. Cir. 1998).

99. *See id.*

until it is resolved either by the courts in a case directly on point or by Congress as part of the legislative process.<sup>100</sup>

### III. DISCUSSION

Both *Chiuminatta* and *Dawn* struggle to reconcile two competing policies that underlie U.S. patents—notice and equity.<sup>101</sup> As Judge Michel points out in his additional view from *Dawn*, means-plus-function claim language provides the patentee with the great benefit of protection from all equivalents of any structures which are disclosed in its specification.<sup>102</sup> The DOE provides still more protection, what some have called an expanding “penumbra” that stretches the boundaries of claim elements to produce equitable results.<sup>103</sup>

Yet, the more that fairness to the patentee dictates pushing patent protection beyond the literal language of the claim, the more uncertainty (and some would argue unfairness) its competitors have to bear. *Chiuminatta* and *Dawn* highlight this tension in two arenas—the extent to which DOE and structural equivalents are coextensive and the availability of contemporary technologies as equivalents.

#### A. Coextensive Equivalents

The *Chiuminatta* court stated that structural and DOE equivalents are, to some extent, coextensive.<sup>104</sup> Both allow for equivalent means to infringe a means-plus-function claim.<sup>105</sup> However, to literally infringe, structural equivalents must perform a function identical to the one described in the claim.<sup>106</sup> To infringe under the DOE, structural equivalents may perform either an identical or an equivalent function.<sup>107</sup>

100. *See id.* Because the issue was not raised on appeal, Judge Michel did not advocate deciding it in *Dawn*. *See id.*

101. One commentator calls this the “Protection-Certainty Conundrum.” *See* Donald S. Chisum, *The Scope of Protection for Patents after the Supreme Court’s Warner-Jenkinson Decision: The Fair Protection-Certainty Conundrum*, 14 SANTA CLARA COMPUTER & HIGH TECH. L. J. 1, 5 (1998).

102. *Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1023, 46 U.S.P.Q.2d (BNA) 1109, 1119 (Fed. Cir. 1998).

103. *See* MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGY AGE* 248 (Aspen Law and Business 1997).

104. *See Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.*, 145 F.3d 1303, 1310, 46 U.S.P.Q.2d (BNA) 1752, 1757 (Fed. Cir. 1998).

105. *See id.*

106. *See id.*

107. *See id.*

For example, the *Chiuminatta* court found that the function cited in the '499 claim and the function of the corresponding means in the accused device were identical (i.e., preventing the concrete adjacent to the blade from cracking).<sup>108</sup> Therefore, under either literal infringement or DOE infringement, the only question at issue was whether or not the means in the accused device (moveable wheels) was equivalent to the means described in the patent specification (the skid plate). The Federal Circuit found the accused structure to be substantially different and not literally infringing; therefore no infringement under the DOE was possible.<sup>109</sup>

A similar situation arose in *Dawn*. While the court did not directly cite the coextensive equivalents rule, its holding followed similar logic. The function identified in both the claim and the accused device was the same: locking and releasing the adjustment devices.<sup>110</sup> Therefore, the court limited its comparison to the accused structure (hole-and-pin system) and the claimed structure (rotating pin system) and concluded that the two were substantially dissimilar.<sup>111</sup> Having found the functions identical and the structures non-equivalent, the court held that a lack of literal infringement precluded a finding of DOE infringement.<sup>112</sup>

Thus, according to both *Dawn* and *Chiuminatta*, when function is identical and literal infringement is not found, courts should grant either summary judgment or JMOL on the DOE to prevent inconsistent verdicts.

## B. Contemporary Technologies

The *Chiuminatta* court drew a second distinction between the DOE and structural equivalents, that of technologies developed before and after the issuance of a means-plus-function patent claim. The court held that structural equivalents shall only include those equivalent technologies available at the time of issuance and disclosed in the patent specification.<sup>113</sup> The court then went on to hold that those technologies available at the time of issuance but *not* disclosed in the patent were neither available as structural or DOE equivalents, a rule this Note calls the "contemporary technology" rule. Specifically, Judge Lourie wrote:

---

108. *See id.* at 1308, 46 U.S.P.Q.2d at 1756.

109. *See id.*

110. *Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1015, 46 U.S.P.Q.2d (BNA) 1109, 1113 (Fed. Cir. 1998).

111. *See id.* at 1016, 46 U.S.P.Q.2d at 1113-14.

112. *See id.*

113. *See Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.*, 145 F.3d 1303, 1310, 46 U.S.P.Q.2d (BNA) 1752, 1758 (Fed. Cir. 1998).

[G]iven the prior knowledge of the technology asserted to be equivalent, it could readily have been disclosed in the patent. There is no policy-based reason why a patentee should get two bites at the apple. If he or she could have included in the patent what is now alleged to be an equivalent, and did not, leading to a conclusion that an accused device lacks an equivalent to the disclosed structure, why should the issue of equivalence have to be litigated a second time?<sup>114</sup>

Thus patentees who sue competitors for infringement involving equivalent structures available at the time of issuance but not disclosed in the specification as equivalents should be subject to summary judgment and JMOL on both literal infringement (for non-disclosure) and DOE infringement (for availability).

The contemporary technology rule draws a bright line between the DOE and structural equivalents, both as a practical matter and as a method for demonstrating the broader scope of the DOE. If the accused structure was available at the time of issuance, it cannot be a DOE equivalent. If it was available but not disclosed, it cannot be a structural equivalent. Such lines will help judges and juries practically differentiate between structural and DOE equivalents.<sup>115</sup>

The rule also provides an example of the conceptual difference between the two types of equivalents. For years, the Federal Circuit and several commentators have implied that the "literal" nature of structural equivalents should somehow be narrower than the DOE's broader and more equitable penumbra.<sup>116</sup> In *Chiuminata*, the court confirmed this by stating:

The doctrine of equivalents is necessary because one cannot predict the future. Due to technological advances, a variant of an invention may be developed after the patent is granted and that variant may constitute so insubstantial a change from what is claimed in the patent that it should be held to be an infringement. Such a variant, based on after-developed technology, could not have been disclosed in the patent. Even if such an element is found not to be a § 112, ¶ 6, equivalent because it is not equiva-

---

114. *Id.* at 1311, 46 U.S.P.Q.2d at 1758.

115. For example, in *Dawn*, the fact that the multi-holed pin adjustment system was disclosed in the patent specification as inferior to the patented device would have provided clear evidence of non-equivalence under the contemporary technology rule.

116. See *Chiuminata*, 145 F.3d at 1311, 46 U.S.P.Q.2d at 1758; *Alpex Computer Corp. v. Nintendo*, 102 F.3d 1214, 40 U.S.P.Q.2d (BNA) 1667 (Fed. Cir. 1996); *MERGES*, *supra* note 103.

lent to the structure disclosed in the patent, this analysis should not foreclose it from being an equivalent under the doctrine of equivalents.<sup>117</sup>

The contemporary technology rule reinforces the notion that DOE equivalents give broader protection than structural equivalents.<sup>118</sup>

It is unclear, however, whether limiting structural equivalents to contemporary technologies follows *Warner-Jenkinson*, where the Supreme Court held that the evaluation of structural equivalents is “an application of the doctrine of equivalents in a restrictive role.”<sup>119</sup> Regarding the DOE, the Court also held that “the proper time for evaluating equivalency ... is at the time of infringement, not at the time the patent was issued.”<sup>120</sup> In issuing this holding, the Court expressly rejected the arguments that the scope of DOE equivalents was limited to those disclosed in the patent itself or those only available at the time of issuance.<sup>121</sup>

Thus, whether one can reconcile the contemporary technology rule with *Warner-Jenkinson* depends on what aspects of the DOE are narrowly applied to structural equivalents. If structural equivalents are more narrow based upon their definitional function in contrast to the DOE’s equitable one, then such a rule would be consistent. Requiring disclosure of known equivalents certainly provides clearer definition. However, if structural equivalents are merely more narrow in that they only look at structure and not function and (as Judge Plager suggests) are otherwise “similar if not the same”<sup>122</sup> to the DOE, then the time of infringement holding in *Warner-Jenkinson* should apply to both DOE and structural equivalents, directly contradicting the contemporary technology rule. While the former conclu-

---

117. *Chiuminata*, 145 F.3d at 1310, 46 U.S.P.Q.2d at 1758.

118. See *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 28 (1997) (structural equivalents limit the application of broad literal claim elements); *Graver Tank & Mfg. Co. v. Linde Air Products*, 339 U.S. 605, 609 (1950) (“[DOE] [e]quivalence, in the patent law, is not the prisoner of a formula and is not an absolute to be considered in a vacuum.”). Professor Merges has argued that this, in fact, should be the economic basis of DOE analysis—the inherent value of the infringer’s technological advances. Any “substantial” advance in technology (and thus valuable) contribution should not be held to infringe. See Robert P. Merges & Richard R. Nelson, *On the Complex Economics of Patent Scope*, 90 COLUM. L. REV. 839, 909-911 (1990) (citing *Texas Instruments v. U.S. Trade Comm’n*, 805 F.2d 1558, 1558 (Fed. Cir. 1986) as an example of DOE analysis based on the merit of the accused device’s contribution).

119. *Warner-Jenkinson*, 520 U.S. at 28.

120. *Id.* at 37.

121. See *id.*

122. *Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1018, 46 U.S.P.Q.2d (BNA) 1109, 1115 (Fed. Cir. 1998) (Plager, J., additional view).

sion summarizes current Federal Circuit philosophy, future Supreme Court cases on the DOE may well take issue with such assumptions.

### C. Notice and Equity

The coextensive and contemporary technology restrictions provide greater clarity to competitors of potential infringement. Under the coextensive rule, a competitor can make a product functionally identical to a patented invention without fear of literal infringement as long as the product performs the function with a means available and undisclosed in the patent. The rule also protects accused products that perform equivalent functions with an undisclosed contemporary means. Thus, for competitors using such means, there is explicit notice that they are not infringing.

From an equity standpoint, however, the contemporary technology rule seems somewhat harsh toward plaintiffs who received their patents prior to *Chiuminata*. As Justice Ginsburg highlights in her *Warner-Jenkinson* concurrence regarding prosecution history estoppel, "The new [rule], if applied woodenly, might in some instances unfairly discount the expectations of a patentee who had no notice at the time of patent prosecution that such a [rule] would apply."<sup>123</sup> As a result, those patentees who prosecuted their applications before new bright line rules such as the contemporary technology rule might suffer consequences without having known the risks.

Also, unlike the extensive record and internal awareness available in prosecution history estoppel, a patentee may not always know every equivalent contemporary technology. Given that actual knowledge of current equivalents is required in order to disclose them, patent applicants will now have to do "equivalents" searches, much like prior art searches,<sup>124</sup> to make sure they are not surrendering potentially infringing products. Even if a patentee is extremely diligent in her equivalents search, she may not uncover all available equivalents. Some may be held as trade secrets by competitors. Others may be invented during patent prosecution.

While the contemporary technology rule helps promote logic and notice, it must not, as Justice Ginsburg warns, be applied woodenly if such an application would be unfair to the patentee. Flexibility should allow broad ranges of equivalents for patents issued before *Chiuminata* and perhaps even set the standard for disclosing contemporary equivalents to

---

123. *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 41 (1997) (Ginsburg, J. concurring).

124. See Douglas Y'Barbo, *The Heart of the Matter: The Property Right Conferred by Copyright*, 49 MERCER L. REV. 643, 670-71 (1998).

“reason to know” instead of “simple existence” in order to be more equitable.

#### IV. CONCLUSION

In affirming the DOE, the Supreme Court sent a clear message to patentees that U.S. law would protect their monopoly rights against minor changes made by competitors. However, in order to provide competitors with clearer notice of this protection, the Federal Circuit has begun to restrict the circumstances to which the DOE can apply. Coextensive equivalents and contemporary technologies provide two such restrictions. If the Federal Circuit continues to follow this trend, we may well see the entire scope of equivalents become a matter of law as well. While the DOE is not the prisoner of a formula, it must be fair to both patentee and competitor. Rules such as those discussed in this Note attempt to sustain the doctrine in this light.

## YBM MAGNEX, INC. V. INTERNATIONAL TRADE COMMISSION

By Mark V. Hurwitz

Of the many hoary doctrines that populate the landscape of patent law, one of the most venerable is the principle that when a patentee discloses more subject matter than he claims, he dedicates the unclaimed matter to the public.<sup>1</sup> The doctrine finds its origins in the nineteenth century case *Miller v. Bridgeport Brass Co.*,<sup>2</sup> in which the Supreme Court stated, “[T]he claim of a specific device or combination, and an omission to claim other devices or combinations apparent on the face of the patent, are, in law, a dedication to the public of that which is not claimed.”<sup>3</sup> The vitality of the *Miller* rule was demonstrated as recently as 1996, when, in *Maxwell v. Baker*,<sup>4</sup> the Court of Appeals for the Federal Circuit interpreted *Miller* to mean that, under the doctrine of equivalents, a patentee could not recover subject matter that had been disclosed but not claimed in the patent.<sup>5</sup>

In *YBM Magnex, Inc. v. International Trade Commission*,<sup>6</sup> the Federal Circuit held that unclaimed subject matter disclosed in a patent *can* be doctrinally equivalent to the literally claimed matter.<sup>7</sup> The *YBM Magnex* holding creates tension with the venerable canon noted above. An exploration of the origins and development of the *Miller* rule, however, reveals that it was first enunciated in circumstances unlike those of *YBM Magnex* and that its indiscriminate application, and the variety of meanings that courts have assigned it, are based not on clear direction from the Supreme Court, but on the rule’s broad and ill-defined language. The Federal Circuit’s decision not to apply the rule in *YBM Magnex* was legally sound and equitable, but the court failed to clarify when, if ever, the presence of disclosed but unclaimed matter should bar the availability of the doctrine of equivalents. I propose that the bar should arise only when, as in *Miller*, the patentee explicitly distinguishes his invention from the disclosed but un-

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. See, e.g., DONALD S. CHISUM, CHISUM ON PATENTS § 6.03 [3] (1998).
2. 104 U.S. 350 (1881).
3. *Id.* at 352.
4. 86 F.3d 1098, 39 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1996).
5. See *id.* at 1106-07, 39 U.S.P.Q.2d at 1011.
6. 145 F.3d 1317, 46 U.S.P.Q.2d (BNA) 1843 (Fed. Cir. 1998), *reh’g en banc denied*, 1998 U.S. App. LEXIS 21375 (Fed. Cir. Aug. 21, 1998).
7. See *id.* at 1322, 46 U.S.P.Q.2d at 1847.

claimed matter, and that the modern patent statutory scheme renders the *Miller* rule largely obsolete outside the doctrine of equivalents.

## I. CASE SUMMARY

YBM Magnex, Inc., the plaintiff in this case, owned U.S. Patent No. 4,588,439 (“the ’439 patent”), claiming permanent magnetic alloys of specified compositions.<sup>8</sup> In Claim 1, YBM Magnex claimed certain alloys with oxygen concentrations between 6000 and 35,000 ppm by weight.<sup>9</sup> The specification disclosed alloys with lower oxygen concentrations; these were described as exhibiting poor stability (physical degradation) under conditions of high humidity and elevated temperature.<sup>10</sup>

In earlier proceedings, the plaintiff charged eight parties who imported permanent magnets with infringement of its ’439 patent.<sup>11</sup> Three of those parties entered into a Consent Order.<sup>12</sup> The plaintiff later filed an enforcement complaint, charging the three parties with continuing infringement.<sup>13</sup> While that proceeding was pending, the Federal Circuit decided *Maxwell v. Baker*.<sup>14</sup> The three accused infringers then argued that their own alloys, which had oxygen concentrations too low for a finding of literal infringement, could not infringe under the doctrine of equivalents because the lower oxygen concentrations had been disclosed, but not claimed, in the patent.<sup>15</sup> Although an administrative law judge (“ALJ”) initially ruled in favor of the plaintiff, the International Trade Commission (“ITC”) concluded that the *Maxwell* decision compelled it to find that disclosed matter outside the literal scope of the claims is “automatically” dedicated to the public, and therefore that importation of magnetic alloy compositions with oxygen concentrations below 6000 ppm could not infringe the plaintiff’s ’439 patent, the doctrine of equivalents notwithstanding.<sup>16</sup> The plaintiff appealed the decision of the ITC with respect to its interpretation of *Max-*

---

8. *See id.* at 1318, 46 U.S.P.Q.2d at 1844.

9. *See id.* (citing U.S. Patent No. 4,588,439, issued May 13, 1986).

10. *See* U.S. Patent No. 4,588,439, issued May 13, 1986.

11. *See YBM Magnex*, 45 F.3d at 1318, 46 U.S.P.Q.2d at 1844.

12. *See* Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same, Inv. No. 337-TA-372 (Int’l Trade Comm’n Oct. 11, 1995).

13. *See YBM Magnex, Inc. v. International Trade Commission*, 145 F.3d 1317, 1319, 46 U.S.P.Q.2d (BNA) 1843, 1845 (Fed. Cir. 1998).

14. *See id.* (referring to *Maxwell v. Baker*, 86 F.3d 1098, 39 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1996)).

15. *See id.*

16. *See id.* at 1319-20, 46 U.S.P.Q.2d at 1845.

well as binding precedent; because the interpretation was a question of law, the Federal Circuit reviewed the decision *de novo*.<sup>17</sup>

Judge Newman, writing for the majority, noted that the Supreme Court declined to apply the *Miller* rule when assessing the equivalence of (literally) disclosed but unclaimed matter in the well-known *Graver Tank* decision.<sup>18</sup> In *Graver Tank*, the Court determined that a welding flux incorporating a silicate of manganese was equivalent to a claimed flux incorporating silicates of alkaline earth metals, despite the fact that manganese is not an alkaline earth metal<sup>19</sup> and despite the disclosure of manganese silicate in the specification.<sup>20</sup> The *YBM Magnex* court also observed that in *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*,<sup>21</sup> the Supreme Court's most recent pronouncement on the doctrine of equivalents, the Court discussed and rejected the hypothesis that *only* disclosed matter that is not literally claimed could be found equivalent to claimed matter, implying that equivalence could be found in some circumstances.<sup>22</sup> The court listed several Federal Circuit decisions where, had the *Miller* rule been applied as an inflexible doctrine, the outcome would have differed.<sup>23</sup> The court pointed out that certain language from *Maxwell*, suggesting that the rule should apply in all determinations of doctrinal equivalency, need not be considered binding authority because it was not necessary to the outcome of that case.<sup>24</sup> The court thus reversed the ITC's decision and re-

---

17. *See id.* at 1320, 46 U.S.P.Q.2d at 1845.

18. *See id.* at 1320-21, 46 U.S.P.Q.2d at 1846 (citing *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 85 U.S.P.Q. (BNA) 328 (1950)).

19. *See Graver Tank*, 339 U.S. at 610, 85 U.S.P.Q. at 331.

20. *See id.* at 618, 85 U.S.P.Q. at 334 (Douglas, J., dissenting from *Graver Tank* on the basis that the majority should have followed *Mahn v. Harwood*, 112 U.S. 354 (1884), a decision that generally confirmed the principles underlying the *Miller* rule).

21. 520 U.S. 17, 41 U.S.P.Q.2d (BNA) 1865 (1997).

22. *See YBM Magnex, Inc. v. International Trade Commission*, 145 F.3d 1317, 1321, 46 U.S.P.Q.2d 1832, 1846 (Fed. Cir. 1998) (citing *Warner-Jenkinson*, 117 S. Ct. at 1052-53, 41 U.S.P.Q.2d at 1874).

23. *See id.* at 1321, 46 U.S.P.Q.2d at 1846-47 (citing *Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211, 36 U.S.P.Q.2d (BNA) 1225 (Fed. Cir. 1995); *Miles Laboratories Inc. v. Shandon Inc.*, 997 F.2d 870, 27 U.S.P.Q.2d (BNA) 1123 (Fed. Cir. 1993); *Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 939 F.2d 1540, 19 U.S.P.Q.2d (BNA) 1432 (Fed. Cir. 1991)).

24. *See id.* at 1322, 46 U.S.P.Q.2d at 1847 (citing, *inter alia*, *Smith v. Orr*, 855 F.2d 1544, 1550 (Fed. Cir. 1988) ("Broad language in an opinion, which language is unnecessary to the court's decision, cannot be considered binding authority.")).

stored the findings of the ALJ.<sup>25</sup> The decision limited *Maxwell* to the facts of that case rather than explicitly overruling prior Federal Circuit law.<sup>26</sup>

## II. DEVELOPMENT OF THE *MILLER* RULE IN THE SUPREME COURT

An exploration of the *Miller* rule's original meaning and subsequent development in the courts helps justify the Federal Circuit's decision not to apply the rule in *YBM Magnex*. An historical study also illustrates some of the varying circumstances in which the rule has, and has not, been invoked, motivating a need for a clarification in the rule's meaning and scope of applicability.

The somewhat abstract concept of "dedication to the public" embodied in the *Miller* rule was originally linked to the doctrine of abandonment. The phrase first appeared in a Federal case concerning a patented invention more than fifty years prior to *Miller*, when the Supreme Court observed, "It ... cannot be denied, that an inventor may abandon his invention, and surrender or dedicate it to the public."<sup>27</sup> A decision just over a decade prior to *Miller* used virtually identical language.<sup>28</sup> Abandonment was then, as it is today, a statutory bar arising from the acts or inaction of an inventor that prohibits the inventor—but not necessarily others—from patenting his or her invention.<sup>29</sup>

The facts and outcome of the *Miller* case lend themselves to an abandonment-based analysis. The *Miller* plaintiff first patented a lamp whose

---

25. See *id.* at 1322, 46 U.S.P.Q.2d at 1847. After the *YBM Magnex* decision, financial penalties imposed by the ITC for violation of the consent order were upheld on appeal. See *Sam Huan New Materials High Tech, Inc. v. ITC*, 161 F.3d 1347, 48 U.S.P.Q.2d 1965 (1999).

26. See *Johnson & Johnston Assoc., Inc. v. R.E. Serv. Co., Inc.*, 1998 WL 545010 at \*4 (N.D. Cal. Aug. 24, 1998) (agreeing that only an en banc panel may overrule prior Federal Circuit law, but rejecting defendant's contention that the *YBM Magnex* court had impermissibly overruled *Maxwell v. Baker*).

27. *Pennock v. Dialogue*, 27 U.S. 1, 16 (1829).

28. See *Agawam Co. v. Jordan*, 74 U.S. 583, 607 (1868) ("Undoubtedly an inventor may abandon his invention, and surrender or dedicate it to the public....").

29. See, e.g., DONALD S. CHISUM, *CHISUM ON PATENTS* § 6.03 (1998). The link to the doctrine of abandonment raises the intriguing possibility that an inventor might have been barred from patenting an invention by virtue of having "dedicated it to the public" (as the phrase is used within the very early Supreme Court decisions), without that subject matter necessarily entering the public domain. As discussed in the text, however, decisions after *Miller* do not emphasize abandonment, justifying the rule more on the patent's notice function than on the unmeritorious conduct of the patentee.

stated advantages included the absence of a chimney.<sup>30</sup> The patent was twice surrendered and reissued; the second reissue, which was granted sixteen years after the original, encompassed a design *with* a chimney.<sup>31</sup> The defendant manufactured lamps with chimneys prior to the second reissue, and, when accused of infringing the reissued patent, successfully challenged its validity in the circuit court.<sup>32</sup> On appeal, the Supreme Court expressed its skepticism that the patentee's belated claim expansion in the reissued patent arose from a need to correct inadvertent errors in the original<sup>33</sup> (at the time, reissuance to broaden the scope of a patent was not statutorily authorized except as an equitable remedy to correct such errors).<sup>34</sup> Because the reissued patent encompassed subject matter that was not only unclaimed but actively disparaged in the original, the Supreme Court affirmed the circuit court decision invalidating the reissued patent.<sup>35</sup>

A few years after *Miller*, however, the Court invalidated a reissued patent in similar circumstances while skirting the doctrine of abandonment. In *Mahn v. Harwood*,<sup>36</sup> a patent, that was reissued four years after the original was issued, listed several claims that expanded the reach of the original, while the specification was effectively unchanged.<sup>37</sup> The *Miller* rule and simple logic would seem to prohibit a reissue in these circumstances. The *Mahn* Court invalidated the reissue and made clear that it viewed disclosed but unclaimed matter as having entered the public domain, emphasizing the notice function of the patent rather than the misbehavior of the patentee.<sup>38</sup> The Court explained that *Miller* stood for the principle that, "[A]ll those parts of the art, machine, or manufacture set out and described in the specification, and not embraced in such specific claim, are not claimed by the patentee—at least, not claimed in and by that patent."<sup>39</sup> If the closing words are read as an endorsement of the hypothetical, they suggest that the statutory bar of abandonment is not always

---

30. See *Miller v. Bridgeport Brass*, 104 U.S. 350, 350-51 (1881).

31. See *id.*

32. See *id.* at 350.

33. See *id.* at 352 ("The pretence ... that there was an inadvertence and oversight which had escaped the notice of the patentee for fifteen years is too bald for human credence.").

34. See *id.* at 354; *Mahn v. Harwood*, 112 U.S. 354, 363 (1884).

35. See *Miller v. Bridgeport Brass*, 104 U.S. 350, 356 (1881).

36. 112 U.S. 354 (1884).

37. See *id.* at 355-57.

38. See *id.* at 361 ("The public is notified and informed ... that [the patentee's] claim to invention is for such and such an element or combination, and for nothing more.... The public has the undoubted right to use, and it is to be presumed does use, what is not specifically claimed in the patent.").

39. *Id.* at 360-61.

raised, or that if raised, it can sometimes be circumvented. Interestingly, the *Mahn* Court's statement appears to endorse the doctrine ultimately rejected in *YBM Magnex*: that as a matter of law, disclosed material outside the literal ("specific") claims can never be found equivalent to claimed matter.

Given the broad language of the *Miller* rule, it was perhaps inevitable that it would be cited in circumstances completely different from the narrow reissue question that elicited its enunciation. In *Graham v. John Deere Co.*,<sup>40</sup> for example, the Court relied on *Miller* to support the principle that subject matter disclosed in a specification, even though not claimed, should be treated as prior art when assessing the obviousness of a patent issued to an independent inventor.<sup>41</sup> More recent Supreme Court decisions, indicating the Court's unwillingness to apply the *Miller* rule when assessing equivalency, are discussed in Judge Newman's *YBM Magnex* decision above.

### III. THE ROLE OF THE *MILLER* RULE IN THE U.S.P.T.O. AND THE CIRCUIT COURTS

Apparently continuing the abandonment-based doctrine implicit in *Miller*, the U.S. Patent and Trademark Office ("PTO") prior to 1971 refused, except in limited circumstances, to reissue patents where the revised claims encompassed matter disclosed but not literally claimed in the original.<sup>42</sup>

The Eighth Circuit Court of Appeals first established the relevance of the *Miller* rule in a case turning on infringement by equivalence. In *Adams Electric Railway Co. v. Lindell Railway Co.*,<sup>43</sup> the court found noninfringement in part because the plaintiff had dedicated unclaimed subject matter to the public.<sup>44</sup> Neither that court nor any subsequent court seems to have considered the possibility that the rule might be irrelevant to the doctrine of equivalents on the straightforward grounds that any "equivalent" subject matter could be considered "claimed" within the meaning of the rule.<sup>45</sup>

---

40. 383 U.S. 1, 148 U.S.P.Q. (BNA) 459 (1966).

41. *See id.* at 31-32, nn.17, 35 & 37.

42. *See* CHISUM, *supra* note 29, § 6.03[3].

43. 77 F. 432 (8th Cir. 1896).

44. *See id.* at 449-50 (noting that the only words in the plaintiff's patent that could indicate that he ever thought of the accused device were in the specification, but that this subject matter was omitted from the claims of the patent and, therefore, abandoned to the public).

45. The author thanks Bart Wise for this observation.

The Federal Circuit has made use of the *Miller* rule almost exclusively in doctrine of equivalents cases. That court first cited the relevant portions of *Miller* in 1991 in *Unique Concepts v. Brown*.<sup>46</sup> In *Unique Concepts*, the defendant marketed framing materials where the corners were formed from two linear pieces, mitered then joined.<sup>47</sup> The plaintiff's patent claimed preformed monolithic right-angle corner pieces, but the specification disclosed, as a less-desirable method of forming the corners, "improvis[e] corner pieces" similar to those of the defendant.<sup>48</sup> The court ultimately concluded that the defendant's product did not infringe either literally or under the doctrine of equivalents.<sup>49</sup> Curiously, the *Unique Concepts* court mentioned the *Miller* rule not in its discussion of infringement by equivalence, but in its rejection of literal infringement.<sup>50</sup> This somewhat casual application of the rule is perhaps not of great significance, because the finding of noninfringement was informed primarily by the distinct ways in which the defendant's product and the claimed matter functioned.<sup>51</sup>

The key Federal Circuit decision ultimately reined in by *YBM Magnex* was that of *Maxwell v. Baker*.<sup>52</sup> In *Maxwell*, the plaintiff claimed a system for joining together mated pairs of shoes to prevent their separation, for example, on tables in retail stores.<sup>53</sup> The claimed system utilized a fastening tab sandwiched between the inner and outer sole of each shoe.<sup>54</sup> The tab provided a hole through which a loop of cord could be passed.<sup>55</sup> The defendant's system utilized a tab that was stitched to the "top line" or "counter pocket" of each shoe.<sup>56</sup> The plaintiff's patent specification disclosed methods of attaching the tab virtually identical to those employed

---

46. 939 F.2d 1558, 1562-63, 19 U.S.P.Q.2d (BNA) 1500, 1504 (Fed. Cir. 1991).

47. *See id.* at 1561, 19 U.S.P.Q.2d at 1503.

48. *See id.* at 1562, 19 U.S.P.Q.2d at 1503.

49. *See id.* at 1564-65, 19 U.S.P.Q.2d at 1505-06.

50. *See id.* at 1562-63, 19 U.S.P.Q.2d at 1504.

51. *See id.* at 1564, 19 U.S.P.Q.2d at 1505 (quoting the district court's determination that plaintiff and defendant are "doing something in a completely different way" to support its finding that the district court had not committed clear error).

52. 86 F.3d 1098, 39 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1996).

53. *See id.* at 1101, 19 U.S.P.Q.2d at 1002.

54. *See id.* at 1102, 19 U.S.P.Q.2d at 1002-03.

55. Tabs are, of course, unnecessary for shoes with eyes for laces, buckles, or similar features. The tab-based systems at issue in *Maxwell* were designed for shoes having nothing topologically equivalent to a permanent "through-hole."

56. *See Maxwell v. Baker*, 86 F.3d 1098, 1103-04, 39 U.S.P.Q.2d (BNA) 1001, 1005 (Fed. Cir. 1996).

by the defendant,<sup>57</sup> but the relevant claim mentioned only the “sandwiched-between-the-soles” approach.<sup>58</sup> Because the district court subsequently conceded that no reasonable jury could have found literal infringement, the jury’s finding of infringement must necessarily have been based on the doctrine of equivalents.<sup>59</sup> The defendant moved for judgment as a matter of law, relying at least in part on the principle that the patentee had dedicated to the public the subject matter that had been disclosed but not claimed.<sup>60</sup> The district court denied the motion and the defendant appealed.<sup>61</sup>

The Federal Circuit, relying on *Miller, Unique Concepts, and Environmental Instruments, Inc. v. Sutron Corp.*<sup>62</sup> reversed the district court’s denial of judgment as a matter of law and stated, as a matter of law, that the defendant “could not infringe by using ... [a] system that Maxwell dedicated to the public.”<sup>63</sup> The *Maxwell* court distinguished *Graver Tank* on the basis that the accused welding flux literally infringed claims that were extant in the patent when issued but were subsequently invalidated.<sup>64</sup> The *Graver Tank* patentee, in other words, had not *intentionally* dedicated the subject matter to the public.

Soon after *Maxwell*, the Federal Circuit relied on what it called the “rule of *Maxwell*” to affirm a finding of partial noninfringement in *Brunswick Corp. v. United States*.<sup>65</sup> In *Brunswick*, the defendant manufactured screens designed to be draped over military hardware to provide radar camouflage.<sup>66</sup> The plaintiff’s patent claimed screens with a surface electrical resistivity within a specified numerical range; the court ruled out literal infringement because the defendant’s unmodified polyester/steel cloth screens fell sufficiently outside the claimed range.<sup>67</sup> Although the patent

---

57. See *id.* at 1106, 39 U.S.P.Q.2d at 1006 (citing the specification of U.S. Patent No. 4,624,060: “[Alternatively, the tabs may be] stitched into a lining seam of the shoes at the sides or back of the shoes.”).

58. See *id.* at 1102, 39 U.S.P.Q.2d at 1003.

59. See *Maxwell v. Baker*, 86 F.3d 1098, 1106, 39 U.S.P.Q.2d (BNA) 1001, 1005-06 (Fed. Cir. 1996).

60. See *id.* at 1101, 1106, 39 U.S.P.Q.2d at 1004, 1006.

61. See *id.* at 1101, 39 U.S.P.Q.2d at 1004.

62. 877 F.2d 1561, 1564, 11 U.S.P.Q.2d (BNA) 1132, 1134 (Fed. Cir. 1989) (stating, without citation support, a variant of the *Miller* rule: “The disclosure of a patent is in the public domain save as the claims forbid.”).

63. *Maxwell*, 86 F.3d at 1108, 39 U.S.P.Q.2d at 1007.

64. See *id.* at 1107, 39 U.S.P.Q.2d at 1006-07.

65. 152 F.3d 946, 46 U.S.P.Q.2d 1446 (Fed. Cir. Mar. 31, 1998) (unpublished table decision). Judge Newman dissented in the decision.

66. See *id.*

67. See *id.*

specification did not explicitly disclose a surface resistivity corresponding to the defendant's screens, tabular information in the specification, plus certain assumptions and mathematical calculations, could yield the defendant's numerical values.<sup>68</sup> The plaintiff argued that the "rule of *Maxwell*" did not bar a finding of equivalent infringement because the defendant's surface resistivities were not "apparent on the face of the patent" (echoing but not citing the language of *Miller*).<sup>69</sup> The *Brunswick* court rejected this limitation of the rule. Noting that a patent addresses a reader skilled in the relevant art,<sup>70</sup> and that such a reader would have little difficulty performing the necessary calculations, the court rejected the plaintiff's contention that the defendant's products could infringe by equivalence because they were "hidden" rather than apparent in the specification.<sup>71</sup> The *Brunswick* court skirted the question of whether the *Miller/Maxwell* rule should apply in all circumstances, but found that the facts of *Brunswick* were sufficiently close to those of *Maxwell* that the rule should apply.<sup>72</sup>

#### IV. SUMMARY: A RULE OF UNCERTAIN MEANING AND UNCERTAIN STATUS

Courts have attached at least three distinct meanings to the "rule" about disclosed but unclaimed subject matter. In *Miller and Mahn v. Harwood*, the Court invalidated a reissued patent because it encompassed disclosed but unclaimed subject matter from the original. *Graham v. John Deere Co.* suggested that the rule supports the principle that subject matter in the specification of an issued patent, although not claimed, constitutes published prior art for purposes of assessing the obviousness of another patent. Although *Maxwell*, *Brunswick*, and *YBM Magnex* reached divergent conclusions as to whether the rule is universally applicable, the meaning of the rule was consistent among the three opinions—it operated in a fashion analogous to prosecution history estoppel, barring a patentee from recapturing any disclosed but unclaimed subject matter under the doctrine of equivalents. "Dedication to the public," if divorced from its historical context, would seem to require all of these treatments and

---

68. *See id.*

69. *See id.*

70. *See id.* (citing *Wang Labs., Inc. v. Toshiba Corp.*, 993 F.2d 858, 866, 26 U.S.P.Q.2d (BNA) 1767, 1774 (Fed. Cir. 1993)).

71. *See Brunswick Corp. v. United States*, 152 F.3d 946, 46 U.S.P.Q.2d 1446 (Fed. Cir. Mar. 31, 1998) (unpublished table decision).

72. *See id.*

probably others as well,<sup>73</sup> yet the Supreme Court has consistently chosen not to assign a special treatment to disclosed but unclaimed matter within the doctrine of equivalents. The awkward history and uncertain status of the rule establishes that the Federal Circuit did not act outside its authority in declining to apply the rule in the *YBM Magnex* decision.

Neither the recent Federal Circuit decisions nor the history of the rule, however, do much to clarify the circumstances, if any, under which disclosed but unclaimed subject matter *should* be accorded a special status. Even within the doctrine of equivalents, the mixed messages sent in *YBM Magnex* and *Maxwell* have provided little guidance. Leaving the district courts to speculate about the law is likely to create inconsistencies among outcomes, uncertainty among litigants, and frequent appeals to the Federal Circuit.

The problem of disclosed but unclaimed subject matter has generally arisen in a fairly specific set of circumstances: where a patent discloses and enables an aspect of the invention that is the subject of the patent, but where that disclosed and enabled aspect falls outside the literal scope of the claims. I adopt this definition for the remainder of this Note.<sup>74</sup>

Two broad arguments can be raised against a sweeping, *Miller*-like rule for disclosed but unclaimed subject matter. The first is that the existence of such a rule would encourage inventors to minimize the subject

---

73. At least one district court invoked the rule in a "combination" case involving both the doctrine of equivalents and multiple independent patents granted to a single inventor. In *Washburne v. Consolidated Safety Pin Co.*, 197 F. 552 (D.N.J. 1912), disclosed but unclaimed subject matter in an early patent limited the reach of the doctrine of equivalents in the patentee's subsequent patent, where the subsequent patent, although described as an "improvement," was not a reissue. *See id.* at 554.

74. Although the proposed definition may strike some readers as unnecessarily wordy, a meaning narrower than simply "disclosed but unclaimed subject matter" is required to avoid absurd results. For example, in a patent for a closed-cell foam, the specification might illustrate the foam's utility as padding beneath a variety of vibrating industrial machines. Those machines might be disclosed and unclaimed, but it makes little sense to view them as having entered the public domain or meriting any other special treatment. Furthermore, imprecise use of language in this area can lead to muddling of the "rule" about disclosed but unclaimed subject matter with a comparably ancient and even less defensible principle: that if a patentee chooses to *disclose and claim* only a portion of her invention, the "residue" is presumptively dedicated to the public. *See, e.g.*, Peter G. Dilworth, *Some Suggestions for Maximizing the Benefits of the Provisional Application*, 78 J. PAT. & TRADEMARK OFF. SOC'Y 233, 239-40 n.17 (1996) (citing *Miller, Mahn v. Harwood*, and a quotation from *McClain v. Ortmyer*, 141 U.S. 419, 423-24 (1891) ("Nothing is better settled ... than that the patentee may claim the whole or only a part of his invention, and that if he only describe and claim a part, he is presumed to have abandoned the residue to the public.")).

matter disclosed in their patents. A rational applicant who realizes that her specification may be used against her will disclose only the bare minimum of information necessary to secure the patent. All else being equal, the more a patentee discloses, the greater the benefit that the public receives. The second argument rests on the empirical observation that the various courts have heretofore been unable to agree upon a rule of general applicability. This lack of consensus demonstrates that fashioning such a rule will be at least difficult, and perhaps impossible to reconcile with the equities presented in the wide range of fact patterns to which it would be applied.

## V. LIMITING THE RULE'S SCOPE TO THE DOCTRINE OF EQUIVALENTS

The modern statutory scheme largely preempts the *Miller* rule when multiple patents or reissues are involved. Today, the claims of a patent may be expanded in a reissue only if the reissue is applied for within two years of the grant of the original.<sup>75</sup> In addition, reissuance is unavailable if the patentee practiced "deceptive intention."<sup>76</sup> The first statutory safeguard, and perhaps the second, prevent the inequitable reissue problem that arose in *Miller*. No patent can claim subject matter disclosed in a prior patent issued more than one year prior to the application in question.<sup>77</sup> When an original application is divided into multiple divisional applications (as the PTO Commissioner may require if the original claims two or more independent and distinct inventions),<sup>78</sup> the resulting patents may not be used against each other either in the PTO or in the courts,<sup>79</sup> further limiting the sphere in which a *Miller*-like rule could operate.

The *Miller* rule is especially difficult to harmonize with continuation applications, now statutorily authorized under 35 U.S.C. § 120. While a patent is pending before the PTO, its inventor may file a continuation application referencing this "parent" application; if the continuation discloses no new matter, then the continuation—when it ultimately issues—gains benefit of the parent's filing date.<sup>80</sup> This process clearly contemplates a period after the issuance of the parent when the public, unaware of the pending continuation (but perhaps aware of the *Miller* rule) might be

---

75. See 35 U.S.C. § 251 (1998).

76. See *id.*

77. See *id.* § 102(b).

78. See *id.* § 121.

79. See *id.*

80. See CHISUM, *supra* note 29, § 13.01 for a more complete discussion of continuation applications.

gin to practice matter that is disclosed but unclaimed in the parent. Because the claims of the continuation can be broader than those of the parent, there is obviously a potential for infringement when the continuation subsequently issues. There seems to be no case law to reconcile the *Miller* rule with the continuation process.

If the *Miller* rule remains viable in the multiple patent or reissue context, its relevance is limited to narrow interstices in the statutory scheme. The *YBM Magnex* decision says little about the rule's viability outside the doctrine of equivalents. From the observations above, and the fact that the Federal Circuit has discussed the rule almost exclusively within the doctrine of equivalents, it could be inferred that the modern statutory scheme provides the preferred framework within which to evaluate the appropriate scope of disclosure and claims when multiple patents or reissues are involved.

Statutory law intrudes little into the doctrine of equivalents, leaving a potentially significant sphere within which judge-made laws like the *Miller* rule could operate. One notable limitation is imposed by the doctrine of prosecution history estoppel, which limits the availability of the doctrine of equivalents when the applicant has explicitly surrendered subject matter during patent prosecution and is unable to rebut the presumption that the surrender was made to comply with the requirements of patentability.<sup>81</sup> Thus, the relevance of any special rule barring recovery under the doctrine of equivalents of disclosed but unclaimed matter is limited to circumstances where prosecution history estoppel does not independently bar such a recovery.

The *YBM Magnex* decision establishes that disclosed but unclaimed matter can be equivalent to literally claimed matter in some circumstances. Determining the circumstances in which the *Miller* rule does and does not apply is logically equivalent to developing an entirely new rule (or perhaps "meta-rule"). In the remainder of this Note, I explore the difficulties associated with two broad categories of rule: those where the decision to bar recovery under the doctrine of equivalents is shaped by the *functional relationship* that the disclosed but unclaimed matter bears to the claimed matter, and those where the outcome depends on the *reason* for the appearance of the disclosed but unclaimed matter in the patent.

---

81. See *Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co.*, 117 S. Ct. 1040, 1051, 41 U.S.P.Q.2d (BNA) 1865, 1873 (1997); but see *Litton Sys., Inc. v. Honeywell, Inc.*, 140 F.3d 1449, 1457-58, 46 U.S.P.Q.2d (BNA) 1321, 1327 (Fed. Cir. 1998) (suggesting that the Supreme Court's elaboration of the doctrine of prosecution history estoppel in *Warner-Jenkinson* might apply only to amendments made to avoid the prior art).

### A. Difficulties With Functional Relationship Rules

It is difficult to envision a functional relationship rule that would not be redundant with or hopelessly complicate the tests already incorporated in the doctrine of equivalents itself, such as the function-way-result test,<sup>82</sup> the interchangeability test,<sup>83</sup> or other variations on the “all elements” test employed according to the nature of the invention. Rules of this type, and their difficulties, are best illustrated by an example—such as the rule enunciated by the first district court to attempt to harmonize the recent Federal Circuit decisions. That court determined that a bar to the doctrine of equivalents arises when, as in *Maxwell*, the disclosed but unclaimed matter represents a “distinct system or method” when compared to the claimed matter, but that *YBM Magnex* permits a finding of doctrinal equivalence when the disclosed but unclaimed matter is simply an “alternative material.”<sup>84</sup> The rule is of limited usefulness, because its prongs fall far short of encompassing the range of possible relationships that an accused device might bear to the claimed matter in a patent. The first prong seems redundant (an accused product that is a “distinct system or method” would ordinarily fall outside the range of the doctrine of equivalents in any case);<sup>85</sup> the second provides little insight beyond the fact pattern of *YBM Magnex*. Another functional relationship rule suggested by the fact patterns discussed in this Note might be shaped by whether the disclosed matter and claimed matter differed by only a numerical specification. This rule too would lead to territory already well-explored as part of the general principles of doctrinal equivalence.<sup>86</sup>

---

82. See *Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931, 934, 4 U.S.P.Q.2d (BNA) 1737, 1739 (Fed. Cir. 1987) (en banc), cert. denied, 485 U.S. 961 (1988).

83. See, e.g., *Unidynamics Corp. v. Automatic Prods. Int'l*, 157 F.3d 1311, 1322, 48 U.S.P.Q.2d (BNA) 1099, 1106 (Fed. Cir. 1998) (noting that interchangeability, although not dispositive, is evidentiary in a finding of equivalence).

84. See *Johnson & Johnston Assoc., Inc. v. R.E. Serv. Co., Inc.*, 1998 WL 545010 at 3-4 (N.D. Cal. Aug. 24, 1998) (denying a defendant's motion for summary judgment on the grounds that the specification disclosed an invention with substrates made of “aluminum ... [or] other metals, such as stainless steel or nickel alloy,” while the claims recited only aluminum substrates, thereby dedicating to the public those embodiments with non-aluminum metal substrates).

85. In this regard, the district court judge's denial of the *Maxwell* defendant's motion for judgment as a matter of law would appear to be clearly erroneous. The method by which the defendant affixed tabs to shoes was entirely distinct from the claimed method.

86. See, e.g., Peter G. Dilworth, *About “About” and Other Imprecise Claim Terms*, 78 J. PAT. & TRADEMARK OFF. SOC'Y 423, 433-38 (1996) (exploring the interplay of imprecise numerical specifications and the doctrine of equivalents).

Any functional relationship rule of general applicability that is, as *Miller* suggests, a matter of law, would place the district court judge in the position of carrying out what has heretofore been characterized as a fact-finding function. The Supreme Court has indicated that summary judgment or judgment as a matter of law on issues of doctrinal equivalence is appropriate if the court determines that prosecution history estoppel or a similar doctrine renders the doctrine of equivalents unavailable.<sup>87</sup> A functional relationship rule vitiating doctrinal equivalence for disclosed but unclaimed matter would require the court to perform analyses akin to the functional relationship tests of the doctrine of equivalents itself, which have been deemed to be the purview of the jury.<sup>88</sup> Furthermore, a system in which the court first analyzed the functional relationship between disclosed but unclaimed matter and the literal claims, followed, if need be, by a jury determination of doctrinal equivalence between an accused device and the literal claims, seems extraordinarily complex and subject to uncertain standards of review. If the accused device were not identical to the disclosed but unclaimed matter, their differences would raise the specter of the need for yet a *third* functional relationship test. Assigning all of the tests to the jury might simplify the standards of review, but would not resolve the complexity problem.

## B. Difficulties With Reason-Based Rules

Problems also abound with most reason-based rules. The number of potential reasons for the appearance of disclosed but unclaimed matter in a patent is large. In many cases there will be little evidence to help discriminate among them. Even where the reason is clearly identified, determining the "best" result (the normative decision whether to bar the patentee from recovering the subject matter) can be difficult.

Turning first to the range of potential reasons for the appearance of disclosed but unclaimed matter, the cases discussed in this Note suggest at least five fairly distinct ones. Those reasons, and the cases speculatively<sup>89</sup> associated with them, include:

1. Inadvertent error. An omission from the claims might go unnoticed during patent prosecution. Inadvertent error is the simplest explanation for

---

87. See *Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co.*, 117 S. Ct. 1040, 1053 n.8, 41 U.S.P.Q.2d (BNA) 1865, 1875 n.8 (1997).

88. See *id.* at 1053, 41 U.S.P.Q.2d at 1875.

89. The reader should be cautioned that the reasons proposed for the appearance of disclosed but unclaimed subject matter are supported not by legal authority but by the considered opinion of the author, based on hints in each case.

the presence of the unclaimed shoe fastening system in the *Maxwell* patent.<sup>90</sup>

2. Error of judgment. A patentee might mistakenly believe that patentable subject matter is in the prior art, disclose that subject matter in the specification, and tailor the claims so as not to encompass that subject matter. Alternatively, a patentee might limit the scope of a claim because of a mistaken interpretation of patent law. The *YBM Magnex* patent specification touts the advantages of the invention under conditions of heat and humidity; perhaps the patentees erroneously believed that the patent could be challenged on enablement or usefulness grounds if it claimed alloys that did not survive particularly well in that environment.<sup>91</sup> (Alternatively, it is possible that alloys with lower oxygen concentrations were genuinely in the prior art, but if so, it is surprising that the accused infringers did not so allege.)

3. Good faith use of the specification as a public forum. A patentee might use the specification to distinguish her invention from what she believes is an undesirable or less desirable embodiment to facilitate prosecution. This seems to have been the original motive of the *Miller* patentee.<sup>92</sup> Alternatively, the patentee might use the specification to discourage others from what he believes is wasteful research into nonproductive areas.

4. Bad faith use of the specification as a public forum. A patentee might disclose unclaimed subject matter in the specification, intending to entrap infringers under the doctrine of equivalents. A particularly evil-minded applicant might intimate that the unclaimed matter is in the prior art, inducing a competitor to practice the subject matter with impunity. Alternatively, the patentee might disclose and disparage some aspect of the invention that he in fact knows to show great promise, in order to discourage competitors from pursuing further research in that area.

5. Judicial intervention. The patentee may have intended to claim literally to the full extent provided by the disclosure, but a court, as in a *Markman* hearing,<sup>93</sup> might interpret a claim more narrowly than the pat-

---

90. See *Maxwell v. Baker*, 86 F.3d 1098, 39 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1996).

91. See *YBM Magnex, Inc. v. Int'l Trade Comm'n*, 45 F.3d 1317, 46 U.S.P.Q.2d (BNA) 1843 (Fed. Cir. 1998).

92. See *Miller v. Bridgeport Brass Co.*, 104 U.S. 350 (1881).

93. See *Markman v. Westview Instruments, Inc.* 517 U.S. 370, 38 U.S.P.Q.2d (BNA) 1461 (1996).

entee envisioned. In *Graver Tank*, a court invalidated a claim entirely, orphaning subject matter in the specification.<sup>94</sup>

The paucity of evidence generally makes it difficult to determine which of the reasons, or combinations thereof, is relevant in a given fact pattern. The parallel doctrine of prosecution history estoppel emphasizes the detailed language of the claims themselves, which both the applicant and examiner scrutinize carefully. Finalization of claim language often generates a record of sophisticated exchanges between applicant and examiner. By contrast, the presence of disclosed but unclaimed matter results from an interplay of the claims and the specification, and both the applicant and examiner generally have less incentive to scrutinize the latter. Because the specification does not formally limit the scope of the patent claims,<sup>95</sup> the applicant (especially one who is unaware of the *Miller* rule) has less concern about its detailed content. The examiner will ensure that the specification provides sufficient support for the claims but has no particular reason to be concerned with whether it discloses too much.

Even when the reason for the appearance of disclosed but unclaimed matter is apparent, the decision to bar recovery under the doctrine of equivalents is not always straightforward. For example, if inadvertent error is the root cause, equity to the patentee would favor a rule that did not bar recovery. Alternatively, it could be argued that in such circumstances recovery should most assuredly be barred, in order to foster careful, conscientious patent prosecution. Similar equitable and “tough love” justifications can be raised on both sides for many of the reasons listed above. Complicating the decision to bar recovery in each circumstance is the fact that the consequence of the unclaimed disclosure is not always easy to predict. For inadvertent disclosure, the result is generally that the public receives the benefit of “free” information. If a specification discloses—whatever the motive of the patentee—that a particular area of investigation is not promising, however, the result might be a reduction in the research

---

94. See *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 85 U.S.P.Q. (BNA) 328 (1950).

95. See *Constant v. Advanced Micro-Devices Inc.*, 848 F.2d 1560, 1571, 7 U.S.P.Q.2d (BNA) 1057, 1064-65 (Fed. Cir. 1988) (noting the principle that limitations should not be imported from the specification into the claims); *but see Vehicular Techs. Corp. v. Titan Wheel Int'l*, 141 F.3d 1084, 1090, 46 U.S.P.Q.2d (BNA) 1257, 1261 (Fed. Cir. 1998) (holding that language in the specification can help determine the functionality of a claimed element for purposes of doctrinal equivalency). Judge Newman dissented from *Vehicular Technologies*, decrying what she referred to as the “All-Advantages Rule,” that equivalency can be found only if the advantages mentioned in the specification, although not included in the claims, are possessed by the accused device. See *id.* at 1093, 46 U.S.P.Q.2d at 1263 (Newman, J., dissenting).

in that area, or a stimulation of research as others rise to the challenge posed. Whether the former or the latter is the "better" outcome can not easily be predicted, arguing against an inflexible rule.

Only in the fact pattern of *Miller* itself, where the patentee explicitly distinguishes his invention from some unclaimed subject matter, can a glimmer of justification for a reason-based rule within the doctrine of equivalents be found. Although the motive of the patentee will not always be evident, the effect of the patent on an independent reader of ordinary skill in the art can be predicted. The presence of disclosed *disclaimed* matter would lead such a reader to conclude that the patentee, for whatever purpose, actively chose to limit the scope of his or her patent to avoid this matter. Insofar as the patent specification retains a notice function,<sup>96</sup> it would seem, as a matter of equity, that in these limited circumstances the public should be permitted to practice the disclaimed matter free from concern that the patentee will recapture it under the doctrine of equivalents.

## VI. CONCLUSION

The *YBM Magnex*<sup>97</sup> decision establishes that a patentee is not always barred from recovering, under the doctrine of equivalents, subject matter that is disclosed but not claimed in the patent. Although the decision leaves open the possibility that the contrary rule, established over a century ago in *Miller v. Bridgeport Brass Co.*,<sup>98</sup> might remain dogma across multiple or reissue patents, examination of the modern statutory scheme suggests that the *Miller* rule has been rendered largely obsolete outside of the doctrine of equivalents. The *YBM Magnex* decision offers little guidance as to when, if ever, a bar to the availability of the doctrine of equivalents should arise. Because of the intrinsic and substantial difficulties associated with any broadly applicable framework that could provide such guidance, I propose that the doctrine of equivalents remain available unless the patentee has explicitly distinguished or distanced his invention from the unclaimed subject matter.

---

96. See Janice M. Mueller, *The Evolving Application of the Written Description Requirement to Biotechnological Inventions*, 13 BERKELEY TECH. L.J. 615, 618-20 (1998).

97. 145 F.3d 1317, 46 U.S.P.Q.2d (BNA) 843 (Fed. Cir. 1998).

98. 104 U.S. 350 (1881).



## NOBELPHARMA AB V. IMPLANT INNOVATIONS, INC.

By Deirdre L. Conley

The patent laws, granting a patent owner the right to exclude others from making, using, and selling his invention, uniquely provide immunity from antitrust violation.<sup>1</sup> However, having obtained such immunity, the patent owner is obligated to refrain from asserting its rights in an anticompetitive manner or outside the scope of his patent.<sup>2</sup> A primary method for a patent owner to legitimately assert his patent rights is to sue alleged infringers, enjoin the infringing activity, and recover damages for revenue losses caused by the infringement.<sup>3</sup>

To defend himself in a patent infringement lawsuit, an accused infringer may attempt to prove the invalidity and unenforceability of the patent in question.<sup>4</sup> The accused infringer may also prove patent misuse, thereby suspending the patent owner's right to recover for infringement until the misuse is corrected.<sup>5</sup> Or he may strike back by proving that the patent owner wrongfully asserted a patent in violation of antitrust laws, thereby stripping away his patent-granted immunity from such laws.<sup>6</sup>

The stakes are high for both parties when a violation of antitrust laws is alleged in an infringement counterclaim. The accused infringer must meet the challenge of proving 1) improper obtainment and assertion of the patent by the patent owner,<sup>7</sup> as well as 2) injury as a result of improper

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. See 35 U.S.C. § 154 (1998). See also *BEAL Corp. Liquidating Trust v. Valley-lab Inc.*, 927 F. Supp. 1350, 1361 (D. Colo. 1996) (noting that “[c]ourts have consistently recognized an implied and limited ‘patent’ exception to the antitrust laws”).

2. See DONALD S. CHISUM, *CHISUM ON PATENTS* § 19.04, 19-283 (1998). See also *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 128-29 (9th Cir. 1954) (discussing improper patent practices under the antitrust laws including attempts to extend the scope of the patent monopoly).

3. See 35 U.S.C. § 271(a) and §§ 281 - 288 (1998).

4. See 35 U.S.C. § 282 (1998).

5. See CHISUM, *supra* note 2.

6. See *Atari Games Corp. v. Nintendo of America Inc.*, 897 F.2d 1572, 1576, 14 U.S.P.Q.2d (BNA) 1034, 1037 (Fed. Cir. 1990) (noting that “[w]hen a patent owner uses his patent rights not only as a shield to protect his invention, but as a sword to eviscerate competition unfairly, that owner may be found to have abused the grant and may become liable for antitrust violations when sufficient power in the relevant market is present”).

7. See generally *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

patent assertion.<sup>8</sup> If the accused infringer is successful, the patent owner faces the very high cost of patent invalidation, treble damages, and attorney's fees.<sup>9</sup>

In addition to raising the stakes, an antitrust counterclaim in a patent infringement suit frequently creates complex jurisdictional questions for the district court due to the mixed nature of the claims.<sup>10</sup> Congress has statutorily invested original jurisdiction in district courts for "civil actions arising under the Constitution, laws, or treaties of the United States,"<sup>11</sup> specifically for civil actions arising under the patent laws.<sup>12</sup> State courts are preempted from adjudicating such claims.<sup>13</sup> A district court's jurisdiction over mixed patent and civil law cases dictates appellate jurisdiction in the circuit courts.<sup>14</sup> Thus, the development of a uniform body of law for actions such as antitrust claims raised in defense of patent infringement actions depends on difficult threshold determinations of jurisdiction.<sup>15</sup>

---

8. See *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993).

9. See *Walker Process*, 382 U.S. at 174 nn.1-2 (citing 15 U.S.C. §§ 2, 15 (1964)).

10. See *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574-75, 223 U.S.P.Q. (BNA) 465, 471 (Fed. Cir. 1984) (discussing the confusion arising in cases involving a procedural question independent of the patent issues in dispute and ruling as a matter of policy that the Federal Circuit shall review procedural matters, that are not unique to patent issues, under the law of the appropriate regional circuit court).

11. See 28 U.S.C. § 1331 (1993).

12. See 28 U.S.C. § 1338(a) ("[D]istrict courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents.").

13. See 28 U.S.C. § 1338(a).

14. See 28 U.S.C. § 1295(a)(1) (vesting the Federal Circuit with jurisdiction over any appeal from a final decision of a district court "if the jurisdiction of that court was based, in whole or in part, on § 1338 of this title, except in a case involving a claim arising under an Act of Congress relating to copyrights or trademarks and no other claims under Section 1338(a) shall be governed by Sections 1291, 1292 and 1294 of this title").

15. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068, 46 U.S.P.Q.2d (BNA) 1097, 1104 (Fed. Cir.), *cert. denied*, 67 U.S.L.W. 3235 (U.S. Oct. 5, 1998) (No. 98-178) (noting that because most cases involving patent infringement-based antitrust issues are appealed to the Federal Circuit, that court should decide the antitrust immunity issues as a matter of Federal Circuit law "rather than rely on various regional precedents"). *But see* *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1428-30, 1438-40, 223 U.S.P.Q. (BNA) 1074, 1078, 1086 (Fed. Cir. 1984) (en banc) (noting the Federal Circuit's Congressional mandate to provide jurisdictional guidelines respecting cases having patent and non-patent claims and discussing Congress's concern that the Federal Circuit may appropriate elements of federal law under its § 1295(a)(1) jurisdiction). The "choice of circuit" law in *Nobelpharma* was considered and decided unanimously by an *en banc* court. See *Nobelpharma*, 141 F.3d at 1067-68.

## I. BACKGROUND

Doctors Branemark and Bo-Thureson af Ekenstam are the named inventors on U.S. Patent 4,330,891 (the '891 patent) directed to an element of a dental implant.<sup>16</sup> The U.S. application was filed in 1980 claiming priority to a Swedish application filed in 1979.<sup>17</sup> The element acts as a tooth root substitute when placed in a patient's jawbone.<sup>18</sup> The growing bone tissue forms a connection with the implant through the natural process of osseointegration into holes in the element.<sup>19</sup> These holes, termed "micropits," have a specified size range and spacing disclosed within the patent specification.<sup>20</sup>

Branemark co-authored and published a book in 1977 entitled "Osseointegrated Implants in the Treatment of the Edentulous Jaw Experienced from a 10-Year Period" (hereinafter the 1977 Book).<sup>21</sup> The 1977 Book displayed four scanning electron micrographs (SEMs) showing titanium implants with small holes.<sup>22</sup> The SEMs were captioned, in part: "Irregularities are produced during manufacturing in order to increase the retention of the implants within the mineralized tissue."<sup>23</sup> While the 1977 Book did not refer to the irregularities as micropits, it did indicate that the diameters of the irregularities were within the size range claimed in the '891 patent.<sup>24</sup>

Despite its apparent relevance to the technology of the claimed invention, the 1977 Book was not disclosed in the Branemark patent applications.<sup>25</sup> A draft of the earlier-filed Swedish application contained a reference to the 1977 Book, but that reference was deleted prior to filing.<sup>26</sup> The U.S. application, based on the Swedish application, similarly contained no

---

16. *See Nobelpharma*, 141 F.3d at 1062, 46 U.S.P.Q.2d at 1099.

17. *See id.*

18. *See id.*

19. *See id.* Osseointegration involves infiltration of bone-forming cells, osteoblasts, into a network of small holes in the element and creation of a strong connection between it and the bone tissue. *See id.*

20. *See Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1062, 46 U.S.P.Q.2d (BNA) 1097, 1099 (Fed. Cir. 1998).

21. *See id.*

22. *See id.*

23. *Id.*

24. *See id.*

25. *See Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1062, 46 U.S.P.Q.2d (BNA) 1097, 1099 (Fed. Cir. 1998).

26. *See id.*

reference to the 1977 Book, nor was the reference disclosed to the patent examiner during prosecution of the U.S. application.<sup>27</sup>

Nobelpharma licensed the technology of the pending U.S. application in June 1980.<sup>28</sup> Following issuance of the application as the '891 patent in 1982, Nobelpharma used it to assert at least three patent infringement suits.<sup>29</sup>

## II. THE DISTRICT COURT DECISION

In 1991, Branemark was a member of Nobelpharma's board of directors, Nobelpharma sued Implant Innovations, Inc. ("3I") alleging that some of 3I's dental implants infringed the '891 patent.<sup>30</sup> 3I defended itself by asserting the claims of invalidity, unenforceability, and non-infringement.<sup>31</sup> 3I had the burden of showing invalidity and unenforceability by clear and convincing evidence to overcome the presumption of patent validity.<sup>32</sup> To demonstrate a best mode violation, 3I had to show that the best mode of practicing the invention was known at the time the application was filed and, if so, whether the best mode was disclosed in the application.<sup>33</sup> To meet this challenge, 3I referred to statements made by Branemark in testimony from an unrelated case.<sup>34</sup> In that testimony, Branemark revealed that he was aware of a variety of undisclosed machining parameters critical to the production of an implant useful for osseointegration at the time of filing the U.S. application.<sup>35</sup> Branemark stated that the procedure for manufacturing the micropitted surface could

---

27. *See id.*

28. *See id.*

29. *See id.*

30. *See Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1062, 46 U.S.P.Q.2d (BNA) 1097, 1099 (Fed. Cir. 1998).

31. *See id.* at 1063, 46 U.S.P.Q.2d at 1099.

32. *See* 35 U.S.C. § 282 (1998).

33. *See* 35 U.S.C. § 112, ¶ 1.

34. *See Nobelpharma*, 141 F.3d at 1065, 46 U.S.P.Q.2d at 1101 (noting Branemark's statements that "(1) 'there were some minor details that were not included [in the patent] and which proved to be quite important,' (2) other skilled artisans would have to be 'lucky' to obtain a suitable micropitted implant 'by cutting a piece of titanium at a speed less than twenty meters per minute,' the cutting speed disclosed in the patent, and (3) 'any of the small detailed recipes that I discussed but did not specify' in the patent 'can cause you to fail to get micropitting even though you were cutting the metal at less than twenty meters per minute'"). *See also Nobelpharma AB v. Implant Innovations, Inc.*, 930 F. Supp. 1241, 1247-48 (N.D. Ill. 1996) (citing additional testimony by Branemark indicating knowledge of the invention prior to filing the patent applications).

35. *See Nobelpharma*, 141 F.3d at 1063, 1065, 46 U.S.P.Q.2d at 1099, 1101.

be considered a trade secret, and that possibly important details for making the micropitted surface were not disclosed in the patent.<sup>36</sup> The trial court found that Nobelpharma's patent was invalid for failing to disclose the best mode under 35 U.S.C. § 112, ¶1, and that Nobelpharma failed to prove infringement.<sup>37</sup>

3I, as the accused infringer, also counterclaimed that Nobelpharma had asserted a patent it knew was invalid and, in so doing, violated antitrust law.<sup>38</sup> In a separate jury trial on the antitrust issue, the jury agreed with 3I, finding that the patent was obtained through fraud and that the patent owner knew this at the time the patent was asserted against 3I.<sup>39</sup> In addition, while 3I showed that Nobelpharma intended to sue 3I so that it would "spend money and time fighting the lawsuit," the district court found that the sham litigation test articulated in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.* ("P.R.E.")<sup>40</sup> was inapplicable because proof of Nobelpharma's knowing fraud upon the PTO existed.<sup>41</sup> Consequently, the '891 patent was not only invalidated due to fraud, but because the jury found that Nobelpharma had violated antitrust law, the court awarded treble damages.<sup>42</sup> Nobelpharma's subsequent motions for judgment as a matter of law or, in the alternative, a new trial were denied.<sup>43</sup>

---

36. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1063, 46 U.S.P.Q.2d (BNA) 1097, 1100 (Fed. Cir. 1998).

37. See *id.* The Federal Circuit affirmed the district court's grant of a motion for judgment as a matter of law on the invalidity issue as a case in which the movant, 3I, had established its case using evidence that the jury would not be at liberty to disbelieve and that a decision in the movant's favor was the only reasonable conclusion. See *id.* at 1065, 46 U.S.P.Q.2d at 1102 (citing *Hurd v. American Hoist & Derrick C.*, 734 F.2d 495, 499 (10th Cir. 1984)).

38. See *id.* at 1062-63, 46 U.S.P.Q.2d at 1099-1100.

39. See *id.* at 1063, 46 U.S.P.Q.2d at 1100 (citing *Nobelpharma AB v. Implant Innovations, Inc.*, 875 F. Supp. 481 (N.D. Ill. 1985)).

40. 508 U.S. 49 (1993).

41. See *Nobelpharma AB v. Implant Innovations, Inc.*, 930 F. Supp. 1241, 1257, 1261 (N.D. Ill. 1996). According to the Court in *P.R.E.*, a sham litigation refers to the assertion of a valid patent for a fraudulent purpose. See *Professional Real Estate*, 508 U.S. at 60-61.

42. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1063, 46 U.S.P.Q.2d (BNA) 1097, 1100 (Fed. Cir. 1998). See also 15 U.S.C. 15(a) (1997) (providing that treble damages shall be awarded for antitrust violations).

43. See *Nobelpharma*, 930 F. Supp. at 1259-60.

### III. BACKGROUND CASELAW

#### A. Fraudulent Procurement of a Patent May Constitute an Antitrust Violation: The *Walker Process* Test

A finding that the antitrust laws have been violated under section 2 of the Sherman Act is significant because it exposes the patentee to treble damages under section 4(a) of the Clayton Act.<sup>44</sup> It is not a violation of the Sherman Act to assert a patent in good faith, even if the patent is later found to be invalid.<sup>45</sup> However, assertion of a patent obtained by fraud or known to be invalid may constitute misconduct before the Patent and Trademark Office ("PTO") sufficiently egregious to strip the patentee of his immunity from antitrust laws.<sup>46</sup> It is essential, therefore, that a clear test be available for defining what conduct tips the balance from inequitable conduct to fraud such that the patent owner is stripped of his immunity from antitrust liability.

An important test for determining the inequitable conduct-fraud transition developed from the 1965 case of *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*<sup>47</sup> In *Walker Process*, an infringement suit in which an antitrust counterclaim was filed, the patentee was accused of failing to inform the PTO that a statutory bar to patentability existed.<sup>48</sup> In a later analysis in *Norton v. Curtiss*,<sup>49</sup> the Court of Customs and Patent

---

44. See 15 U.S.C. § 2 (1997) (section 2 of the Sherman Act); 15 U.S.C. § 15(a) (section 4(a) of the Clayton Act).

45. See *Handgards, Inc. v. Ethicon, Inc.* 601 F.2d 986, 993 (9th Cir. 1979) ("Patentees must be permitted to test the validity of their patents in court through actions against alleged infringers. Their status as alleged possessors of a legal monopoly does not cause them to be pariahs before the law.") (citations omitted).

46. See *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340, 1364-65, 48 U.S.P.Q.2d (BNA) 1225 (Fed. Cir. 1998) (noting that the requirements of common law fraud differ from the broader sweep of "'inequitable conduct,' an equitable defense that may be satisfied when material information is withheld with the intent to deceive the examiner, whether or not the examiner is shown to have relied thereon") (citation omitted). See also *Argus Chemical Corp. v. Fibre Glass-Evercoat Co.*, 812 F.2d 1381, 1384-85, 1 U.S.P.Q. (BNA) 1971, 1974 (Fed. Cir. 1987) (clarifying that inequitable conduct less egregious than common law fraud would not create liability under *Walker Process* for the patent owner).

47. 382 U.S. 172 (1965).

48. See *id.* at 177. See also ABA SECTION OF ANTITRUST LAW, ANTITRUST LAW DEVELOPMENTS 936 n.58 (4th ed. 1997) (citing 35 U.S.C. § 102(b), which precludes grant of patent if the invention has been on sale for more than one year prior to filing the application, and noting that at the time the *Walker Process* patent application was filed, the applicant was required to sign an oath averring that no on-sale bar existed for the claimed invention).

49. 433 F.2d 779, 167 U.S.P.Q. (BNA) 532 (C.C.P.A. 1970).

Appeals distinguished inequitable conduct from common law fraud, noting that common law fraud does not exist unless five elements are present: 1) a representation of a material fact, 2) the falsity of that representation, 3) the intent to deceive or, at least, a state of mind so reckless as to the consequences that it is held to be the equivalent of intent (*scienter*), 4) a justifiable reliance upon the misrepresentation by the party deceived which induces him to act thereon, and 5) injury to the party deceived as a result of his reliance on the misrepresentation.<sup>50</sup> Inequitable conduct, a broader, lesser offense, fails to satisfy all of the elements of common law fraud.<sup>51</sup>

The *Walker Process* Court held that an antitrust counterclaim in an infringement suit requires sufficient proof of the enforcement of a patent procured by fraud, as well as support of an antitrust claim under section 2 of the Sherman Act.<sup>52</sup> Because the misconduct must be intentional to be fraudulent, assertion of the fraudulently obtained patent must also be intentional.<sup>53</sup> As a result, the key element of a patent-related antitrust violation under the *Walker Process* test is knowledge on the part of the patent owner of the patent's fraudulent procurement before asserting it.<sup>54</sup>

The *Walker Process* test combines the elements of patent fraud and the elements of an antitrust violation as criteria to be met in stating a claim for a patent-related antitrust violation. The accused infringer asserting an antitrust counterclaim for *Walker Process* fraud has the burden of fulfilling several elements to make a showing of *Walker Process* fraud. These elements include patent law violations in which 1) the patent was obtained by willful fraud,<sup>55</sup> 2) the claimed invention was not patentable in the absence of the fraud,<sup>56</sup> and 3) there was an effort to assert the fraudulently obtained

---

50. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1069-70, 46 U.S.P.Q.2d (BNA) 1097, 1105-06 (Fed. Cir. 1998) (distinguishing inequitable conduct from *Walker Process* fraud and citing the *Walker Process* fraud analysis in *Norton v. Curtiss*, 433 F.2d at 792-94 & n.12, 167 U.S.P.Q. at 543-45 & n.12 (1970)).

51. See *id.* at 1070, 46 U.S.P.Q.2d at 1106.

52. See *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 174 (1965).

53. See *id.* See also *Silva v. Mamula*, 1994-1 Trade Cas. (CCH) ¶ 70,555 (E.D. Pa. 1994) (involving fraudulent procurement of a patent in the absence of assertion of that patent does not violate section 2 of the Sherman Act).

54. See *Walker Process*, 382 U.S. at 177 & n.5 (noting that maintenance and enforcement of a fraudulently obtained patent with knowledge of the patent's infirmity is sufficient to strip the assignee of its exemption from the antitrust laws).

55. See *Walker Process*, 382 U.S. at 177.

56. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1070, 46 U.S.P.Q.2d (BNA) 1097, 1106 (Fed. Cir. 1998) (citing *United States v. Ciba-Geigy*

patent.<sup>57</sup> In addition, the elements include antitrust violations in which 4) the patentee is capable of obtaining monopoly power in the relevant market, and 5) the plaintiff has suffered injury due to the patent's enforcement.<sup>58</sup>

### **B. Fraudulent Assertion of a Patent May Constitute an Antitrust Violation: The *P.R.E.* Test**

While an owner of a valid patent is immune from antitrust violation when asserting a valid patent against an accused infringer, fraudulent assertion of that patent may be considered a "sham" lawsuit.<sup>59</sup> Historically, the concept of "sham" litigation developed from the case of *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*<sup>60</sup> in which litigation against a business competitor was held to have immunity from antitrust violation if the purpose of the litigation was to influence legislation.<sup>61</sup> However, the Supreme Court in *Noerr* also held that litigation constituting a mere sham to cover what would otherwise be a means of interfering directly with a competitor's business is excepted from antitrust immunity.<sup>62</sup> The Court later expanded the *Noerr* doctrine in *California Motor Transport Co. v. Trucking Unltd.*,<sup>63</sup> noting that the philosophy of *Noerr* immunity was applicable to activities before an administrative agency or the court.<sup>64</sup>

Applying the *Noerr* antitrust exception to patent infringement litigation, the Supreme Court later developed a two-pronged test to determine whether an infringement lawsuit is a sham used to harm the accused in-

---

Corp., 508 F. Supp. 1157 (D.N.J. 1976) (noting that a misrepresentation is material if the patent would not have issued "but for" omission of the reference in question)).

57. See *Walker Process*, 382 U.S. at 177. See also *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 994 (9th Cir. 1979) (distinguishing enforcement of a fraudulently-procured patent from bad faith assertion in an infringement action of a patent known to be invalid).

58. See *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 178 (1965).

59. See *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries*, 101 U.S. 49 (1993).

60. 365 U.S. 127 (1961).

61. See *id.* at 144 (holding that a railroad consortium's efforts to restrict competition from the trucking industry involved legislative lobbying, which enjoyed antitrust immunity despite anticompetitive effects).

62. See *id.*

63. 404 U.S. 508 (1972).

64. See *Nobelpharma AB v. Implant Innovations, Inc.*, 930 F. Supp. 1241, 1251 (citing *California Motor Transport*, 404 U.S. at 510).

fringer's market position.<sup>65</sup> The test was set out in *P.R.E.*, a case involving a copyright infringement suit and an antitrust counterclaim.<sup>66</sup> According to the test, a sham lawsuit must be objectively baseless, meaning that no reasonable litigant could realistically expect to succeed on the merits.<sup>67</sup> Next, in the subjective prong of the test, the baseless suit must conceal an attempt to interfere directly with a competitor's business relationships by using a governmental process (as opposed to the outcome of that process) as an anticompetitive weapon.<sup>68</sup> This two-tiered process requires that the challenged lawsuit's legal viability be disproved before the court may evaluate its economic viability.<sup>69</sup> Even if the objective and subjective criteria are met, the plaintiff must still prove a substantive antitrust violation.<sup>70</sup>

In its decision, the Court in *P.R.E.* offered an early indication that application of the expanded *Noerr* doctrine to antitrust liability for a litigant's fraud or other misrepresentation (such as *Walker Process* fraud) in an administrative or judicial process was an unresolved question.<sup>71</sup> The *Nobelpharma* case provided a unique opportunity to address this issue because elements of both *Walker Process* fraud and *P.R.E.* sham litigation were present.

### C. Consistent Jurisdictional Authority Over Mixed Cases of Civil and Patent Law Generates a Uniform Body of Law

Addressing the issue of what conduct in procuring or enforcing a patent causes the patent owner to lose its immunity to antitrust laws relates, in part, to the Federal Circuit's concern regarding its jurisdiction over cases involving both patent infringement and antitrust questions. The court's decision to apply Federal Circuit law to antitrust cases arising from infringement suits is founded in the court's intent to clarify federal jurisdic-

---

65. See *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries*, 101 U.S. 49, 60-61 (1993).

66. See *id.*

67. See *id.*

68. See *id.* at 60-61. See also *Columbia v. Omni Outdoor Advertising, Inc.*, 499 U.S. 365, 380 (1990) (noting that an example of a "sham" is the "filing of frivolous objections to the license application of a competitor, with no expectation of achieving denial of the license but simply in order to impose expense and delay").

69. See *Professional Real Estate*, 101 U.S. at 60-61. Note that under the *P.R.E.* test the method of procuring the patent is immaterial, unlike under *Walker Process*. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1072, 46 U.S.P.Q.2d (BNA) 1097, 1107 (Fed. Cir. 1998).

70. See *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries*, 101 U.S. 49, 61 (1993).

71. See *id.* at 61 n.6.

tion over issues related to patent law.<sup>72</sup> More specifically, with regard to which patent-related cases should be left to its subject matter jurisdiction and which to the federal regional courts, the Federal Circuit's jurisdictional mandate is of central importance.

The purpose that Congress sought to advance in forming the Federal Circuit court in 1982 was to effect "a clear, stable, uniform basis for evaluating matters of patent validity/invalidity and infringement/noninfringement," so as to 'render[] more predictable the outcome of contemplated litigation, facilitate[] effective business planning, and add[] confidence to investment in innovative new products and technology.'"<sup>73</sup> In cases that offer a mixture of civil and patent-related claims, however, the predictability of the outcome may be more problematic. Proper guidance as to the district courts' original jurisdiction is essential because that jurisdiction ultimately determines what cases involving patent issues are appealed to the Federal Circuit court.<sup>74</sup> Original jurisdiction is provided to the district courts in 28 U.S.C. § 1331, the general federal-question jurisdiction provision, stating that "the district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States."<sup>75</sup> Section 1338(a) provides that "the district courts shall have original jurisdiction of any civil action arising under an Act of Congress relating to patents," but state courts will not have such jurisdiction in patent cases.<sup>76</sup> Thus, in cases arising from a mixture of civil and patent-related causes of action, the district court must carefully consider whether the case, as a whole, is governed by section 1338(a) as a patent-related case, or whether the case is primarily a civil action falling outside the governance of section 1338(a).<sup>77</sup> The Supreme Court in *Christianson v. Colt Indus. Operating Corp.*<sup>78</sup> described the jurisdictional extent of section 1338(a) as relating to those cases in which "a well-pleaded complaint establishes either [1] that federal patent law creates the cause of action or [2] that the plaintiff's right to relief necessarily depends on resolution of a

---

72. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067-68, 46 U.S.P.Q.2d (BNA) 1097, 1104.

73. *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1330-31, 47 U.S.P.Q.2d (BNA) 1769, 1778 (Fed. Cir. 1998) (referring to the Federal Courts Improvement Act of 1982) (citations omitted).

74. See 28 U.S.C. § 1295(a)(1) (1993).

75. See 28 U.S.C. § 1331 (1993).

76. See 28 U.S.C. § 1338(a). See also 28 U.S.C. § 1295(a)(1) (providing in part that the Federal Circuit has jurisdiction over any appeal from a final decision of a district court if the jurisdiction of that court is based at least in part on § 1338).

77. See 28 U.S.C. § 1338(a).

78. 486 U.S. 800 (1988).

substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims."<sup>79</sup>

Congress mandated that the Federal Circuit develop standards for determining jurisdiction in cases involving patent and non-patent claims according to the Federal Courts Improvement Act.<sup>80</sup> In the 1991 case of *Biodex Corp. v. Loredan Biomedical, Inc.*,<sup>81</sup> the Federal Circuit reviewed its policy of achieving uniformity in district court case management, noting that it has factored significantly in the Federal Circuit's deference to regional circuit law.<sup>82</sup> Citing policy articulated in *Panduit Corp. v. All States Plastic Mfg. Co.*,<sup>83</sup> the Federal Circuit ruled that procedural matters not unique to patent law will be reviewed under the state law of the regional circuit court where appeals from the district court would normally lie.<sup>84</sup> Deference, the *Panduit* court noted, would depend on whether the procedural matter sufficiently relates to patent issues to directly affect the outcome of the action.<sup>85</sup> The *Biodex* court's analysis noted that, subsequent to *Panduit*, the court had generally deferred to regional circuit law when reviewing procedural matters as well as substantive legal issues not within its exclusive jurisdiction arising under the patent laws.<sup>86</sup> However, the *Biodex* court stated that where the issue on appeal involved a substantive matter unique to the Federal Circuit, deference would be inappropriate.<sup>87</sup> This tension between deference to regional laws and exercise of its exclusive jurisdiction has dogged the court throughout its existence and is only beginning to be resolved.

---

79. *Id.* at 808-09 (noting that whether a claim arises under section 1338 depends on what statements appear in the complaint). *See also* *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 743-44, 13 U.S.P.Q.2d (BNA) 1670, 1676 (noting that the well-pleaded complaint rule is not a principle of law but a useful analytical tool for determining Federal Circuit appellate jurisdiction, and that the well-pleaded complaint includes assertions in the claim as well as the counterclaim).

80. *See* *Atari, Inc. v. J.S. & A. Group, Inc.*, 747 F.2d 1422, 1428, 223 U.S.P.Q. (BNA) 1074, 1078 (Fed. Cir. 1984) (en banc).

81. 946 F.2d 850, 20 U.S.P.Q.2d (BNA) 1252 (Fed. Cir. 1991).

82. *See id.* at 856, 20 U.S.P.Q.2d at 1256.

83. 744 F.2d 1564, 223 U.S.P.Q. (BNA) 465 (Fed. Cir. 1984).

84. *See Biodex*, at 856, 20 U.S.P.Q.2d at 1256.

85. *See id.* at 857, 20 U.S.P.Q.2d at 1257.

86. *See id.* at 857-58, 20 U.S.P.Q.2d at 1258.

87. *See Biodex Corp. v. Loredan Biomedical, Inc.*, 946 F.2d 850, 858 n.12, 20 U.S.P.Q.2d (BNA) 1252, 1258 n.12 (Fed. Cir. 1991).

#### IV. THE FEDERAL CIRCUIT DECISION

Following the jury trial in which Nobelpharma was found to have committed *Walker Process* fraud, Nobelpharma appealed to the Federal Circuit from the district court decisions that 1) the '891 patent was invalid under section 112, paragraph 1 (best mode), 2) 3I did not infringe the '891 patent, and 3) Nobelpharma was not entitled to judgement as a matter of law or, in the alternative, a new trial on the antitrust verdict in favor of 3I.<sup>88</sup>

Nobelpharma argued that there was a lack of substantial evidence for the jury to find fraudulent procurement of the '891 patent and awareness of the fraud at the time the patent was asserted (i.e. *Walker Process* fraud).<sup>89</sup> In addition, it argued that the district court erred by failing to instruct the jury that to find an infringement action violative of antitrust laws they must first find that the lawsuit was objectively baseless (i.e., a *P.R.E.* sham litigation).<sup>90</sup> With regard to the issue of fraudulent procurement, the Federal Circuit stated that intentional fraud committed by either a misrepresentation or an omission before the PTO, and relied upon by the patentee in obtaining the patent, is sufficient for a finding of *Walker Process* fraud.<sup>91</sup> It noted that the omission of any reference to the 1977 Book in the '891 patent and Nobelpharma's apparent knowledge of the omission left it exposed to antitrust violation.<sup>92</sup> Holding that the district court's jury instructions regarding *Walker Process* fraud were not legally erroneous, the Federal Circuit noted that Nobelpharma could not have benefited from additional jury instructions regarding fraudulent assertion of its patent under a *P.R.E.* analysis.<sup>93</sup>

#### V. DISCUSSION

Whether both fraudulent patent procurement and sham litigation must be shown to strip a patent owner of its antitrust immunity is a question of law that was not considered by the Supreme Court in the *Walker Process*

---

88. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1061, 46 U.S.P.Q.2d (BNA) 1097, 1099 (Fed. Cir. 1998).

89. See *id.* at 1066, 46 U.S.P.Q.2d at 1102-03.

90. See *id.* The objectively baseless test refers to the first prong of the two-part test for "sham" litigation under the *P.R.E.* type of fraudulent patent assertion. See also *supra* note 41 (pointing out that the district court did not apply the "objectively baseless" prong of the *P.R.E.* sham test to Nobelpharma's conduct because proof of *Walker Process* fraud already existed).

91. See *Nobelpharma*, 141 F.3d at 1073, 46 U.S.P.Q.2d at 1108.

92. See *id.*

93. See *id.*

case, and later only alluded to in *P.R.E.*<sup>94</sup> Thus, until *Nobelpharma*, the Federal Circuit left unresolved the question of whether a patentee's conduct may be considered independently under *Walker Process* and *P.R.E.* in determining whether the patentee is exposed to antitrust liability.<sup>95</sup> On appeal, the *Nobelpharma* case provided an opportunity for the Federal Circuit to apply both tests to the same facts.

Application of the *Walker Process* test to the facts of patent prosecution determines whether the patent was fraudulently procured.<sup>96</sup> On the other hand, application of the *P.R.E.* test to the facts surrounding assertion of the patent in an infringement suit determines whether the suit was a sham intended to interfere with the accused infringer's business relationships.<sup>97</sup> Because each test relates to a separate element of patent fraud—assertion of a fraudulently procured patent (*Walker Process* fraud) and assertion of a patent for a fraudulent purpose (*P.R.E.* “sham” litigation)—the *Nobelpharma* court held that these tests relate to independent actions and provide alternative legal grounds on which a patentee may be stripped of its immunity from the antitrust laws.<sup>98</sup>

---

94. See *Nobelpharma AB v. Implant Innovations, Inc.*, 930 F. Supp. 1241, 1251-52 (N.D. Ill. 1996) (citing James B. Dobak, Jr., *Professional Real Estate Investors and the Future of Patent-Antitrust Litigation: Walker Process and Handgards Meet Noerr-Pennington*, 63 ANTITRUST L.J. 185, 186, 193 (1994)). The district court noted that the Supreme Court did not mention the *Noerr* line of cases in its decision in *Walker Process* nor did it decide in *P.R.E.* whether and to what extent *Noerr* permits imposition of antitrust liability for a litigant's fraud. See *id.* The Supreme Court apparently believed that there was no necessary or inherent connection between the cases. The district court in *Nobelpharma* also noted that other courts have followed this lead. See *id.*

95. In two cases decided after *P.R.E.*, the Federal Circuit found insufficient allegations to support a finding of an objectively baseless infringement law suit and further noted in each case that there was no need for the court to determine whether antitrust immunity under the *Noerr* doctrine affected immunity under *Walker Process* because fraudulent patent procurement was not alleged. See *FilmTec Corp. v. Hydranautics*, 67 F.3d 931, 36 U.S.P.Q.2d (BNA) 1410 (Fed. Cir. 1995); *Carroll Touch, Inc. v. Electro Mechanical Sys., Inc.*, 15 F.3d 1573, 27 U.S.P.Q.2d (BNA) 1836 (Fed. Cir. 1993).

96. See *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 179 (Harlan, J. concurring) (limiting the reach of *Walker Process* fraud to knowing and willful patent procurement, as opposed to actions in which “technical fraud” is found).

97. See *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus.*, 101 U.S. 49, 60-61 (1993).

98. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1071, 46 U.S.P.Q.2d (BNA) 1097, 1107 (Fed. Cir. 1998) (stating that “[e]ach [test] provides its own basis for depriving a patent owner of immunity from the antitrust laws; either or both may be applicable to a particular party's conduct in obtaining and enforcing a patent”).

The infringement-based antitrust lawsuit also provided the Federal Circuit with an opportunity to analyze its jurisdiction over cases of mixed patent and civil causes of action.<sup>99</sup> The court in *Nobelpharma* held, *en banc*, that whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is a question of Federal Circuit law.<sup>100</sup> The court had two explicit purposes for so ruling. First, most patent-related antitrust issues are counterclaims to infringement actions and will be appealed to the Federal Circuit.<sup>101</sup> Second, the court noted that it is in the best position to create a uniform body of federal law on the subject of patent-related antitrust issues.<sup>102</sup> The ruling applies equally to all antitrust claims premised on the bringing of a patent infringement suit.<sup>103</sup> The court noted, however, that the law of the appropriate regional circuit would be applied to "issues involving other elements of antitrust law such as relevant market, market power, damages, etc., as those issues are not unique to patent law, which is the subject of [the Federal Circuit's] exclusive jurisdiction."<sup>104</sup> Thus, the Federal Circuit claimed subject matter jurisdiction over the threshold issue of patent-based antitrust immunity. Once immunity from antitrust law is established under Federal Circuit patent law, the remaining issues of antitrust law are subject to the Federal Circuit's interpretation of regional circuit law.

The Federal Circuit's *en banc* decision in *Nobelpharma* overruled three cases: *Atari v. JS & A Group*,<sup>105</sup> *Loctite Corp. v. Ultraseal Ltd.*<sup>106</sup> and *Cygnus Therapeutic Systems v. ALZA Corp.*<sup>107</sup> Each of these cases

---

99. *See id.* at 1067, 46 U.S.P.Q.2d at 1104.

100. *See id.* at 1068, 46 U.S.P.Q.2d at 1104. Federal Circuit appellate jurisdiction may be invoked when mixed actions of patent and civil issues fall within section 1338(a) extending to actions arising under a federal patent law or actions where the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law. *See Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1428-29 223 U.S.P.Q. (BNA) 1074, 1078 (Fed. Cir. 1984) (*en banc*) (discussing section 1338 jurisdiction). *See also Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1324, 47 U.S.P.Q.2d (BNA) 1769, 1773 (discussing section 1338(a) and its "arising under" jurisprudence related to the general federal-question jurisdiction provision of 28 U.S.C. § 1331 (1993)).

101. *See Nobelpharma*, 141 F.3d at 1067-68, 46 U.S.P.Q.2d at 1104.

102. *See id.*

103. *See id.*

104. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067-68, 46 U.S.P.Q.2d (BNA) 1097, 1104 (Fed. Cir. 1998) (citing *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872-73, 45 U.S.P.Q.2d (BNA) 1225, 1234-35 (Fed. Cir. 1997) (applying Fourth Circuit law to an antitrust injury)).

105. 747 F.2d 1422, 223 U.S.P.Q. (BNA) 1074 (Fed. Cir. 1984) (*en banc*).

106. 781 F.2d 861, 228 U.S.P.Q. (BNA) 90 (Fed. Cir. 1985).

107. 92 F.3d 1153, 39 U.S.P.Q.2d (BNA) 1666 (Fed. Cir. 1993).

involved a patent-related action and civil actions where the court adhered to regional circuit laws to guide its decisions.<sup>108</sup> The *Cygnus* case arose from Cygnus' alleged apprehension of a patent infringement lawsuit by ALZA, forming the basis of its request for a declaratory judgment of patent invalidity and unenforceability as well as its antitrust claim under *Walker Process*.<sup>109</sup> The *Cygnus* court noted that its exclusive jurisdiction over both claims was based on the district court's section 1338 jurisdiction over the declaratory judgment.<sup>110</sup> However, the Federal Circuit, following *Loctite*, stated that it would apply the law of the regional circuit in which the district court sat to rule on a summary judgment motion related to Cygnus' *Walker Process* claim.<sup>111</sup> The *Cygnus* court, having affirmed that there was no objective support for reasonable apprehension of an infringement lawsuit,<sup>112</sup> apparently reviewed the *Walker Process* antitrust claim independent of its patent origin. Instead, the court applied regional law to a determination of possible anticompetitive behavior without addressing the issue of fraudulent patent procurement.<sup>113</sup>

---

108. See *Cygnus*, 92 F.3d at 1161, 39 U.S.P.Q.2d at 1672; *Loctite*, 781 F.2d at 875, 228 U.S.P.Q. at 99; *Atari*, 747 F.2d at 1438-40, 223 U.S.P.Q. at 1086-87. In each case regional circuit law was applied to the patent infringement and antitrust claim elements. Note that in *Argus Chemical Corp. v. Fibre Gals-Evercoat Co., Inc.*, 812 F.2d 1381, 1 U.S.P.Q.2d (BNA) 1971 (Fed. Cir. 1987), a patent infringement-based antitrust case, the Federal Circuit decided whether to extend *Walker Process* fraud to the patentee's conduct by looking to the law of the regional circuit in which the case was brought. See *id.* at 1384, 1 U.S.P.Q.2d at 1974 (citing *Loctite*, 781 F.2d at 875, 228 U.S.P.Q. at 99). It appears that *Argus Chemical* should be overruled as well, to the extent that it disagrees with the *Nobelpharma* decision, although the *Nobelpharma* court made no mention of it.

109. See *Cygnus*, 92 F.3d at 1157-58, 39 U.S.P.Q.2d at 1670, 1672.

110. See *id.* at 1158, 39 U.S.P.Q.2d at 1669.

111. See *id.* at 1161, 39 U.S.P.Q.2d at 1672 (citing *Loctite*, 781 F.2d at 875, 228 U.S.P.Q. at 99) (noting that "[the Federal Circuit] must approach a federal antitrust claim as would a court of appeals in the circuit of the district court whose judgment we review," and later applying Ninth Circuit "clear and convincing" evidence standard to a determination of bad faith in an infringement law suit).

112. See *id.* at 1160-61, 39 U.S.P.Q.2d at 1672.

113. See *Cygnus Therapeutic Systems v. ALZA Corp.*, 92 F.3d 1153, 39 U.S.P.Q.2d (BNA) 1666 (Fed. Cir. 1993). The *Walker Process* fraud complaint in the *Cygnus* case appears to be improper. Cygnus did not allege fraud in patent procurement. Instead, it alleged that ALZA asserted the patent to "stifle competition" and instill fear in Cygnus of expensive and unpredictable litigation. This behavior is more in line with *P.R.E.* "sham" litigation. This apparent confusion in the pleading points to confusion over the relationship between *Walker Process* fraud and *P.R.E.* bad faith assertion as elements of an antitrust claim. Despite this confusion, patent-related fraud was alleged as the basis of the antitrust claim making the court's application of regional law contrary to the later reasoning of the *Nobelpharma* court.

This jurisdictional focus in *Cygnus* and *Loctite* derived from the *en banc* decision in *Atari*, in which the Federal Circuit held that district courts have the freedom “to follow the guidance of their particular circuits in all but the substantive law fields assigned exclusively to [the Federal Circuit].”<sup>114</sup> The *Atari* court reasoned that deference to regional circuit law on matters over which the Federal Circuit does not have exclusive jurisdiction would comport with Congress’ intent in establishing the Federal Circuit to avoid bifurcation of cases, “specialization” of the Federal Circuit, forum shopping, and appropriation by the Federal Circuit of law not exclusively assigned to it.<sup>115</sup>

The *en banc* decision in *Nobelpharma* overruled *Atari*, *Loctite*, and *Cygnus* to the extent that they conflict with the decision that an antitrust claim premised on patent infringement is a question of Federal Circuit law.<sup>116</sup> By so holding, the court recognized that the patent element of an infringement-based antitrust claim, the key element that determines the patentee’s immunity from antitrust law, should be decided as a separate patent issue and only after application of federal patent law. As discussed, *supra*, the *Cygnus* court failed to address the patent element of its *Walker Process* antitrust claim.<sup>117</sup> The court in *Loctite* applied the law of the Seventh Circuit to an antitrust claim premised on bad faith assertion of a pat-

---

114. *Atari, Inc. v. JS & A Group*, 747 F.2d 1422, 1439, 223 U.S.P.Q. (BNA) 1074, 1087 (Fed. Cir. 1984) (*en banc*). This case reviewed Congress’ intent in enacting the Federal Courts Improvement Act (FCIA) in 1982. Opponents of the FCIA suggested that a plaintiff suing for antitrust violation might join an incidental patent claim to remove the antitrust ruling to the Federal Circuit and away from any unfavorable regional circuit law. In addition, opponents expressed concern that allowing the Federal Circuit to have jurisdiction over cases that included “in part” a patent claim would allow the court to usurp the role of regional courts and regional law. The Federal Circuit, cognizant of this concern, but seeing a need to prevent the forum shopping that was an issue in *Atari* and bifurcated appeals generally, accepted jurisdiction for the case but deferred to the relevant Seventh Circuit law to decide it. *See id.* Justices Friedman and Davis separately concurred in the result, but noted that the majority opinion was too broad and should have been decided more narrowly on the issue of claim separation, which was sought merely to manipulate appellate jurisdiction. *See id.* at 1441, 223 U.S.P.Q. at 1088.

115. *See id.* at 1439-40, 223 U.S.P.Q. at 1087-88 (noting that Atari apparently sought bifurcation of copyright infringement and antitrust claims as a means of “forum shopping” and holding that it would be appropriate to decide non-patent matters in light of the applicable law of the district from which each count originated).

116. *See Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068, 46 U.S.P.Q.2d (BNA) 1097, 1104 (Fed. Cir. 1998).

117. *See Cygnus Therapeutics Systems v. ALZA Corp.*, 92 F.3d 1153, 1161, 39 U.S.P.Q.2d (BNA) 1666, 1672 (Fed. Cir. 1993).

ent.<sup>118</sup> The *Atari* court declined to address the degree of “relatedness” of the antitrust issue to the patent issue in a *Walker Process* claim.<sup>119</sup> Thus, the *Nobelpharma en banc* decision suggests that a specific pleading of infringement-based antitrust violation requires that the patent element be addressed before addressing the other elements of antitrust.

*Nobelpharma* should not, however, be construed to mean that all civil claims having a patent element should fall under the subject matter jurisdiction of the Federal Circuit. The *Nobelpharma* decision reflects a tension between the need to provide a uniform body of patent law on the one hand, and federalism issues inherent in taking jurisdiction over a class of cases on the other hand.<sup>120</sup> In *Dow Chemical Co. v. Exxon Corp.*,<sup>121</sup> decided within a few days of *Nobelpharma*, Dow alleged state unfair trade practice violations based, in part, on patent law violations.<sup>122</sup> The majority noted that federal patent law regarding the alleged inequitable conduct before the PTO did not preempt the state law torts of unfair competition because the tort may be proven without any showing of misconduct before the PTO.<sup>123</sup> In *Hunter Douglas, Inc. v. Harmonic Design*,<sup>124</sup> decided after *Nobelpharma* and *Dow Chemical*, Hunter Douglas sought a declaratory judgment of noninfringement, invalidity, or unenforceability of some of Harmonic Design’s patents.<sup>125</sup> Hunter Douglas also pleaded state law causes of action, such as a state law tort of injurious falsehood premised on Harmonic Design’s assertion of patent invalidity.<sup>126</sup> The court held that its jurisdiction arose under sections 1338(a) and 1295(a)(1) only for the tort of injurious falsehood because that complaint—a falsity with respect

---

118. See *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875, 228 U.S.P.Q. (BNA) 90, 99-100 (Fed. Cir. 1985).

119. See *Atari*, 747 F.2d at 1428-29, 223 U.S.P.Q. at 1078.

120. See generally *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 47 U.S.P.Q.2d (BNA) 1769 (Fed. Cir. 1998); *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470, 46 U.S.P.Q.2d (BNA) 1120, *reh’g denied* 46 U.S.P.Q.2d (BNA) 1859 (Fed. Cir. 1998); *Biodex Corp. v. Loredan Biomedical, Inc.* 946 F.2d 850, 20 U.S.P.Q.2d (BNA) 1252 (Fed. Cir. 1991).

121. 139 F.3d 1470, 46 U.S.P.Q.2d (BNA) 1120, *reh’g denied* 46 U.S.P.Q.2d (BNA) 1859 (Fed. Cir. 1998).

122. See *id.* at 1471-72, 46 U.S.P.Q.2d at 1122.

123. See *id.* at 1477, 46 U.S.P.Q.2d at 1126 (Lourie, J. dissenting) (stating that Dow’s state law cause of action should be preempted by federal patent law because a question of inequitable conduct before the PTO was at issue, regardless of whether non-patent elements beyond inequitable conduct must be shown).

124. 153 F.3d 1318, 47 U.S.P.Q.2d (BNA) 1769 (Fed. Cir. 1998).

125. See *id.* at 1322, 47 U.S.P.2d at 1771.

126. See *id.*

to patent procurement—necessarily depended on resolution of a question of federal patent law.<sup>127</sup>

The Federal Circuit, having established its statutory subject matter jurisdiction over infringement-based antitrust claims, was able to further contribute to the creation of a uniform body of law by using the unique set of facts in *Nobelpharma* to 1) simultaneously review the tests for *Walker Process* fraud and *P.R.E.* bad faith patent assertion, and then 2) rule on the relative independence of the two types of fraud as applied to a patentee's conduct.<sup>128</sup>

## VI. CONCLUSION

The *Nobelpharma* decision is framed by the heightened awareness in the Federal Circuit and the regional circuits of anticompetitive behavior by intellectual property owners.<sup>129</sup> By providing guidance for the analysis of patent misconduct affecting antitrust issues and taking such cases into its subject matter jurisdiction, the Federal Circuit attempts to provide coherence to the current judicial discourse on patent-related antitrust issues. Under *Nobelpharma*, a patent owner must accept the risk that assertion of

---

127. See *Hunter Douglas*, 153 F.3d at 1328-29, 47 U.S.P.Q.2d at 1776 (applying the analysis in *Dow Chemical*, and holding that a state law claim of injurious falsehood arose under section 1338(a) because assertion of an invalid and unenforceable patent is conduct that raises a substantial question of federal patent law).

128. Apparently, confusion over jurisdiction in infringement-based antitrust claims continues despite the Federal Circuit's attempt to clarify the issue in *Nobelpharma*. In *In re FilmTec Corporation*, No. 548, 1998 U.S. App. LEXIS 17322 (July 7, 1998), the court rejected FilmTec's argument that the Federal Circuit "has exclusive jurisdiction to determine whether a patentee should be stripped of immunity from antitrust laws." *Id.* at \*4-\*5 (emphasis added). FilmTec appeared to be referring to the Federal Circuit's statements regarding the court's exclusive jurisdiction over patent law. See *id.* However, in *In re FilmTec*, the court noted that its holding in *Nobelpharma* provided that "conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law." *In re FilmTec*, No. 548, 1998 U.S. App. LEXIS at \*5 (citing *Nobelpharma*, 141 F.3d at 1068, 46 U.S.P.Q.2d at 1104). Based on the explicit rejection of FilmTec's argument that the Federal Circuit should have exclusive jurisdiction over deciding whether a patentee should lose its immunity to antitrust laws, the references to exclusive Federal Circuit jurisdiction in *Nobelpharma* should be construed as dicta. Note that FilmTec's argument also failed because the patent issue had been removed from the case, and only the antitrust claim remained. See *In re FilmTec*, No. 548, 1998 U.S. App. LEXIS at \*5-\*6.

129. See, e.g., *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 47 U.S.P.Q.2d (BNA) 1769 (Fed. Cir. 1998); *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470, 46 U.S.P.Q.2d (BNA) 1120, *reh'g denied* 46 U.S.P.Q.2d (BNA) 1859 (Fed. Cir. 1998); *Biodex Corp. v. Loredan Biomedical, Inc.*, 946 F.2d 850, 20 U.S.P.Q.2d (BNA) 1252 (Fed. Cir. 1991).

its patent carries an increased likelihood of scrutiny for fraudulent procurement or bad faith assertion before the patent owner's alleged anticompetitive behavior is adjudicated. In addition, the antitrust claimant must recognize that federal appellate jurisdiction over such antitrust claims depends upon a well-pleaded claim that appropriately arises under federal patent laws.<sup>130</sup>

---

130. See *FilmTec Corp. v. Hydranautics*, 67 F.3d 931, 36 U.S.P.Q.2d (BNA) 1410 (Fed. Cir. 1995) (holding that a patent holder's infringement action against a competitor was not a "sham" litigation, thereby precluding antitrust claims against it). See also *In re FilmTec*, No. 548, 1998 U.S. App. LEXIS at \*4-\*6 (stating that where section 1338(a) is not the basis of the district court's jurisdiction, the antitrust case lies with the Ninth Circuit and not the Federal Circuit). See generally *Christianson v. Colt*, 486 U.S. 800 (1988).



## THOMAS & BETTS CORP. V. PANDUIT CORP.

By *Ethan Andelman*

As the economic value of ideas increases, the creators and owners of ideas are seeking greater protection from intellectual property law.<sup>1</sup> One way to achieve greater protection is to claim the benefits of multiple forms of intellectual property for a single creation. With no per se prohibition against this practice,<sup>2</sup> intellectual property owners are seeking cumulative protection with increasing regularity.

However, the intellectual property laws do not necessarily lend themselves nicely to aggregation. Each form of intellectual property strikes its own balance among several competing interests: spurring innovation and creativity, protecting the owner's investment in its intellectual property, and allowing the public to use the information and inventions created by others. The policies underlying one form of intellectual property may be frustrated by the policies underlying another form. When this is the case, cumulative application of the laws could create a conflict.

A recent Seventh Circuit case, *Thomas & Betts Corp. v. Panduit Corp.*,<sup>3</sup> illustrates the conflict that can arise between patent law and trademark law. The owner of an expired patent claimed trade dress protection<sup>4</sup> in the product configuration disclosed as the best mode of practicing the patented invention. The court determined that patent policy did not preclude trademark protection of the product configuration. Unfortunately, the court came to this conclusion only after predicating trademark protection on the claims of the patent, which only confuses the issue.

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. See, e.g., Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (extending the term of copyright protection by twenty years).

2. The courts used to enforce a "doctrine of elections" in intellectual property—the owner elected the single form of intellectual property to protect subject matter eligible for protection under more than one form. This doctrine has not been enforced since the 1960s. See generally Douglas R. Wolf, *The Doctrine of Elections: Has the Need to Choose Been Lost?*, 9 CARDOZO ARTS & ENT. L.J. 439 (1991).

3. 138 F.3d 277 (7th Cir.), cert. denied, 119 S. Ct. 336 (1998).

4. Although "trademark" traditionally refers to text or a drawing while "trade dress" refers to the packaging or appearance of an item, the Supreme Court has ruled that the Lanham Act "provides no basis for distinguishing between trademark and trade dress." *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 773 (1992). The two terms are used interchangeably in this Note.

Trademark protection should hinge only upon the alleged trademark, and not upon the wording of any patent claims that might cover the mark.

## I. THE INTERSECTION OF PATENT AND TRADEMARK LAW

### A. Background

Under its constitutional mandate, patent law exists to “promote the progress of [the] useful Arts, by securing for limited Times to ... Inventors the exclusive Right to their ... Discoveries.”<sup>5</sup> The patent laws are designed to reward people who invent something new,<sup>6</sup> useful,<sup>7</sup> and nonobvious,<sup>8</sup> and who fully disclose the invention in a patent application.<sup>9</sup> The reward is a grant of the exclusive right to create, sell, and use the invention<sup>10</sup> for, at most, 20 years.<sup>11</sup> The patent system has been described as a bargain in which the inventor receives the right to exclude others from practicing the patented invention. In exchange, the public gets the benefit of the dissemination of a new invention.<sup>12</sup>

Trademarks, on the other hand, exist primarily to prevent consumer confusion and, as a secondary concern, to protect the trademark holder’s investment in the mark. Trademark protection is more limited in scope than patent protection: a trademark gives an owner the right to prevent use of the mark by others only when such use is likely to cause confusion.<sup>13</sup> Trademarks are valid for as long as the mark is used in commerce<sup>14</sup> and as long as the mark remains non-generic.<sup>15</sup>

Given these very different rationales—innovation versus consumer protection—conflict between these two forms of intellectual property can occur whenever the product configuration of a patented invention serves as an identifier of product source. To help channel inventions to the proper form of intellectual property protection, judges created the concept of

---

5. U.S. CONST. art. I, § 8, cl. 8. The same clause also provides the authority for federal copyright law.

6. *See* Patent Act, 35 U.S.C. § 102 (1998).

7. *See id.* § 101.

8. *See id.* § 103.

9. *See id.* § 112.

10. *See id.* § 271.

11. Until 1995, patents were valid for 17 years from issuance. Now, a patent expires 20 years from the date the application was filed. *See* 35 U.S.C. § 154(a)(2).

12. *See, e.g.,* *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989).

13. *See* Lanham Act § 32(1), 15 U.S.C. § 1114(1) (1998).

14. *See* Lanham Act § 8, 15 U.S.C. § 1058.

15. *See* Lanham Act § 14(3), 15 U.S.C. § 1064(3).

functionality in trademark law.<sup>16</sup> The functionality doctrine derives directly from the desire to prevent trademark and patent law from conflicting.<sup>17</sup>

Functionality has two distinct, but related, definitions. In one of the earliest cases to mention functionality, the Supreme Court in 1938 defined a functional feature as one that, by its absence, would raise cost and lower quality of the product.<sup>18</sup> This definition led to the effective competition test:<sup>19</sup> if the feature is required for competitors to compete effectively, it will be found to be functional. More recently, functionality was expanded to include features that are essential to the use or purpose of the product,<sup>20</sup> in other words, utilitarian features.<sup>21</sup>

### B. *Singer and Kellogg*: the right to copy an expired patent

The conflict between patent and trademark law was apparent over a century ago in *Singer Manufacturing Co. v. June Manufacturing Co.*<sup>22</sup> The Singer Company brought suit against a competitor that sold machines with the same distinctive shape as formerly-patented Singer machines.<sup>23</sup> Singer claimed a trademark on the configuration of the machines. The Supreme Court refused to find the machines' configuration to be a protectable trademark, deciding that patent policy required the configuration to be in the public domain:

---

16. See *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1336 (C.C.P.A. 1982) ("This requirement of 'nonfunctionality' is not mandated by statute, but 'is deduced entirely from court decisions.'") (quoting *In re Mogen David Wine Corp.*, 328 F.2d 925, 932 (C.C.P.A. 1964) (Rich, J., concurring)).

17. See J. THOMAS MCCARTHY, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 7.63 ("In order to accommodate trade dress law to the policies of patent law and of free competition, the common law early developed the policy that no trade dress or trademark rights could validly be claimed in 'functional' shapes or features.").

18. See *Kellogg v. National Biscuit Co.*, 305 U.S. 111, 122 (1938).

19. See, e.g., *Qualitex Co. v. Jacobson Prod. Co.*, 514 U.S. 159, 169 (1995) ("The functionality doctrine ... forbids the use of a product's feature as a trademark where doing so will put a competitor at a significant disadvantage..."); *Morton-Norwich*, 671 F.2d at 1339 ("[T]he public policy involved in this area of the law [is] not the right to slavishly copy articles which are not protected by patent or copyright, but the need to copy those articles, which is more properly termed the right to compete effectively.").

20. See *Inwood Lab., Inc. v. Ives Lab., Inc.*, 456 U.S. 844, 850 n.10 (1982).

21. This may not be a completely separate test. See, e.g., *Morton-Norwich*, 671 F.2d at 1340 ("'[F]unctionality' is determined in light of 'utility,' which is determined in light of 'superiority of design,' and rests upon the foundation 'essential to effective competition.'").

22. 163 U.S. 169 (1896).

23. See *id.* at 169.

It is self-evident that on the expiration of a patent ... the right to make the thing formerly covered by the patent becomes public property. ... It follows, as a matter of course, that on the termination of the patent there passes to the public the right to make the machine in the form in which it was constructed during the patent.<sup>24</sup>

The Supreme Court revisited the issue forty years later in *Kellogg Co. v. National Biscuit Co.*<sup>25</sup> Nabisco purchased the assets of The Shredded Wheat Company, which had been producing shredded wheat since the turn of the century using a patented machine designed to make only pillow-shaped biscuits.<sup>26</sup> Once the patent on the machine expired, Kellogg started selling pillow-shaped shredded wheat.<sup>27</sup> Nabisco sued in an effort to protect, among other things, its claimed trade dress in the pillow shape of its shredded wheat biscuits.<sup>28</sup> The Court reasoned that Kellogg could continue selling the pillow-shaped biscuits because, once the patents expired on the machines that produced only pillow-shaped biscuits, that form “was dedicated to the public.”<sup>29</sup>

These two decisions have been relied upon in many subsequent Supreme Court decisions to stand for the proposition that there is a right to copy an expired patent. In *Scott Paper Co. v. Marcalus Manufacturing Co.*,<sup>30</sup> the Court was asked to decide whether the assignor of a patent was estopped from asserting the patent’s invalidity due to anticipation in an expired prior art patent. The Court determined that there was no such estoppel, because “the patent laws ... dedicate to all the public the ideas and inventions embodied in an expired patent.”<sup>31</sup>

Twin decisions handed down by the Court in 1964—*Sears Roebuck & Co. v. Stiffel Co.*<sup>32</sup> and *Compco Corp. v. Day-Brite Lighting, Inc.*<sup>33</sup>—overturned an Illinois unfair competition law that had been interpreted to

---

24. *Id.* at 185.

25. 305 U.S. 111 (1938).

26. *See id.* at 113, 119.

27. *See id.* at 113.

28. *See id.* at 116.

29. *Id.* at 117. The Court also suggested that the pillow-shaped biscuit was a generic form not eligible for trademark protection. “[A] particular manufacturer can[not] assert exclusive rights in a form in which the public has become accustomed to see the article and which, in the minds of the public, is primarily associated with the article rather than a particular producer....” *Id.* at 120.

30. 326 U.S. 249 (1945).

31. *Id.* at 256.

32. 376 U.S. 225 (1964).

33. 376 U.S. 234 (1964).

prevent copying of lamps not protected by a patent or copyright.<sup>34</sup> In *Sears*, the Court stated that “when the patent expires the monopoly created by it expires, too, and the right to make the article—including the right to make it in precisely the shape it carried when patented—passes to the public.”<sup>35</sup> *Compco* held that “if the design is not entitled to a design patent or other federal statutory protection, then it can be copied at will.”<sup>36</sup>

The Supreme Court relied upon all of the above cases in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*<sup>37</sup> to determine that state law could not extend “patent-like” protection to inventions that did not qualify for federal protection.<sup>38</sup> The Court, referring to *Singer* and *Kellogg*, stated that “[f]or almost 100 years it has been well established that in the case of an expired patent, the federal patent laws do create a federal right to ‘copy and use.’”<sup>39</sup>

### C. Recent cases: no right to copy

Despite the Supreme Court’s pronouncements, lower courts have routinely acted as if there were no absolute right to copy an invention covered by an expired patent. For instance, in *In re Mogen David Wine Corp.*,<sup>40</sup> the Court of Customs and Patent Appeals decided that a bottle design protected by a design patent can also be the basis for a trademark registration. The court held that the conclusion was justified, for “[w]e know of no provision of patent law, statutory or otherwise, that guarantees to anyone an absolute right to copy the subject matter of any expired patent.”<sup>41</sup>

The Federal Circuit has reaffirmed this holding, post-*Bonito Boats*, in two cases challenging the court’s jurisdiction.<sup>42</sup> In *Leatherman Tool Group, Inc. v. Cooper Industries*,<sup>43</sup> a manufacturer of a pocket tool sued a competitor for infringing the tool’s trade dress. The original complaint did

---

34. See *Compco*, 376 U.S. at 234-35; *Sears*, 376 U.S. at 225-26.

35. *Sears*, 376 U.S. at 230.

36. *Compco*, 376 U.S. at 238.

37. 489 U.S. 141 (1989).

38. See *id.* at 156.

39. *Id.* at 165.

40. 328 F.2d 925 (C.C.P.A. 1964).

41. *Id.* at 930.

42. Unless a district court case arises under the patent laws, the Federal Circuit has no jurisdiction to hear the appeal. Conversely, the Federal Circuit has exclusive appellate jurisdiction over *all* cases “arising under” the patent laws. See 28 U.S.C. § 1338(a) (granting district courts jurisdiction, exclusive of state courts, for causes “arising under” the patent laws); *id.* § 1295(a)(1) (granting the Federal Circuit exclusive jurisdiction over appeals of cases in which the district court’s jurisdiction is “based, in whole or in part, on 28 U.S.C. § 1338”).

43. 131 F.3d 1011 (Fed. Cir. 1997).

not include a patent action, but the competitor defended on the grounds that the patent laws allow copying of an unpatentable design. The court examined *Bonito Boats* and determined that "the Supreme Court made clear that the patent laws provide a limited right to exclude others from making, using, or selling a claimed invention for a limited period of time, but ... create no affirmative right ... to make or copy what is in the public domain and excluded from patent protection."<sup>44</sup> The Federal Circuit transferred the appeal to a regional circuit because no part of the case "arose under" the patent laws and, therefore, it had no jurisdiction.

In *Hunter Douglas, Inc. v. Harmonic Design, Inc.*,<sup>45</sup> the plaintiff sought a declaration that it had a right to copy and use material in the public domain. The Federal Circuit "reaffirm[ed], consistent with our precedent, that there is neither a federal right to copy and to use, be it constitutional or statutory in source, nor an implied remedy for that purported right."<sup>46</sup> The court dismissed the count for lack of jurisdiction, for the "allegation of a right and remedy is, without doubt, meritless."<sup>47</sup>

#### **D. Vornado's significant, inventive aspect test**

The only recent case directly addressing whether a product configuration disclosed in a patent can be protected as a trademark is the Tenth Circuit's decision in *Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*<sup>48</sup> Vornado sold a patented fan with a spiral grill.<sup>49</sup> The spiral shape of the grill was an element of the patent claims.<sup>50</sup> A competitor copied the grill design, but did not infringe Vornado's patent in doing so.<sup>51</sup> Vornado claimed trade dress protection over the grill's spiral design.<sup>52</sup> The court rejected the trade dress claim, holding that patent policy dictated that a "described, significant inventive aspect" of a patented invention be free for copying upon expiration of the patent.<sup>53</sup> The court decided that the spi-

---

44. *Id.* at 1015.

45. 153 F.3d 1318 (Fed. Cir. 1998).

46. *Id.* at 1325.

47. *Id.* at 1328.

48. 58 F.3d 1498 (10th Cir. 1995).

49. *See id.* at 1500.

50. *See id.*

51. *See id.* at 1501.

52. *See id.*

53. *Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, 58 F.3d 1498, 1510 (10th Cir. 1995).

ral grill was a significant inventive aspect of Vornado's patent based upon its inclusion as an element of the patent claims.<sup>54</sup>

## II. THE *THOMAS & BETTS* DECISION

### A. Facts of the case and procedural history

Thomas & Betts (T&B) and Panduit both manufacture cable ties, which are designed to bundle wires together. A cable tie is a thin strip of plastic, usually shorter than 10 inches, with a slotted head on one end into which the opposite end of the tie can be inserted and locked into place. The locking mechanism can either be one-piece, in which the plastic of the head is molded to act as a one-way ratchet, or two-piece, in which a metal barb in the head of the tie holds the tail in place.

T&B received a patent in 1965 on a two-piece cable tie. This patent, referred to in the court decisions as the Schwester patent,<sup>55</sup> expired in 1982. The Schwester patent discloses a self-clinching cable tie, described in the patent specification with a head-end portion terminating in an "oval shaped clinching eyelet."<sup>56</sup> The patent claims, however, are much broader, ignoring the shape of the head.<sup>57</sup> T&B has continued to produce a tie essentially identical to that disclosed in the Schwester patent.<sup>58</sup> In 1994, Panduit began to produce a cable tie, sold under the "Barb-Ty" trademark, substantially similar in appearance to T&B's tie, including the oval-shaped head.<sup>59</sup>

T&B filed suit in the Northern District of Illinois shortly after Panduit began selling its Barb-Ty.<sup>60</sup> T&B sought to permanently enjoin Panduit from manufacturing the Barb-Ty on the grounds that Panduit infringed T&B's trade dress in the oval shape of the cable tie head.<sup>61</sup> The magistrate judge granted a preliminary injunction in favor of T&B in December

---

54. *See id.* The court recognized, however, that the contribution of a particular feature may not be clear, and it did not rule out the possibility of a court conducting a factual inquiry to "supplement its reading of the patent's claims and descriptions." *Id.*

55. U.S. Patent No. 3,186,047 (issued June 1, 1965) [hereinafter Schwester patent].

56. *Id.* at col. 2, l. 4.

57. The three claims all cover "[a] self clinching bundling strap comprising a head-end portion, a tapered tail-end portion and a body portion therebetween...." *Id.* at col. 3, ll. 17-21, 36-38; col. 4, ll. 9-11.

58. *See Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 282 (7th Cir. 1998).

59. *See id.*

60. *See id.*

61. *See id.*

1994.<sup>62</sup> The Seventh Circuit reversed in September 1995.<sup>63</sup> The district court subsequently granted summary judgment to Panduit.<sup>64</sup> The Seventh Circuit again took the appeal in *Thomas & Betts* and reversed the summary judgment.

### B. The Seventh Circuit's reversal of summary judgment

*Thomas & Betts* provided the Seventh Circuit with an issue of first impression: whether "a product configuration that is disclosed in an expired utility patent [can] be protected as trade dress under the Lanham Act."<sup>65</sup> The court started its analysis with a brief review of the policies underlying the patent and trademark laws. It then discussed Supreme Court precedent.<sup>66</sup> The court distinguished each cited case on its facts, leaving no relevant precedent for it to follow. *Sears* and *Bonito Boats* were dismissed as relating only to federal preemption of state intellectual property and unfair competition law and were inapplicable to federal trademark law.<sup>67</sup> The court held that *Singer* only applies when "the machines' shapes [are] dictated by patents covering the machines' various components," which was not the case in *Thomas & Betts*.<sup>68</sup> *Kellogg* was distinguished on similar grounds—"the shape of the shredded wheat biscuit was dictated by the patented machines used to produce it, a situation not present in [*Thomas & Betts*]."<sup>69</sup> The court dismissed *Scott Paper* as dicta because the main issue in that case was assignor estoppel.<sup>70</sup> Finally, the court cited *Compco* for the proposition that trade dress protection may be available for the oval head, pointing out that the Lanham Act qualifies as "other federal statutory protection."<sup>71</sup>

The Seventh Circuit examined the Tenth Circuit's decision in *Vornado*<sup>72</sup> to decide whether the Tenth Circuit's reasoning was determinative. The Seventh Circuit decided that *Vornado* did not apply because the oval

---

62. See *Thomas & Betts Corp. v. Panduit Corp.*, 34 U.S.P.Q.2d (BNA) 1545 (N.D. Ill. 1994).

63. See *Thomas & Betts Corp. v. Panduit Corp.*, 65 F.3d 654 (7th Cir. 1995), cert. denied, 516 U.S. 1159 (1996).

64. See *Thomas & Betts Corp. v. Panduit Corp.*, 935 F. Supp. 1399 (N.D. Ill. 1996) (dismissing four of five counts); *Thomas & Betts Corp. v. Panduit Corp.*, 940 F. Supp. 1337 (N.D. Ill. 1996) (dismissing final count).

65. *Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 283 (7th Cir. 1998).

66. See discussion of these cases, *supra* Part I.B.

67. See *Thomas & Betts*, 138 F.3d at 286.

68. *Id.*

69. *Id.*

70. See *Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 287 (7th Cir. 1998).

71. *Id.*

72. 58 F.3d 1498 (10th Cir. 1995).

shape of the head “is not part of the claims of the [Schwester] patent.”<sup>73</sup> The court reached this conclusion by examining the claims of the patent, which do not contain the word “oval.”<sup>74</sup> Because the oval head was not part of the claims, there was no per se bar to protecting the oval head as trade dress.<sup>75</sup>

The court proceeded to apply the tests it would use in any other trade dress infringement case and decided that there were material questions of fact in each of Panduit’s defenses. The available consumer surveys could be interpreted as showing secondary meaning.<sup>76</sup> T&B had evidence that showed likelihood of confusion was a potential problem.<sup>77</sup> Finally, the court decided that T&B had enough evidence to question the accuracy of the district court’s determination that the oval head was functional and, therefore, unprotectable as trade dress.<sup>78</sup> With these material questions of fact on T&B’s side, the court held summary judgment for Panduit to be inappropriate and remanded the case for trial.

### III. DISCUSSION

The court in *Thomas & Betts* reached the correct conclusion: patent law does not prevent a product configuration disclosed in an expired patent from being protected as trade dress. However, the Seventh Circuit’s analysis creates an unfortunate precedent arising from its misunderstanding of the relationship between patent and trademark law. Had the court examined the true relationship between these two forms of intellectual property, it would have realized that the proper analysis would have been simply to examine the allegedly-trademarked feature—the oval head—without reliance on the patent. Such an analysis would have avoided a highly unusual procedure undertaken by the court in *Thomas & Betts*—the construction of patent claims by a regional circuit.

#### A. Patent and trademark are separate forms of intellectual property

The Seventh Circuit’s analysis inextricably links the availability of trademark protection for product configurations to the claims of a patent.

---

73. *Thomas & Betts*, 138 F.3d at 290-91.

74. *See id.* at 290 (“Despite the advanced level of legalese with which these claims are drafted, they resemble English closely enough for us to clearly discern that the oval-shaped head of T&B’s cable tie is not part of the claimed invention.”).

75. *See Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 290-91 (7th Cir. 1998).

76. *See id.* at 295.

77. *See id.* at 297.

78. *See id.* at 299-300.

Such a linkage means that the outcome of a case such as *Thomas & Betts* turns not on the feature on which trade dress is claimed, but by the language chosen by the prosecuting patent attorney to describe the invention in the patent. Patent and trademark are separate forms of intellectual property protection; to condition trademark protection on the language of a patent, as opposed to the characteristics of the claimed trade dress, creates a relationship between the two forms of intellectual property that is neither dictated by law nor suggested by policy.

1. *The "right to copy" is only a general rule, not an affirmative right*

The many Supreme Court decisions announcing a "right to copy" an expired patent are very misleading. No such right exists—lower courts have long recognized that no constitutional or statutory authority mandates it.<sup>79</sup> The "right to copy," however, does have a kernel of truth in it: in the vast majority of cases, the public will be allowed to "slavishly copy"<sup>80</sup> a patented invention upon expiration of the patent. The "right to copy" is not an affirmative right at all; rather, it is a general rule subject to the factual circumstances surrounding each case.

The absence of an affirmative right to copy has been acknowledged by the courts by their treatment of design patents. Configurations and designs protected by a design patent may be protected by trademark law after expiration.<sup>81</sup> Although design patents and utility patents are granted on different categories of inventions,<sup>82</sup> nothing in patent law (or the Constitution)

---

79. See, e.g., cases discussed *supra*, Part I.C. See also *Kohler Co. v. Moen, Inc.*, 12 F.3d 632 (7th Cir. 1993); *In re Honeywell*, 497 F.2d 1344 (C.C.P.A. 1974) (reaffirming *In re Mogen David Wine Corp.*, 328 F.2d 925 (C.C.P.A. 1964)).

80. This phrase appears in many trademark and patent cases dealing with copying. It derives from Learned Hand's opinion in a trademark infringement case, *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299 (2d Cir. 1917):

[T]he plaintiff has the right not to lose his customers through false representations . . . , but he may not monopolize any design or pattern, however trifling. The defendant, on the other hand, may copy the plaintiff's goods slavishly down to the minutest detail; but he may not represent himself as the plaintiff in their sale.

*Id.* at 301.

81. See, e.g., *Mogen David*, 328 F.2d 925. See generally Wolf, *supra* note 2 (examining the demise of the Doctrine of Elections).

82. A design patent provides protection for an ornamental design. See 35 U.S.C. § 171 ("Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor. . ."). A utility patent, on the other hand, can only be granted on something that is useful. See *id.* § 101 ("Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter . . . may obtain a patent therefor. . .").

suggests that design patents can be protected by other forms of intellectual property while utility patents cannot. Both types of patents arise from the same constitutional provision, and the section of the Patent Act authorizing design patents expressly incorporates the utility patent provisions to govern the granting of design patents.<sup>83</sup> That design patents may be protected by trademark after expiration suggests that utility patents may be as well.<sup>84</sup>

Even if utility patents were to be treated differently than design patents, patent law is not able to create an affirmative right to copy upon expiration. A patent gives the owner the ability to exclude others from practicing the patented invention; it does not create a right to make the invention.<sup>85</sup> For instance, there could be a blocking patent on the invention, or state law might prohibit the production of a patented invention (such as a radar detector or a gambling device). If the owner of a patent has no affirmative right to practice the patent when the patent is valid, the expiration of the patent cannot possibly create such a right. The only significance to the expiration of a patent, therefore, is that the right granted by the patent laws to exclude others from practicing the invention no longer exists.<sup>86</sup>

Once it expires, a patent is generally said to be in the public domain. But “[t]he fact that there are distinct and separate bodies of law for patent, trademark and copyright demands careful use of the terminology ‘in the public domain.’ A thing may be in the ‘public domain’ for one area of law, but *not* for the others.”<sup>87</sup> The expiration of a patent merely puts the inven-

---

83. See 35 U.S.C. § 171 (“The provisions of this title relating to patents for inventions shall apply to patents for designs, except as otherwise provided.”). The exceptions are minimal: ornamentality rather than usefulness, *id.*, certain priority rights, *id.* § 172, and the term of the patent, *id.* § 173. See also Wolf, *supra* note 2, at 459-60.

84. At least one court has made a similar holding with regard to copyrights, the other form of intellectual property authorized by Article I, section 8, clause 8 of the Constitution. See *Frederick Warne & Co. v. Book Sales, Inc.*, 481 F. Supp. 1191, 1196 (S.D.N.Y. 1979) (“The fact that a copyrightable character or design has fallen into the public domain should not preclude protection under the trademark laws so long as it is shown to have acquired independent trademark significance.”).

85. See, e.g., *Leatherman Tool Group, Inc. v. Cooper Indus.*, 131 F.3d 1011, 1015 (Fed. Cir. 1997) (“[T]he federal patent laws do not create any affirmative right to make, use, or sell anything.”).

86. See *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185 (1896) (“It is self-evident that on the expiration of a patent the monopoly created by it ceases to exist...”); *In re Mogen David Wine Corp.*, 328 F.2d 925, 930 (C.C.P.A. 1964) (“Patent expiration is nothing more than the cessation of the patentee’s right to exclude held under the patent law.”).

87. MCCARTHY, *supra* note 17, § 6.5 (emphasis in original).

tion in the *patent* public domain, meaning it is no longer protected (or protectable) under the patent laws. An absolute right to copy exists only for items *fully* in the public domain, i.e., not protected by *any* body of intellectual property law.<sup>88</sup> This statement is nothing more than a truism—if no law prohibits the copying of an idea, it is free for the taking.<sup>89</sup>

It may be rare for there to be additional protection on portions of the invention contained in an expired patent. States are barred from protecting utilitarian inventions as such,<sup>90</sup> as this would undermine the Constitution's Patent Clause.<sup>91</sup> Congress and the courts have developed policies as part of the federal intellectual property laws to guard against "back-door" patents, under the theory that patent law ought to be the only available intellectual property protection for utilitarian inventions.<sup>92</sup> For instance, copy-

---

88. The public domain is also not permanent—in many instances, trademarks come from the public domain, appropriated by a producer of a product to distinguish its goods in the marketplace. *See, e.g.*, Trade-Mark Cases, 100 U.S. 82, 94 (1879) ("The trademark may be, and generally is, the adoption of *something already in existence* as the distinctive symbol of the party using it.") (emphasis added); Boston Professional Hockey Assoc., Inc. v. Dallas Cap & Emblem Mfg., Inc., 510 F.2d 1004, 1014 (5th Cir. 1975) ("An individual selects a word or design that might otherwise be in the public domain to represent his business or product. If that word or design comes to symbolize his product or business in the public mind, the individual acquires a property right in the mark."); Jessica Litman, *The Public Domain*, 39 EMORY L.J. 965, 1014 (1990) ("The trademark statute permits a word to be withdrawn from the public domain only if, and only to the extent that, it has acquired a proprietary meaning.").

89. The same could be said about real and personal property as well. Absent any law granting an exclusive right to use a parcel of land, for instance, the land would be available for all to use.

90. *See* Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 164 (1989) ("[T]he federal standards for patentability, at a minimum, express the congressional determination that patent-like protection is unwarranted as to certain classes of intellectual property."). But courts have also recognized that patent law ought not be the only possible protection for all aspects of these inventions. *See* Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 232 (1964) ("[A state] may protect businesses in the use of their trademarks, labels, or distinctive dress in the packaging of goods so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods.").

91. Congress was explicitly granted the power to issue patents to prevent each state from protecting inventions under its own set of laws. Under the Articles of Confederation, a patent on the same invention was sometimes granted to different people in different states. *See* ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 125-26 (1997).

92. This policy may be constitutionally mandated. *See* Theodore H. Davis, Jr., *Copying in the Shadow of the Constitution: The Rational Limits of Trade Dress Protection*, 80 MINN. L. REV. 595 (1996) (arguing that functionality is constitutionally required). *But see* Michael S. Perez, *Reconciling the Patent Act and the Lanham Act: Should Product Configurations be Entitled to Trade Dress Protection After the Expiration of a Utility or Design Patent?*, 4 TEX. INTELL. PROP. L.J. 383 (1996) (suggesting

right law will not protect a utilitarian invention unless it was originally designed as a work of applied art (as opposed to an industrial design).<sup>93</sup> Trademark protection of utilitarian inventions is prevented through the doctrine of functionality.<sup>94</sup>

With both copyright and trademark law refusing to protect utilitarian inventions and with the inability of states to protect such inventions, the expiration of any patent protection on a utilitarian invention will usually leave the entire invention unprotected and, therefore, free for the taking. Thus, the "right to copy" does not come from patent (or other intellectual property) law, but from the usual lack of protection on the invention once the patent expires.<sup>95</sup> This means that, in certain cases, portions of an invention could be protected under other intellectual property regimes after patent expiration.

2. *Functionality is a trademark doctrine and should be analyzed with regard to the trademark at issue*

Functionality has long been seen as preventing all conflict between the patent and trademark laws.<sup>96</sup> The Tenth Circuit, however, remarked in *Vornado* that "[c]onfigurations can simultaneously be patentably useful, novel, and nonobvious and also nonfunctional, in trade dress parlance."<sup>97</sup> If this is true, there could be instances in which a trademark could be granted for a patentable feature.<sup>98</sup>

---

that, under certain circumstances, the configuration of a patented article may be protected as trade dress).

93. See, e.g., *Brandir Int'l Inc. v. Cascade Pac. Lumber Co.*, 834 F.2d 1142 (2d Cir. 1987).

94. See *supra* notes 18-21 and accompanying text.

95. See *In re Deister*, 289 F.2d 496, 501 n.3 (C.C.P.A. 1961) ("[T]he right to copy is not derived in any way from the patent law; it is a right which inheres in the public under the general law except to the extent the patent law may remove it.").

96. See, e.g., *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 164 (1995) ("The functionality doctrine prevents trademark law, which seeks to promote competition by protecting a firm's reputation, from instead inhibiting legitimate competition by allowing a producer to control a useful product feature. It is the province of patent law, not trademark law, to encourage invention by granting inventors a monopoly over new product designs or functions for a limited time, after which competitors are free to use the innovation.") (internal citation omitted).

97. *Vornado Air Circulation Sys. v. Duracraft Corp.*, 58 F.3d 1498, 1506 (10th Cir. 1995).

98. Professor McCarthy disagrees with the *Vornado* court on this point. See MCCARTHY, *supra* note 17, § 7.89 ("[T]he Tenth Circuit's narrow view of what was 'functional' led the court to the peculiar conclusion that a shape which was an element of a patent claim and which was described as functionally superior in the patent disclosure could be one competitor's exclusive property as trade dress upon proof of inherent dis-

A feature disclosed in a patent, however, is not necessarily utilitarian, either from a patent or functionality view. The disclosure of a feature in a patent may be evidence of its utilitarian nature and, hence, its functionality, but it is not conclusive evidence.<sup>99</sup> While it is likely that many, if not most, features disclosed in utility patents are functional and, therefore, ineligible for trademark protection, a categorical rule is not appropriate. The primary concern should not be whether the claimed trade dress appears in the patent or is an element of the patent claims, but whether the claimed trade dress is functional.

The oval head in *Thomas & Betts* amply demonstrates the pitfalls of a categorical rule. Although the oval head appears in the patent,<sup>100</sup> there is no evidence that the oval head was chosen for utilitarian reasons. No utilitarian reasons appear in the patent specification, nor does the advertising used by T&B specifically tout the advantages of the oval head.<sup>101</sup> Panduit sells cable ties with rectangular heads said to have "smooth, round edges,"<sup>102</sup> similar to T&B's claims about the oval head in its advertising materials.<sup>103</sup> The oval head just does not appear to be utilitarian, despite its disclosure in a patent.

The outcome of the case should not hinge upon the patent claims, but on the invention itself. The claims may not recognizably describe the real invention. As Judge Rich has said, "What the inventor regards as his invention has very little, if anything, to do with most claims."<sup>104</sup> In fact, the judges in *Thomas & Betts* recognized in an earlier decision in the *Thomas & Betts* saga that predicating trademark protection on the claims of a patent may not be particularly wise:

---

tinctiveness or secondary meaning. To escape from this unacceptable conclusion, the *Vornado* court found relief in the policy ... which permits the free competitive use of a configuration covered by an expired patent.").

99. See *id.* § 6.10 ("[A] utility patent must be examined in detail to determine whether or not the disclosed configuration is really primarily functional or just incidentally appears in the disclosure of a patent.").

100. The court in *Thomas & Betts* did not determine that the oval head was, in fact, part of the best mode, the head appears in the patent drawings, and is the only indication of the head's shape in the specification. See Schwester patent, *supra* note 55, figs. 2-3 & col. 2, ll. 3-7.

101. See *Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 299-300 (7th Cir.), *cert. denied*, 119 S. Ct. 336 (1998).

102. PANDUIT CORP., PANDUIT CABLE TIES & WIRING ACCESSORIES 4 (1998) (Panduit product catalog) (on file with author).

103. See *Thomas & Betts*, 138 F.3d at 299-300.

104. Giles S. Rich, *Foreword* to DONALD S. CHISUM ET AL., PRINCIPLES OF PATENT LAW iii, v-vi (1998).

Whether or not a feature is claimed is not necessarily ... a good indicator of its relative importance to the invention as a whole.... [A] patent applicant seeks to draw his claims as broadly as possible with as few specific elements as he can get away with.... There is no reason, therefore, to infer from its absence as an element in a claim that the shape of the head is any less important to the two-piece cable tie than the spiral grill is to Vornado's fan.<sup>105</sup>

To illustrate, the cable tie covered by the Schwester patent could certainly have been described in a dependent claim that specified an oval head without affecting the scope of the patent protection. Yet the analysis in *Thomas & Betts* suggests that had the Schwester patent included the oval head in its claims, trade dress protection for the oval head would have been barred by patent law.<sup>106</sup> To predicate trademark protection today on how patent claims were drafted forty years ago makes little sense.

### **B. Regional circuits should not examine patent claims**

The Seventh Circuit, to distinguish its case from *Vornado*, examined the claims of the Schwester patent. Although this may seem an innocuous action and a necessary step in the court's analysis, it is an analysis that is nearly unprecedented since the creation of the Federal Circuit. *Thomas & Betts* is the only regional circuit decision of an appeal filed after 1982 to interpret the claims of a patent, with the exception of a single Sixth Circuit decision from 1985.<sup>107</sup> While *Thomas & Betts* was properly in the Seventh Circuit, Federal Circuit precedent strongly suggests that regional circuits should resolve trade dress infringement cases without reference to patent

---

105. *Thomas & Betts Corp. v. Panduit Corp.*, 65 F.3d 654, 660 (7th Cir. 1995).

106. It is certainly possible that, had the oval head been mentioned in the claims, that the court in *Thomas & Betts* would have either refused to follow *Vornado* or tried to decide whether this "described" feature was a "significant inventive aspect." But such speculation buries the point—the court should not be referring to the patent to determine whether the oval head qualifies for trade dress protection.

107. Search of Westlaw, CTA database (Dec. 6, 1998) (use terms "PATENT /3 CLAIM! /P (INTERPRET! CONSTRUCT!) & DA(AFT 1982) & CO(C.A.FED.)"). The search retrieved 51 cases. Other than *Thomas & Betts*, the only case retrieved that involves an interpretation of a patent claim and that has a docket number indicating the appeal was filed after 1982 is *Seaman Corp. v. Reeves Bros.*, 776 F.2d 584 (6th Cir. 1985). Why *Seaman* was decided by the Sixth Circuit instead of the Federal Circuit is unclear.

*Thomas & Betts* is also the only regional circuit decision to have cited the portion of *Markman v. Westview Instruments*, 517 U.S. 370 (1996), that declared interpretation of patent claims to be a matter of law. KeyCite query in Westlaw, 517 U.S. 370 (searched on Dec. 6, 1998) (search limited to headnote 10).

claims; otherwise, the Federal Circuit would have jurisdiction over these cases.<sup>108</sup>

The Federal Circuit has appellate jurisdiction, exclusive of the regional circuits, over cases that arise under the federal patent laws.<sup>109</sup> The Federal Circuit has recently interpreted its jurisdiction to include any federal or state claim in which the only way a plaintiff may prevail depends on "resolving a substantial question of federal patent law."<sup>110</sup> These substantial questions include infringement, validity, and enforceability of patents.<sup>111</sup> Cases raising these questions are ones in which patent claims are normally interpreted. The Supreme Court ruled in *Markman v. Westview Instruments, Inc.*<sup>112</sup> that uniformity in patent cases can best be served by trial judges constructing patent claims, with sole appeal to the Federal Circuit.<sup>113</sup> If the analysis in *Thomas & Betts* is the proper way to determine whether a particular configuration may be protectable trade dress, it would seem to fall under the Federal Circuit's jurisdiction and arise under the patent laws.

The Federal Circuit, however, has held in both *Leatherman* and *Hunter Douglas* that public domain defenses to trade dress infringement cases do not arise under the patent laws.<sup>114</sup> This is because patent law does not create an affirmative right to copy, and any policy rationale for not protecting utilitarian features is subsumed wholly within trademark law and the functionality doctrine. The entire analysis in *Thomas & Betts* is undertaken to determine the merits of Panduit's public domain defense. This analysis, rather than construing the patent claims to decide whether the oval head is claimed within the patent, should concentrate instead on the trademark functionality of the oval head. In this way, the analysis in *Thomas & Betts* would clearly be separated from the patent laws, properly be in the Seventh Circuit, and be consistent with Federal Circuit precedent.

---

108. Although Federal Circuit precedent is not binding on regional circuits, its decisions regarding its own jurisdiction would likely be extremely persuasive to a regional circuit. See *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988), for an account of the futile forum transfers that can result from jurisdictional disagreement between the Federal Circuit and a regional circuit.

109. See 28 U.S.C. §§ 1292-95 (granting the Federal Circuit exclusive jurisdiction over appeals from cases arising under the patent laws).

110. *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1329 (Fed. Cir. 1998).

111. See *id.* at 1330.

112. 517 U.S. 370 (1996).

113. See *id.* at 390-91.

114. See discussion *supra* notes 42-47 and accompanying text.

The desirability of an analysis divorced from claim interpretation is shown not only by the analysis showing that patent and trademark law are separate, but also by the results of the *Thomas & Betts* experiment in reading patent claims. *Thomas & Betts* shows the kinds of errors that a court unskilled in reviewing patent claims can make, undermining the uniformity that the Federal Circuit has brought to patent law.

After examining the Schwester patent's claims, the court in *Thomas & Betts* concluded that the oval head was "not part of the claimed invention"<sup>115</sup> and "not part of the claims."<sup>116</sup> These phrases have no meaning in patent law. "A patent does not protect any single element or limitation, and patent law does [not] recognize any notion that something can be 'part of a claim.'"<sup>117</sup> Although the claim interpretation in *Thomas & Betts* was not undertaken to determine the scope of patent protection, the analysis is a tool of patent law. The result obtained from this tool ought to be one that makes sense in the proper setting.

#### IV. CONCLUSION

The intellectual property laws certainly have the potential to conflict, and courts have recognized that for years. But the way to prevent the conflict is to understand exactly what the laws aim to accomplish and how they work. The Seventh Circuit did not address these issues in *Thomas & Betts*; rather, it followed the reasoning set forth by the Tenth Circuit in *Vornado*. This caused the case to hinge upon the court's reading of the Schwester patent, tying trademark protection to the way patent claims were drafted in the 1960s. This linkage between patent and trademark law is not required or suggested by statute or case law. The Seventh Circuit should have specifically determined whether the oval head was functional within the definition of trademark law. This determination could have been made without such heavy reliance on the patent claims, which would have prevented the anomaly of regional circuits reading patent claims.

---

115. *Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 290 (7th Cir. 1998).

116. *Id.* at 291.

117. DONALD S. CHISUM ET AL., *PRINCIPLES OF PATENT LAW* § 1.04[6] n.57 (1998).



## EVERY DENNISON CORP. V. SUMPTON

By Leslie F. Brown

The need for federal trademark dilution protection has been a hotly debated issue for several decades.<sup>1</sup> The debate did not end with the passage of the Federal Trademark Dilution Act of 1995 ("Dilution Act").<sup>2</sup> Commentators disagreed over the necessity of federal dilution protection. Critics of the Act argued that the similarity between the language of existing trademark law and the proposed law would result in inconsistent applications and that the new law would give trademark holders monopolies or "ownership" of their marks.<sup>3</sup> In contrast, supporters of the amendment felt that a federal dilution statute would create consistency by federalizing existing state law.<sup>4</sup> Furthermore, supporters felt the Dilution Act would function as a weapon to prevent trademark infringement on the Internet.<sup>5</sup>

Recently, in *Avery Dennison Corp. v. Sumpton*,<sup>6</sup> the court applied the Dilution Act in a way that supporters will herald, but critics will condemn. In *Avery Dennison*, the Dilution Act was used to force Jerry Sumpton, a businessman, to transfer two of his registered domain names to Avery

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. For background on the Dilution Act debate, see generally James West Marcovitz, *Ronald@McDonalds.com—"Owning a Bitchin" Corporate Trademark as an Internet Address—Infringement?*, 17 CARDOZO L. REV. 85 (1995) (arguing that in order to protect holders from misuse of their marks as Internet addresses, the Lanham Act must be amended to include anti-dilution protection), and Kenneth L. Port, *The "Unnatural" Expansion of Trademark Rights: Is a Federal Dilution Statute Necessary?*, 18 SETON HALL LEGIS. J. 433 (1994) (arguing that a federal anti-dilution statute would overlap with existing state and federal trademark protection, be applied inconsistently, and expand trademark holder's right beyond the stated objectives of the Lanham Act).

2. 15 U.S.C. § 1125(c) (1998).

3. See Port, *supra* note 1, at 447-63.

4. See H.R. REP. NO. 104-374, § 5 (1995). The House Report stated that the purpose of the bill was to "bring uniformity and consistency to the protection of famous marks." *Id.*

5. As Senator Patrick Leahy of Vermont stated, "Although no one else has yet considered this application, it is my hope that this antidilution statute can help stem the use of deceptive Internet addresses taken by those who are choosing marks that are associated with the products and reputations of others." *Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227, 1238 (N.D. Ill. 1996) (quoting 141 CONG. REC. S19312 (daily ed. Dec. 29, 1995) (statement of Sen. Leahy)).

6. 999 F. Supp. 1337 (C.D. Cal. 1998).

Dennison Corp., the registered trademark holder of the names.<sup>7</sup> While this decision may have furthered the legislative goal of stemming trademark abuse on the Internet, it also extended trademark protection beyond the scope of the Dilution Act and previous case law. This Note examines how two previous cases involving “cybersquatters” were decided using the Dilution Act and compares their outcome to the decision of *Avery Dennison*. The discussion focuses on the interpretation of the factors articulated in the Dilution Act and the inconsistencies in analyzing these factors as illustrated by the cases. Finally, this Note addresses the far reaching and unfair effects the *Avery Dennison* decision may have on future cases in which the Internet and trademark law intersect.

## I. FEDERAL TRADEMARK DILUTION ACT OF 1995

Traditionally, trademark infringement exists where there is a “likelihood of confusion ... or mistake” as to the origin of competing products.<sup>8</sup> Marks only conflict if their use causes consumer confusion. Confusion results from merchants using the marks to promote competing goods or goods within the same marketing region.<sup>9</sup> While the Lanham Act provides protection against this traditional type of infringement, trademark holders are also concerned with damage to their marks caused by uses of their mark in the absence of confusion or competition. This idea of expanding trademark law to protect a trademark’s value in the marketplace was first articulated by Professor Frank Schechter in 1927.<sup>10</sup>

According to Professor Schechter the traditional “confusion” basis for trademark protection was not sufficient in the modern consumer setting.<sup>11</sup>

---

7. A domain name is a unique alphanumeric identifier assigned to each computer that has access to the Internet. Domain names consist of at least two parts - the “top level” domain and the “second level” domain. The rightmost string is called the “top level” domain and gives some indication of the type of organization administering the system. There are seven generic top level domains: “com” (commercial organizations), “edu” (educational), “gov” (government), “mil” (military), “org” (other organizations), “int” (organizations established by international treaties), and “net” (network providers). See Jon Postel, *Domain Name System Structure and Delegation*, RFC 1591 (Mar. 1994) (visited Oct. 14, 1998) <<http://info.internet.isi.edu/in-notes/frc/files/rfc1591.txt>>. The second level domain name is typically used to identify the entity maintaining the Internet web site. For example, in *avery.com*, “avery” is the second level domain name.

8. See 15 U.S.C. § 1125 (1998).

9. For example, no conflict would be found between a mark used to sell toothbrushes and an identical mark used to sell shoes.

10. See Frank Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

11. See *id.* at 814-19.

Schechter maintained that the true value of a trademark “lies in its selling power,” which is partly based upon a mark’s “uniqueness and singularity” in the marketplace.<sup>12</sup> Consequently, a mark used on a non-competing product could devalue an original mark’s selling power.<sup>13</sup> Schechter defined the resultant injury to the original mark as “the gradual whittling away or dispersion of the identity” of the mark caused from the mark’s use on non-competing goods.<sup>14</sup>

Although many states adopted anti-dilution statutes, a federal dilution statute was not enacted until 1995 when Congress amended the Lanham Act to include the Federal Trademark Dilution Act.<sup>15</sup> The Dilution Act adopted anti-dilution law similar to existing state laws.<sup>16</sup> Unlike traditional federal trademark law, which focuses on protection of the consumer, the Dilution Act’s primary focus is the protection of “famous marks.”<sup>17</sup> The amendment eliminated the need to prove consumer confusion in an action to bar the use of “another person’s commercial use in commerce of a mark ... if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark.”<sup>18</sup> The Dilution Act defines dilution as “the lessening of the capacity of a famous mark to identify and distinguish goods and services.”<sup>19</sup> Only injunctive relief is available under the Dilution Act; however, if there is a showing that the defendant “willfully intended to trade on the owner’s reputation or to cause dilution of the famous mark,” then the trademark holder is entitled to the additional remedies of lost profits, attorneys fees, and costs.<sup>20</sup> Consistent with its intent to only prohibit dilution in the context of “commercial use,” the Dilution Act explicitly exempts fair use, non-commercial use, and use in news reporting and commentary.<sup>21</sup>

Application of the statute usually addresses one of two forms of dilution—“blurring” or “tarnishment.”<sup>22</sup> The more common type of dilutive harm is blurring. Blurring occurs when a well-known mark is used in con-

---

12. *See id.* at 831.

13. *See id.* at 825.

14. *See id.* at 825.

15. *See* 15 U.S.C. § 1125 (1998).

16. Today over twenty-five states have adopted anti-dilution statutes. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 (1995).

17. *See* 15 U.S.C. § 1125(c) (1998).

18. *Id.*

19. 15 U.S.C. § 1127 (1998).

20. *See* 15 U.S.C. § 1125(c)(2).

21. *See id.* § 1125(c)(4).

22. *See* J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§ 24.15 -.16 (1998).

nection with a non-competing product.<sup>23</sup> Either because of a high degree of uniqueness or the extensive advertising efforts of the trademark holder, the mark becomes associated with a positive image. The harm occurs when a subsequent party ("junior user") uses the same mark on a different non-competing product or service, thereby creating in the consumer's mind a new association with the mark. The original mark is blurred to the extent that this new association decreases the mark's selling power.<sup>24</sup> Some examples are "DuPont shoes" and "Kodak pianos."

The more direct and offensive form of dilution, tarnishment, occurs when the unauthorized use of a mark results in negative associations with the mark.<sup>25</sup> In a recent tarnishment case, a defendant faced dilution charges for using a mark similar to the plaintiff's mark for advertising pornographic products and services on the Internet.<sup>26</sup> The district court found that the defendant's use of the mark "Adults R Us" tarnished the "Toys R Us" family of marks "by associating them with a line of sexual products that are inconsistent with the image Toys 'R' Us has striven to maintain for itself."<sup>27</sup>

In analyzing liability for federal trademark dilution, courts consider several elements: 1) the famousness of a mark; 2) the commercial use of the trademark in commerce; 3) whether the use began after the mark became famous; and 4) whether the use has caused dilution of the distinctive quality of the mark.<sup>28</sup> In determining the famousness or distinctiveness of a mark the Dilution Act suggests eight factors to consider in determining whether a mark is distinctive or famous.<sup>29</sup>

---

23. See JEROME GILSON, TRADEMARK PROTECTION AND PRACTICE § 5.11[4] (1996).

24. See, e.g., WAWA, Inc. v. Haaf, 1996 WL 460083 (E.D. Pa. 1996) (results of market survey showed that 29% of those interviewed at defendant's HABA market associated it with plaintiff's WAWA market).

25. See, e.g., Hasbro, Inc. v. Internet Entertainment Group, 1996 WL 84853 (W.D. Wash. 1996) (holding that defendant's use of candyland.com for a pornographic web site tarnished plaintiff's Candy Land mark, used to identify a children's board game).

26. See Toys "R" Us, Inc. v. Akkaoui, 1996 WL 772709, \*3 (N.D. Cal. 1996).

27. See *id.*

28. See 15 U.S.C. § 1125(c) (1998).

29. The Dilution Act provides:

In determining whether a mark is distinctive and famous, a court may consider factors such as, but not limited to —

- (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;

Although the language of the statute appears straightforward, recent court decisions demonstrate that the courts have had difficulty in interpreting all of these elements and that they have found dilution even where elements may be lacking. The following sections examine three Internet domain name disputes that applied the Dilution Act. Part II.A provides a factual background for each of the cases. Part II.B compares each court's analysis of the dilution claim elements. Finally, Part III discusses the effects the *Avery Dennison* decision may have on future dilution claims.

## II. APPLYING THE FEDERAL TRADEMARK DILUTION ACT TO DOMAIN NAME DISPUTES: THREE CASES

### A. Background

#### 1. *Panavision International, L.P. v. Toeppen*<sup>30</sup>

Dennis Toeppen, the defendant in the first two cases, has been accused by many people of being a "cybersquatter." A cybersquatter is someone who registers Internet addresses using popular trademarks as the domain name identifier and then attempts to sell the domain name to the registered trademark holder for profit.<sup>31</sup> The typical cybersquatter will register a domain name using the mark of a business with "deep pockets." Cybersquatters operate under the assumption that it is cheaper for the trademark holder to pay them to hand over the domain name than it is for the holder to litigate. By 1996, Toeppen had registered over 240 domain names including, *deltaairlines.com*, *eddiebauer.com*, *neiman-marcus.com*, and *yankeestadium.com*.<sup>32</sup> Panavision International is a well-established manu-

---

(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 use of the same or similar marks by third parties; and

(H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

*Id.* § 1125 (c)(1)(A)-(H).

30. 945 F. Supp. 1296 (C.D. Cal. 1996), *aff'd* by Panavision Int'l, L.P. v. Toeppen, 141 F. 3d 1316 (9th Cir. 1998). For a complete discussion of the *Panavision* holding, see Ughetta Manzone, *Panavision Int'l. v. Toeppen*, 13 BERKELEY TECH. L.J. 249 (1998).

31. See Greg Miller, *Cyber Squatters Give Carl's Jr., Others Net Loss*, L.A. TIMES, July 12, 1996, at A1 (discussing growing number of domain name and cybersquatting disputes).

32. See *Panavision*, 945 F. Supp. at 1300.

facturer of camera and filming equipment, that holds many federally registered trademarks, including the Panavision and Panaflex marks.<sup>33</sup>

In December of 1995, Toeppen applied for and received registration of the Internet domain name panavision.com.<sup>34</sup> The associated web page displayed an aerial photograph of Pana, Illinois.<sup>35</sup> Soon after, Panavision attempted to register the same address with InterNIC (the domain name registration service of Network Solutions, Inc., ("NSI")),<sup>36</sup> but was informed that the domain name was already in use by Toeppen.<sup>37</sup> When Panavision notified Toeppen of its desire to use the panavision.com domain name, Toeppen replied that he was willing to relinquish his use of the domain name for \$13,000.<sup>38</sup> After Panavision refused to pay, Toeppen registered the domain name panaflex.com.<sup>39</sup> At the panaflex.com address, Toeppen created a web page that simply said "Hello."<sup>40</sup> Panavision then sued alleging, among other claims, federal trademark dilution.<sup>41</sup>

On a motion for summary judgment, the district court held in favor of Panavision. The court found that Panavision was a famous mark,<sup>42</sup> that Toeppen's business of registering domain names to be sold later qualified as commercial use,<sup>43</sup> and that Toeppen's use diluted Panavision's mark by preventing it from identifying and distinguishing its products on the Internet.<sup>44</sup> The court enjoined Toeppen from further use of the web site and ordered him to relinquish the registration of the domain names to Panavision.<sup>45</sup>

The court in *Panavision* concluded by stressing that their decision was very narrow in scope. They were not granting carte blanche to trademark owners. The court's decision preserved the many fair uses available under the Dilution Act. One such use, the court discussed, was protection for a

---

33. *See id.* at 1298.

34. *See id.* at 1300.

35. *See id.*

36. InterNIC handles administration of Internet addresses in the top level domains ".com," ".net," ".org," ".edu," and ".int." *InterNIC Frequently Asked Questions* (visited Oct. 28, 1998) <<http://rs.internic.net/faq/new-reg.html>>.

37. *See Panavision International, L.P. v. Toeppen*, 945 F. Supp. 1296, 1300 (C.D. Cal. 1996).

38. *See id.*

39. *See id.*

40. *See id.*

41. *See id.* at 1298.

42. *See Panavision International, L.P. v. Toeppen*, 945 F. Supp. 1296, 1302 (C.D. Cal. 1996).

43. *See id.* at 1303.

44. *See id.*

45. *See id.* at 1306.

party who innocently registers a famous trademark as a domain name.<sup>46</sup> For example, someone from Pana, Illinois could register the panavision.com web site to provide a community political forum.<sup>47</sup>

## 2. *Intermatic Incorporated v. Toeppen*<sup>48</sup>

The facts of *Intermatic* are very similar to *Panavision*. Intermatic is a manufacturer and distributor of electrical and electronic products, sold under the name and trademark "Intermatic." In 1995, Toeppen registered the domain name intermatic.com with NSI.<sup>49</sup> In addition to using the mark as his Internet address, he advertised a software product with the name "Intermatic" on the web page.<sup>50</sup> Subsequently, when Intermatic wished to register the domain name and to begin conducting business on the web, they learned that Toeppen had already registered the domain name. Intermatic demanded that Toeppen discontinue use of the mark and relinquish the web site.<sup>51</sup> Toeppen agreed to discontinue use of the Intermatic mark for his software product, but refused to relinquish his domain name registration.<sup>52</sup> At Intermatic's request, NSI placed Toeppen's registration on hold.<sup>53</sup> Intermatic then filed suit, like Panavision, alleging trademark dilution.

The district court granted summary judgment for Intermatic.<sup>54</sup> The court found as a matter of law that the Intermatic mark is famous.<sup>55</sup> Next, the court found the commercial use requirement was satisfied by Toeppen's "intention to arbitrage" the domain name.<sup>56</sup> Simple "use of the Internet" was sufficient to fulfill the "in commerce" requirement.<sup>57</sup> Finally, Toeppen's use caused dilution by preventing Intermatic from using its own mark as a domain name.<sup>58</sup> The court ordered Toeppen to transfer

---

46. *See id.* at 1304.

47. *See id.*

48. 947 F. Supp. 1227 (N.D. Ill. 1996).

49. *See id.* at 1232.

50. *See id.*

51. *See id.*

52. *See id.*

53. According to Network Solutions Domain Name Dispute Policy, when the right to use a particular domain name is disputed, the domain in dispute may be placed on hold pending litigation. Network Solutions, Inc., *Network Solutions' Domain Name Dispute Policy* (visited Nov. 1, 1998) <<http://rs.internic.net/domain-info/internic-domain-6.html>>.

54. *See Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227, 1241 (N.D. Ill. 1996).

55. *See id.* at 1239.

56. *See id.*

57. *See id.*

58. *See id.* at 1240.

the domain name registration to Intermatic and enjoined him from any use of the Intermatic mark.<sup>59</sup>

### 3. *Avery Dennison v. Sumpton*<sup>60</sup>

Jerry Sumpton is a principal owner of a Canadian based domain name leasing company, Freeview Listings Ltd., which does business on the Internet as "Mailbank" (located at <<http://www.mailbank.com>>).<sup>61</sup> Freeview registered over 12,000 domain names with NSI and leases e-mail and web site addresses to persons on these domains. Freeview classifies the domain names into an assortment of categories including places, people, hobbies, and family names.<sup>62</sup> Freeview's business profits from an Internet user's desire to have an e-mail or web site address that incorporates their surname or some special interest they may have, somewhat similar to a vanity license plate. For example, if Freeview owned barker.net, a user could lease the e-mail address "bob@barker.net" or the web site "http://bob.barker.net". Among the domain names Freeview registered were avery.net and dennison.net.<sup>63</sup> Freeview listed both under the "Family Name" category.<sup>64</sup> Like the other domain names registered by Sumpton, these addresses were available for lease as an e-mail or web site address.<sup>65</sup>

Avery Dennison, a manufacturer and distributor of office products, does business under the names "Avery" and "Avery Dennison." Avery Dennison holds a number of federally registered trademarks, including "Avery" and "Dennison."<sup>66</sup> Avery Dennison is the owner of the domain names avery.com and averydennison.com, located in the commercial top level domain, ".com," and conducts business at these web sites.<sup>67</sup> Nonetheless, when Avery Dennison became aware that Freeview had registered the avery.net and dennison.net domain names, they offered to purchase the

---

59. *See id.* at 1241.

60. 999 F. Supp. 1337 (C.D. Cal. 1998).

61. *See* David M. Kelly and Marjorie Goux, *Taking Thy Name in Vain*, IP MAGAZINE (July 1998) (visited Sep. 15, 1998) <<http://www.ipmag.com/98-july/goux.html>>.

62. *See id.*; Mailbank, *Mailbank Homepage* (visited Oct. 2, 1998) <<http://www.mailbank.com>>.

63. *See* Avery Dennison Corp. v. Sumpton, 999 F. Supp. 1337, 1338 (C.D. Cal. 1998).

64. *See* Kelly and Goux, *supra* note 61.

65. *See id.*

66. *See* Avery Dennison, 999 F. Supp. at 1338.

67. The ".com" top level domain is most commonly used for commercial businesses. *See* Postel, *supra* note 7. The ".net" TLD is used for network related organizations. *See id.*

domain names from Freeview. After Freeview refused to sell, Avery Dennison brought suit alleging trademark dilution.<sup>68</sup>

The district court began its analysis by assuming that Sumpton was a "cybersquatter."<sup>69</sup> Because Sumpton had registered so many domain names, the court assumed that his purpose "was to make a financial return by exacting a price before consenting to allow others to use the domain on which they ... 'squat.'"<sup>70</sup> Once that determination was made, the court went on to apply the decisions of two prior cybersquatting cases, *Panavision* and *Intermatic*, which held that registration of a domain name that makes use of a famous mark for the purpose of trading on the value of the mark is dilution under the Dilution Act.<sup>71</sup> The court ordered Sumpton to relinquish registration of the domain names to Avery Dennison.<sup>72</sup> Despite the fact that the court began its opinion by declaring Sumpton a cybersquatter, it appears that it did not believe that the facts conclusively supported such a finding. Instead of simply demanding that Sumpton relinquish the sites, the court ordered Avery Dennison to compensate Sumpton \$300 for each domain name.<sup>73</sup>

## B. Analysis of the Federal Dilution Claims

The *Avery Dennison* court relied heavily on the "uniform outcome of decided cases involving cybersquatters and the holders of famous trademarks."<sup>74</sup> This reliance may have been misplaced for two reasons. First, cybersquatters should be a very narrow group of people (those who register a mark as a domain name purely for the opportunity to trade on the value of the mark), and there are very few decisions on record, other than *Panavision* and *Intermatic*, explicitly dealing with cybersquatting.<sup>75</sup> In ad-

---

68. See *Avery Dennison Corp. v. Sumpton*, 999 F. Supp. 1337, 1338 (C.D. Cal. 1998).

69. See *id.*

70. See *id.*

71. See *id.* at 1340.

72. See *id.* at 1342.

73. See *id.*

74. *Avery Dennison Corp. v. Sumpton*, 999 F. Supp. 1337, 1338 (C.D. Cal. 1998). This reliance may be misplaced because there appear to be very few decisions, other than *Panavision* and *Intermatic*, explicitly dealing with cybersquatting.

75. In other recent domain name disputes in which courts have found violation of the Dilution Act, there has been a showing of blurring or tarnishment. See *Planned Parenthood, Inc. v. Bucci*, 1997 WL 133313 (S.D.N.Y. 1997) (blurring); *Jews for Jesus v. Brodsky*, 993 F. Supp. 282 (D. N.J. 1998) (blurring); *Toys "R" Us, Inc. v. Akkaoui*, 1996 WL 772709 (N.D. Cal. 1996) (tarnishment); *Hasbro, Inc. v. Internet Entertainment Group, Ltd.*, 1996 WL 84853 (W.D. Wash. 1996) (tarnishment). See generally The John Marshall Law School, *Domain Name Disputes* (last modified Sept. 8, 1998).

dition, it should not be a foregone conclusion that Sumpton *is* a cybersquatter. Just because someone registers a domain name that incorporates a trade or service mark, it does not automatically mean that they are using the mark inappropriately. In fact, several disputes have been reported in which the trade or service mark holder ultimately chose not to litigate against a domain name registrant who used their mark as a domain name.<sup>76</sup> These instances, like *Avery Dennison*, typically involve registration of a domain name for its “name” value rather than its “mark” value. Nonetheless, it appears that the *Avery Dennison* court decided that Sumpton was close enough to a cybersquatter and used that as the basis for its decision.

Even if the court had not declared Sumpton a cybersquatter, it would be instructive at least to consider the Dilution Act analysis articulated earlier in Section I. Unfortunately, in *Avery Dennison*, the court’s opinion did not include as exhaustive an analysis as earlier Dilution Act decisions. It appears from the tone of the opinion that the court did not believe any of the defenses Sumpton raised.<sup>77</sup> Nevertheless, the court purports to have conducted a four part analysis to determine whether Sumpton’s use of the domain names diluted Avery Dennison’s marks. The analysis, a slight variation of traditional dilution analysis, examines whether: 1) the mark is famous, 2) it has been used in the ordinary course of trade, 3) the use has diluted the mark, and 4) the principles of equity require an injunction.<sup>78</sup>

The *Panavision* and *Intermatic* cases illustrate thoughtful application of the Dilution Act. The courts conducted fairly thorough analyses of all the suggested factors and the two holdings contained boundaries. In contrast, the court in *Avery Dennison* did not conduct a similar analysis as

---

<<http://www.jmls.edu/cyber/index/domain.html>> (archiving cases and other news relating to domain name disputes).

76. Two such disputes involved the registration of *pokey.org* (mark owned by Prema Toy Co.) and *veronica.org* (mark owned by Archie comics). In these disputes, parents had registered the domain names for their children. Because neither instance involved any type of commercial activity at the site, litigation would have probably not proven successful. In addition, both situations drew loud public outcry—the court of public opinion demanded the children keep their web addresses. See Jeri Clausing, *Boys Web Site Becomes a Domain Name Cause*, NY Times, *Cybertimes* (visited Dec. 2, 1998) <<http://www.nytimes.com/library/tech/98/03/cyber/articles>>.

77. A visit to a domain name registered by Sumpton could have allayed any doubts that the court had regarding Sumpton’s business. For example, a visit to <[www.smith.net](http://www.smith.net)> displays a Mailbank web page. An Internet user is able to see a list of all people who have registered an e-mail or a web address with Mailbank using the “smith” domain name. MailBank, *Smith.net* (visited Jan. 30, 1998) <<http://www.smith.net>>.

78. See *Avery Dennison*, 999 F. Supp. at 1339.

recommended by the Dilution Act. By comparing the analyses of the three courts, this Note illustrates how the *Avery Dennison* court misapplied the Dilution Act tests and, in doing so, broadened trademark protection beyond what the Dilution Act or precedent supports.

### 1. *Famous Mark*

The first element a plaintiff must prove in a trademark dilution claim is that their mark is famous. The Dilution Act only protects "famous marks."<sup>79</sup> Although a mark may be in common usage or even federally registered, the Dilution Act does not apply if a mark does not meet this standard.<sup>80</sup> The Dilution Act sets forth eight nonexclusive factors that may be used to determine whether a mark is distinctive and famous.<sup>81</sup> These factors include: 1) the degree of inherent or acquired distinctiveness, 2) the duration and extent of use of the mark in association with the goods or services with which the mark is used, 3) the duration and extent of advertising the mark, 4) the geographical area in which the mark is used, 5) the channels of trade in which the mark is used, 6) the degree of recognition of the mark within the trading areas and channels of trade used by the mark owner and the defendant, 7) the extent of the use of the mark by third parties, and 8) whether the mark is registered.<sup>82</sup> If a mark does not meet the threshold status of famous, the holder must seek an injunction under the higher standards of infringement.

The first factor requires that the plaintiff's mark possess a distinctive quality capable of dilution.<sup>83</sup> Marks that are arbitrary, fanciful, or coined are considered inherently distinctive and, therefore, "strong."<sup>84</sup> Marks that are not distinct are denominated "weak" and require a showing of acquired distinctiveness and secondary meaning for protection.<sup>85</sup>

---

79. See 15 U.S.C. § 1125(c)(1) (1998).

80. See *Star Markets, Ltd. v. Texaco, Inc.*, 950 F. Supp. 1030 (D. Haw. 1996) (declining to address remaining elements of Dilution Act claim after finding that plaintiff's mark was not nationally famous).

81. See 15 U.S.C. § 1125(c)(1)(A)-(H) (1998).

82. See *id.*

83. See *Knaak Mfg Co. v. Rally Accessories, Inc.*, 955 F. Supp. 991, 1002 (N.D. Ill. 1997) (finding no possibility of dilution where mark was not unique and had not acquired secondary meaning); *Star Markets*, 950 F. Supp. at 1033 ("A mark must be especially famous and distinctive to merit protection under the Act.").

84. See *WAWA, Inc., v. Haaf*, 1996 WL 460083 (E.D. Pa. 1996) (holding plaintiff's mark was arbitrary and fanciful and, as such, satisfied first element in establishing a dilution claim).

85. See *Star Markets*, 950 F. Supp. at 1033. (finding that acquired distinctiveness is merely a minimum threshold, mark must still have secondary meaning to merit protection).

In *Avery Dennison*, Sumpton argued that the Avery and Dennison marks are not famous or distinctive.<sup>86</sup> The court did not address Sumpton's argument nor did the opinion support its finding that the marks are famous—it merely draws a conclusion based on the plaintiff's previous fact-finding that the Avery Dennison marks are famous.<sup>87</sup> Thus, its conclusion may be somewhat hasty.

It can be argued that "Avery" and "Dennison" are not inherently distinctive marks. In fact, Avery and Dennison are common surnames.<sup>88</sup> Surnames are considered weak marks and, as such, must acquire secondary meaning in order to obtain trademark protection.<sup>89</sup> "Secondary meaning" is the consumer's understanding that the mark refers not to what the descriptive mark ordinarily describes, but to the particular business that the mark is meant to identify.<sup>90</sup> The remaining seven factors enumerated in the Dilution Act address whether or not a mark has acquired distinctiveness and secondary meaning. There was no need to look at these factors if both parties agreed to the plaintiff's findings of uncontroverted facts. However, Sumpton argued that the marks were not famous. Nonetheless, the court does not address these factors and *Avery Dennison* made no showing that the marks had acquired distinctiveness and secondary meaning.

At this point in the analysis, it is useful to examine the two surnames independently. Because *Avery Dennison* markets products under the "Avery" name and the "Avery Dennison" label, the Avery mark and the

---

86. See *Avery Dennison Corp. v. Sumpton*, 999 F. Supp. 1337, 1339 (C.D. Cal. 1998).

87. The court appears to reach its decision based on the plaintiff's Statement of Uncontroverted Facts and Conclusions of Law. See *id.* Yet, it is still instructive to examine this important factor.

88. Avery is the 775th most common name and Dennison is the 1786th most common name of 88,799 possible names in the United States. See Kelly and Goux, *supra* note 61.

89. See *R. J. Toomey Co. v. Toomey*, 683 F. Supp. 873, 878 (Mass. 1988) (finding that surnames when used as trademarks are inherently indistinctive). See also, *Perini Corp. v. Perini Construction, Inc.*, 915 F. 2d 121, 125 (4th Cir. 1990); *Hyatt Corp. v. Hyatt Legal Services*, 726 F. 2d 1153, 1158 (7th Cir. 1984). See also, 15 U.S.C. § 1052(c) (providing that names are not registrable without secondary meaning). See generally, Quentin R. Wittrock, *Use of Personal Names in Noncompeting Businesses - Doctrines of Unfair Competition, Trademark Infringement, and Dilution*, 70 IOWA L. REV. 995, 1012 (1995) (finding that dilution doctrine rarely applied in the context of personal name cases because only unique and distinctive business marks are protected).

90. See *Gazette Newspapers, Inc. v. New Paper, Inc.*, 934 F. Supp. 688, 694 (D. Md. 1996) ("To establish secondary meaning, ... a[mark must] identify the source of the product rather than the product itself") (quoting *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 766 n.4 (1992)).

two marks together are likely to have secondary meaning. However, it is not clear that the Dennison mark alone should be granted this standing. This is important because Avery Dennison claims that the marks are diluted even though Freeview has registered the domain names using the names individually.<sup>91</sup> Freeview has not registered *averydennison.net* or any variation thereof. There is nothing to indicate that Avery Dennison ever conducted business solely using the “Dennison” mark. Dennison is not used in connection with a product, is not used by itself in advertising, and would probably not be recognized as a source of office products. Additionally, the Dennison name is used by many others in a commercial context.<sup>92</sup> In fact, the trademark disclaimer on the Avery Dennison web site does not include “Dennison” among its trademarks.<sup>93</sup> Thus, the “Avery” mark should be considered weak and the “Dennison” mark should fail the “famous” requirement for protection.

2. *Used in the Ordinary Course of Trade (Commercial Use in Commerce)*

Next, the court in *Avery Dennison* must address whether Sumpton used the marks in the ordinary course of commerce. Most courts break this element into two components—was the use “in commerce” and was the use “commercial” in nature.<sup>94</sup> The “in commerce” requirement is construed liberally and, as such, most courts find that simple use of the Inter-

---

91. See *Avery Dennison Corp. v. Sumpton*, 999 F. Supp. 1337, 1338 (C.D. Cal. 1998).

92. A search of the Internet, using the Excite search engine, revealed several web sites for businesses using the name Dennison, including, Dennison Int'l (*dennison-intl.com*); Dennison Ford (*dennisonford.com*); Dennison Online Internet School (*dennisononline.com*). Search conducted Nov. 10, 1998.

93. See *Avery Dennison, Trademark Notice and Disclaimer* (visited Nov. 2, 1998) <<http://www.averydennison.com/ad/copyright.htm>>. The Disclaimer notes:

TRADEMARK NOTICE

The following brands and product names mentioned in this web site are trademarks of Avery Dennison Corporation: Avery, Avcoat, Avery Computer Central, Avery Dennison, Avery Kids, Avery Personal Creations, Avery Wizard, Avloy, Bar-Lok, BinderPack, CD Tracs, ClearADvantage, Direct Print, Dry Paint, DualSharp, EverBold, Exact, FasClear, Fasson, GraphiColor, Hi-Liter, Index Maker, LabelPro for Windows, MacLabelPro, Marks-A-Lot, Metalure, Mirage, NotePack, Presidax, Primax, Ready Index, SmartFolio, Soabar, Plastic Staple, StaySharp, Swiftach, Therimage, Thermark, and Ticket Express.

*Id.*

94. See *Panavision International, L.P. v. Toeppen*, 945 F. Supp 1296, 1303 (9th Cir. 1998); *Intermatic, Inc., v. Toeppen*, 947 F. Supp. 1227, 1239 (N.D. Ill. 1996).

net is sufficient to meet the “in commerce” requirement of the Dilution Act.<sup>95</sup>

However, assessing the second requirement of “commercial use” is more difficult, even when the Internet is not involved. Once you involve the Internet, you get a spectrum of possibilities—at one end, mere registration of a famous mark as an Internet address, without more, is not commercial use within the prohibitions of the Dilution Act.<sup>96</sup> However, at the other end of the spectrum, it is not necessary that an Internet web site propose a commercial transaction in order to meet the commercial use requirement.<sup>97</sup> The *Intermatic* and *Panavision* courts found that Toeppen’s “business” was to arbitrage the marks by hoping that their registered owner would find it cheaper to buy the domain names from him rather than sue.<sup>98</sup> The courts held that trading on the value of the domain names meets the requirement of “commercial use” as defined in the statute.<sup>99</sup>

In *Avery Dennison*, Sumpton’s business is to lease vanity e-mail addresses and web sites. He does not trade on the value of the domain names as trademarks. Unlike Toeppen, the *Panavision* and *Intermatic* defendant, Sumpton has not attempted to sell the domain names to the trademark holder. Nonetheless, Sumpton conceded that leasing the domain names was a commercial use of the *domains*, but argued that the domain names were used as addresses and, as such, were not used as “commercial marks” within the meaning of the Lanham Act. The court in *Avery Dennison* disagreed and established its own definition that a mark is “used in the ordinary course of trade”

when (a) it is registered as a domain name by a registrant who is not otherwise identified by or associated with any of the commonly accepted meanings of the domain name, and (b) it is not used by the registrant as its own domain name, but rather is held by the registrant for sale or license to others.<sup>100</sup>

This is rather broad language that implies that any time a domain name that is not inherently distinctive is registered for use as an e-mail server or

---

95. *See Intermatic*, 947 F. Supp. at 1239.

96. *See id.* at 1303.

97. *See Panavision*, 945 F. Supp. at 1325 (“It does not matter that he did not attach the marks to a product. Toeppen’s commercial use was his attempt to sell the trademarks themselves.”).

98. *See id.*; *Intermatic*, 947 F. Supp. at 1239.

99. *See Panavision*, 945 F. Supp. at 1303; *Intermatic*, 947 F. Supp. at 1239. *See also* Planned Parenthood Federation of America v. Bucci, 1997 WL 133313, \*2 (S.D.N.Y. 1997).

100. *Avery Dennison Corp. v. Sumpton*, 999 F. Supp. 1337, 1339 (C.D. Cal. 1998).

Internet Service Provider, the domain name takes the status of a trade or service mark. This is in direct opposition to the position taken by the United States Patent and Trademark Office (“PTO”). The PTO states that a domain name is not automatically a trade or service mark unless it does something more than merely provide directional information.<sup>101</sup> Thus, Sumpton’s domain names only direct e-mail to subscribers and Internet users to personal web pages; they are not marks that represent a good or service promoted at the web site.

Finally, the court acknowledged that the court could allow Sumpton to retain registration of the marks so long as they were used in a non-infringing way. However, the court surmised that this would “eliminate 12,000 words from their highest and best use as domain names.”<sup>102</sup> The court brushed aside the fact that Avery Dennison already had registered the domain names “avery” and “averydennison” on the “.com” namespace—the namespace specified for commercial use.<sup>103</sup> In the year since the decision that forced Sumpton to transfer the domain names to Avery Dennison, Avery Dennison has not used the disputed domain names to promote its business. In fact, the web sites no longer exist.<sup>104</sup> The court argued that the best use for the domain names was to hand over registration to Avery-Dennison, yet in doing so, the two web sites were removed from use rather than put to their “highest use” of identifying a product.

In fact, one might argue that the “highest and best use of a domain name” is one that maximizes the number of users. Sumpton’s business is to lease “personal” web sites. Instead of restricting the use of avery.net and dennison.net to one user, Sumpton’s service allows the sites to host as many web sites as people wish to register. If there are 3,000 people who wish to have a web address that uses the Avery or Dennison domain name, there is no restriction. Nonetheless, the court endorsed a solution that basically discarded the avery.net and dennison.net addresses.

---

101. See , United States Patent and Trademark Office, *Trademark Examination of Domain Names* (visited Sept. 15, 1998) <<http://uspto.gov/web/offices/tac/domain/tmdomain.htm>> (“The use of an internet domain name as a mere directional reference, similar to use of a telephone number or business address on stationery, business cards, or advertisements, is not use of the name as a source identifier.”). See also *In re Advertising & Marketing Development, Inc.*, 821 F.2d 614 (Fed. Cir. 1987).

102. See *Avery Dennison*, 999 F. Supp. at 1340. Is the court suggesting that all of the domain names should be relinquished?

103. See *id.* at 1341 n.5.

104. Entering the addresses <[www.avery.net](http://www.avery.net)> and <[www.dennison.net](http://www.dennison.net)> produced error messages stating that the web sites could not be found. Searches conducted on Oct. 1, 1998, Nov. 28, 1998, and Jan. 10, 1999.

### 3. *Dilution of the Distinctive Quality of Avery Dennison's Marks*

The *Panavision* and *Intermatic* courts found that Toeppen's conduct varied from the two standard dilution theories—blurring and tarnishment.<sup>105</sup> Toeppen had neither associated the mark with products of poor quality nor used the mark in a way that “whittled away” at the value of the mark.<sup>106</sup> Nonetheless, the courts concluded that Toeppen's registration of the domain names diluted the marks because he had “eliminated the capacity of the Panavision marks to distinguish goods and services on the Internet.”<sup>107</sup> The *Intermatic* court further concluded that

if Toeppen were allowed to use ‘intermatic.com’, Intermatic's name and reputation would be at his mercy and could be associated with an unimaginable amount of messages on Toeppen's web page.... Attaching Intermatic's name to a myriad of possible messages, even something as innocuous as a map of Urbana, Illinois, is something that the Act does not permit.<sup>108</sup>

Citing the holdings of *Panavision* and *Intermatic*, the court in *Avery Dennison* concluded that it “lessens the capacity of a famous mark to identify and distinguish goods or services” when someone other than the trademark holder registers the domain name.<sup>109</sup>

However, *Avery Dennison* is distinguishable from *Intermatic* and *Panavision* for various reasons. In *Panavision* and *Intermatic*, the marks at issue were highly distinctive. In addition, Toeppen's registrations denied the rightful mark owners from using their marks as their commercial domain names. In contrast, in *Avery Dennison*, the marks at issue were not unique. Furthermore, Avery Dennison already had ownership of the domain names that will most likely be entered by their prospective customers—avery.com and averydennison.com. Sumpton is not preventing Avery Dennison from using its trademark as its domain name. Avery Dennison's ability to identify its goods and services is not significantly diminished by the existence of the “.net” addresses. Consumers searching for Avery Dennison products on the Internet are not likely to begin a search using a

---

105. See *supra* Part I.

106. See *Panavision International, L.P. v. Toeppen*, 945 F. Supp. 1296, 1304 (C.D. Cal. 1996).

107. See *id.*

108. *Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227, 1240 (N.D. Ill. 1996).

109. See *Avery Dennison Corp. v. Sumpton*, 999 F. Supp. 1337, 1340 (C.D. Cal. 1998).

TLD of “.net.”<sup>110</sup> Likewise, web users are not likely to start their search with “Avery” alone. Finally, web users are even less likely to begin their search solely using “Dennison.” With this in mind, it is difficult to see how Sumpton’s registration of avery.net and dennison.net had “lessened the ability of the marks to identify goods or services.”

#### 4. *Balancing the Equities*

Because plaintiffs seek equitable relief for dilution, the court must balance the factors to determine if equity demands an injunction.<sup>111</sup> Courts should not only examine the elements of the statute, but also balance additional factors, such as, the legislative intent of the Dilution Act, whether the defendant acted with predatory intent, public interest considerations, and the resulting harm to the losing party.<sup>112</sup>

The intent of the Dilution Act is to protect famous marks from the damaging effects of use by another in a non-competing environment.<sup>113</sup> The court’s analysis in *Avery Dennison* does not strongly support the legislative intent for either of these components. The court’s opinion does not support a finding that the Avery and Dennison marks are famous enough for protection. In addition, there is little in the opinion to support a holding that Sumpton’s registration of avery.net and dennison.net have in any way lessened Avery Dennison’s trademark. The opinion does not reveal tarnishment or blurring, but it does reveal that Avery Dennison is still able to use the optimal domain name for conducting business on the Internet.

Furthermore, courts must address the intent of the defendant as a relevant factor in assessing a dilution claim.<sup>114</sup> When a defendant has acted willfully, courts are more likely to find dilution.<sup>115</sup> The court in *Panavision* used very deliberate language to make clear that its decision balanced

---

110. For a discussion of how Internet users locate web sites, see Malcolm Maclachlan, *Keywords Threaten Domain Name System*, TechWeb (visited Nov. 30, 1998) <<http://www.techweb.com>>.

111. See *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1028 (2d Cir. 1989) (citing *Sally Gee, Inc. v. Myra Hogan, Inc.*, 699 F.2d 621, 626 (2d Cir. 1983)).

112. See *id.* See also *Hyatt Corp. v. Hyatt Legal Services*, 736 F.2d 1153, 1159 (7th Cir. 1984).

113. See Jerome Gilson, *TRADEMARK DILUTION NOW A FEDERAL WRONG: AN ANALYSIS OF THE FEDERAL TRADEMARK DILUTION ACT OF 1995* (1996).

114. See *Mead Data Central*, 875 F.2d at 1028 (quoting *Sally Gee*, 699 F. 2d 621, 626 (2d Cir. 1983)) (“The absence of predatory intent by the junior user is a relevant factor in assessing a claim under the anti-dilution statute.”).

115. See *Hyatt*, 736 F. 2d at 1037.

the principles of "fair competition and free competition."<sup>116</sup> It specifically noted that the Dilution Act excepts certain uses of famous marks and protects persons who "innocently" register a famous mark as a domain name.<sup>117</sup> Even the egregious behavior of Toeppen was not enough to find "willful" dilution of the Intermatic mark.<sup>118</sup> Unlike the *Panavision* and *Intermatic* cases, there is nothing in the *Avery Dennison* opinion to suggest that Sumpton's intent was to cash in on the Avery Dennison mark. Many domain names are registered using famous marks, but when there is no showing of predatory intent, there is no cause for dilution.<sup>119</sup>

Courts must also examine how their decisions will serve the public interest and potentially harm the losing party.<sup>120</sup> The *Avery Dennison* court asserts that its decision will result in the "highest and best use"<sup>121</sup> of the domain names. Supporting Avery Dennison's argument that the Internet "does not authorize the registration of any domain names that are commonly used by others to identify themselves ... for sale or license to others,"<sup>122</sup> the court summarily declares that Sumpton does not have a legitimate business,<sup>123</sup> that Sumpton is merely a cybersquatter,<sup>124</sup> and that the Internet registration system simply does not authorize cybersquatting.<sup>125</sup> This argument should fail because it is common practice for Internet Service Providers ("ISPs") to sell and license e-mail addresses to others.<sup>126</sup> As Sumpton commented, "We can share domain names much cheaper than if a person or firm registers it themselves for their own sole use."<sup>127</sup>

---

116. See *Panavision Int'l, L.P. v. Toeppen*, 945 F. Supp. 1296, 1304 (C.D. Cal. 1996) (quoting J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 24 (1996)).

117. See *id.* at 1404.

118. See *Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227, 1241 (N.D. Ill. 1996).

119. For a discussion on "innocent" web site registration, see Clausing, *supra* note 67.

120. See *Hyatt Corp. v. Hyatt Legal Services*, 736 F.2d 1153, 1159 (7th Cir. 1984).

121. See *Avery Dennison Corp. v. Sumpton*, 999 F. Supp. 1337, 1341 (C.D. Cal. 1998).

122. *Id.*

123. See *id.*

124. See *id.*

125. See *id.*

126. There are numerous Internet Service Providers that license e-mail addresses to subscribers. These include Netcom, America Online, and Mindspring.

127. See Sami Menefee, *Canadian Firm Appeals Domain Name Restriction By US Court*, NEWSBYTE NEWS NETWORK, (Apr. 21, 1998) (visited Oct. 28, 1998) <<http://www.newsbytes.com>>.

Despite the fact that Sumpton has invested a great deal of money in the Mailbank business,<sup>128</sup> and the information before the court is insufficient to conclude that Sumpton's business is a sham,<sup>129</sup> the court still does not believe that licensing domain names for e-mail addresses is Sumpton's true business.<sup>130</sup> There cannot be a true balancing of the equities if the court does not adequately weigh the harm to the defendant.

If there had been dilution, the court simply would have enjoined Sumpton's use of the domain names. Instead, the court creates a new dilution remedy and orders Avery Dennison to compensate Sumpton for the transfer of the domain names. This is tantamount to an admission by the court that the decision is not firmly based in the law.

### III. THE EFFECTS OF THE AVERY DENNISON DECISION

The most immediate and frightening effect of the *Avery Dennison* decision is that it establishes a very low threshold for a finding of trademark dilution. The court purports to conduct a thorough analysis of the Dilution Act factors, but, in reality, the court simply looks at the outcome of two prior cases involving Internet domain name disputes and applies the same reasoning. The court in *Avery Dennison* appears to suggest that *any* use of a trademark on the Internet is dilution—regardless of the strength of the mark, regardless of the type of usage on the Internet, and regardless of what equity demands.

Fair application of the Dilution Act demands that analysis be made on a case-by-case basis. Instead, the court makes many broad assumptions in determining the outcome of the *Avery Dennison* case. The court makes the assumption that because Avery Dennison has registered the Avery and Dennison marks and conducts business using these marks, that the marks are famous. This cursory evaluation is at odds with earlier decisions that established a much higher standard for determining whether a mark is famous.<sup>131</sup>

The court also assumes that any use of a mark on the Internet is commercial use of the mark. It does this by ignoring the many ways the Internet is used to communicate educational and other information, and rede-

---

128. Sumpton invested approximately \$1,200,000 in registration fees for the Mailbank domain names. *See Avery Dennison Corp. v. Sumpton*, 999 F. Supp. 1337, 1341 (C.D. Cal. 1998). *See also Kelly and Goux*, *supra* note 61.

129. *See Avery Dennison*, 999 F. Supp. at 1342.

130. *See id.* at 1341.

131. *See generally Star Markets, Ltd. v. Texaco, Inc.*, 950 F. Supp. 1030 (D. Haw. 1996).

finer the Internet as a commercial enterprise. With that definition, any domain name takes on a trademark meaning and will always meet the "commercial use" requirement of the Dilution Act. This would eliminate all fair uses within the Dilution Act.

Finally, the court makes the assumption that if any investment is made to promote a mark in association with a particular good or service, any other use of the mark is diluting. This means that the "Big Guy" will always win in a dilution dispute.

If the decision of *Avery Dennison* is allowed to stand on appeal, it will be an unfortunate over-expansion of trademark rights. If we allow a standard as low as that set in the *Avery Dennison* opinion, then we are granting trademark holders a monopoly in their trademark, and potential copyright and property privileges. In fact, making *Avery Dennison* compensate Sumpton suggests that forcing the transfer of a domain name is akin to a "taking" of property.

#### IV. CONCLUSION

Trademark battles on the Internet are certainly a growing problem, and use of the Dilution Act is one possible method of resolving domain name disputes. Nonetheless, the *Avery Dennison* decision could have a far reaching impact on the way courts apply the Dilution Act to domain name disputes, as well as other non-Internet related litigation. The Dilution Act is vague. It is not clear when it should be applied and, when it is applied, the terms of the Dilution Act themselves are not well defined. Although, earlier decisions greatly varied in their application of the Dilution Act, in *Panavision* and *Intermatic*, the courts attempted to clarify the basis for use of the Dilution Act. After *Avery Dennison*, it is unclear under what circumstances the Dilution Act would *not* be applicable—the court does not address fair use issues. Nor does the court add new case law to assist in defining the high standards that should be used in interpreting just what qualifies as a famous mark and what type of use is dilutive. In fact, this ruling would support the contention that once a mark is deemed famous, dilution is a foregone conclusion.

Jerry Sumpton has filed an appeal to the district court's ruling. On review, it can only be hoped that the Court of Appeals will apply an analysis similar to *Panavision* and *Intermatic* and establish a sufficiently high bar for successful dilution claims. The Dilution Act is a powerful legal weapon and courts should not allow it to be abused.

## CYBERSELL, INC. V. CYBERSELL, INC.

By Tu Phan

“Minimum contacts,” the personal jurisdiction doctrine established by *International Shoe Co. v. Washington*,<sup>1</sup> consists of two words: the first an adjective, and the second a noun. Both the adjective and the noun seem equally important to the test, and yet, at least in Internet-related jurisdiction cases, courts and commentators have, in case after case<sup>2</sup> and article after article,<sup>3</sup> written expansively on the adjective and given short shrift to the noun. Ignoring the noun has had its consequences. In particular, it has

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. 326 U.S. 310 (1945).

2. Courts have analyzed sufficiency of web-related contacts in conjunction with other types of contacts. *See, e.g.*, *No Mayo-San Francisco v. Memminger*, No. C-98-1392 PJH, 1998 WL 544974 (N.D. Cal. 1998); *Edberg v. Neogen Corp.*, No. 3:98CV00717 (GLG), 1998 WL 458249 (D. Conn. 1998); *Scherr v. Abrahams*, No. 97 C 5453, 1998 WL 299678 (N.D. Ill. 1998); *Vitullo v. Velocity Powerboats, Inc.*, No. 97 C 8745, 1998 WL 246152 (N.D. Ill. 1998); *Mieczkowski v. Masco Corp.*, 997 F. Supp. 782 (E.D. Tex. 1998); *Gary Scott Int'l, Inc. v. Baroudi*, 981 F. Supp. 714 (D. Mass. 1997); *Resuscitation Technologies, Inc. v. Continental Health Care Corp.*, No. IP 96-1457-C-M/S, 1997 WL 148567 (S.D. Ind. 1997); *Digital Equipment Corp. v. Altavista Technology, Inc.*, 960 F. Supp. 456 (D. Mass. 1997); *McDonough v. Fallon McElligott Inc.*, 40 U.S.P.Q.2d (BNA) 1826 (S.D. Cal. 1996). They have also analyzed the sufficiency of web-only contacts, without questioning whether or not these contacts should be considered in personal jurisdiction analysis. *See, e.g.*, *Blackburn v. Walker Oriental Rug Galleries*, 999 F. Supp. 636 (E.D. Pa. 1998); *Green v. William Mason & Co.*, 996 F. Supp. 394 (D.N.J. 1998); *Transcraft Corp. v. Doonan Trailer Corp.*, No. 97 C 4943, 1997 WL 733905 (N.D. Ill. 1997); *E-Data Corp. v. Micropatent Corp.*, 989 F. Supp. 173 (D. Conn. 1997); *Hasbro, Inc. v. Clue Computing*, 994 F. Supp. 34 (D. Mass. 1997); *Telco Communications v. An Apple a Day*, 977 F. Supp. 404 (E.D. Va. 1997); *Hearst Corp. v. Goldberger*, No. 96 Civ. 3620 (PKL)(AJP), 1997 WL 97097 (S.D.N.Y. 1997); *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997); *Bensusan Restaurant Corp. v. King*, 937 F. Supp. 295 (S.D.N.Y. 1996); *Maritz, Inc. v. Cybergold, Inc.*, 947 F. Supp. 1328 (E.D. Mo. 1996); *Conseco, Inc. v. Hickerson*, No. 29A04-9802-CV-85, 1998 WL 47485 (Ind. Ct. App. 1998); *Minnesota v. Granite Gate Resorts, Inc.*, 568 N.W.2d 715 (Minn. Ct. App. 1997).

3. *See, e.g.*, Christian M. Rieder & Stacy P. Pappas, *Personal Jurisdiction for Copyright Infringement on the Internet*, 38 SANTA CLARA L. REV. 367 (1998); Stephan Wilske & Teresa Schiller, *International Jurisdiction in Cyberspace: Which States May Regulate the Internet?*, 50 FED. COMM. L.J. 117 (1997); Corey B. Ackerman, Note, *World-Wide Volkswagen, Meet the World Wide Web: An Examination of Personal Jurisdiction Applied to a New World*, 71 ST. JOHN'S L. REV. 403 (1997); Christine E. Mayewski, Note, *The Presence of a Web Site as a Constitutionally Permissible Basis for Personal Jurisdiction*, 73 IND. L.J. 297 (1997).

led to a situation where courts indiscriminately lump together two entirely different types of contact: contacts initiated by the defendant ("creator" contacts) and contacts initiated by third parties ("user" contacts). This, in turn, has produced a confusing morass of holdings on cyberspace jurisdiction,<sup>4</sup> of which *Cybersell, Inc. v. Cybersell, Inc.*<sup>5</sup> is a prime example. In *Cybersell*, the Ninth Circuit refused to grant personal jurisdiction over a web-only business.<sup>6</sup> Its ruling effectively ignored five other decisions, which had allowed jurisdiction in circumstances similar to the one in *Cybersell*.<sup>7</sup>

Such a contradictory result could have easily been avoided if courts had distinguished between "creator" and "user" contacts. Only "creator" contacts meet the traditional definition of defendant contacts; "user" con-

---

4. Since the influential *Zippo* decision, courts have generally considered web sites to fall into three categories: 1) web sites which involve contractual relationships, 2) interactive sites, and 3) passive sites. See *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997). Most courts generally agree that the presence of a contractual relationship justifies an extension of jurisdiction. See, e.g., *CompuServe, Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996) (holding that there is jurisdiction because defendant knowingly signed an agreement in which he transmitted and marketed shareware programs to the forum state); *Rubbercraft v. Rubbercraft*, No. CV 97-4070-WDK, 1997 WL 835442 (C.D. Cal. 1997) (holding that there is jurisdiction because defendant derived significant revenue from California through its sales efforts, 1-800 number, web-page and other nationally circulated media). They disagree, however, on the difference between interactive and passive sites. Some courts consider web sites to be inherently interactive, by their very nature. See, e.g., *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161 (D. Conn. 1996); *Telco Communications v. An Apple a Day*, 977 F. Supp. 404 (E.D. Va. 1997). Other courts state that the posting of a web site alone does not automatically establish interactivity. See, e.g., *McDonough v. Fallon McElligott Inc.*, 40 U.S.P.Q.2d 1826 (S.D. Cal. 1996); *Green v. William Mason & Co.*, 996 F. Supp. 394 (D.N.J. 1998). These courts all require some additional evidence to prove interactivity, but no court has as yet established a consistent rule for analyzing that additional evidence. Because of this, courts often reach contradictory holdings. Compare *Maritz, Inc. v. Cybergold, Inc.*, 947 F. Supp. 1328 (E.D. Mo. 1996) (web site which provided user service sufficient to establish interactivity) with *E-Data Corp. v. Micropatent Corp.*, 989 F. Supp. 173 (D. Conn. 1997) (web site which provided user service not sufficient to establish interactivity); compare *Minnesota v. Granite Gate Resorts, Inc.*, 568 N.W.2d 715 (Minn. Ct. App. 1997) (toll-free number and e-mail link sufficient to establish interactivity) with *Conseco, Inc. v. Hickerson*, No. 29A04-9802-CV-85, 1998 WL 47485 (Ind. Ct. App. 1998) (toll-free number and e-mail link not sufficient to establish interactivity).

5. 130 F.3d 414 (9th Cir. 1997).

6. See *id.* at 420.

7. See *Hasbro, Inc. v. Clue Computing*, 994 F. Supp. 34 (D. Mass. 1997); *Telco Communications v. An Apple a Day*, 977 F. Supp. 404 (E.D. Va. 1997); *Maritz, Inc. v. Cybergold, Inc.*, 947 F. Supp. 1328 (E.D. Mo. 1996); *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161 (D. Conn. 1996); *Minnesota v. Granite Gate Resorts, Inc.*, 568 N.W.2d 715 (Minn. Ct. App. 1997).

tacts do not. If courts wish to reach more fair and consistent results, they should limit their analysis to the former.

### I. A STATEMENT OF THE CASE: *CYBERSELL, INC. V. CYBERSELL, INC.*

*Cybersell, Inc. v. Cybersell, Inc.*, a case of first impression for the Ninth Circuit,<sup>8</sup> involved a trademark dispute between a Cybersell in Arizona (“Cybersell AZ”)<sup>9</sup> and a Cybersell in Florida (“Cybersell FL”). Though unrelated, both companies provided Internet consulting services, which they advertised on their respective web pages. Cybersell FL ran a page created by its founders, Dr. Samuel Certo and Matt Certo, which included a Cybersell logo, a sign proclaiming “Welcome to Cybersell!,” a local phone number, and an e-mail link.<sup>10</sup> At the time the company chose the name Cybersell, it did not know that Cybersell AZ’s page existed<sup>11</sup> or that Cybersell AZ had filed an application to register the mark. The company only discovered this fact when it received a cease and desist e-mail from the two well-known spammers who ran Cybersell AZ.<sup>12</sup> Although Cybersell FL moved to comply by changing its name, it failed to remove the message stating “Welcome to Cybersell!,” leading Cybersell AZ to file a complaint for trademark infringement, unfair competition, fraud, and RICO violations in the District of Arizona.<sup>13</sup> Cybersell FL, in turn, filed for declaratory relief in the Middle District of Florida, but the action was transferred to Arizona and consolidated with the Cybersell AZ suit.<sup>14</sup> Cybersell FL then moved to dismiss for lack of personal jurisdiction, which the Arizona district court granted.<sup>15</sup>

The Ninth Circuit affirmed.<sup>16</sup> Looking to the applicable Arizona long-arm statute, the Ninth Circuit applied its traditional three-part test for specific jurisdiction.<sup>17</sup> It focused particularly on the first prong—purposeful availment—which requires that the nonresident defendant do some act to

---

8. *See Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 417 (9th Cir. 1997).

9. For the sake of convenience, this Note follows the Ninth Circuit’s conventions for naming the parties.

10. *See id.* at 415-16.

11. *See id.* at 415.

12. *See id.*

13. *See Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 416 (9th Cir. 1997).

14. *See id.*

15. *See id.*

16. *See id.* at 415.

17. *See id.* at 416.

purposefully avail himself of the privilege of conducting activities in the forum state.<sup>18</sup>

Because the context of cyberspace was a matter of first impression for the circuit,<sup>19</sup> the court looked to the decision of other jurisdictions to help determine purposeful availment.<sup>20</sup> In particular, the court found the language of *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*<sup>21</sup> to be persuasive. It agreed with *Zippo* that an interactive site might justify a finding of jurisdiction, but an essentially passive site would not.<sup>22</sup> The court did not attempt to define interactive versus passive sites per se, but its survey of the case law allowed it to conclude that interactivity occurred when the defendant entered into contracts, sent data, or placed toll-free numbers on sites.<sup>23</sup> The Ninth Circuit also noted that courts had given weight to the number of hits received by a web page.<sup>24</sup>

At the time of the litigation, Cybersell FL had no physical presence, agent, or holdings in the forum state.<sup>25</sup> The court, therefore, looked only at contacts generated by the company's web page.<sup>26</sup> Because it found that no Arizona users had hit or consummated a transaction with the Florida site, and because Cybersell FL failed to offer a toll-free number, the court held that there was no purposeful availment.<sup>27</sup> Because Cybersell FL had not purposefully availed, the Ninth Circuit refused to continue with the analysis, ruling that jurisdiction over an essentially passive page could not be proper.<sup>28</sup>

---

18. See *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 416-17 (9th Cir. 1997).

19. See *id.* at 417.

20. See *id.*

21. 952 F. Supp. 1119 (W.D. Pa. 1997).

22. See *Cybersell*, 130 F.3d at 418.

23. See *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 417-19 (9th Cir. 1997).

24. See *id.* at 419.

25. See *id.*

26. See *id.*

27. See *id.* at 419-20.

28. See *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 419-20 (9th Cir. 1997).

## II. THE ARGUMENT FOR FOCUSING ON CREATOR CONTACTS

### A. The Meaning of "Contacts"

#### 1. The meaning of "contacts" in a traditional legal context

The dictionary defines the word "contact" to mean "the act or state of touching."<sup>29</sup> Alternatively, it defines "contact" to mean "the act or state of being in communication."<sup>30</sup> To be in contact, therefore, two entities must either exist in close proximity or else establish some minimal relationship that involves the exchange of information.

The legal definition of contact generally parallels this dictionary definition: courts may assert jurisdiction based on physical proximity, as they originally did under *Pennoyer v. Neff*,<sup>31</sup> or based on a certain minimal relationship, as they currently do under the "minimum contacts" analysis<sup>32</sup> of *International Shoe Co. v. Washington*.<sup>33</sup> The legal definition diverges from the dictionary definition in one respect, however: it emphasizes defendant-initiated contacts, as opposed to contacts initiated by other entities.<sup>34</sup> This emphasis on defendant-initiated contacts can be traced back to the time of *Pennoyer*, when the courts based personal jurisdiction on the physical location of the defendant, as opposed to the physical location of any other entity.<sup>35</sup>

Since *Pennoyer*, the Supreme Court has held firm to this idea that only defendant-initiated contacts should matter. In *International Shoe*, the Court reaffirmed the importance of the defendant's activities by requiring an analysis of the "quality and nature" of the defendant's activity.<sup>36</sup> It based this decision on fairness grounds: a non-resident defendant who enjoyed the benefits should also shoulder the obligations of conducting ac-

---

29. RANDOM HOUSE WEBSTER'S COLLEGE DICTIONARY 293 (1991).

30. *Id.*

31. 95 U.S. 714 (1877).

32. Under modern minimum contacts analysis, jurisdiction is appropriate if the defendant has "certain minimum contacts with [the forum state] such that the maintenance of the suit does not offend 'traditional notions of fair play and substantial justice.'" *International Shoe v. Washington*, 326 U.S. 310, 316 (1945) (quoting *Milliken v. Meyer*, 311 U.S. 457, 463 (1940)). Minimum contacts is generally established if the non-resident defendant purposefully avails himself of some privilege of conducting activities in the forum state.

33. 326 U.S. 310 (1945).

34. *See infra* following discussion.

35. The location of the plaintiff certainly mattered, but it was rarely at issue, since a plaintiff who wished to sue always invariably submitted to the court's jurisdiction.

36. *International Shoe*, 326 U.S. at 319.

tivity in a state.<sup>37</sup> The same rationale permeated *Hanson v. Denckla*.<sup>38</sup> In that decision, the Supreme Court stated that “it is essential in each case that there be some act by which the defendant purposefully avails itself of the privilege of conducting activities with the forum State.”<sup>39</sup> Only defendant-initiated contacts could serve as constitutionally cognizable contact.

The Court has disfavored attempts to recognize other types of contacts as constitutionally cognizable. In *World-Wide Volkswagen Corp. v. Woodson*,<sup>40</sup> the Supreme Court refused to exercise in personam jurisdiction when the defendant’s only connection with Oklahoma was an automobile accident in Oklahoma involving a car sold in New York to New York residents.<sup>41</sup> It rejected the idea that jurisdiction could result from the unilateral activity of third parties (in this case, the consumer), or that amenability to suit could “travel with the chattel.”<sup>42</sup> Similarly, in *Asahi Metal Industry Co. v. Superior Court*,<sup>43</sup> Justice O’Connor, in her plurality opinion, refused to extend the meaning of defendant contact to include the component parts created by the defendant and then sent into the stream of commerce.<sup>44</sup> She wrote:

The “substantial connection” between the defendant and the forum State necessary for a finding of minimum contacts must come about by *an action of the defendant purposefully directed towards the forum State*. The placement of a product into the stream of commerce, without more, is not an act of the defendant purposefully directed toward the forum State.<sup>45</sup>

In short, the Supreme Court has made it quite clear that the permissibility of jurisdiction depends on the “nature and quality” of the defendant’s conduct, and not on the conduct of other entities.

## 2. *The meaning of “contacts” in a modern cyberspace jurisdiction context*

The strength of commitment to defendant contacts, however, has not survived unchanged in the context of cyberspace jurisdiction. While the courts continue to apply a “minimum contacts” analysis, they have sup-

---

37. *See id.*

38. 357 U.S. 235 (1958).

39. *Id.* at 253.

40. 444 U.S. 286 (1980).

41. *See id.* at 298-99.

42. *Id.* at 296.

43. 480 U.S. 102 (1987).

44. *See id.* at 112-13 (O’Connor, J., plurality opinion).

45. *Id.* at 112 (O’Connor, J., plurality opinion).

plemented it with a three-tiered standard for examining web sites, where site interactivity is key.<sup>46</sup> The courts have also subtly changed the personal jurisdiction analysis by subtly shifting the focus from the “nature and quality” of the defendant’s conduct to “the nature and quality of commercial activity that an entity conducts over the Internet.”<sup>47</sup>

### 3. *The meaning of “contacts” in a World Wide Web context*

This shift in language would have been harmless six years ago. Before the advent of the Web, a defendant’s commercial enterprise often determined the nature of the defendant’s conduct. This was true because most advertising had limited, rather than world-wide, circulation. Because businesses had limited budgets, they would choose the form of advertisement that most efficiently reached their target market. A local business would spend money on local, rather than national, advertising. A court could, therefore, analyze the “nature and quality” of the defendant’s advertising activity as a sort of shorthand to the defendant’s conduct, on the theory that certain businesses merit only certain conduct.

The World Wide Web has made a fallacy of this connection between nature of the commercial activity and nature of the defendant’s conduct. Cyberspace knows no national boundaries: a page can potentially be viewed by anyone around the world.<sup>48</sup> Courts accordingly assume that a business using this medium wishes to target the world. But the Web is also relatively cheap,<sup>49</sup> and attracts local as well as (inter)national businesses. It would, therefore, be improper for a court to assert jurisdiction with the assumption that every site is internationally-oriented.

The problem worsens once a court realizes how the web has shifted power from creator to user. On the web, a defendant rarely initiates a commercial transaction; she must wait for a user to find, browse, and interact with her site.<sup>50</sup> This sudden shift in power has suddenly opened up a world of choices for courts trying to judge “nature and quality of commercial activity.”

---

46. According to this standard, web sites can be divided into three categories: 1) web sites which involve contractual relationships, 2) interactive sites, and 3) passive sites. Jurisdiction is almost always proper in the first category, and might be proper in the second, but is never proper in the third. *See Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1124 (W.D. Pa. 1997).

47. *Id.*

48. *See* VINCE EMERY, HOW TO GROW YOUR BUSINESS ON THE INTERNET 5 (1995).

49. *See id.*

50. *See* JILL H. ELLSWORTH & MATTHEW V. ELLSWORTH, MARKETING ON THE INTERNET 240 (1995).

Courts continue to deal with defendant-initiated “creator” contacts. “Creator” contacts, in the context of the web, include actions taken by the defendant to create, maintain, promote, and secure a site. Courts also now encounter “user” contacts. “User” contacts come in a variety of forms, but they all have one characteristic: the creator has no direct control over the contact. “User” contacts include the intent of the user, the actions the user employs to interact with a page, the data inputted or sent by the user, the path traveled by a user, the “hits” made by users to a site, and the geographic data of the user.

Courts, for several reasons, have been attracted to user contacts. First, the focus on interactivity and “nature and quality of the commercial activity” has encouraged courts to analyze user data. Because users play a large role in determining interactivity and in initiating commercial activity, it seems inappropriate not to consider such contacts. Second, “user” contacts often blur into defendant-initiated contacts. A user comes to a page only because a defendant has placed the page on the web in the first place. Finally, and perhaps most insidiously, “user” data is often the only “hard” data that a court will see about a web page. Often, because a defendant appears to do little besides putting up the page, it is difficult to pin down a defendant’s intent from his conduct alone. Rather, it seems easier to extrapolate from user statistics, which are tracked automatically by the server and which can be processed into easily understandable graphs and charts. “User” data therefore presents an alluring alternative to defendant-initiated “creator” contacts.

## **B. Defending Creator Contacts**

Courts, however, should not heed this siren call, because doing so would undermine personal jurisdiction as a viable legal doctrine. Focusing on “user” contacts mangles the distinction that only defendant’s conduct should matter. It also ignores two of the most basic rationales underlying personal jurisdiction: fairness and predictability.

### *1. Rationales underlying jurisdiction*

#### a) “Traditional notions of fair play and substantial justice”

Personal jurisdiction is grounded first on “traditional notions of fair play and substantial justice.”<sup>51</sup> As a doctrine of fairness, it serves one main purpose: it regulates the number of allowable suits. Properly defined, personal jurisdiction establishes a fair and just balance between the needs of the forum state to protect its own citizens and the rights of the defendant to

---

51. *International Shoe v. Washington*, 326 U.S. 310, 316 (1945).

be free from burdensome litigation in a strange and foreign jurisdiction.<sup>52</sup> It establishes this balance by demanding a price for a benefit. In particular, it demands that a plaintiff who wishes to acquire the benefit of suit must first establish a meaningful relationship with the defendant. Plaintiffs who can only show “random, fortuitous or attenuated” contacts will be barred from taking advantage of the system.<sup>53</sup>

“User” contacts are by nature random, fortuitous, and attenuated. Therefore, focusing on these contacts tilts the balance too far in favor of the plaintiff and increases the likelihood of meritless and harassing actions, without exacting a proper price in return. With “user” contacts, plaintiffs can assert jurisdiction even if the defendant did not act at all, which is basically unfair.

“User” contacts are random because web site creators have no control over most users and their actions. They cannot reject users from a particular state, unless they make their site entirely inaccessible to the general public (a non-viable solution for a commercial site).<sup>54</sup> Similarly, inserting disclaimers, even one on every page of the defendant’s site, would not suffice. If a disclaimer is placed on a normal web page, the users might not see it or might ignore it. Even assuming that a user sees the warning and decides to follow its dictates, the damage has already been done: the user has already hit the site, opening the creator to liability. Click agreements would also not solve the dilemma because of implementation problems. The creator has two choices with click agreements: she can place the agreement on a normal web page or put it in a pop-up window. The first method runs into problems because there is no one single entry-way into a web site. Every page on the site would, therefore, have to be devoted to the click agreement, with no room for actual content. The second method is more viable, but runs into compatibility problems. To display a pop-up window, the creator would have to use JavaScript, frames or similarly advanced features, which some older browsers do not support. A creator who does not wish to sacrifice accessibility would not be able to use this method, but would have to allow users free rein over her site. Such lack of control, in turn, distorts the picture courts receive about the defendant’s amenability to suit.

---

52. See *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 292 (1980).

53. *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 475 (1985).

54. It would be impossible to restrict by state, because usually servers are not provided with information about a user’s geographic location or residence. See *ROBBIN ZEFF & BRAD ARONSON, ADVERTISING ON THE INTERNET* 68-69 (1997). This might change with the advent of such technological innovations such as “cookies,” which are Internet features that can keep track of user information.

“User” contacts are fortuitous because many users find pages by browsing, or navigating by moving from link to link. By doing so, they move in a non-linear fashion, without reading a page in full or seeing a section in a particular order.<sup>55</sup> Whimsy and luck determine where these users will go. Often, users will hit a page, even if they have no interest in it and do not intend to stay. Hitting a useless page increases with user error. Even a knowledgeable and responsible browser can occasionally hit the wrong site by clicking on the wrong link or following an erroneously labeled or outdated link. Counting “user” contacts, therefore, results in unfairness because a lucky defendant would be able to avoid suit where an unlucky defendant would not.

Finally, “user” contacts might be more attenuated than courts assume. “User” contacts are recorded through hits. Many hits, however, do not necessarily mean many users, because a user can hit a site several times in one visit.<sup>56</sup> Hits may also be misleading because a server will record a hit for each file it downloads.<sup>57</sup> For example, a server will record five hits every time a user downloads a page with four images, even though the user has really only seen the site once. Therefore, courts relying on hit numbers will sometimes allow jurisdiction over a site, even though it was accessed by only a few individuals.

A focus on “user” contacts, therefore, does not further fairness because it increases the likelihood of meritless actions without correspondingly raising the price for suit.

b) Predictability: The orderly administration of justice

Besides establishing a fair and just balance, personal jurisdiction also should insert an element of predictability into the system and ensure the orderly administration of justice.<sup>58</sup> An established and set rule places a defendant on notice, and allows the defendant to efficiently gauge the cost of performing certain activity.<sup>59</sup>

Inserting “user” contacts into the equation lowers predictability, however, because defendants now must consider not only their conduct, but the conduct of countless unknown users over which they have no control.

Of course, lack of control might not be a problem if defendants received notice every time a user from a particular state hit their site. How-

---

55. See CHERYL GOULD, *SEARCHING SMART ON THE WORLD WIDE WEB* 3 (1998).

56. See ZEFF, *supra* note 54, at 67.

57. See *id.*

58. See *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297 (1980).

59. See *id.*

ever, notice is impossible with the current technology of recording hits. Defendants face several tracking problems.

First, most defendants do not have the necessary hit lists conveniently at hand. When the server records a hit in a log file, the file is not automatically sent to the creator, but is stored on the server, and, therefore, can be accessed immediately only by those who maintain the server.<sup>60</sup> Some creators, however, do not maintain their own servers, but merely lease sites from other companies.<sup>61</sup> They would have no immediate access to the list of hits, and no clue that they might be suddenly open to jurisdiction from a particular state.

Second, even if the creator has access to a hit list, a hit list is not very useful because it does not register geographic location, only the domain name<sup>62</sup> of the user's server.<sup>63</sup> A domain name itself provides little clue as to geographic data;<sup>64</sup> a defendant, therefore, must have access to a table which matches domain names to physical locations to determine the latter.

Third, domain names are merely labels; they can be randomly assigned to different locations, like a phone number.<sup>65</sup> This means that the defendant must constantly update his conversion table.

Finally, even if the defendant had an updated conversion table, he would receive false location information by analyzing the hit. First of all, users can remotely access most servers, and therefore server location might not correspond to user location. For example, a conversion of an American Online address would place the user in Virginia, where the

---

60. See SIMON COLLIN, *DOING BUSINESS ON THE INTERNET* 169 (1997).

61. This situation applies particularly to individual, non-commercial and small business users who might not have the resources necessary to pay either for their own service or for access to the log files maintained by their host server. See *id.*

62. Domain names should be distinguished from IP addresses. Domain names are convenient labels such as *www.berkeley.edu*, which help users identify particular machines by providing easily remembered names. They must be translated into IP addresses, sequences of unique numbers separated by dots, before a machine can understand the name. See CHUCK MUSCIANO & BILL KENNEY, *HTML: THE DEFINITIVE GUIDE* 165 (1996).

63. At most, the server will record the visitor's host computer and platform, the date and time of the request, the names of the files requested, the type of browser used, and the referring URL in a text document called a "log file." Raw log files do not provide demographic information, nor do they enable site managers to track the movement of a user through a site. See ZEFF, *supra* note 54, at 67-69.

64. See COLLIN, *supra* note 60, at 170.

65. IP addresses are determined by physical location—where the computer is tied to the network. See DOUGLAS E. COMER, *INTERNETWORKING WITH TCP/IP* 63 (1995). Domain names are not bound to a specific physical location; they can be assigned to various IP addresses, and therefore to various physical locations. See *id.* at 390.

company is headquartered, even though the user might actually be logging in from a different state.<sup>66</sup> Second, advanced users can mask their true server location by generating packets of data containing false source information.<sup>67</sup> A “hit” from such a user would record a false server name, increasing the likelihood that the actual physical location of the user could not be determined. Both these circumstances increase the chance that a defendant will not be able to properly predict his amenability to suit.

Personal jurisdiction strives to achieve a fair and predictable balance between the rights of the plaintiff and the rights of the defendant. Focusing on user contacts, however, increases the chances that a court will reach an unfair and unpredictable result. It lowers the standard of proof for plaintiffs, but does so for contacts over which both users and creators have no control. A creator could be free from jurisdiction one day, but not the next, because a user, on a whim, happened to erroneously click on a link. To avoid such a disturbing result, courts should therefore avoid “user” contacts, and treat such contacts with wariness.

2. *Contacts that the courts can properly consider: Revamping the notion of creator contacts*

If courts should not look at user contacts, what contacts can they properly consider? The answer lies in traditional case-law: courts should return to analyzing defendant contacts. In the context of web sites, courts should look at “creator” contacts, because the creator is often the defendant. “Creator” contacts refer to the *targeting* activity taken by the defendant—actions taken by the defendant to create, promote, and control access to his page. The term does not include the mere act of putting up a page, because this act, by itself, does not allow the creator to target a specific market.<sup>68</sup>

a) Site construction and content

Courts analyzing web sites can first look at how the creator constructs or structures his site. Courts can analyze the properties of the creator’s server. A server system with greater capacity, for example, might go against a finding that a company is a local site catering to just a particular

---

66. See ZEFF, *supra* note 54, at 94.

67. This practice is known as spoofing, and it works because some systems depend on source information to authenticate a user. See WARWICK FORD & MICHAEL S. BAUM, SECURE ELECTRONIC COMMERCE 148 (1997).

68. There is a distinct difference between creating a site and putting up a site. Creating a site includes picking a server, choosing content, developing a design, and coding the actual pages. Putting up a site is the act of going “live,” placing the pages on the server so that it is accessible to the public. A page can therefore be created, and be in perfect working order, without being “put up.”

city. Similarly, a company that places its site on an electronic mall catering to the city San Francisco would seem to be targeting residents in the San Francisco area.

Courts can also look at site content. Courts already take note of such geographic information as the presence of a toll-free number or the presence of a local address.<sup>69</sup> In addition, they can analyze the site's text and list of links to see if information contained there is primarily of local interest. If a page incorporates a database, courts should check to see if the database incorporates information useful only to local residents.

Finally, courts can look at site arrangement, which influences the order of pages in a search engine's result list. URL's of sites do not magically appear in search engine databases. Rather, these databases are built by computers using programs (known as "spiders," "worms," or "robots"), which wander the web recording site information.<sup>70</sup> Once the site information is recorded by the spider, it is weighed by the search engine, based on various factors such as the frequency and position of key terms.<sup>71</sup> Therefore, a smart creator will place multiple key terms in the URL, title bar, metatag,<sup>72</sup> title headings, or near the top of the page to attract certain users.<sup>73</sup> These key terms might contain information that can help a court determine whether or not the site is local.

#### b) Site advertisement and promotion

In addition to analyzing site structure, the court can consider how a creator advertises its site. Creators promote their sites in various ways. Besides using traditional advertising media, a creator can place web-based classified ads or graphical banners and buttons on other sites,<sup>74</sup> list the site in directory services such as Yahoo!,<sup>75</sup> or send the site information to search engines.<sup>76</sup> Taken in totality, if the creator mostly advertises on sites dedicated to the users of a certain forum then that should weigh towards finding jurisdiction for that particular forum. For example, several compa-

---

69. See, e.g., *Bensusan Restaurant Corp. v. King*, 937 F. Supp. 295 (S.D.N.Y. 1996).

70. See GOULD, *supra* note 55, at 16-17.

71. See *id.* at 14, 41.

72. A metatag is a special tag placed in the HTML code which allows a creator to classify the page according to certain key terms. The key terms do not effect the appearance of the page, and therefore a user will often not even realize that a metatag has been incorporated in a certain document. See *id.* at 14.

73. See *id.* at 14, 41.

74. See ZEFF *supra* note 54, at 20-21, 38-49.

75. See *id.* at 188.

76. See ELLSWORTH, *supra* note 50, at 219.

nies, such as Yahoo!, AOL, and Microsoft, have developed local directories catering to popular cities.<sup>77</sup> A creator listing itself in the San Francisco directory of one of these companies might only be targeting San Francisco area customers.

c) Member control

Finally, the court can look at how the creator controls membership to its site. Usually, a creator cannot bar users from accessing a page open to the public,<sup>78</sup> but if the defendant does limit access to part of its site (for example, through password protection),<sup>79</sup> courts should look to see who the defendant allows into those limited areas. If the company refuses to serve or send data to customers from certain forums, then it might be improper to find jurisdiction for those forums. In analyzing limited access sites, courts should take care, however, to distinguish between sites where the defendant has control over the issuance of passwords, and the sites which automate password issuance. Unless the machine asks for geographic data, and is able to reject users based on that data, the defendant will have little knowledge or control over who can access the sites.

The web should not present an unsolvable problem for the courts. While the technology is new and ever-changing, courts can still reach fair and predictable results if they follow the traditional over-arching principle of considering the technology from the perspective of the defendant. The wealth of "creator" contacts provides more than adequate analytical fodder for jurisdictional analysis, as well as a consistent standard that courts can apply. In short, courts do not need to turn "user" contacts, which merely increase unfairness and unpredictability.

### III. THE PROBLEM WITH CYBERSELL: A LESSON IN THE VALUE OF CREATOR CONTACTS

*Cybersell* presents an excellent example of how a court can reach a questionable decision by relying mostly on "user" contacts. Other than mentioning the fact that Cybersell FL provided no 800 or toll free number, the Ninth Circuit in *Cybersell* failed to analyze any defendant contacts.<sup>80</sup> Rather it focused mainly on the fact that no Arizonan had "hit" Cybersell

---

77. See ZEFF *supra* note 54, at 188.

78. Files can either be marked public or private. A public page can be viewed by anyone. A private page requires a password or other form of authentication. See generally COLLIN, *supra* note 60, at 119-20.

79. See generally *id.* (describing password authorization techniques for managing page access).

80. *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 419 (9th Cir. 1997).

FL's web site.<sup>81</sup> From that fact, the Ninth Circuit summarily concluded that Cybersell FL had done "nothing to encourage people in Arizona to access its site," and, therefore, refused to find the requisite interactivity for jurisdiction.<sup>82</sup>

The court effectively ignored other available "creator" contact evidence that would have allowed it to reach a different conclusion. In particular, it failed to recognize the importance of site content and did not analyze why Cybersell AZ refused to change the sentence, "Welcome to Cybersell!" on its opening page. A more web-savvy court would have been more suspicious of the mistake. Cybersell FL obviously knew of Cybersell AZ after receiving the cease and desist letter from the latter, but although it changed its name and logo, it failed to change the one welcoming message. Because the company's founders were interested in the Internet,<sup>83</sup> they would have been aware that having the name Cybersell at the top of the page would have weighted the site more heavily in search engines. Arizona users searching for Cybersell AZ might have found Cybersell FL instead. A court, therefore, could have reached the conclusion that Cybersell FL was attempting to target Arizona users.

In the end, of course, the inclusion of this one bit of circumstantial evidence might not have changed the court's decision. Nevertheless, this suspicious act suggests that the court should have looked more closely at how the defendant presented its page. Besides checking site arrangement, the court should have analyzed the server's status, to see if the company had placed its page on a server primarily dedicated to local use. It should have dissected the content of the site, to see if the text assumed that the user would primarily be of local origin. It could have also analyzed the links on the page to see if they pointed to primarily locally-oriented resources, such as Florida better business bureaus or state offices, rather than their national equivalents. It should have delved into how the Certos had promoted their page, and whether the two ever had plans to reject out-of-state users, if they ever encountered any.

As it stands, it is difficult to properly determine the defendant's actual amenability to jurisdiction. The court reaches a conclusion but it provides little in the way of positive evidence to back up its contention. As written, the opinion stands devoid of helpful data such as information on how the defendant promoted, ran, or restricted its site. The inclusion of such information might have made the case that much harder to decide. It is also

---

81. *See id.*

82. *See id.* at 419-20

83. *See id.* at 415.

possible that, if such information had been included, the court might have reached a different conclusion, as have five other courts in similar cases.<sup>84</sup> This raises the question whether the Ninth Circuit knew enough about the site to actually reach the appropriate conclusion regarding personal jurisdiction. It also highlights the current dilemma faced by the courts: courts will continue to reach different conclusions based on the same facts if they reach out blindly to different types of contacts, without learning to distinguish between the different kinds of contacts available.

#### IV. CONCLUSION

The analysis of personal jurisdictional for web sites does not need to be confusing as it currently is. Courts disagree because they view “nature and quality of the commercial activity” in different ways—either from the perspective of third party users or from defendant creators. It would be a simple matter, at least for the sake of uniformity, to choose one or the other perspective. However, focusing on “user” contacts disregards prior case law, increases the chance of unfairness both to the defendant and the forum state, and jeopardizes the predictability which jurisdiction rules were meant to establish. Therefore, it would be far more appropriate to return to a focus on “creator” contacts, which ensure a fairer and more predictable personal jurisdiction standard.

---

84. *See supra* note 7.

## APPLICATION GROUP, INC. V. HUNTER GROUP, INC.

*By Mark A. Kahn*

Each state has its own laws reflecting different policy interests with respect to protection of trade secrets. Frequently, the laws of one state directly oppose the laws of another state. When a court must determine which state law to apply, inevitably, the court will issue a judgment that contravenes the policies of one of the states. In *Application Group, Inc. v. Hunter Group, Inc.*,<sup>1</sup> a California court was faced with a dispute arising out of a non-compete agreement. Contrary to the choice of law provision specifying that Maryland law would govern, the court chose to invalidate the non-compete agreement under California law rather than to uphold it as would be required under the laws of Maryland.<sup>2</sup>

Although the court analyzed the dispute under the proper framework, the court erred in invalidating the non-compete agreement. California and Maryland have very different laws that reflect different policy considerations with respect to non-compete agreements. When a California court must decide what state law to apply, the court ultimately must determine which state's policies would be impaired more by having the other state's law applied.<sup>3</sup> Here, the California court erred by failing to properly weigh the interests of Maryland in having its state law applied.

As technology continues to evolve and phenomena such as cross-country telecommuting become increasingly commonplace, courts will be faced with the question of what state law to apply in deciding whether a non-compete agreement is valid. Unfortunately, as is the case here, courts may not adequately consider the interests of the other state, and, as a result, state courts may make decisions that significantly affect other states.

### I. BACKGROUND

Hunter Group, Inc. ("Hunter") is headquartered in Maryland with offices in various states including California.<sup>4</sup> In 1991, Hunter hired Dianne Pike, a Maryland resident, as a consultant in computerized human re-

1. 61 Cal. App. 4th 881 (1998).

2. *See id.* at 885.

3. *See Nedlloyd Lines B.V. v. Superior Court*, 3 Cal. 4th 459, 466 (1992).

4. *See Hunter*, 61 Cal. App. 4th at 885.

sources management systems.<sup>5</sup> While employed by Hunter, Pike worked at several customer sites, none of which were in California.<sup>6</sup>

When Hunter hired Pike, Pike signed an employment agreement that prohibited her from working for a competing company during her term of employment and for one year following the termination of her employment.<sup>7</sup> The agreement further specified that it was to be construed under Maryland law.<sup>8</sup> Despite signing the employment agreement, Pike resigned in 1992 to take a position with The Application Group, Inc. ("AGI"), a California corporation that directly competes with Hunter in the niche industry of human resources software consulting.<sup>9</sup> In her new position, Pike was hired for employment in California, although she continued to reside in Maryland.<sup>10</sup> Hunter demanded that Pike cease working for AGI and return to Hunter but Pike refused.<sup>11</sup>

### A. Procedural History

In 1992, Hunter sued Pike in a Maryland circuit court for breach of contract.<sup>12</sup> In the same action, Hunter sued AGI for unlawful interference with Hunter's contractual relationship with Pike.<sup>13</sup>

Meanwhile, in April 1993, AGI and Pike filed a complaint in San Francisco Superior Court seeking a declaratory judgment stating that California Business & Professional Code section 16600 rather than Maryland law applied to Pike's covenant not to compete.<sup>14</sup> The California court, however, stayed that action pending the completion of the Maryland action.<sup>15</sup>

---

5. *See id.* at 887.

6. *See id.*

7. The contract specifically stated that:

During the term of [her] employment, and for a period of [one year] after the date of its termination, [Pike] agrees that [she] will not render, directly or indirectly, any services of an advisory or consulting nature, whether as an employee or otherwise, to any business which is a competitor of [Hunter].

*Id.*

8. The choice of law provision of the agreement provided that it was to be "governed by and construed in accordance with the laws of the State of Maryland." *Id.*

9. *See id.*

10. *See Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 892 (1998).

11. *See id.* at 887.

12. *See id.*

13. *See id.*

14. *See id.* at 888.

15. *See id.*

In May 1994, the Maryland court issued judgments in favor of both Pike and AGI because Hunter failed to present evidence of damages.<sup>16</sup> The judgment of the Maryland court allowed the San Francisco Superior Court to move forward on AGI's and Pike's requests for declaratory relief. In December 1994, the law and motion department of the San Francisco Superior Court partially granted a summary judgment motion filed by AGI.<sup>17</sup> Specifically, the court held that "California law applied to Pike's covenant not to compete, which was 'invalid and unenforceable in California' as to her."<sup>18</sup>

In January 1995, the California court held a trial on the claims that survived the summary judgment motion.<sup>19</sup> Initially, the court denied AGI's claims for declaratory relief.<sup>20</sup> However, the court revised its findings in response to objections by AGI.<sup>21</sup> Specifically, in addition to reinforcing the findings of the court's law and motion department, the court held that California law applied to AGI's hiring of Hunter employees to engage in business in California because of California's strong public policy interests in invalidating non-compete agreements.<sup>22</sup>

### **B. The Court of Appeal Decision**

The Court of Appeal affirmed the trial court's decision to apply California law rather than Maryland law to the non-compete clause of the employment agreement.<sup>23</sup> The Court of Appeal did not consider the merits of Pike's claims because the trailer clause in her contract had already expired and her claims had become moot.<sup>24</sup> However, AGI's claims were justiciable because AGI was seeking declaratory relief with respect to potential litigation regarding interference by AGI.<sup>25</sup>

To determine whether California or Maryland law should apply, the Court of Appeal engaged in a "governmental interest analysis" that the

---

16. *See* Application Group, Inc. v. Hunter Group, Inc., 61 Cal. App. 4th 881, 887 (1998).

17. *See id.* at 889.

18. *See id.*

19. *See id.*

20. *See id.*

21. *See id.* at 890.

22. *See* Application Group, Inc. v. Hunter Group, Inc. 61 Cal. App. 4th 881, 890 (1998).

23. *See id.* at 909.

24. *See id.* at 894.

25. *See id.*

Ninth Circuit had previously applied.<sup>26</sup> Under this analysis, when state laws conflict, a California court must apply California law unless the competing state has significant interests in having its law applied.<sup>27</sup> When the competing state does have significant interests, the court must analyze the costs and benefits to each state.<sup>28</sup>

However, the court noted that in contractual disputes, the California court should apply the contractually specified substantive law unless:

- (1) the chosen state has no substantial relationship to the parties or the transaction, or
- (2) application of the law of the chosen state would be contrary to a fundamental policy of the state.<sup>29</sup>

Here, because both Pike and Hunter had a relationship with the contractually specified state, the court focused on the second exception. The court cited *Nedlloyd Lines B.V. v. Superior Court*<sup>30</sup> in support of its decision to engage in a public policy analysis to determine whether the contractually specified substantive state law should be ignored.<sup>31</sup> Specifically, the Court of Appeal quoted the *Nedlloyd* court, which stated that the court must decide whether California has a "materially greater interest than the chosen state in the determination of the particular issue."<sup>32</sup>

The court then briefly examined the question of how the "governmental interest analysis," as explained in *S.A. Empresa de Viacao Aerea Rio Grandense v. Boeing Co.*,<sup>33</sup> relates to the "materially greater interest analysis," as explained in *Nedlloyd*.<sup>34</sup> The court noted that no court had explicitly undertaken such an analysis.<sup>35</sup> However, the Court of Appeal held that the Ninth Circuit, in *Empresa*, first analyzed the governmental interests of the states with conflicting laws and then determined "the extent to which those interests would be impaired by application of the other state's laws."<sup>36</sup> The Court of Appeal then held that a court must enforce

---

26. *See id.* at 896 (construing *S.A. Empresa de Viacao Aerea Rio Grandense v. Boeing Co.*, 641 F.2d 746 (9th Cir. 1981)).

27. *See id.*

28. *See Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 896 (1998).

29. *Id.*

30. 3 Cal. 4th 459, 464-66 (1992).

31. *See Hunter*, 61 Cal. App. 4th at 897.

32. *Id.* at 897 (quoting *Nedlloyd*, 3 Cal. 4th at 466).

33. 641 F.2d 746 (9th Cir. 1981).

34. *See id.* at 898.

35. *See id.*

36. *Id.*

the contractual choice of law unless the interests of the other state are materially greater and the other state's interests would be more seriously impaired if the court followed the contractually specified substantive state law.<sup>37</sup>

While the Court of Appeal affirmed the trial court's decision, the court noted that the trial court did not analyze which state's law should be applied under the above framework.<sup>38</sup> Consequently, the Court of Appeal performed a thorough analysis to determine whether Maryland or California law should apply.

The court first noted that Maryland and California each have significant interests in having its own laws applied.<sup>39</sup> Consequently, the court had to determine which state had a "materially greater interest" in having its laws applied and which state's interests would be impaired more seriously if the other state's laws were applied.

In analyzing California's interests, the court explained that California has strong public policy interests in prohibiting non-compete agreements.<sup>40</sup> Specifically, the court noted that in California, employee mobility is more precious than competitive business interests of employers as long as trade secrets are not imperiled.<sup>41</sup> In addition, California prohibits non-compete agreements because they prevent California corporations from hiring the most talented and skilled workers in their industries.<sup>42</sup> According to the court, non-compete agreements promote anti-competitive behavior.<sup>43</sup> Finally, the court stated that because of the rapid developments in technology, California corporations need to be able to hire employees outside of California.<sup>44</sup>

With respect to Maryland's interests, the court noted Hunter's argument that Maryland allows non-compete agreements because employers should be allowed to prevent recruitment of employees who provide unique services.<sup>45</sup> In addition, non-compete agreements allow Maryland employers to prevent "the misuse of trade secrets, routes, or lists of cli-

---

37. *See id.*

38. *See Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 899 (1998).

39. *See id.*

40. *See id.* at 900.

41. *See id.*

42. *See id.* at 901.

43. *See id.*

44. *See Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 901 (1998).

45. *See id.*

ents, or solicitation of customers.”<sup>46</sup> However, the court concluded that Hunter did not demonstrate that human resources consultants such as Pike either provide unique services or pose a threat to information protected by trade secret law.<sup>47</sup> Consequently, the court determined that California had a materially greater interest in having its laws applied.<sup>48</sup>

Finally, the court evaluated Hunter’s claims that California’s interests were irrelevant because of the “relevant contacts” of the parties with the states.<sup>49</sup> Specifically, Hunter argued that because Pike had contacts with only Maryland at the time the non-compete agreement was entered into, the court should follow the state law of Maryland.<sup>50</sup> The court held that Hunter’s analysis of relevant contacts was strained and that relevant contacts include the following:

- (a) the place of contracting,
- (b) the place of negotiation of the contract,
- (c) the place of performance,
- (d) the location of the subject matter of the contract, and
- (e) the domicile, residence, nationality, place of incorporation and place of business of the parties.<sup>51</sup>

While the court acknowledged that Maryland would arguably be the appropriate choice in an analysis of the overall contract between Hunter and Pike, the court held that the covenant not to compete clause was performed in areas outside of Maryland, specifically in California.<sup>52</sup> In addition, because AGI, a California corporation, was involved, California had relevant contacts in the matter.<sup>53</sup> Finally, Hunter had significant contacts with California because it did business in California. Thus, according to the court, the “relevant contacts” requirement did not preclude the application of California law.<sup>54</sup>

---

46. *Id.*

47. *See id.* at 901-02.

48. *See id.* at 902.

49. *See id.* at 903.

50. *See Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 903 (1998).

51. *Id.*

52. *See id.* at 904.

53. *See id.* at 904-05.

54. *See id.* at 905.

## II. DISCUSSION

In invalidating the non-compete agreement entered into between Hunter Group and its employee Pike, the court determined that California's public policy interests outweighed Maryland's public policy interests.<sup>55</sup> Specifically, the court cited California's historically strong public policy bias against non-compete agreements.<sup>56</sup> The court reasoned that Maryland's public policy interests in allowing companies to enter into non-compete agreements with their employees were not as strong as California's interests.<sup>57</sup> Here, the court made a fundamental error.

### A. Non-Compete Agreements in California and Maryland

Before examining why the court erred, it is helpful to explore further the laws relating to non-compete agreements in each state. California and Maryland have very different attitudes toward non-compete agreements. In general, California has a strong policy against non-compete agreements, primarily because they severely limit employee mobility.<sup>58</sup> Meanwhile, Maryland permits non-compete agreements under trade secret protection theories.

#### 1. California

California strongly favors employee mobility and, consequently, California laws explicitly forbid non-compete agreements.<sup>59</sup> The relevant statute provides in pertinent part that:

Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is to that extent void.<sup>60</sup>

The statutory exceptions are not relevant to this case.<sup>61</sup>

When applying the section, courts have detailed California's strong underlying public policy concerns.<sup>62</sup> Specifically, with respect to the em-

---

55. See *Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 902 (1998).

56. See *id.* at 900-01.

57. See *id.* at 901-02.

58. See *Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 255 (1968) (explaining the high premium courts place on employee mobility).

59. See *Frame v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 20 Cal. App. 3d 668, 673 (1971).

60. CAL. BUS. & PROF. § 16600 (WEST 1997).

61. The statutory exceptions are detailed in CAL. BUS. & PROF. §§ 16601-16602. In general, the exceptions relate to agreements not to compete as conditions following the sale of a business or the dissolution of a partnership.

employer-employee relationship, the law exists because of California's belief that an employee should be free to switch jobs whenever he or she desires.<sup>63</sup> From the employee perspective, the statute exists to protect a citizen's right to pursue any career or livelihood that he or she chooses.<sup>64</sup> In fact, California views this right as more important than the competitive business interests of employers.<sup>65</sup>

If non-compete agreements were valid in California, a citizen employed by Company A often would have to stay employed with Company A if he or she wanted to continue to work in the industries with which Company A is affiliated. Although an employee who is bound by a non-compete agreement usually could still work for countless companies in other industries, California's laws operate under the philosophy that an employee should be able to work for *any* company in any position. Moreover, an employee of Company A may have a strong desire to continue his or her career within Company A's industry. In addition, although some skill sets translate easily across industries, many do not, and an employee who is bound by a non-compete agreement may not be as employable in other industries.

In addition, under California law, as the court points out, employee mobility benefits employers as well as employees because it allows employers to have access to the best employees without restrictions.<sup>66</sup> Because of the prohibition on non-compete agreements, California companies are free to recruit employees from competitors. In her book, *Regional Advantage*, AnnaLee Saxenian analyzes why Silicon Valley has grown so rapidly, and she partially attributes the rapid growth to the high degree of employee mobility.<sup>67</sup> In Silicon Valley, professional networking occurs just as it does in other parts of the country.<sup>68</sup> However, in Silicon Valley, job opportunities arise frequently out of both informal and formal networking situations.<sup>69</sup> Naturally, with a substantial amount of networking taking place, employees in Silicon Valley are able to switch jobs relatively easily, and, in fact, Silicon Valley companies typically have abnormally

---

62. See, e.g., *Robinson v. Jardine Ins. Brokers Intern. Ltd.*, 856 F. Supp. 554, 558 (N.D. Cal. 1994); *Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 255 (1968).

63. See *Robinson*, 856 F. Supp. at 558.

64. See *id.*

65. See *Diodes*, 260 Cal.App.2d 244, 255 (1968).

66. See *Application Group v. Hunter Group*, 61 Cal. App. 4th 881, 901 (1998).

67. ANNALÉE SAXENIAN, *REGIONAL ADVANTAGE* 34 (1996). The author is an Associate Professor in the Department of City and Regional Planning at the University of California, Berkeley.

68. See *id.*

69. See *id.*

high levels of turnover as compared to the rest of the country.<sup>70</sup> "This decentralized and fluid environment accelerated the diffusion of technological capabilities and know-how within the region."<sup>71</sup> Obviously, Silicon Valley companies benefit from access to employees with higher levels of knowledge. The effect manifests itself in two ways: 1) employers can seek to employ anyone and directly derive benefits from the new employees; and 2) more senior employees learn from their recently hired colleagues and become more efficient and productive. Thus, by not allowing non-compete agreements, California has created certain advantages for its employers.

Notably, in applying Section 16600, courts have recognized that trade secrets must still be protected.<sup>72</sup> Consequently, the strong bias towards employee mobility in California does not imply a lesser obligation on the part of employees with respect to trade secrets.<sup>73</sup> Thus, as the court in *Diodes, Inc. v. Franzen*<sup>74</sup> noted, although employee rights are more important than an employer's interest in preventing an employee from working for a competitor in general, the employee's rights do not permit the employee to misappropriate trade secrets after leaving a company.<sup>75</sup>

## 2. Maryland

Unlike California law, Maryland law permits employment contracts to contain post-employment non-compete provisions.<sup>76</sup> Specifically, Maryland statutes do not contain any explicit restrictions on the scope of non-compete agreements. Thus, the legality of non-compete agreements is determined entirely by common law.

Under Maryland common law, non-compete agreements are generally held to be valid. However, there are restrictions on the limitations that an employer can put on an employee through non-compete clauses. Specifically, for any restrictive covenant to be valid, there must be adequate consideration.<sup>77</sup> However, consideration need not be in the form of monetary

---

70. See *id.* at 34-35.

71. *Id.* at 37.

72. See *e.g.*, *Scott v. Snelling and Snelling, Inc.*, 732 F. Supp. 1034, 1043 (N.D. Cal. 1990).

73. See *Loral Corp. v. Moyes*, 174 Cal. App. 3d 268, 274-75 (1985).

74. 260 Cal. App. 2d 244 (1968).

75. *Id.* at 255.

76. For a thorough discussion of non-compete agreements in Maryland, see Barry F. Rosen & Steven A. Loewy, *Restrictive Covenants in Maryland Employment Agreements: A Guide for Drafting*, 11 U. BALT. L. REV. 379 (1982).

77. See *Becker v. Bailey*, 268 Md. 93, 96 (1973).

payments. In *Hekiman Laboratories, Inc. v. Domain Systems, Inc.*,<sup>78</sup> the court noted that "its research had revealed no case in Maryland in which the employer had agreed to additionally compensate the employee during the non-compete period."<sup>79</sup> Thus, although there must be consideration for the non-compete restriction, that consideration does not necessarily have to be additional payments explicitly made for the non-compete period.

Further, according to the court in *Becker v. Bailey*,<sup>80</sup> the non-compete agreement must be "confined within limits which are no wider as to area or duration than are reasonably necessary for the protection of the business."<sup>81</sup> The geographical and time limit tests are not static ones.<sup>82</sup> Instead, what is geographically reasonable or temporally reasonable will depend on the specific facts of the employer-employee relationship in question.<sup>83</sup>

The final limitation on non-compete agreements in Maryland is that they cannot "impose undue hardship on the employee or disregard the interests of the public."<sup>84</sup> In applying the reasonableness standard, Maryland courts will only enforce non-compete agreements to prevent the revelation of trade secrets or to restrict employees who provide unique services.<sup>85</sup>

Thus, while Maryland statutes do not prohibit non-compete agreements, the evolution of the common law in Maryland has imposed significant restrictions on how an employer can limit the mobility of ex-employees through non-compete agreements. As a result, although Maryland law allows non-compete agreements, Maryland law still permits a significant degree of employee mobility.

Maryland public policy allows non-compete agreements between employers and employees as part of its body of trade secret law. Non-compete agreements assist in the deterrence of trade secret misappropriation. An employee who considers working for a competitor or starting his or her own competing company might be tempted to use the information acquired during the course of performing his or her job. In addition, the employee could even seek out information specifically to use to compete with his or her employer. However, if the employee is bound by a non-compete agreement, the employee will likely realize that if he obtains trade secret protected information, he or she will be barred from using the

---

78. 664 F. Supp. 493 (1987).

79. *Id.* at 498.

80. 268 Md. 93 (1973).

81. *Id.* at 96.

82. *See id.* at 97.

83. *See id.*

84. *Hekiman*, 664 F. Supp. at 497.

85. *See id.*

information in competition. If the non-compete agreement were not in place, even if the employee knew that trade secret theft was illegal, the employee might be willing to take the risk, either consciously or subconsciously, of using the information while working for a competitor. Thus, because non-compete agreements prevent employees from obtaining jobs with competitors, employees who might be inclined to misappropriate trade secret information are deterred from doing so because they will have no means for using the misappropriated information.

Because non-compete agreements reduce the chances of trade secret misappropriation, they provide an incentive for employers to create.<sup>86</sup> When a company cannot be assured that it will be able to reap the benefits of whatever it creates, the company has less incentive to create.<sup>87</sup> On the other hand, when a company thinks that it will be able to exploit whatever it creates either directly or indirectly, the company has more incentive to create.<sup>88</sup> Thus, because non-compete agreements allow a company to ensure that its employees will be unable to compete with the company if the employee leaves, the company's incentives to create remain high. Even without non-compete agreements, a former employee would still be barred from misappropriating trade secrets.<sup>89</sup> However, with non-compete agreements, by definition, the company has a higher level of certainty that trade secrets will not be misused.

Moreover, non-compete agreements reduce indirect and transaction costs that companies would otherwise incur.<sup>90</sup> For example, if a company can be assured that a valuable employee will not leave for a competitor, the company does not need to expend resources ensuring that the valuable employee does not know too much. Although the company may still be vulnerable if the employee leaves for an entirely different career, it does not have to be concerned that the employee will leave for a new company in which the employee's knowledge directly affects the original company. Thus, the employer can operate more efficiently because each employee can be given as much information as is needed for the employee to do his or her job at an optimal level.

---

86. For a detailed discussion and critique of the underlying rationales of trade secret law, see Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CALIF. L. REV. 241 (Mar. 1998).

87. See ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 34-35 (1997).

88. See *id.*

89. See Barry F. Rosen & Steven A. Loewy, *Restrictive Covenants in Maryland Employment Agreements: A Guide for Drafting*, 11 U. BALT. L. REV. 379, 402 (1982).

90. See MERGES ET AL., *supra* note 87, at 89.

Trade secret disputes involve significant costs to all parties involved.<sup>91</sup> Specifically, trade secret cases are extremely fact-intensive and thus frequently involve extensive discovery.<sup>92</sup> Moreover, attempting to prove trade secret violations may require the resources of critical employees whose time would otherwise be spent on more productive projects.<sup>93</sup> Finally, a plaintiff may incur numerous other direct and indirect costs over the course of investigating and litigating a trade secret dispute.<sup>94</sup>

Thus, non-compete agreements reduce the costs of trade secret litigation.<sup>95</sup> If an employee leaves for a competitor in potential violation of a non-compete agreement, the potential litigation can be narrowly focused on whether or not the employee's actions violated the clause. Admittedly, the employer still may not prevail if the non-compete agreement is not reasonable or if the new company is not actually a competitor, for example. However, the costs will be significantly less than if the employer has to engage in extensive discovery to determine whether or not the former employee misused information protected by trade secret laws. Moreover, without non-compete agreements, employees are free to work for competitors. In those situations, the former employers must consider whether or not it is worth investigating and/or litigating against the former employees for potential trade secret violations.

## B. Why the Court Erred

In California, when a court is faced with a decision as to which of two conflicting laws to apply, the court may consider several factors. Among the major factors to be considered are the contractual choice-of-law provision, if it exists, and the relative interests of each state in having its law applied.<sup>96</sup>

Here, the court was justified in disregarding the choice-of-law provision that was present in the employment agreement between Hunter and Pike. Since both Hunter and Pike had substantial relationships with Maryland, the court focused on whether application of the law of Mary-

---

91. See JAMES POOLEY, TRADE SECRETS §10.02[4] (1997).

92. See *id.*

93. See *id.*

94. Among the other costs are both intangible ones, such as a decline in employee morale or an increase in customer irritation, as well as tangible ones such as exposure to counterclaims and risk of loss of secrecy during litigation of the precise trade secret subject matter that is in dispute. See *id.*

95. See MERGES ET AL., *supra* note 87, at 89.

96. See S.A. Empresa de Viacao Aerea Rio Grandense. v. Boeing Co., 641 F.2d 746, 749 (9th Cir. 1981).

land conflicted with the fundamental policy of California.<sup>97</sup> Enforcing the choice-of-law provision would have meant upholding the validity of the non-compete agreement, and California has fundamental public policy interests against non-compete agreements.

However, as the court acknowledged, the inquiry does not end just because enforcement of Maryland's law would contravene California's public policy interests.<sup>98</sup> Instead, when a court must decide which state law to apply, the court must perform the "governmental interest analysis."<sup>99</sup> If each state has significant interests, the court will then compare the relative impairment to each state's policies if the other state's law is applied.<sup>100</sup> "[T]he 'comparative impairment' approach to the resolution of such conflict seeks to determine which state's interest would be more impaired if its policy were subordinated to the policy of the other state."<sup>101</sup> Under the comparative impairment analysis, the court does not compare the relative merits of the underlying policies of the two state's laws.<sup>102</sup> Rather, the court only considers whether applying each state's law would hamper the goals of the other state.<sup>103</sup> Here, the court determined that California's policies would be impaired more, and thus, the court invalidated the non-compete agreement.<sup>104</sup>

Although the court correctly laid out the test to be applied in determining which of two conflicting state laws to apply, the court did not apply the test correctly. Specifically, while the court accurately outlined California's interests in having the non-compete agreement invalidated, the court failed to adequately consider Maryland's interests in having the non-compete agreement upheld.

With respect to the California common law, the court did consider the policy interests underlying Section 16600.<sup>105</sup> The court took a global approach and determined that California has a strong policy against non-compete agreements.<sup>106</sup>

---

97. See *Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 897 (1998).

98. See *Nedlloyd Lines B.V. v. Superior Court*, 3 Cal. 4th 459, 466 (1992).

99. See *S.A. Empresa*, 641 F.2d at 749.

100. See *id.*

101. *Bernhard v. Harrah's Club*, 16 Cal. 3d 313, 320 (1976).

102. See *id.*

103. See *S.A. Empresa*, 641 F.2d at 749.

104. See *Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 902 (1998).

105. See *id.* at 900-01.

106. See *id.*

While the court performed a cursory evaluation of the uniqueness of Pike's services as required under Maryland common law regarding non-compete agreements, the court did not consider the underpinnings of Maryland's acceptance of non-compete agreements.<sup>107</sup> With respect to Maryland, the court took a fact-specific approach and determined that Maryland did not have significant interests in having a non-compete agreement enforced in this particular situation.<sup>108</sup> Thus, the court did not make a fair comparison. Instead, the court should have compared the relative interests of each state using the same standard for each state.

Consequently, the court ignored Maryland's interests in having the non-compete agreement upheld. Because the court struck down the non-compete agreement, companies in Maryland will be unable to know in advance whether their non-compete agreements will truly protect them. As a result, companies could be forced to expend more resources protecting trade secrets. This decision reduces the benefits to Maryland and its companies derived from Maryland's laws that permit non-compete agreements without providing Maryland with the counterbalancing benefits found in a jurisdiction that prohibits non-compete agreements.<sup>109</sup>

In addition, the court ignored the intentions of the parties. Specifically, the parties knowingly entered into an employment agreement that contained a non-compete clause. Both employers and employees have a right to expect that courts generally will enforce contract provisions. This decision undermines those expectations. As a result, employers will be unable to rely as extensively on the validity of non-compete provisions even though their employees have agreed to them. Businesses include provisions such as non-compete clauses in employment contracts to provide them with a degree of certainty. Consequently, this decision reduces that degree of certainty.

Further, California companies will have a competitive advantage over Maryland companies. For example, suppose that Employee J works for Company X in Baltimore. The employment contract between Employee J and Company X includes a reasonable non-compete clause. Employee J decides to leave Company X but wants to remain in the same industry. In Company X's industry, there are two other companies that Employee J wants to work for: Company Y, another Maryland company and Company Z, a California company that will permit Employee J to telecommute from

---

107. *See id.* at 901-02.

108. *See id.*

109. *See supra*, Part II(A)(2) for a discussion of the benefits of non-compete agreements.

his home in Baltimore. Because of the non-compete clause, Employee J is prohibited from seeking immediate employment in a similar position with Company Y. However, according to the court in *Application Group v. Hunter Group*, Employee J would be free to work for Company Z. Thus, under this decision, Maryland can either force its companies to operate at a competitive disadvantage or change its laws to conform to California's laws.

In addition, the court over-emphasized the point that non-compete agreements limit access to the best employees by California employers. Trade secret law already limits such access to a certain degree. Specifically, a California company cannot hire away a competitor's employees if doing so would result in the misappropriation of trade secrets. For example, a manager at Yahoo! would be prevented from hiring a key programmer from Excite to reprogram Yahoo!'s search engine if doing so would result in the divulgence of Excite's trade secrets.<sup>110</sup> Consequently, California companies do not have access to the entire labor pool when the companies seek to fill positions.

Moreover, as the Yahoo!-Excite example illustrates, trade secret laws frequently will prevent California companies from hiring the potential employees who are most knowledgeable in the specific company's industry. Specifically, if Yahoo! could specify a skill set for its new programmers, the Excite employee would likely possess many of the key skills. Thus, although California places a high premium on employee mobility and on employers being able to recruit whomever they want, the realities of the market place and of trade secret laws significantly hinder these goals. While non-compete agreements undoubtedly further restrict who employers can and cannot hire, the court failed to acknowledge that some limitations already exist regardless of whether or not non-compete agreements are enforceable.

The court made a valid point in stating that the technological advances that have resulted in such phenomena as telecommuting mean that California companies are now more apt to employ people who live in other parts of the country in jobs that previously required physical presence at the office in California.<sup>111</sup> However, the court went too far when it stated that these advances justify invalidating non-compete agreements made between a Maryland company and a Maryland resident who is continuing

---

110. Yahoo! and Excite are two Silicon Valley companies specializing in Internet search engines.

111. See *Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 901 (1998).

to live in Maryland. The fact that Pike was telecommuting does not justify the court's refusal to respect or even consider the underlying reasons that Maryland has chosen to allow non-compete agreements.

In *Roll Systems, Inc. v. Shupe*,<sup>112</sup> a Massachusetts district court also invalidated a non-compete agreement under California law even though the contract specified that Massachusetts law was governing.<sup>113</sup> While the court did not explicitly state that the residency of the employee was determinative, in explaining that California had a materially greater interest than Massachusetts, the court specifically noted that the employee was continuing to work and live in California.<sup>114</sup> Moreover, "the fact that [the defendant's] contract was not performed in Massachusetts substantially decreases the Commonwealth's interest in having its laws govern this dispute."<sup>115</sup> In contrast, Hunter was continuing to live in Maryland, and the court did not accurately consider Maryland's interests in having its laws applied.

However, a bright-line test based on residency and physical location of employment does not solve the telecommuting problems suggested by the court in *Hunter*. Determining which state has a materially greater interest inevitably will continue to be a fact-intensive dilemma. Perhaps courts should focus on the business relationships that a given company has with the other state. For instance, it may be reasonable to invalidate non-compete agreements entered into by Microsoft or AT&T with employees who are now leaving to seek work in Silicon Valley. Both Microsoft and AT&T have significant business contacts in California. Moreover, both of those companies have broad contacts in California that touch upon many different areas of business. In contrast, a company such as Hunter Group has very limited business contacts with California. Of course, courts will not necessarily be able to easily apply this test.

Ultimately, the problem may require a federal trade secret solution. As the United States workforce becomes more and more fluid, the need for federal trade secret laws to govern these types of situations will only increase. Otherwise, we will likely continue to be faced with state courts making decisions that have significant impacts on other states.

---

112. 1998 U.S. Dist. LEXIS 3142 (D. Mass. Jan. 22, 1998).

113. *Id.*

114. *Id.* at \*7.

115. *Id.* at \*7 n.2.

### III. CONCLUSION

In *Application Group, Inc. v. Hunter Group, Inc.*, the court erred in failing to properly consider the interests of Maryland in having the non-compete agreement upheld. As a result, companies in Maryland and other states will have to act with the understanding that a non-compete agreement will be ineffective if an employee becomes affiliated with a California company and has requisite contacts with California, even if the employee continues to work and live outside of California. Although the decision underscores the need for clear laws regarding employment situations that have only become significant with recent advances in technology, a California court is not the place for such laws to be made. Rather, the proper mechanism for determining the validity of non-compete agreements as they relate to employees telecommuting across state lines is probably federal legislation.



**BERKELEY TECHNOLOGY LAW JOURNAL  
ANNUAL REVIEW OF LAW AND TECHNOLOGY**

**ANTITRUST**



## UNITED STATES V. MICROSOFT

By Michael Woodrow De Vries

The competitive practices examined in *United States v. Microsoft*<sup>1</sup> give rise to important questions about the limits of competitive behavior and the role of antitrust laws in preserving competition in the information industries. Microsoft's practice of requiring purchasers of its operating system software, Windows 95,<sup>2</sup> also to license its browser software, Internet Explorer ("IE"), prompted the litigation that gave rise to the court's opinion in *Microsoft*. Under the antitrust laws,<sup>3</sup> "tying" arrangements—arrangements that condition the sale of the tying product on an agreement also to purchase the tied product—are per se illegal, provided that certain conditions are met.<sup>4</sup> As the Supreme Court has explained, "certain tying arrangements pose an unacceptable risk of stifling competition and therefore are unreasonable 'per se.'"<sup>5</sup> Despite the threat to competition in the browser market posed by Microsoft's Windows 95-IE licensing practices, however, the D.C. Circuit essentially found that the Windows 95-IE product combination was not an illegal tying arrangement.<sup>6</sup> By ineffectively accounting for the disruption or elimination of competition in the market for browsers, the D.C. Circuit allowed Microsoft to use its market power

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. *United States v. Microsoft*, 147 F.3d 935 (D.C. Cir. 1998). This opinion represents only one segment of the Justice Department's much broader and ongoing (as of this writing) antitrust case against Microsoft.

2. Windows 95 is an operating system software produced and distributed by Microsoft. *See id.* at 3. Microsoft's operating system is installed on millions of personal computers, *see id.* at 4, and, consequently, Microsoft has a recognized "monopoly position in the operating systems market." Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 CALIF. L. REV. 479, 502 (1998). *See also* Mark A. Lemley, *Antitrust and the Internet Standardization Problem*, 28 CONN. L. REV. 1041, 1048 (1996) ("[Microsoft] has sold more than 80% of the personal computer operating systems in existence in the market.").

3. The primary purpose of the antitrust laws is to protect competition. *See Grapone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 794 (1st Cir. 1988) (Breyer, J.) ("[T]he antitrust laws exist to protect the competitive process itself ... in order to help individual consumers by bringing them the benefits of low, economically efficient prices, efficient production methods, and innovation.")

4. *See Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992).

5. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 9 (1984).

6. *See Microsoft*, 147 F.3d at 952.

in the operating system market to harm competition in the separate market for browsers.

## I. CASE SUMMARY

### A. Background

The 1994 Justice Department investigation into Microsoft's alleged anticompetitive practices culminated in the entry of a consent decree.<sup>7</sup> The decree prohibited Microsoft from requiring purchasers of its Windows 3.11 graphical user interface also to purchase its MS-DOS operating system.<sup>8</sup> Section IV(E) of the consent decree, characterized by both Microsoft and the Justice Department as the "'anti-tying' provision" of the decree,<sup>9</sup> prohibits Microsoft from conditioning a license for any of its products on acceptance of a license for any other product.<sup>10</sup>

When Microsoft began to condition the sale of Windows 95 on the licensing and installation of its browser software, IE, the Justice Department filed a petition seeking to enjoin Microsoft's practice of bundling Windows 95 and IE and to hold Microsoft in civil contempt of the consent decree.<sup>11</sup> The Justice Department argued that, by requiring original equipment manufacturers ("OEMs") to accept and install IE as a condition of licensing Windows 95, Microsoft had violated the "anti-tying" provision of the decree.<sup>12</sup> The District Court held that Microsoft's practices likely violated the consent decree, and so issued a preliminary injunction barring Microsoft from continuing to require OEMs to license both IE and Windows 95. The District of Columbia ("D.C.") Circuit reversed in *U.S. v. Microsoft*,<sup>13</sup> finding that the preliminary injunction had been erroneously

---

7. *See id.* at 946.

8. *See id.* at 946.

9. *See id.* at 946. The antitrust law's prohibition against "tying" arrangements is discussed *infra* Part II.

10. *See id.* at 939. § IV(E) provides, in pertinent part:

Microsoft shall not enter into any License Agreement in which the terms of that agreement are expressly or impliedly conditioned upon:

(i) the licensing of any other Covered Product, Operating System Software product or other product (provided, however, that this provision in and of itself shall not be construed to prohibit Microsoft from developing integrated products)....

*Id.* at 939.

11. *See id.* at 940.

12. *See United States v. Microsoft*, 147 F.3d 935, 939 (D.C. Cir. 1998).

13. 147 F.3d 935 (D.C. Cir. 1998).

issued<sup>14</sup> and determining that Microsoft had not violated the “anti-tying” provision of the decree because the Windows 95-IE product bundle was one “integrated” product, not two distinct products “tied” together as the Justice Department had argued.<sup>15</sup>

## B. Summary of the D.C. Circuit Opinion

Although the opinion in *Microsoft* dealt with a number of issues, this Note addresses the D.C. Circuit’s determination that Microsoft’s bundling of Windows 95 and IE did not violate the “anti-tying” provision of the decree.<sup>16</sup> The court determined that the practice of conditioning a license for Windows 95 on acceptance of a license for IE did not constitute an illegal tying arrangement because the combination of Windows 95 and IE created one “integrated” product, not a tying together of two distinct products.<sup>17</sup>

---

14. The court found that the preliminary injunction violated F.R.C.P. 65(a)(1) because Microsoft had not been given proper notice before the injunction was issued. *Id.* at 944.

15. *See id.* at 952. With reference to a different issue raised on appeal, the D.C. Circuit held that the district court’s reference of the case to a special master was an abuse of discretion because (1) it was not clear that the case was of any great complexity, and (2) because “it [wa]s very doubtful that complexity tends to legitimate references to a master at all.” *Id.* at 955. Although not addressed in this Note, the issue of use of a special master implicates serious considerations regarding the role of the court in technologically complex cases.

16. In *Microsoft*, the D.C. Circuit was asked to resolve whether the district court had erred procedurally in entering a preliminary injunction against defendant Microsoft. However, the court’s opinion included a substantive analysis of the Justice Department’s claim that Microsoft had violated a 1994 consent decree, stating that “[s]ilence at this stage would risk considerable waste of litigative resources.” *Id.* at 944-45.

17. *See id.* at 952. It is important to point out that the court made clear that it understood the issue in *Microsoft* to be whether Microsoft violated the consent decree, not whether Microsoft violated the antitrust laws generally. However, in so far as the issue was whether Microsoft violated the anti-tying provision of the decree, and in light of the court’s statements that it would be guided by antitrust law in the interpretive process, *id.* at 946, this Note takes the court at its word that its “understanding [of the decree] is consistent with tying law.” *Id.* at 950. Indeed, the Supreme Court has made clear that antitrust consent decrees *should* be interpreted with reference to the antitrust laws. *See United States v. ITT Continental Baking Co.*, 420 U.S. 223, 240 (1975) (“We must assume that the parties used the words with the specialized meaning they have in the antitrust field, since they were composing a legal document in settlement of an antitrust complaint.”). This Note analyzes the court’s view that Microsoft did not violate the decree in light of the substance and goals of tying law. *See also* Mark A. Lemley & David McGowan, *Could Java Change Everything? The Competitive Propriety of a Proprietary Standard*, 520 PLI/PAT 453, 473 (1998) (“With respect to its browser allegations ... the decree merely allowed the Division to move quickly: the Division’s allegations themselves presented a straightforward claim of unlawful tying of Microsoft’s Internet Explorer to Windows 95.”).

In deciding that the Windows 95-IE product combination was one “integrated” product rather than a tie of two distinct products, the court reasoned that a product combination could not be an illegal tying arrangement provided it was a “genuine technological integration, regardless of whether elements of the integrated package are marketed separately.”<sup>18</sup> The court defined an “integrated product” as one that “combines functionalities ... in a way that offers advantages unavailable if the functionalities are bought separately and combined by the purchaser.”<sup>19</sup> Under the test adopted by the court, a product combination is an “integrated” product if: (1) the combination is “different from what the purchaser could create from the separate products on his own”; and (2) the combination is “better in some respect” than the separate products.<sup>20</sup>

The court found the first portion of the test to be satisfied, determining that Windows 95 and IE, when combined by Microsoft, was different from what the consumer could create by purchasing Windows 95 and IE separately and combining them herself. The court reasoned that Windows 95 and IE “do not exist separately.”<sup>21</sup> Rather, the court stated, “apart from that code [shared by Windows 95 and IE], there is *nothing more to IE than the four lines of programming* required to summon browsing functionality from code that also supplies operating system functionality.”<sup>22</sup> The court concluded that Microsoft combined Windows 95 and IE by writing the code that integrates them both because “the act of combination is the creation of the design which knits the two together.”<sup>23</sup> The consumer could not combine Windows 95 and IE in the same way as Microsoft had without engaging in extensive reprogramming, an alternative that the court described as “absurdly inefficient.”<sup>24</sup> Thus, the court concluded that the first

---

18. *Id.* at 948. The court is careful to point out that its reading of the “anti-tying” provision of the consent decree is not necessarily consistent with antitrust law generally, *id.* at 950, but as the Supreme Court pointed out in *ITT Continental*, the words of a consent decree should be interpreted in light of the “specialized meaning they have in the antitrust field.” 420 U.S. at 240. Interestingly, the court did not use the *Jefferson Parish* “distinct products” test to guide its interpretation of Section IV(E)(i), the decree provision that prohibited the tying together of two distinct products unless the products were not in fact “distinct.” The closest the court comes to explaining why it did not engage in a *Jefferson Parish* analysis appears to be its stated concern that application of traditional antitrust law might engage courts in the undesirable task of overseeing product design. *See Microsoft*, 147 F.3d at 37.

19. *Id.* at 948.

20. *Id.* at 949.

21. *Id.* at 951-52.

22. *Id.* at 952, n.17 (emphasis added).

23. *Id.* at 952.

24. *Microsoft*, 147 F.3d at 952.

part of its "integration" test was satisfied by Windows 95/IE because Microsoft had created a product that was different from that which the purchaser could create by purchasing Windows 95 and IE separately and combining them.

The court also found that the second part of its "integration" test was satisfied because a combination of Windows 95 and IE conferred advantages that were unavailable if the products were used separately. Careful not to place itself in the "unwelcome position of designing computers," the court stated that "[t]he question is not whether the integration is a net plus but merely whether there is a plausible claim that it brings some advantage."<sup>25</sup> Under this proposed standard, the court found that there was surely a plausible claim that the combination of Windows 95 and IE created some advantage.<sup>26</sup>

The court found the Windows 95-IE combination to confer some advantages. For instance, the court explained that the Windows 95-IE combination "provide[d] system services not directly related to Web browsing" by allowing enhanced functionality for all applications that run on the Windows 95/IE combination.<sup>27</sup> The court also pointed out that one could utilize IE's HTML reader to engage in more in-depth reading of the hard drive.<sup>28</sup> Finally, the court found that the combination allowed the user to customize "Start" menus in the Windows 95/IE.<sup>29</sup> Because of these various advantages, argued the court, it was "easy" to find that there was a plausible claim that the combination of Windows 95 and IE resulted in some benefit.<sup>30</sup> Thus, the court found that the Windows 95-IE product combination fulfilled the second portion of its "integration" test.

Ultimately, application of the court's test yielded a determination that the Windows 95-IE combination was an "integrated" product, and, therefore, Microsoft's practice of requiring consumers to take IE as a condition of buying Windows 95 was not an unlawful tying together of two distinct products.<sup>31</sup> The court remanded the case to the district court, having found

---

25. *Id.* at 950.

26. *See id.* at 950-51.

27. *See id.* at 951.

28. *See id.*

29. *See id.*

30. *See Microsoft*, 147 F.3d at 950.

31. Essential to the court's argument is a claim that the "Windows 95/IE package more closely resemble[d] Windows 95 than it d[id] the [MS-DOS/Windows 3.11] bundle." *Id.* at 952. Using the fact that Windows 95 was allowed to be marketed under the consent decree as a touchstone for its interpretation of the decree, the court attempted to employ a test that would allow Windows 95 to be marketed but which would prohibit the bundling together of MS-DOS and Windows 3.11. Applying their test, the court argued

only that the issuance of the preliminary injunction was in error. However, in light of its determination that Microsoft had not violated the consent decree, the court expressed serious doubts about whether there was any reason for the Justice Department to continue to pursue this particular claim, "especially given the alternate avenues developing in its recently launched separate attacks on Microsoft's practices."<sup>32</sup>

## II. TYING LAW

The origins of tying law can be traced to the Patent Misuse Doctrine, under which a patentee who tied the sale of a patented product to the sale of unpatented materials unlawfully exceeded the scope of the patent monopoly.<sup>33</sup> The Supreme Court first analyzed tying arrangements under the antitrust laws in *International Salt Co. v. United States*,<sup>34</sup> where it held that defendant's practice of requiring lessees of its patented salt processing machines to purchase salt and salt tablets consumed in the machines from the defendant was per se illegal under the antitrust laws.<sup>35</sup> The focus of the Court's analysis in *International Salt* went beyond concerns with abuses of the patent monopoly. Rather, the Court emphasized the competitive harm the tying arrangement posed to the market for the tied product (here, the market for unpatented salt and salt tablets).<sup>36</sup> Not surprisingly, the Court began to recognize that tying arrangements that did not involve patented products violated the antitrust laws.<sup>37</sup>

---

that the Windows 95/IE combination was an "integrated product" within the meaning of the consent decree, and so "[Section] IV(E)(i) d[id] not bar Microsoft from offering it as one product." *Id.* However, as argued *infra* at Part III, the court should have analyzed the case in terms of existing antitrust doctrine.

32. *Id.* at 953-54. As of the time of this writing, the trial to resolve other Justice Department allegations that Microsoft acted in an anticompetitive manner was ongoing. For a discussion of that trial in light of the D.C. Circuit's opinion in *United States v. Microsoft*, see Roger Parloff, *The Microsoft Endgame*, THE AMERICAN LAWYER, Dec. 1998, at 4.

33. See *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917) (holding that the sale of a patented film projector could not be conditioned on exclusive use of the patentee's films).

34. 332 U.S. 392 (1947).

35. See *id.* at 396 ("By contracting to close this market for salt against competition, [defendant] has engaged in a restraint of trade for which its patents afford no immunity from the antitrust laws.").

36. See *id.* at 396 ("[I]t is unreasonable, per se, to foreclose competitors from any substantial market.").

37. See, e.g., *Northern Pacific Ry. v. United States*, 356 U.S. 1 (1958) (holding that tying sales of land-grant holdings to preferential routing clauses violated the antitrust laws).

While early cases such as *International Salt* may have suggested that all tying arrangements are per se illegal under the antitrust laws, the Supreme Court has clarified that tying arrangements are per se illegal only when certain conditions are present.<sup>38</sup> In order for a tying arrangement to be per se illegal, there must be (1) “two distinct products,”<sup>39</sup> (2) which are tied together,<sup>40</sup> and (3) the seller must have “appreciable economic power in the tying market.”<sup>41</sup> Provided those conditions are met, the tying arrangement is per se illegal.

There is little doubt that Microsoft enjoys appreciable economic power in the market for the tying product, its Windows 95 operating system software.<sup>42</sup> Furthermore, provided that Windows 95 and IE are two distinct products, Microsoft’s practice of conditioning the sale of Windows 95 on the licensing and installation of IE surely “ties” those products together.<sup>43</sup> Therefore, whether the Windows 95-IE products bundle constituted an illegal tying arrangement turns on the first condition of per se illegality: that there be two distinct products.

---

38. Use of the term “per se” is consistent with Supreme Court terminology. *See* *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 15 (1984) (referring to “[p]er se condemnation” and “the per se rule”). The Court uses the term “per se” to explain that certain tying arrangements are illegal, and compares tying arrangements to price-fixing agreements which are also per se illegal. *See id.* However, unlike price-fixing agreements, which are always illegal, *see id.* at 9 n.10, tying arrangements are only illegal provided certain conditions are met. *See id.* at 13-14 (explaining that tying arrangements are only illegal if the seller has “market power” in the tying product market). The Court acknowledges as much. *See id.* at 11 (“[N]ot every refusal to sell two products separately can be said to restrain competition”). Thus, the use of the term “per se” is meant to contrast tying law analysis with Rule of Reason analysis, employed in some antitrust contexts, under which “courts carefully assess, on a case-by case basis, whether the harm produced by a particular contract outweighs its benefits.” Alan J. Meese, *Tying Meets the New Institutional Economics: Farewell to the Chimera of Forcing*, 146 U. PA. L. REV. 1, 17 (1997).

39. *Eastman Kodak Co. v. Image Technical Servs.*, 504 U.S. 451, 462 (1992).

40. *See id.* For recognition of the fact that sellers may effectively “tie” together two products by creating economic incentives that effectively force the consumer to purchase the tied product along with the tying product, see 9 AREEDA ET AL., ANTITRUST LAW, ¶ 1702 at 17 (1991) (“[T]he two products must be tied together *or customers must be coerced.*”) (emphasis added).

41. *Eastman Kodak*, 504 U.S. at 464. In addition, there is a threshold requirement that a tying arrangement affect a substantial volume of trade, *see Jefferson Parish*, 466 U.S. at 16, but that requirement is rarely, if ever, at issue in tying cases. *See* AREEDA, *supra* note 40, ¶ 1702, at 17.

42. *See supra* note 2.

43. *See* 9 AREEDA, *supra* note 40, at 1 (defining tying arrangements as “arrangements by which a seller of one product ‘forces’ customers to take a second product as well.”).

### A. Distinct Products Analysis: the *Jefferson Parish* Approach

There can be no illegal tying arrangement when only one product is involved.<sup>44</sup> In determining whether there are two distinct products, courts focus on whether a combination of products is an “integrated” single product or a tying arrangement of two separate products; when the combination yields an “integrated” product, tying law does not prohibit the combination.<sup>45</sup> Before courts analyze whether a “product bundle” constitutes a single “integrated” product or two distinct products, however, they “generally give the plaintiff the threshold burden of proving (1) that *some* customers actually want the items separated and (2) that separating them is physically and economically possible.”<sup>46</sup> The Court in *Jefferson Parish* demonstrated concern for the first requirement by examining the extent to which customers requested that anesthesiological services (the allegedly tied product) be provided by someone other than the hospital that furnishes the surgery rooms (the allegedly tying product).<sup>47</sup> The second requirement addresses concerns of judicial efficiency and feasibility; if it is not economically or physically possible to unbundle the products, then the bundle should be considered a single product and the tying analysis is complete.<sup>48</sup> After this threshold burden has been met, the court may begin its analysis of whether there are two distinct products.

In *Jefferson Parish*, a case in which the defendant hospital required patients using its surgery rooms also to use an anesthesiologist provided by the hospital, the Supreme Court held that whether there is one or two products turns on whether there are distinct markets for the two products:

[T]he answer to the question whether one or two products are involved turns not on the functional relation between them, but rather on the character of the demand for the two items. . . . [A] tying arrangement cannot exist unless two separate product markets have been linked.<sup>49</sup>

---

44. See Donald F. Turner, *The Validity of Tying Arrangements Under the Antitrust Laws*, 72 HARV. L. REV. 50, 68 (1958) (“The requirement that they be ‘different’ [products] obviously cannot be dropped out.”). See also *ILC Peripherals Leasing Corp. v. IBM Corp.*, 448 F. Supp. 228 (N.D. Cal. 1978) (holding that since the combination of a head/disk assembly and a disk drive was an integrated single product rather than a tying together of two separate products, there was no illegal tying arrangement).

45. See *ILC Peripherals Leasing Corp.*, 448 F. Supp. 228.

46. 10 PHILLIP AREEDA, ET AL., ANTITRUST LAW, ¶ 1743 at 192 (1996).

47. See *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 22-23 (1984).

48. See 10 AREEDA, *supra* note 46, ¶ 1743b, at 193.

49. *Jefferson Parish*, 466 U.S. at 19.

In finding that the hospital's practice "combined the purchase of two distinguishable services in a single transaction,"<sup>50</sup> the Court in *Jefferson Parish* focused its examination on the market practices of competitors, the way in which customers were billed for the products, and evidence that buyers wanted the products separately.<sup>51</sup> The Court ultimately relied on the existence of separate product markets as the means of determining that it was efficient to offer the products separately.<sup>52</sup>

The *Jefferson Parish* distinct products test looks to consumer demand and market structure as the primary means of distinguishing between one "integrated" product and two distinct products. The Court held that when sufficient consumer demand exists so that the products may be efficiently offered separately, they are distinct products. The Supreme Court again ratified the *Jefferson Parish* approach to the distinct products analysis in *Eastman Kodak Co. v. Image Technical Services*,<sup>53</sup> where the Court found that plaintiffs had produced sufficient evidence that replacement parts and repair services are distinct products because "there [may] be sufficient consumer demand so that it is efficient for a firm to provide service separately from parts."<sup>54</sup> The Court in *Kodak* refused to give weight to the fact that parts and services may be functionally linked, focusing its analysis of whether there are two distinct products or one "integrated" product on the existence of consumer demand for the products when offered separately.<sup>55</sup>

As a testament to its broad applicability, the *Jefferson Parish* distinct products test has been applied in analysis of technological products.<sup>56</sup> A

---

50. *Id.* at 24.

51. *See id.* at 22-24.

52. The existence of separate markets for surgery rooms and anesthesiological services indicated that selling the products separately was efficient, and so the Court found that surgery rooms and anesthesiological services were two distinct products, not one "integrated" product. *See id.* at 19-23.

53. 504 U.S. 451, 462-63 (1992).

54. *Id.* at 462.

55. *See id.* at 463 (quoting *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 19, n.30) ("We have often found arrangements involving functionally linked products at least one of which is useless without the other to be prohibited tying devices.").

56. *See, e.g., PSI Repair Servs., Inc. v. Honeywell, Inc.*, 104 F.3d 811, 815 (6th Cir. 1997) (holding that whether circuit-board components and service are two distinct products turns on whether there is "sufficient consumer demand so that it is efficient for a firm to provide service separately from parts."); *Allen-Myland, Inc. v. International Bus. Mach. Corp.*, 33 F.3d 194, 211 (3d Cir. 1994) (finding that whether upgrade computer parts and upgrade labor are distinct products turns on "the character of the demand for the two items."); *Service & Training, Inc. v. Data Gen. Corp.*, 963 F.2d 680 (4th Cir. 1992) (holding that diagnostic software and maintenance/repair service are distinct products

good example of the *Jefferson Parish* test applied to technological products is provided by *Digidyne Corporation v. Data General Corporation*.<sup>57</sup> In *Digidyne*, the Ninth Circuit held that NOVA operating system software and NOVA central processing units (“CPUs”) were two distinct products, illegally tied together by the defendant’s refusal to license them separately. The court reasoned that the operating system and the CPU were separate products because

a demand existed for NOVA instruction set CPUs separate from defendant’s RDOS [operating system], and ... each element of the NOVA computer system could have been provided separately by customers if defendant had not compelled purchasers to take both.<sup>58</sup>

The court’s reasoning in *Digidyne* was consistent with that employed by the Court in *Jefferson Parish*. When sufficient consumer demand exists so that the products may efficiently be offered separately to consumers, the products are distinct, and efforts to require purchasers to take both products are prohibited under tying law provided that other conditions, such as market power in the market for the tying product, are met.<sup>59</sup>

## **B. Distinct Products Analysis: the “Integration” Approach**

A quarter century before *Jefferson Parish* was decided, commentators argued that “there must be some room for the innovative combination of elements, ‘normally’ produced and sold separately, into new single products.”<sup>60</sup> That argument recognizes that innovation often takes the form of bundling together two previously unbundled products.<sup>61</sup> Under a strict application of the *Jefferson Parish* test, any combination of products for which separate consumer demand exists, so that the products may efficiently be offered separately, would involve the tying together of two distinct products.<sup>62</sup> Commentators such as Einer Elhauge, whose proposed

---

because of “sufficient evidence of separate markets for MV/ADEX licenses and for repair services”).

57. 734 F.2d 1336 (9th Cir. 1984).

58. *Id.* at 1399.

59. See *Jefferson Parish*, 466 U.S. at 24-25 (requiring purchasers to buy two distinguishable services is unlawful provided that the seller has market power in the market for the tying product).

60. Turner, *supra* note 44, at 68.

61. See X Areeda, *supra* note 46, ¶ 1746, at 224.

62. See *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1339 (9th Cir. 1984).

“integration” test was adopted by the court in *Microsoft*,<sup>63</sup> have suggested that certain products which combine historically distinct products in a new and useful way should be considered one “integrated” product rather than two distinct products.<sup>64</sup> This approach contrasts with the *Jefferson Parish* test, under which “whether one or two products are involved turns ... on the character of the demand for the two items.”<sup>65</sup>

Elhauge argues that “no one [distinct products] test has proven capable of adjusting for all circumstances and of resolving concretely all single product cases.”<sup>66</sup> Accordingly, Elhauge argues in favor of a distinct products test which would define products that combined historically distinct products to be a single new product when “the newly bundled items operate better when bundled *by the defendant* than if bundled by the end user.”<sup>67</sup> Unlike the *Jefferson Parish* test, Elhauge’s test is not explicitly concerned with the existence of separate product markets.<sup>68</sup> It is this test that the court in *Microsoft* applied in analyzing whether Windows 95 and IE were distinct products or one “integrated” product.

There has been support in the case law for an Elhauge-like “integration” approach to the distinct products analysis. In *ILC v. IBM*,<sup>69</sup> the court held that a head/disk assembly and disk drive bundle were an “integrated” product (1) because the bundle allowed “a significantly larger on-line storage capacity than ha[d] previously been available,”<sup>70</sup> and (2) because IBM physically integrated the items in a way in which consumers could not achieve themselves.<sup>71</sup> Of course, *ILC* was decided before the Supreme Court’s decision in *Jefferson Parish*, but it represents a different approach to the distinct products analysis.

Elhauge proposes that the distinct products determination be based on an examination of whether the product bundle operates better when com-

---

63. See *United States v. Microsoft*, 147 F.3d 935, 948-51 (D.C. Cir. 1998); Einer Elhauge, *Combination Lock: the D.C. Circuit Incorrectly Applied an Integrated-Product Test in Microsoft Case*, SAN FRANCISCO DAILY JOURNAL, July 14, 1998, at 4 (“The court’s legal test happened to be the one I proposed in my chapters of a co-authored anti-trust treatise.”).

64. See 10 AREEDA, *supra* note 46, ¶ 1746, at 224.

65. *Jefferson Parish*, 466 U.S. at 20.

66. 10 AREEDA, *supra* note 46, ¶ 17D-1, at 175.

67. *Id.* ¶ 1746, at 224 (emphasis in original).

68. However, it is not clear that proper application of Elhauge’s proposed “integration” test would yield a substantially different result than would the *Jefferson Parish* test. See *infra* notes 115-17 and accompanying text.

69. 448 F. Supp. 228 (N.D. Cal. 1978).

70. *Id.* at 232.

71. See *id.* at 230-32.

bined by the producer instead of by the consumer. This approach, like that taken in *Jefferson Parish*, seeks to balance the competing interests of preserving competition and encouraging innovation/efficiency. *Jefferson Parish* balances the two by looking at market structure and consumer demand, while Elhauge attempts to balance the two by examining the benefits conferred by bundling the products and asking whether consumers could obtain those benefits absent the tie. Elhauge fears that courts are not competent to analyze the benefits of bundling technologically complex products, however, and in that vein urges courts to err on the side of finding a "single product" so that tying law will not deter technological innovation.<sup>72</sup> It is questionable, however, whether this approach properly takes into consideration the danger that Elhauge anticipates: that a product bundle may simply be "an anticompetitive tie that no one has tried before."<sup>73</sup>

### III. DISCUSSION

The D.C. Circuit's opinion in *Microsoft* appears to reject the notion that Microsoft's efforts at "innovative combination" should be checked by antitrust law, claiming that "courts have recognized the limits of their institutional competence and have on that ground rejected theories of 'technological tying.'"<sup>74</sup> The assertion that courts have refused to apply tying law to "technological" products is questionable and unsupported,<sup>75</sup> but it is telling of the approach taken by the D.C. Circuit. The "integration" test employed by the court wholly ignored the competitive consequences that Microsoft's practices had on the market for browser software. Furthermore, taking the court at its word that its "understanding [of the decree] is consistent with tying law,"<sup>76</sup> the test allowed the court to remove Microsoft's Windows 95-IE licensing practices from antitrust tying scrutiny on a simple showing that "there is a plausible claim that [the combination of the products] brings some advantage,"<sup>77</sup> and that Microsoft designed it that way.<sup>78</sup> Ultimately, the court did reject the Justice Department's theory of "technological" tying and, by doing so, abdicated its responsibility to protect consumers against anticompetitive ties.

---

72. See 10 AREEDA, *supra* note 46, ¶ 1746b, at 226.

73. *Id.* ¶ 1746 at 224.

74. *United States v. Microsoft*, 147 F.3d 935, 949 (D.C. Cir. 1998).

75. See *supra* notes 56-59 and accompanying text.

76. *Microsoft*, 147 F.3d at 950.

77. *Id.*

78. See *id.* at 951 (finding that consumers cannot purchase Windows 95 and IE separately and then combine them themselves because "the act of combination is the creation of the design that knits the two together.").

Any reasoned attempt to determine whether a particular practice violates the antitrust tying laws must necessarily begin with an understanding of the harms against which tying law is meant to protect. The House Report on Section Three of the Clayton Act<sup>79</sup> vehemently expressed the dangers inherent in tying arrangements:

Where the [corporation] making these contracts is already great and powerful ... the exclusive or 'tying' contract ... becomes one of the greatest agencies and instrumentalities of monopoly ever devised by the brain of man. It completely shuts out competitors, not only from trade in which they are already engaged, but from the opportunities to build up trade in any community where these great and powerful combinations are operating.<sup>80</sup>

By protecting competition in the market for the tied product, tying law fundamentally protects the interests of the consumer.<sup>81</sup> In the *Microsoft* case, the interest that tying law, expressed in the "anti-tying" provision of the decree, could potentially protect is the consumer's interest in competition in the market for browser software.<sup>82</sup>

By deciding that Windows 95/IE was one "integrated" product, the court in *Microsoft* ignored the aspect of tying law that has been most central to the Supreme Court's approach to tying jurisprudence: the existence of "forcing." According to the Court, the essential danger of tying arrangements is that they force the consumer to purchase a product that they might not have purchased at all, "or might have preferred to purchase elsewhere on different terms."<sup>83</sup> The element of forcing clearly appears to be present in Microsoft's requirement that OEMs license and preinstall IE as a condition of licensing Windows 95. Microsoft's power in the operating system market,<sup>84</sup> in good part attributable to "network effects,"<sup>85</sup> may

---

79. 15 U.S.C. § 14 (1998).

80. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 11 (1984) (quoting H.R. Rep. No. 627, 63d Cong., 2d Sess., 12-13 (1914)).

81. See *Turner*, *supra* note 44, at 61 ("The buyer's interest in a choice of alternative sources of supply is simply that the existence of alternatives is more likely to guarantee that he will get competitive terms.").

82. See *Lemley & McGowan*, *supra* note 2, at 480 ("[P]recluding Microsoft from requiring computer manufacturers to install Internet Explorer as a condition of installing Windows 95 will facilitate competition among browsers in the future and thereby, to an extent as yet undetermined, enhance social welfare."). See also *Jefferson Parish*, 466 U.S. at 14 ("[I]f [market] power is used to impair competition on the merits in another market, a potentially inferior product may be insulated from competitive pressures.").

83. *Jefferson Parish*, 466 U.S. at 12.

84. See *supra* note 2.

allow it to force consumers to take IE as a condition of obtaining Windows 95. There may be OEMs who wished to install different browser software, but because Microsoft required them to preinstall IE, that option was unavailable.

Absent some other justification, there appears to be no principled reason why consumers should be forced to accept a combination of products when the consumer could have combined the products himself. Assuming that consumers are rational, they will choose to purchase and combine the products themselves in order to obtain the purported benefits; the existence of the tying arrangement, whereby consumers are forced to take the combination, suggests that consumers may have chosen not to accept the imposed combination absent the tying arrangement.<sup>86</sup> In *Microsoft*, there is a strong argument that consumers could have purchased Windows 95 and IE separately and combined them if they desired to obtain the synergistic benefits that Microsoft argues are obtainable by combining the products.<sup>87</sup> In this case, however, the court in *Microsoft* finds that consumers are incapable of doing the “combining” in this instance.<sup>88</sup>

Not all commentators endorse the Supreme Court’s approach to tying law and its attendant emphasis on the anticompetitive effects of forcing consumers to take a “tied” product.<sup>89</sup> Chicago School theorists, for exam-

---

85. In simple terminology, “network effects” refers to the phenomenon whereby consumers derive more utility from a good as the number of other users of the good increases. See Lemley & McGowan, *supra* note 2, at 483-84 (providing a comprehensive and lucid overview of network economic effects on antitrust and other areas of law). The classic example of a network good is the telephone, which is only valuable when used in conjunction with other phones. *Id.* at 488-89. Operating system software exhibits what is referred to as “virtual” network economic effects; while “the value of a given program grows considerably as the number of additional purchasers increases,” an operating system “will allow even a single user to perform a variety of tasks regardless whether even a single other consumer owns the software.” *Id.* at 491.

86. See *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1339 (9th Cir. 1984) (“[E]ach element of the NOVA computer system could have been provided separately by customers if defendant had not compelled purchasers to take both.”).

87. See Lemley & McGowan, *supra* note 2, at 480 (“[I]f Internet Explorer is a superior browser there is presumably no need to demand that it be installed. If Internet Explorer is not a superior browser, demanding that it be installed will reduce social welfare.”).

88. See *United States v. Microsoft*, 147 F.3d 935, 951-52 (D.C. Cir. 1998); The dispute over whether consumers can “combine” Windows 95 and IE is not a dispute over the technical intricacies of combining software code, but a dispute over the definition of “combination.” See *infra* notes 110-14 and accompanying text.

89. See, e.g., Meese, *supra* note 38, at 1-99 (arguing generally that tying arrangements are not always the product of forcing, even when the seller has appreciable economic power in the market for the tying product, because they often amount to partial

ple, question whether tying arrangements as a class necessarily have negative consequences on competition.<sup>90</sup> Perhaps the most salient commentary on the Supreme Court conception of tying law is provided by Mark Lemley and David McGowan in their article, *Could Java Change Everything? The Competitive Propriety of a Proprietary Standard*.<sup>91</sup> Lemley and McGowan suggest that tying arrangements may not necessarily be competitively injurious in a market characterized by network effects.<sup>92</sup> They argue that, because consumers benefit by the selection of a standard in a network market, tying arrangements may be beneficial if they cause one product to be selected as a standard in a market that would otherwise fail to select a standard.<sup>93</sup> This may be true even if the tying arrangement caused an inferior product to become the standard, provided that the consumer benefit of having a standard outweighs the loss to consumers suffered as a result of having an inferior product.<sup>94</sup> Tying arrangements in a network market, then, may not be purely anticompetitive, provided that the market would not select a standard in their absence. However, to the extent that consumers will, absent the tying arrangement, select a standard based on product superiority rather than forcing, it is optimal, even in markets characterized by network economic effects, to protect consumers from tying arrangements that force them to use one product over another. Lemley and McGowan acknowledge that contention,<sup>95</sup> and Lemley in an earlier article<sup>96</sup> argues that the focus of tying law should be on preserving competition in the standard-setting stage of a network market.<sup>97</sup>

---

vertical integration in an attempt to avoid market failures such as false attribution). Other commentators point out the potentially beneficial effects that certain tying arrangements may confer. See Melissa Hamilton, *Software Tying Arrangements Under the Antitrust Laws: a More Flexible Approach*, 71 DENV. U. L. REV. 607 (1994) (arguing that in the context of software-maintenance tying arrangements the courts should employ a Rule of Reason, rather than per se, approach to tying analysis because of the procompetitive effects that such tying arrangements may have).

90. See Meese, *supra* note 38, at 23 ("Chicagoans see such 'forcing' as, at best, a source of efficiency gains and, at worst, competitively neutral.").

91. Lemley & McGowan, *supra* note 2, at 479.

92. See *id.* at 462.

93. See *id.*

94. See *id.*

95. See *id.* at 480 ("[W]e would be more confident that social welfare had been enhanced if its market position were obtained through innovation and price competition rather than the imposition of a tie.").

96. See Lemley, *supra* note 2, at 1041.

97. See *id.* at 1078 ("During the period of competition to set a standard, antitrust can in theory serve a valuable role as market referee. By ensuring that the standards competi-

The import of Lemley and McGowan's approach to the *Microsoft* case is two-fold. First, it suggests that Microsoft's requirement that consumers license IE as a condition of licensing Windows 95 may not necessarily be harmful to consumers if consumers would not otherwise have selected a browser standard. There is no evidence to suggest, however, that consumers are not capable of selecting a browser standard. Absent such evidence, there appears to be little reason for not allowing consumers the opportunity to choose which browser they find to be superior. Second, the approach taken by Lemley and McGowan suggests that antitrust law in general, and tying law in specific, should regulate anticompetitive conduct in the standard-setting stage of a network market like the market for browsers.<sup>98</sup> This suggests that courts should be especially sensitive to the possibility that a tying arrangement would adversely affect the standard-selection process, and vociferously employ tying law to limit practices like that employed by Microsoft on the assumption that they could have serious anticompetitive effects on the process of selecting the optimal browser software as the standard. The court in *Microsoft* demonstrated no such sensitivity, as the "integration" test it employed removed Microsoft's practices from the scrutiny of tying law, at least in so far as it was expressed in the consent decree.

On balance, Lemley and McGowan's approach to tying arrangements, while providing important insights into the impact of network economic effects on tying law, appears to comport with the Supreme Court's concern that tying arrangements adversely impact competition in the market for the tied product by forcing consumers to accept a potentially inferior product. The D.C. Circuit in *Microsoft* articulates no similar concern that Microsoft may be "forcing" consumers to take IE, thereby negatively impacting competition in the market for browser software. The *Microsoft* court employs an "integration" test in analyzing whether Windows 95 and IE are distinct products, a test that does not follow the distinct products analysis established by the Supreme Court in *Jefferson Parish*. As a result, the court insulates Microsoft's practices from the reach of tying law, at least in so far as the court's understanding is truly "consistent with tying law."<sup>99</sup>

---

tion is resolved on the merits of the competing products, rather than on the basis of power leveraged from other contexts, this form of antitrust scrutiny would promote social welfare at least to some extent. ... The market may still be locked into a new standard, but at least it will be the best possible standard.").

98. See *id.* at 1092 ("Antitrust may need to take account of the peculiar economics of the Internet, but it does not need to be discarded entirely.").

99. *United States v. Microsoft*, 147 F.3d 935, 950 (D.C. Cir. 1998).

Under the distinct products test established by *Jefferson Parish*, Windows 95 and IE are two distinct products. The separate product demand for Windows 95 and for IE<sup>100</sup> suggests that it was efficient to offer the products separately, and so Windows 95 and IE are two distinct products, not one “integrated” product.<sup>101</sup> Under *Jefferson Parish*, then, Microsoft’s practice of requiring licensees of Windows 95 also to license IE constituted a tying together of two distinct products.<sup>102</sup> Microsoft’s argument that consumers should be forced to use both Windows 95 and IE is only persuasive, then, if the D.C. Circuit is correct in their finding that consumers are unable to purchase the products separately and combine them themselves if they so choose.<sup>103</sup>

Although the very fact that Microsoft had to require OEMs to take both Windows 95 and IE suggests that even Microsoft did not think of the two as one “integrated” product,<sup>104</sup> the court in *Microsoft* insisted on employing an “integration” test, rather than relying on the Supreme Court test established by *Jefferson Parish*, in analyzing whether the two products were “distinct.” Elhauge, who formulated the test adopted by the court in *Microsoft*, explains that it may be necessary to look beyond the *Jefferson Parish* separate product markets test in instances where an “innovation[] involve[s] the bundling of previously unbundled items.”<sup>105</sup> Apart from Microsoft’s urging, however, there is no principled reason for finding that Microsoft’s decision to start requiring OEMs to install both Windows 95 and IE constituted anything more than an “innovative” anticompetitive tie.<sup>106</sup> If the court had refused to allow Microsoft to continue forcing OEMs to license both Windows 95 and IE, it is unlikely that innovation would have been stifled. If consumers had desired to obtain the benefits that Microsoft claimed attended use of the two products in combination,

---

100. See Elhauge, *supra* note 63, at 4 (explaining the separate demand for Windows 95 and IE).

101. See *Allen-Myland, Inc. v. International Bus. Mach. Corp.*, 33 F.3d 194, 211 (3d Cir. 1994) (applying *Jefferson Parish*, there are two distinct products provided that there is “a market structure in which it is efficient to offer the tied product separately from the tying product.”).

102. See *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 12-18 (1984).

103. See *Microsoft*, 147 F.3d at 951.

104. See *Lemley & McGowan, supra* note 2, at 474 (“Microsoft evidently perceived that the browser and the operating system were, at the time of the contempt proceeding, something more than a single, ‘integrated’ product; otherwise it would not have had to insist that they be purchased together.”).

105. 10 AREEDA, *supra* note 46, ¶ 1746, at 224.

106. See *id.* at 224 (“[T]he ‘innovation’ may be an anticompetitive tie that no one has tried before.”).

they could have simply purchased Windows 95 and IE separately and installed the products themselves.<sup>107</sup> Because the *Jefferson Parish* distinct products test presented none of the innovation-stifling problems suggested by Elhauge, the court in *Microsoft* should have followed Supreme Court precedent and conducted its distinct products analysis under the direction of *Jefferson Parish*.

Furthermore, it does not appear that the court properly executed the "integration" test that it employed. Under that test, a product combination is "integrated" if it "offers advantages unavailable if the functionalities are bought separately and combined by the purchaser."<sup>108</sup> The court stated that the first part of the test was satisfied if there was "any plausible claim that [the combination] brings some advantage."<sup>109</sup> It is not surprising that the court found that the Windows 95-IE combination fulfilled that non-existent hurdle; in fact, it is hard to imagine any combination of products that the seller could not plausibly claim conferred some advantage.

In perhaps the least supportable portion of the opinion, the court finds that the second portion of the "integration" test was also met, finding that the advantages of combining Windows 95 and IE were unavailable if Windows 95 and IE were bought separately and combined by the purchaser.<sup>110</sup> Even Elhauge, whose test the court employed, criticized this determination.<sup>111</sup> The problem with the court's analysis is that its definition of the term "combine" ignores the rationale behind a focus on whether consumers can purchase the products separately and still obtain the benefits of their combination. The court reasoned that the act of combination was not the installation of Windows 95 and IE, but "the creation of the design that knits the two together."<sup>112</sup> The court here attempts to ascertain the existential meaning of the term "combine," whereas a proper analysis would focus on whether it is efficient and possible to offer the two products separately for consumer combination if so desired. As Elhauge points out, it was undoubtedly efficient to offer Windows 95 and IE separately

---

107. See *infra* notes 110-14 and accompanying text.

108. *Microsoft*, 147 F.3d at 948.

109. *Id.* at 950.

110. See *id.* at 951-52.

111. Elhauge explained that the existence of separate consumer demand for Windows 95 and IE meant that consumers clearly could purchase the products separately and combine them if they wished to obtain the benefits available by their combination. See Elhauge, *supra* note 63, at 4 ("We know that it is feasible to put them on separate disks with independent value because Microsoft in fact did precisely that. And we know that their combination by Microsoft did not confer advantages unobtainable by their combination by buyers, because Microsoft actually had its buyers combine the separate disks.").

112. *Microsoft*, 147 F.3d at 952.

for consumer combination, for Microsoft did just that.<sup>113</sup> The court's reading of the second portion of the test would essentially mean that any combination of software could be "integrated" at the discretion of its producer.<sup>114</sup> The more rational reading of the second portion of the court's "integration" test is that two products should not be deemed "integrated" if consumers are able to purchase the products separately and combine them at their own discretion.

Despite its differing focus, it is difficult to see how the distinct products analysis employed by the court, even when used in the way intended by Elhauge,<sup>115</sup> takes any substantial departure from the *Jefferson Parish* distinct products analysis in terms of results. Under *Jefferson Parish*, two products are considered "distinct" if there is sufficient consumer demand so that it is efficient to offer the two products separately, thereby allowing consumers to choose whether to take advantage of the combination rather than forcing them to do so.<sup>116</sup> Regardless of whatever benefits the combination of two products may have, if the existence of separate demand makes it efficient to offer the two products separately, the consumer should have the opportunity to decide whether or not to enjoy the "advantages" of the combination. Under the *Microsoft* court's "integration" test, products are distinct if they may be efficiently combined by consumers, provided that the combination confers any advantage. Under this so-called "integration" test, a product combination does not involve two distinct products (i.e. is an "integrated" product) if the combination confers some benefit and insufficient consumer demand exists so that it is inefficient to offer the products separately for consumer combination. The result would be the same under the *Jefferson Parish* test, however, under which a product combination involves two distinct products only when they can be efficiently offered separately to the consumer.<sup>117</sup> It appears that the only thing that the court's "integration" test would add to the *Jefferson Parish* analysis in terms of result is that, under that test, products would be considered "distinct" if their combination offered no advantages, regardless of a consumer's inability to combine efficiently the products. While that result may be important in some situations, it is of no import to the situation

---

113. See *supra* note 111.

114. Judge Wald's dissenting opinion recognizes that fact. See *Microsoft*, 147 F.3d at 957, n.1 (Wald, J., dissenting opinion).

115. See Elhauge, *supra* note 63, at 4.

116. See *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1339 (9th Cir. 1984) ("[E]ach element of the NOVA computer system could have been provided separately by customers if defendant had not compelled purchasers to take both.").

117. See *id.*

in *Microsoft*. Thus, nothing beyond the *Jefferson Parish* test was needed to determine that Windows 95 and IE were distinct products that Microsoft need not have forced on consumers.

#### IV. CONCLUSION

Perhaps the impetus behind the desire to employ an "integration" test as opposed to the *Jefferson Parish* test is to catch the even trickier cases of software combination. Microsoft's obvious reaction to a finding that its Windows 95 and IE licensing practices constituted an illegal tying arrangement is the development of a product like Windows 98, which "embeds" the browser software "within" the operating system software.<sup>118</sup> Indeed, following allegations that it had illegally tied sales of its Windows 3.11 graphical interface to sales of its MS-DOS operating system, Microsoft developed Windows 95, a product that "integrated" the graphical interface and the underlying DOS operating system.<sup>119</sup> Tying law must be sensitive to the potential benefits these "integrations" offer, and it is that impulse that appears to have informed the D.C. Circuit's opinion in *Microsoft*. At the same time, however, the courts must acknowledge and address anticompetitive tying arrangements. By ignoring precedent and employing a new distinct products analysis without proper justification, the court in *Microsoft* failed to balance those competing goals.

If faced in the future with allegations that a product like Windows 98 constitutes an illegal tying arrangement, the courts should not wholesale abandon past precedent. Rather, a new distinct products analysis should only be adopted if the *Jefferson Parish* test does not adequately balance the desire to allow product innovation and the continuing need for the judiciary to limit anticompetitive conduct.

---

118. See Lemley, *supra* note 2, at 1076 ("Microsoft's recent market approach ... seems to involve embedding Internet applications deeply within its server operating systems.").

119. See *Microsoft*, 147 F.3d at 945.

## INTERGRAPH CORP. V. INTEL CORP.

By *W. Greg Papiak*

The recent decision by the U.S. District Court for the Northern District of Alabama in *Intergraph Corp. v. Intel Corp.*<sup>1</sup> highlights the ongoing tension between intellectual property (“IP”) rights and antitrust law. The dispute arose when the parties could not agree to a cross-license that Intel had sought in response to litigation threats from Intergraph for patent infringement. Intel replied by cutting off its customer’s—Intergraph’s—supply of advanced chip samples and technical information for its patented microprocessors. The district court granted a preliminary injunction that required Intel to supply Intergraph with these materials, finding that they constituted essential facilities. Intel has undertaken an aggressive appeal of the decision, arguing that the injunction amounts to compulsory licensing.

The case marks the first time that a computer-related product has been held as an essential facility. Essential facilities doctrine in the *Intergraph* context adds confusion to the IP-antitrust interface with regard to issues such as refusals to license and access to de facto standards. I argue that the court’s use of essential facilities ultimately fails because it overextends the bounds of a narrowly confined doctrine. An analysis of the doctrine’s history reveals that its application here does not meet the requirements of a Sherman Act section 2 essential facilities claim. Use of the doctrine also excessively impacts the rights granted to Intel in its patents. Finally, the doctrine, as applied to this case, has the practical effect of maintaining an entity’s market power in its proprietary standard in a market that might be better served with open standards and increased competition.

### I. THE FACTUAL BACKGROUND TO THE DISPUTE

#### A. Intel—A Producer of High Performance Microprocessors

Intel Corporation is the world’s largest designer, manufacturer, and supplier of high performance microprocessors used in desktop computers, laptops, servers, and workstations.<sup>2</sup> Intel captured eighty-eight percent of

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. 3 F. Supp. 2d 1255 (N.D. Ala. 1998).

2. *See id.* at 1259. Microprocessors, or “central processing units” (“CPUs”) control the central processing of data, as well as other integral systems, in personal computers. *See id.* at 1259. Many of the following representations are based on the district court’s

this global market's total revenue in 1996.<sup>3</sup> This market control has led to enormous revenues, profits, and brand recognition for Intel microprocessors.<sup>4</sup> Intel's position in the microprocessor industry includes demand-side externalities such that consumers often base their buying decision on inclusion of the Intel brand in the particular computer hardware that they purchase.<sup>5</sup> Intel's dominance has partly arisen due to its compatibility with Microsoft DOS and Windows-based operating systems.<sup>6</sup> Intel is currently best known for its Pentium line of chips that are among the fastest chips with high-end graphics capabilities.<sup>7</sup>

Intel maintains specialized relationships with the Original Equipment Manufacturers ("OEMs") incorporating Intel processors into their products.<sup>8</sup> Due to the complexity of CPUs, OEMs that rely on Intel processors must specifically design and manufacture their products in order "to meet the precise physical and technical requirements of the Intel architecture."<sup>9</sup> Beginning in 1997 with the Pentium II chip, Intel switched its microprocessor to a closed architecture,<sup>10</sup> thereby affecting the chips compatibility with other microprocessor architectures.<sup>11</sup> Intel had previously maintained an "open architecture"<sup>12</sup> in its line of CPUs that allowed competing chip manufacturers to produce chips compatible with Intel chips.<sup>13</sup> Now, Intel's

---

findings of fact for the purpose of ruling on a preliminary injunction motion. The court stated that a full trial might produce contrary findings. *See id.*

3. *See id.* at 1260.

4. The company, for example, reported revenues of around \$25.1 billion and profits near \$6.9 billion for the fiscal year ending December 31, 1997. *See Intel Corporation's 1997 Annual Report* (visited Nov. 9, 1998) <<http://www.intel.com>>.

5. *See Intergraph*, 3 F. Supp. 2d at 1260-61.

6. *See id.* at 1261 n.14 ("Operating systems [and] microprocessors ... must be carefully matched to assure reliable optimum performance.").

7. *See id.* at 1261. Intel's upcoming generations of microprocessors, the Deschutes and Merced, possess even greater graphics capabilities and processing speeds. *See id.*

8. *See id.* at 1265.

9. *Id.* at 1261.

10. A closed architecture is any computer design with proprietary specifications that are not freely available, making it difficult for third-party vendors to create ancillary devices compatible with a closed architecture machine.

11. *See Intergraph*, 3 F. Supp. 2d at 1261-62 ("The Pentium II chip is mounted on its edge in the P6 Bus [in a Slot 1 Interface], which ... accepts microprocessors from no other manufacturer.").

12. An "open architecture" is "a system in which the specifications are made public in order to encourage third-party vendors to develop add-on products. The PC is an open architecture." *Intergraph Corp., Glossary of Terms for Intergraph Suit* (visited Nov. 9, 1998) <<http://www.intergraph.com/intel>>.

13. *See Intergraph*, 3 F. Supp. 2d at 1261 ("Intel chips, before the Pentium II, were mounted on flat sockets [or a Socket 7 design], the P7 Bus, that physically accepted

proprietary structure no longer physically accepts microprocessors from any other chip manufacturer.<sup>14</sup> Those hardware manufacturers making a commitment to use Intel chips must incorporate this closed design into their product.<sup>15</sup> As a practical matter, the incorporation of this closed design into hardware products causes OEMs like Intergraph, committed to the Pentium II architecture, not to have the ability to easily substitute chips from other chip manufacturers without incurring some redesign costs.<sup>16</sup>

### B. Intergraph—A Producer of Workstations with Intel CPUs

Intergraph Corporation, headquartered in Huntsville, Alabama, develops, manufactures, and sells computer hardware and software products.<sup>17</sup> Intergraph's primary products are advanced computer-aided designing systems known as "workstations."<sup>18</sup> From 1986-1993, Intergraph workstations were designed around a high powered microprocessor called the "Clipper."<sup>19</sup> In 1987, Intergraph acquired ownership of the Clipper technology when it purchased the Advanced Processor Division of Fairchild Semiconductor, a subsidiary of National Semiconductor.<sup>20</sup>

In the early 1990s, Intergraph became convinced that a soon-to-be-released Microsoft operating system, Windows NT, would come to dominate the high-end workstation market.<sup>21</sup> By 1992, Intel had established itself as the dominant supplier of microprocessors for the "open architecture PC market," which happened to be dominated by Windows-based operat-

---

similar chips from other manufacturers."). Before the Pentium II, Intel widely licensed its chip architecture to competing manufacturers. This has now changed. For example, "[I]n return for a renewal of its patent cross-license, AMD agreed that Socket 7 was the last Intel processor interface that AMD would duplicate. This has forced AMD to find an alternative to the Slot 1 interface for its Pentium II-class chips." Michael Slater, *Taking on Intel: RED HERRING ONLINE* (visited Nov. 9, 1998) <<http://www.redherring.com/mag/issues60/intel.html>>.

14. See *Intergraph*, 3 F. Supp. 2d at 1262 n.17. Intel stated at trial that it had licensed aspects of the Pentium II architecture (the P6 Bus, for example) to competitors such as IBM. See *id.* at 1262. Theoretically, then, competitors have the capability of producing Pentium II compatible microprocessors.

15. See *id.* at 1261.

16. See *id.* at 1262. The court stated that this proprietary structure "allow[s] Intel, by exercising its [IP] rights in its 'closed architecture,' to wield absolute power over who will and who will not be allowed to participate in that part of the high-end computer industry that is based upon the 'x86' microprocessor." *Id.*

17. See *id.* at 1263.

18. See *id.*

19. See *id.*

20. See *id.*

21. See *Intergraph*, 3 F. Supp. 2d at 1263-64.

ing systems.<sup>22</sup> In an effort to position itself in the Windows NT workstation market, Intergraph became an Intel OEM in 1993.<sup>23</sup> By late 1993, Intergraph had ceased development on the Clipper microprocessor and focused its efforts on making its workstations fully compatible with Intel Pentium microprocessors.<sup>24</sup> By 1994, Intel-based systems accounted for approximately three-quarters of Intergraph's hardware unit sales.<sup>25</sup> Two years later, this number had risen to 100 percent.<sup>26</sup>

### C. The Business Relationship of Intel and Intergraph

Intergraph became one of the first computer manufacturers to develop workstations based on Intel chips and Windows NT architecture.<sup>27</sup> Intel facilitated Intergraph's adoption of its technology by providing technical information about the Pentium architecture.<sup>28</sup> At this time in 1993, Intel freely shared this information with its OEMs.<sup>29</sup> When moving to a closed architecture with the release of the Pentium II in 1997, Intel required OEMs to sign comprehensive Non-disclosure Agreements ("NDAs") that covered the exchange of confidential product information used to assimilate the Pentium architecture into hardware products.<sup>30</sup> Intel controlled the terms of these agreements.<sup>31</sup>

In 1997, Intergraph pursued claims of patent infringement for the unlicensed use of technology related to the Clipper microprocessor in Intel chips against certain Intel OEMs and Intergraph competitors.<sup>32</sup> Many of these OEMs, in turn, approached Intel seeking indemnification for these claims.<sup>33</sup> Intel contacted Intergraph, and the parties began unsuccessful negotiations into a possible cross-license arrangement for use of certain

---

22. *See id.* at 1264.

23. *See id.*

24. *See id.*

25. *See* Federal Trade Commission Complaint, In the Matter of Intel Corporation, ¶ 25 (Docket No. 9288) (June 8, 1998).

26. *See id.*

27. *See id.* ¶ 24.

28. *See Intergraph*, 3 F. Supp. 2d at 1265-66.

29. *See id.* at 1265.

30. *See id.*

31. *See id.* Among the relevant terms, the agreements provided that neither party had an obligation to disclose confidential information to the other, and could cease providing confidential information at any time, and either party could terminate the agreement at any time and without cause. *See id.* at 1265-66.

32. *See id.* at 1266.

33. *See id.*

patent rights held by the other.<sup>34</sup> Responding to the failed negotiations, Intel next attempted to add a provision for NDAs used in connection with future Intergraph projects.<sup>35</sup> The new provision required Intergraph to provide Intel with a royalty-free license to its microprocessor-related patents.<sup>36</sup> When Intergraph rejected this provision, Intel withdrew the proposed NDAs and cut off Intergraph's access to chip samples and technical information.<sup>37</sup>

## II. SUMMARY OF THE CASE

On November 17, 1997, Intergraph filed a complaint against Intel in the United States District Court for the Northern District of Alabama.<sup>38</sup> Intergraph later amended its complaint to assert twenty-three separate claims against Intel, including a single count for federal antitrust violations alleging that Intel had engaged in anti-competitive behavior in its relationship with Intergraph by withholding product samples and technical information.<sup>39</sup> The complaint further contained three claims for patent infringement related to Intel's use of Intergraph's Clipper technology.<sup>40</sup>

Four days later, Intergraph filed a motion to enjoin Intel from "cutting off or delaying its supply of computer chips and product information...."<sup>41</sup> Due to its reliance on Intel CPUs, Intergraph felt that it could not compete in the workstation market without such injunctive relief.<sup>42</sup> The Alabama court agreed and granted a preliminary injunction based on evidence of

---

34. *See id.* at 1267. A set of IP antitrust guidelines issued by the Department of Justice and FTC state that "settlements involving the cross-licensing of [IP] rights can be an efficient means to avoid litigation and, in general, courts favor such settlements." *See* Antitrust Guidelines for the Licensing of Intellectual Property, reprinted in 4 Trade Reg. Rep. (CCH) ¶ 13,132, at 2.

35. *See Intergraph*, 3 F. Supp. 2d. at 1267.

36. *See id.*

37. *See id.* at 1267-68. There is some confusion in the record as to whether Intel refused technical information at this time, or whether it denied Intergraph access to this information only after this suit was filed. *See id.*

38. While speculative, the Alabama venue likely played some role in the decision strongly favoring Intergraph.

39. *See id.* at 1258.

40. *See id.* at 1258. Intel maintains that it has a valid license to the Clipper technology through a broad cross-licensing agreement executed with National Semiconductor prior to its transfer of the patent rights to Intergraph. *See* Intel Corporation's Motion for Summary Judgment on its License Defense (June 17, 1998) (No. CV 97-N-3023-NE).

41. *Intergraph*, 3 F. Supp. 2d at 1258.

42. *See id.* at 1263.

multiple antitrust and contract violations by Intel.<sup>43</sup> The ruling required Intel to supply Intergraph with the advanced products and technical information the court deemed necessary for Intergraph's competitive survival in the high-end workstation market.<sup>44</sup>

The court determined that Intel had monopoly power in two separate relevant markets: (1) a ninety percent monopoly in high performance (or "x86") microprocessors, and (2) a one hundred percent monopoly in Intel microprocessors.<sup>45</sup> The court stated that a market share in the sixty percent range "establishes a prima facie case of market power and creates a genuine issue of dangerous probability of monopolization."<sup>46</sup>

Among its conclusions of law, the court's application of essential facilities doctrine to Intel's chip architecture was apparently the first time a court has found that a computer-related product was an essential facility.<sup>47</sup> Judge Nelson defined a facility as essential "if it is otherwise unavailable and cannot be 'reasonably or practically duplicated.'"<sup>48</sup> The court reasoned that Intel's advanced chip samples and technical information were essential facilities because they were "vital to competitive viability and [Intergraph] cannot effectively compete in the relevant market without ac-

---

43. *See id.* at 1291-93. The court held that Intergraph had a substantial likelihood of success on the following antitrust and contract violations against Intel: (1) possessing monopoly power that has been willfully acquired and maintained in violation of section 2 of the Sherman Act; (2) unlawful refusal to deal and denial of access to essential facilities; (3) unlawful monopoly leveraging; (4) unlawful coercive reciprocity; (5) use of patented technology to restrain trade; (6) retaliatory enforcement of non-disclosure agreements; and (7) entering agreements that are unlawful restraints of trade in violation of Section 1 of the Sherman Act. *See id.* at 1275-81.

44. *See id.* at 1291-93.

45. *See id.* at 1275.

46. *Id.* at 1275-76 (citing *U.S. Anchor Mfg. v. Rule Indus.*, 7 F.3d 986, 999 (11th Cir. 1993)). The court also cited additional cases where market share in the eighty percent range constituted a finding of monopoly power. *See id.*

47. *See* Kevin J. Arquit et al., *Antitrust, Intellectual Property, Standards and Interoperability*, 524 PLI 157, 195 (1998). For a criticism of applying essential facilities doctrine to high technology products, see Richard J. Urowsky, *Market Definitions and "Standards"*, CA26 ALI-ABA 19, 28 (1996) ("High technology products can almost never be essential facilities because, unlike a bridge across a major river or a capital-intensive system of pipes or wires, they rarely consist of more than the intellectual effort that created them, and competitors' failure to innovate in response cannot constitute an antitrust violation.").

48. *Intergraph*, 3 F. Supp. 2d at 1278 (citing *City of Anaheim v. Southern Calif. Edison Co.*, 955 F.2d 1373, 1380 n.5 (9th Cir. 1992)). The court further stated that "reasonable and timely access to critical business information that is necessary to compete is an essential facility." *Id.* at 1278.

cess to them.”<sup>49</sup> Underlying this decision was the court’s opinion that Intel had locked Intergraph into the Pentium technology and it could not easily switch to an alternative microprocessor. The court, therefore, held that Intel had likely violated section 2 of the Sherman Act by denying an essential facility.<sup>50</sup> Intel appealed the decision shortly thereafter.<sup>51</sup> The appeal serves as a backdrop to the Federal Trade Commission’s current suit against Intel for antitrust violations.<sup>52</sup>

### III. THE ESSENTIAL FACILITIES DOCTRINE

#### A. The Origins and History of Essential Facilities Doctrine

The “essential facilities” doctrine<sup>53</sup> has a long and contentious history, and remains a much-disputed area of antitrust law.<sup>54</sup> The doctrine, in its simplest form, concerns an entity’s inability to gain access to a resource necessary to compete in a market because a controlling monopolist refuses to share this resource. Application of the doctrine requires the monopolist to share the facility in some form or another. The doctrine developed early

---

49. *Id.* at 1277.

50. *See id.* at 1278. Section 2 of the Sherman Act states in relevant part:

Every 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, shall be deemed guilty of a felony, and on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation.

15 U.S.C.A. § 2 (1994).

51. A ruling on the appeal will likely occur in the spring of 1999.

52. On June 8, 1998, the FTC charged Intel with violating section 5 of the FTC Act. The FTC alleged that certain conduct of Intel toward its OEMs constituted unlawful monopolization, unlawful attempts to monopolize, and unfair methods of competition. The FTC appears concerned that Intel maintains a pattern of anti-competitive behavior with certain customers—when customers assert patent violations against Intel, Intel cuts off their supply of information necessary to design their products and will only continue to supply such vital information if the customer agrees to a patent cross-license on terms favorable to Intel. A review of the FTC complaint shows that it is unlikely that the government suit will rest on essential facilities reasoning. *See* FTC Complaint, In the Matter of Intel Corporation, ¶ 25 (Docket No. 9288) (June 8, 1998).

53. The doctrine is, at times, also referred to as the “bottleneck” doctrine—meaning that competitive markets exist on both sides of the monopoly market and a refusal to share blocks competition in a related market. *See* 3A PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION ¶ 772b1 (1996) [hereinafter “AREEDA & HOVENKAMP”].

54. Many commentators, for example, have questioned whether the essential facilities doctrine is an appropriate arm of antitrust law. Areeda and Hovenkamp are especially critical of the doctrine, questioning whether such a doctrine, in fact, exists. *See id.* ¶ 772a.

in the twentieth century, as a section 1 violation of the Sherman Antitrust Act, in response to entities combining to control a facility, and subsequently excluding competitors from the facility.<sup>55</sup> The doctrine then evolved in the mid-twentieth century to cover single firm conduct in unilateral refusals to deal, a section 2 violation of the Sherman Act.<sup>56</sup>

The doctrine finds its origins in the U.S. Supreme Court case, *U.S. v. Terminal Railroad Association of St. Louis*.<sup>57</sup> The case involved the acquisition of a St. Louis rail bridge, as well as the bridge's approach and a nearby terminal, by the Terminal Railroad Association.<sup>58</sup> The acquiring Association consisted of many, but not all, of the operating rail companies in the area.<sup>59</sup> The conditions were such that it was "impossible for any railroad company to pass through, or even enter St. Louis ... without using the facilities controlled by the terminal."<sup>60</sup> The Association, with complete control of these "essential" facilities, had the power to exclude competitors.<sup>61</sup> The Court therefore ordered the Association to allow any existing or future railroads joint ownership in the facilities, or access to the facilities on fair terms.<sup>62</sup> *Terminal Railroad* continues to influence contemporary thinking about the doctrine's appropriate application, directing focus to the costs and barriers to entry in duplication of a particular facility.

The doctrine next expanded to cover unilateral refusals to deal by a monopolist, the type of situation addressed in *Intergraph v. Intel*.<sup>63</sup> Among the most influential of these cases are *United States v. Griffith*<sup>64</sup> and *Otter Tail Power Co. v. United States*.<sup>65</sup> The *Griffith* case did not involve an essential facility, but dictum from the opinion is frequently cited in support of the doctrine.<sup>66</sup> The *Griffith* dictum stated that "the use of monopoly

---

55. See *id.* Section 1 of the Sherman Act states that, "every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States...is hereby declared illegal." 15 U.S.C.A § 1 (1994).

56. See 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 772a.

57. 224 U.S. 383 (1912).

58. See 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 772b1.

59. See *id.*

60. *Terminal Railroad*, 224 U.S. at 397.

61. See 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 772b1.

62. See *Terminal Railroad*, 224 U.S. at 411-12. An additional case highlighting the doctrine's roots in Section 1 is *Associated Press v. United States*, 326 U.S. 1 (1945) (holding that the admission policies of a news organization with 1200 newspapers must not discriminate against nonmembers competing with existing members).

63. See 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 772b3.

64. 334 U.S. 100 (1948).

65. 410 U.S. 366 (1973).

66. See Phillip Areeda, *Essential Facilities: An Epithet in Need of Limiting Principles*, 58 ANTITRUST L.J. 841, 845 (1989).

power, however lawfully acquired, to foreclose competition, to gain a competitive advantage, or to destroy a competitor, is unlawful.”<sup>67</sup> This language helped to support later decisions such as *Otter Tail*, an essential facilities case arising from a monopolist power company’s refusal to supply power to municipalities that wanted to distribute power to consumers themselves, rather than through *Otter Tail*’s distribution services.<sup>68</sup> Some commentators limit the reach of *Otter Tail* by stressing the regulated nature of public utilities and the company’s natural monopoly stature.<sup>69</sup>

A later case in the single-firm context is *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*<sup>70</sup> The case arose from a small competitor’s (“Highlands”) participation in a joint lift-ticket program with the owner of the other three ski resorts in the area (“Aspen Skiing”).<sup>71</sup> Aspen Skiing later ended its participation in the program and refused to participate in any further marketing programs with Highlands.<sup>72</sup> The Supreme Court held that the monopolist owner had no legitimate business reason for discontinuing its participation in the program, and that doing so was an attempt to maintain its monopoly power.<sup>73</sup> As a monopolist, Aspen Skiing was forced to include Highlands in a joint lift-ticket program.<sup>74</sup>

## B. The Requirements of a Section 2 Essential Facilities Claim

A claim based on unilateral behavior must satisfy the basic requirements of section 2 of the Sherman Act. This requires finding that the entity in control of the facility (1) possessed monopoly power in the relevant

---

67. *Griffith*, 334 U.S. at 107.

68. *See Otter Tail*, 410 U.S. at 366.

69. *See* 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 772b3. A “natural monopoly” refers to a market that can only support one efficient producer. This type of market is perhaps the most appropriate context in which to apply essential facilities doctrine. For criticism of the doctrine beyond a natural monopoly application, *See* David McGowan, *Regulating Competition in the Information Age: Computer Software as an Essential Facility under the Sherman Act*, 18 HASTINGS COMM/ENT L.J. 771, 805 (1996) (“In situations not involving natural monopoly the market will support more than one firm. Once this determination is made, the essential facilities doctrine has no role to play because an entrant may replicate the facility in question. So long as replication is possible, the claim that a competing facility would be too costly to build is entitled to no weight.”).

70. 472 U.S. 585 (1985). The Supreme Court did not address the Tenth Circuit’s use of essential facilities doctrine in affirming its decision because it found sufficient evidence that the defendant intended to create or maintain a monopoly. *See id.* The case has nevertheless had much influence on later essential facilities claims.

71. *See id.* at 585.

72. *See id.*

73. *See id.* at 586. *Aspen Skiing* marks the rise of the doctrine’s concern with the business justifications for the accused monopolist’s actions.

74. *See id.*

market, and (2) willfully acquired or maintained this monopoly power through anti-competitive conduct.<sup>75</sup> A market share of ninety percent "is enough to constitute a monopoly; [while] it is doubtful whether sixty or sixty-four percent would be enough."<sup>76</sup> Defining a relevant market identifies "producers that provide customers of a defendant firm with alternative sources for the defendant's product or service."<sup>77</sup>

In addition to the foregoing section 2 requirements, it is important to understand what it means for a facility to be "essential." Generally, essentiality requires a satisfaction of two elements.<sup>78</sup> First, the facility sought by a plaintiff must be vital to its competitive viability.<sup>79</sup> Deprivation of access to the facility should result in the collapse of the entity.<sup>80</sup> Second, the facility must be unobtainable from an alternative source to qualify as essential.<sup>81</sup> This includes an inability by the plaintiff to develop the facility itself.<sup>82</sup> This requirement is meant to increase competition in the applicable market by encouraging new development if at all possible.<sup>83</sup> The inability to duplicate the facility should result from more than a cost advantage that

---

75. See *Intergraph*, 3 F. Supp. 2d at 1275. (citing *Eastman Kodak v. Image Technical Servs.*, 504 U.S. 451 (1992)).

76. *United States v. Aluminum Co. of America*, 148 F.2d 416, 424 (2d Cir. 1945).

77. 2A AREEDA & HOVENKAMP, *supra* note 53, ¶ 530a; see also *Eastman Kodak v. Image Technical Servs.*, 504 U.S. 451, 481-82 (1992) ("The relevant market for antitrust purposes is determined by the choices available to Kodak equipment owners.").

78. See 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 773b.

79. See *id.* ¶ 773b1; see also *Alaska Airlines v. United Airlines*, 948 F.2d 536, 544 (9th Cir. 1991) ("[P]laintiff must show more than inconvenience, or even some economic loss; he must show that an alternative to the facility is not feasible."); *Robinson v. Macgovern*, 521 F. Supp. 842, 913 (W.D. Pa. 1981), *aff'd*, 688 F.2d 824 (3d Cir. 1982) (stating that a facility is not essential if it merely creates difficulties for plaintiff or reduces its profits).

80. As Areeda and Hovenkamp state, "A patent dominating a relevant market...is essential to competing manufacturers, at least until it expires or an alternate method or product appears." 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 773b1. Therefore, a patent to the Pentium II can be essential to a competitor of Intel like AMD, but not Intergraph. Intergraph does not manufacture microprocessors at present. See *supra* text accompanying note 24.

81. See 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 773b2.

82. See *id.*; see also *MCI v. AT&T*, 708 F.2d 1081, 1132 (1982) (finding that a facility is not essential unless the plaintiff shows its inability practically to duplicate it).

83. See 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 773b2. Antitrust law seeks to provide remedies that encourage, rather than limit new competition.

the monopolist possesses due to an economy of scale.<sup>84</sup> Therefore, the doctrine tolerates reasonable, but not excessive, barriers to entry.

Next, the doctrine emphasizes monopoly leveraging into vertically related markets.<sup>85</sup> A monopolist's refusal to deal "may be unlawful because ... control of an essential facility ... can extend monopoly power from one stage of production to another, and from one market into another."<sup>86</sup> Control of the facility in the one market should therefore lead to a monopoly in the vertically related market. "If the facility is truly 'essential,' then the [upstream] monopoly facility also establishes a [downstream] monopoly."<sup>87</sup> The plaintiff should therefore show that it competes with the defendant in an upstream or downstream market in which the defendant has, or threatens to achieve, monopoly power.

Additionally, the doctrine favors application when it is the "only realistic mechanism for making a market more competitive," because of the drastic nature of the remedy and its opposition to antitrust's basic goals.<sup>88</sup> Therefore, an inquiry as to a facility's essentiality should require a "showing that unless the facility is shared, the market is unlikely to become more competitive."<sup>89</sup> This condition provides a strong limiting principle on the doctrine's application.<sup>90</sup>

---

84. *See id.* Areeda and Hovenkamp reason that this is appropriate because monopolists naturally possess some cost advantages over competitors, otherwise the monopoly could easily be copied and its advantage would disappear. *See id.*

85. *See, e.g.,* *Alaska Airlines v. United Airlines*, 948 F.2d at 544-45 (stating that a facility is essential "only if control of the facility carries with it the power to eliminate [the defendant's] competition in the downstream market."). *Cf. In Re Independent Service Organizations Antitrust Litigation*, 989 F. Supp. 1131, 1135 (D. Kan. 1997) ("There is no unlawful leveraging of monopoly power when a patent holder merely exercises its rights inherent in the patent grant [to unilaterally refuse to license its patent].").

86. *MCI*, 708 F.2d at 1133 (holding that AT&T's refusal to grant MCI access to local Bell facilities constituted the denial of an essential facility).

87. 3A AREEDA & HOVENKAMP, *supra* note 53, ¶ 771a.

88. *See id.* ¶ 773b3. Antitrust law fundamentally strives to prevent the occurrence of monopolies by encouraging competition in the monopolist's market. Essential facilities doctrine stands contrary to this basic objective by requiring access to a facility that can support a monopoly in the relevant market. Sharing facilities also removes an incentive for the entity hurt by the monopolist to develop or locate an alternative product, an action that could help weaken the monopoly held in the relevant market. *See id.* ¶ 771b.

89. *Id.* ¶ 773b3.

90. Areeda and Hovenkamp, for example, consider only three situations where the doctrine might be appropriate: (1) where there is a natural monopoly and rivals can be accommodated without the inefficient duplication of a facility; (2) where a price-regulated monopoly exists and essential facilities lessens the utility's statutory monopoly; and (3) where a publicly owned and subsidized facility available to private entities cannot be practically duplicated. *See id.* ¶ 771c. *Intergraph* raises the issue of whether essential

*MCI v. AT&T* summarizes the current elements of an essential facilities claim.<sup>91</sup> First, a monopolist must control an essential facility (as defined above).<sup>92</sup> Second, a competitor to the monopolist must be unable to duplicate the essential facility as a practical matter.<sup>93</sup> Third, the monopolist must then deny use of the facility.<sup>94</sup> Finally, providing access to the facility must be a feasible option for the monopolist.<sup>95</sup>

#### IV. DISCUSSION

##### A. The *Intergraph* Context as a Section 2 Essential Facilities Claim

###### 1. *The Section 2 Sherman Act Prerequisites – Intel’s Monopoly Power in the Relevant Market*

The court’s section 2 essential facilities analysis required finding that Intel possessed monopoly power in the relevant market.<sup>96</sup> The relevant market, in this case, should consist of all the products or suppliers that could provide Intergraph with a reasonable substitute for Intel microprocessors.<sup>97</sup> The court defined two relevant markets: (1) the market for high performance microprocessors, and (2) the market for Intel processors.<sup>98</sup>

The court stated that the market for high performance microprocessors consisted of CPUs supplied to high-end workstations.<sup>99</sup> When looking at Intel’s share of this market, however, the court erred by instead describing its market share in “x86” CPUs.<sup>100</sup> It found that Intel had a ninety-percent share of this market.<sup>101</sup> The “x86” CPU market and the CPU market for high-end workstations are clearly different markets.<sup>102</sup> The entire “x86”

---

facilities should also be applied in markets that do not rise to the level of natural monopolies, but application of the doctrine serves to benefit consumers. Markets with de facto standardization and network effects might provide an opportunity for such an application.

91. See *MCI*, 708 F.2d at 1132-33.

92. See *id.*

93. See *id.*

94. See *id.*

95. See *id.*

96. See *supra* text accompanying notes 75-77.

97. See *U.S. v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 404 (1956) (“The market is composed of products that have reasonable interchangeability.”).

98. See *Intergraph*, 3 F. Supp. 2d at 1275.

99. See *id.*

100. See *id.*

101. See *id.*

102. See Reply Brief of Defendant-Appellant Intel Corporation at 15, *Intergraph Corp. v. Intel Corp.* (Fed. Cir. 1998) (“A conclusion by the district court that Intel has a

CPU market includes both low-end CPUs, and high-end CPUs suitable for Intergraph workstations. Low-end "x86" processor technology does not support Windows NT and Intergraph workstations. The court made only a single reference to Intel's market power in workstation CPUs, stating that Intel-Windows workstations, as of trial, "outsell RISC-Unix by a ratio of about two to one."<sup>103</sup> It is debatable whether this imprecise market share of sixty-six percent constitutes monopoly power as a matter of law.<sup>104</sup>

With regard to the second relevant market, the market for Intel CPUs, the court stated that under established antitrust principles a single manufacturer's product can constitute a separate relevant market.<sup>105</sup> This is perhaps a more appropriate market measure here because Intel maintains a closed standard in its CPU architecture.<sup>106</sup> For this reason, there is no immediately viable substitute for companies "locked-in" to the Intel technology like Intergraph unless they redesign their systems to support other chips. The appropriateness of Intel CPUs as a relevant market rests therefore on whether reasonable interchangeability precludes the redesign costs facing Intergraph. The *Intergraph* court concluded that a reasonable alternative did not exist when it defined Intel CPUs as a relevant market.

## 2. *Essential Facilities Requirements in the Intergraph Context*

As presented above, many distinct elements should be present to successfully invoke the doctrine.<sup>107</sup> First, essentiality required finding that Intel chips are (1) unobtainable from an alternative source, and (2) vital to Intergraph's competitive survival.<sup>108</sup> The *Intergraph* court properly concerned itself with the costs facing Intergraph in switching from the Pentium II architecture to an alternative architecture.<sup>109</sup> The court estimated that it takes "two or more years and millions of dollars to design

---

90% share of the alleged x86 CPU market, which includes low-end microprocessors, simply does not establish Intel's share of the high-end market.").

103. See *Intergraph*, 3 F. Supp. 2d at 1264 n.26.

104. See *supra* note 76 and accompanying text for a discussion of required market share for monopoly power.

105. See *Intergraph*, 3 F. Supp. 2d at 1275; see also *Eastman Kodak v. Image Technical Servs.*, 504 U.S. 451, 482 (1992) ("Because service and parts for Kodak equipment are not interchangeable with other manufacturers' service and parts, the relevant market from the Kodak equipment owner's perspective is composed of only those companies that service Kodak machines.").

106. The court found that Intel is presently the only manufacturer producing microprocessors with the "necessary speed and graphics handling capabilities that also will 'fit' the P6 Bus." *Intergraph*, 3 F. Supp. 2d at 1262 n.17.

107. See *supra* text accompanying notes 78 to 95.

108. See *supra* text accompanying notes 78 to 84.

109. See *Intergraph*, 3 F. Supp. 2d at 1262.

and develop a motherboard and graphics subsystem to accept and take advantage of a CPU such as the Pentium II or any possible alternative.”<sup>110</sup> This developmental handicap that Intergraph faces is perhaps the strongest argument for applying the essential facilities doctrine here. In addition to such time and cost factors, a different processor might not support the graphics capabilities that Intergraph seeks in its workstations. Intergraph realistically does not have an immediately viable alternative to Pentium II chips.<sup>111</sup> The barriers to entry are sufficiently high to apply the doctrine.<sup>112</sup>

The opinion, however, does not clearly establish that the advanced chip samples and information are vital to Intergraph’s long-term survival. Whether or not denial of access to Intel CPUs would bankrupt Intergraph is a highly speculative inquiry. The workstation market is an area with rapidly changing technologies and products. In the short term, a switch to an alternative CPU architecture would likely have adverse effects on Intergraph. In the long run, however, there is nothing to suggest that Intergraph could not endure such a switch, ending its dependence on Intel.<sup>113</sup>

For Intel’s CPU architecture to be truly essential, Intel’s monopoly in the relevant market should lead to a monopoly in a downstream market in which it competes with Intergraph.<sup>114</sup> The court found that Intel “designs, manufactures, and supplies ... graphics subsystems to provide graphic

---

110. *Id.*

111. The most immediate substitute possibly available to Intergraph might be the Alpha processor. The court’s speculation about the Alpha processor’s unavailability as an alternative because of its acquisition by Intel is misleading. *See id.* at 1261 n.16. As part of its settlement with Digital, Intel did acquire an Alpha manufacturing plant and chip design facilities for \$700 million. However, the FTC ordered Digital to license the Alpha technology to other chip companies. Actual and prospective licensing deals exist with multiple chip manufacturers. *See Tom Quinlan, FTC Adds Condition to Intel-DEC Settlement Acceptance, San Jose Mercury News* (visited Dec. 9, 1998) <<http://www5.mercurycenter.com/business/center/ftc042498.htm>>.

112. There are, however, arguments to be made that the barriers to entry do not rise to the level of the bridge in *Terminal Railroad*. *See supra* text accompanying notes 57 to 62. A major distinction between *Terminal Railroad* and *Intergraph* is that the creation of alternatives to Intel CPUs does not amount to waste or duplication, but rather would improve competition in a market that is not a natural monopoly. Additionally, Intergraph already faces design costs with each new Pentium II chip it incorporates into its product. Incurring a certain amount of cost to find an alternative is therefore reasonable.

113. Intergraph has been accustomed to coping with financial difficulties in the past. It is a company with a history of operating losses independent of its current dispute with Intel (i.e., 1993—net loss of \$116 million, 1994—net loss of \$70 million, 1995—net loss of \$45 million, 1996—net loss of \$69 million, 1997—net loss of \$70 million). *See Intergraph Corp., Intergraph 1997 Annual Report* (visited Nov. 9, 1998) <<http://www.intergraph.com>>.

114. *See supra* text accompanying notes 85-87.

functions for computers and workstations,” and that this is also an important product area for Intergraph.<sup>115</sup> The court found that Intel’s behavior toward Intergraph might be an attempt to use “its monopoly power in the ‘x86’ CPU market to obtain a monopoly in the graphics subsystem market.”<sup>116</sup>

The court’s findings of fact about Intel’s market position in graphic substations,<sup>117</sup> though, were thin. The court defined graphics subsystems as “critical systems ... which provide high performance 2D or 3D graphics capabilities.”<sup>118</sup> The court described a possible acquisition by Intel of a graphics chip producer and a joint development relationship Intel with a 3D graphics company.<sup>119</sup> The court further related Intel’s MMX graphics technology.<sup>120</sup> Taken together, however, this information poorly defines this market and provides no evidence that Intel intends, possesses, or threatens monopoly power in this market. The court appeared to overstate Intel’s graphics substation activity to reach its desired outcome.

Finally, essential facilities doctrine favors application when it is the only realistic mechanism for making the facility’s market more competitive.<sup>121</sup> Utilization of the doctrine here should therefore have pro-competitive effects on the workstation CPU market. The use of the doctrine, though, clearly falters in this regard. Giving Intergraph access to the advanced chip samples and information does nothing to enhance competition in the workstation processor market.<sup>122</sup> Applying the essential facilities doctrine to this case maintains Intel’s market position and fails to encourage the production of alternatives to Intel chips.

---

115. See *Intergraph*, 3 F. Supp. 2d at 1270 (citing Patterson Supp. Aff. ¶¶ 7-9). Clearly, microprocessors are moving to integrate graphics capabilities into chips. For example, AMD’s new line of chips, the K6-2 and K6-3, contain a new feature, 3DNow that speeds 3D graphics. See Michael Slater, *Taking on Intel: RED HERRING ONLINE* (visited Nov. 9, 1998) <<http://www.redherring.com/mag/issues60/intel.html>>.

116. *Intergraph*, 3 F. Supp. 2d at 1270.

117. See *id.*

118. *Id.*

119. See *id.*

120. See *id.* MMX stands for multi-media extensions.

121. See *supra* text accompanying notes 88 to 90; see also McGowan, *supra* note 69, at 775 (“Antitrust ... seeks to protect competition, not competitors.”).

122. Of course, competition in workstations and graphics substations may be reduced if Intergraph becomes insolvent as a result of losing its access to Intel chips.

## B. Essential Facilities Doctrine in the *Intergraph* Context Weakens Intel's Patent Rights

A troubling aspect of the court's granting of a preliminary injunction was its relative disregard for Intel's patent rights.<sup>123</sup> The court stated that "Intel has no legitimate [IP] basis with which it can refuse to supply Intel microprocessors and technical information, especially since Intel has been doing so for the last four years on a mutually beneficial basis."<sup>124</sup>

This statement, however, clearly contradicts the rights granted to Intel by the Patent Act. Section 154 of the Patent Act gives the patentee the "right to exclude others from making, using, offering for sale, or selling the invention throughout the United States."<sup>125</sup> This right to determine the use of a patent serves the goal of encouraging innovation through the creation and development of new inventions. The exclusionary right has even stronger justification where the patent owner must incur considerable expense to develop its invention. A patent owner has a greater incentive to bear such costs when assured strong proprietary control in the subject matter. The Patent Act additionally holds that no patent owner can be deemed guilty of patent misuse for a refusal to license the patent.<sup>126</sup> The use of essential facilities doctrine in this context effectively weakens the bundle of rights granted to Intel in its patents. The *Intergraph* case raises the question of whether a (monopolist) patent owner should ever have a duty to license its IP.

Generally, antitrust law imposes no duty upon a patent owner to license its IP.<sup>127</sup> However, an IP owner engaging in anti-competitive be-

---

123. See amicus brief filed by the Computer Technology Industry Association on behalf of Intel Corp. and cited in Reply Brief of Defendant-Appellant Intel Corporation at 4, *Intergraph Corp. v. Intel Corp.* (Fed. Cir. 1998) ("The District Court's decision severely undermines the [IP] rights that every company in the industry relies upon as the cornerstone of their business. If allowed to stand, the opinion would have a detrimental effect upon technological innovation, investment in research and development, and growth throughout the computer industry.").

124. *Intergraph*, 3 F. Supp. 2d at 1279.

125. 35 U.S.C. § 154 (1994); see also U.S. CONST. art. I, § 8, cl. 8.

126. See 35 U.S.C. § 271(d)(4) (1994) ("No patent owner otherwise entitled to relief shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having ... refused to license or use any rights to the patent.").

127. See Robert P. Taylor, *Antitrust Issues Arising from Refusals to License Patents and Copyrights*, 483 PLI/PAT 793, 805 (1997) (citing *Datagate v. Hewlett Packard*, 60 F.3d 1421, 1427 (9th Cir. 1995)); see also IP Guidelines, *supra* note 34, at 4 ("Nor does ... market power impose on the [IP] owner an obligation to license the use of that property to others.").

havior is not immune from antitrust liability.<sup>128</sup> Courts have found antitrust liability in the context of IP rights most often as a section 2 unlawful monopolization claim or a section 1 illegal tying arrangement.<sup>129</sup>

The Ninth Circuit in *Image Technical Services v. Eastman Kodak*<sup>130</sup> recently held that an owner of IP could face antitrust liability for a unilateral refusal to deal. The court stated that “§ 2 of the Sherman Act prohibits a monopolist’s ... refusal to deal if that conduct harms the competitive process in the absence of legitimate business justification.”<sup>131</sup> Therefore, it is useful to focus on Intel’s business justifications for its actions with Intergraph.<sup>132</sup> Intel apparently did not terminate its relationship with Intergraph until just after the suit was filed.<sup>133</sup> One can argue that Intel had a legitimate business justification in no longer treating Intergraph as a preferred customer when faced with possibly expensive litigation. It is under-

---

128. See, e.g., *United States v. Colgate*, 250 U.S. 300 (1920) (stating that a company cannot unilaterally refuse to deal if it has a purpose to create or maintain a monopoly); *Image Technical Servs. v. Eastman Kodak*, 125 F.3d 1195, 1216 (9th Cir. 1997) (“[I]ntellectual property rights do not confer an absolute immunity from antitrust claims.”); FTC, *Intel Abuses its Monopoly Power in Violation of Federal Law* (visited Nov. 9, 1998) <<http://www.ftc.gov>> (“Innovation is critical to economic progress, and patents play a crucial role in encouraging that innovation.... Intel’s great contributions to this country’s economic growth have been encouraged and protected by patents.... But if Intel can use its monopoly position ... to prevent other firms from enforcing their own patents, [they] will have little incentive to invent new features to challenge Intel....”).

129. See Taylor, *supra* note 126, at 807-08; see also *Oahu Gas Serv., Inc. v. Pacific Resources Inc.*, 838 F.2d 360, 368 (9th Cir. 1988) (“Because of monopolist’s special position the antitrust laws impose what may be characterized as affirmative duties. These duties are not absolute, however, they arise only when there is no justification for refusing to aid a competitor.”).

130. 125 F.3d 1195 (9th Cir. 1997) (finding that Kodak had used its monopoly power in an anti-competitive manner). A recent decision refused to follow *Image Technical Services*. See *In Re Independent Service Organizations Antitrust Litigation*, 989 F. Supp. 1131, 1134 (D. Kan. 1997). The court found that “where a patent or copyright has been lawfully acquired, subsequent conduct permissible under the patent or copyright laws cannot give rise to any liability under the antitrust laws.” *Id.* at 1134. Under this reasoning, Intel’s decision to withhold technical information from Intergraph is within its patent rights, and no basis for antitrust liability exists.

131. *Image Technical Servs.*, 125 F.3d at 1209.

132. See *supra* note 73 and accompanying text. The *Intergraph* court found that Intel had no legitimate business purpose in refusing to deal with Intergraph in the manner that it had previously. See *Intergraph*, 3 F. Supp. 2d at 1270. The court stated that antitrust laws protect customers and purchasers in cases when a monopolist refuses to deal in order to frustrate litigation. See *id.* at 1277. The court also stated that the patent litigation brought by Intergraph “should be resolved without linking it to the supply of products and information that are essential to Intergraph’s business survival.” *Id.* at 1270.

133. See *id.* at 1267-68.

standable that a defendant in this situation would be less than fully accommodating in its business relationship with the plaintiff. Intel additionally had a contract basis for ending the supply of advanced chips and information, relying on termination without cause provisions in the agreements.<sup>134</sup> Owners of IP would also appear to have legitimate justification to determine the fair value of their patents. Intel attempted to enter a broad cross-licensing agreement with Intergraph. Intel apparently deemed the fair value of its patents—with the extensive yearly research and development costs incurred by Intel to improve upon its technologies—as worthy of a royalty-free license to Intergraph's Clipper technology. Intergraph ceased development on the Clipper technology three years prior to the trial.<sup>135</sup> The opinion also produced no evidence that Intergraph's Clipper technology possessed any licensing value.<sup>136</sup> Intergraph's refusal to agree to the cross-licensing arrangement appears to provide Intel with some basis for refusing to continue business as usual with Intergraph. Intel's behavior appears to be motivated more by its dispute with Intergraph, than by "a scheme of willful acquisition or maintenance of monopoly power."<sup>137</sup>

### C. The Argument that Essential Facilities Might Pertain to Markets with Standards and Network Effects Does Not Apply to *Intergraph*

Many commentators have suggested the application of essential facilities doctrine to technology products that serve as standards and possess network effects.<sup>138</sup> Network externalities or network effects arise when "the utility that a user derives from consumption of a good increases with

---

134. *See id.* at 1265-66.

135. *See id.* at 1264 n.25.

136. However, the very fact that Intergraph has brought litigation for patent infringement of the Clipper technology suggests that it deems the technology to have some worth. Intel has since brought counterclaims for patent infringement. Therefore, cross-licensing would remove patent infringement challenges to both sides.

137. *Eastman Kodak v. Image Technical Servs.*, 504 U.S. 451, 483 (1992).

138. *See e.g.*, Teague I. Donahey, *Terminal Railroad Revisited: Using the Essential Facilities Doctrine to Ensure Accessibility to Internet Software Standards*, 25 AIPLA Q.J. 277 (1997); Peter S. Menell, *Tailoring Legal Protection for Computer Software*, 39 STAN. L. REV. 1329, 1366 (1987) ("In light of the strong network externalities flowing from compatibility, computer operating systems serve as 'essential facilities' in computer hardware markets."). Antitrust is struggling to find its proper role in technology markets with networks effects and de facto standards, as evidenced by the current federal actions against Intel and Microsoft. For a discussion of current litigation against Microsoft, see Michael Woodrow De Vries, Note, *Unites States v. Microsoft*, 14 BERKELEY TECH. L.J. 303 (1999).

the number of other agents consuming the good.”<sup>139</sup> Goods with network effects often become the “de facto” standard in a market.<sup>140</sup> A “de facto” standard “results when a market gives dominance to a single technology or design and leads subsequent developers to build analogous or at least compatible systems in order to capitalize on the popularity and familiarity of the de facto ... standard.”<sup>141</sup> A standard technology with demand-side externalities encourages users to join the network, thereby increasing the network’s overall value to consumers. Antitrust would attempt to advance the network effects by ensuring that manufacturers seeking to incorporate the standard into downstream products have access to the monopolist’s product on reasonable terms. Essential facilities doctrine would act as the antitrust basis for guaranteeing entrance to the particular network economy.

Intel CPUs fit into the network effects continuum as virtual networks.<sup>142</sup> Intel chips have collateral relationships with products having network externalities in actual and virtual networks (e.g., compatibility with the Windows operating system and applications written solely for Wintel<sup>143</sup> architecture). Intel chips, at present, provide inherent value to consumers that increases with each additional user of identical and/or interoperable goods. Intel’s proprietary Pentium II CPUs also qualify as a de facto standard, evidenced by downstream manufacturers capitalizing on Intel’s popularity by incorporating Intel chips into their own products.<sup>144</sup>

---

139. Michael L. Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424, 424 (1985).

140. A standard helps to establish a common mode of interaction among products or points in a network. See Arquit, *supra* note 47, at 161-62.

141. Raymond T. Nimmer, *Standards, Antitrust and Intellectual Property*, 449 PLI/PAT 121, 123 (1996). A network environment might naturally favor the existence of a single producer for reasons of compatibility and standardization.

142. Network markets fall into one of three areas on a continuum—actual networks, virtual networks, and simple positive feedback phenomena. See Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 CALIF. L. REV. 479, 488-500 (1998). Virtual networks are goods that “provide inherent value to consumers that increases with the number of additional users of identical and/or interoperable goods.” The virtual network good threshold requires at least “strong positive feedback effects tied to functional compatibility.” *Id.* at 491.

143. “Wintel” is an acronym for Windows and Intel denoting a computer with Intel architecture running a form of the Windows Operating System.

144. While Intel chips qualify as a de facto standard, it is not without competitors challenging it for the high-end microprocessor market. See Michael Slater, *Taking on Intel: RED HERRING ONLINE* (visited Nov. 9, 1998) <<http://www.redherring.com/mag/issues60/intel.html>> (highlighting AMD’s opportunity to compete with Intel “across the breadth of Intel’s product line”).

Assuming Intel's Pentium II architecture is a de facto standard due solely to demand-side externalities, an argument exists to apply essential facilities doctrine to the *Intergraph* context—providing access to producers of complementary goods. Intel's position as a de facto standard, however, has resulted from a variety of factors, including not only consumer preference for the Intel brand, but also affirmative acts by Intel to promote its market position as a standard. Intel's switch from an open to a proprietary standard has clearly been an important factor in increasing its control of the CPU market. Without an open standard to encourage other manufacturers to produce competing chips, Intel's closed standard maintains its dominant market position. Intel's Pentium II proprietary standard, in a sense, amounts to a forced standard.<sup>145</sup>

Essential facilities doctrine in the *Intergraph* context—applied only to a producer of complementary goods in a downstream market—encourages the Pentium II as a proprietary de facto standard, thereby maintaining Intel's monopolization of workstation CPUs and high-end CPUs generally. Antitrust should not seek this outcome in a market that might be better off with open standards and increased competition. Essential facilities doctrine is therefore ultimately inappropriate in this context.

## V. CONCLUSION

Essential facilities doctrine is a drastic remedy that requires exacting standards for application. With this in mind, no one can fault the *Intergraph* court for a lack of creativity in its novel application of essential facilities doctrine. Its use of essential facilities doctrine undermines the rights granted to Intel by the Patent Act. Furthermore, essential facilities doctrine here does nothing to improve competition in workstation CPUs and fails to encourage the production of alternatives to Intel's Pentium II proprietary architecture. *Intergraph* appeared, moreover, to provide some

---

145. Just as antitrust can require a monopolist to provide an essential facility, perhaps it can also legitimately require a defendant to move from a proprietary to an open architecture where the move increases competition and benefits consumers. Lemley & McGowan present a novel theory termed "open systems estoppel" that might apply here. See Lemley & McGowan, *supra* note 141, at 590 ("Firms that announce open architecture in order to induce the production of complementary goods that help the firm establish itself as a standard could be estopped from 'closing' future iterations of their software in the event third parties invested capital and brought value to the network as a whole through the creation of complementary goods."). *Intergraph* became an Intel OEM in 1993, when Intel more freely licensed its Socket 7 interface to other chip manufacturers. Intel then all but stopped licensing the new Slot 1 interface when releasing the Pentium II in 1997, removing competing chip manufacturers from the Intel standard.

business justification for Intel's actions when it filed litigation against both Intel and its customers. Finally, while there is increasing acceptance of applying essential facilities doctrine to markets with de facto, proprietary standards and network effects, the courts must reserve its application for product areas that truly favor only a single producer or situations where it helps open the standard to competitors, thereby increasing competition in the facility. Use of the doctrine here satisfies neither of these objectives. If the court wants to sanction Intel's behavior, it should find a basis other than essential facilities doctrine by which to do so. The Federal Circuit Court of Appeals should, therefore, reverse the district court's grant of a preliminary injunction to the extent it is based on essential facilities reasoning.



**BERKELEY TECHNOLOGY LAW JOURNAL  
ANNUAL REVIEW OF LAW AND TECHNOLOGY**

**FIRST AMENDMENT**



## MAINSTREAM LOUDOUN V. BOARD OF TRUSTEES OF THE LOUDOUN COUNTY LIBRARY

By Matthew Thomas Kline

The Internet transmits first amendment values worldwide, and it enhances those values at home.<sup>1</sup> It allows information providers to publish and permit access to various resources; and it allows viewers to “find, retrieve and link information ... in graphical, audio and video form.”<sup>2</sup> This new technology creates a “more democratic and diverse” speech environment because the “[c]heap speech” it allows “mean[s] that far more speakers—rich and poor, popular and not, banal and avant garde—will be able to make their work available to all.”<sup>3</sup> As such, it “provides an outlet for a cacophony of ideas with virtually no geographic, economic, social, or political restraints, giving a voice to the People in a way the Constitution’s Framers could have only dreamed possible.”<sup>4</sup>

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. See Greg Y. Sato, Note, *Should Congress Regulate Cyberspace?*, 20 HASTINGS COMM. & ENT. L.J. 699, 702 (1998) (citation omitted) (“[L]ike an ‘enormous spider web made up of thousands of smaller webs,’” the Internet “spans the globe ...”).

2. Russell B. Stevenson, Jr., *Internet Payment Systems and the Cybercash Approach*, 452 PLI/Pat 123, 126 (1996).

3. Eugene Volokh, *Cheap Speech and What It Will Do*, 104 YALE L.J. 1805, 1807 (1995). Volokh also argues that “during the print age, the Supreme Court created a First Amendment for the electronic age.” *Id.* at 1847. The good news about the Internet, Volokh argues, is that the fictions upon which first amendment doctrine relies—that there exists a free marketplace of ideas, that good speech cures bad speech, and that people can avoid offensive speech by averting their eyes—are turning, in part, into fact. See *id.* at 1846-47. Cf. Lawrence Lessig, *Reading the Constitution in Cyberspace*, 45 EMORY L.J. 869, 906-09 & n.111 (1996) (arguing that while courts have done well translating 200 year-old constitutional values to respond to gaps in the law created by technological change, cyberspace is such a shock to the system that courts should wait for cyberspace practices to develop before making any broad pronouncements).

4. Stephen C. Jacques, Comment, *Reno v. ACLU: Insulating the Internet, The First Amendment, and the Marketplace of Ideas*, 46 AM. U. L. REV. 1945, 1947 (1997). Indeed, in defending the postal system and newspaper dissemination, Madison wrote, “In such [a government] as ours, where members are so far removed from the eye of their constituents, an easy and prompt circulation of public proceedings is particularly essential.” Letter from James Madison to Edmund Pendelton (Dec. 6, 1792), quoted in RICHARD B. KIELBOWICZ, NEWS IN THE MAIL 35 (1989). One can imagine no greater realization of this ideal than C-Span’s live coverage of the proceedings in Congress.

Given the proliferation of explicit sexual content on the Internet,<sup>5</sup> however, Congress, several states, and many local units of government have sought to regulate the transmission of such objectionable materials.<sup>6</sup> While courts have struck down a number of such laws,<sup>7</sup> the struggle continues between those advocating a seamless first amendment free market and those concerned with the Internet's graphic content.<sup>8</sup> Major Internet regulation, originating in Congress and several state legislatures, revives prohibitions against "transmitting sexual material"<sup>9</sup> and provides that public schools and libraries must "block," or "filter," the Internet's sexual content.<sup>10</sup>

---

5. See Lesli C. Esposito, Note, *Regulating the Internet: The New Battle Against Child Pornography*, 30 CASE W. RES. J. INT'L L. 541, 541-42 (1998).

6. In the most infamous instance of Congressional Internet regulation, Congress enacted the Communications Decency Act of 1996 (CDA), Pub. L. 104-104, 110 Stat. 56. The CDA included provisions both governing "indecent" transmissions, see 47 U.S.C. § 223(a) (Supp. 1997), and "patently offensive" displays, see 47 U.S.C. § 223(d) (Supp. 1997). The Supreme Court invalidated the CDA as vague and overbroad. See *Reno v. ACLU*, 117 S. Ct. 2329, 2346-48 (1997). An ACLU Web site lists over twenty existing and pending state laws that regulate the Internet. See ACLU, *Online Censorship in the States*, (visited Nov. 4, 1998) <<http://aclu.org/issues/cyber/censor/censor.html#georgia>>. Lastly, the Kern County Library in California briefly had a policy requiring that Internet content on all its computers be filtered. See *Filter Internet Legislation*, BAKERSFIELD CALIFORNIAN, reprinted in *Editorial Roundup*, L.A. DAILY J., May 1, 1998, at 6.

7. See *Reno*, 117 S. Ct. 2346-48 (striking down portions of the CDA, Pub. L. 104-104, 110, 110 Stat. 56, because facially overbroad and, thus, violative of the First Amendment); *Urofsky v. Allen*, 995 F. Supp. 634, 644 (E.D. Va. 1998) (Brinkema, J.) (holding that Virginia law prohibiting any government employee from using state-owned computer systems to send or access sexually explicit material both over- and underinclusive and, thus, violative of the First Amendment); *American Libraries Ass'n v. Pataki*, 969 F. Supp. 160, 183-84 (S.D.N.Y. 1997) (striking down New York penal law similar to CDA on Dormant Commerce Clause grounds); *People v. Barrows*, 1998 WL 481800, at \*12 (N.Y. Sup. Ct. June 9, 1998) (striking down New York penal law that prohibited attempted dissemination of indecent materials to minors as vague and overbroad).

8. See Kim L. Rappaport, *In the Wake of ACLU v. Reno: The Continued Struggle in Western Constitutional Democracies with Internet Access and Freedom of Speech Online*, 13 AM. U. INT'L L. REV. 765 (1998).

9. See, for example, Senate Bill 1482, 105th Cong. (1997), which is Congress' response to the Supreme Court's decision in *Reno* to strike down portions of CDA. See S. Rep. No. 105-225 (1998). Senate Bill 1482, proposed by Senator Coats and reported by Senator McCain, "amend[s] section 223 of the Communications Act of 1934 to establish a prohibition on commercial distribution on the World Wide Web of material that is harmful to minors, and for other purposes." S. 1482, 105th Cong., preamble (1997). For resurrections of CDA pending in state legislatures, see ACLU, *supra* note 6.

10. See, e.g., Safe Schools Internet Act of 1998, H.R. 3177, 105th Cong. (1998); S. 1619, 105th Cong. § 1 (1998) ("No Universal Service For Schools Or Libraries That Fail To Implement A Filtering Or Blocking System For Computers With Internet Access.");

A paucity of case law in this area unfortunately provides legislators and courts with little guidance as they draft and review Internet legislation. This comment focuses on a recent district court decision reviewing a public library's Internet-blocking policy, *Mainstream Loudoun v. Board of Trustees*.<sup>11</sup> One hopes this decision will add to the diversity of views concerning the Internet; and in turn, "generate an understanding sufficient for the courts to judge upon" and to help legislators rethink "what is at issue" as they regulate.<sup>12</sup> To help further that endeavor, this comment explores this budding area of law where the Internet, public libraries, and the First Amendment intersect. It focuses on the first amendment questions implicated in *Mainstream Loudoun*, particularly the court's correct decision to apply strict scrutiny to the library regulation. This comment also examines the court's brief discussion of why Internet-blocking software would potentially fail strict scrutiny's narrow tailoring requirement. In conclusion, this comment uses lessons learned from analyzing *Mainstream Loudoun* to scrutinize an Internet-blocking bill pending in the Senate.<sup>13</sup>

## I. CASE SUMMARY

Virginia's Loudoun County public library system (the Library) provides its patrons with access to the Internet and the World Wide Web.<sup>14</sup>

---

S. 670, 77th Leg., 1998 Reg. Sess. (Kan. 1998) (requiring the mandatory use of blocking software by all users on Internet terminals at state-funded public libraries, school districts, and state and local educational institutions, colleges and universities); *see also* ACLU, *supra* note 6 (listing similar state bills and laws); Katie Hafner, *Library Grapples With Internet Freedom*, N.Y. TIMES, Oct. 15, 1998, at D1, D6 (describing controversy surrounding Internet filtering policy adopted by Austin, Texas Public Library branches). Harry Hochheiser, a board member of Computer Professionals for Social Responsibility, asks rhetorically, "Why do so many people want filtering?" Harry Hochheiser, *Filtering FAQ*, COMPUTER PROFESSIONALS FOR SOCIAL RESPONSIBILITY ¶ 1.2 (last modified July 23, 1998) <<http://www.cpsr.org/~harryh/faq.html>>. He responds,

Unlike traditional media, the Internet does not have any obvious tools for segregating material based on content. While pornographic magazines can be placed behind the counter of a store, and strip-tease joints restricted to certain parts of town, the Internet provides everything through the same medium. Filters and rating systems are seen as tools that would provide the cyberspace equivalent of the physical separations that are used to limit access to "adult" materials.

*Id.* In fact, one parent has sued a Livermore, California library for "failing to restrict minors' access to pornographic Net content." Hafner, *supra*, at D1.

11. 2 F. Supp. 2d 783 (E.D. Va. 1998) (Brinkema, J.).

12. Lessig, *supra* note 3, at 908.

13. *See* S. 437, 105th Cong. (1998).

14. *See Mainstream Loudoun*, 2 F. Supp. 2d at 787.

State legislation vests power to control and manage the Library in a Board of Trustees.<sup>15</sup> Acting pursuant to this authority, the board adopted a "Policy on Internet Sexual Harassment."<sup>16</sup> The policy provided that "[s]ite-blocking software ... be installed on all [Library] computers" that would: "a. block child pornography and obscene material; and 'b. block material deemed Harmful to Juveniles under applicable Virginia statutes and legal precedents.'"<sup>17</sup> The Library employed commercial software known as "X-Stop" to effectuate its policy.<sup>18</sup>

In response, the Mainstream Loudoun association and its individual members (plaintiffs) brought a claim against the library board, five of its members, and the Director of Library Services.<sup>19</sup> Plaintiffs claimed that Mainstream Loudoun members attempted to access Internet sites at the Library, only to discover that access to these sites had been blocked.<sup>20</sup> Plaintiffs therefore alleged that the Library's site-blocking policy infringed on their access to constitutionally protected speech; that there were no clear criteria for blocking decisions; and that defendants' "unblocking" policy chilled plaintiffs' receipt of constitutionally protected materials.<sup>21</sup>

The Library moved for summary judgment. The court first addressed several immunity and standing defenses the Library advanced.<sup>22</sup> These defenses not dispositive, the court turned its attention to the first amendment defense asserted. The Library argued that the "First Amendment [did] not in any way limit the decisions of a public library on whether to provide access to information on the Internet."<sup>23</sup> This assertion implicated the yet unanswered question central to the resolution of this case:

---

15. See VA. CODE. ANN. § 42.1-35 (Michie 1998).

16. *Mainstream Loudoun*, 2 F. Supp. 2d at 787 (quoting the Library Board Policy).

17. *Id.* (quoting the Library Board Policy). Virginia Code section 18.2-390, which the library board policy referenced, see *Mainstream Loudoun*, 2 F. Supp. 2d at 796, defines material "Harmful to Juveniles" as material with sexual content that

(a) predominantly appeals to the prurient, shameful or morbid interest of juveniles, (b) is patently offensive to prevailing standards in the adult community as a whole with respect to that what is suitable material for juveniles, and (c) is, when taken as a whole, lacking in serious literary, artistic, political or scientific value for juveniles.

VA. CODE. ANN. § 18.2-390 (Michie 1998).

18. See *Mainstream Loudoun*, 2 F. Supp. 2d at 787.

19. See *id.* at 787.

20. See *id.* at 791.

21. See *id.* at 794-97.

22. The court's resolution of these jurisdictional defenses exceeds the scope of this comment and is not relevant to the first amendment analysis. The court's discussion of these jurisdictional issues is essentially uncontroversial, and can be found *id.* at 788-92.

23. *Id.* (quoting Defendants' Brief at 2).

“[W]hether a public library may, without violating the First Amendment, enforce content-based restrictions on access to Internet speech.”<sup>24</sup>

The court first decided which level of judicial scrutiny to apply to the Library’s policy. Without clear guidance in precedent, the district court looked to analogous Supreme Court cases involving public high school libraries (*Board of Education v. Pico*),<sup>25</sup> post office regulations restricting access to speech deemed communist propaganda (*Lamont v. Postmaster General*),<sup>26</sup> and Congressional efforts to regulate speech on the Internet (*Reno v. ACLU*).<sup>27</sup> From the first two cases, *Pico* and *Lamont*, the district court gleaned the principle that once the Library acquired access to all the publications immediately available on the Internet, the Library’s policy of effectively removing Internet publications, by blocking them, implicated the First Amendment.<sup>28</sup> Removing such publications involved discretion unjustified by, for example, a public high school library’s educational mission, as was the case in *Pico*.<sup>29</sup> Therefore, the court found that the Library’s content-driven policy of regulating access to speech on the Internet was subject to unqualified first amendment scrutiny—that is, the strict scrutiny the Supreme Court applied to Internet regulation in *Reno*.<sup>30</sup>

The district court next turned its attention to the three types of speech actually regulated: obscenity, child pornography, and materials deemed harmful to juveniles.<sup>31</sup> To these three classes of content regulation, the

24. *Id.* (characterizing this case as “a case of first impression”).

25. 457 U.S. 853 (1982).

26. 381 U.S. 301 (1943).

27. 117 S. Ct. 2329, 2343-48 (1997).

28. *See Mainstream Loudoun*, 2 F. Supp. 2d at 794-96. By analogy, while a library is not required to subscribe to magazines like *Hustler*, if it had done so in the past, the decision to remove past issues from its collection would trigger first amendment scrutiny.

29. *See id.* at 795. *Cf. Pico*, 457 U.S. at 888 (Burger, J., dissenting) (arguing that high school library’s inculcative mission justifies its removing texts based on content).

30. *See id.* at 795-96 (citing *Reno*, 117 S. Ct. at 2343-48). In *Reno*, the Court found that the Internet is more akin to newspapers or books than it is to radio or television. *See* 117 S. Ct. at 2341-44. Therefore, *unlike* the over-the-air broadcast media, and *like* the print media, the Internet is a medium deserving of the utmost freedom from content regulation. *See id.*; *see also* David K. Djavaherian, Comment, *Reno v. ACLU*, 13 BERKELEY TECH. L.J. 371, 376-77 (1998) (discussing the Court’s media-specific first amendment jurisprudence and the Internet’s place in that analysis); *cf. Jacques, supra* note 4, at 1949, (arguing that with the advent of Internet, all forms of speech, regardless of the medium through which they are communicated, deserve the highest level of constitutional protection).

31. *See Mainstream Loudoun*, 2 F. Supp. 2d at 796. The Supreme Court has ruled that obscenity and child pornography are not protected by the First Amendment. *See New York v. Ferber*, 458 U.S. 747 (1982) (child pornography); *Miller v. California*, 413 U.S. 15 (1973) (obscenity). Materials “harmful to juveniles” are protected for adults, but not

court applied “the First Amendment’s central tenet that content-based restrictions on speech must be justified by a compelling governmental interest and must be narrowly tailored to achieve that end.”<sup>32</sup> The court first found that an issue of fact remained as to whether the means employed to block access to obscenity and child pornography were narrowly tailored.<sup>33</sup> The court took seriously plaintiffs’ allegation that the material the X-Stop software blocked depended not on library board policy that the court could examine, but on criteria known only to the corporation that sold the X-Stop software.<sup>34</sup> Without access to those criteria, the court found it impossible to determine whether the blocking measures were narrowly tailored.

Next, the court held that plaintiffs adequately alleged that the Library’s means of precluding access to material deemed harmful to juveniles was potentially unreasonable.<sup>35</sup> Borrowing from *Reno v. ACLU*, the court concluded that the library policy may have impermissibly restricted adults’ access to speech on the Internet to that which is fit for children.<sup>36</sup> If it had, the policy would be potentially unconstitutional.

Lastly, the court rejected defendants’ argument that the Library’s “unblocking” policy saved its blocking policy. The court held that the unblocking procedure constituted an unconstitutional burden on plaintiffs’ unfettered right to access protected speech.<sup>37</sup> The court concluded the unblocking procedure, which relied on the “standardless discretion” of the library staff, was more onerous than the unconstitutional regulation in *Lamont*.<sup>38</sup> The regulation in *Lamont* provided that the post office would not deliver a publication deemed “communist political propaganda,” but that it would do so automatically upon written request from the addressee.<sup>39</sup> The Library’s “unblocking” policy was not so automatic. It required that patrons “submit a written request which must include their name, telephone number, and a detailed explanation of why they desire access to the

---

for minors. See *Denver Ed. Telecommunications Consortium v. FCC*, 116 S. Ct. 2374, 2393 (1996). See also Lawrence Lessig & Paul Resnick, *The Architecture of Mandated Access Controls* (Sept. 3, 1998) (manuscript at 1, on file with author), *information regarding latest version of paper available at* <<http://www.si.umich.edu/~presnick/papers/lessig98/>>.

32. *Mainstream Loudoun*, 2 F. Supp. 2d at 795.

33. See *id.* at 796-97.

34. See *id.* at 796.

35. See *id.* at 797.

36. See *id.*

37. See *Mainstream Loudoun*, 2 F. Supp. 2d at 797.

38. See *id.*

39. See *Lamont v. Postmaster General*, 381 U.S. 301, 302-03 (1943).

blocked site.”<sup>40</sup> Thus, the Library’s unblocking policy chilled access to speech even more so than did the unconstitutional regulation in *Lamont*.

## II. DISCUSSION

This comment focuses on two points in the district court’s opinion: the decision to apply strict scrutiny to the Library’s blocking policy and the intimation that blocking software could not meet strict scrutiny’s narrow tailoring requirement. In focusing on these two issues, this comment takes it as beyond contention that the Library may not limit speech accessible to adults to that which is suitable for minors.<sup>41</sup> Such regulation would truly “burn the [global village] to roast the pig.”<sup>42</sup> Moreover, this comment finds sound the conclusion that the Library’s unblocking policy did not save the blocking policy from constitutional scrutiny. *Lamont* seems controlling authority, and the policy in this case is more onerous than the post-office regulation invalidated in *Lamont*.<sup>43</sup>

### A. Discerning the Appropriate Level of Judicial Scrutiny

#### 1. The Problem

Conceptually, the most difficult determination the *Mainstream Loudoun* court had to make was deciding which level of scrutiny it should apply to the Library’s blocking policy. Existing precedent provided no clear guidance. In *Reno v. ACLU*,<sup>44</sup> the Supreme Court applied strict scrutiny to an act of Congress, the Communication Decency Act (CDA),<sup>45</sup> which had prohibited transmission of obscene or indecent communications by means of a telecommunication device to persons under the age of eighteen. As the CDA potentially applied to Internet discussions about birth control

---

40. *Mainstream Loudoun*, 2 F. Supp. 2d at 797.

41. See *Reno v. ACLU*, 117 S. Ct. 2329, 2346 (1997) (“[R]egardless of the strength of the government’s interest’ in protecting children, ‘[t]he level of discourse reaching a mailbox cannot be limited to that which would be suitable for a sandbox.’”) (citations omitted, alteration in original). See also Lessig & Resnick, *supra* note 31, at 1

42. *Id.* at 2350 (borrowing the “burn[ing] the house to roast the pig” metaphor).

43. Unlike the post office regulation in *Lamont*, the Library’s unblocking policy places standardless discretion to “unblock” Internet materials in the hands of government officials. Cf. *Forsyth County v. Nationalist Movement*, 505 U.S. 123, 133 (1992) (holding parade license permit ordinance that provided administrator with “no articulated standards” with which to issue and charge fees unconstitutional, in part, because “[t]he First Amendment prohibits the vesting of such unbridled discretion in a government official”).

44. See 117 S. Ct. 2329, 2343-44 (1997).

45. 47 U.S.C. §§ 223(a), (d) (1996).

practices, homosexuality, and prison rape,<sup>46</sup> the statute clearly regulated speech that could be described as contributing to the public discourse that the First Amendment was intended to protect.<sup>47</sup>

In *Board of Education v. Pico*, in contrast, the Supreme Court held that consistent with a public high school's inculcative mission, the school could make content-based textbook removal decisions subject to certain limitations.<sup>48</sup> Although the Court's decision was fractured—in terms of the amount of discretion public high schools should be permitted when making removal decisions, and whether students had a right to receive certain information—all nine Justices agreed that public schools were entitled to “broad discretion” to “establish and apply their curriculum in such a way as to transmit community values.”<sup>49</sup> Therefore, if the books in question had been removed for reasons of educational suitability rather than “simply because [the board members] dislike[d] the ideas contained in those books,” the Court would defer to the school board's judgment.<sup>50</sup> In *Pico*,

---

46. See 117 S. Ct. at 2344.

47. See *Red Lion Broad. Co. v. FCC*, 395 U.S. 367, 389-90 (1969) (defining “the ends and purposes of the First Amendment” as the necessity to “preserve an uninhibited marketplace of ideas” and to ensure that the public “receive suitable access to social, political, esthetic, moral, and other ideas and experiences”).

48. See 457 U.S. 853, 863-64 (Brennan, J., plurality op.) (1982).

49. *Id.* at 863, 864 (citation omitted). Justice Brennan aptly recognized the tensions in this case. He recognized that a “the State may not, consistently with the spirit of the First Amendment, contract the spectrum of available knowledge,” *id.* at 866 (citation omitted), and that a school's library plays a special role as a locus for free and independent inquiry, *see id.* at 869. He also recognized that the “comprehensive authority of the States and of school officials ... to prescribe and control conduct in the schools,” as well as their inculcative role in “the preparation of individuals for participation as citizens,” justified reviewing school board decisions with great deference. *Id.* at 864 (citation omitted). Thus, Justice Brennan fashioned what could be considered a rational basis test to review school board book removal decisions. As long as the removal decisions served an instrumental purpose, e.g., getting rid of books with pervasive vulgarity, the Court would defer to the school board's managerial judgment. *See id.* at 872-74. If the decisions were irrational, e.g., contrary to “the advice of literary experts” and ignoring “the views of ‘librarians and teachers within the [school] system,’” the Court would not defer to the school board's judgment. *Id.* at 874 (citation omitted).

Justice Blackmun agreed the school board's decision should normally be granted deference. *See id.* at 879 (Blackmun, J., concurring). He did not justify judicial review of the school board's decision on Brennan's right to receive information rationale, however, but on the constitutional prohibition against viewpoint discrimination. *See id.* at 876-79. Chief Justice Burger, and three other Justices dissenting, would have deferred completely to the school board's judgment because nothing required the public school to act as a conduit for any particular speech. *See id.* at 886 (Burger, C.J., dissenting).

50. *Id.* at 872 (Brennan, J., plurality op.).

in contrast to *Reno*, the school board's mission and its authority over its students clearly made the crucial difference.

*Mainstream Loudoun* is not directly analogous to either of these cases; in fact, it falls somewhere in a gap between the two. On the one hand, in contrast to *Reno*, the Library's blocking policy did not regulate conduct by sanctioning those disseminating information. Rather than keeping new ideas from the marketplace, the Library's blocking policy interfered with the patrons' ability to receive information from that marketplace. In addition, because five Justices in *Pico* did not agree that libraries had a constitutional obligation to provide certain information,<sup>51</sup> it is not clear that *Reno*'s strict scrutiny standard should apply because neither a recognized constitutional right nor the growth of the marketplace of ideas is directly implicated. On the other hand, because public libraries do not have an inculcative mission or the ancillary authority over their patrons, it does not follow that *Pico*'s deferential standard of review should apply. Surely public library patrons have more autonomy in deciding which materials to access.<sup>52</sup> However, *Pico* avoided discussing book acquisition decisions, and explicitly limited its discussion to book removal decisions.<sup>53</sup> Deciding which Internet materials to block arguably involves acquisition decisions; further complicating matters if one concludes that an entirely different standard applies in acquisition cases.<sup>54</sup>

To add yet another wrinkle to this analysis, this past Term the Supreme Court held that the government could make decisions whether to subsidize speech based on content. In *National Endowment For The Arts v. Finley*,<sup>55</sup> the Court upheld a statute requiring the NEA to ensure artistic excellence and artistic merit when judging grant applications by taking into consideration general standards of "decency and respect" for diverse beliefs and values of the American public.<sup>56</sup> *Finley*'s subsidized speech analysis is relevant because units of government have the choice whether to provide Internet access or not, just as Congress has the choice whether or not to endow the arts.

51. See *supra* note 49.

52. See *Pico*, 457 U.S. at 886 (Burger, C.J., dissenting) (assuming that books unavailable in the public high school library would be "available at public libraries and bookstores").

53. See *id.* at 861-63, 871-72 (Brennan, J., plurality op.).

54. See discussion *infra*, Section II.A.2.b., agreeing with the district court's determination in *Mainstream Loudoun* that the Library's Internet-blocking policy constituted a *removal*, not an *acquisition*. See *Mainstream Loudoun v. Bd. of Trustees*, 2 F. Supp. 2d 783, 793-94 (E.D. Va. 1998). See also *infra* note 114.

55. 118 S. Ct. 2168 (1998).

56. 20 U.S.C. § 954(d)(1) (1998).

*Finley*, like *Reno* and *Pico*, provides no clear answers, however. In reaching its holding, the *Finley* Court reasoned, "Any content-based considerations that may be taken into account in the grant-making process are a consequence of the nature of arts funding. The NEA has limited resources and it must deny the majority of the grant applications that it receives, including many that propose 'artistically excellent' projects."<sup>57</sup> Moreover, so long as the funding is not calculated to "drive certain ideas or viewpoints from the marketplace ...the Government has not discriminated on the basis of viewpoint; it has merely chosen to fund one activity to the exclusion of the other."<sup>58</sup> The Library's Internet-blocking policy arguably does the same thing. Like the NEA, the Library "selectively fund[s]" Internet access, appropriating resources to materials it has determined "serve the public purpose[]." <sup>59</sup> However, because one payment provides access to all materials freely available on the Internet—and Internet access actually saves the library money,<sup>60</sup> while blocking software costs money—the Library cannot argue that providing unfettered Internet access is cost-prohibitive the way that endowing all the arts is.

Thus, while *Reno*, *Pico*, and *Finley* are certainly instructive, none by its own terms, controls. The district court chose to adopt the "right to receive" rationale from *Pico* and the strict scrutiny standard from *Reno* (and of course, it did not have the benefit of the latter-decided *Finley*).<sup>61</sup> It also chose to distinguish *Pico*'s deference to public schools' educational authority rationale.<sup>62</sup> Before evaluating the wisdom of the district court's decision, it is important to first put these three relevant cases in context. To do so, attention is turned to an essay recently written by Professor Robert C. Post.<sup>63</sup>

---

57. *Finley*, 118 S. Ct. at 2177-78.

58. *Id.* at 2179 (citations omitted).

59. *Id.*

60. See ACLU Brief In Support of Plaintiff-Intervenors' Motion For Summary Judgment, *Mainstream Loudoun v. Board of Trustees*, (visited Oct. 4, 1998) <<http://www.aclu.org/court/loudounbrief.html>>, ¶ 8 ("Loudoun County Library Director Douglas Henderson believes that providing Internet access is crucial because it provides 'the equivalent of \$1 million or more of information that the library could not afford to buy.'") (quoting Statement of Undisputed Facts ¶ 479 (Henderson Decl.)).

61. See *Mainstream Loudoun v. Bd. of Trustees*, 2 F. Supp. 2d 783, 794-96 (E.D. Va. 1998).

62. See *id.* at 794-95.

63. See Robert C. Post, *Subsidized Speech*, 106 YALE L.J. 151 (1996).

## 2. *Taking a Step Back: Reno, Pico, Finley, and Mainstream Loudoun in Context*

Professor Post has developed an instructive two-part inquiry for determining whether and how the government can regulate subsidized speech.<sup>64</sup> The test is applicable in a number of cases,<sup>65</sup> particularly this one. The first inquiry involves characterizing the speech and determining whether it is part of the democratic social domain called “public discourse,” or whether it is “located in a different kind of social formation, which may be termed the ‘managerial domain.’”<sup>66</sup> The second inquiry focuses on the government regulation involved and distinguishes between two different types of such action: “‘conduct rule[s]’ for the government of citizens,” which can be understood as limits on public discourse, and “‘decision rules’ for the internal direction of government officials,”<sup>67</sup> which can be understood as “a form of state participation in the marketplace of ideas.”<sup>68</sup> The result of each inquiry has different implications for first amendment analysis.

### a) The Public Discourse/Managerial Domain Distinction

The first half of Post’s inquiry focuses on the type of speech involved. About public discourse, Post writes, “Ultimately, speech will be assigned to public discourse on the basis of normative and ascriptive judgments as to whether particular speakers in particular contexts should constitutionally be regarded as autonomous participants in the ongoing process of democratic self-governance.”<sup>69</sup> Because the democratic legitimacy of the state depends on public discourse, “the First Amendment jealously safeguards public discourse from state censorship.”<sup>70</sup> Thus, for example, even if the government has good reason to prevent the dissemination of certain information in the national press, the court strictly scrutinizes such at-

---

64. *See id.*; *see also* Robert C. Post, *Between Governance and Management: The History and Theory of the Public Forum*, 34 UCLA L. REV. 1713 (1987).

65. *See, e.g.*, Post, *supra* note 64, at 1793-97.

66. Post, *supra* note 63, at 153; *see also* ROBERT C. POST, CONSTITUTIONAL DOMAINS: DEMOCRACY, COMMUNITY, MANAGEMENT 4-10 (1995).

67. Post, *supra* note 63, at 178-79. Post borrows the conduct rule/decision rule terminology from Meir Dan-Cohen’s influential discussion. *See id.* at 179 n.148 (citing Meir Dan-Cohen, *Decision Rules and Conduct Rules: On Acoustic Separation in Criminal Law*, 97 HARV. L. REV. 625 (1984)).

68. Post, *supra* note 63, at 153.

69. *Id.* at 163.

70. *Id.* at 153.

tempts at censorship.<sup>71</sup> The democratic, first amendment value, which the speech promotes, trumps governmental will.

In contrast, “[w]ithin managerial domains, the state organizes its resources so as to achieve specified ends.”<sup>72</sup> Content-based regulations of speech within those managerial domains do not violate the First Amendment, Post writes, “so long as they are necessary to accomplish legitimate managerial ends.”<sup>73</sup> Thus, for example, a university’s English Department may award scholarships only to English students—at the expense of Physics students, say—because funding its own students’ education is instrumentally rational. If, however, the department refused to give scholarships to communists, the speech subsidy would bear no relationship to the department’s mission; it would be irrational viewpoint discrimination, and thus, unconstitutional.<sup>74</sup> This distinction helps explain *Finley*’s holding that the NEA could constitutionally, and consistent with Congress’ purposes for endowing the arts, make content-based distinctions based on artistic merit and general standards of “decency and respect.”<sup>75</sup> Congress defined the organizational goal; it could also define the means by which to achieve it.

*Reno* and *Pico* can also be understood, in part, as falling on either side of the public discourse/managerial domain divide. In *Reno*, the CDA constrained an important “site for the forging of an independent public opinion to which democratic legitimacy demands that the state remain perennially responsive.”<sup>76</sup> Thus, the regulation merited strict judicial scrutiny, and the Internet communication “jealous safeguard[ing] from state censorship.”<sup>77</sup> In contrast, in *Pico*, the school board’s legitimate managerial authority to inculcate our nation’s children justified the board’s instrumental decision to establish a curriculum and remove books that could undermine it.<sup>78</sup> However, as Justice Brennan warned, if the books were re-

---

71. See *New York Times Co. v. United States*, 403 U.S. 713 (1971) (per curiam) (holding that newspapers could publish secret Defense Department study even though the dissemination of such information might prolong the war in Vietnam).

72. *Id.* at 164; see also Post, *supra* note 64, at 1798 (“[T]he opposite of the ‘public’ is not the ‘private,’ but rather the specifically instrumental.”).

73. Post, *supra* note 63, at 170.

74. See *id.* at 166-68.

75. *National Endowment For The Arts v. Finley*, 118 S. Ct. 2168, 2177-78 (1998).

76. Post, *supra* note 63, at 153.

77. *Id.*

78. *Id.* at 165-67 & 165 n.92; *Board of Education v. Pico*, 457 U.S. 853, 862-75 (1982) (Brennan, J., plurality op.); see also *id.* at 921 (O’Connor, J., dissenting) (reasoning that because the “school board can set the curriculum, select teachers, and determine initially what books to purchase for the school library,” as long as the school does not

moved to impose upon the students the school board's view of the "political orthodoxy," the school board would have exceeded the bounds of its authority.<sup>79</sup> Such a regulation would not be instrumentally rational.

Where does this leave the Library's Internet-blocking policy? Understanding unfettered access to the Internet, which "'it is no exaggeration to conclude'" provides access to discourse "'as diverse as human thought,'" surely militates in favor of understanding such access as situated in the social space of public discourse, and thus deserving of special protection.<sup>80</sup> However, given that public libraries constantly make acquisition and removal decisions, libraries and their trained librarians surely play a managerial role in determining the types of materials to which their patrons are exposed. Thus, their decisions should be afforded some deference. On their surface, the above cases fail to answer the public discourse/managerial domain question. Only an examination of our shared understandings about the role public libraries play in our democracy seems to do so.<sup>81</sup>

Beginning with the Court, all nine Justices in *Pico* seemed to describe public libraries as a place for public discourse, rather than managerial control. The dissenters—who argued the school board should be granted broad deference—were first to recognize that public libraries play a different social role than do public high school libraries. Both Chief Justice Burger and then-Justice Rehnquist "justified giving public schools broad discretion to remove books in part by noting that such materials remained available in public libraries."<sup>82</sup> Moreover, Justice Rehnquist distinguished between public school libraries, which must "winnow[]" information to serve the school's inculcative mission, and public libraries and universities, which are designed for "freewheeling inquiry."<sup>83</sup> Those in the plural-

---

interfere with the students ability to read and discuss the material, the Court should defer to school board's decision, "acting in its special role as educator," to remove books from the school library).

79. *Id.* at 870-72, 875 (Brennan, J., plurality op.).

80. *Reno v. ACLU*, 117 S. Ct. 2329, 2335 (1997) (citation omitted).

81. *See Post*, *supra* note 63, at 171 (describing this inquiry as a "question of normative characterization").

82. *Mainstream Loudoun v. Bd. of Trustees*, 2 F. Supp. 2d 783, 794 (E.D. Va. 1998) (citing *Pico*, 457 U.S. at 892 (Burger, C.J., dissenting); *id.* at 915 (Rehnquist, J., dissenting)). In fact, in *Pico*, the local public library displayed the nine books removed by the school board so that anyone, including students, could read them. *See Pico*, 457 U.S. at 915 (Rehnquist, J., dissenting).

83. *Pico*, 457 U.S. at 914, 915 (Rehnquist, J., dissenting). The government's managerial authority, Rehnquist continued, "d[id] not seek to reach beyond the confines of the school." *Id.* at 915. Justice O'Connor's dissent assumed the same—that students, as well

ity in *Pico* agreed. They noted that public libraries were a locus of free-wheeling independent inquiry “especially appropriate for the recognition of the First Amendment rights....”<sup>84</sup>

As the court in *Mainstream Loudoun* recognized, the Justices in *Pico* would likely also agree that adult patrons in public libraries have already been inculcated by public schools.<sup>85</sup> In venturing into public libraries, they “come to the library to pursue their personal intellectual interests rather than the curriculum of a high school classroom.”<sup>86</sup> It follows that the managerial authority that justified winnowing the scope of information available in the high school library would not obtain in this different setting.<sup>87</sup>

Politicians and librarians similarly have recognized the democratic and libertarian significance of information freely available in public libraries. They have rejected what can be characterized as the government’s managerial authority in this domain.<sup>88</sup> Given the “cheap” nature of speech

other citizens, could expose themselves to controversial ideas in public libraries. *See supra* note 78.

84. *Pico*, 457 U.S. at 868 (Brennan, J., plurality op.). In contrast to those in dissent, they would also recognize public high school libraries as another “principal locus of such freedom.” *Id.* at 868-69; *see also id.* at 868 (“A school library, *no less than any other public library*, is ‘a place dedicated to quiet, to knowledge, and to beauty.’”) (quoting *Brown v. Louisiana*, 383 U.S. 131, 142 (1966) (Fortas, J.) (emphasis added)).

85. *See Mainstream Loudoun v. Bd. of Trustees*, 2 F. Supp. 2d 783, 795 (E.D. Va. 1998).

86. *Id.*

87. *See id.*

88. For example, then-Senator John F. Kennedy said the following:

If this nation is to be wise as well as strong, if we are to achieve our destiny, then we need more new ideas for more wise men reading more good books in more public libraries. These libraries should be open to all—except the censor. We must know all the facts and hear all the alternatives and listen to all the criticisms. Let us welcome controversial books and controversial authors. For the Bill of Rights is the guardian of our security as well as our liberty.

Senator John F. Kennedy, *Response to Questionnaire*, SATURDAY REV., Oct. 29, 1960, at 44, reprinted in RESPECTFULLY QUOTED: A DICTIONARY OF QUOTATIONS FROM THE LIBRARY OF CONGRESS 29 (Suzy Platt ed., 1992).

Librarians express similar sentiments. Even though she decided to implement blocking policies in her library, Brenda Branch, the Director of the Austin Library, “[l]ike many other librarians, . . . has always considered the defense of free speech to be part of her job description.” Hafner, *supra* note 10, at D6. Branch says, “Upholding freedom of speech becomes so second nature to librarians that unrestricted access was our natural fallback position.” *Id.* Branch’s decision to restrict unfettered Internet access to those over eighteen years of age has fractured the local library community and drawn criticism from the

available to adults in public libraries, particularly that available on the Internet, the nation's poor and wealthy alike can use public libraries to participate in and learn from the ongoing public discourse.<sup>89</sup>

Because public libraries serve the social function they do, characterizing them as a managerial domain, in which the government can regulate speech to further some greater end, would be a mistake. These libraries, like the Internet, are a crucible for public discourse and democracy. Thus, on this first Postian inquiry, the district court was correct to conclude that access to the type of speech occurring in public libraries needs to be jealously safeguarded.

#### b) The Conduct Rule/Decision Rule Distinction

Post's second inquiry, which focuses on the regulation involved—distinguishing between *conduct* rules and *decision* rules—also helps analyze the district court's decision to apply strict scrutiny. Post argues that the distinction between these two types of government action explains the Supreme Court's first amendment doctrine in cases involving subsidized speech.<sup>90</sup> Internet access in public libraries can be understood as subsidized speech, because like Congress' decision to endow the arts, libraries choose to spend public money to pay for computers and Internet access.<sup>91</sup>

Post describes conduct rules as regulations that effectively proscribe individual participation in public discourse; decision rules are criteria that guide subsidy decision-making procedures within a preexisting unit of government.<sup>92</sup> Conduct rules are more constitutionally suspect because they directly interfere with public discourse; whereas when the government acts pursuant to decision rules, it can be understood as rightfully participating in public discourse.<sup>93</sup> To elucidate this distinction, this sec-

---

American Library Association, which strongly favors parental control instead of libraries utilizing Internet filtering software. *See id.*

89. *See supra* note 3 and accompanying text.

90. Post argues that while courts invoke doctrines such as overbreadth, vagueness, and viewpoint discrimination to dispense with subsidized speech cases, the best way to understand these cases is along the decision/conduct rule divide. *See Post, supra* note 63, at 180-84, 188-94. This sort of move is not a first for Post. *See, e.g.,* Robert Post, *Recuperating First Amendment Doctrine*, 47 STAN. L. REV. 1249, 1252 (1995) (arguing that the Supreme Court's test for determining whether speech deserves first amendment protection—as articulated in *Spence v. Washington*, 418 U.S. 405, 410-11 (1974)—“is transparently and manifestly false,” and in need of recuperation principally because it ignores social context).

91. *See supra* notes 55-69 and accompanying text.

92. *See Post, supra* note 63, at 176-79.

93. Post borrows from and elaborates upon Justice Rehnquist's opinion in *Regan v. Taxation with Representation*, 461 U.S. 540, 549 (1983), to conclude that “when the gov-

tion refashions an example from Post and reconsiders *Reno*, *Pico*, and *Finley*.

In *Reno*,<sup>94</sup> the CDA clearly regulated the conduct of citizens. By its own terms, the Act made it a crime to transmit constitutionally protected "indecent materials" to minors.<sup>95</sup> Because it chilled public discourse, the Supreme Court applied strict scrutiny to this conduct rule and struck down portions of the statute that interfered with free speech.<sup>96</sup>

Now imagine a post-office regulation that denied the second-class postage rate afforded magazines to magazines containing political propaganda. This regulation would not regulate conduct *per se*, because it merely denies publishers a subsidy. However, because historical practice has rendered this rate-privilege something of an entitlement, magazine propagandists forced to pay the first-class rate are not only placed at a competitive political disadvantage, but the deprivation appears almost punitive. It singles out a particular brand of speech and denies it a broadly dispensed subsidy relied upon by all magazine publishers.<sup>97</sup> Thus, while on its face the internal post-office rule merely denies a subsidy, in effect, it regulates *conduct* of a particular type and stymies the significant public discourse disseminated in magazines. Therefore, the Court would likely subject the post office rule to strict scrutiny and hold it unconstitutional insofar as it interferes with conduct furthering public political discourse.

Now consider another "easy" case like *Reno*, but on the *decision* rule side of the divide. Post argues that Congress' decision to devote the Kennedy Center to the arts, and not political speech, is unproblematic.<sup>98</sup> Unlike the post office rule that infringes upon an important conduit for public discourse,<sup>99</sup> Congress' decision to fund only the arts at the Kennedy Center has little impact on political speech.<sup>100</sup> Congress' internal-decision rule in the Kennedy Center context is uncontroversial because when choosing to promote the arts rather than another type of speech, Congress is not singling out a particular type of speech for punishment. It merely chooses where to spend its constituents' limited resources.

---

*ernment is authorized to act in its own name as a representative of the community, its decision to promote one value cannot by itself carry an internal constitutional compulsion simultaneously to support other values." Post, supra note 63, at 184 (emphasis in original); see also id. at 182-83.*

94. *Reno v. ACLU*, 117 S. Ct. 2329 (1997).

95. See 47 U.S.C. §§ 223(a)(1), (d) (1994).

96. *Reno*, 117 S. Ct. at 2346-47.

97. See Post, *supra* note 63, at 178-80.

98. See *id.* at 179.

99. See Madison quote, *supra* note 4.

100. See Post, *supra* note 63, at 179.

The unresolved “acquisition decision” question in *Pico* can be understood similarly.<sup>101</sup> School boards making curriculum decisions cannot help but choose certain books rather than others. If the school board’s decisions are based on their managerial authority to educate children, these decisions are similarly uncontroversial.<sup>102</sup> *Finley* answered the question whether in making such acquisition decisions, a unit of government, could use criteria that might exclude certain political or social perspectives.

While critics<sup>103</sup> and the courts below<sup>104</sup> understood the NEA’s decency standard as singling out “indecent” artists and effectively regulating their conduct—in a manner consistent with the unconstitutional post office rule above—the Supreme Court in a near-unanimous decision held otherwise.<sup>105</sup> In vindicating Congress’ ability to establish internal decision-making rules for determining who should receive artistic subsidies from the national government, Justice O’Connor wrote that as long as Congress and the NEA do not suppress certain disfavored viewpoints,

Congress has wide latitude to set spending priorities.... [As we have held,] Congress may “selectively fund a program to encourage certain activities it believes to be in the public interest, without at the same time funding an alternative program.”... In doing so, “the Government has not discriminated on the basis of viewpoint; it has merely chosen to fund one activity to the exclusion of the other.”<sup>106</sup>

Post cautiously predicted this result using his two-part inquiry.<sup>107</sup> He argued that the NEA’s decency clause is better understood as a decision rule than as a conduct rule. The clause did not “impos[e] community norms on public discourse,” (as argued above, the CDA did in *Reno*).<sup>108</sup> Instead, it could “be constitutionally legitimized, if we [were] to view the clause as merely encouraging a shared and important community value,” (as the acquisition decisions in *Pico* could have been).<sup>109</sup> Justice O’Connor tracked this distinction in *Finley*. She wrote, “[W]hen the Government is

101. See *supra* note 53 and accompanying text.

102. See *supra* notes 49-50 and accompanying text.

103. See Post, *supra* note 63, at 176 n.135 (collecting list of critics and supporters).

104. See *Finley v. NEA*, 795 F. Supp. 1457, 1476 (C.D. Cal. 1992), *aff’d*, 100 F.3d 671 (9th Cir. 1996), *en banc reh’g denied*, 112 F.3d 1015 (9th Cir. 1997), *rev’d*, 118 S. Ct. 2168 (1998).

105. See *NEA v. Finley*, 118 S. Ct. 2168 (1998) (8 to 1 decision).

106. *Id.* at 2179 (citations omitted).

107. See Post, *supra* note 63, at 193-94.

108. *Id.* at 193.

109. *Id.*

acting as patron,” deciding what art deserves funding, “rather than as sovereign,” censoring art, “the consequences of imprecision are not constitutionally severe.”<sup>110</sup> Thus, in *Finley*, and in contrast to *Reno*, Congress’ decision rules were not second-guessed with strict scrutiny.

Again, where does this leave Loudoun County Library’s Internet-blocking policy? Is it a conduct rule or a decision rule and how does that drive the appropriate judicial scrutiny analysis? On the one hand, unlike the conduct rule in *Reno*, the regulated conduct at issue here is not disseminating speech, but library patrons receiving it. Moreover, libraries can choose whether or not to subsidize Internet access. Thus, filtering methods employed after Internet access has been achieved are arguably best understood as an internal decision rule about what to provide patrons.

On the other hand, as in the post office hypothetical, the subsidy that public libraries provide—access to information—can be understood as so ingrained in the American way of life, that to deny part of the already obtained subsidy would effectively constitute regulating public discourse. The Library would respond, arguing that it acts as the quintessential *Finley* “patron” and *Pico* “curriculum creator,” and not the *Reno* “sovereign,” when it makes decisions about which materials it should make available to its patrons. However, unlike in *Finley* or *Pico*, in which resources were scarce and funding decisions rivalrous, blocking Internet content—all of which is instantly available upon purchasing Internet access—may actually cost more money than leaving content unblocked.<sup>111</sup> Moreover, one can argue, in removing content from the Internet, the Library actually regulates speech and does not participate as a connoisseur, because connoisseurs, unlike censors, generally do not “laboriously redact[.]” portions of an immediately available encyclopedic index of knowledge.<sup>112</sup> If one

---

110. *Finley*, 118 S. Ct. at 2179.

111. See *Mainstream Loudoun v. Bd. of Trustees*, 2 F. Supp. 2d 783, 793-94 (E.D. Va. 1998). Post argued in the NEA context that characterizing the NEA’s decency clause as a conduct rule, subject to strict rules of content neutrality, would disable efforts to fund the arts. See Post, *supra* note 63, at 194. If Congress and the NEA, like the school board in *Pico*, could not distinguish between artistic, or pedagogical, excellence, how could they ever hope to expend scarce resources to fund the arts, or buy text- and library-books? This pragmatic argument for granting the Congress and the NEA deference by characterizing the decency clause as decision rule does not obtain in the Internet-blocking context. Unless one envisions libraries as so incensed by the inability to block Internet-content that they would rather not provide access altogether than provide unfiltered access, it would seem libraries would accept strict scrutiny of blocking procedures and attempt to use alternative means to get around strict scrutiny’s narrowly tailored test. See *infra* Section II.B and Part III (discussing alternative means to wholesale blocking).

112. *Mainstream Loudoun*, 2 F. Supp. 2d at 794.

accepts that library officials must go out of their way to censor the Internet, the Library's blocking policy thus seems analogous to a public library unconstitutionally removing indecent books from its collection,<sup>113</sup> or to Congress unconstitutionally criminalizing either the production of indecent artwork or transmission of indecent communications over the Internet.<sup>114</sup>

Thus, because the Library's policy constitutes a conduct rule that affects public discourse, Post's twin doctrinal inquiry and analogous case law seem to justify the district court's decision in *Mainstream Loudoun* to apply strict scrutiny to the Library's Internet-blocking policy.<sup>115</sup> Given the historical significance of libraries as freewheeling loci of inquiry, it strains reason to characterize the Library's policy as an internal decision rule justified by managerial authority that deserves great deference on judicial review. The policy clearly affects the behavior of those seeking unfettered Internet access to public discourse. The Library's supervision is, moreover, unwelcome by those adults engaging in such freewheeling inquiry. Thus, strict scrutiny seems the appropriate standard of review whenever public libraries attempt to block, or filter, Internet content.

#### **B. Strict Scrutiny's Narrow Tailoring Requirement As It Applies to Internet-Blocking Software**

Technologically, the most difficult determination the district court and all legislatures and courts will have to make, is whether Internet-blocking software is advanced enough to be narrowly tailored.<sup>116</sup> The district court

113. *See id.*

114. If technology allowed libraries to buy pre-filtered Internet access, a decision to buy such access rather than comparably priced normal access would arguably be an acquisition decision, rather than a removal decision subject to strict scrutiny. *See* text accompanying notes 98-102. However, one of the advantages of the Internet as a resource is that it grows daily without any cost to consumers. Unless content on pre-filtered Internet access was fixed at the time of purchase such that *all* new materials were filtered, it would seem that the filtering technology that was "removing" new materials as they were introduced would warrant strict scrutiny.

115. *See Mainstream Loudoun*, 2 F. Supp. 2d at 795.

116. This comment assumes *arguendo* that the Library can meet strict scrutiny's compelling state interest requirement. The Library's interest in regulating obscenity and child pornography is without doubt a legitimate, compelling state interest—both types of expression are criminal and "are not entitled to the protections of the First Amendment." *Mainstream Loudoun*, 2 F. Supp. 2d at 796 (citing *New York v. Ferber*, 458 U.S. 747 (1982) (holding that child pornography is not protected by the First Amendment); *Miller v. California*, 413 U.S. 15 (1973) (holding that obscenity is not protected)). Regulating speech "harmful to juveniles"—the third category of expression the Library policy attempted to block, *see Mainstream Loudoun*, 2 F. Supp. 2d at 787; *supra* note 17 and accompanying text—has also been held a constitutionally valid, compelling state interest,

left this question unresolved.<sup>117</sup> However, in deciding whether plaintiffs had alleged facts sufficient to survive summary judgment, the court intimated that it might ultimately find that the blocking policy was not narrowly tailored to root out obscenity and child pornography.<sup>118</sup>

Plaintiffs were able to allege two principal facts to show that the policy was not narrowly tailored. First, the blocking software, X-Stop, allegedly blocked many publications that were not obscene or pornographic.<sup>119</sup> Second, and most importantly for the court, plaintiffs alleged “that the decision as to which materials to block [was] made ... based on secret criteria not disclosed even to defendants, criteria which may or may not bear any relation to legal definitions of obscenity or child pornography.”<sup>120</sup> If these two allegations proved true, the court noted, X-Stop would impermissibly regulate speech using means not “‘reasonab[ly] respons[ive] to the threat’ which will alleviate the harm ‘in a direct and material way.’”<sup>121</sup>

As for plaintiffs’ first factual allegation, opinion is divided as to whether blocking software is sophisticated enough to block only unprotected speech. The Supreme Court in *Reno* seemed to assume or predict that such technology would one day exist.<sup>122</sup> Pending legislation that has *Reno* in mind also seems to assume that filtering policies can survive judi-

---

see *Ginsberg v. New York*, 390 U.S. 629 (1968). However, because the government cannot regulate speech from the “sandbox,” see *supra* notes 41-42 and accompanying text, the district court was right to conclude that the Library’s content-based restriction on speech “harmful to juveniles” was not narrowly tailored if it restricted adult access to speech. See *Mainstream Loudoun*, 2 F. Supp. 2d at 796-97.

117. See *Mainstream Loudoun*, 2 F. Supp. 2d at 797.

118. See *id.* at 796-97. The Library’s attempt to block material “harmful to juveniles” suffered from the same and additional narrow tailoring objections. See *id.*; see also *supra* note 116.

119. See *Mainstream Loudoun*, 2 F. Supp. 2d at 796.

120. *Id.*

121. *Id.* at 797 (quoting *Turner Broadcasting v. FCC*, 512 U.S. 622, 624 (1994)). The instrumental reasoning exemplified by the quoted language in the text harkens back to the discussion of the public discourse/managerial authority dichotomy. See *supra* notes 66-89 and accompanying text. Under even the more deferential review afforded “managerial” speech regulation, censorship bearing no rational relationship to the end that the government body is charged with furthering is unconstitutional. See *supra* notes 72-74, 79 and accompanying text. Thus, if X-Stop is irrational to the extent it does not achieve the end it is directed to effectuate, it may be unconstitutional under a lesser form of scrutiny. See *supra* note 40, 73-74, 79 and accompanying text.

122. See 117 S. Ct. at 2336 (“[T]he evidence indicates that ‘a reasonably effective method by which parents can prevent their children from accessing sexually explicit and other material which parents may believe is inappropriate for their children will soon be available.’”) (citation omitted).

cial scrutiny.<sup>123</sup> Nonetheless, several groups interested in unfettered freedom of speech on the Internet argue that filtering is a crude tool that sloppily blocks protected speech and leaves unprotected speech untouched.<sup>124</sup> If these groups are correct, blocking software can be understood, in the language of narrow tailoring, as both “over- and under-inclusive,” and thus unconstitutional.<sup>125</sup> Recognizing the crude nature of blocking, both policymakers and commentators,<sup>126</sup> believe that the government should not regulate the Internet at all,<sup>127</sup> should be very hesitant to do so,<sup>128</sup> or

---

123. See sources collected *supra* note 10.

124. See ACLU, *Fahrenheit 451.2: Is Cyberspace Burning?: How Rating and Blocking Proposals May Torch Free Speech on the Internet* (visited Oct. 4, 1998) <<http://aclu.org/issues/cyber/burning.html>>; Hochheiser, *supra* note 10, ¶¶ 4.1-4.4; see also Hafner, *supra* note 10, at D6.

125. See *Urofsky v. Allen*, 995 F. Supp. 634, 644 (E.D. Va. 1998) (holding that Virginia law prohibiting any government employee from using state-owned computer systems to send or access sexually explicit material both over- and underinclusive and, thus, violative of the First Amendment). The over- and underinclusive analysis is helpful in understanding why Internet-blocking measures cannot only be understood as unconstitutionally overbroad (overinclusive), but as not actually directed at the speech it purports to target in furthering a compelling government objective (underinclusive).

126. The European Union, for example, decided not to enact ineffective filtering legislation because obscenity comes in many languages, and filtering software directed at specific terms such as “sex” does not filter for “sex’s” linguistic equivalent in the world’s many languages. See Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, *Action Plan on promoting safe use of the Internet* ¶3.2 (visited Oct. 17, 1998) <<http://www2.echo.lu/legal/en/internet/actpl-cp.html#1>> (The “level of sophistication” of filtering technologies “is still low an[d] [sic] they are not very suitable to deal with European cultural and linguistic diversity.”). Commentators note that term-specific filtering incorrectly filters for the term “breast” in a chicken soup recipe, but fails to filter for sexually explicit graphics not appearing on a website that includes one of the filtered terms. See Hafner, *supra* note 10, at D8; Hochheiser, *supra* note 10, ¶2.5.

Courts and commentators also point out that blocking legislation that depends on server self-identification will not control servers operating in jurisdictions beyond the control of the legislating state. Such an extra-jurisdictional regulation was enacted by the State of New York, and was struck down, in part, because “New York Has Overreached by Enacting a Law That Seeks To Regulate Conduct Occurring Outside Its Borders.” *American Libraries Ass’n v. Pataki*, 969 F. Supp. 160, 173 (S.D.N.Y. 1997) (striking down New York penal law similar to CDA on dormant commerce clause grounds). Cf. Lessig & Resnick, *supra* note 31, at 7-11 (discussing the multi-jurisdiction problem if information senders are required to control user access, but cannot determine the norms of decency in the jurisdiction in which the person accessing the information resides).

127. See ACLU, *supra* note 124.

128. See Hochheiser, *supra* note 10, ¶¶ 4.1-4.4.

should allow home-users, rather than the government, to choose whether to filter content on their own.<sup>129</sup>

Some public libraries recognize these concerns, and have adopted filtering policies that better balance first amendment concerns and the desire to block Internet content than does Loudoun County Library's decision to filter all computer terminals.<sup>130</sup> For example, in response to threatened litigation, the Kern County Library in California reversed its decision to filter all computers; instead it provides its adult and child patrons the opportunity to choose between filtered and unfiltered terminals.<sup>131</sup> The Austin, Texas Public Library has done the same; however, it restricts access to unfiltered terminals to those older than eighteen.<sup>132</sup>

These examples prove that the Loudoun County Library's blocking policy is not the "least restrictive means" available to filter content.<sup>133</sup> If plaintiffs in *Mainstream Loudoun* are also correct that Library's policy is both over- and underinclusive in the speech it regulates, the policy should be held unconstitutional because it is not narrowly tailored.

In addition, the Library's policy faces further problems because it relies on value judgments made by the makers of X-Stop.<sup>134</sup> The vast number of materials available on the Internet needing screening seems to dictate that all public libraries must rely, at least to some extent, on such

---

129. See, e.g., Jerry Berman & Daniel J. Weitzner, *Abundance and User Control: Renewing the Democratic Heart of the First Amendment in the Age of Interactive Media*, 104 YALE L.J. 1619, 1634-35 (1995); *supra* note 88 (discussing a similar American Library Association proposal, as reported in Hafner, *supra* note 10, at D6).

130. For a comprehensive approach to "sensitive" Internet regulation, see Lessig & Resnick, *supra* note 31.

131. See ACLU, *ACLU Hails Victory as California Library Agrees to Remove Internet Filters from Public Computers* (visited Oct. 4, 1998) <<http://aclu.org/news/n012898d.html>>. While the Kern County Library promised to provide its patrons with both filtered and unfiltered terminals, see Letter from Bernard C. Barmann, Sr., Kern County Counsel, to Ann Beeson, Staff Attorney, ACLU National Legal Department (Jan. 27, 1998), reprinted in ACLU, *supra*, ¶ 9, an impoverished library with only one terminal could employ blocking software that included a function allowing adult patrons to disable the software with a password.

132. See Hafner, *supra* note 10, at D8 (noting that unfiltered terminals are located "in specially built recessed tables that keep computer screens well out of public view").

133. In *Reno*, the Supreme Court reasoned that a requirement that indecent material be "tagged" so that parents could control information coming into their home over the Internet would be a less restrictive alternative to the CDA's criminalization of the transmission of indecent speech. See *Reno v. ACLU*, 117 S. Ct. 2329, 2348 (1997). Thus, the CDA was unconstitutional because it was not narrowly tailored. See *id.*

134. *Mainstream Loudoun v. Bd. of Trustees*, 2 F. Supp. 2d 783, 796 (E.D. Va. 1998).

third-party judgments.<sup>135</sup> Internet free speech advocates, such as Hochheiser, agree with the district court's observation that blocking software is driven by the criteria selected by the software provider, not the software user.<sup>136</sup> Because some providers screen not only for sexual content, but political content as well,<sup>137</sup> Hochheiser is correct to warn that those using blocking software should scrutinize software providers' screening criteria carefully to "insure that the values behind the ratings are compatible with their beliefs."<sup>138</sup>

Ceding such decision-making authority to a third party is arguably unconstitutional when, as in *Mainstream Loudoun*, all patrons must live with the Library's decision to adopt filtering criteria employed by the California corporation that sells X-Stop. As the discussion above illustrates, this need not be so. If the Library provided two terminals or one terminal with a password, its Virginia patrons would not be forced to live with X-Stop's or the Library's content restrictions.<sup>139</sup> Thus, the Library can employ less restrictive means to achieve the dual purpose of promoting freewheeling independent inquiry and protecting juveniles (and adults wanting filtered access). Under such a plan, the Library would also not have to expend prohibitive resources to develop its own rating system in order to avoid the objection that it cedes local control to third parties using unspecified speech-regulation criteria.<sup>140</sup>

### III. CONCLUSION

The district court's thoughtful analysis in *Mainstream Loudoun* should provide courts and legislators reviewing and proposing Internet-blocking legislation with some much-needed guidance. For example, it helps predict judicial reception to legislation such as the McCain Bill.<sup>141</sup> The bill mandates that before receiving federal subsidies for access to "advanced

---

135. For a library to generate its own ratings, Hochheiser observes, If we assume that workers could generate these ratings at a rate of 1/minute, or 480 over the course of an 8-hour day, it would take 8 people working 40-hour weeks roughly an entire year to rate one million web sites. Of course the Internet already has more than one million sites, and it will have grown significantly before those 8 people finish their year of ratings work.

Hochheiser, *supra* note 10, ¶ 3.12.

136. *Id.* ¶¶ 3.1, 3.6, 4.2, 5.0.

137. Interview with Professor Mark Lemley, U.C. Berkeley, (Oct. 15, 1998).

138. See Hochheiser, *supra* note 10, ¶ 4.2.

139. See *supra* notes 130-133 and accompanying text.

140. See *supra* note 135.

141. S. 437, 105th Cong. (1998).

telecommunications and information services,"<sup>142</sup> libraries must certify that "on one or more of its computers with Internet access, it employs a system to filter or block matter deemed inappropriate for minors."<sup>143</sup>

This provision undoubtedly will be challenged in court. Consistent with the observations in *Mainstream Loudoun* and this comment, a court reviewing the provision should apply strict scrutiny. Because the provision allows adults unfiltered Internet access, however, the provision adopts a means less restrictive than that employed in *Mainstream Loudoun*. Thus, absent less restrictive means still, the provision will likely meet strict scrutiny's narrowly tailored requirement. Moreover, in contrast to *Mainstream Loudoun*, the provision is directed toward the constitutionally recognized state interest in keeping material harmful to juveniles away from juveniles, and *not* adults.<sup>144</sup> Even if the filtering software employed is a crude tool, adults seeking access to constitutionally protected public discourse do not have to suffer for it. Thus, on quick glance, the McCain Bill seems a potentially constitutional step in the right direction towards sensible filtering policy.<sup>145</sup>

---

142. 47 U.S.C. § 254(h)(2) (1998).

143. S. 437, 105th Cong. § 1(a)(3) (1998). The bill also requires that before receiving the same subsidy, an elementary or secondary school must certify that it has "(A) selected a system for computers with Internet access to filter or block matter deemed inappropriate for minors; and (B) installed, or will install as soon as it obtains computers with Internet access, a system to filter or block such matter." *Id.* § 1(a)(2). Insofar as section 1(a)(1)(4) of the bill provides for local determination of content, it seems consistent with the Court's decision in *Pico*. It recognizes a school's managerial authority to make internal decision rules about what materials should be made available to students.

144. See *Reno v. ACLU*, 117 S. Ct. 2329, 2341 (1997) (citing *Ginsberg v. New York*, 390 U.S. 629 (1968), as "upholding the constitutionality of a New York statute that prohibited selling to minors under 17 years of age material that was considered obscene to them even if not obscene as to adults").

145. The same cannot be said for Congress' reenactment of the CDA. See S. 1482, 105th Cong. (1997). As Lemley and Lessig argue, CDA "Version 2.0" will likely be struck down. See Mark A. Lemley & Lawrence Lessig, *Why CDA 2.0 Will Fail*, Electronic Mail of Lemley's & Lessig's Draft Op-Ed from Mark Lemley to author (Oct. 15, 1998) (on file with author) (arguing Congress' second attempt to regulate indecent speech on the Internet will fail because it is, by far, not the least restrictive means available).

## LOVING V. BOREN

*By Natalie A. Kaniel*

A seventeen-year-old college freshman, intrigued and confused by the novel experience of living away from home, questions his decision to refrain from premarital sex. One afternoon, while working in the university computer lab, the student searches for a Usenet discussion group addressing premarital sex.<sup>1</sup> After a brief search, the student locates the alt.sex.abstinence group. When he attempts to retrieve the list of recent postings to the group, however, he discovers that his access is denied.

A university professor, known by her colleagues as a great purveyor of e-mail jokes, performs a newsgroup search for jokes involving the latest White House scandal. Among other newsgroups, the professor finds the alt.sex.clinton group. When she attempts to retrieve a few jokes, however, she finds that her access to the newsgroup has been blocked.

At the public University of Oklahoma (OU), under a new Internet access policy, the above individuals would be denied access to their seemingly innocent newsgroups.<sup>2</sup> OU recently implemented a policy restricting Internet access for students under the age of eighteen, and for faculty and staff using the Internet for non-academic purposes.<sup>3</sup> The Tenth Circuit upheld an Oklahoma district court's decision that OU's restrictions were constitutional.<sup>4</sup> The district court looked to the public forum doctrine, which affords heightened First Amendment protection for forums traditionally used for public communication, and found that the university-owned computer facilities and Internet services did not represent a public forum.<sup>5</sup> As such, the university's restrictions on Internet and newsgroup use were deemed constitutional.<sup>6</sup> Analyzing the Internet service under traditional public forum categories mischaracterizes unique attributes of the

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. Usenet, a subset of the Internet, is host to over 50,000 different newsgroups. Newsgroups can be conceptualized as giant, worldwide bulletin boards where users both post messages and read messages posted by others. *See Free Advice on Usenet News* (visited Feb. 1, 1999) <<http://www.islandnet.com/~tmc/html/articles/usentnws.htm#Introduction>>.

2. *See Loving v. Boren*, 956 F. Supp. 953, 955 (W.D. Okla. 1997), *aff'd*, 133 F.3d 771 (10th Cir. 1998).

3. *See id.*

4. *See Loving v. Boren*, 133 F.3d 771 (10th Cir. 1998).

5. *See Loving*, 956 F. Supp. at 955.

6. *See id.*

Internet and newsgroups and represents an attempt to place a new medium into outdated and ill-fitting categories.

## I. BACKGROUND

OU, like many universities, provides computer access and Internet services to students, faculty, and staff. In early 1996, an Oklahoma state representative who was also the Director of the Center For a Family Friendly Internet<sup>7</sup> contacted David Boren, the President of OU.<sup>8</sup> The representative told Boren that offensive material was carried on the OU server through interactive news groups.<sup>9</sup> Concerned about the potential violation of an Oklahoma law against the distribution of obscene material, Boren ordered a number of news groups blocked on the OU server.<sup>10</sup> There was no thorough evaluation of the disapproved sites prior to the blocking, and the university blocked several groups devoid of any obscene material.<sup>11</sup>

OU denied all access to the disapproved newsgroups for eight months.<sup>12</sup> In January 1997, OU implemented a new policy, creating two separate news servers, "A" and "B".<sup>13</sup> The "A" server allowed access to only the news groups approved by OU.<sup>14</sup> The "B" server allowed access to all news groups, but had the following restriction: anyone who wished to access news groups on the "B" server must be over eighteen years old, and must agree to only use the server for academic and research purposes.<sup>15</sup>

Bill Loving, a journalism professor at OU, brought suit in an Oklahoma district court against OU.<sup>16</sup> Loving alleged that in blocking access to certain news groups, OU violated Loving's First Amendment right to free speech.<sup>17</sup> The district court ruled in favor of OU.<sup>18</sup> In just one short paragraph, the district court stated that OU's computers and Internet services

---

7. See UCLA Online Institute for Cyberspace Law and Policy, *Top Cyberspace Law Cases of 1998* (visited Nov. 16, 1998) <<http://www.gse.ucla.edu/iclp/98cases.html>>.

8. See *Loving v. Boren*, 956 F. Supp. 953, 954 (W.D. Okla. 1997), *aff'd*, 133 F.3d 771 (10th Cir. 1998).

9. See *id.*

10. See *id.*

11. See *id.*

12. See *id.*

13. See *id.* at 955.

14. See *Loving v. Boren*, 956 F. Supp. 953, 955 (W.D. Okla. 1997).

15. See *id.*

16. See *id.* at 953.

17. See *id.*

18. See *id.*

do not constitute a public forum and the state has the right to restrict use of its facilities to the use for which they were intended.<sup>19</sup>

Loving appealed his case, and the Tenth Circuit Court of Appeals affirmed the district court's ruling on procedural grounds.<sup>20</sup> The Tenth Circuit held that Loving lacked standing, in that he had failed to show that he had suffered an injury-in-fact.<sup>21</sup> Loving had not testified at the trial, and no evidence was presented that he had been denied access to any news groups.<sup>22</sup> In addition, the Tenth Circuit held that the recent implementation of the two separate news servers presented a valid resolution of the matter and rendered Loving's claims moot.<sup>23</sup> In so ruling, the court implicitly held that OU's two-track news group access policy presents a valid restriction on a user's First Amendment right to free speech. The court did not address, however, the issue of whether a university Internet service constitutes a public or nonpublic forum.

Since the Tenth Circuit decision focused solely on procedural issues such as mootness of claim and injury-in-fact, this Note will focus on the district court's decisions. This Note argues that the district court, in stating that a university Internet service is a nonpublic forum and not entitled to heightened First Amendment protection, overlooked special characteristics and policy considerations unique to the Internet and newsgroups. Analyzing the Internet service under the traditional categories of the public forum doctrine is an attempt to place the relatively modern Internet into categories best suited for real, and not intellectual, property.

## II. DISCUSSION

It is debatable whether the public forum doctrine is even applicable in the case of *Loving v. Boren*. The doctrine is intended to protect regulation of speech in government-owned places. It can be argued that the university Internet, and Internet access, are simply channels of communication and a means of accessing the communicative forum. Rather than creating a communicative forum, OU simply provided students and faculty with access to a preexisting forum: the Internet and newsgroups.

For purposes of this Note, however, the university Internet will be treated as if it is a metaphysical place where public communication takes place. The Internet access will be treated as an essential component of the

---

19. *See id.* at 955.

20. *See Loving v. Boren*, 133 F.3d 771, 771 (10th Cir. 1998).

21. *See id.* at 773.

22. *See id.*

23. *See id.*, n.1.

Internet, the component without which communication could not take place, and without which the forum would not exist.

*Loving v. Boren* is the first case to address the constitutionality of a public university's restrictions on Internet access and use.<sup>24</sup> The principal flaw in the district court decision is the absence of discussion of public policy and the inapplicability of public forum analysis to new media. Due to the ill fit between traditional public forum analysis and new media, an alternative form of analysis should be established for non-traditional communicative forums.

### A. The Evolution of the Public Forum Doctrine and the Difficulties of Applying it to New Media

The public forum doctrine, "a fixture of free speech law since the beginning of the modern era of First Amendment jurisprudence,"<sup>25</sup> reflects the constitutional right citizens have to utilize certain forums to disseminate their messages to the public.<sup>26</sup> In *Hague v. CIO*,<sup>27</sup> decided in 1939, the Supreme Court reasoned,

Wherever the title of streets and parks may rest, they have been immemorially held in trust for the use of the public and ... have been used for purposes of assembly, communicating thoughts between citizens, and discussing public questions. Such use of the streets and public places has, from ancient times, been a part of the privileges, immunities, rights, and liberties of citizens.<sup>28</sup>

Between the late 1930s and the 1960s, the public forum doctrine afforded broad protection for speech in a wide variety of activities.<sup>29</sup>

In the 1970s and 1980s, the Supreme Court began identifying public forum exceptions for certain kinds of public property.<sup>30</sup> Time, place, and

---

24. See Lisa R. Allred, *May a Public University Restrict Faculty Expression on its Internet World Wide Web Sites? Academic Freedom and University Faculty Use Restrictions*, 24 J.C. & U.L. 325, 343 (1997).

25. Steven G. Gey, *Reopening the Public Forum—From Sidewalks to Cyberspace*, 58 OHIO ST. L.J. 1535, 1535 (1998).

26. RULES FOR THE ROAD FOR THE INFORMATION SUPERHIGHWAY: ELECTRONIC COMMUNICATIONS AND THE LAW, Part III, Chapter 12, §12.1(c).

27. 307 U.S. 496 (1939).

28. *Id.* at 515.

29. See generally *Schneider v. New Jersey*, 308 U.S. 147, 163-65 (1939) (holding that because the streets were a public forum, municipalities could not prohibit leafletting solely because of a desire to prevent littering); *Kunz v. New York*, 340 U.S. 290, 293-95 (1951) (holding that the state may not restrict the right to hold public worship meetings on its streets); *Brown v. Louisiana*, 383 U.S. 131, 141-43 (1966) (reversing the conviction of civil rights activists sitting in at a segregated public library).

manner restrictions were utilized as a means for circumventing the public forum doctrine. In 1983, the Court established a three-tier categorization of public forums in its opinion in *Perry Education Association v. Perry Local Educators' Association*.<sup>31</sup>

The first category articulated by *Perry* was the traditional public forum.<sup>32</sup> Traditional public forums consist of the streets, sidewalks, and parks discussed in *Hague v. CIO* as being held in trust for the public for communicative purposes.<sup>33</sup> In a traditional public forum, the state may not restrict speech based on content unless it can show that its regulation is necessary to serve a compelling state interest and is narrowly tailored to achieve such interest.<sup>34</sup>

The second category established by *Perry* was the limited public forum.<sup>35</sup> Such a forum is one which traditionally may not have been created as a public forum but which "the state has opened for use by the public as a place for expressive activity."<sup>36</sup> A limited public forum, once opened to the public, receives the same treatment as the traditional public forum: the state may not restrict speech unless it is narrowly drawn to achieve a compelling state interest.<sup>37</sup> An example of a limited public forum may be an auditorium or a meeting facility which the government makes available to the public.

Finally, public property which cannot be characterized as a traditional public forum, nor a limited public forum, receives a lower level of First Amendment protection.<sup>38</sup> In such a nonpublic forum, the state may regulate the time, place and manner of speech.<sup>39</sup> It may also place any regulations that assure the forum is used for its intended purposes, as long as the regulation is reasonable and not effected as a means for opposing the

---

30. See Gey, *supra* note 25, at 1545.

31. 460 U.S. 37, 44-46 (1983). *Perry* dealt with a union's claim that teachers' mailboxes were a public forum, and that restriction of access to them was a violation of the First Amendment. See *id.* at 40-42. In holding that the mailboxes were not a public forum, the Court delineated three levels of forums, and indicated varying degrees of restriction the government could place on each level. See *id.* at 44-46.

32. See *id.* at 45.

33. See *Hague v. CIO*, 307 U.S. 496, 515 (1939).

34. See *Perry*, 460 U.S. at 45.

35. See *id.*

36. *Id.*

37. See *id.* at 46.

38. See *id.*

39. See *id.*

speaker's view.<sup>40</sup> An example of a government-owned, nonpublic forum is an office in a federal building or a military base.

1. *The Traditional Public Forum.*

It would be difficult for a court to find that a university Internet service falls within the definition of the first *Perry* category, the traditional public forum. Courts have read the streets, sidewalks, and parks definition espoused in *Perry* narrowly, and have looked to how long a forum has existed in evaluating whether it could be construed as a traditional public forum. Such evaluations would weigh heavily against a finding that the relatively modern university Internet service is a traditional public forum.

In *United States v. Kokinda*<sup>41</sup>, the Supreme Court held that a sidewalk which provided access from a parking lot to a post office did not qualify as a "public sidewalk traditionally open to expressive activity."<sup>42</sup> The Court explained that a protectable sidewalk is one which is continuously open, and serves as a place where people can "enjoy the open air or the company of friends and neighbors in a relaxed environment."<sup>43</sup> The Court held that the postal sidewalk was intended solely to provide access from the parking lot to the post office, and as such, was not a public forum.<sup>44</sup> Such a strict construction of the streets, sidewalks and parks definition indicates that a court would likely be reluctant to stretch the definition to include a university Internet service.

The Internet would also likely fall outside of the traditional public forum category because of its relative modernity. In *International Society for Krishna Consciousness v. Lee*,<sup>45</sup> which discussed the applicability of the public forum doctrine to an airport, the Supreme Court explicitly stated that, "given the lateness with which the modern air terminal has made its appearance, it hardly qualifies for the description of having 'immemorially ... time out of mind' been held in the public trust and used for purposes of expressive activity."<sup>46</sup> The Internet, far more recently developed than the airport, is even more likely to be considered too modern to qualify as a traditional forum.

Justice Kennedy, though concurring in the *Krishna Consciousness* decision, highlighted the major flaw in relying on an analysis that seeks to

---

40. See *Perry Educ. Ass'n v. Perry Local Educators' Ass'n*, 460 U.S. 37, 46 (1983).

41. 497 U.S. 720 (1990).

42. *Id.* at 727.

43. *Id.*

44. See *id.*

45. 505 U.S. 672 (1992).

46. *Id.*

analogize modern forums to the traditional parks and streets.<sup>47</sup> Justice Kennedy recognized that the quaint concept of the speaker's forum in the local town square is largely irrelevant in the modern world.<sup>48</sup> "In a country where most citizens travel by automobile, and parks all too often become locales for crime rather than social intercourse, our failure to recognize the possibility that new types of government property may be appropriate forums for speech will lead to a serious curtailment of our expressive activity."<sup>49</sup>

Kennedy provides the strongest argument for doing away with the Supreme Court's strict classification of property and disfavoring of modern forums. He states that "the policies underlying the [public forum] doctrine cannot be given effect unless we recognize that open, public spaces and thoroughfares that are suitable for discourse may be public forums, whatever their historical pedigree and without concern for a precise classification of the property . . . Without this recognition our forum doctrine retains no relevance in times of fast-changing technology and increasing insularity."<sup>50</sup> The Limited Public Forum doctrine, as discussed below, provides no greater protection for new media.

## 2. *The Limited Public Forum.*

Subsequent cases interpreting *Perry* virtually assure that any forum regulated by the government will not be deemed a limited public forum. *Perry* stated that if the government opens up a nontraditional forum for the purposes of discussion, it takes on the properties of a limited public forum and deserves the protection of the traditional public forum.<sup>51</sup> *Cornelius v. NAACP Legal Defense and Educational Fund, Inc.*,<sup>52</sup> clarified that the Court looks to "the policy and practice of the government to ascertain whether it intended to designate a place not traditionally open to assembly and debate as a public forum."<sup>53</sup> In this case, the Court held that though the federal government had created a charity drive through which organizations could solicit donations from employees, it could restrict the participation of certain legal defense organizations.<sup>54</sup> The Court reasoned that

---

47. *See id.* at 693 (Kennedy, J., concurring).

48. *See id.* at 697 (Kennedy, J., concurring).

49. *Id.* at 697-98 (Kennedy, J., concurring).

50. *Id.* at 697 (Kennedy, J., concurring).

51. *See Perry Educ. Ass'n v. Perry Local Educators' Ass'n*, 460 U.S. 37, 45 (1983).

52. 473 U.S. 788 (1985).

53. *Id.* at 802.

54. *See id.* at 793. The organizations banned included: the NAACP Legal Defense and Educational Fund, the Sierra Club Legal Defense Fund, the Puerto Rican Legal Defense and Education Fund, the Federally Employed Women Legal Defense and Education

because the government's policy was to limit participation in the charity drive to "appropriate" volunteer organizations, the charity drive was not a public forum.<sup>55</sup>

Analysis under the limited public forum category would look to the university's intent in providing Internet service, rather than looking at the attributes of the Internet service itself. Rather than evaluating the use to which the Internet service was put, the court would simply ask whether by providing Internet service, the university intended to create a public forum. Such an analysis is circuitous. Government entities are sued when they restrict access to arguably public forums, but the very existence of a restriction on access serves as proof that there was no intent to make the forum public. As one commentator noted, "[i]f a limited public forum is neither more nor less than what the government intends it to be, then a first amendment right of access to the forum is nothing more than the claim that the government should be required to do what it already intends to do in any event."<sup>56</sup> Under *Cornelius*, it is difficult to imagine a scenario where the government would not prevail. "If the reach of the forum is determined by the intent of the government, and if the exclusion of the plaintiff is the best evidence of that intent, then the plaintiff loses in every case."<sup>57</sup>

### 3. *The Nonpublic Forum Category*

Since the OU Internet service is both a modern medium of communication, and one that the university indicated an intent to regulate, it most likely falls into the category of the nonpublic forum. As such, the university is free to regulate the Internet service to ensure that it comports with its intended purposes.<sup>58</sup> The analysis, however, should not stop here. Placing restrictions on a medium of communication provided to students of a public university implicates important policy considerations which must be recognized and addressed.

## **B. Application of the Public Forum Doctrine in *Loving v. Boren***

It is difficult to determine how the district court applied the public forum doctrine to the OU Internet service and Internet policy. The court spent just one sentence expressing its position that, "The OU computer

---

Fund, the Indian Law Resource Center, the Lawyers' Committee for Civil Rights Under the Law, and the Natural Resources Defense Council. *See id.*

55. *See id.* at 804.

56. Robert C. Post, *Between Governance and Management: The History and Theory of the Public Forum*, 34 UCLA L. REV. 1713, 1756 (1987).

57. *Id.* at 1757.

58. *See Perry Educ. Ass'n v. Perry Local Educators' Ass'n*, 460 U.S. 37, 46 (1983).

and Internet services do not constitute a public forum.”<sup>59</sup> However, this supposedly obvious conclusion is the subject of great academic discussion and debate. For example, several cases have found certain non-physical forums to be public forums entitled to heightened protection.<sup>60</sup>

The court also stated that the university had never opened its services to the public or used it for public communication.<sup>61</sup> This is arguably a mischaracterization of Internet and newsgroup use. Sending and receiving e-mail requires interaction with the public. Reading a web site or posting a message to a newsgroup represents an interaction with a previous poster. The Internet, by its very nature, is a forum open to the public. It is true that the general public may not sign onto the Internet through the university’s own Internet services. However, the university Internet service does not restrict users to e-mailing students and faculty, reading faculty sponsored web sites, and posting to university moderated newsgroups. As such, a large amount of university Internet use involves communication with non-university Internet users. Allowing students and faculty to communicate with non-university users via the university Internet service thus represents a use of the service for public communication.

The court also maintained that the university has the right to reserve the use of its property to its intended purposes—educational purposes.<sup>62</sup> To say that a university’s purpose is education is a truism. The more relevant inquiry is defining the educational purpose.<sup>63</sup> Educational purposes could include discussions with people of variant backgrounds and interests, as well as research done for personal enrichment. A narrow interpretation of the educational purpose could have the unfortunate result of restricting Internet use to research of only topics assigned in university classes.

Furthermore, the Supreme Court has stated that while schools do have broad discretion in the management of school affairs, and the pursuance of

---

59. *Loving v. Boren*, 956 F. Supp. 953, 955 (W.D. Okla. 1997), *aff’d*, 133 F.3d 771 (10th Cir. 1998).

60. *See Rosenberger v. Rector and Visitors of the Univ. of Virginia*, 515 U.S. 819 (1995) (holding that a university’s student activities fund was a public forum); *see also Cornelius v. NAACP Legal Defense and Educ. Fund*, 473 U.S. 788 (1985) (holding that a charity drive, not the physical workplace, was the relevant forum for purposes of public forum analysis).

61. *See Loving*, 956 F. Supp. at 955.

62. *See id.*

63. *See, e.g., John O. Mudd, Academic Change in Law Schools*, 29 GONZ. L. REV. 29, 37 (1993) (detailing proposed changes in law school education); John A. Beach, *The Management and Governance of Academic Institutions*, 12 J.C. & U.L. 301, 303 (1985) (discussing what a university is and what its purposes are).

educational purposes, such discretion must operate in conformity with the First Amendment.<sup>64</sup> As a research instrument, the Internet can be likened to a library. But even the library contains material intended to entertain—should this wing of the library be closed to students and faculty?<sup>65</sup>

Public forum analysis has developed through and is best suited for analysis of real property, and not intellectual property. Analysis of public forum issues is grounded in comparisons to physical property such as streets and parks. It is unfortunate that the court did not expand upon its conclusions regarding the university Internet service. The university, and the Internet community could have benefited from an in-depth analysis of these issues.

### C. Policy Considerations

OU's regulation specifically targeted student and faculty use of newsgroups, or Usenet, a subset of the Internet. The Usenet is a "system of public newsgroups which are 'neither owned nor subject to any central authority.'"<sup>66</sup> To preserve its unique nature as a highly democratic, non-intrusive and dynamic medium, the university should take care to avoid broad regulations that control more speech than is necessary.

Says one commentator, in discussing the Internet, "For the first time since the adoption of the First Amendment, the theoretical dream of a free marketplace for ideas has become a reality.... The Internet provide[s] anyone with access to a computer the opportunity to air his views on almost any subject imaginable."<sup>67</sup> A highly democratic system, virtually anyone with access to the internet can post messages to newsgroups, which are then relayed from computer to computer. This process was described by one commentator as "a million notes that classmates pass

---

64. See Board of Educ., Island Trees Union Free School Dist. v. Pico, 457 U.S. 853, 863 (1982).

65. One commentator writes, "Imagine if a public university cut off faculty access to salacious or explicit material in its library collection because a legislator complained to the president. The academic community would be outraged. If the issue went to court, any judge would set the university back on its heels. Yet, despite differences between digital and print materials, that is essentially what happened in Oklahoma." Robert M. O'Neil, *Free Speech on the Internet: Beyond Indecency*, 38 JURIMETRICS J. 617, 624 (1998).

66. Blake T. Bilstad, *Obscenity and Indecency in a Digital Age: The Legal and Political Implications of Cybersmut, Virtual Pornography, and the Communications Decency Act of 1996*, 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 321, 345 (1997) (quoting David Landis, *Sex, Laws & Cyberspace*, U.S.A. TODAY, Aug. 9, 1994, at 1D).

67. Jeffrey E. Faucette, *The Freedom of Speech at Risk in Cyberspace: Obscenity Doctrine and a Frightened University's Censorship of Sex on the Internet*, 44 DUKE L.J. , 1155, 1181 n.63 (1995).

across schoolroom aisles.”<sup>68</sup> Some newsgroups have a moderator—an intermediary to whom messages are sent, and who then relays the messages to the newsgroup for reading by other members. Other newsgroups are unmoderated, and users post messages directly to the newsgroup. Unmoderated newsgroups, while potentially achieving a highly democratic means of assuring that all opinions are heard, also run the risk of offensive, off-topic or simply inaccurate postings. Inappropriate newsgroup users will likely find themselves the subject of “flames,” negative responses from other users of the newsgroups, intended to shame and control errant users.<sup>69</sup> Newsgroups often have a built-in mechanism for controlling the content of postings to their group to assure that discussions remain on topic.<sup>70</sup>

A second important characteristic of the Internet is that it is a non-disruptive and unintrusive medium in which users have chosen to participate. The district court in *Loving* cited a concern that “[t]he limitation of OU Internet services to research and academic purposes on the ‘B’ server is not a violation of the First Amendment, in that those purposes are the very ones for which the system is purchased.”<sup>71</sup> It is reasonable to expect that a university would restrict speech that disrupts classroom activity, or speech intended to terrorize and intimidate fellow students: such activities blatantly frustrate the university’s purpose of providing a forum in which education is facilitated.<sup>72</sup> Internet use, usually done in a computer lab or on a personal computer, does not disrupt classroom activity. And while, on rare occasion, the Internet may be used to intimidate students,<sup>73</sup> such a rare

---

68. Bilstad, *supra* note 66, at 345 (quoting William S. Byassee, *Jurisdiction of Cyberspace: Applying Real World Precedent to the Virtual Community*, 30 WAKE FOREST L. REV. 197, 201 n.16 (1995)).

69. See Faucette, *supra* note 67 at 1162.

70. Deja News, for example, details a procedure for reporting “abusive” postings which violate the service’s “posting rules.” See Deja News, Inc., *Frequently Asked Questions* (visited Nov. 15, 1998) <<http://www.dejanews.com/help/faq.shtml#abuse>>.

71. *Loving v. Boren*, 956 F. Supp. 953, 955 (W.D. Okla. 1997), *aff’d*, 133 F.3d 771 (10th Cir. 1998).

72. See generally *Healy v. James*, 408 U.S. 169, 189 (1972) (stating that “Associational activities need not be tolerated where they infringe reasonable campus rules, interrupt classes, or substantially interfere with the opportunity of other students to obtain an education.”).

73. One publicized incident involved a University of Michigan student, Baker, that posted a violent fantasy about a fellow student to a Usenet discussion group. While Baker was prosecuted under a statute preventing the use of interstate communication to threaten kidnap or injury, the court focused on Baker’s First Amendment rights. See *United States v. Baker*, 890 F. Supp. 1375, 1385 (E.D. Mich. 1995).

occurrence does not justify regulation of access for all students and faculty.

A final characteristic of the Internet and newsgroups is that expression is dynamic and uninhibited. Due to the unmoderated nature of most newsgroup postings, a university's regulations attempting to control subject matter would ultimately fail in its attempts to screen out all obscene messages. A Virginia court recently threw out a state statute that restricted state employees' access to sexually explicit materials on state-owned computers.<sup>74</sup> The state had asserted that the statute was necessary to maintain efficiency in the workplace and prevent the creation of a hostile work environment.<sup>75</sup> The court stated that the regulation was under-inclusive, because it did not ban the use of video games, news services, and financial information.<sup>76</sup> The statute also did not bar the reading of racially, religiously, or ethnically offensive material online.<sup>77</sup> The statute was over-inclusive because it restricted state employees access to constitutionally protected information regarding sexuality and the human body.<sup>78</sup>

Similarly, OU's regulation, intended to halt the dissemination of obscenity online, is both over- and under-inclusive. A newsgroup discussion is merely a log of a conversation among a group of users that rolls over; with every new message posted, an old one is deleted.<sup>79</sup> A newsgroup discussing sexual harassment in the workplace could be discussing a recent piece of legislation one day, then discussing one member's graphic depiction of harassment the next. As such, an evaluation of the newsgroup in the former situation would deem the newsgroup uncontroversial, while an evaluation in the latter situation could be deemed obscene. If the assessment was made in the latter situation, a newsgroup that is largely innocent could be restricted from access by certain users of the OU Internet service. Hence, due to the dynamic nature of the newsgroup, any regulation of access would inevitably sweep broadly into protected or inoffensive speech.

Just as one cannot predict what the newsgroup will be discussing on a particular day, one cannot predict where a user will post a particular message. Simply blocking access to news groups that are sexually themed in their title does not restrict the advanced computer user from posting obscene pictures and messages to other, non-restricted newsgroups. As such,

---

74. *See* Urofsky v. Allen, 995 F. Supp. 634, 644 (E.D. Va. 1998).

75. *See id.* at 639.

76. *See id.* at 640.

77. *See id.*

78. *See id.*

79. *See* Faucette, *supra* note 67, at 1162.

a regulation that restricts access to the "alt.sex" newsgroups will not insulate newsgroup users from all obscene postings. In fact, no regulating mechanism, other than reviewing every individual message posted to a newsgroup server, could completely eliminate the risk of obscene postings.<sup>80</sup>

The University of Oklahoma is not required to provide its faculty and staff with computer facilities and Internet access; rather, it chooses to do so.<sup>81</sup> It likely chooses to do so for several reasons. Internet access helps OU remain competitive with other universities that provide computer services. Also by providing access to the vast network of information present on the World Wide Web and in newsgroups, OU establishes an open channel for communication and information transfer between its own university community and other communities. There is an inherent conflict when a university provides access to such an expansive and dynamic network of information, and then attempts to restrict just what type of information may be read or sent.<sup>82</sup> "The nature of the Internet is not a mystery; the government should be on notice that when it allows the public to join ongoing discussions in cyberspace, the government has forsaken the authority to sanitize the forum to fit particular political or social sensitivities."<sup>83</sup>

Most importantly, a public university should be mindful of the chilling effects its Internet regulations may have on student and faculty speech.<sup>84</sup> Universities are held to be forums for learning and the open examination of often controversial ideas. Cutting off access to certain newsgroups, and proscribing what discussions may take place effectively censors student discussion and debate.

---

80. *See id.* at 1164-65.

81. The OU Department of Computing and Telecommunications Services provides students and faculty with e-mail, web, ftp and imaging services, as well as a computer help desk and 24 hour Internet support and service. *See OU Department of Computing and Telecommunications Services* (visited Nov. 16, 1998) <<http://www.ou.edu/dcts/>>.

82. In *Mainstream Loudoun v. Board of Trustees of the Loudoun County Library*, the court stated that while the public library need not have provided Internet access to its patrons, "Having chosen to provide access, however, the Library Board may not thereafter selectively restrict certain categories of Internet speech because it disfavors their content." 2 F. Supp. 2d 783, 795-96 (E.D. Va. 1998).

83. Gey, *supra* note 25, at 1632.

84. Overbroad Internet regulations and their potential chilling effects on speech have been discussed recently in light of the Supreme Court ruling in *Reno v. ACLU*, 521 U.S. 824 (1997). *See Debra M. Keiser, Regulating the Internet: A Critique of Reno v. ACLU*, 62 ALB. L. REV. 769 (1998); David K. Djavaherian, Note, *Reno v. ACLU*, 13 BERKELEY TECH. L.J. 371 (1998).

### III. CONCLUSION

The district court in *Loving v. Boren* was too quick to hold that a university Internet service was a private forum and that the university was reasonable in restricting access as it deemed necessary. The three public forum categories do not adequately address the complexities and intricacies of new media, including the Internet newsgroups. If the university is worried about offensive material in newsgroups, it should either rely upon the self-regulation imposed by users of the news groups, or it should simply not provide Internet access to its students.

## UNITED STATES V. HILTON

By Brenda M. Simon

*The Exorcist*, *Taxi Driver*, *Midnight Cowboy*, and *Lolita* arguably could be included on a list of the best, and most controversial, movies ever made. But it would also be a list of movies that could be prohibited by the Child Pornography Prevention Act of 1996 ("CPPA").<sup>1</sup> In the most recent film, *Lolita*, fifteen-year-old Dominique Swain plays a twelve-year-old girl involved in an obsessive, sexual relationship with a forty-five-year-old man.<sup>2</sup> Though the director used a nineteen-year-old body double for nude shots and a cushion was placed between Swain and co-star Jeremy Irons whenever physical contact occurred, American film distributors refused to release "Lolita" in the United States.<sup>3</sup>

With the spread of the "Lolita syndrome," in which advertisers and photographers have been accused of selling children as sexual objects, tough new child pornography laws have surfaced that affect more than the making of movies.<sup>4</sup> Since JonBenet Ramsey, age six, was sexually attacked and murdered in Colorado, producers of children's beauty pageants have been censured for transforming children into "sex puppets."<sup>5</sup> The State of Alabama has charged Barnes & Noble, one of the country's largest chains of booksellers, with obscenity because it sells art books by two photographers showing naked children.<sup>6</sup> Contributing to the anxiety, exposure of an international child pornography ring and increasing pornogra-

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. 18 U.S.C. § 2252A (1998).

2. See Bob Van Voris, *Coming Soon: 'Lolita,' the Lawyer's Cut, A First Amendment Lawyer Played Censor to the Classic*, NAT'L L.J., Aug. 17, 1998, at A1. Previously, *Lolita* was published as a novel by Vladimir Nabokov in 1955 and released as a film adaptation by Stanley Kubrick in 1962. See *id.*

3. See *id.* Note, however, that the film was later made available for viewing through cable television and the home video market.

4. See Matthew Campbell, *US Moral Majority Freezes Out Lolita*, SUNDAY TIMES (London), Mar. 29, 1998, available in 1998 WL 11119099.

5. *Id.*

6. See Debra Burke, *Beyond Bookstore Protests: Conservatives Fight to Expand Definition of Child Porn*, 84 A.B.A. J. 22, 22 (July 1998). Burke writes that the first book, containing nude pictures of children and adolescents on nudist beaches in Northern California and Europe, was produced with the written consent of the families of the models, and gives them ongoing control over the pictures. See *id.* at 24. The second book, Burke states, has photos of nude children accompanied by poetry and literary passages. See *id.*

phy on the Internet have incensed a group of advocates into fighting for the destruction of pornography.<sup>7</sup> Even images created on a computer not involving an actual child, similar to a drawing or painting, fall within the bounds of the CPPA.<sup>8</sup>

So far, two challenges to the CPPA have been brought, resulting in diametrically opposite dispositions. In the first case, *Free Speech Coalition v. Reno*,<sup>9</sup> the Northern District of California upheld the constitutionality of the CPPA. In the second (the subject of this Note), *United States v. Hilton*,<sup>10</sup> the District Court of Maine held that the statute suffered from vagueness and overbreadth. Although the court in *Hilton* correctly held the CPPA unconstitutional, its First Amendment analysis is flawed. Anti-pornography proponents need not draft a new statute; existing law suffices to regulate virtual child pornography.<sup>11</sup> The CPPA is not only unconstitutional, but also unnecessary.

## I. BACKGROUND

### A. *United States v. Hilton*

In *United States v. Hilton*, the defendant moved to dismiss charges filed against him for possession of child pornography in violation of section 2252A(a)(5)(B) of the CPPA.<sup>12</sup> Under this section, a person may not knowingly possess a book, magazine, periodical, film, video, computer disk, or any other material that has three or more images of child pornography that has been transported, or has been produced using materials that have been transported.<sup>13</sup> The material cannot have been transported in either interstate or foreign commerce by any means, including by computer.<sup>14</sup> The statute, in subsection 2256(8)(B), defines "child pornogra-

---

7. *See 12 Countries Target Web Pornography*, AP Online, Sept. 2, 1998, available in 1998 WL 6716909. A five-month investigation of the Wonderland Club, which has members on three continents, led to the arrests of over one hundred suspects. *See id.* Police found a database including over 100,000 pornographic pictures of naked children. *See id.* The club is a child pornography ring that exchanged pornographic pictures of children as young as two-years-old on the Internet. *See id.*

8. 18 U.S.C. § 2252A(b) (1998).

9. 1997 WL 487758 (N.D. Cal. Aug. 12, 1997).

10. 999 F. Supp. 131 (D. Me. 1998).

11. This Note addresses only completely virtual pictures that involve neither an altered image of an identifiable minor (such as a picture from a children's clothing catalog) nor the actual participation of a real child.

12. *See Hilton*, 999 F. Supp. at 132.

13. *See id.* (citing 18 U.S.C. § 2252A(a)(5)(B)).

14. *See id.*

phy” as any visual depiction, such as a picture, photograph, video, film, computer, or computer-generated image (made by any means), of sexually explicit conduct,<sup>15</sup> where the visual depiction is, or appears to be, of a minor engaging in sexually explicit conduct.<sup>16</sup>

In discussing the constitutionality of the statute, the defendant argued that (1) the statute prohibits constitutionally protected speech by banning adult pornography; and (2) the language forbidding images that appear to be of minors engaging in sexually explicit activity is vague and overbroad, thus violating the First Amendment.<sup>17</sup> The court found only the second argument to be meritorious.<sup>18</sup>

### *1. Prohibition of Constitutionally Protected Speech*

In determining that section 2252A(a)(5)(B) did not violate the First Amendment, the district court discussed the three requirements that legislation must meet to be considered constitutional: (1) the restrictions must be appropriate without reference to the content of the regulated speech; (2) they must be narrowly tailored to serve an important government interest; and (3) they must leave open sufficient alternate channels of communication for the information.<sup>19</sup>

#### *a) Content Neutrality*

In ascertaining the government’s purpose in regulating images that appear to be of children engaged in sexually explicit activities, the court concluded that the government wanted to address the injurious secondary effects caused by the exchange and availability of such materials rather than stifle the individual ideas contained within the materials.<sup>20</sup> Although the defendant argued that the governmental interest should be limited to protecting children by preventing depictions of actual children, the court held that the harmful effects that justify the regulation of virtual child pornography “will be identical to those of pornography depicting actual children, with the exception of the harm resulting from the personal involvement in the production of the pornography.”<sup>21</sup>

---

15. See 18 U.S.C. § 2256(2) (defining “sexually explicit conduct” to include actual or simulated sexual intercourse, bestiality, masturbation, sadistic or masochistic abuse, and lascivious exhibition of the genitals or pubic area).

16. See *U.S. v. Hilton*, 999 F. Supp. 131, 132-33 (D. Me. 1998).

17. See *id.* at 133.

18. See *id.*

19. See *id.*

20. See *id.* at 134.

21. *Id.*

Moreover, the court found that when a sexually explicit image is “virtually indistinguishable” from that of a child, the depiction will have a tendency to stimulate pedophiles, assist sexual abusers of children to lure children into sexual activity, and stimulate the market for child pornography.<sup>22</sup> Therefore, the court concluded that the government intended to address the secondary effects of the protected speech rather than suppress the speech itself.<sup>23</sup>

b) Narrowly Tailored

To address whether the restriction is narrowly tailored, the court began by emphasizing the government’s strong interest in the prevention of the harms caused by child pornography.<sup>24</sup> The court discussed how the government advances this interest through the statute, which limits its scope to the possession and distribution of visual depictions that are, or appear to be, of children engaged in sexual activity.<sup>25</sup> The court concluded that the statute is narrowly tailored to advance the objective of preventing the sexual abuse and exploitation of children.<sup>26</sup>

c) Sufficient Alternative Means of Communication

The court, moreover, found that alternative channels of communication exist to distribute protected speech. First, the court held that the statute does not prohibit possession of all visual depictions appearing to be children, only those that appear to be depictions of children engaging in sexually explicit conduct.<sup>27</sup> Second, the court indicated that the statute has an affirmative defense that permits free distribution of adult pornography provided that the distributor does not market it as depicting children engaged in sexually explicit activity.<sup>28</sup> On the basis of these two assertions, the court held that the statute permits “ample alternative means of communication.”<sup>29</sup>

---

22. See *U.S. v. Hilton*, 999 F. Supp. 131, 134 (D. Me. 1998).

23. See *id.*

24. See *id.* at 135.

25. See *id.*

26. See *id.*

27. See *id.*

28. See *Hilton*, 999 F. Supp. at 135.

29. *Id.*

## 2. *Vagueness and Overbreadth*

The court found that the language of section 2256(8)(B) is unconstitutionally vague.<sup>30</sup> The statutory language, the court held, fails to sufficiently clarify the conduct that it prohibits.<sup>31</sup> First, the CPPA's definition of "child pornography" creates great uncertainty for viewers of materials of post-pubescent individuals because determining whether those persons are over eighteen years of age is often difficult.<sup>32</sup> Additionally, viewers will have a difficult time classifying computer-generated images according to this subjective model.<sup>33</sup>

The court held that the definition of "child pornography" in the statute included within its proscriptions significant protected expression.<sup>34</sup> The court decided that the statute affects a substantial amount of adult pornography that features adults who appear youthful.<sup>35</sup> Further, the court held that the expression involving youthful-looking adults would be chilled in light of the statute's criminal penalties, thus concluding that the statute is unconstitutionally overbroad.<sup>36</sup>

### B. The CPPA

To be considered pornographic before the passage of the CPPA, a work had to depict an actual child (under the age of eighteen) engaging in actual or simulated "sexually explicit conduct."<sup>37</sup> The CPPA expanded the definition of child pornography to encompass both entirely virtual child pornography and computer-generated child pornography involving an "identifiable minor."<sup>38</sup> Under subsection 2252A(b), the definition of child pornography includes visual depictions of what "appears to be" minors engaging in sexually explicit conduct, thus including child pornography

---

30. *See id.* at 136. In an attempt to interpret the statute to be consistent with the Constitution, the court tried to apply the doctrine of *ejusdem generis*. After determining that the root of the problem is the term "minor" in the definition of "child pornography," the Court narrowly construed the term "minor" to mean "child." Because the visual depiction of a prepubescent person is less subjective, the prohibited conduct would be more certain. This solution failed, however, because sexually explicit depictions of post-pubescent individuals under age eighteen would not be prohibited and the term "identifiable minor," used in subsection 2256(8)(C), would create uncertainty. *See id.* at 136 n.6.

31. *See Hilton*, 999 F. Supp. at 136.

32. *See id.*

33. *See id.*

34. *See id.* at 137.

35. *See id.*

36. *See id.*

37. 18 U.S.C. § 2252A (1998).

38. 18 U.S.C. § 2256(8) (1998).

produced solely by computer that depicts no real child.<sup>39</sup> Subsection 2252A(c) broadens the definition of child pornography to include depictions of an "identifiable minor," defined by Congress as one "who was a minor at the time a visual depiction was created, adapted, or modified or whose image as a minor was used in creating, adapting, or modifying the visual depiction...."<sup>40</sup> This includes superimposing the face of an actual child on the body of an adult that was engaged in sexually explicit conduct. Lastly, subsection 2252A(d) expands the definition of child pornography to include sexual depictions that are presented in a manner to make an observer believe that they depict minors engaged in sexually explicit conduct.<sup>41</sup>

In addition, the CPPA creates an affirmative defense that exempts alleged child pornography using adults that is not promoted as visually depicting minors engaged in sexually explicit conduct.<sup>42</sup> The defense, however, does not apply to the *possession* of child pornography.

### C. Legislative and Judicial History

In order to determine what child pornography is, this Note will examine the history of how Congress and the courts have defined it. Although the courts and Congress have generally been consistent in creating restrictions on child pornography, Congress has taken a large leap beyond the courts in its most recent amendment of the CPPA.

Congress first enacted the Sexual Exploitation of Children Act in 1977.<sup>43</sup> Five years later, in *New York v. Ferber*,<sup>44</sup> the Supreme Court found that a state may criminalize the distribution of child pornography produced by using actual children.<sup>45</sup> In determining that a state has more leeway to restrict child pornography than it does adult pornography, the Court found (1) that the state has a compelling interest in protecting the interests of children; (2) that distribution of child pornography is directly related to the sexual abuse of children because it both serves as a record of the sexual abuse and it encourages the production of the materials; (3) that selling child pornography provides economic encouragement for produc-

---

39. See 18 U.S.C. § 2252A(b) (1998).

40. *Id.*; 18 U.S.C. § 2256(9) (1998).

41. See 18 U.S.C. § 2256 (9) (1998).

42. See 18 U.S.C. § 2252A(c) (1998).

43. Pub. L. No. 95-225, 92 Stat. 7 (1977) (codified as amended at 18 U.S.C. §§ 2251-53 (1991 & Supp. 1996)).

44. 458 U.S. 747 (1982).

45. See *id.* at 751-52 (1982) (upholding the conviction of adult bookstore owner found guilty under a New York statute for selling films depicting young boys masturbating).

tion of the materials; (4) that child pornography has minimal, if any literary, scientific, or educational value; and (5) that grouping child pornography as apart from First Amendment protection is not inconsistent with precedent.<sup>46</sup> The Court held that child pornography is not covered by the First Amendment for these policy reasons and that it does not have to be found obscene to be prohibited.<sup>47</sup>

However, the Court required that child pornography statutes must apply only to visual works of children below a definite age, must adequately state what content is prohibited, and must have a scienter requirement.<sup>48</sup> Additionally, the Court found that any overbreadth of the statute that could prohibit some protected speech should be corrected on a case-by-case basis.<sup>49</sup> Interestingly, the Court also suggested that, if necessary for literary or scientific value, an individual may employ alternatives to using an actual child and may produce simulated child pornography.<sup>50</sup> To do so, the individual could use a person over the statutory age that appears to be younger or a "simulation outside the prohibition of the statute."<sup>51</sup>

In response to the Act's limited usefulness and the Supreme Court's decision in *Ferber*, Congress passed the Child Protection Act of 1984.<sup>52</sup> This Act eliminated the *Miller*<sup>53</sup> requirement that the material be obscene, replaced the phrase visual or print medium with the phrase "visual depiction," and redefined sexual conduct by substituting the term "lascivious" for "lewd" to emphasize that the depiction did not have to be obscene to be illegal.<sup>54</sup>

In the 1990 case, *Osborne v. Ohio*,<sup>55</sup> the Court held that child pornography should receive less First Amendment protection than obscenity, upholding a state law proscribing the possession and viewing of child por-

---

46. *See id.* at 756-64.

47. *See id.* at 764-65.

48. *See id.*

49. *See id.* at 773-74.

50. *See Ferber*, 458 U.S. at 762-63.

51. *Id.*

52. *See* Child Protection Act of 1984, Pub. L. No. 98-292, 98 Stat. 204 (1984) (codified as amended at 18 U.S.C. §§ 2252(b), 2253, 2254 (1991 & Supp. 1996)).

53. *Miller v. California*, 413 U.S. 15, 24 (1973) (establishing guidelines for the trier of fact to determine whether material is obscene: (1) whether the "average person, applying contemporary community standards" would find that the work as a whole appeals to the "prurient interest"; (2) whether the work depicts or describes in a "patently offensive" way, sexual conduct specifically defined the applicable state law; and (3) whether the work as a whole lacks serious literary, artistic, political, or scientific value).

54. Pub. L. No. 98-292, 98 Stat. 204 (1984); *see also* Burke, *supra* note 6, at 450.

55. 495 U.S. 103 (1990).

nography.<sup>56</sup> In upholding the statute, the Court explained that prohibiting the possession of child pornography would (1) reduce the demand for child pornography, and consequently, the supply; (2) encourage the destruction of child pornography; and (3) reduce the probability of a pedophile using the materials to "seduce" other children.<sup>57</sup>

The Court in this case went one step beyond *Ferber*, justifying a ban on production and distribution not solely based on the harm to the actual children exploited in the creation of materials, but also in the harm inflicted on the victims by pedophiles who use the materials to seduce them.<sup>58</sup> However, similar to *Ferber*, the Court held that the statute was not overbroad and that a scienter requirement of recklessness was necessary.<sup>59</sup>

Since computer networks began to facilitate the child pornography business, Congress passed the Child Protection and Obscenity Act of 1988.<sup>60</sup> This Act made it illegal to use a computer to send or receive child pornography, criminalized the possession of three or more pieces of child pornography, and imposed record keeping and disclosure requirements on the producers of specified sexually explicit materials.<sup>61</sup> Then, evidently in response to *Osborne*, Congress added this possession element in 1990.<sup>62</sup>

In *United States v. X-Citement Video*,<sup>63</sup> the Supreme Court found that, under the Child Protection and Obscenity Act, the government needed to prove that the defendant knew that a performer in child pornography was a real minor.<sup>64</sup> Even though the statute had no scienter requirement, the

---

56. See *id.* at 108-10.

57. See *id.* at 109-11.

58. See Adam J. Wasserman, *Virtual.Child.Porn.Com: Defending the Constitutionality of the Criminalization of Computer-Generated Child Pornography by the Child Pornography Prevention Act of 1996*, 35 HARV. J. ON LEGIS. 245, 254 (1998).

59. See *Osborne*, 495 U.S. at 113 (holding that the Ohio Supreme Court's interpretation cured the statute's facial overbreadth because it applied only where a child is in a state of nudity and such nudity constituted "a lewd exhibition or involves a graphic focus on the genitals").

60. Pub. L. No. 100-690, § 7501, 102 Stat. 4181 (1988) (codified as amended at 18 U.S.C. § 2252 (1991 & Supp. 1996)).

61. See Pub. L. No. 100-690, § 7501, 102 Stat. 4181 (1988) (codified as amended at 18 U.S.C. § 2252 (1991 & Supp. 1996)); see also Burke, *supra*, note 6, at 451.

62. See Child Protection Restoration and Penalties Enhancement Act of 1990, Pub. L. No. 101-647, § 311, 104 Stat. 4815, 4815-17 (1990) (codified as amended at 18 U.S.C. § 2252(a)(4) (Supp. 1996)).

63. 513 U.S. 64 (1994) (affirming conviction of video store salesperson who sold pornographic videos featuring an actress who was a minor).

64. Some have argued that the Court should have considered a scienter level of recklessness. See, e.g., Christina Egan, *Level of Scienter Required for Child Pornography Distributors: The Supreme Court's Interpretation of "Knowingly" in 18 U.S.C. § 2252*,

Court read the statute to require that the government prove that the defendant knew that the child was a minor because (1) if there were no scienter requirement, the statute would punish both distributors that did not know that the film contained an underage actor and distributors that did not know that the film was pornographic; (2) the Court generally interprets criminal statutes to include a scienter requirement even if they do not contain one; (3) the legislative history does not preclude the interpretation; and (4) cases such as this suggest that a child pornography statute that is silent regarding a scienter requirement as to age would probably be unconstitutional.<sup>65</sup> Thus, the Court's reinterpretation of the statute enabled it to avoid the constitutionality inquiry altogether.

In 1994, the statute was amended to punish the production or importation of sexually explicit depictions of a minor.<sup>66</sup> Lastly, in 1996, Congress amended the CPPA to include even mere possession of computer-generated or virtual child pornography.<sup>67</sup>

## II. DISCUSSION

Virtual child pornography is not the same thing as real child pornography because no actual child is harmed in its production. The CPPA sweeps too broadly.<sup>68</sup> By establishing an irrebuttable presumption that an image is real,<sup>69</sup> the CPPA has a chilling effect on virtual child pornography, which should be considered constitutionally protected speech.

---

86 J. CRIM. L. & CRIMINOLOGY 1341, 1342 (1996) ("The majority assumed that the statute required knowledge as the applicable level of scienter....The majority should have considered recklessness as an applicable scienter level."); Robert F. Schwartz, *Federal Child Pornography Law's Scienter Requirement—United States v. X-Citement Video, Inc.*, 28 HARV. C.R.-C.L. L. REV. 585, 586 (1993) ("Congress should amend the statute to include a recklessness requirement.").

65. See *X-Citement Video*, 513 U.S. at 68-78.

66. See Child Sexual Abuse Prevention Act of 1994, Pub. L. No. 104-208, § 121, 110 Stat. 3009, 3009-26 to 3009-31 (1996) (codified at 18 U.S.C. §§ 2252A, 2256 (1998)).

67. See 18 U.S.C. § 2252A (1998).

68. See John Schwartz, *New Law on 'Virtual' Child Porn is Criticized*, SEATTLE TIMES, Oct. 6, 1996, at A24. Referring to the CPPA, the legislative counsel for the ACLU, Daniel Katz stated, "[W]hat they're going to do is sweep up a great deal of constitutionally protected activity." *Id.* The CPPA, other critics note, will allow prosecution of legitimate works such as the movie *KIDS*, and will have a chilling effect on future films, such as new productions of *Lolita*. See *id.*

69. See *U.S. v. Hilton*, 999 F. Supp. 131, 137 (D. Me. 1998).

### A. While the *Hilton* Court Correctly Found the Statute Unconstitutional for Vagueness and Overbreadth, Its First Amendment Analysis Is Flawed

Although the court rightly found that the CPPA is unconstitutional for vagueness and overbreadth, its first avenue of inquiry should have been sufficient to find the statute unconstitutional because the regulation is not narrowly tailored to achieve a compelling state interest. After determining that the CPPA's restrictions were content-neutral,<sup>70</sup> the court explained that the secondary effects that accompany the viewing of virtual child pornography justify the use of the CPPA.<sup>71</sup> But the secondary effects of child pornography are too speculative to justify a ban that will effectively restrict constitutionally protected speech. Additionally, the CPPA is not narrowly tailored and fails to leave open sufficient alternative means of communication.

The connection between the viewing of virtual child pornography and causing harm to an actual child is too speculative, although the link between molestation and the viewing of pornography is highly contested.<sup>72</sup> The secondary effects doctrine parallels an argument presented by Catherine MacKinnon that the viewing of pornography causes men to rape women.<sup>73</sup> No statute currently uses her argument to justify the regulation of pornography.<sup>74</sup>

---

70. Determining whether the CPPA's restrictions are content-based or content-neutral is beyond the scope of this Note. For a persuasive argument that the CPPA's restrictions are content-based rather than content-neutral, see Gary Geating, Note, *Free Speech Coalition v. Reno*, 13 BERKELEY TECH. L.J. 389, 398-400 (1998).

71. See *Hilton*, 999 F. Supp. at 134.

72. See, e.g., David L. Hudson, Jr., *The Secondary Effects Doctrine: "The Evisceration of First Amendment Freedoms,"* 37 WASHBURN L.J. 55 (1997); Lesli C. Esposito, Note, *Regulating the Internet: The New Battle Against Child Pornography*, 30 CASE W. RES. J. INT'L L. 541, 541-46 (1998); Samantha L. Friel, Note, *Porn By Any Other Name? A Constitutional Alternative to Regulating "Victimless" Computer-Generated Child Pornography*, 32 VAL. U. L. REV. 207, 246-57 (1997).

73. See, e.g., Catharine A. MacKinnon, *Commentary, Pornography, Civil Rights, and Speech*, 20 HARV. C.R.-C.L. L. REV. 1, 43-69 (1985).

74. Two states, Minnesota and Indiana, have failed to adopt statutes using MacKinnon-style arguments. See *American Booksellers Ass'n v. Hudnut*, 771 F.2d 323 (1985), *aff'd*, 475 U.S. 1001 (1986) (holding unconstitutional an ordinance, based on MacKinnon's argument, that defines "pornography" as "the graphic sexually explicit subordination of women"); Edward A. Carr, Comment, *Feminism, Pornography, and the First Amendment: An Obscenity-based Analysis of Proposed Anti-Pornography Laws*, 34 UCLA L. REV. 1265, 1267 n.10 (1987) (citing Minneapolis, Minn., Ordinance Amending Title 7, Chapter 139 of the Minneapolis Code of Ordinances Relating to Civil Rights: In General (Dec. 30, 1983)). Two anti-pornography ordinances declaring pornography a

In describing the harmful secondary effects of viewing child pornography, the court pointed to the congressional findings discussed in *Osborne v. Ohio*,<sup>75</sup> stating that “child pornography is often used by pedophiles and sexual abusers to stimulate and whet their own sexual appetites.”<sup>76</sup> Thankfully, there is no law that criminalizes the stimulation or whetting of a citizen’s sexual appetite. Regardless of whether the sexual appetite stimulated is one that society classifies as “normal” or “deviant,” the act of stimulating the sexual appetite causes no harm unless acted upon unlawfully.

Additionally, the congressional findings, relied on by the court as evidence of the secondary effects of viewing child pornography, affirm that “child pornography is often used as part of a method of seducing children into sexual activity.”<sup>77</sup> Punishing the potential to commit a crime is punishing thought rather than action. This rationale is similar to prohibiting the sale of chemistry books because someone may use the equations of the books to create bombs.

The crime of using child pornography as a means to seduce should be differentiated from the act of viewing virtual child pornography, otherwise the CPPA is punishing pedophiles before they actually commit a crime—namely, those who view virtual child pornography, fantasize about it, but never harm a real child.<sup>78</sup> In *Osborne*, Justice Brennan pointed out that adult pornography could also aid a pedophile in the seduction of children.<sup>79</sup> However, the Court has refused to prohibit adult pornography based on similar arguments.<sup>80</sup> Before the anxiety surrounding *Lolita* and JonBenet Ramsey, the Court in *Ferber*—stressing the strong government interest in protecting actual children from sexual exploitation—suggested doing exactly what the CPPA prevents; that is, using young-looking adults

---

violation of a woman’s civil rights were vetoed by Minneapolis Mayor Don Fraser. See also Lee Siegel, *Censorship Foes Warn Sex Researchers of Anti-Pornography Efforts*, THE ASSOCIATED PRESS, Sept. 21, 1985, available in 1985 WL 2876267.

75. 495 U.S. 103, 109-10.

76. *Hilton*, 999 F. Supp. at 134 n.3 (1990) (citing Pub.L. No. 104-208, § 121(1)(4), 110 Stat. 3009 (1996)).

77. *Id.* (citing Pub. L. No. 104-208, § 121(1)(3), 110 Stat. 3009-26 (1996)).

78. See generally Alan Dershowitz, *Commentary, Don’t Criminalize ‘Virtual Reality,’* L.A. TIMES, June 6, 1996, at B7. (“[T]he vast majority of people who get their jollies from watching kids have sex do not engage in sex with children.”).

79. See *Osborne v. Ohio*, 495 U.S. 103, 145 (1990) (“The Attorney General’s Commission, however, determined that pedophiles are likely to use adult as well as child pornography to lower the inhibitions of a child victim.”).

80. See *id.* (“Thus, while acts of sexual abuse themselves may be outlawed, the private possession of photographs, magazines, and other materials may not.”).

or simulations as constitutionally-protected alternatives to the use of real children.<sup>81</sup>

Thus, the statute is not narrowly tailored because it would be less restrictive to punish the actual crime of using virtual child pornography to seduce a victim, rather than punishing all viewers of the pornography. The requirement that a regulation be "narrowly tailored" means that the interest cannot be equally well served by a means that is substantively less intrusive on First Amendment interests.<sup>82</sup> The use of virtual child pornography to seduce children should be punished as a separate offense, rather than punishing all possessors of virtual pornography as potential seducers.

Although the court held that the CPPA leaves open alternative means of communication,<sup>83</sup> the CPPA fails to do so. A content-neutral regulation must "leave open alternative channels for communication of the information."<sup>84</sup> In this case, however, the regulation forecloses all communication of a certain type. The CPPA restricts not merely the means of communication, but the form. The ability to say something *else* as opposed to the *same* speech in an alternative forum does not satisfy the "alternative means" requirement.<sup>85</sup>

## B. The Technology Leading to the CPPA

The use of technological advances to facilitate the creation of child pornography troubled Congress.<sup>86</sup> Technology changed the manner in which pornography could be created, distributed, and accessed. Prior to

---

81. See *New York v. Ferber*, 458 U.S. 747, 763 (1982).

82. See *Ward v. Rock Against Racism*, 491 U.S. 781, 799 (1989) (holding that narrow tailoring requires that the means chosen do not "burden substantially more speech than is necessary to further the government's legitimate interests").

83. This inquiry is relevant because the court claimed that the regulation was content-neutral, rather than content-based. See *supra* note 70 and accompanying text.

84. *Virginia State Bd. of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, 771 (1976).

85. See *Police Dep't of City of Chicago v. Mosley*, 408 U.S. 92, 96 (1972) ("[The] government may not prohibit others from assembling or speaking on the basis of what they intend to say."); RONALD D. ROTUNDA & JOHN E. NOWAK, *TREATISE ON CONSTITUTIONAL LAW* § 20.54 (2d ed. 1992) ("[A] time, place, or manner regulation must leave open ample alternative channels of communication so that the regulation does not effectively stifle the ability of those who would express the message to bring that message to the attention of the citizenry." (citation omitted)).

86. See *Child Pornography Prevention Act of 1995*, Hearing, Committee on the Judiciary, Senate, 97 CIS 52181 (1996) (including an analysis of Supreme Court decisions involving state laws to combat child pornography, perspectives on psychological harm to children caused by use of computer-generated images of children appearing to engage in sexually explicit conduct, and the role of pornography in promoting the sexual abuse of children).

the invention of the Internet, consumers and distributors of child pornography had to know each other or have connections to exchange materials. Underground networks facilitated the trade of photographs or videos through the mail or in person.<sup>87</sup> Currently, however, subscribers to bulletin boards can simply download graphic images through their modems to be able to view and print images.<sup>88</sup>

The anonymity available on the Internet hinders the detection of child pornography. A user can create any identity and transmit a message from California, through New Zealand, and then to Arkansas, making it impossible to determine the origin.<sup>89</sup> Furthermore, "anonymous remailers" enable a user to re-route outgoing messages by removing the source address, assigning an anonymous identification code number with the remailer's address, and forwarding it to the final destination.<sup>90</sup> Replies are likewise encoded, so the responder also remains anonymous. Encryption techniques further reduce the chances of detection. Through the use of a mathematical function and a key, encryption prevents those who do not have the key from accessing the files.<sup>91</sup>

Producing visual depictions has also become easier with time. Photographs can be input into a computer through scanners, which convert images into digital form that the user can save on a hard disk. For as little as \$100, hand-held scanners can provide adequate resolution, detail, and quality of images. Additionally, peripherals, such as a video camera device, can record both color video and sound from a VCR directly into the computer.<sup>92</sup> Further, the quality of images does not deteriorate as rapidly with time or reproduction as photographs do because the images are in digital form.<sup>93</sup>

Congress passed the CPPA specifically to address the technology that enables alteration of pictures of adults and children and the creation of computer-generated images.<sup>94</sup> The virtual images, called "morphs," are

---

87. See Attorney Gen. Comm'n on Pornography, Final Report (Meese Commission Report) (1986), U.S. Dept. of Justice 215, *reprinted in* Final Report of the Attorney General's Commission on Pornography 67 (1986).

88. See *United States v. Kimbrough*, 69 F.3d 723, 726 (5th Cir. 1995).

89. See Margaret A. Healy, *Child pornography: An International Perspective*, at § IV (visited Oct. 10, 1998) <<http://193.135.156.14/webpub/csechome/215e.htm>>.

90. See *id.*

91. See James Daly & Gary H. Anthes, *Internet Users Batten Down Hatches: Security Measures Are on More Users' Minds*, COMPUTERWORLD, Feb. 21, 1994, at 50.

92. See generally Healy, *supra* note 89.

93. See *id.*

94. See Pub. L. No. 104-208, § 121(1), (5), (6), 100 Stat. 3009, 3009-26, (1996) (noting that computer-imaging makes possible the (1) altering of sexually explicit pic-

often impossible to distinguish from pictures of real children.<sup>95</sup> Graphics software packages costing under \$500 enable users to create images and manipulate scanned images after reducing a photograph to binary form.<sup>96</sup> Moreover, computer animators can create three-dimensional images through specialized computers that have been designed to create animated images.<sup>97</sup> Such computer-generated animation has been used in movies like *Robocop 2* and *Total Recall*.<sup>98</sup> One method of creating computer-generated humans is by using clay to make a model and then digitizing the models, similar to *Gumby* cartoons.<sup>99</sup> Another technique involves digitizing images of humans and then using a computer to manipulate the images, matching the motions of a human that have been tracked and recorded by the computer.<sup>100</sup> Interestingly, these computer-generated images resemble—if are not by definition—artistic expression. Like art, virtual images are given life only by the imagination of their creators.

### C. The Standard Articulated by the Court in *Miller* Provides Sufficient Protection in the Distribution of Virtual Child Pornography

The Court's decision in *Miller* provides a reasonable way for the government to deal with the distribution of virtual pornography.<sup>101</sup> *Miller* established guidelines for the trier of fact to use in determining whether ma-

---

tures to make it appear that children are engaged in sexual activity; (2) producing visual depictions of children engaged in sexual activity to satisfy the preferences of pedophiles; and (3) altering innocent pictures of children to make it appear that children were engaging in sexual activity).

95. See Joseph N. Campolo, Note, *Childporn.Gif: Establishing Liability for On-line Service Providers*, 6 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 721, 735-37 (1996); Jason Wolfe, *Local Judge Rules Against Internet Child-Porn law, The Federal Law is Too Broad, Says U.S. District Court Judge Gene Carter, Dismissing Charges Against a Norway Man*, PORTLAND PRESS HERALD, Apr. 2, 1998, at A1.

96. See Campolo, *supra* note 95, at 735-36; James R. Norman, *Lights, Cameras, Chips!*, FORBES, Oct. 26, 1992, at 260.

97. See Norman, *supra* note 96, at 260.

98. See Kathleen K. Wiegner & Julie Schlaw, *But Can She Act?*, FORBES, Dec. 10, 1990, at 274.

99. See *id.*

100. See *id.*

101. *Miller v. California*, 413 U.S. 15; see also David J. Loundy, *Who Hasn't Noticed? Child Porn Already Illegal*, CHI. DAILY LAW BULLETIN, May 14, 1998, at 6. *But see* David B. Johnson, *Why the Possession of Computer-Generated Child Pornography Can Be Constitutionally Prohibited*, 4 ALB. L.J. SCI. & TECH. 311, 328 (1994) ("[P]rohibiting the possession of computer-generated child pornography will prevent sex crimes on children.").

terial is obscene.<sup>102</sup> Virtual child pornography is not real child pornography.<sup>103</sup> However, an explosion in the distribution of virtual pornography would make finding the real instances of child abuse among the sea of virtual images difficult, if not impossible. Advocates of the CPPA predict that under such circumstances, law enforcement officials will be unable to find the real cases of child exploitation.<sup>104</sup> Still, using the CPPA to control the proliferation of virtual pornography seems too harsh.

Two advantages stem from using the *Miller* test in regulating virtual child pornography over the tests used in *Osborne* or statutes akin to the CPPA. First, the potential explosion of virtual child pornography would not be a threat because the *Miller* standard would allow prosecution of truly "obscene" pictures. Second, the government would have to convince a trier of fact that the work is legally obscene.<sup>105</sup>

The obscenity standard used in *Miller v. California*<sup>106</sup> would suffice to regulate distribution of virtual child pornography. The obscenity standard already ensures that obscene pictures of child pornography (virtual or real) cannot be *legally* shown on the Internet.<sup>107</sup> Although the use of the obscenity test has problems because of its inherent subjectivity and uncertainty, no reason exists to extend regulation beyond the *Miller* test to allow a statute like the CPPA to restrict speech.

---

102. See *Miller*, 413 U.S. 15, 24 (discussing the standard).

103. The Child Sexual Abuse Prevention Act of 1994 already addresses the problem of real child pornography. See *supra* note 66 and accompanying text.

104. See Wasserman, *supra* note 58, at 269-71.

105. See *Miller*, 413 U.S. at 24-25; see also *supra* note 53 (discussing the standard).

106. See *Miller*, 413 U.S. at 24-25; see also Sean J. Petrie, Note, *Indecent Proposals: How Each Branch of the Federal Government Overstepped Its Institutional Authority in the Development of Internet Obscenity Law*, 49 STAN. L. REV. 637 (1997) (discussing the development of Internet obscenity law, offering a normative model for the process, and arguing that Congress and the Federal Communications Commission are the appropriate institutions to make regulations that apply existing laws to unique technologies and that when regulations involve new restrictions on speech, Congress and the FCC should narrowly tailor laws to conform with established First Amendment jurisprudence).

107. See Mike Godwin, *Children, Child Abuse, and Cyberporn: A Primer for Clear Thinkers* (visited Oct. 11, 1998) <[http://www.eff.org/pub/Publications/Mike\\_Godwin/kids\\_and\\_cyberporn\\_godwin.article](http://www.eff.org/pub/Publications/Mike_Godwin/kids_and_cyberporn_godwin.article)> ("[C]omputer-generated material that seems to depict children engaged in sexual activity but in the manufacture of which no child was used would not be child porn, although it almost certainly would be obscene in every community in this country."). However, the use of an obscenity standard has its problems. See, e.g., Dennis W. Chiu, *Comment, Obscenity on the Internet: Local Community Standards for Obscenity are Unworkable on the Information Superhighway*, 36 SANTA CLARA L. REV. 185 (1995) (discussing the difficulty in assessing community standards and definitions for obscenity, examining modern advances in communications, and suggesting possible solutions, including a national standard for determining obscenity).

Further, if the government must present its case to a fact finder, the propriety of the images will be a question of fact, rather than one of law, giving greater constitutional protection to the speech.<sup>108</sup> The *Miller* standard is better suited to address the distribution of virtual child pornography than is the *Ferber* test. The *Ferber* court explained that the harm caused to the child in production of child pornography gives sufficient reason for it to have an unprotected speech status.<sup>109</sup> But there is no harm to a real child in the creation of virtual child pornography. Moreover, the Court in *Ferber* also found that child pornography does not include drawings, sculptures, or written accounts of sex with children.<sup>110</sup> A computer-generated image certainly seems much more like a drawing or sculpture than a picture that captures live conduct with a real victim.

#### **D. The Courts Should Allow an Affirmative Defense for the Possession of Virtual Child Pornography**

The *Miller* standard is insufficient to deal with the main problem that technological advances pose—the difficulty of distinguishing real and virtual pornography for law enforcement purposes. The problem with the *Miller* test is that possession of virtual child pornography would not be a crime.<sup>111</sup> In *Stanley v. Georgia*,<sup>112</sup> the Court held that private possession of obscenity cannot be prohibited because the government may not control the moral content of a person's thoughts.<sup>113</sup>

However, using *Osborne* for guidance seems too encompassing. In *Osborne*, the Court held that possession of child pornography could be criminalized, regardless of whether it was “obscene,” in order to prevent the exploitation of children through pornography.<sup>114</sup> Again, virtual child pornography does not involve the use of an actual child, so the standard articulated in *Osborne* does not apply.

---

108. See Chiu, *supra* note 107 (discussing the problems of using community standards in determining obscenity on the Internet).

109. See *New York v. Ferber*, 458 U.S. 747, 764 (1982).

110. See *id.* at 762-63. Therefore, the regulations were limited to works that visually depict conduct by minors. The Court also stated that non-obscene depictions of sexual conduct that do not involve live performance or photographic or visual reproduction of live performances retain First Amendment protection. See *id.* at 764.

111. See *Stanley v. Georgia*, 394 U.S. 557, 568 (1969) (holding that that “the First and Fourteenth Amendments prohibit making mere private possession of obscene material a crime”).

112. 394 U.S. 557.

113. See *id.* at 566-68.

114. See *Osborne v. Ohio*, 495 U.S. 103, 110 (1990).

Given the difficulty in distinguishing images, however, an acceptable way of regulating virtual child pornography would be to create an affirmative defense for the possession of virtual pornography.<sup>115</sup> While it is true that child molesters are often convicted on the basis of the pictures that they possess,<sup>116</sup> viewers of virtual child pornography will not necessarily ever commit crimes against real children.<sup>117</sup> Allowing people who possess virtual pornography an affirmative defense would address law enforcement concerns while at the same time protecting a viewer's constitutional rights.

### III. CONCLUSION

The court came to the right result in *United States v. Hilton*, although its First Amendment analysis is flawed. However, the CPPA need not be redrafted to address the issue of virtual child pornography. By using the *Miller* standard to regulate the distribution of virtual child pornography and allowing possessors of virtual pornography an affirmative defense, the courts can respect both the constitutional rights of viewers of virtual pornography as well as law enforcement needs. Although child pornography poses a serious dilemma, a frenzied effort to protect children from a *potential* threat by eliminating virtual pornography endangers the Internet more than virtual pornography ever could.

---

115. See Friel, *supra* note 72, at 258-67.

116. See *12 Countries Target Web Pornography*, *supra* note 7 and accompanying text.

117. See Dershowitz, *supra* note 78, at B7.



## AMERICAN CIVIL LIBERTIES UNION OF GEORGIA V. MILLER

*By Patrick Weston*

Although it is becoming trite to say so, hardly anyone would dispute that the Internet is changing society.<sup>1</sup> As industrialized societies embrace and make use of the many benefits of this new technology, however, new issues and challenges emerge.

One such challenge is dealing with the ways in which the Internet can be used to facilitate fraud. The Internet enables a would-be perpetrator to come into contact with millions of people with much greater ease and much less cost than ever before. It further allows people to communicate and transact business in a world where identities are no longer apparent or easily verifiable, where transactions can be consummated at high speed, and where entities whom one encounters can be ephemeral and impossible to locate again.

In an attempt to confront these new issues, various governmental bodies are in the process of crafting new laws to protect society from the perceived dangers that this technological shift brings.<sup>2</sup> However, many of the early legislative responses to address the threat of crime on the Internet were drafted incautiously and have run into constitutional difficulties.<sup>3</sup> Statutes that attempt to regulate behavior on the Internet need to be drafted with sophistication, both to accomplish their purpose and to pass constitutional muster.

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. "The Internet is a network of networks—a decentralized, self-maintaining series of redundant links among computers and computer networks, capable of rapidly transmitting communications without direct human involvement or control. No organization or entity controls the Internet; in fact, the chaotic, random structure of the Internet precludes any exercise of such control." *American Libraries Assoc. v. Pataki*, 969 F. Supp. 160, 164 (S.D.N.Y. 1997).

2. See generally American Civil Liberties Union, *Online Censorship in the States* (last modified Mar. 25, 1998) <<http://www.aclu.org/issues/cyber/censor/stbills.html>> (citing examples of various attempts by states to regulate the Internet).

3. See, e.g., *American Civil Liberties Union v. Reno*, 929 F. Supp. 824 (E.D. Pa. 1996), *aff'd*, 521 U.S. 844 (1997) (striking down most of the Communications Decency Act); *Pataki*, 969 F. Supp. 160 (striking down a New York law prohibiting the distribution of material harmful to minors over the Internet); *ACLU of Ga. v. Miller*, 977 F. Supp. 1228 (N.D. Ga. 1997) (striking down a Georgia act prohibiting anonymity on the Internet).

In *ACLU of Georgia v. Miller*,<sup>4</sup> the U.S. District Court for the Northern District of Georgia enjoined that state from enforcing legislation aimed at preventing fraud on the Internet because the legislation was overbroad, vague, and not narrowly tailored to achieve a compelling state interest.<sup>5</sup> The court looked only to these factors in its succinct opinion because it found them sufficient cause to issue a preliminary injunction. However, there are additional reasons that make the Georgia legislation constitutionally flawed, and these reasons must be considered to achieve success with future Internet legislation. This Note examines the court's decision, as well as additional considerations presented by the Georgia legislation, and attempts to provide a framework for drafting legislation in the future.

## I. BACKGROUND

In early 1996, the Georgia legislature enacted a statute that endeavored to address fraud on the Internet. Georgia House Bill 1680, officially entitled the Georgia Computer Systems Protection Act ("the Act")<sup>6</sup> was passed in an attempt to combat "computer related crime," which the legislature found to be a "growing problem in the government and in the private sector."<sup>7</sup>

Many of the Act's provisions deal with crimes such as the unlawful theft or alteration of computer records and the unauthorized use of computer facilities. However, one section of the Act makes it illegal to "knowingly ... transmit any data through a computer network ... for the purpose of setting up, maintaining, operating, or exchanging data with an electronic mailbox, home page, or any other electronic information storage bank or point of access to electronic information" if such data is misleading.<sup>8</sup> The Act defines "misleading" data as either (1) data that "uses any individual name, trade name, registered trademark, logo, legal or official seal, or copyrighted symbol to falsely identify the person, organization, or representative transmitting such data," or (2) data that falsely implies that the sender has permission to use a trade name or other official mark.<sup>9</sup> Moreover, the Act contains a sweeping venue provision that allows an ac-

---

4. 977 F. Supp. 1228 (N.D. Ga. 1997).

5. *See id.* at 1234-35.

6. GA. CODE ANN. § 16-9-90 (1996).

7. GA. CODE ANN. § 16-9-91 (1996).

8. GA. CODE ANN. § 16-9-93.1 (1996).

9. *See id.*

tion to be brought in "any county from which, to which, or through which"<sup>10</sup> any prohibited computer transmission was made.

Ostensibly, the ban against transmitting the first kind of misleading data combats fraud by preventing individuals from disguising their identities, or even acting anonymously, with respect to Internet communications. Similarly, the ban against the second kind of data is designed to protect copyright and trademark holders from the unauthorized use of their names and symbols.

## II. THE DISTRICT COURT DECISION

On September 24, 1996, a group of plaintiffs led by the American Civil Liberties Union filed suit to have the Georgia law overturned.<sup>11</sup> They alleged that the Act was an infringement of their First Amendment rights, that it was overbroad, that it was impermissibly vague, and that it imposed an unconstitutional burden on interstate commerce in violation of the Commerce Clause of the United States Constitution.<sup>12</sup> The District Court granted a preliminary injunction, enjoining Georgia from enforcing section 16-9-93.1 of the Georgia Code.<sup>13</sup>

After finding the defendants' affirmative defenses to be unpersuasive,<sup>14</sup> the court considered the merits of three of the plaintiffs' claims. The court reasoned that because "the identity of the speaker is no different from other components of [a] document's contents that the author is free to include or exclude,"<sup>15</sup> the statute's prohibition of Internet transmissions

---

10. GA. CODE ANN. § 16-9-94(4) (1996) (emphasis added).

11. See *ACLU of Ga. v. Miller*, 977 F. Supp. 1228, 1228 (N.D. Ga. 1997).

12. See J. Scott McClain, *Plaintiffs' Complaint*, *ACLU v. Miller, Civil Action No. 1:96-cv-2475-MHS* (visited Oct. 14, 1998) <<http://www.aclu.org/issues/cyber/censor/GACOMPLT.html>>.

13. See *Miller*, 977 F. Supp. at 1235.

14. The defendants asserted two affirmative defenses: (1) that the plaintiffs lack standing to bring this action because they have not been prosecuted or threatened with prosecution, and (2) that the federal court should abstain from exercising jurisdiction because the law is ambiguous and in need of state court interpretation. However, the court found that plaintiffs do have standing because a credible threat of prosecution exists, and the rules of standing are relaxed in the First Amendment context where the alleged danger is one of self-censorship. The court also found that the Georgia statute was not subject to any limiting construction by a state court that would overcome its constitutional problems, and that abstention would impose a great burden on the plaintiffs by chilling their expression while they waited for a state court interpretation. Thus, the court decided that abstention was inappropriate in this case. See *id.* at 1231-32.

15. *Id.* at 1232 (citing *McIntyre v. Ohio Elections Comm'n*, 514 U.S. 334, 340-42 (1995)).

which “falsely identify” the sender constitutes a presumptively invalid content-based restriction.<sup>16</sup> In order to overcome this presumption of invalidity, defendants must demonstrate that the statute furthers a compelling state interest and is narrowly tailored to achieve that interest.<sup>17</sup> The court agreed with the defendants that fraud prevention is a legitimate state interest.<sup>18</sup> However, because the criminal prohibition applies whether or not a speaker has any intent to deceive or whether or not deception actually occurs, the court found that the statute was not narrowly tailored to meet that interest.<sup>19</sup> Instead, the court found that the statute “sweeps innocent, protected speech within its scope.”<sup>20</sup>

The defendants claimed that a variety of limiting concepts that narrow the scope of the statute should be included when interpreting it, but the court rejected the contention that intent requirements could be subsequently ‘grafted’ on to it when they did not appear in the language of the statute.<sup>21</sup> The court also rejected the defendants’ contention that the Act only applies to those who misappropriate the identity of another specific entity or person, noting that there is nothing in the language of the Act from which such a requirement could be reasonably inferred.<sup>22</sup>

The court thus concluded that the statute is not readily susceptible to a limiting construction and that the plaintiffs would likely prevail on their claim that the statute by its plain language imposes content-based restrictions that are not sufficiently tailored to promote a compelling state interest.<sup>23</sup>

The court also concluded that the statute was not drafted narrowly or precisely enough for a law that regulates speech because, on its face, the Act proscribes such protected speech as “[t]he use of false identification to avoid social ostracism, to prevent discrimination and harassment, and to protect privacy, as well as the use of trade names or logos in non-commercial educational speech, news, and commentary...”<sup>24</sup> This gives rise to recognized First Amendment problems because even if the statute

---

16. *See id.* (citing *R.A.V. v. St. Paul*, 505 U.S. 377, 382 (1992)).

17. *See id.* (citing *Sable Communications of California, Inc. v. FCC*, 492 U.S. 115, 126 (1989)).

18. *See id.*

19. *See* *ACLU of Ga. v. Miller*, 977 F. Supp. 1228, 1232 (N.D. Ga. 1997).

20. *Id.*

21. *See id.*

22. *See id.* Contrary to the defendants’ contention, the wording of the statute prohibits not only stealing another person’s name, but also inventing a pseudonymous name for oneself.

23. *See id.* 1233.

24. *Id.*

could properly be used to prosecute those who commit outright fraud, it still operates unconstitutionally for a substantial portion of the speakers it covers.<sup>25</sup>

Finally, the court found that the plaintiffs were likely to succeed on their claim that the Act is unconstitutionally vague because the statute "(1) does not give fair notice of the conduct it proscribes; (2) is conducive to arbitrary enforcement; and (3) infringes upon plaintiffs' free expression."<sup>26</sup> The Act does not give fair notice because key terms such as "falsely identify," "use," "falsely imply," and "point of access to electronic information" are undefined in the statute.<sup>27</sup> The Act also creates the risk of arbitrary enforcement because it fails to notify law enforcement officials of exactly what conduct is prohibited—affording police and prosecutors considerable room for selective prosecution of persons who express minority viewpoints.<sup>28</sup> The Act is especially harmful, however, because it chills protected expression: due to plaintiffs' inability to discern what exactly the act prohibits, they are forced to restrict legitimate behavior, and this self-censorship would continue without court intervention.<sup>29</sup>

The court thus felt that the plaintiffs were likely to prevail on these three claims and granted a preliminary injunction against state enforcement of Georgia Code Section 16-9-93.1.<sup>30</sup> The court noted that "the public interest weighs in favor of having access to a free flow of constitutionally protected speech."<sup>31</sup>

### III. DISCUSSION

#### A. Issues Presented by the Internet

Fraudulent practices crop up in the online world just as they do in other aspects of our lives. To some extent, these cyberspace abuses are merely on-line versions of more conventional mail and telephone scams.<sup>32</sup>

---

25. See *Village of Shaumburg v. Citizens for a Better Environment*, 444 U.S. 620, 634 (1980); *ACLU of Ga. v. Miller*, 977 F. Supp. 1228, 1233 (N.D. Ga. 1997).

26. See *Miller*, 977 F. Supp. at 1234.

27. See *id.*

28. See *id.*

29. See *id.*

30. See *id.* at 1234-35.

31. *Id.* at 1235 (citing *American Civil Liberties Union v. Reno*, 929 F. Supp. 824, 851 (E.D. Pa. 1996)).

32. For example, pyramid schemes and chain letters are just as easy to propagate through e-mail as they are through traditional mail. See generally Jo-Ann M. Adams, *Controlling Cyberspace: Applying the Computer Fraud and Abuse Act to the Internet*, 12 SANTA CLARA COMPUTER & HIGH TECH. L.J. 403, 408-15 (1996).

However, the Internet's unique characteristics have also been exploited to perpetrate new types of fraudulent harms.

The characteristics that tend to make online consumer abuse unique and, perhaps, more challenging to confront than fraudulent activities associated with more traditional means of communication are the same characteristics that give the Internet its strength. One commentator has suggested that there are four such inherent characteristics of the Internet: (1) accessibility, (2) anonymity, (3) transience, and (4) interactivity.<sup>33</sup> Exploring these characteristics and coming to an understanding of how they function provides a solid foundation from which to analyze the shortcomings of the Georgia legislation and to suggest how Internet legislation could be better drafted in the future.

### 1. Accessibility

Practically anyone with a computer and a phone line can obtain access to the web and an e-mail address.<sup>34</sup> Once an e-mail address is established, it is possible for a user to send and receive substantially unlimited numbers of messages without paying any additional fees. Moreover, there are easily accessible programs that enable the same message to be sent to thousands of recipients with merely a few keystrokes. For example, virtually anyone can send sales information to countless potential buyers (or victims) cheaply and with ease. Similarly, practically anybody can set up a web page and place content on the Internet for anyone else to see.<sup>35</sup>

As a result, the Internet makes it possible for a person to disseminate information to millions of other users almost effortlessly and at little or no cost. Unlike traditional media, the barriers to entry as a speaker on the Internet do not differ from the barriers to entry as a listener.<sup>36</sup> In other words, traditional mass-communications media like newspapers or television make it very easy for one to receive information, but it is very expensive for an individual to utilize them to disseminate information. Tradi-

---

33. See Barry Fraser, *Regulating the Net: Case Studies in California and Georgia Show How Not To Do It*, 9 LOY. CONSUMER L. REP. 230, 235 (1997).

34. Indeed, many services such as Hotmail and Juno (among others) offer free e-mail addresses to anyone who wants them. See, e.g., Juno, *Juno Home Page* (visited Feb. 20, 1999) <<http://www.juno.com/>>; MSN Hotmail, *The World's FREE Web-Based Email* (visited Feb. 20, 1999) <<http://www.hotmail.com/>>.

35. Some companies like GeoCities even offer free space for users to create web pages. See, e.g., GeoCities, *Home Pages & Beyond* (visited Feb. 20, 1999) <<http://www.geocities.com/>>.

36. See *American Civil Liberties Union v. Reno*, 929 F. Supp. at 843; see also Ian C. Ballon, *The Law of the Internet: Developing a Framework for Making New Law (Part I)*, 2 CYBERSPACE L. 12 (1997).

tionally, in order to reach such large numbers of people one had to incur large costs in the form of print media advertising to a national/worldwide audience, direct phone solicitation, direct mail campaigns, or other similar methods. For example, corporations have paid over a million dollars for a few seconds of television airtime to send a message to the viewing audience of the Super Bowl.<sup>37</sup> When using the Internet, on the other hand, an individual can receive information from, or send information to, millions of people for the same miniscule cost.

## 2. Anonymity

It is quite simple for users of the Internet to communicate or exchange information anonymously or under a pseudonymous identity.<sup>38</sup> Many e-mail addresses and web sites contain little, if any, information that reveals the true identity or physical location of their owners.<sup>39</sup> Moreover, the use of "anonymous remailers" allows Internet users to obscure further their true identities by having all identifying information stripped from electronic messages before they reach their recipients.<sup>40</sup>

There are many advantages to the ability to communicate anonymously in cyberspace. Anonymity allows users to espouse unpopular ideas without fear of retaliation, victims of crime or disease are able seek advice without stigma, and citizens can freely engage in political speech without identifying themselves to those in power.<sup>41</sup> Additionally, anonymity helps users maintain their privacy and security, as well as prevent the amassing of personal information about them, such as their viewing or shopping habits on the Internet.<sup>42</sup>

However, anonymity poses problems as well. Because it allows users to hide their true identities, they can do great harm to others without being

---

37. Thirty-second advertising spots during the 1998 Super Bowl cost \$1.3 million on average. See Tammi Wark, *Milestones That Marked Our Year: What Will 1998 Be Remembered For?*, USA TODAY, Dec. 30, 1998, available in 1998 WL 5745984.

38. See generally Lee Tien, *Who's Afraid of Anonymous Speech? McIntyre and the Internet*, 75 OR. L. REV. 117 (1996).

39. See J. Scott McClain, *Plaintiffs' Complaint*, ACLU v. Miller, *Civil Action No. 1:96-cv-2475-MHS* (visited Oct. 14, 1998) <<http://www.aclu.org/issues/cyber/censor/GACOMPLT.html>>. See also *Reno v. American Civil Liberties Union*, 117 S. Ct. 2329, 2337 n.20 (1997) ("An e-mail address provides no authoritative information about the addressee, who may use an e-mail 'alias' or an anonymous remailer. There is no universal listing of e-mail addresses and corresponding names or telephone numbers, and any such listing would rapidly become incomplete.") (internal citations omitted).

40. See McClain, *supra* note 39.

41. See *id.*

42. See *id.*

held accountable.<sup>43</sup> “Law enforcement officials or lawyers seeking to file a civil suit might not be able to identify an individual to hold responsible.”<sup>44</sup> Indeed, this problem can become especially troublesome to consumers because it provides an easy way for fraudulent business to be transacted with almost no direct means of accountability.

Imagine, for example, that in order to buy a product in the real world you had to hand cash to someone you did not know in a car with tinted windows and no license plates, who would then drive away promising that your purchase would arrive by mail next week. If the product then failed to arrive, what recourse would you have? Practically none—which is exactly why most people would think it extremely foolish to transact business in this fashion. In some fundamental ways, buying goods on the Internet is not that much different: it is not necessary for a sales site to have a physical store location, an address, a phone number, or face-to-face contact when transacting business. As a result, it can be very difficult for the buyer to find an avenue of recourse if the transaction goes sour. It is true that most successful commerce sites are not so anonymous, otherwise wary customers would avoid them. However, the potential does certainly exist for imprudent users to be defrauded.

### 3. *Transience*

Any web page or e-mail address can be changed or removed by its owner without notice to other users of the Internet.<sup>45</sup> Furthermore, a user can easily maintain multiple e-mail addresses and web sites and can duplicate them or change their location with minimal effort. The transient nature of the Internet has the two-fold effect of making the Internet both an energetic and stimulating place to exchange information, and a haven for malefactors who want to cover their tracks and avoid capture.

As a simple example, a person operating a fraudulent business on the Internet could operate numerous similar sites simultaneously. Then, if a victim visited one of these sites and later attempted to find out who deceived her, it would be nearly effortless for the web-site owner to make that particular site disappear completely—while at the same time creating

---

43. See Anne Wells Branscomb, *Anonymity, Autonomy, and Accountability: Challenges to the First Amendment in Cyberspaces*, 104 YALE L.J. 1639, 1642-43 (1995).

44. *Id.*

45. Although some are endeavoring to make and maintain massive archive copies of the entire web, even arguably the most ardent supporter of such a project concedes that it may never be practical or possible to keep a copy of all the data available on the Internet. See Brewster Kahle, *Archiving the Internet* (last modified Mar. 2, 1998) <[http://www.archive.org/sciam\\_article.html](http://www.archive.org/sciam_article.html)>.

another site somewhere else to carry on the shady transactions. Hence, the transient nature of the Internet can eliminate much of the evidence trail and the costs of physical relocation which would burden a fraudulent operation in more traditional marketplaces.

#### 4. *Interactivity*

The Internet provides a way for users to communicate in real time, unburdened by physical distance, and to exchange a wealth of information with only a few keystrokes. This interactivity makes the Internet ideally suited for electronic commerce because it allows consumers to find information and conduct business transactions almost instantaneously—from any location and at any time. Despite its benefits, the interactivity of the Internet also makes it conducive to fraud because it is very easy for the unsophisticated user to disclose personal or financial information to unknown or anonymous parties who may fraudulently use such information.

The interactivity of the Internet allows entire transactions, from offer and acceptance to payment, to be completed with a few mouse-clicks. Transactions can occur immediately, and the buyer's credit card or bank account can be debited within seconds.<sup>46</sup> Indeed, forms of "cybercash" are emerging that can be used to make payments and bypass traditional credit card companies and financial institutions altogether.<sup>47</sup> Because the whole transaction can happen so quickly, there is no delay to protect a buyer from making a hasty or uninformed purchase, nor is there any grace period for the buyer to change his mind or to verify the quality of the product.<sup>48</sup> For example, it is easy to use the Internet to purchase anything from a book to airline tickets to an expensive computer system. Thus, while the interactivity of the Internet benefits consumers by reducing the cost and time needed to transact business, this characteristic also inherently removes some of the protections that consumers have traditionally relied on, making consumers more vulnerable to fraud.

---

46. *See id.*

47. *See generally* Simson Garfinkel, *Dumb Money* (visited Jan. 30, 1999) <<http://www.hotwired.com/packet/garfinkel/96/44/geek.html>>.

48. *See Fraser, supra* note 33, at 238 (citing Consumer Protection Policy, 425 Trade Reg. Rep. (CCH) F.T.C. Staff Report Vol. II, 22 at 28-29 (June 12, 1996), *also available at* <<http://www.ftc.gov/WWW/opp.global.htm>> (visited Sept. 23, 1998)).

## B. Internet Regulation Needs to Be Narrowly Tailored to Address Specific, Harmful Conduct While Not Proscribing Useful Or Protected Conduct

The first problem with the Georgia Act is that a requirement of malicious intent is absent for the conduct that it proscribes. The proponents of the Georgia Act claim that it does not outlaw all anonymous communications or all uses of pseudonyms, but only fraudulent computer use where such behavior makes it troublesome to hold wrongdoers accountable.<sup>49</sup> However, the Act contains no limitations that require deceptive intent or practice. On its face, the Act “prohibits such protected speech as the use of false identification to avoid social ostracism, to prevent discrimination and harassment, and to protect privacy, as well as the use of trade names or logos in non-commercial educational speech, news, and commentary—a prohibition with well-recognized first amendment problems.”<sup>50</sup>

The Act is overbroad because it “sweeps protected activity within its proscription.”<sup>51</sup> As a result, the court concluded that the statute was not “drafted with the precision necessary for laws regulating speech.”<sup>52</sup> Thus, even if the statute would serve the state’s purported interest in preventing certain types of fraud, it is still overbroad because it functions unconstitutionally for a substantial number of the speakers and activities it covers.<sup>53</sup>

The right to publish and speak anonymously is a right that dates back to the founding of our country. One commentator has noted, “At the time the first amendment was adopted, the device of anonymous political authorship was well known, and utilized by many of the founding fathers.”<sup>54</sup> The Supreme Court has recently re-affirmed the constitutional right to anonymity in *McIntyre v. Ohio Elections Commission*,<sup>55</sup> stating that “[a]nonymous pamphlets, leaflets, brochures and even books have

---

49. See generally *Brief in Opposition to Plaintiff’s Motion For Preliminary Injunction*, ACLU of Ga. v. Miller (No. CIV.A.1:96CV2475MHS) (visited Oct. 2, 1998) <<http://www.inteliview.com/aclubpi.txt>>.

50. ACLU of Ga. v. Miller, 977 F. Supp. 1228, 1233 (N.D. Ga. 1997).

51. M.S. News Co. v. Casado, 721 F.2d 1281 (10th Cir. 1983) (citing *Erznoznik v. City of Jacksonville*, 422 U.S. 205, 212-13 (1975)).

52. *Miller*, 977 F. Supp. at 1233.

53. See *id.* (citing *Village of Schaumburg v. Citizens for a Better Environment*, 444 U.S. 620, 634 (1980)).

54. Comment, *The Right to Anonymity*, 70 YALE L.J. 1084, 1085 (1961). Indeed, anonymous speech played an important role in the founding of our country: Thomas Paine wrote his momentous pamphlet “Common Sense” under a pseudonym, and the Federalist Papers, published during the debates surrounding the formation of the Constitution, were published anonymously.

55. 514 U.S. 334 (1995).

played an important role in the progress of mankind.... Persecuted groups and sects from time to time have been able to criticize oppressive practices and laws either anonymously or not at all."<sup>56</sup> The Court went on to state that not "all anonymous publications are pernicious," and that First Amendment freedoms cannot be nullified because of anonymity alone.<sup>57</sup>

The Court held that prohibiting anonymity is a content-based regulation because "the identity of the speaker is no different from other components of the document's content that the author is free to include or exclude."<sup>58</sup> On two other occasions, the Supreme Court held that "content-based restrictions are presumptively invalid,"<sup>59</sup> and that the government may regulate the content of protected speech only to promote a "compelling interest" and only "if it chooses the least restrictive means to further the articulated interest."<sup>60</sup>

Therefore, by endeavoring to prohibit all anonymous activity and not just harmful anonymous activity, the Georgia Act violates First Amendment protections. If the Act was aimed at preventing all anonymous speech on the Internet, then Georgia clearly lacks a compelling state interest and runs afoul of the Constitution. If, on the other hand, Georgia genuinely desired to prevent Internet fraud, then the legislature should have been more specific in the wording of the statute.

Although the Supreme Court said in *McIntyre* that anonymity per se could not be outlawed, it left open the question of whether a law prohibiting anonymity that was narrowly-tailored to prevent fraud and deception might survive a First Amendment challenge.<sup>61</sup> Like the Georgia Act, the Ohio statute that was struck down in *McIntyre* contained no language that indicated it was solely intended to prevent malicious uses of anonymity. The court's finding in *Miller* that the Georgia statute was vague and overbroad, as well as its reliance on *McIntyre*, suggests that a narrowly-tailored statute, which prohibits anonymity only when used injuriously,

---

56. *Id.* at 341-42 (striking down an Ohio statute prohibiting anonymous distribution of campaign literature, and quoting *Talley v. California*, 362 U.S. 60, 64 (1960), which declares unconstitutional a California ordinance that prohibited the distribution of anonymous handbills).

57. *See McIntyre v. Ohio Elections Comm'n*, 514 U.S. 334, 341 (1995).

58. *Id.* at 348.

59. *R.A.V. v. St. Paul*, 505 U.S. 377, 382 (1992).

60. *Sable Communications of California, Inc. v. FCC*, 492 U.S. 115, 126 (1989).

61. *See McIntyre*, 514 U.S. at 343-44. *See also* Justice Ginsburg's concurrence, which states that while Ohio lacked cause for inhibiting the anonymous political leafletting at issue, "[w]e do not thereby hold that the State may not in other, larger circumstances, require the speaker to disclose its interest by disclosing its identity." *Id.* at 358 (Ginsburg, J., concurring).

might serve a sufficiently compelling interest to survive First Amendment scrutiny. Although it remains untested in the courts, a change in the law as basic as inserting a malicious intent requirement to make anonymous communication illegal could be enough to allow the law to serve a compelling interest, and be sufficiently narrowly tailored to be constitutional.

When drafting future legislation aimed at preventing crime on the Internet, then, lawmakers should not constrain the characteristics of the Internet that make it a unique form of communication (such as anonymity). Instead, future legislation should focus on outlawing the application of these qualities for criminal or harmful purposes. In this way, it can target the behavior that is criminal and serve a compelling interest without being too broad and proscribing harmless, protected speech.

### **C. Internet Regulation Needs to Be Well-Defined And Clearly Drafted so that Proscribed Conduct will Be Readily Apparent**

The Georgia Act as written also presents problems under the void-for-vagueness doctrine.<sup>62</sup> Under this doctrine, a statute is unconstitutionally vague if it does not “define the criminal offense with sufficient definiteness that ordinary people can understand what conduct is prohibited and in a manner that does not encourage arbitrary and discriminatory enforcement.”<sup>63</sup>

Because the Act fails to define key terms, it fails to give satisfactory notice of the scope of prohibited conduct to ordinary people. For instance, reasonable minds could differ as to the meaning of a “point of access to electronic information.” Is it a computer linked to the Internet? A fax machine? A telephone? The Georgia legislature probably would not attempt to go so far as to say everyone must positively identify themselves when placing a simple phone call, but it is evident that the wording of the Act can lead to confusion. This ambiguity also creates a risk of arbitrary enforcement because it fails to advise law enforcement officials of exactly what conduct is illegal, thus opening the door to the evil of selective enforcement.

The Act’s vagueness is especially injurious because it chills protected expression. Because it is not clear exactly what conduct is prohibited, users are forced to resort to self-censorship, and to refrain from some faultless and legitimate behaviors to avoid the threat of prosecution. Future legislation could avoid this problem quite simply by using clearer drafting and terminology that is more precisely defined. Rather than use vague

---

62. See *ACLU of Ga. v. Miller*, 977 F. Supp. 1228, 1234 (N.D. Ga. 1997).

63. *Id.* (citing *Kolender v. Lawson*, 461 U.S. 352, 357 (1983)).

terms to refer to a myriad of developing technologies and leave the interpretation up to the courts, statutes must either use more precise terms, such as “e-mail,” “web page,” “on-line commercial transaction,” and “Internet server,” or explicitly define the terms that they do use so that there is no confusion as to what conduct is prohibited.

Although those with technical backgrounds will protest that these terms are not absolutely precise themselves, such terms are nonetheless much clearer than language such as “any point of access to electronic information.” For example, confusion could be eliminated if the law instead said something like, “It shall be illegal, with the intent to defraud, either to send anonymous e-mail messages or maintain web sites that do not clearly identify the owner.”

#### **D. Internet Regulation Needs to Be Drafted so as not to Place Undue Burdens on the Entire Country/World**

Although the court in *Miller* did not reach this issue, it is highly likely that the Georgia Act also runs afoul of the Commerce Clause of the United States Constitution<sup>64</sup> because it restricts online communications occurring entirely outside the state of Georgia.<sup>65</sup> The Act’s venue provision authorizes prosecutions in any Georgia county “from which, to which, *or through which* any [prohibited] use of a computer or computer network was made.”<sup>66</sup> This presents a number of problems.

First, the Act restricts communication from anywhere in the world that takes place in an online public forum because these online forums can be accessed by users in Georgia.<sup>67</sup> If, for example, a user in Oregon posts a message to an Internet discussion group under a pseudonym, another user in Georgia may access and read that message—thereby subjecting the Oregon author, posting her message in Oregon, to prosecution in Georgia.

Second, the Act affects direct communication between people entirely outside Georgia, because the nature of the Internet is such that a message may follow any of hundreds of unpredictable routes between various computers to get to its intended recipient. It is entirely possible that, completely unknown to the sender or the receiver (who could be anywhere in

---

64. U.S. CONST. art. I, § 8.

65. See *Brief in Support of Motion for Preliminary Injunction*, ACLU v. Miller (last modified Dec. 11, 1997) <<http://www.aclu.org/issues/cyber/censor/GABRIEF.html>> (visited on Oct. 14, 1998) [hereinafter *ACLU’s Brief*].

66. Ga. Code Ann. § 16-9-94(4) (1996) (emphasis added).

67. See *ACLU’s Brief*, *supra* note 65.

the world), a given message may have passed through some computer or wire somewhere in Georgia, placing both parties at risk of prosecution.<sup>68</sup>

Third, it is practically impossible to determine the specific geographic location of a site on the world wide web. Hence, the Act affects the ability of any online user to access web pages anonymously for fear that the site they are accessing might, unbeknownst to them, be located on a computer in Georgia and subject them to prosecution as a result.<sup>69</sup>

Finally, the Act affects the ability of any person to *publish* a page on the web, regardless of where she lives, because there is no realistic way to prevent someone in Georgia from accessing her site. As a result, a web publisher anywhere in the world must comply with the Georgia Act's restrictions or risk prosecution.<sup>70</sup>

Thus, the wording of the statute clearly places many burdens on online users regardless of where they live. Any Internet user must comply with the terms of the Georgia statute or risk prosecution in Georgia, even if they had no knowledge or intent that their communication was passing through, or being read in Georgia. Because the Act applies to all interstate Internet communications (including business transactions) that merely pass through Georgia, the law essentially has the effect of regulating a sizable amount of activity occurring entirely outside the state, and is most likely in violation of the dormant Commerce Clause.<sup>71</sup>

The dormant Commerce Clause may preclude the entire field of online communications from state regulation.<sup>72</sup> Because information on the Internet flows between computers without regard to geographic boundaries, any regulation of online communication by one state could very easily apply to users everywhere. And if states imposed different regulations on online communications, every user would be subject to conflicting standards because online information is accessible from—and could travel

---

68. *See id.* As a basic example, if one person in California sends an e-mail message to another person in California, there is no way of predicting which computers or wires it will pass through to get from the sender to the receiver. Unbeknownst to either of them, the message could briefly pass through a computer in Georgia along the way, and subject both parties to criminal prosecution there even though they are both in California!

69. *See id.*

70. *See id.*

71. When a state statute directly regulates interstate commerce, the Supreme Court has generally "struck down the statute without further inquiry." *Brown-Forman Distiller's Corp. v. New York State Liquor Auth.*, 476 U.S. 573, 579 (1986). *Accord Healy v. Beer Institute*, 491 U.S. 324, 336 (1989); *Edgar v. MITE Corp.*, 457 U.S. 624, 643 (1982); *Baldwin v. G.A.F. Seelig, Inc.*, 294 U.S. 511, 521 (1935).

72. *See ACLU's Brief, supra* note 65.

through—every state in the nation.<sup>73</sup> Under this theory, online communications would be precluded from state regulation because “[t]he Internet is one of those areas of Commerce that must be marked off as a natural preserve to protect users from inconsistent [state] legislation that, taken to its most extreme, could paralyze the development of the Internet altogether.”<sup>74</sup>

Perhaps the solution to this problem is for a state to draft its laws such that they only apply to people who are physically located in (that is, send information from, or access information while in) that state. Admittedly, this is an imperfect solution because someone could evade such a law by merely re-locating in another state. A more palatable solution might be for the federal government to exercise its Commerce Clause powers and promulgate federal laws that regulate conduct on the Internet, so that there is a uniform national standard and method for confronting the necessarily interstate problem of computer fraud.<sup>75</sup> The court in *American Libraries Association v. Pataki*,<sup>76</sup> following this theory, stated that “the Commerce Clause ordains that only Congress can legislate in [the area of Internet regulation], subject, of course, to whatever limitations other provisions of the Constitution (such as the First Amendment) may require.”<sup>77</sup> Indeed, there already is some federal response to the problem of fraud on the Internet: the Department of Justice has a computer crimes unit that investigates online crimes, the Federal Trade Commission monitors online advertising and commercial services, and the Securities and Exchange Commission watches financial chatter in cyberspace.<sup>78</sup>

---

73. See generally *CTS Corp. v. Dynamics Corp. of Am.*, 481 U.S. 69, 88 (1987); accord *American Libraries Ass’n v. Pataki*, 969 F. Supp. 160 (1997) (holding that a New York statute making it a crime to use a computer to disseminate obscene material to minors violated the Commerce Clause).

74. *American Libraries Assoc. v. Pataki*, 969 F. Supp. 160, 169 (S.D.N.Y. 1997). For other examples of channels of interstate commerce exempt from state regulation, see, e.g., *Southern Pacific Co. v. Arizona*, 325 U.S. 761 (1945) (finding the length of train cars exempt from state regulation), and *Wabash St. L. & P Ry. Co. v. Illinois*, 118 U.S. 557 (1886) (holding railroad rates exempt from state regulation).

75. We already have federal statutes that deal with wire fraud, mail fraud, interstate transportation of stolen goods, etc. In addition, see the Computer Fraud and Abuse Act, 18 U.S.C. § 1030, which could be utilized to provide a federal solution for combating crime on the Internet. See generally *Adams*, *supra*, note 32, at 420-31.

76. 969 F. Supp. 160 (S.D.N.Y. 1997).

77. *Id.* at 169.

78. See Claire Ann Koegler, *The Information Highway Patrol: Here Come the Cybercops*, 22 NOVA L. REV. 513, 525-26 (1998).

#### IV. CONCLUSION

As one commentator has said, "Although the Georgia Act does succeed in identifying anonymity, accessibility, and transience as the basis for many consumer harms, it tries to deter these harms by prohibiting activities that are essential to the character of the medium,"<sup>79</sup> resulting in a "failure to properly balance the important issues of free speech, intellectual property rights, and criminal intent."<sup>80</sup> Although the law may have been intended to protect legitimate state interests, the result is constitutionally flawed and difficult to apply without severely handicapping the essential nature of the Internet.

In order to succeed at curtailing the crime that exists on the Internet, legislators must act with some sophistication rather than mere brute force. They must avoid prohibiting essential activities, and they must recognize that curtailing behavior on the Internet presents some constitutional issues as well. The Supreme Court has said that the Internet is a "unique and wholly new medium of worldwide human communication,"<sup>81</sup> and, moreover it is "the most participatory form of mass speech yet developed, [and] is entitled to the highest protection from governmental intrusion."<sup>82</sup> Any attempt to curtail speech on the Internet, therefore, will raise First Amendment issues and be subject to the strictest scrutiny by the courts. Additionally, because of the fundamental way the Internet is assembled, any state attempt to regulate it might affect users everywhere and might raise issues under the Commerce Clause, as well, unless such regulations are carefully drafted.<sup>83</sup>

In *Miller*, the court indicated that the Georgia legislation was overbroad. Successful and effective Internet legislation, therefore, needs to be narrowly tailored to address specific harmful conduct while not proscribing useful or protected conduct. The court also found it likely that the Georgia legislation was void for vagueness. Hence, new laws need to be clearly drafted so that the conduct they do proscribe will be readily apparent. Finally, any state legislation regulating the Internet needs to be written in such a way that it does not place undue burdens on users outside that state.

---

79. *Fraser*, *supra* note 33, at 243.

80. *Id.*

81. *Reno v. American Civil Liberties Union*, 521 U.S. 844, 117 S. Ct. 2329, 2334 (1997) (quoting *American Civil Liberties Union v. Reno*, 929 F. Supp. 824, 844 (E.D. Pa. 1996)).

82. 117 S. Ct. at 2340 (quotations omitted).

83. *See American Libraries Assoc. v. Pataki*, 969 F. Supp. 160 (S.D.N.Y. 1997).

**BERKELEY TECHNOLOGY LAW JOURNAL**  
**ANNUAL REVIEW OF LAW AND TECHNOLOGY**

**TELECOMMUNICATIONS**



## SOUTHWESTERN BELL V. FCC

By *Laura Lakin McDaniels*

The chameleon-like nature of the Internet poses thorny questions for the regulators of communications. The Federal Communications Commission (FCC) has carefully built regulatory regimes over several decades governing the telephone, broadcast and cable industries. In the telecommunications industry, the FCC constructed a private/common carrier<sup>1</sup> regulatory regime, whereby so-called private carriers are exempted from regulation in the interest of promoting competition and innovation. But with the convergence of computers and communications, the FCC must perform intellectual contortions to preserve this regulatory dichotomy.

The recent debate surrounding access charges exemplifies the agency's struggle. In the *Access Charge Reform Order*,<sup>2</sup> recently upheld in *Southwestern Bell v. FCC*,<sup>3</sup> the FCC reaffirmed the exemption given to Internet service providers (ISPs) from paying access charges to local telephone companies. But the status quo system threatens to place inconsistent requirements on competing enterprises as ISPs begin to offer services that directly compete with other regulated carriers—namely IP telephony.<sup>4</sup> Because the *Southwestern Bell* court did not address this concern for regulatory neutrality, this decision is not the last word on FCC regulation of ISPs. Thus, in addition to examining the Eighth Circuit's analysis, this Note discusses the potential for future regulation of ISPs and argues that

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

<sup>1</sup> Title II of the Communications Act of 1934 (the "1934 Act") governs telecommunications carriers that qualify as common carriers. See Communications Act of 1934, ch. 652, 48 Stat. 1046 (codified at 47 U.S.C. § 151 *et seq.*). The 1934 Act does not define "common carrier," but the term has come to mean a carrier that holds itself out as serving all comers. See National Ass'n of Regulatory Comm'rs v. FCC, 525 F.2d 630, 640-42 (D.C. Cir. 1976). Common carriers must be certificated by the FCC, and are subject to various restrictions, requirements and fees.

<sup>2</sup> *In re Access Charge Reform*, 12 F.C.C.R. 15,982 (1997) [hereinafter *Access Charge Reform Order*]. An agency order sets into place a new regulation or policy. It is issued at the end of a proceeding in which interested parties are given notice of the proceeding and the tentative conclusions of the agency. Parties may then file comments with the agency and may also participate in hearings. The final order must demonstrate that the agency considered all comments and must give a rational basis for its decision.

<sup>3</sup> 153 F.3d 523 (8th Cir. 1998).

<sup>4</sup> IP telephony services enable real-time voice or fax transmission over the Internet (or a private network) using Internet protocols (IP).

technological convergence makes the private/common carrier dichotomy unworkable in the long run.

## I. REGULATORY BACKGROUND

### A. Access Charges Explained

Until recently, most Americans received both their local and long distance telephone service from one company: the pre-divestiture AT&T. The company built a complex web of cross-subsidies into its rates, which eventually became what we know of as universal service support—subsidi-<sup>5</sup>es in the name of affordable telecommunications for all citizens. One of these cross-subsidies involved above-cost pricing of long distance service to defray the costs of providing local telephone service.<sup>6</sup>

The AT&T divestiture in 1982 forced the FCC to create a new regulatory scheme to ensure that newly created Baby Bells (often referred to as local exchange carriers, or LECs) received adequate revenues to cover their cost of service. Subsequently, the FCC instituted rules that allowed all LECs to levy “access charges” on long distance carriers for the use of their networks to originate and terminate interstate communications.<sup>7</sup> These charges included implicit subsidies that continued the cross-subsidization of local phone rates through above-cost long distance charges.<sup>8</sup>

But the implicit subsidies supporting universal service posed an obstacle to competition because of the distortions they introduced into the market. Above-cost access charges artificially inflate rates that suppress the demand for long distance services.<sup>9</sup> The current access charge regime also encourages long distance companies to bypass the local networks when-

---

5. As first coined by AT&T President Theodore Vail in 1907, this term described his company's goal of a single nationwide interconnected telephone system, owned and operated by AT&T. See THOMAS G. KRATTENMAKER, TELECOMMUNICATIONS LAW AND POLICY 350 (1997). The cross-subsidies were later institutionalized through regulatory policy. See *id.* at 351-52.

6. Policymakers believed that it was necessary to keep local residential rates low so that more people would join the network, thus making the network more valuable for everyone who uses it. See *id.* at 349 n.4.

7. See generally *In re MTS and WATS Market Structure*, 93 F.C.C.2d 241 (1983), *recon.*, 97 F.C.C.2d 682 (1983), *second recon.*, 97 F.C.C.2d 834 (1984).

8. See *Access Charge Reform Order*, *supra* note 2, ¶ 31 (“Despite the existence of distortions and inefficiencies, the current system of cross-subsidies has persisted for over a decade. The structure has been justified on policy grounds, principally as a means to serve universal service goals.”).

9. See *Access Charge Reform Order*, *supra* note 2, ¶ 30.

ever feasible, by contracting with competing providers of access services who could undercut the LECs' prices.<sup>10</sup>

When Congress passed the Telecommunications Act of 1996<sup>11</sup> (the "1996 Act"), which sought to establish "a pro-competitive and deregulatory national policy framework,"<sup>12</sup> the FCC was again compelled to rethink both universal service and access charges.<sup>13</sup> The FCC carried out its mandate under the 1996 Act in part through its *Access Charge Reform Order*, where it outlined a process to remove implicit cross-subsidies from interstate access charges.

## B. The Private/Common Carrier Dichotomy

ISPs have never been required to pay access charges, even though they use the local networks to provide interstate communications services.<sup>14</sup> The origin of this so-called exemption can be traced back to the *Computer* proceedings, initiated by the FCC in the late 1960s to address computerized communications. In the *Computer I* order, the FCC established a bright line distinction between computers used as a means of providing communication (e.g., computerized switching), and computers providing data processing services transmitted over telephone networks.<sup>15</sup> Only the former category would be subject to common carrier regulation (which includes payment of access charges), and any "hybrid" service that fell between these two categories would be dealt with on a case-by-case basis.<sup>16</sup>

---

10. See HENK BRANDS & EVAN T. LEO, *THE LAW AND REGULATION OF TELECOMMUNICATIONS CARRIERS* 205 (1998). Although bypass means greater competition for access services, it can hurt the public in two ways: by decreasing the funding available for universal service support, and by encouraging inefficient use of the telephone networks. See *Access Charge Reform Order*, *supra* note 2, ¶ 30.

11. Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (codified as amended in scattered sections of 47 U.S.C.).

12. S. Rep. 104-23 at 1 (1995).

13. The 1996 Act specifically required that universal support mechanisms be explicit, and that carriers contribute to universal service support in an equitable and non-discriminatory fashion. See 47 U.S.C. § 254 (d)-(e) (Supp. II 1997).

14. See, e.g., *In re* Amendments of Part 69 of the Commission's Rules Relating to Enhanced Service Providers, 3 F.C.C.R. 2631, ¶ 7 (1988) ("Enhanced service providers, like facilities-based interexchange carriers and resellers, use the local network to provide interstate services.") [hereinafter *ESP Exemption Order*].

15. See generally *In re* Regulatory and Policy Problems Presented by the Interdependence of Computer and Communication, 28 F.C.C.2d 267 (1971), *aff'd in part sub nom.*, *GTE Serv. Corp. v. FCC*, 474 F.2d 724 (2d Cir. 1973) [hereinafter *Computer I*].

16. See *id.* ¶ 27.

This strategy soon proved unworkable once the FCC faced a flood of case-by-case determinations.<sup>17</sup> In reaction to the inadequacy of the *Computer I* categories, the FCC initiated the *Computer II* proceeding.<sup>18</sup> The FCC made two important decisions in this proceeding. First, the FCC revised the analytic basis for its classification scheme. Rather than distinguishing services based on how they employed computer processing, the FCC created a new scheme that focused on the market position of a service. The new scheme divided communications services into two categories: "basic" and "enhanced."<sup>19</sup> In a nutshell, basic service providers offered pure transmissions capacity,<sup>20</sup> while enhanced service providers offered capacity plus computerized processing of information content.<sup>21</sup>

Second, the FCC intentionally defined the scope of the enhanced service provider status broadly so as to avoid future case-by-case determinations.<sup>22</sup> The agency accomplished this by defining all hybrid services—those which offer both communications transmission capacity and information services—as enhanced services. The FCC reasoned that no regulatory framework could rationally distinguish and classify hybrid services, and any attempt to do so would result in an "unpredictable or inconsistent scheme of regulation."<sup>23</sup> This in turn could lead to market distortions, such as providers structuring their services to avoid regulation.<sup>24</sup>

With the 1996 Act, Congress introduced yet another classification scheme. Under this new scheme, a "telecommunications" service, like the

---

17. See Robert Cannon, *The Internet at the Federal Communications Commission: Cybnauts Versus Ma Bell, Address at INET '97*, Annual Meeting of the Internet Society (June 1997) <<http://www.cybertelex.com.org/memos/inet97.htm>>.

18. See *In re* Amendment of Section 64.702 of the Commission's Rules and Regulations, 77 F.C.C.2d 384, ¶¶ 20, 103 (1980) [hereinafter *Computer II*].

19. See *id.* ¶ 5.

20. See *id.* ¶ 93 ("A basic transmission service is one that is limited to the common carrier offering of transmission capacity for the movement of information.").

21. Enhanced services are services which "employ computer processing applications that act on the format, content, code, protocol, or similar aspects of the subscriber's transmitted information; provide the subscriber additional, different, or restructured information; or involve subscriber interaction with stored information." 47 C.F.R. 64.702(a).

22. See, e.g., *Computer and Communications Indus. Assoc. v. FCC*, 693 F.2d 198, 209 (D.C. Cir. 1982) ("A policy of identifying regulable enhanced services would, in the Commission's view, be a reversion to the futile Computer I case-by-case approach that inhibited technological innovation and diverted Commission resources from more beneficial activities.").

23. *Computer II*, *supra* note 18, ¶¶ 107-08. Therefore, the FCC determined that providers would be deemed enhanced services for regulatory purposes even if the "basic" aspect of a given hybrid service dominated. See *id.* ¶ 114.

24. See *id.* ¶ 111.

basic category before it, involves pure transmission services<sup>25</sup> and may be regulated as a common carrier.<sup>26</sup> By contrast, an “information service” provider offers the “capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available information via telecommunications....”<sup>27</sup> The FCC has interpreted these two classifications to be mutually exclusive, like basic and enhanced service classifications before them,<sup>28</sup> and has also confirmed that information service providers are exempt from common carrier regulation.<sup>29</sup> Thus, the FCC treats the telecommunications/information service framework as yet another private/common carrier dichotomy.

### C. The ESP Exemption As Applied to ISPs

Internet access has always been deemed an enhanced service, and more recently an information service.<sup>30</sup> ISPs are thus treated like end users of telecommunications services for regulatory purposes; they purchase services from the LECs under tariffed intrastate rates even though the phone calls that ISPs receive and transfer for their own customers (to connect to the Internet) may cross state boundaries.<sup>31</sup>

The FCC has acknowledged that the private carrier status enjoyed by enhanced service providers (ESPs) can lead to unfair results. Because of the exemption given to ESPs from paying access charges, for example, other interstate service providers that pay access charges must cover a disproportionate share of the local exchange costs that access charges fund.<sup>32</sup>

---

25. See 47 U.S.C. § 153(48) (Supp. II 1997) (“The term ‘telecommunications’ means the transmission, between or among points specified by the user, of information of the user’s choosing, without change in the form or content of the information as sent and received.”).

26. See *id.* § 153(49) (stating that a telecommunications carrier “shall be treated as a common carrier ... only to the extent that it is engaged in providing telecommunications services....”); § 153(51) (“The term ‘telecommunications service’ means the offering of telecommunications directly to the public, or to such classes of users as to be effectively available directly to the public, regardless of the facilities used.”).

27. *Id.* § 153(41).

28. See, e.g., *In re Federal-State Joint Board on Universal Service*, 13 F.C.C.R. 11,501, ¶ 13 (1998) [hereinafter *Report to Congress*].

29. See *id.*

30. See KEVIN WERBACH, DIGITAL TORNADO: THE INTERNET AND TELECOMMUNICATIONS POLICY 32-33 (FCC Office of Plans and Policy Working Paper No. 29, 1997).

31. See *Access Charge Reform Order*, *supra* note 2, ¶ 342.

32. See *ESP Exemption Order*, *supra* note 14, ¶ 2 (“To the extent that [enhanced service providers] are exempt from access charges, the other users of exchange access pay a disproportionate share of the costs of the local exchange that access charges are designed to cover.”).

But the agency has consistently balanced its concern for regulatory neutrality against its interest in fostering competition in the marketplace for enhanced services. While it has reviewed the temporary ESP exemption on three separate occasions since the *Computer II* decision, each time it retained the exemption out of concern that change could harm the development of a competitive ESP industry.<sup>33</sup>

In the *Access Charge Reform Order*, released May 7, 1997, the FCC again upheld the ESP exemption—this time specifically for ISPs. As in the earlier proceedings, the FCC cited concern that imposing access charges on ISPs could disrupt competition in the “still-evolving information services industry.”<sup>34</sup> Additionally, the FCC expressed doubt that LECs would be harmed by the exemption.<sup>35</sup>

## II. THE EIGHTH CIRCUIT'S DECISION

In *Southwestern Bell v. FCC*, both local and long distance telephone companies challenged portions of the *Access Charge Reform Order*.<sup>36</sup> But only LECs challenged the FCC's refusal to extend the access charge regime to ISPs. The bottom line to all LEC arguments is that failure to extend access charges to ISPs imposes a financial burden on them. This section summarizes the court's analysis.

### A. Exemption Does Not Violate The 1996 Act

The Eighth Circuit first held that the FCC did not discriminate in favor of ISPs when it refused to impose access charges on this group.<sup>37</sup> Section 254(e) of the 1996 Act requires that any new mechanism for universal service support be nondiscriminatory.<sup>38</sup>

---

33. See *In re MTS and WATS Market Structure*, 97 F.C.C.2d 682, ¶¶ 75-90 (1983); *ESP Exemption Order*, *supra* note 14, ¶ 13; *In re Amendments of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Supplements for Open Network Architecture Policy and Rules Concerning Rates for Dominant Carriers*, 6 F.C.C.R. 4524, ¶ 60 (1991). See also WERBACH, *supra* note 30, at 50-51.

34. *Access Charge Reform Order*, *supra* note 2, ¶ 343.

35. See *id.* ¶¶ 345-347.

36. The FCC's rulemaking authority over common carriers is subject to the procedural rules of the “notice and comment” provisions of the Administrative Procedures Act (APA). See 5 U.S.C. § 551 (1994). A final rulemaking is subject to judicial review in any federal court of appeals. See 47 U.S.C. § 402(a) (Supp. II 1997). The court may test an FCC rule for consistency with statutory guidelines and applies an “arbitrary and capricious” standard of review. 5 U.S.C. § 706(A)(2)(1994).

37. See *Southwestern Bell v. FCC*, 153 F.3d 523, 541 (8th Cir. 1998).

38. See 47 U.S.C. § 254(e) (Supp. II 1997).

Following *Competitive Telecommunications Ass'n v. FCC (CompTel II)*,<sup>39</sup> the court noted that "even where two different sets of carriers seek to use LEC network services and facilities that might be 'technologically identical,' the services and facilities provided by the LEC are 'distinct' if the carriers are making different uses of them."<sup>40</sup> Because the court agreed with the FCC that ISPs do not use a LEC's network in the same manner or for the same purposes as other customers who are subject to access charges, it held that the FCC's treatment of ISPs was not discriminatory.<sup>41</sup>

Additionally, the Eighth Circuit rejected petitioners' claim that the ISP exemption violates the Act's requirement that universal service support mechanisms be explicit.<sup>42</sup> Because a portion of an ISP's traffic may be interstate in nature, exempting an ISP from paying any access charges for interstate traffic could be construed as an implicit subsidy. Although the Act requires the FCC to implement a plan for eliminating implicit subsidies, the Eighth Circuit held that the 1996 Act does not mandate their immediate elimination.<sup>43</sup>

### **B. The FCC Appropriately Exercised Its Forbearance Authority**

The Eighth Circuit next addressed the claim that the FCC impermissibly neglected its duty by requiring state regulatory commissions to recover *interstate* costs imposed on LECs by ISPs.<sup>44</sup> The court noted that the facilities used by ISPs are "jurisdictionally mixed;" they carry both interstate and intrastate traffic.<sup>45</sup> Since some of the traffic an ISP carries may be exclusively intrastate, and therefore outside the FCC's jurisdiction, the court ruled that the FCC acted reasonably when it chose to exercise its forbearance authority rather than attempt to separately regulate a portion of an ISP's communications traffic.<sup>46</sup> Moreover, the court reasoned that since the FCC has opened a Notice of Inquiry<sup>47</sup> to investigate the possibility of additional regulations on ISPs, LECs have another avenue in which to press their concerns.<sup>48</sup>

---

39. 117 F.3d 1068 (8th Cir. 1997).

40. *Southwestern Bell*, 153 F.3d at 542 (quoting *Competitive Telecommunications*, 117 F.3d at 1073).

41. *See id.*

42. *See id.*

43. *See Southwestern Bell v. FCC*, 153 F.3d 523, 536-37 (8th Cir. 1998).

44. *See id.* at 542-43.

45. *See id.* at 543 (quoting FCC Brief at 79).

46. *See id.* at 543-44.

47. A Notice of Inquiry (NOI) is a proceeding before the FCC in which the agency essentially concedes that it needs additional information before it can act.

48. *See Southwestern Bell v. FCC*, 153 F.3d 523, 543 (8th Cir. 1998).

### C. The Order Does Not Depart from Prior Ratemaking Policy

The Eighth Circuit lastly ruled that the FCC's order did not abandon its policy of cost-based ratemaking by further extending the access charge exemption for ISPs.<sup>49</sup>

The LECs cited *Competitive Telecommunications Association v. FCC*<sup>50</sup> (*CompTel I*) to support their argument that ISPs should pay access charges.<sup>51</sup> In *CompTel I*, the D.C. Circuit struck down a decision by the FCC extending a set of transitional rules for setting access charges that favored small long distance carriers over incumbent long distance companies (i.e., AT&T). By designing a two-tiered rate structure, where the rates paid by smaller carriers were not based on the actual cost of providing the service, the FCC stated that its purpose was to encourage competition in the long distance market.<sup>52</sup> The FCC extended these "transitional" rates for thirteen years, justifying the delay first as a grace period to allow small carriers to prepare for higher rates, and later due to a lack of sufficient cost information.<sup>53</sup> Despite these justifications, the D.C. Circuit held that the FCC had not adequately explained why the transitional rates were still necessary.<sup>54</sup>

The Eighth Circuit distinguished *CompTel I* from the instant case on its facts. In *CompTel I*, the FCC had imposed differential rates for carriers, and extended them without reasonable justification, even though both types of carriers provided essentially the same services. Because the FCC has determined that ISPs utilize the local networks differently than do long distance providers, the court deemed that that reason alone justified differential treatment of ISPs and long distance companies.<sup>55</sup> Moreover, the court noted that the FCC has reasonably exercised its discretion in excluding ISPs from the current access charge regime.<sup>56</sup>

### III. ANALYSIS OF SOUTHWESTERN BELL V. FCC

Even if the LECs did not make a strong enough case for extending access charges to ISPs because of their alleged revenue shortfalls, there is still the more fundamental issue of regulatory neutrality. Failure to require

---

49. *See id.* at 543-44.

50. 87 F.3d 522 (D.C. Cir. 1996).

51. This case is unrelated to *CompTel II*, discussed *infra* Part III.A.

52. *See Competitive Telecommunications*, 87 F.3d at 530.

53. *See id.* at 530-31.

54. *See id.* at 526.

55. *See Southwestern Bell v. FCC*, 153 F.3d 523, 544 (8th Cir. 1998).

56. *See id.* at 541.

ISPs to pay access charges affects other stakeholders beyond the LECs. Yet the court fails to address this issue, in part due to the limited scope of the Order itself, and in part owing to its own erroneous interpretation and application of prior caselaw.

#### A. The FCC's Narrow Focus

The FCC made a strategic decision to limit discussion in the *Access Charge* proceeding to the narrow question of whether to allow local telephone companies to charge ISPs interstate access charges.<sup>57</sup> The effect of this choice was threefold. First, this choice restricted debate to LEC concerns of undercompensation for network traffic. While these concerns are legitimate, the LECs' arguments supporting imposition of interstate access charges on ISPs were less than compelling. The LECs lacked substantial evidence to support their claims of network overcongestion.<sup>58</sup> The LECs also have another forum in which to air their grievances: state public utility commissions.<sup>59</sup>

Second, the choice focused the FCC's analysis on the manner in which ISPs use the local telephone network rather than the services that ISPs provide.<sup>60</sup> Although the manner in which an ISP uses the local network impacts the costs that a LEC incurs, cost-coverage by the LECs is not the only reason to reconsider the access charge exemption. If ISPs (or a subset thereof) use the local networks to offer services that compete with regulated carriers (i.e., interstate voice communications), then arguably the exemption gives ISPs an unfair advantage. This was essentially the argument made by America's Carriers Telecommunication Association (ACTA), a trade group of small and mid-sized long distance companies, who petitioned the FCC to regulate IP telephony providers as common carriers.<sup>61</sup>

---

57. See *In re Access Charge Reform*, 11 F.C.C.R. 21,354, ¶ 283 (1996) (Access Charge Reform Notice of Proposed Rulemaking).

58. Although the LECs could point to access charges as a source of revenue, they were unable to demonstrate that the incremental revenue attributable to Internet usage, such as higher demand for second lines, use of dedicated lines by ISPs, and even revenues from their own ISP services, was insufficient to cover their cost of service to ISPs. Moreover, the evidence did not show any service outages attributable to Internet usage. See *Access Charge Reform Order*, *supra* note 2, ¶¶ 346-47.

59. ISPs lease phone lines from LECs to receive calls from their dial-up customers at the same tariffed rates paid by end user business customers. See discussion *infra* I.C. Because these connections are jurisdictionally intrastate, the tariff rates are overseen by state public utilities commissions.

60. See *Access Charge Reform Order*, *supra* note 2, ¶ 345 (commenting that "it is not clear that ISPs use the public switched network in a manner analogous to IXC's").

61. See America's Carriers Telecommunication Association, *In re Provision of Interstate and International Interexchange Telecommunications Service Via the "Internet"*

Finally, the choice allowed the FCC to employ a literal-minded definition of interstate access charges. The agency presumed for the purposes of this proceeding that imposition of access charges meant employing the *existing regime*<sup>62</sup>—one that is still weighed down by the legacy of cross-subsidies. The FCC then concluded that it made little sense to extend an economically inefficient regime on an additional class of customers for access service.<sup>63</sup> Here the FCC's logic seems to prove too much. If everyone agrees that the current access charge regime is inefficient, and therefore including ISPs would not promote the public interest, why does the FCC pose the question so narrowly if not to summarily dismiss it?

Even if the FCC's reasoning in the Order was sound, the narrow focus is troublesome if only because it seems to have predetermined the result—furtherance of the regulatory status quo for ISPs.<sup>64</sup> By separating the ISP issue from the rest of access charge reform, the agency purposefully delayed discussion of regulatory neutrality.

## B. The Court's Narrow Application of the *CompTel* Cases

For its part, the Eighth Circuit declined to widen the focus in *Southwestern Bell* through its own analysis. Although the court must conduct its inquiry within the deferential “arbitrary and capricious” standard of review,<sup>65</sup> that standard is not uncritical.<sup>66</sup> The *CompTel* cases offered the

---

by Non-Tariffed, Uncertified Entities (Mar. 8, 1996) <[http://www.fcc.gov/Bureaus/Common\\_Carrier/Comments/actapet.html](http://www.fcc.gov/Bureaus/Common_Carrier/Comments/actapet.html)>. While the FCC realized that it would need to address the merits of this argument at some point, the agency specifically excluded discussion of this issue for a later proceeding, which it has yet to initiate. See *Access Charge Reform Order*, *supra* note 2, ¶ 316 n.438.

62. See *Access Charge Reform Order*, *supra* note 2, ¶ 343 (noting that the agency tentatively concluded in its Notice of Proposed Rulemaking that information service providers should not be required to pay interstate access charges *as currently constituted*).

63. See *id.* ¶¶ 345, 347.

64. Granted, the FCC did institute a Notice of Inquiry on the regulatory treatment of information services. But the proceeding was opened in late December 1996, 9 months after the ACTA petition first officially raised the issue of regulatory asymmetry with regard to IP telephony. By the time the Eighth Circuit reviewed the *Access Charge Reform Order*, the agency still had not released a tentative rulemaking on the subject.

65. See *supra* note 42.

66. See, e.g., *California v. FCC*, 905 F.2d 1217, 1230 (9th Cir. 1990) (“While our standard of judicial review is highly deferential, it may not be uncritical. Under the APA, an agency’s discretion is not boundless, and we must satisfy ourselves that the agency examined the relevant data and articulated a satisfactory explanation for its actions based upon the record. We must find agency action to be in violation of the APA if the agency has ‘failed to consider an important aspect of the problem’ or has ‘offered an explanation for its decision that runs counter to the evidence before the agency.’”) (citations omitted).

court two contexts in which to raise the issue of regulatory neutrality. But the court's superficial reading of these cases precluded this.

### 1. *CompTel II and Discriminatory Impact*

In *CompTel II*, the court upheld an FCC interpretation of a statutory term that had the effect of permitting local telephone companies to charge different rates to different types of carriers for the same service.<sup>67</sup> The *CompTel II* court reasoned that while the two types of carriers may have been purchasing technologically identical services from LECs, the services were nevertheless distinct if the carriers were using the service to provide *different* communications services to their own customers.<sup>68</sup> The *Southwestern Bell* court assumed that the situation in the present case was similar, and used this similarity to bolster its holding that the exemption does not discriminate in favor of ISPs.<sup>69</sup>

The Eighth Circuit's cursory analysis is problematic because it fails to account for the existence of services offered by ISPs that compete with regulated providers who pay access charges—namely IP telephony providers. If a subset of ISPs provide services that are the same, from a customer's perspective, as regulated services, then differential treatment may indeed have a discriminatory impact.<sup>70</sup>

### 2. *CompTel I and Interim Rules*

In reviewing agency actions, the courts presume that an agency's decision is reasonable if it merely furthers a longstanding policy. This explains the Eighth Circuit's emphasis on the fact that the exemption had lasted for 14 years.<sup>71</sup> But the holding in the *CompTel I* case directly challenges this

---

67. See *Competitive Telecommunications Ass'n v. FCC*, 117 F.3d 1068, 1073 (8th Cir. 1997).

68. See *id.*

69. See *Southwestern Bell v. FCC*, 153 F.3d 523, 542 (8th Cir. 1998).

70. In fact, the *CompTel II* court offered support for this point when it noted that there was *no rate differential* between the two types of carriers at odds in the case when they provided the same service to customers. See *Competitive Communications*, 117 F.3d at 1073 (offering that if a long distance carrier desires exchange access in order to offer the same service as a competitive local exchange carrier, there is *no rate differential*). A functional equivalency evaluation of long distance telephony services offered by long distance carriers and ISPs may reveal that there are still sufficient differences between the two services, from a customer's vantage point, to warrant differential treatment. But the court did not explore this line of analysis. See James W. Olson & Gregory F. Intocchia, *The Federal Communications Commission Has Addressed Whether Internet Telephony Providers Must Pay Access Charges, As Well As Other Internet Issues*, NAT'L L.J., July 13, 1998, at B4 (discussing the FCC's functional equivalency doctrine).

71. See *Southwestern Bell*, 153 F.3d at 541.

premise in the case of *interim* rules. The *CompTel I* court held that it is unreasonable for an agency to indefinitely extend an interim scheme without adequate justification.<sup>72</sup> Since the exemption policy adhered to by the FCC in the instant case, by its own admission, is an interim one, the court should have dealt with the *CompTel I* precedent more thoroughly.

A closer analysis reveals that the situations in *CompTel I* and *Southwestern Bell* are similar. Both disputes are fundamentally concerned with balancing regulatory neutrality against an interest in fostering the development of competitive markets. At dispute in *CompTel I* was an access charge for a certain type of access service levied on all long distance carriers, regardless of the type of service a carrier purchased from the LEC.<sup>73</sup> AT&T argued that the charge essentially subsidized the costs for a type of service used primarily by smaller long distance carriers.<sup>74</sup> The FCC justified the interim rate structure as a necessary measure to ensure competition in this market, despite its disparate impact.<sup>75</sup> Similarly, a key dispute in *Southwestern Bell* is whether the exemption gives ISPs a subsidy. Just as in *CompTel I*, the FCC argued in the *Access Charge Reform Order* that the exemption is necessary to protect competition.<sup>76</sup>

Another important similarity is that in both cases the FCC continued to extend allegedly interim regimes without making any future commitment to replace them with permanent rules. This sort of delay led the *CompTel I* court to hold that the FCC failed to provide a reasoned explanation for its continued use of an interim rate structure.<sup>77</sup> Although the court allowed that the interim rates "may have been a defensible compromise of two potentially conflicting objectives"<sup>78</sup> it recognized that when an agency is allowed to use interim rules indefinitely, by deferring to an unspecified, discretionary future review, accountability is sacrificed.<sup>79</sup>

---

72. See *Competitive Telecommunications Ass'n v. FCC*, 87 F.3d 522, 532 (D.C. Cir. 1996).

73. See *id.*

74. See *id.*

75. See *id.* at 531-32.

76. See *supra* note 34 and accompanying discussion in text.

77. That the FCC issued a related Notice of Inquiry (NOI) requesting additional information on ISPs is not enough to make the FCC's choice reasonable. An NOI only facilitates information-gathering by the agency from industry stakeholders and interested parties; there is no duty to act on that information under a set timeline—the agency may even choose not to even act on it at all.

78. *Competitive Telecommunications Ass'n v. FCC*, 87 F.3d 522, 532 (D.C. Cir. 1996).

79. See *id.* at 531.

Under either application of the *CompTel* precedents discussed above, the Eighth Circuit could have granted the parties' petition for review of the ISP portion of the decision. A remand might well have forced the FCC to address the regulatory neutrality issue, since it would have had to explain more thoroughly why ISPs should not pay some sort of access charge.

#### IV. REGULATION OF ISPS ON THE HORIZON?

##### A. Recent FCC Policy Statements

Despite the outcome in *Southwestern Bell*, recent events suggest that the FCC is moving closer to regulating ISPs. Two major (unofficial) policy statements this year provide insight into the current FCC thinking on regulation of ISPs.

The first is the FCC's *Report to Congress*,<sup>80</sup> delivered on April 10, 1998. Congress directed the agency to report on its interpretation of certain provisions of the 1996 Act dealing with universal service in a recent Appropriations Act.<sup>81</sup> In its Report, the FCC defended its interpretation of "telecommunications service" and "information service" as mutually exclusive categories that fundamentally carry forward the old basic/enhanced dichotomy.<sup>82</sup> But the agency also made a significant concession to its critics. It observed that some Internet-based services—including a certain form of IP Telephony—more closely resemble traditional basic transmissions offerings than information services.<sup>83</sup>

By conceding that certain Internet-based services may fall under the "telecommunications service" category, the FCC indicated that it would consider regulating some ISPs in the future. The agency justified this policy change by stating that its rules "should not create anomalies and loopholes that can be exploited" by those seeking to avoid regulation.<sup>84</sup> What form that regulation might take is still a mystery. The FCC indicated in its

---

80. See *supra* note 28.

81. See Departments of Commerce, Justice, and State, The Judiciary, and Related Agencies Appropriations Act, 1998, Pub. L. No. 105-119, § 623, 111 Stat. 2440, 2521 (1998).

82. See *Report to Congress*, *supra* note 28, ¶ 13.

83. See *id.* ¶ 3 (acknowledging that "[t]he record currently before us suggests that certain of these [Internet-based] services lack the characteristics that would render them 'information services' within the meaning of the statute, and instead bear the characteristics of 'telecommunications services'").

84. *Id.* ¶ 4.

report that it would evaluate Internet services on a case-by-case basis,<sup>85</sup> but no cases have yet been initiated.<sup>86</sup>

The second statement came in the form of a white paper written by Barbara Espin, a senior FCC staff member, on the regulatory problems created by Internet service over the cable TV network.<sup>87</sup> As with telecommunications, technological convergence in the cable industry is forcing the FCC to consider whether cable-based Internet services should be subject to the rules governing cable systems. Released in September 1998, the *Internet Cable* white paper marks a significant policy shift from the *Report to Congress*. Espin opines that in the not-so-distant future a single provider will offer customers cable broadcast services, telecommunications and information services in digital format over the same network.<sup>88</sup> Therefore, regardless of the FCC's previous stance, old regulatory categories "must necessarily collapse of their own weight in the digital communications world of tomorrow."<sup>89</sup>

Espin further offers that the 1996 Act gives the FCC a way out of its dilemma through the creation of a new regulatory framework based on the statutory category of "advanced telecommunications capability." Section 706 of the 1996 Act, which introduces this term, states:

The Commission and each state commission with regulatory jurisdiction over telecommunications services shall encourage the deployment ... of advanced telecommunications capability to all Americans ... by utilizing, in a manner consistent with the public interest, convenience and necessity, price cap regulation, regulatory forbearance, measures that promote competition in the local communications market, or other regulating methods that remove barriers to infrastructure investment.<sup>90</sup>

---

85. *See id.* ¶ 55 ("We do not believe...that it is appropriate to make any definitive pronouncements in the absence of a more complete report *focused on individual service offerings.*") (emphasis added).

86. But some LECs have taken the report as a sign that they may begin charging some IP telephony providers access charges. *See, e.g.,* Susan O'Keefe, *Access Fees for IP Calls?*, TELECOMMUNICATIONS, June 1998, at 18.

87. *See* BARBARA ESPIN, INTERNET OVER CABLE: DEFINING THE FUTURE IN TERMS OF THE PAST (FCC Office of Plans and Policy Working Paper No. 30, 1998).

88. *See id.* at 117.

89. *Id.*

90. 47 U.S.C. § 157(a) (Supp. II 1997).

Espin suggests that the FCC could interpret Internet services to fall under the “advanced telecommunications capability” category because it is defined “without regard to any transmission media or technology.”<sup>91</sup>

Both of these policy statements are trial balloons from the FCC on the future course of regulation in the face of convergence. The *Report to Congress*, on the one hand, suggests a status quo approach: the agency would merely fine tune its classification of certain services within the existing dichotomy as necessary to avoid blatant attempts to circumvent regulation. The *Internet Cable* white paper, on the other hand, seeks a more revolutionary outcome in the creation of a new regulatory regime.

### **B. The (Practically Nonexistent) Threat of Common Carrier Regulation of ISPs**

If the FCC decides to retain the private/common carrier dichotomy, but reclassify certain ISPs as “telecommunications carriers,” as its *Report to Congress* suggests, a threshold consideration will be the extent of regulation imposed. Arguably, classification of a carrier as a telecommunications carrier under the 1996 Act would presumptively subject that carrier to the full panoply of common carrier regulation.<sup>92</sup> The question then becomes whether regulatory neutrality requires imposition of the full weight of common carrier regulation. Probably not, for two reasons.

First, such a decision would contradict the deregulatory trend in telecommunications witnessed since the break-up of AT&T, which both Congress and the FCC believe promotes the public interest. Imposition of common carrier regulation arguably goes against the agency’s mandate in the 1996 Act to establish a deregulatory national policy framework. Further, the FCC has shown its willingness to remove asymmetric regulatory schemes when it can *reduce* the regulatory responsibilities of carriers.<sup>93</sup> But the agency is understandably reluctant to impose a mature regulatory regime, originally designed for monopolies, on new market entrants for fear that overregulation will stifle competition and innovation.

Second, the arguments offered by stakeholders (other than the LECs) for imposing full common carrier regulation do not appear sufficiently strong to overcome the FCC’s predisposition against regulating ISPs. Long distance carriers, for example, argue that ISPs which provide competing services have an unfair competitive advantage because they are not

---

91. *Id.* § 157(c)(1).

92. *See supra* note 28.

93. *See generally In re AT&T*, 11 F.C.C.R. 3271 (1995) (deregulating AT&T by reclassifying it as a non-dominant carrier, which placed it on a “level playing field” with other long distance carriers such as Sprint and MCI).

subject to the same level of regulation.<sup>94</sup> While this level playing field argument has a certain superficial appeal, the FCC will not impose regulations on a new group of market participants for this reason alone. The FCC must be concerned with protecting the public from market failures, rather than protecting competitors from competition.

A stronger argument voiced by beneficiaries of universal service subsidies is that continuation of the exemption from access charges for IP telephony in particular could harm universal service funding.<sup>95</sup> The fear is that new market entrants will engage in regulatory arbitrage: they will seek to exploit regulatory asymmetry by offering the functional equivalent of a regulated service, but do so in a way that takes advantage of loopholes. Universal service funding could be impacted if enough customers bypass providers who pay access charges. But as the FCC notes in its *Report to Congress*, the relative size of the Internet access industry is so small compared to long-distance industry that the impact of excluding ISPs from the universal service funding base is not significant.<sup>96</sup> And even if bypass became an issue, there is a strong argument for attacking the problem in a more narrowly tailored fashion. For example, the agency could impose some sort of access charge on IP telephony providers if the occurrence of bypass rises to a level where universal service is threatened. Commentators within the FCC and outside observers have even hinted that the destabilizing effects of bypass may actually work to *promote* the public interest by driving down telephone rates.<sup>97</sup>

In sum, there is little chance that the FCC will choose to impose the full responsibilities of common carrier regulation on any ISP—even IP telephony providers, who currently pose the closest case for common carrier regulation. A more plausible scenario, should the FCC choose to re-

---

94. See, e.g., ACTA petition, *supra* note 61.

95. See Senator Ted Stevens, *The Internet and the Telecommunications Act of 1996*, 35 HARV. J. ON LEGIS. 5, 7 (1998) (arguing that “[t]he FCC’s disparate treatment of hybrid services and its flawed interpretation of the definitions in the 1996 Act will result in an unnatural migration of telecommunications traffic to preferentially treated communications mediums, undermining the goal of universal service.”).

96. See *Report to Congress*, *supra* note 28, ¶ 97 (comparing the \$5 billion dollars in retail revenues made by Internet access providers in 1997 to the \$100 billion made by long-distance carriers during the same period). See also Olson & Intoccia, *supra* note 70 (reporting that optimistic estimates of IP telephony growth suggest that the service will constitute only 2% of the total long distance telephony revenues by 2001).

97. See, e.g., WERBACH, *supra* note 30, at 46 (suggesting that new technologies like IP telephony are valuable “because of the potential competitive pressure they may exert on incumbent providers”); Robert M. Frieden, *Dialing for Dollars: Should the FCC Regulate Internet Telephony?*, 23 RUTGERS COMPUTER & TECH. L.J. 47, 68-9 (1997) (analogizing bypass to “self help”).

tain its private/common carrier dichotomy, would be to recategorize some ISPs as telecommunications carriers as necessary to avoid egregious forms of regulatory arbitrage. The agency could then exercise its forbearance authority under the 1996 Act,<sup>98</sup> which allows it to refrain from imposing most (if not all) of the regulatory rules governing common carriers.

This sort of piecemeal regulation would also seem to satisfy the demands of regulatory neutrality. Regulatory neutrality does not necessarily require that all carriers receive exactly the same treatment. Rather, it dictates that regulations should not unfairly burden one type of service or technology to the point that customer choice is distorted. Moreover, the FCC is steadily removing requirements from regulated carriers, witnessed by the agency's move to reclassify AT&T as a non-dominant carrier,<sup>99</sup> and detariff long-distance carriers.<sup>100</sup> In the words of one commentator, those who call for full common carrier regulation seek a contrarian result in the present deregulatory climate.<sup>101</sup>

### C. *Ad Hoc* Decisionmaking and the Threat of Arbitrary Classifications

Even though the forbearance authority allows the FCC to pick and choose which regulations to impose on ISPs deemed "telecommunications carriers," this status quo solution is far from perfect. Continued reliance on the private/common carrier dichotomy poses a significant policy risk in the face of technological convergence. That risk is that case-by-case decisionmaking will inevitably lead to the problems faced by the FCC after the *Computer I* proceeding—i.e. difficult classification reviews.<sup>102</sup> The FCC's new approach, according to the Report, is to categorize hybrid Internet-based services on an *ad hoc* basis, this time using a functionality analysis from the perspective of the user.<sup>103</sup> But the functionality analysis will not eliminate the threat of arbitrary distinctions.

---

98. Section 10 of the 1996 Act provides that the FCC may forbear from applying any provision of the 1934 Act, the 1996 Act, or existing regulations, if it determines that forbearance is in the public interest, and is not necessary to ensure just and reasonable rates and protection of consumers. See 47 U.S.C. § 160(a) (Supp. II 1997). Moreover, if the FCC determines that forbearance will promote competition, this goal is presumptively deemed in the public interest. See 47 U.S.C. § 160(b).

99. See generally *In re AT&T*, 11 F.C.C.R. 3271 (1995).

100. See generally *In re Policy and Rules Concerning the Interstate Interexchange Marketplace, Implementation of Sec. 254(g) of the Communications Act of 1934, as amended*, 11 F.C.C.R. 7141 (1996) (Notice of Proposed Rulemaking).

101. See Frieden, *supra* note 97, at 68.

102. See *infra* Part I.B.

103. See *Report to Congress, supra* note 28, ¶ 86.

Take the example of IP telephony. Applying a functionality test to IP telephony led the FCC to conclude in its Report that a specific type of service may warrant regulation: *phone-to-phone* IP telephony.<sup>104</sup> A customer using this type of service perceives only that she is making a phone call using a normal phone; she is probably unaware of the information service element of the service—the transformation of voice communications into IP packets at a remote gateway. By contrast, the FCC analogized *computer-to-computer* IP telephony, where an end user employs software or hardware to convert voice communications to IP packets,<sup>105</sup> to the sale of telephone equipment (which does not require carrier regulation).<sup>106</sup> Although the end user in the second case is making a phone call over the Internet, the ISP itself does not perform the conversion. To the FCC, this means that the ISP in this second case is not providing *telecommunications* because it is not marketing a service that is perceived by the customer as pure transmission capacity.

This functional approach will not do the work the FCC envisions. It will not get rid of loopholes, and more importantly it will not provide a natural break between telecommunications services and information services. Aided by changes in technology, ISPs will simply develop new ways to avoid fees. Commissioner Furchgott-Roth provided just such an example in his dissent to the Report: a new breed of phones that convert voice communications to IP packets.<sup>107</sup> To the end user, the equipment will look like a normal phone, yet to the FCC the equipment will be a “computer” because the phone does not function as a traditional phone does (i.e., converting sound to analog waves).<sup>108</sup> Thus, the ISP that provides an Internet connection to a customer using one of these hypothetical computer phones would still be classified as an information service provider, even though customers of both types of ISP services are using the Internet to make phone calls.

The *Report to Congress* suggests that the FCC would justify this distinction on the fact that the ISP providing phone-to-phone IP telephony is holding itself out as a provider of pure transmission services, in competi-

---

104. A “phone-to-phone” IP telephony provider offers voice telephony service by using a local gateway to transform the communication from an analog signal to IP packets. *See id.* ¶ 83. The packets are sent over the Internet (or a private IP network), and then terminated at the receiving end. *See id.*

105. *See id.*

106. *See id.* ¶¶ 86-7 (analogizing sellers of IP telephony software or hardware to vendors of PBX equipment).

107. *See Report to Congress, supra* note 28, Dissenting Statement of Commissioner Furchgott-Roth, at 138.

108. *See id.*

tion with traditional phone companies.<sup>109</sup> But what if an ISP markets voice services by selling a package that includes a computer phone described by Commissioner Furchgott-Roth? That provider would also seem to be holding itself out as a provider of telecommunications. Essentially, the FCC's argument is that an ISP marketing an integrated services package including voice services (through the use of a special phone provided by the ISP) would still be an information provider because the service could also be used by the customer to surf the web. This may be so, but making such a fine-line distinction brings the FCC closer to drawing arbitrary lines in order to preserve an aging regulatory framework ill-suited to integrated service offerings.

#### D. Towards a New Regulatory Framework

Although the FCC is presumably aware of this risk, its desire to preserve the private/common carrier dichotomy is clearly evident in its *Report to Congress*. The status quo approach will prove inadequate in the long run, however, because technological convergence will continue to push against the categories.

A better solution is found in casting aside the old regulatory categories. By making liberal use of the "advanced telecommunications capability" category, as the *Internet Cable* white paper suggests, the FCC could free itself from the intellectual contortions it must make to continue a regulatory regime based on pure transmission capacity versus information services. The new category is defined in terms of capabilities rather than services, so it can encompass the new integrated services that are problematic in an either/or regulatory regime. Therefore, this solution still provides the FCC with the flexibility to pick and choose regulatory requirements as the need arises, but without the problem of arbitrary decision-making.

Moreover, this solution answers some of the concerns raised by the FCC in its *Report to Congress* regarding the creation of a new regulatory regime. Prior to the release of the *Internet Cable* white paper, the FCC rejected a solution offered by commentators and critics that the agency widen the scope of the telecommunications carrier classification to include all hybrid entities and services whose service offerings meet the statutory definition of telecommunications.<sup>110</sup> Proponents of this option argued that

---

109. See *id.* ¶ 88 (listing four conditions for finding that an IP telephony service should be classified as a telecommunications carrier).

110. See, e.g., Frieden, *supra* note 97; Stevens, *supra* note 95; Jamie N. Nafziger, *Time to Pay Up: Internet Service Providers' Universal Service Obligations Under the Telecommunications Act of 1996*, 16 J. MARSHALL J. COMPUTER & INFO. L. 37 (1997).

it would allow the agency to bring previously unregulated services like IP Telephony under its regulatory wingspan without necessarily imposing onerous regulations (because of the Act's forbearance authority provision), while divorcing itself from the legacy of the outmoded basic/enhanced dichotomy.<sup>111</sup>

The FCC's justifications for rejecting this solution, while grounded in statutory interpretation and legislative history, seem driven by policy concerns. Despite the forbearance option, the agency feared that the presumption of common carrier regulation could create market uncertainty, and encourage states and foreign countries to impose onerous and unnecessary common carrier-like regulations on ISPs.<sup>112</sup> Regardless of the merit of these concerns, use of the "advanced telecommunications capability" classification for Internet and other integrated service offerings would seem to avoid them, since it is a new category without any history or presumption of common carrier regulation.

## V. CONCLUSION

The battle over the exemption enjoyed by ISPs from paying access charges did not end with *Southwestern Bell*. The issue serves as only one example of the problems the FCC will continue to face as technological convergence blurs the lines between the old regulatory categories designed for discrete services. Even if the agency can justify asymmetric regulatory schemes in the near term out of concern for fostering competition, regulatory neutrality will continue to be a concern for stakeholders. The rapid growth of the Internet and the proliferation of competing services from unregulated providers suggest that the threat of bypass cannot be ignored indefinitely. The *Internet Cable* white paper offers a timely solution to the agency's dilemma. By creating a new regulatory regime around the "advanced telecommunications capacity" category, the FCC can craft a flexible regime that only regulates carriers as needed to promote the public good, without the presumption of full common carrier regulation.

---

111. See Frieden, *supra* note 97, at 75-6.

112. See *Report to Congress*, *supra* note 28, ¶¶ 46-8.

**BERKELEY TECHNOLOGY LAW JOURNAL  
ANNUAL REVIEW OF LAW AND TECHNOLOGY**

**BIOTECHNOLOGY AND MEDICAL DEVICES**



## THE PATENTABILITY OF HUMAN-ANIMAL CHIMERAS

*By Thomas A. Magnani*

In ancient Greek mythology, the chimera was a fire-breathing monster with a lion's head, a goat's body, and a serpent's tail.<sup>1</sup> While most people no longer fear the ancient chimera, recent advances in biotechnology have created odd permutations of species that are no less disturbing. In the mid-1980s, scientists succeeded in producing chimeras of different mammal species, and now someone has filed a patent application for chimeras made from animals and *humans*.<sup>2</sup>

On December 18, 1997, Dr. Stuart Newman, a cellular biologist at New York Medical College, and Jeremy Rifkin, a prominent opponent of biotechnology,<sup>3</sup> filed a patent application with the United States Patent and Trademark Office (PTO)<sup>4</sup> that covers the production of human-animal chimeras that could be up to 50% human.<sup>5</sup> Newman and Rifkin hope that by obtaining this patent they can prevent other scientists from creating human-animal chimeras for at least two decades, presumably buying them sufficient time to convince the American populace to support a ban on such processes outright.<sup>6</sup> In the event they do not receive the patent, they hope that the PTO will choose to reject their application on moral grounds and alter PTO procedures to prohibit the patenting of ethically questionable practices, as has been done in the European Community (EC).<sup>7</sup> No matter what the PTO decides, Rifkin and Newman will have sparked a debate that should help clarify the rules regarding the patenting of life forms in the United States.

The chimera patent application is merely one of 13,000 biotechnology-related patent applications received by the PTO in the first half of 1998.<sup>8</sup>

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. See RANDOM HOUSE COLLEGE DICTIONARY 234 (Jess Stein ed., revised ed. 1988).

2. See Rick Weiss, *Patent Sought on Making of Part-Human Creatures*, WASH. POST, Apr. 2, 1998, at A12.

3. See James Langton, *Booty and the Beast*, SUNDAY TELEGRAPH, July 19, 1998, at 01.

4. See Weiss, *supra* note 2, at A12.

5. See *id.*

6. See *id.*

7. See *id.*

8. See Langton, *supra* note 3, at 01.

That was one-third more than the PTO received in all of 1997.<sup>9</sup> These applications add considerably to the litany of biotechnology inventions that have already been patented, including more than 1,800 genes and eighty-five genetically-engineered mice, three rats, three rabbits, a sheep, a bird, a fish, a pig, a guinea pig, an abalone, and a cow.<sup>10</sup> Although these numbers suggest that advances in biotechnology are occurring at a rapid pace, there are surprisingly few guidelines governing their patentability.

Essentially, there are two legal grounds on which the PTO potentially could choose to reject the human-animal chimera patent application under current law.<sup>11</sup> First, while the PTO now considers life forms in general to be patentable subject matter under 35 U.S.C. § 101, the PTO has interpreted the Thirteenth Amendment, which bans human slavery, as prohibiting the patenting of human beings.<sup>12</sup> As such, the PTO could decide that human-animal chimeras qualify as human and, thus, are barred from patentability by the Thirteenth Amendment. Second, the PTO may apply a rarely invoked doctrine and decide that human-animal chimeras lack moral utility and are, therefore, not patentable.<sup>13</sup>

This Note describes the legal basis for these two standards as they relate to biotechnology and explores how the human-animal chimera patent application might be evaluated under each standard. It determines that the Rifkin-Newman application probably passes muster under either test and suggests that the existing patent laws are not appropriately designed to deal with the moral issues being raised by the rapidly developing biotechnology industry. It concludes that biotechnology should be regulated, if at

---

9. *See id.*

10. *See* Sharon Schmickle, *Patents Stir Debate Over Rights to Life*, PITTSBURGH POST-GAZETTE, Aug. 3, 1998, at A7.

11. For the purposes of this Note, I am assuming that the Rifkin-Newman patent application is technically sound and will fulfill the traditional requirements of novelty, utility, nonobviousness, and enablement. Several commentators have speculated that the application likely will not fulfill at least one of these requirements. *See, e.g.*, Renee Deger, *Activist Puts PTO on Political Hot Seat*, RECORDER, May 6, 1998, at News 1 (noting that without clinical data, Rifkin and Newman will not be able to prove enablement); Weiss, *supra* note 2, at A12 (arguing that the Rifkin-Newman application will be unable to meet the high standard of proof of feasibility traditionally imposed on unusual applications).

12. *See* Commissioner of Patents and Trademarks, *Policy Statement on Patentability of Animals*, 1077 Off. Gaz. Pat. Office 24 (April 7, 1987), reprinted in DONALD S. CHISUM, CHISUM ON PATENTS app. 24-2 (1998).

13. Indeed, the PTO has suggested it may take this approach. *See* Bruce Lehman, *Facts on Patenting of Life Forms Having a Relationship to Humans* (last modified Apr. 1, 1998) <<http://www.uspto.gov/web/offices/com/speeches/98-06.htm>>.

all, by Congress directly, rather than through any manipulation of the patent laws by the PTO or the courts.

## I. THE SCIENCE OF PRODUCING CHIMERAS

The exact nature of a chimera can be explained most readily by comparing it to a more familiar product of biotechnology—the hybrid. A hybrid represents a genetic cross between a male of one species and a female of another.<sup>14</sup> As such, every cell<sup>15</sup> in a hybrid animal contains one set of chromosomes from one species and one set from another.<sup>16</sup> In a chimera, the genetic material of the two originating species does not mix. Rather, a given chimera is composed of some cells from one species and some cells from the other.<sup>17</sup> Thus, the brain of a human-chimpanzee chimera would contain some human brain cells and some chimpanzee brains cells, but none of the brain cells would contain both human and chimpanzee genetic material.

No scientist has ever actually created a human-animal chimera, but molecular biologists have possessed the ability to create animal-animal chimeras for more than a decade.<sup>18</sup> In the mid-1980s, scientists in the United Kingdom announced the creation of a “geep,” an animal that was part goat and part sheep.<sup>19</sup> While the actual techniques have since been refined, the fundamental science remains the same. To create the “geep,” scientists allowed a pair of sheep and a pair of goats to mate naturally.<sup>20</sup>

---

14. See Donna Greene, *Drawing a Line in Genetic Engineering*, N.Y. TIMES, May 31, 1988, at 14WC-3.

15. This holds true for all of an animal's cells except its gametes, or sex cells, because these normally contain only one set of chromosomes. See, e.g., NORAH RUDIN, *DICTIONARY OF MODERN BIOLOGY* 153 (1997).

16. For example, a mule, which is a cross between a donkey and a horse, possesses one set of chromosomes from the donkey parent and one set from the horse parent in each of its body cells.

17. In this way, the cells always remain segregated by species. See Greene, *supra* note 14, at 14WC-3.

18. Because mammal-mammal chimeras have already been produced, it is questionable whether the creation of a human-animal chimera will be considered novel or nonobvious over the prior art. But as stated *supra* note 11, I have assumed for the purposes of this Note that the application will satisfy the traditional requirements. Indeed, because the Rifkin-Newman patent application describes techniques other than those used to produce mammal-mammal chimeras in the past, it may very well be considered novel and nonobvious.

19. See Carole B. Fehilly et al., *Interspecific Chimaerism between Sheep and Goat*, 307 NATURE 634 (1984); Sabine Meinecke-Tillmann, *Experimental Chimaeras—Removal of Reproductive Barrier between Sheep and Goat*, 307 NATURE 637 (1984).

20. See Meinecke-Tillman, *supra* note 19, at 637.

The resulting embryos were collected from the pregnant females several days later, at around the 8-cell stage of development.<sup>21</sup> The scientists placed the two embryos together in a petri dish and manipulated them, such that the two embryos began to cooperate with each other, growing and dividing as one embryo.<sup>22</sup> The scientists then surgically removed an embryo from another pregnant sheep and replaced it with the developing chimeric embryo.<sup>23</sup> The sheep gave birth to the “geep” several months later.<sup>24</sup>

The Rifkin-Newman patent application covers three procedures for producing human-animal chimeras, one of which is analogous to the procedure used to create the “geep.”<sup>25</sup> The second technique involves injecting only a small number of cells, called embryonic stem (ES) cells, from one embryo into a second embryo of a different species.<sup>26</sup> The third procedure is the most complex. In this approach, ES cells at an early stage of development (known as ‘early passage’ ES cells) are introduced into an embryo that has been tampered with so that it cannot advance on its own beyond an early stage of development.<sup>27</sup> Even though this embryo could not develop on its own, it acts somewhat like a ‘host,’ allowing the ES cells to develop into a viable embryo that also possesses some cells derived from the ‘host’ embryo.<sup>28</sup>

Even though Rifkin and Newman have never created a human-animal chimera, scientists believe they could successfully produce such a creature if they combined a human embryo with that of an animal closely related to human beings.<sup>29</sup> Monkeys, for example, are even more closely related to humans than goats are to sheep, so presumably scientists could create a human-monkey chimera with minimal difficulty.<sup>30</sup> The Rifkin-Newman

---

21. *See id.*

22. *See id.*

23. *See id.*

24. *See id.* The scientists were also successful in using female goats as the surrogate mothers. *See id.* at 635.

25. *See* David Dickson, *Legal Fight Looms Over Patent Bid on Human/Animal Chimaeras*, 392 NATURE 423, 424 (1998). Because the Rifkin-Newman patent application has not been published, all information about the application is derived from secondary sources.

26. *See id.*

27. *See id.*

28. *See id.*

29. *See* Weiss, *supra* note 2, at A12.

30. *See id.*

patent application specifically mentions the possibility of chimeras made from mice, chimpanzees, baboons, and pigs.<sup>31</sup>

## II. LEGAL BASIS FOR LIFE FORMS AS PATENTABLE SUBJECT MATTER

Currently, there are few restrictions on the patenting of life forms and human tissues in the United States. The first United States patent on a living organism was actually issued in 1873 to Louis Pasteur for a purified form of yeast.<sup>32</sup> That patent notwithstanding, however, the PTO initially rejected patent applications for genetically-engineered organisms in the 1970s on the basis that such organisms were products of nature, and, therefore, not patentable subject matter.<sup>33</sup>

The Supreme Court rejected this view, however, in its 1980 landmark decision, *Diamond v. Charkrabarty*.<sup>34</sup> In *Charkrabarty*, a microbiologist had applied for a patent on a bacterium into which he had inserted several plasmids that enabled the bacterium to digest crude oil.<sup>35</sup> Charkrabarty's application consisted of three kinds of claims: on the actual method of producing the bacteria; on the process of using the bacteria to digest oil spills; and on the bacteria themselves.<sup>36</sup> Initially, the PTO approved the first two sets of claims, but denied the claims for the bacteria on the grounds that living things were not patentable subject matter.<sup>37</sup> The Supreme Court reversed, holding that Charkrabarty's bacteria qualified as patentable subject matter, either as a "manufacture" or "composition of matter" within the meaning of § 101.<sup>38</sup> The Court reasoned that Congress, in passing § 101, did not distinguish between inanimate objects and living things and, in fact, intended to allow the patenting of "anything under the sun made by man."<sup>39</sup>

---

31. *See id.*

32. *See* Eileen Morin, Note, *Of Mice and Men: The Ethics of Patenting Animals*, 5 HEALTH L.J. 147, 154 (1997).

33. *See id.*

34. 447 U.S. 303 (1980).

35. *See id.* at 305. As footnote one of the opinion explains, a plasmid is a strand of genetic material that exists physically separate from the chromosomes of a cell.

36. *See id.* at 305-06.

37. *See id.* at 306.

38. *See id.* at 309-10.

39. *Id.* at 309 (quoting S. Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952); H.R. Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952)).

Five years later, in *Ex parte Hibberd*,<sup>40</sup> the Board of Patent Appeals and Interferences extended the rule laid down in *Charkrabarty* by holding that nonnaturally occurring, manmade, multicellular plants were patentable subject matter under § 101.<sup>41</sup> In 1987, the Board of Patent Appeals in *Ex parte Allen* held that multicellular animals could also be patented under the rule set out in *Charkrabarty*, though the particular patent application at issue in *Allen* was rejected on unrelated grounds.<sup>42</sup> To dispel any doubt on the subject, the PTO issued a statement several days after the *Allen* decision, announcing that it now considered nonnaturally occurring, nonhuman, multicellular organisms, including animals, to be patentable subject matter.<sup>43</sup> The PTO excluded humans from the new rule on the grounds that "[t]he grant of a limited, but exclusive property right in a human being is prohibited by the Constitution."<sup>44</sup> The Commissioner did not specify the precise language in the Constitution that prohibits patenting human beings, but it has been assumed that he was referring to the Thirteenth Amendment's ban on human slavery.<sup>45</sup>

One year later, the PTO issued the first animal patent for the famous Harvard Onco-mouse, which contains a human gene that renders it susceptible to breast cancer.<sup>46</sup> The PTO continues to issue animal patents on a regular basis today.<sup>47</sup> In addition to allowing patents on animals, the PTO regularly allows patents on cell lines,<sup>48</sup> including lines of human cells.<sup>49</sup>

---

40. 227 U.S.P.Q. 443 (Bd. Pat. App. & Interf. 1985).

41. See *id.* at 447.

42. See 2 U.S.P.Q.2d 1425 (Bd. Pat. App. & Interf. 1987), *aff'd*, 846 F.2d 77 (Fed. Cir. 1988). Despite holding that multicellular animals were patentable, the Board rejected the *Allen* application because a previous publication that explained how to induce polyploidy to increase growth in oysters had rendered the patent application obvious. See *id.* at 1427.

43. See Commissioner of Patents and Trademarks, *Policy Statement on Patentability of Animals*, 1077 Off. Gaz. Pat. Office 24 (Apr. 7, 1987), reprinted in DONALD S. CHISUM, CHISUM ON PATENTS app. 24-2 to 24-3 (1998).

44. *Id.*

45. See, e.g., Elizabeth Joy Hecht, Note, *Beyond Animal Legal Defense Fund v. Quigg: The Controversy Over Transgenic Animal Patents Continues*, 41 AM. U. L. REV. 1023, 1024 (1992).

46. See Carrie F. Walter, Note, *Beyond the Harvard Mouse: Current Patent Practice and the Necessity of Clear Guidelines in Biotechnology Patent Law*, 73 IND. L.J. 1025 (1998).

47. See Schmickle, *supra* note 10, at A7.

48. See *Truth and Consequences of the Genetic Revolution*, Senate Select Committee on Genetics and Public Policy, at 113 (Cal. 1996) (statement of Robert L. Stoll, Administrator, Office of Legislative and International Affairs, United States Patent and Trademark Office).

### III. DOES THE THIRTEENTH AMENDMENT BAR THE PATENTING OF HUMAN-ANIMAL CHIMERAS?

The Thirteenth Amendment does not restrict the patenting of the process claims in the Rifkin-Newman patent application. Essentially, the PTO has interpreted the Thirteenth Amendment as a specific subject matter limitation, and the PTO does not generally employ this kind of limitation to deny a patent on a process that produces an unpatentable product.<sup>50</sup> As such, even in *Diamond v. Charkrabarty*, the patent examiner originally allowed Charkrabarty's claims on the method of producing the bacteria while rejecting his claims on the bacteria themselves.<sup>51</sup> In the case of the Rifkin-Newman patent, then, the only question is whether the human-animal chimeras themselves are patentable under the Thirteenth Amendment.

The PTO's policy of granting patents on human tissues and on genetically-engineered animals, some of which contain human genes, while abstaining from granting patents on humans outright, has left the question of the patentability of human-animal chimeras largely unanswered. The outcome depends on the type of rule adopted by the court to determine humanity under the Thirteenth Amendment.<sup>52</sup> Currently, there is no case law discussing precisely how much human genetic material a creature must possess before it qualifies as human.<sup>53</sup> Certainly, possessing just one or even a handful of human genes does not make an animal human. In fact, patents already exist on animals, like the Harvard Onco-mouse, that possess some human genes. At the high end of the spectrum, transplant patients who receive animal organs are surely still considered human. Indeed, it is probably safe to say that any organism composed of over 50% human genetic material would be considered human. From a common-

---

49. One now-infamous example of a patent on a human cell line is that obtained by Dr. David W. Golde and Dr. Shirley G. Quan of the University of California at Los Angeles for a cell line made from T-lymphocytes, which they isolated from John Moore while treating him for hairy-cell leukemia. *See Moore v. Regents of the Univ. of Cal.*, 51 Cal.3d 120 (1990) (en banc), *cert. denied*, 499 U.S. 936 (1991).

50. *See Morin, supra* note 32, at 153.

51. *See Diamond v. Charkrabarty*, 447 U.S. 303, 306 (1980).

52. Such a rule could have implications in other high-technology industries. For example, if cyborgs, the part-human, part-robotic entities so popular in science fiction, ever become a reality, they might be considered human under a broad interpretation of the Thirteenth Amendment.

53. *See Weiss, supra* note 2, at A12 (noting that Congress failed in its attempt to pass a law restricting patents on humans in 1989, in part because of the difficulty in defining "human").

sense standpoint, this standard seems reasonable enough,<sup>54</sup> but it is somewhat simplistic and artificial. Could an organism whose genes were 49% human in origin correctly be considered an animal for purposes of patentability? In any case, the Rifkin-Newman application was drafted to meet this standard — it covers only those human-animal chimeras composed of less than 50% human genetic material.<sup>55</sup>

Even chimeras consisting of much less than 50% human genetic material might be considered human by many people. Because chimeras possess some cells that are entirely human in origin, it might be possible to create a chimera with the body and outward appearance of a chimpanzee, for example, but with the brain and nervous system of a human being. Because the total number of human cells in such a creature would be low, it would likely be patentable under a “less than 50% human” standard, yet many people would consider such a creature to be human.

Perhaps the appropriate question to ask is whether or not a *chimera* would consider itself to be human. If a creature possessed the ability to reason in this fashion (commonly known as self-awareness), the PTO likely would find it to be human under the Thirteenth Amendment. Still, such a standard only leaves open the question of how to determine if a chimera would, in fact, be self-aware before any chimeras have actually been created. In any case, Rifkin and Newman likely could amend their patent application to include in its scope only those chimeras that would not be self-aware.

At best, the Thirteenth Amendment is an unwieldy tool for regulating biotechnology inventions like the human-animal chimera. While it might be applied to biotechnology products, it does not restrict process claims at all. In addition, the Thirteenth Amendment cannot effectively and consistently be applied even to biotechnology product claims until the courts adopt a workable definition of “human being.” Assuming *arguendo* that the courts develop a suitable definition of what it means to be human, there is little doubt that Rifkin and Newman could amend their patent application to conform to any such definition. Thus, while the Thirteenth Amendment may prohibit the patenting of a limited number of highly controversial technologies, it probably could not be used to reject the patent application for human-animal chimeras or applications for other products of biotechnology that are not strictly human in nature.

---

54. Indeed, this standard is analogous to the burden of proof in civil cases, under which a plaintiff must prove that, more likely than not, the defendant is liable. Similarly, if the government wanted to deny a particular patent, its burden would be to show that the invention in question is “more human than not.”

55. See Langton, *supra* note 3, at 01.

#### IV. LEGAL BASIS FOR A MORAL UTILITY REQUIREMENT

Even if the Rifkin-Newman patent application is deemed not to violate the Thirteenth Amendment's limitation on patentable subject matter, the application may be denied for lack of moral utility. In fact, in an advisory opinion issued on April 2, 1998, PTO Commissioner Lehman stated that he will likely refuse to issue a patent to Rifkin and Newman for creating human-animal chimeras because producing such creatures would be immoral.<sup>56</sup> In so doing, the Commissioner relied on *Lowell v. Lewis*,<sup>57</sup> an 1817 case decided by Justice Joseph Story.<sup>58</sup>

In *Lowell*, Justice Story found that an invention relating to the construction of water pumps satisfied the utility requirement. Story announced that "[a]ll that the law requires is, that the invention should not be frivolous or injurious to the well-being, good policy, or sound morals of society. The word 'useful,' therefore, is incorporated into the act in contradistinction to mischievous or immoral."<sup>59</sup> As examples of immoral inventions, Justice Story cited "a new invention to poison people, or to promote debauchery, or to facilitate private assassination."<sup>60</sup>

The courts have applied Justice Story's approach to utility in two specific types of cases. The first involves inventions the only use of which is to deceive or commit fraud.<sup>61</sup> Clearly, this line of cases is not relevant to biotechnology inventions like the chimera. The second line of cases involves gambling devices and other inventions historically frowned upon by society at large.<sup>62</sup>

The earliest cases, dating around the late-1800s, held that an invention lacked moral utility if it could be used for at least one immoral purpose, regardless of the existence of other beneficial uses for the invention.<sup>63</sup> It became apparent early on that this view excluded too many common in-

---

56. See Lehman, *supra* note 13.

57. 15 F. Cas. 1018 (D. Mass. 1817) (No. 8568).

58. See *id.*

59. *Id.* at 1019.

60. *Id.*

61. See, e.g., *Rickard v. Du Bon*, 103 F. 868 (2d Cir. 1900) (holding that a process for artificially producing spots on tobacco leaves used to wrap cigars, such that the leaves resembled those used to wrap high-quality cigars, was unpatentable for lack of utility).

62. See DONALD S. CHISUM, CHISUM ON PATENTS § 4.03 (1998).

63. See, e.g., *Reliance Novelty v. Dworzek*, 80 F. 902 (N.D. Cal. 1897) (invalidating a patent on a design for the cover of slot machines, despite the patent holder's contentions that his design could be used to cover other machines, like kinescopes).

ventions, like weapons, from patentability.<sup>64</sup> As such, it quickly evolved into a broader test, such that an invention met the moral utility requirement if it had at least one beneficial purpose. For instance, in *Fuller v. Berger*,<sup>65</sup> the Seventh Circuit considered the validity of a patent on a device that could detect bogus coins inserted into a vending machine.<sup>66</sup> The court held that the device was patentable because it could be used in many different kinds of vending machines, even though its primary use was in gambling machines.<sup>67</sup> Even under this somewhat relaxed standard, patents on inventions that could *only* be used for gambling were routinely invalidated on moral utility grounds well into the twentieth century.<sup>68</sup>

In 1977, the PTO Board of Appeals put an end to the prohibition on patents for gambling devices.<sup>69</sup> In *Ex Parte Murphy*,<sup>70</sup> the court upheld a patent on a slot machine, noting that:

while some may consider gambling to be injurious to the public morals and the good order of society, we cannot find any basis in 35 U.S.C. [§] 101 or related sections which justify a conclusion that inventions which are useful only for gambling ipso facto are void of patentable utility.<sup>71</sup>

The court's opinion did not make clear, however, whether the court was rejecting the moral utility doctrine as a whole, or simply the doctrine's application to gambling machines.<sup>72</sup>

Since 1977, at least one court appears to have rejected the moral utility doctrine outright. In *Whistler Corp. v. Autotronics, Inc.*,<sup>73</sup> a district court upheld a patent on a radar detector, rejecting claims that the device lacked

---

64. See, e.g., *Fuller v. Berger*, 120 F. 274, 275-76 (7th Cir. 1903) (noting that if the courts were to reject patents for inventions that were "sometimes injurious to morals, or to health, or to good order..." then Colt's revolver would not have been patentable).

65. 120 F. 274 (7th Cir. 1903).

66. See *id.*

67. See *id.* at 276-77. Interestingly enough, the bogus coin detector was originally invented to be used in coin-operated banjo-playing devices, but it was never ultimately put to this use. See *id.* One is left to wonder if coin-operated banjo-playing devices would be more commonplace today if they had, in fact, been outfitted with bogus coin detectors.

68. See, e.g., *Meyer v. Buckley Mfg. Co.*, 15 F. Supp. 640 (N.D. Ill. 1936) (invalidating a patent on a coin-operated game in which a person manipulated a movable crane to grab prizes and drop them out through a chute).

69. See, e.g., Robert P. Merges, *Intellectual Property in Higher Life Forms: The Patent System and Controversial Technologies*, 47 MD. L. REV. 1051, 1063 (1988).

70. 200 U.S.P.Q. 801 (P.T.O. Bd. App. 1977).

71. *Id.* at 802.

72. See *id.*

73. 14 U.S.P.Q.2d 1885 (N.D. Tex. 1988).

moral utility because its sole purpose was to circumvent attempts to enforce the speed limit.<sup>74</sup> In so doing, the court noted:

the matter is one for the legislatures of the states, or for the Congress, to decide. Stated another way, only two states have seen fit to prohibit such devices. Unless and until detectors are banned outright, or Congress acts to withdraw patent protection for them, radar detector patentees are entitled to the protection of the patent laws.<sup>75</sup>

Given the attitude of the district courts towards the moral utility requirement, one might assume that the requirement is now defunct. There are at least two reasons to believe it may be making a comeback, however. First, in a recent decision, *Tol-o-Matic, Inc. v. Proma Produkt-Und Marketing Gesellschaft*,<sup>76</sup> the Federal Circuit declared that a patent on a rodless piston-cylinder was not invalid for lack of utility.<sup>77</sup> In discussing the standard of utility under which the invention should be judged, the court noted that 35 U.S.C. § 101 "has been interpreted to exclude inventions deemed immoral."<sup>78</sup> The court continued by quoting the *Lowell* opinion extensively.<sup>79</sup> The willingness of the Federal Circuit to embrace such a controversial doctrine in a seemingly unnecessary situation (certainly the cylinder could not be thought of as immoral in any way) suggests that the court may be attempting to lay the groundwork for invoking the doctrine in the future.

Second, the moral utility requirement should not be dismissed out of hand because it has been widely utilized in other countries, particularly in Europe.<sup>80</sup> In fact, Justice Story's approach to utility is nearly identical to that embodied in a new Directive of the European Parliament and the Council of the European Union. In July 1998, the Council issued a Directive allowing patents on genetically engineered plant and animal species in general,<sup>81</sup> but forbidding the issuing of patents for any biotechnological applications that "would be contrary to *ordre public* or morality."<sup>82</sup> The Directive improves upon prior similar Directives by citing several examples of inventions that would be considered immoral, including "processes

---

74. *See id.*

75. *Id.* at 1886.

76. 945 F.2d 1546 (Fed. Cir. 1991).

77. *See id.*

78. *Id.*

79. *See id.*

80. *See generally* Morin, *supra* note 32, at 147.

81. Council Directive 98/44, art. 4, 1998 O.J. (L 213) 2.

82. *Id.* at art. 6.1.

for cloning human beings,"<sup>83</sup> "uses of human embryos for industrial or commercial purposes,"<sup>84</sup> and "processes for modifying the genetic identity of animals which are likely to cause them suffering without any substantial medical benefit to man or animal, and also animals resulting from such processes."<sup>85</sup> It is currently too early to know if this Directive will have any impact on the United States, but it is at least conceivable that the United States may look to Europe for guidance in an area in which it has lagged behind in recent years.<sup>86</sup>

To summarize, it is no longer clear that the moral utility requirement is still valid law, though at least one recent Federal Circuit decision suggests the doctrine has not lost its effectiveness entirely. In addition, the moral utility requirement plays a significant role in European patent law, and its refinement in the new EC directive regarding biotechnology inventions could have some influence in the United States. Should the rule be invoked, the dominant test seems to require an invention to have at least one non-immoral use to be patentable, though some courts have tried to restrict the doctrine only to those instances where an invention has been outlawed.

## V. DO HUMAN-ANIMAL CHIMERAS MEET THE TEST OF MORAL UTILITY?

As a preliminary matter, if the moral utility requirement is invoked, it could extend to the process as well as the product claims of the patent application.<sup>87</sup> This contrasts with the outcome under the Thirteenth Amendment, which could restrict only the products themselves. As such, the moral utility requirement is potentially a much more flexible and powerful tool to regulate biotechnology.

Although the PTO Commissioner has strongly suggested that the PTO will reject the Rifkin-Newman patent for lack of moral utility,<sup>88</sup> it is likely

---

83. *Id.* at art. 6.2a.

84. *Id.* at art. 6.2c.

85. *Id.* at art. 6.2d.

86. Indeed, the United States has already begun to harmonize its patent laws with those of the rest of the world, as part of its obligations under the Trade Related Aspects of Intellectual Property (TRIPS) provision of the General Agreement on Tariffs and Trade (GATT). *See, e.g.*, ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 192-93 (1997).

87. Although both kinds of claims could be rejected under a moral utility analysis, I will focus my discussion on the moral utility of the human-animal chimeras themselves, for the sake of consistency with the Thirteenth Amendment discussion. Any arguments relating to the chimeras themselves are likely to apply to the processes that produce them, as well.

88. *See* Lehman, *supra* note 13.

that, in light of the trend in the case law, such a rejection would be reversed on appeal.

Initially, it is not entirely clear that the moral utility requirement is still in full force and effect. A court could use this case as an opportunity to reject the doctrine as outdated and without a foundation in the patent laws, as the courts in *Ex Parte Murphy*<sup>89</sup> and *Whistler*<sup>90</sup> have suggested. Given the Federal Circuit's unambiguous and relatively recent statement in *Tol-o-Matic*,<sup>91</sup> however, this outcome is unlikely.

Assuming the court accepts the moral utility requirement as valid, it is not clear what standard the court would adopt to evaluate whether or not a biotechnology invention met the requirement. Certainly, the court would not adopt the earliest formulation of the requirement, under which an invention lacked moral utility if it had at least one immoral use. On the other hand, the test requiring at least one non-immoral use seems ill-suited to biotechnology inventions like the chimera, since virtually every biotechnology invention has at least one use that is not categorically immoral. Even human cloning, which some people vehemently oppose, could be used to create children for otherwise infertile couples, a practice that many would consider at least morally neutral. Indeed, Rifkin and Newman identify several non-immoral uses for human-animal chimeras, including their use as models to study embryonic development.<sup>92</sup>

Given that the current test for moral utility would be ineffectual if applied to biotechnology, it is conceivable that a court wishing to impose the moral utility requirement on biotechnology inventions might adopt a balancing test. Indeed, at least one U.S. court has suggested adopting such an approach, stating "[g]eneral rules will not decide this question in particular cases, but the *circumstances of each case must be carefully examined...*"<sup>93</sup> Such a test would likely involve balancing the non-immoral (or beneficial) uses of an invention against the immoral elements of that invention.<sup>94</sup> While balancing tests are often employed in complex situations, such a test would be difficult, if not impossible, to employ in the

---

89. 200 U.S.P.Q. 801 (P.T.O. Bd. App. 1977).

90. 14 U.S.P.Q.2d 1885 (N.D. Tex. 1988).

91. 945 F.2d 1546 (Fed. Cir. 1991).

92. See Dickson, *supra* note 25, at 424.

93. *In re Nelson*, 280 F.2d 172, 178 (Cus. & Pat. App. 1960) (emphasis added) (quoting CURTIS ON PATENTS sect. 28 (1849)). See also Merges, *supra* note 69, at 1066 (suggesting some courts might apply a moral balancing test to biotechnology inventions).

94. This is precisely the test adopted by the Examining Division of the European Patent Office to decide the morality of biotechnology inventions, like the Harvard Oncomouse. See Darrell G. Dotson, Note, *The European Controversy Over Genetic-Engineering Patents*, 19 HOUS. J. INT'L L. 919, 933 (1997).

realm of morality.<sup>95</sup> To demonstrate the shortcomings of a moral balancing test, the beneficial and immoral aspects of making human-animal chimeras must be explored.

The beneficial uses of human-animal chimeras are relatively discrete and well-defined. Their usefulness in studying development has already been noted. Additionally, human-animal chimeras would be of value to pharmaceutical companies in determining the medicinal benefits of new drugs.<sup>96</sup> Currently, new drugs are tested on humans only after extensive testing on animals.<sup>97</sup> Often, drugs that produce a beneficial effect in animals are ineffective in humans.<sup>98</sup> Using human-animal chimeras would presumably take much of the guesswork out of this process, since the beneficial effects of new chemicals on human cells could be measured directly. Analogously, chemical companies could use human-animal chimeras to measure the toxic effects of new compounds.<sup>99</sup> Finally, chimeras might be used as sources of organs, such as hearts or livers, for transplantation into desperate human patients whose organs are failing them.<sup>100</sup> Human donors have always been in short supply,<sup>101</sup> and transplantation of animal organs is generally unsuccessful because the human body quickly rejects them as foreign.<sup>102</sup> Since chimeras would be partially human, their organs would more closely resemble human organs, making rejection less likely.

In contrast to the arguments in favor of human-animal chimeras, the major ethical objections to making chimeras are non-utilitarian in na-

---

95. At least one court has explicitly rejected this approach. *See Fuller v. Berger*, 120 F. 274, 275-76 (7th Cir. 1903) (rejecting the idea of "balancing the good functions with the evil functions" because "it would make the validity of the patents to depend on a question of fact to which it would often be impossible to give a reliable answer").

96. *See Dickson, supra* note 25, at 424.

97. *See generally* Jeffrey P. Cohn, *The Beginnings: Laboratory and Animal Studies*, FDA CONSUMER SPECIAL REPORT, Jan. 1995 <<http://www.fda.gov/cder/handbook/index.htm>>.

98. *See id.*

99. *See Dickson, supra* note 25, at 424.

100. *See Weiss, supra* note 2, at A12.

101. *See, e.g.,* Sally Lehrman, *Baboon Bone Marrow/AIDS Trial Gets Conditional Go-Ahead*, BIOTECHNOLOGY NEWSWATCH, Aug. 7, 1995, at 1.

102. *See B Cells Play Key Role in Fighting Rejection of Animal-to-Human Transplants*, BIOTECHNOLOGY NEWSWATCH, June 17, 1996, at 14. *But see* Vicki Bower, *Pig-to-Person Organ Donation Seen as Risky, but Not All Favor Ban*, BIOTECHNOLOGY NEWSWATCH, Feb. 16, 1998, at 8.

ture.<sup>103</sup> First, some might object to human-animal chimeras simply because they are made from human embryos. Indeed, under the EC rules, human-animal chimeras would not be patentable for precisely this reason.<sup>104</sup> Granting embryos a similar legal status in the United States would seem to contrast with the current protection of a woman's right to an abortion, however. Given the current legal position of embryos in the context of the abortion issue and the lack of consensus on the issue in society, a court would be unlikely to weigh this objection very heavily, if at all.

Another possible objection is that the production of human-animal chimeras would result in needless animal suffering. Again, this same objection can be found within the EC directive.<sup>105</sup> This result is problematic, however, in that human-animal chimeras would be unlikely to suffer any more than animals currently used in research. One could argue that the suffering of a human-animal chimera should be weighed more heavily than that of an animal because the chimera is partially human. Presumably, though, any increase in suffering would be offset by the increased value of using chimeras, rather than animals, in research ultimately designed to benefit humanity.

Finally, Rifkin himself argues that inventions that cross species boundaries, like the human-animal chimera, fail to respect the right of the animal species in question not to be disturbed.<sup>106</sup> Rifkin believes that each species possesses a "speciesness" that should be honored by humans.<sup>107</sup> This concept of "speciesness" includes the right of each animal species to exist without human interference and the right of each individual member of a species to exist as a discrete and identifiable organism.<sup>108</sup> There are several reasons a court might reject this theory as specious. First, the very concept of a species is nothing more than a human construct developed to facilitate the study of animal biology.<sup>109</sup> Therefore, it seems untenable to argue that species have rights in and of themselves. Moreover, species are

---

103. For a more thorough analysis than can be offered here of the potential objections to biotechnology, see Robert P. Merges, *Intellectual Property in Higher Life Forms: The Patent System and Controversial Technologies*, 47 MD. L. REV. 1051, 1056 (1988).

104. See Council Directive 98/44, art. 6.2c, 1998 O.J. (L 213) 2. One could argue that human-animal chimeras meet this standard because they would be used primarily for research, and not industrial or commercial purposes. This argument is not convincing, however, given the commercial value of the research in question.

105. See *id.* at art. 6.2d.

106. See Merges, *supra* note 69, at 1056.

107. See JEREMY RIFKIN, *THE BIOTECH CENTURY* 101-02 (1998).

108. See *id.*

109. See Morin, *supra* note 32, at 170.

not static; they are constantly evolving in response to ecological pressures, some of which have long been caused by humans.<sup>110</sup> Finally, humans have been interbreeding species and adapting them for their own use for millennia.<sup>111</sup> It is difficult to see precisely how a biotechnology invention like the chimera would violate "speciesness" in a way that traditional breeding would not. It seems unlikely that a court would adopt a rule that would invalidate the traditional work of farmers and breeders, along with biotechnology inventions.

The problems a court would encounter in trying to apply a moral balancing test to biotechnology inventions like the chimera should now be apparent. While the benefits of biotechnology are generally instrumental, and, thus, readily measured, the objections are often deontological in nature. Such abstract moral arguments are incommensurate with the utilitarian benefits. How, for example, is a court to decide what weight to give animal suffering in light of the potentially hundreds of thousands of lives that could be saved with new cancer-fighting drugs? These objections are not entirely without merit; they are merely unquantifiable. Indeed, if a court were ever faced with such a situation, it would likely gravitate towards the discrete benefits of the invention and give little, if any, weight to the deontological arguments against the invention. As such, the balancing test would quickly devolve into the ineffectual "one non-immoral use" test.

In short, despite the PTO Commissioner's indication that he will probably reject the human-animal chimera patent application for lack of moral utility, an appeals court would likely reverse any rejection on moral grounds. Not only would the moral utility doctrine be exceedingly difficult to apply in practice, but even if a court subjected the Rifkin-Newman patent application to moral scrutiny, it would be unlikely to adopt a moral utility test that the application could not satisfy.

---

110. In one of the most famous examples of the effect of human activity on animal evolution, many white moth species have developed black-colored populations in industrial areas with significant air pollution; the darker coloration provides better camouflage on the blackened trees commonly found in such regions. *See, e.g.*, THE NEW AMERICAN DESK ENCYCLOPEDIA 838-39 (3d ed.1993).

111. The mule, mentioned earlier in this Note, is a classic example of the traditional human manipulation of "speciesness."

## VI. BEYOND THE HUMAN-ANIMAL CHIMERA PATENT APPLICATION

Whatever the PTO and the courts ultimately decide about the human-animal chimera patent, Rifkin and Newman surely will have accomplished their goal of sparking social debate about the current lack of ethical restrictions on biotechnology. While their goal is unquestionably valid, their approach is somewhat flawed.

If Rifkin and Newman believe the patent laws should be altered to exclude controversial technologies, they should lobby Congress to amend the patent statute, not try to force the PTO into acting without authority. The spirit of *Charkrabarty* and its progeny is that because Congress intended the patent laws to be broad, the courts should not impose their own limitations on patentability without congressional approval.<sup>112</sup> Because the PTO is largely unaccountable to the people, it should not exercise policy-making power over such significant matters.

Moreover, manipulating the patent laws at all confuses the essential issues raised by controversial technologies like the chimera. The ethical concerns shared by Rifkin, Newman, and others about biotechnology inventions do not actually relate to the *patenting* of such inventions, but to whether these inventions should be created at all.<sup>113</sup> By focusing on the patentability question, Rifkin and Newman have drawn attention away from the real moral issues at stake.

Indeed, excluding controversial technologies from patentability would not prevent their development, as Rifkin and Newman hope. While the profit incentive would be significantly reduced, scientists at academic institutions, which operate ostensibly without a profit motive, would surely continue to conduct research on such technologies. Moreover, if a practical application for an otherwise controversial technology were found, someone would put it to use, even without a patent. This would be true particularly if use of the technology would lead to the development of patentable, and, therefore, profitable, inventions. In fact, eliminating patent protection for a class of inventions might actually produce the opposite result of the one Rifkin and Newman intend. Without the limited monopoly granted by the patent law, everyone would be free to make and use a new invention without permission from the original inventor. This might

---

112. See, e.g., *Diamond v. Charkrabarty*, 447 U.S. 303, 309 (1980); *Whistler Corp. v. Autoronics, Inc.*, 14 U.S.P.Q.2d 1885 (N.D. Tex. 1988).

113. For a more thorough discussion of these and other ethical issues raised by patenting life forms, see Reagan Anne Kulseth, Note, *When Someone Builds a Better Mouse*, 32 ARIZ. L. REV. 691 (1990).

make the use of controversial technologies even more widespread than under a patent regime.

Given these considerations, opponents of biotechnology should focus their efforts, not on altering the patent laws, but on convincing Congress to pass legislation that would regulate the kinds of experiments scientists may perform. While the merits of biotechnology regulation in general are beyond the scope of this Note, the preceding discussion suggests that congressional action would, at least, be superior to the route taken by Rifkin and Newman thus far.

## VII. CONCLUSION

The Rifkin-Newman patent on the production of human-animal chimeras is unlikely to be rejected under the Thirteenth Amendment or the moral utility doctrine. While a prohibition on patents on human beings seems firmly grounded in the Constitution, it is unlikely that all human-animal chimeras as a class would be considered human within the meaning of the Thirteenth Amendment. The current legal status of the moral utility requirement is less certain. Even if a court were to apply the doctrine, it would likely find that human-animal chimeras satisfy the current formulation of the rule, in which an invention is acceptable if it has at least one beneficial use. Moreover, human-animal chimeras probably would pass a moral balancing test, given that the benefits are well-defined but the moral objections are abstract and problematic.

This assessment of the Rifkin-Newman patent demonstrates that the patent laws as currently written are simply not equipped to deal with the complex moral issues posed by biotechnology innovations. The two legal doctrines that most closely touch on moral concerns are vague and difficult to apply. At the same time, although biotechnology developments are occurring at what may be an uncomfortably rapid pace, the PTO should resist the urge to create its own guidelines to deal with the special questions posed by biotechnology. Any new restrictions on the patentability or development of controversial technologies like the human-animal chimera should originate from Congress, if at all.

**BERKELEY TECHNOLOGY LAW JOURNAL**  
**ANNUAL REVIEW OF LAW AND TECHNOLOGY**

**BUSINESS LAW**



## RECENT DEVELOPMENTS IN DIGITAL SIGNATURE LEGISLATION AND ELECTRONIC COMMERCE

By Kalama M. Lui-Kwan

While many of the new information policies regulate the activity growing out of the new information economy—such as decency,<sup>1</sup> class action lawsuits,<sup>2</sup> and taxes<sup>3</sup>—only a few deal with the underlying electronic commerce infrastructure. One such bill considered by Congress this year deals with the enforceability of digital signatures, an authentication method which will prove to be one of the necessary components in the next stage of electronic commerce development.<sup>4</sup> Digital signature technology will probably influence the evolution of online businesses and electronic commerce.

Electronic commerce has provided thousands of companies and millions of consumers with the opportunity to generate and spend revenue at an incredible pace. How many people are shopping online? According to eMarketer, the number of online buyers will double in the year from December 1998 to December 1999 to 36.1 million, or 16.6% of the American population fourteen years or older.<sup>5</sup> How many users are actually purchasing goods or services? Jupiter Communications estimates that 35% of the online population purchased a service or product between 1997 and 1998, and that 95% of those buyers planned on shopping again in coming months.<sup>6</sup> IntelliQuest's data reflects a similar trend.<sup>7</sup> That organization's study found that 81% of those surveyed intended to shop or buy online in the next 12 months.<sup>8</sup> How much revenue will online stores generate in

---

© 1999 Berkeley Technology Law Journal & Berkeley Center for Law and Technology.

1. See S. 1619, 105th Cong. (1998); S. 1482, 105th Cong. (1998).

2. See S. 1260, 105th Cong. (1998).

3. The Internet Tax Freedom Act was signed into law on October 21, 1998. See H.R. 4105, 105th Cong. (1998). See generally Christopher Cox, *Internet Tax Freedom Act Home Page* (visited Dec. 5, 1998) <<http://www.house.gov/chriscox/nettax/>>.

4. See H.R. 3472, 105th Cong. (1998); S. 1594, 105th Cong. (1998).

5. See eMarketer, *eCommerce Retail Shopping Report Sneak Preview #2: Number of Online Buyers will Double in 1999* (visited Dec. 5, 1998) <[http://www.emarketer.com/estats/ecsr\\_sneak2.html](http://www.emarketer.com/estats/ecsr_sneak2.html)>.

6. See CyberAtlas, *Online Buyers Double by End of 1999* (visited Dec. 5, 1998) <<http://cyberatlas.internet.com/market/retailing/emark.html>>.

7. See eMarketer, *E-Commerce: It Just Keeps Growing* (visited Dec. 5, 1998) <[http://www.emarketer.com/estats/113098\\_ecom.html](http://www.emarketer.com/estats/113098_ecom.html)>.

8. See *id.*

coming years? eMarketer claims that consumer online shopping revenues in the United States will rise from \$4.5 billion in 1998 to approximately \$15 billion in 2000 and to \$35.3 billion by 2002.<sup>9</sup> Forrester Research estimates that global electronic commerce sales will be as high as \$3.2 trillion by 2003.<sup>10</sup> Where are users spending their money? Jupiter Communications found that 48.7% of online consumers have purchased cars, 36.2% have purchased housewares, 35.9% have bought clothing, and 35.8% have purchased consumer electronics.<sup>11</sup> Investment bank Piper Jaffray found in a recent study that 22% of all retail securities trades in the first half of 1998 were conducted online. In fact, Piper Jaffray estimates that that percentage will increase to 27% of all retail trades in 1998.<sup>12</sup> These numbers reflect the incredible speed at which electronic commerce has grown over the past year, as well as the potential it holds for coming years. More important for the purposes of this paper, and for policymakers, is how these numbers demonstrate the importance of global electronic commerce to consumers and the need for laws that regulate, or refrain from regulating, their behavior.

How will digital signatures impact the online environment? Digital signatures essentially allow parties to authenticate their documents when communicating online.<sup>13</sup> This is particularly useful for parties who want to know that their contract is enforceable, or for companies that want to be assured that customers with whom they are dealing online are truthfully representing themselves.<sup>14</sup> Therefore, digital signatures are likely to have a

---

9. See eMarketer, *eCommerce Retail Shopping Report Sneak Preview #1: The Size and Growth of the Consumer eCommerce Market* (visited Dec. 5, 1998) <[http://www.emarketer.com/estats/ecsr\\_sneak1.html](http://www.emarketer.com/estats/ecsr_sneak1.html)>.

10. See Forrester Research, Inc., *Forrester Estimates Worldwide Internet Commerce Will Reach As High As \$3.2 Trillion In 2003* (visited Dec. 5, 1998) <<http://www.forrester.com/Press/Releases/Standard/0,1184,114,00.html>>.

11. See CyberAtlas, *Price Holds Back Non-Shoppers* (visited Dec. 5, 1998) <<http://www.cyberatlas.internet.com/market/retailing/price.html>>.

12. See Piper Jaffray, Inc., *On-Line Trading Volumes Equal 22 Percent of All Retail Trading, According to Fifth Quarterly Piper Jaffray Report* (visited Dec. 5, 1998) <[http://www.pjc.com/re/re\\_ne2.asp?id=108](http://www.pjc.com/re/re_ne2.asp?id=108)>.

13. See generally VeriSign, Inc., *VeriSign Digital ID Center* (visited Jan. 29, 1999) <[http://digitalid.verisign.com/id\\_intro.htm#whatis\\_signature](http://digitalid.verisign.com/id_intro.htm#whatis_signature)>.

14. A vice-president at Visa USA, for example, explained during Senate testimony that the "authentication of the various parties participating in the Visa payment system, including cardholders, merchants, and Member financial institutions, is essential to the operation and integrity of this enormous payment network." *The Digital Signature and Electronic Authentication Law of 1998: Hearings on S. 1594 Before the Subcomm. on Financial Services and Technology, 105th Cong. 1* (1998) (statement of Mr. Ken Liberman, Senior Vice President for Corporate Risk Management at Visa USA). A representative from The Bankers Roundtable echoed Lieberman's remarks, stating that, "[e]ven in

number of beneficial commercial applications. For example, companies that receive credit card numbers online will be able to use digital signature technology to verify the true identity of senders.<sup>15</sup> Digital signatures present extremely valuable opportunities for parties to enter into agreements outside of the client-merchant relationship. For example, if digital signatures were recognized under the law as an enforceable signature, an e-mailed offer of employment would be legally binding, just as if it were sent in writing and signed by the employer. Parties to a business agreement could negotiate deals more quickly with digital signatures because they would be able to tell whether their transmissions to each other were tampered with in transit and whether the information they received was truly sent by the other named party and not by an imposter.

Digital signatures should play an especially critical role as electronic commerce stands because authentication is growing more and more important. According to a study conducted by the Graphic, Visualization & Usability Center at the Georgia Institute of Technology, 48.6% of the more than 10,000 respondents indicated that they never provide false information.<sup>16</sup> This means that more than half of the respondents do actually report false information. If we rely on eMarketer's estimates regarding the size of the online consumer population,<sup>17</sup> more than 18 million American consumers will falsify their identities or personal information online by late 1999. This has become an important issue for companies as well as federal and state policymakers. As the Department of Commerce General Counsel indicated at a forum on authentication technologies, digital signatures are a "critical ingredient" in the development of private sector and public sector confidence in electronic commerce.<sup>18</sup>

---

this more complex world, businesses still need to assure that the person entering into a contract may be identified and consumers want to know that they are not liable for agreements that they did [not] enter." *Id.* (statement of Mr. Alfred Pollard, Senior Director for Legislative Affairs, The Bankers Roundtable).

15. Under the American Bar Association Digital Signature Guidelines, enforceable digital signatures should at least be able to "indicate who signed a document, message or record, and should be difficult for another person to produce without authorization." Information Security Committee, Electronic Commerce Division, Section of Science and Technology, American Bar Association, *Digital Signature Guidelines, Tutorial*, Aug. 1996, 3-7 available at <<http://www.abanet.org/scitech/ec/isc/dsgfree.html>>.

16. See Georgia Tech, *GVU's 9th WWW User Survey* (visited Dec. 5, 1998) <[http://www.cc.gatech.edu/gvu/user\\_surveys/survey-1998-04/](http://www.cc.gatech.edu/gvu/user_surveys/survey-1998-04/)>.

17. See CyberAtlas, *Online Buyers Double by End of 1999*, *supra* note 6.

18. See *Hearing on Electronic Authentication and Digital Signature: Hearings on S. 1594 Before the Subcomm. on Financial Services and Technology*, 105th Cong. 1 (1997) (statement of Mr. Alfred Pollard, Senior Director of Legislative Affairs, The Bankers

This paper will focus on the role of digital signatures in the growth of electronic commerce and on the recent legislative response to digital signatures by both federal and state policymakers. Because a full discussion of digital signature technology is beyond the scope of this Note, Part I provides only a brief overview of the digital signature technology. Part II discusses why digital signatures are useful, and what problems are created by their use. Part III reviews selected state and federal bills that have been enacted or proposed over the past year. Part IV proposes a number of issues that federal policymakers should consider as they vote on pending legislation and draft future bills. The paper concludes that, just as companies have developed technologies to address the problem of authentication, proactive policymakers can and should provide an appropriate legal infrastructure for digital signatures that balances the needs of both companies and consumers.

## I. DIGITAL SIGNATURES DEFINED

Digital signatures authenticate electronic documents in much the same way that handwritten signatures authenticate printed documents.<sup>19</sup> Recipients of electronic documents accompanied by digital signatures may verify that senders are who they claim to be and that the documents have not been altered from the time of transmission.<sup>20</sup> In other words, senders may not disown digital signatures by claiming that they have been forged, and recipients can verify the identity of senders as well as the integrity of the documents

Digital signatures typically require the use of two keys, which are paid for by the sender and issued by a Certification Authority ("CA").<sup>21</sup> CAs are trusted third parties, such as banks or companies that specialize in digital signature technology, from which individuals and corporations can

---

Roundtable, quoting remarks by Department of Commerce General Counsel Andrew Pincus).

19. However, digital signatures do not guarantee privacy to users. Digital signatures are designed strictly for authentication purposes, and do not provide any privacy protections. See Graham Greenleaf & Roger Clarke, *Privacy Implications of Digital Signatures* (last modified Mar. 10, 1997) <<http://www.anu.edu.au/people/Roger.Clarke/DV/DigSig.html>> (concluding that, as a result of the information that digital signatures reveal about individuals and the access given to organizations that have usually not been trusted by the public, consumers will "demand explicit privacy protections, far more substantial than the weak and patchy regime that is presently in place.").

20. See VeriSign, Inc., *VeriSign Digital ID Center*, *supra* note 13.

21. See A. Michael Froomkin, *Article 2B as Legal Software for Electronic Contracting—Operating System or Trojan Horse?*, 13 BERKELEY TECH. L.J. 1023, 1029 (1998).

purchase two keys, one "private" and one "public."<sup>22</sup> The private key is known only to the sending party, whereas the public key is publicly available. The keys are mathematically related, such that a message decrypted with the public key could have been encrypted only with the private key. Therefore, if a sender signs a document with his private key, the recipient can use the sender's public key and signature to confirm the authenticity of the document.

The technology works as follows. After writing his message, the sender performs a mathematical computation on his document, known as a "hash function," to generate a string of code called a "message digest."<sup>23</sup> Because the message digest is based on the specific content of this original document, any changes to the document would yield a different message digest.<sup>24</sup> The sender then encrypts this message digest with his private key, attaches this "signature"<sup>25</sup> to the end of the document, and sends the "signed" document to the recipient.<sup>26</sup>

The recipient, who has access to the sender's public key, may now verify both the sender's identity and the integrity of the document.<sup>27</sup> She does this by decrypting the "signature" with the sender's public key, which reveals the original message digest.<sup>28</sup> She then performs the hash function on her copy of the document, generating a fresh copy of the message digest.<sup>29</sup> Finally, she compares the two copies of the message digest, and, if they are identical, the recipient knows two things. First, she knows the information was not altered from the time it was sent until the time it was received,<sup>30</sup> and, therefore, was not altered in transit by hackers or technical malfunctions.<sup>31</sup> Second, because she successfully decrypted the message digest with the sender's public key, she knows it could only have been encrypted with the sender's private key.<sup>32</sup> Because only the sender

---

22. See A. Michael Froomkin, *The Essential Role of Trusted Third Parties in Electronic Commerce*, 75 OR. L. REV. 49, 51-53 (1996).

23. See VeriSign, Inc., *VeriSign Digital ID Center* (visited Feb. 20, 1999) <[http://digitalid.verisign.com/id\\_intro.htm#signature\\_use](http://digitalid.verisign.com/id_intro.htm#signature_use)>.

24. See Utah Department of Commerce, *Digital Signature Tutorial* (visited Nov. 16, 1998) <<http://www.commerce.state.ut.us/web/commerce/digsig/tutorial.htm>>.

25. See VeriSign, Inc., *VeriSign Digital ID Center*, *supra* note 23.

26. See Utah Department of Commerce, *Digital Signature Tutorial*, *supra* note 24.

27. See *id.*

28. See *id.*

29. See *id.*

30. See *id.*

31. See *id.*

32. See VeriSign, Inc., *VeriSign Digital ID Center*, *supra* note 13.

has access to his private key, the document could only have been sent by the sender.<sup>33</sup>

As an illustration, suppose Larry wants to send a digitally signed contract to Jen. He can create a message digest by applying a hash function to the contract. The message digest is a kind of encoded fingerprint; if any aspect of the message changes between the time Larry sends the message and the moment Jen decrypts the message, the fingerprint will change and Jen will be able to tell that the message has been altered. Larry encrypts the message digest with his private key, which he purchased from a popular and reliable Certificate Authority called, say, the Bank of Truth, Law and Justice ("BTLJ"). BTLJ is a trusted third party, and, like other banks, regularly performs other daily functions, such as providing loans to and holding deposits for its customers.<sup>34</sup> Larry sends the encrypted message digest and the contract to Jen. When Jen receives Larry's message, she has before her both the contract document and the encrypted message digest, which is Larry's digital signature. Using Larry's public key, which she also acquired from BTLJ, Jen decrypts the encrypted message digest. She then performs a hash function on the document to produce a new message digest. If the message digests match, Jen knows that the document was indeed sent from Larry and was not altered during transmission. She can be sure of these things because, first, Larry's public key can decrypt only those digital signatures encrypted by Larry's private key, and, second, the new message digest is identical to the message digest unlocked by the public key. This digital signature method is commonly known as Public Key Infrastructure ("PKI").<sup>35</sup>

## II. DIGITAL SIGNATURES AND ELECTRONIC COMMERCE

### A. Why Digital Signatures are Useful

Digital signature technology's greatest strength lies in its ability to authenticate and legally bind parties to online contracts and agreements,

---

33. *See id.*

34. *See id.*

35. *See generally* Thomas Smedinghoff, Government Information Technology Services Federal PKI Task Force Business and Legal Work Group, *Model Certificate Policy: Issues Regarding Certificate Policies* (last modified Mar. 25, 1998) <<http://www.mbc.com/modelcp.html>>. *See also* Santosh Chokhani & Warwick Ford, *Internet X.509 Public Key Infrastructure: Certificate Policy and Certification Practices Framework*, Apr. 25, 1998, available at <<http://www.ietf.org/internet-drafts/draft-ietf-pkix-ipki-part4-03.txt>> (discussing the popular X.509 international standard for authentication); American Bar Association, *Digital Signature Guidelines, Tutorial*, *supra* note 15.

just as handwritten signatures authenticate and bind parties in the paper-based world. Signatures typically serve four functions. First, signatures authenticate signers by providing evidence of their relationship to an agreement.<sup>36</sup> The traditional reliance on signatures is based, in part, on the difficulty of replicating the signatures of other people. Second, a document containing a handwritten signature is valuable because it is presumably original and authentic.<sup>37</sup> Third, signatures represent the affirmative act of signers who, with their signatures, establish the sense of having legally bound themselves to an agreement.<sup>38</sup> Finally, signatures provide a certain level of efficiency, especially when signatures are used to indicate authorization of a transaction.<sup>39</sup>

Under existing law, the Statute of Frauds requires signatures, but does not invalidate agreements made without signatures.<sup>40</sup> It does, however, render such transactions unenforceable in court.<sup>41</sup> If digital signatures were given the legal force of handwritten signatures, they would put to rest many questions that consumers and sellers alike have with conducting business online.<sup>42</sup> The introduction of digital signatures would make more companies feel comfortable with doing business online because they would be less concerned that people were using, for example, false credit card and checking account numbers or mailing addresses.<sup>43</sup> Similarly,

---

36. See American Bar Association, *Digital Signature Guidelines, Tutorial*, *supra* note 15; Lon L. Fuller, *Consideration and Form*, 41 COLUM. L. REV. 799, 800 (1941).

37. See American Bar Association, *Digital Signature Guidelines, Tutorial*, *supra* note 15.

38. See *id.*

39. See *id.*; see also Fuller, *supra* note 36, at 801-02.

40. See American Bar Association, *Digital Signature Guidelines, Tutorial*, *supra* note 15; see also ARTHUR L. CORBIN, CORBIN ON CONTRACTS § 279, at 20-23 (1950). Digital signature technology is far from the first innovation to challenge traditional paper-based contract law. The telegraph, for example, provided a new format for negotiating and accepting contracts. Although more efficient, the telegraph created new "implications of erroneous messages" that led to questions regarding whether telegraphed contracts were enforceable. Marc Szafran, Note, *A Neo-Institutional Paradigm for Contracts Formed in Cyberspace: Judgment Day for the Statute of Frauds*, 14 CARDOZO ARTS & ENT. L.J. 491, 502-03 (1996). Digital signatures now have to overcome the same legal barrier once faced by the telegraph. The benefit of conducting transactions online outweighs the costs, but the Statute of Frauds still presents a question as to whether agreements that are electronically made will be legally enforceable. See R.J. Robertson, *Electronic Commerce on the Internet and the Statute of Frauds*, 49 S.C. L. REV. 787, 797 (1998).

41. See American Bar Association, *Digital Signature Guidelines, Tutorial*, *supra* note 15.

42. See *id.*

43. See *id.*

consumers may feel more comfortable doing business online because, in addition to the relative ease with which they may conduct transactions, they would be able to rest assured that the company they are dealing with is, in fact, the company it represents itself to be. For both parties, enforcing contracts using digital signatures would be simpler in the digital environment, provided that state and federal law recognizes digital signatures as representations that are as enforceable as handwritten signatures.<sup>44</sup>

The ease with which companies could adopt digital signature technology should create a number of opportunities for both consumers and corporations to engage in electronic commerce transactions. Using digital signature technology, for example, clients of an online stock trading service could acquire information about companies and purchase stock in those companies without defrauding the stock trading company by disclaiming the purchase of a stock that happens to suddenly plummet in value. Similarly, online stock trading services would be unable to disclaim quoted stock prices should there be any disagreement over whether the client purchased shares in a company based on information provided by the trading service at a given time.<sup>45</sup> The digital signature technology involved with the actual trade would not only have the capacity to stamp a date and time to the transaction, but also would allow both the and the service to verify that the other party was in fact engaged in the transaction. This is but one example of the almost innumerable commercial uses for digital signatures.

---

44. Digital signature technology, of course, is not going to solve all of the problems of contracting online. While digital signatures confer upon companies the benefit of authenticating their clients' information, they fail to resolve the problem of privity in the digital environment. See Robert Merges, *The End of Friction? Property Rights and Contract in the "Newtonian" World of On-Line Commerce*, 12 BERKELEY TECH. L.J. 115, 119 (1997). In addition to consent, enforceability of agreements made both online and in traditional business transactions requires privity between the original parties to the contract, as well as each party in the chain of possession. Suppose, for example, Diana licenses a software application to Ethan for use on one computer, and Ethan purchases the source code for the application to develop and sell his own competing version from Heather, who was party to a non-disclosure agreement with Diana. Further suppose that Ethan develops a competing version and posts the source code on a web site, from which Kenton downloads the information and develops his own version. Diana may have a cause of action against Heather, but not against Ethan, except through Heather, and probably not against Kenton at all. The transaction cost of enforcing agreements in this example are potentially high for Diana.

45. See VeriSign, Inc., *VeriSign Press Release: Barclays Selects VeriSign OnSite to Secure the First Online, Real-Time Share Trading System in the UK* (visited Feb. 13, 1999) <<http://www.verisign.com/press/customer/barclays.html>>.

## B. Problems Raised by the Use of Digital Signatures

There are two obvious barriers confronting users of digital signature technology. First, as with almost all forms of technology, digital signature capabilities are not free. The institutional cost to the public may be significant, depending on the ability of decision-makers to plan effectively. Creating CAs, or at least designating pre-existing, trusted third parties, may be costly. At a minimum, existing institutions will need to spend money training their representatives to explain and sell the keys and software. At the opposite extreme, it will be expensive to create new institutions, establish accreditation procedures, and determine how to license and audit CAs.<sup>46</sup> There are also individual costs that a single user or a corporation must incur to purchase the actual software and keys from a CA.<sup>47</sup> The calculation of whether these costs exceed the benefits of creating a more predictable commercial and legal environment depends on whether policy-makers can appropriately design and enact legislation that addresses the benefits and costs of digital signatures.

Second, while digital signatures may allow parties to enter into enforceable contracts, the multiplicity and differences among different state bills and laws relating to the use of digital signatures poses a problem for the widespread use and acceptance of the technology. This is a problem virtually as old as the Internet itself: what laws govern in cyberspace? If, for example, a consumer in California enters into an agreement with an online company based in Virginia with the assistance of digital signature technology, it is unclear which state law would govern the use of the technology and whether the digital signature would make the agreement as enforceable as if it were signed by a handwritten signature.

## III. STATE AND FEDERAL DIGITAL SIGNATURE LEGISLATION

The fundamental question of how companies can safely identify users with whom they enter into agreements online was answered by the private

---

46. According to the American Bar Association's Science and Technology Section, the two general costs involved with using digital signatures are the costs of institutional overhead ("The cost of establishing and utilizing certification authorities, repositories, and other important services, as well as assuring quality in the performance of their functions.") and the costs to subscribers and relying parties, such as software and a payment to the CA for issuing the keys. *See supra* American Bar Association, *Digital Signature Guidelines, Tutorial*, note 15, at 16-17.

47. *See id.*

sector, which developed the technology behind digital signatures.<sup>48</sup> The remaining issue was whether companies would be allowed to use this technology under existing law and, if so, whether the technology would be recognized to the same extent as a handwritten signature. It seems that state legislatures, and their consumer constituents, were the logical bodies to address the legal issue.<sup>49</sup> The problem was that many states developed different and, in many cases, incompatible approaches.<sup>50</sup> As it became clearer to U.S. Senators and Representatives that these jurisdictional conflicts of law were inhibiting the development of electronic commerce across state borders, federal legislation became increasingly important.<sup>51</sup>

The widespread use of authentication technologies, including digital signatures, has been limited by the differences between different pieces of state legislation. While most states have passed or at least considered legislation relating to digital signatures, there is no national standard. More than forty states have enacted legislation authorizing the use of digital signatures, but many limit the types of functions for which digital signatures may be employed.<sup>52</sup> For example, although Utah<sup>53</sup> and the State of Washington permit the use of digital signatures for almost all public and private forms of communication,<sup>54</sup> Alabama's state government only recognizes digital signatures when filing tax returns and other documents with the

---

48. One of the first commercially successful companies to develop the digital signature technology is VeriSign. *See, e.g.*, VeriSign, Inc., *VeriSign Digital ID Center* (visited Jan. 29, 1999) <<http://digitalid.verisign.com>>.

49. Indeed, as indicated by Thomas Smedinghoff of McBride Baker & Coles, most states that have sought to address the issues raised by digital signatures have "concluded that it is necessary for a state agency ... to issue regulations governing the implementation and use of a digital signature infrastructure[.]" Thomas Smedinghoff, *Analyzing State Digital Signature Legislation* (last modified Aug. 1997) <[http://www.mbc.com/ds\\_rev.html](http://www.mbc.com/ds_rev.html)>. *See generally* Thomas Smedinghoff, *Summary of Electronic Commerce And Digital Signature Legislation* (last modified Dec. 1, 1998) <[http://www.mbc.com/ds\\_sum.html](http://www.mbc.com/ds_sum.html)>.

50. *See infra* note 75 and accompanying text.

51. Senator Bob Bennett, for example, issued a press release in 1998 stating that he would be introducing "the Digital SEAL (Signature and Electronic Authentication Law)" because he recognized the "immediate need for discussion of technology's impact on modern financial transactions. *See* Sen. Bob Bennett, *Sen. Bennett—Press Release* (visited Aug. 29, 1998) <<http://www.senate.gov/~bennett/pr020298.html>>.

52. Thomas Smedinghoff of the Chicago firm McBride, Baker & Coles maintains an updated list of state, federal and international statutes related to digital signatures. *See* Smedinghoff, *Summary of Electronic Commerce And Digital Signature Legislation*, *supra* note 49.

53. *See* S. 107, 52nd Leg., 1st Reg. Sess. (Utah 1998).

54. *See* WASH. REV. CODE § 19.34 (1998).

Department of Revenue.<sup>55</sup> Colorado allows the use of PKI-based digital signatures only for the electronic filing of UCC financing statements.<sup>56</sup> Maine limits the use of PKI-based digital signatures to applications under the Motor Vehicle Code.<sup>57</sup> The Hawaii State Legislature has passed legislation authorizing the use of digital signatures, but only to file electronically court documents.<sup>58</sup> New Jersey's state legislature does not recognize the legal authority of digital signatures at all. California allows residents to use digital signatures to communicate with public agencies and file community college admissions applications, certain securities-related documents, certificates of death, and various reports required under the Political Reform Act of 1974.<sup>59</sup> The Nevada State government limits the use of digital signatures to financial transactions with the state and to filings with state courts and public agencies.<sup>60</sup> Missouri limits the use of digital signatures to filings by business organizations of documents with the Secretary of State and to electronically filed reports by candidates for public office.<sup>61</sup>

While some states have been reluctant to authorize the widespread use of digital signatures, a select number of states have decided to embrace the authentication method. Among the states with far-reaching digital signature legislation include Georgia,<sup>62</sup> West Virginia,<sup>63</sup> Iowa,<sup>64</sup> New Hampshire,<sup>65</sup> Wisconsin,<sup>66</sup> Kansas,<sup>67</sup> Alaska,<sup>68</sup> South Dakota,<sup>69</sup> Minnesota,<sup>70</sup> Nebraska,<sup>71</sup> Kentucky,<sup>72</sup> Oregon,<sup>73</sup> and Illinois.<sup>74</sup>

---

55. See ALA. CODE § 40.30 (1997).

56. See S. 97-155, 61st G.A., 1st Reg. Sess. (Colo. 1997).

57. See S. 473, 118th Leg., 1st Reg. Sess. (Me. 1997).

58. See HAW. REV. STAT. § 601 (1995).

59. See CA GOV'T CODE § 16.5; Ass. 521, 1997-1998 Leg., 1st Reg. Sess. (Cal. 1997); Ass. 521, 1997-1998 Leg., 1st Reg. Sess. (Cal. 1997); Ass. 2755, 1995-1995 Leg., 1st Reg. Sess. (Cal. 1995); S. 49, 1997-1998 Leg., 1st Reg. Sess. (Cal. 1997).

60. See S. 42, 69th Leg., 1st Reg. Sess. (Nev. 1997); Ass. 386, 69th Leg., 1st Reg. Sess. (Nev. 1997).

61. See S. 844, 89th G.A., 2nd Reg. Sess. (Mo. 1998); S. 680, 89th G.A., 2nd Reg. Sess. (Mo. 1998).

62. See S. 103, 144th G.A., 1st Reg. Sess. (Ga. 1997).

63. See H.R. 4293, 73rd Leg., 2nd Reg. Sess. (W. Va. 1998).

64. See H.F. 2474, 77th G.A., 1st Reg. Sess. (Iowa 1997).

65. See H.R. 290, 155th G.C., 1st Reg. Sess. (N.H. 1997).

66. See Ass. 811, 93rd Leg., 1st Reg. Sess. (Wis. 1997).

67. See H.R. 2059, 77th Leg., 1st Reg. Sess. (Kan. 1997).

68. See S. 232, 20th Leg., 2nd Reg. Sess. (Alaska 1997).

69. See S.B. 63., 74th Leg., 1st Reg. Sess. (S.D. 1999).

70. See S. 2068, 80th Leg., 1st Reg. Sess. (Minn. 1997).

71. See Leg. 924, 95th Leg., 2nd Reg. Sess. (Neb. 1997).

72. See H.R. 708, 1998 Leg., 1st Reg. Sess. (Ky. 1998).

73. See H.R. 3046, 69th Leg., 1st Reg. Sess. (Or. 1997).

In addition to their disagreement over when digital signatures should be enforceable, states also make widespread use difficult by authorizing incompatible technologies. Citibank's General Counsel, for example, has explained that

[s]ome states provide that electronic authentication must be accomplished through public key cryptography. Still others maintain that mere "electronic signatures"—which use any electronic or digital method employed by the parties—are adequate to establish message and identity authentication. However, these methods will lead to incompatible and non-interoperable authentication systems, as well as less secure, less trustworthy and possibly rogue authentication systems that could undermine the safety and soundness of electronic banking and commerce.<sup>75</sup>

As a result of the differences among state laws, legal and some technical incompatibility issues prevent an end user in Connecticut – which limits the use of digital signatures to updating medical records maintained in hospitals<sup>76</sup> – from using a digital signature to authenticate a message sent to a server based in, say, Wyoming, which limits the use of digital signatures to filings with the Secretary of State.<sup>77</sup> It is technically possible for the user in Connecticut to purchase books online from a store in Wyoming, but the user would probably be unable under state law to send an enforceable digital signature to the store's server. This is one of a multitude of possible scenarios where state laws inhibit the authentication capability offered by digital signatures. While it is commendable that state legislatures have attempted to authorize the use of digital signatures, state regulations have unquestionably hampered interstate electronic commerce.

The U.S. Congress has responded with hearings on digital signatures and legislation in both the House<sup>78</sup> and the Senate.<sup>79</sup> On February 2, 1998, Senator Robert Bennett introduced legislation that would enable financial institutions to use digital signatures to authenticate transactions with their

---

74. See H.R. 3180, 1997-1998 Leg., 1st Reg. Sess. (Ill. 1997).

75. See *Hearing on Electronic Authentication and Digital*, *supra* note 18 (statement of Mr. P. Michael Nugent, General Counsel for Technology and Intellectual Property, Citibank).

76. See CONN. GEN. STAT. § 19a-25a (1997).

77. See WYO. STAT. ANN. § 9-1-306 (1996).

78. See H.R. 3472, 105th Cong. (1998).

79. See S. 1594, 105th Cong. (1998).

customers.<sup>80</sup> He called hearings to discuss the limitations and possibilities of digital signatures in October 1997 and again in March 1998.<sup>81</sup> In their prepared testimony, participants frequently repeated a number of issues any piece of federal legislation should consider when addressing digital signature use and standards.<sup>82</sup>

First, federal legislation should be offered for the sake of providing a uniform legal framework.<sup>83</sup> This is particularly important because the discrepancies among state laws stunt interstate electronic commerce. Furthermore, the failure to develop a national standard could inhibit the development of national Certification Authorities or even “severely limit the ability of CAs to operate across state or national borders.”<sup>84</sup> Second, legislation should allow non-financial institutions to participate in the use of electronic authentication services.<sup>85</sup> Recent advances in electronic authentication and security have focused on the requirements of financial transactions. For example, Secure Electronic Transaction and Open Trading

---

80. See *The Digital Signature and Electronic Authentication Law of 1998: Hearings*, *supra* note 14 (statement of Robert F. Bennett, Chairman, Subcomm. on Financial Services and Technology).

81. For a full list of witnesses and testimony at both hearings, see Senate Banking Committee, *Witness List and Prepared Testimony, Hearing on Electronic Authentication and Digital Signature* (visited Aug. 29, 1998) <[http://www.senate.gov/~banking/97\\_10hr/102897/witness/witness.htm](http://www.senate.gov/~banking/97_10hr/102897/witness/witness.htm)>; Senate Banking Committee, *Witness Panel, Hearing on S.1594, The Digital Signature and Electronic Authentication Law of 1998* (visited Aug. 29, 1998) <[http://www.senate.gov/~banking/98\\_03hr/031198/witness/witness.htm](http://www.senate.gov/~banking/98_03hr/031198/witness/witness.htm)>.

82. See Senate Banking Committee, *Witness List and Prepared Testimony*, *supra* note 81; Senate Banking Committee, *Witness Panel*, *supra* note 81.

83. The senior vice president for Visa explained during testimony that “the benefits of digital signature technology can be maximized for the Visa system only if this technology can be used in the same way throughout the United States.” *The Digital Signature and Electronic Authentication Law of 1998: Hearings*, *supra* note 14. Alfred Pollard, of The Bankers Roundtable, similarly argued that, “electronic commerce would operate under extreme disadvantage and development would be hindered if state laws subjected a device intended to provide customer security and system integrity to uneven and conflicting enforcement.” *Id.*

84. *Hearing on Electronic Authentication and Digital Signature*, *supra*, note 18 (statement of Mr. Robert Kramer, Vice President for Policy Analysis and Development, Bank of America).

85. Harris Miller, of the Information Technology Association of America, stated that the scope of the bill should be extended beyond financial institutions to include “insurance companies, brokerage houses, mutual funds, and new Internet businesses [that] provide various types of financial services to American consumers and are involved in business to business transactions.” *The Digital Signature and Electronic Authentication Law of 1998: Hearings*, *supra* note 14 (statement of Mr. Harris N. Miller, President, Information Technology Association of America).

Protocols are two methods that have been adopted to provide some security standards on the web. Partly because of the broad acceptance of these methods, some industry advocates have pushed for federal legislation that would allow depository institutions insured by the FDIC to use electronic authentication technologies.<sup>86</sup> One consequence of such legislation would be that banks and other financial institutions would be exempt from state law registration or licensing requirements.<sup>87</sup> This protected status would provide banks and similar institutions with “a national monopoly for electronic authentication.”<sup>88</sup> Legislation, then, should not favor one industry over others as the national electronic authenticator because the different applications of digital signature technology may later require other appropriate institutions to serve as CAs. Third, and perhaps most importantly, legislation should explicitly authorize institutions to use digital signatures to conduct transactions or business online.<sup>89</sup> In the traditional business environment, handwritten signatures typically suffice for the purposes of demonstrating that a particular person has agreed to a particular set of contractual agreements. While this requirement has served businesses well in the paper-based world, it has made companies wary of engaging in business transactions online, thereby restraining the development of electronic commerce.<sup>90</sup>

Bennett’s legislation, The Digital Signature and Electronic Authentication Law of 1998 (“SEAL”),<sup>91</sup> purports to fulfill most if not all of the requirements issued by hearing panelists. It is an attempt at providing a governing legal framework, which leaves room for non-financial institutions to participate in the use of digital signatures while allowing banks and other related organizations to move forward in the development and

---

86. See *Hearing on Electronic Authentication and Digital Signature*, *supra* note 18 (statement of Mr. Richard Mossburg, Associate Counsel for Government Affairs, Ford Motor Credit Company—Legal Office).

87. See *id.*

88. *Id.*

89. See, e.g., *Hearing on Electronic Authentication and Digital Signature*, *supra* note 75. Nugent explained during testimony that legislation should “allow financial institutions to employ electronic authentication in the conduct of their business.” *Id.*

90. A number of scholars have addressed the problems posed by the Statute of Frauds in the development of digital signatures and electronic commerce generally. See generally Richard L. Field, *The Electronic Future of Cash: 1996: Survey of the Year’s Developments in Electronic Cash Law and the Laws Affecting Electronic Banking in the United States*, 46 AM. U. L. REV. 967, 982 (1997); Robertson, *supra* note 40, at 797 (explaining that, despite the advantages of doing business online, “many business persons remain unwilling to conduct business electronically so long as there is substantial doubt concerning the legal validity of agreements entered into electronically.”).

91. S. 1594, 105th Cong. (1998).

use of authentication technologies.<sup>92</sup> The bill is also technologically neutral, allowing room for the introduction of new technologies, and sensitive to the need to preserve consumers' rights under the Truth in Lending Act and the Electronic Fund Transfer Act.<sup>93</sup> These are substantial benefits, but it is not clear whether the bill addresses all of the major issues raised by the digital signature technology.

#### IV. IDEAL FEDERAL LEGISLATION

Ideal digital signature legislation would accomplish two broad and sometimes competing goals. It would encourage the development of electronic commerce by addressing the needs of companies affected by digital signatures while also protecting the privacy of consumers who engage in online transactions. SEAL meets some of these goals, but not all. If the current Congress does not pass SEAL in its current form, future digital signature legislation should consider the following issues. If Congress does pass SEAL, the remaining issues should be addressed by further legislation.

SEAL, as it is drafted, addresses several major concerns raised by industry executives.<sup>94</sup> First, companies would no longer need to worry about complying with conflicting state laws because the bill would create a unified federal framework for authentication methods. Second, corporate executives would have fewer concerns about credit card fraud because the bill would allow them to rely on the identity of users as provided by their digital signatures. Companies already rely on the identity of users by matching the signature on the back of a credit card to the signature consumers must write onto a credit receipt, so federal law would simply extend a commonly accepted practice to the digital environment. Third, companies would also be able to create new authentication technologies, without the fear of producing a new innovation that has no market. In other words, the bill's reach does not seem to extend only to existing technologies; new authentication methods would be as enforceable as today's methods. Technological neutrality is especially important because the government should not be in the business of influencing the market by mandating what technologies should be used. Furthermore, legislation should not mandate the use of a technology that may quickly become antiquated.

---

92. *See id.*

93. *See id.*

94. *See S. 1594, 105th Cong. (1998).*

However, SEAL does not include the consumer privacy protections that any ideal digital signature legislation should contain. Ideal legislation should protect private keys from unauthorized access by third parties, including both private citizens and law enforcement officials. Further, ideal legislation should encourage CAs to issue different digital signatures for different purposes.<sup>95</sup> There are at least three specific issues that ideal legislation should address.

First, ideal digital signature legislation should specify that CAs shall not release private keys to third parties except in narrow, specified circumstances. This provision should apply to both private parties and law enforcement, and would help prevent third parties from impersonating the owner of the private key. Therefore, the PKI for digital signatures should not be tied to key escrow.<sup>96</sup> In 1994, the Clinton Administration unveiled the Clipper Chip, a device that would encrypt data with keys the government could access from software key escrow for law enforcement purposes.<sup>97</sup> After that initiative failed, the Administration proposed in its 1996 White Paper that a public key infrastructure include an escrowing of private encryption keys.<sup>98</sup> It is foreseeable that, if the Clipper Chip effort and the White Paper are viewed as proposals to provide government with access to encrypted information, the government may similarly attempt to acquire access to keys used in digital signatures for law enforcement purposes by requiring that private keys be placed in escrow.<sup>99</sup> It is not clear,

---

95. For example, one digital signature could be used to make purchases with a particular credit card, another could be used to purchase or sell securities, and a third could be used to file tax documents with appropriate government agencies.

96. See James X. Dempsey & Alan Davidson, Center for Democracy & Technology, *Digital Signatures | Comments of the Center for Democracy and Technology to NIST* (visited Feb. 13, 1999) <<http://www.cdt.org/digsig/nistcom.html>>.

97. See A. Michael Froomkin, *It Came From Planet Clipper: The Battle Over Cryptographic Key "Escrow,"* 1996 U. CHI. LEGAL F. 15, 19 (1996).

98. See INFORMATION INFRASTRUCTURE TASK FORCE, THE REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE, 196-97 (1995) ("[T]he Working Group supports efforts to work with industry on key-escrow encryption technologies and other encryption products which could be exported without compromising U.S. intelligence gathering and law enforcement.").

99. This attempt has already been made. Indeed, Senator McCain introduced in 1997 S. 909, the Secure Public Networks Act, which would create a system of regulated Certificate Authorities and key recovery agents. This system would require a "key recovery agent, whether or not registered by the Secretary under this Act, [to] disclose recovery information to a Federal or State government entity, to permit it to achieve the lawful purposes specified in subsection (2) of this section upon the receipt of a subpoena described in subsection (4)...." S. 909, 105th Cong. § 106(3) (1997). The subsection (2) referred to in the citation describes a broad list of purposes that appears to favor govern-

though, that there is a legitimate reason why law enforcement officials should need digital signatures. Even if there were a legitimate reason, it would have to be substantial to outweigh the cost involved with the potential abuse of such keys. If a third party, even the government, had access to the keys, the possibilities for impersonation would be significant. In sum, while the encryption of data is different from the authentication of users, SEAL, or its successor, should discourage the government from acquiring access to private keys—as it has attempted to acquire access to keys for encrypted data—and, even if third parties do access the private keys, should limit the circumstances under which the keys would be made available.

Second, in addition to shielding private keys from third parties, ideal digital signature legislation should encourage, or perhaps require, CAs to issue different keys for different functions.<sup>100</sup> This would further protect consumer privacy by ensuring that, if a third party got unauthorized access to someone's private key, that key would be of only limited use. Such legislation probably should be aimed at CAs, not consumers, because consumers are unlikely to take the trouble to set up separate digital signature accounts on their own to avoid the accumulation of a single personal information record. If this second concern were somehow incorporated into new legislation, the new bill would also have to, as SEAL seems to do now, apply the enforceability of digital signatures to both financial as well as non-financial transactions.<sup>101</sup>

---

ment access to information over personal protection of privacy. As of this writing, no decision has been made about the passage of S. 909.

100. Perhaps, for example, a state agency could be allowed under federal law to serve as a CA that issued public and private keys for the sole purpose of dealing with other state agencies for tasks such as motor vehicle registration or state tax filings. A financial institution could be allowed under federal law to serve as a CA that issued keys only for commercial transactions on the Internet. A CA in the state judiciary system could be established and federally designated to issue keys for the use of state court filings. This would reduce the possibility that, for example, a commercial entity could attempt to use the digital signature to acquire more information than is necessary to complete a transaction. The concern here is that an organization would consider, in a decision, otherwise irrelevant information garnered from the digital signature or would sell the information to a third party. As a rule, digital signatures should not, for example, reveal to curious and technologically savvy employers the health records of potential employees with whom employment agreements are exchanged online.

101. Applying the enforceability to both financial and non-financial transactions is important because, if digital signature owners actually do use the technology, they should be able to do more than simply purchase goods. Users could, for example, file state documents, accept or make offers of employment, or consult with a physician over a telemedicine network.

Third, in addition to adhering to strict privacy guidelines, CAs should be required to be licensed by an appropriate government agency so that consumers will rely only on trusted third parties. The justification for this requirement is to protect consumers from entrepreneurs who decide to start a business as a CA for the sake of selling information about clients. If SEAL—or future legislation, if Congress rejects SEAL—was amended to prohibit non-licensed CAs from formation or operation, it would successfully preclude the problem of allowing entrepreneurs from accumulating private information from others.

## V. CONCLUSION

Digital signature technology was developed in part to address the authentication needs of companies and consumers as they engage in transactions online. As electronic commerce develops and authentication becomes more important, consumers and companies will probably rely on digital signatures more often than they do now. While much of the present discussion about digital signatures focuses on its financial applications, the technology will likely be used eventually for both financial and non-financial transactions.

Private sector decision-makers and entrepreneurs have been quick to adapt to change in the digital environment, despite the reluctance of their public sector counterparts. Part of the reason why many Representatives and Senators have hesitated to address digital signatures, and other technology-related issues, is that technology companies have not composed a significant part of their states' economies until recently. It is also possible to argue that many policymakers are not as literate or comfortable with technology issues, and, therefore, have been reluctant to address the necessary changes until private sector lobbyists from the technology industry established a stronger presence in Washington.

Despite their late start, however, policymakers in state legislatures and the U.S. Congress have been busy in the past year drafting legislation that has had both positive and negative effects. While the recent activity of state legislatures has allowed consumers to use digital signatures for some purposes, and in that sense had a positive effect, the multiplicity of state laws has revealed a nationwide disagreement over when digital signatures should be enforceable. Congress reacted with federal legislation that would provide, among other things, a uniform framework for the use of digital signatures. While the legislation has had the positive impact of encouraging the commercial use of digital signatures, it fails to address certain issues related to consumer privacy. If SEAL is passed in its current

form, future legislation should be proposed to protect the privacy of consumers without inhibiting the development or use of digital signature technology. If SEAL fails to pass, the issue should be revisited soon after with a successor bill that more equitably addresses the needs of both companies and consumers.



## BLUMENTHAL V. DRUDGE

*By Michelle J. Kane*

Should Internet service providers be liable when they carry defamatory statements, authored by others, on their services? Congress established "Good Samaritan" immunity for Internet service providers ("ISPs") as part of the Communications Decency Act of 1996 to respond to this question. In *Blumenthal v. Drudge*,<sup>1</sup> a federal district court broadly interpreted the immunity provision and dismissed a defamation case against an ISP. The court found that the ISP, America Online ("AOL"), could not be liable for defamatory statements carried by AOL but written by gossip columnist Matt Drudge. The immunity provision applied despite the fact that AOL paid Drudge for the right to make his gossip column available to its subscribers and actively promoted the column as a benefit of subscription.

This Note explores how in the span of three years, the law shifted from allowing liability for ISPs even when they tried to screen offensive content, to barring liability for ISPs, even when they promoted such offensive content. Congress, in trying to encourage ISPs to monitor their own content, actually removed all legal incentives for the ISPs to do so. At the same time, the courts dramatically dismissed all traditional defamation principles in expanding the law's immunity provision farther than necessary.

In examining the outcome of *Blumenthal v. Drudge*, this Note balances the policy interest in protecting individuals against damage to their reputations with the dual legislative goals of encouraging the growth of the Internet and maintaining standards of decency. Congress should have allowed the courts to test the application of old defamation laws to the new technology of the Internet incrementally before prematurely legislating. The courts in turn should have been more cautious in expanding immunity under language that did not compel such an expansion and contrary to the statute's intent.

## I. INTERNET SERVICE PROVIDERS

Internet Service Providers (ISPs)<sup>2</sup> make it possible for individuals to access the international network of computers known as the Internet.<sup>3</sup> Many ISPs charge a flat monthly fee for unlimited access, while some charge a per hour rate.<sup>4</sup> A basic ISP may simply provide a telephone number that enables the customer to gain access to the Internet.<sup>5</sup> A more elaborate ISP may provide e-mail service,<sup>6</sup> proprietary "chat rooms," and specific content, such as news, banking or travel services.<sup>7</sup> AOL, the subject of this case, is the largest ISP in the world.<sup>8</sup> AOL features wide-ranging content through contracts with leading companies such as Bloomberg, Waterhouse Securities and Eastman Kodak.<sup>9</sup>

2. The statute at issue here, 47 U.S.C. § 230 (1996), uses the term "interactive computer service," defined as "any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server, including specifically a service or system that provides access to the Internet or any other interactive computer service." 47 U.S.C. § 230(e)(2) (1996). This Note uses the more common term, ISP, to refer to the same type of entity.

3. See 47 U.S.C. § 230(e)(1) (1996). "The term 'Internet' means the international computer network of both Federal and non-Federal interoperable packet switched data networks."). For a general description of the Internet and the World Wide Web, see *ACLU v. Reno*, 929 F. Supp. 824, 830 (E.D. Pa. 1996), aff'd 521 U.S. 844 (1997).

4. See Peter H. Lewis, *More Users Now Taking Direct Route to Internet*, N.Y. TIMES, Sept. 23, 1996, at D1.

5. See *id.*

6. E-mail messages are protected by the Electronic Communications Privacy Act, Pub. L. No. 99-508, § 1, 100 Stat. 1848 (1986) (codified as 18 U.S.C. §§ 2510-2522 and §§ 2701-2710 (1986)). Because of this protection, ISPs are generally unable to screen the e-mail messages they transmit, thus such messages fall outside the realm of content which ISPs can monitor for defamatory or otherwise offensive content. See 47 U.S.C. § 230(d)(4) (1996) ("Nothing in this section shall be construed to limit the application of the Electronic Communications Privacy Act of 1986 or any of the amendments made by such Act, or any similar State law."). See generally Diana J.P. McKenzie, *Practical Protection in Cyberspace*, 3 STAN. J.L. BUS. & FIN. 84 (1997).

7. See Lewis, *supra* note 4.

8. At the close of fiscal year 1998 AOL reported 12.5 million members. See America Online, *Report on Operations*, ¶ 2, (visited 2/15/99) <<http://www.aol.com/corp/inv/reports/1998/operations2.html>>. In 1998, of households with Internet access, fifty-five percent used AOL. See USA TODAY, July 7, 1998 at 1D.

AOL provides Internet content to non-AOL registrants through its website, "AOL.com." See America Online, *Report on Operations*, *supra*, at ¶ 7. Its search engine, "AOL NetFind," is also available to the public. See *id.* at ¶ 8.

9. See America Online, *Report on Operations*, *supra* note 8, ¶¶ 3, 5 and (visited Feb. 15, 1999) <<http://www.aol.com/corp/inv/reports/1998/operations3.html>>.

## II. DEFAMATION LAW

### A. The Common Law

The tort of defamation protects individuals against harm to their reputations.<sup>10</sup> The common law elements of defamation were: (1) publication, (2) a false and defamatory statement, (3) about another.<sup>11</sup> Once a plaintiff established these three elements, common law courts imposed strict liability against the defendant, with no need for a finding of fault.<sup>12</sup> The courts presumed damages without the plaintiff proving any actual harm to reputation.<sup>13</sup> The common law defenses were substantial truth and certain absolute and qualified privileges.<sup>14</sup> Any repetition, or republication of the defamatory statement was also publication and could trigger defamation liability.<sup>15</sup>

### B. Constitutional Considerations

At least since the Supreme Court's landmark 1964 decision in *New York Times v. Sullivan*,<sup>16</sup> American courts have granted First Amendment protection to certain statements that would be actionable under traditional common law rules. To encourage free political discussion, the Supreme Court has required that when the plaintiff is a public official or other public figure he or she must prove that the defendant acted with "actual malice," meaning that the defendant had knowledge that the statement was false, or recklessly disregarded whether or not it was false.<sup>17</sup> When the

---

10. See RESTATEMENT (SECOND) OF TORTS § 577 cmt. a (1977) ("The law of defamation primarily protects only the interest in reputation. ... [R]eputation is the estimation in which one's character is held by his neighbors or associates."); See also *Auvil v. CBS "60 Minutes,"* 800 F. Supp. 928, 931 (E.D. Wash. 1992) ("The action for defamation is to protect the personal reputation of the injured party; it arose out of the old actions for libel and slander.").

11. See RESTATEMENT OF TORTS § 558 (1938); RODNEY A. SMOLLA, *THE LAW OF DEFAMATION* § 1.03[2] (1998).

12. See RODNEY A. SMOLLA, *THE LAW OF DEFAMATION* § 1.03[1]-[2].(1998).

13. See *id.*

14. See *id.* Absolute privileges included, among others, consent and statements made relevant to judicial proceedings. Qualified privileges included exculpatory statements and reports on employees. These common law privileges are still used in modern defamation law. See *id.* §§ 8.02, 8.03, 8.08.

15. RESTATEMENT (SECOND) OF TORTS § 581 (1977).

16. 376 U.S. 254 (1964).

17. See *New York Times v. Sullivan*, 376 U.S. at 254 (requiring the plaintiff, a police chief, to demonstrate that a newspaper acted with actual malice in printing an advertisement describing the plaintiff's allegedly racist acts); *Curtis Publishing Co. v. Butts*, 388 U.S. 130 (1967) (finding that a plaintiff who is "widely known" or "voluntarily in-

plaintiff is a private citizen, but the matter is of public concern, the Supreme Court has denied the strict liability standard of the common law, but otherwise has left the matter for state law.<sup>18</sup>

Under these defamation standards newspapers and other traditional media such as television and radio programmers can be liable as publishers or "republishers" of defamatory statements, even if someone else makes the statements.<sup>19</sup> For example, a magazine that prints a defamatory letter to the editor is liable for defamation, just as if the magazine's editor had written the letter.<sup>20</sup>

Similarly, distributors, such as bookstores and newsstands, can be held liable for defamatory statements contained in the material they sell. Because they do not generally have editorial control over those materials, however, the standard of fault is different for distributors than for original publishers:

The vendor or lender is not liable, if there are no facts or circumstances known to him which would suggest to him, as a reasonable man, that a particular book contains matter which upon inspection, he would recognize as defamatory.<sup>21</sup>

---

jects himself or is drawn into a particular public controversy" is a public figure and must also prove actual malice).

18. See *Gertz v. Robert Welch, Inc.*, 418 U.S. 323 (1974) (requiring some degree of fault for defamation action). As a practical matter, when there is a "media defendant," it is almost always a matter of public concern. See also *Philadelphia Newspapers, Inc. v. Hepps*, 475 U.S. 767 (1986) (finding that the Constitution requires that private-figure plaintiff in a defamation suit against a media defendant bears the burden of proving falsity of statements, contrary to common law rule that defendant bear burden of proving truth).

19. RESTATEMENT (SECOND) OF TORTS, §§ 578, 581(2), and 581 cmt. g (1977). While those who create television content, e.g., networks, are liable as publishers, those who merely broadcast the programs, e.g., network affiliates, are considered distributors for purposes of defamation. See *Coffey v. Midland Broadcasting Co.*, 8 F. Supp. 889 (W.D.Mo. 1934) (holding that broadcasters are liable as publishers); *c.f.* *Auvil v. CBS "60 Minutes"*, 800 F. Supp. 928 (E.D. Wash. 1992) (holding that local network affiliates did not have a duty to censor a news show in order to avoid defamation liability)..

20. See *Smolla*, *supra* note 11, § 3.23[5]. Note that the same Constitutional standards apply, e.g., a public-figure plaintiff would have to prove that the magazine acted with actual malice.

21. RESTATEMENT (SECOND) OF TORTS, § 581(1) and cmts. d and e (1977). See also *Balabanoff v. Fossani*, 81 N.Y.S.2d 732 (1948) (holding that lack of knowledge by a newspaper distributor is a valid defense to libel).

This distributor liability is rarely invoked because a plaintiff cannot often prove that a distributor had the knowledge required to impose fault.<sup>22</sup>

### C. Internet Defamation Before the Communications Decency Act

With the advent of the Internet, courts struggled to stretch defamation law to cover statements made in cyberspace. In attempting to fit this new medium into the old law, courts analogized between people who post statements to online chat rooms and bulletin boards, and those who write old-fashioned "letters to the editor." Thus, courts analyzed ISP liability under the same standards applied to newspapers and other media.

In *Cubby, Inc. v. CompuServe, Inc.*,<sup>23</sup> a court found an ISP not liable for a defamatory statement made on its service by a third party. Because the ISP, CompuServe, proved that it had no editorial control of the postings made by an independent contractor, the court found that CompuServe had no knowledge of the contents and, as a news distributor, was therefore not liable for defamation.<sup>24</sup>

In *Stratton Oakmont, Inc. v. Prodigy Servs. Co.*,<sup>25</sup> however, a court imposed liability against an ISP for third party statements. The court's finding was based in large part on the fact that Prodigy had advertised the editorial control that it held over its computer bulletin boards.<sup>26</sup> The court found that such control made the online service much like a newspaper, and therefore deserving of a similar standard of liability—that of an original publisher.<sup>27</sup>

### D. The Creation of 47 U.S.C. § 230—"Good Samaritan Immunity"

The *Stratton Oakmont* decision was heavily criticized by commentators. Many argued that such limitations would drive ISPs to forego all editorial control to avoid tort liability.<sup>28</sup> Fearing that this would add to the looming specter of an Internet choked with indecent speech, Congress en-

---

22. See David R. Sheridan, *Zeran v. AOL and the Effect of Section 230 of the Communications Decency Act Upon Liability for Defamation on the Internet*, 61 ALB. L. REV. 147, 154 n. 43 (1997). For a discussion of the detailed pleadings needed to assert libel against a distributor, see *Lewis v. Time Inc.*, 83 F.R.D. 455 (E.D. Cal. 1979).

23. 776 F. Supp. 135 (S.D.N.Y. 1991).

24. See *id.* at 141.

25. 23 Media L. Rep 1794 (N.Y. Sup. Ct. 1995) (finding that defendant Prodigy was a "publisher" of statements concerning plaintiffs and therefore granting plaintiffs motion for partial summary judgment).

26. See *id.* at 1797.

27. See *id.*

28. See, e.g., Alex Alben, *What Is an On-line Service?*, COMPUTER LAW., June 1996 at 1.

acted, as part of the Communications Decency Act of 1996 ("CDA"), a "Good Samaritan" immunity for online service providers.<sup>29</sup> Section 230(1)<sup>30</sup> reads, "No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider."<sup>31</sup> Congress recorded as its express purpose in enacting § 230 the intent to overrule *Stratton Oakmont*, and to allow ISPs to exercise editorial discretion without fear of publisher liability.<sup>32</sup>

While most of the CDA was struck down as unconstitutional, § 230 remained standing.<sup>33</sup> The immunity provision faced its first major test in *Zeran v. America Online*.<sup>34</sup> In *Zeran*, an anonymous subscriber repeatedly posted allegedly defamatory statements about the plaintiff to an AOL bulletin board.<sup>35</sup> The plaintiff, Zeran, argued that § 230 did not bar his action, because once he notified the service of the first message, it had knowledge of the defamatory statement and had a duty to remove the posting

---

29. 47 U.S.C. § 230 (1996) [hereinafter "§ 230"].

30. § 230 was originally § 509 of the CDA.

31. 47 U.S.C. § 230(d)(1) (1996). Note that 47 U.S.C. § 230(d)(2) reads: "No provider or user of an interactive computer service shall be held liable on account of—(A) any action voluntarily taken in good faith to restrict access to, or availability of, material that the provider or user considers to be obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable, whether or not such material is constitutionally protected; or (B) any action taken to enable or make available to information content providers or others the technical means to restrict access to material described in paragraph (1)." This provision effectively provides "Good Samaritan" immunity against any action brought against an ISP by someone whose content the ISP has blocked because of its objectionable characteristics. See Monroe E. Price and John F. Duffy, *Technological Change and Doctrinal Persistence: Telecommunications Reform in Congress and the Court*, 97 COLUM. L. REV. 976, 992 (1997) (comparing this provision to the Cable Act of 1992 which allows, but does not require, cable operators to screen objectionable content).

32. H. R. REP. NO. 104-458, at 1130 (1996). The statute included a section that asserted that the policy of the statute was to "promote the continued development of the Internet and other interactive computer services and other interactive media . . . to remove disincentives for the development and utilization of blocking and filtering technologies." 47 U.S.C. § 230(b)(1) and (3) (1996).

33. See *Reno v. ACLU*, 521 U.S. 844 (1997) (holding that the CDA's "indecent transmission" and "patently offensive display" provisions violate the First Amendment).

34. 129 F.3d 327 (4th Cir. 1997), *cert. denied*, \_\_\_ U.S. \_\_\_, 118 S. Ct. 2341 (1998).

35. See *Zeran v. AOL*, 129 F.3d at 329. The postings suggested that Zeran sold T-Shirts, bumper stickers and key chains with "tasteless slogans related to the Oklahoma City bombing" and offered Zeran's home phone number. Within a few days, Zeran was receiving up to two abusive phone calls per minute, some of which included death threats. *Id.*

promptly and notify its members of the falsity of the statement.<sup>36</sup> Zeran argued that § 230 only immunized “publishers;” he claimed that AOL was a “distributor” for purposes of defamation law. The court, however, held that § 230 did indeed immunize AOL against liability for defamatory statements of content providers.

The court found that holding AOL liable would chill Internet speech, contrary to the statute’s goals.<sup>37</sup> Also, the court rejected Zeran’s argument that § 230 did not bar distributor liability, finding that distributors were liable as a sub-type of publisher, not as a separate category. Thus § 230’s ban on service provider liability as a publisher or speaker applied to AOL in this context.<sup>38</sup> Following the *Zeran* decision, § 230 provided broad immunity for online service providers for third party statements; it was, however, uncertain just how far courts would extend this immunity.<sup>39</sup>

### III. SUMMARY OF THE CASE

#### A. Factual Background

In 1995, Matt Drudge created an Internet gossip column called “The Drudge Report.”<sup>40</sup> Drudge collected gossip, and having billed himself an “old-fashioned troublemaker,” reported news and rumors from Hollywood, CA and Washington, D.C.<sup>41</sup> By 1997, Drudge allegedly had 85,000 subscribers to his report.<sup>42</sup> Topics that have appeared in Drudge’s column range from the innocuous—“Gates sees ‘living computers,’”<sup>43</sup> to the risqué—“Lewinsky warned about Clinton Blisters.”<sup>44</sup>

In late May or early June 1997, Drudge entered into a licensing agreement with AOL. AOL would make The Drudge Report available on

---

36. *See id.* at 330.

37. *See id.* at 331-333.

38. *See id.* at 332.

39. *Sheridan, supra* note 22, at 179.

40. Jenet Conant, *L.A. Confidential*, VANITY FAIR, Dec. 1997, at 160.

41. Prior to his rise to media celebrity, Drudge had no training as a journalist. In 1996, Drudge quit his job as the manager of a gift store to devote himself to his Internet column. By April 1997 he had attended the White House Correspondents Association Dinner and been the guest of honor at a party thrown by writer David Brock and television pundit Laura Ingraham. At that party *Newsweek’s* Howard Fineman said Drudge was “the biggest thing to come along in journalism since Hunter S. Thompson.” *Id.* at 164-165.

42. *See id.*

43. Matt Drudge, *The Drudge Report*, (visited 10/15/98) <<http://www.drudgereport.com/matt.htm>>.

44. *Id.* (visited 11/1/98).

its service for one year, while Drudge would receive a flat monthly payment of \$3,000 as a royalty from AOL.<sup>45</sup> Under the agreement, Drudge was to create, edit, update and “otherwise manage” the content of the Drudge Report, and AOL could “remove content that AOL reasonably determine[d] to violate AOL’s then standard terms of service.”<sup>46</sup> AOL promoted its addition of Drudge’s column to the service by advertising to its users: “AOL Hires Runaway Gossip Success Matt Drudge.”<sup>47</sup>

On Sunday, August 10, 1997, Drudge transmitted an edition of the Drudge Report that stated in part:

Charge: New White House Recruit Sidney Blumenthal Has Spousal Abuse Past.

The DRUDGE REPORT has learned that top GOP operatives who feel there is a double-standard of only reporting republican shame believe they are holding an ace card: New White House recruit Sidney Blumenthal has a spousal abuse past that has been effectively covered up.

There are court records of Blumenthal’s violence against his wife, one influential republican, who demanded anonymity, tells the DRUDGE REPORT....

One White House source, also requesting anonymity, says the Blumenthal wife-beating allegation is a pure fiction that has been created by Clinton enemies. [The First Lady] would not have brought him in if he had this in his background, assures a well-placed staffer. This story about Blumenthal has been in circulation for years.<sup>48</sup>

Following publication of the above Drudge Report, Drudge received a letter from Sidney and Jacqueline Blumenthal’s counsel.<sup>49</sup> Both Drudge and AOL retracted the story through a special edition of the report and an e-mail to Drudge Report subscribers.<sup>50</sup> The Blumenthals alleged that the column was defamatory and filed a complaint against both Drudge and AOL in the Federal District Court for the District of Columbia.<sup>51</sup>

---

45. *Blumenthal v. Drudge*, 992 F. Supp. 44, 47 (D.D.C. 1998).

46. *Id.*

47. Jonathan Broder, *Libel Suit Tests the Limits of Freewheeling Net Speech*, Salon, Aug. 1997 (visited 9/9/98) <<http://www.salonmagazine.com/aug97/news/news2970829.html>> (quoting AOL press release).

48. *Blumenthal v. Drudge*, 992 F. Supp. at 46.

49. *See id.* at 48.

50. *See id.*

51. *See id.* at 46.

## B. The District Court Decision<sup>52</sup>

In *Blumenthal v. Drudge*, the district court further extended the immunity applied in *Zeran v. AOL* and granted AOL's summary judgment motion, dismissing the Blumenthal's defamation suit against AOL.<sup>53</sup> The court found that, as an ISP, AOL could not be liable for the statements of another "information content provider."<sup>54</sup> Despite the fact that AOL paid Matt Drudge for his column, the court refused to allow liability.<sup>55</sup> The court declined to distinguish publisher liability from distributor liability by holding that when Congress used the term "publisher" in § 230, Congress intended to preclude both publisher and distributor liability.<sup>56</sup>

First, the court determined that AOL's conduct in this case was irrelevant.<sup>57</sup> Based on the statutory language, the court found that Congress had barred liability for information provided by another information content provider.<sup>58</sup> The district court noted that the plaintiffs conceded that AOL was a provider of interactive computer service and thus fit under the defi-

---

52. In a separate holding, not examined in depth for this Note, the district court rejected defendant Drudge's summary judgment motion. The court found it did have personal jurisdiction over Drudge, despite the fact that he wrote the column from his home in California. The court based its analysis on three factors: 1) whether Drudge regularly did or solicited business in the District of Columbia; 2) whether he derived substantial revenue from goods used or consumed, or services rendered in the District; and 3) whether he engaged in a persistent course of conduct in the District. Specifically, the court found that Drudge operated an interactive Internet site, maintained sufficient non-Internet contacts in the District of Columbia, and engaged in a persistent course of conduct in the District, marked by visits from his California home. The court relied in part on the jurisdictional analyses of websites in *Zippo Manufacturing Co. v. Zippo Dot Com*, 952 F. Supp. 1119 (W.D. Penn. 1997), *Cybersell Inc. v. Cybersell, Inc.*, 130 F. 3d 414 (9th Cir. 1997) and *Bensusan Restaurant Corp. v. King*, 937 F. Supp. 295 (S.D.N.Y. 1996).

A full exploration of the issue of personal jurisdiction on the Internet is beyond that scope of this Note; however, for a discussion of Internet jurisdiction, see Robert M. Harkins, Jr., *The Legal World Wide Web: Electronic Personal Jurisdiction in Commercial Litigation, or How to Expose Yourself to Liability Anywhere in the World with the Press of a Button*, 25 PEPP. L. REV. 451, 468-480 (1997); See also Brian Covotta, Note, *Personal Jurisdiction and the Internet: An Introduction*, 13 BERKELEY TECH. L.J. 265 (1998); Anindita Duta, Note, *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 13 BERKELEY TECH. L.J. 289 (1998); Colleen Reilly, Note, *Bensusan Restaurant Corp. v. King*, 13 BERKELEY TECH. L.J. 271 (1998).

53. See *Blumenthal v. Drudge*, 992 F. Supp. 44, 44 (D.D.C. 1998).

54. *Id.* at 50.

55. See *id.* at 51.

56. See *id.* at 52-53.

57. See *id.* at 49.

58. See *id.*

dition of § 230.<sup>59</sup> The plaintiffs also conceded that Matt Drudge was an “information content provider” for purposes of the statute.<sup>60</sup> The court found that § 230’s language, which refers to “otherwise objectionable” material, is broad enough to cover defamatory statements.<sup>61</sup> Thus, the situation fit the statutory requirements and the court applied immunity.<sup>62</sup> The court concluded that in enacting § 230, Congress had “made the legislative judgment to effectively immunize providers of interactive computer services from civil liability in tort with respect to material disseminated by them but created by others.”<sup>63</sup>

Originally, the plaintiffs had asserted that Matt Drudge was an employee or agent of AOL; the court, however, found no evidence to support the existence of a genuine issue of material fact on that subject.<sup>64</sup> Similarly, the court noted that there was no support for the plaintiffs’ earlier argument that AOL was liable because it had edited or written the article in some way.<sup>65</sup>

The court recognized, and AOL acknowledged, that § 230 would not immunize AOL in the case of any statement or information AOL had prepared itself.<sup>66</sup> The court further stated that “[s]ection 230 does not preclude joint liability for the joint development of content.”<sup>67</sup> Neither of the exceptions fit the situation in *Blumenthal v. Drudge*.

The district court first held that, although AOL paid Matt Drudge for his column, § 230 still precluded defamation liability.<sup>68</sup> The court acknowledged that “Drudge was not just an anonymous person who sent a message over the Internet through AOL,” and that it would seem “only fair to hold AOL to the liability standards applied to a publisher or, at least, like a book store owner or library, to the liability standards applied

---

59. *See id.* at 49-50.

60. *Id.* at 50.

61. *See id.* at 52.

62. *See id.*

63. *Id.* at 49.

64. *See id.* at 50, n. 9 (“Plaintiffs’ Statement of Genuine Issues of Material Facts does not identify any evidence to support their conclusory assertion that there are genuine issues of fact as to whether Drudge was an employee or agent of AOL.”).

65. *See id.* at 49-50. The district court noted, “[P]laintiffs seem to have all but abandoned that argument.” *Id.*

66. *See id.* at 50.

67. *Id.*

68. *See id.* at 51.

to a distributor.”<sup>69</sup> However, the court noted that it was not writing on a clean slate, and found that § 230, as interpreted in *Zeran*, excused AOL.<sup>70</sup>

Second, the court also held that “any attempt to distinguish between ‘publisher’ liability and notice-based ‘distributor’ liability and to argue that Section 230 was only intended to immunize the former would be un-availing.”<sup>71</sup> The court found that in enacting § 230 Congress had made no distinction between the two forms of defamation liability.<sup>72</sup> The district court noted with approval the Fourth Circuit’s statement in *Zeran* that, “[i]f computer service providers were subject to distributor liability, they would face potential liability each time they receive notice of a potentially defamatory statement—from any part, concerning any message,” and such notice-based liability “would deter service providers from regulating the dissemination of offensive material over their services.”<sup>73</sup>

## IV. DISCUSSION

### A. The Case Against § 230

At the time of the *Stratton Oakmont* decision, Prodigy was adapting its service to the rapid growth of the Internet.<sup>74</sup> While earlier Prodigy had advertised its editorial control as an advantage over other services, by 1995 Prodigy admitted that the burgeoning volume of messages it carried made it impossible to maintain its former standards of control.<sup>75</sup> Based on such technological constraints, it is unlikely that any ISP could have continually monitored the content of its BBSs, chat rooms and other interactive forums. If ISPs did not exercise editorial control, future cases like *Stratton Oakmont* would have been analyzed using the distributor standard, as in *Cubby*. Congress, however, jumped in to legislate immediately following

---

69. *Id.*

70. *Id.* at 51. The district court, in acknowledging the unfairness of the immunity provision, noted that in the briefs the Plaintiffs had compared AOL’s advertising of Matt Drudge’s column to promotion of a “new purveyor of child pornography or other offensive material.” *Id.* at 40.

71. *Id.* at 42.

72. *See id.*

73. *Id.* (quoting *Zeran v. America Online Inc.*, 129 F.3d 327, 333 (4th Cir. 1997), *cert. denied*, 118 S.Ct. 2341 (1998)).

74. For example, between winter 1995 and spring 1996 the traffic on one company’s Internet “backbone” increased 3,000 percent. *See The Net Is Falling! The Net Is Falling!*, PC WORLD, October 1996.

75. *See, e.g., Stratton Oakmont v. Prodigy*, 23 Media L. Rep. 1794, 1796 (N.Y. Sup. Ct. 1995) (noting Prodigy’s statements that it was in the process of changing its policies regarding BBS postings due to the increased volume).

the decision, precluding the courts from establishing this distinction, and freeing ISPs from all liability for defamatory content. It would have been better to allow the common law to develop slowly in the context of the new technology. Alternatively, Congress should have created a law that recognized that ISPs act in a number of different capacities depending on the method of communication being considered, making one overarching liability scheme unrealistic.<sup>76</sup>

The court in *Stratton Oakmont* expressly stated that Prodigy was unique among ISPs and that most services should be examined, as in *Cubby*, in the same way as traditional distributors: "Let it be clear that this court is in full agreement with *Cubby* and *Auvil*. Computer bulletin boards should generally be regarded in the same context as bookstores, libraries and network affiliates."<sup>77</sup> This comment by the court indicates the unlikelihood that any other ISP would be analyzed under the same publisher liability as Prodigy. This is not because ISPs would change their behavior in response to *Stratton Oakmont*, as Congress feared. Rather, as Prodigy admitted, it had already grown beyond its capacity to screen BBS postings.<sup>78</sup>

Thus, if ISPs were not screening postings, for whatever reason, they would not be liable as publishers. Instead, they would be examined as distributors, with the heightened requirements of knowledge.<sup>79</sup> Furthermore, the volume and nature of BBS postings and similar communications would likely preclude a court with more understanding of Internet technology from finding that an ISP was under a duty to screen.<sup>80</sup> Such a result would maintain common law protection against defamation, while allowing ISPs to continue providing discussion forums.

*Blumenthal v. Drudge*, however, involved not BBS postings, but commercial content, paid for by the ISP. Thus, under the common law, the

---

76. Alternatively, Congress could have enacted a law that recognized the different capacities that ISPs serve depending, for example, on whether they are providing access to outside newsgroups, subscriber generated content or commercial content. An immunity statute should have recognized the fundamental differences between the roles ISPs play. As it stands now, § 230 is akin to a law that attempts, in one sentence, to regulate magazines, public libraries and cable TV companies. For some possible models of the different roles that ISPs play, see Alex Alben, *supra* note 28. For a proposed change to § 230 that would account for at least some of these different roles, see Keith Siver, *Good Samaritans in Cyberspace*, 23 RUTGERS COMPUTER & TECH. L.J. 1 (1997).

77. *Stratton Oakmont*, 23 Media L. Rep. at 1798.

78. *See Id.* at 1796.

79. *See Id.*

80. *See, e.g.*, Douglas B. Luftman, Note, *Defamation Liability for On-Line Services: The Sky Is Not Falling*, 65 GEO. WASH. L. REV. 1071, 1096 (1997) (suggesting that the *Stratton* court overestimated the capabilities of Prodigy's screening software).

court would have had the opportunity to apply traditional defamation law in a new context. Because the case dealt with commercial content that AOL had purchased from another source to then pass on to its subscribers, AOL was acting like a bookstore or library and could thus have been found open to liability as a distributor. Under such an analysis, the defamation charge against AOL would have at least survived the summary judgment motion.

Is it desirable for courts to examine cyberspace by such an analogy to other, traditional "spaces?" In fact, Professor Lessig maintains that this is the only realistic way for us to interpret cyberspace and the Internet.<sup>81</sup> In this particular case, the analogy seems to work. For example, in *Cubby*, CompuServe had no editorial control and merely distributed content prepared by another commercial provider.<sup>82</sup> Thus, again, the court's conclusion that CompuServe was like a library works because CompuServe had no reason to know of the defamatory remarks, and thus should not bear liability for defamation.<sup>83</sup>

In a plea for judicial restraint, Professor Lessig calls for the Supreme Court to act cautiously in applying the First Amendment to cyberspace.<sup>84</sup> He argues that trial courts should examine the new medium in small steps, before the Supreme Court takes the big, and almost irreversible, step of applying constitutional analysis to cyberspace and its laws.<sup>85</sup> Thus, in the same way that the common law has been adapted to fit other new developments over hundreds of years, the law will develop incrementally to fit the new realm of cyberspace.<sup>86</sup>

In the context of § 230, Congress should have followed Professor Lessig's recommendations. Just as Constitutional analysis by the Supreme Court is almost impossible to undo, the broad immunity Congress has arguably provided in § 230 may have far reaching implications that will not be easily undone. By overruling centuries of common law in response to one case, Congress acted too hastily in the face of new technology.

---

81. See Lawrence Lessig, *The Path of Cyberlaw*, 104 YALE L.J. 1743. (1995).

82. See *Cubby v. CompuServe*, 776 F. Supp. 135, 140 (S.D.N.Y. 1991).

83. This analysis fails only when applied to an ISP that truly screens all postings and thus would be considered a publisher similar to a newspaper that prints letters to the editor under defamation law. The facts in *Stratton Oakmont* indicate that few, if any, ISPs actually do this. For an approach to such a situation, see Luftman, *supra* note 80.

84. See Lessig, *supra* note 81.

85. See *id.* at 1753 (suggesting we follow the "meandering development of the common law").

86. See *id.*

If Congress had not been so incautious, the outcome described above, with ISPs liable as distributors for content they know or have reason to know to be defamatory, would have fully served the policy recognized here: to protect individuals from libel on the Internet, while encouraging the growth of the Internet and simultaneously encouraging ISPs to monitor their content. This policy could have been realized without unfairly removing liability that applies without question to other, similar methods of distributing information.

## B. The District Court's Expansion of Immunity

*Blumenthal v. Drudge's* potentially far-reaching implications are based on an interpretation of 47 U.S.C. § 230, the service provider immunity clause.<sup>87</sup> Because § 230 was specifically designed to overrule *Stratton Oakmont*, to understand the statute it makes sense to examine the case.<sup>88</sup> An exploration of *Stratton Oakmont* reveals that the New York court had the distinction between publisher and distributor in mind in formulating its opinion. In *Blumenthal v. Drudge*, the court erred by not considering this distinction when interpreting the statute. The court should have declined to follow *Zeran*, which ignored this distinction, and instead interpreted the statute differently to promote the dual goals of encouraging the growth of the Internet and encouraging ISPs to monitor their content. Such an interpretation would have maintained the common law's protections for individuals against damage to their reputations, damage that is all the more easily done in the international forum of cyberspace. Congress may have written a bad statute, but the language was ambiguous enough that the court could have still put it to good use.

In the *Stratton Oakmont* decision, the New York trial court found itself in the unenviable position of attempting to understand Internet communications and simultaneously analyze those communications in the context of the centuries-old common law of defamation, using only one case as precedent.<sup>89</sup> In its analysis, the court attempted to draw parallels between the Internet message at issue and traditional forms of communication for which the law was already settled.<sup>90</sup> Thus, the court stated, "the critical issue to be determined by this court is whether the foregoing evidence establishes a prima facie case that [Prodigy] exercised sufficient editorial control over its computer bulletin boards to render it a publisher with the

---

87. See *Blumenthal v. Drudge*, 992 F. Supp. 44 (D.D.C. 1998).

88. See *Stratton Oakmont v. Prodigy*, 23 Media L. Rep. 1794 (N.Y. Sup. Ct. 1995).

89. See *id.* at 1797.

90. See *id.* at 1796.

same responsibilities as a newspaper.”<sup>91</sup> The trial court was therefore looking specifically at comparing publisher liability for bulletin board messages to liability of newspaper editors.

In analyzing this publisher liability, the *Stratton Oakmont* court recognized the distinction between publishers and distributors in defamation law.<sup>92</sup> The court stated that “[a] finding that [Prodigy] is a publisher is the first hurdle for Plaintiffs to overcome in pursuit of their defamation claims, because one who repeats or otherwise republishes a libel is subject to liability as if he had originally published it.”<sup>93</sup> The court proceeded to distinguish this from distributor liability:

In contrast, distributors such as bookstores and libraries may be liable for defamatory statements of others only if they knew or had reason to know of the defamatory statement at issue. A distributor, or deliverer of defamatory material is considered a passive conduit and will not be found liable in the absence of fault.<sup>94</sup>

The court then explored publisher liability, using newspapers as an example. A newspaper, the court found, “is more than a passive receptacle or conduit for news, comment and advertising.”<sup>95</sup> The editorial control of a newspaper goes hand-in-hand with increased liability.<sup>96</sup> The court quoted Prodigy marketing materials which touted the service’s pursuance of a “value system” and stated, “[c]ertainly no responsible newspaper does less when it chooses the type of advertising it publishes, the letters it prints, the degree of nudity and unsupported gossip its editors tolerate.”<sup>97</sup> Thus, Prodigy’s own admission that it was similar to a newspaper in its editorial policy condemned the service to face liability as a publisher.

The *Stratton Oakmont* court expressly distinguished Prodigy, a service with editorial control over its content, from CompuServe, which had no such control. CompuServe, the subject of the *Cubby* case, was more like an electronic library with no editorial control over the contents of the publications it made available to its users. The *Stratton Oakmont* court noted with implicit approval that the *Cubby* court had characterized CompuServe as a distributor:

---

91. *Id.*

92. *See id.* at 1795.

93. *Id.* at 1796 (citations omitted).

94. *Id.* (citations omitted).

95. *Id.* (citations omitted).

96. *See id.* (citations omitted).

97. *Id.* (quoting statements made by Geoffrey Moore, Prodigy director of Market Programs and Communications; Exhibits I and J to Plaintiff’s moving papers).

A computerized database is the functional equivalent of a more traditional news vendor, and the inconsistent application of a lower standard of liability to an electronic news distributor such as CompuServe than that which is applied to a public library, book store, or newsstand would impose an undue burden on the free flow of information.<sup>98</sup>

The court in *Stratton Oakmont* found two main distinctions between Prodigy and CompuServe. First, Prodigy advertised itself as controlling the content of its computer bulletin boards. Second, Prodigy used an automatic screening program and guidelines for Board Leaders to enforce its standards.<sup>99</sup> Based on those distinctions, the court stated, "Prodigy is a publisher rather than a distributor."<sup>100</sup>

As such, the *Stratton Oakmont* court felt that Prodigy had developed its service as uniquely moderated when compared to other ISPs such as CompuServe; a service that did not profess to maintain such editorial control would fit into the same category as bookstores and libraries for purposes of defamation law.<sup>101</sup> This is a final indicator that when the court said that Prodigy was a "publisher", it meant "publisher" as in newspaper, and specifically did not mean distributor as in bookstore.

In remarking on the *Stratton Oakmont* decision, one scholar noted the court's central distinction between publishers and distributors. David Sheridan asserted,

Both the text of the CDA and its meager legislative history support the conclusion that when Congress said "publisher," it meant "publisher" and not "distributor." The publisher and distributor terminology have been used in cases and commentary on the subject of defamation in interactive networks. It would be reasonable to surmise that Congress would say "distributor" in addition to "publisher" if it meant "distributor" in addition to "publisher." The statement in the Conference Report that 230 is intended to overrule *Stratton Oakmont* supports this conclusion. The court in *Stratton Oakmont* specifically contrasted publisher and distributor liability.<sup>102</sup>

---

98. *Id.* at 1797 (quoting *Cubby v. Compuserve*, 776 F. Supp. 135, 140 (S.D.N.Y. 1991)).

99. *See id.*

100. *Id.* at 1797.

101. *See id.* at 1798.

102. *Sheridan, supra* note 22, at 168.

While the court in *Stratton Oakmont* used the terms “publisher” and “distributor” to identify two distinct forms of tort liability, other legal sources sometimes use different conventions. The Restatement of Torts, for example, uses “publisher” and “republisher” to distinguish between the original author of a statement and one who merely passes the statement on.<sup>103</sup> Thus, there can admittedly be confusion as to what “publisher” means when there is no further description. To add further variety to the term, the dictionary definition of “publisher,” “the reproducer of a work intended for public consumption” would not include newsstands or libraries, which are not commonly considered in the business of “reproduction.”<sup>104</sup>

Considering the multiple definitions of the word “publisher,” its use in § 230 without an accompanying definition is ambiguous.<sup>105</sup> The only assistance in interpreting “publisher” then, comes from the stated purpose of the statute, which was to overrule *Stratton Oakmont*’s finding of “publisher” liability for an ISP, distinguished from “distributor” liability.<sup>106</sup> Thus, in considering § 230 it makes sense to interpret “publisher” as the *Stratton Oakmont* court did.<sup>107</sup> Under this analysis, then, by precluding publisher liability for ISPs, Congress did nothing to alter distributor liability, which would continue to be analyzed under common law and Constitutional principles.

Using this analysis of the term “publisher” in § 230, the court in *Blumenthal v. Drudge* could have analyzed AOL’s liability as a traditional distributor. Distributor analysis would have been entirely appropriate because AOL distributed content provided by Drudge. AOL’s actions were analogous to a bookstore or library. Under the Restatement interpretation such vendors are liable only if they have reason to know of defamatory content, e.g., the vendor distributes the work of an author or publisher known for “notoriously sensational or scandalous” material.<sup>108</sup> This interpretation would have allowed liability in a case such as AOL’s where the ISP promoted an irresponsible journalist, yet barred liability in the vast

---

103. RESTATEMENT (SECOND) OF TORTS, § 581.

104. WEBSTER’S THIRD NEW INTERNATIONAL DICTIONARY 1837 (1993).

105. Interpreting the legislative intent through the use of the word “publisher” in defamation caselaw and other sources is complicated by the fact that § 230 applies not only to defamation, but also to many other types of obscenity and indecent speech. 47 U.S.C. § 230 (1996).

106. H. R. REP. 104-458, at 1130 (1996).

107. See discussion *supra* Part II.C.

108. See discussion *supra* Part II.B.

majority of situations where ISPs have no reason to know of the possibility of defamation.<sup>109</sup>

Such an approach to interpreting the statute should not be considered radical; rather it follows established methods of statutory construction.<sup>110</sup> While courts are bound to abide by the statutory language when the meaning is clear,<sup>111</sup> when the terms are ambiguous, as in § 230, courts may, and often must, look to the intent of the law in order to glean its meaning.<sup>112</sup> The court's interpretation should maintain coherence in a statute. "Over and over we have stressed that "[i]n expounding a statute, we must not be guided by a single sentence or member of a sentence, but look to the provisions of the whole law, and to its object and policy."<sup>113</sup> By considering the fact that Congress was specifically legislating in response to *Stratton Oakmont*, the court would have been giving a reasonable meaning to an ambiguous term.

This reading of the statute would thus have been reasonable in light of both the statute's express terms and its legislative history. By taking this approach, and not following *Zeran*, the court in *Blumenthal v. Drudge* could have applied the statute in a way that would foster the legislative goals of advancing Internet growth while encouraging self-policing. As it is, the decision instead frees ISPs of any responsibility to monitor their own content for defamatory statements.

---

109. See Sheridan, *supra*, note 22, at 168, 177 (assuming that by using the term publisher in the statute, Congress had left open the possibility of distributor liability for ISPs).

110. There are endless "rules" of statutory construction; this Note attempts to use only those which are almost universally agreed upon. For a legal realist criticism of the use of such rules, see Karl Llewellyn, *Remarks on the Theory of Appellate Decision and the Rules or Canons About How Statutes Are to be Construed*, 3 VAND. L. REV. 395 (1950) (demonstrating that for each rule, there is an opposing rule that demands a contrary interpretation). For a legal process defense of the rules of statutory construction, see HENRY HART, JR. & ALBERT SACKS, *THE LEGAL PROCESS* 1191 (1994 ed.) (responding to Llewellyn's criticism and suggesting that there is still some useful function in the rules of construction).

111. See, e.g., *Robinson v. Shell Oil Co.*, 519 U.S. 337, 847 (1997) (finding the term "employees" ambiguous); *Norfolk and Western Ry. Co. v. American Train Dispatchers Assoc.*, 499 U.S. 117, 128 (1991) ("If the intent of Congress is clear, that is the end of the matter; for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress.").

112. See, e.g., *U.S. v. Universal C.I.T. Credit Corp.*, 344 U.S. 218, 221 (1952) ("For that reason we may utilize, in construing a statute not unambiguous, all the light relevantly shed upon the words and the clause and the statute that express the purpose of Congress.").

113. *United States Nat'l Bank of Oregon v. Independent Ins. Agents of Am.*, 508 U.S. 439, 454 (1993) (citation omitted).

## V. CONCLUSION

The court in *Blumenthal v. Drudge* forthrightly recognized that, “[i]f it were writing on a clean slate, this Court would agree with plaintiffs. AOL ... has affirmatively promoted Drudge as a new source of unverified instant gossip on AOL. Yet it takes no responsibility for any damage he may cause.”<sup>114</sup> Thus, the court acknowledged the fundamental unfairness of a case that allows AOL to benefit from Drudge’s attraction, yet bear no burden for his carelessness. The court went on to state, “[b]ecause it has the right to exercise editorial control over those with whom it contracts and whose words it disseminates, it would seem only fair to hold AOL to the liability standard applied to a publisher or, at least, like a book store owner or a library, to the liability standards applied to a distributor.”<sup>115</sup> The trial court recognized that its interpretation of the statute let AOL get away with actions that would never be tolerated in any other medium.

While defamation on the Internet is perhaps not as permanent as “ink on dead trees,” as one commentator has put it,<sup>116</sup> statements on the Internet are also instantaneous and more pervasive than statements made on television or in the newspaper. All members of society deserve some protection against unwarranted attacks on their reputations regardless of whether such attacks are made on paper or in cyberspace.<sup>117</sup> Justice McReynold’s warning in 1919, that the widespread circulation of newspapers presented increased power for doing injury to reputations, is still relevant.<sup>118</sup> The Internet is today’s new medium of mass communication, but it does not follow that we must throw out these time-honored protections when faced with an unfamiliar technology.

While Congress and the court certainly acted admirably in attempting to encourage the development of the Internet, both erred in excusing AOL from its duty under the common law to guard against damage to others’ reputations. A more cautious approach to regulation on the Internet, and more restraint in interpreting such regulations, would allow the Internet to develop as a forum of free speech while continuing to offer legal protection to those who may be damaged by careless citizens of cyberspace.

---

114. *Blumenthal v. Drudge*, 992 F. Supp. 44, 51 (D.D.C. 1998).

115. *Id.*

116. Mike Godwin, *The Drudge Retort*, REASON, Feb. 1998, No. 9, vol. 29, at 40.

117. See T. EMERSON, TOWARD A GENERAL THEORY OF THE FIRST AMENDMENT 69 (Vintage 1967) (“A member of a civilized society should have some measure of protection against unwarranted attack upon his honor, his dignity and his standing in the community.”).

118. See *Washington Post v. Chaloner*, 250 U.S. 290, 294 (1919) (encouraging strict enforcement of doctrine that “whatever a man publishes, he publishes at his peril”).

**BERKELEY TECHNOLOGY LAW JOURNAL**